Condensed Financial Statements as of March 31, 2009

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Condensed Board of Directors' Report
For Financial Statements as of March 31, 2009

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on May 19, 2009, 25 Iyar 5769, the Board resolved to approve and publish the consolidated Board of Directors' report and the financial statements of Mizrahi Tefahot Bank Ltd. and its investees as at March 31, 2009.
The financial statements were prepared in accordance with the directives and guidelines issued by the Supervisor of Banks.

The General Environment and the Effect of External Factors on the Bank Group

Developments in Israel's economy in the first three months of 2009

Real Developments

The recession in Israel's economy continued in the first quarter of 2009. The decline in the Combined Economy Index, which had started in August 2008, after five years of growth, was accelerated - and during this quarter the index recorded the sharpest quarterly decline of the past 30 years.

Foreign trade contracted in the first quarter of 2009. Trend data show that exports of goods declined in the first quarter of 2009 at an annualized rate of 33.4%, following a 43.1% decline in the final quarter of 2008. Imports of goods declined by 35.3%, following a 39.8% decline in the previous quarter.

The Trade and Services Turnover Index, too, showed continued decline in activity: from December 2008 to February 2009, this index declined by an annualized 10.2%, following a 14.6% decline in the previous three-month period. Most of the decline in trade and services was recorded by wholesale trade, finance and insurance - which in 2008 accounted for 47% of the total trade and services turnover. A decline of 2.9% in annualized terms in the Industrial Output Index in the period from December 2008 to February 2009 reflected the more moderate rate of decline, compared to a 9.2% decline in the previous three-month period. Actual work hours in industry declined by an annualized 6.6% in the same period.

Based on trend data, the increase in unemployment continued in the first months of 2009, with unemployment in February reaching 6.9%, compared to 6.7% at the end of 2008 and to 6.4% in the same month last year.

Inflation and exchange rates

In the first quarter of 2009, the Consumer Price Index decreased by 0.1%, compared to a 0.1% increase in the corresponding period last year. The CPI was primarily impacted by decline in prices of transportation, communication, clothing and shoes - partially offset by rising prices of housing, fruits and vegetables.

In the first quarter of 2009, the NIS / USD exchange rate was devalued by 10.2%, with the NIS being devalued by 5.5% vs. the Euro. The exchange rate as of March 31, 2009 was NIS 4.188 per USD, compared to NIS 3.802 per USD on December 31, 2008. Note that since July 2008, the Bank of Israel has been purchasing foreign currency at $100 million per day, and in late March 2009 the Bank of Israel announced that it would continue doing so with no specific target. The NIS/Euro exchange rate on March 31, 2009 was NIS 5.587 per Euro, compared with NIS 5.297 per Euro at the end of 2008.

Monetary and fiscal policy

Low inflationary expectations allowed the Bank of Israel to continue its expansive monetary policy in early 2009, in response to the real and financial crisis. The Bank of Israel lowered interest rates twice by 0.75 percentage point and once by 0.25 percentage point, from 2.50% in December 2008 to 0.75% in March 2009. Interest rate for April was further lowered by 0.25 percentage point - to 0.5%. Interest rate for May was unchanged.

In February 2009, the Bank of Israel started using another tool for implementing its monetary policy - purchasing government bonds on the open market, in order to lower long-term interest rates. In late March 2009, the Bank of Israel announced it would be purchasing government bonds at an average pace of NIS 200 million per day, purchasing a total of NIS 15 to 20 billion.

In the first quarter of 2009, the government budget recorded a NIS 4.8 billion deficit, compared to a NIS 5.2 surplus in the corresponding period last year. The deficit is due to a sharp decline of 15% in State revenues from taxes, despite a 5% decline in spending by government ministries, supported by the fact that 2009 arrived without an approved budget, hence government spending is based on the 2008 budget.

Residential construction and the mortgage market

The recession in Israel's economy has impacted the housing market; in the first quarter of 2009, the decline in demand continued. Sales data for new apartments from private and public construction in the current quarter showed a 19% decline compared to the corresponding period last year. The total number of transactions (new and used apartments) continued the downward trend, and the figure for January 2009 was 40% lower than the corresponding period last year. Concurrently with the decline in housing demand, housing supply also declined - with the number of new apartments for sale from private construction at the end of the quarter reaching 9,465, an 11.3% decrease over the end of 2008.

The decline in housing demand was also reflected in the mortgage market, with the first quarter of 2009 showing a 9% decrease in housing loan origination compared to the corresponding period last year. The extent of housing loans in arrears decreased in the first quarter of 2009, a continuation of the trend in 2008, despite the economic recession.

Capital market

The first quarter of 2009 saw continued uncertainty around the world, although the capital markets turned positive throughout the quarter - for the first time since the start of the current crisis.

The major stock indices in the domestic market recorded a positive quarter, similar to the global trend. The Tel Aviv 25 Index and the Tel Aviv 100 Index rose in the first quarter by 11.2% and 18.1%, respectively. The Real Estate 15 and Tel-Tech 15 indices recorded even sharper increases, ending the quarter higher by 39.4% and 25.5%, respectively. The average daily trading volume in equities and convertible securities in the first quarter amounted to NIS 1.2 billion, significantly below the average daily trading volume for 2008, which was NIS 2 billion. Against the back-drop of the market crisis, the current quarter, too, saw limited public offerings, with a total of NIS 0.2 billion raised in this quarter. This compared to NIS 0.8 billion raised in the corresponding period last year.

The bond market saw the general bond index, the linked bond index and the non-linked bond index rise by 7.88%, 10.45% and 2.71%, respectively. Overall, the business sector raised a total of NIS 4.5 billion in the first quarter of 2009 by issuing bonds to the public and to institutional investors, compared to NIS 12.4 billion in the corresponding period last year. Towards the end of the quarter, the extent of debt issued by large corporations trended upwards. The average daily trading volume in bonds amounted to NIS 4.6 billion – a 14% growth over the average daily volume in 2008.

Global economy

The International Monetary Fund outlook indicates a global recession. Global growth expected in 2009 is a negative 1.3% (for the first time since World War II) - compared to global growth of 3.2% in and 5.2% in 2007.

GDP in the USA declined sharply in the first quarter of 2009, at an annualized rate of 6.1%, on the heels of a 6.3% decline in the final quarter of 2008. The decline in GDP accompanied a sharp rise in unemployment, which reached 8.5% in March, compared to 7.2% at the end of 2008 and 5.1% in March of 2008. The recession in the UK worsened in the first quarter of 2009. GDP declined, for the fourth consecutive quarter, at an annualized 7.4%, following a 5.9% decline in the final quarter of 2008.

Against the back-drop of the economic crisis, most developed nations adopted an expansive monetary policy.
The USA, Japan and the UK continued lowering their monetary interest rates, such that at the end of the first quarter interest rates in these countries stood at 0.00%, 0.25%, 0.10% and 0.50%, respectively. Furthermore,

these countries started purchasing government- and corporate bonds in order to lower interest rates across all durations and to reduce the cost of debt for corporations and consumers. In the Euro zone, too, interest rates were lowered - to 1.50% at the end of the first quarter.

In addition to monetary policy, several countries announced large-scale expansive fiscal plans in order to support demand. The USA and China are prominent among these countries, launching plans valued at $800 billion and $600 billion, respectively.

Forward-looking information

Some of the information in the Report of the Board of Directors, which does not relate to historical facts, constitutes “forward-looking information”, as defined in the Securities Law, 1968 (“the Law”).

The actual results of the Bank could be significantly different from those included in the forward-looking information, or all that is implied there from. Prospective information is characterized by the use of certain words or phrases, such as: "we believe", "expected", "forecasted", "estimating", "intending", "planning", "readying", "could change" and similar expressions, in addition to nouns, such as: "plan", "goals", "desire", "need", "could", "will be". These forward-looking/prospective information and expressions involve risk and lack of certainty, because they are based on management's assessments of future events that include many factors, including as a result of economic developments in Israel and worldwide, especially the state of the economy, including the effect of macroeconomic and geopolitical conditions; changes and developments in the inter-currency markets and the capital markets in Israel and abroad, and other factors affecting the exposure to financial risk, changes in the financial strength of borrowers, the public’s preferences, legislation, supervisory regulations, the behavior of competitors, aspects related to the Bank’s image, technological developments and human resources matters.

Significant events in the Bank Group's business

Merger of Bank Adanim

On November 24, 2008, the Bank Board of Directors resolved, subsequent to a decision by the Bank Audit Committee as well as the Audit Committee and Board of Directors of Adanim Mortgage Bank Ltd. – a wholly owned and controlled subsidiary of the Bank – to approve the merger of Bank Adanim with and into the Bank. On February 23, 2009, the Registrar of Corporations' approval of the merger was received, thereby completing all of the conditions for this merger. See Note 11.B to the financial statements for details.

Stock option plan for VP members of Bank management

On March 29, 2009, the Bank Board of Directors, after obtaining approval of the Bank Audit Committee, decided to approve a plan for allotment of option warrants by private placement (hereinafter: "the plan") to nine officers of the Bank who are VP members of Bank management (of which one offeree who had served as VP, took unpaid leave from the Bank and currently serves as the CEO of Bank Yahav for Government Employees Ltd.). The options would be divided into five equal lots, each of which would vest, starting on the first anniversary of the grant date and at each anniversary there after, contingent on achieving an annual objective of return on equity of 10% or higher in the year preceding the date on which the lot is to vest.

The theoretical benefit value of the option warrants allotted at this stage, calculated in accordance with accounting rules of Accounting Standard no. 24, amounts to NIS 31 million (NIS 35 million including Payroll Tax).

This stock option plan is a major component whereby offerees would be granted long-term compensation intended, *inter alia*, to provide incentive to members of Bank management to continue serving the Bank over the long term, assigning the appropriate weight to the Bank's long-term objectives and to long-term considerations in management of the Bank and its operations, as well as to strategic thinking required for future growth. This long-term approach is also in line with the Bank risk management system. This is concurrent to exclusion of members of Bank management, as per their own decision, from the bonus plan for each of the years from 2009 through 2012, which is a shorter term plan, and to their consent to be excluded from the bonus plan for 2013, if approved by the Bank.

The stock option plan strengthens the link between the benefit to the offeree under the plan and the Bank's business results over time, thereby reinforcing the incentive to offerees with regard to achieving the Bank's general objectives and overall profitability over time. This is achieved by the fact that eligibility for the benefit inherent in the stock options arises over time, and the value of said benefit is also derived over time, arising directly from laying of an appropriate foundation and reaping the fruits there of over the years.

Allotment of the option warrants is contingent on the Supervisor of Banks allowing the Bank, within 60 days from the date of the Board decision, to buy back at least 1,400,000 shares of NIS 0.1 par value in the Bank's issued share capital.

See Note 11.A to the financial statements for details.

Extension of exercise period in employee stock option plan

On March 2, 2009, the Bank Board of Directors, after receiving approval of the Bank Audit Committee dated March 2, 2009, decided to extend by two years the exercise period of all options allotted to members of management, division and sector managers, department and branch managers of the Bank and its subsidiaries, pursuant to the plan dated July 19, 2005. See Note 11.C to the financial statements for details.

Profit and Profitability

Net profit for the Group in the first quarter of 2009 amounted to NIS 110 million, compared to NIS 180 million in the corresponding period last year and NIS 96 million in the fourth quarter of 2008 - a 38.9% decrease year-over-year and a 14.6% increase quarter-over-quarter. This profit reflects an annualized 7.5% return on equity, compared to 13.5% in the corresponding period last year, 6.7% in the previous quarter and 10.4% in all of 2008.

The following major factors had a positive impact on Group operating profit in the first quarter of 2009 over the corresponding period last year:

- Profit from financing operations in the first quarter of 2009 amounted to NIS 584 million, compared to NIS 549 million in the corresponding period last year - a 6.4% increase. Following the lower interest rates, the interest rates charged by banks for uses also declined. Interest paid on deposits also declined, although to a lesser extent, hence the Bank's financial margin was reduced. This decrease was offset by an increase in volume, with 23% growth in the first quarter of 2009 (in terms of asset volume, excluding impact of consolidation of Bank Yahav's financial statements) compared to the corresponding period last year. Overall, the Bank recorded 0.4% growth in profit from financing operations, from current operations (financing profit excluding consolidation of Bank Yahav's financial statements, impact of accounting treatment, provision for impairment and other factors - see below under analysis of profit from financing operations) in the first quarter of 2009 compared to the corresponding period last year.
- A NIS 42 million increase, or 15.7%, in revenue from operating commissions first quarter of 2009 compared to the corresponding period last year. Excluding the impact of initial consolidation of Bank Yahav financial statements, revenue from operating commissions grew by NIS 13 million, or 4.9%.

The following key factors caused a decline in Group profit from current operations:

- Increase of NIS 92 million in provision for doubtful debts and other credit instruments. The increase is primarily due to provision for doubtful debts, which in the first quarter of 2009 amounted to NIS 119 million, compared to NIS 41 million in the corresponding period last year, a NIS 78 million increase - inter alia due to implications of the financial crisis for the business sector. Furthermore, the provision for impairment of Bank investments in securities primarily exposed to fluctuations in overseas financial markets due to the global crisis increased by NIS 14 million (of which NIS 4 million in respect of investments in non-banking corporations were recorded under loss from equity investments, net).
- Payroll expenses in the first quarter of 2009 excluding the impact of consolidation of Bank Yahav's financial statements, increased by NIS 18 million, or 5.8%, over the corresponding period last year. This

increase is primarily due to the impact of accounting treatment of the extension of the exercise period under the stock option plan for management and staff, which was fully charged in the first quarter of 2009. Excluding this impact, payroll expenses grew by only 1.6%.

Consolidation of Bank Yahav's financial statements contributed an additional NIS 40 million to payroll expenses, hence a NIS 58 million increase was recorded in such expenses over the corresponding period last year.

- Operating and other expenses, excluding payroll expenses, excluding the impact of consolidation of Bank Yahav's financial statements, increased by 4.2% compared to the corresponding period last year, primarily due to an increase in amortization expenses for computers, buildings and equipment. Consolidation of Bank Yahav's financial statements added NIS 38 million to these expenses, hence the overall increase in operating and other expenses, excluding payroll expenses, reached NIS 46 million.

Development of revenues and expenses

Group profit from financing operations before provision for doubtful debts in the first quarter of 2009 amounted to NIS 584 million, compared with NIS 549 million in the corresponding period last year - an increase of 6.4%.

Below is an analysis of development of major items for profit from financing operations (NIS in millions):

	First Quarter		
	2009	2008	Rate of change
Current operations	**521**	**519**	**0.4%**
Revenues from interest on problem loans	34	41	
Gain (loss) from realization and impairment of debentures held for sale and debentures held for trading, net (1)	6	(5)	
Effect of accounting treatment of derivatives at fair value and others (2)	(18)	(6)	
Consolidation of Bank Yahav financial statements (3)	41	-	
Total	**584**	**549**	**6.4%**

(1) Includes provision amounting to NIS 29 million in the first quarter of 2009 for impairment of Bank investments in securities exposed to fluctuations in overseas financial markets due to the financial crisis, compared to a provision of NIS 19 million in the corresponding period last year.

(2) The effect of accounting treatment of derivatives at fair value is due to the difference between accounting treatment of balance sheet instruments, charged to the profit and loss statement on accrual basis (interest, linkage differentials and exchange rate differentials only), vs. derivatives measured at their fair value.

(3) Excluding gain from realization of debentures held for sale.

Below are details of financing profit by major operating segments of the Group (NIS in millions)(1):

Operating segment	First three months		Rate of change
	2009	2008	
Retail banking:			
Mortgages	92	98	(6.1%)
Household	(2)166	145	14.5%
Small business	75	76	(1.3%)
Total	(2) 333	319	**4.4%**
Private banking	13	16	(18.8%)
Commercial banking	36	39	(7.7%)
Business banking	157	144	9.0%
Financial management	(3) 45	31	45.2%
Total	584	549	**6.4%**

(1) For definition of operating segments, see below the chapter on "Bank Group Operating Segments".
(2) Includes NIS 41 million due to impact of Bank Yahav consolidation.
(3) Includes NIS 14 million due to impact of Bank Yahav consolidation.

The average balances of financial assets in the different linkage segments (including impact of derivatives) are as follows (NIS in millions):

Linkage segments	First Quarter		Rate of change
	2009	2008	
Israeli currency - non-linked (1)	97,203	70,356	38.2%
Israeli currency - linked to the CPI	41,295	39,988	3.3%
Foreign currency (including Israeli currency linked to foreign currency) (2)	80,477	60,922	32.1%
Total	218,975	171,266	27.9%

(1) The increase in average balance of financial assets in the non-linked segment is due to a significant increase in derivative instrument operating volume, to diversion of deposits from overseas banks to the Bank of Israel and to a NIS 7.6 billion growth in average balance of non-linked assets in respect of initial consolidation of Bank Yahav with Group financial statements.
(2) Local operations and overseas affiliates.

Interest differentials in the various linkage segments (in %) (including impact of derivatives) are as follows:

Linkage segments	First Quarter	
	2009	2008
Israeli currency - non-linked	1.29%	1.58%
Israeli currency - linked to the CPI	0.29%	0.50%
Foreign currency (including Israeli currency linked to foreign currency) (1)	0.38%	0.68%
Total including impact of derivatives	0.69%	0.98%
Total excluding impact of derivatives	1.55%	2.34%

(1) Local operations and overseas affiliates.

Data with regard to revenue and expense rates of group operations as well as the financial margin represented by the interest differentials are presented under Appendix A of Management Discussion. The lower financial margin is primarily due to lower interest rates, which led to lower interest charged by the Bank for uses. Interest paid on deposits also declined, although to a lesser extent, hence the Bank's financial margin was reduced.

Provision for doubtful debts for the Group in the first quarter of 2009 amounted to NIS 119 million, compared to NIS 41 million in the corresponding period last year. The increase in provisions is primarily due to an increase in specific provisions in respect of problem loans, due, inter alia, to the impact of the financial crisis on the business sector.

Total provision for doubtful debts and other credit instruments in the first quarter of 2009 increased by NIS 92 million over the corresponding period last year. This increase is primarily due to a NIS 78 million increase in current provision for doubtful debts, and a NIS 14 million increase in provision for impairment of Bank investments in securities primarily exposed to fluctuations in overseas financial markets due to the global crisis (of which NIS 4 million in respect of investments in non-banking corporations were recorded under loss from equity investments, net).

Development of provision for doubtful debts (NIS in millions) is as follows:

Linkage segments	First Quarter	
	2009	2008
Specific provision:		
By extent of arrears	12	2
Other	79	31
Total specific provision	91	33
General and additional provision	28	8
Total	119	41
Annualized rate of provision for doubtful debts to total credit to the public	0.52%	0.22%

Details of provision for doubtful debts by major Group operating segments (NIS in millions) are as follows:

Operating segment	First three months	
	2009	2008
Retail banking:		
Mortgages	14	2
Household	18	10
Small business	23	15
Total	**55**	**27**
Commercial banking	1	-
Business banking	63	14
Total	**119**	**41**

The balance of the general and supplementary provision for doubtful debt on the Group's balance sheet amounted to NIS 222 million as of March 31, 2009, compared with NIS 194 million as of December 31, 2008.

Group profit from financing operations after provision for doubtful debts in the first quarter of 2009 amounted to NIS 465 million, compared with NIS 508 million in the same period last year - a decrease of 8.5%.
Excluding the impact of consolidation of Bank Yahav's financial statements, profit from financing operations after provision for doubtful debts decreased by 18.7%.
The decrease in profit from financing operations after provision for doubtful debts is primarily due to a NIS 88 million increase in provision for doubtful debts and other credit instruments exposed to fluctuations in overseas financial markets due to the financial crisis.

Total operating and other revenues for the Group in the first quarter of 2009 amounted to NIS 317 million, compared to NIS 283 million in the corresponding period last year 12.0% increase. Excluding revenues amounting to NIS 32 million due to consolidation of Bank Yahav's financial statements, as well as impact of dividend revenues amounting to NIS 5 million received in the first quarter of 2008 in respect of equity investments, total operating and other expenses increased by 2.5%.

Revenues from operating commissions for the Group was NIS 309 million in the first quarter of 2009, compared with NIS 267 million in the corresponding period last year 15.7% growth. Revenues from operating commissions, excluding revenues of NIS 29 million arising from initial consolidation of Bank Yahav's financial statements, increased by 4.9% over the corresponding period last year.

Net loss from equity investments in the first quarter of 2009 amounted to NIS 4 million in respect of impairment of investments, compared to NIS 8 million gain in the corresponding period last year. Profit for the first quarter of 2008 includes dividend revenues amounting to NIS 5 million, received in respect of equity investment.

Other revenues for the Group, including NIS 3 million revenues arising from consolidation of Bank Yahav's financial statements, in the first quarter of 2009 amounted to NIS 12 million, compared to NIS 8 million in the corresponding period last year.

Operating and other expenses for the Group, excluding the impact of consolidation of Bank Yahav's financial statements, increased in the first quarter of 2009 by 5.2% compared to the corresponding period last year. Operating and other expenses of Bank Yahav amounted to NIS 78 million, such that total operating and other expenses for the Group in the first quarter of 2009 amounted to NIS 605 million, compared to NIS 501 million in the corresponding period last year.

Payroll and associated expenses for the Group increased by 1.6%, excluding the impact of Bank Yahav financial statements and excluding the impact of accounting recording of the extended exercise period of the stock option plan for management and staff, fully recorded in the first quarter of 2009. Payroll and associated expenses of Bank Yahav amounted to NIS 40 million, such that total payroll and associated expenses for the Group in the first quarter of 2009 amounted to NIS 370 million, compared to NIS 312 million in the corresponding period last year.

Maintenance and depreciation expenses for buildings and equipment for the Group, excluding the impact of consolidation of Bank Yahav's financial statements, increased in the first quarter of 2009 by 14.4% compared to the corresponding period last year, primarily due to higher amortization expenses for computers, buildings and equipment. Maintenance and depreciation expenses for buildings and equipment of Bank Yahav amounted to NIS 15 million, such that total maintenance and depreciation expenses for buildings and equipment for the Group in the first quarter of 2009 amounted to NIS 134 million, compared to NIS 104 million in the corresponding period last year.

Other expenses for the Group, excluding the impact of consolidation of Bank Yahav's financial statements, decreased in the first quarter of 2009 by 8.2% compared to the corresponding period last year. The impact of other operating expenses of Bank Yahav amounted to NIS 23 million, such that total other operating expenses for the Group in the first quarter of 2009 amounted to NIS 101 million, compared to NIS 85 million in the corresponding period last year.

As a result of developments in revenues and expenses, changes toe financial ratios were as follows:

	First Quarter		All of
	2009	2008	2008
Operational Coverage Ratio (1)	52.4%	56.5%	57.1%
Cost-Income Ratio(2)	67.1%	60.2%	61.2%
Excluding the impact of consolidation of Bank Yahav financial statements			
Operational Coverage Ratio (1)	54.1%	56.5%	58.6%
Cost-Income Ratio(2)	64.7%	60.2%	60.2%

(1) Total operating and other revenues to total operating and other expenses.

(2) Total operating and other expenses to total operating and financing revenues before provision for doubtful debts.

Pre-tax operating profit for the Group amounted to NIS 177 million in the first quarter of 2009 , compared with NIS 290 million in the corresponding period last year.

Provision for taxes on operating profit amounted to NIS 65 million in the first quarter of 2009, compared with NIS 110 million in the same period last year, a decrease of 40.9%.

Operating net profit and net profit in the first quarter of 2009 amounted to NIS 110 million, compared to NIS 180 million in the corresponding period last year 38.9% decrease.

Return[1] on Group profit and its development relative to shareholders' equity[2] (in %):

	First Quarter		All of 2008
	2009	2008	
From current operations	7.5%	13.5%	10.4%
Net profit	7.5%	13.5%	10.4%

(1) Annualized return.

(2) Return on average shareholders' equity, including "total capital resources", as presented in reporting of revenue and expense rates, less average balance of minority interest and less/plus the average balance of unrealized profit/loss from adjustment to fair value of debentures held for trading as well as profit/loss from debentures held for sale.

Earnings per share

Earnings per ordinary, NIS 0.1 par value share are as follows (in NIS):

	First Quarter		All of 2008
	2009	2008	
Basic earnings per share:			
From current operations	0.50	0.81	2.70
From net profit	0.50	0.81	2.71
Diluted earnings per share:			
From current operations	0.49	0.80	2.68
From net profit	0.49	0.80	2.69

Development of balance sheet items

Development in loans to the public according to main operating segments:

	March 31		December 31	Change compared to March 31	Change compared to December 31
	2009	2008	2008	2008	2008
Balance sheet total	116,977	94,690	114,012	23.5%	2.6%
Credit to the public	92,123	75,117	88,049	22.6%	4.6%
Deposits from the public	94,548	73,237	91,779	29.1%	3.0%
Securities	8,268	4,096	9,259	101.9%	(10.7%)
Shareholders' equity	6,055	5,621	5,952	7.7%	1.7%

Loans to the public - loans to the public in the consolidated balance sheet as of March 31, 2009 accounted for 79% of total assets, compared with 77% at the end of 2008. The Group's loans to the public increased in the first quarter of 2009 by NIS 4.1 billion, a 4.6% increase. Excluding impact of the NIS devaluation, loan volume increased by 3.2% in the first quarter of 2009.

The Bank is conducting a comprehensive review of its exposure to borrowers. In addition, the Bank reviews the impact of scenarios (significant change in exchange rates, in stock indices, in bond yields etc.) in order to identify potential impact to borrowers. Due to the global financial crisis, the Bank reviews its customers' exposures, in particular customers in the capital market sector who are exposed to this crisis and to international financial institutions. In cases where a gap is created between the collateral required from a customer and the customer's credit exposure – steps are taken to reduce the gap in collateral. In conjunction with the aforementioned, borrowers are required to provide additional collateral in order to reduce the Bank's exposure. In addition to the aforementioned steps, credit portfolios are currently carefully scrutinized and provisions for doubtful debts have been provided as needed. The increase in provision for doubtful debts is due, *inter alia*, to the implications of the financial crisis on the business sector.

Loans to the public by linkage segments (NIS in millions) is as follows:

	March 31		December 31	Change in % March 31	Change in % December 31
	2009	2008	2008	2008	2008
Israeli currency					
Non-linked	43,477	29,745	39,913	46.2%	8.9%
CPI- linked	33,084	33,422	34,211	(1.0%)	(3.3%)
Foreign currency and foreign currency linked (1)	15,562	11,950	13,925	30.2%	11.8%
Total (1)	92,123	75,117	88,049	22.6%	4.6%

(1) Excluding the impact of NIS devaluation, a 2.5% increase in the foreign currency segment and a 3.2% increase due to loan volumes.

Loans to the public by operating segments (NIS in millions) is as follows:

	March 31		December 31	Change compared to	
				March 31	December 31
Operating segment	2009	2008	2008	2008	2008
Retail banking:					
Mortgages	42,562	37,140	41,593	14.6%	2.3%
Household	(1) 13,274	8,456	(1) 12,907	57.0%	2.8%
Total	**55,836**	**45,596**	**54,500**	**22.5%**	**2.5%**
Small business	4,861	4,746	4,955	2.4%	(1.9%)
Private banking	1,430	1,240	1,350	15.3%	5.9%
Commercial banking	4,139	4,139	4,545	-	(8.9%)
Business banking	25,857	19,396	22,699	33.3%	13.9%
Total – business and others	**36,287**	**29,521**	**33,549**	**22.9%**	**8.2%**
Total	**92,123**	**75,117**	**88,049**	**22.6%**	**4.6%**

(1) Includes NIS 3,850 million and NIS 3,823 million as of March 31, 2009 and as of December 31, 2008, respectively, in respect of the impact of consolidation of Bank Yahav's financial statements.

Total Group credit risk for problem loans (NIS in million):

	March 31		December 31
	2009	2008	2008
Non-accrual debt	1,144	920	1,145
Rescheduled debt	192	215	194
Debt designated for rescheduling	913	14	(1) 307
Debt in temporary arrears	1,056	962	1,034
Includes: In respect of housing loans	524	582	537
Debt under special supervision	2,141	1,607	(1) 3,275
Includes: Debt in respect of which a specific provision was made	88	102	(1) 682
Includes: Housing loans for which there is a provision based on length of arrears	605	655	615
Total balance sheet credit to problem borrowers	5,446	3,718	5,955
Off-balance sheet credit to problem borrowers	1,134	597	941
Debentures of financial institutions classified as problematic	48	-	112
Other problem loans of financial institutions	13	-	12
Total credit risk, including in respect of problem borrowers	6,641	4,315	7,020

(1) Net debt amounting to NIS 307 million - after specific provision - classified in the financial statements as of December 31, 2008 as loans under special supervision and for which debt rescheduling procedures have been completed or are under way, have been re-classified as debt designated for rescheduling.

Securities – the balance of investment in securities decreased in the first quarter of 2009 by 10.7%. Excluding the impact of consolidation of Bank Yahav's securities, amounting to NIS 2.6 billion, total investment in securities increased by 39.3% compared to March 31, 2008.

Distribution of Group security portfolio by linkage segment (NIS in millions) is as follows:

				Change compared to	
	March 31		December 31	March 31	December 31
Operating segment	2009	2008	2008	2008	2008
Israeli currency					
Non-linked	1,801	513	2,755	251%	(35%)
CPI- linked	1,263	247	1,953	411%	(35%)
Foreign currency and foreign currency linked	4,805	2,931	4,171	64%	15%
Non-monetary items	399	405	380	(1%)	5%
Total	8,268	4,096	9,259	102%	(11%)

Distribution of balance of Group investment in securities by issuer type as of March 31, 2009 (NIS in millions) is as follows:

	Amortized cost	Unrealized gains	Unrealized loss	Fair value (book value)
Securities held for sale:				
Debentures of the Government of Israel	5,905	75	157	5,823
Foreign government debentures	92	-	-	92
Bank debentures	1,602	-	88	1,514
Corporate debentures	233	5	11	227
Asset-backed debentures	98	-	20	78
Other stocks	328	73	1	400
Total securities held for sale	8,258	153	277	8,134
Securities held for trading:				
Debentures of the Government of Israel	25	-	-	25
Foreign government debentures	106	-	-	106
of others	3	-	-	3
Total securities held for trading	134	-	-	134
Total securities	8,392	153	277	8,268

Below is additional information with regard to impairment of a temporary nature of securities held for sale, listing the duration of impairment and its share out of the amortized cost (NIS in millions):

Share of impairment out of amortized cost	Duration in which fair value is lower than the amortized cost				
	to 6 months	6-9 months	9-12 months	Over 12 months	Total
Stocks held for sale					
Up to 20%	-	-	-	-	-
20%-40%	-	-	-	-	-
Over 40%	-	-	-	1	1
Total	-	-	-	1	1
Asset-backed debentures held for sale					
Up to 20%	1	-	-	1	2
20%-40%	-	-	-	9	9
Over 40%	-	-	-	9	9
Total	1	-	-	19	20
Other debentures held for sale					
Up to 20%	107	30	45	40	222
20%-40%	-	-	28	5	33
Over 40%	-	-	-	1	1
Total	107	30	73	46	256

See Note 2 to the financial statements for additional information.

Deposits from the public - these account for 81% of total consolidated balance sheet as of March 31, 2009, similar to their weight at the end of 2008.

In the first quarter of 2009, deposits from the public with the Bank Group increased by NIS 2.8 billion – a 3.0% increase. Excluding impact of NIS devaluation, the increase in deposits from the public was 1.1%.

Distribution of deposits from the public by linkage segments (NIS in millions) is as follows:

				Change compared to	
	March 31		December 31	March 31	December 31
	2009	2008	2008	2008	2008
Israeli currency					
Non-linked	49,806	34,666	49,273	43.7%	1.1%
CPI- linked	23,751	19,907	22,999	19.3%	3.3%
Foreign currency and foreign currency linked (1)	20,991	18,664	19,507	12.5%	7.6%
Total (1)	94,548	73,237	91,779	29.1%	3.0%

(1) Excluding the impact of NIS devaluation, a 1.4% decrease in the foreign currency segment and a 1.1% increase in total deposit volume.

Distribution of deposits from the public by operating segments (NIS in millions) is as follows:

	March 31		December 31	Change compared to	
				March 31	December 31
	2009	2008	2008	2008	2008
Retail banking:					
Household	[(1)] 48,356	31,909	[(1)] 47,597	51.5%	1.6%
Small business	6,931	8,171	6,591	(15.2%)	5.2%
Total	55,287	40,080	54,188	37.9%	2.0%
Private banking	6,974	6,047	6,809	15.3%	2.4%
Commercial banking	2,009	1,992	2,510	0.9%	(20.0%)
Business banking	13,953	12,246	13,655	13.9%	2.2%
Financial management	16,325	12,872	14,617	26.8%	11.7%
Total	94,548	73,237	91,779	**29.1%**	**3.0%**

(1) Includes NIS 11,334 million and NIS 11,013 million as of March 31, 2009 and as of December 31, 2008, respectively, in respect of the impact of consolidation of Bank Yahav's financial statements.

Shareholders' equity

According to the measurement principles prescribed by the Supervisor of Banks with respect to securities held for sale, the adjustment of these securities to their fair value is recorded directly to shareholders' equity. Changes to capital reserve in the first quarter of 2009, less applicable taxes, resulted in a NIS 23 million decrease. Shareholders' equity as of March 31, 2009 includes a negative capital reserve amounting to NIS 115 million, due to adjustment of securities held for sale to fair value, after applicable taxes.

The ratio of shareholders' equity to balance sheet total for the Group as of March 31, 2009 amounted to 5.2%, similar to the ratio at the end of 2008.

Ratio of capital to risk components

As per instructions of the Supervisor of Banks, any banking corporation is required to maintain a total minimum capital ratio of no less than 9% of weighted total of risk components of its balance sheet assets and off-balance-sheet items, and said instructions set forth the manner of calculation of total capital and total risk components.

Development of Group ratio of capital to risk components is as follows:

	March 31, 2009	December 31, 2008
Ratio of Tier I capital to risk elements	6.60%	6.64%
Ratio of total capital to risk elements	11.61%	11.31%
Minimum total capital ratio required by the directives of the Supervisor of Banks	9.00%	9.00%

The ratio of capital to risk components as of March 31, 2009 also accounts for the capital adequacy requirement due to market risk, in accordance with Directive 341 – Adequacy of Capital in Respect of Market Risk, the effect of which on the capital ratio, as of December March 31, 2008, is 0.43%.

The balance of complex capital notes and subordinated notes for Group capital adequacy, as of March 31, 2009, amounts to NIS 4,769 million, compared to NIS 4,300 million at the end of 2008. These amounts include complex capital notes listed for trading, amounting to NIS 1,561 million. See Note 4 to the financial statements for details.

Major Investees

The contribution of investees to net operating income amounted to NIS 30 million in the first quarter of 2009, compared with NIS 22 million in the corresponding period last year.

Bank Yahav for Government Employees Ltd. ("Bank Yahav")

Bank Yahav is a private company. On July 10, 2008, the Bank concluded the transaction to acquire 50% of Bank Yahav's issued capital and associated rights, Bank Yahav became a subsidiary of the Bank and the former's financial statements were initially consolidated within the Bank's consolidated financial statements as of September 30, 2008. As a result of the foregoing, the consolidated balance sheet as of March 31, 2009 includes assets of Bank Yahav amounting to NIS 12.1 billion.

Contribution by Bank Yahav to Group net profit in the first quarter of 2009, excluding amortization of goodwill, amounted to NIS 2 million (note that Bank Yahav results were initially consolidated in the third quarter of 2008, hence results for the first quarter of 2008 exclude those of Bank Yahav). Average net profit return on equity for Bank Yahav in the first quarter of 2009 was 2.5%, and net operating profit return on equity was 2.5%. Bank Yahav's balance sheet total as of March 31, 2009 amounted to NIS 12,148 million, compared to NIS 11,823 million as of December 31, 2008. The balance of loans to the public as of March 31, 2009 amounted to NIS 3,850 million, compared to NIS 3,823 million at end of 2008. The balance of deposits from the public as of March 31, 2009 amounted to NIS 11,334 million, compared to NIS 11,013 million at end of 2008.

Tefahot Insurance Agency (1989) Ltd. ("Tefahot Insurance")

Tefahot Insurance is an insurance agency wholly owned by the Bank, which manages life insurance policies and property insurance policies of customers obtaining mortgages from the Bank.

Tefahot Insurance's contribution to Group net profit in the first quarter of 2009 amounted to NIS 10 million, compared to NIS 11 million in the corresponding period last year.

Net profit return on equity in the first quarter of 2009 amounted to 11.6%, compared to 14.3% in the same period last year.

United Mizrahi Bank (Switzerland) Ltd.

United Mizrahi Bank (Switzerland) Ltd. “Mizrahi Bank Switzerland”) is focused on international private banking services. The Swiss bank is held by a wholly-owned Bank subsidiary, UMOHC B.V. incorporated in Holland.

Net profit of Mizrahi Bank Switzerland in the first quarter of 2009 amounted to CHF 0.4 million, compared to CHF 0.9 million in the corresponding period last year.

Mizrahi Bank Switzerland's balance sheet total as of March 31, 2009 amounted to CHF 172 million, compared to CHF 129 million at the end of 2008.

Total loans to the public as of March 31, 2009 amounted to CHF 74 million, compared to CHF 72 million at end of 2008; total deposits at banks as of March 31, 2009 amounted to CHF 92 million, compared to CHF 46 million at end of 2008. Total deposits from the public as of March 31, 2009 amounted to CHF 91 million, compared to CHF 52 million at end of 2008; total deposits from banks as of March 31, 2009 amounted to CHF 32 million, compared to CHF 26 million at end of 2008.

These data exclude off-balance-sheet items, such as fiduciary deposits and customer security portfolios which are major components of the Bank's business operations in Switzerland.

The contribution of Mizrahi International Holdings Ltd. (B.V. Holland), which owns Mizrahi Bank Switzerland, to Group net profit Group in the first quarter of 2009, was NIS 16 million, compared with a loss of NIS 4 million in the corresponding period last year.

Excluding the impact of changes in exchange rates, the company's contribution to group net profit in the first three months of the year amounted to a NIS 1 million profit, compared to a NIS 3 million profit in the corresponding period last year.

Bank Adanim Mortgages & Loans Ltd. ("Bank Adanim")

Pursuant to the resolution by the Bank Board of Directors dated November 24, 2008 to approve the merger of Bank Adanim with the Bank, the merger was recorded with the Registrar of Companies on February 23, 2009. As of said date Bank Adanim has ceased to exist as a separate company, and its assets and liabilities were merged into Bank Mizrahi-Tefahot. For details of the Bank Adanim merger, see Note 11.B to the financial statements.

Investment in non-banking corporations

The Bank has a department tasked with monitoring nostro investments made in non-banking corporations, and reviewing the value of these investments on an ongoing basis. About 81% of these investments are negotiable and presented at their market value. The other investments are presented at cost or at their carrying amount. In case of impairment of a non-temporary nature, a provision for impairment is made by the Bank.

Bank investments in non-banking corporations as of March 31, 2009 amounted to NIS 373 million, compared to NIS 352 million at end of 2008.

These investments include NIS 303 million invested in negotiable securities included in the portfolio of securities held for sale (NIS 281 million as of end 2008); this amount includes NIS 294 million (NIS 276 million as of end 2008), constituting the market value of securities pledged for debt of a certain customer, which were classified under securities in accordance with the letter from the Supervisor of Banks.

Bank net revenues from dividends and capital gains from non-banking corporations, after provision for impairment, amounted in the first quarter of 2009 to a NIS 4 million expense fir to provision for impairment of investments, compared to NIS 8 million revenues in the corresponding period last year.

Financial Information Regarding Operating Segments

Bank Group operating segments

The Bank manages its operations in six major operating segments, which are distinguished by customer characteristics and type of banking services required, as well as by the organizational unit responsible for servicing each segment. Operating segment definition is based on the Bank's organizational structure, as set forth below. The operations in the six operating segments include all areas of banking operations including classic banking activity (loans and deposits), securities activity for customers and activity in derivative instruments. Operations of the various segments are conducted via Bank branches, trading room, Business Centers, Bank HQ departments and subsidiaries in Israel and overseas.

The Bank's operating segments are:

Household segment - under responsibility of the Retail Division, This segment includes small household customers and mortgage operations. The division provides appropriate banking services and financial products to segment customers, including in the field of mortgages.

Small business segment – under responsibility of the Retail Division, which also serves small business customers, having an indebtedness level of less than NIS 6 million, sales of less than NIS 30 million and liquid asset balance of less than NIS 10 million. Banking services and financial products, including commercial banking services as required, are provided to segment customers.

Private banking – private banking is under responsibility of the Private Banking and International Operations sector of the Financial Division. Private banking sector customers are individual customers with liquid assets (primarily short-term deposits and security investments) over NIS 2.5 million. Customers of this segment have high financial wealth, to whom the Bank offers access to unique products and services in capital management activity, advisory service and investment management.

Commercial banking – customers of this segment are private and public companies of medium size (middle market) and medium level of indebtedness, and are served by the Business Banking Division, primarily by the Business sector, which operates via six business centers located throughout Israel. Business customers are assigned to the Business sector primarily using the following criteria: total indebtedness of NIS 625 million, sales of NIS 30-120 million or liquid assets of NIS 10-40 million. Segment customers operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

Business banking - the Major Corporations sector in the Business Division is responsible for the Business Banking segment, which is the focal point for handling the largest business customers. Criteria by which customers are assigned to the Corporate sector include: total indebtedness over NIS 25 million, sales over NIS

120 million or liquid assets over NIS 40 million. This segment provides a range of banking and financial services to the largest companies in the economy, in an array of industries, at relatively high levels of indebtedness. Segment customers operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

Financial management - operations in this segment include, *inter alia*, management of assets and liabilities, management of exposure to market risk, management of the nostro portfolio and liquidity management as well as trading room operations in the financial and capital markets. The segment is under responsibility of the Finance Division, except for investments in non-banking corporations, which are under the responsibility of the business division.

The main products offered by the Bank's different operating segments are:

- **Banking and finance –** an array of banking services offered to private and corporate customers, including management of checking account, provision of a current loan account, different kinds of credit and guarantees, receiving deposits, foreign trade activities (imports, exports, documentary credit, etc.), trading in derivative instruments, including trading in currencies and interest rates, etc.
- **Capital market** – security transactions for customers on stock exchanges in Israel and overseas, provident fund operating services and mutual fund distribution (management of provident funds and mutual funds until sold) which are among investment tracks available to Bank customers.
- **Credit cards –** A set of financial products and banking services given in conjunction with credit cards issued to Bank customers by credit card companies in Israel.
- **Mortgages –** Housing loans secured by charges on a residence, out of the Bank's funds and within the framework of government aid programs.
- **Construction and real estate** – banking operations vis-à-vis companies in the real estate sector, as well as unique banking services for the real estate sector, including the financing of real estate products by the closed financing method.

In order to analyze results of Bank operations by relevant criteria, customers have been assigned to the organizational units in charge of servicing them. Information presented below by operating segment is based on the Bank's organizational structure on customer assignment to various departments and hence to operating segments, and on attribution of results and balances to customers and segments.

For further details, *inter alia*, with regard to division into operating segments and the principles used for attributing balances, income and expenses to customers in the system – see Note 31 to the financial statements as of December 31, 2008. Note 10 to the financial statements includes a reporting of Bank Group business results by operating segment.

Below is a Condensed of financial results by operating segment (NIS in millions, in reported amounts).

Profitability

	Net profit in Q1		Return on equity (in %) in Q1	
	2009	(1) 2008	2009	(1) 2008
Household				
Mortgages	51	69	9.5	14.9
Other	15	23	8.1	18.1
Private banking	8	8	56.5	75.5
Small business	7	7	9.2	10.3
Commercial banking	8	15	11.7	22.9
Business banking	21	62	3.9	13.6
Financial management	-	(4)	-	(3.2)
Total	110	180	7.5	13.5

(1) Reclassified.

Below are Bank Group operating results by operating segment

Results of Household Segment

	For the three months ended March 31, 2009					For the three months ended March 31, 2008				
	Banking and finance	Credit cards	Capital market	Mortgages	Total	Banking and finance	Credit cards	Capital market	Mortgages	Total
	NIS in millions					NIS in millions				
Profit from financing operations before provision for doubtful debts									;;	
From outside operating segments	1	4	3	403	411	(131)	4	4	419	296
Inter-segment	161	(3)	-	(311)	(153)	271	(3)	-	(321)	(53)
Profit from financing operations before provision for doubtful debts	162	1	3	92	258	140	1	4	98	243
Operating and other revenues	63	32	32	64	191	49 (1)	21 (1)	22	65	157
Total profit	225	33	35	156	449	189	22	26	163	400
Provision for doubtful debts	18	-	-	14	32	10	-	-	2	12
Operating and other expenses										
From outside operating segments	264	6	14	59	343	188	14	11	49	262
Inter-segment	(27)	(1)	-	-	(28)	(23)	(2)	-	-	(25)
Total operating and other expenses	237	5	14	59	315	165	12	11	49	237
Operating profit (loss) before taxes	(30)	28	21	83	102	14	10	15	112	151
Provision for taxes on operating profit	(11)	10	8	32	39	7	3	6	43	59
After-tax operating profit (loss)	(19)	18	13	51	63	7	7	9	69	92
Share of external shareholders in net operating loss after taxes of subsidiaries	3	-	-	-	3	-	-	-	-	-
Net profit (loss)	**(16)**	**18**	**13**	**51**	**66**	**7**	**7**	**9**	**69**	**92**
Return on equity					**9.2%**					**15.6%**
Average balance of assets	11,981	1,379	-	42,880	56,240	7,864	1,220	-	36,937	46,021
Average balance of liabilities	46,590	7	-	3,871	50,468	31,711	-	-	3,613	35,324
Average balance of risk assets	13,673	-	-	33,133	46,806	7,698	-	-	29,120	36,818
Average balance of securities	-	-	17,153	-	17,153	-	-	12,917	-	12,917
Credit to the public (end balance)	11,669	1,605	-	42,562	55,836	7,080	1,376	-	37,140	45,596
Deposits from the public (end balance)	46,972	-	-	1,384	48,356	31,909	-	-	-	31,909
Average balance of assets under management	6,724	-	-	15,847	22,571	158	-	-	16,794	16,952
Components of profit from financing operations before provision for doubtful debts:										
Margin from credit granting operations	61	1	-	82	144	58	1	-	87	146
Margin from receiving deposits	93	-	-	-	93	80	-	-	-	80
Other	8	-	3	10	21	2	-	4	11	17
Total	**162**	**1**	**3**	**92**	**258**	**140**	**1**	**4**	**98**	**243**

(1) Reclassified.

Contribution of the household segment to Group profit in the first quarter of 2009 amounted to NIS 66 million, compared to NIS 92 million in the corresponding period last year - a 28.3% decrease. Excluding the Bank's share of Bank Yahav profits, initially consolidated in the third quarter of 2008, net profit decreased by 25.0%.

Contribution of mortgages in the first quarter of 2009 amounted to NIS 51 million, compared to NIS 69 million in the corresponding period last year - a 26.1% decrease. This decrease is due to a NIS 6 million decrease in profit from financing operations, due to the decline in return on free capital attributed to the segment due to lower interest rates, as well as a NIS 12 million increase in provision for doubtful debts by extent of arrears compared to the corresponding period last year and a NIS 10 million increase in operating expenses attributed to this segment.

Contribution of households (excluding mortgages), excluding the impact of initial consolidation of Bank Yahav's financial statements, in the first quarter of 2009 amounted to NIS 18 million, compared to NIS 23 million in the corresponding period last year - a 21.7% decrease. This decrease is primarily due to a 13.1% decrease in profit from financing operations excluding the impact of Bank Yahav, primarily due to lower margins on deposits from the public due to low interest rates. For details, see above under analysis of profit from financing operations. This segment was also impacted by a NIS 5 million increase in provision for doubtful debts.

Volume of mortgages granted by the segment are as follows:

	Loans issued (in NIS millions)		
	First Quarter		
	2009	2008	Rate of change
Mortgages issued (for housing and any purpose)			
From the Bank's funds	2,674	2,225	20.2%
From the Treasury's funds			
Directed loans	95	191	(50.3%)
Standing loans and grants	85	63	34.9%
Total new loans	2,854	2,479	15.1%
Recycled loans	421	201	109.5%
Total loans issued	3,275	2,680	22.2%
Number of borrowers (includes recycled loans)	11,129	9,386	18.6%

Results of Private Banking Segment

	For the three months ended March 31, 2009			For the three months ended March 31, 2008 (1)		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
	NIS in millions			NIS in millions		
Profit from financing operations before provision for doubtful debts						
From outside operating segments	(13)	-	(13)	(59)	-	(59)
Inter-segment	26	-	26	75	-	75
Profit from financing operations before provision for doubtful debts	13	-	13	16	-	16
Operating and other revenues	10	3	13	13	3	16
Total profit	23	3	26	29	3	32
Provision for doubtful debts	-	-	-	-	-	-
Operating and other expenses						
From outside operating segments	13	-	13	19	-	19
Inter-segment	-	-	-	-	-	-
Total operating and other expenses	13	-	13	19	-	19
Pre-tax operating profit	10	3	13	10	3	13
Provision for taxes on operating profit	4	1	5	4	1	5
Net profit	6	2	8 -	6	2	8
Return on equity			**56.5%**			**75.5%**
Average balance of assets	1,621	-	1,621	1,438	-	1,438
Average balance of liabilities	6,093	-	6,093	6,236	-	6,236
Average balance of risk assets	1,008	-	1,008	778	-	778
Average balance of securities	-	7,004	7,004	-	6,749	6,749
Credit to the public (end balance)	1,430	-	1,430	1,240	-	1,240
Deposits from the public (end balance)	6,974	-	6,974	6,047	-	6,047
Average balance of other assets managed	-	-	-	-	-	-
provision for doubtful debts:						
Margin from credit granting operations	4	-	4	6	-	6
Margin from receiving deposits	8	-	8	9	-	9

Contribution of the private banking segment to Group profit in the first quarter of 2009 remained unchanged compared to the corresponding period last year. The balance of deposits for the segment as of March 31, 2009 amounted to NIS 7.0 billion, compared to NIS 6.0 billion as of March 31, 2008. The increase in operations was offset by a decreases in margins on deposits, primarily due to low interest rates - for details see above under analysis of profit from financing operations. Consequently, the financing profit decreased by NIS 3 million.

Results of the Small Business Segment

	For the three months ended March 31, 2009				For the three months ended March 31, 2008			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
				NIS in millions				NIS in millions
Profit from financing operations before provision for doubtful debts:								
From outside operating segments	50	1	-	51	(24)	1	2	(21)
Inter-segment	25	(1)	-	24	98	(1)	-	97
Profit from financing operations before provision for doubtful debts	75	-	-	75	74	-	2	76
Operating and other revenues	41	3	5	49	37	2	4	43
Total profit	116	3	5	124	111	2	6	119
Provision for doubtful debts	23	-	-	23	15	-	-	15
Operating and other expenses								
From outside operating segments	102	1	1	104	102	-	1	103
Inter-segment	(13)	-	-	(13)	(10)	-	-	(10)
Total operating and other expenses	89	1	1	91	92	-	1	93
Pre-tax operating profit	4	2	4	10	4	2	5	11
profit	1	1	1	3	2	-	2	4
Net operating profit	3	1	3	7	2	2	3	7
Net after-tax profit from extraordinary items	-	-	-	-	-	-	-	-
Net profit	**3**	**1**	**3**	**7**	**2**	**2**	**3**	**7**
Return on equity				**9.2%**				**10.3%**
Average balance of assets	4,968	36	-	5,004	4,804(1)	35	-	4,839
Average balance of liabilities	7,221	-	-	7,221	8,168	-	-	8,168
Average balance of risk assets	4,696	-	-	4,696	4,204	-	-	4,204
Average balance of securities	-	-	10,588	10,588	-	-	11,213	11,213
Credit to the public (end balance)	4,823	38	-	4,861	4,710	36	-	4,746
Deposits from the public (end balance)	6,931	-	-	6,931	8,171(1)	-	-	8,171
Average balance of other assets managed	287	-	-	287	162	-	-	162
Components of profit from financing operations before provision for doubtful debts:								
Margin from credit granting operations	56	-	-	56	51	-	-	51
Margin from receiving deposits	10	-	-	10	19	-	-	19
Other	9	-	-	9	4	-	2	6
Total	**75**	-	**-**	**75**	**74**	-	**2**	**76**

(1) Reclassified.

Contribution of the small business segment to Group profit in the first quarter of 2009 remained unchanged compared to the corresponding period last year. Profit from financing operations decreased by NIS 1 million. The change in profit from financing operations was due to an increase in margin from credit granting operations, offset by a decrease in margin on deposits due to low interest rates prevailing in the recent quarter. For details, see above under analysis of profit from financing operations. Operating revenues increased by 14%, while the provision for doubtful debts increased by NIS 8 million.

Results of the Commercial Banking Segment

	For the three months ended March 31, 2009				For the three months ended March 31, 2008			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
	NIS in millions				NIS in millions			
Profit from financing operations before provision for doubtful debts:								
From outside operating segments	45	-	-	45	60	-	-	60
Inter-segment	(9)	-	-	(9)	(21)	-	-	(21)
Profit from financing operations before provision for doubtful debts	36	-	-	36	39	-	-	39
Operating and other revenues	9	1	1	11	10	1	2	13
Total profit	45	1	1	47	49	1	2	52
Provision for doubtful debts	1	-	-	1	-	-	-	-
Operating and other expenses								
From outside operating segments	17	-	-	17	16	-		16
Inter-segment	18	-	-	18	13	-	-	13
Total operating and other expenses	35	-	-	35	29	-	-	29
Pre-tax operating profit	9	1	1	11	20	1	2	23
Provision for taxes on operating profit		-	-	-	7	-	1	8
Net operating profit	9	1	1	11	13	1	1	15
items	-	-	-	-	-	-	-	-
Net profit	**9**	**1**	**1**	**11**	**13**	**1**	**1**	**15**
Return on equity				**11.7%**				**22.9%**
Average balance of assets	4,263	3	-	4,266	4,191	-	-	4,191
Average balance of liabilities	2,304	-	-	2,304	2,068	-	-	2,068
Average balance of risk assets	4,273	-	-	4,273	4,239	-	-	4,239
Average balance of securities	-	-	1,482	1,482	-	-	2,024	2,024
Credit to the public (end balance)	4,136	3	-	4,139	4,139	-	-	4,139
Deposits from the public (end balance)	2,009	-	-	2,009	1,992	-	-	1,992
managed	38	-	-	38	20	-	-	20
Components of profit from financing operations before provision for doubtful debts:								
Margin from credit granting operations	26	-	-	26	31	-	-	31
Margin from receiving deposits	2	-	-	2	5	-	-	5
Other	8	-	-	8	3	-	-	3
Total	**36**	-	**-**	**36**	**39**	-	**-**	**39**

Contribution of the commercial banking segment to Group profit in the first quarter of 2009 decreased by NIS 7 million compared to its contribution in the corresponding period last year. Profit from financing operations decreased by NIS 3 million, primarily due to lower margins on deposits and a decrease in return on free capital. For details, see above under analysis of profit from financing operations. Operating revenues decreased by NIS 2 million. The provision for doubtful debts increased by NIS 1 million. Operating expenses attributed to this segment increased by NIS 6 million.

Results of the Business Banking Segment

	For the three months ended March 31, 2009				For the three months ended March 31, 2008			
	Banking and finance (1)	Capital market	Real estate and construction	Total	Banking and finance (1)	Capital market	Real estate and construction	Total
	NIS in millions				NIS in millions			
Profit from financing operations before provision for doubtful debts								
From outside operating segments	133	3	82	218	110	7	94	211
Inter-segment	(26)	-	(35)	(61)	(18)	-	(49)	(67)
Profit from financing operations before provision for doubtful debts	107	3	47	157	92	7	45	144
Operating and other revenues	15	6	2	23	20	8	2	30
Total profit	122	9	49	180	112	15	47	174
Provision for doubtful debts	63	-	-	63	2	-	12	14
Operating and other expenses								
From outside operating	54	-	9	63	36	-	8	44
Inter-segment	18	-	3	21	13	-	2	15
Total operating and other	72	-	12	84	49	-	10	59
Operating profit (loss) before taxes	(13)	9	37	33	61	15	25	101
Provision for taxes on operating profit	(5)	3	14	12	23	6	10	39
Net operating profit (loss)	(8)	6	23	21	38	9	15	62
Net after-tax profit from	-	-	-	-	-	-	-	-
Net profit (loss)	**(8)**	**6**	**23**	**21**	**38**	**9**	**15**	**62**
Return on equity				**3.9%**				**13.6%**
Average balance of assets	19,587	-	6,782	26,369	16,211	-	6,308	22,519
Average balance of liabilities	12,826	-	1,062	13,888	12,907	-	1,128	14,035
Average balance of risk assets	21,995	-	10,267	32,262	17,240	-	11,369	28,609
Average balance of securities	-	35,394	-	35,394	-	36,579	-	36,579
Credit to the public (end balance)	18,687	-	7,170	25,857	13,739	-	5,657	19,396
Deposits from the public (end	12,992	-	961	13,953	11,142	-	1,104	12,246
Average balance of other assets	22	-	104	126	8	-	164	172
Components of profit from financing operations before provision for doubtful debts:								
operations	67	-	47	114	54	-	45	99
Margin from receiving deposits	13	-	-	13	22	-	-	22
Other	27	3	-	30	16	7	-	23
Total	**107**	**3**	**47**	**157**	**92**	**7**	**45**	**144**

Contribution of the business banking segment to Group profit in the first quarter of 2009 amounted to NIS 21 million, compared to NIS 62 million in the corresponding period last year - a 66.1% decrease. The decrease in segment contribution is almost entirely due to the increase in provision for doubtful debts, which increased in this quarter by NIS 49 million compared to the corresponding period last year - *inter alia* due to an increase in provision in respect of major borrowers. The profit from financing operations increased by 9.0%, and was impacted by the increase in credit volume on the one hand, and the decrease in margins on deposits - on the other hand. Operating revenues decreased by NIS 7 million and were impacted, *inter alia*, by the decrease in commissions attributed to the capital market. Operating expenses attributed to the segment increased by 42.4%.

Results of the Financial Management Segment

	For the three months ended March 31, 2009			For the three months ended March 31, 2008 (1)		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
		NIS in millions			NIS in millions	
Profit from financing operations before provision for doubtful debts						
From outside operating segments	(130)	2	(128)	60	2	62
Inter-segment	173	-	173	(31)	-	(31)
Profit from financing operations before provision for doubtful debts	43	2	45	29	2	31
Operating and other revenues	26	4	30	21	3	24
Total profit	69	6	75	50	5	55
Provision for doubtful debts	-	-	-	-	-	-
Operating and other expenses						
From outside operating segments	62	3	65	54	3	57
Inter-segment	2	-	2	7	-	7
Total operating and other expenses	64	3	67	61	3	64
Operating profit (loss) before taxes	5	3	8	(11)	2	(9)
Provision for taxes on operating profit	2	1	3	(5)		(5)
After-tax operating profit (loss)	3	2	5	(6)	2	(4)
Share of external shareholders in net operating profit after taxes of subsidiaries	(5)	-	(5)	-	-	-
Net operating profit (loss)	(2)	2	-	(6)	2	(4)
Net after-tax profit from extraordinary items	-	-	-	-	-	-
Net profit (loss)	**(2)**	**2**	**-**	**(6)**	**2**	**(4)**
Return on equity			**0.0%**			**(3.2%)**
Average balance of assets	27,261	-	27,261	16,141	-	16,141
Average balance of liabilities	34,180	-	34,180	23,667	-	23,667
Average balance of risk assets	7,729	-	7,729	9,121	-	9,121
Average balance of provident and mutual fund assets	57,242	-	57,242	45,485	-	45,485
Average balance of securities	-	19,824	19,824	-	24,192	24,192
Credit to the public (end balance)	-	-	-	-	-	-
Deposits from the public (end balance)	16,325	-	16,325	12,872	-	12,872
Components of profit from financing operations before provision for doubtful debts:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	43	2	45	29	2	31
Total	**43**	**2**	**45**	**29**	**2**	**31**

(1) Reclassified

Contribution of the financial management segment to Group profit in the first quarter of 2009 was nil, compared to a loss of NIS 4 million in the corresponding period last year. Excluding the impact of initial consolidation of Bank Yahav's financial statements, segment results in the first quarter of 2009 amounted to a loss of NIS 5 million.

Profit from financing operations, excluding the impact of consolidation of Bank Yahav's financial statements, amounted to NIS 30 million, compared to NIS 31 million in the corresponding period last year - a 3.2% decrease.

The decrease in profit from financing operations, despite the increase in volume of current operations, is due to lower interest rates, which led to lower interest charged by the Bank for uses. Interest paid on deposits also declined, although to a lesser extent, hence the Bank's financial margin was reduced.

International operations

General information regarding international operations

International operations segment of the Bank Group include business operations and private banking services via subsidiaries and branches in Israel and overseas.

Bank Group international operations are primarily focused on private banking, providing financial services to Israeli customers who have activities outside of Israel, foreign trade finance, local credit and participation in syndicated loans. The Bank has affiliates in several countries, as set forth below.

All international operations, in Israel and overseas, report to the Private Banking and International Operations sector in the Bank's Financial Division. In addition, control of affiliate operations is conducted by the Risk Control Division in the Comptrollership, Planning & Operations Division.

Details of the affiliates and their business are as follows:

Swiss subsidiary - UMB (Switzerland) Ltd. – specializes in private banking services, has one branch, owned by a wholly-owned holding company of the Bank registered in Holland – UMOHC B.V. ("the holding company"). The Swiss subsidiary is subject to the regulatory laws in Switzerland.

USA subsidiary – UMTB Securities Inc., a wholly-owned subsidiary of the Bank incorporated in the State of Delaware in the USA. Provides broker-dealer services for Bank customers for transactions in securities traded on the USA capital markets. The company holds a license from the Securities and Exchange Commission (SEC) to transact in securities traded on USA capital markets, and is a member of the National Association of Security Dealers (NASD).

Bank's overseas branches – Overseas branches offer their customers full banking services, in accordance with the local laws and regulations. The branches are subject to the local and Israeli regulation.

- **Los Angeles Branch**: The branch is engaged mainly in commercial banking, private banking and foreign trade. Deposits with this branch are insured by the Federal Deposit Insurance Corporation(FDIC). The branch's customers are local, Israeli and international customers.
- **London Branch:** The branch is engaged mainly in business banking, including participation in loan syndicates, foreign trade, credit, receiving deposits, foreign currency trade and providing private banking services. The branch's customers are local, Israeli and international customers.
- **Cayman Islands Branch**: The Cayman Islands branch provides private banking services and is operated through the representation of the Bank by the Butterfield Bank in the Cayman Islands, pursuant to the management agreement between it and the Bank.

International private banking branches in Israel: The Bank operates three special branches, located in Jerusalem, Tel Aviv and Ashdod, serving foreign resident customers. These branches provide full banking services to their customers, primarily private banking. The branches are under Israeli supervision and report to the Private Banking and International Operations sector.

Representative offices: The major activities of representative offices are marketing of Bank services and its representation overseas. The Bank operates representative offices in Mexico, Uruguay and Germany. In December 2008, the Bank received a license from the Supervisory Authority in Panama to establish an affiliate. This affiliate is expected be opened in 2009.

For details of local supervision of Bank affiliates overseas, see chapter on international operations segment in the Board of Directors' Report included with the financial statements as of December 31, 2008.

Details of the contribution of international operations to the various operating segments of the Bank Group in the first quarter of 2009 (NIS in millions) are as follows:

	Household	Private banking	Business banking	Financial management	Total
Profit from financing operations before provision for doubtful debts	4	11	18	(15)	18
Operating and other revenues	-	10	2	3	15
Total revenues	4	21	20	(12)	33
Provision for doubtful debts	-	-	-	-	-
Operating and other expenses	2	11	11	2	26
Pre-tax operating profit	2	10	9	(14)	7
Provision for taxes on operating profit	1	4	3	(5)	3
Net profit	1	6	6	(9)	4

Sources and financing

Group financing sources include deposits, obligatory notes and debentures of various types, as well as shareholders' equity. The Group selects the mix of financing sources based on its business objectives, including objectives for profitability, return on equity and capital adequacy – subject to statutory limitations applicable to banking corporations and in accordance with the state of the capital market and management forecasts regarding development therein.

Total deposits from the public for the Group as of March 31, 2009 amounted to NIS 94,548 billion (of which NIS 11,334 billion at Bank Yahav, initially consolidated in the 3rd quarter of 2008), compared to NIS 91,779 billion at the end of 2008. Deposits from the public in the CPI-linked segment increased in the first 3 months of 2009 by 3.3%; deposits from the public in the foreign currency and foreign-currency-linked segment increased by 7.6%; and deposits from the public in the NIS-denominated, non-CPI-linked segment increased by 1.1%.
For details, see the chapter on development of balance sheet items above.
The revaluated balance of the complex capital notes as of March 31, 2009 was NIS 1.58 billion, compared to NIS 1.19 billion as of December 31, 2008.

According to Bank management estimates, the Bank should complete, by end of 2009, the raising of upper Tier II capital amounting up to NIS 500 million to be used for the Bank's current operations. In February 2009, the Bank raised NIS 400 million against allotment of additional complex capital notes, considered to be upper Tier II capital, amounting to NIS 434 million par value. The balance of the aforementioned amount would be raised as upper Tier II capital, by means of complex capital notes, and subject to prevailing market terms upon the issuance date. In addition, the Bank would issue subordinated notes, considered to be Tier II capital, as required. In May 2009, the Bank issued and listed for trading additional subordinated notes amounting to NIS 38 million par value in exchange for NIS 37 million in proceeds.

This information is a kind of forward-looking information, which is based on various assumptions and forecasts presented to the Bank's management, as described below. The information may not be realized, if Bank management finds that it is not expedient to carry out the plan, or due to changes that could occur in various influencing factors that are not under the sole control of the Bank. The influencing factors include forecasts on various matters related to economic developments in Israel and internationally, especially the state of the economy, including macroeconomic and geopolitical conditions, and the currency market and capital market, other factors that impact the exposure to financial risk, the public's preferences, legislation, directives of regulatory entities, the behavior of competitors, aspects related to the Bank's image, technological developments and manpower matters.

The Bank is acting to raise long-term sources via issuances, *inter alia* via Mizrahi Tefahot Issue Company Ltd. ("Tefahot Issue"), a wholly-owned subsidiary of the Bank. Over the years, Tefahot Issue Company issued to the public subordinated notes under issued prospectuses.

As of the date of these financial statements, Tefahot Issue issued to the public obligatory notes (Series 25-30) with total par value of NIS 2,447 million. The revaluated balance as of March 31, 2009 of the obligatory notes outstanding amounted to NIS 2,678 million, of which NIS 1,228 million considered as Tier II capital. In the first quarter of 2009, Tefahot Issuance issued subordinated capital notes amounting to NIS 337 million considered as Tier II capital, with par value of NIS 325 million. In April 2009, an additional NIS 33 million in subordinated capital notes were issued, considered as Tier II capital, with par value of NIS 30 million.

On February 25, 2009, Tefahot Issuance published a shelf prospectus for issuance of up to 12 series of obligatory notes with par value of up to NIS 2 billion in each series, as well as 3 series of subordinated capital notes with par value of up to NIS 3 billion in each series, as well as expansion of a negotiable debenture series and of a negotiable series of subordinated obligatory notes with par value of NIS 500 million for each series (hereinafter jointly: "the obligatory notes"). The obligatory notes in each series separately would be offered by way of public offering via shelf prospectus reports, which would contain all details specific for that offering, as required by statue, regulations and directives of the stock exchange in effect at that time.

On April 5, 2009, Ma'alot announced that in conjunction with a review by S&P of ratings of hybrid instruments world wide, including in Israel, in view of the global financial crisis, the rating of the subordinated capital notes was lowered from AA- to A+. For details, see Note 11.D. to the financial statements.

Risk Management

Day-to-day activities in a variety of balance sheet and off-balance-sheet financial instruments expose the Group to risk, mainly – market and liquidity risk, credit risk, and operating risk. The risk management policies in the various areas are intended to support the achievement of the Group's business goals while limiting the associated risk.

The Group manages its risk on a day-to-day basis, in accordance with the Bank of Israel's Proper Conduct of Banking Business Directive no. 339. Within this framework, the Group has appointed risk managers, and the Bank has established a Risk Management Department. Bank management regards the Bank's risk control and management system as one of its core competencies, hence it is Bank policy to constantly strive to improve the risk control and management system, Specifically, the Bank is in advanced stages of applying the Basel II guidelines.

Bank management believes that risk control and management must be an integrative process. As part of this approach, the Bank purchased a risk management system (the Algorithmics system) that enables management and control under a single platform of the market risk and liquidity risk of the Bank, and in the future, also the various credit risk components, including implementation of Basel II regulations for calculating regulatory and economic capital. During 2007 the Bank completed a move to enable use of advanced models for management of customer exposure to the foreign currency segment of the capital market. This effort was expanded in 2008, aiming to include customers operating in other trading arenas. In the first quarter of 2009, the Bank started calculating the required regulatory capital in accordance with Basel II guidelines (layer 1 – standard method) using the system.

Credit risk

The Bank's credit policies prescribe principles and rules for making credit available and for the management and control over the loan portfolio, in order to preserve its quality and reduce the inherent risk. These principles and rules enable controlled management of the risk involved in granting loans to borrowers, at the level of the individual borrower, group of borrowers and the level of economic and business sectors. As mentioned earlier, the Bank is in advanced stages of applying the Basel II guidelines. Quantitative aspects of the regulation, and not less important – its qualitative components, have a strong impact on how credit risk is managed by the Bank. In the first half of 2008, the bank completed a gap review with regard to requirements of the second layer of Basel II provisions concerning credit risk management, and has prepared a work plan for eliminating said gaps. The Bank has started to eliminate these gaps in accordance with its work plan.

The Division Manager, Business Banking is in charge of credit risk management at the Bank. Each unit which provides credit monitors on a regular basis credit repayment in accordance with terms agreed as well as the financial status of the customer, based on their level of indebtedness. Any findings requiring action are reported to the entity in charge of the relevant credit. The Bank has a Tracking and Control Department, which used computer systems to discover and alert to unusual accounts and customers, including based on information external to the Bank. In addition, the bank operates the credit risk supervision department under the Risk Control Division.

Procedures for granting credit and for processing credit and collateral, as well as the relevant IT systems there for, are regularly reviewed and updated to adapt them to the changing business environment. A constant effort is also made to improve professional skills and expertise of employees involved with credit, by means of training and professional workshops at all levels. Concurrently, the Bank invests extensive resources in improving its control mechanisms and IT systems available to decision makers in the credit sector.

In view of the crisis in global financial markets, the Bank tightened in recent months its means of control and reporting of exposures, including a comprehensive sweep of all accounts and customers, in order to better supervise and control the credit portfolio. Specifically, Bank exposure to entities directly and indirectly exposed to the global financial crisis have been mapped and evaluated. Furthermore, the Bank regularly monitors its exposure to foreign financial institutions, in accordance with directives of the Supervisor of Banks.

Below is information on the Bank's exposure to foreign financial institutions (1) (2) as of March 31, 2009 (NIS in millions):

External credit rating	Balance sheet credit risk (3)	Off-balance sheet credit risk (4)	Current credit exposure
AAA to AA-	3,053	477	3,530
A+ to A-	1,308	61	1,369
BBB+ to BBB-	70	17	87
BB+ to B-	46	22	68
Lower than B-	82	-	82
Unrated	25	-	25
Total credit exposure to foreign financial institutions	4,584	577	5,161
Balance of problem loans (5)	61	-	61

Below is information on the Bank's exposure to foreign financial institutions (1) (2) as of December 31, 2008 (NIS in millions):

External credit rating	Balance sheet credit risk (3)	Off-balance sheet c redit risk (4)	Current credit exposure
AAA to AA-	2,485	408	2,893
A+ to A-	1,639	19	1,658
BBB+ to BBB-	131	15	146
BB+ to B-	75	30	105
Lower than B-	155	-	155
Unrated	46	-	46
Total credit exposure to foreign financial institutions	4,531	472	5,003
Balance of problem loans (5)	124	-	124

(1) Foreign financial institutions include: Banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the former. Bank exposure is almost entirely to banks and investment banks primarily incorporated in the UK, USA, Germany, Spain and Canada. Exposure is primarily in respect of institutions incorporated in OECD countries.

(2) Net of deduction of specific provisions for doubtful debts.

(3) Bank deposits, credit to the public, investment in debentures, securities borrowed or acquired in conjunction with re-sale agreements and other assets in respect of derivative instruments.

(4) Primarily guarantees and commitments to grant credit, including guarantees to secure liabilities of third parties, which have been weighted at 50% of their amount – in accordance with Proper Conduct of Banking Business Directive no. 313.

(5) Balance of problem loans net of loans covered by collateral that may be deducted for the purpose of computing the per-borrower credit limits of an individual borrower and a group of borrowers, including elements of off-balance sheet risk.

Credit exposure excludes exposure to financial institutions for which complete, explicit government guarantees are in place, and exclude investments in asset-backed securities. For details of investments in asset-backed securities, see Note 2 to the financial statements. For further information with regard to credit exposure composition in respect of derivative instruments vis-à-vis banks and dealers/brokers (domestic and foreign), see Note 7b to the financial statements. to the financial statements.

Part of the exposures listed in the above table are included under Management Review - Addendum B - Credit Risk by Economic Sector, enclosed with these financial statements under the Financial Services sector. This Management Review also includes credit to the public, public investment in debentures and other assets in respect of public derivative instruments. This Management Review excludes deposits with banks, which are included in the above table. Future transactions, weighted at 10% of their balance, are included under Management Review as part of off-balance sheet credit risk, and are excluded from the above table.

In conjunction with its policy regarding management of exposure to foreign financial institutions, the Bank Board of Directors sets, inter alia, the maximum exposure limit to states and foreign financial institutions, while adjusting the exposure limit to the risk assessment for each state and financial institution. Exposure limits are set based, inter alia, on rating of the various states and financial institutions and on Bank assessment of the risk level in a manner which diversifies exposure.

The Bank determines the exposure limit to each financial institution based on the most recent rating available for said institution, and only ratings provided by one of the leading international rating agencies are used – based on financial information for the institution under review. Exposure limits per institution include maximum exposure amount and maximum time to maturity for different types of activities and transactions. To this end, the existence (or absence) of an offset agreement for derivative operations with said financial institution is also taken into consideration. The policy also sets forth a hierarchy of authority for approval of specific transactions within the exposure limits.

The Bank monitors current ratings published for financial institutions to which it has exposure, and adjusts the exposure limits and actual exposure, as required, to the current rating. The Bank also reviews on a regular basis any additional information available with regard to said institutions in order to monitor exposure even where the credit rating may not reflect the complete picture.
The Bank takes into consideration the maturity dates of its credit exposure in conjunction with the Bank's liquidity requirements. Deposits are normally deposited for short terms, whereas exposure in respect of derivatives and investments in securities are for longer terms.

Market risk

Market risk to which the Bank is exposed in different financial instruments arises from their susceptibility to unexpected changes in interest rates, inflation rates and exchange rates, such that changes in market conditions may lead to changes in the fair value of the different financial instruments. The principal market risk to which the Bank is exposed are interest risk, basis risk and liquidity risk.
Market risk management is intended to maximize Bank profit at the prescribed risk level.
Exposure to market risk is managed in accordance with the limitations prescribed by the Board of Directors, within the frameworks of and subject to which, the Bank’s Executive Management acts, according to the market conditions at any given time. The market risk manager for the bank is the head of its Financial Division.
In order to improve response time to capital market volatility, the bank started calculating VAR using a new method in May 2008; this method combines multiple calculation methods, while adjusting the number of historic observations used for calculation.

The internal estimate of VAR of the Bank Group presents the risk of a loss during a month, with the probability of it occurrence not exceeding 1%. Below is the maximum VAR for the Bank Group (NIS in millions):

	First three months of	
	2009	2008 (1)
At end of period	261	112
Maximum value during period	274 (Feb.)	153 (Oct.)
Minimum value during period	164 (Jan.)	80 (Feb.)

(1) VAR values have been recalculated since the start of this year, due to the change in calculation method.

The Bank's VAR value increased in the first three months of 2009. Despite this increase, there were no exceptions to the Board restriction and the Bank VAR is under constant supervision and is regularly reported in accordance with Bank procedures.

The management of risk from a total viewpoint, for all of the Bank's financial activity, on and off-balance sheet, enables the Bank to maximize the utilization of the correlation between the different risk factors (basis and interest) in the various linkage segments, and the best possible dispersal of the risk. In addition to measuring the total risk value, the Bank measures and manages the mix of risk elements.

Linkage-basis risk

Linkage-basis risk relates to the risk of erosion in capital due to changes in the value of the linkage basis – changes in prices, exchange rates and inflation rates. The exposure to basis risk exists when the Bank's assets and liabilities are denominated in different currency or linkage segments.

Below is an analysis of the sensitivity of the Group's (pre-tax) profit to changes in the main exchange rates and in the CPI as of March 31, 2009:

Profit (loss), NIS in millions

	Scenarios				Extreme historical scenario (1)	
	increase	increase	5% decrease	10% decrease	Maximum increase	Maximum decrease
CPI	16.4	8.2	(8.2)	(16.4)	4.9	(1.5)
Dollar	33.5	16.9	(18.0)	(34.3)	17.6	(11.7)
Pound Sterling	0.1	(0.2)	-	0.6	(0.1)	-
Yen	12.1	6.2	(6.0)	(12.8)	15.9	(7.3)
Euro	17.1	7.6	(5.1)	(8.8)	10.9	(5.5)
Swiss Franc	2.4	1.1	(0.9)	(1.8)	2.1	(1.2)

(1) Extreme scenarios were calculated based on daily changes in the exchange rate and monthly changes in the CPI, in the last 10 years.

Interest risk

Interest risk is the risk of erosion of capital as a result of future interest rate changes. The exposure to interest risk results from a lack of correlation between the period to maturity of the Bank's assets and liabilities.

Interest risk in the Bank's banking portfolio is managed using the EVE (Economic Value of Equity) model - a model which reviews changes in the economic value of the portfolio under different assumptions regarding changes to the interest rate curve. This model is used in addition to monitoring interest risk in VAR terms and stress testing, as part of overall market risk.

Impact of hypothetical changes in interest rates on fair value of financial instruments of the Bank and its subsidiaries (NIS in millions):

Fair value of financial instruments before impact of hypothetical changes in interest rates:

	March 31, 2009					
	Israeli currency		Foreign currency (2)			
	Non-linked	CPI- linked	Dollar	Euro	Other	Total
Financial assets (1)	51,612	37,401	16,479	3,926	3,143	112,561
Fair value of financial derivatives	1,920	81	1,440	160	114	3,715
Financial liabilities (1)	(52,084)	(33,451)	(15,743)	(4,141)	(2,670)	(108,089)
Fair value of financial derivatives	(1,821)	(48)	(1,559)	(179)	(74)	(3,681)
Total	(373)	3,983	617	(234)	513	4,506

Net fair value of financial instruments, after impact of changes in interest rates (3):

	March 31, 2009							
	Israeli currency		Foreign currency (2)				Change in fair value	
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total	NIS in millions	In %
Change in interest rates								
Concurrent immediate increase of 1%	(330)	4,221	621	(237)	501	4,776	270	6.0%
Concurrent immediate increase of 0.1%	(369)	4,009	618	(234)	512	4,536	30	6.7%
Concurrent immediate decrease of 1%	(434)	3,704	612	(231)	526	4,177	(329)	(7.3%)

(1) Includes complex financial instruments. Excludes balance sheet balances of derivatives and fair value of off-balance sheet financial instruments.

(2) Including Israeli currency linked to foreign currency.

(3) Net fair value of financial instruments presented in each linkage segment is the net fair value for this segment, assuming the indicated change in all interest rates in the linkage segment. Total net fair value of financial instruments is the net fair value of all financial instruments (excluding non-monetary items), assuming the indicated change in all interest rates in all linkage segments.

The impact of hypothetical changes, as shown above, was calculated using the Bank's risk management systems, which employ advanced risk management models and allow for sensitivity analysis of Bank positions by total expected cash flows in respect of the Bank's different financial instruments.

Liquidity risk

Liquidity risk result from uncertainty as to the availability of sources and the ability to realize assets within a specified period of time and at a reasonable price. Liquidity risk is managed subject to the limitations of the Board of Directors and Executive Management in an effort to minimize the losses deriving from an investment of surplus liquidity in assets that are highly liquid, but have a low yield.

No exceptions to the Board of Directors' limitations were recorded in Q1 of 2009.

Liquidity risk at the Bank, in view of the global credit and liquidity crisis, is currently managed with extreme conservatism, while maintaining high liquid reserves and constantly reviewing the Bank's position under liquidity scenarios of various severity levels and types. The regular monitoring of internal and external risk generators has also been elevated, so as to indicate change in liquidity levels within the system as a whole and at the Bank in particular. Note that the Bank manages liquidity risk in the manner set forth above, despite the fact that the global credit crisis has not impacted the Bank's liquidity. The Israeli banking system in the first quarter of 2009 has large excess liquidity, following a range of monetary steps taken by the Bank of Israel to increase liquidity in the system.

Surplus liquid means over financing requirements in Israeli currency liquidity are invested with the Bank of Israel, with the Federal Reserve Bank and in debentures which may be quickly realized.

Financial derivatives

The trading in financial derivatives is part of the Bank's management of assets and liabilities, and is subject to limitations prescribed by the Board of Directors. The Bank trades in these financial derivatives, both for its customers and for its own account, as part of the management of basis and interest exposure in the various linkage segments.

The Bank trades in financial derivatives in the foreign currency, non-linked Israeli currency and CPI-linked Israeli currency sectors. The trading in financial derivatives is mainly conducted in the Bank’s dealing room and is classified into three categories: Hedging transactions, transactions related to asset and liability management (ALM) and other transactions. See Note 7 to the financial statements for details.

The Bank operates in credit derivatives in its nostro portfolio. In these operations, the Bank guarantees eligibility for payment in case of change in credit rating, failure to meet obligations or any other credit event related to counter-parties which are states or overseas banks. These investments are individually reviewed by the Risk Management Committee, and are submitted for approval by the Asset and Liability Management Committee. The par value of these credit derivatives as of March 31, 2009 amounted to NIS 1,124 million.

The policy for managing the options portfolio is based on the “delta-neutral” strategy. The activities in options are subject to the quantitative limits prescribed by management, which include delta exposure (sensitivity of option price to change in price of the underlying asset), maximum VAR value for an investment of one day at an absolute level of 99% calculated by the Monte Carlo method and maximum losses under different scenarios. The VAR limitation for the Bank's option portfolio is calculated intraday every hour.

In 2007, the Bank launched as part of its risk management system an advanced module for review of VAR, sensitivity of option prices to changes in various parameters which determine its price (such as: price of underlying asset, standard deviation and interest rate), and the value of stress tests on the Bank’s option portfolio. System VAR calculations are made hourly, intra-day. The Bank has started the process of expanding use of this module to its entire derivative operations.

Operating risk

Basel I guidelines referred to operating risk as residual risk, and in fact defined it as risk which is not market risk nor credit risk. Basel II guidelines explicitly define operating risk, and indicate the major factors which create operating risk (internal processes, people, systems and external events). Furthermore, the Basel II first layer includes capital requirements for operating risk.

The operational risk manager for the bank is the head of its Comptroller Division.

The operational risk management unit of the Risk Control Division, operates an information gathering system, including failure events and risk reviews, using a portal serving all Bank units. The system also enables management and analysis of operational risk at the Bank.

In early 2009, the responsibility for application of processes derived from directives of the Supervisor of Banks pursuant to sections 404 and 302 of the Sarbanes Oxley Act, was placed with the operational risk management unit of the Risk Control Division. Management of the SOX processes would be integrated into the operational risk management system, which is a portal used for collection of operational failure events and risk reviews.

Legal risk

Proper Conduct of Banking Businesses Regulation 339 prescribes, inter alia, that banking corporations must take action to reduce the legal risk resulting from their various operations. According to the regulation, the legal risk is "the risk of a loss resulting from not having the possibility of legally enforcing an agreement".

Within the scope of the Bank's preparations to manage legal risk and comply with the regulation, the Chief Legal Counsel was appointed as Legal Risk Manager, with the function of managing this risk and taking action to reduce them.

The Bank prescribed procedures that facilitate the minimizing of legal risk in operations and in the different units of the Bank. The procedures prescribe, *inter alia*, the interfaces between the legal counsel system of the Bank and its various units; specify the kinds of agreements that the Bank is permitted to sign and the procedures for their drafting; determining the manner in which the other side to an agreement is evaluated, including his authority to act on behalf whoever is acting on behalf of others; and define the manner in which the collateral is to be obtained and recorded. Also specified was the share of the legal system in preparation of the Bank's internal procedures and in preparing the resultant documents and forms.

Recommendations of Basel Committee on Banking Supervision ("Basel II")

In June 2004, the Basel Committee published final, revised Basel II recommendations intended to assure proper regulation for arranging the rules of capital adequacy of banks in different countries (hereinafter: ("Basel II"). Application of Basel II directives is intended to improve measuring and management of different risk factors facing the financial institution, and to ensure better alignment of capital requirements to the risk level to which the financial institution is exposed.

The first layer of Basel II includes minimum capital allocation in respect of market risk, credit risk and operational risk, using advanced, standard models with regard to current directives.

The second layer of Basel II involves the Supervisory Review Process (SREP) and the Internal Capital Adequacy Assessment Process (ICAAP) aimed at ensuring that bank capital is in line with its risk profile. This is over and above the minimum capital the bank is required to maintain pursuant to the first layer. This includes, inter alia, a review of the required capital due to other risk not included in the minimum capital requirement of the first layer, such as: Interest risk in the bank portfolio, concentration risk, liquidity risk, reputation risk etc. Furthermore, the directives for this layer review the bank’s risk management processes, risk control processes, level of the bank’s corporate governance, existence of supporting procedures, reporting and process management closely linked to risk management and the corporation’s profit, such as credit pricing

processes, rating processes, internal capital allocation, specification of authority etc.
In addition, layer 2 mandates checking if the bank has enough capital to meet its strategic plan, and if it has enough capital to protect against down-turns and economic crises which may occur over time. Therefore, stress tests are an important tool in estimating the capital required of banks, and these feature prominently in the layer 2 of the directive.

Layer 3 of the Basel II directive involves reporting and disclosure to the regulating authority and to the public. This requires the Bank to disclose its risk level and its risk management processes. This requires more extensive, detailed and intensive disclosure, compared to previous directives.

In December 2008, the Supervisor of Banks issued the final Framework for Measurement and Capital Adequacy (Interim Directive) as well as his directives for quarterly reporting with regard to capital adequacy (COREP). Pursuant to these directives, banking corporations in Israel are required to report to the Supervisor of Banks quarterly, starting with data for December 31, 2008, their capital adequacy ratio in accordance with Basel II directives (standard model).

Furthermore, in December 2008 a proposed template was published for reporting of the Internal Capital Adequacy Assessment Process (ICAAP), which guides banking corporations on submission of the Bank's ICAAP document by June 30, 2009.

The Bank began preparing for application of the Basel II recommendations in 2006, established a steering committee headed by a Bank executive, established the required teams and started mapping gaps and technology required for application of this directive. The project is conducted at Group level, based on a detailed work plan which includes all directive components. The work plan also includes a dedicated chapter on operating risk management, as per Basel II requirements, and as is customary for leading banks around the world.
As of the publication date of these financial statements, the Bank has completed its preparations for initial application of the directive, including data input required for capital calculation in accordance with Basel II directives, into the Algorithmics system and using the system to produce the report for the Supervisor of Banks. Through 2009, updates and improvements to the work processes and controls would continue in anticipation of the directive becoming effective on December 31, 2009.
The Bank is in advanced stages of application of layers 2 and 3 of the directive, as per instructions on this matter from the Bank of Israel. As of the publication date of these financial statements, the gap review with regard to layer 2 of the directive has been completed. Handling of gaps identified in the reviews and gathering of information required for application of layer 2 are in advanced stages.
For further details, see Board of Directors' Report as of December 31, 2008.

Restrictions on and Regulation of Bank Group Operations

Measuring and disclosure of impaired debts, credit risk and provision for credit loss

On December 31, 2007, the Supervisor of Banks published his circular regarding “Measuring and disclosure of impaired debts, credit risk and provision for credit loss” ("the directive") which would become effective starting on January 1, 2010. For details of the regulation and the Bank's preparations for its implementation, see Note 1.B to the financial statements.

Legal Proceedings

Letter from the Restrictive Trade Practices Authority

On April 26, 2009, the Bank received a determination by the Anti-Trust Supervisor pursuant to Section 43(a)(1) of the Anti-Trust Act, 1988, whereby restrictive trade practices existed between the Bank and Bank Hapoalim Ltd., Bank Leumi Le-Israel Ltd., Bank Discount Le-Israel Ltd. and First International Bank of Israel Ltd., with regard to commission-related information sharing, since the early 1990s through commencement of the Supervisor inquiry into this matter, on November 2004. This is a civil determination which constitutes a-priori evidence of the content there of in any legal proceeding.

By law, the Bank is entitled to appeal this determination. The Bank is studying the determination and is considering further steps, however at this early stage it is not yet possible to estimate the impacts there of.

Other Matters

The independent CPA has drawn, in their review, the attention to Note 6.C.3 to the financial statements with regard to claims filed against the Bank, including claims accompanies by applications for class action status, including on insurance matters.

Internal Auditor

Details of internal audit within the Group, including the professional standards applied by internal audit, the annual and multi-annual work plan and considerations in its determination, extent of employment of the Internal Auditor and his team and the manner in which reports are submitted with regard to findings of the Internal Auditor have been included in the Board of Directors' Report attached to the 2008 financial statements. No material changes occurred in these details during the reported period.
On May 11, 2009, the internal auditor exercised 26,000 option warrants allotted to him under the stock option plan approved by the Bank Board of Directors on February 27, 2005.

Certification process of the financial statements

The organ in charge of audit supervision at the bank is its Board of Directors. Board members' names, accounting and financial skills and professional qualifications are set forth in the Board of Directors' report below. The processes of compiling, auditing and approving the financial statements involve additional organs and officers as set forth below.

Bank financial statements are compiled by a professional department, headed by the Chief Accountant, pursuant to the disclosure policy set by the Bank's Board of Directors.

Concurrently with compiling the financial statements, and based on the draft financial statements forwarded to them, all executive management members confirm by their signature that they are not aware of any detail which may indicate that data and descriptions in the Board of Directors' Report and financial statements with regard to their areas of responsibility include any false representation of lack of material facts, that they instituted effective controls in order to ensure that any material information in their area of responsibility is brought to their attention, and that any significant fault or material weakness of the internal audit of financial reporting which is likely to impact the Bank's ability to record, process, summarize and report financial information in their areas of responsibility have been brought to the attention of the appropriate parties. For a listing of Bank management, with names and positions, see the Board of Directors' 2008 Report.

The bank operates a Doubtful Debts Committee, headed by the manager of the Business Division, and attended by professional credit officers, as well as a doubtful debts committee headed by the President and attended by the manager of the Business Division, manager of the Retail Division, manager of the Financial Division, the Chief Accountant and the Chief Legal Counsel. In conjunction with preparation of the financial statements, the committee reviews the state of problem loans of the bank, their classification and provisions required there for. In addition, the Chief Legal Counsel and the Chief Accountant review the provisions required in respect of claims filed against the bank.

Matters of principal with regard to disclosure in the financial statements are discussed by the Financial Statements Disclosure Committee (“the Disclosure Committee”) headed by the President and including the Chief Accountant, Chief Legal Counsel and other members of the Executive Management. These discussions include issues with material impact on the financial statements, issues of interest to the public, developments requiring disclosure to the public, material changes to application of accounting policy, requests or demands by regulatory authorities and issues on which Bank management and the auditing CPA differ. As part of presentation of these issues to the Disclosure Committee, the independent CPA's professional comments are also presented.

In order to improve efficiency of supervision and control of disclosure in financial statements, the bank's Board of Directors has established the Board Balance Sheet Committee, a restricted committee with 5 Board members, which is tasked with discussion and deliberation of proper disclosure in financial statements and with review of the financial statements in their entirety before they are submitted for discussion and approval by the Board of Directors plenum. For details of the committee members and their accounting and financial skills, see the Board of Directors' 2008 Report. Meetings of the balance sheet committee are also attended by the Chief Accountant and the by the independent CPA.

The Balance Sheet Committee reviews recommendations of the Disclosure Committee with regard to application of the disclosure policy, determines the required disclosure in public reports, and discusses recommendations of the Doubtful Debts Committee with regard to classification of problem loans, provisions there for and recommended provisions for claims. The Balance Sheet Committee also focuses on any material issue and any disclosure in the financial statements whose presentation allows for exercise of judgment, estimates or assessments.

Pursuant to directives of the Supervisor of Banks on implementation of provisions of Sections 302 and 404 of the US Sarbanes-Oxley Act, the Balance Sheet Committee receives a report on any significant fault discovered in the disclosure processes or in internal control of financial statements. Any such faults as well as any findings by the independent CPA are also presented to the Board Audit Committee. These discussions are also attended by the Internal Auditor and the independent CPAs. Any report of significant faults is also presented to the Board of Directors.

After discussions are held and recommendations are reached by the Board Balance Sheet Committee, the financial statements are submitted for discussion and approval by the Board of Directors plenum. In conjunction with discussion at the Board of Directors, the Chief Accountant presents the financial results and analysis thereof, and recommendations of the Balance Sheet Committee as for approval of the financial statements are presented. The independent CPAs participate in the discussion and present their comments.

Board of Directors

During the first three months of 2009, the Bank Board of Directors held 4 plenary meetings and 18 Board committee meetings.
At the Board meeting on January 19, 2009, Mr. Avraham Natan announced his retirement from the Bank Board of Directors. He left his office as Board member on April 30, 2009.
At the Board meeting held on February 16, 2009, Ms. Leora Ofer was appointed member of the Executive Committee, replacing Mr. Yuli Ofer.

Controls and Procedures

In accordance with the public reporting directives of the Supervisor of Banks, based on Section 302 of the American Sarbanes Oxley Act, the President and the Chief Accountant of the Bank have each separately signed a Certification attached to the financial statements on "Disclosure Controls and Procedures ("Disclosure Certification"). This directive of the Supervisor of Banks is part of an overall policy regarding the adoption of the provisions of Section 404 of the Sarbanes Oxley Act, which includes, *inter alia*, certification by the President and Chief Accountant on "the effectiveness of internal controls on the financial reporting", which was attached to the financial statements as of December 31, 2008.

The Disclosure Certification relates to the controls and procedures that were designed to assure that the information that the Bank requires for disclosure in accordance with the public reporting directives of the Supervisor of Banks, is accumulated, processed and sent to the Bank's Executive Management in a manner that enables decisions to be reached at an appropriate time, with respect to disclosure requirements. The Disclosure Certification is not meant to cover the broad aspects of "the Effectiveness of the Internal Controls on the Financial Reporting", as noted.

At the end of the period covered by this Report, the Bank's management, together with the Presidents and Chief Accountant of the Bank, evaluated the effectiveness of the Bank's disclosure controls and procedures. Based on this evaluation, the President and Chief Accountant of the Bank concluded that at the end of this period, the disclosure controls and procedures are effective for recording, processing, summarizing and reporting the information that the Bank is required to disclose in the quarterly report, in accordance with the Public Reporting Regulations of the Supervisor of Banks, on the date stipulated in these Regulations.

Jacob Perry	**Eliezer Yones**
Chairman of the Board of Directors	President

Ramat Gan, May 19, 2009

Management Review - Addendum A
Revenue and Expense Rates – Consolidated (1)
Reported amounts (NIS in millions)

	For the 3 months ended March 31, 2009				For the 3 months ended March 31, 2008			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance (2)	Financing revenue (expense)	Excluding effect of derivatives	Including effect of derivatives	Average balance (2)	Financing revenue (expense)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Israeli currency - non-linked								
Assets (3)	50,245	420	3.39		32,208	456	5.78	
Effect of embedded and ALM derivatives (4)	47,006	178			38,148	490		
Total assets	97,251	598		2.48	70,356	946		5.49
Liabilities (3)	52,301	(131)	(1.01)		36,775	(278)	(3.06)	
Effect of embedded and ALM derivatives (4)	42,548	(150)			32,130	(385)		
Total liabilities	94,849	(281)		(1.19)	68,905	(663)		(3.91)
Interest margin			2.38	1.29			2.72	1.58
Israeli currency - linked to the CPI								
Assets (3)	36,965	162	1.76		34,993	571	6.69	
Effect of embedded and ALM derivatives (4)	4,330	10			4,995	37		
Total assets	41,295	172		1.68	39,988	608		6.22
Liabilities (3)	30,356	(106)	(1.40)		28,168	(436)	(6.34)	
Effect of embedded and ALM derivatives (4)	8,537	(28)			10,383	(104)		
Total liabilities	38,893	(134)		(1.39)	38,551	(540)		(5.72)
Interest margin			0.36	0.29			0.35	0.50

(1) The data in this table is provided before and after effect of derivatives (including off-balance sheet effects of financial derivatives).
(2) Net of the average balance of the specific provision for doubtful debts.
(3) Excludes financial derivatives.
(4) Hedging financial derivatives, embedded derivatives that were detached and derivatives (ALM) which comprise part of the Banks asset and liability management system.

Management Review - Addendum A
Revenue and Expense Rates – Consolidated (1)
Reported amounts (NIS in millions)

	For the 3 months ended March 31, 2009				For the 3 months ended March 31, 2008			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance (2)	Financing revenue (expense)	Excluding effect of derivatives	Including effect of derivatives	Average balance (2)	Financing revenue (expense)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Foreign currency (5)								
Assets (3)	27,908	1,460	22.63		22,330	(1,189)	(19.66)	
Effect of derivatives (4)								
Hedging derivatives	1,049	32			529	(24)		
Embedded and ALM derivatives	51,536	4,127			38,063	(2,272)		
Total assets	80,493	5,619		30.99	60,922	(3,485)		(20.99)
Liabilities (3)	26,002	(1,290)	(21.37)		19,994	1,371	24.73	
Effect of derivatives (4)								
Hedging derivatives	1,190	(22)			541	3		
Embedded and ALM derivatives	51,719	(4,136)			38,675	2,133		
Total liabilities	78,911	(5,448)		(30.61)	59,210	3,507		21.67
Interest margin			1.26	0.38			5.07	0.68

(1) The data in this table is provided before and after effect of derivatives (including off-balance sheet effects of financial derivatives).
(2) Net of the average balance of the specific provision for doubtful debts.
(3) Excludes financial derivatives.
(4) Hedging financial derivatives, embedded derivatives that were detached and derivatives (ALM) which comprise part of the Banks asset and liability management system.
(5) Including Israeli currency linked to foreign currency.

Management Review - Addendum A
Revenue and Expense Rates – Consolidated (1)
Reported amounts (NIS in millions)

	For the 3 months ended March 31, 2009				For the 3 months ended March 31, 2008			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance (2)	Financing revenue (expense)	Excluding effect of derivatives	Including effect of derivatives	Average balance (2)	Financing revenue (expense)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Total								
Monetary assets generating financing revenue (3)	115,118	2,042	7.29		89,531	(162)	(0.71)	
Effect of derivatives (4)								
Hedging derivatives	1,049	32			529	(24)		
Embedded and ALM derivatives	102,872	4,315			81,206	(1,745)		
Total assets	219,039	6,389		12.18	171,266	(1,931)		(4.43)
Monetary liabilities generating financing expenses (3)	108,659	(1,527)	(5.74)		84,937	657	3.05	
Effect of derivatives (4)								
Hedging derivatives	1,190	(22)			541	3		
Embedded and ALM derivatives	102,804	(4,314)			81,188	1,644		
Total liabilities	212,653	(5,863)		(11.49)	166,666	2,304		5.41
Interest margin			1.55	0.69			2.34	0.98
On options		(9)				94		
On other derivative instruments (excludes options, hedging and ALM derivatives and embedded derivatives that were detached (4))		2				(11)		
Commissions from financing transactions and other financing revenue (5)		75				100		
Other financing expenses		(9)				(7)		
Profit from financing operations before provision for doubtful debts		584				549		
Provision for doubtful debts (includes general and supplementary provision)		(119)				(41)		
Profit from financing operations after provision for doubtful debts		465				508		

(1) The data in this table is provided before and after effect of derivatives (including off-balance sheet effects of financial derivatives).
(2) Net of the average balance of the specific provision for doubtful debts.
(3) Excludes financial derivatives.
(4) Hedging financial derivatives, embedded derivatives that were detached and derivatives (ALM) which comprise part of the Banks asset and liability management system.
(5) Includes gain from sale of investments in debentures and from the adjustment to fair value of debentures held for trading.

Management Review - Addendum A
Revenue and Expense Rates – Consolidated (1)

Reported amounts (NIS in millions)

	For the three months ended March 31, 2009	For the three months ended March 31, 2008
	Average balance (2)	Average balance (2)
Total		
Monetary assets generating financing revenue (3)	115,118	89,531
Assets deriving from derivatives (4)	3,603	2,803
Other monetary assets (3)	759	1,277
General and supplementary provision for doubtful debts	(214)	(176)
Total monetary assets	119,266	93,435
Total		
Monetary liabilities generating financing expenses (3)	108,659	84,937
Liabilities deriving from derivatives (4)	3,909	2,127
Other monetary liabilities (3)	1,407	2,268
Total monetary liabilities	113,975	89,332
Total surplus monetary assets over monetary liabilities	5,291	4,103
Non-monetary assets	1,495	1,714
Non-monetary liabilities	179	166
Total capital resources	6,607	5,651

(1) The data in this table is provided before and after effect of derivatives (including off-balance sheet effects of financial derivatives).
(2) Net of the average balance of the specific provision for doubtful debts.
(3) Excludes financial derivatives.
(4) Average balance sheet balances of financial derivatives (excludes average off-balance sheet balances of financial derivatives).

Management Review - Addendum A
Revenue and Expense Rates – Consolidated (1)
Nominal – in USD (USD in millions)

	For the 3 months ended March 31, 2009				For the 3 months ended March 31, 2008			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance (2)	Financing revenue (expense)	Excluding effect of derivatives	Including effect of derivatives	Average balance (2)	Financing revenue (expense)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Foreign currency (5)								
Monetary assets in foreign currency generating financing revenue (3)	6,463	36	2.25		6,102	78	5.21	
Effect of derivatives (4)								
Hedging derivatives	259	1			146	(4)		
Embedded and ALM derivatives	12,225	(695)			10,498	110		
Total assets	18,947	(658)		(13.19)	16,746	184		4.47
Monetary liabilities in foreign currency generating financing expenses (3)	6,276	(9)	(0.57)		5,504	(47)	(3.46)	
Effect of derivatives (4)								
Hedging derivatives	294	1			149	(1)		
Embedded and ALM derivatives	11,952	700			10,667	(121)		
Total liabilities	18,522	692		14.13	16,320	(169)		(4.21)
Interest margin			1.68	0.94			1.75	0.26

(1) The data in this table is provided before and after effect of derivatives (including off-balance sheet effects of financial derivatives).
(2) Net of the average balance of the specific provision for doubtful debts.
(3) Excludes financial derivatives.
(4) Hedging financial derivatives, embedded derivatives that were detached and derivatives (ALM) which comprise part of the Banks asset and liability management system.
(5) Including Israeli currency linked to foreign currency.

Management Discussion - Addendum B
Exposure of the Bank and its Subsidiaries to Changes in Interest Rates
Reported amounts (NIS in millions)

As of March 31, 2009

	On Call to 1 month	1-3 months	3 months to 1 year	1-3 years	3-5 years	5-10 years
Israeli currency - non-linked						
Total assets	46,107	976	3,126	912	130	45
Total liabilities	40,922	2,195	5,268	2,973	1,080	105
Difference	5,185	(1,219)	(2,142)	(2,061)	(950)	(60)
Effect of forward transactions and special commitments	(499)	4,903	396	1,458	(329)	119
Effect of options	(167)	360	(229)	80	3	-
Exposure to interest rate fluctuations in the sector	4,519	4,044	(1,975)	(523)	(1,276)	59
Cumulative exposure in sector	4,519	8,563	6,588	6,065	4,789	4,848
Israeli currency - linked to the CPI						
Total assets	365	1,904	9,517	11,361	5,450	6,117
Total liabilities	703	1,447	7,129	7,459	4,694	8,216
Difference	(338)	457	2,388	3,902	756	(2,099)
Effect of forward transactions and special commitments	(66)	109	(3,138)	(2,279)	735	(235)
Effect of options	-	-	-	-	-	-
Exposure to interest rate fluctuations in the sector	(404)	566	(750)	1,623	1,491	(2,334)
Cumulative exposure in sector	(404)	162	(588)	1,035	2,526	192

General note:
Complete data on exposure to interest rate fluctuations in every sector, by balance sheet item, will be provided upon request.
In this table, the data for each period presents the present value of future flows, discounted using the internal rate of return of the balance sheet item.
The discounted future flows include accrued interest until maturity date, or the date of change in interest rate, whichever is earlier.
The impact of hedging transactions is included in total assets or total liabilities, as the case may be.
(1) The column "without maturity" presents book value.

	10-20 years	Over 20 years	Without maturity (1)	Total	Internal rate of return	Average term to maturity in years	Internal rate of return	Average term to maturity in years
						As of December 31, 2008		
	1	-	720	52,017	3.02%	0.10	3.67%	0.12
	2	-	-	52,545	2.89%	0.24	3.34%	0.25
	(1)	-	720	(528)	0.13%	(0.14)	0.33%	(0.13)
	-	-	-	6,048				
	-	-	-	47				
	(1)	-	720	5,567				
	4,847	4,847	5,567	5,567				
	1,535	10	130	36,389	4.97%	3.09	4.93%	3.08
	2,142	270	2	32,062	4.70%	4.21	4.68%	4.02
	(607)	(260)	128	4,327	0.27%	(1.12)	0.25%	(0.94)
	-	-	-	(4,874)				
	-	-	-	-				
	(607)	(260)	128	(547)				
	(415)	(675)	(547)	(547)				

Management Discussion - Addendum B - continued
Exposure of the Bank and its Subsidiaries to Changes in Interest Rates
Reported amounts (NIS in millions)

	On Call to 1 month	1-3 months	3 months to 1 year	1-3 years	3-5 years	5-10 years
Foreign currency (2)						
Total assets	13,537	5,261	3,606	583	499	1,603
Total liabilities	12,342	7,895	3,195	291	97	573
Difference	1,195	(2,634)	411	292	402	1,030
Effect of forward transactions and special commitments	1,829	(1,980)	(346)	154	(205)	(626)
Effect of options	169	(369)	231	(80)	-	-
Exposure to interest rate fluctuations in the sector	3,193	(4,983)	296	366	197	404
Cumulative exposure in sector	3,193	(1,790)	(1,494)	(1,128)	(931)	(527)
Total exposure to interest rate fluctuations						
Total assets (3)	60,009	8,141	16,249	12,856	6,079	7,765
Debit balances deriving from credit card transactions (4)	-	-	-	-	-	-
Total assets in the balance sheet	60,009	8,141	16,249	12,856	6,079	7,765
Total liabilities	53,967	11,537	15,592	10,723	5,871	8,894
Credits for credit card transactions (4)	-	-	-	-	-	-
Total liabilities in the balance sheet	53,967	11,537	15,592	10,723	5,871	8,894
Difference	6,042	(3,396)	657	2,133	208	(1,129)
Effect of forward transactions and special commitments	1,264	3,032	(3,088)	(667)	201	(742)
Effect of options	-	-	-	-	-	-
Total exposure to interest rate fluctuations	7,306	(364)	(2,431)	1,466	409	(1,871)
Total cumulative exposure	7,306	6,942	4,511	5,977	6,386	4,515

General note:
Complete data on exposure to interest rate fluctuations in every sector, by balance sheet item, will be provided upon request.
In this table, the data for each period presents the present value of future flows, discounted using the internal rate of return of the balance sheet item.
The discounted future flows include accrued interest until maturity date, or the date of change in interest rate, whichever is earlier.
The impact of hedging transactions is included in total assets or total liabilities, as the case may be.
(1) The column "without maturity" presents book value.
(2) Activity in Israel, including Israeli currency linked to foreign currency, and overseas affiliates acting integrated units of the Bank.
(3) Includes shares presented in the column "without maturity date".
(4) Assets and liabilities deriving from the use of credit cards, according to which the customers were already charged.

10-20 years	Over 20 years	Without maturity (1)	Total	Internal rate of return in %	Average term to maturity in years	Internal rate of return in %	Average term to maturity in years
						As of December 31, 2008	
60	-	73	25,222	5.43%	0.95	6.79%	0.70
14	-	-	24,407	2.59%	0.41	3.29%	0.46
46	-	73	815	2.84%	0.54	3.50%	0.24
-	-	-	(1,174)				
-	-	-	(49)				
46	-	73	(408)				
(481)	(481)	(408)	(408)				
1,596	10	2,915	115,620		1.25		1.28
-	-	-	1,357				
1,596	10	2,915	116,977				
2,158	270	193	109,205		1.45		1.45
-	-	-	1,357				
2,158	270	193	110,562				
(562)	(260)	2,722	6,415		(0.20)		(0.17)
-	-	-	-				
-	-	-	-				
(562)	(260)	2,722	6,415				
3,953	3,693	6,415	6,415				

Management Discussion - Addendum C
Credit Risk by Economic Sector as of March 31, 2009 - Consolidated
Reported amounts (NIS in millions)

	Balance sheet credit risk (1)	Off-balance sheet credit risk (2)	Total credit risk of the public	Expense for the first three months of 2009 in respect of specific provision for doubtful debts	Balance of problem loans (3)
Agriculture	713	268	981	-	46
Industry	7,626	6,391	14,017	11	639
Construction and real estate	7,205	7,482	14,687	2	1,761
Electricity and water	550	797	1,347	-	-
Commerce	5,168	3,755	8,923	6	235
Hotel and food services	243	144	387	1	32
Transport and storage	793	606	1,399	-	18
Communications and computer services	735	1,190	1,925	-	21
Financial services	8,346	7,437	15,783	33	1,797
Other business services	2,648	1,475	4,123	2	92
Public and community services	736	499	1,235	1	110
Private individuals - housing loans	46,025	3,424	49,449	15	1,151
Private individuals - other	9,001	10,110	19,111	20	639
Total	89,789	43,578	133,367	91	6,541
For borrowers' activities overseas	3,541	681	4,222	-	39
Total	93,330	44,259	137,589	91	6,580
Credit risk included in the various economic sectors:					
Settlement movements (4)	1,428	751	2,179	3	166
Local authorities (5)	170	33	203	-	33

(1) Includes loans to the public and investments in debentures of the public of NIS 106 million and other assets related to derivatives against the public totaling NIS 879 million.

(2) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of per-borrower credit limitations.

(3) Balance of problem loans net of loans covered by collateral that may be deducted for the purpose of computing the per-borrower credit limits of an individual borrower and a group of borrowers, including elements of off-balance sheet risk.

(4) Kibbutzim and Moshavim, regional and national organizations, and corporations controlled by the settlement movements.

(5) Includes corporations under their control.

Note: Credit risk and problem debt are stated net of the specific provisions for doubtful debts.

Management Discussion - Addendum C
Credit Risk by Economic Sector as of March 31, 2008 - Consolidated
Reported amounts (NIS in millions)

	Balance sheet credit risk (1)	Off-balance sheet credit risk (2)	Total credit risk of the public	Expense for the first three months of 2008 in respect of specific provision for doubtful debts	Balance of problem loans (3)
Agriculture	685	321	1,006	-	52
Industry	4,756	7,209	11,965	5	248
Construction and real estate	6,492	7,929	14,421	3	1,524
Electricity and water	394	579	973	-	-
Commerce	4,531	3,330	7,861	10	179
Hotel and food services	221	90	311	-	32
Transport and storage	557	487	1,044	-	10
Communications and computer services	681	1,152	1,833	-	155
Financial services	7,289	10,545	17,834	-	110
Other business services	2,056	1,642	3,698	1	103
Public and community services	776	414	1,190	1	140
Private individuals - housing loans	39,690	3,206	42,896	3	1,264
Private individuals - other	4,779	7,094	11,873	10	498
Total	72,907	43,998	116,905	33	4,315
For borrowers' activities overseas	3,513	827	4,340	-	-
Total	76,420	44,825	121,245	33	4,315
Credit risk included in the various economic sectors:					
Settlement movements (4)	1,334	802	2,136	-	160
Local authorities (5)	180	22	202	-	37

(1) Includes loans to the public and investments in debentures of the public of NIS 95 million and other assets related to derivatives against the public totaling NIS 1,028 million.
(2) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of per-borrower credit limitations.
(3) Balance of problem loans net of loans covered by collateral that may be deducted for the purpose of computing the per-borrower credit limits of an individual borrower and a group of borrowers, including elements of off-balance sheet risk.
(4) Kibbutzim and Moshavim, regional and national organizations, and corporations controlled by the settlement movements.
(5) Includes corporations under their control.

Note: Credit risk and problem debt are stated net of the specific provisions for doubtful debts.

Management Discussion - Addendum C
Credit Risk by Economic Sector as of December 31, 2008 - Consolidated
Reported amounts (NIS in millions)

	Balance sheet credit risk (1)	Off-balance sheet credit risk (2)	Total credit risk of the public	Expense in 2008 in respect of specific provision for doubtful debts	Balance of problem loans (3)
Agriculture	723	256	979	3	25
Industry	6,826	6,312	13,138	49	506
Construction and real estate	7,411	7,406	14,817	27	2,284
Electricity and water	285	869	1,154	1	33
Commerce	4,842	3,873	8,715	42	253
Hotel and food services	244	273	517	1	29
Transport and storage	711	538	1,249	2	15
Communications and computer services	548	1,220	1,768	-	51
Financial services	7,000	7,858	14,858	123	1,712
Other business services	2,493	1,072	3,565	19	85
Public and community services	783	507	1,290	3	114
Private individuals - housing loans	44,855	3,317	48,172	45	1,172
Private individuals - other	9,035	9,347	18,382	61	570
Total	85,756	42,848	128,604	376	6,849
For borrowers' activities overseas	3,478	645	4,123	3	47
Total	89,234	43,493	132,727	379	6,896
Credit risk included in the various economic sectors:					
Settlement movements (4)	1,449	822	2,271	-	164
Local authorities (5)	177	29	206	-	31

(1) Includes loans to the public and investments in debentures of the public of NIS 232 million and other assets related to derivatives against the public totaling NIS 759 million.
(2) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of per-borrower credit limitations.
(3) Balance of problem loans net of loans covered by collateral that may be deducted for the purpose of computing the per-borrower credit limits of an individual borrower and a group of borrowers, including elements of off-balance sheet risk.
(4) Kibbutzim and Moshavim, regional and national organizations, and corporations controlled by the settlement movements.
(5) Includes corporations under their control.

Note: Credit risk and problem debt are stated net of the specific provisions for doubtful debts.

Management Discussion - Addendum D
Exposure to Foreign Countries - Consolidated (1)

Reported amounts (NIS in millions)

Part A - Information regarding total exposure to foreign countries and exposure to countries for which total exposure to each country exceeds 1% of total consolidated assets or 20% of capital, whichever is lower

Country	Cross-border balance sheet exposure			Balance sheet exposure of affiliates of the banking corporation in foreign country to local residents			Balance sheet exposure: Total balance sheet exposure	Balance sheet exposure: Balance of problem loans (4)	Off-balance sheet exposure (2)		Cross-border balance sheet exposure	
	To governments (3)	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction in respect of local liabilities	Net balance sheet exposure after deduction of local liabilities			total off-balance sheet exposure	Includes: Off-balance sheet problem credit risk	Maturing in under 1 year	Maturing in over 1 year
As of March 31, 2009												
USA	106	1,225	1,240	2,069	1,173	896	3,467	40	1,419	-	1,877	694
UK	-	945	137	793	344	449	1,531	25	2,580	-	585	497
Germany	-	954	43	-	-	-	997	22	890	-	433	564
Switzerland	-	450	114	-	-	-	564	-	854	-	406	158
Other	3	1,351	2,180	-	-	-	3,534	96	1,792	1	2,381	1,153
Total exposure to foreign countries	109	4,925	3,714	2,862	1,517	1,345	10,093	183	7,535	1	5,682	3,066
Total exposure to LDC countries	-	23	262	-	-	-	285	36	153	-	200	85
As of December 31, 2008												
USA	492	795	1,251	2,248	97	2,151	4,689	21	1,636	2	1,793	745
UK	-	567	111	703	306	397	1,075	27	2,575	-	413	265
Germany	-	590	96	-	-	-	686	-	752	-	387	299
Switzerland	-	358	95	-	-	-	453	3	751	-	307	146
Other	17	1,423	2,449	-	-	-	3,889	58	1,807	2	2,922	967
Total exposure to foreign countries	509	3,733	4,002	2,951	403	2,548	10,792	109	7,521	4	5,822	2,422
Total exposure to LDC countries	2	103	277	-	-	-	382	14	82	-	292	90

(1) Finalized, after effect of guarantees, liquid collateral and credit derivatives
(2) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits.
(3) Governments, official institutions and central banks.
(4) Balance of problem debt after deduction of debt covered by collateral deductible for per-borrower and borrower group lending limits. Excludes off-balance sheet risk elements.

Management Discussion - Addendum D

Exposure to Foreign Countries - Consolidated (1)

Reported amounts (NIS in millions)

Part B - Information regarding countries for which total exposure to each country is between 0.75%-1% of total consolidated assets or between 15%-20% of capital, whichever is lower

	Balance sheet exposure	Off-balance sheet exposure
As of March 31, 2009		
Holland	783	231
As of December 31, 2008		
Holland	640	445

Part C - Information regarding balance sheet exposure to foreign countries facing liquidity issues

The Bank has no material exposure to any country facing liquidity issues, in accordance with public reporting directives of the Supervisor of Banks.

(1) Finalized, after effect of guarantees, liquid collateral and credit derivatives

Certification

I, Eliezer Yones, declare that:

1. I have reviewed the quarterly report of Mizrahi Tefahot Bank Ltd. ("the Bank") for the quarter ended March 31, 2009 ("the Report").
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, will not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of and for the periods included in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure [(1)] and to the Bank's internal control of financial reporting. Furthermore:

   A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those subsidiaries, particularly during the period in which the Report is being prepared;

   B. We have set such internal control of financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are compiled in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;

   C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and

   D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during this quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and

5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal control over financial reporting, to the Bank's independent auditors, the board of directors and the audit and financial statements committees of the board of directors of the Bank:

   A. All significant deficiencies and material weaknesses in the determination or operation of internal control over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and

   B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

   The aforesaid does not derogate from my responsibility or the responsibility of any other person according to the law.

E. Yones
President

May 19, 2009

Certification

I, Menahem Aviv, declare that

1. I have reviewed the quarterly report of Mizrahi Tefahot Bank Ltd. ("the Bank") for the quarter ended March 31, 2009 ("the Report").
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, will not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of and for the periods included in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure [1] and to the Bank's internal control of financial reporting. Furthermore:

   A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those subsidiaries, particularly during the period in which the Report is being prepared;

   B. We have set such internal control of financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are compiled in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;

   C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and

   D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during this quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and

5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal control over financial reporting, to the Bank's independent auditors, the board of directors and the audit and financial statements committees of the board of directors of the Bank:

   A. All significant deficiencies and material weaknesses in the determination or operation of internal control over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and

   B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

   The aforesaid does not derogate from my responsibility or the responsibility of any other person according to the law.

M. Aviv
Vice-President
Chief Accountant

May 19, 2009

Independent Auditors' Review Report to Shareholders of Bank Mizrahi-Tefahot Ltd.

Introduction

We have reviewed the enclosed financial information of Bank Mizrahi Tefahot Ltd. ("the Bank"), consisting of the condensed consolidated balance sheet as of March 31, 2009, the condensed consolidated statement of profit and loss, statements of change in shareholders' equity and cash flow statements for the three month period then ended. The Board of Directors and management are responsible for preparation and presentation of financial information for this interim period, in accordance with Accounting Standard no. 14 of the Israeli Accounting Standards Board "Financial reporting for interim periods", and in accordance with directives and guidance of the Supervisor of Banks. We are responsible for expressing our opinion of the financial information for this interim period based on our review.

We did not review the condensed financial information of certain consolidated subsidiaries, whose assets included in the consolidated balance sheets constitute 8.34% of total consolidated assets as of March 31, 2009, and whose profit from financing operations before provision for doubtful debts included in the consolidated statements of profit and loss constitute 9.66% of total profit from financing operations before provision for doubtful debts for the three-month period then ended. Furthermore, we did not review the condensed financial information for the interim period of an affiliate, the investment in which amounted to NIS 11 million as of March 31, 2009. The condensed financial information for the interim period of the aforementioned companies was reviewed by other CPAs, we have been provided with their review reports and our conclusions, in as much as it relates to the financial information in respect of said companies, is based on the review reports by said other CPAs.

Review scope

We have conducted our review in accordance with Review Standard no. 1 of the Institute of Certified Public Accountants in Israel "Review of financial information for interim periods conducted by the entity's independent CPA" and with the review standard whose application to review of banking corporations is stipulated in accordance with directives and guidance of the Supervisor of Banks. A review of financial information for interim periods consists of discussions, mostly with persons responsible for financial and accounting issues, and of application of analytical and other review procedures. A review is significantly smaller in scope than an audit conducted in accordance with generally accepted audit standards in Israel, and therefore it does not allow us to be certain that we are aware of all significant issues which may have been identified by an audit. Therefore, we do not provide an audit opinion.

Conclusion

Based on our review, and on review reports of other CPAs, we have not become aware of any cause to believe that the aforementioned financial information is not prepared, in all material aspects, in accordance with Accounting Standard no. 14 of the Israeli Accounting Standards Board and in accordance with directives and guidance of the Supervisor of Banks.

Without prejudice to our aforementioned opinion, we draw your attention to Note 6.C.13)A-F) with regard to lawsuits filed against the Bank and motions for class action status, including with regard to insurance.

Brightman, Almagor & Co.
Certified Public Accountants (Israel)

May 19, 2009

Condensed consolidated balance sheet as of March 31, 2009

Reported amounts (NIS in millions)

	As of March 31		As of December 31
	2009	2008	2008
	(un-audited)	(un-audited)	(audited)
Assets			
Cash and deposits with banks	9,620	9,895	11,038
Securities	8,268	4,096	9,259
securities loaned or sold in repurchase agreements	783	110	12
Credit to the public	92,123	75,117	88,049
Loans to the Government	2	3	2
Investment in affiliates	11	18	17
Buildings and equipment	1,458	1,239	1,476
Other assets	4,712	4,212	4,159
Total assets	116,977	94,690	114,012
Liabilities and Shareholders' Equity			
Deposits from the public	94,548	73,237	91,779
Deposits from banks	1,516	3,273	1,867
Deposits from the Government	237	267	242
Securities loaned or sold in conjunction with re-purchase agreements	-	-	972
Debentures and subordinated notes	7,447	6,338	6,837
Other liabilities	6,814	5,954	6,012
Total liabilities	110,562	89,069	107,709
Minority interest	360	-	351
Shareholders' equity	6,055	5,621	5,952
Total liabilities and shareholders' equity	116,977	94,690	114,012

The accompanying notes are an integral part of the Condensed financial statements.

Y. Perry	**E. Yones**	**M. Aviv**
Chairman of the Board of Directors	President	Vice-president, Chief Accountant

May 19, 2009

Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	For the three months ended March 31		For the year ended December 31
	2009	2008	2008
		(un-audited)	(audited)
Profit from financing operations before provision for doubtful debts	584	549	2,289
Provision for doubtful debts	119	41	395
Profit from financing operations after provision for doubtful debts	465	508	1,894
Operating and other revenues			
Operating commissions	309	(1) 267	(1) 1,161
Gain (loss) from equity investment, net	(4)	8	46
Other revenue	12	(1) 8	(1) 22
Total operating and other revenues	317	283	1,229
Operating and other expenses			
Salaries and related expenses	370	312	1,273
Maintenance and depreciation of buildings and equipment	134	104	473
Other expenses	101	85	407
Total operating and other expenses	605	501	2,153
Pre-tax operating profit	177	290	970
Provision for taxes on operating profit	65	110	356
After-tax operating profit	112	180	614
Share in net after-tax operating losses of affiliates	-	-	(1)
Minority interest in net after-tax operating profit of subsidiaries	(2)	-	(12)
Net operating profit	110	180	601
Net after-tax profit from extraordinary items	-	-	1
Net profit	110	180	602

(1) Reclassified.

The accompanying notes are an integral part of the Condensed financial statements.

Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	For the three months ended March 31		For the year ended December 31
	2009	2008	2008
		(un-audited)	(audited)
Earnings per share (1)			
Basic earnings per share (in NIS)			
Profit from ordinary operations	0.50	0.81	2.70
Profit from extraordinary items	-	-	0.01
Total	0.50	0.81	2.71
Diluted earnings per share (in NIS)			
Profit from ordinary operations	0.49	0.80	2.68
Profit from extraordinary items	-	-	0.01
Total	0.49	0.80	2.69

(1) Share of NIS 0.1 par value each.

The accompanying notes are an integral part of the Condensed financial statements.

Condensed Statement of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

	For the 3 months ended March 31, 2009 (un-audited)								
				Total cumulative other profit					
	share capital and premium (1)	Capital reserve from benefit from share-based payment transactions	Total paid-up Share capital and premium	Adjustments for presentation of securities available for sale at fair value	Translation adjustments (2)	Net profit from cash flow hedges	Retained earnings (3)	Dividend declared after balance sheet date	Total shareholders' equity
Balance at January 1, 2009	1,920	71	1,991	(92)	(51)	50	4,054	-	5,952
Net profit for the year	-	-	-	-	-	-	110	-	110
Realized share-based payment transactions (4)	-	24	24	-	-	-	-	-	24
Realization of share-based payment transactions	1	(1)	-	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	(64)	-	-	-	-	(64)
Adjustments in respect of presentation of securities held for sale re-classified to statement of profit and loss	-	-	-	33	-	-	-	-	33
Related tax effect	-	-	-	8	-	-	-	-	8
Net profit in respect of cash flow hedges	-	-	-	-	-	(14)	-	-	(14)
Related tax effect	-	-	-	-	-	6	-	-	6
Balance as of March 31, 2009	1,921	94	2,015	(115)	(51)	42	4,164	-	6,055

(1) Share premium generated prior to March 31, 1986.
(2) Foreign currency translation adjustment of autonomous overseas units.
(3) For details on various limitations on dividend distributions, see Notes 13 and 14 to the financial statements for the year ended December 31, 2008.
(4) In the first quarter of 2009, 5,758 ordinary shares, NIS 0.1 par value each (in the first quarter of 2008 - 164,278) have been issued against current option exercise in conjunction with the employee stock option plan.

The accompanying notes are an integral part of the Condensed financial statements.

Condensed Statement of Changes in Shareholders' Equity
Reported amounts (NIS in millions)

	For the 3 months ended March 31, 2008 (un-audited)								
				Total cumulative other profit					
	share capital and premium (1)	Capital reserve from benefit from share-based payment transactions	Total paid-up Share capital and premium	Adjustments for presentation of securities available for sale at fair value	Translation adjustments (2)	Net profit from cash flow hedges	Retained earnings (3)	Dividend declared after balance sheet date	Total shareholders' equity
Balance at January 1, 2008	1,911	68	1,979	27	(51)	-	3,527	75	5,557
Net profit for the period	-	-	-	-	-	-	180	-	180
Dividend paid	-	-	-	-	-	-	-	(75)	(75)
Realized share-based payment transactions (4)	-	2	2	-	-	-	-	-	2
Related tax effect	-	(7)	(7)	-	-	-	-	-	(7)
Realization of share-based payment transactions	3	(3)	-	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	(83)	-	-	-	-	(83)
Adjustments in respect of presentation of securities held for sale re-classified to statement of profit and loss	-	-	-	19	-	-	-	-	19
Related tax effect	-	-	-	26	-	-	-	-	26
Net profit from cash flow hedges	-	-	-	-	-	2	-	-	2
Dividend declared after balance sheet date	-	-	-	-	-	-	(75)	75	-
Balance as of March 31, 2008	1,914	60	1,974	(11)	(51)	2	3,632	75	5,621

(1) Share premium generated prior to March 31, 1986.
(2) Foreign currency translation adjustment of autonomous overseas units.
(3) For details on various limitations on dividend distributions, see Notes 13 and 14 to the financial statements for the year ended December 31, 2007.
(4) In Q1 of 2008, 164,278 ordinary shares, NIS 0.1 par value each have been issued against current option exercise in conjunction with the employee stock option plan.

The accompanying notes are an integral part of the Condensed financial statements.

Condensed Statement of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

	For the year ended December 31, 2008 (audited)								
				Total cumulative other profit					
	share capital and premium (1)	Capital reserve from benefit from share-based payment transactions	Total paid-up Share capital and premium	Adjustments for presentation of securities available for sale at fair value	Translation adjustments (2)	Net profit from cash flow hedges	Retained earnings (3)	Dividend declared after balance sheet date	Total shareholders' equity
Balance as of January 01, 2008	1,911	68	1,979	27	(51)	-	3,527	75	5,557
Net profit for the period	-	-	-	-	-	-	602	-	602
Dividend paid	-	-	-	-	-	-	(75)	(75)	(150)
Benefit from share-based payment transactions	-	22	22	-	-	-	-	-	22
Related tax effect	-	(10)	(10)	-	-	-	-	-	(10)
Realized share-based payment transactions (4)	9	(9)	-	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	33	-	-	-	-	33
Adjustments in respect of presentation of securities held for sale re-classified to statement of profit and loss	-	-	-	(218)	-	-	-	-	(218)
Related tax effect	-	-	-	66	-	-	-	-	66
Net profit in respect of cash flow hedges	-	-	-	-	-	78	-	-	78
Related tax effect	-	-	-	-	-	(28)	-	-	(28)
Balance at December 31, 2008	1,920	71	1,991	(92)	(51)	50	4,054	-	5,952

(1) Share premium generated prior to March 31, 1986.
(2) Foreign currency translation adjustment of autonomous overseas units.
(3) For details on various limitations on dividend distributions, see Notes 13 and 14 to the financial statements for the year ended December 31, 2008.
(4) In 2008, 397,823 ordinary NIS 0.1 par value shares (2007 - 872,824 shares) were issued for exercise of options in conjunction with the Employee Stock Option Plan, and 658,987 ordinary NIS 0.1 par value shares (2007 - 1,938,771 shares) were issued to the President for exercise of options.

The accompanying notes are an integral part of the financial statements.

Statement of cash flows
(NIS in millions)

	For the three months ended March 31, 2009	For the year ended December 31, 2008
	(un-audited)	(audited)
Cash flows generated by operating activities		
Net profit for the period	110	602
Adjustments to reconcile net profit to net cash generated by operating activities:		
Share in undistributed losses of Bank affiliates, net	-	1
Minority interest in net after-tax operating profits of subsidiaries	2	12
Depreciation of buildings and equipment and amortization	59	181
Amortization of goodwill in investees	-	1
Provision for doubtful debts	119	395
Profit on sale of securities available for sale	(32)	(32)
Impairment of securities held for sale	33	218
Realized and unrealized gain from adjustment to fair value of securities held for trading	(3)	(3)
Capital gain from sale of buildings and equipment	-	(2)
Cost reduction of buildings held for sale and unused leased properties	-	(2)
Deferred taxes, net	50	54
Severance pay - increase in excess of amount funded over liability	(22)	(4)
Benefit from share-based payment transactions	24	22
Minority interest in net profit from extraordinary items of subsidiaries	-	1
Deferred income, net	5	23
Net cash inflow generated by operating activities	345	1,467

The accompanying notes are an integral part of the financial statements.

Statement of cash flows
(NIS in millions)

	For the three months ended March 31, 2009	For the year ended December 31, 2008
	(un-audited)	(audited)
Cash flows generated by activities in assets		
Acquisition of securities available for sale	(1,755)	(6,725)
Proceeds on sale and redemption of securities available for sale	2,412	6,257
Deposits with banks, net	2,688	(4,296)
Securities held for trading, net	303	(339)
securities loaned or sold in repurchase agreements, net	(771)	(7)
Loans to the public, net	(4,193)	(10,735)
Loans to the Government, net	-	1
Acquisition of newly consolidated subsidiary (Appendix A)	-	3,330
Acquisition of shares in investees, including shareholder loans	-	(2)
Acquisition of buildings and equipment	(35)	(274)
Proceeds on sale of buildings and equipment	-	15
Dividend received from investees	-	-
Other assets, net	(594)	(1,064)
Net cash outflow generated by activities in assets	(1,945)	(13,839)

The accompanying notes are an integral part of the financial statements.

Statement of cash flows
(NIS in millions)

	For the three months ended March 31, 2009 (un-audited)	For the year ended December 31, 2008 (audited)
Cash flows generated by activities in liabilities and shareholders' equity		
Deposits from the public, net	2,769	7,311
Deposits from banks, net	(351)	(1,904)
Deposits from the Government, net	(5)	(43)
Issuance of debentures and subordinated notes	737	745
Redemption of debentures and subordinated notes	(127)	(97)
Securities loaned or sold in conjunction with re-purchase agreements	(972)	972
Other liabilities, net	819	1,579
Dividend paid to shareholders	-	(150)
Net cash inflow generated by activities in liabilities and shareholders' equity	2,870	8,413
Increase (decrease) in cash	1,270	(3,959)
Cash balance at beginning of period	4,508	8,467
Cash balance at end of period	5,778	4,508
Appendix A - Acquisition of newly consolidated subsidiary		
Assets and liabilities of consolidated subsidiary, at acquisition date:		
Assets (excluding cash of NIS 3,749 million)	-	(6,204)
Liabilities	-	9,297
Rights of external interested parties	-	328
Goodwill	-	(91)
Cash flows used in acquisition of newly consolidated subsidiary	-	3,330
Appendix B - Non-cash Transactions		
Acquisition of buildings and equipment	6	5
Equity investment	-	37

Note 1 - Reporting Principles and Accounting Policies

A. The financial statements as of March 31, 2009 have been compiled in accordance with guidelines and directives of the Supervisor of Banks, and in accordance with accounting principles for compilation of interim financial statements, as set forth in Standard No. 14 of the Israeli Accounting Standards Board. The statements have been compiled in accordance with the same accounting principles used in compiling the audited financial statements as of December 31, 2008.
These financial statements should be perused in conjunction with the Group's annual financial statements as of December 31, 2008 and the Notes thereto.

B. On December 31, 2007, the Supervisor of Banks published his directive in a circular concerning: "Measuring and disclosure of impaired debts, credit risk and provision for credit losses" (hereinafter: "the circular" or "the directive"). This circular is based, *inter alia*, on USA Accounting Standards 5, 114 and 118 as well as on regulatory directives by banking supervision bodies and by the USA Securities and Exchange Commission. The guiding principles on which the directive is based introduce a material change over current directives on classification of problem debts and measuring of provisions for credit losses in conjunction with such debts.

According to the circular, the banking corporation is required to maintain adequate provision for credit losses so as to cover expected credit losses from its credit portfolio. Furthermore, according to the circular, the Bank is required to maintain adequate provision so as to cover expected credit losses associated with off-balance sheet credit instruments, such as contracts for provision of credit and guarantees. The required provision to cover expected credit losses from the credit portfolio would be made under one of the following tracks: "Individual provision" or "group provision".

"Individual provision for credit losses" would be applied for any debts determined to be impaired, whose contractual balance (including accounting write-offs, unrecognized interest, provisions for credit losses and collateral) is NIS 1 million or higher. For other debts, the banking corporation may decide whether to make an individual assessment. The individual provision for credit losses will be estimated based on expected future cash flows, discounted using the original discount rate for the debts or, if the debts requires collateral or when the banking corporation determined that seizure of an asset is probable, based on the fair value of the collateral provided to secure said credit.

Note 1 - Reporting Principles and Accounting Policies

"Specific provision for credit losses using group estimate" would be applied for large, homogeneous groups of small debts in respect of non-impaired large debt. The specific provision for credit losses from debts based on group estimate, except for loans for which a specific minimum provision based on length of arrears has been calculated as per directives of the Supervisor of Banks, shall be calculated based on rules set forth in USA Accounting Standard FAS 5: "Accounting for Contingencies" ("FAS 5"), using statistical models which take into consideration the extent of past losses for each homogeneous group of debt having similar risk attributes. The required provision with regard to off-balance sheet credit instruments would be assessed as per rules set forth in the USA Accounting Standard FAS 5.

Changes to provision for credit losses would be recorded under "Expenses for tax losses" in the statement of profit and loss. Furthermore, the directive specifies various definitions and classifications of on- and off-balance sheet credit risk, rules for recognizing interest profit from impaired debts as well as rules for accounting write-off of problem debts. The circular stipulates, *inter alia*, that debts should be subject to accounting write-off. Based on group estimates and classified as impaired based on their length of arrears, taking into consideration the banking corporation's ability to assess that collection is probable, and considering the fact that they are secured by a residence.

This directive will be applied in financial statements of banking corporations starting on January 1, 2010, with no retroactive application to financial statements for previous periods. According to transition directives, the impact of changes due to the new directives shall be charged directly to equity upon initial application.

In conjunction with the Bank's preparations for application of this directive, teams were formed and an external consultant has been hired to review required changes to Bank work processes, both in terms of credit management and processing of impaired debts, as well as in terms of accounting treatment and impact on its financial statements. Teams have completed specification of the processes and computer systems required for implementation of the directive, as well as writing of the detailed design specification of the new system to be developed. Based on the specifications written, work has started on implementation of the new system by means of a software vendor selected for implementation of required system development and modifications.

The Bank intends to update work processes through the end of 2009, including recompilation of procedures and delivery of comprehensive training for professional staff in preparation for applying this directive.

The following are the major milestones for activities expected to be undertaken by the Bank in 2009 pending application of the directive:

Through the third quarter -

- Create models for calculation of provision for credit loss, primarily in respect of minor debt to be treated by group provision;
- Review of initial application of the directive to a limited number of typical branches (pilot) during the third quarter.
- Deployment of work processes and training in branches and at headquarters.

Through the fourth quarter -

- Deployment of the new system to all Bank branches and headquarter units.
- Review of all system components concurrently with the existing system.

As of the date of compilation of these financial statements, it is not possible to estimate the impact of application of the directives on the Bank's shareholders' equity, since the models for calculating provisions for credit losses have yet to be finalized, especially for small-size debts to be treated via group provision. Completion of the methodology and initial estimated of impact of said application are anticipated in the first half of 2009. Initial review of potential implications of these directives on major borrowers has revealed that implementation of these directives may increase to a certain degree the required provision for credit loss, although at this stage it is not possible to estimate whether this increase would be material.

C. In January 2009, the Israeli Accounting Standards Board published a revision to Accounting Standard no. 15 "Impairment of assets" (hereinafter: "the new standard") as well as Clarification no. 10 "Accounting treatment of impairment of investment in an investee company other than a subsidiary" (hereinafter: "Clarification no. 10").

In accordance with the new standard, upon acquisition of an asset, goodwill shall be attributed to each cash-generating unit of the acquirer or of the acquired entity, as determined by management, which is expected to benefit from the business combination.

The new standard stipulates that, other than measurement of the recoverable amount of the asset whenever an indication of its impairment exists, the recoverable amount of an intangible asset with an unspecified useful life, or which is yet unavailable for use, is to be measured annually on a regular date, regardless of existence of any indication of impairment. Furthermore, a review is to be conducted of impairment of goodwill acquired upon business combination is to be conducted annually.

In accordance with Clarification no. 10, an entity shall review upon each balance sheet the existence of any indications of impairment of its investment in an affiliate. Impairment loss is generated if and only if there is objective evidence of impairment arising from an event which occurred subsequent to initial recognition of the investment, and which affects the estimated future cash flows which may be reliably estimated. If such an indication exists, the entity shall estimate the recoverable amount of the investment. The clarification stipulates that loss from impairment of an investment in an affiliate, which was measured subsequent to application of the equity accounting method, shall not be attributed to goodwill inherent in the balance of the investment, but rather to the entire investment. It is further stipulated that should the recoverable amount of the investment subsequently increase, the impairment loss shall be reversed.

The new standard and Clarification no. 10 are to be applied starting on January 1, 2009. In accordance with a notice from the Supervisor of Banks, it is the Supervisor's intent to apply to banking corporations Israeli standards which do not concern the core banking business (see Note 1.W to the financial statements as of December 31, 2008). Application of the new standard and of Clarification no. 10 is not expected to have an effect on the Group's financial statements.

Note 2 - Securities
As of March 31, 2009 (un-audited)
Reported amounts (NIS in millions)

	Balance sheet amount	Amortized cost	Total cumulative other profit [5] Profit	Loss	Fair value [1]
Composition					
1) Securities available for sale					
Debentures and bonds					
Of the Government of Israel (2)	5,823	5,905	75	157	5,823
Of foreign governments (2)	92	92	-	-	92
of others	1,819	1,933	5	119	1,819
Total debentures available for sale	7,734	7,930	80	276	7,734
Shares of others (3)	400	328	73	1	(4) 400
Total securities available for sale	8,134	8,258	153	277	(4) 8,134

	Balance sheet balance	Amortized cost	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value [1]
2) Securities held for trading					
- Debentures					
of Government of Israel	25	25	-	-	25
Of foreign governments	106	106	-	-	106
of others	3	3	-	-	3
Total securities held for trading	134	134	(6) -	(6) -	134
Total securities	8,268	8,392	153	277	(4) 8,268

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) See Note 15.A-E to the financial statements as of December 31, 2008 for information on liens on securities held by the Bank.
(3) In July 2003, a letter was received from the Supervisor of Banks, requiring the Bank to classify loans that had been given to a certain customer, which do not meet the repayment terms prescribed and against which shares of a leading telecommunication company were pledged, as “securities available for sale”, beginning from the financial statements as of June 30, 2003. The market value of these shares as of March 31, 2009, included in this item, amounts to NIS 294 million. This amount exceeds the amount of the loans, net of the provision for doubtful debts, by NIS 69 million.
(4) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 88 million.
(5) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".
(6) Charged to statement of profit and loss.

Note 2 - Securities
As of March 31, 2008 (un-audited)
Reported amounts (NIS in millions)

	Balance sheet amount	Amortized cost	Total cumulative other profit (5)		Fair value (1)
			Profit	Loss	
Composition					
1) Securities available for sale					
Debentures and bonds					
Of the Government of Israel (2)	2,206	2,206	20	20	2,206
Of foreign governments (2)	40	40	-	-	40
of others	1,350	1,438	1	89	1,350
Total debentures available for sale	3,596	3,684	21	109	3,596
Shares of others (3)	405	336	69	-	(4) 405
Total securities available for sale	4,001	4,020	90	109	(4) 4,001

	Balance sheet balance	Amortized cost	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (1)
2) Securities held for trading					
- Debentures					
of Government of Israel	94	94	-	-	94
of others	1	1	-	-	1
Total securities held for trading	95	95	(6) -	(6) -	95
Total securities	4,096	4,115	90	109	4,096

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) See Note 15.A-E to the financial statements as of December 31, 2008 for information on liens on securities held by the Bank.
(3) In July 2003, a letter was received from the Supervisor of Banks, requiring the Bank to classify loans that had been given to a certain customer, which do not meet the repayment terms prescribed and against which shares of a leading telecommunication company were pledged, as “securities available for sale”, beginning from the financial statements as of June 30, 2003. The market value of these shares as of March 31, 2008, included in this item, amounts to NIS 297 million. This amount exceeds the amount of the loans, net of the provision for doubtful debts, by NIS 72 million.
(4) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 49 million.
(5) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".
(6) Charged to statement of profit and loss.

Note 2 - Securities
As of December 31, 2008 (reviewed)
Reported amounts (NIS in millions)

	Balance sheet amount	Amortized cost	Total cumulative other profit (5) Profit	Loss	Fair value (1)
Composition					
1) Securities available for sale					
Debentures and bonds					
Of the Government of Israel (2)	6,184	6,237	57	110	6,184
Of foreign governments (2)	515	513	2	-	515
of others	1,740	1,840	5	105	1,740
Total debentures available for sale	8,439	8,590	64	215	8,439
Shares of others (3)	380	332	55	7	(4) 380
Total securities available for sale	8,819	8,922	119	222	(4) 8,819

	Balance sheet balance	Amortized cost	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (1)
2) Securities held for trading					
- Debentures					
of Government of Israel	437	437	-	-	437
of others	3	3	-	-	3
Total securities held for trading	440	440	(6) -	(6) -	440
Total securities	9,259	9,362	119	222	9,259

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) See Note 15.A-E to the financial statements as of December 31, 2008 for information on liens on securities held by the Bank.
(3) In July 2003, a letter was received from the Supervisor of Banks, requiring the Bank to classify loans that had been given to a certain customer, which do not meet the repayment terms prescribed and against which shares of a leading telecommunication company were pledged, as “securities available for sale”, beginning from the financial statements as at June 30, 2003. The market value of these shares as of December 31, 2006, included in this item, amounts to NIS 276 million. This amount exceeds the amount of the loans, net of the provision for doubtful debts, by NIS 51 million.
(4) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 88 million.
(5) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".
(6) Charged to statement of profit and loss.

Note 2 - Securities
Further details with regard to asset-backed securities held for sale
Reported amounts (NIS in millions)

	As of March 31, 2009			
	Amortized cost	Total cumulative other profit: Profit	Loss	Fair value (carrying amount)
	(un-audited)			
Mortgage-backed securities				
"Pass-through" securities	-	-	-	-
Other mortgage-backed securities	-	-	-	-
Asset-backed securities (ABS)				
CDO	21	-	1	20
CDO, mostly mortgage-backed (1)	-	-	-	-
CLO	77	-	19	58
(1) SIV	-	-	-	-
Total asset-backed securities available for sale	98	-	20	78

	As of March 31, 2008			
	Amortized cost	Total cumulative other profit: Profit	Loss	Fair value (carrying amount)
	(un-audited)			
Mortgage-backed securities				
"Pass-through" securities	-	-	-	-
Other mortgage-backed securities	-	-	-	-
Asset-backed securities (ABS)				
CDO	54	-	20	34
CDO, mostly mortgage-backed (1)	-	-	-	-
CLO	101	-	24	77
(1) SIV	-	-	-	-
Total asset-backed securities available for sale	155	-	44	111

(1) Fully amortized.

Note 2 - Securities
Further details with regard to asset-backed securities held for sale
Reported amounts (NIS in millions)

	As of December 31, 2008			
		Total cumulative other profit		
	Amortized cost	Profit	Loss	Fair value (carrying amount)
		(audited)		
Mortgage-backed securities				
"Pass-through" securities	-	-	-	-
Other mortgage-backed securities	-	-	-	-
Asset-backed securities (ABS)				
CDO	20	-	-	20
CDO, mostly mortgage-backed (1)	-	-	-	-
CLO	90	-	27	63
(1) SIV	-	-	-	-
Total asset-backed securities available for sale	110	-	27	83

(1) Fully amortized.

Note 2 - Securities
Further details with regard to asset-backed securities held for sale
Reported amounts (NIS in millions)

Further details with regard to the time period in which asset-backed securities held for sale, which include unrealized loss:

	As of March 31, 2009			
	Less than 12 months		12 months or more	
	Fair value	Unrealized loss	Fair value	Unrealized loss
Asset-backed securities (ABS)				
CDO	11	1	-	-
CLO	-	-	37	19
Total	**11**	**1**	**37**	**19**

	As of March 31, 2008			
	Less than 12 months		12 months or more	
	Fair value	Unrealized loss	Fair value	Unrealized loss
Asset-backed securities (ABS)				
CDO	34	20	-	-
CLO	70	20	7	4
Total	**104**	**40**	**7**	**4**

	As of December 31, 2008			
	Less than 12 months		12 months or more	
	Fair value	Unrealized loss	Fair value	Unrealized loss
Asset-backed securities (ABS)				
CLO	-	-	59	27
Total	**-**	**-**	**59**	**27**

Asset-backed securities (ABS)

In the first quarter of 2009, expenses amounting to NIS 16 million were recorded in respect of provision for impairment of a non-temporary nature of investments in asset-backed securities (of which NIS 2 million in respect of CDO and NIS 14 million in respect of CLO), compared to NIS 19 million and NIS 57 million in the corresponding period last year and in all of 2008, respectively (of which NIS 19 million in respect of investment in instruments directly or indirectly exposed to the US mortgage market or to leveraged funds in the corresponding period last year, as well as NIS 35 million in respect of CDO, NIS 3 million in respect of CLO and NIS 19 million in respect of investment in instruments directly or indirectly exposed to the US mortgage market or to leveraged funds in all of 2008).

Note 2 - Securities

The fair value of Bank investments in asset-backed securities as of March 31, 2009 amounts to NIS 78 million, compared to NIS 83 million as of December 31, 2008. For details of the calculation of fair value of investments in securities, see Note 1.F to the financial statements as of December 31, 2008. These investments include CDO and CLO securities, as set forth below:

A. **CDO (Collateralized Debts Obligation)** is a security backed by various types of debts instruments, which may include both direct debts and securitized debts. The CDO is set in layers by priority. Each layer is a separate debts, with specific rating, entitled to principal or interest payment before all debts ranked lower. Total value of debts subordinate to a given debts layer is defined to be the protective layer for said debts.

The fair value of Bank investment in said securities, as of March 31, 2009 amounted to NIS 20 million, similar to their value as of December 31, 2008. The underlying assets are synthetic assets with significant sector diversification and of different credit ratings.

As of March 31, 2009, the Bank recognized an impairment of non-temporary nature of these investments amounting to NIS 37 million, and a further impairment amounting to NIS 1 million was charged to a negative capital reserve. This compares with a NIS 35 million impairment recognized as impairment of a temporary nature as of December 31, 2008. The expense charged in the first quarter of 2009 in respect of impairment of these investments amounted to NIS 2 million, compared to NIS 35 million in all of 2008.

B. **CLO (collateralized Loan Obligation)** is a specific type of CDO. The debts instruments which back the CLO investment are senior and junior loan portfolios provided to commercial entities. The fair value of Bank investments in these securities as of March 31, 2009 amounted to NIS 58 million, compared to NIS 63 million as of December 31, 2008. All Bank investments in this asset class are in layers with investment-grade rating (BBB- or higher) with a protection layer, managed by some of the largest investment management firms in the world, which are carefully selected. About 85% of loans backing these securities are senior secured loans. The Bank’s CLO portfolio has no exposure to mortgages, including sub prime mortgages, or to any leveraged products whose value has declined due to the current crisis.

Note 2 - Securities

In the first quarter of 2009, a NIS 14 million provision for impairment of a temporary nature was made in respect of such investments, compared to NIS 3 million in the fourth quarter of 2008. The impairment charged to capital reserve as of March 31, 2009 for the remaining aforementioned investments amounted to NIS 19 million (as of December 31, 2008 – NIS 27 million). According to information available to the Bank, this impairment is due to the crisis sentiment in markets and to general increase in credit spreads. The remaining protection layers for these investments, which are as yet unaffected, are significant in size and Bank management estimates that they exceed the expected loss in respect of default events in the loan portfolios which back these investments. Therefore, the Bank estimates that there is no reason to assume that issuers will default on their obligations. Furthermore, the Bank ahs the intention and capacity to hold said securities to redemption or until their fair value reaches the investment cost. Hence, the impairment is classified as temporary.

Note 3 – Provision for doubtful debts (un-audited)

Reported amounts (NIS in millions)

Information with regard to provision for doubtful debts

	For the 3 months ended March 31, 2009				For the 3 months ended March 31, 2008			
	Specific provision (1)		Supplementary provision (2)	Total	Specific provision (1)		Supplementary provision (2)	Total
	By extent of arrears	Other			By extent of arrears	Other		
Balance of provision as of period start	834	2,148	194	3,176	821	1,923	172	2,916
Provisions during reported period	69	92	29	190	77	41	8	126
Decrease in provisions	(57)	(12)	(1)	(70)	(75)	(9)	-	(84)
Recovery of debt written off in previous years	-	(1)	-	(1)	-	(1)	-	(1)
Amount charged to statement of profit and loss	12	79	28	119	2	31	8	41
Debt write-off	-	(27)	-	(27)	(7)	(51)	-	(58)
Balance of provision as of period end	846	2,200	222	3,268	816	1,903	180	2,899
Includes - Balance of provision that was not deducted from loans to the public	-	113	-	113	-	110	-	110

(1) (Loans for which the provision was based on extent of arrears, does not include a provision for interest on debt in arrears. For other loans, does not include doubtful debts, after the debt were determined as doubtful.

(2) Includes general provision for doubtful debts.

Note 3 – Provision for doubtful debts
Reported amounts (NIS in millions)

Information on housing loans and calculation of the specific provision for doubtful debts (1)

	For the 3 months ended March 31, 2009					
			Includes:	Specific provision		
	Balance sheet loan balance (2)	Debt balance (3)	Amount in arrears (4)	By extent of arrears	Other	Total
	(un-audited)					
Housing loans for which specific provision according to length of arrears must be calculated	41,187	1,032	550	838	-	838
Large loans (5)	4,449	91	30	8	14	22
Other loans	579	28	8	-	23	23
Total	46,215	1,151	588	846	37	883

	For the 3 months ended March 31, 2008					
			Includes:	Specific provision		
	Balance sheet loan balance (2)	Debt balance (3)	Amount in arrears (4)	By extent of arrears	Other	Total
	(un-audited)					
Housing loans for which specific provision according to length of arrears must be calculated	36,485	1,102	535	811	-	811
Large loans (5)	2,739	102	26	5	9	14
Other loans	658	60	9	-	25	25
Total	39,882	1,264	570	816	34	850

(1) For details of calculation of provision for doubtful debts by extent of arrears, see Note 1.O.2 and 1.O.3 to the annual financial statements as of December 31, 2008.
(2) The balance of housing loans, after deducting specific balance for doubtful debts and provision for delinquency interest.
(3) Balance of problem loans (in arrears by more than three months) and net of the balance of the provisions.
(4) Includes delinquency interest before deduction of the provisions balance.
(5) Housing loans, the balance of each of which exceeds NIS 835 thousand (as of March 31, 2008 - NIS 805 thousand).

Note 4 – Capital adequacy in accordance with directives of the Supervisor of Banks
As of March 31, 2009 (un-audited)

Reported amounts (NIS in millions)

A. Capital adequacy is computed in accordance with Directives No. 341 and 311 of the Supervisor of Banks regarding the "minimum capital ratio" and "issuance of capital for exposure to market risks".

1. Bank capital for calculating minimum capital ratio (1)	
Tier I capital:	
Paid-up share capital and capital reserves	2,015
Retained earnings (2)	4,155
Minority interest in equity of subsidiaries	360
Amortization (3)	(113)
Total tier I capital	6,417
Upper Tier II capital (4)	1,671
Other Tier II capital	3,208
Deducted investments	(10)
Total capital	11,286

	Balances (5)	Weighting of risk assets 0%	20%	50%	100%	Risk balances	Capital requirement (6)
2. Weighted credit risk balances by asset risk group							
Cash and deposits with banks	9,620	6,340	3,280	-	-	656	59
Securities	8,268	5,888 (7)	1,590	-	790	1,108	100
securities loaned or sold in repurchase agreements	783	783	-	-	-	-	-
Loans to the public (4)	92,233	7,564	126	20,362	64,181	74,387	6,595
Loans to the Government	2	2	-	-	-	-	-
Investment in affiliates	11	-	-	-	11	11	1
Buildings and equipment	1,458	-	-	-	1,458	1,458	131
Positive fair value of derivatives	3,712	174	2,554	-	984	1,495	135
Other assets	1,000	(8) 284	19	-	697	701	63
Total assets	117,087	21,035	7,569	20,362	68,121	79,816	7,184

(1) There is no difference between the basis of consolidation according to accounting rules and the supervisory basis of consolidation according to instructions of the Supervisor of Banks with regard to minimum capital ratio.
(2) Including foreign currency translation adjustment of autonomous overseas units.
(3) Includes goodwill.
(4) The general provision for doubtful debts of NIS 110 million represents part of Tier II capital and is not deducted from loans to the public.
(5) Assets - balance sheet balances; off-balance sheet instruments - balance of stated values weighted by the conversion coefficients for loans.
(6) Capital requirement was calculated at a rate of 9%, in accordance with instructions of the Supervisor of Banks.
(7) Includes NIS 11 million deducted from capital.
(8) Includes NIS 112 million deducted from capital.

Note 4 – Capital adequacy in accordance with directives of the Supervisor of Banks - continued
As of March 31, 2009 (un-audited)
Reported amounts (NIS in millions)

	Balances (1)	Weighting of risk assets				Risk balances	Capital requirement (2)
		0%	20%	50%	100%		
2. Weighted credit risk balances by risk group							
Off-balance sheet instruments							
Transactions in which the balance represents credit risk	10,200	772	473	280	8,675	8,910	802
Financial derivatives	12,717	834	8,766	-	3,117	4,870	438
Others	337	-	208	-	129	171	15
Total off-balance sheet instruments	23,254	1,606	9,447	280	11,921	13,951	1,255
Total credit risk assets and capital requirement	140,341	22,641	17,016	20,642	80,042	93,767	8,439
Market risk						3,440	310
Total risk assets and capital requirements	140,341	22,641	17,016	20,642	80,042	97,207	8,749

3. Details of capital requirement for market risk:	
Interest risk	192
Share price risk	-
Exchange rate and inflation risk	102
Risk associated with options trading	16
Total capital requirement for market risk	310

4. Ratio of capital to risk elements	in %
Ratio of Tier I capital to risk elements	6.60
Ratio of total capital to risk elements	11.61
Total minimum capital ratio required by the Supervisor of Banks	9.00

(1) Assets - balance sheet balances; off-balance sheet instruments - balance of stated values weighted by the conversion coefficients for loans.
(2) Capital requirement was calculated at a rate of 9%, in accordance with instructions of the Supervisor of Banks.

Note 4 – Capital adequacy pursuant to directives of the Supervisor of Banks
As of March 31, 2008 (un-audited)

Reported amounts (NIS in millions)

A. Capital adequacy is computed in accordance with Directives No. 341 and 311 of the Supervisor of Banks regarding the "minimum capital ratio" and "issuance of capital for exposure to market risks".

1. Bank capital for calculating minimum capital ratio (1)	
Tier I capital:	
Paid-up share capital and capital reserves	1,974
Retained earnings (2)	3,658
Minority interest in equity of subsidiaries	0
Amortization (3)	(38)
Total tier I capital	5,594
Upper Tier II capital (4)	1,073
Other Tier II capital	2,799
Total capital	9,466

	Balances (5)	Weighting of risk assets				Risk balances	Capital requirement (6)
		0%	20%	50%	100%		
2. Weighted credit risk balances by Assets risk group							
Cash and deposits with banks	9,895	2,527	7,368	-	-	1,474	133
Securities	4,096	(7) 2,201	1,151	-	744	974	88
Securities loaned or sold in repurchase agreements	110	110	-	-	-	-	-
Loans to the public (4)	75,224	5,994	100	17,991	51,139	60,155	5,414
Loans to the Government	3	3	-	-	-	-	-
Investment in affiliates	18	(8) 7	-	-	11	11	1
Buildings and equipment	1,239	-	-	-	1,239	1,239	111
Positive fair value of derivatives	3,483	-	2,383	-	1,100	1,577	142
Other assets	729	(9) 56	-	-	673	673	61
Total assets	94,797	10,898	11,002	17,991	54,906	66,103	5,950

(1) There is no difference between the basis of consolidation according to accounting rules and the supervisory basis of consolidation according to instructions of the Supervisor of Banks with regard to minimum capital ratio.
(2) Including foreign currency translation adjustment of autonomous overseas units.
(3) Includes goodwill.
(4) The general provision for doubtful debts of NIS 107 million represents part of Tier II capital and is not deducted from loans to the public.
(5) Assets - balance sheet balances; off-balance sheet instruments - balance of stated values weighted by the conversion coefficients for loans.
(6) Capital requirement was calculated at a rate of 9%, in accordance with instructions of the Supervisor of Banks.
(7) Includes NIS 3 million deducted from capital.
(8) Deducted from capital.
(9) Includes NIS 25 million deducted from capital.

Note 4 – Capital adequacy in accordance with directives of the Supervisor of Banks - continued
As of March 31, 2008 (un-audited)
Reported amounts (NIS in millions)

	Balances (1)	Weighting of risk assets 0%	20%	50%	100%	Risk balances	Capital requirement (2)
2. Weighted credit risk balances by risk group							
Off-balance sheet instruments							
Transactions in which the balance represents credit risk	10,030	185	466	267	9,112	9,339	840
Financial derivatives	12,940	-	9,549	-	3,391	5,301	477
Others	455	-	306	-	149	210	19
Total off-balance sheet instruments	23,425	185	10,321	267	12,652	14,850	1,337
Total credit risk assets and capital requirement	118,222	11,083	21,323	18,258	67,558	80,953	7,286
Market risk						2,992	269
Total risk assets and capital requirements	118,222	11,083	21,323	18,258	67,558	83,945	7,555

3. Details of capital requirement for market risk:	
Interest risk	185
Share price risk	-
Exchange rate and inflation risk	72
Risk associated with options trading	12
Total capital requirement for market risk	269

4. Ratio of capital to risk elements	in %
Ratio of Tier I capital to risk elements	6.66
Ratio of total capital to risk elements	11.28
Total minimum capital ratio required by the Supervisor of Banks	9.00

(1) Assets - balance sheet balances; off-balance sheet instruments - balance of stated values weighted by the conversion coefficients for loans.
(2) Capital requirement was calculated at a rate of 9%, in accordance with instructions of the Supervisor of Banks.

Note 4 – Capital adequacy pursuant to directives of the Supervisor of Banks
As of December 31, 2008 (audited)

Reported amounts (NIS in millions)

A. Capital adequacy is computed in accordance with Directives No. 341 and 311 of the Supervisor of Banks regarding the "minimum capital ratio" and "issuance of capital for exposure to market risks".

1. Bank capital for calculating minimum capital ratio (1)	
Tier I capital:	
Paid-up share capital and capital reserves	1,991
Retained earnings (2)	4,053
Minority interest in equity of subsidiaries	351
Amortization (3)	(130)
Total tier I capital	6,265
Upper Tier II capital (4)	1,282
Other Tier II capital	3,128
Total capital	10,675

		Weighting of risk assets				Risk	Capital
	Balances (5)	0%	20%	50%	100%	balances	requirement (6)
2. Weighted credit risk balances by risk group							
Assets							
Cash and deposits with banks	11,038	5,998	5,040	-	-	1,008	91
Securities	9,259	(7) 7,138	1,368	-	753	1,027	92
securities loaned or sold in repurchase agreements	12	12	-	-	-	-	-
Loans to the public (4)	88,159	6,084	345	19,579	62,151	72,010	6,481
Loans to the Government	2	2	-	-		-	-
Investment in affiliates	17	(8) 6	-	-	11	11	1
Buildings and equipment	1,476	-	-	-	1,476	1,476	133
Positive fair value of derivatives	3,385	-	2,441	-	944	1,432	129
Other assets	774	(9) 233	8	-	533	535	48
Total assets	114,122	19,473	9,202	19,579	65,868	77,499	6,975

(1) There is no difference between the basis of consolidation according to accounting rules and the supervisory basis of consolidation according to instructions of the Supervisor of Banks with regard to minimum capital ratio.
(2) Including foreign currency translation adjustment of autonomous overseas units.
(3) Includes goodwill.
(4) The general provision for doubtful debts of NIS 110 million represents part of Tier II capital and is not deducted from loans to the public.
(5) Assets - balance sheet balances; off-balance sheet instruments - balance of stated values weighted by the conversion coefficients for loans.
(6) Capital requirement was calculated at a rate of 9%, in accordance with instructions of the Supervisor of Banks.
(7) Includes NIS 10 million deducted from capital.
(8) Deducted from capital.
(9) Includes NIS 109 million deducted from capital.

Note 4 – Capital adequacy in accordance with directives of the Supervisor of Banks - continued
As of December 31, 2008 (audited)
Reported amounts (NIS in millions)

	Balances (1)	Weighting of risk assets 0%	20%	50%	100%	Risk balances	Capital requirement (2)
2. Weighted credit risk balances by risk group							
Off-balance sheet instruments							
Transactions in which the balance represents credit risk	10,298	629	418	270	8,981	9,200	828
Financial derivatives	12,521	-	9,469	-	3,052	4,946	445
Others	399	-	253	-	146	197	18
Total off-balance sheet instruments	23,218	629	10,140	270	12,179	14,343	1,291
Total credit risk assets and capital requirement	137,340	20,102	19,342	19,849	78,047	91,842	8,266
Market risk	-	-	-	-	-	2,541	229
Total risk assets and capital requirements	137,340	20,102	19,342	19,849	78,047	94,383	8,495

3. Details of capital requirement for market risk:	
Interest risk	185
Share price risk	-
Exchange rate and inflation risk	34
Risk associated with options trading	10
Total capital requirement for market risk	229

4. Ratio of capital to elements of risk	in %
Ratio of Tier I capital to risk elements	6.64
Ratio of total capital to risk elements	11.31
Total minimum capital ratio required by the Supervisor of Banks	9.00

(1) Assets - balance sheet balances; off-balance sheet instruments - balance of stated values weighted by the conversion coefficients for loans.
(2) Capital requirement was calculated at a rate of 9%, in accordance with instructions of the Supervisor of Banks.

B. On May 14, 2007 the Board of Directors passed a resolution, effective as of May 17, 2007, instructing Bank management to act so as to have capital adequacy ratios (including upper tier II capital) of no less than 11.2% starting with financial statements for the second quarter of 2007. On February 25, 2008, the Bank's Board of Directors resolved to instruct Bank management to act so as to have the capital adequacy ratio (including upper tier II capital) be no less than 12% by end of 2009. These resolutions are in conjunction with the resolution by the Bank’s Board of Directors from April 2006, stipulating that the capital adequacy ratio, excluding upper tier II capital, shall be no less than 10%.

There is no change to the Bank's dividend policy.

Note 5 – Consolidated statement of assets and liabilities by linkage basis
As of March 31, 2009 (un-audited)
Reported amounts (NIS in millions)

	Israeli currency		Foreign currency (1)				
	Non-linked	CPI-linked	US dollars	Euro	Other currencies	Non-monetary items	Total
Assets							
Cash and deposits with banks	5,085	1,752	2,383	197	203	-	9,620
Securities	1,801	1,263	3,305	1,485	15	(3) 399	8,268
Securities loaned or sold in conjunction with repurchase agreements	783	-	-	-	-	-	783
Loans to the public (2)	43,477	33,084	10,414	2,222	2,926	-	92,123
Loans to the Government	-	1	1	-	-	-	2
Investment in affiliates	26	-	2	-	-	(17)	11
Buildings and equipment	-	-	-	-	-	1,458	1,458
Other assets	2,202	289	1,771	182	116	152	4,712
Total assets	53,374	36,389	17,876	4,086	3,260	1,992	116,977
Liabilities							
Deposits from the public	49,806	23,751	14,302	4,129	2,560	-	94,548
Deposits from banks	155	195	1,116	(7)	57	-	1,516
Deposits from the Government	5	190	42	-	-	-	237
Securities loaned or sold in conjunction with re-purchase agreements	-	-	-	-	-	-	-
Debentures and subordinated notes	-	7,447	-	-	-	-	7,447
Other liabilities	3,936	479	1,900	193	115	191	6,814
Total liabilities	53,902	32,062	17,360	4,315	2,732	191	110,562
Difference	(528)	4,327	516	(229)	528	1,801	6,415
Non-hedging financial derivatives:							
Derivatives (except for options)	6,048	(4,874)	(1,898)	919	(195)	-	-
Net in-the-money options (in terms of underlying asset)	94	-	695	(594)	(195)	-	-
Net out-of-the-money options (in terms of underlying asset)	(47)	-	317	(155)	(117)	2	-
Total	5,567	(547)	(370)	(59)	21	1,803	6,415
Net in-the-money options (capitalized par value)	(431)	-	795	(634)	(155)	425	-
Net out-of-the-money options (capitalized par value)	(434)	-	(935)	1,329	48	(8)	-

(1) Includes amounts linked to foreign currency.
(2) The general, special and supplementary provisions for doubtful debts were deducted ratably from the various linkage categories.
(3) Includes NIS 294 million for shares received to secure credit. See also Note 2.

Note 5 – Consolidated statement of assets and liabilities by linkage basis
As of March 31, 2008 (un-audited)

Reported amounts (NIS in millions)

	Israeli currency		Foreign currency (1)			Non-monetary items	Total
	Non-linked	CPI-linked	US dollars	Euro	Other currencies		
Assets							
Cash and deposits with banks	2,455	575	3,382	3,176	307	-	9,895
Securities	513	247	1,447	1,433	51	(3) 405	4,096
Securities loaned or sold in conjunction with repurchase agreements	110	-	-	-	-	-	110
Loans to the public (2)	29,745	33,422	7,375	2,198	2,377	-	75,117
Loans to the Government	-	2	1	-	-	-	3
Investment in affiliates	25	-	-	-	-	(7)	18
Buildings and equipment	-	-	-	-	-	1,239	1,239
Other assets	3,184	356	424	103	87	58	4,212
Total assets	36,032	34,602	12,629	6,910	2,822	1,695	94,690
Liabilities							
Deposits from the public	34,666	19,907	12,909	3,608	2,147	-	73,237
Deposits from banks	482	1,609	954	104	124	-	3,273
Deposits from the Government	-	230	37	-	-	-	267
Debentures and subordinated notes	-	6,338	-	-	-	-	6,338
Other liabilities	4,481	536	464	127	168	178	5,954
Total liabilities	39,629	28,620	14,364	3,839	2,439	178	89,069
Difference	(3,597)	5,982	(1,735)	3,071	383	1,517	5,621
Non-hedging financial derivatives:							
Derivatives (except for options)	5,832	(6,758)	3,125	(1,922)	(277)	-	-
Net in-the-money options (in terms of underlying asset)	2,412	-	(1,183)	(914)	(297)	(18)	-
Net out-of-the-money options (in terms of underlying asset)	(136)	-	196	(139)	63	16	-
Total	4,511	(776)	403	96	(128)	1,515	5,621
Net in-the-money options (capitalized par value)	210	-	2,418	(2,665)	31	6	-
Net out-of-the-money options (capitalized par value)	(1,531)	-	(443)	1,772	176	26	-

(1) Includes amounts linked to foreign currency.
(2) The general, special and supplementary provisions for doubtful debts were deducted ratably from the various linkage categories.
(3) Includes NIS 297 million for shares received to secure credit. See also Note 2.

Note 5 – Consolidated statement of assets and liabilities by linkage basis
As of December 31, 2008 (audited)

Reported amounts (NIS in millions)

	Israeli currency		Foreign currency (1)			Non-monetary items	Total
	Non-linked	CPI-linked	US dollars	Euro	Other currencies		
Assets							
Cash and deposits with banks	4,686	2,483	2,808	858	203	-	11,038
Securities	2,755	1,953	2,724	1,428	19	(3) 380	9,259
Securities loaned or sold in conjunction with repurchase agreements	12	-	-	-	-	-	12
Loans to the public (2)	39,913	34,211	8,814	2,140	2,971	-	88,049
Loans to the Government	-	1	1	-	-	-	2
Investment in affiliates	26	-	-	-	-	(9)	17
Buildings and equipment	-	-	-	-	-	1,476	1,476
Other assets	2,577	220	834	69	315	144	4,159
Total assets	49,969	38,868	15,181	4,495	3,508	1,991	114,012
Liabilities							
Deposits from the public	49,273	22,999	13,166	3,818	2,523	-	91,779
Deposits from banks	155	1,026	594	20	72	-	1,867
Deposits from the Government	4	200	38	-	-	-	242
Securities loaned or sold in conjunction with re-purchase agreements	-	972	-	-	-	-	972
Debentures and subordinated notes	-	6,837		-	-	-	6,837
Other liabilities	3,935	532	1,061	134	164	186	6,012
Total liabilities	53,367	32,566	14,859	3,972	2,759	186	107,709
Difference	(3,398)	6,302	322	523	749	1,805	6,303
Non-hedging financial derivatives:							
Derivatives (except for options)	5,770	(5,013)	(537)	325	(545)	-	-
Net in-the-money options (in terms of underlying asset)	748	-	(96)	(673)	3	18	-
Net out-of-the-money options (in terms of underlying asset)	152	-	113	(164)	(82)	(19)	-
Total	3,272	1,289	(198)	11	125	1,804	6,303
Net in-the-money options (capitalized par value)	(1,751)	-	1,100	366	(62)	347	-
Net out-of-the-money options (capitalized par value)	662	-	(581)	266	(379)	32	-

(1) Includes amounts linked to foreign currency.
(2) The general, special and supplementary provisions for doubtful debts were deducted ratably from the various linkage categories.
(3) Includes NIS 276 million for shares received to secure credit. See also Note 2.

Note 6 - Contingent Liabilities and Special Commitments
Reported amounts (NIS in millions)

	March 31		December 31,
	2009	2008	2008
	(un-audited)	(un-audited)	(audited)
A. Off-balance sheet financial instruments			
Contract balances or their stated amounts at the end of the period			
Transactions in which the balance represents a credit risk:			
- Documentary credit	532	632	531
- Loan guarantees	3,969	2,794	3,618
- Guarantees to purchasers of homes	5,496	5,669	5,827
- Other guarantees and liabilities (1)	4,103	4,751	4,208
- Unutilized revolving credit card facilities	6,481	4,966	6,401
- Unutilized debitory account and other credit facilities in accounts available on demand	17,018	20,888	17,945
- Irrevocable commitments for loans approved but not yet granted	3,725	4,402	3,834
- Commitments to provide credit to savers	1,726	1,706	1,704
- Commitments to issue guarantees	3,345	3,744	3,136

	March 31	December 31,
	2009	2008
	(un-audited)	(audited)
B. Special commitments		
Liabilities in respect of:		
Long-term rental contracts	422	392
Computerization and software services contracts	73	72
Acquisition of buildings and their renovation	23	15
Receipt of deposits on future dates (2)	5	5

(1) Includes the Bank's liabilities for its share in the risks fund of the Maof Clearinghouse of NIS 114 million (as of March 31, 2008 and December 31, 2008 - NIS 214 million and NIS 146 million, respectively).
(2) Transactions with institutional depositors to receive deposits at future dates at fixed interest rates set upon the contract date.

Note 6 - Contingent Liabilities and Special Commitments (continued)

C. Contingent liabilities and other special commitments

1) For details of other contingent liabilities and special commitments by the Bank group, see Note 19d to the financial statements for the year ended December 31, 2008. Below is a description of material changes relative to the description provided in the 2008 annual report.

2) Various claims are pending against the Bank and its subsidiaries, namely, claims of customers, as well as motions for recognition of various class actions. In the estimation of the management of the Bank, based on the estimation of the managements of its subsidiaries and on the opinion of their legal counsel as to the possible outcome of the pending claims and motions for approval of claims as class actions, the financial statements include fair provisions, where necessary, to cover possible damages.

   Below are details of material claims, where the claim amount (excluding interest and expenses) exceeds 1% of the Bank's shareholder equity, in which developments and changes have occurred compared to the description included in the 2008 financial statements.

   A. In October 2004, an action was lodged in Tel Aviv District Court against the Bank and against Bank Tefahot, as well as a motion for recognition as a class action.

      According to the Statement of Claim and the motion for recognition as a class action, the plaintiffs allege that their shares were acquired from them in a forced purchase and at a value below their fair value, in the process of a tender offer that the Bank published on June 24, 2004, to acquire the shares of Bank Tefahot, even though one of the plaintiffs accepted the tender offer in part. Therefore, the plaintiffs appealed, inter alia, to receive the remedy of appraisal under Section 338 of the Companies Law, 1999.

      In the purchase offer, the Bank offered to purchase from Bank Tefahot shareholders all 6,909,842 of their shares, in exchange for NIS 49.50 per share (after amendment of the purchase offer).

      As of the purchase offer date, the book value of Bank Tefahot’s shareholders’ equity was NIS 2.06 billion, and the value of Bank Tefahot, based on the share price in the purchase offer, was NIS 2.4 billion. The intrinsic value of the purchase offer was 118% of Bank Tefahot's (book value of) shareholders' equity as of March 31, 2004.

Note 6 - Contingent Liabilities and Special Commitments (continued)

The plaintiffs allege that the amount of their personal claim is NIS 171 thousand, and for all of the plaintiffs that they are petitioning to represent, they estimate the amount of the claim at NIS 2,149 million.

In February 2009, the Court dismissed the plaintiffs' motion for recognition as a class action. In March 2009, the plaintiffs appealed the Court decision.
Bank management believes, based on the opinion of legal counsel, that prospects of success for the plaintiffs are remote.

B. In March 2008, a claim against the Bank was filed with the Tel Aviv District Court, including an application for class action status, amounting to over NIS 2.5 million (as set forth in the claim).

The plaintiffs claim that banks are in breach of Anti-trust statute, with restrictive practices leading to reduced competition among banks with regard to various commissions. The banks, according to the claim, have shared information with regard to the various commissions they charge. The plaintiffs claim that this impacted competition in the banking sector, and customers, such as the plaintiffs, have been charged higher commissions than they would have paid had the banks acted lawfully.
According to the Bank, and to evidentiary material submitted by the Antitrust Supervisor, it would appear that commissions charged by the Bank to households and small businesses were primarily impacted by the layout of the Israeli banking industry, which is dominated by three major banks which hold an 80% market share. This market has always been subject to regulatory requirements of transparencies, hence most of the relevant information with regard to commissions at different banks was public information, easily accessible by all. Therefore, any information transfer to which the Bank was party could not cause any damage, especially in view of Bank policy to charge the lowest commissions in the relevant period.
Bank management believes, based on the opinion of legal counsel, that there is a remote chance that the claim and application for class action status against the Bank would prevail.

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding claims listed in section 3 below, there is additional, non-remote exposure for which no provision was made, amounting to NIS 147 million.

Note 6 - Contingent Liabilities and Special Commitments (continued)

3) Motions for recognition as class actions are pending against the Bank, where the amount claimed is material, as well as appeals to the High Court of Justice, as itemized below, which, in the opinion of the Bank's management, based on the opinion of the managements of its subsidiaries, and on the opinion of their legal counsel, the prospects for which cannot be estimated at this stage, hence no provision was made for these.

A. Two motions are pending and open in District Court and the Supreme Court to recognize as class actions two legal actions against the Bank and other mortgage banks totaling more than one and one-half billion NIS. The specific amount demanded from each Bank was not stated.

In the actions, it was principally argued that the banks unlawfully collected commissions on property insurance and life insurance of borrowers and engaged in insurance brokerage, that the mortgage banks over-charged for insurance premiums, and that the banks and insurers are parties to a cartel which results in borrowers having to pay higher insurance premiums than they would pay for similar policies on the free market.

The banks deny all plaintiffs' claims and reject them out of hand. The banks claim, *inter alia*, that their actions were lawful both in charging the commissions and in the rates of these commissions.
In the estimation of the Bank's management, based on the opinion of its legal counsel, it is not possible at this stage to assess whether the claims will be recognized as class actions and what the possible outcome will be.

B. In August 2008, a claim was filed at the Jerusalem District Court against the Bank and against Mizrahi Provident Fund Management Company Ltd., along with an application for class action status – in the amount of NIS 374 million. The claim was also filed against the Supervisor of Capital Market and Insurance as a formal defendant. The plaintiff, who has held accounts in multiple provident funds managed in his name at the Bank, claims that the Bank unlawfully appropriated proceeds he had received in respect of the transfer of control of provident fund assets, management and trusteeship there for to management and control by management companies, in lieu of transferring them to provident fund account holders, pro rata to their share of fund assets since, according to his claim, these proceeds are the fruit generated by the provident fund assets and arise from rights associated with these assets, therefore, according to the claim, this profit belongs to provident fund account holders rather than to the Bank.

Note 6 - Contingent Liabilities and Special Commitments (continued)

The Supervisor of Capital Market and Insurance was requested to join the claim as plaintiff, alongside the provident fund account holders, claiming that the Supervisor should rightly voice his position on the claim in both material and public aspects.
In the estimation of the Bank's management, based on the opinion of its legal counsel, and taking into consideration that the action is in a very preliminary stage, it is still not possible to assess the outcome of the action or whether the action will be recognized as a class action.

C. In November 2008, a claim was filed with the Tel Aviv District Court, including an application for class action status, amounting to NIS 130 million, stating collection of commission for cancellation or failure to honor a standing order, collection of commission for a transaction cancelled by the Bank, collection of commission for provision of information or for cash withdrawal when the account owner has no charge card, collection of securities management fee and failure to charge the as a tax deductible expense, and charging of tax on a foreign currency deposit to a checking account.
In the estimation of the Bank's management, based on the opinion of its legal counsel, and taking into consideration that the action is in a very preliminary stage, it is still not possible to assess the outcome of the action or whether the action will be recognized as a class action.

D. In November 2008, a claim was filed with the Tel Aviv District Court, including an application for class action status, amounting to NIS 68 million, against the Bank, Bank Leumi Le-Israel Ltd., First International Bank of Israel Ltd. and Bank Igud Ltd. for alleged over collection of tax on interest and dividend revenues by way of tax withholding. The plaintiff claims that the banks named in the claim over charge their customers who own bonds or stocks (the source of revenue) by not deducting the commission on said revenue prior to withholding tax.
In the estimation of the Bank's management, based on the opinion of its legal counsel, and taking into consideration that the action is in a very preliminary stage, it is still not possible to assess the outcome of the action or whether the action will be recognized as a class action.

E. In January 2009, claim was filed against the Bank with the Tel Aviv District Court, including an application for class action status, amounting to NIS 76 million for over charging of sales commission on MAOF options.
In the estimation of the Bank's management, based on the opinion of its legal counsel, and taking into consideration that the action is in a very preliminary stage, it is still not possible to assess the outcome of the action or whether the action will be recognized as a class action.

Note 6 - Contingent Liabilities and Special Commitments (continued)

F. On May 17, 2009 the Bank received a statement of claim and application for approval of class action suit submitted to the Tel Aviv District Court against the Bank and against Bank Leumi Le-Israel Ltd., Bank Discount Le-Israel Ltd. and First International Bank of Israel Ltd. (hereinafter: "the defendant banks").

The claim is based on the determination by the Anti-trust Supervisor dated April 26, 2009 headed "Re: restrictive trade practices existed between the Bank and Bank Hapoalim Ltd., Bank Leumi Le-Israel Ltd., Bank Discount Le-Israel Ltd. and First International Bank of Israel Ltd., with regard to commission-related information sharing" (see section 4 below). The claim alleges, based on the determination by the Supervisor, that the defendant banks were party to a restrictive trade practice, which affected competition and caused coordination of commissions, such that the plaintiffs paid excessive prices for services rendered to them. The plaintiffs have set the amount of their claim against all defendant banks at NIS 1 billion based, according to the plaintiffs, only on an estimation and so as to place the issue under the material jurisdiction of the District Court.

In the estimation of the Bank's management, based on the opinion of its legal counsel, and taking into consideration that the action is in a very preliminary stage, it is still not possible to assess the outcome of the action or whether the action will be recognized as a class action.

4) On April 26, 2009, the Bank received a determination by the Anti-Trust Supervisor pursuant to Section 43(a)(1) of the Anti-Trust Act, 1988, whereby restrictive trade practices existed between the Bank and Bank Hapoalim Ltd., Bank Leumi Le-Israel Ltd., Bank Discount Le-Israel Ltd. and First International Bank of Israel Ltd., with regard to commission-related information sharing, since the early 1990s through commencement of the Supervisor inquiry into this matter, on November 2004.

This is a civil determination which constitutes a-priori evidence of the content there of in any legal proceeding.

By law, the Bank is entitled to appeal this determination. The Bank is studying the determination and is considering further steps, however at this early stage it is not yet possible to estimate the impacts there of.

Note 7 - Financial derivatives activity – volume, credit risk and maturity dates
Reported amounts (NIS in millions)

A. Activity on consolidated basis

	March 31, 2009				
	Interest contracts				
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts
					(un-audited)
1. Stated amounts of financial derivatives					
A. Hedging derivatives (1)					
Forward contracts	1,385	-	-	-	-
Swaps	-	1,872	-	-	-
Total	1,385	1,872	-	-	-
Includes interest rate swaps on which the Bank agrees to pay a fixed interest rate	-	1,625	-	-	-
B. ALM derivatives (1) (2)					
Forward contracts	9,550	3,753	42,766	366	68
Option contracts traded on stock exchange:					
Options written	-	-	454	-	-
Options purchased	-	-	791	-	-
Other option contracts:					
Options written	-	-	16,333	447	-
Options purchased	-	-	18,046	446	-
Swaps	19,490	16,928	5,095	-	-
Total	29,040	20,681	83,485	1,259	68
Includes interest rate swaps on which the Bank agrees to pay a fixed interest rate	8,472	11,306	-	-	-
C. Other derivatives (1)					
Forward contracts	-	-	2,026	-	-
Option contracts traded on stock exchange:					
Options written	-	-	2,499	6,311	1
Options purchased	-	-	2,542	6,311	1
Other option contracts:					
Options written	-	-	382	540	4
Options purchased	-	19	429	338	4
Total	-	19	7,878	13,500	10

(1) Except for credit derivatives and spot contracts for foreign currency swaps.
(2) Derivatives that constitute part of the Bank’s asset and liability management system, which were not intended as hedges.

Note 7 - Financial derivatives activity – volume, credit risk and maturity dates

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	March 31, 2009				
	Interest contracts				
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts
					(un-audited)
D. Credit derivatives and foreign currency spot swaps					
Credit derivatives in which the Bank is guarantor	-	-	-	-	1,068
Credit derivatives in which the Bank is beneficiary	-	-	-	-	56
Foreign currency spot swap contracts	-	-	2,146	-	-
Total	-	-	2,146	-	1,124
2. Fair value, gross, of financial derivatives					
A. Hedging derivatives (1)					
Positive fair value, gross	41	2	-	-	-
Negative fair value, gross	30	250	-	-	-
B. ALM derivatives (1) (2)					
Positive fair value, gross	785	224	1,948	100	2
Negative fair value, gross	707	164	1,720	110	1
C. Other derivatives (1)					
Positive fair value, gross	-	-	486	112	3
Negative fair value, gross	-	-	483	111	3
D. Credit derivatives					
Credit derivatives in which the Bank is guarantor					
Negative fair value, gross	-	-	-	-	102
Credit derivatives in which the Bank is beneficiary					
Positive fair value, gross	-	-	-	-	9

(1) Except for credit derivatives.

(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.

Note 7 - Financial derivatives activity – volume, credit risk and maturity dates

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	March 31, 2008				
	Interest contracts				Commodities
			Currency	Contracts	and other
	NIS - CPI	Other	contracts	for shares	contracts
					(un-audited)
1. Stated amounts of financial derivatives					
A. Hedging derivatives (1)				-	-
Forward contracts	1,331	-	-	-	-
Swaps	-	1,208	-	-	-
Total	1,331	1,208	-	-	-
Includes interest rate swaps on which the Bank agrees to pay a fixed interest rate	-	817	-	-	-
B. ALM derivatives (1) (2)					
Futures contracts	-	-	-	-	-
Forward contracts	12,692	2,112	38,399	982	95
Option contracts traded on stock exchange:					
Options written	-	-	1,941	-	-
Options purchased	-	-	1,418	-	-
Other option contracts:					
Options written	-	-	21,234	748	-
Options purchased	-	-	23,819	794	-
Swaps	12,912	16,998	3,312	-	-
Total	25,604	19,110	90,123	2,524	95
Includes interest rate swaps on which the Bank agrees to pay a fixed interest rate	7,086	10,111	-	-	-
C. Other derivatives (1)					
Futures contracts	-	2	-	-	-
Forward contracts	-	-	2,156	-	-
Option contracts traded on stock exchange:					
Options written	-	-	2,161	8,506	20
Options purchased	-	-	2,170	8,506	20
Other option contracts:					
Options written	-	1,669	5,598	1,972	-
Options purchased	-	1,669	4,813	1,667	-
Swaps	-	72	-	-	-
Total	-	3,412	16,898	20,651	40

(1) Except for credit derivatives and spot contracts for foreign currency swaps.
(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.

Note 7 - Financial derivatives activity – volume, credit risk and maturity dates
Reported amounts (NIS in millions)

A. Activity on consolidated basis

	March 31, 2008				
	Interest contracts				Commodities and other contracts
	NIS - CPI	Other	Currency contracts	Contracts for shares	(un-audited)
D. Credit derivatives and foreign currency spot swaps					
Credit derivatives in which the Bank is guarantor	-	-	-	-	729
Foreign currency spot swap contracts	-	-	1,888	-	-
Total	-	-	1,888	-	729
2. Fair value, gross, of financial derivatives					
A. Hedging derivatives (1)					
Positive fair value, gross	10	4	-	-	-
Negative fair value, gross	13	46	-	-	-
B. ALM derivatives (1) (2)					
Positive fair value, gross	254	163	2,525	100	2
Negative fair value, gross	241	203	2,280	93	2
C. Other derivatives (1)					
Positive fair value, gross	-	19	273	136	-
Negative fair value, gross	-	18	271	155	-
D. Credit derivatives					
Credit derivatives in which the Bank is guarantor					
Negative fair value, gross	-	-	-	-	23

(1) Except for credit derivatives.
(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.

Note 7 - Financial derivatives activity – volume, credit risk and maturity dates
Reported amounts (NIS in millions)

A. Activity on consolidated basis

	December 31, 2008				
	Interest contracts				Commodities
			Currency	Contracts	and other
	NIS - CPI	Other	contracts	for shares	contracts
					(audited)
1. Stated amounts of financial derivatives					
A. Hedging derivatives (1)					
Forward contracts	1,030	-	-	-	-
Swaps	-	1,180	-	-	-
Total	1,030	1,180	-	-	-
Includes interest rate swaps on which the Bank agrees to pay a fixed interest rate	-	1,180	-	-	-
B. ALM derivatives (1) (2)					
Futures contracts	-	-	176	-	-
Forward contracts	10,418	6,079	41,582	640	146
Option contracts traded on stock exchange:					
Options written	-	-	376	35	-
Options purchased	-	-	633	78	-
Other option contracts:					
Options written	-	-	16,037	615	-
Options purchased	-	-	16,383	515	-
Swaps	17,247	16,570	4,679	-	-
Total	27,665	22,649	79,866	1,883	146
Includes interest rate swaps on which the Bank agrees to pay a fixed interest rate	8,262	9,679	-	-	-
C. Other derivatives (1)					
Forward contracts	-	-	1,841	-	-
Option contracts traded on stock exchange:					
Options written	-	-	1,648	5,068	6
Options purchased	-	-	1,690	5,068	6
Other option contracts:					
Options written	-	438	2,370	631	12
Options purchased	-	438	2,340	367	12
Total	-	876	9,889	11,134	36

(1) Except for credit derivatives and spot contracts for foreign currency swaps.
(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.

Note 7 - Financial derivatives activity – volume, credit risk and maturity dates

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	December 31, 2008				
	Interest contracts				
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts
					(audited)
D. Credit derivatives and foreign currency spot swaps					
Credit derivatives in which the Bank is guarantor	-	-	-	-	913
Credit derivatives in which the Bank is beneficiary	-	-	-	-	51
Foreign currency spot swap contracts	-	-	2,326	-	-
Total	-	-	2,326	-	964
2. Fair value, gross, of financial derivatives					
A. Hedging derivatives (1)					
Positive fair value, gross	41	-	-	-	-
Negative fair value, gross	23	117	-	-	-
B. ALM derivatives (1) (2)					
Positive fair value, gross	597	212	1,580	219	1
Negative fair value, gross	601	244	1,257	244	1
C. Other derivatives (1)					
Positive fair value, gross	-	-	618	111	8
Negative fair value, gross	-	-	618	112	8
D. Credit derivatives					
Credit derivatives in which the Bank is guarantor					
Negative fair value, gross	-	-	-	-	80

(1) Except for credit derivatives and spot contracts for foreign currency swaps.
(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.

Note 7 - Financial derivatives activity – volume, credit risk and maturity dates

B. Credit risk on financial derivatives according to counter-party to the contract - Consolidated

	March 31, 2009				
	Stock exchanges	Banks	Dealers/ Brokers	Others	Total
	(un-audited)				
Positive fair value, gross, of financial derivatives (1)	153	2,638	24	897	3,712
Off-balance sheet credit risk on financial derivatives	90	9,143	175	3,308	12,716
Total credit risk on financial derivatives	243	11,781	199	4,205	16,428

	March 31, 2008				
	Stock exchanges	Banks	Dealers/ Brokers	Others	Total
	(un-audited)				
Positive fair value, gross, of financial derivatives (1)	134	2,383	46	923	3,486
Off-balance sheet credit risk on financial derivatives	155	9,549	227	3,009	12,940
Total credit risk on financial derivatives	289	11,932	273	3,932	16,426

	December 31, 2008				
	Stock exchanges	Banks	Dealers/ Brokers	Others	Total
	(audited)				
Positive fair value, gross, of financial derivatives (1)	137	2,441	25	784	3,387
Off-balance sheet credit risk on financial derivatives	71	9,469	69	2,912	12,521
Total credit risk on financial derivatives	208	11,910	94	3,696	15,908

(1) Of which positive gross fair value of embedded derivatives amounting to NIS 1 million (as of December 31, 2008 – NIS 2 million; as of March 31, 2008 - NIS 3 million) and a balance-sheet balance of stand-alone derivatives amounting to NIS 3,711 million, included under “other assets” (as of December 31, 2008 - NIS 3,385 million; as of March 31, 2008 - NIS 3,483 million).

(2) Off-balance sheet credit risk for financial derivatives (including those with negative fair value) as computed for the purposes of the per-borrower limitation.

Note 7 - Financial derivatives activity – volume, credit risk and maturity dates

c) Maturity dates – stated amounts: year-end balances - Consolidated

	March 31, 2009 (un-audited)				
	Up to 3 months	Over 3 months to 1 year	1-5 years	Over 5 years	Total
	(un-audited)				
Interest contracts					
NIS-CPI	4,066	11,987	10,032	4,340	30,425
Other	4,297	12,314	2,673	3,288	22,572
Currency contracts	61,011	26,789	4,805	904	93,509
Contracts for shares	13,058	1,201	500	-	14,759
Commodities and other contracts	70	8	879	245	1,202
Total as of March 31, 2009	82,502	52,299	18,889	8,777	162,467

	March 31, 2008 (un-audited)				
Total	92,617	70,296	15,442	5,258	183,613

	December 31, 2008 (audited)				
Total	81,825	54,130	16,088	7,601	159,644

Note 8 - Profit from Financing Operations before Provision for Doubtful debts
Reported amounts (NIS in millions)

	For the three months ended March 31		For the year ended December 31
	2009	2008	2008
	(un-audited)		(audited)
A. In respect of assets (1)			
From loans to the public	1,582	331	4,953
From loans to the Government	-	-	1
From deposits with the Bank of Israel and from cash	79	(21)	125
From deposits with banks	91	(373)	(487)
From securities loaned or sold in repurchase agreement	1	-	1
From debentures	299	(120)	67
	2,052	(183)	4,660
B. In respect of liabilities (1)			
On deposits from the public	(1,735)	670	(2,085)
On deposits from the government	(5)	-	(17)
On deposits from the Bank of Israel and from cash	-	(2)	(8)
On deposits from banks	245	92	467
Securities loaned or sold in conjunction with re-purchase agreements	-	-	(7)
On debentures and subordinated notes	(33)	(103)	(604)
	(1,528)	657	(2,254)
C. In respect of financial derivatives and hedging activities			
Net revenues (expenses) from ALM derivatives (2)	1	(101)	(426)
Net revenues from other derivatives	(7)	83	67
	(6)	(18)	(359)
D. Other			
Commissions from financing transactions	23	24	92
Financing revenues from collection of interest on arrears from individual borrowers	11	11	47
Interest profit on problem loans	23	30	108
Gain (loss) from sale of debentures, net (3)	6	(5)	(197)
Other financing profit	12	40	218
Other financing expenses	(9)	(7)	(26)
	66	93	242
Total profit from financing operations before provision for doubtful debts	584	549	2,289
Includes: exchange rate differences, net	5	(15)	12
Details of net effect of hedging financial derivatives on profit from financing operations			
Financing revenues (expenses) for assets (section A)	10	(21)	(136)

(1) Includes the effective element in the hedging ratios.
(2) Derivatives which constitute part of the Bank's asset and liability management system, which were not intended as hedges.
(3) Includes provision for impairment of debentures held for sale amounting to NIS 29 million (in 2008 - NIS 215 million; in the three months ended March 31, 2008 - NIS 19 million).

Note 9 - Gain (loss) from equity investments, Net

Reported amounts (NIS in millions)

	For the three months ended March 31		For the year ended December 31
	2009	2008	2008
	(un-audited)		(audited)
Gain from sale of shares available for sale, Net	-	3	17
Provision for impairment of shares available for sale	(4)	-	(3)
Dividends from shares available for sale	-	5	32
Total gain (loss) from equity investments, net	(4)	8	46

Note 10 – Operating Segments
For the three months ended March 31, 2009
Reported amounts (NIS in millions)

A. Information regarding operating segments

	Household	Private banking	Small business	Commercia banking	Business banking	Financial management	Total consolidated
				(un-audited)			
Profit from financing operations before provision for doubtful debts							
From outside operating segments	411	(13)	51	45	218	(128)	584
Inter-segment	(153)	26	24	(9)	(61)	173	-
Profit from financing operations before provision for doubtful debts	258	13	75	36	157	45	584
Operating and other revenues	191	13	49	11	23	30	317
Total profit	449	26	124	47	180	75	901
Provision for doubtful debts	32	-	23	1	63	-	119
Operating and other expenses							
From outside operating segments	343	13	104	17	63	65	605
Inter-segment	(28)	-	(13)	18	21	2	-
Other operating expenses - total	315	13	91	35	84	67	605
Pre-tax operating profit	102	13	10	11	33	8	177
Provision for taxes on operating profit	39	5	3	3	12	3	65
After-tax operating profit	63	8	7	8	21	5	112
Minority interest in net after-tax operating profits of subsidiaries	3	-	-	-	-	(5)	(2)
Net profit	66	8	7	8	21	-	110
Return on equity	9.2%	56.5%	9.2%	11.7%	3.9%	0.0%	7.5%
Average balance of assets	56,240	1,621	5,004	4,266	26,369	27,261	120,761
Average balance of liabilities	50,468	6,093	7,221	2,304	13,888	34,180	114,154
Average balance of risk assets(1)	46,806	1,008	4,696	4,273	32,262	7,729	96,774
Average balance of provident and mutual fund assets	-	-	-	-	-	57,242	57,242
Average balance of securities	17,153	7,004	10,588	1,482	35,394	19,824	91,445
Credit to the public (end balance)	55,836	1,430	4,861	4,139	25,857	-	92,123
Deposits from the public (end balance)	48,356	6,974	6,931	2,009	13,953	16,325	94,548
Average balance of other assets managed	22,571	-	287	38	126	-	23,022

B. Information regarding profit from financing operations before provision for doubtful debts

	Household	Private banking	Small business	Commercia banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	144	4	56	26	114	-	344
Margin from receiving deposits	93	8	10	2	13	-	126
Other	21	1	9	8	30	45	114
Total	258	13	75	36	157	45	584

(1) Includes off-balance-sheet balances, as computed for capital adequacy.

Note 10 – Operating Segments
For the three months ended March 31, 2008
Reported amounts (NIS in millions)

A. Information regarding operating segments (1)

	Household	Private banking	Small business	Commercia banking	Business banking	Financial management	Total consolidated
				(un-audited)			
Profit from financing operations before provision for doubtful debt							
From outside operating segments	296	(59)	(21)	60	211	62	549
Inter-segment	(53)	75	97	(21)	(67)	(31)	-
Profit from financing operations before provision for doubtful debt	243	16	76	39	144	31	549
Operating and other revenues	157	16	43	13	30	24	283
Total profit	400	32	119	52	174	55	832
Provision for doubtful debts	12	-	15	-	14	-	41
Operating and other expenses							
From outside operating segments	262	19	103	16	44	57	501
Inter-segment	(25)	-	(10)	13	15	7	-
Other operating expenses - total	237	19	93	29	59	64	501
Operating profit (loss) before taxes	151	13	11	23	101	(9)	290
Provision for taxes on operating profit	59	5	4	8	39	(5)	110
Net profit (loss)	92	8	7	15	62	(4)	180
Return on equity	15.6%	75.5%	10.3%	22.9%	13.6%	(3.2%)	13.5%
Average balance of assets	46,021	1,438	4,839	4,191	22,519	16,141	95,149
Average balance of liabilities	35,324	6,236	8,168 (1)	2,068	14,035	23,667 (1)	89,498
Average balance of risk assets(2)	36,818	778	4,204	4,239	28,609	9,121	83,769
Average balance of provident and mutual fund assets	-	-	-	-	-	45,485	45,485
Average balance of securities	12,917	6,749	11,213	2,024	36,579	24,192	93,674
Credit to the public (end balance)	45,596	1,240	4,746	4,139	19,396	-	75,117
Deposits from the public (end balance)	31,909	6,047	8,171 (1)	1,992	12,246	12,872 (1)	73,237
Average balance of other assets managed	16,952	-	162	20	172	-	17,306

B. Information regarding profit from financing operations before provision for doubtful debts

	Household	Private bankinç	Small business	Commercia banking	Business banking	Financial managemen	Total consolidated
Margin from credit granting operations	146	6	51	31	99	-	333
Margin from receiving deposits	80	9	19	5	22	-	135
Other	17	1	6	3	23	31	81
Total	243	16	76	39	144	31	549

(1) Reclassified.
(2) Includes off-balance-sheet balances, as computed for capital adequacy.

Note 10 – Operating Segments
For the year ended December 31, 2008
Reported amounts (NIS in millions)

A. Information regarding operating segments

	Household	Private banking	Small business	Commercia banking	Business banking	Financial management	Total consolidated
Profit from financing operations before provision for doubtful debts							
From outside operating segments	2,613	(154)	69	267	753	(1,259)	2,289
Inter-segment	(1,420)	235	260	(119)	(212)	1,256	-
Profit from financing operations before provision for doubtful debts	1,193	81	329	148	541	(3)	2,289
Operating and other revenues	670	68	181	48	146	116	1,229
Total profit	1,863	149	510	196	687	113	3,518
Provision for doubtful debts	87	1	89	25	180	13	395
Operating and other expenses							
From outside operating segments	1,259	57	380	54	190	213	2,153
Inter-segment	(106)	1	(41)	55	67	24	-
Other operating expenses - total	1,153	58	339	109	257	237	2,153
Operating profit (loss) before taxes	623	90	82	62	250	(137)	970
Provision for taxes on operating profit	233	33	31	23	88	(52)	356
After-tax operating profit (loss)	390	57	51	39	162	(85)	614
Share in net, after-tax operating loss of investees	-	-	-	-	-	(1)	(1)
Minority interest in net after-tax operating profits of subsidiaries	(12)	-	-	-	-	-	(12)
Net operating profit (loss)	378	57	51	39	162	(86)	601
items	-	-	-	-	-	1	1
Net profit (loss)	378	57	51	39	162	(85)	602
Return on equity	13.9%	101.0%	12.3%	14.3%	8.9%	(17.9%)	10.4%
Average balance of assets	49,534	1,440	5,470	4,831	23,358	17,213	101,846
Average balance of liabilities	41,842	6,367	6,317	2,103	13,801	25,400	95,830
Average balance of risk assets(1)	41,701	843	6,188	4,077	27,246	8,569	88,624
Average balance of provident and mutual fund assets	-	-	-	-	-	51,087	51,087
Average balance of securities	18,665	5,481	11,928	1,599	36,310	22,416	96,399
Credit to the public (end balance)	54,500	1,350	4,955	4,545	22,699	-	88,049
Deposits from the public (end balance)	47,597	6,809	6,591	2,510	13,655	14,617	91,779
Average balance of other assets managed	20,349	-	153	36	119	-	20,657

B. Information regarding profit from financing operations before provision for doubtful debts

	Household	Private banking	Small business	Commercia banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	624	24	203	101	344	-	1,296
Margin from receiving deposits	481	61	76	17	64	-	699
Other	88	(4)	50	30	133	(3)	294
Total	1,193	81	329	148	541	(3)	2,289

(1) Includes off-balance-sheet balances, as computed for capital adequacy.

Note 11 – Other matters

A. On March 29, 2009, the Bank Board of Directors, after obtaining approval of the Bank Audit Committee, decided to approve a plan for allotment of option warrants by private placement which does not constitute a material private placement (hereinafter: "the plan") to nine officers of the Bank who are VP members of Bank management (of which one offeree who had served as VP, took unpaid leave from the Bank and currently serves as the CEO of Bank Yahav for Government Employees Ltd.) (hereinafter: "the offerees"). The Board of Directors further decided, after obtaining approval of the Audit Committee, that allotment of the option warrants is contingent on the Supervisor of Banks allowing the Bank, within 60 days from the date of the Board decision, to buy back at least 1,400,000 shares of NIS 0.1 par value in the Bank's issued share capital.

Each offeree pursuant to the stock option plan consented, by their own choice, that should the Bank allot to them stock options pursuant to the plan, they would be excluded from the framework bonus plan for Bank officers for each of the years 2009 through 2012, as approved by the Board of Directors.

In conjunction with the stock option plan, the Bank would allot to the trustee, on behalf of the offerees, 5,850,000 option warrants which would not be listed for trading on the stock exchange. The option warrants may each be exercised for one Bank ordinary share of NIS 0.1 par value, for no consideration, subject to terms and conditions of the plan. Allotment of the maximum number of exercise shares is only theoretical. Upon the exercise date of the option warrants, offerees would not be allotted the full number of exercised shares arising from the option warrants which the offerees may exercise, pursuant to plan terms, but rather only the number of shares reflecting the monetary benefit inherent in the aforementioned option warrants.

The exercise price for each option warrant allotted to offerees pursuant to the plan would be NIS 21.18, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank. The exercise price was determined based on the closing price of Bank shares on the stock exchange on November 9, 2008 - which was also the basis for the exercise price of option warrants allotted to the Bank President in accordance with the stock option plan approved by the Board of Directors on November 30, 2008. Note that the exercise price is higher than the closing price of Bank shares on the stock exchange on March 26, 2009 - the most recent trading day prior to the date on which the Board of Directors approved the stock option plan.

Note 11 – Other matters

The option warrants allotted to the trustee for each offeree, in accordance with the plan, will be allotted in 5 equal lots. Each lot shall vest upon vesting dates on each anniversary of the allotment date, from the first anniversary (for the first lot) to the fifth anniversary (for the fifth lot).

Each offeree would be eligible to exercise option warrants included in the exercise lot which vested on any date, provided that the net operating profit return on the Bank's average shareholders' equity for the reported year preceding said vesting date should be 10% or higher. Should the aforementioned rate of return for the reported year prior to said vesting date be lower than 10%, the offeree may not exercise at any time the lot vested on said vesting date. The Bank Board of Directors would be qualified, at its own discretion and subsequent to approval by the Audit Committee, to exclude the impact of non-recurring or extraordinary events from calculation of the annual rate of return for any reported period.

The fair value of a single option warrant in any lot of option warrants was calculated in accordance with Accounting Standard no. 24, using the Black & Scholes model. The following assumptions were used for calculation of fair value:

- The exercise price for each option warrant, for the purpose of this calculation, is NIS 21.18.
- The expected term to exercise of each lot was assumed to be the average of the vesting period of each lot (from one year for lot 1, to five years for lot 5) and the plan term (7 years).
- Standard deviation for each lot was calculated using historical daily returns of the share price on the stock exchange over a period equal to the expected term of each lot.
- The risk-free interest rate was calculated based on quoted yield to maturity information for CPI-linked government debentures traded on the stock exchange, as published on March 26, 2009.
- The exercise price is adjusted for dividends, hence the dividend yield assumed for this calculation is 0%.
- For calculation of fair value, it was assumed that net operating profit return on the Bank's average shareholders' equity in each plan year would be 10% or higher.
- Calculation of the fair value does not account for the fact that the option warrants would not be listed for trading on the stock exchange.

Note 11 – Other matters

The number of option warrants which the offerees may exercise shall be reviewed upon each reporting date, based on information available at that time. The results of this review may reduce the expense charged in the Bank's financial statements in respect of option warrants over plan years, but may not change the fair value of each option warrant included in each lot.

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for each of the lots granted:

	Lot 1	Lot 2	Lot 3	Lot 4	Lot 5	Total
Number of options (in thousands)	1,170	1,170	1,170	1,170	1,170	5,850
Annualized standard deviation	32.75%	32.04%	30.95%	30.11%	30.27%	
Exercise price (in NIS)	21.18	21.18	21.18	21.18	21.18	
Risk-free interest rate	0.65%	0.77%	0.92%	1.09%	1.28%	
Term to exercise (in years)	4.1	4.6	5.1	5.6	6.1	
Fair value per single option	4.78	5.02	5.19	5.39	5.77	
Total fair value per lot (NIS in thousands)	5,588	5,875	6,074	6,309	6,755	30,601

B. On November 24, 2008, the Bank Board of Directors resolved, subsequent to a decision by the Bank Audit Committee as well as the Audit Committee and Board of Directors of Adanim Mortgage Bank Ltd. – a wholly owned and controlled subsidiary of the Bank – (hereinafter: "Bank Adanim") to approve the merger of Bank Adanim (the target company) into the Bank (the receiving company) in accordance with sections 314-327 of the Corporate Act, 1999 and to authorize Bank management to sign the merger agreement between the companies.

The great majority of Bank Adanim branch staff would continue to hold similar positions with Adanim or Mizrahi-Tefahot; the great majority of headquarter staff at Bank Adanim would be hired in similar positions, and the remaining staff would be offered temporary employment by Mizrahi-Tefahot so as to allow them to safely go through the crisis period and to locate new employment opportunities in a timely manner. Bank Adanim employees who would select another route, outside the Group, would benefit from improved retirement benefits – identical to those offered to Tefahot employees who retired upon the merger with Bank Mizrahi, even though Adanim employees are not party to a collective bargaining agreement.

Note 11 – Other matters

On February 23, 2009, the Registrar of Corporations' approval of the merger was received, thereby completing all of the suspensive conditions for this merger. As of said date Bank Adanim has ceased to exist as a separate company, and its assets and liabilities were merged into the Bank.
The financial statements include an appropriate provision of a non-material amount for retirement cost of Bank Adanim employees, based on management expectations as of the date of publication of these financial statements.

C. On July 19, 2005, after approval by the Bank's Audit Committee and Board of Directors, stockk options were granted to Executive Management, division and sector managers, and department and branch managers of the Bank and its subsidiaries ("the offerees") in conjunction with a compensation planned aimed at encouraging them to contribute to business development of the Bank and its subsidiaries, and to align interests of the offerees with that of the Bank and its subsidiaries.
On March 2, 2009, the Bank Board of Directors, having received approval from the Bank Audit Committee dated March 2, 2009, resolved to extend the exercise period of all options granted to employees and officers of the Bank and its subsidiaries in accordance with this stock option plan, not yet exercised into Bank shares, by a further 2 years. The extension of the exercise period for these options is only a benefit to offerees who own the options under the plan.
Pursuant to Accounting Standard no. 24 "Share-based Payment", the Bank is required to recognize the impact of extension of option exercise periods, which increases their fair value, equal to the difference between the option's fair value immediately after extension of the exercise period and their fair value immediately before the decision by the Board of Directors ("the additional fair value").

The additional fair value for the options has been calculated using the Black & Scholes model, based on the following data and assumptions:

- The exercise price for the options are as determined upon the original grant date, adjusted for the Consumer Price Index known upon approval of the extension.
- The share price was determined using the closing price for Bank shares on the stock exchange on the trading day preceding the data of approval by the Board of Directors of this extension.
- The expected duration to exercise for the options included in lots fully vested as of the valuation date were assumed to be half of the remaining period from the date of approval of this extension until expiration of the options included in said lot.

Note 11 – Other matters

- The standard deviation is based on historical volatility of Bank shares, in accordance with the expected terms to option exercise, and has been calculated separately for each lot.
- The interest rate for calculation of the option fair value is based, in accordance with Accounting Standard no. 24, on interest rates for risk-free, CPI-linked NIS-denominated assets as published by the Bank of Israel from time to time, for a term equal to the expected duration until each lot is exercised.
- The exercise price is adjusted for dividends, hence the dividend yield assumed for this calculation is 0%.
- The fair value calculation assumes that the option warrants would not be listed for trading on the stock exchange.

Below are data used for this calculation:

	As of March 01, 2009		
	Original exercise period	Modified exercise period	Total change
Annualized standard deviation	41.1% - 57.4%	34.6% - 44.1%	
Bank share price (in NIS)	17.80	17.80	
Average effective exercise price (in NIS)	19.03	19.03	
Discount rate	1.84%	1.64%	
Average expected duration to exercise (in years)	0.31	1.31	
Average value per 1 option (in NIS)	1.59	3.30	1.71
Number of options (in millions)	6.6	6.6	
Total option value (NIS in millions)	10.5	21.9	11.4

The additional fair value of the options due to extension of the exercise period there of (6,632,256 options allotted in accordance with the plan as of the date of change and not yet exercised or expired), amounting to NIS 11.4 million (NIS 13.2 million including payroll tax), would be recorded as an expense in the Bank's financial statements for the first quarter of 2009.

Note 11 – Other matters

D. On October 30, 2006, the Bank's Board of Directors approved the issuance of Bank subordinated notes (Series A) which will be deemed complex capital instruments ("Upper Tier II capital"), as the term is defined in Regulation 311 of Proper Banking Conduct Regulations, and in accordance with the approval received from the Supervisor of Banks on November 12, 2006), amounting up to NIS 500 million. The subordinated notes are bonds that, if certain events specified in advance in their terms, will be converted in a forced conversion, according to a formula prescribed in advance, into shares of the Bank.

On May 20, 2007, the Bank's Board of Directors approved the prospectus for listing of the issued complex subordinated notes for trading. Based on this prospectus, the series may be expanded by further issuance of complex subordinated notes (Series A) up to a cumulative total of NIS 2 billion. On May 21, 2007, the Israel Securities Authority approved publication of the prospectus. The issued subordinated notes were listed for trading in early June 2007. See Note 11.A to the financial statements as of December 31, 2008 for details.

Starting in November 2006 and through 2008, the Bank issued and listed for trading additional subordinated notes amounting to NIS 1,122 million par value in exchange for NIS 1,104 million in proceeds. In February 2009, the Bank issued and listed for trading additional subordinated notes amounting to NIS 434 million par value in exchange for NIS 400 million in proceeds. In May 2009, the Bank issued and listed for trading additional subordinated notes amounting to NIS 38 million par value in exchange for NIS 37 million in proceeds.

On November 15, 2006, Ma'alot Israel Securities Rating Company Ltd. ("Ma'a lot") issued a rating of AA- for the subordinated notes issued. The rating of the subordinated notes in its offering is based on the rating of the Bank's debentures, including subordinated notes, which are rated AA+, with the changes required by the terms of the subordinated notes. Note, that should the Bank issue in future complex tier I capital, the Bank would maintain an original tier I capital ratio (excluding the complex tier I capital) of no less than 6%. On May 16, 2007, the same rating was approved for capital notes allocated, pursuant to the published prospectus for listing them for trading.

On April 5, 2009, Ma'alot announced that in conjunction with a review by S&P of ratings of hybrid instruments world wide, including in Israel, in view of the global financial crisis, the rating of the subordinated capital notes was lowered from AA- to A+.