Condensed Financial Statements as of March 31, 2011

Table of Contents

Condensed Board of Directors' Report

For Financial Statements as of March 31, 2011

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on May 29, 2011, it was resolved to approve and publish the Board of Directors' consolidated report and the financial statements of Mizrahi Tefahot Bank Ltd. and its investees as of March 31, 2011.

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 quarter of 2011

Real Developments

Growth in Israel's economy continued in the first quarter of 2011.

According to estimates by the Central Bureau of Statistics, GDP grew in this quarter at a rate of 4.7%, following 7.6% growth in the fourth quarter of 2010, and per-capita GDP grew at 2.7%, following 5.4% growth in the fourth quarter of 2010. Imports of goods and services rose by 15.9%, following 15.6% growth in the fourth quarter of 2010.

Total uses grew by 8.4%, following 9.4% growth in the fourth quarter of 2010. Growth was recorded for all use components except for public consumption expenditure. Exports of goods and services grew by 16.0%, following 11.3% growth in the fourth quarter of 2010. Private consumption expanded by 6.8%, following 8.8% growth in the fourth quarter of 2010. Investment in fixed assets grew by 23.7%, following 19.7% growth in the fourth quarter of 2010, with 12.0% growth recorded in investment in residential construction.

Public consumption expenditure declined by 5.7% after 4.7% growth in the fourth quarter of 2010.

The downward trend in unemployment continued in the first quarter of 2011, and in February the unemployment rate was at 6.0%, compared to 6.8% in February 2010 and to 6.2% in December 2010.

Inflation and exchange rates

In the first quarter of 2011, the Consumer Price Index rose by 0.7%, compared to a 0.9% decline in the corresponding period last year. The higher CPI primarily resulted from higher prices of gasoline and food, and the continued rise in housing prices.

The USD was devalued by 1.9% against the NIS in the current quarter, reaching NIS 3.481 per 1 USD at the end of March, compared to NIS 3.549 at the end of 2010. This trend was not uniform: In January the NIS was lower vs. the USD, but rebounded in February and March. The Euro was revalued against the NIS in this period by 4.5%, reaching NIS 4.950 per Euro at the end of March, compared to NIS 4.738 per Euro at the end of 2010. On May 16, 2011, the USD/NIS exchange rate was at 3.538.

In early 2011, the intervention policy in the foreign exchange market was expanded. The Bank of Israel issued a transparency directive requiring disclosure of any foreign currency transaction over USD 10 million, and requiring disclosure by foreign residents of any MAKAM transactions over NIS 10 million, as well as requiting banks to allocate liquidity at 10% of swap and future conversion transactions.

Monetary and fiscal policy

The Bank of Israel monetary policy in the first quarter of 2011 saw more rapid raising of interest rates than last year, designed to address expectations beyond the target range for inflation (which was 1%-3%). At the end of the quarter, the Bank of Israel interest rate rose by 0.5 percentage points, from 2.0% at the end of 2010 to 2.5% in March 2011. Note that in 2010, the interest rate was raised by one percentage point. In April, the Bank of Israel once again raised the interest rate by 0.5 percentage points to 3.0%, while in May 2011 the interest rate remained unchanged.

In the first quarter of 2011, the government budget recorded a NIS 2.0 billion surplus, compared to a NIS 3.6 billion deficit in the corresponding period last year. The budgeted deficit for 2011 is NIS 25.2 billion. Due to this economic growth, tax revenues increased in the first quarter of 2011 by 9.4% in real terms, over the corresponding period last year. Expenditures by Government ministries increased in this period, but at a lower rate than expected.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, total demand for new apartments (apartments sold and apartments constructed not for sale) remained high in the first quarter of 2011, following an upward trend which started late in the second quarter of 2010, reaching 11 thousand new apartments, a growth rate of 11% over the corresponding period last year.

In January 2011, acceleration in the number of housing starts continued, with construction started on 4,450 residential units, compared to a monthly average of 3,300 in 2010 and 2,750 over the past decade. The inventory of new apartments for sale from private development at the end of the first quarter was at 10,620, compared to 10,560 at the end of 2010. Based on the average sale rate in the six months ended March 2011, this inventory would account for 7 months' sales - similar to the end of 2010.

According to data from the Central Bureau of Statistics, in January and February housing prices continued to rise, despite higher interest rates and restrictive regulatory action in the mortgage market initiated by the Bank of Israel in the second half of 2010. Apartment prices, on a nation-wide average basis, were 4% higher in February 2011 over the fourth quarter of 2010, and 16% higher over the corresponding period last year. Total housing loan origination increased in the first quarter by 24% over the corresponding period last year, reflecting both higher prices and stronger demand.

Capital market

In the first quarter of 2011, the upward trend in benchmarks, which started in 2009 and continued in 2010, came to a halt.

Equity market - the major indices, Tel Aviv 25 and Tel Aviv 100 declined in the first quarter of 2011 by 0.4% and 1.3%, respectively. The Tel Aviv 75 Index declined by 3%, while the Real Estate 15 Index increased by 3.3%. Small-cap shares declined more significantly, with the Yeter 50 index declining by 5.7%. Finance shares were also down: The Finance 15 Index and Tel Aviv Banks Index declined by 3.1% and 2.1%, respectively.

The average daily trading volume in equity and convertible securities amounted in the first quarter to NIS 2.2 billion – higher than the average daily volume of NIS 2.0 billion in 2010. Share issuance (excluding shares issued overseas) decreased significantly, amounting to NIS 1.2 billion, compared to NIS 2.0 billion in the first quarter of 2010.

Debenture market - the debenture market was mixed. The General Debenture Index remained unchanged in the first quarter of 2011. The CPI-linked Debenture Index increased by 0.4%, and the Non-linked Debenture Index decreased by 1.0%. The Tel-Bond 20 Index rose by 0.5%, and the Tel-Bond 40 Index, which also includes real estate companies, rose by 1.1%.

Spreads of corporate debentures over Government ones continued to shrink, in view of lesser concern about a credit crisis and in view of the low interest rates prevailing in the economy: Debentures rated AA traded late in this quarter at a spread of 0.8 percentage points, compared to 1.1 percentage points in late 2010; debentures rated A traded at a spread of 1.8 percentage points, compared to 2.6 percentage points in late 2009.

In total, the business sector raised NIS 11.8 billion worth of debentures in the first quarter of 2011 from the public and from institutional investors, compared to NIS 9.7 billion in the corresponding period in 2010.

Average daily trading volume in bonds was NIS 3.8 billion, compared to NIS 3.3 billion in all of 2010.

Global economy

In the first quarter of 2011, the global economy was affected by several extraordinary events: Geopolitical uncertainty in several North African and Middle Eastern countries, as well as the tsunami disaster in Japan.

Despite these events, the global economy continued to grow, albeit at a more moderate pace than in the previous quarter.

The geopolitical uncertainty in some North African and Middle Eastern countries, which culminated in fighting between NATO forces and the Libyan army, resulted in disruption of oil supply from Libya and created more concern about these events spilling over to other countries. This concern resulted in an increase of 20% and more in oil prices during this quarter.

GDP in the USA increased in the first quarter of 2011, at an annualized rate of 1.8%, compared to a 3.1% increase in the final quarter of 2010. The labor market in the USA improved during this quarter, with the hiring rate up and the unemployment rate down. Unemployment in the first quarter was at 8.9%, compared to 9.6% in the fourth quarter of 2010.

The Euro Zone economy continued to be over-shadowed by the debt crisis in PIGS countries, which in 2010 resulted in Greece and Ireland seeking financial aid to avoid bankruptcy, and led other countries to cut down on government spending. In early 2011, Portugal also received financial aid amounting to €78 billion. GDP in the Euro Zone increased in the first quarter of 2011, at an annualized rate of 3.2%, compared to a 1.2% increase in the final quarter of 2010. The improvement was focused on economies in Germany and France, which grew by 6.0% and 4.0%, respectively.

The earthquake, tsunami disaster and radioactive crisis in Japan late in the first quarter of 2011, impacted the economy by reducing production capacity and disrupting the energy supply throughout Japan, and especially at the epicenter of this disaster. In view of these events, Japan's GDP shrank by an annualized 3.7% in the first quarter of 2011, following a 3.0% decline in the fourth quarter of 2010.

Monetary policy in developed nations remained fairly expansive. Monetary interest rates in the USA remained unchanged between 0%-0.25%, and the quantitative expansion plan (QE2) continued as planned. In the Euro Zone, expectations for higher interest rates did materialize, with monetary interest rates rising by 0.25 a percentage point in April, to 1.25%. This is the first rise in interest rates, after being lowered during the recent crisis. In view of expectations for different reactions in interest rate policy in the USA and in the Euro Zone, the USD was devalued vs. the EUR by 6% in the first quarter of 2011. In developing nations, the monetary restrictive trend continued with many countries raising interest rates, including: India, China, Brazil etc.

Leading overseas benchmarks were impacted by higher corporate profits, which somewhat buoyed investor confidence, but doubts about repayment capacity in several European countries, which occasionally gave rise to concern about capital market robustness, geopolitical instability and the disaster in Japan had the opposite effect.

The Dow Jones, NASDAQ and S&P 500 indices rose in the first quarter by 6.5%, 5.1% and 5.4%, respectively. The German DAX and French CAC indices rose by 1.8% and 3.6%, respectively. The FTSE100 and Nikkei indices declined by 1% and 6.1%, respectively. The DjEuroSTOXX (for Western European countries) rose by 3.7%.

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 assessment of future events which includes, *inter alia*: a forecast 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, 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 issues.

The information presented here relies, inter alia, on publications of the Central Bureau of Statistics and the Ministry of Finance, on Bank of Israel data and on various forecasts as described below.

Dividends

Below are details of dividends distributed by the Bank since 2008 through the publication date of these financial statements (in reported amounts):

Payment date(1)	Dividend per share	Total dividends paid
	(in Agorot)	(NIS in millions)
February 19, 2008	33.80	75
June 11, 2008	33.78	75
September 08, 2010	89.59	200
April 17, 2011(2)	53.65	120

(1) In view of the global financial crisis and its implications on the capital market in Israel, the Bank refrained from distributing dividends in 2009.

(2) On March 22, 2011, the Bank Board of Directors decided to pay a dividend amounting to NIS 120 million, or 536.5% of the issued capital, i.e. NIS 0.5365 per each share of NIS 0.1 par value. The effective date for dividend payment was April 4, 2011, the ex-dividend date was April 5, 2011 and the payment date was April 17, 2011.

Profit and Profitability

Net profit[1] in the first quarter of 2011 amounted to NIS 241 million, compared to NIS 172 million in the corresponding period last year – an increase of 40.1%. This profit reflects an annualized 14.5% return on equity[1], compared to 10.8% in the corresponding period last year and to 11.7% in all of 2010.

The following major factors affected Group operating income in the first quarter of 2011 over the corresponding period last year:

– Profit from financing operations before expenses with respect to credit loss in the first quarter of 2011 increased by NIS 122 million over the year-ago period, amounting to NIS 752 million compared to NIS 630 million in the corresponding period last year - an increase of 19.4%.

– Revenues from operating commissions increased in the first quarter of 2011 by NIS 19 million, or 5.8%, over the corresponding period last year.

– In the first quarter of 2011, other revenues amounted to NIS 10 million, compared with NIS 12 million in the corresponding period last year.

Total financing and operating income in the first quarter of 2011 increased by NIS 140 million, to NIS 1,110 million compared to NIS 970 million in the corresponding period last year, an increase of 14.4%.

– Expenses with respect to credit loss decreased in the first quarter of 2011 by NIS 3 million, or 5.3%, over the corresponding period last year.

– **Operating and other expenses**, net of the effect of accounting treatment of employee stock options and adjustment of payroll provisions, increased by 3.3% in the first quarter of 2011 compared to the corresponding period last year. Operating and other expenses including that effect increased by 6.2%. Growth in business volume, expansion of direct service centers and launching of 15 new branches and points of sale also affected payroll expenses in the first quarter of 2011. Excluding this effect, growth in operating and other expenses over the corresponding period last year was 2.7%.

(1) Anywhere in the Board of Directors' Report where "net profit", "operating net profit" or "equity" are mentioned, these terms refer to net profit, operating net profit and equity attributable to equity holders of the banking corporation.

Development of revenues and expenses

Profit from financing operations before expenses with respect to credit loss for the Group in the first quarter of 2011 amounted to NIS 752 million, compared to NIS 630 million in the corresponding period last year - a 19.4% increase.

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

	First three months		Rate of change
	2011	2010	
Current operations	**714**	**589**	**21.2%**
Revenues from interest on problem loans	26	28	
Gain from realized debentures available for sale and debentures held for trade, net	1	5	
Effect of accounting treatment of derivatives at fair value and others (1)	11	8	
Total	**752**	**630**	**19.4%**

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

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

	First three months		Change amount	Rate of change
Operating segment	2011	2010		
Retail banking:				
Mortgages	129	111	18	16.2%
Household	249	196	53	27.0%
Small business	98	82	16	19.5%
Total	**476**	**389**	**87**	**22.4%**
Private banking	16	16	-	-
Commercial banking	46	36	10	27.8%
Business banking	152	133	19	14.3%
Financial management	62	56	6	10.7%
Total	**752**	**630**	**122**	**19.4%**

(1) For definition of operating segments, see below the chapter on "Bank Group Operating Segments".

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

	First three months		
Linkage segments	2011	2010	Rate of change
Israeli currency - non-linked	141,419	106,536	32.7%
Israeli currency - linked to the CPI	45,890	40,392	13.6%
Foreign currency (including Israeli currency linked to foreign currency) (1)	75,449	60,020	25.7%
Total	**262,758**	**206,948**	**27.0%**

(1) Local operations and overseas affiliates.

The increase in average balance of NIS-denominated, non-linked financial assets is primarily due to deposits with the Bank of Israel and to increase in volume of mortgages and derivative operations.
The increase in average balances of NIS-denominated, CPI-linked financial assets is primarily due to higher volume of mortgages.
The increase in average balances of foreign currency denominated financial assets is primarily due to an increase in volume of derivative operations.

Interest differentials in the various linkage segments (in %, based on average balances) (including impact of derivatives) are as follows:

	First three months	
Linkage segments	2011	2010
Israeli currency - non-linked	1.57%	1.38%
Israeli currency - linked to the CPI	0.69%	0.69%
Foreign currency (including Israeli currency linked to foreign currency) (1)	0.59%	0.55%
Total including impact of derivatives	1.17%	1.16%
Total excluding impact of derivatives	**1.57%**	**2.41%**

(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.

Expenses with respect to credit loss for the Group amounted to NIS 54 million in the first quarter of 2011, or 0.20% of total loans to the public, net, compared with NIS 57 million, or 0.24% of total loans to the public, net in the corresponding period last year - a decrease of 5.3%.
The Bank started retrospectively implementing the Public Reporting Regulation on measurement and disclosure of impaired debt, credit risk and provision for credit loss as from January 1, 2011, and therefore data for previous periods are not comparable to those for the current period. For further details, see Note 1.E.1 and Note 3 to the financial statements

Development of expenses with respect to credit loss (NIS in millions) is as follows:

	First three months	
	2011	2010
Specific provision for credit loss (including accounting write-offs)	24	77
Group provision for credit loss:		
By extent of arrears	2	(14)
Other (for 2010 - general and supplementary provision for doubtful debts)	28	(6)
Total expenses with respect to credit loss	**54**	**57**
Expense with respect to credit loss as percentage of total loans to the public (annualized)	**0.20%**	**0.24%**

Below are details of expenses with respect to credit loss by major operating segments of the Group (NIS in millions):

	First three months	
Operating segment	2011	2010
Retail banking:		
Household - mortgages	10	(13)
Household - other	9	17
Small business	26	6
Total	**45**	**10**
Private banking	(3)	-
Commercial banking	1	(1)
Business banking	(1)	48
Financial management	12	-
Total	**54**	**57**

Profit from financing operations after expenses with respect to credit loss in the first quarter of 2011 amounted to NIS 698 million, compared to NIS 573 million in the corresponding period last year - a 21.8% increase.

Operating and other expenses for the Group amounted to NIS 358 million in the first quarter of 2011, compared with NIS 340 million in the corresponding period last year - an increase of 5.3%.

Revenues from operating commissions for the Group was NIS 348 million in the first quarter of 2011, compared with NIS 329 million in the corresponding period last year - an increase of 5.8%.

The Group had no **net gain from investment in shares** in the first quarter of 2011, compared to a loss amounting to NIS 1 million in the corresponding period last year.

In the first quarter of 2011, **other revenues** for the Group amounted to NIS 10 million, compared with NIS 12 million in the corresponding period last year.

Operating and other expenses, net of the effect of the accounting treatment of employee stock options and adjustment of payroll provisions, increased by 3.3% in the first quarter of 2011 compared to the corresponding period last year. These expenses including this effect increased by 6.3%, to NIS 669 million compared to NIS 630 million.

Growth in business volume, expansion of direct service centers and launching of 15 new branches and points of sale also affected payroll expenses. Excluding this effect, operating and other expenses increased by 2.7%.

Payroll and associated expenses, net of effect of accounting treatment of employee stock options and adjustment of payroll provisions, increased by 5.6% in the first quarter of 2011 compared to the corresponding period last year. Payroll and associated expenses, including this effect, amounted to NIS 417 million, compared to NIS 380 million.

Growth in business as mentioned, also affected payroll expenses. Excluding this effect, payroll expenses increased by 4% - a slower pace than the payroll increase rate stated in collective bargaining agreements applicable to the Bank.

Maintenance and depreciation expenses for buildings and equipment for the Group amounted to NIS 148 million in the first quarter of 2011, compared with NIS 143 million in the corresponding period last year – an increase of 3.5%.

Other expenses for the Group amounted to NIS 104 million in the third quarter of 2011, compared with NIS 103 million in the corresponding period last year - an increase of 1.0%.

As a result of developments in revenues and expenses, changes to financial ratios were as follows (in %):

	First three months		All of
	2011	2010	2010
Cost-Income Ratio[1]	60.3	64.9	59.2
Cost-Income Ratio, excluding Bank Yahav	57.1	62.6	55.4

(1) Total operating and other expenses to total operating and financing revenues before expenses with respect to credit loss.

Pre-tax operating profit for the Group amounted to NIS 387 million in the first quarter of 2011, compared with NIS 283 million in the corresponding period last year - an increase of 36.7%.

Provision for taxes on operating profit in the first quarter of 2011 amounted to NIS 138 million, compared with NIS 108 million in the same period last year, an increase of 27.8%.

Operating net profit in the first quarter of 2011 amounted to NIS 242 million, compared to NIS 171 million in the corresponding period last year – an increase of 41.5%.

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

	First three months		All of
	201	201	201
Net operating profit	14.6	10.7	11.7
Net profit	14.5	10.8	11.7

(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 non-controlling interest and less/plus the average balance of unrealized gain/loss from adjustment to fair value of debentures held for trading as well as gain/loss from debentures available for sale.

Earnings per share

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

	First three months		All of
	201	201	201
Basic earnings per share:			
Net operating profit attributable to equity holders of the banking corporation	1.07	0.77	3.59
Net profit attributable to equity holders of the banking corporation	1.06	0.77	3.60
Diluted earnings per share:			
Net operating profit attributable to equity holders of the banking corporation	1.05	0.75	3.54
Net profit attributable to equity holders of the banking corporation	1.04	0.75	3.55

Development of balance sheet items

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

				Change compared t	
	March 31		December 31	March 31	December 31
	2011	2010	2010	2010	2010
Balance sheet total	136,154	(1) 120,072	(1) 133,275	13.4%	2.2%
Loans to the public, net	109,391	97,029	107,040	12.7%	2.2%
Deposits from the public	109,029	96,648	105,991	12.8%	2.9%
Securities	5,726	9,591	7,449	(40.3%)	(23.1%)
Shareholders' equity	6,967	(1) 6,718	(1) 7,208	3.7%	(3.3%)

(1) Restated with respect to prospective application of guidance by the Supervisor of Banks with regard to reinforcing internal control over financial reporting of employee rights at Bank Yahav. For details, see Note 1.E.4. to the financial statements.

Loans to the public, net - loans to the public, net on the consolidated balance sheet as of March 31, 2011 accounted for 80% of total assets, similar to the end of 2010. Loans to the public, net for the Group increased in the first quarter of 2011 by NIS 2.4 billion, an increase of 2.2%. Excluding the impact of change in NIS exchange rate, loan volume increased by 2.3% in the first quarter of 2011.

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

				Change over:	
	March 31		December 31	March 31	December 31 [(1)]
	2011	2010	2010	2010	2010
Israeli currency					
Non-linked	56,390	49,143	54,680	14.7%	3.1%
CPI- linked	40,973	34,947	39,865	17.2%	2.8%
Foreign currency and foreign currency linked	12,028	12,939	12,495	(7.0%)	(3.7%)
Total	**109,391**	**97,029**	**107,040**	**12.7%**	**2.2%**

(1) Excluding the impact of change in NIS exchange rate, a 3.2% decrease in the foreign currency segment and a 2.3% increase in total loan volume, compared to December 31, 2010.

Loans to the public, net by operating segments (NIS in millions) are as follows:

				Change over:	
	March 31		December 31	March 31	December 31
Operating segment	2011	2010	2010	2010	2010
Retail banking:					
Mortgages	60,629	(1) 50,816	(1) 58,303	19.3%	4.0%
Household	15,622	(1) 15,326	(1) 15,566	1.9%	0.4%
Small business	6,027	5,096	5,771	18.3%	4.4%
Total	**82,278**	**71,238**	**79,640**	**15.5%**	**3.3%**
Private banking	854	(1) 878	(1) 962	(2.7%)	(11.2%)
Commercial banking	4,655	4,516	4,717	3.1%	(1.3%)
Business banking	21,604	20,397	21,721	5.9%	(0.5%)
Total – business and others	27,113	25,791	27,400	5.1%	(1.0%)
Total	**109,391**	**97,029**	**107,040**	**12.7%**	**2.2%**

(1) Reclassified.

Below are details of non-performing assets, impaired debt accruing interest, commercial problem credit risk and non-impaired debt in arrears 90 days or longer, in accordance with the new directives for measurement and disclosure of impaired debt, credit risk and provision for credit loss:

Reported amounts (NIS in millions)	As of March 31, 2011			As of December 31, 2010 (pro-forma)		
	Credit risk	Provision for credit loss	Net credit risk	Credit risk	Provision for credit loss	Net credit risk
1. Non-performing assets:						
Non-accrual impaired loans to the public:						
Reviewed on individual basis	1,954	741	1,213	2,220	956	1,264
Non-accrual impaired debentures	14	-	14	14	-	14
Other non-accrual impaired debt	28	17	11	25	12	13
Total non-performing assets	**1,996**	**758**	**1,238**	**2,259**	**968**	**1,291**
2. Impaired debt in restructuring of accrual problem debt	99	13	86	61	6	55
3. Problem commercial credit risk:(1)						
On-balance sheet credit risk with respec to the public	2,674	897	1,777	3,003	1,000	2,003
Off-balance sheet credit risk with respect to the public(2)	579	14	565	866	22	844
Total commercial problem credit risk with respect to the public	**3,253**	**911**	**2,342**	**3,869**	**1,022**	**2,847**
On-balance sheet credit risk with respect to others	14	-	14	14	-	14
Total commercial problem credit risk	**3,267**	**911**	**2,356**	**3,883**	**1,022**	**2,861**
4. Non-impaired debt in arrears 90 days or longer	1,840	859	981	1,840	861	979
Includes: Housing loans provided for by extent of arrears	1,337	835	502	1,311	836	475
Housing loans not provided for by extent of arrears(3)	421	-	421	404	-	404

Note: On- and off-balance sheet credit risk is stated before impact of provision for credit loss, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.

(1) On- and off-balance sheet credit risk which is impaired, inferior or under special supervision, except for on- and off-balance sheet credit risk with respect to individuals.

(2) As calculated for restrictions on indebtedness of a borrower or group of borrowers, except with respect to guarantees provided by borrowers to secure indebtedness of a third party, before impact of deductible collateral.

(3) Housing loans with respect to which the minimum provision is calculated by extent of arrears, in arrears between 3 and 6 months, and other housing loans which are not impaired and in arrears 90 days or longer, with respect to which the minimum provision is not calculated by extent of arrears.

Securities - the balance of investment in securities decreased in the first quarter of 2011 by NIS 1.7 billion, and by NIS 3.9 billion compared to March 31, 2010. The change in total investment in securities is within asset and liability management.

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

				Change compared to	
	March 31	March 31	December 31	March 31	December 31
Operating segment	2011	2010	2010	2010	2010
Israeli currency					
CPI- linked	410	1,329	413	(69.1%)	(0.7%)
Non-linked	2,653	4,414	3,760	(39.9%)	(29.4%)
Foreign currency and foreign currency linked	2,581	3,755	3,195	(31.3%)	(19.2%)
Non-monetary items	82	93	81	(11.8%)	1.2%
Total	**5,726**	**9,591**	**7,449**	**(40.3%)**	**(23.1%)**

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

	As of March 31, 2011			
		Cumulative other comprehensive income		
	Amortized cost (for shares - cost)	Gains	Losses	Fair value (carrying amount)
Securities available for sale:				
Debentures of the Government of Israel	4,320	13	(64)	4,269
Foreign government debentures [1]	101	-	-	101
Bank debentures	763	8	-	771
Corporate debentures	131	3	(1)	133
Asset-backed debentures	68	7	(10)	65
Shares of others	82	-	-	82
Total securities available for sale	**5,465**	**31**	**(75)**	**5,421**

	As of March 31, 2011			
	Amortized cost (for shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (carrying amount)
Securities held for trading:				
Debentures of the Government of Israel	297	2	-	299
Of others	6	-	-	6
Total securities held for trading	**303**	**2**	**-**	**305**
Total securities	**5,768**	**33**	**(75)**	**5,726**

(1) US government debentures

Distribution of balance of Group investment in securities by issuer type (NIS in millions) is as follows (Continued):

	As of December 31, 2010			
	Amortized cost (for shares - cost)	Cumulative other comprehensive income		Fair value (carrying amount)
		Gains	Losses	
Securities available for sale:				
Debentures of the Government of Israel	6,040	31	(48)	6,023
Foreign government debentures [(1)]	103	-	-	103
Bank debentures	735	7	(3)	739
Corporate debentures	151	3	-	154
Asset-backed debentures	66	5	(11)	60
Shares of others	81	-	-	81
Total securities available for sale	**7,176**	**46**	**(62)**	**7,160**

	As of December 31, 2010			
	Amortized cost (for shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (carrying amount)
Securities held for trading:				
Debentures of the Government of Israel	286	1	(2)	285
Of others	4	-	-	4
Total securities held for trading	**290**	**1**	**(2)**	**289**
Total securities	**7,466**	**47**	**(64)**	**7,449**

(1) US government debentures

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

					As of March 31, 2011
Share of impairment out of amortized cost	Duration in which fair value is lower than the amortized cost				
	Up to 6 months	9-6 months	12-9 months	Over 12 months	Total
Asset-backed debentures available for sale					
Up to 20%	-	-	-	6	6
20%-40%	-	-	-	4	4
Over 40%	-	-	-	-	-
Total	**-**	**-**	**-**	**10**	**10**
Other debentures available for sale					
Up to 20%	13	-	4	46	63
20%-40%	-	-	-	2	2
Over 40%	-	-	-	-	-
Total	**13**	**-**	**4**	**48**	**65**

					As of December 31, 2010
	Duration in which fair value is lower than the amortized cost				
Share of impairment out of amortized cost	Up to 6 months	9-6 months	12-9 months	Over 12 months	Total
Asset-backed debentures available for sale					
20%	-	-	-	4	4
20%-40%	-	-	-	7	7
Over 40%	-	-	-	-	-
Total	**-**	**-**	**-**	**11**	**11**
Other debentures available for sale					
20%	19	-	6	24	49
20%-40%	-	-	2	-	2
Over 40%	-	-	-	-	-
Total	**19**	**-**	**8**	**24**	**51**

See Note 2 to the financial statements for additional information.

Deposits from the public - these account for 80% of total consolidated balance sheet as of March 31, 2011, similar to their weight at the end of 2010. In the first quarter of 2011, deposits from the public with the Bank Group increased by NIS 3.0 billion – a 2.9% increase.

Composition 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 [1]
	2011	2010	2010	2010	2010
Israeli currency					
Non-linked	65,342	54,773	62,754	19.3%	4.1%
CPI- linked	22,276	21,454	22,342	3.8%	(0.3%)
Foreign currency and foreign currency linked	21,411	20,421	20,895	4.8%	2.5%
Total	**109,029**	**96,648**	**105,991**	**12.8%**	**2.9%**

(1) Excluding the impact of change in NIS exchange rate, a 2.9% increase in the foreign currency segment and a 2.9% increase in total deposits, compared to December 31, 2010.

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

				Change compared to	
	March 31		December 31	March 31	December 31
	2011	2010	2011	2010	2010
Retail banking:					
Household	48,095	45,674	46,864	5.3%	2.6%
Small business	6,655	6,104	6,413	9.0%	3.8%
Total	**54,750**	**51,778**	**53,277**	**5.7%**	**2.8%**
Private banking	5,269	5,430	4,946	(3.0%)	6.5%
Commercial banking	2,777	(1) 2,931	3,631	(5.3%)	(23.5%)
Business banking	26,855	17,292	24,072	55.3%	11.6%
Financial management	19,378	(1) 19,217	20,065	0.8%	(3.4%)
Total	**109,029**	**96,648**	**105,991**	**12.8%**	**2.9%**

(1) Reclassified

The ratio of shareholders' equity to balance sheet total for the Group as of March 31, 2011 amounted to 5.12%, compared to 5.41% as of the end of 2010.

Ratio of capital to risk elements

As per instructions of the Supervisor of Banks, every 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 these instructions specify the manner of calculation of total capital and total risk components. Starting on December 31, 2009, the ratio of capital to risk elements is calculated in accordance with Basel I rules.

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

	March 31, 2011	December 31, 2010
Ratio of Tier I capital to risk elements	7.70%	8.01%
Ratio of total capital to risk elements	13.61%	14.12%
Minimum capital ratio required by the directives of the Supervisor of Banks	9.00%	9.00%

The decrease in ratio of capital to risk elements is primarily due to impact of initial application of directives on measurement of impaired debt and provision for credit loss, which reduced equity as of January 1, 2011 by NIS 359 million.

Major Investees

The contribution of investees to operating net profit (excluding amortization of goodwill) in the first quarter of 2011 amounted to NIS 31 million, compared with NIS 9 million in the corresponding period last year.

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

Bank Yahav is a banking corporation operating in accordance with a "Bank" license as per provisions of the Banking Act (Licensing), 1981. On January 28, 2009, the replacement license for the Bank's previous license dated January 11, 2005, was received which allows the Bank to do business with government and public sector employees. In accordance with the new license, Bank Yahav may engage in new operations and may expand its client base in comparison with the situation prior to receiving the license, and subject to advance permission by the Supervisor of Banks.

Along with this license, Bank Yahav received approval from the Supervisor of Banks to provide services to individual clients (such as salaried employees, self employed and households) and to corporations, provided that credit granted to corporations shall not exceed the specified limit. Bank Yahav has completed preparations for operating in accordance with the new license, subject to policy of the Bank Board of Directors on this matter.

Bank Yahav's contribution to Group net income in the first quarter of 2011, excluding goodwill amortization, amounted to NIS 7.8 million, compared to NIS 3.7 million in the same period last year (NIS 1.4 million after goodwill amortization). Bank Yahav's net profit return on equity in the first quarter of 2011 was 9.2% on an annualized basis, compared to 4.1% in the corresponding period last year. Bank Yahav's balance sheet total as of March 31, 2011 amounted to NIS 15,056 million, compared to NIS 14,797 million as of December 31, 2010. The balance of loans to the public, net as of March 31, 2011 amounted to NIS 5,439 million, compared to NIS 5,432 million at the end of 2010. The balance of deposits from the public as of March 31, 2011 amounted to NIS 12,844 million, compared to NIS 12,572 million at the end of 2010.

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 clients obtaining mortgages from the Bank.

Tefahot Insurance's contribution to Group net profit in the first quarter of 2011 amounted to NIS 17 million, compared to NIS 12 million in the corresponding period last year.

Net profit return on equity in the first quarter of 2011 was 15.5% on annualized basis, compared to 12.5% in the corresponding 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 2011 amounted to CHF 0.6 million, similar to the corresponding period last year.

Mizrahi Bank Switzerland's balance sheet total as of March 31, 2011 amounted to CHF 182 million, compared to CHF 195 million at the end of 2010.

The balance of loans to the public as of March 31, 2011 amounted to CHF 59 million, similar to the end of 2010. The deposits with banks as of March 31, 2011 amounted to CHF 107 million, compared to CHF 118 million at end of 2010. The deposits from the public as of March 31, 2011 amounted to CHF 101 million, compared to CHF 122 million at end of 2010. The deposits from banks as of March 31, 2011 amounted to CHF 25 million, compared to CHF 16 million at end of 2010.

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

The contribution of Mizrahi International Holdings Ltd. (B.V. Holland) to Group net profit in the first quarter of 2011, which includes the contribution of Mizrahi Bank Switzerland to net profit, amounted to a profit of NIS 1.2 million, compared with a loss of NIS 9.0 million in the corresponding period last year. These data include impact of changes in exchange rates on the investment balance, covered by the Bank's own sources. Therefore, the impact of exchange rates on the consolidated financial statements is not meaningful.

Excluding the impact of changes in exchange rates, the company's contribution to group net profit in the first quarter of the year amounted to a NIS 1.7 million profit, compared to a NIS 1.8 million profit in the corresponding period last year.

Investment in non-banking corporations

The Bank manages nostro investments in non-banking corporations. About 3.42% of these investments are negotiable and are stated 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, 2011 amounted to NIS 62 million, compared to NIS 59 million at end of 2010. In the first quarter of 2011, the Bank had no net gain from dividends and capital gains from non-banking corporations, after provision for impairment - compared to a net loss of NIS 1 million 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 client 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 described below. The operations in the six operating segments include all areas of banking operations including classic banking activity (loans and deposits), securities activity for clients 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 clients and mortgage operations. The division provides appropriate banking services and financial products to segment clients, including in the field of mortgages.

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

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

Commercial banking – clients 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 clients 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 clients 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 clients. Criteria by which clients 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 clients 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 clients, including management of checking accounts, 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 clients 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 clients.
- **Credit cards –** A set of financial products and banking services given in conjunction with credit cards issued to Bank clients 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, clients 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 client assignment to various departments and then to operating segments, and on attribution of results and balances to clients and segments in the profitability measurement system.

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, 2010.

Note 11 to the financial statements includes a reporting of Bank Group business results by operating segment.

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

	Net profit for the first three months		Share of total net profit (in percent) for the first three months		Return on equity (in percent) for the first three months	
	2011	2010	2011	2010	2011	2010
Household						
Mortgages	81	74	34	43	14.8	15.3
Other	38	11	16	6	18.8	5.1
Private banking	10	10	4	6	94.3	75.2
Small business	18	23	7	13	20.6	28.2
Commercial banking	17	10	7	6	18.3	10.8
Business banking	66	23	27	14	10.7	3.6
Financial management	11	21	5	12	10.6	26.9
Total	**241**	**172**	**100**	**100**	**14.5**	**10.8**

Below are Bank Group operating results by operating segment

Results of Household Segment

	For the three months ended March 31, 2011					For the three months ended March 31, 2010				
	Banking and finance	Credit cards	Capital market	Mortgages	Total	Banking and finance	Credit cards	Capital market	Mortgages	Total
										NIS in millions
Profit from financing operations before expenses with respect to credit loss:										
From outside operating segments	51	6	3	782	842	118	5	2	155	280
Inter-segment	193	(4)	-	(653)	(464)	74	(3)	-	(44)	27
Total profit from financing operations before expenses with respect to credit loss	**244**	**2**	**3**	**129**	**378**	**192**	**2**	**2**	**111**	**307**
Operating and other revenues	58	31	64	65	218	54	28	60	60	202
Total profit	**302**	**33**	**67**	**194**	**596**	**246**	**30**	**62**	**171**	**509**
Expenses with respect to credit loss	9	-	-	10	19	17	-	-	(13)	4
Operating and other expenses										
From outside operating segments	327	7	14	60	408	303	7	15	64	389
Inter-segment	(28)	(1)	-	-	(29)	(28)	(1)	-	-	(29)
Total operating and other expenses	**299**	**6**	**14**	**60**	**379**	**275**	**6**	**15**	**64**	**360**
Operating profit (loss) before taxes	(6)	27	53	124	198	(46)	24	47	120	145
Provision for taxes on operating profit (loss)	(2)	11	19	43	71	(18)	10	18	46	56
After-tax operating profit (loss)	**(4)**	**16**	**34**	**81**	**127**	**(28)**	**14**	**29**	**74**	**89**
Net profit (loss):										
Before attribution to non-controlling interest	(4)	16	34	81	127	(28)	14	29	74	89
Attributable to non-controlling interest	(8)	-	-	-	(8)	(4)	-	-	-	(4)
Attributable to equity holders of the banking corporation	**(12)**	**16**	**34**	**81**	**119**	**(32)**	**14**	**29**	**74**	**85**
Return on capital (net profit as % of average capital)					**15.8%**					**12.2%**
Average balance of assets	13,642	2,366	-	58,668	74,676	13,216	2,438	-	49,508	65,162
Average balance of liabilities	42,941	2,366	-	220	45,527	(1) 44,274	(1) 2,438	-	92	46,804
Average balance of risk assets - Basel 2	13,777	-	-	30,035	43,812	13,493	-	-	25,334	38,827
Average balance of securities	-	-	28,655	-	28,655	-	-	26,210	-	26,210
Loans to the public, net (end balance)	13,137	2,485	-	60,629	76,251	(1) 12,608	2,718	-	(1) 50,816	66,142
Deposits from the public (end balance)	48,095	-	-	-	48,095	45,674	-	-	-	45,674
Average balance of other assets managed	8,834	-	-	13,359	22,193	7,989	-	-	14,858	22,847
Components of profit from financing operations before expenses with respect to credit loss:										
Margin from credit granting operations	109	2	-	123	234	79	2	-	104	185
Margin from receiving deposits	123	-	-	-	123	88	-	-	-	88
Other	12	-	3	6	21	25	-	2	7	34
Total	**244**	**2**	**3**	**129**	**378**	**192**	**2**	**2**	**111**	**307**

(1) Reclassified.

Contribution of the household segment to Group profit in the first quarter of 2011 amounted to NIS 119 million, compared to NIS 85 million in the corresponding period last year - an increase of 40.0%.

Contribution of mortgages in the first quarter of 2011 amounted to NIS 81 million, compared to NIS 74 million in the corresponding period last year - an increase of 9.5%. The increase is due to a 16.2% increase in profit from financing operations before expenses with respect to credit loss, primarily due to an increase in business volume, which come to fruition in an increase of 18.5% in the average balance of assets, and to an increase of 8.3% in operating and other income.

Conversely, expenses with respect to credit loss by extent of arrears attributed to these operations increased. Total expenses with respect to credit loss attributed to mortgages in the first quarter amounted to NIS 10 million, compared to revenues of NIS 13 million in the corresponding period last year.

Contribution of the household segment (except for mortgages) in the first quarter of 2011 amounted to NIS 38 million, compared to NIS 11 million in the corresponding period last year - an increase of NIS 27 million. The increase in contribution of the household segment is primarily due to an increase of 27.0% in profit from financing operations before expenses with respect to credit loss, due to an increase in business volume and improved financial margin, to an increase of 7.7% in operating and other income, and to a decrease of NIS 8 million in expenses with respect to credit loss. On the other hand, operating expenses grew by 7.8%.

Volume of mortgages granted by the segment is as follows:

	Loans granted (NIS in millions)		
	For the three months ended March 31		
	2011	2010	Rate of change
Mortgages issued (for housing and any purpose)			
From the Bank's funds	4,326	3,672	17.8%
From the Treasury's funds			
Directed loans	19	55	(65.5%)
Standing loans and grants	32	51	(37.3%)
Total new loans	**4,377**	**3,778**	**15.9%**
Recycled loans	380	277	37.2%
Total loans issued	**4,757**	**4,055**	**17.3%**
Number of borrowers (includes recycled loans)	12,650	12,371	2.3%

Results of Private Banking Segment

	For the three months ended March 31, 2011			For the three months ended March 31, 2010		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Profit from financing operations before expenses with respect to credit loss:						
From outside operating segments	(5)	-	(5)	8	-	8
Inter-segment	21	-	21	8	-	8
Total profit from financing operations before expenses with respect to credit loss	**16**	**-**	**16**	**16**	**-**	**16**
Operating and other revenues	6	8	14	6	9	15
Total profit	**22**	**8**	**30**	**22**	**9**	**31**
Expenses with respect to credit loss	(3)	-	(3)	-	-	-
Operating and other expenses						
From outside operating segments	18	-	18	14	-	14
Inter-segment	-	-	-	-	1	1
Total operating and other expenses	**18**	**-**	**18**	**14**	**1**	**15**
Pre-tax operating profit	7	8	15	8	8	16
Provision for taxes on operating profit	2	3	5	3	3	6
Net profit attributable to equity holders of the banking corporation	**5**	**5**	**10**	**5**	**5**	**10**
Return on capital (net profit as % of average capital)			**94.3%**			**75.2%**
Average balance of assets	1,996	-	1,996	1,728	-	1,728
Average balance of liabilities	5,582	-	5,582	5,943	-	5,943
Average balance of risk assets pursuant to Basel 2	719	-	719	824	-	824
Average balance of securities	-	7,364	7,364	-	7,057	7,057
Loans to the public, net (end balance)	854	-	854	(1) 878	-	878
Deposits from the public (end balance)	5,269	-	5,269	5,430	-	5,430
Average balance of other assets managed	-	-	-	-	-	-
Components of profit from financing operations before expenses with respect to credit loss:						
Margin from credit granting operations	6	-	6	6	-	6
Margin from receiving deposits	10	-	10	9	-	9
Other	-	-	-	1	-	1
Total	**16**	**-**	**16**	**16**	**-**	**16**

(1) Reclassified.

Contribution of the private banking segment to Group profit in the first quarter of 2011 amounted to NIS 10 million, similar to the corresponding period last year. Profit from financing operations before expenses with respect to credit loss remained unchanged over the year-ago period. Operating expenses increased by NIS 3 million, and operating income decreased by NIS 1 million.

Results of the Small Business Segment

	For the three months ended March 31, 2011				For the three months ended March 31, 2010			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
								NIS in millions
Profit from financing operations before expenses with respect to credit loss:								
From outside operating segments	97	-	1	98	93	-	1	94
Inter-segment	-	-	-	-	(12)	-	-	(12)
Total profit from financing operations before expenses with respect to credit loss	**97**	**-**	**1**	**98**	**81**	**-**	**1**	**82**
Operating and other revenues	47	3	6	56	43	3	6	52
Total profit	**144**	**3**	**7**	**154**	**124**	**3**	**7**	**134**
Expenses with respect to credit loss	26	-	-	26	6	-	-	6
Operating and other expenses								
From outside operating segments	110	1	1	112	102	1	1	104
Inter-segment	(13)	-	-	(13)	(12)	-	-	(12)
Total operating and other expenses	**97**	**1**	**1**	**99**	**90**	**1**	**1**	**92**
Pre-tax operating profit	21	2	6	29	28	2	6	36
Provision for taxes on operating profit	8	1	2	11	10	1	2	13
Net profit attributable to equity holders of the banking corporation	**13**	**1**	**4**	**18**	**18**	**1**	**4**	**23**
Return on capital (net profit as % of average capital)				**20.6%**				**28.2%**
Average balance of assets	5,607	192	-	5,799	5,093	41	-	5,134
Average balance of liabilities	6,582	-	-	6,582	5,189	-	-	5,189
Average balance of risk assets pursuant to Basel 2	4,876	-	-	4,876	4,460	-	-	4,460
Average balance of securities	-	-	8,758	8,758	-	-	7,677	7,677
Loans to the public, net (end balance)	5,710	317	-	6,027	5,053	43	-	5,096
Deposits from the public (end balance)	6,655	-	-	6,655	6,104	-	-	6,104
Average balance of other assets managed	129	-	-	129	331	-	-	331
Components of profit from financing operations before expenses with respect to credit loss:								
Margin from credit granting operations	74	-	-	74	57	-	-	57
Margin from receiving deposits	19	-	-	19	12	-	-	12
Other	4	-	1	5	12	-	1	13
Total	**97**	**-**	**1**	**98**	**81**	**-**	**1**	**82**

Contribution of the small business segment to Group profit in the first quarter of 2011 amounted to NIS 18 million, compared to NIS 23 million in the corresponding period last year - a decrease of 21.7%. The decrease in segment contribution is primarily due to a NIS 20 million increase in expenses with respect to credit loss, and to a NIS 7 million increase in operating and other expenses. Conversely, profit from financing operations before expenses with respect to credit loss increased by NIS 16 million-or 19.5%, primarily due to an increase in business volume and improved financial margin, operating and other income increased by NIS 4 Million - or 7.7%.

Results of the Commercial Banking Segment

	For the three months ended March 31, 2011				For the three months ended March 31, 2010			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
	NIS in millions							
Profit from financing operations before expenses with respect to credit loss:								
From outside operating segments	72	-	-	72	38	-	-	38
Inter-segment	(26)	-	-	(26)	(2)	-	-	(2)
Total profit from financing operations before expenses with respect to credit loss	**46**	**-**	**-**	**46**	**36**	**-**	**-**	**36**
Operating and other revenues	11	1	3	15	10	1	3	14
Total profit	**57**	**1**	**3**	**61**	**46**	**1**	**3**	**50**
Expenses with respect to credit loss	1	-	-	1	(1)	-	-	(1)
Operating and other expenses								
From outside operating segments	17	-	-	17	17	-	-	17
Inter-segment	18	-	-	18	18	-	-	18
Total operating and other expenses	**35**	**-**	**-**	**35**	**35**	**-**	**-**	**35**
Pre-tax operating profit	21	1	3	25	12	1	3	16
Provision for taxes on operating profit	7	-	1	8	5	-	1	6
Net profit attributable to equity holders of the banking corporation	**14**	**1**	**2**	**17**	**7**	**1**	**2**	**10**
Return on capital (net profit as % of average capital)			**18.3%**				**10.8%**	
Average balance of assets	4,636	39	-	4,675	4,380	2	-	4,382
Average balance of liabilities	3,082	-	-	3,082	(1) 2,916	-	-	2,916
Average balance of risk assets pursuant to Basel 2	5,135	-	-	5,135	4,788	-	-	4,788
Average balance of securities	-	-	3,972	3,972	-	-	4,289	4,289
Loans to the public, net (end balance)	4,653	2	-	4,655	4,514	2	-	4,516
Deposits from the public (end balance)	2,777	-	-	2,777	(1) 2,931	-	-	2,931
Average balance of other assets managed	34	-	-	34	35	-	-	35
Components of profit from financing operations before expenses with respect to credit loss:								
Margin from credit granting operations	34	-	-	34	28	-	-	28
Margin from receiving deposits	4	-	-	4	4	-	-	4
Other	8	-	-	8	4	-	-	4
Total	**46**	**-**	**-**	**46**	**36**	**-**	**-**	**36**

(1) Reclassified

Contribution of the commercial banking segment to Group profit in the first quarter of 2011 amounted to NIS 17 million, compared to NIS 10 million in the corresponding period last year, an increase of 70.0%. The increase in segment contribution is primarily due to a 27.8% increase in profit from financing operations before expenses with respect to credit loss, primarily due to higher volumes and margins while operating and other expenses remained unchanged over the year-ago period. Operating income increased by NIS 1 million. Expenses with respect to credit loss decreased by NIS 2 million,

Results of the Business Banking Segment

	For the three months ended March 31, 2011				For the three months ended March 31, 2010			
	Banking and finance (1)	Capital market	Construction and real estate	Total	Banking and finance (1)	Capital market	Construction and real estate	Total
								NIS in millions
Profit from financing operations before expenses with respect to credit loss:								
From outside operating segments	19	3	72	94	91	2	54	147
Inter-segment	75	-	(17)	58	(2)	-	(12)	(14)
Total profit from financing operations before expenses with respect to credit loss	**94**	**3**	**55**	**152**	**89**	**2**	**42**	**133**
Operating and other revenues	16	7	3	26	13	6	2	21
Total profit	**110**	**10**	**58**	**178**	**102**	**8**	**44**	**154**
Expenses with respect to credit loss	3	-	(4)	(1)	38	-	10	48
Operating and other expenses								
From outside operating segments	47	-	9	56	41	-	9	50
Inter-segment	17	-	3	20	16	-	3	19
Total operating and other expenses	**64**	**-**	**12**	**76**	**57**	**-**	**12**	**69**
Pre-tax operating profit	43	10	50	103	7	8	22	37
Provision for taxes on operating profit	15	4	18	37	3	3	8	14
Net profit (loss) attributable to equity holders of the banking corporation	**28**	**6**	**32**	**66**	**4**	**5**	**14**	**23**
Return on capital (net profit as % of average capital)				**10.7%**				**3.6%**
Average balance of assets	19,978	-	5,728	25,706	17,298	-	6,052	23,350
Average balance of liabilities	25,081	-	2,422	27,503	15,475	-	2,109	17,584
Average balance of risk assets pursuant to Basel 2	19,825	-	13,475	33,300	20,059	-	11,804	31,863
Average balance of securities	-	73,289	-	73,289	-	64,140	-	64,140
Loans to the public, net (end balance)	16,142	-	5,462	21,604	14,408	-	5,989	20,397
Deposits from the public (end balance)	24,887	-	1,968	26,855	15,300	-	1,992	17,292
Average balance of other assets managed	1	-	129	130	23	-	92	115
Components of profit from financing operations before expenses with respect to credit loss:								
Margin from credit granting operations	63	-	33	96	(2) 65	-	(2) 28	93
Margin from receiving deposits	14	-	4	18	(2) 13	-	(2) 2	15
Other	17	3	18	38	(2) 11	2	(2) 12	25
Total	**94**	**3**	**55**	**152**	**89**	**2**	**42**	**133**

(1) Includes operating results with respect to credit cards, whose amount is not material.
(2) Reclassified.

Contribution of the business banking segment to Group profit in the first quarter of 2011 amounted to NIS 66 million, compared to NIS 23 million in the corresponding period last year, an increase of NIS 43 million. The increase is primarily due to a NIS 19 million increase in profit from financing operations before expenses with respect to credit loss - or 14.3%, and to a NIS 49 million decrease in expenses with respect to credit loss: Expenses of NIS 48 million in the first quarter of 2010, compared to negative expenses of NIS 1 million in the first qurter of 2011.

Contribution of construction and real estate increased by NIS 18 million compared to the corresponding period last year. This is primarily due to a NIS 13 million increase in profit from financing expenses before expenses with respect to credit loss, and to a NIS 14 million decrease in expenses with respect to credit loss: Expenses of NIS 10 million in the first quarter of 2010, compared to negative expenses of NIS 4 million in the first quarter of 2011.

Contribution of banking and finance increased by NIS 24 million, primarily due to a NIS 35 million decrease in expenses with respect to credit loss, a NIS 5 million increase in profit from financing operations before expenses with respect to credit loss, and a NIS 3 million increase in operating and other income. Conversely, operating expenses increased by NIS 7 million.

Financial Management Segment results

	For the three months ended March 31, 2011			For the three months ended March 31, 2010		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Profit from financing operations before expenses with respect to credit loss:						
From outside operating segments	(350)	1	(349)	62	1	63
Inter-segment	411	-	411	(8)	1	(7)
Total profit from financing operations before expenses with respect to credit loss	**61**	**1**	**62**	**54**	**2**	**56**
Operating and other revenues	17	12	29	23	13	36
Total profit	**78**	**13**	**91**	**77**	**15**	**92**
Expenses with respect to credit loss	12	-	12	-	-	-
Operating and other expenses						
From outside operating segments	56	2	58	54	2	56
Inter-segment	4	-	4	3	-	3
Total operating and other expenses	**60**	**2**	**62**	**57**	**2**	**59**
Operating profit (loss) before taxes	6	11	17	20	13	33
Provision for taxes on operating profit (loss)	2	4	6	8	5	13
After-tax operating profit (loss)	**4**	**7**	**11**	**12**	**8**	**20**
Share in net after-tax operating profit of affiliates	1	-	1	-	-	-
Net operating profit (loss):						
Before attribution to non-controlling interest	5	7	12	12	8	20
Attributable to non-controlling interest	-	-	-	-	-	-
Attributable to equity holders of the banking corporation	**5**	**7**	**12**	**12**	**8**	**20**
After-tax operating profit (loss), before attribution to non-controlling interest	(1)	-	(1)	1	-	1
Net profit (loss):						
Before attribution to non-controlling interest	4	7	11	13	8	21
Attributable to non-controlling interest	-	-	-	-	-	-
Attributable to equity holders of the banking corporation	**4**	**7**	**11**	**13**	**8**	**21**
Return on capital (net profit as % of average capital)			**10.9%**			**26.9%**
Average balance of assets	22,116	-	22,116	19,340	-	19,340
Includes: Investments in affiliates	16	-	16	13	-	13
Average balance of liabilities	39,310	-	39,310	(1) 33,623	-	33,623
Average balance of risk assets pursuant to Basel 2	4,325	-	4,325	4,178	-	4,178
Average balance of provident and mutual fund assets	82,406	-	82,406	74,068	-	74,068
Average balance of securities	-	39,813	39,813	-	30,132	30,132
Loans to the public, net (end balance)	-	-	-	-	-	-
Deposits from the public (end balance)	19,378	-	19,378	(1) 19,217	-	19,217
Components of profit from financing operations before expenses with respect to credit loss:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	61	1	62	54	2	56
Total	**61**	**1**	**62**	**54**	**2**	**56**

(1) Reclassified.

Contribution of the financial management segment to Group profit in the first quarter of 2011 amounted to NIS 11 million, compared to NIS 21 million in the corresponding period last year, a decrease of 47.6%. The main cause for the decrease are expenses with respect to credit loss amounted to NIS 12 million in the first quarter of 2011. Profit from financing operations before expenses with respect to credit loss increased by NIS 6 million compared to the corresponding period last year-or 10.7%, and operating and other expenses increased by NIS 3 million - or 5.1%.

Product operations

The following is the composition of the contribution of credit card operations by major operating segments in the Bank Group (NIS in millions):

	For the three months ended March 31, 2011			
	Household	Small business	Commercial banking	Total consolidated
Profit from financing operations before expenses with respect to credit loss	2	-	-	2
Operating and other revenues	31	3	1	35
Total revenues	**33**	**3**	**1**	**37**
Operating and other expenses	6	1	-	7
Pre-tax operating profit	**27**	**2**	**1**	**30**
Provision for taxes on operating profit	11	1	-	12
Net profit	**16**	**1**	**1**	**18**

	For the three months ended March 31, 2010			
	Household	Small business	Commercial banking	Total consolidated
Profit from financing operations before expenses with respect to credit loss	2	-	-	2
Operating and other revenues	28	3	1	32
Total revenues	**30**	**3**	**1**	**34**
Operating and other expenses	6	1	-	7
Pre-tax operating profit	**24**	**2**	**1**	**27**
Provision for taxes on operating profit	10	1	-	11
Net profit	**14**	**1**	**1**	**16**

The following is the composition of the contribution of capital market operations by major operating segments in the Bank Group (NIS in millions):

	For the three months ended March 31, 2011						
	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Profit from financing operations before expenses with respect to credit loss	3	-	1	-	3	1	8
Operating and other revenues	64	8	6	3	7	12	100
Total revenues	**67**	**8**	**7**	**3**	**10**	**13**	**108**
Operating and other expenses	14	-	1	-	-	2	17
Pre-tax operating profit	**53**	**8**	**6**	**3**	**10**	**11**	**91**
Provision for taxes on operating profit	19	3	2	1	4	4	33
Net profit	**34**	**5**	**4**	**2**	**6**	**7**	**58**

	For the three months ended March 31, 2010						
	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Profit from financing operations before expenses with respect to credit loss	2	-	1	-	2	2	7
Operating and other revenues	60	9	6	3	6	13	97
Total revenues	**62**	**9**	**7**	**3**	**8**	**15**	**104**
Operating and other expenses	15	1	1	-	-	2	19
Pre-tax operating profit	**47**	**8**	**6**	**3**	**8**	**13**	**85**
Provision for taxes on operating profit	18	3	2	1	3	5	32
Net profit	**29**	**5**	**4**	**2**	**5**	**8**	**53**

International operations

The international operations segment of the Bank Group includes 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 clients who have activities outside of Israel, foreign trade finance, local credit and participation in syndicated loans. The Bank has affiliates in several countries, as specified 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 Planning, Operations and Control 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.

Bank's overseas branches – Overseas branches offer their clients 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 primarily engaged in commercial banking, syndicated loans and receiving deposits. Deposits with this branch are insured by the Federal Deposit Insurance Corporation(FDIC). The branch's clients are local, Israeli and international clients.
- **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 clients are local, Israeli and international clients.
- **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 clients. These branches provide full banking services to their clients, primarily private banking. The branches are under Israeli supervision and report to the 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, Panama and Germany.

For details of local supervision of Bank affiliates overseas, see the chapter on the international operations segment in the Board of Directors' Report included with the financial statements as of December 31, 2010.

Below are details of the contribution of the international operations to the various operating segments of the Bank Group (NIS in millions):

	For the three months ended March 31, 2011				
	Household	Private banking	Business banking	Financial management	Total
Profit from financing operations before expenses with respect to credit loss	1	14	10	9	34
Operating and other revenues	-	11	1	1	13
Total revenues	**1**	**25**	**11**	**10**	**47**
Expenses with respect to credit loss	-	(3)	-	-	(3)
Operating and other expenses	1	14	10	2	27
Pre-tax operating profit	**-**	**14**	**1**	**8**	**23**
Provision for taxes on operating profit	-	5	-	3	8
Net profit (loss)	**-**	**9**	**1**	**5**	**15**

	For the three months ended March 31, 2010				
	Household	Private banking	Business banking	Financial management	Total
Profit (loss) from financing operations before expenses with respect to credit loss	3	14	14	(3)	28
Operating and other revenues	1	11	1	3	16
Total revenues	**4**	**25**	**15**	**-**	**44**
Expenses with respect to credit loss	-	-	4	-	4
Operating and other expenses	2	14	10	3	29
Operating profit (loss) before taxes	**2**	**11**	**1**	**(3)**	**11**
Provision for taxes on operating profit (loss)	1	4	1	(1)	5
Net profit (loss)	**1**	**7**	**-**	**(2)**	**6**

Off balance sheet activity

Provident funds – the Group provides operating services to provident funds. The value of assets in funds to which the Group provides operating services, amounted as of March 31, 2011 to NIS 60.0 billion, compared to NIS 59.9 billion as of December 31, 2010.

Client activity in securities – The value of the securities portfolios in the custody of the Bank, held by clients, reached NIS 150.2 billion as of March 31, 2011, compared with NIS 152.3 billion at the end of 2010. Revenues from securities transactions for the Group amounted to NIS 77 million in the first quarter of 2011, compared with NIS 75 million in the corresponding period last year - an increase of 2.7%.

Operations based on extent of collection – the Group has credit and deposits from deposits whose repayment to the depositor is contingent on collection of credit (or deposits) for which the Bank receives margin- or collection-fee based revenue. The balance of credit from deposits based on extent of collection as of March 31, 2011 amounted to NIS 14.2 billion, compared to NIS 15.3 billion at end of 2010. These amounts exclude standing loans and government deposits extended for them.

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 its developments.

Total deposits from the public for the Group as of March 31, 2011 amounted to NIS 109.0 billion, compared to NIS 106.0 billion at end of 2010. Deposits from the public in the CPI-linked segment decreased in the first quarter of 2011 by 0.3%; deposits from the public in the foreign currency and foreign-currency-linked segment increased by 2.5%; and deposits from the public in the NIS-denominated, non-CPI-linked segment increased by 4.1%. For details, see the chapter on development of balance sheet items above.

Obligatory notes

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 subordinated notes to the public under published prospectuses.

As of the balance sheet date, all obligatory notes (Series 25-32), including subordinated notes, issued to the public by Bank Mizrahi-Tefahot, amounted to NIS 4,942 million in total par value (as of December 31, 2010 - NIS 4,487 million), of which NIS 2,131 million in subordinated notes.

On February 15, 2011, Tefahot Issuance issued debentures (Series 29 and Series 32), with total par value of NIS 455 million, for consideration of NIS 505 million, pursuant to a shelf prospectus dated February 25, 2009.

On February 24, 2011, Tefahot Issuance issued a shelf prospectus for issuance of up to 10 series of subordinated notes, 10 series of debentures, extension of subordinate notes (Series 31), extension of debentures (Series 29 and Series 32) as well as issuance of two series of commercial paper.

On April 13, 2011, subsequent to the balance sheet date, Tefahot Issuance issued NIS 903 million par value debentures (Series 33, CPI-linked and Series 34, NIS-denominated non-linked), pursuant to the shelf prospectus dated February 24, 2011. The total consideration raised, amounting to NIS 903 million, was deposited at the Bank under similar terms and conditions.

Complex capital instruments

In November 2006, the Bank raised, in a private placement to institutional investors, the sum of NIS 451 million (NIS 460 million par value) via issuance of subordinated notes (Series A), that will be deemed Upper Tier II capital for maintaining a minimum capital ratio. On May 21, 2007 the Bank published a prospectus under which the complex capital instruments were listed for trading in early June 2007. Starting in June 2007 and through publication of these financial statements, the Bank issued and listed for trading additional complex capital instruments amounting to NIS 1,242 million par value in exchange for NIS 1,193 million in proceeds.

All of the Bank's complex capital instruments (Series A) as of March 31, 2011, issued and listed for trading amounted to NIS 1,702 million par value, issued for consideration amounting to NIS 1,644 million.

The revalued balance of the complex capital instruments as of March 31, 2011 was NIS 1.8 billion, similar to the end of 2010.

Rating of Bank obligations

In accordance with the rating provided by Maalot Standard & Poor's (hereinafter: "Maalot"), the rating of Bank obligations, including deposits deposited with the Bank, is AA+, unchanged since the Bank was first rated in 2003.

The rating of subordinated notes issued by Mizrahi Tefahot Issuance is one rank below the issuer rating, i.e. rated AA.

The complex capital instruments, which constitute upper Tier II capital, are rated A+.

On February 4, 2010, Maalot confirmed the aforementioned rating of capital instruments issued by the Bank.

On April 18, 2011, Moody's rating agency announced it was lowering the rating of Bank deposits by one step, from A2 to A3, in conjunction with lowering ratings for the five major banks in Israel. Further, the outlook for the Bank was changed from Negative to "On review for possible downgrade".

Risk Management

Basel I: Pillar 3 - Market Discipline

Below is qualitative information and quantitative data related to all risk factors to which the Bank is exposed, which are managed in line with the policy set by the Board of Directors. The information ahs been compiled in accordance with disclosure requirements of Basel I recommendations, Pillar 3, as applied to banks by Public Reporting Directives, and in accordance with the directive on qualitative reporting with regard to exposure to and management of market risk.
As of the balance sheet date, there were no material changes in risk management at the Group and in qualitative information, as included in the Board of Directors' report as of December 31, 2010, other than as described below.

Below are references to information required pursuant to reporting directives of the Bank of Israel, included below and elsewhere in these financial statements:

Subject	Disclosure	Chapter in Board of Directors' Report / Note to financial statements
Application scope	Group entities, consolidation basis, limits on supervisory capital	Risk Management chapter
Capital structure	Details of capital components	Note 4 – Capital Adequacy
Capital adequacy	Quantitative disclosure	Risk Management chapter
	Capital adequacy ratios for the Group	Note 4 – Capital Adequacy
Credit risk	Quantitative disclosure	Risk Management chapter
	Credit risk exposure by economic sector	Management Discussion, Addendum C - Credit Risk by Economic Sector
	Credit risk exposure by contractual term to maturity	Risk Management chapter
	Credit risk exposure by major geographic regions	Management Discussion, Addendum D - Exposure to Foreign Countries
	Information about troubled debt	Note 3 – Provision for doubtful debts
	Provision for credit loss by economic sector	Management Discussion, Addendum C - Credit Risk by Economic Sector
	Credit loss with respect to housing loans	Risk Management chapter
Credit risk mitigation	Quantitative disclosure	Risk Management chapter
Counter-party credit risk	Quantitative disclosure	Risk Management chapter
Securitization	Quantitative disclosure	Risk Management chapter
Market risk, liquidity risk, interest risk in bank portfolio	Quantitative disclosure	Risk Management chapter
Operating risk	Qualitative disclosure	Risk Management chapter
Equity positions in bank portfolio	Quantitative disclosure	Risk Management chapter
Legal risk	Qualitative disclosure	Risk Management chapter
Risk factors	Qualitative and quantitative disclosure	Risk Management chapter

Application scope

Provisions of Proper Conduct of Banking Business Regulations nos. 201-211 "Measurement and Capital Adequacy" apply to the Bank Group and in particular to the Bank - Bank Mizrahi-Tefahot Ltd. - the parent company of the Group. Group companies to which the framework applies, in accordance with the supervisory consolidation basis, are the companies consolidated with the Bank's consolidated financial statements. For details of Bank Group companies, see Note 6 to the financial statements as of December 31, 2010. To the best knowledge of Bank management, and relying on legal counsel, there are no prohibitions or significant restrictions on transfer of funds or supervisory capital between Bank Group companies.

Capital adequacy

The Bank assesses its capital adequacy in accordance with Basel I rules, as stipulated by Proper Conduct of Banking Business Directive Nos. 201-211. Key rules and approaches applied by the Bank are described below, under Description of Basel I Guidelines in the chapter on Restrictions and Supervision of Bank Group Operations. The Bank applies the standard approach to assess exposure to credit risk, the basic indicator approach to assess exposure to operating risk, and the standard approach to assess exposure to market risk. The Supervisor of Banks has stipulated that within 3 years from the start date of applying the basic indicator approach to assessment of exposure to operating risk, banks must transition to using the standard approach. The Bank regularly monitors its capital adequacy ratio, in order to ensure compliance with requirements of the Supervisor of Banks and with limitations set by the Board of Directors, as well as to prepare in advance to respond to evolution of risk assets and capital requirements at the Bank. For this purpose, the Board of Directors has created an internal procedure which specifies the measurement frequency of capital adequacy, the required reporting and actions to be taken if the capital ratio drops below the minimum levels specified; a capital monitoring forum has been created, attended by the Manager, Finance Division - CFO (chair), Manager, Planning, Operations and control Division - CRO, and the Manager, Accounting and Financial Reporting Division - the Chief Accountant.

On February 14, 2011, the Supervisor of Banks issued a circular, whereby the requirements determined by Proper Conduct of Banking Business Directive No. 311 (Basel I) are discontinued as from January 1, 2011.

On October 25, 2010, the Bank Board of Directors resolved to set the target for core capital ratio (i.e. original Tier I capital adequacy ratio) at no less than 7.5%. Further, the Board of Directors resolved to direct Bank management to act so as to maintain appropriate safety margins, in order to ensure that the core capital ration shall be no less than the foregoing. The Bank Board of Directors further resolved that the overall capital adequacy ratio shall be no less than 12.5%.

Composition of risk assets and capital requirements with respect to credit risk by exposure group are as follows:

	As of March 31, 2011		As of March 31, 2010		As of December 31, 2010	
Exposure group	Weighted risk asset balances	Capital requirement (1)	Weighted risk asset balances	Capital requirement (1)	Weighted risk asset balances	Capital requirement (1)
Sovereign debt	404	36	623	56	539	49
Public sector entity debt	456	41	444	40	444	40
Banking corporation debt	1,759	158	1,535	138	1,479	133
Corporate debt	36,240	3,262	34,088	3,068	35,832	3,225
Debt secured by commercial real estate	1,803	162	1,894	170	1,920	173
Retail exposure to individuals	10,730	966	10,730	966	10,884	980
Loans to small businesses	2,115	190	1,954	176	2,097	189
Residential mortgages	28,705	2,583	24,525	2,207	27,813	2,503
Securitization	27	2	10	1	27	2
Other assets	2,548	229	2,181	196	2,233	201
Total	**84,787**	**7,629**	**77,984**	**7,018**	**83,268**	**7,495**

(1) Capital requirement calculated at 9% of risk asset balance, in accordance with interim directive on application of Basel I, Pillar 3.

Risk assets and capital requirements with respect to market risk and operating risk are as follows:

	As of March 31, 2011		As of March 31, 2010		As of December 31, 2010	
Exposure group	Weighted risk asset balances	Capital requirement (1)	Weighted risk asset balances	Capital requirement (1)	Weighted risk asset balances	Capital requirement (1)
Market risk	789	71	1,161	105	579	53
Operating Risk (2)	7,504	675	7,091	638	7,407	667
Total	**8,293**	**746**	**8,252**	**743**	**7,986**	**720**

(1) Capital requirement calculated at 9% of risk asset balance, in accordance with interim directive on application of Basel I, Pillar 3.
(2) Calculated based on the basic indicator approach.

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

	Ratio of capital to risk elements		
	As of March 31, 2011	As of March 31, 2010	As of December 31, 2010
Ratio of Tier I capital to risk elements	7.70%	8.00%	8.01%
Ratio of total capital to risk elements	13.61%	14.14%	14.12%
Total minimum capital ratio required by the Supervisor of Banks	9.00%	9.00%	9.00%

Risk exposure and its assessment

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 exposure to such risk.

Risk management at the Group is conducted regularly in accordance with Proper Conduct of Banking Business Regulation Nos. 339 and 342 of the Bank of Israel, and in accordance with the framework specified in Basel I, Pillar 2. To this end, the Group appointed Risk Managers and a CRO, who is in executive management, responsible for operations of the Risk Control Division. Bank management regards the Bank's risk control and management system as one of its core competencies, so that it is Bank policy to constantly strive to improve the risk control and management system,

Bank management believes that risk control and management must be an integrative process. 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 diversification of the risk. In addition to measuring the total risk value, the Bank measures and manages the mix of risk elements.

As part of this approach, the Bank manages risk using a system that enables management and control under a single platform of the market risk and interest risk of the Bank, and in the future, also the various credit risk components, including implementation of Basel I regulations for calculating regulatory capital.

Credit risk

Credit risk is the risk of the Bank incurring a loss due to the counter party to a transaction potentially failing to meet their commitments. This risk may arise from multiple factors which may impact the entire loan portfolio, a specific sector or an individual client. These risk factors include, inter alia, macro-economic changes, business risk arising from client operations, credit concentration risk etc.

Composition of credit exposure by contractual term to maturity, by major gross credit exposure type[(1)], is as follows:

	Up to 1 year	1-5 years	Over 5 years	Without maturity	Total
					As of March 31, 2011
Loans [(2)]	37,016	21,081	64,757	79	122,933
Securities [(3)]	1,534	3,443	300	-	5,277
Derivatives [(4)]	3,150	801	857	-	4,808
Other off-balance-sheet exposures	39,022	10,088	741	-	49,851
Other assets [(5)]	1,335	657	49	1,566	3,607
Total	**82,057**	**36,070**	**66,704**	**1,645**	**186,476**

	Up to 1 year	1-5 years	Over 5 years	Without maturity	Total
					As of March 31, 2010
Loans [(2)]	33,176	18,319	54,064	56	105,615
Securities [(3)]	3,509	4,637	1,123	-	9,269
Derivatives [(4)]	1,865	745	1,196	-	3,806
Other off-balance-sheet exposures	37,264	7,601	247	-	45,112
Other assets [(5)]	1,105	368	56	1,527	3,056
Total	**76,919**	**31,670**	**56,686**	**1,583**	**166,858**

	Up to 1 year	1-5 years	Over 5 years	Without maturity	Total
					As of December 31, 2010
Loans [(2)]	35,915	21,197	62,131	66	119,309
Securities [(3)]	2,412	3,869	745	-	7,026
Derivatives [(4)]	2,448	826	704	-	3,978
Other off-balance-sheet exposures	38,939	9,785	705	-	49,429
Other assets [(5)]	1,175	345	44	1,561	3,125
Total	**80,889**	**36,022**	**64,329**	**1,627**	**182,867**

(1) Balance of on- and off-balance sheet balances, after on- and off-balance-sheet offsets, after provision for doubtful debts, excluding impact of credit risk mitigation, credit conversion factors and risk weighting factors, as defined under Basel I rules.

(2) Includes credit to the public, credit to the Government, deposits with banks and borrowed securities, and excluding general provision for doubtful debts, which is part of the equity basis.

(3) Excludes balances deducted from the equity basis and investment in securities in the negotiable portfolio.

(4) Includes face value of derivatives (including credit derivatives), after effect of add-on factors and positive fair value of derivatives.

(5) Excludes derivatives and balances deducted from the equity basis, including cash, investment in shares, fixed assets and investment in investees.

Credit risk - standard approach

Below is the composition of credit exposure amounts [(1)] by exposure group and weighting, before and after credit risk mitigation[(2)]:

Before credit risk mitigation

											As of March 31, 2011
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	13,993	1,955	-	-	-	15	-	-	15,963	-	15,963
Public sector entity debt	-	-	-	1,476	-	-	-	-	1,476	-	1,476
Banking corporation debt	-	3,259	-	1,399	-	120	-	-	4,778	1	4,779
Corporate debt	-	71	-	155	-	636	168	-	1,030	-	1,030
Securitization	-	-	-	-	-	-	-	8	8	58	66
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	**13,993**	**5,285**	**-**	**3,030**	**-**	**771**	**168**	**8**	**23,255**	**96**	**23,351**
Non-rated exposures:											
Public sector entity debt	-	-	-	24	-	-	-	-	24	-	24
Banking corporation debt	-	38	-	365	-	-	-	-	403	-	403
Corporate debt	-	-	-	-	-	61,676	-	-	61,676	-	61,676
Debt secured by commercial real estate	-	-	-	-	-	2,012	-	-	2,012	-	2,012
Retail exposure to individuals	-	-	-	-	22,788	70	243	-	23,101	-	23,101
Loans to small businesses	-	-	-	-	4,826	22	16	-	4,864	-	4,864
Residential mortgages	-	-	52,989	-	12,579	1,875	73	-	67,516	-	67,516
Other assets	1,090	-	-	-	-	2,481	54	-	3,625	87	3,712
Total	**1,090**	**38**	**52,989**	**389**	**40,193**	**68,136**	**386**	**-**	**163,221**	**87**	**163,308**
Total	**15,083**	**5,323**	**52,989**	**3,419**	**40,193**	**68,907**	**554**	**8**	**186,476**	**183**	**186,659**

(1) Balance of on- and off-balance sheet balances, after on- and off-balance-sheet offsets, after provision for doubtful debts, excluding impact of credit conversion factors and risk weighting factors, as defined under Basel I rules.

(2) Mitigation using guarantees, credit derivatives and other qualified collateral.

After credit risk mitigation

											As of March 31, 2011
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	14,011	1,982	-	-	-	15	-	-	16,008	-	16,008
Public sector entity debt	76	-	-	1,470	-	-	-	-	1,546	-	1,546
Banking corporation debt	-	3,241	-	1,639	-	118	-	-	4,998	1	4,999
Corporate debt	-	71	-	155	-	57	151	-	434	-	434
Securitization	-	-	-	-	-	-	-	8	8	58	66
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	**14,087**	**5,294**	**-**	**3,264**	**-**	**190**	**151**	**8**	**22,994**	**96**	**23,090**
Non-rated exposures:											
Public sector entity debt	-	-	-	24	-	-	-	-	24	-	24
Banking corporation debt	-	34	-	372	-	-	-	-	406	-	406
Corporate debt	-	-	-	-	-	52,898	-	-	52,898	-	52,898
Debt secured by commercial real estate	-	-	-	-	-	1,826	-	-	1,826	-	1,826
Retail exposure to individuals	-	-	-	-	21,250	31	241	-	21,522	-	21,522
Loans to small businesses	-	-	-	-	3,575	16	14	-	3,605	-	3,605
Residential mortgages	-	-	52,988	-	12,543	1,874	73	-	67,478	-	67,478
Other assets	1,090	-	-	-	-	2,481	54	-	3,625	87	3,712
Total	**1,090**	**34**	**52,988**	**396**	**37,368**	**59,126**	**382**	**-**	**151,384**	**87**	**151,471**
Total exposure	**15,177**	**5,328**	**52,988**	**3,660**	**37,368**	**59,316**	**533**	**8**	**174,378**	**183**	**174,561**

Before credit risk mitigation

											As of March 31, 2010
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	11,804	3,031	-	28	-	-	-	-	14,863	-	14,863
Banking corporation debt	-	2,423	-	1,244	-	37	37	-	3,741	2	3,743
Corporate debt	-	83	-	175	-	43	410	-	711	-	711
Securitization	-	-	-	-	-	-	-	2	2	59	61
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	**11,804**	**5,537**	**-**	**1,447**	**-**	**80**	**447**	**2**	**19,317**	**98**	**19,415**
Non-rated exposures:											
Sovereign debt	-	-	-	-	-	3	-	-	3	-	3
Public sector entity debt	-	-	-	1,655	-	-	-	-	1,655	-	1,655
Banking corporation debt	-	511	-	459	-	-	-	-	970	-	970
Corporate debt	-	-	-	-	-	55,307	-	-	55,307	-	55,307
Debt secured by commercial real estate	-	-	-	-	-	2,058	-	-	2,058	-	2,058
Retail exposure to individuals	-	-	-	-	22,187	172	430	-	22,789	-	22,789
Loans to small businesses	-	-	-	-	4,337	21	86	-	4,444	-	4,444
Residential mortgages	-	-	44,185	-	11,881	1,120	59	-	57,245	-	57,245
Other assets	917	-	-	-	-	2,097	56	-	3,070	98	3,168
Total	**917**	**511**	**44,185**	**2,114**	**38,405**	**60,778**	**631**	**-**	**147,541**	**98**	**147,639**
Total	**12,721**	**6,048**	**44,185**	**3,561**	**38,405**	**60,858**	**1,078**	**2**	**166,858**	**196**	**167,054**

(1) Balance of on- and off-balance sheet balances, after on- and off-balance-sheet offsets, after provision for doubtful debts, excluding impact of credit conversion factors and risk weighting factors, as defined under Basel I rules.

(2) Mitigation using guarantees, credit derivatives and other qualified collateral.

After credit risk mitigation

											As of March 31, 2010
	0%	20%	35%	50%	75%	100%	150%	350%	Net credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	11,803	3,040	-	28	-	-	-	-	14,871	-	14,871
Banking corporation debt	-	2,423	-	1,244	-	37	37	-	3,741	2	3,743
Corporate debt	-	83	-	175	-	43	392	-	693	-	693
Securitization	-	-	-	-	-	-	-	2	2	59	61
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	11,803	5,546	-	1,447	-	80	429	2	19,307	98	19,405
Non-rated exposures:											
Sovereign debt	-	-	-	-	-	3	-	-	3	-	3
Public sector entity debt	-	-	-	1,651	-	-	-	-	1,651	-	1,651
Banking corporation debt	-	526	-	531	-	-	-	-	1,057	-	1,057
Corporate debt	-	-	-	-	-	48,925	-	-	48,925	-	48,925
Debt secured by commercial real estate	-	-	-	-	-	1,894	-	-	1,894	-	1,894
Retail exposure to individuals	-	-	-	-	20,935	139	416	-	21,490	-	21,490
Loans to small businesses	-	-	-	-	3,095	12	56	-	3,163	-	3,163
Residential mortgages	-	-	44,178	-	11,857	1,119	59	-	57,213	-	57,213
Other assets	917	-	-	-	-	2,097	56	-	3,070	98	3,168
Total	**917**	**526**	**44,178**	**2,182**	**35,887**	**54,189**	**587**	**-**	**138,466**	**98**	**138,564**
Total exposure	**12,720**	**6,072**	**44,178**	**3,629**	**35,887**	**54,269**	**1,016**	**2**	**157,773**	**196**	**157,969**

Before credit risk mitigation

											As of December 31, 2010
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	14,158	2,640	-	-	-	14	-	-	16,812	-	16,812
Public sector entity debt	-	-	-	1,362	-	-	-	-	1,362	-	1,362
Banking corporation debt	23	2,601	-	383	-	149	-	-	3,156	1	3,157
Corporate debt	-	68	-	165	-	533	249	-	1,015	-	1,015
Securitization	-	-	-	-	-	-	-	8	8	52	60
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	**14,181**	**5,309**	**-**	**1,910**	**-**	**696**	**249**	**8**	**22,353**	**90**	**22,443**
Non-rated exposures:											
Public sector entity debt	-	-	-	24	-	-	-	-	24	-	24
Banking corporation debt	-	176	-	1,041	-	-	-	-	1,217	-	1,217
Corporate debt	-	-	-	-	-	60,624	-	-	60,624	-	60,624
Debt secured by commercial real estate	-	-	-	-	-	2,138	-	-	2,138	-	2,138
Retail exposure to individuals	-	-	-	-	22,458	138	386	-	22,982	-	22,982
Loans to small businesses	-	-	-	-	4,644	20	76	-	4,740	-	4,740
Residential mortgages	-	-	50,832	-	13,288	1,348	175	-	65,643	-	65,643
Other assets	923	-	-	-	-	2,172	51	-	3,146	87	3,233
Total	**923**	**176**	**50,832**	**1,065**	**40,390**	**66,440**	**688**	**-**	**160,514**	**87**	**160,601**
Total	**15,104**	**5,485**	**50,832**	**2,975**	**40,390**	**67,136**	**937**	**8**	**182,867**	**177**	**183,044**

(1) Balance of on- and off-balance sheet balances, after on- and off-balance-sheet offsets, after provision for doubtful debts, excluding impact of credit conversion factors and risk weighting factors, as defined under Basel I rules.

(2) Mitigation using guarantees, credit derivatives and other qualified collateral.

After credit risk mitigation

											As of December 31, 2010
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	14,158	2,660	-	-	-	14	-	-	16,832	-	16,832
Public sector entity debt	87	-	-	1,355	-	-	-	-	1,442	-	1,442
Banking corporation debt	23	2,600	-	660	-	143	-	-	3,426	1	3,427
Corporate debt	-	68	-	165	-	1	212	-	446	-	446
Securitization	-	-	-	-	-	-	-	8	8	52	60
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	**14,268**	**5,328**	**-**	**2,180**	**-**	**158**	**212**	**8**	**22,154**	**90**	**22,244**
Non-rated exposures:											
Public sector entity debt	-	-	-	24	-	-	-	-	24	-	24
Banking corporation debt	-	177	-	1,048	-	-	-	-	1,225	-	1,225
Corporate debt	-	-	-	-	-	51,598	-	-	51,598	-	51,598
Debt secured by commercial real estate	-	-	-	-	-	1,962	-	-	1,962	-	1,962
Retail exposure to individuals	-	-	-	-	20,977	110	375	-	21,462	-	21,462
Loans to small businesses	-	-	-	-	3,451	16	62	-	3,529	-	3,529
Residential mortgages	-	-	50,828	-	13,249	1,344	174	-	65,595	-	65,595
Other assets	923	-	-	-	-	2,172	51	-	3,146	87	3,233
Total	**923**	**177**	**50,828**	**1,072**	**37,677**	**57,202**	**662**	**-**	**148,541**	**87**	**148,628**
Total exposure	**15,191**	**5,505**	**50,828**	**3,252**	**37,677**	**57,360**	**874**	**8**	**170,695**	**177**	**170,872**

Leveraged financing

The Bank conducts, in some cases, leveraged financing transactions, in which a client is extended credit for purchasing a controlling stake, characterized by a high LTV ratio compared to the value of shares, and relying exclusively on the shares being acquired as the source for credit repayment. The Bank reviews these transactions with due diligence, based *inter alia* on internal valuations as well as on external valuators. Terms and conditions specified for the transaction include sensitivity tests and financial covenants, which if met, require the borrower to provide additional collateral.

Details of Bank exposure to credit constituting leveraged financing are as follows:

Economic sector of acquired company			Credit Risk [(1)]
	As of March 31		As of December 31,
	2011	2010	2010
Commerce	147	-	150
Communications and computer services	343	-	338
Financial services	90	-	-
Total	**490**	**-**	**488**

(1) Credit risk is presented before effect of provision for credit loss.

Below is information on the Bank's exposure to foreign financial institutions [1] [2] (NIS in millions):

			As of March 31, 2011
External credit rating	Balance sheet credit risk [3]	Off-balance sheet credit risk [4]	Current credit exposure
AAA to AA-	2,241	310	2,551
A+ to A-	522	52	574
BBB+ to BBB-	2	-	2
BB+ to B-	2	6	8
Lower than B-	-	-	-
Unrated	59	-	59
Total credit exposure to foreign financial institutions	**2,826**	**368**	**3,194**
Includes: Problem commercial credit risk [6]	44	-	44
Balance of individual provision for credit loss	(17)	-	(17)
Troubled commercial credit risk after provision for credit loss	27	-	27

			As of March 31, 2010
External credit rating	Balance sheet credit risk [3]	Off-balance sheet credit risk [4]	Current credit exposure
AAA to AA-	1,906	352	2,258
A+ to A-	716	56	772
BBB+ to BBB-	69	-	69
BB+ to B-	2	4	6
Lower than B-	47	-	47
BBB-	1	-	1
Unrated	45	-	45
Total credit exposure to foreign financial institutions	**2,786**	**412**	**3,198**
Includes: Balance of troubled debt before provision for doubtful debts [5]	55	-	55
Provision for doubtful debts	(12)	-	(12)
Balance of troubled debt	43	-	43

			As of December 31, 2010
External credit rating	Balance sheet credit risk [3]	Off-balance sheet credit risk [4]	Current credit exposure
AAA to AA-	1,832	339	2,171
A+ to A-	645	53	698
BBB+ to BBB-	3	-	3
BB+ to B-	4	5	9
Lower than B-	-	-	-
Unrated	56	-	56
Total credit exposure to foreign financial institutions	**2,540**	**397**	**2,937**
Includes: Balance of troubled debt before provision for doubtful debts [5]	38	-	38
Provision for doubtful debts	(12)	-	(12)
Balance of troubled debt	26	-	26

(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 with respect to 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 resale agreements and other assets with respect to 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 excluding loans covered by collateral that may be deducted for the purpose of calculating the per-borrower credit limits of an individual borrower and a group of borrowers, including the off-balance sheet component.
(6) Credit risk for impaired, inferior credit or credit under special supervision, excluding credit risk with respect to individuals.

The aforementioned 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 with respect to derivative instruments vis-à-vis banks and dealers/brokers (domestic and foreign), see Note 7 to the financial statements. Some of the exposures listed in the above table are included under Management Review - Addendum C - Credit Risk by Economic Sector, enclosed with these financial statements under the Financial Services sector. This Management Review also includes deposits with banks, credit to the public, public investment in debentures and other assets with respect to public derivative instruments. 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 for 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 the Bank's 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 that 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 the financial institution is also taken into consideration. The policy also specifies 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 those 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 with respect to derivatives and investments in securities are for longer terms.

Ratings - Bank activity with overseas entities generates exposure to governments and to financial institutions. The Bank has set a policy with regard to review and routing of risk arising from this exposure. For credit risk exposure management, as described above, the Bank uses ratings by independent rating agencies, primarily: Fitch, Standard & Poor's, and Moody's .These ratings are accounted for as part of the considerations in setting limits on Bank exposure to sovereigns and banks, intended primarily for derivatives operations, financing and guarantees for foreign trade and investments in the nostro portfolio.

The Bank acquires the ratings, and analysis underlying such ratings, from Fitch and Standard and Poor's.

The main rating used by the Bank for independent analysis is the rating provided by Fitch.

Environmental risk - environmental risk to the Bank is the risk of loss which may be incurred due to the Bank being directly liable for an environmental hazard caused by a project financed by the Bank, to impairment of collateral exposed to environmental risk or to deterioration in the financial standing of a borrower due to high expenses arising from environmental protection regulation. Environmental risk also includes other risk factors derived from this risk (goodwill, third party liability etc.) Therefore, it is of prime importance that the Bank set its policy for management of environmental risk, including the capacity to identify, assess and monitor the risk over time.

On June 11, 2009, the Bank received a letter from the Supervisor of Banks, demanding that banks act to incorporate management of exposure to environmental risk within all risk factors at the Bank, including specification of procedures for identification of significant risk when granting credit and inclusion of risk assessment within periodic assessment of quality of credit extended. On April 15, 2010, the Bank's Board of Directors approved a policy on environmental risk management. The Bank is preparing to implement the policy and to include it in procedures and work processes, based on the agreed schedule.

Credit Risk with respect to housing loans

In conjunction with credit risk management, the Bank takes various actions to mitigate risk associated with housing loans. The Bank estimates the risk associated with housing loans as low, relative to the inherent risk in the Bank's overall loan portfolio, due to the high level of client diversification, geographic diversification of borrowers, relatively low leverage, intensive review procedures of borrower quality and their repayment capacity, and securing credit with property as collateral, and occasionally with credit insurance as well.

The Bank act regularly to control and manage the risk associated with housing loans, for which the Retail Division and other Bank entities are responsible.

Risk appetite in mortgage segment

As part of its credit policy and its credit risk policy, the Bank has set various restrictions on housing loan operations, to account for major risk factors.

The key parameters used for specifying risk appetite in the mortgage segment are: results of the differential risk premium model, LTV ratio of the loan, property location (geographical risk) and credit quality benchmark (see below under Credit Control).

Means for risk management in housing loans

Criteria for loan approval

The Bank has specified uniform, quantitative criteria for review and approval of housing loan applications. Along with the uniform criteria, decision makers at the Bank exercise their judgment. The guiding criteria for granting housing loans have been determined, *inter alia*, based on the following:

A. Accumulated experience at the Bank with regard to housing loans, including lessons learned over time with regard to parameters which determine borrower quality and quality of loan collateral.

B. Results of current credit reviews which include, *inter alia*, review of changes to credit quality in certain sectors.

C. Assessment of credit risk arising from variable macro-economic market conditions.

D. Assessment of credit risk in different areas of the country, due to security-related and other events.

These criteria are regularly updated in line with market developments. Thus, for example, in 2009 the Bank decided, due to the low prime lending rate, to instruct bankers and loan approvers to review borrower repayment capacity, accounting for a potential increase in monthly repayment due to the prime-linked component for scenarios including a 2% increase in the prime lending rate over its current rate upon loan approval.

Credit authority

The Bank has created a ranking of authority for approval of housing loans (at branch, region and headquarters level). The authorized entity to approve the loan is determined based on data in the loan application and on its inherent risk (data about borrowers, LTV ratio, risk premium and nature of the transaction). To enhance control over approval of complex, high-risk loans and loans to specific populations (such as: new immigrants, transactions between family members and individual borrowers), and to make use of specialization in such loans, such applications are sent for approval by the nation-wide underwriting center operating at the mortgage headquarters, staffed by a professional team supervised by the Deputy Manager, Mortgages at the Retail Division.

Model for determination of differential risk premium

The Bank has developed a model for calculation of differential risk premium, based on past empirical data, for rating transaction risk at the loan application stage. For each application, an individual risk premium is calculated based on all risk factors identifiable in client information and attributes of the desired transaction. This premium reflects an estimate of overall transaction risk, allowing for assessment of client odds of being in arrears on the loan or becoming insolvent - at the outset of the application stage. This premium is used for both credit decision making and for pricing of client interest rate.

Built-in controls in loan origination system

The Bank manages its mortgage operations using a dedicated computer system developed for this purpose, which includes the following built-in controls:

- Ensure information completeness required for loan and activities required in preparation of the material, review and approval of the loan.
- Rigid, real-time control over transactions by authorization. Use of this preventive control methodology significantly reduces the need for discovery controls after loan origination.
- Workflow process with real-time control over execution of all required tasks at each stage of the loan origination process, sending the application to the authorized entity for performing the required actions at each stage of the loan approval process.

Use of this system has resulted in improved control in different stages of the loan origination process, while achieving uniformity among different Bank branches.

Mortgage-related training

The Bank Training Center delivers courses for training, development and improvement of all those involved in housing loans. Training content is determined in co-operation with the Mortgage Headquarters, and staff at headquarters participates in training delivery to bankers. In 2010, in addition to the basic course, an advanced mortgage banking course was developed, including special emphasis on risk management.

Training of staff and management has significant impact on their professional level when granting credit and making credit-related decisions, as well as during on-going management of client credit.

Professional conferences

The Retail Division regularly holds professional conferences for managers and bankers. In these conferences, extensive reviews of developments in the mortgage market are presented, along with steps to be taken to handle the risk associated with such developments. Over the past year, conferences placed a special emphasis on risk associated with loans linked to the prime lending rate and having high LTV ratios.

Credit control

Credit control is a key factor in maintaining quality of credit provided by the Bank to its clients. Control over housing loans is exercised at the individual loan level as well as for the entire mortgage portfolio.

At the individual loan level, the Bank acts to identify as early as possible any symptoms indicating a decline in borrower repayment capacity, in order to identify as soon as possible any credit failure situation. The Bank operates various controls, including regular internal controls at branches, regions and headquarters, as well as additional controls by entities external to the process and to the credit units - the Risk Control Division and Internal Audit.

The Bank maintains control over quality of new credit provided by branches, by means of a monthly Credit Quality report, which includes all loans originated by the Bank between 6-18 months prior to the reported date which are over 3 months in arrears. This report is designed to assist branches in reducing the extent of arrears, and to increase awareness of troubled loans by those originating and approving loans in order to learn lessons for future credit approval. Along with the individual report, listing loans, details of arrears etc., a statistical report is also produced, showing the extent of arrears at each branch, compared to the region and to the Bank as a whole, and compared to previous months. Management of the Retail Division regularly monitors handling of debt in arrears, using this report.

For the entire mortgage portfolio, control is maintained of restrictions imposed by the Bank's risk appetite, both at the Retail Division and at the Risk Control Division of the Planning, Operations and Control Division. A credit control report is produced semi-annually, with extensive review of the risk profile of the housing loan portfolio, with regard to the following:

- Risk appetite
- Analysis of major risk attributes
- Review of state of arrears and credit quality
- Client debt collection
- Housing loan portfolio for special populations
- Stress testing
- Purchase groups.

Tools for risk mitigation in housing loans

Collateral

In accordance with Bank procedures for mortgages, loans are only provided if secured by property collateral. In some cases, the Bank demands guarantors for the debt, in addition to property collateral.

For verification of information about the property offered to the Bank as collateral and to determine its value, an assessor visit to the property is normally required, providing a report which describes the property, its location, physical condition and market value. Assessors are party to an agreement with the Bank and act in accordance with Bank guidance, including a structured procedure for conducting assessments, identifying exceptions etc.

The common practice for assessment in the mortgage sector is to use an abbreviated assessment. However, since 2006, the Bank has required assessors to conduct extended assessment for some of the loans for purchase of existing apartments, self-construction or general-purpose loans with high-risk property types, which includes additional tests subject to criteria set for this matter.

Insurance

According to Bank procedures, all properties serving as collateral must be insured under property insurance. In addition, the borrowers are insured by life insurance assigned to the Bank in case of death prior to complete repayment of the loan.

For some loans (usually loans with LTV ratio higher than 75%), the Bank contracts with EMI Corp., which provides credit insurance in case the proceeds from realization of the property collateral for the loan should fail to cover the outstanding loan amount. This credit insurance process is a key risk mitigator.

LTV ratio

The maximum LTV ratio approved by the Bank is determined by the credit policy and is periodically reviewed. The Bank requires borrowers to contribute part of the financing for the acquisition. This equity payment forms a safety cushion in case the property is realized during a down-turn in the real estate market. Furthermore, borrower equity is a further indication of the borrower's financial robustness.

Entities participating in risk management for housing loans

Mortgage Administration Department

This department handles different events which occur during the loan term, whether initiated by the Bank or by the borrower. One of the key tasks is monitoring of collateral provided. During loan origination, the Bank usually received interim collateral, and the final collateral is expected to be received during the loan term. The department also monitors receipt of life and property insurance policies during the loan term.

Risk Control Sector

The Risk Control Sector reviews the quality of borrowers, the quality of the Bank's loan portfolio and the risk profile of the Bank portfolio. As for mortgages, the portfolio is analyzed semi annually, including analysis of developments in housing loan grants and our market share, as well as credit composition by various criteria. As from this year, this analysis is performed semi-annually. This report is discussed by the Supreme Credit Committee and is presented to the Bank's Board of Directors.

Credit risk and credit concentration monitoring forum

The Bank operates a forum for monitoring credit risk, which promotes issues such as: analysis of credit portfolio risk level, application of advanced modeling approaches, specification of triggers for activating stress testing; supervision of design and application process of stress testing, and monitoring of the risk profile of the Bank's loan portfolio. This forum operates another entity, composed of professionals in the business domain, control and economists who review the credit portfolio (and in particular the mortgage portfolio), *inter alia*, in view of the risk appetite restrictions specified.

Legal Division

As part of the underwriting process, collateral for non-standard loans (loans to individuals, transactions involving family members) and high-value loans are reviewed by the Mortgage Advisory Department, a specialized entity in the Legal Division. This test complements the loan approval and review conducted at the branch and the regional underwriting department.

Collection Department

The Bank operates a dedicated Collection Department, which handles debt collection from borrowers in arrears and realization of properties. Processing is automatically launched once the client fails to make a mortgage payment for the first time. If this failure is not resolved, processing continues by the Telephone Collection Center (prior to filing a law suit), designed to reach payment arrangements with clients. If such an arrangement with borrowers cannot be reached, the debt is processed by the Bank's Collection Department, which includes a dedicated department for mortgage debtors, and legal proceedings are initiated vs. the debtors.

Arrears Forum

The Arrears Forum of Bank management convenes monthly, and reviews the current state of affairs with regard to collection in the previous month, implications on the financial statements and on the provision for doubtful debts. The Forum specifies targets for debt processing and for reducing arrears.

Internal Audit

The work plan for Internal Audit with regard to loans includes, *inter alia*, reference to review of entities involved in loan approval, origination, administration and control.

Attributes of the Bank's housing loan portfolio

The Bank's policy with regard to mortgages is based on a conservative approach, limiting specific risk for each loan by reviewing various attributes. These attributes include: LTV ratio, ratio of repayment to regular income of the borrower, and borrower capacity to make current repayments even under scenarios involving a change in interest rates. Whenever loans are granted with attributes which do not meet one or more of the standards set by the Bank for these attributes, the Bank requires additional bolstering for the loan, such as credit insurance, additional guarantors for the loan, proven repayment capacity not based on regular income of the borrower etc. In recent years, due to expansion of the housing market and relatively low interest environment, the Bank has enhanced measures taken to mitigate risk, as reflected by a significant decrease in loan risk factors, as detailed below (all data below as of March 31, 2011).

LTV ratio

One of the key parameters used by the Bank in minimizing risk in its housing loan portfolio is the LTV ratio (ratio of loan amount to value of the property pledged as collateral). The average LTV ratio of the Bank's mortgage portfolio as of March 31, 2011 was 59.9%, compared to 60.1% as of December 31, 2010 and to 60.2% as of December 31, 2009. Out of the total loan portfolio of the Bank, amounting to NIS 65.4 million, some 79% were granted with an original LTV ratio under 75%, which secures the loan even in case of an extreme 25% decrease in value of the property pledged as collateral.

The LTV ratio in this report is the historical LTV ratio calculated upon loan approval, and does not account for any current repayments which reduce the loan balance nor any changes in value of properties pledged as collateral. The significant increase in housing prices since late 2008, along with reduced loan balances with respect to current repayment, result in a lower current LTV ratio for loans granted over two years ago, so that most all of the loans currently have LTV ratios under 75%. Total loans granted at LTV ratios over 75% in the past two years amounted to NIS 4.3 billion, or only 6.5% of the total housing loan portfolio.

Loans granted with a high LTV ratio are often secured by credit insurance, which significantly reduced risk for the Bank, although it does not affect the LTV or repayment percentage calculation. Out of the balance of loans granted with an original LTV ratio higher than 75%, a total of NIS 4.7 billion - 34.0% - is insured by credit insurance.

Over the past two years, due to measures taken by the Bank to reduce risk in the mortgage portfolio, the percentage of loans granted with a high LTV ratio out of total housing loan portfolio of the Bank decreased to 16.1% for loans granted 1-2 years ago, 13.6% for loans granted 3-12 months ago and 10.7% for loans granted in the first quarter of 2011.

Repayment as percentage of regular income

The LTV ratio of a housing loan is a benchmark of loan security, regardless of borrower attributes. When a mortgage is approved, the Bank requires borrowers to show their capacity to make current loan repayments on schedule, primarily by calculating the ratio of monthly repayment to regular income of the borrower.

The average repayment ratio for the Bank's housing loan portfolio is 29.1%. 73% of the Bank's mortgage portfolio were granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is 23.2%). 20% of the mortgage portfolio were granted to borrowers with a repayment ratio of 35% to 50% (the average repayment ratio for these borrowers is 41%), and only 8% were granted to borrowers with a repayment ratio over 50% (the average repayment ratio for these borrowers is 62%).

The loans with a high repayment ratio are loans granted to borrowers with significant other assets, whose repayment capacity is not necessarily based on current income, to borrowers with very high income where the repayment ratio is less significant, or where additional bolstering of the loan is in place, in addition to the pledged property and repayment capacity of the borrower, such as financially robust guarantors.

Even loans granted with a repayment ratio higher than 50% maintain the average LTV ratio, and some 80% of these are granted with a LTV ratio under 75%.

Loans bearing variable interest

The Bank allows its clients to obtain housing loans which include a portion bearing NIS-denominated interest linked to the prime lending rate.

Over the past decade, the prime lending rate decreased from 10% in 2002-2003, through 5%-6% in 2004-2008 to 2%-3% in 2009-2010. Hence, the risk associated with loans bearing interest linked to the prime lending rate is primarily due to loans granted over the past two years, assuming that the prime lending rate is expected to rise, reflecting a positive real interest in the economy.

The Bank provides clients with the knowledge and expertise of its staff in order for clients to understand the risk involved with a loan bearing interest linked to the prime lending rate and how this risk may be mitigated or avoided. The Bank advises clients to attribute appropriate weighting to this risk, and to be cautious when deciding upon the loan composition. The Bank also recommends to borrowers paying interest linked to the prime lending rate to consider transition to a fixed interest option, or one where interest is adjusted at longer intervals.

The repayment capacity of clients who obtained loans in the period when the prime lending rate was high is reviewed using the high interest rate. Over the past two years, when interest rates were low, these clients benefited significantly from lower loan costs. In this low interest environment, the Bank nevertheless took measures to reduce loans provided bearing interest linked to the prime lending rate: From 47% of loans granted 1-2 years ago, the Bank reduced the percentage of loans linked to the prime lending rate to 37% for loans granted 3-12 months ago and down to 34% for loans granted in the first quarter of 2011.

Total loans linked to the prime lending rate granted over the past two years, which constitute the major portion of risk associated with such mortgages, is NIS 12.3 billion, or only 18.7% of the housing loan portfolio. Note however that before approving a loan linked to the prime lending rate, the Bank reviews the repayment capacity of the borrower under scenarios where the prime lending rate would increase by 2 percentage points.

Loan amount

Loans granted by the Bank with an original amount over NIS 2 million amounted in total to NIS 2.2 billion, or only 3.4% of the Bank's housing loan portfolio.

Below are details of various risk attributes of the housing loan portfolio

LTV ratio	Repayment as percentage of regular income	Up to 3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Loan age Total
Up to 60%	Up to 35%	1,406	4,177	4,380	6,563	3,249	2,826	22,601
	35%-50%	505	1,300	1,048	1,550	728	354	5,485
	Over 50%	225	607	388	646	344	210	2,420
60%-75%	Up to 35%	967	3,385	3,766	4,334	1,403	984	14,839
	35%-50%	414	1,088	1,009	1,293	446	218	4,468
	Over 50%	130	408	346	484	165	124	1,657
Over 75%	Up to 35%	308	1,280	1,654	2,596	1,844	2,343	10,025
	35%-50%	93	339	351	754	628	695	2,860
	Over 50%	37	107	101	224	266	296	1,031
Total		**4,085**	**12,691**	**13,043**	**18,444**	**9,073**	**8,050**	**65,386**
Includes:								
Loans granted with original amount over NIS 2 million		161	610	490	597	230	116	2,204
Percentage of total housing loans		3.9%	4.8%	3.8%	3.2%	2.5%	1.4%	3.4%
Loans bearing variable interest:								
Non-linked, at prime lending rate		1,378	4,764	6,112	9,569	1,507	127	23,457
CPI-linked (2)		893	2,864	2,975	3,910	1,423	1,935	14,000
Linked to foreign currency (2)		224	742	744	86	694	21	2,511
Total		**2,495**	**8,370**	**9,831**	**13,565**	**3,624**	**2,083**	**39,968**
Non-linked loans at prime lending rate, as percentage of total housing loans		33.7%	37.5%	46.9%	51.9%	16.6%	1.6%	35.9%
CPI-linked loans bearing variable interest as percentage of total housing loans		21.9%	22.6%	22.8%	21.2%	15.7%	24.0%	21.4%
Loans with LTV over 75% as percentage of total housing loans		10.7%	13.6%	16.1%	19.4%	30.2%	41.4%	21.3%

(1) The loan balances presented above are aged based on the date of loan origination, and include under the same age group any loan balances actually provided at a later date.

(2) Pursuant to directives by the Supervisor of Banks, these include loans for which the interest rate is adjusted up to once every 5 years.

Credit risk mitigation

Below is the composition of net credit exposure by risk mitigation type:

					As of March 31, 2011
	Gross credit exposure (1)	Exposure covered by guarantees - amounts deducted (2)	Amounts added (2)	Exposure covered by qualified financial collateral	Net credit exposure
Sovereign debt	15,963	-	45	-	16,008
Public sector entity debt	1,500	-	76	(6)	1,570
Banking corporation debt	5,181	(17)	275	(35)	5,404
Corporate debt	62,706	(354)	-	(9,020)	53,332
Debt secured by commercial real estate	2,012	(2)	-	(184)	1,826
Retail exposure to individuals	23,101	(3)	-	(1,576)	21,522
Loans to small businesses	4,864	(20)	-	(1,239)	3,605
Residential mortgages	67,516	-	-	(38)	67,478
Securitization	8	-	-	-	8
Other assets	3,625	-	-	-	3,625
Total	**186,476**	**(396)**	**396**	**(12,098)**	**174,378**

					As of March 31, 2010
	Gross credit exposure (1)	Exposure covered by guarantees - amounts deducted (2)	Amounts added (2)	Exposure covered by qualified financial collateral	Net credit exposure
Sovereign debt	14,866	-	8	-	14,874
Public sector entity debt	1,655	-	1	(5)	1,651
Banking corporation debt	4,711	(41)	128	-	4,798
Corporate debt	56,018	(68)	-	(6,332)	49,618
Debt secured by commercial real estate	2,058	(10)	-	(154)	1,894
Retail exposure to individuals	22,789	(3)	-	(1,296)	21,490
Loans to small businesses	4,444	(13)	-	(1,268)	3,163
Residential mortgages	57,245	(2)	-	(30)	57,213
Securitization	2	-	-	-	2
Other assets	3,070	-	-	-	3,070
Total	**166,858**	**(137)**	**137**	**(9,085)**	**157,773**

(1) Balance of on- and off-balance sheet balances, after on- and off-balance-sheet offsets, after provision for doubtful debts, excluding impact of credit risk mitigation, credit conversion factors and risk weighting factors, as defined under Basel II rules.

(2) Mitigating credit risk by using guarantees results in exposures moving from their original exposure group to exposure groups with a lower risk weighting factor. Consequently, sometimes the extent of exposure in a given exposure group, after credit risk mitigation, is higher than the extent of exposure in this group before risk mitigation.

Below is the composition of net credit exposure by risk mitigation type - continued:

	As of December 31, 2010				
	Gross credit exposure (1)	Exposure covered by guarantees - amounts deducted (2)	Amounts added (2)	Exposure covered by qualified financial collateral	Net credit exposure
Sovereign debt	16,812	-	20	-	16,832
Public sector entity debt	1,386	-	87	(7)	1,466
Banking corporation debt	4,373	-	284	(6)	4,651
Corporate debt	61,639	(367)	-	(9,228)	52,044
Debt secured by commercial real estate	2,138	(2)	-	(174)	1,962
Retail exposure to individuals	22,982	(4)	-	(1,516)	21,462
Loans to small businesses	4,740	(18)	-	(1,193)	3,529
Residential mortgages	65,643	-	-	(48)	65,595
Securitization	8	-	-	-	8
Other assets	3,146	-	-	-	3,146
Total	**182,867**	**(391)**	**391**	**(12,172)**	**170,695**

(1) Balance of on- and off-balance sheet balances, after on- and off-balance-sheet offsets, after provision for doubtful debts, excluding impact of credit risk mitigation, credit conversion factors and risk weighting factors, as defined under Basel I rules.

(2) Mitigating credit risk by using guarantees results in exposures moving from their original exposure group to exposure groups with a lower risk weighting factor. Consequently, sometimes the extent of exposure in a given exposure group, after credit risk mitigation, is higher than the extent of exposure in this group before risk mitigation.

Counter-party credit risk

Counter-party credit risk (CCR) is the risk that the counter-party to a transaction will be in default before final clearance of the transaction cash flows. Economic loss would be incurred only when the transaction with the counter-party would have a positive economic value upon such default. The market value of the transaction, which may be positive or negative for either party, actually depends on volatility of market factors. Should the counter-party be in default, and the transaction has a positive fair value, this may cause the Bank to incur a loss, liquidity problems and difficulties in carrying out further transactions. Risk factors which impact counter-party credit risk are: Credit risk, market risk and liquidity risk.

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 clients and for its own account, as part of the management of basis and interest exposure in the various linkage segments. The Bank operates in credit derivatives in its nostro portfolio. These investments are individually reviewed by the Risk Management Committee, and are submitted for approval by the Asset and Liability Management Committee headed by the President.

Below is the current credit exposure with respect to derivatives:

As of March 31, 2011						
Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives[2]	Total
Face value of derivatives after impact of add-on factor	256	1,392	46	1	67	1,762
Positive fair value, gross, of derivatives [1]	437	1,627	979	2	1	3,046
Total exposure with respect to derivatives	**693**	**3,019**	**1,025**	**3**	**68**	**4,808**
Collateral with respect to derivatives (before safety factors)	(13)	(466)	(1,543)	(4)	-	(2,026)
Impact of safety factors on collateral	8	221	785	1	-	1,015
Total current credit exposure after credit risk mitigation	**688**	**2,774**	**267**	**-**	**68**	**3,797**

As of March 31, 2010						
Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives [2]	Total
Face value of derivatives after impact of add-on factor	204	1,347	18	1	72	1,642
Positive fair value, gross, of derivatives [1]	537	1,031	594	2	-	2,164
Total exposure with respect to derivatives	**741**	**2,378**	**612**	**3**	**72**	**3,806**
Collateral with respect to derivatives (before safety factors)	(7)	(111)	(326)	(2)	-	(446)
Impact of safety factors on collateral	-	20	59	-	-	79
Total current credit exposure after credit risk mitigation	**734**	**2,287**	**345**	**1**	**72**	**3,439**

As of December 31, 2010						
Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives[2]	Total
Face value of derivatives after impact of add-on factor	219	1,244	-	-	67	1,530
Positive fair value, gross, of derivatives [1]	472	1,237	738	1	-	2,448
Total exposure with respect to derivatives	**691**	**2,481**	**738**	**1**	**67**	**3,978**
Collateral with respect to derivatives (before safety factors)	-	(254)	(1,094)	(1)	-	(1,349)
Impact of safety factors on collateral	-	141	531	-	-	672
Total current credit exposure after credit risk mitigation	**691**	**2,368**	**175**	**-**	**67**	**3,301**

(1) Includes exposure arising from counter-party credit risk with respect to client activity on the stock exchange, calculated based on stock exchange rules.

(2) The Bank's credit derivatives operations are not classified as brokerage operations. For information about transactions to buy and sell credit protection, see Note 7A to the financial statements.

Securitization

The Bank does not operate in the field of asset securitization. It is Bank policy to avoid, in principle, investment in complex securitization instruments. The Bank has invested in the past in a limited number of complex securitization instruments, such as CDO and CLO, and these comprise the current portfolio.

Below are details of investments in collateralization exposures and capital requirements with respect there to:

			As of March 31, 2011
	Risk weighting	Exposure amount	Capital requirements (1)
BB+ to BB-	350%	8	3
B+ or lower	Deducted from equity	58	58
Total		66	61

			As of March 31, 2010
	Risk weighting	Exposure amount	Capital requirements (1)
BB+ to BB-	350%	2	-
B+ or lower	Deducted from equity	59	5
Total		61	5

			As of December 31, 2010
	Risk weighting	Exposure amount	Capital requirements (1)
BB+ to BB-	350%	8	3
B+ or lower	Deducted from equity	52	52
Total		60	55

(1) Capital requirement (except with respect to exposures deducted from capital) calculated at 9% of risk asset balance, in accordance with interim directive on application of Basel II, Pillar 3.

For further details of exposure to asset-backed securities, see Note 2 to the financial statements.

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. 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 Bank focuses on two major market risk factors:

- **Interest** risk **-** the risk of erosion of capital as a result of future interest rate changes. The exposure to interest risk results, *inter alia*, from a lack of correlation between the period to maturity of the Bank's assets and liabilities.
- **Linkage-basis risk -** 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.

Interest risk in Bank portfolio

Interest risk in the Bank portfolio is the risk of erosion of the Bank portfolio (including, as describd above, all transactions not included in the negotiable portfolio, including financial derivatives used for hedging the Bank portfolio) as a result of future changes in interest rates. 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 bank portfolio is monitored on a regular basis, both in managing interest risk for the overall portfolio in VaR terms, and in EVE (Economic Value of Equity) terms **-** a model which reviews changes in the economic value of the portfolio under different assumptions regarding changes to the interest rate curve, including corresponding 2% shifts upwards/downwards of the interest rate curve.

Below is the impact of a parallel shift of the curve by 2% on the economic value of the Bank's portfolio in EVE terms (NIS in millions):

						March 31, 2011
						Change in fair value
		Israeli currency				Foreign currency
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	98	341	47	(12)	(5)	469
2% decrease	(113)	(511)	(32)	10	6	(640)

						March 31, 2010
						Change in fair value
		Israeli currency				Foreign currency
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	28	344	60	2	(5)	429
2% decrease	(49)	(523)	(31)	-	6	(597)

						December 31, 2010
						Change in fair value
		Israeli currency				Foreign currency
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	179	217	(11)	(7)	(1)	377
2% decrease	(201)	(389)	25	6	1	(558)

In preparing the mortgage repayment forecast for the Bank, assumptions with regard to pre-payment are taken into account.

Market risk in the Bank's negotiable portfolio, primarily composed of portfolios managed in the trading room, is managed by means of quantitative limitations specified for each portfolio based on activity there in.

The VaR model (Value At Risk)

As required according to the directives of the Bank of Israel, the Bank calculates the VaR values and the stress-test values on a monthly basis. The VaR is calculated by calculation methods commonly used around the world, including: the Monte Carlo simulation method and the historical simulation method. Furthermore, in order to improve the responsiveness of the VaR to the degree of volatility in financial markets, the Bank has developed a new VaR calculation method which implements a combination of multiple, generally accepted calculation methods. This method allows the Bank to handle situations where market volatility increases.

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):

	Q1 of 2011	Q1 of 2010	All of 2010
At end of period	212	274	219
Maximum value during period	252 (Feb.)	288 (Feb.)	364 (Sep.)
Minimum value during period	212 (March)	274 (March)	219 (Dec.)

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, 2011:

Profit (loss), NIS in millions

	Scenarios				Extreme historical scenario [1]	
	10% increase	5% increase	5% decrease	10% decrease	Maximum increase	Maximum decrease
CPI	175.9	87.9	(87.9)	(175.9)	52.8	(15.8)
Dollar	212.6	104.5	(99.3)	(195.2)	108.9	(65.9)
Pound Sterling	-	(0.1)	0.4	1.0	(0.1)	0.3
Yen	0.3	-	0.6	1.9	0.6	0.8
Euro	(23.1)	(10.9)	10.2	22.1	(15.5)	11.5
Swiss Franc	37.1	17.6	(16.3)	(34.1)	33.6	(20.8)

(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.

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

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

	Israeli currency		Foreign currency [2]			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
March 31, 2011						
Financial assets [1]	71,839	43,632	11,982	3,271	2,112	132,836
Amounts receivable with respect to financial derivatives [3]	70,324	3,508	46,146	8,049	4,966	132,993
Financial liabilities [1]	(70,091)	(34,256)	(15,888)	(4,335)	(2,339)	(126,909)
Amounts payable with respect to financial derivatives [3]	(67,827)	(10,016)	(42,482)	(7,017)	(4,918)	(132,260)
Total	**4,245**	**2,868**	**(242)**	**(32)**	**(179)**	**6,660**
December 31, 2010						
Financial assets [1]	67,941	42,760	12,944	4,146	2,503	130,294
Amounts receivable with respect to financial derivatives [3]	72,253	3,894	53,430	5,442	4,527	139,546
Financial liabilities [1]	(67,310)	(34,820)	(15,230)	(4,476)	(2,280)	(124,116)
Amounts payable with respect to financial derivatives [3]	(69,419)	(8,701)	(50,957)	(5,123)	(4,811)	(139,011)
Total	3,465	3,133	187	(11)	(61)	6,713

Net fair value of financial instruments, after impact of changes in interest rates [4]:

	Israeli currency		Foreign currency [2]				Change in fair value	
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total	NIS in millions	In %
March 31, 2011								
Change in interest rates:								
Concurrent immediate increase of 1%	4,192	2,825	(248)	(47)	(186)	6,536	(124)	(1.9%)
Concurrent immediate increase of 0.1%	4,239	2,865	(243)	(33)	(180)	6,648	(12)	(0.2%)
Concurrent immediate decrease of 1%	4,280	2,965	(242)	(15)	(171)	6,817	157	2.3%
December 31, 2010								
Change in interest rates:								
Concurrent immediate increase of 1%	3,345	3,238	136	(11)	(71)	6,637	(76)	(1.1%)
Concurrent immediate increase of 0.1%	3,453	3,151	182	(11)	(62)	6,713	-	-
Concurrent immediate decrease of 1%	3,570	3,094	232	(6)	(51)	6,839	126	1.9%

(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) Amounts receivable (and payable) with respect to financial derivatives, discounted using interest rates used for calculation of the fair value.
(4) 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 Bank is required to allocate capital with respect to interest risk in the negotiable portfolio, for exchange rate risk for all banking activities and for option risk. The Bank uses the Effective Duration approach in measuring interest risk, and the Delta Plus method in measuring option risk. This method quantifies the risk associated with operations of the option portfolio based on the "Greek letter" values. These reflect the sensitivity of the option portfolio to moves in the underlying asset and in the standard deviation.

In accordance with Basel II rules, the Bank is also required to calculate specific risk in the negotiable portfolio. Capital requirements with respect to specific risk are intended to provide protection against negative change in the price of a single security due to factors related to the individual issuer. The capital requirement with respect to specific risk relates to instruments in the negotiable portfolio, and replaces the capital requirement with respect to credit risk associated with these instruments, had they been held in the Bank's portfolio.

Capital allocation for basis risk is at 8% of the net open position in each currency.

Below is the capital requirement due to market risk by risk component (NIS in millions):

	As of March 31, 2011			As of December 31, 2010		
	Capital requirement			Capital requirement		
Risk component (1)	Specific risk	General risk	Total	Specific risk	General risk	Total
Interest risk (2)	6	41	47	6	31	37
Equity risk	-	-	-	-	1	1
Foreign currency exchange rate risk	-	24	24	-	15	15
Total market risk	**6**	**65**	**71**	**6**	**47**	**53**

(1) Risk associated with options activity is included under the different components, and was calculated using the Delta Plus approach, as defined in the Supervisor of Banks' directive.
(2) Calculated using the Effective Duration approach, as defined in the Supervisor of Banks' directive.

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.

The Bank has developed an internal model to estimate the liquidity needs and liquid resources, as required by Proper Conduct of Bank Businesses Regulation No. 342 “Management of Liquidity Risk" and in accordance with Basel provisions. The Bank’s internal model is based on statistical findings on the public’s behavior. An information system was built for daily measurement, control and reporting of the liquidity status. The Bank has a Liquidity Forum, which convenes daily, under the responsibility of the Finance Division, which meets monthly to discuss the liquidity situation and to align the liquidity needs of different Bank units with the liquidity "providers" and liquidity managers. In addition, the Risk Control Division performs back testing of model adequacy, as required by Bank of Israel directives.

Operating risk

Basel I provisions referred to operating risk as residual risk, and in fact defined it as risk which is not market risk nor credit risk. Basel II provisions explicitly defined operating risk as the risk of loss due to failure or inappropriateness of internal procedures, people, systems or external events. Furthermore, the Basel II first layer includes capital requirements for operating risk. For details of the Basel II guidelines, see the chapter on Restrictions and Supervision of Bank Group Operations.

Equity positions in bank portfolio

For details of equity investments in the Bank's portfolio, see Note 2. The investment balance includes investments in negotiable and public shares amounting to NIS 2 million, and investment in non-public shares amounting to NIS 97 million.

	As of March 31, 2011	
	Fair value	Capital requirement (1)
Shares	63	6
Venture capital / private equity funds	36	3
Total equity investment in bank portfolio	99	9

	As of December 31, 2010	
	Fair value	Capital requirement (1)
Shares	63	6
Venture capital / private equity funds	34	3
Total equity investment in bank portfolio	97	9

(1) Capital requirement calculated at 9%, in accordance with interim directive on application of Basel II, Pillar 3.

Legal risk

Proper Conduct of Banking Business Regulation 339 (Risk Management) prescribes, *inter alia*, that banking corporations must take action to reduce the legal risk resulting from their various operations. Legal risk is defined in this regulation as "the risk of a loss resulting from not having the possibility of legally enforcing an agreement".

Proper Conduct of Banking Business Regulation 206 (Measurement and Capital Adequacy - Operating Risk) defines legal risk in conjunction with operating risk to include, *inter alia*, exposure to fines or penalties arising from supervisory action, as well as from individual arrangements.

The Bank regards legal risk in its wider definition, with regard to Bank conduct in its relationships with various stake holders (clients, suppliers, other third parties etc.) The Chief Legal Counsel has been appointed Manager of Legal Risk. The Bank constantly strives to minimize as much as possible the legal risk associated with its current operations, and acts to disseminate a practical culture leading to mitigation of legal risk in all its different aspects.

The Bank regularly analyzes the legal risk component of its activities, the risk boundaries (arising, for example, from the counter-party identity, from creation of collateral etc.) as well as specific risk attributes of different lines of business, while reviewing risk level and exposure. Further, the Bank has created procedures to assist in mitigating legal risk, as reflected in activities of the different Bank units.

The Bank's Legal Department regularly monitors developments in legislation, rulings and other regulatory provisions which could have implications for the day-to-day activities of the Bank's units. As needed, the Bank amends the different contracts used and ensures availability of legal opinions which serve as basis for Bank contracting. The Legal Department is also involved with training courses at branches, at the Bank's Training Center and in authoring professional e-learning kits.

Similar reference is made for Bank branches and affiliates overseas, with assistance from local external attorneys approved by the Bank's Legal Department.

Compliance

The complexity and development of banking activity requires the Bank to adhere strictly to fulfilling the range of obligations imposed on it in its business ties with its customers, by virtue of statutory provisions applicable to a banking corporation. As stipulated by Proper Conduct of Banking Business Regulation 308 with regard to Compliance Officer, the Bank has appointed a Compliance Officer who heads the Compliance Department, reporting to the Chief Legal Counsel; the Board of Directors has put in place a Compliance Plan. The Compliance Department strives to implement consumer provisions applicable to Bank relationships with its clients, so as to minimize the likelihood of any breach of laws and regulations, and so as to discover, as early as possible, any such breach - thereby minimizing Bank exposure to claims and other damage which may ensue.

The Compliance Department conducts compliance surveys on various topics, delivers training at the Bank and the Compliance Officer is member of different Bank forums in order to ensure a broad, system-wide view of various compliance aspects.

Prohibition of money laundering

The Compliance Officer is also responsible for application of the Prohibition of Money Laundering Act, and of the Prohibition on Financing Terrorism Act. The Compliance and Prevention of Money Laundering Department implements statutory requirements on this issue. The Department handles subjective reports of unusual activity, which are submitted to the Authority for Prohibition of Money Laundering, as well as implementation of various controls over activity in different accounts, based on their risk profile.

The Bank operates different computer systems for identifying unusual activity and for monitoring the handling of subjective reports.

The Bank also emphasized training in this field to different sectors of Bank employees.

On July 1, 2010, changes and updates to Proper Conduct of Banking Business Regulation No. 411, on prohibition of money laundering, became effective. The Bank has taken comprehensive steps to implement these updates, by updating procedures and operational aspects. Furthermore, the Bank Board of Directors approved in May 2010 an updated policy on prohibition of money laundering and financing terrorism.

The Bank applies on Group basis, with required changes, its policy in this area as well as statutory provisions, at its subsidiaries and branches in Israel and overseas.

Risk factors

For a discussion of the risk factors that impact the Bank and its activities, see the discussion in the chapter on risk management above. A mapping of the risk factors and their impact on the Bank Group are presented below:

Risk factor	Risk factor impact
Overall effect of credit risk	Intermediate
Risk from quality of borrowers and collateral	Intermediate
Risk from industry concentration	Intermediate
Risk from concentration of borrowers/ borrower groups	Intermediate
Overall effect of market risk	Intermediate
Interest risk	Intermediate
Inflation risk	Intermediate
Exchange rate risk	Low
Share price risk	Low
Liquidity risk	Low
Operating risk	Low
Legal risk	Low
Reputation Risk (1)	Low

(1) The risk of impairment of the Bank's results due to negative reports about the Bank.

Description of methodology used by the Bank to estimate impact of different risk:

Market risk

The effect of the risk was measured using VaR values for each risk, with respect to the VaR value limit determined by the Board of Directors.

The Bank's Board of Directors prescribed the VaR limit in order to prevent the creation of high market risk. Therefore, it was prescribed that risk with VaR value equal to or higher than the Board of Directors' limitation has strong effect. Risk with VaR value equal to or higher than 70% of the Board of Directors' limitation has intermediate effect and the risk with VaR value below this is considered having a low effect.

Other risk

The degree of influence of credit risk, liquidity risk, operational risk, legal risk and goodwill risk – were determined based on management's assessments, as performed from time to time, and in coordination with the ICAAP process conducted by the Bank, and its outcome, under leadership of the Bank's risk managers, and took into account both qualitative and quantitative aspects, including the Bank's risk profile, outcome of various scenarios at the Bank and the capital planning process.

Legislation and Regulation of Bank Group Operations

ISA Enforcement Proceeding Streamlining Act (Legislative Amendments), 2011

This act, enacted on January 11, 2011 and effective as from January 27, 2011, allows the ISA to use a new administrative enforcement track for corporations or individuals who break the law. The proposed track shall only apply to negligent breach of the law. For serious offenses the ISA would continue to prosecute criminal indictments.

The act stipulates that the breaching party may appear before an enforcement committee, which may impose both monetary sanctions and disqualification from the profession. The ISA may impose administrative fines on individuals and corporations in breach of securities legislation, and even remove them from their position and ban them from the capital market.

The act provides for administrative enforcement for misconduct by professionals under short, quick proceedings, compared to the current state of affairs, which required criminal proceedings which take years. This primarily involves felonies such as stock price rigging and use of inside information in small amounts, or in cases where there is not sufficient evidence for a criminal indictment. The act extends the sentence for use of inside information from one year to two years.

The Act provides for administrative proceedings to be launched even against defendants already under criminal proceedings for the same felonies, based on justified reasoning by the Chairman of the ISA, and subject to approval by the State Prosecution and a committee headed by ISA senior legal staff whose members are appointed by the Minister of Justice.

The ISA is authorized to impose fines ranging between NIS 25 thousand and NIS 5 million. Convicted individuals, whether self-employed or salaried employees, face fines of between NIS 25 thousand and NIS 50 thousand. Board members and senior officers of companies, which bear personal responsibility, face fines of between NIS 400 thousand and NIS 1 million. Fines imposed on companies may reach NIS 5 million. The act prohibits entities dealing in securities to obtain insurance coverage against administrative fines imposed pursuant to the act, nor to indemnify their employees against fines imposed on the latter as individuals.

The ISA has been authorized to remove from position and ban from the capital market and convicted felons who are Board members and senior officers, such as the CEO or CFO, in addition to imposing the heavy administrative fine on them. This ban is effective for up to one year.

The Act would become effective 30 days after being published, except for certain sections which would apply as from the date on which the Act is published. Certain sections which make reference to regulations enacted or to be enacted pursuant to other laws, shall apply as from the effective date of these referenced regulations.

The Bank is acting to put in place an enforcement program for the Group.

Companies Law (Amendment no. 16), 2011

On March 15, 2011, the Companies Law (Amendment no. 16), 2011 was made public. Its highlights are as follows:

- A majority of Audit Committee members of a public company would be independent Board members, as defined in the Act, and the Chairman of the Audit Committee would be an external Board member;
- The Audit Committee is authorized, *inter alia*, to decide, with regard to a transaction with an officer and to a transaction with a controlling shareholder, if these are ordinary or extraordinary transactions for their approval by law, and the Audit Committee is entitled to decide based on criteria to be set annually in advance;
- The Audit Committee is authorized to review the Internal Auditor's work plan prior to its submission for approval by the Board of Directors and may propose changes to the plan;
- The Audit Committee is authorized to review the independent auditor's scope of work and fees, and make its recommendations to the Board of Directors;
- The external Board members shall be appointed by the General Meeting by a majority of votes of shareholders who are not controlling shareholders of the company, or any of their proxies taking part in the vote;
- The term in office of an external Board member is three years, and they may be appointed for two additional terms of three years each, for a total of nine years (just like for an independent Board member, as defined in the Act);
- An external Board member shall be appointed for an additional term if nominated by the Board of Directors for an additional term and this appointment is lawfully confirmed, or if nominated by a shareholder holding at least one percent of voting rights in the company and this appointment is lawfully approved by a majority of votes at the General Meeting;
- An extraordinary transaction between a public company and its controlling shareholder requires approval by the Audit Committee, the Board of Directors and the General Meeting by a majority of votes of shareholders participating in the vote who have no personal interest in approval of the transaction;
- An extraordinary transaction between a public company and its controlling shareholder for a term longer than three years, requires lawful approval once every three years - unless the Audit Committee has approved that contracting for a longer term is reasonable under the circumstances;
- The ISA is authorized to impose a monetary sanction due to breach of certain provisions of the Corporate Act, under conditions specified in the Act;
- The addendum to the Act specifies recommended corporate governance provisions which the company may adopt in its Bylaws, or may disclose their non-adoption.

The effective start date of most sections of the Act is 60 days after publication there of, and some (primarily concerning the Audit Committee) - six months after publication, others - upon the effective start date of the ISA Enforcement Proceeding Streamlining Act (Legislative Amendments), 2011 and others yet - subject to appropriate transition provisions.
The Bank has applied and continues to apply the corporate governance principles reflected by the aforementioned amendments.

Measurement and disclosure of impaired debt, credit risk and provision for credit loss

On December 31, 2007, the Supervisor of Banks published his circular regarding “Measuring and Disclosure of Impaired Debt, Credit Risk and Provision for Credit Loss” (hereinafter: “the regulation”). On February 21, 2010, the Supervisor of Banks issued a letter in which it delayed implementation of this directive in financial statements of banking corporations, from January 1, 2010 to January 1, 2011 - without retrospective implementation in financial statements for prior periods. For details of the directive and its initial application, see Note 1.E.1. to the financial statements.

Proper Conduct of Banking Business Regulation No. 301 concerning "Board of Directors"

On December 29, 2010, the Supervisor of Banks issued an amendment to Regulation No. 301 concerning the Board of Directors, in conjunction with updating of Proper Conduct of Banking Business Regulations and adaptation there of to the Basel I framework. The regulation specified rules for Board operation, roles and authority, structure and composition, including its committees, processes for confirmation of Board member qualifications for their position etc. - all this in addition to provisions of the Corporate Act, 1999.
The Regulation emphasizes the Board's place and role in proper corporate governance of a banking corporation, specifies the Board's responsibility for business and financial robustness of the banking corporation and specifies the Board's roles in exercising this responsibility. Thus, for example, the Board must set corporate strategy and approve corporate policies, supervise management activities and their compliance with Board policy, ensure existence of clear responsibilities and reporting channels within the banking corporation, specify the organizational culture with regard to professional conduct and integrity etc.
The regulation further stipulates that the Board must discuss and set overall strategy objectives for the banking corporation group, and that the Board of a controlled entity must take into consideration the overall strategy objectives of the Group, in as much as they are in line with the best interest of the controlled entity.
As for credit, the Board is expected to focus on creating appropriate control and supervision structures over management activity, and to limit its involvement in credit approval.
Most of these amendments to the regulation shall become effective by January 1, 2012.
The Bank is preparing to implement the regulation.

Amendment of Proper Conduct of Banking Business Regulation 313 "Restrictions on indebtedness of borrowers and groups of borrowers"

On May 8, 2011, the Supervisor of Banks issued a circular amending Regulation 313 with regard to restrictions on indebtedness of borrowers and groups of borrowers, in conjunction with action to reduce concentration risk in the banking system. Below are highlights of the amended regulations:

- Imposition of stricter restrictions on the credit portfolio to borrowers and groups of borrowers, *inter alia* by applying an indebtedness limit on exposure to banks as well, amending the restriction on indebtedness of groups of borrowers from 30% to 25% of equity of the banking corporation, and setting a limit of 120% of equity of the banking corporation for total net indebtedness of borrowers, groups of borrowers and banking groups of borrowers whose net indebtedness to the banking corporation exceeds 10% of equity of the banking corporation.
- Updated definitions of indebtedness and deductions from indebtedness, in accordance with Basel II rules, except for derivative transactions to which a stricter rule is applied, in anticipation of expected changes due to new directives of the Basel Committee.
- Elimination of special processing of Bank commitments to clients, which was contingent on Bank compliance with restrictions pursuant to the aforementioned regulation.
- Updated definition of capital, in accordance with the change in definitions based on Basel II rules.
- Transition provisions are in place to handle exceptions created by initial application of provisions in this circular.

The effective start date of the amended directive is December 31, 2011, except for the amended definition of "equity", which is effective immediately. The Bank is preparing to comply with the directive and is reviewing the implications of its application.

Restriction on grant of housing loans bearing variable interest

On May 3, 2011, the Supervisor of Banks issued a letter, directing banking corporations to restrict the ratio of variable interest in housing loans to 33.3% of the total loan for loans approved in principle or refinanced as from May 5, 2011. This restriction does not apply to any refinancing in which the variable interest component of the loan is reduced. Further, a banking corporation may choose not to apply the restriction to loans denominated in foreign currency granted to foreign residents, nor to balloon loans whose original maturity is up to three years. This applies if the ratio of total housing loans bearing variable interest to total housing loans approved in principle as from May 5, 2011 granted in each quarter is up to 33.3%.
Further, the Supervisor of Banks instructed banking corporations to inform their clients of the implications of any potential increase in interest rates on their loans.

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

For details of highlights of recommendations of the Basel Committee and their application to banks in Israel and their implementation by the Bank, see the Board of Directors' Report as of December 31, 2010.

In conjunction with application of Basel II, Pillar 2 (Proper Conduct of Banking Business Regulation 211 - ICAAP Process), all risk types material to Bank operations have been mapped. ICAAP is a comprehensive process in which senior Bank executives are involved. The Bank has specified its risk appetite for all material risk types to its operations, authored policy documents for new risk types and extended existing policy documents, in conjunction with the ICAAP process. The risk appetite, risk mapping and determination of their materiality are submitted for approval by the Board of Directors' Risk Management Committee and the Board of Directors plenum, on an annual basis.

In May 2011, the Bank submitted to the Bank of Israel its ICAAP document (as of December 31, 2010), which reflects the Bank's assessment of the capital required to cover all risk to which the Bank is exposed in conjunction with its business operations, as per guidance from the Bank of Israel, and in coordination with Bank of Israel comments on the SREP process conducted at the Bank.

Results of the capital assessments conducted within this document, indicate that the Bank has sufficient capital to cover all risk factors to which it is exposed, both under normal and stress conditions.

In conjunction with the application of Pillar 2, the Bank continues in accordance with the work plan to regularly eliminate gaps identified vis-à-vis requirements of the Basel Committee in various risk areas, to deliver appropriate training to senior staff at the Bank and to improve its risk management and capital management policy documents in line with Pillar 2 directives.

Legal Proceedings

For material changes in legal proceedings to which the Bank is party, see Notes 6.C. 2) and 3) to the financial statements.

Determination by 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 Restrictive Trade Practices 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's inquiry into this matter, in November 2004. This is a civil determination which constitutes a-priori evidence of its content f in any legal proceeding.

For more details, including consent of the parties to refer this case to arbitration, see Note 6.D.4) to the interim financial statements.

Other Matters

The independent auditor has drawn, in their review, attention to Note 6.C.2)-3) to the financial statements with regard to claims filed against the Bank, including claims accompanied by applications for class action status.

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 2010 financial statements. No material changes occurred in these details during the reported period.

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 itemized in the Board of Directors' report as of December 31, 2010. The processes of preparing, auditing and approving the financial statements involve additional organs and officers as set forth below.

The Bank's financial statements are prepared by a professional department, headed by the Chief Accountant, pursuant to directives and guidance from the Supervisor of Banks and in accordance with the disclosure policy set by the Bank's Board of Directors.

Concurrently with preparing 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 or 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 controls over 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 details of names and positions of bank executives, see the chapter on Bank management in the Board of Directors' report as of December 31, 2010.

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, the Chief Legal Counsel and credit professionals. 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 with respect to 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 policies, requests or demands by regulatory authorities and issues on which Bank management and the independent auditor differ. As part of presentation of these issues to the Disclosure Committee, the independent auditor'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's 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. The Board of Directors at its meeting on January 24, 2011, resolved to approve for the Balance Sheet Committee to serve as a Financial Statement Review Committee, pursuant to Companies Regulations (Provisions and Conditions Concerning Approval Process of Financial Statements), 2010 (hereinafter: "regulations concerning financial statements approval process") and to be renamed "the Financial Statement Review Committee".

For this matter, note that in order to meet the condition satted in the regulations concerning financial statements approval process, whereby a majority of Committee members shall be independent Board members, the Board of Directors' Audit Committee confirmed on January 10, 2011, that qualifications for appointment of an external Board member are met for Board members: Dov Mishor, Gideon Sitterman, Avi Ziegelman and Yossi Shachak, and therefore the Audit Committee classified all of these Board members as independent Board members, as this term is defined in the Act. The Board of Directors further assessed on January 24, 2011, for good measure, in relying on statements by the Board members, that each of Board members: Dov Mishor, Gideon Sitterman, Avi Ziegelman, Yossi Shachak and Avraham Shochat have accounting and financial expertise. The Board of Directors at that meeting further resolved to reappoint Board members: Dov Mishor, Gideon Sitterman, Avi Ziegelman, Yossi Shachak and Avraham Shochat as members of the Financial Statements Review Committee, as from the date of that resolution, and to appoint Mr. Avi Ziegelman Chairman of the Financial Statements Review Committee, as from the date of that resolution, replacing Mr. Avraham Shochat who concluded his term in office as Committee Chairman upon that date.

Further to the Audit Committee's resolution dated January 10, 2011 with regard to classification of independent Board members, the Audit Committee resolved, on May 11, 2011, to reclassify each of the following Board members: Messrs. Dov Mishor and Yossi Shachak as "independent Board members", as defined in Section 1 of the Companies Law, 1999, as amended by the Companies Law (Amendment 16), 2011. This is based on statements by the aforementioned Board members and in view of additional conditions required for classification of Board members as independent.

The Financial Statements Review Committee reviews the assessments and estimates made in conjunction with the financial statements, internal controls associated with financial reporting, completeness and appropriateness of disclosure on financial statements; accounting policy adopted and accounting treatment applied to material issues of the corporation; valuations, including underlying assumptions and estimates, on which data on the financial statements relies.

Meetings of the Financial Statements Review Committee are also attended by the Chief Accountant, the Chief Legal Counsel and the independent auditors. The Chief Internal Auditor is invited to attend Committee meetings.

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

The Financial Statements Review Committee convenes twice to discuss the quarterly financial statements and three times to discuss the annual financial statements, with the final meeting held at least one week prior to the Board of Directors plenary meeting to approve the financial statements.

After discussions are concluded by the Board Financial Statements Review Committee, its recommendations along with the draft financial statements are submitted to the Board of Directors, so that Board members receive the documents at least three days prior to the discussion by the Board of Directors.
In conjunction with discussion by the Board of Directors, the Chief Accountant presents the financial results and analysis thereof. The Chairman of the Financial Statements Review Committee brings the Financial Statements Review Committee's recommendations on matters discussed there to the Board of Directors for approval of the financial statements. The Board of Directors' meeting to discuss approval of the financial statements is attended, other than by members of the Board, by the President, Chief Accountant, Chief Legal Counsel, Chief Internal Auditor and independent auditors, as well as other participants invited to attend on per-case basis. The independent auditors present their comments.

At the end of this discussion, a resolution is passed to approve the Bank's financial statements and to authorize the Chairman of the Board of Directors, the President and the Chief Accountant to sign the financial statements.

Board of Directors

During the first quarter of 2011, the Bank Board of Directors held 7 plenary meetings and 19 Board committee meetings. In this period, no changes were made to the Bank's Articles of Incorporation nor to its Bylaws.
The Board of Directors at its meeting on January 24, 2011, resolved to approve for the Balance Sheet Committee to serve as a Financial Statement Review Committee, pursuant to Companies Regulations (Provisions and Conditions Concerning Approval Process of Financial Statements), 2010 and to be renamed "the Financial Statement Review Committee". It was further resolved to appoint Mr. Avi Ziegelman Chairman of the Financial Statements Review Committee, as from the date of the resolution, replacing Mr. Avraham Shochat who concluded his term in office as Committee Chairman upon that date.
On February 28, 2011, Mr. Avi Ziegelman, Mr. Moshe Wertheim and Mr. Avraham (Baiga) Shochat concluded their terms in office as members of the Risk Management Committee.

On May 12, 2011, Mr. Jonathan Kaplan was appointed Board member with the Bank.

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 over the financial reporting", which was attached to the financial statements as of December 31, 2010.

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 President 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, that 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.

During the quarter ended March 31, 2011, no change occurred in the Bank's internal controls over financial reporting that had a material effect, or can reasonably be expected to have a material effect on the Bank's internal control over financial reporting.

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

Ramat Gan, May 29, 2011

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

Reported amounts (NIS in millions)

	For the three months ended March 31, 2011				For the three months ended March 31, 2010			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance (2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance (2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Israeli currency - non-linked								
Assets (3)	68,109	695	4.14		59,767	477	3.23	
Effect of embedded and ALM derivatives (4)	73,310	415			46,769	349		
Total assets	**141,419**	**1,110**		**3.18**	**106,536**	**826**		**3.14**
Liabilities (3)	66,732	(277)	(1.67)		55,507	(118)	(0.85)	
Effect of embedded and ALM derivatives (4)	71,119	(272)			44,387	(318)		
Total liabilities	**137,851**	**(549)**		**(1.60)**	**99,894**	**(436)**		**(1.76)**
Interest margin			**2.47**	**1.57**			**2.38**	**1.38**
Israeli currency - linked to the CPI								
Assets (3)	42,424	743	7.19		37,109	40	0.43	
Effect of embedded and ALM derivatives (4)	3,466	37			3,283	(15)		
Total assets	**45,890**	**780**		**6.97**	**40,392**	**25**		**0.25**
Liabilities (3)	33,736	(553)	(6.72)		31,163	2	0.03	
Effect of embedded and ALM derivatives (4)	9,516	(111)			7,770	41		
Total liabilities	**43,252**	**(664)**		**(6.28)**	**38,933**	**43**		**0.44**
Interest margin			**0.47**	**0.69**			**0.46**	**0.69**

See remarks below.

Management Review - Addendum A

Revenue and Expense Rates – Consolidated (1) - Continued

Reported amounts (NIS in millions)

	For the three months ended March 31, 2011				For the three months ended March 31, 2010			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance (2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance (2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Foreign currency (5)								
Assets (3)	19,370	56	1.16		18,450	(541)	(11.22)	
Effect of derivatives (4)								
Hedging derivatives	2,438	27			1,177	17		
Embedded and ALM derivatives	53,641	125			40,393	(955)		
Total assets	**75,449**	**208**		**1.11**	**60,020**	**(1,479)**		**(9.50)**
Liabilities (3)	22,864	1	0.02		21,093	793	14.21	
Effect of derivatives (4)								
Hedging derivatives	2,438	(31)			1,272	(16)		
Embedded and ALM derivatives	49,779	(67)			38,215	806		
Total liabilities	**75,081**	**(97)**		**(0.52)**	**60,580**	**1,583**		**10.05**
Interest margin			**1.18**	**0.59**			**2.99**	**0.55**

See remarks below.

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

Reported amounts (NIS in millions)

	For the three months ended March 31, 2011				For the three months ended March 31, 2010			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance (2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance (2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Total								
Monetary assets generating financing income (3)	129,903	1,494	4.68		115,326	(24)	(0.08)	
Effect of derivatives (4)								
Hedging derivatives	2,438	27			1,177	17		
Embedded and ALM derivatives	130,417	577			90,445	(621)		
Total assets	**262,758**	**2,098**		**3.23**	**206,948**	**(628)**		**(1.21)**
Monetary liabilities generating financing expenses (3)	123,332	(829)	(2.72)		107,763	677	2.49	
Effect of derivatives (4)								
Hedging derivatives	2,438	(31)			1,272	(16)		
Embedded and ALM derivatives	130,414	(450)			90,372	529		
Total liabilities	**256,184**	**(1,310)**		**(2.06)**	**199,407**	**1,190**		**2.37**
Interest margin			**1.96**	**1.17**			**2.41**	**1.16**
On options			(149)			(18)		
On other derivative instruments (excludes options, hedging and ALM derivatives and embedded derivatives that were detached (4)			29			11		
Commissions from financing transactions and other financing income (6)			92			88		
Other financing expenses			(8)			(13)		
Profit from financing operations before provision for doubtful debts			752			630		
Provision for doubtful debts (includes general and supplementary provision)			(54)			(57)		
Profit from financing operations after provision for doubtful debts			698			573		

See remarks below.

Management Review - Addendum A

Revenue and Expense Rates – Consolidated (1) - Continued

Reported amounts (NIS in millions)

	For the three months ended March 31, 2011	For the three months ended March 31, 2010
	Average balance (2)	Average balance (2)
Total		
Monetary assets generating financing income (3)	129,903	115,326
Assets deriving from derivatives (7)	3,006	1,937
Other monetary assets (3)	850	721
General and supplementary provision for doubtful debts(8)	(227)	(210)
Total monetary assets	**133,532**	**117,774**
Total		
Monetary liabilities generating financing expenses (3)	123,332	107,763
Liabilities deriving from derivatives (7)	2,173	2,120
Other monetary liabilities (3)	1,797	1,928
Total monetary liabilities	**127,302**	**111,811**
Total excess monetary assets over monetary liabilities	6,230	5,963
Non-monetary assets	1,436	1,322
Non-monetary liabilities	284	248
Total capital resources	**7,382**	**7,037**

(1) The data in this table is provided before and after effect of derivatives (including off-balance sheet effects of financial derivatives).
(2) Based on monthly opening balances, except for non-linked Israeli currency, where average balance is calculated based on daily data net of average balance sheet balance of specific provisions for doubtful debts
(3) Excludes financial derivatives.
(4) Hedging financial derivatives, embedded derivatives that were detached and derivatives (ALM) which comprise part of the Bank's asset and liability management system.
(5) Including Israeli currency linked to foreign currency.
(6) Includes gain from sale of investments in debentures and from the adjustment to fair value of debentures held for trading.
(7) Average balance sheet balances of financial derivatives (excludes average off-balance sheet balances of financial derivatives).
(8) For the three months ended March 31, 2010, The data Presented is the averge balance of the general and supplementary provision for doubtful debts.

Management Review - Addendum A
Revenue and Expense Rates – Consolidated [1] - Continued

Nominal – in USD (USD in millions)

	For the three months ended March 31, 2011				For the three months ended March 31, 2010			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance [2]	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance [2]	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
				in %				in %
Foreign currency [5]								
Monetary assets in foreign currency generating financing income [3]	5,122	32	2.52		4,852	27	2.24	
Effect of derivatives [4]								
Hedging derivatives	677	5			315	8		
Embedded and ALM derivatives	14,886	25			10,796	53		
Total assets	**20,685**	**62**		**1.20**	**15,963**	**88**		**2.22**
Monetary liabilities in foreign currency [3] שהניבו הוצאות מימון	6,268	(10)	(0.64)		5,612	(6)	(0.43)	
Effect of derivatives [4]								
Hedging derivatives	677	(5)			340	(7)		
Embedded and ALM derivatives	13,814	(19)			10,214	(47)		
Total liabilities	**20,759**	**(34)**		**(0.66)**	**16,166**	**(60)**		**(1.49)**
Interest margin			**1.88**	**0.55**			**1.81**	**0.73**

(1) The data in this table is provided before and after effect of derivatives (including off-balance sheet effects of financial derivatives).
(2) Based on monthly opening balances and excluding the average balance sheet balance of specific provision for doubtful debts.
(3) Excludes financial derivatives.
(4) Hedging financial derivatives (excluding options), embedded derivatives that were detached and derivatives (ALM) which comprise part of the Bank's 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)

	March 31, 2011					
	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						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets [(1)]	64,476	1,240	2,350	2,147	622	454
Financial derivatives (except for options)	32,019	7,476	19,974	6,074	1,916	3,961
Options (in terms of underlying asset)	(333)	(154)	(635)	26	-	-
Total fair value	**96,162**	**8,562**	**21,689**	**8,247**	**2,538**	**4,415**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities [(1)]	56,351	2,862	4,378	3,760	2,420	251
Financial derivatives (except for options)	29,822	9,901	16,740	4,993	1,775	4,079
Options (in terms of underlying asset)	42	616	(137)	(4)	-	-
Total fair value	**86,215**	**13,379**	**20,981**	**8,749**	**4,195**	**4,330**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	9,947	(4,817)	708	(502)	(1,657)	85
Cumulative exposure in sector	9,947	5,130	5,838	5,336	3,679	3,764

Specific remarks:

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

(2) Weighted average by fair value of average effective duration.

General notes:

- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value recognized for the financial instruments in Note 8A of the financial statements.
- Internal rate of return is the interest rate which discounts the expected cash flows from a financial instrument to its fair value included in Note 8A. of the financial statements.
- Average effective duration of a group of financial instruments is an approximation of the change, in percent, in fair value of the group of financial instruments which would be caused by a minor change (0.1% increase) in the internal rate of return of each of the financial instruments.
- Certain transactions conducted by the Bank constitute complex financial instruments, which include embedded derivatives not detached, in accordance with public reporting directives. These transactions include, *inter alia*, loans with exit points, deposits bearing gradual interest rates with withdrawal dates, credit and deposits with guaranteed minimum and deposits with optional linkage. The Bank reflects the interest rate risk with respect to these instruments in a reasonable manner, by spreading maturities of the cash flows in accordance with contract dates, and with various assumptions based on past experience. The instruments for which exposure to interest rate risk may not be reasonably reflected by spreading it over the appropriate contractual dates, are non-material in amount.

								As of March 31, 2010			As of December 31, 2009
10-20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective term to maturity	Total fair value	Internal rate of return	Average effective term to maturity	Total fair value	Internal rate of return	Average effective term to maturity
				In %	in years		In %	in years		In %	in years
44	-	506	71,839	4.45	0.45	60,626	3.48	0.33	67,941	4.14	0.40
-	-	-	71,420		0.94	50,519		1.31	70,088		1.01
-	-	-	(1,096)		0.18	(1,392)		0.29	2,165		0.09
44	**-**	**506**	**142,163**		**0.70**	**109,753**		**0.78**	**140,194**		**0.70**
121	(52)	-	70,091	3.82	0.32	58,279	2.53	0.31	67,310	3.26	0.30
-	-	-	67,310		1.16	48,551		1.06	66,520		1.13
-	-	-	517		0.49	(573)		0.27	2,899		0.14
121	**(52)**	**-**	**137,918**		**0.73**	**106,257**		**0.65**	**136,729**		**0.70**
(77)	52	506	4,245								
3,687	3,739	4,245	4,245								

Management Discussion - Addendum B (continued)
Exposure of the Bank and its Subsidiaries
To changes in interest rates

Reported amounts (NIS in millions)

	As of March 31, 2011					
	On Call to 1 month	1-3 months	3 months to 1 year	1-3 years	3-5 years	5-10 years
Israeli currency - linked to the CPI						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets (1)	640	2,215	9,719	15,075	8,797	5,942
Financial derivatives (except for options)	171	178	120	1,341	744	954
Total fair value	**811**	**2,393**	**9,839**	**16,416**	**9,541**	**6,896**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities (1)	639	1,464	5,882	8,543	7,767	6,858
Financial derivatives (except for options)	2	1,011	4,782	2,555	544	1,122
Total fair value	**641**	**2,475**	**10,664**	**11,098**	**8,311**	**7,980**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	170	(82)	(825)	5,318	1,230	(1,084)
Cumulative exposure in sector	170	88	(737)	4,581	5,811	4,727

Specific remarks:

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

(2) Weighted average by fair value of average effective duration.

General notes:

- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value recognized for the financial instruments in Note 8A of the financial statements.
- Internal rate of return is the interest rate which discounts the expected cash flows from a financial instrument to its fair value included in Note 8A. of the financial statements.
- Average effective duration of a group of financial instruments is an approximation of the change, in percent, in fair value of the group of financial instruments which would be caused by a minor change (0.1% increase) in the internal rate of return of each of the financial instruments.
- Certain transactions conducted by the Bank constitute complex financial instruments, which include embedded derivatives not detached, in accordance with public reporting directives. These transactions include, *inter alia*, loans with exit points, deposits bearing gradual interest rates with withdrawal dates, credit and deposits with guaranteed minimum and deposits with optional linkage. The Bank reflects the interest rate risk with respect to these instruments in a reasonable manner, by spreading maturities of the cash flows in accordance with contract dates, and with various assumptions based on past experience. The instruments for which exposure to interest rate risk may not be reasonably reflected by spreading it over the appropriate contractual dates, are non-material in amount.

						As of March 31, 2010			As of December 31, 2009		
10-20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective term to maturity	Total fair value	Internal rate of return	Average effective term to maturity	Total fair value	Internal rate of return	Average effective term to maturity
				In %	in years		In %	in years		In %	in years
1,212	(65)	97	43,632	2.90	2.75	38,610	3.14	3.37	42,760	2.84	3.28
-	-	-	3,508		3.25	3,927		3.13	3,894		3.06
1,212	**(65)**	**97**	**47,140**		**2.79**	**42,537**		**3.35**	**46,654**		**3.26**
2,774	325	4	34,256	3.12	4.51	33,162	2.63	4.55	34,820	2.64	4.74
-	-	-	10,016		1.48	7,630		1.60	8,701		1.44
2,774	**325**	**4**	**44,272**		**3.82**	**40,792**		**4.00**	**43,521**		**4.08**
(1,562)	(390)	93	2,868								
3,165	2,775	2,868	2,868								

Management Discussion - Addendum B (continued)
Exposure of the Bank and its Subsidiaries
To changes in interest rates

Reported amounts (NIS in millions)

	As of March 31, 2011					
	On Call to 1 month	1-3 months	3 months to 1 year	1-3 years	3-5 years	5-10 years
Foreign currency [1]						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets [2]	7,409	5,719	1,639	734	1,284	435
Financial derivatives (except for options)	28,056	9,118	14,182	1,447	928	2,872
Options (in terms of underlying asset)	1,852	720	(11)	(3)	-	-
Total fair value	**37,317**	**15,557**	**15,810**	**2,178**	**2,212**	**3,307**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities [2]	13,196	6,939	2,731	(155)	(182)	14
Financial derivatives (except for options)	28,057	6,693	14,076	1,797	1,171	3,343
Options (in terms of underlying asset)	(171)	(33)	(514)	(2)	-	-
Total fair value	**41,082**	**13,599**	**16,293**	**1,640**	**989**	**3,357**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	(3,765)	1,958	(483)	538	1,223	(50)
Cumulative exposure in sector	(3,765)	(1,807)	(2,290)	(1,752)	(529)	(579)

Specific remarks:

(1) Including Israeli currency linked to foreign currency.

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

(3) Weighted average by fair value of average effective duration.

General notes:

- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value recognized for the financial instruments in Note 8A of the financial statements.
- Internal rate of return is the interest rate which discounts the expected cash flows from a financial instrument to its fair value included in Note 8A. of the financial statements.
- Average effective duration of a group of financial instruments is an approximation of the change, in percent, in fair value of the group of financial instruments which would be caused by a minor change (0.1% increase) in the internal rate of return of each of the financial instruments.
- Certain transactions conducted by the Bank constitute complex financial instruments, which include embedded derivatives not detached, in accordance with public reporting directives. These transactions include, *inter alia*, loans with exit points, deposits bearing gradual interest rates with withdrawal dates, credit and deposits with guaranteed minimum and deposits with optional linkage. The Bank reflects the interest rate risk with respect to these instruments in a reasonable manner, by spreading maturities of the cash flows in accordance with contract dates, and with various assumptions based on past experience. The instruments for which exposure to interest rate risk may not be reasonably reflected by spreading it over the appropriate contractual dates, are non-material in amount.

10-20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective term to maturity	As of March 31, 2010 Total fair value	Internal rate of return	Average effective term to maturity	As of December 31, 2009 Total fair value	Internal rate of return	Average effective term to maturity
				In %	in years		In %	in years		In %	in years
60	31	54	17,365	2.64	0.83	18,973	3.03	1.12	19,593	2.72	0.67
-	-	-	56,603		1.21	46,445		1.17	59,622		1.09
-	-	-	2,558		0.47	(1,008)		0.27	3,777		0.37
60	**31**	**54**	**76,526**		**1.10**	**64,410**		**1.17**	**82,992**		**0.96**
16	-	3	22,562	1.57	0.28	21,282	1.58	0.96	21,986	1.16	0.35
-	-	-	55,137		1.24	44,863		1.36	58,497		1.13
-	-	-	(720)		0.46	(1,764)		0.26	2,394		0.32
16	**-**	**3**	**76,979**		**0.97**	**64,381**		**1.26**	**82,877**		**0.90**
44	31	51	(453)								
(535)	(504)	(453)	(453)								

Management Discussion - Addendum B (continued)
Exposure of the Bank and its Subsidiaries
To changes in interest rates

Reported amounts (NIS in millions)

	As of March 31, 2011					
	On Call to 1 month	1-3 months	3 months to 1 year	1-3 years	3-5 years	5-10 years
Non Monetary segment						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Options (in terms of underlying asset)	2	16	2	(28)	-	-
Total fair Value	**2**	**16**	**2**	**(28)**	**-**	**-**
Total exposure to interest rate fluctuations						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets (1)(2)	72,525	9,174	13,708	17,956	10,703	6,831
Financial derivatives (except for options)	60,246	16,772	34,276	8,862	3,588	7,787
Options (in terms of underlying asset)	1,521	582	(644)	(5)	-	-
Total fair value	**134,292**	**26,528**	**47,340**	**26,813**	**14,291**	**14,618**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities (1)	70,186	11,265	12,991	12,148	10,005	7,123
Financial derivatives (except for options)	57,881	17,605	35,598	9,345	3,490	8,544
Options (in terms of underlying asset)	(129)	583	(651)	(6)	-	-
Total fair value	**127,938**	**29,453**	**47,938**	**21,487**	**13,495**	**15,667**
Financial instruments, net						
Total exposure to interest rate fluctuations	6,354	(2,925)	(598)	5,326	796	(1,049)
Total cumulative exposure	6,354	3,429	2,831	8,157	8,953	7,904

Specific remarks:

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

(2) Includes shares presented in the column "without maturity".

(3) Weighted average by fair value of average effective duration.

General notes:

- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value recognized for the financial instruments in Note 8A of the financial statements.
- Internal rate of return is the interest rate which discounts the expected cash flows from a financial instrument to its fair value included in Note 8A. of the financial statements.
- Average effective duration of a group of financial instruments is an approximation of the change, in percent, in fair value of the group of financial instruments which would be caused by a minor change (0.1% increase) in the internal rate of return of each of the financial instruments.
- Certain transactions conducted by the Bank constitute complex financial instruments, which include embedded derivatives not detached, in accordance with public reporting directives. These transactions include, *inter alia*, loans with exit points, deposits bearing gradual interest rates with withdrawal dates, credit and deposits with guaranteed minimum and deposits with optional linkage. The Bank reflects the interest rate risk with respect to these instruments in a reasonable manner, by spreading maturities of the cash flows in accordance with contract dates, and with various assumptions based on past experience. The instruments for which exposure to interest rate risk may not be reasonably reflected by spreading it over the appropriate contractual dates, are non-material in amount.

10-20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective term to maturity	As of March 31, 2010 Total fair value	Internal rate of return	Average effective term to maturity	As of December 31, 2009 Total fair value	Internal rate of return	Average effective term to maturity
				In %	in years		In %	in years		In %	in years
-	-	-	(8)			-			11		
-	**-**	**-**	**(8)**			**-**			**11**		
1,316	(34)	657	132,836	3.71	1.25	118,209	3.30	1.45	130,294	3.50	1.38
-	-	-	131,531		1.12	100,891		1.32	133,604		1.11
-	-	-	1,454		0.68	(2,400)		0.28	5,953		0.27
1,316	**(34)**	**657**	**265,821**		**1.18**	**216,700**		**1.40**	**269,851**		**1.22**
2,911	273	7	126,909	3.23	1.45	112,723	2.38	1.68	124,116	2.71	1.56
-	-	-	132,463		1.22	101,044		1.23	133,718		1.15
-	-	-	(203)		0.39	(2,337)		0.26	5,293		0.22
2,911	**273**	**7**	**259,169**		**1.33**	**211,430**		**1.48**	**263,127**		**1.32**
(1,595)	(307)	650	6,652								
6,309	6,002	6,652	6,652								

Management Review - Addendum C
Credit Risk by Economic Sector - Consolidated
As of March 31, 2011

Reported amounts (NIS in millions)

	Credit risk to the public							
	Balance sheet credit risk				Off-balance sheet credit risk [1]			
	Credit	Debentures [6]	Fair value of derivatives	Total	Guarantees and other commitments on account of clients	Future transactions	Total	Total credit risk of the public
Agriculture	618	-	-	618	207	5	212	830
Industry	5,874	18	39	5,931	4,460	478	4,938	10,869
Construction and real estate [7]	7,143	43	2	7,188	12,456	43	12,499	19,687
Electricity and water	157	24	188	369	1,234	241	1,475	1,844
Commerce	5,898	-	22	5,920	2,262	153	2,415	8,335
Hotel and food services	284	-	-	284	99	-	99	383
Transport and storage	848	-	26	874	526	107	633	1,507
Communications and computer services	1,527	23	16	1,566	295	74	369	1,935
Financial services	6,372	25	962	7,359	8,180	2,309	10,489	17,848
Other business services	3,178	-	4	3,182	764	80	844	4,026
Public and community services	891	-	10	901	245	111	356	1,257
Private individuals - housing loans	64,238	-	-	64,238	3,126	-	3,126	67,364
Private individuals - other	11,761	-	20	11,781	9,662	47	9,709	21,490
Total	**108,789**	**133**	**1,289**	**110,211**	**43,516**	**3,648**	**47,164**	**157,375**
For borrowers' activities overseas	2,953	-	9	2,962	560	81	641	3,603
Total credit risk to public	**111,742**	**133**	**1,298**	**113,173**	**44,076**	**3,729**	**47,805**	**160,978**
Credit risk exposures other than with respect to the public								
Banking corporations	2,597	777	1,926	5,300	389	10,237	10,626	15,926
Government	11,553	4,842	-	16,395	276	-	276	16,671
Total credit risk	**125,892**	**5,752**	**3,224**	**134,868**	**44,741**	**13,966**	**58,707**	**193,575**
Credit risk to public included under various economic sectors:								
Settlement movements [4]	1,118	-	1	1,119	443	14	457	1,576
Local authorities [5]	171	-	-	171	26	-	26	197

(1) Credit risk for off-balance sheet financial instruments, as calculated for the purpose of per-borrower credit limitations.
(2) On- and off-balance sheet credit risk with respect to the public which is impaired, inferior or under special supervision, except for on- and off-balance sheet credit risk with respect to individuals.
(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).
(4) KIBBUTZIM and MOSHAVIM, regional and national organizations, and corporations controlled by the settlement movements.
(5) Includes entities under their control.
(6) Includes borrowed securities amounting to NIS 173 million.
(7) Including housing loans extended to certain purchase groups which are in the process of construction, amounting to NIS 2,405 million.

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

	Credit risk to the public				Credit loss [3]
	Credit risk to the public includes:				
	Problem commercial credit risk [2]	Impaired loans to the public	Expenses with respect to credit loss	Net accounting write-off	Balance of provision for credit loss
	13	11	(4)	70	(2)
	310	209	(3)	414	125
	1,173	448	8	359	223
	1	-	-	12	-
	170	102	4	231	80
	14	8	1	26	5
	22	10	(2)	20	9
	22	19	-	11	22
	1,256	1,107	(19)	75	823
	121	102	23	72	64
	117	74	-	114	10
	-	-	10	-	932
	-	159	29	415	181
	3,219	2,249	47	1,819	2,472
	34	54	-	-	34
	3,253	2,303	47	1,819	2,506
	14	14	7	-	16
	-	-	-	-	-
	3,267	2,317	54	1,819	2,522
			-		
	153	82	6	81	16
	20	-	-	-	3

Management Discussion - Addendum C (continued)

Credit Risk by Economic Sector - Consolidated

As of March 31, 2010

Reported amounts (NIS in millions)

	Balance sheet credit risk				Off-balance sheet credit risk [1]					
	Credit	Debentures [5]	Fair value of derivatives	Total	Guarantees and other commitments on account of clients	Future transactions	Total	Total credit risk of the public	Expense for the first three months of 2010 with respect to specific provision for doubtful debts	Balance of problem loans [2]
Agriculture	642	-	-	642	274	2	276	918	-	33
Industry	5,458	13	31	5,502	4,218	425	4,643	10,145	4	205
Construction and real estate	6,924	40	52	7,016	9,936	108	10,044	17,060	3	1,239
Electricity and water	266	63	202	531	516	143	659	1,190	-	1
Commerce	5,198	-	33	5,231	3,123	246	3,369	8,600	4	186
Hotel and food services	236	-	2	238	67	9	76	314	1	40
Transport and storage	776	-	61	837	541	154	695	1,532	-	31
Communications and computer services	536	23	26	585	699	102	801	1,386	2	52
Financial services	6,265	49	252	6,566	6,201	1,369	7,570	14,136	44	1,066
Other business services	2,860	-	10	2,870	1,095	56	1,151	4,021	1	529
Public and community services	758	-	-	758	394	4	398	1,156	(2)	117
Individuals: Housing loans [6]	53,314	-	-	53,314	5,552	-	5,552	58,866	(16)	1,041
Other	10,703	-	16	10,719	9,160	70	9,230	19,949	18	499
Total	**93,936**	**188**	**685**	**94,809**	**41,776**	**2,688**	**44,464**	**139,273**	**59**	**5,039**
For borrowers' activities overseas	3,300	-	102	3,402	428	97	525	3,927	4	45
Total credit risk to public	**97,236**	**188**	**787**	**98,211**	**42,204**	**2,785**	**44,989**	**143,200**	**63**	**5,084**
Credit risk exposure other than to the public:										
Banking corporations	1,951	961	1,048	3,960	408	8,848	9,256	13,216	-	43
Government	6,279	8,544	-	14,823	288	-	288	15,111	-	-
Total credit risk	**105,466**	**9,693**	**1,835**	**116,994**	**42,900**	**11,633**	**54,533**	**171,527**	**63**	**5,127**
Credit risk to public included under various economic sectors:										
Settlement movements [3]	1,312	-	3	1,315	583	22	605	1,920	(2)	61
Local authorities [4]	139	-	-	139	38	-	38	177	-	33

(1) Credit risk for off-balance sheet financial instruments, as calculated for the purpose of per-borrower credit limitations.
(2) Balance of problem loans net of loans covered by collateral that may be deducted for the purpose of calculating the per-borrower credit limits of an individual borrower and a group of borrowers, including elements of off-balance sheet risk.
(3) KIBBUTZIM and MOSHAVIM, regional and national organizations, and corporations controlled by the settlement movements.
(4) Includes entities under their control.
(5) Includes borrowed securities amounting to NIS 257 million.

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

Management Discussion - Addendum C (continued)
Credit Risk by Economic Sector - Consolidated
As of December 31, 2010

Reported amounts (NIS in millions)

	Balance sheet credit risk				Off-balance sheet credit risk [1]					
	Credit	Debentures [5]	Fair value of derivatives	Total	Guarantees and other commitments on account of clients	Future transactions	Total	Total credit risk of the public	Annual expense with respect to specific provision for doubtful debts	Balance of problem loans [2]
Agriculture	606	-	-	606	206	2	208	814	-	13
Industry	5,272	18	32	5,322	4,489	357	4,846	10,168	11	229
Construction and real estate [6]	7,151	45	4	7,200	12,454	22	12,476	19,676	1	1,233
Electricity and water	320	24	244	588	955	261	1,216	1,804	2	1
Commerce	5,630	-	16	5,646	2,152	162	2,314	7,960	21	173
Hotel and food services	240	-	-	240	79	-	79	319	2	37
Transport and storage	822	-	29	851	518	82	600	1,451	1	35
Communications and computer services	1,553	24	16	1,593	310	88	398	1,991	3	20
Financial services [7]	6,188	44	1,153	7,385	7,509	2,107	9,616	17,001	357	650
Other business services	3,102	-	4	3,106	963	50	1,013	4,119	4	224
Public and community services	882	-	-	882	352	3	355	1,237	1	94
Private individuals - housing loans	60,840	-	-	60,840	4,686	-	4,686	65,526	(3)	877
Private individuals – other [7]	11,402	-	28	11,430	8,699	67	8,766	20,196	64	504
Total	**104,008**	**155**	**1,526**	**105,689**	**43,372**	**3,201**	**46,573**	**152,262**	**464**	**4,090**
For borrowers' activities overseas	3,247	-	10	3,257	431	70	501	3,758	7	96
Total credit risk to public	**107,255**	**155**	**1,536**	**108,946**	**43,803**	**3,271**	**47,074**	**156,020**	**471**	**4,186**
Credit risk exposures other than with respect to the public										
Banking corporations	1,514	743	1,842	4,099	396	11,268	11,664	15,763	-	26
Government	10,390	6,658	-	17,048	280	-	280	17,328	-	-
Total credit risk	**119,159**	**7,556**	**3,378**	**130,093**	**44,479**	**14,539**	**59,018**	**189,111**	**471**	**4,212**
Credit risk to public included under various economic sectors:										
Settlement movements [3]	1,213	-	-	1,213	548	10	558	1,771	(6)	79
Local authorities [4]	167	-	-	167	25	-	25	192	-	37

(1) Credit risk for off-balance sheet financial instruments, as calculated for the purpose of per-borrower credit limitations.
(2) Balance of problem loans net of loans covered by collateral that may be deducted for the purpose of calculating the per-borrower credit limits of an individual borrower and a group of borrowers, including elements of off-balance sheet risk.
(3) KIBBUTZIM and MOSHAVIM, regional and national organizations, and corporations controlled by the settlement movements.
(4) Includes entities under their control.
(5) Includes borrowed securities amounting to NIS 247 million.
(6) Including housing loans extended to certain purchase groups which are in the process of construction, amounting to NIS 2,394 million.
(7) Reclassified

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

Management Discussion - Addendum C (continued)

Credit Risk by Economic Sector - Average balances - Consolidated

For the three months ended March 31, 2011

Reported amounts (NIS in millions)

	Balance sheet credit risk				Off-balance sheet credit risk [1]			
	Credit	Debentures [5]	Fair value of derivatives	Total	Guarantees and other commitments on account of clients	Future transactions	Total	Total credit risk of the public
Agriculture	625	-	-	625	206	4	210	835
Industry	5,610	18	36	5,664	4,475	417	4,892	10,556
Construction and real estate	7,215	44	3	7,262	12,455	32	12,487	19,749
Electricity and water	238	24	216	478	1,095	251	1,346	1,824
Commerce	5,791	-	19	5,810	2,207	157	2,364	8,174
Hotel and food services	263	-	-	263	89	-	89	352
Transport and storage	811	-	28	839	522	94	616	1,455
Communications and computer services	1,541	23	16	1,580	302	81	383	1,963
Financial services	6,814	35	1,057	7,906	7,844	2,209	10,053	17,959
Other business services	3,106	-	4	3,110	863	65	928	4,038
Public and community services	882	-	5	887	298	57	355	1,242
Private individuals - housing loans	62,959	-	-	62,959	3,906	-	3,906	66,865
Private individuals - other	11,351	-	24	11,375	9,181	57	9,238	20,613
Total	**107,206**	**144**	**1,408**	**108,758**	**43,443**	**3,424**	**46,867**	**155,625**
For borrowers' activities overseas	3,107	-	9	3,116	495	76	571	3,687
Total credit risk to public	**110,313**	**144**	**1,417**	**111,874**	**43,938**	**3,500**	**47,438**	**159,312**
Credit risk exposures other than with respect to the public								
Banking corporations	2,056	765	1,884	4,705	393	10,752	11,145	15,850
Government	10,972	6,128	-	17,100	278	-	278	17,378
Total credit risk	**123,341**	**7,037**	**3,301**	**133,679**	**44,609**	**14,252**	**58,861**	**192,540**
Credit risk to the public included under various economic sectors:								
Settlement movements [3]	1,141	-	1	1,142	496	12	508	1,650
Local authorities [4]	169	-	-	169	26	-	26	195

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

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

(3) KIBBUTZIM and MOSHAVIM, regional and national organizations, and corporations controlled by the settlement movements.

(4) Includes entities under their control.

(5) Includes borrowed securities amounting to NIS 210 million.

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

Management Discussion - Addendum C (continued)
Credit Risk by Economic Sector - Average balances - Consolidated

For the three months ended March 31, 2010

Reported amounts (NIS in millions)

	Balance sheet credit risk				Off-balance sheet credit risk (1)			
	Credit	Debentures (4)	Fair value of derivatives	Total	Guarantees and other commitments on account of clients	Future transactions	Total	Total credit risk of the public
Agriculture	662	-	-	662	253	3	256	918
Industry	5,534	13	32	5,579	4,369	444	4,813	10,392
Construction and real estate	6,868	41	31	6,940	9,538	133	9,671	16,611
Electricity and water	271	64	175	510	623	153	776	1,286
Commerce	4,939	-	27	4,966	3,272	221	3,493	8,459
Hotel and food services	234	-	1	235	66	5	71	306
Transport and storage	737	1	31	769	558	132	690	1,459
Communications and computer services	591	17	22	630	622	98	720	1,350
Financial services	6,169	39	214	6,422	6,586	1,167	7,753	14,175
Other business services	2,884	-	7	2,891	1,149	54	1,203	4,094
Public and community services	761	-	-	761	412	4	416	1,177
Individuals: Housing loans	52,578	-	-	52,578	4,457	-	4,457	57,035
Other	10,731	-	30	10,761	9,182	86	9,268	20,029
Total	**92,959**	**175**	**570**	**93,704**	**41,087**	**2,500**	**43,587**	**137,291**
For borrowers' activities overseas	3,390	3	70	3,463	457	124	581	4,044
Total credit risk to public	**96,349**	**178**	**640**	**97,167**	**41,544**	**2,624**	**44,168**	**141,335**
Credit risk exposure other than to the public:								
Banking corporations	1,831	1,023	989	3,843	412	8,605	9,017	12,860
Government	7,544	7,547	-	15,091	300	-	300	15,391
Total credit risk	**105,724**	**8,748**	**1,629**	**116,101**	**42,256**	**11,229**	**53,485**	**169,586**
Credit risk to public included under various economic sectors:								
Settlement movements (2)	644	-	2	646	692	30	722	1,368
Local authorities (3)	76	-	-	76	36	-	36	112

(1) Credit risk for off-balance sheet financial instruments, as calculated for the purpose of per-borrower credit limitations.
(2) KIBBUTZIM and MOSHAVIM, regional and national organizations, and corporations controlled by the settlement movements.
(3) Includes entities under their control.
(4) Includes borrowed securities amounting to NIS 282 million.

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

Management Discussion - Addendum C (continued)

Credit Risk by Economic Sector - Average balances - Consolidated

For the year ended December 31, 2010

Reported amounts (NIS in millions)

	Balance sheet credit risk				Off-balance sheet credit risk (1)			
	Credit	Debentures (5)	Fair value of derivatives	Total	Guarantees and other commitments on account of clients	Future transactions	Total	Total credit risk of the public
Agriculture	620	-	-	620	217	2	219	839
Industry	5,463	15	64	5,542	4,020	416	4,436	9,978
Construction and real estate	7,058	43	26	7,127	10,628	88	10,716	17,843
Electricity and water	314	57	175	546	763	215	978	1,524
Commerce	5,211	-	22	5,233	2,313	208	2,521	7,754
Hotel and food services	232	-	1	233	73	5	78	311
Transport and storage	783	-	43	826	432	136	568	1,394
Communications and computer services	1,156	19	21	1,196	412	95	507	1,703
Financial services (6)	6,394	45	485	6,924	7,098	1,534	8,632	15,556
Other business services	2,984	-	6	2,990	905	55	960	3,950
Public and community services	811	-	-	811	361	6	367	1,178
Private individuals - housing loans	56,001	-	-	56,001	3,765	-	3,765	59,766
Private individuals – other (6)	11,000	-	38	11,038	8,856	76	8,932	19,970
Total	**98,027**	**179**	**881**	**99,087**	**39,843**	**2,836**	**42,679**	**141,766**
For borrowers' activities overseas	3,203	1	76	3,280	431	106	537	3,817
Total credit risk to public	**101,230**	**180**	**957**	**102,367**	**40,274**	**2,942**	**43,216**	**145,583**
Credit risk exposures other than with respect to the public								
Banking corporations	1,831	869	1,331	4,031	412	9,551	9,963	13,994
Government	8,320	7,067	-	15,387	302	-	302	15,689
Total credit risk	**111,381**	**8,116**	**2,288**	**121,785**	**40,988**	**12,493**	**53,481**	**175,266**
Credit risk to the public included under various economic sectors:								
Settlement movements (3)	1,260	-	3	1,263	623	26	649	1,912
Local authorities (4)	157	-	-	157	30	-	30	187

(1) Credit risk for off-balance sheet financial instruments, as calculated for the purpose of per-borrower credit limitations.
(2) Balance of problem loans net of loans covered by collateral that may be deducted for the purpose of calculating the per-borrower credit limits of an individual borrower and a group of borrowers, including elements of off-balance sheet risk.
(3) KIBBUTZIM and MOSHAVIM, regional and national organizations, and corporations controlled by the settlement movements.
(4) Includes entities under their control.
(5) Includes borrowed securities amounting to NIS 190 million.
(6) reclassified

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

Management Review - 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:

							Balance sheet exposure [(2)]			Off-balance sheet exposure [(2)(3)]			
Country	Cross-border balance sheet exposure			Balance sheet exposure of affiliates of the banking corporation in foreign country to local residents								Cross-border balance sheet exposure	
	To govern-ments [(4)]	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction with respect to local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	Balance of problem loans [(4)]	Impaired loans [(5)]	Total off-balance sheet exposure	Includes: Off-balance sheet troubled credit risk	Maturing in under 1 year	Maturing in over 1 year
As of March 31, 2011													
USA	-	1,132	903	1,448	934	514	2,549	61	32	2,182	-	1,376	659
UK	-	522	1,068	558	440	118	1,708	3	36	1,704	1	524	1,066
Germany	-	779	15	-	-	-	794	-	1	1,569	-	758	36
Zurich	-	247	140	-	-	-	387	-	-	1,002	-	316	71
Other	1	559	1,685	-	-	-	2,245	19	18	1,372	5	1,578	667
Total exposure to foreign countries	**1**	**3,239**	**3,811**	**2,006**	**1,374**	**632**	**7,683**	**83**	**87**	**7,829**	**6**	**4,552**	**2,499**
Includes: Total exposure to LDC countries	-	20	232	-	-	-	252	1	7	354	4	130	122
Includes: Total exposure to Greece, Portugal, Spain and Ireland	-	78	9	-	-	-	87	-	-	75	2	87	-

The exposure presented above represents, in accordance with directives of the Supervisor of Banks, exposure based on final risk. The party bearing the final risk is an individual, business, institution or instrument which provides "credit reinforcement" to the bank, such as guarantees, collateral, insurance contracts or credit derivatives. When no "credit reinforcement" exists, the party bearing the final risk is the debtor.

(1) Based on final risk, after effect of guarantees, liquid collateral and credit derivatives.
(2) Balance sheet and off balance sheet credit risk, commercial troubled credit risk and impaired debts, presented before impact of provision for credit loss, and before impact of collateral deductible for per-borrower and borrower group lending limits.
(3) Credit risk for off-balance sheet financial instruments, as calculated for the purpose of per-borrower credit limitations.
(4) Governments, official institutions and central banks.
(5) The Bank started retrospectively implementing the Public Reporting Regulation on measurement and disclosure of impaired debt, credit risk and provision for credit loss as from January 1, 2011, and therefore data for previous periods are not comparable to those for the current period. For further details, see Note 1.E.1 and Note 3 to the financial statements.

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

Reported amounts (NIS in millions)

	Balance sheet exposure								Off-balance sheet exposure (2)			
Country	Cross-border balance sheet exposure			Balance sheet exposure of affiliates of the banking corporation in foreign country to local residents			Total balance sheet exposure	Balance of problem loans (4)			Cross-border balance sheet exposure	
	To governments (3)	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction with respect to local liabilities	Net balance sheet exposure after deduction of local liabilities			Total off-balance sheet exposure	Includes: Off-balance sheet troubled credit risk	Maturing in under 1 year	Maturing in over 1 year
As of March 31, 2010												
USA	-	843	865	1,345	1,213	132	1,840	38	1,708	-	1,093	615
UK	-	435	126	600	268	332	893	27	1,508	-	402	159
Germany	-	290	31	-	-	-	321	1	1,604	-	273	48
Other	-	1,496	1,953	-	-	-	3,449	79	1,674	2	2,642	807
Total exposure to foreign countries	**-**	**3,064**	**2,975**	**1,945**	**1,481**	**464**	**6,503**	**145**	**6,494**	**2**	**4,410**	**1,629**
Total exposure to LDC countries	-	112	253	-	-	-	365	15	257	1	251	114
Includes Total exposure to Greece, Portugal, Spain and Ireland	-	202	12	-	-	-	214	-	75	-	94	120
As of December 31, 2010												
USA	-	800	977	3,389	2,373	1016	2,793	42	2,664	-	1,167	610
UK	-	281	497	538	249	289	1,067	7	1,860	1	283	495
Germany	-	636	10	-	-	-	646	1	1,645	-	612	34
Other	-	806	1,886	-	-	-	2,692	58	2,415	7	1,748	944
Total exposure to foreign countries	-	2,523	3,370	3,927	2,622	1,305	7,198	108	8,584	8	3,810	2,083
Total exposure to LDC countries	-	55	269	-	-	-	324	10	224	4	198	126
Includes: Total exposure to Greece, Portugal, Spain and Ireland	-	78	12	-	-	-	90	10	73	2	90	-

(1) Based on final risk, after effect of guarantees, liquid collateral and credit derivatives.
(2) Credit risk for off-balance sheet financial instruments, as calculated for the purpose of per-borrower credit limitations.
(3) Governments, official institutions and central banks.
(4) Balance of troubled 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 (continued)
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:

As of March 31, 2010, there is no exposure requiring disclosure in accordance with the public reporting directives of the Supervisor of Banks.

As of March 31, 2011

	Balance sheet exposure	Off-balance sheet exposure
France	659	375

As of December 31, 2010

	Balance sheet exposure	Off-balance sheet exposure
Switzerland	291	998

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

There is no material exposure to any foreign countries facing liquidity issues.

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, 2011 ("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 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 entities, 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 prepared 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 controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit and Balance Sheet Committees of the Board of Directors of the Bank:

   A. All significant deficiencies and material weaknesses in the determination or operation of internal controls 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 controls over financial reporting.

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

May 29, 2011

A. Yones
President

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, 2011 ("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 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 entities, 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 prepared 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 controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit and Balance Sheet Committees of the Board of Directors of the Bank:
   - A. All significant deficiencies and material weaknesses in the determination or operation of internal controls 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 controls over financial reporting.

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

May 29, 2011

M. Aviv
Vice-president, Chief Accountant

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, 2011, the condensed consolidated statement of profit and loss, changes in shareholders' equity and cash flow 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 International Accounting Standard IAS 34 "Interim Financial Reporting", and in accordance with directives and guidance of the Supervisor of Banks. We are responsible for expressing our conclusion as to the financial information for this interim period based on our review.

We did not review the condensed interim financial information of certain consolidated subsidiaries, whose assets included in consolidation constitute 7.49% of total consolidated assets as of March 31, 2011, and whose profit from financing operations before provision for doubtful debts included in the consolidated statement of profit and loss constitute 10.22% 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 affiliates, the investment in which amounted to NIS 16 million as of March 31, 2011. The condensed financial information for the interim period of the aforementioned companies was reviewed by other independent auditors, we have been provided with their review reports and our conclusions, in as much as it relates to the financial information with respect to said companies, is based on the review reports by those other independent auditors.

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 Auditor" 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 limited in scope as compared to an audit conducted in accordance with generally accepted auditing standards in Israel, and therefore it does not enable us to achieve assurance that we have knowledge of all material matters which might have been identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, and on the review reports of other auditors, nothing has come to our attention that would cause us to believe that the aforementioned financial data has not been prepared, in all material aspects, in accordance with International Accounting Standard IAS 34 "Interim Financial Reporting" and in accordance with directives and guidance of the Supervisor of Banks.

Without qualifying our conclusion, we draw your attention to Note 6.C.3)4) with regard to lawsuits filed against the Bank and motions for class action status.

Brightman Almagor Zohar & Co.

Certified Public Accountants

May 29, 2011

Condensed consolidated balance sheet as of March 31, 2011

Reported amounts (NIS in millions)

		As of March 31		As of December 31,
		2011	2010	2010
	Note	(unaudited)	(unaudited)	(audited)
Assets				
Cash and deposits with banks		14,669	8,778	12,614
Securities	2	5,726	9,591	7,449
Securities loaned or sold in repurchase agreements		173	257	247
Loans to the public (1)(2)	3	111,742	100,276	110,511
Provision for credit loss (1)(2)	3	(2,351)	(3,247)	(3,471)
Loans to the public, net (1)		109,391	97,029	107,040
Loans to the Government		96	237	92
Investments in affiliates		16	13	15
Buildings and equipment		1,550	1,513	1,546
Intangible assets and goodwill (2)		87	97	87
Assets with respect to derivatives (2)	7	3,224	1,863	3,449
Other assets (2)		1,222	(4) 694	(4) 736
Total assets		**136,154**	**120,072**	**133,275**
Liabilities and Shareholders' Equity				
Deposits from the public		109,029	96,648	105,991
Deposits from banks		2,306	1,822	2,432
Deposits from the Government		166	199	172
Debentures and subordinated notes		10,284	7,944	9,813
Liabilities with respect to derivatives (2)	7	2,500	2,078	2,892
Other liabilities (2)(3)		4,549	(4) 4,314	(4) 4,404
Total liabilities		**128,834**	**113,005**	**125,704**
Equity attributable to equity holders of the banking corporation		6,967	(4) 6,718	(4) 7,208
Non-controlling interest		353	(4) 349	(4) 363
Total shareholders' equity		**7,320**	**7,067**	**7,571**
Total liabilities and shareholders' equity		**136,154**	**120,072**	**133,275**

(1) On January 1, 2011, the Bank initially adopted the Supervisor of Banks' directive concerning measurement and disclosure of impaired debt, credit risk and provision for credit loss. Comparison figures for previous periods were not restated so that data as of March 31, 2011 may not be comparable with data from previous periods.
(2) Comparison figures were re-classified to adapt them to the presentation method in the current period, see Note 1.D. to the financial statements.
(3) Includes: provision for credit loss with respect to off-balance sheet credit instruments amounting to NIS 155 million.
(4) Re-stated with respect to prospective application of guidance by the Supervisor of Banks with regard to reinforcing internal control over financial reporting of employee rights at Bank Yahav. See Note 1.E.4. to the financial statements.

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

Jacob Perry
Chairman of the Board of Directors

Eliezer Yones
President

Menahem Aviv
Vice-president, Chief Accountant

Approval date:
May 29, 2011

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
	2011	2010	2010
		(unaudited)	(audited)
Profit from financing operations before expenses with respect to credit loss	752	630	2,959
Expenses with respect to credit loss	54	57	473
Profit from financing operations after expenses with respect to credit loss	698	573	2,486
Operating and other revenues			
Operating commissions	348	329	1,324
Loss from investments in shares, net	-	(1)	(1)
Other revenues	10	12	44
Total operating and other revenues	**358**	**340**	**1,367**
Operating and other expenses			
Payroll and associated expenses	417	380	1,525
Maintenance and depreciation of buildings and equipment	148	143	585
Amortization and impairment of intangible assets and goodwill (1)	-	4	14
Other expenses (1)	104	103	438
Total operating and other expenses	**669**	**630**	**2,562**
Pre-tax operating profit	387	283	1,291
Provision for taxes on operating profit	138	108	470
After-tax operating profit	249	175	821
Share in net after-tax operating profit of affiliates	1	-	-
Net operating profit:			
Before attribution to non-controlling interest (1)	250	175	821
Attributable to non-controlling interest (1)	(8)	(4)	(19)
Attributable to equity holders of the banking corporation	**242**	**171**	**802**
After-tax operating profit (loss), before attribution to non-controlling interest	(1)	1	2
Net profit:			
Before attribution to non-controlling interest (1)	249	176	823
Attributable to non-controlling interest (1)	(8)	(4)	(19)
Attributable to equity holders of the banking corporation	**241**	**172**	**804**

(1) Comparison figures were re-classified to adapt them to the presentation method in the current period, see Note 1.D. to the financial statements.

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
	2011	2010	2010
		(unaudited)	*(audited)*
Earnings per share [(1)]			
Basic earnings per share (in NIS)			
Net operating profit attributable to equity holders of the banking corporation	1.07	0.77	3.59
Profit from extraordinary operations attributable to equity holders of the banking corporation	(0.01)	-	0.01
Total	**1.06**	**0.77**	**3.60**
Diluted earnings per share (in NIS)			
Net operating profit attributable to equity holders of the banking corporation	1.05	0.75	3.54
Profit from extraordinary operations attributable to equity holders of the banking corporation	(0.01)	-	0.01
Total	**1.04**	**0.75**	**3.55**

(1) Share of NIS .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 three months ended March 31, 2011 (unaudited)			
	Share capital and premium (1)	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves
Balance as of January 1, 2011	1,986	156	(76)	2,066
Cumulative effect, net of tax, of initial application on January 1, 2011 of the directive concerning measurement of impaired debt and provision for credit loss (5)	-	-	-	-
Cumulative effect, net of tax, of initial application on January 1, 2011 of certain IFRS standards	-	-	-	-
Balance as of January 1, 2011, after reconciliation from application of new standards and directives	1,986	156	(76)	2,066
Net profit for the period	-	-	-	-
Dividends declared after balance sheet date	-	-	-	-
Benefit from share-based payment transactions	-	10	-	10
Related tax effect	-	6	-	6
Realized share-based payment transactions (6)	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	-
Adjustments for presentation of securities available for sale reclassified to statement of profit and loss	-	-	-	-
Related tax effect	-	-	-	-
Net gain from cash flow hedges	-	-	-	-
Related tax effect	-	-	-	-
Balance as of March 31, 2011	1,986	172	(76)	2,082

(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 Note 13 below.
(4) Restated with respect to prospective application of guidance by the Supervisor of Banks with regard to reinforcing internal control over financial reporting of employee rights at Bank Yahav. For details, see Note 1.E.4 to the financial statements.
(5) See Note 1.E.1. below.
(6) In the first quarter of 2011, 27,310 ordinary shares, NIS .1 par value each have been issued against option exercise in conjunction with the employee stock option plan.

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

Cumulative other comprehensive income (loss)							
Adjustments for presentation of securities available for sale at fair value	Translation adjustments [2]	Net gain from cash flow hedges	Retained earnings [3]	Dividends declared after balance sheet date	Total	Non-controlling interest	Total shareholders' equity
(11)	(51)	26	(4) 5,058	120	7,208	363	7,571
-	-	-	(359)	-	(359)	(16)	(375)
-	51	-	(51)	-	-	-	-
(11)	-	26	4,648	120	6,849	347	7,196
-	-	-	241	-	241	8	249
-	-	-	-	(120)	(120)	-	(120)
-	-	-	-	-	10	-	10
-	-	-	-	-	6	-	6
-	-	-	-	-	-	-	-
(22)	-	-	-	-	(22)	(4)	(26)
-	-	-	-	-	-	-	-
7	-	-	-	-	7	2	9
-	-	(8)	-	-	(8)	-	(8)
-	-	4	-	-	4	-	4
(26)	**-**	**22**	**4,889**	**-**	**6,967**	**353**	**7,320**

Statement of Changes in Shareholders' Equity (continued)

Reported amounts (NIS in millions)

	For the three months ended March 31, 2010 (unaudited)			
	Share capital and premium (1)	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves
Balance as of January 1, 2010	1,963	105	(76)	1,992
Net profit for the period	-	-	-	-
Benefit from share-based payment transactions	-	9	-	9
Related tax effect	-	3	-	3
Realized share-based payment transactions (5)	1	(1)	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	-
Adjustments for presentation of securities available for sale reclassified to statement of profit and loss	-	-	-	-
Related tax effect	-	-	-	-
Net gain from cash flow hedges	-	-	-	-
Related tax effect	-	-	-	-
Balance as of March 31, 2010	**1,964**	**116**	**(76)**	**2,004**

(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 Note 13 to the financial statements for the year ended December 31, 2009.

(4) Restated with respect to prospective application of guidance by the Supervisor of Banks with regard to reinforcing internal control over financial reporting of employee rights at Bank Yahav. For details, see Note 1.E.4 to the financial statements.

(5) In Q1 of 2010, 62,986 ordinary NIS .1 par value shares were issued against exercise of options under the employee stock option plan.

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

	Cumulative other comprehensive income (loss)						
	Adjustments for presentation of securities available for sale at fair value	Translation adjustments [(2)]	Net gain from cash flow hedges	Retained earnings [(3)]	Total	Non-controlling interest	Total shareholders' equity
	(32)	(51)	39	4,574	6,522	343	6,865
	-	-	-	172	172	4	176
	-	-	-	-	9	-	9
	-	-	-	-	3	-	3
	-	-	-	-	-	-	
	9	-	-	-	9	3	12
	4	-	-	-	4	-	4
	(5)	-	-	-	(5)	(1)	(6)
	-	-	6	-	6	-	6
	-	-	(2)	-	(2)	-	(2)
	(24)	**(51)**	**43**	**4,746**	**6,718**	**349**	**7,067**

Statement of Changes in Shareholders' Equity (continued)

Reported amounts (NIS in millions)

	For the year ended December 31, 2010 (audited)			
	Share capital and premium (1)	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves
Balance as of January 1, 2010	1,963	105	(76)	1,992
Net profit for the year	-	-	-	-
Dividends paid	-		-	-
Dividends declared after balance sheet date	-	-	-	-
Benefit from share-based payment transactions	-	44	-	44
Related tax effect	-	30	-	30
Realized share-based payment transactions (4)	23	(23)	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	-
Adjustments for presentation of securities available for sale reclassified to statement of profit and loss	-	-	-	-
Related tax effect	-	-	-	-
Net gain from cash flow hedges	-	-	-	-
Net gain from cash flow hedges re-classified to the statement of profit and loss	-	-	-	-
Related tax effect	-	-	-	-
Balance as of December 31, 2010	**1,986**	**156**	**(76)**	**2,066**

(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 Note 13 below.

(4) Restated with respect to prospective application of guidance by the Supervisor of Banks with regard to reinforcing internal control over financial reporting of employee rights at Bank Yahav. For details, see Note 1.E.4 to the financial statements.

(5) In 2010, 564,642 ordinary NIS .1 par value shares were issued for exercise of options in conjunction with the Employee Stock Option Plan, and 445,048 ordinary NIS 0.1 par value shares were issued to the President for exercise of options.

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

Cumulative other comprehensive income (loss)							
Adjustments for presentation of securities available for sale at fair value	Translation adjustments [2]	Net gain from cash flow hedges	Retained earnings [3]	Dividends declared after balance sheet date	Total	Non-controlling interest	Total shareholders' equity
(32)	(51)	39	[4]4,574	-	6,522	343	6,865
-	-	-	804	-	804	19	823
-	-	-	(200)	-	(200)	-	(200)
-	-	-	(120)	120	-	-	-
-	-	-	-	-	44	-	44
-	-	-	-	-	30	-	30
-	-	-	-	-	-	-	-
16	-	-	-	-	16	2	18
7	-	-	-	-	7	-	7
(2)	-	-	-	-	(2)	(1)	(3)
-	-	32	-	-	32	-	32
-	-	(53)	-	-	(53)	-	(53)
-	-	8	-	-	8	-	8
(11)	**(51)**	**26**	**5,058**	**120**	**7,208**	**363**	**7,571**

Statement of cash flows

Reported amounts (NIS in millions)

	For the three months ended March 31		For the Year Ended December 31
	2011	2010	2010
	(unaudited)		(audited)
Cash flows provided by current operations			
Net profit for the period			
Adjustments to reconcile net profit to net cash generated by operating activities:	241	172	804
Minority interest in net after-tax operating profit of subsidiaries			
Depreciation of buildings and equipment and amortization	8	4	19
Expenses with respect to credit loss	57	53	221
Net gain on sale of available-for-sale securities	54	57	473
Provision for impairment of available-for-sale securities	(18)	(17)	(93)
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	-	4	7
Net loss (gain) on sale of buildings and equipment	(2)	(4)	(9)
Deferred taxes, net	1	-	2
Severance pay - decrease (increase) in excess of amount funded over liability	(68)	2	62
Reconciliation differences included under investment and financing operations	(1)	5	(34)
Benefit from share-based payment transactions	36	(1) (121)	162
Bank's share in net profit from extraordinary items of subsidiaries	10	9	44
Minority interest in net profit from extraordinary items of subsidiaries	(1)	-	-
Deferred income, net	1	5	44
Net cash provided by current operations	**318**	**169**	**1,702**

(1) Reclassified.

Statement of cash flows (continued)

Reported amounts (NIS in millions)

	For the three months ended	March 31	For the Year Ended December 31
	2011	2010	2010
	(unaudited)		(audited)
Cash flows provided by activities in assets			
Acquisition of securities available for sale	(725)	(3,173)	(6,759)
Proceeds on sale and redemption of securities available for sale	2,454	1,166	7,095
Deposits with banks, net	(404)	806	(1,174)
Securities held for trading, net	(14)	93	(23)
Securities loaned or sold in repurchase agreements, net	74	50	60
Loans to the public, net	(3,031)	(1,837)	(12,264)
Loans to the Governments, net	(4)	64	209
Acquisition of shares in investees, including owners' loans and capital notes	-	(1)	(3)
Acquisition of buildings and equipment	(54)	(44)	(263)
Proceeds from sale of buildings and equipment	2	3	16
Assets with respect to derivatives	217	(366)	(1,979)
Other assets, net	(154)	105	46
Net cash provided by activities in assets	**(1,639)**	**(3,134)**	**(15,039)**

Statement of cash flows (continued)

Reported amounts (NIS in millions)

	For the three months ended	March 31	For the Year Ended December 31
	2011	2010	2010
	(unaudited)		(audited)
Cash flows provided by activities in liabilities and shareholders' equity			
Deposits from the public, net	3,038	1,627	10,970
Deposits from banks, net	(126)	(77)	533
Deposits from the Government, net	(6)	(10)	(37)
Issuance of debentures and subordinated notes	520	-	1,786
Redemption of debentures and subordinated notes	(85)	(1) (101)	(301)
Liabilities with respect to derivatives	(392)	97	911
Other liabilities, net	23	2	104
Dividends paid to shareholders	-	-	(200)
Net cash provided by (used for) activities in liabilities and shareholders' equity	**2,972**	**1,538**	13,766
Increase (decrease) in cash	1,651	(1,427)	429
Cash balance at beginning of period	9,835	9,406	9,406
Cash balance at end of period	**11,486**	**7,979**	9,835

(1) Reclassified.

Statement of cash flows (continued)

Reported amounts (NIS in millions)

	For the three months ended March 31		For the Year Ended December 31
	2011	2010	2010
	(unaudited)		(audited)
Appendix A - Non-cash Transactions			
1) Acquisition of buildings and equipment	12	3	2

(1) Reclassified.

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

Note 1 - Reporting Principles and Accounting Policies

A. General

The financial statements as of March 31, 2011 are prepared in accordance with directives of the Supervisor of Banks with regard to preparation of quarterly financial statements of banking corporations, and in accordance with IAS 34 "Interim financial reporting", and do not include all of the information required in annual financial statements. These financial statements should be used in conjunction with the audited financial statements as of December 31, 2010.

The Group's accounting policies in these condensed consolidated quarterly financial statements are the policies applied to the annual financial statements, except as noted below in section E.

In accordance with directives of the Supervisor of Banks, the financial statements are only issued on a consolidated basis.

B. Principles of financial reporting

These condensed financial statements have been prepared as follows:

1. As for core banking business issues - the accounting treatment is in accordance with directives of the Supervisor of Banks and in accordance with generally accepted accounting principles for US banks, as adopted in the Supervisor of Banks' Public Reporting Regulations.

2. As for non core banking business issues - the accounting treatment is in accordance with Israeli GAAP and in accordance with the following International Financial Reporting Standards (IFRS) and the IFRIC interpretations pertaining there to:

   IAS 8 "Accounting policies, changes in accounting estimates and errors"
   IAS 21 "The effects of changes in foreign exchange rates"
   IAS 33 "Earnings per share"
   IFRS 2 "Share-based payment"
   IAS 29 "Financial reporting of branches or affiliates in hyper-inflationary economies"
   IAS 34 "Interim financial reporting"
   IFRS 3 (2008) "Business combinations"
   IAS 27 (2008) "Consolidated and separate financial statements"
   IAS 28 "Investments in associates"
   IAS 36 "Impairment of assets"
   IAS 17 "Leases"
   IAS 16 "Fixed assets"
   IAS 40 "Investment property"

Note 1 - Reporting Principles and Accounting Policies (continued)

IFRS 5 "Non-current assets held for sale and discontinued operations"
IAS 10 "Events after the reporting period"
IAS 20 "Government grants and disclosure of government assistance"
IAS 31 "Interests in joint ventures"
IAS 38 "Intangible assets"

International standards are applied in accordance with the following guidelines:

- In cases where a material issue arises, which is not addressed by the international standards or by application directives issued by the Supervisor of Banks, the Bank shall handle the issue in accordance with generally accepted accounting principles at US banks which specifically apply to these issues.
- In cases where no specific reference is made in the standards or interpretations of material issues, or where there are multiple alternatives for handling a material issue, the Group shall act in accordance with specific application directives issued by the Supervisor of Banks.
- In cases where the adopted international standard makes reference to another international standard adopted under the public reporting directives, the Group shall act in accordance with provisions of the international standard.
- In cases where the adopted international standard makes reference to an international standard not adopted under the public reporting directives, the Group shall act in accordance with reporting directives and in accordance with generally accepted accounting principles in Israel.
- In cases where the adopted international standard makes reference to definition of a term also defined in the public reporting directives, the reference to the definition in the directives shall replace the original reference.

The issues where adoption of international standards has affected the accounting policy used to prepare these financial statements are listed under section E.2. below.

Note 1 - Reporting Principles and Accounting Policies (continued)

C. Use of estimates

In preparing the condensed consolidated quarterly financial statements in accordance with directives and guidelines of the Supervisor of Banks, Bank management is required to use judgment, assessments, estimates and assumptions which impact policy implementation and amounts of assets and liabilities, income and expenses. Note that actual results could differ from these estimates.

Except as described below, management judgment when applying Group accounting policies and the major assumptions used in assessments involving uncertainty are consistent with those applied in preparing the annual financial statements.

D. Reclassification

Following initial application of certain accounting standards and directives by the Supervisor of Banks, as specified below in section E., certain sections of the financial statements and comparative figures were reclassified to align them with section headings and with reporting requirements in the current period.

Items included on condensed consolidated balance sheet:

- Goodwill amounting to NIS 97 million and NIS 87 million, included as of March 31, 2010 and December 31, 2010, respectively, under Other Assets, is presented on the balance sheet as of March 31, 2011 as a separate item.
- Assets with respect to derivatives amounting to NIS 1,863 million and NIS 3,449 million, included as of March 31, 2010 and December 31, 2010, respectively, under Other Assets, is presented on the balance sheet as of March 31, 2011 as a separate item.
- Liabilities with respect to derivatives amounting to NIS 2,078 million and NIS 2,892 million, included as of March 31, 2010 and December 31, 2010, respectively, under Other Liabilities, is presented on the balance sheet as of March 31, 2011 as a separate item.
- Loans to the public, net as of March 31, 2010 and December 31, 2010 were reclassified for presentation at gross amount as from January 1, 2011.
- Non-controlling interest (minority interest) is included in total shareholders' equity.

Items included on condensed consolidated statement of profit and loss:

Expenses with respect to amortization and impairment of intangible assets and goodwill, amounting to NIS 4 million and NIS 14 million for the three month period ended March 31, 2010 and for the year ended December 31, 2010, respectively, were reclassified from Other Expenses and are presented as a separate item.

Note 1 - Reporting Principles and Accounting Policies (continued)

E. Initial adoption of accounting standards, accounting standard updates and directives of the Supervisor of Banks

As from periods starting on January 1, 2011, the Bank applies accounting standards and directives as follows:

1. Supervisor of Banks' directive concerning measurement and disclosure of impaired debt, credit risk and provision for credit loss, amended directive on treatment of troubled debt and specific directive on group provision for credit loss.
2. Certain International Financial Reporting Standards (IFRS) and IFRIC interpretations with regard to application of these standards.
3. US accounting standards FAS 157 / ASC 820-10 "Fair-value measurement " (hereinafter: "FAS 157"), FAS 159 (ASC 825-10) "Fair-value option for financial assets and financial liabilities" (hereinafter: "FAS 159") and accounting standard update ASU 2010-06 "Improvements to disclosures about fair value measurement".
4. Supervisor of Banks' directives with regard to strengthening internal control over financial reporting of employee rights.

   In the second quarter of 2011, management will reestimate the extent of increased severance pay to be paid to employees for calculating the actuarial liability with respect to pension and long-service bonuses, in accordance with the Supervisor of Banks' directive and based on management expectations. Accordingly, the balances of provision and reserves on the financial statements as of June 30, 2011 would be revised for all reporting dates presented in these financial statements, and payroll expenses and net profit would be revised for all reporting periods presented in these financial statements.

Below is a description of the nature of changes made to accounting policies in these condensed consolidated quarterly financial statements:

1. **Supervisor of Banks' directive concerning measurement and disclosure of impaired debt, credit risk and provision for credit loss, amended directive on treatment of troubled debt and specific directive on group provision for credit loss:**

   Pursuant to the Supervisor of Banks' new directive on measurement and disclosure of impaired debt, credit risk and provision for credit loss, the Bank applies as from January 1, 2011 the US accounting standards on this issue (ASC 310) and the opinion of the US banking supervision authorities and of the US SEC, as adopted in the Public Reporting Regulations.

Note 1 - Reporting Principles and Accounting Policies (continued)

The directive is applied to all debt balances, including deposits with banks, debentures, securities borrowed or purchased in repurchase agreements, loans to the public, loans to the government etc. Loans to the public and other debt balances for which no specific rules on measurement of the provision for credit loss were specified in the Public Reporting Regulations (such as: loans to the government and deposits with banks) are reported on the Bank's accounts at their recorded debt balance. The recorded debt balance is defined as the debt balance after accounting write-offs but before deduction of the provision for credit loss for that debt. The recorded debt balance does not include any accrued interest not recognized, or previously recognized and then reversed. Note that prior to January 1, 2011, the Bank applied different rules, whereby the debt balance on the Bank's books included interest accrued prior to classification as non-accruing troubled debt. Therefore, debt balances presented in periods preceding the initial implementation period are not comparable with debt balances reported after said implementation. As for other debt balances for which specific rules on measurement and recognition of provision for credit loss exist (such as: debentures), the Bank continues to apply the same measurement rules.

Provision for credit loss

The Bank has put in place procedures for classification of credit and for measurement of provision for credit loss, in order to maintain an appropriate provision to cover expected credit loss with regard to the Bank's loan portfolio. Further, the Bank has put in place procedures required to maintain, as a separate liability account, an appropriate provision to cover expected credit loss with regard to off-balance sheet credit instruments (such as: commitments to provide credit, un-utilized credit facilities and guarantees).

The required provision to cover expected credit losses from the credit portfolio is estimated under one of the following tracks: "individual provision" or "group provision". Further, the Bank reviews the overall appropriateness of the provision for credit loss. "An individual provision for credit loss" is 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 700 thousand or higher. Debt is classified as impaired when, based on current information and events, it is expected that the Bank would be unable to collect all amounts due pursuant to contractual terms of the debt contract. In any case, debt is classified as impaired when its principal or interest is in arrears over 90 days, unless the debt is well secured and is in collection proceedings.

Note 1 - Reporting Principles and Accounting Policies (continued)

Further, any debt whose terms and conditions have been changed in conjunction with restructuring of troubled debt would be classified as impaired debt, unless prior to and following such restructuring, a minimum provision for credit loss by extent of arrears was made with respect to that debt pursuant to the appendix to Proper Conduct of Banking Business Regulation 314 on troubled debt in housing loans at mortgage banks.

For other debt, the banking corporation may decide whether to make an individual assessment. The individual provision for credit loss is estimated based on expected future cash flows, discounted using the effective interest rate of the original debt. Where debt collection is contingent upon collateral, or if the bank determines that an asset is expected to be seized, the initial provision for credit loss shall be estimated based on fair value of the collateral securing said credit.

"A provision for credit loss using group estimate" is applied for large, homogeneous groups of small debts (whose balance is below NIS 700 thousand, as determined by the Bank) (such as: credit card debts, housing loans and consumer debts repaid by installments) as well as for large, non-impaired debts. The provision for credit losses from debts based on group estimate, except for loans for which a specific minimum provision by extent of arrears has been calculated as per directives of the Supervisor of Banks, is calculated based on rules stipulated in USA Accounting Standard FAS 5: "Accounting for Contingencies" (hereinafter "FAS 5"), based on a formula specified in the interim directive issued by the Supervisor of Banks, in effect through December 31, 2012. This formula is based on past loss rates by economic sector, as well as rates of net accounting write-offs actually recognized as from January 1, 2011. In addition to calculating the range of historic loss rates for various economic sectors, as per the above, for determining the appropriate rate of provision, the Bank also accounts for other data, including trends in credit volume for each sector as well as sector condition, macro-economic data and general quality assessment of credit to each economic sector.
Pursuant to provisions determined in the interim directive, as from January 1, 2011 the Bank does not maintain general and supplementary provisions, but continues to calculate the supplementary provision and to verify that in any case, the amount of group provision at the end of each reporting period shall be no less than the sum of general and supplementary provisions which would have been calculated as of the same date, gross of tax.

Note 1 - Reporting Principles and Accounting Policies (continued)

The required provision with regard to off-balance sheet credit instruments is assessed as per rules stated in FAS 5. The provision estimated on group basis for off-balance sheet credit instruments is based on provision rates specified for on-balance sheet credit (as stated above), accounting for expected credit realization rate for the off-balance sheet credit risk. The credit realization rate is calculated by the Bank based on credit conversion factors, as specified in Proper Conduct of Banking Business Regulation 203 "Measurement and capital adequacy - Credit risk - Standard approach" with certain adjustments in cases where the Bank has past experience which indicates the credit realization rates.

A minimum provision with respect to housing loans is calculated based on the formula stipulated by the Supervisor of Banks, by extent of arrears, such that the provision rate is higher the longer the arrears. Upon the starting date of application of the new directive, the amendment to appendix to Proper Conduct of Banking Business Regulation 314 "Troubled debt in housing loans at mortgage banks" became effective, expanding the scope of calculation of provision by extent of arrears to all housing loans, other than loans not repaid by periodic installments and loans used to finance activity of a business nature. Further, the Supervisor of Banks instructed the banking corporations, in a letter dated May 1, 2011, to make a group provision for housing loans in addition to the provision by extent of arrears. The Bank has put in place a methodology for calculating the group provision with respect to housing loans, whereby the provision amount is derived from the increase in current credit grant volume compared to past periods. The amendment is applied prospectively starting with financial statements for periods starting on January 1, 2011. This initial application resulted in a NIS 84 million increase in provision (NIS 75 million in group provision and NIS 9 million increase in provision by extent of arrears) which was charged, net of tax, as a NIS 55 million adjustment (decrease) in retained earnings as of the initial application date.

The Bank classifies all troubled debt and problem off-balance sheet credit items under: special supervision, inferior or impaired.

Note 1 - Reporting Principles and Accounting Policies (continued)

Income recognition

Upon classification of debt as impaired, the Bank classifies the debt as non-accruing debt and discontinues accrual of interest income on it, except as stated below for certain restructured debt.
Further, upon classification of debt as impaired, the Bank reverses all accrued and uncollected interest income recognized as income on profit and loss. The debt continues to be classified as non-accruing debt for as long as it is classified as impaired debt. Debt which has been formally restructured as troubled debt, and after said restructuring there is reasonable certainty that the debt would be repaid and would perform as per its new terms and conditions, shall be treated as accruing impaired debt.
For debt reviewed and provided for on a group basis which is over 90 days in arrears, the Bank does not discontinue accrual of interest income. Such debt is subject to assessment of the group provision for credit loss, which ensures that Bank profit is not distorted upwards.
Commissions for delinquency of such debt is included as income when the Bank has the right to receive them from the client, provided that collection is reasonably secured.

Restructuring of troubled debt

Debt which has been formally restructured as troubled debt is defined as debt for which, for economic or legal reasons related to financial difficulties of the debtor, the Bank has made a concession by way of modification to terms and conditions of the debt, designed to make it easier for the debtor to make cash payments in the near term (reduction or postponement of cash payments due from the debtor), or by way of receiving other assets as debt repayment (in whole or in part). Restructured debt, including debt assessed on a group basis prior to restructuring, shall be classified as impaired debt and shall be individually assessed for making a provision for credit loss or accounting write-off. Since the debt being restructured would not be repaid as per its original contractual terms, the debt continues to be classified as impaired debt even after the debtor resumes repayments pursuant to the new terms and conditions.

Accounting write-off

The Bank makes accounting write-offs of any debt, or part thereof, individually assessed as not collectible and of low value, so that maintaining it as an asset is not justified, or any debt which is subject to long-term collection efforts by the Bank. For debt assessed on a group basis, write-off rules have been put in place based on extent of arrears (mostly - over 150 consecutive days in arrears) and on other parameters of problems. Note that accounting write-offs do not involve any legal concession, and merely reduce the debt balance reported for accounting purposes, while creating a new cost basis for the debt in the Bank's accounts.

Note 1 - Reporting Principles and Accounting Policies (continued)

Initial application

Below is the impact of new directives on major balance sheet items on the financial statements as of December 31, 2010, had they been applied on said date:

Summary of effect on retained earnings

	As of December 31, 2010
Retained earnings stated on financial statements	5,058
Cumulative effect, net of tax, of initial application of the new directives	(359)
Includes: Change in provision for credit loss	(691)
Includes: Related tax effect	316
Share of external shareholders in provision for credit loss	16
Retained earnings pursuant to the new directives	**4,699**

Effect on deferred taxes, net

	As of December 31, 2010
Balance of deferred taxes, net included on financial statements	328
Effect of initial application of the new directives	296
Balance of deferred taxes, net pursuant to new directives	**624**

For further details of the effect on financial statements, see Note 3 to the financial statements.

2. Certain International Financial Reporting Standards (IFRS) on non-core banking business matters

A. IAS 21 on impact of changes in foreign currency exchange rates

Foreign currency transactions

Foreign currency transactions are translated into the relevant functional currencies of the Bank and its affiliates using the exchange rate as of the transaction date. Monetary assets and liabilities denominated in foreign currency as of the reporting date are translated into the functional currency at the exchange rate as of that date. Exchange rate differences with respect to monetary items are the differences between the amortized cost in the functional currency as of the start of the year, adjusted for the effective interest and installments during the year, and the amortized cost in foreign currency, translated at the exchange rate as of the end of the year.

Note 1 - Reporting Principles and Accounting Policies (continued)

Non-monetary assets and liabilities denominated in foreign currency and measured at fair value, are translated into the functional currency using the exchange rate as of the date on which the fair value is determined. Exchange rate differences arising from translation into the functional currency are recognized in the statement of profit and loss, other than differences arising from translation into the functional currency of non-monetary equity financial instruments classified as available-for-sale, financial liabilities used to hedge investments in foreign operations, loans to foreign operations which are part of net investment in foreign operations, or cash flow hedges which are recognized under Other Comprehensive Profit. Non-monetary items denominated in foreign currency and measured at historical cost, are translated at the exchange rate as of the transaction date.

Foreign operations

Assets and liabilities of foreign operations, including goodwill and fair value adjustments generated upon acquisition, were translated into NIS at exchange rates as of the reporting date. Income and expenses of foreign operations were translated into NIS at exchange rates as of the transaction date.

Translation differences from exchange rates are recognized under Other Comprehensive Profit as from January 1, 2011, the adoption date of IAS 21 "Changes in foreign exchange rates" and are presented in equity under Reserve from Translation of Foreign Operations (hereinafter: "translation adjustments").

If the foreign operation is a subsidiary not wholly-owned by the Group, the pro-rata share of exchange rate differences with respect to that foreign operation is attributed to the non-controlling interest.

Upon realization of foreign operations which results in loss of control, material influence or joint control, the amount accumulated under Reserve for Translation Adjustments from Foreign Operations is reclassified to profit and loss, as part of the gain or loss from the realization.

Upon changes in the holding stake of the Group in a subsidiary which includes foreign operations, while maintaining control over the subsidiary, the pro-rata share of the accumulated exchange rate difference amount recognized under Other Comprehensive Profit is reattributed to the non-controlling interest.

When the Group realizes part of an investment which is an associate or jointly-controlled entity which includes foreign operations, while maintaining material influence or joint control, the pro-rata share of the accumulated exchange rate difference amount is reclassified to profit and loss.

Note 1 - Reporting Principles and Accounting Policies (continued)

When discharge of loans received from or granted to foreign operations is not planned and is not expected in the foreseeable future, any gain or loss from exchange rate differences arising from such monetary items is included under net investment in foreign operations, recognized under Other Comprehensive Profit and presented under equity as part of the Reserve for Translation Adjustments.

Overseas banking affiliates

According to directives by the Supervisor of Banks prior to adoption of IFRS, an overseas banking affiliate of a banking corporation was classified as a foreign operation whose functional currency is the same as that of the banking corporation.

In accordance with the IFRS, in order to determine the functional currency, the banking corporation should consider, *inter alia*, the following:

- The currency which primarily affects the selling price of goods and services (usually this would be the currency in which selling prices of goods and services are denominated and settled), and the currency of the country whose competitive forces and regulation primarily determine the selling prices of goods and services.
- The currency which primarily affects labor costs, material and other costs for delivery of goods or services (usually, this would be the currency in which these costs are denominated and settled).
- Other factors which may serve as evidence of the entity's functional currency, such as: The currency in which monetary resources are generated by financing operations, and the currency in which receipts from current operations are usually kept.
- Relations of the affiliate with the banking corporation - is the foreign operation significantly independent, do transactions between the affiliate and the banking corporations constitute a large or small percentage of the foreign operations, do cash flows from the foreign operation directly affect the cash flows of the banking corporation and are readily available to be transferred to it, and are cash flows from the foreign operation sufficient to fund its current and anticipated liabilities in the normal course of business of the entity, without resources being provided by the banking corporation.

Note 1 - Reporting Principles and Accounting Policies (continued)

Upon initial application of IAS 21, the Bank reviewed its overseas affiliates in accordance with these criteria. In accordance with the Supervisor of Banks' directives, reclassification of a banking affiliate as foreign operations whose functional currency is other than NIS, requires that a pre-ruling be obtained from the Manager, Financial Reporting Department, Supervision of Banks. Therefore, pending receipt of such pre-ruling, the Bank continues to treat its overseas banking affiliates as foreign operations whose functional currency is identical to the Bank's functional currency.

A capital reserve from translation differences, with a debit balance of NIS 51 million, accumulated through 1994 with respect to overseas banking affiliates previously classified as autonomous units, was classified upon the transition date to retained earnings.

B. IFRS 3 (2008) "Business combinations", IAS 27 (2008) "Consolidated and separate financial statements", IAS 28 "Investments in associates" and IAS 31 "Interests in joint ventures'

Consolidation basis

Due to initial application of IFRS 3 (2008) and IAS 27 (2008), the Bank revised the accounting policy applied to business combinations and to transactions with non-controlling interest.

Business combinations

The Bank applies the acquisition method to all business combinations.

The acquisition date is the date on which the acquiring entity achieves control over the acquired entity. Control is the power to determine financial and operational policy of an entity to achieve benefits from its operations. When testing for existence of control, immediately realizable potential voting rights are taken into account. The Bank exercises judgment in determining the acquisition date and whether or not control has been achieved.

In accordance with directives of the Supervisor of Banks, a banking corporation may apply the standard retrospectively or prospectively, starting with financial statements for periods starting on January 1, 2011. The Bank has elected to apply the standard prospectively, so that no reattribution of excess cost was made for acquisitions prior to application of the standard.

Amortization of goodwill with respect to investments made prior to application of the standard, and in lieu, the need for making a provision for impairment of other-than-temporary nature shall be reviewed as stated in section 2.F. below.

Note 1 - Reporting Principles and Accounting Policies (continued)

For acquisition made after January 1, 2011, the Bank would recognize goodwill as of the acquisition date at fair value of the consideration, including amounts with respect to any non-controlling interest in the acquired entity, and the fair value as of the acquisition date of the equity interest in the acquired entity previously held by the Bank, less the net amount attributed upon acquisition to identifiable assets acquired and liabilities assumed.

Non-controlling interest

A non-controlling interest is any shareholders' equity in a subsidiary which is not attributable, directly or indirectly, to the parent company. A non-controlling interest, comprising instruments which confer ownership interest at present and which confer on their holder a share of net assets upon dissolution are measured at fair value upon the business combination date.

Attribution of Profit and of Other Comprehensive Profit items among shareholders

Profit or loss and any Other Comprehensive Profit item is attributed to the controlling shareholder of the entity and to non-controlling interest. Total profit and Other Comprehensive Profit are attributed to the controlling shareholder of the entity and to non-controlling interest, even if this results in a negative balance of non-controlling interest.

Investment in associates and in entities

Associates are entities in which the Bank has material influence over financial and operational policy, but over which it has no control.

Investment in these entities is accounted for using the equity method and is initially recognized at cost. The investment cost includes transaction costs. The consolidated financial statements include the Bank's share of income and expenses, profit or loss and Other Comprehensive Profit of investees accounted for using the equity method, after required adjustments to align the accounting policy with that of the Group as from the date on which material influence exists until such material influence ceases to exist.

The Bank does not make adjustments to accounting policy with regard to core banking business issues (issues where IFRS are yet to be adopted by the Public Reporting Regulations) applied by a non-banking associate).

Note 1 - Reporting Principles and Accounting Policies (continued)

When the Group's share of loss exceeds the value of Group interest in an entity accounted for using the equity method, the carrying amount of these rights (including any long-term investment) is fully amortized, and the Group recognizes no further loss, unless the Group is committed to support the investee, or if the Group has paid any amounts in consideration therefor.

Based on international standards, when determining the existence of material influence, certain potential voting rights should be taken into account. The standard has been prospectively applied starting with financial statements for periods starting on January 1, 2011, and its initial application had no impact on the Bank's financial statements.

C. IAS 36 "Impairment of assets" - investments in associates were accounted for using the equity method

Investments in associates are reviewed for impairment when there is objective evidence indicating impairment, in accordance with IAS 36 "Impairment of assets" and in accordance with decision 1-4 by the Israeli Securities Authority "Guidelines for review of need to amortize permanent investments". Goodwill which is part of the investment account in the associate is not recognized as a separate asset, and therefore is not separately reviewed for impairment. Impairment is reviewed for the investment as a whole. If there is objective evidence indicating potential impairment of the investment, the Bank estimates the recoverable amount of the investment, which is its value in use or its net selling price, whichever is higher.

In determining the value in use of investment in an associate, the Bank estimates its share of the present value of estimated future cash flows expected to be generated by the associate, including operating cash flows of the associate and consideration for final realization of the investment, or the present value of estimated future cash flows expected to be derived from dividends received and from final realization.

Impairment loss is recognized when the carrying amount of the investment, accounted for using the equity method, exceeds its recoverable amount. Impairment loss is not attributed to any specific asset, including goodwill which is part of the investment account in an associate or in a jointly-controlled entity. Impairment loss is only reversed if change occurs to estimates used to determine the recoverable amount of the investment after the date on which impairment lost was most recently recognized. The carrying amount of the investment, after reversal of impairment loss, shall not exceed the carrying amount of the investment which would have been determined using the equity method if no impairment loss had been recognized.

Note 1 - Reporting Principles and Accounting Policies (continued)

Reversal of impairment loss shall be recognized under "Banking corporation's share of operating profit or loss of associates".
Initial application of the standard had no impact on the Bank's financial statements.

D. IAS 17 "Leases"

Leases, including land leases from the Israel Land Administration ("ILA") or from third parties, where the Bank essentially bears all risk and reward associated with the property, are classified as financing leases. Upon initial recognition, leased assets are measured at their fair value or the present value of minimum future leasing fee, whichever is lower.
Future payments for exercise of an option to extend the lease term with ILA are not recognized as part of the relevant asset and liability, since they constitute contingent leasing fees, derived from the fair value of the land upon future renewal dates of the lease.
Subsequent to initial recognition, the asset is treated as per the accounting policy applicable to such asset. Other leases are classified as operating leases, with leased assets not recognized on the Bank's balance sheet.

Prepaid leasing fees paid to ILA with respect to land leases classified as operating leases are presented on the balance sheet as prepaid expenses, and are recognized in the statement of profit and loss over the lease term. The lease term and amortization amounts account for any option to extend the lease term, if upon contracting the lease it was reasonably certain that the option would be exercised.
Payments for an operating lease are charged to the statement of profit and loss using the straight line method over the lease term. Lease incentives received are recognized as an integral part of all lease expenses using the straight line method over the lease term.
Minimum leasing fees payable for a financing lease are divided into financing expenses and reduction of the liability balance. Financing expenses are allocated for all periods in the lease term, so as to obtain a fixed periodic interest rate for the outstanding liability balance.
Minimum leasing fees with respect to contingent leasing fees are updated when the contingency is resolved.

Determination whether an agreement includes a lease

At the outset or upon review of the agreement, the Bank determines whether it is a lease or whether it includes a lease. A specific property is subject to a lease if existence of the agreement is contingent on use of a specific asset(s). An agreement transfers the right to use the property if it transfers the right to control use of the property. Payments and other consideration required pursuant to the agreement are separated at the outset or upon review of the agreements, into payments with respect to the lease and into other components, based on their pro-rata fair value.

Note 1 - Reporting Principles and Accounting Policies (continued)

For a financing lease, if it is impracticable to reliably separate the payments, the Bank recognizes an asset and a liability whose amount is equal to the fair value of the underlying asset. In subsequent periods, the liability is amortized as payments are made, and an inherent financing expense is recognized with respect to the liability, using the incremental interest rate of the acquirer.

Initial application of the standard had no impact on the Bank's financial statements.

E. IFRS 5 "Non-current assets held for sale and discontinued operations"

In accordance with international standards, as adopted in the public reporting directives, assets which meet the criteria stipulated by the standard for classification as held for sale, except for "assets seized" in credit transactions, as defined in the public reporting directives, shall be measured at their carrying amount or at their fair value net of selling costs, whichever is lower. Furthermore, in accordance with IFRS, these assets shall not be amortized after the date of their classification as held for sale. The Bank prospectively applies the standard as from financial statements for periods starting on January 1, 2011; therefore initial application of the standard had no impact.

F. IAS 38 "Intangible assets"

Goodwill

For information on measurement of goodwill upon initial recognition, see section 2B above.
In subsequent periods, goodwill is measured at cost net of accumulated impairment loss.

Software cost

Software acquired by the Bank is measured at cost net of accumulated depreciation and impairment loss.

Cost associated with software development or customization is capitalized if and only if: development cost may be reliably measured; the software is technically and commercially feasible; future economic benefits are expected; and the Bank has the intent and sufficient resources to complete development and put the software into use. Cost recognized as an intangible asset includes direct cost of goods and services and direct employee wages. Such cost is measured at cost net of accumulated depreciation and impairment loss. Overhead costs not directly attributable to software development and research expenses are recognized as expenses when incurred.

Note 1 - Reporting Principles and Accounting Policies (continued)

Amortization

Amortization is charged to the statement of profit and loss using the straight line method over the estimated useful life of intangible assets, including software assets, as from the date on which these assets are available for use.

Goodwill and intangible assets of unspecified useful life are not systematically amortized, but rather are reviewed for impairment at least once annually.

Intangible assets generated at the Bank (such as: software under development) are not systematically amortized while they are not available for use. Therefore, such intangible assets are reviewed for impairment at least once annually, until such data on which they become available for use.

Subsequent cost

Subsequent cost is recognized as an intangible asset only when it increases the future economic benefit inherent in the asset with respect to which it was incurred. Other cost, including cost associated with goodwill or self-developed brands, is charged to the statement of profit and loss when incurred.

Initial application of IAS 38 has no material impact on the Bank's financial statements.

3. **FAS 157 "Fair-value measurement" (FAS 159 (ASC 820-10) "Fair-value option for financial assets and financial liabilities" and ASU 2010-06 (ASC 825-10) "Improvements to disclosure of fair value measurement"**

FAS 157 defines fair value, and determines a consistent work framework for fair value measurement, by defining valuation techniques and a fair value ranking. The ranking divides instruments measured at fair value into three levels:

Level 1 - fair value measured using prices quoted for identical instruments on an active market accessible by the bank upon the measurement date.

Level 2 - fair value measured using observed data, either direct or indirect, which are not quoted prices as specified under Level 1. Level 2 data include quoted market data on active markets, or on non active markets, if they exist, or data derived from or based upon such observed market data.

Level 3 - fair value measured by using non-observed data.

FAS 157 expands the disclosure requirements for fair value measurements. Application of the standard allows recognition of "first day" gains, and eliminates the obligation to determine the fair value of derivative instruments not traded on an active market based on the transaction price.

Note 1 - Reporting Principles and Accounting Policies (continued)

FAS 157 applies starting on January 1, 2011, and is applied prospectively, except for financial instruments initially measured prior to initial application as follows:

1. Positions in financial instruments traded on an active market measured at fair value using the blockage factor.
2. Derivative instruments measured at fair value pursuant to Part Ia of Public Reporting Directives (FAS 133) using transaction price, since they are not traded on an active market.
3. Mixed financial instruments measured at fair value upon initial recognition, using the transaction price pursuant to Part Ia of Public Reporting Directives (FAS 133).

The standard stipulates that the banking corporation should reflect credit risk and non-performance risk in measuring the fair value of debt, including derivatives, issued there by and measured at fair value. Non-performance risk includes the banking corporation's credit risk, but is not limited to this risk alone. The Bank assesses credit risk in derivatives as follows:

– When there is sufficient liquid collateral with respect to the exposure, which specifically secures the derivative, the Bank assumes that credit risk is zero, and does not adjust the fair value with respect to credit quality of the counter-party.

– When exposure with respect to the counter-party, on consolidated basis, is material (over 1% of the Bank's equity) - the Bank conducts a fair value assessment based on indications of the credit quality of the counter-party from transactions on an active market, in as much as such indications are available by reasonable effort. The Bank derives these indications, inter alia, from prices of debt instruments of the counter-party traded on an active market, and from prices of credit derivatives based on the credit quality of the counter-party. If no such indications are available, the Bank calculates the adjustments based on internal ratings (such as: Estimated expected failure ratio and credit loss rate upon failure).

– When exposure with respect to the counter-party, on consolidated basis, is not material - the Bank calculates the aforementioned adjustment on group basis, using a credit quality benchmark based on groups of similar counter-parties, for example based on internal ratings.

Further, the Bank conducts reasonability testing of results obtained from internal assessment with regard to changes in market spreads, and makes the required adjustments, as the case may be.

Note 1 - Reporting Principles and Accounting Policies (continued)

In order to adapt the banking corporation's valuation methods to the exit price principle and to provisions prescribed by the standard, the banking corporation is required to review the valuation methods applied for measuring fair value, taking into consideration the relevant circumstances of the various transactions, including recent transaction prices on the market, indicative prices from valuation services and results of back testing of similar transaction types.

The new disclosure requirements, including disclosure required exclusively on annual reports, are applied in the first quarter of 2011, without requiring application to financial statements for periods prior to initial application of the standard.

Following initial application of the standard, profit from financing operations in the first quarter of 2011 increased by NIS 17 million (NIS 11 million after tax).

In January 2010, the accounting standard update ASU 2010-06 on "Improvement of disclosure with regard to fair value measurement" was published in conjunction with application of Standard 157. In accordance with the update, disclosure and explanation are required if significant amounts measured at fair value are transferred from Level 1 to Level 2 or vice versa. Furthermore, disclosure is required of gross changes in amounts measured at fair value at level 3, due to acquisition, sale, issuance and redemption.

Securities

The fair value of securities held for trade and securities available for sale is determined based on quoted market prices on a major market. When there are multiple markets on which the security is traded, the estimate is based on the quoted market price on the most effective market. In such cases, the fair value of the Bank's investment in securities is the product of the number of units and the aforementioned quoted market price. If a quoted market price is not available, the fair value estimate is based on the best available information, with maximum use of observed data and taking into account the risk inherent in the financial instrument (market risk, credit risk, non-negotiability etc.)

Financial derivatives

Financial derivatives with an active market are valued based on market value, determined on the primary market, or in the absence of a primary market - using a quoted market price on the most effective market. Non-negotiable financial derivatives are valued using models which take into account the risk inherent in the derivative instrument (market risk, credit risk etc.) For further details, see below the valuation methodology of credit risk and non-performance risk.

Note 1 - Reporting Principles and Accounting Policies (continued)

Financial instruments other than derivatives

For most of the financial instruments in this category (such as: loans to the public and loans to the Government, deposits from the public and deposits with banks, non-negotiable subordinated notes and bonds) no "market price" is quotable, since there is no active market on which they are traded. Therefore, the fair value is estimated using acceptable pricing models, such as present value of future cash flows, discounted at an interest rate that reflects the level of risk inherent in the instrument. To this end, the future cash flows for impaired and other debt have been calculated net of effects of accounting write-offs and provision for credit loss with respect of said debt. Also, in certain cases, for the purpose of fair value measurement of non-negotiable financial liabilities, the Bank applies directives stipulated in ASU 2009-05 "Measuring liabilities at fair value". In particular, the Bank values their fair value using quoted prices of the liabilities (or of similar liabilities) which are traded as assets.

Fair value alternative

FAS 159 (ASC 825-10) allows banking corporations to elect, upon specified election dates, to measure at fair value financial instruments and certain other items ("qualified items") which, according to public reporting directives, are not required to be measured at fair value. Unrealized gain and loss due to changes in fair value of items for which the fair value option has been selected, are recognized in the statement of profit and loss at each subsequent reporting date.

Furthermore, prepaid costs and commissions related to items for which the fair value option has been elected, are recognized in the statement of profit and loss as they are incurred. Election of the fair value option, as stated above, is made for each instrument individually, and may not be cancelled.

Further, FAS 159 (ASC 825-10) stipulates presentation and disclosure requirements designed to assist in comparing banking corporations which elect different measurement bases for similar types of assets and liabilities.

Notwithstanding the foregoing, the Supervisor of Banks' directives with regard to application of the standard have clarified that a banking corporation may not elect the fair value option, unless the banking corporation had previously developed knowledge, systems, procedures and high-level controls which would allow it to measure the item with a high degree of reliability. Therefore, the Bank may not elect the fair value option for any asset which may be classified under Level 2 or Level 3 of the fair value ranking, nor for any liability, without prior consent of the Supervisor of Banks.

Note 1 - Reporting Principles and Accounting Policies (continued)

FAS 159 (ASC 825-10) applies as from January 1, 2011. The Bank does not apply the fair value alternative pursuant to FAS 159 to any assets or liabilities.

4. **Directives and clarifications with regard to strengthening internal control over financial reporting of employee rights**

The Bank is preparing to apply rules stipulated in the Public Reporting Regulations for measurement and recognition of liabilities with respect to employee rights. In the second quarter of 2011, the Bank will review the need for re-assessment of the amount of increased severance pay to be paid to employees, and, if needed, will conduct current actuarial calculations with respect to severance pay liabilities and long service bonuses. Should there be any change to the amount of liabilities for employee rights, the balances of provision and reserves on the financial statements as of June 30, 2011 would be revised for all reporting dates presented on these financial statements, and payroll expenses and net profit would be revised for all reporting periods presented on these financial statements. The Bank will recognize liabilities at the liability amount calculated on an actuarial basis, taking into account the additional cost expected to be incurred by the Bank with respect to fulfillment of beneficial terms and conditions and the percentage of employees expected to depart under such beneficial terms and conditions, or at the liability amount calculated as the product of the employee's monthly salary and their number of years of service, as required by Accounting Opinion 20 of the Institute of Certified Public Accountants in Israel , whichever is higher.

The Bank's retained earnings up to the earliest period presented on the financial statements were adjusted for application of the directive by Bank Yahav to these financial statements. The impact of this adjustment amounted to a NIS 10 million decrease in retained earnings for all reporting dates presented on these financial statements. Comparison figures were restated.

Note 1 - Reporting Principles and Accounting Policies (continued)

F. New accounting standards and new directives by the Supervisor of Banks prior to their application

The IFRS on the following issues, which are not in the core banking business, have yet to become effective and would be adopted in accordance with directives of the Supervisor of Banks, when issued, with regard to timing and manner of their initial application:

– IAS 7 "Cash flow statements"
– IAS 12 "Income taxes"
– IAS 19 "Employee benefits"
– IAS 23 "Borrowing costs"
– IAS 24 "Related party disclosures"

2. In April 2011, FASB issued an accounting standard update, ASU 2011-02, with regard to a creditor's determination of whether a restructuring is a troubled debt restructuring. In accordance with US standards on this matter (ASC 310), debt restructured as troubled debt is debt which has been formally restructured where - for economic or legal reasons related to financial duress of the debtor - the bank made a concession to the borrower.

   The update provides further directives which clarify when debt restructuring would be deemed to be restructuring of troubled debt where the creditor made a concession. In particular, clarifications are included with regard to application of the concession test for effective interest. Directives are also included for determination as to whether the concession was made in debt restructuring where the contractual interest under the new terms and conditions is higher than the original contractual interest, but still lower than market interest for loans with similar risk attributes and taking into account all of the terms and conditions stated in the restructuring. It was further clarified that in situations where the debtor is unable to raise debt with similar debt attributes under market conditions, the bank would be required to review all other terms and conditions of said restructuring in order to determine whether a concession has been made.

   In order to determine whether the borrower is under duress, the Bank would be required, *inter alia*, to assess whether it is expected that the borrower would undergo a failure event in the foreseeable future. If the aforementioned event is probable, the bank is to deduce that the borrower is in financial duress.

Note 1 - Reporting Principles and Accounting Policies (continued)

Further, in accordance with existing standards, an insignificant delay in payments does not constitute a concession. The ASU lists indicators which may indicate a non-material delay, such as: the amount of restructured payments is not material relative to the outstanding debt balance, or relative to the value of collateral, and the delay is not material relative to payment frequency (monthly, quarterly etc.), the original contractual maturity and original expected average duration of the debt. In accordance with the ASU, the creditor must take into account the cumulative effect of past debt restructuring when assessing whether or not the delay is material.

The ASU further lists disclosure requirements with regard to restructuring of troubled debt.

The rules stipulated by the ASU shall become effective for periods starting after June 15, 2011 (i.e. as from July 1, 2011). Early adoption is possible. Changes in measurement of the provision for credit loss shall be applied prospectively (i.e. measurement of debt balances classified as impaired debt following initial application of the ASU).

In accordance with directives of the Supervisor of Banks, this update shall be applied by banking corporations as from its effective start date for banks in the USA, except for the disclosure requirements which shall not apply at this stage.

The Bank is reviewing implications of initial application of this accounting standard update.

3. In April 2011, FASB issued an accounting standard update, ASU 2011-03, on reconsideration of effective control for repurchase agreements, which is an update to rules stipulated in FAS 166 (ASC 860).

   According to this update, the manner of determination of the existence of effective control by a transferor in repurchase agreements is to be modified. Evaluation of the existence of effective control shall focus on contractual rights and contractual obligations of the transferor, and therefore would not take into consideration (1) the criterion requiring that transferor would be capable of acquiring transferred securities even in case of failure of the transferee, and (2) directives with regard to required collateral with respect to that criterion.

Note 1 - Reporting Principles and Accounting Policies (continued)

Other criteria for review of existence of effective control were not modified by the ASU. These criteria indicate that the transferor maintains effective control over transferred assets (and therefore the asset transfer shall be accounted for as secured debt) if all of the following conditions are fulfilled:

- The assets repurchased or redeemed are identical or essentially identical to the transferred assets;
- The agreement is to repurchase or redeem them prior to maturity, at a fixed or fixable price; and
- The agreement is made simultaneously with the transfer.

The update shall apply to periods starting after December 15, 2011 (i.e. as from January 1, 2012), and shall be applied prospectively for new transactions and existing transactions modified at the start of the first quarterly or annual period following its effective start date. Early adoption is not permitted.

The Bank is reviewing implications of initial application of this accounting standard update.

4. In May 2011, IASB published the new set of standards, which is part of the joint IASB-FASB consolidation project, and effectively supersedes current standards with regard to consolidation of financial statements and joint ventures, and also includes several changes with regard to associates. In accordance with the Supervisor of Banks' directives, banking corporations should regularly update the accounting treatment of issues adopted by the Public Reporting Regulations.
   Such an update is required in line with the effective start date and as per transition provisions to be specified in new International Financial Reporting Standards to be published on these matters, and in accordance with adoption principles and clarifications of the Supervisor of Banks.
   Therefore, the general application of rules stipulated in the new set of standards with regard to consolidation of financial statements and related issues, shall be accomplished subject to provisions of the Public Reporting Regulations, *inter alia*, with regard to application of the standard to issues for which specific rules, different than those specified in the standard and/or related directives, were specified or adopted in the Public Reporting Regulations.

Note 1 - Reporting Principles and Accounting Policies (continued)

A. IFRS 10 "Consolidated financial statements"

This standard supersedes provisions of IAS 27 "Consolidated and separate financial statements" and provisions of SIC 12 "Consolidation - Special Purpose Entities" with regard to consolidation of financial statements, such that provisions of IAS 27 shall only continue to apply to separate financial statements.
The standard proposes a new control model, for determination whether an investor has control of the investee, and should therefore consolidate it. This model is to be applied to all investees, both those currently within the scope of IAS 27 and those currently within the scope of SIC 12. In accordance with this model, an investor has control of the investee when exposed to or eligible to receive variable returns arising from their involvement with the investee, and is capable of influencing these returns by means of their power in said investee.

De-facto circumstances would be accounted for in assessing control, so the standard effectively includes a model of effective control. This means that if effective control is achieved, the financial statements should be consolidated. Furthermore, when assessing the achievement of control, all significant potential voting rights would be accounted for, even if not immediately exercisable. With regard to potential voting rights, their structure, reason for being as well as terms and conditions of said rights should be reviewed.
The standard is to be prospectively applied for annual reporting periods starting on or after January 1, 2013. Early adoption is possible, subject to disclosure and subject to early adoption of two other standards published concurrently: IFRS 11 "Joint arrangements" and IFRS 12 "Disclosure of interests in other entities".

B. IFRS 11 "Joint arrangements"

This standard supersedes provisions of IAS 31 "Interests in joint ventures" and amends some supervisions of IAS 28 "Investments in associates".
The standard defines joint arrangements as arrangements subject to joint control, and classifies such arrangements into two categories: (1) Joint operations, and (2) joint ventures.

Note 1 - Reporting Principles and Accounting Policies (continued)

Joint control is an agreed, contractual sharing of control (as defined in IFRS 10) over an arrangement, and only exists when unanimous agreement is required of the parties sharing control in order to make decisions with regard to relevant operations of the arrangement.

1) Joint operations - the parties sharing joint control have interests in assets related to the arrangement, as well as commitment to fulfill obligations related to the agreement. Joint operations shall be treated similarly to the accounting treatment of jointly-controlled assets and of jointly-controlled ventures pursuant to IAS 31, i.e. shall be recognized as assets and liabilities and shall be treated in accordance with the applicable standards.
   Joint operations include joint agreements not incorporated as a separate vehicle (similar to jointly-controlled assets and jointly-controlled ventures, as defined in IAS 31), and also include joint agreements incorporated as a separate entity where the legal or contractual form or other indications indicate that the parties sharing joint control have interests in assets related to the agreement and a commitment to fulfill obligations related to the agreement.

2) Joint ventures - the parties sharing control have interests in net assets of the joint agreement. Joint ventures shall only be accounted for using the equity method. Joint ventures are all joint agreements incorporated as a separate entity which do not constitute "joint operations". This means that joint ventures are joint agreements incorporated as a separate entity where the legal or contractual form or other indications indicate that the parties sharing joint control have no interests to assets related to the agreement and have no commitment to fulfill obligations related to the agreement.
   Furthermore, the standard modifies accounting treatment of loss of joint control where after loss of joint control material influence still remains. In particular, the standard rescinds the current directive to revalue at fair value the remaining investment in the associate upon loss of joint control.

The standard is to be prospectively applied for annual reporting periods starting on or after January 1, 2013. Nevertheless, specific provisions are in place with regard to prospective application in certain cases. Early adoption is possible, subject to disclosure and subject to early adoption of two other standards published concurrently: IFRS 10 "Consolidated financial statements" and IFRS 12 "Disclosure of interests in other entities".

Note 1 - Reporting Principles and Accounting Policies (continued)

C. IFRS 12 "Disclosure of interests in other entities"

The standard contains extensive disclosure requirements with regard to interests in subsidiaries, joint agreements, associates and structured entities.

"Structured entities are entities incorporated so that voting rights, and similar rights, are not the dominant factor in determining control there of. The definition of interests in the standard is extensive, including contractual and/or non-contractual involvement which exposes the entity to change in returns due to performance of the investee.

The objective of these new disclosure requirements is to allow users of the financial statements to understand the nature of and risk associated with the entity's interests in other entities, and to understand the impact of said interests on the entity's financial standing, operating results and cash flows. This is reflected in comprehensive, extensive disclosure requirements, including: judgment and significant assumptions reflected in determining the nature of rights in entities and agreements, interests in subsidiaries, interests in joint agreements and in associates and interests in structured entities.

The standard is to be applied for annual reporting periods starting on or after January 1, 2013. Early adoption is permitted, subject to early adoption of two other standards published concurrently - IFRS 11 "Joint agreements" and IFRS 10 "Consolidated financial statements". However, the additional disclosure requirements pursuant to IFRS 12 may be adopted early without early adoption of the other standards.

The Bank has yet to commence review of the implications of adoption of these standards on the financial statements.

5. In May 2011, FASB issued accounting standard update ASU 2011-04 on fair-value measurement. This accounting standard update is an update to guidelines with regard to fair-value measurement stipulated in US accounting standard FAS 157 (ASU 820-10). The updates included in this ASU include clarifications by FASB with regard to intentions concerning application of fair-value measurement rules and with regard to current disclosure requirements, as well as updates which stipulate principles or specific requirements with regard to fair-value measurement and with regard to disclosure requirements concerning fair-value measurement.

Note 1 - Reporting Principles and Accounting Policies (continued)

Inter alia, these updates include further clarifications and specific guidelines concerning fair-value measurement of financial instruments managed in a portfolio, stipulate rules for fair-value measurement of instruments classified as equity by the reporting entity, as well as clarifications with regard to application of premium or discount in calculating the fair value of an accounting unit of an asset or liability. The standard further stipulates additional disclosure requirements as follows:

1) For fair-value measurement classified under level 3 of the fair value hierarchy:
   - Valuation process applied by the reporting entity;
   - Sensitivity analysis of fair-value measurement to changes in un-observed data and mutual inter-relations between such un-observed data, if any.
2) Use of non-financial asset other than by the highest and best use, where the asset is measured at fair value on the balance sheet, or when its fair value is included in disclosures under the highest and best use assumption.
3) Classification by level on the fair value hierarchy of items not measured at fair value on the balance sheet, but which require disclosure of their fair value.

The standard is to be applied for annual reporting periods starting on January 1, 2012. Early adoption is not possible. The updates included in the ASU are to be applied prospectively.
The Bank has yet to commence review of the implications of adoption of the standard on the financial statements.

Note 2 - Securities

As of March 31, 2011 (unaudited)

Reported amounts (NIS in millions)

	Balance sheet balance	Amortized cost (for shares - cost)	Cumulative other comprehensive income - Gains	Cumulative other comprehensive income - Losses	Fair value [1]
(1) Securities available for sale					
Debentures and bonds					
Of the Government of Israel [2]	4,269	4,320	13	(64)	4,269
Of foreign governments [2][6]	101	101	-	-	101
Of others	969	962	18	(11)	969
Total debentures available for sale	**5,339**	**5,383**	**31**	**(75)**	**5,339**
Shares of others [3]	82	82	-	-	82
Total securities available for sale	**5,421**	**5,465**	**31**	**(75)**	**5,421**

	Balance sheet balance	Amortized cost (for shares - cost)	Unrealized gain from adjustments to fair value	Unrealized loss from adjustments to fair value	Fair value [1]
(2) Securities held for trading					
- Debentures					
of Government of Israel	299	297	2	-	299
Of others	6	6	-	-	6
Total securities held for trading	**305**	**303**	[4][5]**2**	**-**	**305**
Total securities	**5,726**	**5,768**	**33**	**(75)**	**5,726**

(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-D to the 2010 financial statements for information on liens on securities held by the Bank.
(3) 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 80 million.
(4) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".
(5) Charged to statement of profit and loss but not yet realized.
(6) US government debentures.

Note 2 - Securities

As of March 31, 2010 (unaudited) (continued)

Reported amounts (NIS in millions)

	Balance sheet balance	Amortized cost (for shares - cost)	Cumulative other comprehensive income		Fair value (1)
			Gains	Losses	
1) Securities available for sale					
Debentures and bonds					
Of the Government of Israel (2)	7,987	8,005	32	(50)	7,987
Of foreign governments (2)(6)	134	134	-	-	134
Of others	1,209	1,225	20	(36)	1,209
Total debentures available for sale	**9,330**	**9,364**	**52**	**(86)**	**9,330**
Shares of others (3)	93	92	1	-	93
Total securities available for sale	**9,423**	**9,456**	(4) **53**	(4) **(86)**	**9,423**

	Balance sheet balance	Amortized cost (for shares - cost)	Unrealized gains From reconciliation to fair value	Unrealized losses from adjustments to fair value	Fair value (1)
2) Securities held for trading					
- Debentures					
of Government of Israel	166	167	-	(1)	166
Of others	2	2	-	-	2
Total securities held for trading	**168**	**169**	(5) **-**	(5) **(1)**	**168**
Total securities	**9,591**	**9,625**	**53**	**(87)**	**9,591**

(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-D to the 2010 financial statements for information on liens on securities held by the Bank.
(3) Includes shares which have no fair value available, amounting to NIS 87 million, that are stated at cost, net of a provision for other-than-temporary impairment.
(4) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".
(5) Charged to statement of profit and loss but not yet realized.
(6) US government debentures.

Note 2 - Securities

As of December 31, 2010 (audited) (continued)

Reported amounts (NIS in millions)

	Balance sheet balance	Amortized cost (for shares - cost)	Cumulative other comprehensive income		Fair value [1]
			Gains	Losses	
(1) Securities available for sale					
Debentures and bonds					
Of the Government of Israel [2]	6,023	6,040	31	(48)	6,023
Of foreign governments [2][6]	103	103	-	-	103
Of others	953	952	15	(14)	953
Total debentures available for sale	**7,079**	**7,095**	**46**	**(62)**	**7,079**
Shares of others [3]	81	81	-	-	81
Total securities available for sale	**7,160**	**7,176**	[4] **46**	[4] **(62)**	**7,160**

	Balance sheet balance	Amortized cost (for shares - cost)	Unrealized gains from reconciliation to fair value	Unrealized losses from adjustments to fair value	Fair value [1]
(2) Securities held for trading					
- Debentures					
of Government of Israel	285	286	1	(2)	285
Of others	4	4	-	-	4
Total securities held for trading	**289**	**290**	[5]**1**	[5] **(2)**	**289**
Total securities	**7,449**	**7,466**	**47**	**(64)**	**7,449**

3) Information about impaired debentures

	As of March 31 2011	As of March 31 2010	As of December 31, 2010
Recorded debt balance of impaired debentures not accruing interest income	29	29	29

(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-D to the 2010 financial statements for information on liens on securities held by the Bank.
(3) 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 79 million.
(4) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".
(5) Charged to statement of profit and loss but not yet realized.
(6) US government debentures.

Note 2 - Securities

Further details with regard to asset-backed securities available for sale

Reported amounts (NIS in millions)

4) Further details on consolidated basis with regard to asset-backed securities available for sale:

	As of March 31, 2011			
		Cumulative other comprehensive income (loss)		Fair value (Balance sheet balance)
	Amortized cost	Gains	Losses	
				(unaudited)
Asset-backed securities (ABS):				
CDO	-	-	-	-
CLO	68	7	(10)	65
Total asset-backed securities available for sale	**68**	**7**	**(10)**	**65**

	As of March 31, 2010			
		Cumulative other comprehensive income		Fair value (Balance sheet balance)
	Amortized cost	Gains	Losses	
				(unaudited)
Asset-backed securities (ABS):				
CDO	-	-	-	-
CLO	70	4	(13)	61
Total asset-backed securities available for sale	**70**	**4**	**(13)**	**61**

	As of December 31, 2010			
		Cumulative other comprehensive income (loss)		Fair value (Balance sheet balance)
	Amortized cost	Gains	Losses	
Asset-backed securities (ABS):				
CDO	-	-	-	-
CLO	66	5	(11)	60
Total asset-backed securities available for sale	**66**	[(1)] **5**	[(1)] **(11)**	**60**

Note 2 - Securities

Further details with regard to asset-backed securities available for sale

Reported amounts (NIS in millions)

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

				As of March 31, 2011
	Less than 12 months		12 months or more	
	Fair value	Unrealized loss	Fair value	Unrealized loss
				unaudited
Asset-backed securities (ABS):				
CLO	-	-	40	(10)
Total	**-**	**-**	**40**	**(10)**

				As of March 31, 2010
	Less than 12 months		12 months or more	
	Fair value	Unrealized loss	Fair value	Unrealized loss
				unaudited
Asset-backed securities (ABS):				
CLO	-	-	37	(13)
Total	**-**	**-**	**37**	**(13)**

				As of December 31, 2010
	Less than 12 months		12 months or more	
	Fair value	Unrealized loss	Fair value	Unrealized loss
Asset-backed securities (ABS):				
CLO	-	-	36	(11)
Total	**-**	**-**	**36**	**(11)**

Note 3 - Loans to the public and provision for credit loss - (unaudited)

Reported amounts (NIS in millions)

A. Loans to the public

	March 31, 2011			December 31, 2010 (pro-forma)		
	Recorded debt balance	Provision for credit loss	Debt balance, net	Recorded debt balance	Provision for credit loss	Debt balance, net
Loans to the public reviewed individually (1)	31,161	1,271	29,890	31,049	1,402	29,647
Loans to the public reviewed on group basis (2)	80,581	1,080	79,501	77,783	1,052	76,731
Total loans to the public	**111,742**	**2,351**	**109,391**	**108,832**	**2,454**	**106,378**
Includes: Customers' liabilities for acceptances	344	-	344	191	-	191

B. Loans to the public reviewed individually

.1Loans to the public reviewed individually includes:

	March 31, 2011			December 31, 2010 (pro-forma)		
	Recorded debt balance	Provision for credit loss	Debt balance, net	Recorded debt balance	Provision for credit loss	Debt balance, net
Impaired loans to the public (3)	2,303	950	1,353	2,379	1,060	1,319
Non-impaired loans to the public, in arrears 90 days or more (4)	39	7	32	54	7	47
Non-impaired loans to the public, in arrears 30-89 days (4)	112	2	110	75	3	72
Other non-impaired loans to the public (4)	28,707	312	28,395	28,541	332	28,209
Total non-impaired loans to the public (4)	**28,858**	**321**	**28,537**	**28,670**	**342**	**28,328**
Total loans to the public reviewed individually	**31,161**	**1,271**	**29,890**	**31,049**	**1,402**	**29,647**

(1) Includes loans reviewed individually and found not to be impaired. The provision for credit loss with respect to these loans was calculated on group basis. For further details of loans reviewed individually, see below section B.
(2) Loans for which a provision for credit loss is assessed on a group basis by extent of arrears, in accordance with appendix to Proper Conduct of Banking Business Regulation No. 314, and other loans not reviewed individually for which the provision for credit loss is calculated on group basis. For further details see section C.
(3) Non-accruing impaired loans, except for certain loans under restructuring, as determined in sub-section 4 below.
(4) Loans reviewed individually and found not to be impaired. The provision for credit loss with respect to these loans was calculated on a group basis.

Note 3 - Loans to the public and provision for credit loss - (unaudited) - continued

Reported amounts (NIS in millions)

B. Loans to the public reviewed individually (continued)

Supplementary information about loans to the public reviewed individually

	March 31, 2011	December 31, 2010 (pro-forma)
	Recorded debt balance	
2. Impaired loans to the public for which a provision for credit loss was made individually	1,977	1,919
Impaired loans to the public for which no provision for credit loss was made individually	326	460
Total impaired loans to the public	**2,303**	**2,379**
3. Impaired loans to the public measured at present value of cash flows	2,068	2,126
Impaired loans to the public measured at collateral value	235	253
Total impaired loans to the public	**2,303**	**2,379**

4. Troubled debt in restructuring whereby changes were made to credit terms and conditions

	March 31, 2011			December 31, 2010 (pro-forma)		
	Recorded debt balance	Provision for credit loss	Debt balance, net	Recorded debt balance	Provision for credit loss	Debt balance, net
Not accruing interest revenues	124	44	80	80	32	48
Accruing interest revenues, in arrears 90 days or more	21	6	15	2	-	2
Accruing interest revenues, in arrears 30-89 days	15	2	13	11	1	10
Accruing interest revenues	63	5	58	48	5	43
Total (included under impaired loans to the public)	**223**	**57**	**166**	**141**	**38**	**103**

5. Interest on impaired loans to the public

	For the three months ended March 31
	2011
Average recorded debt balance of impaired loans to the public during reported period	2,341
Total interest income recognized during reported period with respect to such loans in the time frame during which it was classified as impaired [(1)]	22
Total interest income which would have been recognized in the reported period had these loans been accruing interest under their original terms	29
[(1)] Includes: Interest income recognized in accordance with accounting policy on cash basis	20

Note 3 - Loans to the public and provision for credit loss - (unaudited) - continued

Reported amounts (NIS in millions)

C. Loans to the public reviewed on group basis

1. Housing loans for which a minimum provision for credit loss was made by extent of arrears, in accordance with appendix to Proper Conduct of Banking Business Regulation No. 314:

	Extent of arrears							
	In arrears 30-90 days	In arrears over 90 days						
	2-3 months	3-6 months	6-15 months	15-33 months	Over 33 months	Total over 3 months	Balance with respect to refinanced loans in arrears (3)	Total
								March 31, 2011
Amount in arrears	7	14	21	22	478	536	87	630
Includes: Balance of provision for interest (1)	-	-	-	1	176	177	7	184
Recorded debt balance	683	371	241	138	638	1,388	320	2,391
Balance of provision for credit loss (2)	-	-	32	55	590	677	158	835
Debt balance, net	**683**	**371**	**209**	**83**	**48**	**711**	**162**	**1,557**
								December 31, 2010 (pro-forma)
Amount in arrears	10	15	22	27	470	534	86	630
Includes: Balance of provision for interest (1)	-	-	1	-	168	169	8	177
Recorded debt balance	709	374	247	118	628	1,367	318	2,394
Balance of provision for credit loss (2)	-	-	35	59	578	672	161	833
Debt balance, net	**709**	**374**	**212**	**59**	**50**	**695**	**157**	**1,561**

2. Other loans not reviewed on individual basis, for which the provision for credit loss was calculated on a group basis:

	March 31, 2011			December 31, 2010 (pro-forma)		
	Recorded debt balance	Provision for credit loss	Debt balance, net	Recorded debt balance	Provision for credit loss	Debt balance, net
Impaired loans to the public	-	-	-	-	-	-
Non-impaired loans to the public, in arrears 90 days or more	63	8	55	71	8	63
Non-impaired loans to the public, in arrears 30-89 days	109	4	105	145	3	142
Other non-impaired loans to the public	15,037	150	14,887	14,764	133	14,631
Total	**15,209**	**162**	**15,047**	**14,980**	**144**	**14,836**

(1) With respect to interest on amounts in arrears.
(2) Excludes balance of provision for interest.
(3) Loans for which an agreement was signed for repayment of arrears by borrower, where a change was made in the repayment schedule for the loan balance not yet due.

Note 3 - Loans to the public and provision for credit loss - (unaudited) - continued

Reported amounts (NIS in millions)

D. Provision for credit loss with respect to debts and to off-balance sheet credit instruments

	Provision for credit loss			
		On group basis [1]		
	On individual basis	By extent of arrears	Other	Total
Balance of provision for credit loss as of December 31, 2010	2,577	815	215	3,607
Three months ended March 31, 2011:	-	-	-	-
Net accounting write-offs recognized as of January 1, 2011 [2]	(1,347)	-	(544)	(1,891)
Other changes to provision for credit loss as of January 1, 2011 (charged to shareholders' equity) [2]	(114)	18	1,015	919
Expenses with respect to credit loss	24	2	28	54
Accounting write-offs	(154)	-	(19)	(173)
Recovery of debt written off in previous years	2	-	4	6
Net accounting write-off	(152)	-	(15)	(167)
Balance of provision for credit loss as of March 31, 2011	**988**	**835**	**699**	**2,522**

	Provision for credit loss			
		On group basis [1]		
	On individual basis	By extent of arrears	Other	Total
Composition of provision balance as of March 31, 2011				
With respect to loans to the public	950	835	566	2,351
With respect to debt other than loans to the public	-	-	16	16
With respect to off-balance sheet credit instruments (included under Other Liabilities)	38	-	117	155
Total	**988**	**835**	**699**	**2,522**
Composition of provision balance as of December 31, 2010 (pro-forma)				
With respect to loans to the public	1,061	833	561	2,455
With respect to debt other than loans to the public	-	-	9	9
With respect to off-balance sheet credit instruments (included under Other Liabilities)	55	-	116	171
Total	**1,116**	**833**	**686**	**2,635**

(1) Includes provision on group basis with respect to debt reviewed individually and found not to be impaired.

(2) Due to initial application of new directives with regard to measurement of impaired debt and provision for credit loss, as from January 1, 2011 banking corporations are not required to maintain general, supplementary and special provisions for doubtful debts.

Note 3 - Loans to the public and provision for credit loss - (unaudited) - continued

Reported amounts (NIS in millions)

E. Additional information on housing loans and calculation of provision for credit loss

							March 31, 2011
	Housing loans	Housing loans - impaired or in arrears over 90 days [1]		Balance of provision for credit loss			
					Other		
	Recorded debt balance	Amount in arrears [3]	Recorded debt balance	By extent of arrears	On group basis	On individual basis	Total
Housing loans for which provision for credit loss by extent of arrears must be calculated [2]	64,817	623	1,708	835	83	-	918
Other housing loans	569	6	30	-	-	14	14
Total	[4] **65,386**	**629**	**1,738**	**835**	**83**	**14**	**932**

(1) Impaired housing loans and housing loans in arrears over 3 months.
(2) Includes: General-purpose loans secured by lien on residential apartments, amounting to NIS 3,925 million.
(3) Includes delinquency interest.
(4) Includes: Housing loans bearing variable interest, amounting to NIS 39,968 million.

							December 31, 2010 (pro-forma)
	Housing loans	Housing loans - impaired or in arrears over 90 days [1]		Balance of provision for credit loss			
					Other		
	Recorded debt balance	Amount in arrears [2]	Recorded debt balance	By extent of arrears	On group basis	On individual basis	Total
Housing loans for which provision for credit loss by extent of arrears must be calculated	62,298	620	1,685	833	75	-	908
Other housing loans	520	7	30	-	-	18	18
Total	**62,818**	**627**	**1,715**	**833**	**75**	**18**	**926**

(1) Impaired housing loans and housing loans in arrears over 3 months.
(2) Includes delinquency interest.

Note 4 – Capital adequacy pursuant to directives of the Supervisor of Banks

Calculated in accordance with Proper Conduct of Banking Business Regulation No. 201-211 "Measurement and Capital Adequacy"

Reported amounts (NIS in millions)

A. Capital adequacy information

	March 31, 2011	March 31, 2010	December 31, 2010
1. Consolidated data			
A. Capital for purpose of calculating minimum capital ratio			
Tier I capital, after deductions	7,163	6,897	7,313
Tier II capital, after deductions	5,503	5,298	5,575
Total capital	**12,666**	**12,195**	**12,888**
B. Weighted risk asset balances			
Credit risk	84,787	77,984	83,268
Market risk	789	1,161	579
Operating risk	7,504	7,091	7,407
Total weighted risk asset balances	**93,080**	**86,236**	**91,254**

	March 31, 2011	March 31, 2010	December 31, 2010
	In %	In %	In %
C. Ratio of capital to risk elements			
Ratio of Tier I capital to risk elements	7.70	8.00	8.01
Ratio of total capital to risk elements	13.61	14.14	14.12
Total minimum capital ratio required by the Supervisor of Banks	9.00	9.00	9.00
2. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and subsidiaries there of			
Ratio of Tier I capital to risk elements	8.83	9.00	9.54
Total ratio of capital to risk elements	13.24	13.80	14.36
Total minimum capital ratio required by the Supervisor of Banks	9.00	9.00	9.00

Note 4 – Capital adequacy in accordance with directives of the Supervisor of Banks (continued)

Calculated in accordance with Proper Conduct of Banking Business Regulation No. 201-211 "Measurement and Capital Adequacy"

Reported amounts (NIS in millions)

	March 31, 2011	March 31, 2010	December 31, 2010
3. Capital components for calculation of capital ratio (on consolidated basis)			
A. Tier I capital			
Paid-up share capital and capital reserves	2,082	2,004	2,066
Total cumulative other loss (1)	(26)	(75)	(62)
Retained earnings	4,889	4,756	5,068
Minority interest of external shareholders in equity of consolidated subsidiaries	353	359	373
Less:			
Goodwill	(87)	(98)	(87)
Tier I capital after Tier I deductions alone	**7,211**	**6,946**	**7,358**
Less:			
Investments in supervisory capital components of banking corporations	(19)	(20)	(19)
Other deductions from Tier I capital	(29)	(29)	(26)
Total Tier I capital	**7,163**	**6,897**	**7,313**
B. Tier II capital			
1. Upper Tier II capital			
General provision for doubtful debts (2)	110	110	110
Complex capital instruments	1,836	1,764	1,831
2. Lower Tier II capital			
Subordinated notes	3,605	3,473	3,679
3. Deductions from Tier II capital			
Investments in supervisory capital components of banking corporations	(19)	(19)	(19)
Other deductions from Tier II capital	(29)	(30)	(26)
Total Tier II capital	**5,503**	**5,298**	**5,575**

(1) Excludes net gain from cash flow hedges.

(2) The amount difined, through December 31, 2010 as general provision for doubtful debts is part of upper Tier II capital, and is not deducted from loans to the public.

Note 4 – Capital adequacy in accordance with directives of the Supervisor of Banks (continued)

Calculated in accordance with Proper Conduct of Banking Business Regulation No. 201-211 "Measurement and Capital Adequacy"

Reported amounts (NIS in millions)

B. On June 30, 2010, the Supervisor of Banks issued a letter to banking corporations, on capital policy for interim periods, in which they are required to adopt a target for Tier I capital ratio by December 31, 2010, to be no less than 7.5%. Concurrently, the banks are required to submit to the Supervisor a work plan for achieving this target. The letter further stipulates that in absence of prior approval by the Supervisor of Banks, the bank shall not distribute dividends if the target has not been achieved, or if such dividend distribution would cause the bank not to achieve the target. This directive is intended to clarify the expectations of the Supervisor of Banks from banking corporations in the interim period, pending adaptation of the Supervisor's directives to emerging changes in recommendations of the Basel Committee.

C. On October 25, 2010, the Bank Board of Directors decided that the target core capital ratio would be no less than 7.5%. Further, the Board of Directors resolved to direct Bank management to act so as to maintain appropriate safety margins, in order to ensure that the core capital ration shall be no less than the foregoing. The Bank Board of Directors further resolved that the overall capital adequacy ratio shall be no less than 12.5%.

Note 5 – Consolidated statement of assets and liabilities by linkage basis

As of March 31, 2011 (unaudited)

Reported amounts (NIS in millions)

	Israeli currency		Foreign currency (1)			Non-	
	Non-linked	CPI-linked	US dollars	Euro	Other currencies	monetary items(2)	Total
Assets							
Cash and deposits with banks	11,459	596	2,102	217	295	-	14,669
Securities	2,653	410	1,711	827	43	82	5,726
Securities loaned or sold in conjunction with repurchase agreements	133	40	-	-	-	-	173
Loans to the public, net	56,390	40,973	8,092	2,153	1,783	-	109,391
Loans to Governments	-	-	1	95	-	-	96
Investments in investees	30	-	-	-	-	(14)	16
Buildings and equipment	-	-	-	-	-	1,550	1,550
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	2,743	222	32	131	96	-	3,224
Other assets	1,056	68	52	-	-	46	1,222
Total assets	**74,464**	**42,309**	**11,990**	**3,423**	**2,217**	**1,751**	**136,154**
Liabilities							
Deposits from the public	65,342	22,276	14,998	4,173	2,240	-	109,029
Deposits from banks	487	744	871	156	48	-	2,306
Deposits from the Government	6	127	33	-	-	-	166
Debentures and subordinated notes	1,040	9,244	-	-	-	-	10,284
Liabilities with respect to derivatives	1,952	196	202	111	39	-	2,500
Other liabilities	3,614	576	26	7	42	284	4,549
Total liabilities	**72,441**	**33,163**	**16,130**	**4,447**	**2,369**	**284**	**128,834**
Difference	**2,023**	**9,146**	**(4,140)**	**(1,024)**	**(152)**	**1,467**	**7,320**
Impact of hedging derivatives:							
Derivatives (except for options)	1,020	(1,020)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (except for options)	2,767	(5,511)	1,870	1,210	(336)	-	-
Net in-the-money options (in terms of underlying asset)	(1,653)	-	1,708	(127)	80	(8)	-
Net out-of-the-money options (in terms of underlying asset)	(427)	-	261	(70)	238	(2)	-
Total	**3,730**	**2,615**	**(301)**	**(11)**	**(170)**	**1,457**	**7,320**
Net in-the-money options (capitalized par value)	567	-	(162)	(168)	(279)	42	-
Net out-of-the-money options (capitalized par value)	(955)	-	710	54	250	(59)	-

(1) Includes amounts linked to foreign currency.
(2) Includes derivatives whose base relates to a non-monetary item.

Note 5 – Consolidated statement of assets and liabilities by linkage basis

As of March 31, 2010 (unaudited) (continued)

Reported amounts (NIS in millions)

	Israeli currency		Foreign currency (1)			Non-	
	Non-linked	CPI-linked	US dollars	Euro	Other currencies	monetary items(2)	Total
Assets							
Cash and deposits with banks	6,269	551	1,133	486	339	-	8,778
Securities	4,414	1,329	2,146	1,520	89	93	9,591
Securities loaned or sold in conjunction with repurchase agreements	257	-	-	-	-	-	257
Loans to the public, net	49,143	34,947	8,115	2,501	2,323	-	97,029
Loans to the Government	-	14	223	-	-	-	237
Investments in investees	28	-	-	-	-	(15)	13
Buildings and equipment	-	-	-	-	-	1,513	1,513
Intangible assets and goodwill (3)	-	-	-	-	-	97	97
Assets with respect to derivatives (3)	1,370	266	191	7	29	-	1,863
Other assets (3)	(4) 388	160	93	-	7	46	(4) 694
Total assets	**61,869**	**37,267**	**11,901**	**4,514**	**2,787**	**1,734**	**120,072**
Liabilities							
Deposits from the public	54,773	21,454	13,406	4,342	2,673	-	96,648
Deposits from banks	138	874	674	101	35	-	1,822
Deposits from the Government	3	160	36	-	-	-	199
Debentures and subordinated notes	-	7,944	-	-	-	-	7,944
Liabilities with respect to derivatives (3)	1,448	170	347	50	63	-	2,078
Other liabilities (3)	(4) 3,385	625	32	11	14	247	(4) 4,314
Total liabilities	**59,747**	**31,227**	**14,495**	**4,504**	**2,785**	**247**	**113,005**
Difference	**2,122**	**6,040**	**(2,594)**	**10**	**2**	**1,487**	**7,067**
Impact of hedging derivatives:							
Derivatives (except for options)	1,816	(1,816)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (except for options)	307	(1,985)	1,898	132	(352)	-	-
Net in-the-money options (in terms of underlying asset)	(242)	-	89	(58)	266	(55)	-
Net out-of-the-money options (in terms of underlying asset)	(647)	-	729	(134)	(2)	54	-
Total	**3,356**	**2,239**	**122**	**(50)**	**(86)**	**1,486**	**7,067**
Net in-the-money options (capitalized par value)	(346)	-	277	182	(98)	(15)	-
Net out-of-the-money options (capitalized par value)	(352)	-	136	(136)	305	47	-

(1) Includes amounts linked to foreign currency.

(2) Includes derivatives whose base relates to a non-monetary item.

(3) Data was reclassified to match section headings and presentation method in the current period.

(4) Restated with respect to prospective application of guidance by the Supervisor of Banks with regard to reinforcing internal controls over financial reporting of employee rights at Bank Yahav. See Note 1E.4 to the financial statements for details.

Note 5 – Consolidated statement of assets and liabilities by linkage basis

As of December 31, 2010 (audited) (continued)

Reported amounts (NIS in millions)

	Israeli currency		Foreign currency (1)			Non-	
					Other	monetary	
	Non-linked	CPI- linked	US dollars	Euro	currencies	items[2]	Total
Assets							
Cash and deposits with banks	8,495	434	3,127	150	408	-	12,614
Securities	3,760	413	1,641	1,511	43	81	7,449
Securities loaned or sold in conjunction with repurchase agreements	88	159	-	-	-	-	247
Loans to the public, net	54,680	39,865	8,032	2,403	2,060	-	107,040
Loans to Governments	-	-	1	91	-	-	92
Investments in investees	29	-	-	-	-	(14)	15
Buildings and equipment	-	-	-	-	-	1,546	1,546
Intangible assets and goodwill [3]	-	-	-	-	-	87	87
Assets with respect to derivatives [3]	2,967	295	75	21	91	-	3,449
Other assets [3]	[4] 526	105	85	1	1	18	[4] 736
Total assets	**70,545**	**41,271**	**12,961**	**4,177**	**2,603**	**1,718**	**133,275**
Liabilities							
Deposits from the public	62,754	22,342	14,505	4,281	2,109	-	105,991
Deposits from banks	587	839	801	76	129	-	2,432
Deposits from the Government	3	136	33	-	-	-	172
Debentures and subordinated notes	752	9,061	-	-	-	-	9,813
Liabilities with respect to derivatives [3]	2,253	227	167	186	59	-	2,892
Other liabilities [3]	[4] 3,458	595	-	42	39	270	[4] 4,404
Total liabilities	**69,807**	**33,200**	**15,506**	**4,585**	**2,336**	**270**	**125,704**
Difference	**738**	**8,071**	**(2,545)**	**(408)**	**267**	**1,448**	**7,571**
Impact of hedging derivatives:							
Derivatives (except for options)	1,375	(1,375)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (except for options)	2,157	(3,496)	1,406	450	(517)	-	-
Net in-the-money options (in terms of underlying asset)	(1,062)	-	994	(134)	193	9	-
Net out-of-the-money options (in terms of underlying asset)	(329)	-	238	93	(4)	2	-
Total	**2,879**	**3,200**	**93**	**1**	**(61)**	**1,459**	**7,571**
Net in-the-money options (capitalized par value)	321	-	(310)	(75)	83	(19)	-
Net out-of-the-money options (capitalized par value)	(997)	-	843	147	(16)	23	-

(1) Includes amounts linked to foreign currency.
(2) Includes derivatives whose base relates to a non-monetary item.
(3) Data was reclassified to match section headings and presentation method in the current period.
(4) Restated with respect to prospective application of guidance by the Supervisor of Banks with regard to reinforcing internal controls over financial reporting of employee rights at Bank Yahav. See Note 1E.4 to the financial statements for details.

Note 6 - Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

	As of March 31		As of December 31,
	2011	2010	2010
		(unaudited)	(audited)
A. Off-balance sheet financial instruments			
Contractual balances or their denominated amounts at the end of the year			
Transactions in which the balance represents a credit risk:			
- Documentary credit	601	444	499
- Loan guarantees	3,133	2,644	3,066
- Guarantees to purchasers of homes	5,940	5,337	5,566
- Other guarantees and liabilities (2)	1,952	(1) 1,584	1,738
- Unutilized revolving credit card facilities	6,246	6,381	6,076
- Unutilized debitory account and other credit facilities in accounts available on demand	17,366	(1) 15,856	17,225
- Irrevocable commitments for loans approved but not yet granted	9,614	8,347	10,345
- Commitments to issue guarantees	5,146	3,592	5,077

	As of March 31		As of December 31,
	2011	2010	2010
		(unaudited)	(audited)
B. Special commitments			
Obligations with respect to:			
Long-term rental contracts	538	422	544
Computerization and software service contracts	57	73	62
Acquisition and renovation of buildings	26	23	50
Receipt of deposits on future dates (3)	405	5	405

	As of March 31		As of December 31,
	2011	2010	2011
		(unaudited)	(audited)
C. Credit exposure arising from securitization structures by others			
Other credit risk with respect to securitization structures	65	61	60

(1) Restated.

(2) Includes the Bank's liabilities for its share in the risks fund of the MAOF Clearinghouse of NIS 132 million (as of March 31, 2010 and December 31, 2010 - NIS 118 million and NIS 138 million, respectively).

(3) Transactions with institutional depositors to receive deposits at future dates at fixed interest rates set in advance on the contract date.

Note 6 - Contingent Liabilities and Special Commitments (continued)

D. Contingent liabilities and other special commitments

1) For details of other contingent liabilities and special commitments by the Bank group, see Note 19 to the financial statements for the year ended December 31, 2010. Below is a description of material changes relative to the description provided in the 2010 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 2010 financial statements:

   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 claimed, inter alia, that their actions were lawful both in charging the commissions and in the rates of these commissions.

      The parties to the first motion to grant class action status submitted to a reconciliation proceeding heard by the Deputy Chief Justice, Justice Theodore Or (Retired). As the reconciliation process progressed, the parties to the additional motion for class action status filed on the same matter against two insurance companies were added to the process, in view of the parties' desire to reach a comprehensive agreement to conclude all proceedings on this issue.

Note 6 - Contingent Liabilities and Special Commitments (continued)

On May 22, 2011, an arbitration agreement, signed by the plaintiffs' attorney and by the qualified organs at the banks and insurance companies, was filed with the Tel Aviv District Court. Subject to its approval by the Court, this reconciliation agreement would conclude the proceedings as to these two motions. The reconciliation agreement stipulates that the banks would make a charitable donation to public causes amounting to NIS 17 million. Furthermore, the parties would recommend that the petitioners in the two motions be compensated, including their attorneys' legal fees, amounting in total to NIS 3 million. According to the reconciliation agreement, the Bank's share of these payments would amount to NIS 8 million.

B. In January 2008, a claim against the Bank was filed with the Central District Court at Petah-Tikva, along with a motion for class action status, amounting to NIS 237 million.

The plaintiff claims that the Bank lowers interest rates paid on renewable short-term deposits based on a non-binding outlook for reduction of the Bank of Israel interest rate. By contrast, when a similar outlook existed for raising the Bank of Israel interest rate, interest rates on deposits were only raised by the Bank after the date on which the Bank of Israel actually raised its interest rate.

The plaintiff further claims that the Bank acted arbitrarily and misled its customers in the pre-contract stage – by not disclosing to customers that it used different criteria for raising the Bank of Israel interest rate compared to those for lowering the Bank of Israel interest rate, as well as during the contract stage - by not informing its customers that it had lowered interest rates for such deposits based on the outlook for a reduction in Bank of Israel interest rates rather than on actual reduction thereof.

The plaintiff claims that the Bank was also in breach of its duty to disclose, imposed by the Banking Act (Customer Service). The plaintiff further claims that should it be determined that under terms of the contract between the Bank and the customer, the Bank may lower interest rates at will, according to the plaintiff, this is a discriminatory condition in a uniform contract.

In May 2008, the Bank filed its response to the motion, in which it rejected the claims made by the customer, and stated that the claim whereby the Bank had to modify interest rates on fixed-rate deposits exclusively in accordance with Bank of Israel interest rates was fallacious, counter to agreements between the customer and the Bank and contrary to reason.

Note 6 - Contingent Liabilities and Special Commitments (continued)

The Bank further claimed that the plaintiff's claim with regard to expectations was also unfounded, since interest on deposits was based on a range of economic and macro-economic considerations, commercial considerations by the Bank and considerations with regard to actual customers. Evidence in this case was heard in 2010.

In May 2011, the parties filed a motion with the Court, seeking approval of a settlement whereby the fixed interest deposit form would be amended to include clarification of the circumstances of change in interest rate for renewed deposits as stated above. The Court has yet to decide on this motion.

C. 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 the 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 upon 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.

The Supervisor of the 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.

The Bank has filed its response to the motion claiming, *inter alia*, that this claim is fallacious and distorts the statute. The asset sold is the provident fund management business, which was owned by the Bank. The sale was made in accordance with the BACHAR reform and legislation enacted based there upon, which required the banks to sell their provident fund management business, which was owned by the Bank and not by the members, therefore the Bank alone is entitled to the proceeds from sale of the asset owned there by. The entire sale was known to national authorities, first and foremost to the Supervisor of Insurance, which reviewed and approved the agreements, including the obvious fact that proceeds from the sale are due to the seller of the asset, namely: the Bank. A pre-trial hearing in this case was heard, the banks filed an expert opinion and evidence was heard in September 2010.

Note 6 - Contingent Liabilities and Special Commitments (continued)

On March 27, 2011 the Court dismissed the plaintiff's motion for grant of class action status. On May 19, 2011, the plaintiff appealed to the Supreme Court the verdict rejecting their motion for approval of class action status.

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding class action lawsuits whose outcome may not be assessed at this time, there is additional, non-remote exposure for which no provision was made, amounting to NIS 75 million.

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, so that no provision was made for them.

   a) In June 2010, a claim against the Bank was filed with the Tel Aviv District Court, including an application for class action status, amounting to NIS 28 million against the Bank and several other banks. The plaintiff claims that when a commission is unlawfully charged (in this case, a commission for insurance policy renewal), or if the client is unlawfully charged any amount, and the Bank refunds the unlawfully charged amount to the client, the amount refunded by the Bank is nominal, and does not include interest and linkage differentials, as required by law.

      The Bank and the other banks have yet to file their response to the motion with the Court.

   b) In May 2011, the Bank received a claim and motion for approval of class action status. The plaintiff claims he is unable to estimate the damage incurred by the entire class of plaintiffs, but believes (on a basis which is not clear to the Bank) that it amounts to hundreds of millions of NIS. The claim concerns late reporting to the Court Order Execution Service of payments made to reduce debt which is subject to proceedings at the Court Order Execution Service.

Note 6 - Contingent Liabilities and Special Commitments (continued)

The claim alleges that the Bank is late in reporting to the Court Order Execution Service of payments made to reduce debt, and misleads clients. It is further claimed that clients are not credited with interest in accordance with their date of payment. The claim further stipulates that the Enforcement and Collection Authority and the Court Order Execution Service admit the shortfall in credits made in case of late reporting.

The Bank is reviewing the claim and is preparing its response there to.

4) On April 26, 2009, the Bank received a determination by the Anti-Trust Supervisor pursuant to Section 43(a)(1) of the Restrictive Trade Practices 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. On March 24, 2010, the Bank appealed this ruling to the Anti-Trust Court. The Restrictive Trade Practices Authority filed its response to the appeal on February 22, 2011. In accordance with the Court's proposal, all parties have consented to transfer discussion of the appeal to arbitration. For details of a claim filed against the Bank based on the determination by the Anti-Trust Supervisor, see Note 19.D.10)P. to the financial statements as of December 31, 2010.

5) Beginning July 1, 2004, a new two-year agreement went into effect between Bank Tefahot, at that time, and the Government, whereby the collection commission rate determined by the tender held by the Ministry of Finance, with the participation of the mortgage banks will apply to loans to eligible borrowers issued on or after July 1, 2004, which are significantly lower than the commission rate on loans issued until June 30, 2004. This agreement has been continuously extended each year, most recently through June 30, 2012.

   In May 2008, a new agreement between the Ministry of Finance and the banks became effective (the agreement is expected to be renewed up to a maximum total term of 5 years), whereby loans to eligible borrowers with low point rating are provided out of Bank funds and at Bank risk. The interest on these loans is determined based on interest for special assistance loans out of Ministry of Finance funds.

Note 6 - Contingent Liabilities and Special Commitments (continued)

Loan terms have been specified to be 25, 20, 15 or up to 10 years, at the customer's choice, but no longer than the term of assistance out of Ministry of Finance funds. The remainder of the conditions would be in line with generally acceptable conditions for assistance out of Ministry of Finance funds, including a waiver of early repayment commission.

For loans granted to certain eligible borrowers, the Ministry of Finance pays the banks which grant loans out of Bank funds the difference between the actual interest rate charged and the average interest rate published by the Bank of Israel, plus spread. Concurrently with loan origination as set forth above, the banks may continue to grant loans out of Ministry of Finance funds to low-rated eligible borrowers, under terms of the previous agreement (dated 2004) and subject to total loans for the group of low-rated eligible borrowers not exceeding 8% of total Bank loans to this group (out of Bank funds and out of budgeted funds).

The agreement for provision of assistance to eligible borrowers out of Bank funds, signed in 2008, has been extended through April 30, 2012.

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

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	As of March 31, 2011 (unaudited)					
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
1. Stated amounts of financial derivatives						
A. Hedging derivatives [1]						
Forward contracts	1,020	-	-	-	-	1,020
Swaps	-	1,795	-	-	-	1,795
Total	**1,020**	**1,795**	**-**	**-**	**-**	**2,815**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	1,795	-	-	-	1,795
B. ALM derivatives [1] [2]						
Forward contracts	8,013	4,737	63,697	156	229	76,832
Option contracts traded on stock exchange:						
Options written	-	-	2,734	386	-	3,120
Options purchased	-	-	2,667	417	-	3,084
Other option contracts:						-
Options written	-	-	7,539	478	-	8,017
Options purchased	-	-	7,895	381	-	8,276
Swaps	1,683	43,282	7,630	-	-	52,595
Total	**9,696**	**48,019**	**92,162**	**1,818**	**229**	**151,924**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,183	23,867	-	-	-	25,050
C. Other derivatives [1]						
Forward contracts	-	-	882	-	-	882
Option contracts traded on stock exchange:						-
Options written	-	-	4,549	15,901	-	20,450
Options purchased	-	-	4,549	15,901	-	20,450
Other option contracts:						-
Options written	-	808	217	292	-	1,317
Options purchased	-	808	240	241	-	1,289
Swaps	-	-	-	-	-	-
Total	**-**	**1,616**	**10,437**	**32,335**	**-**	**44,388**

(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 (continued)

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	As of March 31, 2011 (unaudited)					
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	1,818	1,818
Credit derivatives in which the Bank is beneficiary	-	-	-	-	25	25
Foreign currency spot swap contracts	-	-	4,095	-	-	4,095
Total	**-**	**-**	**4,095**	**-**	**1,843**	**5,938**
Total stated amounts of derivatives	**10,716**	**51,430**	**106,694**	**34,153**	**2,072**	**205,065**
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives (1)						
Positive fair value, gross	-	-	-	-	-	-
Negative fair value, gross	16	171	-	-	-	187
B. ALM derivatives (1) (2)						
Positive fair value, gross	78	413	2,411	16	4	2,922
Negative fair value, gross	143	457	1,399	14	4	2,017
C. Other derivatives (1)						
Positive fair value, gross	-	8	89	205	-	302
Negative fair value, gross	-	8	85	216	-	309
D. Credit derivatives						-
Credit derivatives in which the Bank is guarantor						-
Positive fair value, gross	-	-	-	-	1	1
Negative fair value, gross	-	-	-	-	13	13
Total positive fair value, gross (3)	**78**	**421**	**2,500**	**221**	**5**	**3,225**
Total negative fair value, gross (3)	**159**	**636**	**1,484**	**230**	**17**	**2,526**

(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.

(3) Of which positive gross fair value and negative gross fair value of embedded derivatives, amounting to NIS 1 million and NIS 26 million, respectively.

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

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	March 31, 2010 (unaudited)					
	Interest contracts				Commodities	
	NIS - CPI	Other	Currency contracts	Contracts for shares	and other contracts	Total
1. Stated amounts of financial derivatives						
A. Hedging derivatives [1]						
Forward contracts	1,780	-	-	-	-	1,780
Swaps	-	2,157	-	-	-	2,157
Total	**1,780**	**2,157**	**-**	**-**	**-**	**3,937**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	2,157	-	-	-	2,157
B. ALM derivatives [1] [2]						
Forward contracts	5,321	900	56,151	184	74	62,630
Option contracts traded on stock exchange:						-
Options written	-	-	1,135	-	-	1,135
Options purchased	-	-	1,036	-	-	1,036
Other option contracts:						-
Options written	-	-	13,457	164	-	13,621
Options purchased	**-**	-	13,675	221	-	13,896
Swaps	20,025	8,616	5,935	-	-	34,576
Total	**25,346**	**9,516**	**91,389**	**569**	74	**126,894**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	9,388	5,287	-	-	-	14,675
C. Other derivatives [1]						
Forward contracts	-	-	1,794	-	-	1,794
Option contracts traded on stock exchange:						
Options written	-	-	3,229	12,010	-	15,239
Options purchased	-	-	3,179	12,010	-	15,189
Other option contracts:						
Options written	-	74	324	272	-	670
Options purchased	-	74	338	179	-	591
Total	**-**	**148**	**8,864**	**24,471**	-	**33,483**

(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 (continued)

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	March 31, 2010 (unaudited)					
	Interest contracts				Commodities	
	NIS - CPI	Other	Currency contracts	Contracts for shares	and other contracts	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	873	873
Credit derivatives in which the Bank is beneficiary	-	-	-	-	27	27
Foreign currency spot swap contracts	-	-	563	-	-	563
Total	-	-	**563**	-	**900**	**1,463**
Total stated amounts of derivatives	**27,126**	**11,821**	**100,816**	**25,040**	**974**	**165,777**
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives (1)						
Positive fair value, gross	22	11	-	-	-	33
Negative fair value, gross	51	157	-	-	-	208
B. ALM derivatives (1) (2)						
Positive fair value, gross	522	96	857	9	2	1,486
Negative fair value, gross	500	154	876	6	2	1,538
C. Other derivatives (1)						
Positive fair value, gross	-	1	249	95	-	345
Negative fair value, gross	-	1	200	106	-	307
D. Credit derivatives						
Credit derivatives in which the Bank is guarantor						
Positive fair value, gross	-	-	-	-	-	-
Negative fair value, gross	-	-	-	-	46	46
Total positive fair value, gross (3)	**544**	**108**	**1,106**	**104**	**2**	**1,864**
Total negative fair value, gross (3)	**551**	**312**	**1,076**	**112**	**48**	**2,099**

(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.

(3) Of which positive gross fair value and negative gross fair value of embedded derivatives, amounting to NIS 1 million and NIS 21 million, respectively.

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

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	As of December 31, 2010 (audited)					
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
1. Stated amounts of financial derivatives						
A. Hedging derivatives [(1)]						
Forward contracts	1,375	-	-	-	-	1,375
Swaps	-	2,432	-	-	-	2,432
Total	**1,375**	**2,432**	**-**	**-**	**-**	**3,807**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	2,432	-	-	-	2,432
B. ALM derivatives [(1) (2)]						
Forward contracts	6,677	5,357	72,239	159	37	84,469
Option contracts traded on stock exchange:						
Options written	-	-	2,314	-	-	2,314
Options purchased	-	-	2,838	-	-	2,838
Other option contracts:						
Options written	-	-	6,199	715	-	6,914
Options purchased	-	-	6,573	691	-	7,264
Swaps	1,533	36,898	6,813	-	-	45,244
Total	**8,210**	**42,255**	**96,976**	**1,565**	37	**149,043**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,033	20,031	-	-	-	21,064
C. Other derivatives [(1)]						
Forward contracts	-	-	929	-	-	929
Option contracts traded on stock exchange:						
Options written	-	-	3,744	15,038	-	18,782
Options purchased	-	-	3,744	15,038	-	18,782
Other option contracts:						
Options written	-	284	196	377	-	857
Options purchased	-	284	216	314	-	814
Swaps	-	-	-	-	-	-
Total	**-**	**568**	**8,829**	**30,767**	**-**	**40,164**

(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 (continued)

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	As of December 31, 2010 (audited)					
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	834	834
Credit derivatives in which the Bank is beneficiary	-	-	-	-	26	26
Foreign currency spot swap contracts	-	-	5,649	-	-	5,649
Total	**-**	**-**	**5,649**	**-**	**860**	**6,509**
Total stated amounts of derivatives	**9,585**	**45,255**	**111,454**	**32,332**	**897**	**199,523**
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives (1)						
Positive fair value, gross	2	3	-	-	-	5
Negative fair value, gross	25	207	-	-	-	232
B. ALM derivatives (1) (2)						
Positive fair value, gross	90	488	2,580	64	1	3,223
Negative fair value, gross	156	591	1,688	11	1	2,447
C. Other derivatives (1)						
Positive fair value, gross	-	4	81	137	-	222
Negative fair value, gross	-	4	71	145	-	220
D. Credit derivatives						
Credit derivatives in which the Bank is guarantor						
Positive fair value, gross	-	-	-	-	-	-
Negative fair value, gross	-	-	-	-	17	17
Total positive fair value, gross (3)	**92**	**495**	**2,661**	**201**	**1**	**3,450**
Total negative fair value, gross (3)	**181**	**802**	**1,759**	**156**	**18**	**2,916**

(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.

(3) Of which positive gross fair value and negative gross fair value of embedded derivatives, amounting to NIS 1 million and NIS 24 million, respectively.

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

Reported amounts (NIS in millions)

b) Credit risk on financial derivatives according to counter-party to the contract - Consolidated

	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
						As of March 31, 2011 (unaudited)
Positive fair value, gross, of financial derivatives (1)	764	1,926	16	-	519	3,225
Less offset agreements	-	5	-	-	83	88
Balance sheet balances of derivative instruments	764	1,921	16	-	436	3,137
Off-balance sheet credit risk on financial derivatives (2)	488	10,237	21	-	3,220	13,966
Total credit risk on financial derivatives	**1,252**	**12,158**	**37**	**-**	**3,656**	**17,103**

In the three month period ended March 31, 2011, the Bank recognized credit loss with respect to derivatives amounting to 18 NIS in millions.

	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
						As of March 31, 2010 (unaudited)
Positive fair value, gross, of financial derivatives (1)	278	1,054	18	-	514	1,864
Less offset agreements	-	6	-	-	22	28
Balance sheet balances of derivative instruments	278	1,048	18	-	492	1,836
Off-balance sheet credit risk on financial derivatives (2)	154	8,848	52	-	2,579	11,633
Total credit risk on financial derivatives	**432**	**9,896**	**70**	**-**	**3,071**	**13,469**

	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
						As of December 31, 2010 (audited)
Positive fair value, gross, of financial derivatives (1)	1,065	1,902	22	-	461	3,450
Less offset agreements	-	60	-	-	11	71
Balance sheet balances of derivative instruments	1,065	1,842	22	-	450	3,379
Off-balance sheet credit risk on financial derivatives (2)	537	11,268	28	-	2,706	14,539
Total credit risk on financial derivatives	**1,602**	**13,110**	**50**	**-**	**3,156**	**17,918**

(1) Of which positive gross fair value of embedded derivatives amounting to NIS 1 million (as of December 31, 2010 – NIS 1 million; as of March 31, 2010 - NIS 1 million) and a balance-sheet balance of stand-alone derivatives amounting to NIS 3,136 million, included under Other Assets (as of December 31, 2010 - NIS 3,378 million; as of March 31, 2010 - NIS 1,835 million).

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

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

Reported amounts (NIS in millions)

C. Maturity dates – stated amounts: balances at end of period - Consolidated

	As of March 31, 2011 (unaudited)				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS-CPI	888	4,748	3,946	1,134	10,716
Other	6,279	21,831	10,706	12,614	51,430
Currency contracts	70,105	29,311	2,862	4,416	106,694
Contracts for shares	33,171	841	141	-	34,153
Commodities and other contracts	385	1,001	617	69	2,072
Total	**110,828**	**57,732**	**18,272**	**18,233**	**205,065**

	As of March 31, 2010 (unaudited)				
	Up to three months	Over three months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS-CPI	2,728	8,417	10,339	5,642	27,126
Other	3,478	2,482	1,717	4,144	11,821
Currency contracts	58,902	37,864	1,482	2,568	100,816
Contracts for shares	24,258	603	179	-	25,040
Commodities and other contracts	56	18	733	167	974
Total	**89,422**	**49,384**	**14,450**	**12,521**	**165,777**

	As of December 31, 2010 (audited)				
	Up to three months	Over three months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS-CPI	2,135	2,584	3,989	877	9,585
Other	2,939	22,889	9,824	9,603	45,255
Currency contracts	75,948	30,216	2,146	3,144	111,454
Contracts for shares	31,301	622	409	-	32,332
Commodities and other contracts	36	161	629	71	897
Total	**112,359**	**56,472**	**16,997**	**13,695**	**199,523**

Note 8 – Balances and Estimates of Fair Value of Financial Instruments

Reported amounts, in NIS millions

A. Fair value balances

	March 31, 2011			
	Book balance			
	(1)	(2)	Total	Fair value
Financial assets				
Cash and deposits with banks	11,848	2,821	14,669	14,689
Securities	5,078	566	5,644	5,644
Securities loaned or sold in repurchase agreements	173	-	173	173
Loans to the public, net	11,168	98,223	109,391	111,031
Loans to Governments	1	95	96	95
Investments in investees	30	-	30	30
Intangible assets and goodwill	87	-	87	87
Assets with respect to derivatives	3,224	-	3,224	3,224
Other financial assets	1,088	-	1,088	1,088
Total financial assets	**32,697**	**101,705**	**134,402**	**136,061**
Financial liabilities				
Deposits from the public	22,278	86,751	109,029	109,853
Deposits from banks	184	2,122	2,306	2,354
Deposits from the Government	7	159	166	183
Securities loaned or sold in conjunction with repurchase agreements				
Debentures and subordinated notes	-	10,284	10,284	10,964
Liabilities with respect to derivatives	2,500	-	2,500	2,500
Other financial liabilities	3,554	1	3,555	3,555
Total financial liabilities	**28,523**	**99,317**	**127,840**	**129,409**

(1) Financial instruments where the carrying amount equals the fair value (instruments stated at fair value on the balance sheet), or closely approximates the fair value (instruments with original term of up to 3 months, for which the carrying amount is used as approximation of their fair value).

(2) Other financial instruments

Note 8 – Balances and Estimates of Fair Value of Financial Instruments (continued)

Reported amounts, in NIS millions

				December 31, 2010
	Book balance			
	(1)	(2)	Total	Fair value
Financial assets				
Cash and deposits with banks	9,872	2,742	12,614	12,634
Securities	6,733	636	7,369	7,369
Securities loaned or sold in repurchase agreements	247	-	247	247
Loans to the public, net	11,331	95,709	107,040	109,213
Loans to Governments	1	91	92	91
Investments in investees	29	-	29	29
Intangible assets and goodwill (3)	87	-	87	87
Assets with respect to derivatives (3)	3,449	-	3,449	3,449
Other financial assets (3)	621	-	621	621
Total financial assets	**32,370**	**99,178**	**131,548**	**133,740**
Financial liabilities				
Deposits from the public	22,882	83,109	105,991	107,348
Deposits from banks	921	1,511	2,432	2,501
Deposits from the Government	5	167	172	192
Debentures and subordinated notes	-	9,813	9,813	10,677
Liabilities with respect to derivatives (3)	2,892	-	2,892	2,892
Other financial liabilities (3)	3,405	1	3,406	3,406
Total financial liabilities	**30,105**	**94,601**	**124,706**	**127,016**
Off-balance sheet financial instruments				
Transactions in which the balance represents credit risk				
Contingent liabilities and other special commitments				

(1) Financial instruments where the carrying amount equals the fair value (instruments stated at fair value on the balance sheet), or closely approximates the fair value (instruments with original term of up to 3 months, for which the carrying amount is used as approximation of their fair value).
(2) Other financial instruments
(3) Data was reclassified to match headings and presentation method in the current period.

Note 8 – Balances and Estimates of Fair Value of Financial Instruments (continued)

Reported amounts, in NIS millions

B. Items measured at fair value on recurrent basis

As of March 31, 2011 (unaudited)

	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Effect of set-off agreements	Balance sheet balance
Assets					
Securities available for sale					
Debentures and bonds:					
Of Government of Israel	2,474	1,795	-	-	4,269
Of foreign governments	101	-	-	-	101
Of others	199	572	198	-	969
Shares of others	2	-	-	-	2
Securities held for trading:					
Of Government of Israel	299	-	-	-	299
Of others	6	-	-	-	6
Securities borrowed or acquired in conjunction with resale agreements	173	-	-	-	173
Credit with respect to loans to clients	446	-	-	-	446
Assets with respect to derivatives	772	2,421	31	-	3,224
Total assets	**4,472**	**4,788**	**229**	**-**	**9,489**
Liabilities					
Deposits with respect to borrowing from clients	446	-	-	-	446
Liabilities with respect to derivatives	325	2,100	76	-	2,500
Other	-	18	8	-	26
Total liabilities	**771**	**2,118**	**84**	**-**	**2,972**

Note 8 – Balances and Estimates of Fair Value of Financial Instruments (continued)

Reported amounts, in NIS millions

C. Change in items measured at fair value on recurrent basis, included in level 3

	For the three month period ended March 31, 2011 (unaudited)						
	Fair value as of December 31, 2010	Total realized and unrealized gain, net	Purchase, issuance and disposition, net	Transfer to level 3	Transfer from level 3	Fair value as of March 31, 2011	Unrealized gain, net with respect to instruments held as of March 31, 2011
Assets							
Securities available for sale							
Debentures and bonds:							
Of others	193	(1) 5	-	-	-	198	198
Assets with respect to derivatives	29	-	1	1	-	31	31
Total assets	**222**	**5**	**1**	**1**	**-**	**229**	**229**
Liabilities							
Liabilities with respect to derivatives	66	24	(48)	34	-	76	76
Other	3	3	2		-	8	8
Total liabilities	**69**	**(2) 27**	**(46)**	**34**	**-**	**84**	**84**

(1) Realized gain (loss) included in statement of profit and loss under Profit from Financing Operations (before expenses with respect to credit loss). Unrealized gain and loss included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value.

(2) Included in statement of profit and loss under Profit from Financing Operations (before expenses with respect to credit loss).

D. In the first quarter of 2011, no items measured at fair value were transferred from level 2 to level 1 measurement.

Note 8 – Balances and Estimates of Fair Value of Financial Instruments (continued)

Reported Amounts, in NIS Millions

E. Total realized or unrealized gain, net with respect to instruments measured at level 3

	For the three months ended March 31, 2011 (unaudited)	
	Operating profit before expenses with respect to credit loss	Total
Assets		
Securities available for sale		
Debentures and bonds:		
Others	2	2
Total securities available for sale	**2**	**2**
Assets with respect to derivatives	-	-
Total assets	**2**	**2**
Liabilities		
Liabilities with respect to derivatives	24	24
Other	3	3
Total liabilities	**27**	**27**

F. As of March 31, 2011, the Bank's balance sheet contains no items measured other than at fair value on recurrent basis.

Note 9 - Consolidated profit from financing operations before expenses with respect to credit loss

Reported amounts (NIS in millions)

	For the three months ended March 31		For the Year Ended December 31
	2011	2010	2010
	(unaudited)		(audited)
A. From assets [1]			
From loans to the public	1,377	136	3,912
From loans to the Government	5	(3)	6
From deposits with the Bank of Israel and from cash	57	(9)	(75)
From deposits with banks	(29)	(48)	(91)
From securities loaned or sold in repurchase agreements	1	1	4
From debentures	79	(88)	(98)
	1,490	**(11)**	**3,658**
B. On liabilities [1]			
On deposits from the public	(603)	657	(265)
On deposits from the government	(2)	-	(9)
On deposits from the Bank of Israel and from cash	-	-	-
On deposits from banks	(37)	41	(97)
Securities loaned or sold in conjunction with repurchase agreements	-	-	-
On debentures and subordinated notes	(187)	(34)	(558)
	(829)	**664**	**(929)**
C. On financial derivatives and hedging activities			
Non-effective element of hedging ratios [2]	(1)	-	-
Expenses, net, with respect to ALM derivatives [3]	127	(91)	(287)
Net income (expenses) with respect to other derivatives	(119)	(7)	52
	7	**(98)**	**(235)**
D. Other			
Commissions from financing transactions	31	23	95
Financing revenues from collection of interest on arrears from individual borrowers	7	7	27
Interest income on problem loans	19	21	195
Gain (loss) from sale of debentures available for sale, net [4]	(1)	1	28
Realized and unrealized gain from adjustment to fair value of debentures held for trade, net	2	4	9
Other financing revenues	34	32	153
Other financing expenses	(8)	(13)	(42)
	84	**75**	**465**
Total profit from financing operations before expenses with respect to credit loss	**752**	**630**	**2,959**
Includes: exchange rate differences, net	(1)	(3)	(1)
E. Details of net effect of hedging financial derivatives on profit from financing operations			
Financing revenues (expenses) from assets (section A)	(4)	1	(36)

(1) Includes the effective element in the hedging ratios.
(2) Excludes the effective element in the hedging ratio.
(3) Financial derivatives constitute part of the Bank's asset and liability management which were not intended for hedging.
(4) Includes provision for impairment.

Note 10 - Gains from Investments in Shares, net

Reported amounts (NIS in millions)

	For the three months ended March 31		For the Year Ended December 31
	2011	2010	2010
	(unaudited)		(audited)
Gain from sale of shares available for sale, net	-	1	3
Provision for impairment of available-for-sale shares	-	(2)	(5)
Dividends from available-for-sale shares	-	-	1
Total losses from investments in shares, net	**-**	**(1)**	**(1)**

Note 11 – Operating Segments

For the three months ended March 31, 2011 (unaudited)

Reported amounts (NIS in millions)

A. Information on operating segments

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Profit from financing operations before expenses with respect to credit loss							
From outside operating segments	842	(5)	98	72	94	(349)	752
Inter-segment	(464)	21	-	(26)	58	411	-
Profit from financing operations before expenses with respect to credit loss	**378**	**16**	**98**	**46**	**152**	**62**	**752**
Operating and other revenues	218	14	56	15	26	29	358
Total revenues	**596**	**30**	**154**	**61**	**178**	**91**	**1,110**
Expenses with respect to credit loss	19	(3)	26	1	(1)	12	54
Operating and other expenses							
From outside operating segments	408	18	112	17	56	58	669
Inter-segment	(29)	-	(13)	18	20	4	-
Other operating expenses - total	**379**	**18**	**99**	**35**	**76**	**62**	**669**
Pre-tax operating profit	198	15	29	25	103	17	387
Provision for taxes on operating profit	71	5	11	8	37	6	138
After-tax operating profit	127	10	18	17	66	11	249
Share in net after-tax operating profit of affiliates	-	-	-	-	-	1	1
Net operating profit:							
Before attribution to non-controlling interest	127	10	18	17	66	12	250
Attributable to non-controlling interest	(8)	-	-	-	-	-	(8)
Attributable to equity holders of the banking corporation	**119**	**10**	**18**	**17**	**66**	**12**	**242**
After-tax loss from extraordinary items before attribution to non-controlling interest	-	-	-	-	-	(1)	(1)
Net profit:							
Before attribution to non-controlling interest	127	10	18	17	66	11	249
Attributable to non-controlling interest	(8)	-	-	-	-	-	(8)
Attributable to equity holders of the banking corporation	**119**	**10**	**18**	**17**	**66**	**11**	**241**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**15.8%**	**94.3%**	**20.6%**	**18.3%**	**10.7%**	**10.9%**	**14.5%**
Average balance of assets	74,676	1,996	5,799	4,675	25,706	22,116	134,968
Includes: Investments in affiliates	-	-	-	-	-	16	16
Average balance of liabilities	45,527	5,582	6,582	3,082	27,503	39,310	127,586
Average balance of risk assets (Basel II) (1)	43,812	719	4,876	5,135	33,300	4,325	92,167
Average balance of provident and mutual fund assets	-	-	-	-	-	82,406	82,406
Average balance of securities	28,655	7,364	8,758	3,972	73,289	39,813	161,851
Loans to the public, net (end balance)	76,251	854	6,027	4,655	21,604	-	109,391
Deposits from the public (end balance)	48,095	5,269	6,655	2,777	26,855	19,378	109,029
Average balance of other assets managed	22,193	-	129	34	130	-	22,486

B. Information on profit from financing operations before expenses with respect to credit loss

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	234	6	74	34	96	-	444
Margin from receiving deposits	123	10	19	4	18	-	174
Other	21	-	5	8	38	62	134
Total	**378**	**16**	**98**	**46**	**152**	**62**	**752**

(1) Risk weighted assets - as calculated for capital adequacy (Proper Conduct of Banking Business Regulation No. 201).

Note 11 – Operating Segments (continued)

For the three months ended March 31, 2010 (unaudited)

Reported amounts (NIS in millions)

A. Information on operating segments

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Profit from financing operations before expenses with respect to credit loss							
From outside operating segments	280	8	94	38	147	63	630
Inter-segment	27	8	(12)	(2)	(14)	(7)	-
Profit from financing operations before expenses with respect to credit loss	**307**	**16**	**82**	**36**	**133**	**56**	**630**
Operating and other revenues	202	15	52	14	21	36	340
Total revenues	**509**	**31**	**134**	**50**	**154**	**92**	**970**
Expenses with respect to credit loss	4	-	6	(1)	48	-	57
Operating and other expenses							
From outside operating segments	389	14	104	17	50	56	630
Inter-segment	(29)	1	(12)	18	19	3	-
Other operating expenses - total	**360**	**15**	**92**	**35**	**69**	**59**	**630**
Pre-tax operating profit	**145**	**16**	**36**	**16**	**37**	**33**	**283**
Provision for taxes on operating profit	56	6	13	6	14	13	108
After-tax operating profit	**89**	**10**	**23**	**10**	**23**	**20**	**175**
Share in net after-tax operating profit of affiliates	-	-	-	-	-	-	-
Net operating profit:							
Before attribution to non-controlling interest	89	10	23	10	23	20	175
Attributable to non-controlling interest	(4)	-	-	-	-	-	(4)
Attributable to equity holders of the banking corporation	**85**	**10**	**23**	**10**	**23**	**20**	**171**
After-tax profit from extraordinary items before attribution to non-controlling interest	-	-	-	-	-	1	1
Net profit:							
Before attribution to non-controlling interest	89	10	23	10	23	21	176
Attributable to non-controlling interest	(4)	-	-	-	-	-	(4)
Attributable to equity holders of the banking corporation	**85**	**10**	**23**	**10**	**23**	**21**	**172**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**12.2%**	**75.2%**	**28.2%**	**10.8%**	**3.6%**	**26.9%**	**10.8%**
Average balance of assets	65,162	1,728	5,134	4,382	23,350	19,340	119,096
Includes: Investments in affiliates	-	-	-	-	-	13	13
Average balance of liabilities	46,804	5,943	5,189	(2) 2,916	17,584	(2) 33,623	112,059
Average balance of risk assets (Basel II) (1)	38,827	824	4,460	4,788	31,863	4,178	84,940
Average balance of provident and mutual fund assets	-	-	-	-	-	74,068	74,068
Average balance of securities	26,210	7,057	7,677	4,289	64,140	30,132	139,505
Loans to the public, net (end balance)	(2) 66,142	(2) 878	5,096	4,516	20,397	-	97,029
Deposits from the public (end balance)	45,674	5,430	6,104	(2) 2,931	17,292	(2) 19,217	96,648
Average balance of other assets managed	22,847	-	331	35	115	-	23,328

B. Information on profit from financing operations before expenses with respect to credit loss

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	185	6	57	28	93	-	369
Margin from receiving deposits	88	9	12	4	15	-	128
Other	34	1	13	4	25	56	133
Total	**307**	**16**	**82**	**36**	**133**	**56**	**630**

(1) Risk weighted assets - as calculated for capital adequacy (Proper Conduct of Banking Business Regulation No. 201).
(2) Reclassified.

Note 11 – Operating Segments (continued)

For the year ended December 31, 2010 (audited)

Reported amounts (NIS in millions)

A. Information on operating segments

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Profit from financing operations before expenses with respect to credit loss							
From outside operating segments	2,777	(2)	377	232	634	(1,059)	2,959
Inter-segment	(1,401)	58	(15)	(63)	53	1,368	-
Profit from financing operations before expenses with respect to credit loss	**1,376**	**56**	**362**	**169**	**687**	**309**	**2,959**
Operating and other revenues	810	56	206	56	89	150	1,367
Total revenues	**2,186**	**112**	**568**	**225**	**776**	**459**	**4,326**
Expenses with respect to credit loss	83	-	45	2	343	-	473
Operating and other expenses							
From outside operating segments	1,574	63	414	69	210	232	2,562
Inter-segment	(112)	(2)	(47)	70	79	12	-
Other operating expenses - total	**1,462**	**61**	**367**	**139**	**289**	**244**	**2,562**
Pre-tax operating profit	**641**	**51**	**156**	**84**	**144**	**215**	**1,291**
Provision for taxes on operating profit	233	19	56	30	52	80	470
After-tax operating profit	**408**	**32**	**100**	**54**	**92**	**135**	**821**
Share in net after-tax operating profit of affiliates	-	-	-	-	-	-	-
Net operating profit:							
Before attribution to non-controlling interest	408	32	100	54	92	135	821
Attributable to non-controlling interest	(18)	-	-	-	-	(1)	(19)
Attributable to equity holders of the banking corporation	**390**	**32**	**100**	**54**	**92**	**134**	**802**
After-tax profit from extraordinary items before attribution to non-controlling interest	-	-	-	-	-	2	2
Net profit:							
Before attribution to non-controlling interest	408	32	100	54	92	137	823
Attributable to non-controlling interest	(18)	-	-	-	-	(1)	(19)
Attributable to equity holders of the banking corporation	**390**	**32**	**100**	**54**	**92**	**136**	**804**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**12.7%**	**52.2%**	**27.6%**	**13.6%**	**3.5%**	**36.2%**	**11.7%**
Average balance of assets	68,097	2,040	5,292	4,590	24,821	18,263	123,103
Includes: Investments in affiliates	-	-	-	-	-	14	14
Average balance of liabilities	(2) 45,392	5,724	6,383	2,970	21,098	(2) 34,265	115,832
Average balance of risk assets (Basel II) (1)	40,863	765	4,518	4,945	32,475	4,215	87,781
Average balance of provident and mutual fund assets	-	-	-	-	-	77,130	77,130
Average balance of securities	27,045	7,315	7,840	4,059	66,264	35,081	147,604
Loans to the public, net (end balance)	(2) 73,869	(2) 962	5,771	4,717	21,721	-	107,040
Deposits from the public (end balance)	46,864	4,946	6,413	3,631	24,072	20,065	105,991
Average balance of other assets managed	22,655	-	369	3	156	-	23,183

B. Information on profit from financing operations before expenses with respect to credit loss

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	836	19	258	134	(2) 409	-	1,656
Margin from receiving deposits	424	35	57	16	74	-	606
Other	116	2	47	19	(2) 204	309	697
Total	**1,376**	**56**	**362**	**169**	**687**	**309**	**2,959**

(1) Risk weighted assets - as calculated for capital adequacy (Proper Conduct of Banking Business Regulation No. 201).
(2) Reclassified.

Note 12 – Other matters

On February 15, 2011, the Bank raised, via Tefahot Issuance, NIS 505 million in consideration for issuance of NIS 455 million par value debentures pursuant to a shelf prospectus dated February 26, 2009.

On February 24, 2011, Tefahot Issuance issued a shelf prospectus for issuance of up to 10 series of subordinated notes, 10 series of debentures, extension of subordinate notes (Series 31), extension of debentures (Series 29 and Series 32) as well as issuance of two series of commercial paper.

On April 13, 2011, subsequent to the balance sheet date, Tefahot Issuance issued NIS 903 million par value debentures (Series 33, CPI-linked and Series 34, NIS-denominated non-linked), pursuant to the shelf prospectus dated February 24, 2011. The total consideration raised, amounting to NIS 903 million, was deposited at the Bank under similar terms and conditions.