Condensed Financial Statements as of June 30, 2010

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This translation of the financial statement is for convenience purposes only. The only binding version of the financial statement is the Hebrew version.

Condensed Board of Directors' Report
For Financial Statements as of June 30, 2010

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on August 16, 2010, 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 June 30, 2010.
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 half of 2010

Real Developments

In the first half of 2010, expansion in economic activity continued, although signs of slowing-down were evident in the second quarter.
The Bank of Israel Composite Index, increased in the second quarter of 2010 only by an annualized 0.6%, compared to an increase of 4.5% in the first quarter and 6.5% in the fourth quarter of 2009. The slow-down was primarily due to a decrease of 11.0% in goods exported (annualized, in USD terms), following an increase of 8.3% in the first quarter. Despite the lower export figure, industrial output continued to rapidly expand, increasing by an annualized 10.8% in March-May 2010, following an increase of 13.7% in the previous three months.
Domestic demand also slowed-down, with the Trade and Services Turnover Index rising in March-May 2010 by an annualized 5.6%, compared to 11.7% in the previous three months, and credit card purchasing grew in the second quarter by 5.0%, after 6.1% growth in the first quarter.
The downward trend in unemployment, starting in July 2009, continued in the first half of 2010, and in May, unemployment was at 6.5%, compared to 7.8% in May 2009 and to 5.9% in July 2008.

Inflation and exchange rates

In the first half of 2010, the Consumer Price Index rose by 0.7%, compared to a 2.1% rise in the corresponding period last year. The CPI was primarily affected by higher housing prices and lower home maintenance prices, due to lower costs of power and water. In the second quarter, the CPI rose by 1.6%, after declining by 0.9% in the first quarter.
In the first half of 2010, the NIS was devalued by 2.6% against the USD, and was revalued by 12.6% against the EUR. The NIS/USD exchange rate on June 30, 2010 was NIS 3.875 per USD 1, compared with

NIS 3.775 per USD 1 on December 31, 2009. The NIS/EUR exchange rate on June 30, 2010 was NIS 4.757 per EUR 1, compared with NIS 5.442 per EUR 1 on December 31, 2009.
In the second quarter of 2010, the NIS was devalued by 4.4% against the USD, and the NIS was revalued by 4.7% against the EUR.

Monetary and fiscal policy

In the first half of 2010, the Bank of Israel interest rate was raised twice, at the start of each quarter, by 0.25 percentage point each time, so that in mid-year, the interest rate was at 1.5%. Note that during this period, the Bank of Israel stated on multiple occasions its intention to gradually raise monetary interest rates. During this period, inflationary expectations, as derived from the capital market, rose so that the real interest rate at the end of the first half of 2010 remained unchanged compared to end of 2009, at a negative 1.5%. In August, the interest rate was once again raised, to 1.75%.

In the first half of 2010, the government budget recorded a NIS 10 billion deficit, compared to a NIS 19 deficit in the corresponding period last year, and compared to a planned deficit of NIS 43 billion in 2010. The deficit to date is indicating as being lower than planned, thanks to higher than expected tax collection, despite the unexpected increase in expenditures. The deficit in terms of the past 12 months is trending lower this year to date, and in June was at NIS 31 billion, compared to a NIS 39 billion deficit in 2009.

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 other than for sale) increased in the first half of 2010 by 1% over the corresponding period last year. Total mortgage origination in this period was 53% higher over the corresponding period last year.

Annualized housing starts in the first four months of 2010 were 35 thousand units - a 2.3% increase compared to 2009 housing starts. However, the downward trend in supply of new apartments for sale from private construction, which had started in late 2008, continued in the first half of 2010, and as of end of June 2010, an inventory of 9,260 new apartments remained, compared to 9,800 at the end of 2009 – a 5.5% decrease. The inventory of apartments for sale is sufficient for 7 months, based on average sales in the six months ended in June - compared to 8 months' inventory at the end of 2009.

Housing prices continued to rise in the first half of 2010. According to the housing price survey by the Central Bureau of Statistics, in the 12 months ended in April 2010, housing prices increased by 20.9%.

In the second quarter, the Bank of Israel adopted a restrictive policy focused on the housing market, due to rising prices in this market over the past year (see below). In conjunction with this policy, the Bank of Israel directed the banks to maintain a supplementary provision for doubtful debts equal to 0.75 % with respect to any housing loan where the loan-to-value ratio exceeds 60%, granted starting on July 1, 2010. See Note 1 to the financial statements for details.

Capital market

In the second quarter of this year, the sharp price increase of shares on the Tel Aviv Stock Exchange of the first quarter was halted, with indices starting to descend and volatility - to increase. This was against the backdrop of the debt crisis in Europe and the reclassification of Israel from the MSCI Emerging Markets index to the MSCI Developed Markets index.

The TEL-AVIV 25 Index, which increased by 7.3% in the first quarter of this year, ended the first half down by 7.2%. The TEL-AVIV 100 Index, which rose by 8.5% in the first quarter, declined by 7.0% at the end of the first half. The Banking Index, which declined by 1.1% in the first quarter, continued its decline in the second quarter, to finish the first half down by 18.7%. The TEL-TECH 15 Index, which rose by 19.5% in the first quarter sharply reversed the trend, declining by 4.3% at the end of the first half. The Real Estate 15 Index was a stand-out, with a 12% decline for the first half, after rising by 5.6% in the first quarter - a more modest rise compared to other indices. The average daily trading volume in shares and convertible securities in the first half of this year was NIS 2,229 million - higher than the average for the first quarter, which was NIS 2,051 million. The volume of issuance and private placements in Israel increased sharply in the second quarter of this year, amounting to NIS 5,103 million - compared to NIS 1,978 million in the first quarter.

Unlike the stock market, prices of debentures continued to rise in the second quarter of this year. Thus, the General Government Debenture Index rose by 3.3% in the second quarter, after rising by 1.8% in the first quarter. Fixed-interest, non-linked government debentures rose by 2.8% in the second quarter, after rising by 2.2% in the first quarter. CPI-linked government debentures increased by 4.3% in the second quarter - the highest increase of all sectors, following a 1.7% rise in the first half. Corporate debentures rose by 1.7% in the second quarter, after a 3.8% increase in the first quarter.

The business sector raised a total of NIS 10,297 billion in the second quarter of 2010 by issuing bonds to the public and to institutional investors, compared to NIS 9,677 billion in the previous quarter. The average daily trading volume in the first half of this year was NIS 3,191 million, similar to that in the first quarter - NIS 3,199 million.

In the second quarter of 2010, Israel joined the OECD, an organization of countries with developed economies, aimed at increasing economic cooperation between these countries, in compliance with international economic standards. Israel's acceptance into this organization means international recognition of the quality of action taken by Israeli Government policy on different issues, as well as a positive implication for Israel's credit rating and attraction of foreign investments. Furthermore, Israel's membership of the OECD requires compliance with standards of this organization and implementation of reforms to which Israel has committed as part of the joining process.

Global economy

GDP in the USA rose in the second quarter of 2010 by an annualized 2.4%, following a 3.7% rise in the first quarter. Private consumption expanded by 1.6%, following a 1.9% increase in the previous quarter. The economic expansion is reflected in the improved labor market, with 570 thousand new jobs added in the first half. However, the pace of recruiting is relatively slow, compared to 8 million jobs lost since the end of 2007.

In view of the low inflation rate, the US Federal Reserve Bank maintained its interest rate unchanged in the first half of 2010, at 0%-0.25%. According to the US Federal Reserve chairman, in view of economic conditions, interest is expected to remain low for the long term.

In the Euro Zone, the first half of 2010 saw concern about insolvency of several countries, due to high government debt. In order to avoid bankruptcy, the Government of Greece required an aid program valued at EUR 146 billion. Furthermore, a combined aid program was announced by the EU and the IMF, which would provide loans and guarantees to Euro-zone countries, amounting to EUR 750 billion. In view of these concerns, the EUR was devalued by 15% against the USD in the first half of 2010.

In light of the extensive debt, several major European countries have adopted a restrictive fiscal policy, announcing extensive budget cut-backs. These countries include: Greece, Spain, Portugal, Italy, UK and Germany. This policy may help reduce the risk of bankruptcy, but is also slowing down economic growth in Europe. These developments may negatively impact Israel's economy, since export of goods from Israel to Europe accounts for 30% of total goods exported from Israel.
Despite these developments, the UK economy grew in the second quarter of 2010 at the fastest race in three years: UK GDP grew by an annualized 4.5%, after growing by 1.2% in the first quarter of this year.

The largest emerging economy, China, grew by an annualized 11.1% in the first half, compared to 7.4% growth in the corresponding period last year. Due to the rapid growth and concern about a bubble emerging in China's housing market, some restrictive steps were taken, including increasing capital adequacy rates at Chinese banks, and imposing limits on credit granted for housing.
Other countries not included among major developed markets, such Australia, Brazil, India and South Korea, have also adopted restrictive steps by increasing the monetary interest rates.

Forward-looking information

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

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

Dividends

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

Payment date	Dividend per share (in Agorot)	Total dividend paid (NIS millions)
February 19, 2008	33.80	75
June 11, 2008	33.78	75
September 8, 2010 (1)	88.60	200 (declared)

(1) On August 16, 2010, the Bank's Board of Directors decided to pay a dividend amounting to NIS 200 million, or 886.0% of the issued capital, i.e. NIS 88.60 per each share of NIS 0.1 par value. The effective date for dividend payment is August 23, 2010; the ex-dividend date is August 24, 2010; and the payment date is September 8, 2010.

Profit and Profitability

Net profit for the Group in the second quarter of 2010 amounted to NIS 201 million, compared to NIS 150 million in the corresponding period last year – an increase of 34.0%. This reflects a 12.3% annualized return on equity, compared to 10.1% in the corresponding period last year.

Net profit for the Group in the first half of 2010 amounted to NIS 373 million, compared to NIS 260 million in the corresponding period last year – an increase of 43.5%. This profit reflects an annualized 11.4% return on equity, compared to 8.7% in the corresponding period last year and to 8.5% in all of 2009 (10.4% excluding provision for voluntary retirement).

The following major factors affected Group operating income in the first half of 2010 over the corresponding period last year:

– Profit from financing operations before provision for doubtful debts increased in the first half of 2010 by NIS 196 million - or 17.1% - over the corresponding period last year.

– Revenues from operating commissions increased in the first half of 2010 by NIS 36 million, or 5.8%, over the corresponding period last year.

– The provision for doubtful debts decreased in the first half of 2010 by NIS 7 million, or 3.8%, compared to the corresponding period last year.

– Operating and other expenses increased by NIS 47 million, or 3.9%, over the corresponding period last year.

– Out of total operating expenses, payroll expenses in the first half of 2010 increased by NIS 19 million, or 2.6% over the corresponding period last year.

Development of revenues and expenses

Group profit from financing operations before provision for doubtful debts in the second quarter of 2010 amounted to NIS 714 million, compared with NIS 564 million in the corresponding period last year - an increase of 26.6%.

Group profit from financing operations before provision for doubtful debts in the first half of 2010 amounted to NIS 1,344 million, compared with NIS 1,148 million in the corresponding period last year - an increase of 17.1%.

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

	First half of		
	2010	2009	Rate of change
Current operations	**1,244**	**1,060**	**17.4%**
Revenues from interest on problem loans	54	61	
Gain from realized debentures available for sale and debentures held for trade, net	35	2	
Effect of accounting treatment of derivatives at fair value and others [(1)]	11	25	
Total	**1,344**	**1,148**	**17.1%**

(1) The effect of the 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 half of		
Operating segment	2010	2009	Rate of change
Retail banking:			
Mortgages	237	206	15.0%
Household	405	342	18.4%
Small business	172	152	13.2%
Total	**814**	**700**	**16.3%**
Private banking	23	24	(4.2%)
Commercial banking	78	73	6.8%
Business banking	310	304	2.0%
Financial management	119	47	153.2%
Total	**1,344**	**1,148**	**17.1%**

(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 half of		
Linkage segments	2010	2009	Rate of change
Israeli currency - non-linked [(1)]	108,939	[(3)] 97,662	11.55%
Israeli currency - linked to the CPI	40,270	41,511	(2.99%)
Foreign currency (including Israeli currency linked to foreign currency) [(2)]	62,396	70,524	(11.53%)
Total	211,605	[(3)] 209,697	0.91%

(1) The increase in the average balance of financial assets in the non-linked segment is due to an increase in non-linked credit and to diversion of bank deposits from the foreign-currency segment to the unlinked segment. The decrease in the average balance of financial assets in the foreign currency segment is primarily due to lower exchange rates and to lower foreign-currency credit and scope of derivatives activity.
(2) Local operations and overseas affiliates.
(3) Reclassified, for details see note 4a4) to the financial statements as of 31 December, 2009

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

	First half of	
Linkage segments	2010	2009
Israeli currency - non-linked	1.36%	0.95%
Israeli currency - linked to the CPI	0.66%	0.27%
Foreign currency (including Israeli currency linked to foreign currency) [(1)]	0.64%	0.80%
Total including impact of derivatives	1.10%	0.73%

(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.

Provision for doubtful debts for the Group amounted to NIS 179 million in the first half of 2010, or 0.35% of total loans to the public, compared with NIS 186 million, or 0.40% of total loans to the public in the corresponding period last year - a decrease of 3.8%. The decrease is due to a decrease in the provision by extent of arrears with respect to mortgages, and in the supplementary provision for doubtful debts with respect to problem debts, while the other specific provision for doubtful debts increased.

Provision for doubtful debts amounted to NIS 122 million in the second quarter of 2010, or 0.48% of total loans to the public, compared with NIS 67 million, or 0.29% of total loans to the public in the corresponding period last year - an increase of 82.1%.

The increase in the provision for doubtful debts is due, *inter alia*, to a provision made with respect to a client whom the Bank believes would settle the collateral gap in the third quarter of 2010.

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

	First half of		Second Quarter	
	2010	2009	2010	2009
Specific provision:				
By extent of arrears	-	18	14	6
Other	186	139	109	60
Total specific provision	186	157	123	66
General and additional provision	(7)	29	(1)	1
Total	179	186	122	67
Annualized rate of provision for doubtful debts to total credit to the public	0.35%	0.40%	0.48%	0.29%

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

	First half of		
Operating segment	2010	2009	Rate of change
Retail banking:			
Mortgages	1	22	(95.5%)
Household	33	34	(2.9%)
Small business	17	36	(52.8%)
Total	51	92	(44.6%)
Private banking	-	1	-
Commercial banking	(1)	6	-
Business banking	129	87	48.3%
Financial management	-	-	-
Total	179	186	(3.8%)

The balance of the general and supplementary provision for doubtful debts on the Group's balance sheet amounted to NIS 206 million as of June 30, 2010, compared with NIS 213 million as of December 31, 2009.

Group profit from financing operations after provision for doubtful debts in the first half of 2010 amounted to NIS 1,165 million, compared with NIS 962 million in the corresponding period last year - an increase of 21.1%.

In the second quarter, profit from financing operations after provision for doubtful debts amounted to NIS 592 million, compared with NIS 497 million in the corresponding period last year, a 19.1% decrease.

Operating and other revenues for the Group (excluding gain from investment in shares) amounted to NIS 682 million in the first half of 2010, compared with NIS 644 million in the corresponding period last year - a 5.9% growth. After the effect of the gain from investment in shares, operating revenues increased by 4.8%.

Operating and other revenues for the Group (excluding the gain from investment in shares) amounted to NIS 341 million in the second quarter of 2010, compared with NIS 323 million in the corresponding period last year - a 5.6% growth. After effect of the gain from investment in shares, operating revenues increased by 2.4%.

Revenues from operating commissions for the Group were NIS 658 million in the first half of 2010, compared with NIS 622 million in the corresponding period last year - an increase of 5.8%.
In the second quarter, operating commission revenues amounted to NIS 329 million, compared with NIS 313 million in the corresponding period last year - an increase of 5.1%.
The Group had no **net gain from investment in shares** in the first half of 2010, compared to a gain of NIS 7 million in the corresponding period last year.
In the second quarter of 2010, the net gain from investment in shares amounted to NIS 1 million, compared with a gain of NIS 11 million in the corresponding period last year.

Other revenues for the Group amounted to NIS 24 million in the first half of 2010, compared with NIS 22 million in the corresponding period last year.
In the second quarter of 2010, other revenues amounted to NIS 12 million, compared with NIS 10 million in the corresponding period last year.

Operating and other expenses for the Group amounted to NIS 1,248 million in the first half of 2010, compared with NIS 1,201 million in the corresponding period last year - an increase of 3.9%.

Operating and other expenses amounted to NIS 618 million in the second quarter of 2010, compared with NIS 596 million in the corresponding period last year - a 3.7% increase.

Payroll and associated expenses for the Group amounted to NIS 741 million in the first half of 2010, compared with NIS 722 million in the corresponding period last year - an increase of 2.6%.
Payroll and associated expenses for the Bank amounted to NIS 361 million in the second quarter of 2010, compared with NIS 352 million in the corresponding period last year - a 2.6% increase.

Maintenance and depreciation expenses for buildings and equipment for the Group amounted to NIS 290 million in the first half of 2010, compared with NIS 277 million in the corresponding period last year – an increase of 4.7%.

Maintenance and depreciation expenses for buildings and equipment for the Group amounted to NIS 147 million in the second quarter of 2010, compared with NIS 143 million in the corresponding period last year – a 2.8% increase.

Other expenses for the Group amounted to NIS 217 million in the first half of 2010, compared with NIS 202 million in the corresponding period last year - a 7.4% decrease.

Other expenses for the Group amounted to NIS 110 million in the second quarter of 2010, compared with NIS 101 million in the corresponding period last year - an increase of 8.9%.

The increase is primarily due to an increase in fees paid to the stock exchange for client activity, and reflects higher revenues in this area.

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

	First half of		All of
	2010	2009	2009
Operational Coverage Ratio (1)	54.6%	54.2%	55.5%
Cost-Income Ratio(2)	61.6%	66.8%	68.6%
Cost-Income Ratio, excluding Bank Yahav	59.0%	64.8%	66.7%

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

Pre-tax operating profit for the Group amounted to NIS 599 million in the first half of 2010, compared with NIS 412 million in the corresponding period last year - a 45.4% growth.

In the second quarter of 2010, pre-tax operating profit amounted to NIS 316 million, compared to NIS 235 million in the corresponding period last year, a 34.5% increase.

Provision for taxes on operating profit amounted to NIS 218 million in the first half of 2010, compared with NIS 144 million in the same period last year, a 51.4% increase.

In the second quarter of 2010, provision for taxes on operating profit amounted to NIS 110 million, compared to NIS 79 million in the corresponding period last year, an increase of 39.2%.

Operating net profit in the first half of 2010 amounted to NIS 373 million, compared to NIS 260 million in the same period last year – an increase of 43.5%.

Operating net profit in the second quarter of 2010 amounted to NIS 202 million, compared to NIS 150 million in the corresponding period last year – an increase of 34.7%.

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

	Second Quarter		First half of		All of
	2010	2009	2010	2009	2009
Net operating profit	12.4	10.1	11.4	8.7	(3) 8.5
Net profit	12.3	10.1	11.4	8.7	8.5

(1) Annualized return.
(2) Return on average shareholders' equity, including "total capital resources", as presented in reporting of revenue and expense rates, less average balance of minority interest and less/plus the average balance of unrealized gain/loss from adjustment to fair value of debentures held for trading as well as gain/loss from debentures available for sale.
(3) Operating net profit excluding voluntary retirement program - 10.4%.

Earnings per share

Earnings per ordinary, NIS .1 par value share are as follows (in NIS):

	Second Quarter		First half of		All of
	2010	2009	2010	2009	2009
Basic earnings per share:					
From current operations	0.90	0.68	1.67	1.17	2.39
From net profit	0.89	0.68	1.67	1.17	2.38
Diluted earnings per share:					
From current operations	0.89	0.67	1.65	1.16	2.38
From net profit	0.88	0.67	1.65	1.16	2.37

Developments of balance sheet items

Developments in loans to the public according to main operating segments (NIS in millions):

				Change compared to	
	June 30,		December 31	June 30,	December 31
	2010	2009	2009	2009	2009
Balance sheet total	125,384	(1) 116,298	118,439	7.8%	5.9%
Credit to the public	101,007	(1) 92,645	95,249	9.0%	6.0%
Deposits from the public	101,629	93,744	95,021	8.4%	7.0%
Securities	7,411	8,188	7,643	(9.5%)	(3.0%)
Shareholders' equity	6,901	6,325	6,532	9.1%	5.6%

(1) Reclassified for details, see note 4a4) to the financial statements as of 31 December, 2009

Loans to the public - loans to the public in the consolidated balance sheet as of June 30, 2010 accounted for 80.6% of total assets, compared with 80.4% at the end of 2009. The Group's loans to the public increased in the first half of 2010 by NIS 5.8 billion, an increase of 6.0%. Excluding the impact of the change in the NIS exchange rate, loan volume increased by 6.2% in the first half of 2010.

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

				Change in %	
	June 30		December 31	June 30	December 31 [1]
	2010	2009	2009	2009	2009
Israeli currency					
Non-linked	51,053	[2] 46,206	47,841	10.5%	6.7%
CPI- linked	36,294	33,107	34,678	9.6%	4.7%
Foreign currency and foreign currency linked	13,660	13,332	12,730	2.5%	7.3%
Total	101,007	92,645	95,249	9.0%	6.0%

(1) Excluding the impact of the change in the NIS exchange rate, a 8.1% increase in the foreign currency segment and a 6.2% increase in total loan volume, compared to December 31, 2009.
(2) Reclassified. for details, see note 4a4) to the financial statements as of 31 December, 2009

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

				Change compared to	
	June 30,		December 31	June 30,	December 31
Operating segment	2010	2009	2009	2009	2009
Retail banking:					
Mortgages	53,224	[1] 45,306	[1] 49,413	17.5%	7.7%
Household	15,338	[2] [1] 13,973	[1] 14,681	9.8%	4.5%
Small business	5,184	4,986	4,928	4.0%	5.2%
Total	**73,746**	**64,265**	**69,022**	**14.8%**	**6.8%**
Private banking	1,390	1,894	1,368	(26.6%)	1.6%
Commercial banking	4,641	4,135	4,198	12.2%	10.6%
Business banking	21,230	22,351	20,661	(5.0%)	2.8%
Total – business and others	**27,261**	**28,380**	**26,227**	**(3.9%)**	**3.9%**
Total	**101,007**	**92,645**	**95,249**	**9.0%**	**6.0%**

(1) Reclassified.
(2) Reclassified. For more information, see Note 4.A.4) to the financial statements as of December 31, 2009.

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

	June 30,		December 31
	2010	2009	2009
Non-accrual debt	896	1,156	908
Rescheduled debt	1,072	842	1,079
Debt designated for rescheduling	29	297	126
Debt in temporary arrears	732	1,021	746
Includes: with respect to housing loans	452	508	461
Debt under special supervision	1,968	1,903	1,766
Includes: Debt for which a specific provision was made	37	87	50
Includes: Housing loans provided for by extent of arrears	513	571	539
Total balance sheet credit to problem borrowers	4,697	5,219	4,625
Off-balance sheet credit to problem borrowers	698	1,088	688
Debentures of financial institutions classified as problematic	14	46	30
Other problem loans of financial institutions	12	12	12
Total credit risk, including with respect to problem borrowers	5,421	6,365	5,355

Securities - the balance of the investment in securities decreased in the first six months of 2010 by NIS 0.2 billion, and by NIS 0.8 billion compared to June 30, 2009. The change in the 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	
		June 30,	December 31	June 30,	December 31
Operating segment	2010	2009	2009	2009	2009
Israeli currency					
Non-linked	2,934	1,696	2,650	73.0%	10.7%
CPI- linked	761	1,666	1,339	(54.3%)	(43.2%)
Foreign currency and foreign currency linked	3,630	4,398	3,568	(17.5%)	1.7%
Non-monetary items	86	428	86	(79.9%)	-
Total	7,411	8,188	7,643	(9.5%)	(3.0%)

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

				As of June 30, 2010
	Amortized cost	Unrealized gains	Unrealized loss	Fair value (book value)
Securities available for sale:				
Debentures of the Government of Israel	6,048	25	68	6,005
Foreign government debentures	134	5	-	139
Bank debentures	805	4	5	804
Corporate debentures	191	2	5	188
Asset-backed debentures	67	5	15	57
Shares of others	86	-	-	86
Total securities available for sale	7,331	41	93	7,279
Securities held for trading:				
Debentures of the Government of Israel	130	-	-	130
Of others	2	-	-	2
Total securities held for trading	132	-	-	132
Total securities	7,463	41	93	7,411

				As of December 31, 2009
	Amortized cost	Unrealized gains	Unrealized loss	Fair value (book value)
Securities available for sale:				
Debentures of the Government of Israel	5,898	25	51	5,872
Foreign government debentures	121	-	-	121
Bank debentures	1,079	13	7	1,084
Corporate debentures	164	2	9	158
Asset-backed debentures	78	5	18	65
Shares of others	84	2	-	86
Total securities available for sale	7,424	47	85	7,386
Securities held for trading:				
Debentures of the Government of Israel	256	-	5	251
Corporate debentures	6	-	-	6
Total securities held for trading	262	-	5	257
Total securities	7,686	47	90	7,643

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 June 30, 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					
Up to 20%	-	-	-	-	-
20%-40%	-	-	-	15	15
Over 40%	-	-	-	-	-
Total	-	-	-	15	15
Other debentures available for sale					
Up to 20%	16	6	18	30	70
20%-40%	2	-	1	5	8
Over 40%	-	-	-	-	-
Total	18	6	19	35	78

					As of December 31, 2009
	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%	-	-	-	-	-
20%-40%	-	-	-	18	18
Over 40%	-	-	-	-	-
Total	-	-	-	18	18
Other debentures available for sale					
20%	23	2	-	32	57
20%-40%	2	-	-	8	10
Over 40%	-	-	-	-	-
Total	25	2	-	40	67

See Note 2 to the financial statements for additional information.

Deposits from the public - these account for 81.1% of the total consolidated balance sheet as of June 30, 2010, compared with 80.2% at the end of 2009. In the first half of 2010, deposits from the public with the Bank Group increased by NIS 6.6 billion – an increase of 7.0%.

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

				Change compared to	
		June 30,	December 31	June 30,	December 31 (1)
	2010	2009	2009	2009	2009
Israeli currency					
Non-linked	56,936	51,025	51,851	11.6%	9.8%
CPI- linked	21,276	23,129	22,117	(8.0%)	(3.8%)
Foreign currency and foreign currency linked	23,417	19,590	21,053	19.5%	11.2%
Total	101,629	93,744	95,021	8.4%	7.0%

(1) Excluding the impact of the change in the NIS exchange rate, a 12.7% increase in the foreign currency segment and a 7.3% increase in total deposits, compared to December 31, 2009.

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

				Change compared to	
		June 30,	December 31	June 30,	December 31
	2010	2009	2009	2009	2009
Retail banking:					
Household	47,015	47,153	45,964	(0.3%)	2.3%
Small business	6,284	6,372	6,412	(1.4%)	(2.0%)
Total	53,299	53,525	52,376	(0.4%)	1.8%
Private banking	5,810	6,670	6,256	(12.9%)	(7.1%)
Commercial banking	2,966	2,086	3,355	42.2%	(11.6%)
Business banking	21,091	12,916	16,055	63.3%	31.4%
Financial management	18,463	18,547	16,979	(0.5%)	8.7%
Total	101,629	93,744	95,021	8.4%	7.0%

Shareholders' equity

According to the measurement principles prescribed by the Supervisor of Banks with respect to securities available for sale, the adjustment of these securities to their fair value is recorded directly to shareholders' equity. In the first half of 2010, a negative movement amounting to NIS 24 million, after related tax, was recorded in the capital reserve from presentation of available-for-sale securities at fair value. The negative capital reserve, after related tax, as included in shareholders' equity as of June 30, 2010, amounted to NIS 56 million.

The ratio of shareholders' equity to balance sheet total for the Group as of June 30, 2010 amounted to 5.50%, compared to 5.52% as of the end of 2009.

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 prescribe 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 Basle II rules.

Development of Group ratio of capital to risk components, after the effect of the dividend declared on August 16, 2010, is as follows:

	June 30, 2010	December 31, 2009
Ratio of Tier I capital to risk elements	(1)7.81%	8.01%
Ratio of total capital to risk elements	(1)13.85%	14.25%
Minimum total capital ratio required by the directives of the Supervisor of Banks	9.00%	9.00%

(1) Excluding the impact on risk-weighted assets, of the new directive of the Supervisor of Banks, regarding buyer groups, the ratio of Tier I capital to risk elements would have been 0.07% higher, and the ratio of total capital to risk elements would have been 0.12% higher.

For details of the Supervisor of Banks' letter concerning adoption of a target capital ratio for interim periods - see Note 4 to the financial statements.

Major Investees

The contribution of investees to operating net profit (excluding amortization of goodwill) in the first half of 2010 amounted to NIS 44.4 million, compared with NIS 42.1 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 the policy of the Bank's Board of Directors on this matter.

Bank Yahav's contribution to Group net income in the first half of 2010, excluding amortization of goodwill, amounted to NIS 8.3 million, compared to NIS 7.7 million in the same period last year. Bank Yahav's net profit return on equity in the first half of 2010 was 4.8%, compared to 4.6% in the corresponding period last year. Bank Yahav's balance sheet total as of June 30, 2010 amounted to NIS 14,374 million, compared to NIS 14,155 million as of December 31, 2009. The balance of loans to the public as of June 30, 2010 amounted to NIS 5,282 million, compared to NIS 5,195 million at end of 2009. The balance of deposits from the public as of June 30, 2010 amounted to NIS 12,281 million, compared to NIS 12,020 million at end of 2009.

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 half of 2010 amounted to NIS 26.8 million, compared to NIS 19.2 million in the corresponding period last year.

Net profit return on equity in the first half of 2010 amounted to 13.7%, compared to 11.1% 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 half of 2010 amounted to CHF 1.2 million, compared to CHF 1 million in the same period last year.

Mizrahi Bank Switzerland's balance sheet total as of June 30, 2010 amounted to CHF 195 million, compared to CHF 220 million at the end of 2009.

Total loans to the public as of June 30, 2010 amounted to CHF 77 million, similar to that at end of 2009; total deposits at banks as of June 30, 2010 amounted to CHF 100 million, compared to CHF 128 million at end of 2009. Total deposits from the public as of June 30, 2010 amounted to CHF 128 million, compared to CHF 144 million at end of 2009; total deposits from banks as of June 30, 2010 amounted to CHF 13 million, compared to CHF 24 million at end of 2009.

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 second quarter of 2010, which includes the contribution of Mizrahi Bank Switzerland to net profit, amounted to profit of NIS 3.7 million, compared with a profit of NIS 9.7 million in the same 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 statement is not meaningful.

Excluding the impact of changes in exchange rates, the company's contribution to group net profit in the first half of the year amounted to a NIS 4.8 million profit, compared to a NIS 3.4 million profit in the corresponding period last year.

Investment in non-banking corporations

The Bank has a department tasked with monitoring nostro investments made in non-banking corporations, and reviewing the value of these investments on an ongoing basis. About 9% of these investments are negotiable and presented at their market value. The other investments are presented at cost or at their carrying amount. In case of impairment of a non-temporary nature, a provision for impairment is made by the Bank.

Bank investments in non-banking corporations as of June 30, 2010 amounted to NIS 62 million, compared to NIS 63 million at end of 2009. In the first half of 2010, the Bank had no net gain from dividends and capital gains from non-banking corporations, after provision for impairment - compared to gain of NIS 7 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 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, to whom the Bank offers 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 account, provision of a current loan account, different kinds of credit and guarantees, receiving deposits, foreign trade activities (imports, exports, documentary credit, etc.), trading in derivative instruments, including trading in currencies and interest rates, etc.
- **Capital market** – security transactions for 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, 2009.

Note 10 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).

Profitability

	Net profit (loss) in the first half		Return on equity in the first half	
	2010	2009	2010	2009
Household				
Mortgages	147	125	14.6%	10.8%
Other	36	(2)	8.4%	(0.6%)
Private banking	13	16	35.9%	54.6%
Small business	47	25	27.9%	15.8%
Commercial banking	24	19	12.6%	14.3%
Business banking	56	85	4.4%	8.8%
Financial management	50	(8)	31.7%	(4.3%)
Total	373	260	11.4%	8.7%

Below are Bank Group operating results by operating segment

Results of Household Segment

	For the six months ended June 30, 2010					For the six months ended June 30, 2009				
	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 provision for doubtful debts										
From outside operating segments	146	10	5	994	1,155	(7)	8	6	1,137	1,144
Inter-segment	251	(7)	-	(757)	(513)	341	(6)	-	(931)	(596)
Profit from financing operations before provision for doubtful debts	397	3	5	237	642	334	2	6	206	548
Operating and other revenues[2]	105	57	120	122	404	104	55	101	126	386
Total profit	502	60	125	359	1,046	438	57	107	332	934
Provision for doubtful debts	33	-	-	1	34	34	-	-	22	56
Operating and other expenses										
From outside operating segments	595	14	32	129	770	575	14	30	118	737
Inter-segment	(56)	(2)	-	-	(58)	(47)	(2)	-	-	(49)
Total operating and other expenses	539	12	32	129	712	528	12	30	118	688
Operating profit (loss) before taxes	(70)	48	93	229	300	(124)	45	77	192	190
Provision for taxes on operating profit (loss)	(25)	18	34	82	109	(43)	16	27	67	67
After-tax operating profit (loss)	(45)	30	59	147	191	(81)	29	50	125	123
Minority interest in net after-tax operating profit of subsidiaries	(8)	-	-	-	(8)	-	-	-	-	-
Net profit (loss)	**(53)**	**30**	**59**	**147**	**183**	**(81)**	**29**	**50**	**125**	**123**
Return on equity					**12.7%**					**[1] 8.2%**
Average balance of assets [2]	13,476	2,434	-	50,242	66,152	12,274	2,268	-	43,280	57,822
Average balance of liabilities [2]	44,657	2,434	-	75	47,166	45,496	2,268	-	70	47,834
Average balance of risk assets - Basle II [2][3]	13,540	-	-	25,970	39,510	12,777	-	-	35,491	48,268
Average balance of securities	-	-	26,063	-	26,063	-	-	[1] 20,371	-	20,371
Credit to the public (end balance)	12,713	2,625	-	53,224	68,562	[1] 11,439	[4] 2,534	-	[1] 45,306	59,279
Deposits from the public (end balance)	47,015	-	-	-	47,015	47,153	-	-	-	47,153
Average balance of assets under management	7,977	-	-	14,691	22,668	6,754	-	-	15,847	22,601
Components of profit from financing operations before provision for doubtful debts:										
Margin from credit granting operations	164	3	-	222	389	149	2	-	190	341
Margin from receiving deposits	187	-	-	-	187	151	-	-	-	151
Other	46	-	5	15	66	34	-	6	16	56
Total	**397**	**3**	**5**	**237**	**642**	**334**	**2**	**6**	**206**	**548**

(1) Reclassified.
(2) Comparative figures for the six months ended June 30, 2009 were reclassified.
(3) Risk assets for the corresponding period of 2009 were calculated in Basle L terms.
(4) Reclassified For more information, see Note 4.A.4) to the financial statements as of December 31, 2009.

Contribution of the household segment to Group profit in the first half of 2010 amounted to NIS 183 million, compared to NIS 123 million in the corresponding period last year - an increase of 48.8%.

Contribution of mortgages in the first half of 2010 amounted to NIS 147 million, compared to NIS 125 million in the corresponding period last year - an increase of 17.6%. The increase is due to a 15.0% increase in profit from financing operations before provision for doubtful debts, primarily due to an increase in the volume of operations, as well as to a decrease in the provision for doubtful debts (primarily - by extent of arrears), from NIS 22 million in the corresponding period last year, to NIS 1 million in the first half of 2010.

Contribution of households (excluding mortgages) in the first half of 2010 amounted to NIS 36 million, compared to a NIS 2 million loss in the corresponding period last year. The increase in the contribution of households is primarily due to an 18.4% increase in profit from financing operations before provision for doubtful debts, due to an increase in volume of operations and improved financial spread, as well as due to the low prevailing interest in Israel's economy in 2009, which significantly eroded the spread on deposits in the corresponding period last year. Operating revenues grew by 8.5%, primarily due to an increase in capital market activity.

Results of Household Segment

	For the three months ended June 30, 2010					For the three months ended June 30, 2009				
	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 provision for doubtful debts										
From outside operating segments	28	5	3	839	875	(8)	4	3	736	735
Inter-segment	177	(4)	-	(713)	(540)	180	(3)	-	(620)	(443)
Profit from financing operations before provision for doubtful debts	205	1	3	126	335	172	1	3	116	292
Operating and other revenues(2)	51	29	60	62	202	54	27	52	62	195
Total profit	256	30	63	188	537	226	28	55	178	487
Provision for doubtful debts	16	-	-	14	30	16	-	-	8	24
Operating and other expenses										
From outside operating segments	292	7	17	65	381	284	7	15	58	364
Inter-segment	(28)	(1)	-	-	(29)	(20)	(1)	-	-	(21)
Total operating and other expenses (2)	264	6	17	65	352	264	6	15	58	343
Operating profit (loss) before taxes	(24)	24	46	109	155	(54)	22	40	112	120
Provision for taxes on operating profit (loss)	(7)	8	16	36	53	(18)	8	14	37	41
After-tax operating profit (loss)	(17)	16	30	73	102	(36)	14	26	75	79
Minority interest in net after-tax operating profit of subsidiaries	(4)	-	-	-	(4)	(3)	-	-	-	(3)
Net profit (loss)	**(21)**	**16**	**30**	**73**	**98**	**(39)**	**14**	**26**	**75**	**76**
Return on equity					**13.4%**					(1) **9.9%**
Components of profit from financing operations before provision for doubtful debts:(2)										
Margin from credit granting operations	85	1	-	118	204	77	1	-	110	188
Margin from receiving deposits	99	-	-	-	99	73	-	-	-	73
Other	21	-	3	8	32	22	-	3	6	31
Total	**205**	**1**	**3**	**126**	**335**	**172**	**1**	**3**	**116**	**292**

(1) Reclassified.
(2) Comparative figures for the three months ended June 30, 2009 were reclassified.

Volume of mortgages granted by the segment is as follows:

	Loans granted (NIS in millions)		
	First half of		
	2010	2009	Rate of change
Mortgages issued (for housing and any purpose)			
From the Bank's funds	7,685	5,771	33.2%
From the Treasury's funds			
Directed loans	102	180	(43.3%)
Standing loans and grants	109	116	(6.0%)
Total new loans	7,896	6,067	30.1%
Recycled loans	542	990	(45.3%)
Total loans issued	8,438	7,057	19.6%
Number of borrowers (includes recycled loans)	24,843	24,755	0.4%

Results of Private Banking Segment

	For the six months ended June 30, 2010			For the six months ended June 30, 2009		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Profit from financing operations before provision for doubtful debts						
From outside operating segments	(3)	-	(3)	(26)	-	(26)
Inter-segment	26	-	26	50	-	50
Profit from financing operations before provision for doubtful debts	23	-	23	24	-	24
Operating and other revenues(2)	12	16	28	9	17	26
Total profit	35	16	51	33	17	50
Provision for doubtful debts	-	-	-	1	-	1
Operating and other expenses						
From outside operating segments	25	1	26	24	-	24
Inter-segment	2	2	4	-	-	-
Total operating and other expenses	27	3	30	24	-	24
Pre-tax operating profit	8	13	21	8	17	25
Provision for taxes on operating profit	3	5	8	3	6	9
Net profit	**5**	**8**	**13**	**5**	**11**	**16**
Return on equity			**35.9%**			**54.6%**
Average balance of assets	1,831	-	1,831	1,676	-	1,676
Average balance of liabilities	5,940	-	5,940	6,445	-	6,445
Average balance of risk assets - Basle II (2)	976	-	976	981	-	981
Average balance of securities	-	7,073	7,073	-	(1) 6,784	6,784
Credit to the public (end balance)	1,390	-	1,390	1,894	-	1,894
Deposits from the public (end balance)	5,810	-	5,810	6,670	-	6,670
Average balance of other assets managed	-	-	-	-	-	-
Components of profit from financing operations before provision for doubtful debts:						
Margin from credit granting operations	8	-	8	9	-	9
Margin from receiving deposits	14	-	14	14	-	14
Other	1	-	1	1	-	1
Total	**23**	**-**	**23**	**24**	**-**	**24**

(1) Reclassified.
(2) Comparative figures for the six months ended June 30, 2009 were reclassified.
(3) Risk assets for the corresponding period of 2009 were calculated in Basle I terms.

Contribution of the private banking segment to Group profit in the first half of 2010 amounted to NIS 13 million, compared to NIS 16 million in the corresponding period last year. The decrease in the contribution of this segment is due to a NIS 6 million increase in expenses attributed to this segment. Profit from financing operations before the provision for doubtful debts decreased by NIS 1 million, while other and operating revenues increased by NIS 2 million.

Results of Private Banking Segment

	For the three months ended June 30, 2010			For the three months ended June 30, 2009		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Profit from financing operations before provision for doubtful debts						
From outside operating segments	(11)	-	(11)	(13)	-	(13)
Inter-segment	18	-	18	24	-	24
Profit from financing operations before provision for doubtful debts	7	-	7	11	-	11
Operating and other revenues[(1)]	6	7	13	5	8	13
Total profit	13	7	20	16	8	24
Provision for doubtful debts	-	-	-	1	-	1
Operating and other expenses						
From outside operating segments	11	1	12	12	-	12
Inter-segment	2	1	3	-	-	-
Total operating and other expenses	13	2	15	12	-	12
Pre-tax operating profit	-	5	5	3	8	11
Provision for taxes on operating profit	-	2	2	1	3	4
Net profit	**-**	**3**	**3**	**2**	**5**	**7**
Return on equity			**12.2%**			**51.6%**

Components of profit from financing operations before provision for doubtful debts:						
Margin from credit granting operations	2	-	2	5	-	5
Margin from receiving deposits	5	-	5	6	-	6
Other	-	-	-	-	-	-
Total	**7**	**-**	**7**	**11**	**-**	**11**

(1) Comparative figures for the three months ended June 30, 2009 were reclassified.

Results of the Small Business Segment

	For the six months ended June 30, 2010				For the six months ended June 30, 2009			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
	NIS in millions							
Profit from financing operations before provision for doubtful debts								
From outside operating segments	181	-	2	183	143	2	1	146
Inter-segment	(11)	-	-	(11)	7	(1)	-	6
Profit from financing operations before provision for doubtful debts	170	-	2	172	150	1	1	152
Operating and other revenues	85	6	10	101	80	6	11	97
Total profit	255	6	12	273	230	7	12	249
Provision for doubtful debts	17	-	-	17	36	-	-	36
Operating and other expenses								
From outside operating segments	202	1	2	205	190	1	2	193
Inter-segment	(25)	-	-	(25)	(20)	-	-	(20)
Total operating and other expenses	177	1	2	180	170	1	2	173
Pre-tax operating profit	61	5	10	76	24	6	10	40
Provision for taxes on operating profit	23	2	4	29	10	2	3	15
Net profit	**38**	**3**	**6**	**47**	**14**	**4**	**7**	**25**
Return on equity				**27.9%**				**15.8%**
Average balance of assets	5,135	41	-	5,176	4,913	36	-	4,949
Average balance of liabilities	6,189	-	-	6,189	6,713	-	-	6,713
Average balance of risk assets - Basle II (2)	4,463	-	-	4,463	4,918	-	-	4,918
Average balance of securities	-	-	7,498	7,498	-	-	(1) 7,350	7,350
Credit to the public (end balance)	5,141	43	-	5,184	4,948	38	-	4,986
Deposits from the public (end balance)	6,284	-	-	6,284	6,372	-	-	6,372
Average balance of other assets managed	344	-	-	344	289	-	-	289
Components of profit from financing operations before provision for doubtful debts:								
Margin from credit granting operations	123	-	-	123	116	-	-	116
Margin from receiving deposits	26	-	-	26	17	-	-	17
Other	21	-	2	23	17	1	1	19
Total	**170**	**-**	**2**	**172**	**150**	**1**	**1**	**152**

(1) Reclassified.
(2) Risk assets for the corresponding period of 2009 were calculated in Basle I terms.

Contribution of the small business segment to Group profit in the first half of 2010 amounted to NIS 47 million, compared to NIS 25 million in the corresponding period last year - an increase of 88.0%. The increase in segment contribution is primarily due to a NIS 20 million increase in profit from financing operations before provision for doubtful debts, primarily due to an increase in volume of operations, improved financial spread and increase in collection of interest previously provided for doubtful debts. The increase in segment contribution was also due to a decrease in the provision for doubtful debts, from NIS 36 million in the first half of 2009, to NIS 17 million in the first half of 2010. Operating revenues increased by 4.1%, and operating expenses attributed to the segment increased by 4.0% over the corresponding period last year.

Results of the Small Business Segment

	For the three months ended June 30, 2010				For the three months ended June 30, 2009			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
	NIS in millions							
Profit from financing operations before provision for doubtful debts								
From outside operating segments	88	-	1	89	93	1	1	95
Inter-segment	1	-	-	1	(18)	-	-	(18)
Profit from financing operations before provision for doubtful debts	89	-	1	90	75	1	1	77
Operating and other revenues	42	3	4	49	39	3	6	48
Total profit	131	3	5	139	114	4	7	125
Provision for doubtful debts	11	-	-	11	13	-	-	13
Operating and other expenses								
From outside operating segments	100	-	1	101	93	-	1	94
Inter-segment	(13)	-	-	(13)	(7)	-	-	(7)
Total operating and other expenses	87	-	1	88	86	-	1	87
Pre-tax operating profit	33	3	4	40	15	4	6	25
Provision for taxes on operating profit	13	1	2	16	7	1	2	10
Net profit	**20**	**2**	**2**	**24**	**8**	**3**	**4**	**15**
Return on equity				**29.6%**				(1) **18.6%**
Components of profit from financing operations before provision for doubtful debts:								
Margin from credit granting operations	66	-	-	66	60	-	-	60
Margin from receiving deposits	14	-	-	14	7	-	-	7
Other	9	-	1	10	8	1	1	10
Total	**89**	**-**	**1**	**90**	**75**	**1**	**1**	**77**

(1) Reclassified.

Results of the Commercial Banking Segment

	For the six months ended June 30, 2010				For the six months ended June 30, 2009			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
								NIS in millions
Profit from financing operations before provision for doubtful debts								
From outside operating segments	94	-	1	95	101	-	-	101
Inter-segment	(17)	-	-	(17)	(28)	-	-	(28)
Profit from financing operations before provision for doubtful debts	77	-	1	78	73	-	-	73
Operating and other revenues	19	1	7	27	16	1	4	21
Total profit	96	1	8	105	89	1	4	94
Provision for doubtful debts	(1)	-	-	(1)	6	-	-	6
Operating and other expenses								
From outside operating segments	35	-	-	35	30	-	-	30
Inter-segment	34	-	-	34	30	-	-	30
Total operating and other expenses	69	-	-	69	60	-	-	60
Pre-tax operating profit	28	1	8	37	23	1	4	28
Provision for taxes on From current operations	10	-	3	13	8	-	1	9
Net profit	**18**	**1**	**5**	**24**	**15**	**1**	**3**	**19**
Return on equity				**12.6%**				**14.3%**
Average balance of assets	4,503	2	-	4,505	4,153	3	-	4,156
Average balance of liabilities	3,049	-	-	3,049	2,213	-	-	2,213
Average balance of risk assets - Basle II (2)	4,873	-	-	4,873	4,100	-	-	4,100
Average balance of securities	-	-	4,445	4,445	-	-	(1) 1,633	1,633
Credit to the public (end balance)	4,639	2	-	4,641	4,132	3	-	4,135
Deposits from the public (end balance)	2,966	-	-	2,966	2,086	-	-	2,086
Average balance of other assets managed	16	-	-	16	38	-	-	38
Components of profit from financing operations before provision for doubtful debts:								
Margin from credit granting operations	63	-	-	63	57	-	-	57
Margin from receiving deposits	7	-	-	7	4	-	-	4
Other	7	-	1	8	12	-	-	12
Total	**77**	**-**	**1**	**78**	**73**	**-**	**-**	**73**

(1) Reclassified.
(2) Risk assets for the corresponding period of 2009 were calculated in Basle I terms.

Contribution of the commercial banking segment to Group profit in the first half of 2010 amounted to NIS 24 million, compared to NIS 19 million in the corresponding period last year, an increase of 26.3%. The increase is primarily due to collection of bad debts, which resulted in revenue of NIS 1 million, compared to a provision for doubtful debts of NIS 6 million in the corresponding period last year. Furthermore, the profit from financing operations before provision for doubtful debts increased by 6.8%, and operating revenues increased by 28.6% - primarily due to an increase in volume of operations and improved spreads. Operating and other expenses increased by NIS 9 million over the corresponding period last year.

Results of the Commercial Banking Segment

	For the three months ended June 30, 2010				For the three months ended June 30, 2009			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
								NIS in millions
Profit from financing operations before provision for doubtful debts								
From outside operating segments	56	-	1	57	56	-	-	56
Inter-segment	(15)	-	-	(15)	(19)	-	-	(19)
Profit from financing operations before provision for doubtful debts	41	-	1	42	37	-	-	37
Operating and other revenues	9	-	4	13	7	-	3	10
Total profit	50	-	5	55	44	-	3	47
Provision for doubtful debts	-	-	-	-	5	-	-	5
Operating and other expenses								
From outside operating segments	18	-	-	18	16	-	-	16
Inter-segment	16	-	-	16	12	-	-	12
Total operating and other expenses	34	-	-	34	28	-	-	28
Pre-tax operating profit	16	-	5	21	11	-	3	14
Provision for taxes on								
From current operations	5	-	2	7	4	-	1	5
Net profit	**11**	**-**	**3**	**14**	**7**	**-**	**2**	**9**
Return on equity				**14.6%**				**(1) 14.4%**
Components of profit from financing operations before provision for doubtful debts:								
Margin from credit granting operations	35	-	-	35	31	-	-	31
Margin from receiving deposits	3	-	-	3	2	-	-	2
Other	3	-	1	4	4	-	-	4
Total	**41**	**-**	**1**	**42**	**37**	**-**	**-**	**37**

(1) Reclassified.

Results of the Business Banking Segment

	For the six months ended June 30, 2010				For the six months ended June 30, 2009			
	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 provision for doubtful debts								
From outside operating segments	176	5	127	308	205	5	131	341
Inter-segment	37	-	(35)	2	9	-	(46)	(37)
Profit from financing operations before provision for doubtful debts	213	5	92	310	214	5	85	304
Operating and other revenues	31	11	4	46	34	15	4	53
Total profit	244	16	96	356	248	20	89	357
Provision for doubtful debts	116	-	13	129	90	-	(3)	87
Operating and other expenses								
From outside operating segments	84	1	17	102	86	1	17	104
Inter-segment	32	-	6	38	30	-	5	35
Total operating and other expenses	116	1	23	140	116	1	22	139
Pre-tax operating profit	12	15	60	87	42	19	70	131
Provision for taxes on operating profit	4	5	22	31	15	7	24	46
Net profit	**8**	**10**	**38**	**56**	**27**	**12**	**46**	**85**
Return on equity				**4.4%**				**8.8%**
Average balance of assets	18,071	-	6,025	24,096	21,654	-	6,559	28,213
Average balance of liabilities	16,639	-	2,062	18,701	13,850	-	1,070	14,920
Average balance of risk assets - Basle II [2]	20,232	-	11,983	32,215	19,790	-	9,558	29,348
Average balance of securities	-	63,307	-	63,307	-	[2] 39,889	-	39,889
Credit to the public (end balance)	15,289	-	5,941	21,230	16,333	-	6,018	22,351
Deposits from the public (end balance)	19,051	-	2,040	21,091	11,379	-	1,537	12,916
Average balance of other assets managed	27	-	97	124	16	-	104	120
Components of profit from financing operations before provision for doubtful debts:								
Margin from credit granting operations	120	-	76	196	130	-	70	200
Margin from receiving deposits	42	-	16	58	28	-	15	43
Other	51	5	-	56	56	5	-	61
Total	**213**	**5**	**92**	**310**	**214**	**5**	**85**	**304**

(1) Includes operating results with respect to credit cards, whose amount is not material.
(2) Reclassified.
(3) Risk assets for the corresponding period of 2009 were calculated in Basle I terms.

Contribution of the business banking segment to Group profit in the first half of 2010 amounted to NIS 56 million, compared to NIS 85 million in the corresponding period last year, a decrease of 34.1%.
Contribution of construction and real estate decreased by NIS 8 million over the corresponding period last year, primarily due to a NIS 16 million increase in the provision for doubtful debts. Revenue recognized in the first half of 2009 from debt collection, compared to a NIS 13 million expense in the first half of 2010.
Contribution of banking and finance decreased by NIS 19 million, primarily due to a NIS 26 million increase in provision for doubtful debts.

Results of the Business Banking Segment

	For the three months ended June 30, 2010				For the three months ended June 30, 2009			
	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 provision for doubtful debts								
From outside operating segments	85	3	73	161	72	2	49	123
Inter-segment	39	-	(23)	16	35	-	(11)	24
Profit from financing operations before provision for doubtful debts	124	3	50	177	107	2	38	147
Operating and other revenues	18	5	2	25	19	9	2	30
Total profit	142	8	52	202	126	11	40	177
Provision for doubtful debts	78	-	3	81	27	-	(3)	24
Operating and other expenses								
From outside operating segments	43	1	8	52	43	1	9	53
Inter-segment	16	-	3	19	12	-	2	14
Total operating and other expenses	59	1	11	71	55	1	11	67
Pre-tax operating profit	5	7	38	50	44	10	32	86
Provision for taxes on operating profit	1	2	14	17	16	4	10	30
Net profit	**4**	**5**	**24**	**33**	**28**	**6**	**22**	**56**
Return on equity				**5.1%**				**[(2)] 13.3%**
Components of profit from financing operations before provision for doubtful debts:								
Margin from credit granting operations	64	-	42	106	63	-	28	91
Margin from receiving deposits	27	-	8	35	15	-	10	25
Other	33	3	-	36	29	2	-	31
Total	**124**	**3**	**50**	**177**	**107**	**2**	**38**	**147**

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

Financial Management Segment results

	For the six months ended June 30, 2010			For the six months ended June 30, 2009		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Profit from financing operations before provision for doubtful debts						
From outside operating segments	(396)	2	(394)	(559)	1	(558)
Inter-segment	513	-	513	606	(1)	605
Profit from financing operations before provision for doubtful debts	117	2	119	47	-	47
Operating and other revenues	51	25	76	56	12	68
Total profit	168	27	195	103	12	115
Provision for doubtful debts	-	-	-	-	-	-
Operating and other expenses						
From outside operating segments	106	4	110	109	4	113
Inter-segment	7	-	7	4	-	4
Total operating and other expenses	113	4	117	113	4	117
Operating profit (loss) before taxes	55	23	78	(10)	8	(2)
Provision for taxes on operating profit (loss)	19	9	28	(4)	2	(2)
After-tax operating profit	36	14	50	(6)	6	-
Minority interest in net after-tax operating profit of subsidiaries	-	-	-	(8)	-	(8)
Net profit (loss)	**36**	**14**	**50**	**(14)**	**6**	**(8)**
Return on equity			**31.7%**			**(4.3%)**
Average balance of assets	17,902	-	17,902	(1) 19,859	-	19,859
Average balance of liabilities	31,487	-	31,487	(1) 31,896	-	31,896
Average balance of risk assets - Basle II (2)	3,928	-	3,928	8,545	-	8,545
Average balance of provident and mutual fund assets	74,164	-	74,164	57,878	-	57,878
Average balance of securities	-	32,296	32,296	-	(1) 21,182	21,182
Credit to the public (end balance)	-	-	-	-	-	-
Deposits from the public (end balance)	18,463	-	18,463	18,547	-	18,547
Components of profit from financing operations before provision for doubtful debts:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	117	2	119	47	-	47
Total	**117**	**2**	**119**	**47**	**-**	**47**

(1) Reclassified.
(2) Risk assets for the corresponding period of 2009 were calculated in Basle I terms.

Contribution of the financial management segment to Group profit in the first half of 2010 amounted to NIS 50 million, compared to a NIS 8 million loss in the corresponding period last year. Profit from financing operations before provision for doubtful debts increased by NIS 72 million over the corresponding period last year, primarily due to profit from current operations of asset and liability management, and gain recognized from realized investment in securities in the first half of 2010. Operating revenues increased by NIS 8 million, or 11.8%, while operating and other expenses remained unchanged. The first half of 2009 included a gain from realized debentures by a subsidiary, included under profit from financing operations. The share of external shareholders out of this gain amounted to NIS 8 million.

Financial Management Segment results

	For the three months ended June 30, 2010			For the three months ended June 30, 2009		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Profit from financing operations before provision for doubtful debts						
From outside operating segments	(458)	1	(457)	(431)	(1)	(432)
Inter-segment	521	(1)	520	433	(1)	432
Profit (loss) from financing operations before provision for doubtful debts	63	-	63	2	(2)	-
Operating and other revenues	28	12	40	30	8	38
Total profit	91	12	103	32	6	38
Provision for doubtful debts	-	-	-	-	-	-
Operating and other expenses						
From outside operating segments	52	2	54	55	2	57
Inter-segment	4	-	4	2	-	2
Total operating and other expenses	56	2	58	57	2	59
Operating profit (loss) before taxes	35	10	45	(25)	4	(21)
Provision for taxes on operating profit	11	4	15	(12)	1	(11)
After-tax operating profit (loss)	24	6	30	(13)	3	(10)
Minority interest in net after-tax operating profit of subsidiaries	-	-	-	(3)	-	(3)
Net operating profit	24	6	30	(16)	3	(13)
After-tax profit (loss) from extraordinary items	(1)	-	(1)	-	-	-
Net profit (loss)	**23**	**6**	**29**	**(16)**	**3**	**(13)**
Return on equity			**57.8%**			(1) **(9.0%)**
Components of profit from financing operations before provision for doubtful debts:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	63	-	63	2	(2)	-
Total	**63**	**-**	**63**	**2**	**(2)**	**-**

(1) Reclassified.

Product operations

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

	For the six months ended June 30, 2010			
	Household	Small business	Commercial banking	Total consolidated
Profit from financing operations before provision for doubtful debts	3	-	-	3
Operating and other revenues	57	6	1	64
Total revenues	60	6	1	67
Operating and other expenses	12	1	-	13
Pre-tax operating profit	48	5	1	54
Provision for taxes on operating profit	18	2	-	20
Net profit	30	3	1	34

	For the six months ended June 30, 2009			
	Household	Small business	Commercial banking	Total consolidated
Profit from financing operations before provision for doubtful debts	2	1	-	3
Operating and other revenues	55	6	1	62
Total revenues	57	7	1	65
Operating and other expenses	12	1	-	13
Pre-tax operating profit	45	6	1	52
Provision for taxes on operating profit	16	2	-	18
Net profit	29	4	1	34

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

	For the six months ended June 30, 2010						
	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Profit from financing operations before provision for doubtful debts	5	-	2	1	5	2	15
Operating and other revenues	120	16	10	7	11	25	189
Total revenues	125	16	12	8	16	27	204
Operating and other expenses	32	3	2	-	1	4	42
Pre-tax operating profit	93	13	10	8	15	23	162
Provision for taxes on operating profit	34	5	4	3	5	9	60
Net profit	59	8	6	5	10	14	102

	For the six months ended June 30, 2009						
	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Profit from financing operations before provision for doubtful debts	6	-	1	-	5	-	12
Operating and other revenues	101	17	11	4	15	12	160
Total revenues	107	17	12	4	20	12	172
Operating and other expenses	30	-	2	-	1	4	37
Pre-tax operating profit	77	17	10	4	19	8	135
Provision for taxes on operating profit	27	6	3	1	7	2	46
Net profit	50	11	7	3	12	6	89

International operations

General information regarding 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 itemized below.

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

Details of the affiliates and their business are as follows:

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

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

Bank's overseas branches – Overseas branches offer their 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 engaged mainly in commercial banking, private banking and foreign trade. Deposits with this branch are insured by the Federal Deposit Insurance Corporation (FDIC). The branch's 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 Private Banking and International Operations sector.

Representative offices: The major activities of representative offices are marketing of Bank services and its representation overseas. The Bank operates representative offices in Mexico, Uruguay, Panama and Germany.

For details of local supervision of Bank affiliates overseas, see chapter on international operations segment in the Board of Directors' Report included with the financial statements as of December 31, 2009.

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

	For the six months ended June 30, 2010				
	Household	Private banking	Business banking	Financial management	Total
Profit from financing operations before provision for doubtful debts	6	20	39	15	80
Operating and other revenues	1	21	3	5	30
Total revenues	7	41	42	20	**110**
Provision for doubtful debts	1	-	2	-	3
Operating and other expenses	5	27	20	3	55
Pre-tax operating profit	1	14	20	17	52
Provision for taxes on operating profit	1	5	7	6	19
Net profit	**-**	**9**	**13**	**11**	**33**

	For the six months ended June 30, 2009				
	Household	Private banking	Business banking	Financial management	Total
Profit from financing operations before provision for doubtful debts	8	21	38	20	87
Operating and other revenues	1	20	4	6	31
Total revenues	9	41	42	26	118
Provision for doubtful debts	1	1	1	-	3
Operating and other expenses	5	23	22	4	54
Pre-tax operating profit	3	17	19	22	61
Provision for taxes on operating profit	1	6	7	8	22
Net profit	2	11	12	14	39

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 June 30, 2010 to NIS 55.0 billion, compared to NIS 53.7 billion as of December 31, 2009.

Client activity in securities – The value of the securities portfolios in the custody of the Bank, held by clients, reached NIS 131.8 billion as of June 30, 2010, compared with NIS 118.8 billion at the end of 2009.
Revenues from trading in securities in the group amounted to NIS 145 million in the first half of 2010 in comparison with NIS 125 million in the same period last year, an increase of 16.0%.

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 June 30, 2010 amounted to NIS 16.9 billion, compared to NIS 17.3 billion at end of 2009.
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 development therein.**

Total deposits from the public for the Group as of June 30, 2010 amounted to NIS 101.6 billion, compared to NIS 95.0 billion at end of 2009. Deposits from the public in the CPI-linked segment in the first half of 2010 decreased by 3.8%; deposits from the public in the foreign currency and foreign-currency-linked segment increased in the first three months of 2008 by 11.2%; and deposits from the public in the NIS-denominated, non-CPI-linked segment increased by 9.8%. 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 25-30), including subordinated notes, issued to the public by Bank Mizrahi-Tefahot, amounted to NIS 2,901 million in total par value, of which NIS 1,651 million was in subordinated notes - similar to December 31, 2009.

On February 25, 2009, Tefahot Issuance published a shelf prospectus for issuance of up to 12 series of obligatory notes, and up to 3 series of subordinated capital notes. All proceeds from this issuance would be deposited by Tefahot Issuance at Bank Mizrahi-Tefahot Ltd. The prospectus also allows for expansion of the bond series and of the subordinated obligatory note series.

In the first half of 2010, Tefahot Issuance did not issue any obligatory notes to the public.

The revalued balance of obligatory notes as of June 30, 2010 amounted to NIS 3.3 billion, of which NIS 1.9 billion was in subordinated obligatory notes, similar to end of 2009.

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) 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 June 30, 2010 was NIS 1.8 billion, similar to the end of 2009. See Note 4 to the financial statements for details.

Rating of Bank obligations

In accordance with 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 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.

Risk Management

Basle II: 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 Basle II 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, 2009, 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 doubtful debts by economic sector	Management Discussion, Addendum C - Credit Risk by Economic Sector
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

The work framework for measurement and capital adequacy, as adopted by the Supervisor of Banks, applies to the Bank Group, and in particular to 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, 2009. 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 Basle II rules, as determined in directives of the Supervisor of Banks. Key rules and approaches applied by the Bank are described below, under Description of Basle II Guidelines in the chapter on Legislation 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, and the Bank has started to take action to implement this requirement. 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.

In accordance with the Supervisor of Banks' letter dated August 20, 2009, the Bank continues to comply with capital adequacy objectives as defined by the Bank in Basle I terms (Proper Conduct of Banking Business Regulation No. 311), pending completion of the supervisory review process by the Bank of Israel.

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 Basle Committee.

Once the Bank determines the final Tier I capital adequacy ratio, in accordance with requirements of the Supervisor of Banks, and after conclusion of the supervisory review process of the Bank's capital adequacy, an appropriate update will have to be made to the target return on average equity for the purpose of the Bank's strategic plan.

The Bank's Tier I capital ratio as of June 30, 2010 , after the effect of the dividend declared on August 16, 2010, was 7.81%.

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

	As of June 30, 2010		As of December 31, 2009	
Exposure group	Weighted risk asset balances	Capital requirement (1)	Weighted risk asset balances	Capital requirement (1)
Sovereign debt	627	56	765	69
Public sector entity debt	428	39	419	38
Banking corporation debt	1,658	149	1,985	179
Corporate debt	34,315	3,088	32,847	2,956
Debt secured by commercial real estate	2,041	184	1,601	144
Retail exposure to individuals	10,905	981	10,762	969
Loans to small businesses	2,036	183	1,896	171
Residential mortgages	25,710	2,314	23,602	2,124
Securitization	10	1	25	2
Other assets	2,177	196	2,080	187
Total	79,907	7,191	75,982	6,839

(1) Capital requirement calculated at 9% of risk asset balance, in accordance with interim directive on application of Basle II, Pillar 3.
(2) Includes risk assets with respect to credit extended to purchase groups, amounting to NIS 1,285 million, which in accordance with directives of the Supervisor of Banks are deemed to be exposure to corporations, with a risk weighting of 100% (unrated). Had these exposures been risk-weighted as residential mortgages, the risk asset balance would have decreased by NIS 784 million.

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

	As of June 30, 2010		As of December 31, 2009	
	Weighted risk asset balances	Capital requirement (1)	Weighted risk asset balances	Capital requirement (1)
Market risk	934	84	624	56
Operating Risk (2)	7,173	646	7,038	634
Total	8,107	730	7,662	690

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

(2) Calculated based on the basic indicator approach.

Development of Group ratio of capital to risk components, after the effect of the dividend declared on August 16, 2010, is as follows:

	Ratio of capital to risk elements	
	As of June 30, 2010	As of December 31, 2009
Ratio of Tier I capital to risk elements	[(1)]7.81%	8.01%
Ratio of total capital to risk elements	[(1)]13.85%	14.25%
Total minimum capital ratio required by the Supervisor of Banks	9.00%	9.00%

(1) Excluding the impact on risk-weighted assets, of the new directive of the Supervisor of Banks, regarding buyer groups, the ratio of Tier I capital to risk elements would have been 0.07% higher, and the ratio of total capital to risk elements would have been 0.12% higher.

Risk exposure and assessment there of

Day-to-day activities in a variety of balance sheet and off-balance-sheet financial instruments expose the Group to risk, mainly – market, interest 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 Basle II, 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 purchased a risk management system (the Algorithmics system) that enables management and control under a single platform of the market risk and liquidity risk of the Bank, and in the future, also the various credit risk components, including implementation of Basle II regulations for calculating regulatory capital.

In the second quarter of 2010, the Bank concluded action to regulate activities of the CRO, Further, the Bank created an internal control forum, designed to coordinate the different Bank entities involved with internal control issues.

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 its 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:

					As of June 30, 2010
	Up to 1 year	1-5 years	Over 5 years	Without maturity	Total
Loans [2]	35,603	19,012	57,686	65	112,366
Securities [3]	2,517	3,377	1,243	-	7,137
Derivatives [4]	2,416	830	1,341	-	4,587
Other off-balance-sheet exposures	36,832	6,462	698	-	43,992
Other assets [5]	1,168	334	49	1,505	3,056
Total	78,536	30,015	61,017	1,570	171,138

					As of December 31, 2009
	Up to 1 year	1-5 years	Over 5 years	Without maturity	Total
Loans [2]	35,621	18,198	52,380	58	106,257
Securities [3]	2,094	4,260	897	-	7,251
Derivatives [4]	1,788	739	939	-	3,466
Other off-balance-sheet exposures	36,479	6,111	431	-	43,021
Other assets [5]	1,133	391	50	1,542	3,116
Total	77,115	29,699	54,697	1,600	163,111

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

Before credit risk mitigation

	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
											As of June 30, 2010
Rated exposures:											
Sovereign debt	12,601	2,854	-	-	-	105	-	-	15,560	-	15,560
Banking corporation debt	-	2,266	-	1,162	-	36	-	-	3,464	1	3,465
Corporate debt	-	73	-	158	-	46	47	-	324	-	324
Securitization	-	-	-	-	-	-	-	3	3	54	57
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	12,601	5,193	-	1,320	-	187	47	3	19,351	92	19,443
Non-rated exposures:											
Public sector entity debt	-	-	-	1,623	-	-	-	-	1,623	-	1,623
Banking corporation debt	-	966	-	873	-	-	-	-	1,839	-	1,839
Corporate debt	-	-	-	-	-	54,804	-	-	54,804	-	54,804
Debt secured by commercial real estate	-	-	-	-	-	2,274	-	-	2,274	-	2,274
Retail exposure to individuals	-	-	-	-	22,549	151	413	-	23,113	-	23,113
Loans to small businesses	-	-	-	-	4,494	21	82	-	4,597	-	4,597
Residential mortgages	-	-	46,259	-	12,966	1,049	182	-	60,456	-	60,456
Other assets	916	-	-	-	-	2,106	59	-	3,081	94	3,175
Total	916	966	46,259	2,496	40,009	60,405	736	-	151,787	94	151,881
Total	13,517	6,159	46,259	3,816	40,009	60,592	783	3	171,138	186	171,324

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

After credit risk mitigation

											As of June 30, 2010
	0%	20%	35%	50%	75%	100%	150%	350%	Net credit exposure	Deduc-ted from equity	Total
Rated exposures:											
Sovereign debt	12,601	2,874	-	-	-	105	-	-	15,580	-	15,580
Banking corporation debt	-	2,266	-	1,162	-	36	-	-	3,464	1	3,465
Corporate debt	-	73	-	158	-	46	32	-	309	-	309
Securitization	-	-	-	-	-	-	-	3	3	54	57
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	12,601	5,213	-	1,320	-	187	32	3	19,356	92	19,448
Non-rated exposures:											
Public sector entity debt	-	-	-	1,623	-	-	-	-	1,623	-	1,623
Banking corporation debt	-	1,325	-	691	-	-	-	-	2,016	-	2,016
Corporate debt	-	-	-	-	-	47,140	-	-	47,140	-	47,140
Debt secured by commercial real estate	-	-	-	-	-	2,112	-	-	2,112	-	2,112
Retail exposure to individuals	-	-	-	-	21,288	121	397	-	21,806	-	21,806
Loans to small businesses	-	-	-	-	3,217	13	55	-	3,285	-	3,285
Residential mortgages	-	-	46,251	-	12,931	1,049	180	-	60,411	-	60,411
Other assets	916	-	-	-	-	2,106	59	-	3,081	94	3,175
Total	916	1,325	46,251	2,314	37,436	52,541	691	-	141,474	94	141,568
Total exposure	13,517	6,538	46,251	3,634	37,436	52,728	723	3	160,830	186	161,016

Before credit risk mitigation

											As of December 31, 2009
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	13,481	421	-	1,358	-	-	-	-	15,260	-	15,260
Banking corporation debt	-	1,232	-	1,308	-	45	43	-	2,628	2	2,630
Corporate debt	-	98	-	158	-	84	447	-	787	-	787
Securitization	-	-	-	-	-	17	-	2	19	46	65
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	13,481	1,751	-	2,824	-	146	490	2	18,694	85	18,779
Non-rated exposures:											
Public sector entity debt	-	-	-	1,608	-	-	-	-	1,608	-	1,608
Banking corporation debt	-	489	-	1,777	-	-	-	-	2,266	-	2,266
Corporate debt	-	-	-	-	-	54,828	-	-	54,828	-	54,828
Debt secured by commercial real estate	-	-	-	-	-	1,771	-	-	1,771	-	1,771
Retail exposure to individuals	-	-	-	-	22,235	173	493	-	22,901	-	22,901
Loans to small businesses	-	-	-	-	4,256	23	84	-	4,363	-	4,363
Residential mortgages	-	-	41,263	-	11,162	1,088	58	-	53,571	-	53,571
Other assets	939	-	-	-	-	2,120	50	-	3,109	101	3,210
Total	939	489	41,263	3,385	37,653	60,003	685	-	144,417	101	144,518
Total exposure	14,420	2,240	41,263	6,209	37,653	60,149	1,175	2	163,111	186	163,297

After credit risk mitigation

	As of December 31, 2009										
	0%	20%	35%	50%	75%	100%	150%	350%	Net credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	13,481	430	-	1,357	-	-	-	-	15,268	-	15,268
Public sector entity debt	-	16	-	-	-	-	-	-	16	-	16
Banking corporation debt	-	1,239	-	1,313	-	48	43	-	2,643	2	2,645
Corporate debt	-	102	-	171	-	85	397	-	755	-	755
Securitization	-	-	-	-	-	17	-	2	19	46	65
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	13,481	1,787	-	2,841	-	150	440	2	18,701	85	18,786
Non-rated exposures:											
Public sector entity debt	-	-	-	1,603	-	-	-	-	1,603	-	1,603
Banking corporation debt	-	489	-	2,019	-	-	-	-	2,508	-	2,508
Corporate debt	-	-	-	-	-	48,191	-	-	48,191	-	48,191
Debt secured by commercial real estate	-	-	-	-	-	1,601	-	-	1,601	-	1,601
Retail exposure to individuals	-	-	-	-	20,970	143	475	-	21,588	-	21,588
Loans to small businesses	-	-	-	-	3,025	14	59	-	3,098	-	3,098
Residential mortgages	-	-	41,256	-	11,148	1,088	58	-	53,550	-	53,550
Other assets	939	-	-	-	-	2,120	50	-	3,109	101	3,210
Total	939	489	41,256	3,622	35,143	53,157	642	-	135,248	101	135,349
Total exposure	14,420	2,276	41,256	6,463	35,143	53,307	1,082	2	153,949	186	154,135

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	Total balance sheet credit		
	As of June 30,		As of December 31,
	2010	2009	2009
Communications and computer services	355	-	287
Financial services	-	111	238
Total	355	111	525

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

			As of June 30, 2010
External credit rating	Balance sheet credit risk [3]	Off-balance sheet credit risk [4]	Current credit exposure
AAA to AA-	1,778	329	2,107
A+ to A-	629	252	881
BBB+ to BBB-	4	-	4
BB+ to B-	3	5	8
Lower than B-	12	-	12
Unrated	37	-	37
Total credit exposure to foreign financial institutions	2,463	586	3,049
Balance of problem loans [5]	26	-	26

			As of June 30, 2009
External credit rating	Balance sheet credit risk [3]	Off-balance sheet credit risk [4]	Current credit exposure
AAA to AA-	2,102	413	2,515
A+ to A-	854	20	874
BBB+ to BBB-	107	-	107
BB+ to B-	20	2	22
Lower than B-	77	-	77
Unrated	35	-	35
Total credit exposure to foreign financial institutions	3,195	435	3,630
Balance of problem loans [5]	58	-	58

			As of December 31, 2009
External credit rating	Balance sheet credit risk [3]	Off-balance sheet credit risk [4]	Current credit exposure
AAA to AA-	1,344	396	1,740
A+ to A-	719	19	738
BBB+ to BBB-	57	-	57
BB+ to B-	17	3	20
Lower than B-	48	-	48
Unrated	78	-	78
Total credit exposure to foreign financial institutions	2,263	418	2,681
Balance of problem loans [5]	42	-	42

(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.

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 E - 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's 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 Bank assessment of the risk level in a manner which diversifies exposure. The Bank determines the exposure limit to each financial institution based on the most recent rating available for said institution, and only ratings provided by one of the leading international rating agencies are used – based on financial information for the institution under review. Exposure limits per institution include maximum exposure amount and maximum time to maturity for different types of activities and transactions. To this end, the existence (or absence) of an offset agreement for derivative operations with 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, while exposure with respect to derivatives and investments in securities are for longer terms.

Exposure to countries - several European countries (Spain, Portugal, Greece, Ireland) are experiencing an economic crisis which increases the risk associated with exposure to these countries. As of the balance sheet date, the Bank has certain exposure to these countries, some - direct exposure by investment in these countries (including by means of credit derivatives), and some - indirect exposure for which the collateral (including guarantees received from third parties) originates from these countries. For details of exposures as of the balance sheet date and as of the reporting date, see Management Discussion - Addendum D "Exposure to Foreign Countries - Consolidated".

The Bank regularly monitors exposure to countries, and in particular to the aforementioned countries - and even more so in the current period. The economic position of a country, including liquidity issues and changes in credit rating, are a key factor when reviewing current exposure to the country and to entities located there, including when creating new exposure. In conjunction with the foregoing, exposure to these countries was reduced.

As of the balance sheet date, all exposures to the aforementioned countries are of high investment grade.

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 mitigation

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

As of June 30, 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	15,560	-	20	-	15,580
Public sector entity debt	1,623	-	2	(2)	1,623
Banking corporation debt	5,303	-	181	(4)	5,480
Corporate debt	55,128	(185)	-	(7,494)	47,449
Debt secured by commercial real estate	2,274	(1)	-	(161)	2,112
Retail exposure to individuals	23,113	(2)	-	(1,305)	21,806
Loans to small businesses	4,597	(15)	-	(1,297)	3,285
Residential mortgages	60,456	-	-	(45)	60,411
Securitization	3	-	-	-	3
Other assets	3,081	-	-	-	3,081
Total	171,138	(203)	203	(10,308)	160,830

					As of December 31, 2009
	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	15,260	-	8	-	15,268
Public sector entity debt	1,608	-	16	(5)	1,619
Banking corporation debt	4,894	(60)	311	6	5,151
Corporate debt	55,615	(250)	-	(6,419)	48,946
Debt secured by commercial real estate	1,771	(6)	-	(164)	1,601
Retail exposure to individuals	22,901	(2)	-	(1,311)	21,588
Loans to small businesses	4,363	(15)	-	(1,250)	3,098
Residential mortgages	53,571	(2)	-	(19)	53,550
Securitization	19	-	-	-	19
Other assets	3,109	-	-	-	3,109
Total	163,111	(335)	335	(9,162)	153,949

(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 Basle 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.

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 June 30, 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	205	1,471	18	1	68	1,763
Positive fair value, gross, of derivatives (1)	734	1,502	586	2	-	2,824
Total exposure with respect to derivatives	939	2,973	604	3	68	4,587
Collateral with respect to derivatives (before safety factors)	(6)	(263)	(590)	(2)	-	(861)
Impact of safety factors on collateral	-	42	283	-	-	325
Total current credit exposure after credit risk mitigation	881	2,738	297	1	68	3,985

						As of December 31, 2009
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	159	1,065	11	7	124	1,366
Positive fair value, gross, of derivatives (1)	505	830	753	12	-	2,100
Total exposure with respect to derivatives	664	1,895	764	19	124	3,466
Collateral with respect to derivatives (before safety factors)	(17)	(141)	(319)	(13)	-	(490)
Impact of safety factors on collateral	4	28	44	6	-	82
Total current credit exposure after credit risk mitigation	651	1,782	489	12	124	3,058

(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 June 30, 2010
	Risk weighting	Exposure amount	Capital requirements (1)
BB+ to BB-	350%	3	1
B+ or lower	Deducted from equity	54	54
Total		57	55

			As of December 31, 2009
	Risk weighting	Exposure amount	Capital requirements (1)
BBB+ to BBB-	100%	17	2
BB+ to BB-	350%	2	1
B+ or lower	Deducted from equity	46	46
Total		65	49

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

(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 Basle II, Pillar 3.

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, so 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 set forth 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 weekly basis, both in managing interest risk for the overall portfolio in VaR terms, and individually 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. Interest risk measurement using this model started in the fourth quarter of 2007.

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):

						June 30, 2010
						Change in fair value
		Israeli currency				Foreign currency
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	151	323	55	(2)	(6)	521
2% decrease	(185)	(511)	(27)	1	5	(717)

						December 31, 2009
						Change in fair value
		Israeli currency				Foreign currency
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	72	407	7	2	(7)	481
2% decrease	(103)	(602)	7	-	8	(690)

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 its activity.

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 June 30, 2010:

Profit (loss), NIS in millions

	Scenarios				Extreme historical scenario [1]	
	10% increase	5% increase	5% decrease	10% decrease	Maximum increase	Maximum decrease
CPI	297.3	148.7	(148.7)	(297.3)	89.2	(26.8)
Dollar	33.8	11.2	(9.3)	(11.2)	11.9	(6.7)
Pound Sterling	5.7	1.2	(0.4)	(1.0)	3.3	(0.3)
Yen	0.1	0	0.2	1.2	0.2	0.3
Euro	8.2	1.4	0.5	1.3	3.5	0.6
Swiss Franc	1.9	0.5	(0.9)	(1.7)	1.6	(1.1)

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

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. The VaR is calculated by each of the three calculation methods commonly used: the analytic method (parameters), 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.

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

	First half of 2010	All of 2009
At end of period	331	291
Maximum value during period	331(June)	291 (Dec.)
Minimum value during period	274 (March)	164 (Jan.)

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, *inter alia*, 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]			
		Linked to				
	Non-linked	CPI	Dollar	Euro	Other	Total
June 30, 2010						
Financial assets [1]	63,506	39,849	13,003	4,265	2,861	123,484
Amounts receivable with respect to financial derivatives [3]	57,299	3,869	40,962	3,458	5,343	110,931
Financial liabilities [1]	(60,575)	(33,311)	(15,956)	(5,152)	(2,789)	(117,783)
Amounts payable with respect to financial derivatives [3]	(57,196)	(8,081)	(37,700)	(2,496)	(5,498)	(110,971)
Total	3,034	2,326	309	75	(83)	5,661
December 31, 2009						
Financial assets [1]	59,959	38,085	11,847	3,747	2,755	116,393
Amounts receivable with respect to financial derivatives [3]	44,982	3,070	34,903	4,682	5,236	92,873
Financial liabilities [1]	(55,353)	(33,958)	(13,760)	(5,022)	(3,014)	(111,107)
Amounts payable with respect to financial derivatives [3]	(46,055)	(6,068)	(32,810)	(3,453)	(4,978)	(93,364)
Total	3,533	1,129	180	(46)	(1)	4,795

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

	Israeli currency		Foreign currency [2]				Change in fair value	
		Linked to					NIS in	
	Non-linked	CPI	Dollar	Euro	Other	Total	millions	In %
June 30, 2010								
Change in interest rates:								
Concurrent immediate increase of 1%	2,962	2,533	286	70	(115)	5,736	75	1.3%
Concurrent immediate increase of .1%	3,025	2,348	324	74	(104)	5,667	6	0.1%
Concurrent immediate decrease of 1%	3,188	2,290	380	83	(91)	5,850	189	3.3%
December 31, 2009								
Change in interest rates:								
Concurrent immediate increase of 1%	3,351	1,406	133	(72)	(9)	4,809	14	0.3%
Concurrent immediate increase of .1%	3,513	1,156	176	(49)	(2)	4,794	(1)	-
Concurrent immediate decrease of 1%	3,706	942	243	(13)	8	4,886	91	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 term to maturity method 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 standard deviation.

In accordance with Basle II rules, the Bank is also required to calculate specific risk in the negotiable portfolio. Capital requirements with respect to specific risk is 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 June 30, 2010			As of December 31, 2009		
	Capital requirement			Capital requirement		
Risk component [1]	Specific risk	General risk	Total	Specific risk	General risk	Total
Interest risk [2]	5	30	35	5	18	23
Equity risk	-	-	-	-	1	1
Foreign currency exchange rate risk	-	49	49	-	32	32
Total market risk	5	79	84	5	51	56

(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 Duration approach, as defined in the Supervisor of Banks' directive.

Liquidity risk

Liquidity risk results 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 Basle 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

Basle I provisions referred to operating risk as residual risk, and in fact defined it as risk which is not market risk nor credit risk. Basle 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 Basle II first layer includes capital requirements for operating risk. For details of the Basle II guidelines, see the chapter on Legislation 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 6 million, and investments in non-public shares amounting to NIS 93 million.

Total investments in shares for which a quoted price exists which materially differs from the fair value is NIS 4 million. The quoted price for these shares is NIS 2 million.

	As of June 30, 2010	
	Fair value	Capital requirement (1)
Shares	64	6
Venture capital / private equity funds	35	3
Total equity investment in bank portfolio	99	9

	As of December 31, 2009	
	Fair value	Capital requirement (1)
Shares	63	6
Venture capital / private equity funds	35	3
Total equity investment in bank portfolio	98	9

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

Legal risk

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

Within the scope of the Bank's preparations to manage legal risk and comply with the regulation, the Chief Legal Counsel was appointed as Legal Risk Manager, with the function of managing this risk and taking action to reduce them. As part of the risk management plan, the Bank analyzed the elements of the legal risk in its operations (such as: absence/existence of an agreement and possibility of its enforcement), the ranges of risk (type of agreement, identification of the other party, creation of security, etc.) and the specific risk characteristics of the different risk ranges, while examining the level of risk and exposure.

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 clients, by virtue of the regulations applicable to a banking corporation.

Proper Conduct of Banking Business Regulations No. 308 requires banking corporations to appoint a Compliance Officer as part of actions taken by them to comply with consumer directives which apply to bank relationships with its clients and to compliance with provisions of the Money Laundering Prohibition Act, and as part of risk management by the Bank. This is done in order to reduce the probability of violation of laws and regulations and lead to early discovery of such violations, and to reduce the Bank's exposure to claims, damage to its reputation and damages that it could sustain as a result of these.

The Bank operates a Compliance Unit, headed by the Compliance Officer, who is also responsible for application of the Prohibition on Money Laundering Act, 2000 and the Prohibition on Financing Terrorism Act, 2005.

Prohibition of money laundering - the Compliance Officer is also responsible for application of the Prohibition on Money Laundering Act, and of the Prohibition on Financing Terrorism Act. The Department of Prohibition on Money Laundering acts to implement 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. Note that in May 2010, the Bank's Board of Directors approved an updated policy on prohibition of money laundering and financing of terror, including as required by the current version of Proper Conduct of Banking Business Regulation No. 411.

The Bank applies its policy in this area and statutory provisions on a Group basis, including at its overseas affiliates, with required changes.

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	Low
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.

In the first half of 2010, the VaR value reached NIS 331 million. Consequently, the impact of interest risk and the overall impact of market risk increased from "Low" to "Medium".

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.

Restrictions on and Regulation of Bank Group Operations

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 regulation and the Bank's preparations for its implementation, see Note 1.B to the financial statements.

Bank of Israel Act, 2010

On March 16, 2010, the Knesset enacted an act which defines the Bank of Israel's objectives, independence and decision making process, as well as establishes a monetary committee, which would set policy for the Bank of Israel, establishes an administrative council to supervise internal management at the bank, and creates an external system to supervise salaries at the Bank of Israel. The Bank of Israel shall be responsible for supporting the financial stability of the economy.

The bank's independence is defined in the Act with regard to use of interest tools, issuance of short-term securities, activity in capital markets, management of foreign currency reserves and gathering of information in financial markets. The independent operations of the Bank of Israel would be conducted within a Monetary Committee and an Administrative Council, in a transparent manner with accountability to the Knesset, the Government and the Public, so as to allow for public control of bank operations.

The Act defines an external supervisory system over salaries at the bank. The Administrative Council would approve the bank's payroll policy, and the bank is required to report to the Finance Minister any wage agreement or change in one, in the same format reported to the Supervisor of Wages. The final decision is to be made by the Prime Minister. The bank is required by statute to report to the Knesset, the Government and the Public its decisions concerning monetary policy and management of the bank, via the Monetary Committee and the Administrative Council, respectively.

Classification of credit to buyer groups

On March 25, 2010, the Supervisor of Bank sent a letter to banking corporations, stipulating directives with regard to classification of credit granted to buyer groups. According to this letter, credit provided to buyer groups intended to construct 10 or more apartments, would be classified during construction and through its completion as indebtedness of a corporation in the real estate sector. Accordingly, this credit would be weighted at 100% for calculation of capital adequacy. After completion of construction and delivery of units to buyers, in the absence of any unusual circumstances, the credit to group members would be classified as housing credit, and would be treated as such in accordance with the different provisions.

The new directives have been applied starting with financial statements as of March 31, 2010. The impact of this change as of June 30, 2010 amounted, to a NIS 784 million increase in risk assets, reflecting a decrease of 0.12% in total capital ratio to risk elements.

Capital adequacy

On June 20, 2010, the Supervisor of Banks issued a circular, stipulating new Proper Conduct of Banking Business Regulations with regard to measurement and capital adequacy. These regulations integrate provisions of the temporary directive on "Framework for Measurement and Capital Adequacy" (Basle II directives), initially applied on December 31, 2009. The framework consists of the following new Proper Conduct of Banking Business Regulations:

Proper Conduct of Banking Business Regulation no. 201 - Introduction, scope and requirement calculation;

Proper Conduct of Banking Business Regulation no. 202 - Capital elements;

Proper Conduct of Banking Business Regulation no. 203 - Calculation of capital required with respect to credit risk using the standard approach;

Proper Conduct of Banking Business Regulation no. 204 - Calculation of capital required with respect to credit risk using the internal rating approach;

Proper Conduct of Banking Business Regulation no. 205 - Handling of securitization transactions;

Proper Conduct of Banking Business Regulation no. 206 - Calculation of capital required with respect to operating risk;

Proper Conduct of Banking Business Regulation no. 208 - Calculation of capital required with respect to market risk;

Proper Conduct of Banking Business Regulation no. 211 - Directives for assessment process of appropriateness of capital adequacy at banking corporations (Pillar 2);

Another part, Pillar 3, which stipulates directives and expectations with regard to market discipline (disclosure requirements), was incorporated into the collection of public reporting directives.

The circular also stipulated that currently, pending further instructions by the Supervisor, banking corporations shall continue to calculate, report and comply with minimum capital ratio requirements in accordance with Proper Conduct of Banking Business Regulation no. 311 ("Basle I") as well.

The disclosure stipulated by the Supervisor of Banks, in accordance with Pillar 3 requirements, are included below. The Bank's capital adequacy as of the report date, in the disclosure format set by the Supervisor of Banks, is presented in Note 4 to the financial statements.

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

The Basle Committee is an international body established in 1974 by the central banks of different countries. The Committee's decisions and recommendations, although they have no binding legal validity, prescribe the supervisory regulations acceptable to the supervisory bodies of the banking systems in a majority of countries throughout the world. In June 2006, the Basle Committee published the final Basle II

recommendations intended to assure proper regulation for arranging the rules of capital adequacy of banks in different countries (hereinafter: ("Basle II"). Basle II recommendations supersede the previous regulation dated 1988, known as Basle I, which included capital requirements due to credit risk, and was expanded in 1996 to include capital requirements for market risk as well.
Application of Basle II directives is intended to improve measuring and management of different risk factors facing the financial institution, and to ensure better alignment of capital requirements to the risk level to which the financial institution is exposed.

Key recommendations of the Basle Committee

While the Basle I regulations were mainly aimed at capital allocation for credit risk and market risk to which the financial institution is involved, Basle II expanded these regulations to afford better stability to financial institutions, by also implementing a culture concerning risk management and control. Therefore, Basle II regulations include, in addition to a material change in how capital is calculated (the first layer of the regulations), also two other layers, as described below.

The first layer of Basle II includes minimum capital allocation due to market risk and credit risk, as well as due to operating risk (capital allocation not required by Basle I). The new guidelines improve capital allocation for credit risk by enabling calculation of the minimum capital using a standard model, essentially similar to that of Basle I, but relying on external debts rating by rating agencies recognized by the regulatory authority (in Israel: the Supervisor of Banks) , uses a larger number of exposure groups while adapting risk coefficients to the various groups, and recognizes other financial collateral which may be offset against the exposure. The regulations also allow Banks to calculate the minimum capital requirement using internal models. These models are based on the bank's assessment of its borrowers' quality, the probability of borrowers entering a state of credit default, and the expected loss to the bank in case of credit default. Use of internal models requires approval by the regulatory authority, which may only be granted after extensive validation of the model.

In the area of operational risk, the guidelines propose three alternative approaches for calculating the required capital: The basic indicator approach, according to which the bank will allocate capital for operational risk as a fixed percentage of the average annual gross revenue; the standard approach, in which the capital requirements are calculated by multiplying gross revenues from each line of business by a specific coefficient specific to that line of business; the advanced measurement approach, whereby the bank will allocate capital based on an internal model to be developed within the organization.

Basle II recommendations specify multiple principles for operating risk management, relating to aspects such as: degree of supervision by bank management and Board of Directors, existence of suitable organizational structure and culture, including a system of internal reporting and an efficient and effective flow of information, and the existence of appropriate support systems. The department charged with handling operating risk is required to act in order to map and identify operating risk, collect actual failure data and take action to reduce potential damage arising from an operating failure at the bank. Basle II principles further stipulate the responsibility of the Internal Auditor as an additional layer in handling operating risk.

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

In addition, Layer 2 mandates checking if the bank has enough capital to meet its strategic plan, and if it has enough capital to protect against down-turns and economic crises which may occur and which may impact the bank. Therefore, stress tests are an important tool in estimating the capital required of banks, and these feature prominently in the Layer 2 of the directive.

Layer 3 of the Basle II directive involves reporting and disclosure to the regulating authority and to the public. This requires the Bank to disclose its risk level and its risk management processes. This requires more extensive, detailed and intensive disclosure, compared to previous directives. In October 2009, the Bank received detailed directives concerning implementation of disclosure requirements for implementation of Pillar 3 of Basle II, and the Bank applies these requirements in these financial statements.

In December 2009, following the economic crisis, the Basle Committee published two new consultative documents. One document concerns reinforcement of the banking system, and the other - liquidity risk. The Bank has completed studying these documents.

Implementation of the Basle Committee recommendations

In December 2008, the Supervisor of Banks issued the Framework for Measurement and Capital Adequacy (Interim Directive) as well as his directives for quarterly reporting with regard to capital adequacy (COREP). Pursuant to these directives, banking corporations in Israel were required to also report the capital ration in accordance with Basle II guidelines to the Supervisor of Banks starting in March 2009 (for financial statements as of December 31, 2008).

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

In accordance with Bank of Israel directives dated August 2009, capital targets would be set for banking corporations in Basle II terms, after conclusion of the Supervisory Review Process (SREP). Therefore, until such date, the Bank would be required to comply with capital targets it has set for itself in Basle I terms.

By December 31, 2009, the Bank Group had completed implementation of Pillar 1 and Pillar 3 of the directive. Results of Pillar 1 and disclosure in accordance with Pillar 3 are presented in Note 4 to the financial statements, as well as in the above chapter on Risk Management.

The Bank has completed the ICAAP process (in conjunction with Pillar 2 of the Basle II directive). As part of this process, all material risk factors to Bank operations have been mapped, and in early 2010, Bank executives were appointed as Risk Owners for each risk factor. The Bank has also completed the upgrade to its risk management and capital management policy, in accordance with Pillar 2 provisions. This includes a definition of the Bank's risk appetite, for all risk factors material to its operations.

In June 2010, the Bank filed with the Bank of Israel its ICAAP document as of December 31, 2009, which reflects the former's assessment of the capital required by the Bank to cover all risk exposures arising from its business operations. Results of the capital assessments conducted within this draft, indicate that the Bank has sufficient capital to cover all risk factors to which it is exposed, both under normal and stress conditions. This document also included the results of the independent review of the ICAAP process.

For details of the Supervisor of Banks' letter concerning adoption of target capital ratio for interim periods - see Note 4 to the financial statements.

Legal Proceedings

Update to Compliance Program at Los Angeles branch

On November 19, 2007, the FDIC conducted an audit at the Los Angeles branch concerned, inter alia, with implementation of the compliance program with banking confidentiality laws and prohibition of money laundering. On August 28, 2008, a cease and desist order, signed by the branch and by US regulators subsequent to the audit findings, became effective.

The order includes the following basic requirements:

- The branch shall rectify as required (as detailed below) without admission or denial of any breach of any applicable laws or regulations.
- The order applies to new "back-to-back" transactions or to renewal of such transactions in Los Angeles, and allows these to be put in place subject to full disclosure of information with regard to collateral in Israel, for the duration of the order. Note that the order does not affect the status of transactions valid and effective upon issuance of the order.

- The branch shall review its written program with regard to prohibition of money laundering, so as to include the recommendations included in the report;
- The branch shall review once more the plans and procedures for due diligence with regard to its clients, so as to include therein the recommendations included in the report;
- The branch shall develop an additional program to review accounts of foreign residents.
- The branch shall review once more its procedures with regard to clients who are non-banking financial institutions, including currency service providers.

Other than the foregoing, no sanctions were imposed on the Los Angeles branch.

Implementation of the cease and desist order does not involve a material expenditure.

An institution subject to a cease and desist order is usually reviewed by regulators during at least two cycles (assuming compliance) before such order is lifted. On January 11, 2010, the Federal Deposit Insurance Corporation ("FDIC") along with the Department of Financial Institutions ("FDI") conducted an additional comprehensive audit at the Los Angeles branch. On April 11, 2010, the audit report received confirmed that the branch had successfully passed the audit, and no breach of regulatory directives was found. However, the branch was requested to make certain corrections to procedures related to the compliance program. The branch is acting to complete the required changes in 2010. Another audit is expected during this year.

On August 10, 2010, the Los Angeles branch received a letter from FDIC, with regard to Proposed Civil Money Penalty, whereby the Bank is given the option to pay a civil money penalty of USD 350 thousand, or to conduct a hearing with an Administrative Law Judge, who would review the facts and legal conclusions with regard to imposing of the civil money penalty in conjunction with the claims presented by FDIC and the Bank. The Bank, assisted by legal counsel, is reviewing the FDIC letter and its implications.

Letter from the Restrictive Trade Practices Authority

On April 26, 2009, the Bank received a determination by the Anti-Trust Supervisor pursuant to Section 43(a)(1) of the 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, on November 2004. On March 24, 2010, the Bank appealed this ruling to the Anti-Trust Court. Currently, the date for filing the response by the Anti-Trust Supervisor to the appeal has been set to November 25, 2010. The Court has yet to schedule a hearing of the appeal.

Other Matters

The independent auditor has drawn, in their review, attention to Note 6.C.3-4 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 2009 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, 2009. The processes of preparing, auditing and approving the financial statements involve additional organs and officers as described 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 contols 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 a listing of Bank management, with names and positions, see the Board of Directors' Report as of December 31, 2009. The Bank operates a Doubtful Debts Committee, headed by the manager of the

Business Division, and attended by professional credit officers, as well as a doubtful debts committee headed by the President and attended by the manager of the Business Division, manager of the Retail Division, manager of the Financial Division, the Chief Accountant and the Chief Legal Counsel. In conjunction with preparation of the financial statements, the committee reviews the state of problem loans of the Bank, their classification and provisions required. 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 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. Meetings of the Balance Sheet Committee are attended by the President, the Manager, Accounting and Financial Reporting Division - the Chief Accountant, the Manager, Planning, Operations and control Division - CRO, and the independent CPA.

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

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

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

Board of Directors

During the second quarter of 2010, the Bank's Board of Directors held 4 plenary meetings and 16 Board committee meetings. In this period, no changes were made to the Bank's Articles of Incorporation nor to its Bylaws.

On April 26, 2010, Mr. YOSEF SHACHAK, CPA was appointed member of the Bank Board of Directors.
On August 2, 2010. Mr. MOSHE VIDMAN was appointed member of the Bank Board of Directors.
Mr. SHACHAK, CPA and Mr. VIDMAN are among the Board members with accounting and financial skills at 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, 2009.

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

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

During the quarter ended June 30, 2010, 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 controls over financial reporting.

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

Ramat Gan, August 16, 2010

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

Reported amounts (NIS in millions)

	For the three months ended June 30, 2010				For the three months ended June 30, 2009			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance [(2)]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance [(2)]	Financing revenuaes (expense)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Israeli currency - non-linked								
Assets [(3)]	60,137	538	3.63		[(8)] 51,583	337	2.64	
Effect of embedded and ALM derivatives [(4)]	51,205	273			45,646	45		
Total assets	111,342	811		2.94	97,229	382		1.58
Liabilities [(3)]	56,815	(164)	(1.16)		[(8)] 51,687	(78)	(0.61)	
Effect of embedded and ALM derivatives [(4)]	50,565	(260)			38,840	(136)		
Total liabilities	107,380	(424)		(1.59)	90,527	(214)		(0.95)
Interest margin			2.47	1.36			2.03	0.63
Israeli currency - linked to the CPI								
Assets [(3)]	36,399	871	9.92		37,611	1,073	11.91	
Effect of embedded and ALM derivatives [(4)]	3,749	179			4,116	87		
Total assets	40,148	1,050		10.88	41,727	1,160		11.59
Liabilities [(3)]	30,391	(719)	(9.80)		33,118	(896)	(11.27)	
Effect of embedded and ALM derivatives [(4)]	7,580	(227)			6,581	(179)		
Total liabilities	37,971	(946)		(10.34)	39,699	(1,075)		(11.28)
Interest margin			0.12	0.53			0.64	0.31

See remarks below.

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

Reported amounts (NIS in millions)

	For the three months ended June 30, 2010				For the three months ended June 30, 2009			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance (2)	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance (2)	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Foreign currency (5)								
Assets (3)	19,224	697	15.31		21,814	(838)	(14.50)	
Effect of derivatives (4)								
Hedging derivatives	1,313	18			1,259	(65)		
Embedded and ALM derivatives	44,235	(1,006)			42,148	(1,836)		
Total assets	64,772	(291)		(1.78)	65,221	(2,739)		(15.77)
Liabilities (3)	21,637	(570)	(10.96)		19,924	695	13.24	
Effect of derivatives (4)								
Hedging derivatives	1,440	(36)			1,380	56		
Embedded and ALM derivatives	40,953	997			43,979	2,118		
Total liabilities	64,030	391		2.42	65,283	2,869		16.45
Interest margin			4.35	0.64			(1.26)	0.68

See remarks below.

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

Reported amounts (NIS in millions)

	For the three months ended June 30, 2010				For the three months ended June 30, 2009			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance [2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance [2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Total								
Monetary assets generating financing revenues [3]	115,760	2,106	7.48		[8] 111,008	572	2.08	
Effect of derivatives [4]								
Hedging derivatives	1,313	18			1,259	(65)		
Embedded and ALM derivatives	99,189	(554)			91,910	(1,704)		
Total assets	216,262	1,570		2.94	204,177	(1,197)		(2.32)
Monetary liabilities generating financing expenses [3]	108,843	(1,453)	(5.45)		[8] 104,729	(279)	(1.07)	
Effect of derivatives [4]								
Hedging derivatives	1,440	(36)			1,380	56		
Embedded and ALM derivatives	99,098	510			89,400	1,803		
Total liabilities	209,381	(979)		(1.88)	195,509	1,580		3.19
Interest margin			2.03	1.05			1.01	0.87
On options		(17)				42		
On other derivative instruments (excludes options, hedging and ALM derivatives and embedded derivatives that were detached [4]		10				67		
Commissions from financing transactions and other financing revenues [6]		133				82		
Other financing expenses		(4)				(10)		
Profit from financing operations before provision for doubtful debts		714				564		
Provision for doubtful debts (includes general and supplementary provision)		(122)				(67)		
Profit from financing operations after provision for doubtful debts		592				497		

See remarks below.

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

Reported amounts (NIS in millions)

	For the three months ended June 30, 2010	For the three months ended June 30, 2009
	Average balance [2]	**Average balance [2]**
Total		
Monetary assets generating financing revenues [3]	115,760	[8] 111,008
Assets deriving from derivatives [7]	2,175	2,317
Other monetary assets [3]	1,211	1,679
General and supplementary provision for doubtful debts	(206)	(222)
Total monetary assets	118,940	114,782
Total		
Monetary liabilities generating financing expenses [3]	108,843	[8] 104,729
Liabilities deriving from derivatives [7]	2,374	1,729
Other monetary liabilities [3]	1,536	3,045
Total monetary liabilities	112,753	109,503
Total excess monetary assets over monetary liabilities	6,187	5,259
Non-monetary assets	1,288	1,629
Non-monetary liabilities	252	207
Total capital resources	7,223	6,701

(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) Reclassified. For more information, see Note 4.A.4) to the financial statements as of December 31, 2009.

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

Nominal – in USD (USD in millions)

	For the three months ended June 30, 2010				For the three months ended June 30, 2009			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance [(2)]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance [(2)]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Foreign currency [(5)]								
Monetary assets in foreign currency generating financing revenues [(3)]	4,882	26	2.15		5,419	50	3.74	
Effect of derivatives [(4)]								
Hedging derivatives	347	3			308	(12)		
Embedded and ALM derivatives	11,844	48			10,794	834		
Total assets	17,073	77		1.82	16,521	872		22.84
Monetary liabilities in foreign currency generating financing revenues [(3)]	5,696	(5)	(0.35)		5,264	(20)	(1.53)	
Effect of derivatives [(4)]								
Hedging derivatives	380	(9)			338	9		
Embedded and ALM derivatives	10,762	(40)			11,562	(852)		
Total liabilities	16,838	(54)		(1.29)	17,164	(863)		(21.68)
Interest margin			1.80	0.53			2.21	1.16

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

Reported amounts (NIS in millions)

	For the six months ended June 30, 2010				For the six months ended June 30, 2009			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance (2)	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance (2)	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Israeli currency - non-linked								
Assets (3)	59,952	1,015	3.41		(8) 51,336	757	2.97	
Effect of embedded and ALM derivatives (4)	48,987	622			46,326	223		
Total assets	108,939	1,637		3.03	97,662	980		2.02
Liabilities (3)	56,161	(282)	(1.01)		(8) 52,416	(209)	(0.80)	
Effect of embedded and ALM derivatives (4)	47,476	(578)			40,694	(286)		
Total liabilities	103,637	(860)		(1.67)	93,110	(495)		(1.07)
Interest margin			2.41	1.36			2.17	0.95
Israeli currency - linked to the CPI								
Assets (3)	36,754	911	5.02		37,288	1,235	6.73	
Effect of embedded and ALM derivatives (4)	3,516	164			4,223	97		
Total assets	40,270	1,075		5.41	41,511	1,332		6.52
Liabilities (3)	30,777	(717)	(4.71)		31,737	(1,003)	(6.42)	
Effect of embedded and ALM derivatives (4)	7,675	(186)			7,559	(206)		
Total liabilities	38,452	(903)		(4.75)	39,296	(1,209)		(6.25)
Interest margin			0.31	0.66			0.31	0.27

See remarks below.

Management Review - Addendum A

Revenue and Expense Rates – Consolidated [(1)] - Continued

Reported amounts (NIS in millions)

	For the six months ended June 30, 2010				For the six months ended June 30, 2009			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance [(2)]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance [(2)]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Foreign currency [(5)]								
Assets [(3)]	18,837	156	1.66		22,528	622	5.60	
Effect of derivatives [(4)]								
Hedging derivatives	1,245	35			1,154	(33)		
Embedded and ALM derivatives	42,314	(1,961)			46,842	2,291		
Total assets	62,396	(1,770)		(5.59)	70,524	2,880		8.33
Liabilities [(3)]	21,365	222	2.07		20,630	(595)	(5.85)	
Effect of derivatives [(4)]								
Hedging derivatives	1,356	(52)			1,285	34		
Embedded and ALM derivatives	39,584	1,804			47,849	(2,019)		
Total liabilities	62,305	1,974		6.24	69,764	(2,580)		(7.53)
Interest margin			3.73	0.64			(0.25)	0.80

See remarks below.

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

Reported amounts (NIS in millions)

	For the six months ended June 30, 2010				For the six months ended June 30, 2009			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance [2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance[2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Total								
Monetary assets generating financing revenues [3]	115,543	2,082	3.64		[8] 111,152	2,614	4.76	
Effect of derivatives [4]								
Hedging derivatives	1,245	35			1,154	(33)		
Embedded and ALM derivatives	94,817	(1,175)			97,391	2,611		
Total assets	211,605	942		0.89	209,697	5,192		5.01
Monetary liabilities generating financing expenses [3]	108,303	(777)	(1.44)		[8] 104,783	(1,807)	(3.48)	
Effect of derivatives [4]								
Hedging derivatives	1,356	(52)			1,285	34		
Embedded and ALM derivatives	94,735	1,040			96,102	(2,511)		
Total liabilities	204,394	211		0.21	202,170	(4,284)		(4.28)
Interest margin			2.20	1.10			1.28	0.73
On options		(35)				33		
On other derivative instruments (excludes options, hedging and ALM derivatives and embedded derivatives that were detached [4]		22				69		
Commissions from financing transactions and other financing revenues [5]		221				157		
Other financing expenses		(17)				(19)		
Profit from financing operations before provision for doubtful debts		1,344				1,148		
Provision for doubtful debts (includes general and supplementary provision)		(179)				(186)		
Profit from financing operations after provision for doubtful debts		1,165				962		

See remarks below.

Management Review - Addendum A

Revenue and Expense Rates – Consolidated [1] - Continued

Reported amounts (NIS in millions)

	For the six months ended June 30, 2010	For the six months ended June 30, 2009
	Average balance [2]	Average balance [2]
Total		
Monetary assets generating financing revenues [3]	115,543	[8] 111,152
Assets deriving from derivatives [7]	2,056	2,960
Other monetary assets [3]	966	1,219
General and supplementary provision for doubtful debts	(208)	(218)
Total monetary assets	118,357	115,113
Total		
Monetary liabilities generating financing expenses [3]	108,303	[8] 104,783
Liabilities deriving from derivatives [7]	2,247	2,819
Other monetary liabilities [3]	1,732	2,226
Total monetary liabilities	112,282	109,828
Total excess monetary assets over monetary liabilities	6,075	5,285
Non-monetary assets	1,305	1,562
Non-monetary liabilities	250	193
Total capital resources	7,130	6,654

(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) Reclassified. For more information, see Note 4.A.4) to the financial statements as of December 31, 2009.

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

Nominal – in USD (USD in millions)

	For the six months ended June 30, 2010				For the six months ended June 30, 2009			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance [(2)]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance [(2)]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Foreign currency [(5)]								
Monetary assets in foreign currency generating financing revenues [(3)]	4,867	53	2.19		5,380	86	3.22	
Effect of derivatives [(4)]								
Hedging derivatives	331	11			284	(11)		
Embedded and ALM derivatives	11,320	101			11,509	139		
Total assets	16,518	165		2.01	17,173	214		2.51
Monetary liabilities in foreign currency generating financing revenues [(3)]	5,654	(11)	(0.39)		5,209	(29)	(1.12)	
Effect of derivatives [(4)]								
Hedging derivatives	360	(16)			316	11		
Embedded and ALM derivatives	10,488	(87)			11,757	(152)		
Total liabilities	16,502	(114)		(1.39)	17,282	(170)		(1.98)
Interest margin			1.80	0.62			2.11	0.53

(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)

	As of June 30, 2010					
	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)]	56,208	709	3,685	1,350	667	416
Financial derivatives (except for options)	11,894	13,120	22,143	4,418	1,471	3,385
Options (in terms of underlying asset)	769	(14)	78	35	-	-
Total fair value	68,871	13,815	25,906	5,803	2,138	3,801
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities [(1)]	48,957	2,719	3,663	3,102	1,716	262
Financial derivatives (except for options)	13,880	12,168	19,102	4,029	2,313	3,365
Options (in terms of underlying asset)	770	210	1,354	4	-	-
Total fair value	63,607	15,097	24,119	7,135	4,029	3,627
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	5,264	(1,282)	1,787	(1,332)	(1,891)	174
Cumulative exposure in sector	5,264	3,982	5,769	4,437	2,546	2,720

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 note:

- Further details about exposure to changes in interest rates in each segment of financial assets and of financial liabilities, by balance sheet item, is available upon demand.
- 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.
- Internal rate of return is the interest rate which discounts the expected cash flows from a financial instrument to its fair value.
- Internal rate of return and average duration as of June 30, 2009 were calculated based on discounting future cash flows expected for the balance sheet balance. The discounted cash flows as above include accrued interest until maturity date, or the date of change in interest rate, whichever is earlier.
- 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 June 30, 2009		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	Internal rate of return	Average term to maturity	Internal rate of return	Average effective term to maturity
				In %	in years	In %	in years	In %	in years
22	14	435	63,506	3.37%	0.39	4.05	0.12	3.37%	0.25
-	-	-	56,431		1.01				0.99
-	-	-	868		0.35				0.35
22	14	435	120,805		(2) 0.68				(2) 0.58
145	12	-	60,576	2.36%	0.30	2.63	0.27	2.09%	0.31
-	-	-	54,857		1.23				1.01
-	-	-	2,338		0.33				0.16
145	12	-	117,771		(2) 0.73				(2) 0.63
(123)	2	435	3,034						
2,597	2,599	3,034	3,034						

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

Reported amounts (NIS in millions)

	As of June 30, 2010					
	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)	565	2,086	9,089	13,160	7,170	6,139
Financial derivatives (except for options)	-	12	1,084	1,023	865	885
Options (in terms of underlying asset)	-	-	-	-	-	-
Total fair value	565	2,098	10,173	14,183	8,035	7,024
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities (1)	1,050	1,736	4,814	7,075	7,808	7,498
Financial derivatives (except for options)	213	710	3,863	2,109	408	778
Options (in terms of underlying asset)	-	-	-	-	-	-
Total fair value	1,263	2,446	8,677	9,184	8,216	8,276
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	(698)	(348)	1,496	4,999	(181)	(1,252)
Cumulative exposure in sector	(698)	(1,046)	450	5,449	5,268	4,016

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 note:

- Further details about exposure to changes in interest rates in each segment of financial assets and of financial liabilities, by balance sheet item, is available upon demand.
- 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.
- Internal rate of return is the interest rate which discounts the expected cash flows from a financial instrument to its fair value.
- Internal rate of return and average duration as of June 30, 2009 were calculated based on discounting future cash flows expected for the balance sheet balance. The discounted cash flows as above include accrued interest until maturity date, or the date of change in interest rate, whichever is earlier.
- 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 June 30, 2009		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	Internal rate of return	Average term to maturity	Internal rate of return	Average effective term to maturity
				In %	in years	In %	in years	In %	in years
1,555	6	79	39,849	2.72	3.39	4.86	3.01	3.67	3.37
-	-	-	3,869		3.33				2.05
-	-	-	-		0.00				0.00
1,555	6	79	43,718		(2) 3.38				(2) 3.27
2,996	332	2	33,311	2.39	4.80	4.64	4.19	2.91	4.48
-	-	-	8,081		1.55				1.41
-	-	-	-		0.00				0.00
2,996	332	2	41,392		(2) 4.17				(2) 4.01
(1,441)	(326)	77	2,326						
2,575	2,249	2,326	2,326						

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

Reported amounts (NIS in millions)

	As of June 30, 2010					
	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)]	9,366	3,968	3,762	749	274	1,884
Financial derivatives (except for options)	16,653	11,456	17,345	636	689	1,148
Options (in terms of underlying asset)	266	233	1,333	3	-	-
Total fair value	26,285	15,657	22,440	1,388	963	3,032
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities [(2)]	14,220	5,958	2,971	120	15	591
Financial derivatives (except for options)	13,247	7,188	20,850	1,253	684	2,280
Options (in terms of underlying asset)	104	(3)	89	3	-	-
Total fair value	27,571	13,143	23,910	1,376	699	2,871
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	(1,286)	2,514	(1,470)	12	264	161
Cumulative exposure in sector	(1,286)	1,228	(242)	(230)	34	195

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 note:

- Further details about exposure to changes in interest rates in each segment of financial assets and of financial liabilities, by balance sheet item, is available upon demand.
- 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.
- Internal rate of return is the interest rate which discounts the expected cash flows from a financial instrument to its fair value.
- Internal rate of return and average duration as of June 30, 2009 were calculated based on discounting future cash flows expected for the balance sheet balance. The discounted cash flows as above include accrued interest until maturity date, or the date of change in interest rate, whichever is earlier.
- 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 June 30, 2009 Internal rate of return	As of June 30, 2009 Average term to maturity	As of December 31, 2009 Internal rate of return	As of December 31, 2009 Average effective term to maturity
				In %	in years	In %	in years	In %	in years
51	-	75	20,129	2.95	0.97	4.85	1.11	2.78	1.03
1	-	-	47,928		1.19				0.89
-	-	-	1,835		0.37				0.50
52	-	75	69,892		(3) 1.11				(3) 0.93
19	-	2	23,896	1.76	0.82	1.79	0.69	1.54	0.88
-	-	-	45,502		1.29				1.05
-	-	-	193		0.32				0.31
19	-	2	69,591		(3) 1.13				(3) 1.01
33	-	73	301						
228	228	301	301						

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

Reported amounts (NIS in millions)

	As of June 30, 2010					
	On Call to 1 month	1-3 months	3 months to 1 year	1-3 years	3-5 years	5-10 years
Total exposure to interest rate fluctuations						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets (1)(2)	66,139	6,763	16,536	15,259	8,111	8,439
Financial derivatives (except for options)	28,547	24,588	40,572	6,077	3,025	5,418
Options (in terms of underlying asset)	1,035	219	1,411	38	-	-
Total fair value	95,721	31,570	58,519	21,374	11,136	13,857
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities (1)	64,227	10,413	11,448	10,297	9,539	8,351
Financial derivatives (except for options)	27,340	20,066	43,815	7,391	3,405	6,423
Options (in terms of underlying asset)	874	207	1,443	7	-	-
Total fair value	92,441	30,686	56,706	17,695	12,944	14,774
Financial instruments, net						
Total exposure to interest rate fluctuations	3,280	884	1,813	3,679	(1,808)	(917)
Total cumulative exposure	3,280	4,164	5,977	9,656	7,848	6,931

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 note:

- Further details about exposure to changes in interest rates in each segment of financial assets and of financial liabilities, by balance sheet item, is available upon demand.
- 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.
- Internal rate of return is the interest rate which discounts the expected cash flows from a financial instrument to its fair value.
- Internal rate of return and average duration as of June 30, 2009 were calculated based on discounting future cash flows expected for the balance sheet balance. The discounted cash flows as above include accrued interest until maturity date, or the date of change in interest rate, whichever is earlier.
- 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 June 30, 2009		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	Internal rate of return	Average term to maturity	Internal rate of return	Average effective term to maturity
				In %	in years	In %	in years	In %	in years
1,628	20	589	123,484		1.45		1.23		1.40
1	-	-	108,228		1.17				0.98
-	-	-	2,703		0.36				0.35
1,629	20	589	234,415		[3] 1.31				[3] 1.22
3,160	344	4	117,783		1.69		1.53		1.70
-	-	-	108,440		1.28				1.05
-	-	-	2,531		0.33				0.30
3,160	344	4	228,754		[3] 1.47				[3] 1.41
(1,531)	(324)	585	5,661						
5,400	5,076	5,661	5,661						

Management Review - Addendum C

Credit Risk by Economic Sector - Consolidated

As of June 30, 2010

Reported amounts (NIS in millions)

	Balance sheet credit risk				Off-balance sheet credit risk (1)					
	Credit	Debentu-res (5)	Fair value of derivati-ves	Total	Guarantees and other commitments on account of clients	Future transac-tions	Total	Total credit risk of the public	Expense for the first six months of 2010 with respect to specific provision for doubtful debts	Balance of problem loans (2)
Agriculture	593	-	-	593	241	-	241	834	-	30
Industry	5,446	12	69	5,527	3,438	408	3,846	9,373	9	299
Construction and real estate (6)	6,928	45	62	7,035	10,384	82	10,466	17,501	5	1,307
Electricity and water	264	67	152	483	647	252	899	1,382	-	1
Commerce	5,179	-	16	5,195	1,680	251	1,931	7,126	7	196
Hotel and food services	227	1	1	229	74	9	83	312	2	39
Transport and storage	740	-	84	824	307	176	483	1,307	1	35
Communications and computer services	1,405	14	27	1,446	500	112	612	2,058	2	49
Financial services	6,699	51	578	7,328	7,461	1,433	8,894	16,222	93	1,044
Other business services	2,976	-	9	2,985	727	55	782	3,767	2	576
Public and community services	787	-	1	788	410	10	420	1,208	(1)	117
Private individuals - housing loans (6)	55,738	-	-	55,738	6,340	-	6,340	62,078	(2)	991
Private individuals - other	10,912	-	87	10,999	8,429	67	8,496	19,495	65	540
Total	97,894	190	1,086	99,170	40,638	2,855	43,493	142,663	183	5,224
For borrowers' activities overseas	3,319	-	102	3,421	482	96	578	3,999	3	171
Total credit risk to public	101,213	190	1,188	102,591	41,120	2,951	44,071	146,662	186	5,395
Credit risk exposure other than to the public:										
Banking Corporations	2,991	804	1,410	5,205	430	9,087	9,517	14,722	-	26
Government	10,250	6,308	-	16,558	301	-	301	16,859	-	-
Total credit risk	114,454	7,302	2,598	124,354	41,851	12,038	53,889	178,243	186	5,421
Credit risk to public included under various economic sectors:										
Settlement movements (3)	1,264	-	6	1,270	585	27	612	1,882	(2)	46
Local authorities (4)	154	-	-	154	27	-	27	181	-	46

(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 34 million.
(6) Including housing loans extended to certain purchase groups which are in the process of construction, amounting to NIS 1,852 million.
Note: Credit risk and problem debt are stated net of the specific provisions for doubtful debts.

Management Discussion - Addendum C (continued)
Credit Risk by Economic Sector - Consolidated
As of June 30, 2009

Reported amounts (NIS in millions)

	Balance sheet credit risk (1)	Off-balance sheet credit risk (2)	Total credit risk of the public	Expense for the first six months of 2009 with respect to specific provision for doubtful debts	Balance of problem loans (3)
Agriculture	687	209	896	-	41
Industry	6,094	6,957	13,051	32	536
Construction and real estate	6,463	6,865	13,328	4	1,782
Electricity and water	380	503	883	-	-
Commerce	4,983	3,166	8,149	13	247
Hotel and food services	232	78	310	2	48
Transport and storage	757	532	1,289	-	20
Communications and computer services	772	855	1,627	1	20
Financial services (7)	8,003	6,943	14,946	42	1,112
Other business services (7)	2,881	1,226	4,107	3	529
Public and community services	754	324	1,078	2	99
Private individuals - housing loans	47,966	3,700	51,666	23	1,106
Private individuals - other	10,032	8,190	18,222	35	663
Total	90,004	39,548	129,552	157	6,203
For borrowers' activities overseas	3,439	721	4,160	-	104
Total	93,443	40,269	133,712	157	6,307
Credit risk included in the various economic sectors:					
Settlement movements (4)	1,365	934	2,299	4	208
Local authorities (5)	190	14	204	-	31

(1) Includes loans to the public and investments in debentures of the public of NIS 123 million and other assets related to derivatives against the public totaling NIS 452 million.
(2) Credit risk for off-balance sheet financial instruments, as calculated for the purpose of per-borrower credit limitations.
(3) Balance of problem loans net of loans covered by collateral that may be deducted for the purpose of calculating the per-borrower credit limits of an individual borrower and a group of borrowers, including elements of off-balance sheet risk.
(4) KIBBUTZIM and MOSHAVIM, regional and national organizations, and corporations controlled by the settlement movements.
(5) Includes entities under their control.
(6) Reclassified. For more information, see Note 4.A.4) to the financial statements as of December 31, 2009.
(7) Reclassified.

Note: Credit risk and problem 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, 2009

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	682	-	-	682	196	4	200	882	2	35
Industry	5,609	13	33	5,655	4,038	462	4,500	10,155	41	301
Construction and real estate (6)(7)	6,317	41	11	6,369	9,108	157	9,265	15,634	18	1,277
Electricity and water	276	64	149	489	728	162	890	1,379	-	-
Commerce	4,680	-	21	4,701	3,086	196	3,282	7,983	30	201
Hotel and food services	231	-	1	232	64	2	66	298	2	45
Transport and storage	699	1	2	702	506	111	617	1,319	3	62
Communications and computer services	647	11	17	675	494	95	589	1,264	8	60
Financial services (6)	6,495	29	175	6,699	6,580	965	7,545	14,244	132	1,537
Other business services (6)	2,486	-	4	2,490	1,108	52	1,160	3,650	8	84
Public and community services	764	-	-	764	367	5	372	1,136	8	100
Individuals: Housing loans (6)	52,336	-	-	52,336	3,362	0	3,362	55,698	25	1,021
Other	10,760	-	45	10,805	9,149	102	9,251	20,056	72	542
Total	91,982	159	458	92,599	38,786	2,313	41,099	133,698	349	5,265
For borrowers' activities overseas	3,480	5	38	3,523	485	152	637	4,160	7	48
Total credit risk to public	95,462	164	496	96,122	39,271	2,465	41,736	137,858	356	5,313
Credit risk exposure other than to the public:										
Banking Corporations	1,712	1,084	930	3,726	415	8,363	8,778	12,504	-	42
Government	8,809	6,550	0	15,359	312	0	312	15,671	-	-
Total credit risk	105,983	7,798	1,426	115,207	39,998	10,828	50,826	166,033	356	5,355
Credit risk to public included under various economic sectors:										
Settlement movements (3)	1,288	-	4	1,292	801	38	839	2,131	10	70
Local authorities (4)	152	-	-	152	35	-	35	187	-	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 601 million.

Note: Credit risk and problem 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 six months ended June 30, 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	639	-	-	639	221	2	223	862
Industry	5,504	13	44	5,561	3,789	432	4,221	9,782
Construction and real estate	6,888	42	41	6,971	9,803	116	9,919	16,890
Electricity and water	269	65	167	501	630	186	816	1,317
Commerce	5,019	-	24	5,043	2,508	231	2,739	7,782
Hotel and food services	231	-	1	232	69	7	76	308
Transport and storage	738	-	49	787	436	147	583	1,370
Communications and computer services	862	16	23	901	467	103	570	1,471
Financial services	6,345	43	336	6,724	6,659	1,256	7,915	14,639
Other business services	2,914	-	7	2,921	947	54	1,001	3,922
Public and community services	769	-	-	769	375	6	381	1,150
Individuals: Housing loans	53,631	-	-	53,631	5,085	-	5,085	58,716
Other	10,792	-	49	10,841	8,908	80	8,988	19,829
Total	94,601	179	741	95,521	39,897	2,620	42,517	138,038
For borrowers' activities overseas	3,367	2	80	3,449	336	115	451	3,900
Total credit risk to public	97,968	181	821	98,970	40,233	2,735	42,968	141,938
Credit risk exposure other than to the public:								
Banking Corporations	2,218	950	1,129	4,297	418	8,766	9,184	13,481
Government	8,446	7,134	-	15,580	300	-	300	15,880
Total credit risk	108,632	8,265	1,950	118,847	40,951	11,501	52,452	171,299
Credit risk to public included under various economic sectors:								
Settlement movements [2]	1,288	-	5	1,293	656	29	685	1,978
Local authorities [3]	148	-	-	148	33	-	33	181

(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 199 million.
Note: Credit risk and problem 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, 2009
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	692	-	1	693	210	3	213	906
Industry	6,288	12	60	6,360	5,385	419	5,804	12,164
Construction and real estate	6,680	42	10	6,732	7,406	86	7,492	14,224
Electricity and water	292	29	104	425	622	212	834	1,259
Commerce	4,919	-	53	4,972	2,956	296	3,252	8,224
Hotel and food services	232	-	3	235	112	15	127	362
Transport and storage	711	3	24	738	418	116	534	1,272
Communications and computer services	654	7	19	680	678	168	846	1,526
Financial services (5)	6,925	30	247	7,202	6,107	1,166	7,273	14,475
Other business services (5)	2,894	-	26	2,920	1,044	173	1,217	4,137
Public and community services	774	-	3	777	374	8	382	1,159
Individuals: Housing loans	48,304	-	-	48,304	3,814	-	3,814	52,118
Other	9,623	-	56	9,679	9,451	151	9,602	19,281
Total	88,988	123	606	89,717	38,577	2,813	41,390	131,107
For borrowers' activities overseas	3,451	30	8	3,489	513	171	684	4,173
Total credit risk to public	92,439	153	614	93,206	39,090	2,984	42,074	135,280
Credit risk exposure other than to the public:								
Banking Corporations	3,376	1,226	1,686	6,288	208	8,916	9,124	15,412
Government	7,143	6,845	-	13,988	161	-	161	14,149
Total credit risk	102,958	8,224	2,300	113,482	39,459	11,900	51,359	164,841
Credit risk to public included under various economic sectors:								
Settlement movements (2)	1,367	-	3	1,370	810	19	829	2,199
Local authorities (3)	174	-	-	174	25	-	25	199

(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 601 million.
(5) Reclassified.

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

Management Discussion - Addendum D

Exposure to Foreign Countries - Consolidated [1]

Reported amounts (NIS in millions)

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

	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 govern-ments [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 June 30, 2010												
USA	-	856	882	2,362	2,052	310	2,048	13	1,706	-	1,056	682
UK	-	528	120	570	284	286	934	13	1,723	2	415	233
Germany	-	551	28	-	-	-	579	17	2,004	-	401	178
Other	-	1,006	1,888	-	-	-	2,894	90	1,556	3	2,225	669
Total exposure to foreign countries	-	2,941	2,918	2,932	2,336	596	6,455	133	6,989	5	4,097	1,762
Total exposure to LDC countries	-	59	257	-	-	-	316	13	230	3	191	125
Total exposure to Greece, Portugal, Spain and Ireland	-	122	10	-	-	-	132	-	40	-	132	-

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) 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 problem debt after deduction of debt covered by collateral deductible for per-borrower and borrower group lending limits. Excludes off-balance sheet risk elements.

Management Discussion - Addendum D (continued)
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 (continued)

Country	Balance sheet exposure: Cross-border balance sheet exposure: To governments (3)	To banks	To others	Balance sheet exposure of affiliates of the banking corporation in foreign country to local residents: 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)	Off-balance sheet exposure (2): Total off-balance sheet exposure	Includes: Off-balance sheet troubled credit risk	Cross-border balance sheet exposure: Maturing in under 1 year	Maturing in over 1 year
As of June 30, 2009												
USA	-	475	1,035	1,909	1,065	844	2,354	38	1,694	-	1,096	414
UK	-	400	137	739	350	389	926	31	2,586	-	280	257
Germany	-	634	52	-	-	-	686	13	953	-	291	395
Switzerland												
Other	1	1,598	2,036	-	-	-	3,635	89	1,929	-	2,631	1,004
Total exposure to foreign countries	1	3,107	3,260	2,648	1,415	1,233	7,601	171	7,162	-	4,298	2,070
Total exposure to LDC countries	-	71	251	-	-	-	322	29	133	-	236	86
As of December 31, 2009												
USA	-	774	898	1,379	1,231	148	1,820	29	1,766	-	1,019	653
UK	-	438	123	644	308	336	897	36	1,694	2	349	212
Germany	-	361	32	-	-	-	393	13	1,321	-	216	177
Other	1	1,237	2,042	-	-	-	3,280	74	1,747	5	2,080	1,200
Total exposure to foreign countries	1	2,810	3,095	2,023	1,539	484	6,390	152	6,528	7	3,664	2,242
Total exposure to LDC countries	1	66	272	-	-	-	339	17	152	-	202	137

(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 problem debt after deduction of debt covered by collateral deductible for per-borrower and borrower group lending limits. Excludes off-balance sheet risk elements.

Management Discussion - Addendum D (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 June 30, 2010, December 31, 2009 and June 30, 2009, there is no exposure requiring disclosure in accordance with the public reporting directives of the Supervisor of Banks.

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 June 30, 2010 ("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 controls of financial reporting, or had them 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 control 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.

August 16, 2010

E. 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 June 30, 2010 ("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 controls of financial reporting, or had them 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 control over financial reporting.

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

August 16, 2010

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 June 30, 2010, the condensed consolidated statements of profit and loss, statements of change in shareholders' equity and cash flow statements for the six- and three-month periods then ended. The Board of Directors and management are responsible for preparation and presentation of financial information for these interim periods, in accordance with Accounting Standard no. 14 of the Israeli Accounting Standards Board "Financial Reporting for Interim Periods", and in accordance with directives and guidance of the Supervisor of Banks. We are responsible for expressing our conclusion as to the financial information for these interim period's based on our review.

We did not review the condensed interim financial information of certain consolidated subsidiaries, whose assets included in consolidation constitute 7.98% of total consolidated assets as of June 30, 2010, and whose profit from financing operations before provision for doubtful debts included in the consolidated statements of profit and loss constitute 9.12% and 8.92% of total profit from financing operations before provision for doubtful debts for the six- and three-month periods then ended. Furthermore, we did not review the condensed financial information for the interim period of an affiliate, the investment in which amounted to NIS 13 million as of June 30, 2010. The condensed financial information for the interim periods 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 those 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 audit 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 Accounting Standard no. 14 of the Israeli Accounting Standards Board 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

August 16, 2010

Condensed consolidated balance sheet as of June 30, 2010

Reported amounts (NIS in millions)

		As of June 30,	As of December 31,
	2010	2009	2009
	(unaudited)	(unaudited)	(audited)
Assets			
Cash and deposits with banks	11,929	9,828	11,011
Securities	7,411	8,188	7,643
Securities loaned or sold in repurchase agreements	34	828	307
Credit to the public	101,007	(1) 92,645	95,249
Loans to the Government	1	310	301
Investments in affiliates	13	11	12
Buildings and equipment	1,492	1,461	1,522
Other assets	3,497	3,027	2,394
Total assets	125,384	116,298	118,439
Liabilities and Shareholders' Equity			
Deposits from the public	101,629	93,744	95,021
Deposits from banks	1,498	2,036	1,899
Deposits from the Government	195	229	209
Debentures and subordinated notes	7,978	7,697	8,166
Other liabilities	6,818	(1) 5,905	6,259
Total liabilities	118,118	109,611	111,554
Minority interest	365	362	353
Shareholders' equity	6,901	6,325	6,532
Total liabilities and shareholders' equity	125,384	116,298	118,439

(1) Reclassified. For more information, see Note 4.A.4) to the financial statements as of December 31, 2009.

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:
Ramat Gan, August 16, 2010

Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2010	2009	2010	2009	2009
	(unaudited)		(unaudited)		(audited)
Profit from financing operations before provision for doubtful debts	714	564	1,344	1,148	2,385
Provision for doubtful debts	122	67	179	186	375
Profit from financing operations after provision for doubtful debts	592	497	1,165	962	2,010
Operating and other revenues					
Operating commissions	329	313	658	622	1,307
Gains from investments in shares, net	1	11	-	7	114
Other revenues	12	10	24	22	43
Total operating and other revenues	342	334	682	651	1,464
Operating and other expenses					
Payroll and associated expenses	361	352	741	722	1,630
Maintenance and depreciation of buildings and equipment	147	143	290	277	557
Other expenses	110	101	217	202	453
Total operating and other expenses	618	596	1,248	1,201	2,640
Pre-tax operating profit	316	235	599	412	834
Provision for taxes on operating profit	110	79	218	144	286
After-tax operating profit	206	156	381	268	548
Share in net after-tax operating losses of affiliates	-	-	-	-	(1)
Minority interest in net after-tax operating profit of subsidiaries	(4)	(6)	(8)	(8)	(15)
Net operating profit	202	150	373	260	532
Net after-tax loss from extraordinary items	(1)	-	-	-	(2)
Net profit	201	150	373	260	530

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 June 30,		For the six months ended June 30,		For the year ended December 31,
	2010	2009	2010	2009	2009
		(unaudited)		(unaudited)	(audited)
Earnings per share [1]					
Basic earnings per share (in NIS)					
Profit from ordinary operations	0.90	0.68	1.67	1.17	2.39
Profit from extraordinary items	(0.01)	-	-	-	(0.01)
Total	0.89	0.68	1.67	1.17	2.38
Diluted earnings per share (in NIS)					
Profit from ordinary operations	0.89	0.67	1.65	1.16	2.38
Profit from extraordinary items	(0.01)	-	-	-	(0.01)
Total	0.88	0.67	1.65	1.16	2.37

(1) Share of NIS 0.1 par value each.

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

Condensed Statement of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

	For the three months ended June 30, 2010 (unaudited)									
					Cumulative other comprehensive income (loss)					
	Share capital and premium [(1)]	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves	Adjustments for presentation of securities available for sale at fair value	Translation adjustments [(2)]	Net gain from cash flow hedges	Retained earnings [(3)]	Dividend declared after balance sheet date	Total share-holders' equity
Balance as of March 31, 2010	1,964	116	(76)	2,004	(24)	(51)	43	4,756	-	6,728
Net profit for the period	-	-	-	-	-	-	-	201	-	201
Dividend declared after balance sheet date	-	-	-	-	-	-	-	(200)	200	-
Benefit from share-based payment transactions	-	12	-	12	-	-	-	-	-	12
Related tax effect	-	(15)	-	(15)	-	-	-	-	-	(15)
Realized share-based payment transactions [(4)]	9	(9)	-	-	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	-	(38)	-	-	-	-	(38)
Related tax effect	-	-	-	-	6	-	-	-	-	6
Net gain from cash flow hedges	-	-	-	-	-	-	10	-	-	10
Related tax effect	-	-	-	-	-	-	(3)	-	-	(3)
Balance as of June 30, 2010	1,973	104	(76)	2,001	(56)	(51)	50	4,757	200	6,901

(1) Share premium generated prior to June 30, 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) In the second quarter of 2010, 79,455 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 .1 par value shares were issued to the President for exercise of options.

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

Statement of Changes in Shareholders' Equity (continued)

Reported amounts (NIS in millions)

	For the three months ended June 30, 2009 (unaudited)							
				Cumulative other comprehensive income				
	Share capital and premium[(1)]	Capital reserve from benefit from share-based payment transactions	Total paid-up share capital and capital reserves	Adjustments for presentation of securities available for sale at fair value	Translation adjustments [(2)]	Net gain from cash flow hedges	Retained earnings [(3)]	Total shareholders' equity
Balance as of March 31, 2009	1,921	94	2,015	(115)	(51)	42	4,164	6,055
Net profit for the period	-	-	-	-	-	-	150	150
Benefit from share-based payment transactions	-	12	12	-	-	-	-	12
Related tax effect	-	(1)	(1)	-	-	-	-	(1)
Realized share-based payment transactions [(4)]	4	(4)	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	161	-	-	-	161
Adjustments for presentation of securities available for sale reclassified to statement of profit and loss	-	-	-	12	-	-	-	12
Related tax effect	-	-	-	(58)	-	-	-	(58)
Net gain from cash flow hedges	-	-	-	-	-	(8)	-	(8)
Related tax effect	-	-	-	-	-	2	-	2
Balance as of June 30, 2009	1,925	101	2,026	-	(51)	36	4,314	6,325

(1) Share premium generated prior to June 30, 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) In the second quarter of 2009, 111,138 ordinary shares, NIS 0.1 par value each have been issued against current exercise of options in conjunction with the employee stock option plan.

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

Statement of Changes in Shareholders' Equity (continued)

Reported amounts (NIS in millions)

	For the six months ended June 30, 2010 (unaudited)									
					Cumulative other comprehensive income (loss)					
	Share capital and premium [(1)]	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves	Adjustments for presentation of securities available for sale at fair value	Translation adjustments [(2)]	Net gain from cash flow hedges	Retained earnings [(3)]	Dividend declared after balance sheet date	Total share-holders' equity
Balance as of January 1, 2010	1,963	105	(76)	1,992	(32)	(51)	39	4,584	-	6,532
Net profit for the period	-	-	-	-	-	-	-	373	-	373
Dividend declared after balance sheet date	-	-	-	-	-	-	-	(200)	200	-
Benefit from share-based payment transactions	-	21	-	21	-	-	-	-	-	21
Related tax effect	-	(12)	-	(12)	-	-	-	-	-	(12)
Realized share-based payment transactions [(4)]	10	(10)	-	-	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	-	(29)	-	-	-	-	(29)
Adjustments for presentation of securities available for sale reclassified to statement of profit and loss	-	-	-	-	4	-	-	-	-	4
Related tax effect	-	-	-	-	1	-	-	-	-	1
Net gain from cash flow hedges	-	-	-	-	-	-	16	-	-	16
Related tax effect	-	-	-	-	-	-	(5)	-	-	(5)
Balance as of June 30, 2010	1,973	104	(76)	2,001	(56)	(51)	50	4,757	200	6,901

(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) In the first half of 2010, 142,441 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 .1 par value shares were issued to the President for exercise of options.

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

Statement of Changes in Shareholders' Equity (continued)

Reported amounts (NIS in millions)

	For the six months ended June 30, 2009 (unaudited)							
				Cumulative other comprehensive income (loss)				
	Share capital and premium (1)	Capital reserve from benefit from share-based payment transactions	Total paid-up share capital and capital reserves	Adjustments for presentation of securities available for sale at fair value	Translation adjustments (2)	Net gain from cash flow hedges	Retained earnings (3)	Total shareholders' equity
Balance as of January 1, 2009	1,920	71	1,991	(92)	(51)	50	4,054	5,952
Net profit for the period	-	-	-	-	-	-	260	260
Benefit from share-based payment transactions	-	36	36	-	-	-	-	36
Related tax effect	-	(1)	(1)	-	-	-	-	(1)
Realized share-based payment transactions (4)	5	(5)	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	97	-	-	-	97
Adjustments for presentation of securities available for sale reclassified to statement of profit and loss	-	-	-	45	-	-	-	45
Related tax effect	-	-	-	(50)	-	-	-	(50)
Net gain from cash flow hedges	-	-	-	-	-	(22)	-	(22)
Related tax effect	-	-	-	-	-	8	-	8
Balance as of June 30, 2009	1,925	101	2,026	-	(51)	36	4,314	6,325

(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) In the first half of 2009, 116,896 ordinary shares, NIS 0.1 par value each have been issued against exercise of options in conjunction with the employee stock option plan.

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

Statement of Changes in Shareholders' Equity (continued)

Reported amounts (NIS in millions)

	For the year ended December 31, 2009 (audited)								
					Cumulative other comprehensive income (loss)				
	Share capital and premium (1)	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves	Adjustments for presentation of securities available for sale at fair value	Translation adjustments (2)	Net gain from cash flow hedges	Retained earnings (3)	Total share-holders' equity
Balance as of January 1, 2009	1,920	71	-	1,991	(92)	(51)	50	4,054	5,952
Net profit for the year	-	-	-	-	-	-	-	530	530
Purchase of treasury shares (4)	-	-	(76)	(76)	-	-	-	-	(76)
Benefit from share-based payment transactions	-	60	-	60	-	-	-	-	60
Related tax effect	-	17	-	17	-	-	-	-	17
Realized share-based payment transactions (5)	43	(43)	-	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	-	35	-	-	-	35
Adjustments for presentation of securities available for sale reclassified to statement of profit and loss	-	-	-	-	60	-	-	-	60
Related tax effect	-	-	-	-	(35)	-	-	-	(35)
Net gain from cash flow hedges	-	-	-	-	-	-	(18)	-	(18)
Related tax effect	-	-	-	-	-	-	7	-	7
Balance as of December 31, 2009	1,963	105	(76)	1,992	(32)	(51)	39	4,584	6,532

(1) Share premium generated prior to June 30, 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) For details, see Note 13D to the financial statements for the year ended December 31, 2009.
(5) In 2009, 1,634,184 ordinary NIS .1 par value shares were issued for exercise of options in conjunction with the Employee Stock Option Plan, and 635,936 ordinary NIS .1 par value shares were issued to the President for exercise of options.

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

Statement of cash flows

Reported amounts (NIS in millions)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2010	2009	2010	2009	2009
	(unaudited)		(unaudited)		(audited)
Cash flows provided by current operations					
Net profit for the period	201	150	373	260	530
Adjustments to reconcile net profit to net cash generated by operating activities:					
Share in undistributed losses of investees, net	-	-	-	-	1
Minority interest in net after-tax operating profit of subsidiaries	4	6	8	8	15
Depreciation of buildings and equipment and amortization	57	49	110	108	213
Provision for doubtful debts	122	67	179	186	375
Net gain on sale of available-for-sale securities	(40)	(12)	(57)	(44)	(164)
Provision for impairment of available-for-sale securities	-	12	4	45	60
Realized and unrealized gain from adjustment to fair value of securities held for trading	(4)	11	(8)	8	(7)
Reduction of cost of buildings designated for sale and of unused leased properties	-	-	-	-	2
Deferred taxes, net	108	(57)	110	(7)	(125)
Severance pay - increase in excess of amount funded over liability	(18)	(9)	(13)	(31)	142
Revaluation of debentures and subordinated notes	80	(1) 179	(41)	(1) 118	(1) 267
Benefit from share-based payment transactions	12	12	21	36	60
Deferred income, net	11	50	16	55	50
Net cash provided by current operations	533	458	702	742	1,419

(1) Reclassified.

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

Statement of cash flows (continued)

Reported amounts (NIS in millions)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2010	2009	2010	2009	2009
	(unaudited)		(unaudited)		(audited)
Cash flows provided by activities in assets					
Acquisition of securities available for sale	(1,125)	(795)	(4,298)	(2,550)	(5,354)
Proceeds on sale and redemption of securities available for sale	3,280	1,634	4,446	4,046	6,956
Deposits with banks, net	59	2,082	865	4,770	4,988
Securities held for trading, net	40	(593)	133	(290)	190
Securities loaned or sold in repurchase agreements, net	223	(45)	273	(816)	(295)
Loans to the public, net	(4,100)	291	(5,937)	[(1)] (3,902)	(6,701)
Loans to the Government, net	236	(308)	300	(308)	(299)
Acquisition of shares in investees, including owners' loans and capital notes	-	-	(1)	-	(2)
Acquisition of buildings and equipment	(37)	(61)	(81)	(96)	(257)
Proceeds from sale of buildings and equipment	-	-	3	-	5
Other assets, net	(957)	1,666	(1,218)	1,072	1,882
Net cash provided by activities in assets	(2,381)	3,871	(5,515)	1,926	1,113

(1) Reclassified. For more information, see Note 4.A.4) to the financial statements as of December 31, 2009.

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

Statement of cash flows (continued)

Reported amounts (NIS in millions)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2010	2009	2010	2009	2009
		(unaudited)		(unaudited)	(audited)
Cash flows provided by activities in liabilities and shareholders' equity					
Deposits from the public, net	4,981	(804)	6,608	1,965	3,242
Deposits from banks, net	(324)	520	(401)	169	32
Deposits from the Government, net	(4)	(8)	(14)	(13)	(33)
Issuance of debentures and subordinated notes	25	(2) 111	25	(2) 848	(2) 1,379
Redemption of debentures and subordinated notes	(71)	(40)	(172)	(106)	(317)
Securities loaned or sold in conjunction with repurchase agreements	-	-	-	(972)	(972)
Other liabilities, net	451	(1,818)	550	(1) (999)	(826)
Share buy-back	-	-	-	-	(76)
Net cash provided by (used for) activities in liabilities and shareholders' equity	5,058	(2,039)	6,596	892	2,429
Increase (decrease) in cash	3,210	2,290	1,783	3,560	4,961
Cash balance at beginning of period	7,979	5,778	9,406	4,508	4,445
Cash balance at end of period	11,189	8,068	11,189	8,068	9,406

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2010	2009	2010	2009	2009
		(unaudited)		(unaudited)	(audited)
Appendix A - Non-cash Transactions					
Acquisition of buildings and equipment	5	3	8	-	9

(1) Reclassified. For more information, see Note 4.A.4) to the financial statements as of December 31, 2009.
(2) Reclassified.

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

Note 1 - Reporting Principles and Accounting Policies

A. The financial statements as of June 30, 2010 have been prepared in accordance with guidelines and directives of the Supervisor of Banks, and in accordance with accounting principles for preparation of interim financial statements, as stipulated in Standard No. 14 of the Israeli Accounting Standards Board. The statements have been prepared in accordance with the same accounting principles used in preparing the audited financial statements as of December 31, 2009.

These financial statements should be perused in conjunction with the Group's annual financial statements as of December 31, 2009 and the Notes thereto.

B. 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 circular" or "the directive"). This circular is based, *inter alia*, on USA Accounting Standards 5, 114 and 118 as well as on regulatory directives by banking supervision bodies and by the USA Securities and Exchange Commission.

The guiding principles on which the directive is based introduce a material change over current directives on classification of problem debts, accounting write-offs and measuring of provisions for credit losses in conjunction with such debts.

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

"An individual provision for credit loss" would be applied for any debts determined to be impaired, whose contractual balance (including accounting write-offs, unrecognized interest, provisions for credit losses and collateral) is NIS 1 million or higher, or a lower threshold as determined by the bank (the Bank has set a threshold of NIS 700 thousand). For other debts, the banking corporation may decide whether to make an individual assessment. The individual provision for credit losses will be estimated based on expected future cash flows, discounted using the original effective rate for the debt or, if the debt is conditional upon collateral or when the banking corporation determined that seizure of an asset is probable, based on the fair value of the collateral provided to secure the credit.

Note 1 - Reporting Principles and Accounting Policies

"A provision for credit loss using a group estimate" would be applied for large, homogeneous groups of small debts (whose balance is below NIS 1 million, or below a lower threshold 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 a 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, shall be calculated based on rules specified in USA Standard FAS 5: "Accounting for Contingencies" ("FAS 5"), using statistical models which take into consideration the extent of past losses for each homogeneous group of debts having similar risk attributes. The required provision with regard to off-balance sheet credit instruments would be assessed as per rules provided by USA Standard FAS 5.

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

On February 18, 2010, the Supervisor of Banks issued a circular, which stipulates that this directive shall be applied to financial statements of banking corporations starting on January 1, 2011, with no retrospective application to financial statements for prior periods. According to transitional directives, the impact of changes due to the new directives shall be charged directly to retained earnings under shareholders' equity upon initial application.

In the circular, and in another concurrently issued circular, the following amendments were made, *inter alia*:

- Elimination of Section 5 of Proper Conduct of Banking Business Regulation No. 325 on "Management of Credit Facilities", concerning accounting aspects of classification of certain accounts as troubled accounts, and recognition of interest revenues. These issues shall be addressed in conjunction with the general directive on measuring provisions for credit loss and disclosure of troubled debt.

- Application of a simple model for calculation of the provision for credit loss on a group basis by economic sector, designed to simplify the rules for measurement of a specific provision for credit loss using a group estimate, which requires use of complex statistical models, and historic data with regard to accounting write-offs, to be in place only after the directive is applied. The models included on the draft interim directive to be applied between 2011-2012 (hereinafter - "the transition period"). It was stipulated that the Group (net, after-tax) provision in the transition period shall be no less than the balance of the supplementary provision with respect to problem debt which would have been required had the Proper Conduct of Banking Business Regulation No. 315 remained in effect.

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Note 1 - Reporting Principles and Accounting Policies

Alignment of definitions and terminology included in Proper Conduct of Bank Businesses Regulation No. 315 on "Supplementary Provision for Doubtful Debts" with terminology included in the new draft directives. Starting on January 1, 2011, the term "troubled debt" shall be renamed "credit risk with negative classification and credit risk under special supervision", and would include three types of debt: "impaired debt", "inferior debt" and "debt under special supervision".

The supplementary provision rate applicable to the various types of troubled debt shall be as follows:

– Credit risk "under special supervision" - 1%

– "Inferior" credit risk - 2%

– "Impaired" credit risk - 4%

- A pro-forma note to be included in the financial statements as of December 31, 2010 is to detail the expected impact of application of the directive on key balance sheet items, had the directive been applied upon said date, and requirements for supplementary disclosure on the Board of Directors' report.

The Bank is in advanced stages of testing of the computer system created for implementation of this directive, and of formulating policy after the effective date of the new directives, both with regard to management of credit, classifications and provisions for credit loss, and with regard to disclosure on the financial statements.

In accordance with the Supervisor of Banks' circular, the Bank is required to report to the Supervisor quarterly in 2010 the credit balances, classifications, accounting write-offs and provisions for credit loss as of December 31, 2009, in accordance with provisions of the new directives. These reports, being initial and based on the new system for implementation of the directives, which is still undergoing acceptance testing and final corrections, include reasonable assumptions and estimates. In accordance with these initial reports, shareholders' equity for the Bank as of December 31, 2009 and March 31, 2010 would have been smaller by a non-negligible amount had the new directives been applied as of said dates.

C. In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29 – "Adoption of International Financial Reporting Standards (IFRS)" ("the Standard"). The Standard prescribes that companies subject to the Securities Law, 1968, and required to report in accordance with the regulations of this Law, will prepare their financial statements in conformity with the IFRS, as from the reporting period commencing January 1, 2008. This does not yet apply to banking corporations whose financial statements are prepared in accordance with guidance and directives of the Supervisor of Banks.

Note 1 - Reporting Principles and Accounting Policies (continued)

In June 2009, the Supervisor of Banks issued a letter concerning "IFRS-based reporting by banking corporations and credit card companies in Israel", which states the expected manner of adoption of the IFRS by banking corporations and credit card companies.

According to this circular, the target date for IFRS-based reporting by banking corporations and credit card companies is:

- For issues outside the core banking business - starting on January 1, 2011. From this date forward, banking corporations would be required to update their accounting treatment of these issues on a regular basis, in accordance with transition provisions in new international standards published on these issues, and in accordance with clarifications to be provided by the Supervisor of Banks.
- For issues outside the core banking business - starting on January 1, 2011. From this date forward, banking corporations would be required to update their accounting treatment of these issues on a regular basis, in accordance with transition provisions in new international standards published on these issues, and in accordance with clarifications to be provided by the Supervisor of Banks.
- For issues outside the core banking business - starting on January 1, 2011. From this date forward, banking corporations would be required to update their accounting treatment of these issues on a regular basis, in accordance with transition provisions in new international standards published on these issues, and in accordance with clarifications to be provided by the Supervisor of Banks.

  Therefore, until the target dates for adoption of IFRS, as stated above, a banking corporation or credit company would continue to prepare its financial statements in accordance with directives and guidance issued by the Supervisor of Banks.

  On December 31, 2010 and on July 26, 2010, the Supervisor of Banks issued circulars in which he adopted, as of January 1, 2011, some international financial reporting standards concerning issues outside the core banking business (additional international financial reporting standards are expected to be included in circulars to be issued by the Supervisor of Banks at a later date):

  IAS 8 on accounting policies, changes to accounting estimates and errors.

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

  IAS 33 on earnings per share.

  IFRS 2 on share-based payment.

  IAS 29 on financial statements of branches or affiliates in hyper-inflationary economies.

  IAS 34 on financial reporting for interim periods.

  IFRS 3 (2008) on business combinations.

  IAS 27 (2008) on consolidated and separate financial statements.

  IAS 28 on investments in affiliates.

  IAS 36 on asset impairment.

  IAS 17 on leases.

Note 1 - Reporting Principles and Accounting Policies (continued)

IAS 16 on fixed assets.

IAS 40 on investment property.

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"

The aforementioned international financial reporting standards and related interpretations by the International Financial Reporting Interpretation Committee (IFRIC), will be adopted in accordance with the following principles:

- 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 Bank shall act in accordance with specific application directives issued by the Supervisor of Banks.
- 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 the international standard makes reference to another international standard adopted under the public reporting directives, the Bank shall act in accordance with provisions of the international standard.
- In cases where the international standard makes reference to an international standard not adopted under the public reporting directives, the Bank shall act in accordance with reporting directives and in accordance with generally accepted accounting principles in Israel.
- In cases where the 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.
- Where the international standard does not materially differ from previous accounting principles, careful consideration should be given to whether a decision is justifiable to change the accounting treatment merely due to application of the international standard.

The Bank shall apply the aforementioned international financial standards and IFRIC interpretations related to application of the standards, starting on January 1, 2011. Initial application of international financial reporting standards adopted in this circular shall be made in accordance with transition provisions provided in the international financial reporting standards, including retrospective amendment of comparative figures as required.

Starting on January 1, 2011, the Bank shall regularly update the accounting treatment of issues covered in the circular, in accordance with the effective start date and transition provisions to be stipulated in new international financial reporting standards published on these issues, and in accordance with adoption principles and clarifications issued by the Supervisor of Banks.

Note 1 - Reporting Principles and Accounting Policies (continued)

The Bank is reviewing implications of adoption of international financial reporting standards on Bank financial statements, and is currently unable to assess the expected impact of initial application..

D. On December 31, 2009, the Supervisor of Banks issued a circular which applies to the banking system US standards, FAS 157 on "Fair Value Measurements" and FAS 159 on "The Fair Value Option for Financial Assets and Financial Liabilities" starting on January 1, 2011.

FAS 157 defines fair value, and establishes 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 on the measurement date.

Level 2 - fair value measured using observed date, either direct or indirect, which are not quoted prices as stipulated 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 would allow recognition of "first day" gains, and would eliminate the obligation to determine the fair value of derivative instruments not traded on an active market based on the transaction price. The standard also requires the banking corporation to reflect the risk of non-performance when measuring fair value of debt (including derivatives) measured at fair value. Non-performance risk shall include the banking corporation's credit risk, but shall not be limited to this risk alone.

FAS 157 shall apply starting on January 1, 2011, and shall be 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 new disclosure requirements, including disclosure required exclusively on annual reports, shall be applied in the first quarter of 2011, without requiring application to financial statements for periods prior to initial application of the standard.

Upon initial application, the difference between the balances of these financial instruments on the balance sheet and their fair value shall be recognized as cumulative effect on the opening balance of retained earnings as of January 1, 2011, which would be separately presented.

Note 1 - Reporting Principles and Accounting Policies (continued)

In order to determine the adjustment amount to be charged as cumulative effect on the opening balance of retained earnings as of January 1, 2011, and in order to adapt the banking corporation's valuation methods to the exit price principle and to provisions stated in the standard, the banking corporation shall be required to review the valuation methods applied as a result 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 types of transactions.

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.

Bank management is reviewing the impacts of adoption of the standard and additional disclosure requirements as stpulated above on the financial statements. At this stage, the impact of initial application of FAS 157 cannot be assessed.

The objective of FAS 159 is to allow for reduction in volatility of reported earnings, arising from measurement of hedged assets or liabilities and of hedging derivative instruments, using different measurement bases. The standard would allow the banking corporation to elect, upon specified election dates, to measure at fair value financial instruments whish, 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, shall be 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 is elected, shall be recognized in the statement of profit and loss as they are incurred, and shall not be deferred.

Election of the fair value option, as described above, shall be made for each instrument individually, and may not be cancelled. The standard further 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 has 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 fair value of the item with a high degree of reliability. Therefore, a banking corporation may not elect the fair value option for any asset or liability which may be classified under Level 2 or Level 3 of the fair value ranking, without prior consent of the Supervisor of Banks.

The standard shall apply starting on January 1, 2011. Retrospective or early adoption is not allowed.

Note 1 - Reporting Principles and Accounting Policies (continued)

A banking corporation may elect the fair value option for qualifying items which exist upon the effective start date. In such cases, the balances for the qualifying items in the balance sheet shall be adjusted to fair value, and the impact of initial re-measurement at fair value shall be charged as an adjustment for cumulative effect on opening balance of retained earnings, and extensive disclosure shall be made in the first interim financial statements of 2011, as required by the circular.

Available-for-sale securities and held-to-maturity securities owned on the effective start date, qualify for the fair value option on that date. If the fair value option is elected for any such security on the effective start date, any accrued unrealized gain or loss on that date shall be charged as an adjustment for cumulative effect, and the security shall be reported, from that reporting date forward, as a security held for trading. Furthermore, separate disclosure shall be made of amounts of unrealized gain or loss reclassified from cumulative other comprehensive income, and of amounts of previously unrecognized unrealized gain or loss. Election, upon initial adoption, of the fair value option for an existing security held to maturity, shall not raise doubts as to the intention of the banking corporation to hold other bonds to maturity in the future.

Bank management is reviewing the impacts of adoption of the standard on the financial statements. At this stage, the impact of initial application of FAS 159 may not be assessed.

E. On July 11, 2010, the Supervisor of Banks sent a letter to banking corporations, including directives for review and specification of processes with regard to credit risk from housing loans, due to evolving risk associated with such loans.

The letter stipulates, inter alia, that due to the increase in risk arising from recent developments in the residential market in Israel, as stated above, banking corporations are required to carefully review the need to increase their provision for doubtful debts for housing loans. In any case, a banking corporation shall maintain a supplementary provision of at least 0.75% of the balance of housing loans granted starting on July 1, 2010, for which the ratio of debt (based on the banking corporation's share of the pledge) and the value of the pledged asset upon granting of the loan, is higher than 60%. For this purpose, a housing loan is as defined in Proper Conduct of Banking Business Regulation No. 451 "Procedures for granting of housing loans".

If a supplementary provision is required as of the reporting date for such loan, due to another risk parameter - the provision amount to be maintained is the higher of the two.

These directives will be applied to financial statements starting on September 30, 2010.

Note 2 - Securities

As of June 30, 2010 (unaudited)

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)	6,005	6,048	25	68	6,005
Of foreign governments (2)	139	134	5	-	139
Of others	1,049	1,063	11	25	1,049
Total debentures available for sale	7,193	7,245	41	93	7,193
Shares of others (3)	86	86	-	-	86
Total securities available for sale	7,279	7,331	(4) 41	(4) 93	7,279

	Balance sheet balance	Amortized cost (for shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (1)
2) Securities held for trading					
- Debentures					
of Government of Israel	130	130	-	-	130
Of others	2	2	-	-	2
Total securities held for trading	132	132	(5) -	(5) -	132
Total securities	7,411	7,463	41	93	7,411

(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 2009 financial statements for information on liens on securities held by the Bank.
(3) Includes shares which have no fair value available, amounting to NIS 80 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.

Note 2 - Securities

As of June 30, 2009 (unaudited) (continued)

Reported amounts (NIS in millions)

	Balance sheet balance	Amortized cost	Cumulative other comprehensive income		Fair value [1]
			Gains	Losses	
Composition					
1) Securities available for sale					
Debentures and bonds					
Of the Government of Israel [2]	5,710	5,721	103	114	5,710
Of foreign governments [2]	110	110	-	-	110
Of others	1,794	1,847	8	61	1,794
Total debentures available for sale	7,614	7,678	111	175	7,614
Shares of others [3]	428	330	98	-	428
Total securities available for sale	8,042	8,008	[4] 209	[4] 175	8,042

	Balance sheet balance	Amortized cost	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value [5]
2) Securities held for trading					
Debentures of the Government of Israel	138	136	2	-	138
Of foreign governments					
Of others	8	8	-	-	8
Total securities held for trading	146	144	[5] 2	[5] -	146
Total securities	8,188	8,152	211	175	8,188

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) See Note 15.A-E to the financial statements as of December 31, 2009 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 91 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.

Note 2 - Securities
As of December 31, 2009 (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)	5,872	5,898	25	51	5,872
Of foreign governments (2)	121	121	-	-	121
Of others	1,307	1,321	20	34	1,307
Total debentures available for sale	7,300	7,340	45	85	7,300
Shares of others (3)	86	84	2	-	86
Total securities available for sale	7,386	7,424	(4) 47	(4) 85	7,386

	Balance sheet balance	Amortized cost (for shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (1)
2) Securities held for trading					
- Debentures					
of Government of Israel	251	256	-	5	251
Of others	6	6	-	-	6
Total securities held for trading	257	262	(5) -	(5) 5	257
Total securities	7,643	7,686	47	90	7,643

(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 financial statements as of December 31, 2009 for information on liens on securities held by the Bank.
(3) Includes shares for which a fair value is not available, amounting to NIS 80 million, that are stated at cost, net of 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.

Note 2 - Securities

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

Reported amounts (NIS in millions)

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

				As of June 30, 2010
		Cumulative other comprehensive income		
	Amortized cost (for shares - cost)	Gains	Losses	Fair value (carrying amount)
				unaudited
Asset-backed securities (ABS):				
CDO	-	-	-	-
CLO	67	5	15	57
Total asset-backed securities available for sale	67	5	15	57

				As of June 30, 2009
		Cumulative other comprehensive income		
	Amortized cost (for shares - cost)	Gains	Losses	Fair value (carrying amount)
				unaudited
Asset-backed securities (ABS):				
CDO	12	-	-	12
CLO	78	2	17	63
Total asset-backed securities available for sale	90	2	17	75

				As of December 31, 2009
		Cumulative other comprehensive income		
	Amortized cost (for shares - cost)	Gains	Losses	Fair value (carrying amount)
	audited			
Asset-backed securities (ABS):				
CDO	2	-	-	2
CLO	76	5	18	63
Total asset-backed securities available for sale	78	5	18	65

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 available for sale, which include unrealized loss:

	As of June 30, 2010			
	Less than 12 months		12 months or more	
	Fair value	Unrealized loss	Fair value	Unrealized loss
	unaudited			
Asset-backed securities (ABS):				
CLO	-	-	57	15
Total	-	-	57	15

	As of June 30, 2009			
	Less than 12 months		12 months or more	
	Fair value	Unrealized loss	Fair value	Unrealized loss
	unaudited			
Asset-backed securities (ABS):				
CDO	12	-	-	-
CLO	-	-	63	17
Total	12	-	63	17

	As of December 31, 2009			
	Less than 12 months		12 months or more	
	Fair value	Unrealized loss	Fair value	Unrealized loss
	audited			
Asset-backed securities (ABS):				
CLO	-	-	37	18
Total	-	-	37	18

Note 2 - Securities

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

Reported amounts (NIS in millions)

Asset-backed securities (ABS)

In the first half of 2010, the Bank recorded expenses amounting to NIS 2 million with respect to provision for impairment of a non-temporary nature of investments in asset-backed securities (for CDO), compared to NIS 24 million and in the corresponding period last year (of which NIS 10 million with respect to CDO and NIS 14 million with respect to CLO). In 2009, the Bank recognized expenses amounting to NIS 32 million with respect to provisions for other-than-temporary impairment of investments in asset-backed securities (of which NIS 18 million for CDO and NIS 14 million for CLO).

The fair value of Bank investments in asset-backed securities as of June 30, 2010 amounts to NIS 57 million, compared to NIS 65 million as of December 31, 2009. For details of the calculation of fair value of investments in securities, see Note 1.H to the financial statements as of December 31, 2009. These investments include CDO and CLO securities, as described below.

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

The fair value of the Bank's investment in these securities, as of June 30, 2010 was fully amortized, compared to NIS 2 million as of December 31, 2009.

As of June 30, 2010, the Bank recognized impairment with respect to these investments amounting to NIS 55 million as impairment of a non-temporary nature.

B. **CLO (collateralized Loan Obligation)** is a specific type of CDO. The debt instruments which back the CLO investment are senior and junior loan portfolios provided to commercial entities. The fair value of Bank investments in these securities as of June 30, 2010 amounted to NIS 57 million, compared to NIS 63 million as of December 31, 2009. The Bank's CLO portfolio has no exposure to mortgages, including sub prime mortgages, or to any leveraged products whose value has declined due to the financial crisis.

As of June 30, 2010, the Bank recognized impairment with respect to these investments amounting to NIS 17 million as impairment of a non-temporary nature.

The Bank's internal model, used to determine the fair value of these investments, indicates that remaining protective layers in these investments exceed the expected loss, based on the model, in loan portfolios which back these investments. Therefore, no impact is expected to the investments still held by the Bank and not yet amortized. Furthermore, the Bank has the intention and capacity to hold said securities to redemption or until their fair value reaches the investment cost. Accordingly, the impairment is classified as temporary.

Note 3 – Provision for doubtful debts (unaudited)

Reported amounts (NIS in millions)

Information with regard to provision for doubtful debts

	For the three months ended June 30, 2010				For the three months ended June 30, 2009			
	Specific provision (1)				Specific provision (1)			
	By extent of arrears	Other	Supple-mentary provision (2)	Total	By extent of arrears	Other	Supple-mentary provision (2)	Total
Balance of provision as of period start	824	2,350	207	3,381	846	2,200	222	3,268
Provisions during reported period	51	123	-	174	73	66	1	140
Decrease in provisions	(37)	(14)	(1)	(52)	(67)	(6)	-	(73)
Recovery of debt written off in previous years	-	-	-	-	-	-	-	-
Amount charged to statement of profit and loss	14	109	(1)	122	6	60	1	67
Debt write-off, net (3)	(9)	(46)	-	(55)	-	(47)	-	(47)
Balance of provision as of period end	829	2,413	206	3,448	852	2,213	223	3,288
Includes - Balance of provision that was not deducted from loans to the public		136		136	-	129	-	129

	For the six months ended June 30, 2010				For the six months ended June 30, 2009			
	Specific provision (1)				Specific provision (1)			
	By extent of arrears	Other	Supple-mentary provision (2)	Total	By extent of arrears	Other	Supple-mentary provision (2)	Total
Balance of provision as of period start	838	2,307	213	3,358	834	2,148	194	3,176
Provisions during reported period	100	226	-	326	142	158	30	330
Decrease in provisions	(100)	(39)	(7)	(146)	(124)	(18)	(1)	(143)
Recovery of debt written off in previous years	-	(1)	-	(1)	-	(1)	-	(1)
Amount charged to statement of profit and loss	-	186	(7)	179	18	139	29	186
Debt write-off, net (3)	(9)	(80)	-	(89)	-	(74)	-	(74)
Balance of provision as of period end	829	2,413	206	3,448	852	2,213	223	3,288
Includes - Balance of provision that was not deducted from loans to the public	-	136	-	136	-	129	-	129

(1) Loans for which the provision was based on extent of arrears, do not include a provision for interest on debt in arrears. For other loans, a provision for interest on doubtful debts is not included after the debt was determined as doubtful.
(2) Including general provision for doubtful debts amounting to NIS 110 million.
(3) Excluding recovery of debt written off in previous years.

Note 3 – Provision for doubtful debts (continued)

Reported amounts (NIS in millions)

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

				For the period ended June 30, 2010		
				Specific provision		
	Balance sheet loan balance[2]	Debt balance [3]	Includes: Amount in arrears [4]	By extent of arrears	Other	Total
						(unaudited)
Housing loans for which provision by extent of arrears must be calculated	49,188	889	595	820	-	820
Large loans [5]	6,994	81	44	9	14	23
Other loans	462	21	7	-	15	15
Total	56,644	991	646	829	29	858
Of which: for housing loans extended to certain buyer groups in the course of construction	722	3	-	-	-	-

				For the period ended June 30, 2009		
				Specific provision		
	Balance sheet loan balance [2]	Debt balance [3]	Includes: Amount in arrears [4]	By extent of arrears	Other	Total
						(unaudited)
Housing loans for which provision by extent of arrears must be calculated	42,769	994	553	844	-	844
Large loans [5]	4,804	90	27	8	13	21
Other loans	594	22	10	-	25	25
Total	48,167	1,106	590	852	38	890

(1) For details of calculation of provision for doubtful debts by extent of arrears, see Note 1.Q.23 to the annual financial statements as of December 31, 2009.
(2) The balance of housing loans, after deducting specific balance for doubtful debts and provision for delinquency interest.
(3) Balance of problem loans (in arrears by more than three months) and net of the balance of the provisions.
(4) Includes delinquency interest before deduction of the provisions balance.
(5) Housing loans, the balance of each of which exceeds NIS 876 thousand (on June 30, 2009 – NIS 851 thousand).

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

Reported amounts (NIS in millions)

A.Capital adequacy information

	June 30, 2010	June 30, 2009	December 31, 2009
	Basle II	Basle I [(1)]	Basle II
1. Consolidated data			
a. Bank capital for purpose of calculating capital adequacy ratio			
Tier I capital, after deductions	[(2)] 6,876	6,578	6,702
Tier II capital, after deductions	5,314	5,132	5,220
Other deductions	-	(6)	-
Total capital	[(2)]12,190	11,704	11,922
b. Weighted risk asset balances			
Credit risk	[(3)]79,907	92,251	75,982
Market risk	934	3,354	624
Operating risk	7,173	-	7,038
Total weighted risk asset balances	88,014	95,605	83,644

	Basle II	Basle I [(1)]	Basle II
		In %	
c. Ratio of capital to risk elements			
Ratio of Tier I capital to risk elements	[(2)] 7.81	6.88	8.01
Ratio of total capital to risk elements	[(2)]13.85	12.24	14.25
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	9.10	11.70	9.00
Total ratio of capital to risk elements	13.80	11.60	13.60
Total minimum capital ratio required by the Supervisor of Banks	9.00	9.00	9.00

(1) Calculated in accordance with Directives No. 341 and 311 of the Supervisor of Banks regarding the "minimum capital ratio" and "issuance of capital for exposure to market risks". Headings for certain terminology defined in these directives, and certain sub-totals presented in this note in previously published reports, have been adjusted and reclassified in accordance with the disclosure framework for the current year.

(2) After the effect of the dividend declared on August 16, 2010.

(3) Includes risk assets with respect to credit extended to purchase groups, amounting to NIS 1,285 million, which in accordance with directives of the Supervisor of Banks are deemed to be exposure to corporations, with a risk weighting of 100% (unrated). Had these exposures been risk-weighted as residential mortgages, the risk asset balance would have decreased by NIS 784 million, and the ratio of capital to risk assets would have been 0.12% higher.

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

Reported amounts (NIS in millions)

	June 30, 2010	June 30, 2009	December 31, 2009
	Basle II	Basle I [(1)]	Basle II
3. Capital components for calculation of capital ratio (on consolidated basis)			
a. Tier I capital			
Paid-up share capital and capital reserves	2,001	2,026	1,992
Cumulative other comprehensive income	(107)	(15)	[(2)] 83
Retained earnings	[(3)] 4,757	4,314	4,584
Minority interest of external shareholders in equity of consolidated subsidiaries	365	362	353
Less:			
Goodwill	(94)	(108)	(101)
Net gains with respect to fair value adjustments of available-for-sale securities [(3)]	-	(1)	-
Tier I capital after Tier I deductions alone	6,922	6,578	6,745
Less: Investments in supervisory capital components of banking corporations	(19)		(20)
Other deductions from Tier I capital	(27)	-	(23)
Total Tier I capital	6,876	6,578	6,702
b. Tier II capital			
1. Upper Tier II capital			
General provision for doubtful debts [(5)]	110	110	110
Complex capital instruments	1,789	1,733	1,780
2. Lower Tier II capital			
Subordinated notes	3,461	3,289	3,372
3. Deductions from Tier II capital			
Investments in supervisory capital components of banking corporations	(19)	-	(19)
Other deductions from Tier II capital	(27)	-	(23)
Total Tier II capital	5,314	5,132	5,220

(1) As applied in accordance with Directives No. 341 and 311 of the Supervisor of Banks regarding the "minimum capital ratio" and "issuance of capital for exposure to market risks". Headings for certain terminology defined in these directives, and certain sub-totals presented in this note in previously published reports, have been adjusted and reclassified in accordance with the disclosure framework for the current year.
(2) Excludes net gain from cash flow hedges.
(3) After the effect of the dividend declared on August 16, 2010
(4) Under Basle I: less adjustments for presentation of available-for-sale securities at fair value, and less unrealized losses from fair value adjustment of available-for-sale shares, less related tax impact.
(5) The general provision for doubtful debts constitutes part of upper Tier II capital, and is not deducted from credit to the public.

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

Reported amounts (NIS in millions)

B. For details of Board of Directors decisions with regard to capital adequacy targets, in Basle I terms, see Note 14B to the financial statements as of December 31, 2009.

C. 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 Basle Committee.

When the Bank will determine the final ratio for Tier I capital adequacy - pursuant to requirements of the Supervisor of Banks and after concluding the supervisory review process of the Bank's capital adequacy - an appropriate update will be required to target return on average equity, for the purpose of the Bank's strategic plan. The Bank's Tier I capital ratio as of June 30, 2010, after the effect of the dividend declared on August 16, 2010, was 7.81%.

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

As of June 30, 2010 (unaudited)

Reported amounts (NIS in millions)

	Israeli currency		Foreign currency (1)				
	Non-linked	CPI-linked	US dollars	Euro	Other currencies	Non-monetary items(2)	Total
Assets							
Cash and deposits with banks	8,704	555	2,109	225	336	-	11,929
Securities	2,934	761	1,932	1,604	94	86	7,411
Securities loaned or sold in conjunction with repurchase agreements	34	-	-	-	-	-	34
Loans to the public (3)	51,053	36,294	8,773	2,444	2,443	-	101,007
Loans to the Government	-	-	1	-	-	-	1
Investments in investees	29	-	-	-	-	(16)	13
Buildings and equipment	-	-	-	-	-	1,492	1,492
Other assets	1,776	390	1,078	12	107	134	3,497
Total assets	64,530	38,000	13,893	4,285	2,980	1,696	125,384
Liabilities							
Deposits from the public	56,936	21,276	15,657	5,024	2,736	-	101,629
Deposits from banks	333	856	167	110	32	-	1,498
Deposits from the Government	6	152	37	-	-	-	195
Securities loaned or sold in conjunction with repurchase agreements	-	-	-	-	-	-	-
Debentures and subordinated notes	-	7,978	-	-	-	-	7,978
Other liabilities	4,360	828	1,134	91	153	252	6,818
Total liabilities	61,635	31,090	16,995	5,225	2,921	252	118,118
Difference	2,895	6,910	(3,102)	(940)	59	1,444	7,266
Impact of hedging derivatives:							
Derivatives (except for options)	1,705	(1,705)					-
Non-hedging financial derivatives:							
Derivatives (except for options)	(107)	(2,528)	1,500	1,214	(79)	-	-
Net in-the-money options (in terms of underlying asset)	(923)	-	1,315	(234)	(180)	22	-
Net out-of-the-money options (in terms of underlying asset)	(656)	-	514	46	108	(12)	-
Total	2,914	2,677	227	86	(92)	1,454	7,266
Net in-the-money options (capitalized par value)	(1,244)	-	1,079	140	114	(89)	-
Net out-of-the-money options (capitalized par value)	234	-	(511)	(49)	164	162	-

(1) Includes amounts linked to foreign currency.
(2) Includes derivatives whose base relates to a non-monetary item.
(3) The general, special and supplementary provisions for doubtful debts were deducted ratably from the various linkage categories.

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

As of June 30, 2009 (unaudited) (continued)

Reported amounts (NIS in millions)

	Israeli currency		Foreign currency [1]				
	Non-linked	CPI-linked	US dollars	Euro	Other currencies	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	6,220	1,537	1,662	137	272	-	9,828
Securities	1,696	1,666	2,791	1,536	71	428	8,188
Securities loaned or sold in conjunction with repurchase agreements	828	-	-	-	-	-	828
Loans to the public [3]	[5] 46,206	33,107	8,342	2,144	2,846	-	92,645
Loans to the Government	-	1	309	-	-	-	310
Investments in investees	26	-	-	-	-	(15)	11
Buildings and equipment	-	-	-	-	-	1,461	1,461
Other assets	2,022	312	353	65	126	149	3,027
Total assets	56,998	36,623	13,457	3,882	3,315	2,023	116,298
Liabilities							
Deposits from the public	51,025	23,129	12,495	4,180	2,915	-	93,744
Deposits from banks	117	935	874	43	67	-	2,036
Deposits from the Government	6	185	38	-	-	-	229
Securities loaned or sold in conjunction with	-	-	-	-	-	-	-
repurchase agreements	-	-	-	-	-	-	-
Debentures and subordinated notes	-	7,697	-	-	-	-	7,697
Other liabilities	[5] 4,387	554	478	126	147	213	5,905
Total liabilities	55,535	32,500	13,885	4,349	3,129	213	109,611
Difference	1,463	4,123	(428)	(467)	186	1,810	6,687
Impact of hedging derivatives:							
Derivatives (except for options)	[6] 1,265	[6] (1,265)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (except for options)	[6] 2,510	[6] (3,527)	688	523	(194)	-	-
Net in-the-money options (in terms of underlying asset)	(90)	-	157	(121)	78	(24)	-
Net out-of-the-money options (in terms of underlying asset)	153	-	(226)	75	(24)	22	-
Total	5,301	(669)	191	10	46	1,808	6,687
Net in-the-money options (capitalized par value)	(658)	-	435	(153)	(104)	480	-
Net out-of-the-money options (capitalized par value)	(763)	-	(81)	1,135	(235)	(56)	-

(1) Includes amounts linked to foreign currency.
(2) Includes derivatives whose base relates to a non-monetary item.
(3) The general, special and supplementary provisions for doubtful debts were deducted ratably from the various linkage categories.
(4) Includes NIS 323 million for shares received to secure credit. See also Note 2.
(5) Reclassified. For more information, see Note 4.A.4) to the financial statements as of December 31, 2009.
(6) Reclassified.

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

As of December 31, 2009 (continued)

Reported amounts (NIS in millions)

	Israeli currency		Foreign currency (1)				
	Non-linked	CPI-linked	US dollars	Euro	Other currencies	Non-monetary items(2)	Total
Assets							
Cash and deposits with banks	8,617	734	1,225	187	248	-	11,011
Securities	2,650	1,339	2,216	1,268	84	86	7,643
Securities loaned or sold in conjunction with repurchase agreements	307	-	-	-	-	-	307
Loans to the public (3)	47,841	34,678	7,972	2,306	2,452	-	95,249
Loans to the Government	-	1	300	-	-	-	301
Investments in investees	28	-	-	-	-	(16)	12
Buildings and equipment	-	-	-	-	-	1,522	1,522
Other assets	1,484	430	279	19	48	134	2,394
Total assets	60,927	37,182	11,992	3,780	2,832	1,726	118,439
Liabilities							
Deposits from the public	51,851	22,117	13,194	4,919	2,940	-	95,021
Deposits from banks	151	1,040	548	92	68	-	1,899
Deposits from the Government	2	171	36	-	-	-	209
Securities loaned or sold in conjunction with repurchase agreements	-	-	-	-	-	-	-
Debentures and subordinated notes	-	8,166	-	-	-	-	8,166
Other liabilities	4,640	843	400	49	87	240	6,259
Total liabilities	56,644	32,337	14,178	5,060	3,095	240	111,554
Difference	4,283	4,845	(2,186)	(1,280)	(263)	1,486	6,885
Impact of hedging derivatives:							
Derivatives (except for options)	1,534	(1,534)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (except for options)	(879)	(1,444)	1,567	773	(17)	-	-
Net in-the-money options (in terms of underlying asset)	(982)	-	509	134	335	4	-
Net out-of-the-money options (in terms of underlying asset)	(522)	-	236	345	(56)	(3)	-
Total	3,434	1,867	126	(28)	(1)	1,487	6,885
Net in-the-money options (capitalized par value)	(575)	-	517	(59)	(466)	583	-
Net out-of-the-money options (capitalized par value)	(1,797)	-	1,190	697	(87)	(3)	-

(1) Includes amounts linked to foreign currency.
(2) Includes derivatives whose base relates to a non-monetary item.
(3) The general, special and supplementary provisions for doubtful debts were deducted ratably from the various linkage categories.

Note 6 - Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

	As of June 30,		As of December 31,
	2010	2009	2009
		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	452	510	447
- Loan guarantees	2,721	2,895	2,747
- Guarantees to purchasers of homes	5,716	5,387	5,274
- Other guarantees and liabilities (2)	1,699	4,032	4,019
- Unutilized revolving credit card facilities	6,687	12,673	6,379
- Unutilized debitory account and other credit facilities in accounts available on demand	15,551	17,827	19,008
- Irrevocable commitments for loans approved but not yet granted	8,420	5,274	5,650
- Commitments to provide credit to savers	1,806	1,747	1,777
- Commitments to issue guarantees	3,395	2,493	3,102

	As of June 30,		As of December 31,
	2010	2009	2009
		unaudited	audited
B. Special commitments			
Obligations with respect to:			
Long-term rental contracts	489	397	512
Computerization and software service contracts	58	56	53
Acquisition and renovation of buildings	74	17	59
Receipt of deposits on future dates (3)	405	5	105

(1) Reclassified.

(2) Includes the Bank's liabilities for its share in the risks fund of the MAOF Clearinghouse of NIS 140 million (as of June 30, 2009 and December 31, 2009 - NIS 82 million and NIS 103 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)

C. 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, 2009. Below is a description of material changes relative to the description provided in the 2009 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 2009 financial statements.

   A. In March 1999, a claim was filed in Tel Aviv District Court against the Bank in the amount of NIS 20 million (for fee purposes), for damages of NIS 108 million that the plaintiffs (a company in liquidation and its former shareholders) alleged were caused as a result of the Bank's refusal to continue to approve an agreed upon credit facility for the plaintiff company to conduct its business activities, freezing the plaintiff company's account, and not honoring checks that had been deposited for collection. The plaintiffs allege that this led to the collapse of the plaintiff company. In July 1999, a defense motion was filed by the Bank, rejecting the plaintiff's claims of an alleged violation of the Bank's obligations as a bank corporation. The Bank claims that all itsaforementioned actions were lawful.

      In April 2009, the District Court issued a verdict against the Bank, requiring the Bank to pay the plaintiff NIS 11.3 million plus linkage differences and interest from the date of filing the lawsuit through the actual payment date. The Bank was also required to pay the plaintiff half of its actual expenses, plus linkage differences and interest from the date of filing the lawsuit through the actual payment date, as well as attorney fees of NIS 150 thousand + VAT.

      In June 2009, the Bank appealed the verdict to the Supreme Court, and filed a motion to stay execution of the verdict pending a resolution by the Supreme Court on the appeal.

      In August 2009, the Supreme Court approved the motion by the Bank, and ordered a stay of execution of the verdict pending a resolution of the appeal.

      On May 12, 2010, a hearing took place on the appeal and the counter appeal at the Supreme Court, the parties stated their claims and the Supreme Court suggested that the parties reach agreement whereby the verdict of the District Court would be annulled, and the Bank would pay the plaintiff between NIS 3 million and NIS 10 million. The amount would be determined by the Supreme Court, at its discretion, by way of compromise, in accordance with section 79a of the Court Act (Integrated Version), 1984.

      On May 17, 2010, a verdict was handed down by the Supreme Court, requiring the Bank to pay NIS 4.5 million to the plaintiff.

Note 6 - Contingent Liabilities and Special Commitments (continued)

B. In November 2008, a claim was filed with the Tel Aviv District Court, including an application for class action status, amounting to an adjusted NIS 77 million, against the Bank and other banks, for alleged over collection of tax on interest and dividend revenues by way of tax withholding.

The plaintiffs claim that for purposes of payment of withholding tax, the defendant banks do not deduct the bank fee charged known as "interest fee" from interest income on debentures,. The plaintiff claims that failure to deduct this fee from the income, for tax payment purposes, is unlawful. The plaintiffs further claim that banks do not deduct the dividend fee from dividend revenues for purposes of calculation of withholding tax - which is also unlawful.

Based upon advise by the bank's legal representatives, its is estimated by the management of the bank that the defendant banks possess adequate pleas. The Bank and the other banks have yet to file their response to the motion.

C. In January 2009, a claim was filed against the Bank with the Tel Aviv District Court, including an application for class action status, amounting to NIS 76 million for over charging sales commissions on MAOF options.

The Bank has filed a response to the motion, in which it claimed, inter alia, that the plaintiff has failed to disclose the existence of a special agreement between the plaintiff and the Bank, in which a uniform commission was set for options transactions. This rate, determined after negotiation between the Bank and the specific client, granted the plaintiff an extensive discount for most of the transactions. Once the plaintiff had elected to use the special track of a fixed price per option, regardless of its value, the Bank price list no longer applied to him.

In March 2010, the Court dismissed the motion, due to lack of cause against the Bank.

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 141 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.

Note 6 - Contingent Liabilities and Special Commitments (continued)

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

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

The banks deny all plaintiffs' claims and reject them out of hand. The banks claim, *inter alia*, that their actions were lawful both in charging the commissions and in the rates of these commissions.

In the estimation of the Bank's management, based on the opinion of its legal counsel, it is not possible at this stage to assess whether the claims will be recognized as class actions and what the possible outcome will be.

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, that 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. On March 24, 2010, the Bank appealed this ruling to the Anti-Trust Court. Currently, the date for filing the response by the Anti-Trust Supervisor to the appeal has been set to November 25, 2010. For details of a claim filed against the Bank based on the determination by the Anti-Trust Supervisor, see Note 19.D.11)s to the financial statements for the year ended December 31, 2009.

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

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	June 30, 2010					
	Interest contracts				Commodities	Total
			Currency	Contracts	and other	
	NIS - CPI	Other	contracts	for shares	contracts	
1. Stated amounts of financial derivatives						
A. Hedging derivatives [(1)]						
Forward contracts	1,705	-	-	-	-	1,705
Swaps	-	2,119	-	-	-	2,119
Total	1,705	2,119	-	-	-	3,824
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	2,042	-	-	-	2,042
B. ALM derivatives [(1)] [(2)]						
Forward contracts	5,743	2,622	60,268	192	65	68,890
Option contracts traded on stock exchange:						
Options written	-	-	1,613	-	-	1,613
Options purchased	-	-	1,464	-	-	1,464
Other option contracts:						
Options written	-	-	10,644	141	-	10,785
Options purchased	-	-	11,277	207	-	11,484
Swaps	22,423	6,468	6,892	-	-	35,783
Total	28,166	9,090	92,158	540	65	130,019
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	13,863	3,178	-	-	-	17,041
C. Other derivatives [(1)]						
Forward contracts	-	-	1,560	-	-	1,560
Option contracts traded on stock exchange:						
Options written	-	-	3,332	12,125	-	15,457
Options purchased	-	-	3,335	12,125	-	15,460
Other option contracts:						-
Options written	-	74	220	320	-	614
Options purchased	-	74	233	250	-	557
Total	-	148	8,680	24,820	-	33,648

(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

	June 30, 2010					
	Interest contracts				Commodi-ties and other contracts	Total
	NIS - CPI	Other	Currency contracts	Contracts for shares		
D. Credit derivatives and foreign currency spot swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	911	911
Credit derivatives in which the Bank is beneficiary	-	-	-	-	28	28
Foreign currency spot swap contracts	-	-	3,637	-	-	3,637
Total	-	-	3,637	-	939	4,576
Total stated amounts of derivatives	29,871	11,357	104,475	25,360	1,004	172,067
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives [1]						
Positive fair value, gross	15	1	-	-	-	16
Negative fair value, gross	56	207	-	-	-	263
B. ALM derivatives [1] [2]						
Positive fair value, gross	551	115	1,477	8	3	2,154
Negative fair value, gross	616	161	1,166	12	3	1,958
C. Other derivatives [1]						
Positive fair value, gross	-	1	333	118	-	452
Negative fair value, gross	-	1	298	117	-	416
D. Credit derivatives						
Credit derivatives in which the Bank is guarantor						
Positive fair value, gross	-	-	-	-	-	-
Negative fair value, gross	-	-	-	-	36	36
Total positive fair value, gross	566	117	1,810	126	3	2,622
Total negative fair value, gross	672	369	1,464	129	39	2,673

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

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

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	June 30, 2009					
	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	1,265	-	-	-	-	1,265
Swaps	-	1,794	-	-	-	1,794
Total	1,265	1,794	-	-	-	3,059
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	1,570	-	-	-	1,570
B. ALM derivatives [1] [2]						
Forward contracts	8,113	5,334	42,071	347	253	56,118
Option contracts traded on stock exchange:						
Options written	-	-	311	-	-	311
Options purchased	-	-	337	-	-	337
Other option contracts:						
Options written	-	-	12,631	222	-	12,853
Options purchased	-	-	13,740	201	-	13,941
Swaps	20,155	14,416	5,230	-	-	39,801
Total	28,268	19,750	74,320	770	253	123,361
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	8,465	10,659	-	-	-	19,124
C. Other derivatives [1]						
Forward contracts	-	-	2,259	-	-	2,259
Option contracts traded on stock exchange:						
Options written	-	-	1,978	6,117	1	8,096
Options purchased	-	-	1,978	6,117	1	8,096
Other option contracts:						
Options written	-	-	1,168	450	-	1,618
Options purchased	-	19	1,173	275	-	1,467
Total	-	19	8,556	12,959	2	21,536

(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

						June 30, 2009
	Interest contracts				Commodities and other contracts	Total
	NIS - CPI	Other	Currency contracts	Contracts for shares		
D. Credit derivatives and foreign currency spot swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	999	999
Credit derivatives in which the Bank is beneficiary	-	-	-	-	53	53
Foreign currency spot swap contracts	-	-	2,342	-	-	2,342
Total	-	-	2,342	-	1,052	3,394
Total stated amounts of derivatives	29,533	21,563	85,218	13,729	1,307	151,350
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives (1)						
Positive fair value, gross	15	25	-	-	-	40
Negative fair value, gross	29	142	-	-	-	171
B. ALM derivatives (1) (2)						
Positive fair value, gross	557	120	1,220	52	2	1,951
Negative fair value, gross	614	153	848	55	3	1,673
C. Other derivatives (1)						
Positive fair value, gross	-	-	257	88	-	345
Negative fair value, gross	-	-	255	87	-	342
D. Credit derivatives						
Credit derivatives in which the Bank is guarantor:						
Negative fair value, gross	-	-	-	-	59	59
Credit derivatives in which the Bank is beneficiary:						
Positive fair value, gross	-	-	-	-	5	5
Total positive fair value, gross	572	145	1,477	140	7	2,341
Total negative fair value, gross	643	295	1,103	142	62	2,245

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

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

Reported amounts (NIS in millions)

A. Activity on consolidated basis

						December 31, 2009
	Interest contracts				Commodi-ties and other contracts	Total
	NIS - CPI	Other	Currency contracts	Contracts for shares		
1. **Stated amounts of financial derivatives**						
A. Hedging derivatives [1]						
Forward contracts	1,330	-	-	-	-	1,330
Swaps	-	1,926	-	-	-	1,926
Total	1,330	1,926	-	-	-	3,256
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	1,926	-	-	-	1,926
B. ALM derivatives [1] [2]						
Forward contracts	4,407	2,567	46,174	188	763	54,099
Option contracts traded on stock exchange:						-
Options written	-	-	1,176	-	-	1,176
Options purchased	-	-	1,024	-	-	1,024
Other option contracts:						-
Options written	-	-	12,778	105	-	12,883
Options purchased	-	-	14,050	103	-	14,153
Swaps	20,432	10,938	3,672	-	-	35,042
Total	24,839	13,505	78,874	396	763	118,377
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	8,598	7,775	-	-	-	16,373
C. Other derivatives [1]						
Forward contracts	-	-	1,875	-	-	1,875
Option contracts traded on stock exchange:						-
Options written	-	-	2,304	11,841	-	14,145
Options purchased	-	-	2,332	11,841	-	14,173
Other option contracts:						
Options written	-	29	166	473	-	668
Options purchased	-	-	175	372	-	547
Total	-	29	6,852	24,527	-	31,408

(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

						December 31, 2009
	Interest contracts				Commodi-ties and other contracts	Total
	NIS - CPI	Other	Currency contracts	Contracts for shares		
D. Credit derivatives and foreign currency spot swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	906	906
Credit derivatives in which the Bank is beneficiary	-	-	-	-	28	28
Foreign currency spot swap contracts	-	-	3,159	-	-	3,159
Total	-	-	3,159	-	934	4,093
Total stated amounts of derivatives	26,169	15,460	88,885	24,923	1,697	157,134
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives (1)						
Positive fair value, gross	9	16	-	-	-	25
Negative fair value, gross	60	133	-	-	-	193
B. ALM derivatives (1) (2)						
Positive fair value, gross	417	63	770	11	12	1,273
Negative fair value, gross	515	118	911	11	19	1,574
C. Other derivatives (1)						
Positive fair value, gross	-	-	60	134	-	194
Negative fair value, gross	-	1	28	144	-	173
D. Credit derivatives						
Credit derivatives in which the Bank is guarantor						
Positive fair value, gross	-	-	-	-	-	-
Negative fair value, gross	-	-	-	-	58	58
Total positive fair value, gross	426	79	830	145	12	1,492
Total negative fair value, gross	575	252	939	155	77	1,998

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

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

Reported amounts (NIS in millions)

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

						June 30, 2010
	Stock exchanges	Banks	Dealers/ Brokers	Govern-ments and central banks	Others	Total
Positive fair value, gross, of financial derivatives [(1)]	408	1,415	15	-	784	2,622
Less offset agreements	-	5	-	-	18	23
Balance sheet balances of derivative instruments	408	1,410	15	-	766	2,599
Off-balance sheet credit risk on financial derivatives [(2)]	78	9,087	21	-	2,852	12,038
Total credit risk on financial derivatives	486	10,497	36	-	3,618	14,637

						June 30, 2009
	Stock exchanges	Banks	Dealers/ Brokers	Govern-ments and central banks	Others	Total
Positive fair value, gross, of financial derivatives [(1)]	104	1,742	19	-	476	2,341
Off-balance sheet credit risk on financial derivatives [(2)]	42	9,014	131	-	2,869	12,056
Total credit risk on financial derivatives	146	10,756	150	-	3,345	14,397

						December 31, 2009
	Stock exchanges	Banks	Dealers/ Brokers	Govern-ments and central banks	Others	Total
Positive fair value, gross, of financial derivatives [(1)]	163	953	16	-	360	1,492
Less offset agreements	-	23	-	-	42	65
Balance sheet balances of derivative instruments	163	930	16	-	318	1,427
Off-balance sheet credit risk on financial derivatives [(2)]	113	8,363	204	-	2,148	10,828
Total credit risk on financial derivatives	276	9,293	220	-	2,466	12,255

(1) Of which positive gross fair value of embedded derivatives amounting to NIS 1 million (as of December 31, 2009 – NIS 1 million; as of June 30, 2009 - NIS 2 million) and a balance-sheet balance of stand-alone derivatives amounting to NIS 2,621 million, included under “other assets” (as of December 31, 2009 - NIS 1,491 million; as of June 30, 2009 - NIS 2,339 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 June 30, 2010 (unaudited)				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts					
NIS-CPI	3,925	8,898	10,728	6,320	29,871
Other	610	5,093	1,763	3,891	11,357
Currency contracts	51,353	47,860	1,823	3,439	104,475
Contracts for shares	24,844	355	161	-	25,360
Commodities and other contracts	66	174	590	174	1,004
Total as of June 30, 2010	80,798	62,380	15,065	13,824	172,067

	June 30, 2009 (unaudited)				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts					
NIS-CPI	4,174	10,450	10,614	4,295	29,533
Other	4,587	11,138	2,802	3,036	21,563
Currency contracts	51,552	28,386	4,317	963	85,218
Contracts for shares	12,662	644	423	-	13,729
Commodities and other contracts	217	38	823	229	1,307
Total as of June 30, 2009	73,192	50,656	18,979	8,523	151,350

	December 31, 2009 (audited)				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts					
NIS-CPI	4,154	7,761	9,639	4,615	26,169
Other	2,595	7,286	2,423	3,156	15,460
Currency contracts	56,878	29,307	1,941	759	88,885
Contracts for shares	24,408	280	235	-	24,923
Commodities and other contracts	739	25	763	170	1,697
Total as of December 31, 2009	88,774	44,659	15,001	8,700	157,134

Note 8 - Profit from Financing Operations before Provision for Doubtful debts

Reported amounts (NIS in millions)

	For the three months ended June 30		For the six months ended June 30	
	2010	2009	2010	2009
		(unaudited)		(unaudited)
A. with respect to assets (1)				
From loans to the public	1,786	921	1,923	2,503
From loans to the Government	9	-	6	-
From deposits with the Bank of Israel and from cash	54	(140)	44	(61)
From deposits with banks	142	(84)	94	7
From securities loaned or sold in repurchase agreement	1	-	2	1
From debentures	84	(134)	(4)	165
	2,076	563	2,065	2,615
B. with respect to liabilities (1)				
On deposits from the public	(1,117)	16	(460)	(1,719)
On deposits from the government	(6)	(2)	(6)	(7)
On deposits from the Bank of Israel and from cash	-	-	-	-
On deposits from banks	(139)	(32)	(98)	213
Securities loaned or sold in conjunction with repurchase agreements	-	-	-	-
On debentures and subordinated notes	(179)	(261)	(213)	(294)
	(1,441)	(279)	(777)	(1,807)
C. with respect to financial derivatives and hedging activities				
Net revenues (expenses) from ALM derivatives (2)	(44)	99	(135)	100
Net revenues from other derivatives	(6)	109	(13)	102
	(50)	208	(148)	202
D. Other				
Commissions from financing transactions	23	26	46	48
Financing revenues from collection of interest on arrears from individual borrowers	8	6	15	17
Interest income on problem loans	18	21	39	44
Gain (loss) from sale of debentures, net (3)	30	(4)	35	2
Other financing revenues	54	33	86	46
Other financing expenses	(4)	(10)	(17)	(19)
	129	72	204	138
Total profit from financing operations before provision for doubtful debts	714	564	1,344	1,148
Includes: exchange rate differences, net	9	20	6	25
Details of net effect of hedging financial derivatives on profit from financing operations				
Financing revenues (expenses) from assets (section A)	(18)	(9)	(17)	1

(1) Includes the effective element in the hedging ratios.
(2) Financial derivatives constitute part of the Bank's asset and liability management which were not intended for hedging.
(3) Includes provision for impairment of available-for-sale debentures amounting to NIS 2 million in the first half of 2010 (in the first half of 2009 - NIS 38 million; in the three months ended June 30, 2009 - NIS 24 million).

Note 9 - Gain (loss) from investment in shares, net

Reported amounts (NIS in millions)

	For the three months ended June 30,		For the six months ended June 30,	
	2010	2009	2010	2009
	(unaudited)		(unaudited)	
Gain from sale of shares available for sale, net	-	-	1	-
Provision for impairment of available-for-sale shares	-	(3)	(2)	(7)
Dividends from available-for-sale shares	1	14	1	14
Total gains from investments in shares, net	1	11	-	7

Note 10 – Operating Segments

For the six months ended June 30, 2010

Reported amounts (NIS in millions)

A. Information on operating segments

	Household	Private banking	Small business	Commer-cial banking	Business banking	Financial manage-ment	Total consolida-ted
Profit from financing operations before provision for doubtful debts							
From outside operating segments	1,155	(3)	183	95	308	(394)	1,344
Inter-segment	(513)	26	(11)	(17)	2	513	-
Profit from financing operations before provision for doubtful debts	642	23	172	78	310	119	1,344
Operating and other revenues	404	28	101	27	46	76	682
Total revenues	1,046	51	273	105	356	195	2,026
Provision for doubtful debts	34	-	17	(1)	129	-	179
Operating and other expenses							
From outside operating segments	770	26	205	35	102	110	1,248
Inter-segment	(58)	4	(25)	34	38	7	-
Other operating expenses - total	712	30	180	69	140	117	1,248
Pre-tax operating profit	300	21	76	37	87	78	599
Provision for taxes on operating profit	109	8	29	13	31	28	218
After-tax operating profit	191	13	47	24	56	50	381
Minority interest in net after-tax operating profit of subsidiaries	(8)	-	-	-	-	-	(8)
Net operating profit	183	13	47	24	56	50	373
Net after-tax profit from extraordinary items	-	-	-	-	-	--	
Net profit	183	13	47	24	56	50	373
Return on equity	12.7%	35.9%	27.9%	12.6%	4.4%	31.7%	11.4%
Average balance of assets	66,152	1,831	5,176	4,505	24,096	17,902	119,662
Average balance of liabilities	47,166	5,940	6,189	3,049	18,701	31,487	112,532
Average balance of risk assets (Basle II) (1)	39,510	976	4,463	4,873	32,215	3,928	85,965
Average balance of provident and mutual fund assets	-	-	-	-	-	74,164	74,164
Average balance of securities	26,063	7,073	7,498	4,445	63,307	32,296	140,682
Credit to the public (end balance)	68,562	1,390	5,184	4,641	21,230	-	101,007
Deposits from the public (end balance)	47,015	5,810	6,284	2,966	21,091	18,463	101,629
Average balance of other assets managed	22,668	-	344	16	124	-	23,152

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

	Household	Private banking	Small business	Commer-cial banking	Business banking	Financial manage-ment	Total consolida-ted
Margin from credit granting operations	389	8	123	63	196	-	779
Margin from receiving deposits	187	14	26	7	58	-	292
Other	66	1	23	8	56	119	283
Total	642	23	172	78	310	119	1,344

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

Note 10 – Operating Segments (continued)

For the six months ended June 30, 2009

Reported amounts (NIS in millions)

A. Information on operating segments

	Household	Private banking	Small business	Commer-cial banking	Business banking	Financial manage-ment	Total consolida-ted
Profit from financing operations before provision for doubtful debts							
From outside operating segments	1,144	(26)	146	101	341	(558)	1,148
Inter-segment	(596)	50	6	(28)	(37)	605	-
Profit from financing operations before provision for doubtful debts	548	24	152	73	304	47	1,148
Operating and other revenues	386	26	97	21	53	68	651
Total revenues	934	50	249	94	357	115	1,799
Provision for doubtful debts	56	1	36	6	87	-	186
Operating and other expenses							
From outside operating segments	737	24	193	30	104	113	1,201
Inter-segment	(49)	-	(20)	30	35	4	-
Other operating expenses - total	688	24	173	60	139	117	1,201
Operating profit (loss) before taxes	190	25	40	28	131	(2)	412
Provision for taxes on operating profit (loss)	67	9	15	9	46	(2)	144
After-tax operating profit	123	16	25	19	85	-	268
Minority interest in net after-tax operating profit of subsidiaries	-	-	-	-	-	(8)	(8)
Net profit (loss)	123	16	25	19	85	(8)	260
Return on equity	8.2%	54.6%	15.8%	14.3%	8.8%	(4.3%)	8.7%
Average balance of assets	(1) 57,822	1,676	4,949	4,156	28,213	(1) 19,859	(3) 116,675
Average balance of liabilities	(1) 47,834	6,445	6,713	2,213	14,920	(1) 31,896	(3) 110,017
Average balance of risk assets (Basle I) (1)	48,268	981	4,918	4,100	29,348	8,545	96,160
Average balance of provident and mutual fund assets	-	-	-	-	-	57,878	57,878
Average balance of securities (1)	20,371	6,784	7,350	1,633	39,889	21,182	97,209
Credit to the public (end balance)	(3) 59,279	1,894	4,986	4,135	22,351	-	92,645
Deposits from the public (end balance)	47,153	6,670	6,372	2,086	12,916	18,547	93,744
Average balance of other assets managed	22,601	-	289	38	120	-	23,048

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

	Household	Private banking	Small business	Commer-cial banking	Business banking	Financial manage-ment	Total consolida-ted
Margin from credit granting operations	341	9	116	57	200	-	723
Margin from receiving deposits	151	14	17	4	43	-	229
Other	56	1	19	12	61	47	196
Total	548	24	152	73	304	47	1,148

(1) Reclassified.
(2) Includes off-balance-sheet balances, as calculated for capital adequacy.
(3) Reclassified. For more information, see Note 4.A.4) to the financial statements as of December 31, 2009.

Note 10 – Operating Segments

For the three months ended June 30, 2010

Reported amounts (NIS in millions)

A. Information on operating segments

	Household	Private banking	Small business	Commer-cial banking	Business banking	Financial manage-ment	Total consolida-ted
Profit from financing operations before provision for doubtful debts							
From outside operating segments	875	(11)	89	57	161	(457)	714
Inter-segment	(540)	18	1	(15)	16	520	-
Profit from financing operations before provision for doubtful debts	335	7	90	42	177	63	714
Operating and other revenues	202	13	49	13	25	40	342
Total revenues	537	20	139	55	202	103	1,056
Provision for doubtful debts	30	-	11	-	81	-	122
Operating and other expenses							
From outside operating segments	381	12	101	18	52	54	618
Inter-segment	(29)	3	(13)	16	19	4	-
Other operating expenses - total	352	15	88	34	71	58	618
Pre-tax operating profit	155	5	40	21	50	45	316
Provision for taxes on operating profit	53	2	16	7	17	15	110
After-tax operating profit	102	3	24	14	33	30	206
Minority interest in net after-tax operating profit of subsidiaries	(4)	-	-	-	-	-	(4)
Net operating profit	98	3	24	14	33	30	202
Net after-tax profit from extraordinary items	-	-	-	-	-	(1)	(1)
Net profit	98	3	24	14	33	29	201
Return on equity	13.4%	12.2%	29.6%	14.6%	5.1%	57.8%	12.3%

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

	Household	Private banking	Small business	Commer-cial banking	Business banking	Financial manage-ment	Total consolida-ted
Margin from credit granting operations	204	2	66	35	106	-	413
Margin from receiving deposits	99	5	14	3	35	-	156
Other	32	-	10	4	36	63	145
Total	335	7	90	42	177	63	714

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

Note 10 – Operating Segments (continued)

For the three months ended June 30, 2009

Reported amounts (NIS in millions)

A. Information on operating segments

	Household	Private banking	Small business	Commer-cial banking	Business banking	Financial manage-ment	Total consolida-ted
Profit from financing operations before provision for doubtful debts							
From outside operating segments	735	(13)	95	56	123	(432)	564
Inter-segment	(443)	24	(18)	(19)	24	432	-
Profit from financing operations before provision for doubtful debts	292	11	77	37	147	-	564
Operating and other revenues	195	13	48	10	30	38	334
Total revenues	487	24	125	47	177	38	898
Provision for doubtful debts	24	1	13	5	24	-	67
Operating and other expenses							
From outside operating segments	364	12	94	16	53	57	596
Inter-segment	(21)	-	(7)	12	14	2	-
Other operating expenses - total (1)	343	12	87	28	67	59	596
Operating profit (loss) before taxes	120	11	25	14	86	(21)	235
Provision for taxes on operating profit (loss)	41	4	10	5	30	(11)	79
After-tax operating profit (loss)	79	7	15	9	56	(10)	156
Minority interest in net after-tax operating profit of subsidiaries	(3)	-	-	-	-	(3)	(6)
Net profit (loss)	76	7	15	9	56	(13)	150
Return on equity (1)	9.9%	51.6%	18.6%	14.4%	13.3%	(9.0%)	10.1%

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

	Household	Private banking	Small business	Commer-cial banking	Business banking	Financial manage-ment	Total consolida-ted
Margin from credit granting operations	188	5	60	31	91	-	375
Margin from receiving deposits	73	6	7	2	25	-	113
Other	31	-	10	4	31	-	76
Total	292	11	77	37	147	-	564

(1) Reclassified.

Note 10 – Operating Segments (continued)

For the year ended December 31, 2009

Reported amounts (NIS in millions)

A. Information on operating segments

	Household	Private banking	Small business	Commer-cial banking	Business banking	Financial manage-ment	Total consolida-ted
Profit from financing operations before provision for doubtful debts							
From outside operating segments	2,634	(37)	301	203	610	(1,326)	2,385
Inter-segment	(1,512)	79	(4)	(65)	(31)	1,533	-
Profit from financing operations before provision for doubtful debts	1,122	42	297	138	579	207	2,385
Operating and other revenues	803	55	199	48	215	144	1,464
Total revenues	1,925	97	496	186	794	351	3,849
Provision for doubtful debts	94	1	72	14	194	-	375
Operating and other expenses							
From outside operating segments	1,619	54	429	67	224	247	2,640
Inter-segment	(105)	1	(43)	65	75	7	-
Other operating expenses - total	1,514	55	386	132	299	254	2,640
Pre-tax operating profit	317	41	38	40	301	97	834
Provision for taxes on operating profit	109	14	14	13	103	33	286
After-tax operating profit	208	27	24	27	198	64	548
Share in net, after-tax operating loss of investees	-	-	-	-	-	(1)	(1)
Minority interest in net after-tax operating profit of subsidiaries	(3)	-	-	-	-	(12)	(15)
Net operating profit	205	27	24	27	198	51	532
Net after-tax loss from extraordinary items	-	-	-	-	-	(2)(2)	
Net profit	205	27	24	27	198	49	530
Return on equity	6.3%	40.8%	7.3%	10.1%	[2] 10.8%	[2] 9.4%	8.5%
Average balance of assets	59,946	1,762	4,930	4,099	26,617	20,249	117,603
Average balance of liabilities	47,661	6,596	6,136	2,259	15,258	32,952	110,862
Average balance of risk assets (Basle I) [(1)(2)]	50,719	989	4,892	3,976	27,450	8,092	96,118
Risk assets (Basle II) (end balance) [(2)]	38,022	848	4,504	4,710	31,609	3,951	83,644
Average balance of provident and mutual fund assets	-	-	-	-	-	64,143	64,143
Average balance of securities	22,132	6,584	7,185	1,897	48,933	23,744	110,475
Credit to the public (end balance)	64,094	1,368	4,928	4,198	20,661	-	95,249
Deposits from the public (end balance)	45,964	6,256	6,412	3,355	16,055	16,979	95,021
Average balance of other assets managed	22,781	-	334	42	124	-	23,281

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

	Household	Private banking	Small business	Commer-cial banking	Business banking	Financial manage-ment	Total consolida-ted
Margin from credit granting operations	683	14	223	94	359	-	1,373
Margin from receiving deposits	314	24	35	9	78	-	460
Other	125	4	39	35	142	207	552
Total	1,122	42	297	138	579	207	2,385

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

Note 11 – Other matters

A. On March 29, 2009, the Bank Board of Directors, after obtaining approval of the Bank Audit Committee, decided to approve a plan for allotment of options by private placement which does not constitute a material private placement (hereinafter: "the plan") to nine officers of the Bank who are VP members of Bank management (of which one offeree who had served as VP, took unpaid leave from the Bank and currently serves as the CEO of Bank Yahav for Government Employees Ltd.) (hereinafter: "the offerees"). See Note 16.A.2 to the 2009 financial statements for details.

On March 21, 2010, the Bank Board of Directors, after receiving approval of the Bank Audit Committee, resolved to approve allotment of a further 520,000 options, under identical terms and conditions with the exception of the exercise price, to a VP appointed on January 18, 2010.

The exercise price for each option allotted to the additional offeree pursuant to the plan is NIS 35.35, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank. The exercise price was based on the closing price of Bank shares on the stock exchange on March 21, 2010, the most recent trading day prior to the date of plan approval by the Board of Directors. The plan consists of 4 lots, vesting concurrently with lots 2-5 of the original plan for VPs. The fair value (theoretical benefit value) of a single option in any lot of the additional options approved was calculated in accordance with Accounting Standard no. 24, using the Black & Scholes model. The theoretical benefit value of each lot is recognized in the Bank's accounts over the vesting period.

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

	Lot 1	Lot 2	Lot 3	Lot 4	Total
Allotment approved March 21, 2010					
Number of options (in thousands)	130	130	130	130	520
Annualized standard deviation	34.9%	33.9%	33.2%	32.6%	
Exercise price (in NIS)	35.35	35.35	35.35	35.35	
Risk-free interest rate	0.85%	1.10%	1.17%	1.38%	
Term to exercise (in years)	3.8	4.3	4.8	5.3	
Fair value per single option	9.77	10.28	10.72	11.24	
Total fair value per lot (NIS in thousands)	1,270	1,337	1,393	1,462	5,462

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