C o n t e n t s

Condensed Board of Directors' Report
For Financial Statements as of September 30, 2009

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on November 23, 2009, 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 September 30, 2009.
The financial statements were prepared in accordance with the directives and guidelines issued by the Supervisor of Banks.

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

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

Real Developments

In the third quarter of 2009, the recovery in Israel's economy, which had started in the previous quarter, continued after the economy had slid into recession in the second half of 2008.
According to estimates by the Central Bureau of Statistics, GDP grew in this quarter at a rate of 2.2%, following 1.0% growth in the second quarter of this year, and a 3.2% decline in the first quarter of this year. Per capita GDP rose by a moderate 0.3%, following a cumulative decline of 2.5% over the previous four quarters. Imports of goods and services rose by 61.9%, following a 4.8% growth in the second quarter of this year.
Exports of goods and services as well as private consumption led this recovery, as in the past. Exports of goods and services grew by 21.8%, following a 14.6% growth in the second quarter of 2009. Private consumption grew by 8.9%, following an 8.1% growth in the second quarter. Investment in fixed assets rose by 23.2%, compared to a 2.7% growth in the second quarter, with a 6.7% growth recorded in investment in residential construction. Public consumption expenditure rose by a moderate 1.2% in the third quarter, following a 12.6% growth in the previous quarter.
According to initial estimates by the Central Bureau of Statistics for all of 2009, GDP would remain unchanged, compared to a 4.0% growth in 2008. Exports of goods and services for all of 2009 is expected to decline sharply by 13.2%, following a 5.2% increase last year, and private consumption should grow by 0.6%, following a 3.6% growth in 2008.
The upward trend in employment, which started in August 2008, has reversed since April 2009. In August 2009, the unemployment rate was 7.6%, compared to 7.9% in April and to 5.9% in August 2008.

Inflation and exchange rates

In the first nine months of 2009, the Consumer Price Index rose by 3.4%, compared to a 4.4% rise in the corresponding period last year. In the third quarter of 2009, the CPI rose by 1.3%, compared to a 2.0% rise in the corresponding period last year. This rise is primarily due to higher taxes (VAT, Water Shortage Levy and automobile tax) as well as to higher housing prices.

In the first nine months of 2009, the NIS / USD exchange rate was revalued by 1.2%, with the NIS being devalued by 4.0% vs. the Euro. In the third quarter of 2009, the NIS / USD exchange rate was revalued by 4.1%, with the NIS being revalued by 0.5% vs. the Euro. The exchange rate as of September 30, 2009 was NIS 3.758 per USD, compared to NIS 3.919 as of June 30, 2009 and NIS 3.802 as of December 31, 2008.

The exchange rate as of September 30, 2009 was NIS 5.510 per Euro, compared to NIS 5.535 as of June 30, 2009 and NIS 5.297 as of December 31, 2008.

In the third quarter of 2009, the Bank of Israel announced it was changing its mode of operation in the foreign currency market, discontinuing its regular purchase of foreign currency, and declared it would only intervene in cases of unusual volatility in exchange rates.

Monetary and fiscal policy

The Bank of Israel slightly reduced its expansive policy in the third quarter of 2009, raising the interest rate for September by 0.25 percentage point to 0.75%, after five months in which interest remained steady at 0.5%. Concurrently, the Bank of Israel decided to discontinue acquisition of government debentures.

Nevertheless, inflationary expectations for the coming year, as derived from the capital market, stood at 2.3% in September, so that real short-term interest rate was at -1.5%, a rate which still reflects a highly expansive policy. Note that the interest rate for October and November was unchanged at 0.75%.

In the first nine months of 2009, the government budget recorded a NIS 21.9 billion deficit, compared to a NIS 1.3 surplus in the corresponding period last year. The deficit was due to a 10% decrease in tax revenues (excluding legislation amendments and adjustments), and to a 5% increase in spending.

Residential construction and the mortgage market

After a sharp increase in demand for housing in the second quarter of 2009, and a sharp 11% price increase in house prices year-to-date (based on the house price survey by the Central Bureau of Statistics), demand for housing was lower in the third quarter of 2009. This decrease was reflected in sales of new apartments from private construction, which declined by 16% over the second quarter, as well as in sales of apartments from public construction, which declined by 6%. The downward trend in supply of new apartments for sale from private construction, which had started in late 2008, continued in the third quarter of 2009, and as of end of September 2009, an inventory of 7,650 new apartments remained, compared to 11,050 at the end of 2008 – a 31% decrease. The apartment inventory in terms of months of sales is also trending downwards, and should only last 6 months based on the average sales pace in the six months ended in September.

The low interest rate prevailing in the market assisted continued growth in the mortgage market in the third quarter of this year, with mortgages up 22% over the second quarter of this year. However, in the first nine months of 2009, only a moderate 1% increase was recorded over the corresponding period last year, due to the lower mortgage volume in the first quarter, impacted by the economic recession. The extent of arrears remained stable in this quarter, but continued to trend downwards relative to the credit balance.

Capital market

In the third quarter of 2009, the positive trend in the capital market continued, in view of the significant improvement in macro-economic data and the positive trend in overseas capital markets.

The major stock indices in the domestic market recorded another positive quarter, similar to the global trend. The Tel Aviv 25 and Tel Aviv 100 indices rose in the third quarter of 2009 by 15.4% and 15.8%, respectively, continuing their increases of 18.4% and 20.3% in the second quarter of this year. The Real Estate 15 and Tel-Tech 15 indices also rallied, closing the third quarter of 2009 with increases of 9.6% and 14.3%, respectively, following increases of 37.5% and 21.3% in the second quarter of this year. Average daily trading volume in equities and convertible securities in the third quarter of 2009 amounted to NIS 1.95 billion, an increase over that of the previous quarter, which amounted to NIS 1.8 billion, but still lower than the average daily trading volume in 2008, which was NIS 2 billion. Against the backdrop of improving market conditions, the third quarter recorded a slight increase in share offerings, with a total of NIS 1.1 billion raised in this quarter. This compares with NIS 750 million raised in the previous quarter.

On the bond market, the General Bond Index and the CPI-Linked Bond Index rose in the third quarter by 2.5% and 3.4%, respectively. The Non-Linked Bond Index rose by 1.5% due to lower inflationary expectations. In total, the business sector issued bonds to the public and to institutional investors, raising NIS 12.3 billion in the third quarter of 2009, compared to NIS 11.8 billion in the previous quarter and NIS 3.7 billion in the corresponding period last year, with a decrease recorded in rating of issuers. The average daily trading volume in bonds amounted to NIS 3.8 billion – a 12.5% decrease over the previous quarter, and a 6% increase over the average daily volume in 2008.

Global economy

In the third quarter of 2009, there were mixed indications with regard to the end of the crisis. GDP in the USA declined in the third quarter of 2009 by an annualized 3.5%, following a 0.7% decline in the second quarter of 2009. This is the first quarter of growth in four quarters. The government stimulus plan provided a significant contribution to growth. Excluding the impact of assistance to the automobile industry, the US economy grew this quarter by 2%. On the other hand, unemployment continued to rise in the USA, reaching 9.8% in September.

GDP in the Euro Zone grew by 1.6% in the third quarter of 2009, compared to a 0.8% decrease in the second quarter. This improvement was primarily due to stronger growth in Germany and transition to positive growth in Italy. By contrast, GDP in the UK continued to decline for the seventh consecutive quarter. GDP in the UK declined in the third quarter of 2009 by an annualized 1.6%, compared to a 2.4% decrease in the second quarter.

In China, GDP growth accelerated, reaching 8.9% in the third quarter of 2009, compared to 7.9% in the second quarter and to 6.1% in the first quarter.

Inflation in the USA and in the Euro Zone remained negative, and for the 12 months ended September 30, 2009 was at -1.3% in the USA and at -0.3% in the Euro Zone. Accordingly, monetary policy remained unchanged. Interest rate in the USA is in the range of 0.00%-0.25%, while in the Euro Zone interest rate was at 1%.

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.

Investments in Bank Capital and Transactions in Bank Shares

In the period from June 1, 2009 to September 2, 2009, Wertheim Group, via MWZ Holding Ltd., acquired 300,379 ordinary shares of NIS 0.1 par value each, such that the Group's holding stake in the Bank rose from 20.02% as of December 31, 2008 to 20.21% as of September 30, 2009.

In the third quarter of 2009, the Bank conducted a buy-back of 2,500,000 shares at a cost of NIS 76 million. For additional details, see Note 11.A.

Significant events in the Bank Group's business

Merger of Bank Adanim

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

Stock option plan for VPs who are part of Bank management and share buy-back

On March 29, 2009, the Bank Board of Directors, after obtaining approval of the Bank Audit Committee, decided to approve a plan for allotment of option warrants by private placement (hereinafter: "the plan") to nine officers of the Bank who are VP members of Bank management (of which one offeree who had served as VP, took unpaid leave from the Bank and currently serves as the CEO of Bank Yahav for Government Employees Ltd.). On June 29, 2009, the Bank allotted 5.85 million option warrants. The options would be divided into five equal lots, each of which would vest, starting on the first anniversary of the grant date and at each anniversary there after, contingent on achieving an annual objective of return on equity of 10% or higher in the year preceding the date on which the lot is to vest.

The theoretical benefit value of the option warrants allotted at this stage, calculated in accordance with accounting rules of Accounting Standard no. 24 (excluding options expired due to retirement of two VPs), amounts to NIS 24 million (NIS 28 million including Payroll Tax).

On November 9, 2009, the Bank Board of Directors, after obtaining approval by the Bank Audit Committee, resolved to approve allotment of a further 1,104,999 option warrants, under identical terms and conditions with the exception of the exercise price, to two VPs appointed subsequent to the approval date of the stock option plan for VPs. The theoretical benefit value of the additional option warrants, calculated in accordance with accounting rules of Accounting Standard no. 24, as of the date of approval, amounts to NIS 10 million

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

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

Allotment of the option warrants was contingent on the Supervisor of Banks allowing the Bank to buy back at least 1,400,000 shares of NIS 0.1 par value in the Bank's issued share capital.

On May 27, 2009, the Bank received the Supervisor's approval, allowing the Bank to buy back on a non-recurring basis 2,500,000 shares of NIS 0.1 par value of the Bank's issued share capital, subject to statute. On July 20, 2009 the Bank Board of Directors approved a share buy-back plan by the Bank, to acquire up to 2,500,000 shares of NIS 0.1 par value each, subject to terms and conditions set forth in the Supervisor's approval. The share buy-back would be transacted by (one or more) entities independent of the Bank who are members of the stock exchange, subject to restrictions set forth in this regard by the Board of Directors. Through September 24, 2009, the Bank has completed the buy-back, purchasing in total 2,500,000 shares at a cost of NIS 76 million. In accordance with the condition set forth in the Supervisor's approval, the Bank would sell all excess shares (if any) immediately after the end of the exercise period of all option warrants allotted pursuant to the stock option plan, i.e. immediately after the seventh anniversary of the date of allotment of option warrants in accordance with the stock option plan. In accordance with a pre-ruling obtained from the Tax Authority, the Bank would not incur any tax liability upon purchase of shares as set forth above. The Bank Board of Directors has concluded that buy-back of Bank shares in accordance with the aforementioned buy-back program meets the distribution criteria set forth in the Corporate Act and is compliant with terms and conditions set forth in Proper Conduct of Bank Businesses Regulation No. 331. The Board of Directors has once again reviewed the Bank's compliance with distribution criteria set forth in the Corporate Act and compliance with terms and conditions set forth in Proper Conduct of Bank Businesses Regulation No. 331 upon approval of the Bank's financial statements for the second quarter of 2009.

The Board of Directors indicated, in the reasons provided for the foregoing, that share buy-back, in accordance with the Supervisor's approval, would reduce the dilution rate of Bank shareholders due to exercise of option warrants pursuant to the stock option plan. See Note 11.A to the financial statements for details.

Updates to employee stock option plan

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

On November 9, 2009, the Bank Board of Directors, after receiving approval of the Bank Audit Committee, resolved to approve allotment of a further 1,085,432 option warrants, under identical terms and conditions with the exception of the exercise price, to four officers of the Bank. The theoretical benefit value of the additional option warrants, calculated in accordance with accounting rules of Accounting Standard no. 24, as of the date of approval, amounts to NIS 9 million

Board of Directors' decision with regard to Bank's original Tier I capital adequacy ratio

On June 29, 2009 the Bank Board of Directors resolved to instruct Bank management to act so as to have the original Tier I capital adequacy ratio for the Bank be no less than 6.7% by end of 2009.

This decision was subsequent to previous decisions by the Board of Directors with regard to capital adequacy:

Decision dated May 14, 2007, instructing Bank management to act so as to have capital adequacy ratios (including upper tier II capital) of no less than 11.2% starting with financial statements for the second quarter of 2007.

Decision dated February 25, 2008, instructing Bank management to act so as to have the capital adequacy ratio (including upper tier II capital) be no less than 12% by end of 2009.

Decision dated April 2006, stipulating that the capital adequacy ratio, excluding upper tier II capital, shall be no less than 10%.

In a letter dated August 30, 2009, the Bank of Israel instructed banks that, pending completion of the supervisory review and assessment process by the Bank of Israel of implementation of Pillar II of the interim directives concerning Basle II implementation (SREP - Supervisory Review and Evaluation Process), the bank is required to continue maintaining the capital targets as defined there by in terms of Basle I (Proper Conduct of Banking Business Regulation No. 311).

Special collective bargaining agreement with employee union

On September 16, 2009, a special collective bargaining agreement was signed with the employee union, whereby the special collective bargaining agreement signed in 2006 was extended by a further 5 years, from January 1, 2011 through December 31, 2015. This agreement was approved by the Bank Board of Directors on October 19, 2009. In this agreement, the parties resolved, *inter alia*, to maintain absolute calm in labor relations for the term of the agreement; to put in place a voluntary retirement program for up to 200 employees during the term of the agreement; and to allow management to terminate up to 50 permanent employees during the term of the agreement for reason of incompatibility. For details, see Note 11.G to the financial statements.

According to management expectations as of the publication date of these financial statements, with regard to the number of employees expected to retire and the cost of their retirement, the cost of the retirement agreement is estimated at NIS 60 million, and this was included under Payroll and Related Expenses in the third quarter of 2009. In the fourth quarter of 2009, Bank management shall review the estimated cost in view of current expectations, and would update the provision made on the financial statements as required.

Completion of deployment of the Code of Ethics throughout the Bank

In the first nine months of 2009, the process of deployment of the Code of Ethics throughout the Bank and to all managers and staff was completed.

The Code of Ethics was published on the Bank website. The Ethics Committee continues to improve awareness and to preserve the organizational conversation about the Code of Ethics at the Bank.

Branded credit card

In September 2009, the Bank launched a branded credit card, as part of the strategy for expansion of the Bank's market share – in particular in the household segment. Bank clients who hold the branded card belong to a unique loyalty club and are entitled to unique benefits.

Profit and Profitability

Net profit in the third quarter of 2009 amounted to NIS 156 million, compared to NIS 140 million in the corresponding period last year - an 11.4% increase. This profit reflects a 10.2% annualized return on equity, compared to 10.0% in the corresponding period last year. **Group net profit in the third quarter of 2009, excluding a NIS 70 million provision for voluntary retirement program in conjunction with the Bank's on-going efficiency improvement process, amounted to NIS 202 million, or an 13.3% annualized return on equity.**

Net profit for the Group in the first nine months of 2009 amounted to NIS 416 million, compared to NIS 506 million in the corresponding period last year - a 17.8% decrease. This profit reflects an annualized 9.1% return on equity, compared to 12.1% in the corresponding period last year and to 10.4% in all of 2008. **Excluding the provision for voluntary retirement program, net profit for the first nine months of 2009 would amount to NIS 462 million, or a 10.1% annualized return on equity.**

The following major factors impacted Group operating profit in the first nine months of 2009 over the corresponding period last year:

- Profit from financing operations in the first nine months of 2009 amounted to NIS 1,730 million, compared to NIS 1,701 million in the corresponding period last year - a 1.7% increase.
- Revenues from operating commissions increased in the first nine months of 2009 by NIS 103 million, or 12.1%, over the corresponding period last year. Excluding the impact of consolidation of Bank Yahav financial statements, revenue from operating commissions grew by NIS 35 million, or 4.3%.
- The provision for doubtful debts increased in the first nine months of 2009 by NIS 55 million compared to the corresponding period last year. The increase in provisions is primarily due to an increase in specific provisions in respect of problem borrowers, and in an additional provision in respect of debt classified as problem debt due, inter alia, to the impact of the financial crisis on the business sector. In the third quarter of 2009, the provision for doubtful debts declined by NIS 35 million compared to the corresponding period last year.
- Payroll expenses in the first nine months of 2009, excluding unusual items as set forth below under analysis of payroll expenses, increased by NIS 24 million, or 2.7%, over the corresponding period last year. Total payroll expenses for the Group in the first nine months of 2009 amounted to NIS 1,126 million, compared to NIS 946 million in the corresponding period last year.
- Operating and other expenses, excluding payroll expenses, excluding the impact of consolidation of Bank Yahav's financial statements, increased by NIS 20 million, or 3.4%, compared to the corresponding period last year, primarily due to an increase in depreciation expenses for computers, buildings and equipment. Consolidation of Bank Yahav's financial statements resulted in total operating and other expenses, excluding payroll expenses, amounting to NIS 729 million in the first nine months of 2009, compared to NIS 619 million in the corresponding period last year.

Development of revenues and expenses

Group profit from financing operations before provision for doubtful debt in the first nine months of 2009 amounted to NIS 1,730 million, compared with NIS 1,701 million in the corresponding period last year – a 1.7% increase.

Group profit from financing operations before provision for doubtful debts in the third quarter of 2009 amounted to NIS 582 million, compared with NIS 598 million in the corresponding period last year - a 2.7% decrease.

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

	First nine months		
	2009	2008	Rate of change
Current operations including non-recurring effects (1)	**1,495**	**1,630**	**(8.3%)**
Revenues from interest on problem loans	102	105	
Gain (loss) from realization and impairment of debentures held for sale and debentures held for trading, net	22	(86)	
Effect of accounting treatment of derivatives at fair value and others (2)	(54)	(17)	
Consolidation of Bank Yahav financial statements (3)	165	(4) 69	
Total	**1,730**	**1,701**	**1.7%**

(1) The lower interest rates, which significantly eroded margins on deposits, as well as impact of the last known CPI, led to a significant decrease in profit from current financing operations.

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

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

(4) For the third quarter of 2008 alone, after which Bank Yahav's financial statements are consolidated with the Bank's.

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

Operating segment	First nine months		
	2009	2008	Rate of change
Retail banking:			
Mortgages	322	(2) 318	1.3%
Household	513	538	(4.6%)
Small business	221	243	(9.1%)
Total	**1,056**	**1,099**	**(3.9%)**
Private banking	33	(2) 43	(23.3%)
Commercial banking	105	112	(6.3%)
Business banking	440	383	14.9%
Financial management	96	(2) 64	50.0%
Total	**1,730**	**1,701**	**1.7%**

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

(2) Reclassified.

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

Linkage segments	First nine months		Rate
	2009	2008	Change
Israeli currency - non-linked [1]	97,156	77,060	26.08%
Israeli currency - linked to the CPI	40,802	40,153	1.62%
Foreign currency (including Israeli currency linked to foreign currency) [2]	67,662	63,179	7.10%
Total	205,620	180,392	13.99%

(1) The increase in average balance of financial assets in the non-linked segment is due to an increase in non-linked credit, to diversion of deposits from overseas banks to the Bank of Israel and to a NIS 8 billion growth in average balance of non-linked assets in respect of initial consolidation of Bank Yahav with Group financial statements.

(2) Local operations and overseas affiliates.

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

Linkage segments	First nine months	
	2009	2008
Israeli currency - non-linked	1.06%	1.39%
Israeli currency - linked to the CPI	0.36%	0.67%
Foreign currency (including Israeli currency linked to foreign currency) (1)	1.03%	0.60%
Total including impact of derivatives	0.89%	0.99%
Total excluding impact of derivatives	1.71%	2.09%

(1) Local operations and overseas affiliates.

Data with regard to revenue and expense rates of group operations as well as the financial margin represented by the interest differentials are presented under Appendix A of Management Discussion. The lower financial margin is due to lower interest rates, which significantly eroded margins on deposits.

Provision for doubtful debt for the Group in the first nine months of 2009 amounted to NIS 268 million, compared to NIS 213 million in the corresponding period last year – a 25.8% increase. The increase in provisions is primarily due to an increase in specific provisions in respect of problem borrowers, and in an additional provision in respect of debt classified as problem debt due, inter alia, to the impact of the financial crisis on the business sector.

In the third quarter of 2009, the provision for doubtful debts amounted to NIS 82 million, compared with NIS 117 million in the corresponding period last year, an increase of 29.9%.

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

Linkage segments	First nine months		Third Quarter	
	2009	2008	2009	2008
Specific provision:				
By extent of arrears	29	29	11	1
Other	212	170	73	103
Total specific provision	241	199	84	104
General and additional provision	27	14	(2)	13
Total	268	213	82	117
Rate of provision for doubtful debts to total credit to the public (annualized)	0.38%	0.34%	0.35%	0.56%

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

Operating segment	First nine months		
	2009	2008	Rate of change
Retail banking:			
Mortgages	32	41	(22.0%)
Household	49	38	28.9%
Small business	53	44	20.5%
Total	**134**	**123**	**8.9%**
Private banking	1	1	-
Commercial banking	11	2	-
Business banking	122	78	56.4%
Financial management	-	9	-
Total	**268**	**213**	**25.8%**

The balance of the general and supplementary provision for doubtful debt on the Group's balance sheet amounted to NIS 221 million as of September 30, 2009, compared with NIS 194 million as of December 31, 2008.

Group profit from financing operations after provision for doubtful debts in the first nine months of 2009 amounted to NIS 1,462 million, compared with NIS 1,488 million in the corresponding period last year - a 1.7% decrease. The decrease in profit from financing operations after provision for doubtful debts is primarily due to a NIS 55 million increase in the provision for doubtful debts, as set forth above.
In the third quarter, profit from financing operations after provision for doubtful debt amounted to NIS 500 million, compared with NIS 481 million in the corresponding period last year, a 3.9% decrease.

Operating and other revenues for the Group, excluding the impact of initial consolidation of Bank Yahav's financial statements, amounted in the first nine months of 2009 to NIS 938 million, compared to NIS 867 million in the corresponding period last year, an 8.2% increase.
Including revenues of NIS 109 million in the first nine months of 2009, and NIS 31 million in the corresponding period last year, in respect of initial consolidation of Bank Yahav's financial statements starting on July 1, 2008, total operating and other revenues in the first nine months of 2009 amounted to NIS 1,047 million, compared to NIS 898 million in the corresponding period last year, a 16.6% increase.
In the third quarter of 2009, operating and other revenues for the Group amounted to NIS 396 million, compared to NIS 315 million in the corresponding period last year, a 25.7% increase.

Revenues from operating commissions for the Group, excluding the impact of Bank Yahav consolidation, amounted to NIS 855 million in the first nine months of 2009, compared with NIS 820 million in the corresponding period last year - a 4.3% increase. Including revenues of NIS 99 million in the first nine months of 2009, and NIS 31 million in the corresponding period last year, in respect of consolidation of Bank Yahav's financial statements starting on July 1, 2008, total operating revenues in the first nine months of 2009 amounted to NIS 954 million, compared to NIS 851 million in the corresponding period last year, a 12.1% increase.
In the third quarter of 2009, operating revenues for the Group amounted to NIS 332 million, compared to NIS 314 million in the corresponding period last year, a 5.7% increase.

Net gain from equity investments in the first nine months of 2009 amounted to NIS 59 million, compared to profit of NIS 30 million in the corresponding period last year. In the third quarter of 2009, net gain from equity investments amounted to NIS 52 million, compared with a loss of NIS 3 million in the corresponding period last year. The higher gain is primarily due to investments realized in the third quarter of 2009.

Other revenues for the Group, excluding impact of initial consolidation of Bank Yahav, amounted to NIS 24 million in the first nine months of 2009, compared with NIS 17 million in the corresponding period last year - a 41.2% increase. Including revenues of NIS 10 million in the first nine months of 2009 (in the corresponding period last year there were no other revenues at Bank Yahav) in respect of initial consolidation of Bank Yahav's financial statements, total other revenues in the first nine months of 2009 amounted to NIS 34 million, compared to NIS 17 million in the corresponding period last year.
In the third quarter of 2009, other revenues for the Group amounted to NIS 12 million, compared to NIS 4 million in the corresponding period last year.

Operating and other expenses for the Group, excluding the impact of consolidation of Bank Yahav's financial statements and excluding unusual items under payroll expenses as set forth below, amounted to NIS 1,531 million in the first nine months of 2009, compared to NIS 1,487 million in the corresponding period last year, a 3.0% increase – primarily due to higher depreciation and software maintenance expenses.
Including expenses of NIS 241 million in the first nine months of 2009, and NIS 78 million in the corresponding period last year, in respect of initial consolidation of Bank Yahav's financial statements as well as unusual items under payroll expenses as set forth below, total operating and other expenses in the first nine months of 2009 amounted to NIS 1,855 million, compared to NIS 1,565 million in the corresponding period last year.
Operating and other expenses for the Group amounted to NIS 654 million in the third quarter of 2009, compared with NIS 564 million in the corresponding period last year - a 16.0% growth.

Payroll and associated expenses for the Group, excluding unusual items, amounted to NIS 927 million in the first nine months of 2009, compared to NIS 903 million in the corresponding period last year, a 2.7% increase.

Analysis of the development in payroll and associated expenses follows:

	First nine months		Rate of change
	2009	2008	
Payroll and associated expenses, excluding unusual items	927	903	2.7%
Impact of extension of exercise period of employee stock options	13	-	
Retirement agreement [(1)]	70	-	
Impact of consolidation of Bank Yahav's financial statements	116	[(2)] 43	
Payroll and associated expenses - as reported	1,126	946	19.0%

(1) The retirement agreement signed in the third quarter of 2009 is part of the on-going efficiency improvement process conducted by the Bank.

(2) For the third quarter of 2008 alone, after which Bank Yahav's financial statements are consolidated with the Bank's.

Salary and benefits for the Group amounted to NIS 404 million in the third quarter of 2009, compared with NIS 331 million in the corresponding period last year - a 22.1% increase.

Maintenance and depreciation expenses for buildings and equipment for the Group, excluding the impact of consolidation of Bank Yahav's financial statements, in the first nine months of 2009 amounted to NIS 368 million, compared to NIS 328 million in the corresponding period last year - a 12.2% increase, primarily due to higher depreciation expenses for computers and equipment and higher software maintenance expenses - due to operation of new computer systems. Including expenses amounting to NIS 48 million in the first nine months of 2009, and NIS 13 million in the corresponding period last year, in respect of initial consolidation of Bank Yahav's financial statements, total maintenance and depreciation expenses for buildings and equipment in the first nine months of 2009 amounted to NIS 416 million, compared to NIS 341 million in the corresponding period last year, a 22.0% increase.

Maintenance and depreciation expenses for buildings and equipment for the Group amounted to NIS 139 million in the third quarter of 2009, compared with NIS 126 million in the corresponding period last year – a 10.3% increase.

Operating and other expenses for the Group, excluding impact of initial consolidation of Bank Yahav, amounted to NIS 236 million in the first nine months of 2009, compared with NIS 256 million in the corresponding period last year - a 7.8% decrease. Including expenses amounting to NIS 77 million in the first nine months of 2009, and NIS 22 million in the corresponding period last year, in respect of initial consolidation of Bank Yahav's financial statements, total operating and other expenses for buildings and equipment in the first nine months of 2009 amounted to NIS 313 million, compared to NIS 278 million in the corresponding period last year.

Operating and other expenses for the Group amounted to NIS 111 million in the third quarter of 2009, compared with NIS 107 million in the corresponding period last year - a 3.7% increase.

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

	First nine months		All of
	2009	2008	2008
Operational Coverage Ratio [(1)]	56.4%	57.4%	57.1%
Cost-Income Ratio[(2)]	66.8%	60.2%	61.2%
Excluding impact of consolidation of Bank Yahav's financial statements and of retirement agreement			
Operational Coverage Ratio [(1)]	60.8%	58.2%	58.6%
Cost-Income Ratio[(2)]	62.1%	59.5%	60.2%

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

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

Pre-tax operating profit for the Group amounted to NIS 242 million in the third quarter of 2009, compared with NIS 232 million in the corresponding period last year - a 4.3% increase. Pre-tax operating profit for the Group amounted to NIS 654 million in the first nine months of 2009, compared with NIS 821 million in the corresponding period last year - a 20.3% decrease.

Provision for taxes on operating profit amounted to NIS 81 million in the third quarter of 2009, compared with NIS 86 million in the corresponding period last year, a 5.8% decrease. Provision for taxes on operating profit for the Group amounted to NIS 225 million in the first nine months of 2009, compared with NIS 309 million in the corresponding period last year - a 27.2% decrease.

Operating net income in the third quarter of 2009 amounted to NIS 156 million, compared to NIS 139 million in the corresponding period last year – a 12.2% increase. Excluding a provision for voluntary retirement program, net operating profit in the third quarter of 2009 amounted to NIS 202 million, a 45.3% increase over the corresponding period last year. Operating profit amounted to NIS 416 million in the first nine months of 2009, compared with NIS 505 million in the corresponding period last year - a 17.6% decrease.

Excluding the provision for voluntary retirement program, net operating profit amounted to NIS 462 million, a 8.5% decrease over the corresponding period last year.

In the first nine months of 2009, the financial statements include no after-tax profit from extraordinary items for the Group, compared to NIS 1 million in the corresponding period last year.

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

	First nine months		All of
	2009	2008	2008
From current operations	9.1%	12.0%	10.4%
Net profit	9.1%	12.1%	10.4%
Net profit excluding provision for retirement program	10.1%	12.1%	10.4%

Evolution of average Group profit return(1) on equity(2) was as follows:

	2009			2008			
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
From current operations	10.2%	10.1%	7.5%	6.7%	10.0%	13.8%	13.5%
Net profit	10.2%	10.1%	7.5%	6.7%	10.0%	13.8%	13.5%
Net profit excluding provision for retirement program	13.3%	10.1%	7.5%	6.7%	10.0%	13.8%	13.5%

(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 held for sale.

Earnings per share

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

	First nine months		All of
	2009	2008	2008
Basic earnings per share:			
From current operations	1.87	2.27	2.70
From net profit	1.87	2.28	2.71
Diluted earnings per share:			
From current operations	1.86	2.25	2.68
From net profit	1.86	2.26	2.69

Development of balance sheet items

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

	September 30		December 31	Change compared to September 30	Change compared to December 31
	2009	2008	2008	2008	2008
Balance sheet total	115,609	107,015	114,012	8.0%	1.4%
Credit to the public	93,058	83,880	88,049	10.9%	5.7%
Deposits from the public	93,405	84,681	91,779	10.3%	1.8%
Securities	7,878	7,449	9,259	5.8%	(14.9%)
Shareholders' equity	6,438	5,846	5,952	10.1%	8.2%

Loans to the public - loans to the public in the consolidated balance sheet as of September 30, 2009 accounted for 81% of total assets, compared with 77% at the end of 2008. The Group's loans to the public increased in the first nine months of 2009 by NIS 5 billion, a 5.7% increase. Excluding impact of the NIS devaluation, credit volume increased by 5.6% in the first nine months of 2009.

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

	September 30		December 31	Change in % September 30	Change in % December 31
	2009	2008	2008	2008	2008
Israeli currency					
Non-linked	46,085	37,417	39,913	23.2%	15.5%
CPI- linked	34,032	34,817	34,211	(2.3%)	(0.5%)
Foreign currency and foreign currency linked	12,941	11,646	13,925	11.1%	(1) (7.1%)
Total	93,058	83,880	88,049	10.9%	(1) 5.7%

(1) Excluding the impact of NIS devaluation, an 7.5% decrease in the foreign currency segment and a 5.6% increase due to loan volumes in the first nine months of 2009.

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

				Change compared to	
	September 30		December 31	September 30	December 31
Operating segment	2009	2008	2008	2008	2008
Retail banking:					
Mortgages	46,804	40,807	41,593	14.7%	12.5%
Household	14,281	12,651	12,907	12.9%	10.5%
Total	**61,085**	**53,458**	**54,500**	**14.3%**	**12.1%**
Small business	4,960	4,771	4,955	4.0%	0.1%
Private banking	1,378	1,312	1,350	5.0%	2.1%
Commercial banking	4,151	4,417	4,545	(6.0%)	(8.7%)
Business banking	21,484	19,922	22,699	7.8%	(5.4%)
Total – business and others	**31,973**	**30,422**	**33,549**	5.1%	(4.7%)
Total	**93,058**	**83,880**	**88,049**	**10.9%**	**5.7%**

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

	September 30		December 31
	2009	2008	2008
Non-accrual debt	1,110	1,093	1,145
Rescheduled debt	855	206	194
Debt designated for rescheduling [(1)]	296	-	307
Debt in temporary arrears	941	944	1,034
Includes: In respect of housing loans	490	537	537
Debt under special supervision [(1)]	1,929	2,435	3,275
Includes: Debt in respect of which a specific provision was made [(1)]	95	75	682
Includes: Housing loans provided for by extent of arrears	566	625	615
Total balance sheet credit to problem borrowers	5,131	4,678	5,955
Off-balance sheet credit to problem borrowers	946	917	941
Debentures of financial institutions classified as problematic	33	-	112
Other problem loans of financial institutions	17	-	12
Total credit risk, including in respect of problem borrowers	6,127	5,595	7,020

(1) Debt in respect of which a debt rescheduling process is or was in place, were re-classified on the financial statements as of December 31, 2008 as debt designated for rescheduling. In November 2009, principles were established with regard to rescheduling of this debt.

Securities – the balance of investment in securities decreased in the first nine months of 2009 by NIS 1.4 billion. Total investment in securities decreased by 14.9% compared to December 31, 2008, and increased by 5.8% compared to September 30, 2008. The change in balance of investment in securities decreased under asset and liability management.

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

				Change compared to	
	September 30		December 31	September 30	December 31
Operating segment	2009	2008	2008	2008	2008
Israeli currency					
Non-linked	2,098	2,773	2,755	(24.3%)	(23.8%)
CPI- linked	1,423	1,185	1,953	20.1%	(27.1%)
Foreign currency and foreign currency linked	4,040	3,113	4,171	29.8%	(3.1%)
Non-monetary items	317	378	380	(16.1%)	(16.6%)
Total	7,878	7,449	9,259	5.8%	(14.9%)

Distribution of balance of Group investment in securities by issuer type as of September 30, 2009 (NIS in millions) is as follows:

	Amortized cost	Unrealized gains	Unrealized loss	Fair value (book value)
Securities held for sale:				
Debentures of the Government of Israel	5,697	69	89	5,677
Foreign government debentures	120	-	-	120
Bank debentures	1,214	12	13	1,213
Corporate debentures	319	4	8	315
Asset-backed debentures	88	4	16	76
Shares of others	252	67	1	318
Total securities held for sale	7,690	156	127	7,719
Securities held for trading:				
Debentures of the Government of Israel	154	-	-	154
Of others	5	-	-	5
Total securities held for trading	159	-	-	159
Total securities	7,849	156	127	7,878

Below is additional information with regard to impairment of a temporary nature of securities held for sale, listing the duration of impairment and its share out of the amortized cost (NIS in millions, as of September 30, 2009):

Share of impairment out of amortized cost	Duration in which fair value is lower than the amortized cost				
	Up to 6 months	6-9 months	9-12 months	Over 12 months	Total
Stocks available for sale					
Up to 20%	-	-	-	-	-
20%-40%	-	-	-	-	-
Over 40%	-	-	-	1	1
Total	-	-	-	1	1
Asset-backed debentures available for sale					
Up to 20%	-	-	-	-	-
20%-40%	-	-	-	16	-
Over 40%	-	-	-	-	-
Total	-	-	-	16	-
Other debentures available for sale					
Up to 20%	27	-	33	14	74
20%-40%	10	17	-	8	35
Over 40%	1	-	-	-	1
Total	38	17	33	22	110

See Note 2 to the financial statements for additional information.

Deposits from the public - these account for 81% of total consolidated balance sheet as of September 30, 2009, similar to their weight at the end of 2008. In the first nine months of 2009, deposits from the public with the Bank Group increased by NIS 1.6 billion – a 1.8% increase.

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

	September 30		December 31	Change compared to	
				September 30	December 31
	2009	2008	2008	2008	2008
Israeli currency					
Non-linked	51,566	43,975	49,273	17.3%	4.7%
CPI- linked	22,529	22,603	22,999	(0.3%)	(2.0%)
Foreign currency and foreign currency linked	19,310	18,103	19,507	6.7%	[(1)](1.0%)
Total	**93,405**	**84,681**	**91,779**	**10.3%**	**[(1)] 1.8%**

(1) Excluding the impact of NIS devaluation, a 1.7% decrease in the foreign currency segment and a 1.6% increase in total deposits in the first nine months of 2009.

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

				Change compared to	
	September 30		December 31	September 30	December 31
	2009	(1) 2008	2008	2008	2008
Retail banking:					
Household	46,779	43,468	(1) 46,170	7.6%	1.3%
Small business	6,240	6,280	6,591	(0.6%)	(5.3%)
Total	**53,019**	**49,748**	**52,761**	**6.6%**	**0.5%**
Private banking	5,826	5,960	6,809	(2.2%)	(14.4%)
Commercial banking	2,302	2,078	2,510	10.8%	(8.3%)
Business banking	14,019	11,263	13,655	24.5%	2.7%
Financial management	18,239	15,632	(1) 16,044	16.7%	13.7%
Total	**93,405**	**84,681**	**91,779**	**10.3%**	**1.8%**

(1) Reclassified.

Shareholders' equity

According to the measurement principles prescribed by the Supervisor of Banks with respect to securities held for sale, the adjustment of these securities to their fair value is recorded directly to shareholders' equity. Changes to capital reserve in the first nine months of 2009, less applicable taxes, amounted to a NIS 101 million increase. The capital reserve from adjustment of securities held for sale to their fair value, after applicable taxes, as included in shareholders' equity as of September 30, 2009, amounts to NIS 9 million.

In the third quarter of 2009, the Bank conducted a buy-back of 2,500,000 shares at a cost of NIS 76 million. For additional details, see Note 11.A.

The ratio of shareholders' equity to balance sheet total for the Group as of September 30, 2009 amounted to 5.57%, compared to 5.22% as of the end of 2008.

Ratio of capital to risk elements

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

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

	September 30, 2009	December 31, 2008
Ratio of Tier I capital to risk elements	7.00%	6.64%
Ratio of total capital to risk elements	12.48%	11.31%
Minimum total capital ratio required by the directives of the Supervisor of Banks	9.00%	9.00%

The ratio of capital to risk components also accounts for the capital adequacy requirement due to market risk, in accordance with Directive 341 – Adequacy of Capital in Respect of Market Risk, the effect of which on the capital ratio, as of as of September 30, 2009, is 0.36%.

The balance of complex capital notes and subordinated notes for Group capital adequacy, as of September 30, 2009, amounts to NIS 5,119 million, compared to NIS 4,300 million at the end of 2008. These amounts include complex capital notes listed for trading, amounting to NIS 1,779 million. For details, see Note 4 and Note 11.D to the financial statements.

Major Investees

The contribution of investees to net operating profit amounted to NIS 60 million in the first nine months of 2009, compared with NIS 47 million in the corresponding period last year.

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

Bank Yahav is a private company. On July 10, 2008, the Bank concluded the transaction to acquire 50% of Bank Yahav's issued capital and associated rights, Bank Yahav became a subsidiary of the Bank and the former's financial statements were initially consolidated within the Bank's consolidated financial statements as of September 30, 2008.

The contribution of Bank Yahav to Group net profit in the first nine months of 2009, excluding amortization of goodwill, amounted to NIS 12.6 million, compared to NIS 8.0 million in the corresponding period last year (in respect of the third quarter only, in which Bank Yahav was first consolidated into the Group's consolidated financial statements). Bank Yahav's net profit return on equity in the first nine months of 2009 was 5.2%, compared to 27.7% in the corresponding period last year. Bank Yahav's operating net profit return on equity in the first nine months of 2009 was 5.1%, compared to 6.1% in the corresponding period last year. Bank Yahav's balance sheet total as of September 30, 2009 amounted to NIS 12,935 million, compared to NIS 11,823 million as of December 31, 2008. The balance of loans to the public as of September 30, 2009 amounted to NIS 4,147 million, compared to NIS 3,823 million at end of 2008. The balance of deposits from the public as of September 30, 2009 amounted to NIS 11,936 million, compared to NIS 11,013 million at end of 2008.

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

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

Tefahot Insurance's contribution to Group net profit in the first nine months of 2009 amounted to NIS 29.5 million, compared to NIS 29.7 million in the corresponding period last year.

Net profit return on equity in the first nine months of 2009 was 12.0%, compared to 13.0% 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 nine months of 2009 amounted to CHF 1.5 million, compared to CHF 2.2 million in the corresponding period last year.

Mizrahi Bank Switzerland's balance sheet total as of September 30, 2009 amounted to CHF 225 million, compared to CHF 129 million at the end of 2008.

Total loans to the public as of September 30, 2009 amounted to CHF 79 million, compared to CHF 72 million at end of 2008; total deposits at banks as of September 30, 2009 amounted to CHF 129 million, compared to CHF 46 million at end of 2008. Total deposits from the public as of September 30, 2009 amounted to CHF 140 million, compared to CHF 52 million at end of 2008; total deposits from banks as of September 30, 2009 amounted to CHF 34 million, compared to CHF 26 million at end of 2008.

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

The contribution of Mizrahi International Holdings Ltd. (B.V. Holland), which owns Mizrahi Bank Switzerland, to Group net profit in the first nine months of 2009, amounted to NIS 9 million, compared with a loss of NIS 13.7 million in the corresponding period last year.
Excluding the impact of changes in exchange rates, the company's contribution to group net profit in the first nine months of the year amounted to a NIS 5.4 million profit, compared to a NIS 8.5 million profit in the corresponding period last year.

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

Investment in non-banking corporations
The Bank has a department tasked with monitoring nostro investments made in non-banking corporations, and reviewing the value of these investments on an ongoing basis. About 77% 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 September 30, 2009 amounted to NIS 294 million, compared to NIS 352 million at end of 2008.

These investments include NIS 225 million invested in negotiable securities included in the portfolio of securities held for sale (NIS 281 million as of end 2008); this amount includes NIS 214 million (NIS 276 million as of end 2008), constituting the market value of securities pledged for debt of a certain customer, which were classified under securities in accordance with the letter from the Supervisor of Banks. The remaining pledged shares were sold in the fourth quarter of 2009. See Note 11E to the financial statements for details.

Bank net revenues from dividends and capital gains from non-banking corporations, after provision for impairment, amounted in the first nine months of 2009 to NIS 58 million, compared to NIS 29 million in the corresponding period last year. The increase is primarily due to shares realized.

Financial Information Regarding Operating Segments

Bank Group operating segments

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

The Bank's operating segments are:

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

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

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

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

Business banking - the Major Corporations sector in the Business Division is responsible for the Business Banking segment, which is the focal point for handling the largest business customers. Criteria by which customers are assigned to the Corporate sector include: total indebtedness over NIS 25 million, sales over NIS 120 million or liquid assets over NIS 40 million. This segment provides a range of banking and financial services to the largest companies in the economy, in an array of industries, at relatively high levels of indebtedness. Segment customers operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

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

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

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

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

For further details, *inter alia*, with regard to division into operating segments and the principles used for attributing balances, income and expenses to customers in the system – see Note 31 to the financial statements as of December 31, 2008.

Note 10 to the financial statements includes a reporting of Bank Group business results by operating segment.

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

Profitability

	Net profit (loss) for the first nine months		Return on equity (in percent) for the first nine months	
	2009	2008	2009	2008
Household				
Mortgages	193	(1) 195	10.6	(1) 13.1
Other	(7)	73	(1.2)	16.0
Private banking	22	(1) 26	46.1	(1) 68.9
Small business	36	45	14.3	16.5
Commercial banking	23	39	11.6	19.5
Business banking	150	142	10.9	10.4
Financial management	(1)	(1) (14)	(0.3)	(1) (3.8)
Total	416	506	9.1	12.1

(1) Reclassified.

Below are Bank Group operating results by operating segment

Results of Household Segment

	For the nine months ended September 30, 2009					For the nine months ended September 30, 2008 (1)				
	Banking and finance	Credit cards	Capital market	Mortgages	Total	Banking and finance	Credit cards	Capital market	Mortgages	Total
	NIS in millions					NIS in millions				
Profit from financing operations before provision for doubtful debts										
From outside operating segments	(12)	12	9	2,060	2,069	(384)	11	11	2,503	2,141
Inter-segment	513	(9)	-	(1,738)	(1,234)	908	(8)	-	(2,185)	(1,285)
Profit from financing operations before provision for doubtful debts	501	3	9	322	835	524	3	11	318	856
Operating and other revenues	153	96	155	190	594	113	77	100	192	482
Total profit	654	99	164	512	1,429	637	80	111	510	1,338
Provision for doubtful debts	49	-	-	32	81	38	-	-	41	79
Operating and other expenses										
From outside operating segments	880	21	46	186	1,133	675	39	26	156	896
Inter-segment	(73)	(2)	-	-	(75)	(72)	(6)	-	-	(78)
Total operating and other expenses	807	19	46	186	1,058	603	33	26	156	818
Operating profit (loss) before taxes	(202)	80	118	294	290	(4)	47	85	313	441
Provision for taxes on operating profit (loss)	(69)	28	40	101	100	(2)	18	32	118	166
After-tax operating profit (loss)	(133)	52	78	193	190	(2)	29	53	195	275
Share of external shareholders in net operating profit after taxes of subsidiaries	(4)	-	-	-	(4)	(7)	-	-	-	(7)
Net profit (loss)	**(137)**	**52**	**78**	**193**	**186**	**(9)**	**29**	**53**	**195**	**268**
Return on equity					**7.8%**					**13.8%**
Average balance of assets	12,430	1,424	-	44,178	58,032	9,143	1,322	-	38,159	48,624
Average balance of liabilities	46,884	7	-	74	46,965	35,681	7	-	20	35,708
Average balance of risk assets	13,725	-	-	36,603	50,328	10,026	-	-	30,140	40,166
Average balance of securities	-	-	17,748	-	17,748	-	-	19,784	-	19,784
Credit to the public (end balance)	12,554	1,727	-	46,804	61,085	11,011	1,640	-	40,807	53,458
Deposits from the public (end balance)	46,779	-	-	-	46,779	43,468	-	-	-	43,468
Average balance of assets under management	6,887	-	-	15,810	22,697	1,908	-	-	16,627	18,535
Components of profit from financing operations before provision for doubtful debts: (1)										
Margin from credit granting operations	183	3	-	298	484	166	3	-	282	451
Margin from receiving deposits	292	-	-	-	292	328	-	-	-	328
Other	26	-	9	24	59	30	-	11	36	77
Total	**501**	**3**	**9**	**322**	**835**	**524**	**3**	**11**	**318**	**856**

(1) Reclassified.

Contribution of the household segment to Group profit in the first nine months of 2009, excluding the Bank's share of profit of Bank Yahav, initially consolidated in the third quarter of 2008, and excluding the provision for retirement agreement, amounted to NIS 210 million, compared to NIS 261 million in the corresponding period last year - a 19.5% decrease.

The main reason for the decrease in segment contribution is the impact to profit from financing operations, which was significantly eroded in 2009 due to low interest rates prevailing in the period. Profit from financing operations for the first nine months of 2009, excluding the impact of consolidation of Bank Yahav's financial statements, amounted to NIS 684 million, compared to NIS 787 million in the corresponding period last year - a 13.1% decrease. The main decrease was in financing profit under banking and finance, which decreased by 23.1%, due to the significant extent of deposits from the public in this segment, which was most impacted by lower interest rates. Financing profit in the mortgage segment increased by a modest 1.3%.

Operating expenses, excluding the impact of consolidation of Bank Yahav's financial statements and excluding the provision for retirement agreement, increased in the first nine months of 2009 by 4.5% over the corresponding period last year.

On the other hand, operating revenues, excluding the impact of consolidation of Bank Yahav's financial statements, increased by 7.5% – mostly under the household segment excluding mortgages.

The provision for doubtful debts, excluding the impact of consolidation of Bank Yahav's financial statements, decreased by NIS 5 million. The decrease is due to the provision by extent of arrears for mortgages, which decreased by NIS 9 million.

Volume of mortgages granted by the segment are as follows:

	Loans granted (NIS in millions)		
	First nine months		
	2009	2008	Rate of change
Mortgages issued (for housing and any purpose)			
From the Bank's funds	9,395	7,954	18.1%
From the Treasury's funds			
Directed loans	268	475	(43.6%)
Standing loans and grants	138	139	(0.7%)
Management for others	-	1	
Total new loans	9,801	8,569	14.4%
Recycled loans	1,287	808	59.3%
Total loans issued	11,088	9,377	18.2%
Number of borrowers (includes recycled loans)	37,215	31,311	18.9%

Results of Household Segment

	For the three months ended September 30, 2009					For the three months ended September 30, 2008				
	Banking and finance	Credit cards	Capital market	Mortgages	Total	Banking and finance	Credit cards	Capital market	Mortgages	Total
	NIS in millions					NIS in millions				
Profit from financing operations before provision for doubtful debts										
From outside operating segments	(5)	4	3	923	925	(109)	4	4	1,086	985
Inter-segment	172	(3)	-	(807)	(638)	348	(3)	-	(971)	(626)
Profit from financing operations before provision for doubtful debts	167	1	3	116	287	239	1	4	115	359
Operating and other revenues	59	33	52	64	208	32	34	44	61	171
Total profit	226	34	55	180	495	271	35	48	176	530
Provision for doubtful debts	15	-	-	10	25	19	-	-	12	31
Operating and other expenses										
From outside operating segments	305	7	16	68	396	279	13	8	55	355
Inter-segment	(25)	(1)	-	-	(26)	(26)	(3)	-	-	(29)
Total operating and other expenses	280	6	16	68	370	253	10	8	55	326
Operating profit (loss) Before taxes	(69)	28	39	102	100	(1)	25	40	109	173
Provision for taxes on operating profit	(22)	9	12	34	33	(1)	10	15	41	65
After-tax operating profit (loss)	(47)	19	27	68	67	-	15	25	68	108
Share of external shareholders in net operating profit after taxes of subsidiaries	(4)	-	-	-	(4)	(7)	-	-	-	(7)
Net profit (loss)	**(51)**	**19**	**27**	**68**	**63**	**(7)**	**15**	**25**	**68**	**101**
Return on equity					**7.8%**					**15.0%**
Components of profit from financing operations before provision for doubtful debts: [(1)]										
Margin from credit granting operations	54	1	-	108	163	72	1	-	103	176
Margin from receiving deposits	106	-	-	-	106	156	-	-	-	156
Other	7	-	3	8	18	11	-	4	12	27
Total	**167**	**1**	**3**	**116**	**287**	**239**	**1**	**4**	**115**	**359**

(1) Reclassified.

Results of Private Banking Segment

	For the nine months ended September 30, 2009			For the nine months ended September 30, 2008 (1)		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
	NIS in millions			NIS in millions		
Profit from financing operations before provision for doubtful debts						
From outside operating segments	(35)	1	(34)	(133)	1	(132)
Inter-segment	67	-	67	175	-	175
Profit from financing operations before provision for doubtful debts	32	1	33	42	1	43
Operating and other revenues	15	24	39	12	33	45
Total profit	47	25	72	54	34	88
Provision for doubtful debts	1	-	1	1	-	1
Operating and other expenses						
From outside operating segments	37	-	37	42	1	43
Inter-segment	1	-	1	1	-	1
Total operating and other expenses	38	-	38	43	1	44
Pre-tax operating profit	8	25	33	10	33	43
Provision for taxes on operating profit	3	8	11	4	13	17
Net profit	**5**	**17**	**22**	**6**	**20**	**26**
Return on equity			**46.1%**			**68.9%**
Average balance of assets	1,730	-	1,730	1,384	-	1,384
Average balance of liabilities	6,746	-	6,746	6,186	-	6,186
Average balance of risk assets	999	-	999	806	-	806
Average balance of securities	-	6,505	6,505	-	4,960	4,960
Credit to the public (end balance)	1,378	-	1,378	1,312	-	1,312
Deposits from the public (end balance)	5,826	-	5,826	5,960	-	5,960
Average balance of other assets managed	-	-	-	-	-	-
Components of profit from financing operations before provision for doubtful debts: (1)						
Margin from credit granting operations	11	-	11	13	-	13
Margin from receiving deposits	19	-	19	27	-	27
Other	2	1	3	2	1	3
Total	**32**	**1**	**33**	**42**	**1**	**43**

(1) Reclassified.

Contribution of the private banking segment to Group profit in the first nine months of 2009, excluding the provision for retirement agreement, amounted to NIS 23 million, compared to NIS 26 million in the corresponding period last year - a decrease of 11.5%.

The decrease in segment contribution was due to the impact of a 23.3% decrease in profit from financing operations, mostly due to lower interest rates which resulted in significant decrease in margin on deposits as well as to the decrease in operating revenues. On the other hand, a 13.6% decrease in expenses attributed to the segment, contributed to a lesser impact to segment profit.

Results of Private Banking Segment

	For the three months ended September 30, 2009			For the three months ended September 30, 2008 (1)		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
	NIS in millions			NIS in millions		
Profit from financing operations before provision for doubtful debts						
From outside operating segments	(9)	1	(8)	(56)	1	(55)
Inter-segment	17	-	17	69	-	69
Profit from financing operations before provision for doubtful debts	8	1	9	13	1	14
Operating and other revenues	5	8	13	7	10	17
Total profit	13	9	22	20	11	31
Provision for doubtful debts	-	-	-	1	-	1
Operating and other expenses						
From outside operating segments	13	-	13	16	1	17
Inter-segment	1	-	1	-	-	-
Total operating and other expenses	14	-	14	16	1	17
Pre-tax operating profit	(1)	9	8	3	10	13
Provision for taxes on operating profit	-	2	2	2	4	6
Net profit	**(1)**	**7**	**6**	**1**	**6**	**7**
Return on equity			**41.4%**			**62.8%**
Components of profit from financing operations before provision for doubtful debts: (1)						
Margin from credit granting operations	2	-	2	1	-	1
Margin from receiving deposits	5	-	5	11	-	11
Other	1	1	2	1	1	2
Total	**8**	**1**	**9**	**13**	**1**	**14**

(1) Reclassified.

Results of the Small Business Segment

	For the nine months ended September 30, 2009				For the nine months ended September 30, 2008			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
	NIS in millions				NIS in millions			
Profit from financing operations before provision for doubtful debts:								
From outside operating segments	226	2	2	230	11	2	6	19
Inter-segment	(8)	(1)	-	(9)	226	(2)	-	224
Profit from financing operations before provision for doubtful debts	218	1	2	221	237	-	6	243
Operating and other revenues	123	9	17	149	108	8	14	130
Total profit	341	10	19	370	345	8	20	373
Provision for doubtful debts	53	-	-	53	44	-	-	44
Operating and other expenses								
From outside operating segments	290	2	2	294	282	2	3	287
Inter-segment	(31)	-	-	(31)	(30)	-	-	(30)
Total operating and other expenses	259	2	2	263	252	2	3	257
Pre-tax operating profit	29	8	17	54	49	6	17	72
Provision for taxes on								
From current operations	10	3	5	18	19	2	6	27
Net profit	**19**	**5**	**12**	**36**	**30**	**4**	**11**	**45**
Return on equity				**14.3%**				**16.5%**
Average balance of assets	4,890	36	-	4,926	4,838	35	-	4,873
Average balance of liabilities	6,439	-	-	6,439	(1) 6,290	-	-	6,290
Average balance of risk assets	5,090	-	-	5,090	5,544	-	-	5,544
Average balance of securities	-	-	10,835	10,835	-	-	12,628	12,628
Credit to the public (end balance)	4,920	40	-	4,960	4,734	37	-	4,771
Deposits from the public (end balance)	6,240	-	-	6,240	6,280 (1)	-	-	6,280
Average balance of other assets managed	323	-	-	323	157	-	-	157
Components of profit from financing operations before provision for doubtful debts:								
Margin from credit granting operations	165	1	-	166	149	-	-	149
Margin from receiving deposits	26	-	-	26	56	-	-	56
Other	27	-	2	29	32	-	6	38
Total	**218**	**1**	**2**	**221**	**237**	**-**	**6**	**243**

(1) Reclassified.

Contribution of the small business segment to Group profit in the first nine months of 2009, excluding the provision for retirement agreement, decreased by NIS 3 million compared to its contribution in the corresponding period last year. Profit from financing operations decreased by NIS 22 million. The decrease in profit from financing operations resulted from the lower interest rates, which led to a significant decrease in margin on deposits, which was partially offset by an increase in margin on credit operations. The provision for doubtful debts increased by NIS 9 million. A 14.6% increase in operating revenues, and a 1.2% decrease in operating expenses, excluding the provision for retirement agreement, mitigated the decline in segment contribution.

Results of the Small Business Segment

	For the three months ended September 30, 2009				For the three months ended September 30, 2008			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
	NIS in millions				NIS in millions			
Profit from financing operations before provision for doubtful debts:								
From outside operating segments	83	-	1	84	132	1	2	135
Inter-segment	(15)	-	-	(15)	(51)	(1)	-	(52)
Profit from financing operations before provision for doubtful debts	68	-	1	69	81	-	2	83
Operating and other revenues	43	3	6	52	39	3	2	44
Total profit	111	3	7	121	120	3	4	127
Provision for doubtful debts	17	-	-	17	18	-	-	18
Operating and other expenses								
From outside operating segments	100	1	-	101	93	1	1	95
Inter-segment	(11)	-	-	(11)	(11)	-	-	(11)
Total operating and other expenses	89	1	-	90	82	1	1	84
Pre-tax operating profit	5	2	7	14	20	2	3	25
Provision for taxes on operating profit	1	1	1	3	8	-	1	9
Net profit	**4**	**1**	**6**	**11**	**12**	**2**	**2**	**16**
Return on equity				**12.6%**				**14.9%**
Components of profit from financing operations before provision for doubtful debts: (1)								
Margin from credit granting operations	50	-	-	50	48	-	-	48
Margin from receiving deposits	9	-	-	9	18	-	-	18
Other	9	-	1	10	15	-	2	17
Total	**68**	**-**	**1**	**69**	**81**	**-**	**2**	**83**

(1) Reclassified.

Results of the Commercial Banking Segment

	For the nine months ended September 30, 2009				For the nine months ended September 30, 2008			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
	NIS in millions				NIS in millions			
Profit from financing operations before provision for doubtful debts:								
From outside operating segments	167	-	1	168	207	-	1	208
Inter-segment	(63)	-	-	(63)	(96)	-	-	(96)
Profit from financing operations before provision for doubtful d	104	-	1	105	111	-	1	112
Operating and other revenues	27	2	6	35	27	2	6	35
Total profit	131	2	7	140	138	2	7	147
Provision for doubtful debts	11	-	-	11	2	-	-	2
Operating and other expenses								
From outside operating segments	48	-	-	48	41	-	-	41
Inter-segment	46	-	-	46	41	-	-	41
Total operating and other expenses	94	-	-	94	82	-	-	82
Pre-tax operating profit	26	2	7	35	54	2	7	63
Provision for taxes on From current operations	9	1	2	12	20	1	3	24
Net profit	**17**	**1**	**5**	**23**	**34**	**1**	**4**	**39**
Return on equity				**11.6%**				**19.5%**
Average balance of assets	4,106	3	-	4,109	4,283	-	-	4,283
Average balance of liabilities	2,180	-	-	2,180	2,082	-	-	2,082
Average balance of risk assets	3,987	-	-	3,987	4,075	-	-	4,075
Average balance of securities	-	-	1,757	1,757	-	-	1,697	1,697
Credit to the public (end balance)	4,148	3	-	4,151	4,417	-	-	4,417
Deposits from the public (end balance)	2,302	-	-	2,302	2,078	-	-	2,078
Average balance of other assets managed	42	-	-	42	23	-	-	23
Components of profit from financing operations before provision for doubtful debts:								
Margin from credit granting operations	67	-	-	67	75	-	-	75
Margin from receiving deposits	6	-	-	6	13	-	-	13
Other	31	-	1	32	23	-	1	24
Total	**104**	**-**	**1**	**105**	**111**	**-**	**1**	**112**

Contribution of the commercial banking segment to Group profit in the first nine months of 2009, excluding the provision for retirement agreement, decreased by NIS 14 million compared to its contribution in the corresponding period last year. This decrease in contribution is due to a 4.8% decrease in total revenues, to a NIS 9 million increase in provision for doubtful debts, and to a 11.0% increase in operating expenses attributed to this segment, excluding the provision for retirement agreement.

Results of the Commercial Banking Segment

	For the three months ended September 30, 2009				For the three months ended September 30, 2008			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
	NIS in millions				NIS in millions			
Profit from financing operations before provision for doubtful debts:								
From outside operating segments	66	-	1	67	76	-	-	76
Inter-segment	(35)	-	-	(35)	(38)	-	-	(38)
Profit from financing operations before provision for doubtful debts	31	-	1	32	38	-	-	38
Operating and other revenues	11	1	2	14	9	1	2	12
Total profit	42	1	3	46	47	1	2	50
Provision for doubtful debts	5	-	-	5	3	-	-	3
Operating and other expenses								
From outside operating segments	18	-	-	18	11	-	-	11
Inter-segment	16	-	-	16	15	-	-	15
Total operating and other expenses	34	-	-	34	26	-	-	26
Pre-tax operating profit	3	1	3	7	18	1	2	21
Provision for taxes on								
From current operations	1	1	1	3	6	1	1	8
Net profit	**2**	**-**	**2**	**4**	**12**	**-**	**1**	**13**
Return on equity				**6.5%**				**20.4%**
Components of profit from financing operations before provision for doubtful debts: (1)								
Margin from credit granting operations	16	-	-	16	26	-	-	26
Margin from receiving deposits	2	-	-	2	4	-	-	4
Other	13	-	1	14	8	-	-	8
Total	**31**	**-**	**1**	**32**	**38**	**-**	**-**	**38**

(1) Reclassified.

Results of the Business Banking Segment

	For the nine months ended September 30, 2009				For the nine months ended September 30, 2008			
	Banking and finance (1)	Capital market	Real estate and construction	Total	Banking and finance (1)	Capital market	Real estate and construction	Total
	NIS in millions				NIS in millions			
Profit from financing operations before provision for doubtful debts:								
From outside operating segments	295	8	168	471	244	14	305	563
Inter-segment	10	-	(41)	(31)	(2)	-	(178)	(180)
Profit from financing operations before provision for doubtful debts	305	8	127	440	242	14	127	383
Operating and other revenues	102	21	6	129	72	31	6	109
Total profit	407	29	133	569	314	45	133	492
Provision for doubtful debts	120	-	2	122	40	-	38	78
Operating and other expenses								
From outside operating segments	137	1	27	165	116	1	23	140
Inter-segment	46	-	8	54	41	-	7	48
Total operating and other expenses	183	1	35	219	157	1	30	188
Pre-tax operating profit	104	28	96	228	117	44	65	226
Provision for taxes on operating profit	35	10	33	78	43	17	24	84
Net profit	**69**	**18**	**63**	**150**	**74**	**27**	**41**	**142**
Return on equity				**10.9%**				**10.4%**
Average balance of assets	20,891	-	6,357	27,248	16,249 (2)	-	6,240	22,489
Average balance of liabilities	13,638	-	1,213	14,851	12,170	-	1,065	13,235
Average balance of risk assets	18,698	-	9,177	27,875	16,638	-	10,830	27,468
Average balance of securities	-	45,189	-	45,189	-	37,701	-	37,701
Credit to the public (end balance)	15,436	-	6,048	21,484	14,150	-	5,772	19,922
Deposits from the public (end balance)	12,619	-	1,400	14,019	10,205 (2)	-	1,058	11,263
Average balance of other assets managed	13	-	115	128	8	-	146	154
Components of profit from financing operations before provision for doubtful debts:								
Margin from credit granting operations	183	-	111	294	123	-	110	233
Margin from receiving deposits	41	-	16	57	45	-	17	62
Other	81	8	-	89	74	14	-	88
Total	**305**	**8**	**127**	**440**	**242**	**14**	**127**	**383**

(1) Includes operating results for credit card segment, in immaterial amounts.
(2) Reclassified.

Contribution of the business banking segment to Group profit in the first half of 2009, excluding the provision for retirement agreement, amounted to NIS 155 million, compared to NIS 142 million in the corresponding period last year - a 9.2% increase.

This increase is primarily due to a 14.9% increase in financing profit, mostly due to an increase in revenues from credit margins, and to an 18.4% increase in operating revenues, mostly due to realized gain from equity received as collateral for client debt.

On the other hand, the provision for doubtful debts increased in the first nine months of 2009 by NIS 44 million over the corresponding period last year, primarily due to an increase in provision in respect of major borrowers.

Operating expenses attributed to the segment, excluding the provision for retirement agreement, increased by 12.8%.

Results of the Business Banking Segment

	For the three months ended September 30, 2009				For the three months ended September 30, 2008			
	Banking and finance (1)	Capital market	Real estate and construction	Total	Banking and finance (1)	Capital market	Real estate and construction	Total
	NIS in millions				NIS in millions			
Profit from financing operations before provision for doubtful debts								
From outside operating segments	90	3	37	130	71	4	88	163
Inter-segment	1	-	5	6	6	-	(50)	(44)
Profit from financing operations before provision for doubtful debts	91	3	42	136	77	4	38	119
Operating and other revenues	67	7	2	76	17	11	3	31
Total profit	158	10	44	212	94	15	41	150
Provision for doubtful debts	30	-	5	35	32	-	23	55
Operating and other expenses								
From outside operating segments	51	-	10	61	38	-	6	44
Inter-segment	16	-	3	19	16	-	2	18
Total operating and other expenses	67	-	13	80	54	-	8	62
Pre-tax operating profit	61	10	26	97	8	15	10	33
Provision for taxes on operating profit	20	3	9	32	2	6	2	10
Net profit	**41**	**7**	**17**	**65**	**6**	**9**	**8**	**23**
Return on equity				**16.6%**				**5.3%**
Components of profit from financing operations before provision for doubtful debts: (2)								
Margin from credit granting operations	53	-	41	94	30	-	35	65
Margin from receiving deposits	13	-	1	14	10	-	3	13
Other	25	3	-	28	37	4	-	41
Total	**91**	**3**	**42**	**136**	**77**	**4**	**38**	**119**

(1) Includes operating results for credit card segment, in immaterial amounts.
(2) Reclassified.

Financial Management Segment results

	For the nine months ended September 30, 2009			For the nine months ended September 30, 2008 (1)		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
	NIS in millions			NIS in millions		
Profit from financing operations before provision for doubtful debts						
From outside operating segments	(1,178)	4	(1,174)	(1,101)	3	(1,098)
Inter-segment	1,271	(1)	1,270	1,162	-	1,162
Profit from financing operations before provision for doubtful debts	93	3	96	61	3	64
Operating and other revenues	74	27	101	82	15	97
Total profit	167	30	197	143	18	161
Provision for doubtful debts	-	-	-	9	-	9
Operating and other expenses						
From outside operating segments	172	6	178	151	7	158
Inter-segment	5	-	5	18	-	18
Total operating and other expenses	177	6	183	169	7	176
Operating profit (loss) before taxes	(10)	24	14	(35)	11	(24)
Provision for taxes on operating profit	(3)	9	6	(13)	4	(9)
After-tax operating profit (loss)	(7)	15	8	(22)	7	(15)
Share of external shareholders in net operating profit after taxes of subsidiaries	(9)	-	(9)	-	-	-
Net operating profit (loss)	(16)	15	(1)	(22)	7	(15)
Net after-tax profit from extraordinary items	-	-	-	1	-	1
Net profit (loss)	**(16)**	**15**	**(1)**	**(21)**	**7**	**(14)**
Return on equity			**(0.3%)**			**(3.8%)**
Average balance of assets	21,027	-	21,027	23,759	-	23,759
Average balance of liabilities	33,202	-	33,202	35,663	-	35,663
Average balance of risk assets	7,755	-	7,755	8,693	-	8,693
Average balance of provident and mutual fund assets	60,849	-	60,849	51,958	-	51,958
Average balance of securities	-	22,607	22,607	-	23,532	23,532
Credit to the public (end balance)	-	-	-	-	-	-
Deposits from the public (end balance)	18,239	-	18,239	15,632	-	15,632
Components of profit from financing operations before provision for doubtful debts: (1)						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	93	3	96	61	3	64
Total	**93**	**3**	**96**	**61**	**3**	**64**

(1) Reclassified.

The financial management segment, excluding the impact of initial consolidation of Bank Yahav, contributed a loss of NIS 14 million to Group profit for the first nine months of 2009, similar to the loss in the corresponding period last year. Profit from financing operations in the first nine months of 2009, excluding gain (or loss) from realization and impairment of debentures held for sale and debentures held for trading, net, as well as the impact of accounting treatment of derivatives at fair value, amounted to NIS 128 million, compared to NIS 167 million in the corresponding period last year. The decrease was due, inter alia, to lower interest rates in the market, which resulted in significantly lower margins on deposits. Operating revenues in the first nine months of 2009 increased by 4.1% over the corresponding period last year, and operating expenses, excluding the provision for retirement agreement, increased slightly by 0.6% from the corresponding period.

Financial Management Segment results

	For the three months ended September 30, 2009			For the three months ended September 30, 2008 (1)		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
	NIS in millions			NIS in millions		
Profit from financing operations before provision for doubtful debts						
From outside operating segments	(619)	3	(616)	(707)	1	(706)
Inter-segment	665	-	665	691	-	691
Profit (loss) from financing operations before provision for doubtful debts	46	3	49	(16)	1	(15)
Operating and other revenues	18	15	33	34	6	40
Total profit	64	18	82	18	7	25
Provision for doubtful debts	-	-	-	9	-	9
Operating and other expenses						
From outside operating segments	63	2	65	41	1	42
Inter-segment	1	-	1	7	-	7
Total operating and other expenses	64	2	66	48	1	49
Operating profit (loss) before taxes	-	16	16	(39)	6	(33)
Provision for taxes on operating profit	1	7	8	(14)	2	(12)
Net after-tax operating profit (loss)	(1)	9	8	(25)	4	(21)
Share of external shareholders in net operating profit after taxes of subsidiaries	(1)	-	(1)	-	-	-
Net operating profit (loss)	(2)	9	7	(25)	4	(21)
Net after-tax profit from extraordinary items	-	-	-	1	-	1
Net profit (loss)	**(2)**	**9**	**7**	**(24)**	**4**	**(20)**
Return on equity			**4.2%**			**(19.0%)**
Components of profit from financing operations before provision for doubtful debts: (1)						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	46	3	49	(16)	1	(15)
Total	**46**	**3**	**49**	**(16)**	**1**	**(15)**

.Reclassified (1)

International operations

General information regarding international operations

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

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

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

Details of the affiliates and their business are as follows:

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

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

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

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

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

Representative offices: The major activities of representative offices are marketing of Bank services and its representation overseas. The Bank operates representative offices in Mexico, Uruguay, 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, 2008.

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

	For the nine months ended September 30, 2009				
	Household	Private banking	Business banking	Financial management	Total
Profit from financing operations before provision for doubtful debts	11	29	55	10	105
Operating and other revenues	1	30	5	9	45
Total revenues	12	59	60	19	150
Provision for doubtful debts	1	1	1	-	3
Operating and other expenses	8	37	35	6	86
Pre-tax operating profit	3	21	24	13	61
Provision for taxes on operating profit	1	8	9	5	23
Net profit	**2**	**13**	**15**	**8**	**38**

	For the nine months ended September 30, 2008				
	Household	Private banking	Business banking	Financial management	Total
Profit from financing operations before provision for doubtful debts	15	35	31	(1) (96)	(15)
Operating and other revenues	1	36	6	6	49
Total revenues	16	71	37	(90)	34
Provision for doubtful debts	-	1	2	-	3
Operating and other expenses	8	35	31	6	80
Operating profit (loss) before taxes	8	35	4	(96)	(49)
Provision for taxes on operating profit	3	13	1	(36)	(19)
Net profit (loss)	**5**	**22**	**3**	**(60)**	**(30)**

(1) The loss from financing operations in the first nine months of 2008 was primarily due to impairment of investments due to the financial crisis.

Off balance sheet activity

As of September 30, 2009, the balance of securities held for Bank clients amounted to NIS 116 billion, including NIS 20 billion in non-negotiable securities, compared to NIS 80 billion as of December 31, 2008, including NIS 14 billion in non-negotiable securities.

Revenues from securities transactions for the Group amounted to NIS 195 million in the first nine months of 2009, compared with NIS 158 million in the corresponding period last year - a 25.3% increase. Revenues from securities transactions, excluding revenue of NIS 22 million in the first nine months of 2009 and NIS 4 million in the corresponding period last year, due to consolidation of Bank Yahav's financial statements, increased by 12.3% over the corresponding period last year.

Revenues from securities transactions for the Group amounted to NIS 70 million in the third quarter of 2009, compared with NIS 57 million in the corresponding period last year - a 22.8% increase.

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 September 30, 2009 amounted to NIS 93.4 billion (of which NIS 11.9 billion at Bank Yahav, initially consolidated in the 3rd quarter of 2008), compared to NIS 91.8 billion at the end of 2008. Deposits from the public in the CPI-linked segment decreased in the first nine months of 2009 by 2.0%; deposits from the public in the foreign currency and foreign-currency-linked segment decreased by 1.0%; and deposits from the public in the NIS-denominated, non-CPI-linked segment increased by 4.7%. For details, see the chapter on development of balance sheet items above.

The revalued balance of the complex capital notes as of September 30, 2009 was NIS 1.8 billion, compared to NIS 1.2 billion as of December 31, 2008.

In accordance with the Bank's plan for raising upper Tier II capital for its current operations, the Bank raised in the first nine months of 2009 a total of NIS 541 million against allotment of additional complex capital notes, considered to be upper Tier II capital, with par value of NIS 580 million. In addition, the Bank would issue subordinated notes, considered to be Tier II capital, as required.
This information is a kind of forward-looking information, which is based on various assumptions and forecasts presented to the Bank's management, as described below. The information may not be realized, if Bank management finds that it is not expedient to carry out the plan, or due to changes that could occur in various influencing factors that are not under the sole control of the Bank. The influencing factors include forecasts on various matters related to economic developments in Israel and internationally, especially the state of the economy, including macroeconomic and geopolitical conditions, and the currency market and capital market, other factors that impact the exposure to financial risk, the public's preferences, legislation, directives of regulatory entities, the behavior of competitors, aspects related to the Bank's image, technological developments and manpower matters.

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

As of the date of these financial statements, Tefahot Issue issued to the public obligatory notes (Series 25-30) with total par value of NIS 2,477 million. The revalued balance as of September 30, 2009 of the obligatory notes outstanding amounted to NIS 2,849 million, of which NIS 1,325 million is considered as Tier II capital. In the first nine months of 2009, Tefahot Issuance issued subordinated capital notes considered to be Tier II capital, amounting to NIS 370 million , with par value of NIS 355 million. On October 28, 2009, Tefahot Issuance issued subordinated capital notes considered to be Tier II capital, amounting to NIS 494 million is , with par value of NIS 424 million. These subordinated capital notes were allotted pursuant to a shelf prospectus dated February 25, 2009 and a shelf offering report dated October 27, 2009.

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

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

On September 15, 2009, the Bank and the Trustee for the Bank's subordinated capital notes (Series A) signed an addendum, revising the Deed of Trust dated November 16, 2006, which is effective as of the signing date there of.

According to the revision, the capital note section stipulating that interest payment to holders of capital notes would be suspended, *inter alia*, in case "within a period of six consecutive quarters, the financial statements for the most recent of which was published prior to the date set for payment of such interest, the Bank has not reported a cumulative net profit" (i.e. if the simple summation of quarterly net profit or loss amounts stated on the Bank financial statements, in respect of six consecutive quarters, should be negative).

This revision was made since in June 2009, the Supervisor of Banks published a circular concerning "Criteria for Recognition of Complex Capital Instruments", which set forth the current conditions for capital notes to be recognized as upper Tier II capital, and these conditions set forth by the Supervisor do not include the condition with regard to suspension of interest payments following a loss in six consecutive quarters; therefore, future series of capital notes to be recognized as upper Tier II capital shall not include this condition. Since the Bank aims, in as much as possible, at uniformity in terms and conditions of different series of obligatory notes having similar features, in order to create equality of terms and conditions as well as ratings of debentures of different types, in as much as possible – therefore the Bank Board of Directors approved this revision and has applied to the Supervisor of Banks and to the Trustee for approval of this revision, which has been granted.

Note that the Trustee has signed off on the revision after being convinced that this revision does not impact holders of the capital notes, and does not alter interest rates and payment dates, and that the revision is beneficial to holders of the capital notes such that even should the suspensive condition occur - interest would still be paid.

Risk Management

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

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

Bank management believes that risk control and management must be an integrative process. As part of this approach, the Bank purchased a risk management system (the Algorithmics system) that enables management and control under a single platform of the market risk and liquidity risk of the Bank, and in the future, also the various credit risk components, including implementation of Basle II (standard approach) regulations for calculating regulatory and economic capital. During 2007 the Bank completed a move to enable use of advanced models for management of customer exposure to the foreign currency segment of the capital market. This effort was expanded in 2008, aiming to include customers operating in other trading arenas. In the third quarter of 2009, the Bank completed its preparations for implementations of Pillar I of the Basle II directive.

Credit risk

The Bank's credit policies prescribe principles and rules for making credit available and for the management and control over the loan portfolio, in order to preserve its quality and reduce the inherent risk. These principles and rules enable controlled management of the risk involved in granting loans to borrowers, at the level of the individual borrower, group of borrowers and the level of economic and business sectors.

Quantitative aspects of the regulation, and not less important – its qualitative components, have a strong impact on how credit risk is managed by the Bank. In particular, the ICAAP (Internal Capital Adequacy Assessment Process) conducted in conjunction with Pillar II of Basle II (see below) also reviews the credit risk management processes at the Bank.

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

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

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

In view of recent events in the capital market, and against the back-drop of the global financial crisis, the Supervisor of Banks instructed all banking corporations in a letter dated October 12, 2009 to refer to the financial standing of sensitive borrowers in order to identify debt requiring specific treatment or special reference. The Bank is preparing to implement this directive and to conduct a comprehensive review of its credit portfolios based on specified criteria, jointly by business entities and by the credit control unit, and under supervision of the Board of Directors' Credit Committee. Findings of this review, its conclusions and the action plan for implementation there of shall be brought for approval by the Board of Directors and shall be reported to the Supervisor of Banks.

Below is information on the Bank's exposure to foreign financial institutions (1) (2) as of September 30, 2009 (NIS in millions):

External credit rating	Balance sheet credit risk (3)	Off-balance sheet credit risk (4)	Current credit exposure
AAA to AA-	2,217	396	2,613
A+ to A-	1,008	19	1,027
BBB+ to BBB-	111	-	111
BB+ to B-	14	2	16
Lower than B-	68	-	68
Unrated	24	-	24
Total credit exposure to foreign financial institutions	3,442	417	3,859
Balance of problem loans (5)	50	-	50

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

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

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

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

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

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

(5) Balance of problem loans 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.

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

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

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

The Bank determines the exposure limit to each financial institution based on the most recent rating available for said institution, and only ratings provided by one of the leading international rating agencies are used – based on financial information for the institution under review. Exposure limits per institution include maximum exposure amount and maximum time to maturity for different types of activities and transactions.

To this end, the existence (or absence) of an offset agreement for derivative operations with said financial institution is also taken into consideration. The policy also sets forth a hierarchy of authority for approval of specific transactions within the exposure limits.

The Bank monitors current ratings published for financial institutions to which it has exposure, and adjusts the exposure limits and actual exposure, as required, to the current rating. The Bank also reviews on a regular basis any additional information available with regard to said institutions in order to monitor exposure even where the credit rating may not reflect the complete picture.

The Bank takes into consideration the maturity dates of its credit exposure in conjunction with the Bank's liquidity requirements. Deposits are normally deposited for short terms, whereas exposure in respect of derivatives and investments in securities are for longer terms.

Concentration risk

Risk concentration is defined as a single exposure, or group of exposures, with a potential to cause the Bank to incur a loss due to sensitivity of said group of exposures to a market factor. For example, a macro-economic factor may impact one sector more than it does another. Should the Bank's exposure to the impacted sector be higher (more concentrated), the Bank may be impacted due to deterioration of this sector.

Concentration risk may amplify the loss due to realization of any of the risk types (market risk, credit risk, liquidity risk) and may lead to an increased exposure to loss due to concentration of investments in a specific geography, economic sector, single borrower or group of borrowers.

The issue of concentration risk is handled in conjunction with Pillar II of Basle II.

Market risk

Market risk to which the Bank is exposed in different financial instruments arises from their susceptibility to unexpected changes in interest rates, inflation rates and exchange rates, such that changes in market conditions may lead to changes in the fair value of the different financial instruments. The principal market risk to which the Bank is exposed are interest risk, basis risk and liquidity risk.

Market risk management is intended to maximize Bank profit at the prescribed risk level.

Exposure to market risk is managed in accordance with the limitations prescribed by the Board of Directors, within the frameworks of and subject to which, the Bank’s Executive Management acts, according to the market conditions at any given time. The market risk manager for the Bank is the head of its Financial Division.

In order to improve response time to capital market volatility, the bank started calculating VAR using a new method in May 2008; this method combines multiple calculation methods, while adjusting the number of historic observations used for calculation.

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

	First nine months of 2009	2008 (1)
At end of period	251	112
Maximum value during period	287 (April)	153 (Oct.)
Minimum value during period	164 (in Jan.)	80 (Feb.)

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

During the period under review, no exceptions to the Board of Directors restrictions were recorded. The Bank's VAR values are constantly measured and monitored against the risk limitations.

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

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 September 30, 2009:

Profit (loss), NIS in millions:

	Scenarios				Extreme historical scenario (1)	
	increase	increase	5% decrease	10% decrease	Maximum increase	Maximum decrease
CPI	2.1	1.1	(1.1)	(2.1)	0.6	(0.2)
Dollar	29.4	10.5	0.1	13.0	11.1	(1.4)
Pound Sterling	(1.2)	(0.3)	0.3	0.8	(0.7)	0.2
Yen	(0.5)	0.0	(0.3)	(0.4)	(1.2)	(0.4)
Euro	9.8	1.9	(0.2)	(2.1)	4.0	(0.2)
Swiss Franc	(1.0)	(0.6)	0.5	3.3	(0.9)	0.9

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

Interest risk

Interest risk is the risk of capital erosion due to changes in interest rates. There are four major types of exposure to interest risk:

Re-pricing risk arises from timing differences between term to maturity of assets and those of liabilities and off-balance sheet positions.

Yield curve risk is inherent in changes (in slope or shape) of the time-based structure of interest rates.

Interest basis risk is due to different impact of changes in interest rates on different financial instruments.

Options inherent in assets or in liabilities.

The exposure to interest risk results from a lack of correlation between the period to maturity of the Bank's assets and liabilities.

Interest risk in the Bank's banking portfolio is managed using the EVE (Economic Value of Equity) model - a model which reviews changes in the economic value of the portfolio under different assumptions regarding changes to the interest rate curve. This model is used in addition to monitoring interest risk in VAR terms and stress testing, as part of overall market risk. In the first half of this year, Bank management set guidelines for interest risk management using the EVE model in terms of capital. These guidelines determine the Bank's risk appetite and the framework in which the Bank regularly manages its interest risk exposure. The guidelines with regard to interest risk are within the current restrictions imposed by the Board of Directors.

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

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

	September 30, 2009					
	Israeli currency		Foreign currency [2]			
	Non-linked	CPI- linked	Dollar	Euro	Other	Total
Financial assets [1]	55,629	37,757	12,219	4,242	3,347	113,194
Fair value of financial derivatives	1,402	202	88	47	81	1,820
Financial liabilities [1]	(54,106)	(33,777)	(12,510)	(4,699)	(2,786)	(107,878)
Fair value of financial derivatives	(1,476)	(276)	(311)	(92)	(128)	(2,283)
Total	1,449	3,906	(514)	(502)	514	4,853

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

	September 30, 2009							
	Israeli currency		Foreign currency (2)				Change in fair value	
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total	NIS in millions	In %
Change in interest rates								
Concurrent immediate increase of 1%	1,498	4,095	(499)	(508)	497	5,083	230	4.7%
Concurrent immediate increase of 0.1%	1,454	3,927	(513)	(502)	512	4,878	25	0.5%
Concurrent immediate decrease of 1%	1,390	3,681	(529)	(496)	529	4,575	(278)	(5.7%)

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

(2) Including Israeli currency linked to foreign currency.

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

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

Liquidity risk

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

No exceptions to the Board of Directors' limitations were recorded in the first nine months of 2009.

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

in the first nine months of 2009 has large excess liquidity, following a range of monetary steps taken by the Bank of Israel to increase liquidity in the system.
Surplus liquid means over financing requirements in Israeli and foreign currency liquidity are invested with the Bank of Israel, with the Federal Reserve Bank and in debentures which may be quickly realized.

Financial derivatives

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

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

The Bank operates in credit derivatives in its nostro portfolio. In these operations, the Bank guarantees eligibility for payment in case of change in credit rating, failure to meet obligations or any other credit event related to counter-parties which are states or overseas banks. These investments are individually reviewed by the Risk Management Committee, and are submitted for approval by the Asset and Liability Management Committee. The par value of these credit derivatives as of September 30, 2009 amounted to NIS 971 million.

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

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

Environmental risk

In recent years, global awareness of the potential financial exposure arising from regulations related to environmental protection has grown. 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. The Bank Board of Directors is required to approve the criteria and schedule for implementation as set forth in the letter, no later than June 30, 2010. The Bank is preparing to implement the Supervisor of Banks' directives.

Operating risk

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

The operating risk manager for the Bank is the head of its Comptrollership, Planning, Operations and Control Division. A steering committee at the Bank meets once a fortnight to handle current issues related to operating risk, SOX and information security. In addition, the management committee is convened quarterly.

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

In early 2009, the responsibility for application of processes derived from directives of the Supervisor of Banks pursuant to sections 404 and 302 of the Sarbanes Oxley Act, was placed with the operating risk management department of the Risk Control Division. Management of SOX processes will be incorporated into the operating risk management system.

In 2009, training was delivered to different Bank units about internal control and operating risk. This training included all branches and internal control trustees appointed by branch managers (an internal control trustee was appointed at each Bank branch, with the responsibility for handling and reporting issues related to operating risk, SOX and information security).

Legal risk

Proper Conduct of Banking Businesses Regulation 339 prescribes, inter alia, that banking corporations must take action to reduce the legal risk resulting from their various operations. According to the regulation, the legal risk is "the risk of a loss resulting from not having the possibility of legally enforcing an agreement".
Within the scope of the Bank's preparations to manage legal risk and comply with the regulation, the Chief Legal Counsel was appointed as Legal Risk Manager, with the function of managing this risk and taking action to reduce them.

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

Recommendations of Basle Committee on Banking Supervision ("Basle II")
In June 2004, the Basle Committee published final, revised Basle II recommendations intended to assure proper regulation for arranging the rules of capital adequacy of banks in different countries (hereinafter: ("Basle II"). 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.

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

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, internal capital allocation, specification of authority etc.

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 III of Basle II, and the Bank is in the preparations for implementation there of.

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. In accordance with these directives, banking corporations in Israel would be required to transition to calculation of adequacy ratios based on Basle II rules starting on December 31, 2009. Furthermore, banking corporations are required to report to the Supervisor of Banks quarterly, starting with data for December 31, 2008, their capital adequacy ratio in accordance with Basle II directives (standard model).

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

The Bank began preparing for application of the Basle II recommendations in 2006, established a steering committee headed by a Bank executive, established the required teams and started mapping gaps and technology required for application of this directive. The project is conducted at Group level, based on a detailed work plan which includes all directive components. The work plan also includes a dedicated chapter on operating risk management, as per Basle II requirements, and as is customary for leading banks around the world.

The Bank's overall estimated capital adequacy ratio, as calculated in accordance with rules of the Basle II Pillar I standard model, as of September 30, 2009, was higher by 1.5% over the capital adequacy ratio calculated (see Note 4 to the financial statements) based on the Basle I directive (of which, a 0.8% increase in Tier I capital adequacy ratio). Through the effective date of the interim directive – December 31, 2009 – the Bank continued the testing and improvement process of calculation based on Basle II rules (standard model).

In 2008, the Bank launched the ICAAP process (in conjunction with Pillar II of the Basle II directive), setting up a steering committee headed by the Bank President, mapping all material risk associated with Bank operations and appointment of Bank executives as Risk Owners for each risk type. ICAAP is a comprehensive process in which senior Bank executives are involved. Thus management is exposed to this issue at all levels, as well as to the issue of risk and control there of. In addition, workshops were held for Bank Board members with regard to risk management and to the ICAAP process in particular.

In late June 2009, the Bank filed with the Bank of Israel its draft ICAAP document, which reflects the Bank's assessment of the capital required by the Bank to cover all risk exposures arising from its business operations.
The ICAAP process is a continuous one. In the third quarter, the Bank's ICAAP document was reviewed by senior international consultants. In the fourth quarter of this year, the Bank will launch an independent review of the process, which would continue in 2010, while eliminating current gaps vs. requirements of the Basle Committee for the various risk types, and continuing to deliver workshops to the Bank Board of Directors. The project team is regularly upgrading the document and the process at the Bank, based on conclusions by the international consultants.

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”). In accordance with a draft directive issued by the Supervisor of Banks, implementation of this directive in financial statements of banking corporations is to be delayed from January 1, 2010 to July 1, 2010 - 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.

Value Added Tax Order (Tax Rate on Transactions and on Import of Goods) (Interim Directive), 2009
On June 21, 2009 the Minister of Finance signed the Order, whereby the VAT rate would be increased to 16.5% effective from July 1, 2009 through December 31, 2010.

Amendment to Proper Conduct of Banking Businesses Regulation 315 "Supplementary Provision for Doubtful debts")

On September 17, 2009, the Supervisor of Banks issued an amendment to Proper Banking Conduct Regulation No. 315 "Supplementary Provision for Doubtful debts" with regard to limit on exposure to industry sector. The amendment stipulated that in calculation of excessive indebtedness for indebtedness of corporations whose main business is infrastructure projects, the Bank may select any reporting date for exceeding the limit set in the directive, where by the total indebtedness of any specific industry sector to the bank shall not exceed 20% of total public indebtedness to the bank. Instead, the bank may calculate the surplus excessive indebtedness for determining the rate of supplementary provision for corporations engaged in infrastructure projects based on 22% of total public indebtedness to the bank, or 18% of indebtedness of these corporations, excluding the indebtedness of the Civil Engineering Work sector.

Tax Laws Applicable to the Bank Group

The Bank is classified as a "financial institution" under the VAT Act, 1975 and is therefore liable for payment of taxes on salary and profit, as well as for corporate tax as per the Income Tax Ordinance (New Version), 1961.

Improved Economic Efficiency Act (Legislation Changes for Implementation of the Economic Plan for 2009–2010), 2009
On July 14, 2009, the Improved Economic Efficiency Act (Legislation Changes for Implementation of the Economic Plan for 2009–2010), 2009 was enacted, whereby tax rates would be lowered from 26% in 2009 to 18% in 2015.

Corporate tax and profit tax

Below are the corporate tax rate, profit tax rate and total effective tax rate applicable to Bank profits in coming years:

Year	Corporate tax	Profit tax	Effective tax rate
2009	26%	(1) 16.5%	36.21%
2010	25%	16.5%	35.62%
2011	24%	15.5%	34.20%
2012	23%	15.5%	33.33%
2013	22%	15.5%	32.49%
2014	21%	15.5%	31.60%
2015 and later	18%	15.5%	29.00%

(1) The profit tax rate through June 30, 2009 was 15.5%, hence the average profit tax rate for 2009 is 16.0%.

The impact of the change in tax rates on deferred tax balances would result in a tax expense amounting to NIS 10 million, which would be included in financial statements for the third quarter of 2009.

Legal Proceedings

Letter from the Restrictive Trade Practices Authority

On April 26, 2009, the Bank received a determination by the Anti-Trust Supervisor pursuant to Section 43(a)(1) of the Restrictive Trade Practices Act, 1988, whereby restrictive trade practices existed between the Bank and Bank HA-POALIM 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.

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

See Note 6.C.4 to the financial statements for additional details.

Demand by shareholder with regard to filing a derivative claim

On May 13, 2009, a claim letter was received from a shareholder of the Bank pursuant to Section 194 of the Corporate Act, 1999 in which the shareholder demands that the Bank announce within 45 days that it has filed a claim against officers, Board members and controlling shareholders of the Bank since the 1990s, requiring them to pay damages and/or to reimburse the Bank should a court of law find (or a settlement be agreed to) in one of the class action suits pending against the Bank on this matter, that the Bank should compensate its clients and/or reimburse them for unlawful charging of commissions. This claim is based on the determination by the Anti-Trust Supervisor dated April 26, 2009.

On July 1, 2009 the Bank rejected this claim. The Bank's position, after consulting with external legal counsel, that even after the Anti-Trust Supervisor's determination has been made public, the Bank has no cause for filing a claim against its officers, Board members and controlling shareholders. At this point in time, the alleged damage has yet to be realized, and may not be realized at all, and the extent of such damage is certainly unknown at present, even should it be awarded. The class action suits are at a very preliminary stage - that of filing the motion for recognition - and it is unclear if they would be recognized as class action suits, and even should they be thus recognized, if the Bank would be found liable. Furthermore, filing a claim is not in line with the Bank's interest and is directly opposed to the Bank's position whereby the published determination is erroneous, and the Bank's actions do not constitute a restrictive practice, and even had they constituted a restrictive practice, no damage has been sustained by class plaintiffs.

Other Matters

The independent auditor has drawn, in their review, the attention to Note 6.C.3 to the financial statements with regard to claims filed against the Bank, including claims 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 2008 financial statements. No material changes occurred in these details during the reported period.

On May 11, 2009, the internal auditor exercised 26,000 option warrants allotted to him under the stock option plan approved by the Bank Board of Directors on February 27, 2005.

On November 9, 2009, the Bank Board of Directors approved the allotment of 259,000 option warrants to the Internal Auditor in conjunction with an allotment to other Bank officers. See Note 11.C to the financial statements for details.

Certification process of the financial statements

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

Bank financial statements are prepared by a professional department, headed by the Chief Accountant, 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 of lack of material facts, that they instituted effective controls in order to ensure that any material information in their area of responsibility is brought to their attention, and that any significant fault or material weakness of the internal audit of financial reporting which is likely to impact the Bank's ability to record, process, summarize and report financial information in their areas of responsibility have been brought to the attention of the appropriate parties. For a listing of Bank management, with names and positions, see the Board of Directors' 2008 Report. The bank operates a Doubtful Debts Committee, headed by the manager of the Business Division, and attended by professional credit officers, as well as a doubtful debts committee headed by the President and attended by the manager of the Business Division, manager of the Retail Division, manager of the Financial Division, the Chief Accountant and the Chief Legal Counsel. In conjunction with preparation of the financial statements, the committee reviews the state of problem loans of the bank, their classification and provisions required there for. In addition, the Chief Legal Counsel and the Chief Accountant review the provisions required in respect of claims filed against the bank.

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

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

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

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

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

Board of Directors

During the first nine months of 2009, the Bank Board of Directors held 15 plenary meetings and 44 Board committee meetings.

At the Board meeting on January 19, 2009, Mr. AVRAHAM NATAN announced his retirement from the Bank Board of Directors. He left his office as Board member on April 30, 2009.

At the Board of Directors meeting held on June 29, 2009, the Chairman of the Board, Mr. YAAKOV PERRY, announced the resignation of Mr. YOSSI ROZEN from the Bank Board, effective as of the notice date.

At the Board meeting held on February 16, 2009, Ms. LEORA OFER was appointed member of the Executive Committee, replacing Mr. YULI OFER.

At the Annual General Meeting held on June 25, 2009, Mr. GIDEON SITTERMAN was appointed independent Board member. His start date in office is July 7, 2009.

On November 9, 2009, the Bank Board of Directors resolved to establish a risk management committee. This committee is tasked with discussing issues related to risk management at the Bank, including issues pertaining to internal control at the Bank which are within the authority of the Board of Directors, provided that the Board of Directors is not required to discuss such issues in plenum. The committee members have yet to be appointed.

Controls and Procedures

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

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

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

JACOB PERRY	**ELIEZER YONES**
Chairman of the Board of Directors	President

Ramat Gan, November 23, 2009

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

Reported amounts (NIS in millions)

	For the three months ended September 30, 2009				For the three months ended September 30, 2008			
			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)	55,079	340	2.49		42,470	606	5.83	
Effect of embedded and ALM derivatives (4)	43,009	148			43,210	582		
Total assets	98,088	488		2.00	85,680	1,188		5.66
Liabilities (3)	51,713	(65)	(0.50)		44,792	(339)	(3.05)	
Effect of embedded and ALM derivatives (4)	37,884	(99)			36,045	(518)		
Total liabilities	89,597	(164)		(0.73)	80,837	(857)		(4.30)
Interest margin			1.99	1.27			2.78	1.36
Israeli currency - linked to the CPI								
Assets (3)	35,326	1,308	15.65		37,483	1,236	13.86	
Effect of embedded and ALM derivatives (4)	3,592	91			4,198	81		
Total assets	38,918	1,399		15.17	41,681	1,317		13.25
Liabilities (3)	30,774	(1,105)	(15.15)		30,557	(950)	(13.03)	
Effect of embedded and ALM derivatives (4)	8,442	(273)			9,121	(189)		
Total liabilities	39,216	(1,378)		(14.81)	39,678	(1,139)		(11.99)
Interest margin			0.50	0.36			0.83	1.26

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

Management Review - Addendum A

Revenue and Expense Rates – Consolidated (1)

Reported amounts (NIS in millions)

	For the three months ended September 30, 2009				For the three months ended September 30, 2008			
			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)	25,066	(685)	(10.49)		21,176	96	1.83	
Effect of derivatives (4)								
Hedging derivatives	1,151	135			710	16		
Embedded and ALM derivatives	35,721	(1,082)			42,477	9,725		
Total assets	61,938	(1,632)		(10.13)	64,363	9,837		76.62
Liabilities (3)	26,393	951	13.65		19,070	154	3.19	
Effect of derivatives (4)								
Hedging derivatives	1,246	(196)			702	(31)		
Embedded and ALM derivatives	36,515	1,095			43,911	(9,865)		
Total liabilities	64,154	1,850		11.05	63,683	(9,742)		(76.72)
Interest margin			3.16	0.92			5.02	(0.10)

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

Management Review - Addendum A

Revenue and Expense Rates – Consolidated (1)

Reported amounts (NIS in millions)

	For the three months ended September 30, 2009				For the three months ended September 30, 2008			
			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 revenue (3)	115,471	963	3.38		101,129	1,938	7.89	
Effect of derivatives (4)								
Hedging derivatives	1,151	135			710	16		
Embedded and ALM derivatives	82,322	(843)			89,885	10,388		
Total assets	198,944	255		0.51	191,724	12,342		28.34
Monetary liabilities generating financing expenses (3)	108,880	(219)	(0.81)		94,419	(1,135)	(4.90)	
Effect of derivatives (4)								
Hedging derivatives	1,246	(196)			702	(31)		
Embedded and ALM derivatives	82,841	723			89,077	(10,572)		
Total liabilities	192,967	308		0.64	184,198	(11,738)		(28.03)
Interest margin			2.57	1.15			2.99	0.31
On options		(48)			5			
On other derivative instruments (excludes options, hedging and ALM derivatives and embedded derivatives that were detached (4))		(41)			(22)			
Commissions from financing transactions and other financing revenue (5)		112			19			
Other financing expenses		(4)			(8)			
Profit from financing operations before provision for doubtful debts		582			598			
Provision for doubtful debts (includes general and supplementary provision)		(82)			(117)			
Profit from financing operations after provision for doubtful debts		500			481			

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

Management Review - Addendum A

Revenue and Expense Rates – Consolidated [1]

Reported amounts (NIS in millions)

	For the three months ended September 30, 2009	For the three months ended September 30, 2008
	Average balance [2]	Average balance [2]
Total		
Monetary assets generating financing revenue [3]	115,471	101,129
Assets deriving from derivatives [4]	2,268	2,055
Other monetary assets [3]	1,001	840
General and supplementary provision for doubtful debts	(222)	(181)
Total monetary assets	118,518	103,843
Total		
Monetary liabilities generating financing expenses [3]	108,880	94,419
Liabilities deriving from derivatives [4]	1,949	2,305
Other monetary liabilities [3]	2,248	2,241
Total monetary liabilities	113,077	98,965
Total surplus monetary assets over monetary liabilities	5,441	4,878
Non-monetary assets	1,564	1,569
Non-monetary liabilities	207	199
Total capital resources	6,798	6,248

(1) The data in this table is provided before and after effect of derivatives (including off-balance sheet effects of financial derivatives).

(2) Net of the average balance of the specific provision for doubtful debts.

(3) Excludes financial derivatives.

(4) Average balance sheet balances of financial derivatives (excludes average off-balance sheet balances of financial derivatives).

Management Review - Addendum A

Revenue and Expense Rates – Consolidated [(1)]

Nominal – in USD (USD in millions)

	For the three months ended September 30, 2009				For the three months ended September 30, 2008			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance [(2)]	Financing revenue (expense)	Excluding effect of derivatives	Including effect of derivatives	Average balance [(2)]	Financing revenue (expense)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Foreign currency [(5)]								
Monetary assets in foreign currency generating financing revenue [(3)]	5,380	21	1.57		6,069	64	4.29	
Effect of derivatives [(4)]								
Hedging derivatives	294	37			202	5		
Embedded and ALM derivatives	10,141	87			12,168	132		
Total assets	15,815	145		3.72	18,439	201		4.43
Monetary liabilities in foreign currency generating financing expenses [(3)]	5,543	2	0.14		5,473	(29)	(2.14)	
Effect of derivatives [(4)]								
Hedging derivatives	322	(52)			202	(9)		
Embedded and ALM derivatives	10,363	(68)			12,673	(134)		
Total liabilities	16,228	(118)		(2.94)	18,348	(172)		(3.80)
Interest margin			1.71	0.78			2.16	0.63

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

Management Review - Addendum A

Revenue and Expense Rates – Consolidated (1)

Reported amounts (NIS in millions)

	For the nine months ended September 30, 2009				For the nine months ended September 30, 2008			
		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)	51,997	1,097	2.82		35,982	1,498	5.59	
Effect of embedded and ALM derivatives (4)	45,159	371			41,078	1,306		
Total assets	97,156	1,468		2.02	77,060	2,804		4.88
Liabilities (3)	51,595	(274)	(0.71)		39,966	(876)	(2.93)	
Effect of embedded and ALM derivatives (4)	39,846	(385)			34,163	(1,058)		
Total liabilities	91,441	(659)		(0.96)	74,129	(1,934)		(3.49)
Interest margin			2.11	1.06			2.66	1.39
Israeli currency - linked to the CPI								
Assets (3)	36,634	2,543	9.36		35,695	3,087	11.69	
Effect of embedded and ALM derivatives (4)	4,168	188			4,458	224		
Total assets	40,802	2,731		9.02	40,153	3,311		11.14
Liabilities (3)	31,416	(2,108)	(9.05)		28,929	(2,385)	(11.14)	
Effect of embedded and ALM derivatives (4)	8,832	(478)			9,967	(632)		
Total liabilities	40,248	(2,586)		(8.66)	38,896	(3,017)		(10.47)
Interest margin			0.31	0.36			0.55	0.67

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

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

Reported amounts (NIS in millions)

	For the nine months ended September 30, 2009				For the nine months ended September 30, 2008			
			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)	23,374	(63)	(0.36)		21,888	(2,411)	(14.41)	
Effect of derivatives (4)								
Hedging derivatives	1,153	102			620	(7)		
Embedded and ALM derivatives	43,135	1,209			40,671	(3,688)		
Total assets	67,662	1,248		2.47	63,179	(6,106)		(12.67)
Liabilities (3)	22,551	356	2.10		19,244	2,585	17.50	
Effect of derivatives (4)								
Hedging derivatives	1,272	(162)			624	8		
Embedded and ALM derivatives	44,071	(925)			41,799	3,650		
Total liabilities	67,894	(731)		(1.44)	61,667	6,243		13.27
Interest margin			1.74	1.03			3.09	0.60

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

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

Reported amounts (NIS in millions)

	For the nine months ended September 30, 2009				For the nine months ended September 30, 2008			
			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 revenue [3]	112,005	3,577	4.28		93,565	2,174	3.11	
Effect of derivatives [4]								
Hedging derivatives	1,153	102			620	(7)		
Embedded and ALM derivatives	92,462	1,768			86,207	(2,158)		
Total assets	205,620	5,447		3.55	180,392	9		0.01
Monetary liabilities generating financing expenses [3]	105,562	(2,026)	(2.57)		88,139	(676)	(1.02)	
Effect of derivatives [4]								
Hedging derivatives	1,272	(162)			624	8		
Embedded and ALM derivatives	92,749	(1,788)			85,929	1,960		
Total liabilities	199,583	(3,976)		(2.66)	174,692	1,292		0.98
Interest margin			1.71	0.89			2.09	0.99
On options		(15)				209		
On other derivative instruments (excludes options, hedging and ALM derivatives and embedded derivatives that were detached [4]))		28				(18)		
Commissions from financing transactions and other financing revenue [5]		269				233		
Other financing expenses		(23)				(24)		
Profit from financing operations before provision for doubtful debts		1,730				1,701		
Provision for doubtful debts (includes general and supplementary provision)		(268)				(213)		
Profit from financing operations after provision for doubtful debts		1,462				1,488		

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

Management Review - Addendum A

Revenue and Expense Rates – Consolidated (1)

Reported amounts (NIS in millions)

	For the nine months ended September 30, 2009	For the nine months ended September 30, 2008
	Average balance (2)	Average balance (2)
Total		
Monetary assets generating financing revenue (3)	112,005	93,565
Assets deriving from derivatives (4)	2,614	2,635
Other monetary assets (3)	1,110	1,270
General and supplementary provision for doubtful debts	(220)	(177)
Total monetary assets	115,509	97,293
Total		
Monetary liabilities generating financing expenses (3)	105,562	88,139
Liabilities deriving from derivatives (4)	2,384	2,233
Other monetary liabilities (3)	2,237	2,507
Total monetary liabilities	110,183	92,879
Total surplus monetary assets over monetary liabilities	5,326	4,414
Non-monetary assets	1,563	1,651
Non-monetary liabilities	200	181
Total capital resources	6,689	5,884

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

Management Review - Addendum A

Revenue and Expense Rates – Consolidated [1]

Nominal – in USD (USD in millions)

	For the nine months ended September 30, 2009				For the nine months ended September 30, 2008			
			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 revenue [3]	5,380	107	2.66		6,235	211	4.54	
Effect of derivatives [4]								
Hedging derivatives	289	26			176	4		
Embedded and ALM derivatives	10,825	219			11,580	394		
Total assets	16,494	352		2.86	17,991	609		4.54
Monetary liabilities in foreign currency generating financing expenses [3]	5,376	(27)	(0.67)		5,485	(106)	(2.58)	
Effect of derivatives [4]								
Hedging derivatives	319	(41)			178	(4)		
Embedded and ALM derivatives	11,060	(208)			11,901	(401)		
Total liabilities	16,755	(276)		(2.20)	17,564	(511)		(3.90)
Interest margin			1.99	0.66			1.95	0.64

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

Management Discussion - Addendum B

Exposure of the Bank and its Subsidiaries to Changes in Interest Rates

Reported amounts (NIS in millions)

As of September 30, 2009	On Call to 1 month	1-three months	three months to 1 year	1-3 years	3-5 years	5-10 years
Israeli currency - non-linked						
Total assets	50,712	972	2,934	1,294	391	105
Total liabilities	44,247	2,168	4,341	3,174	1,424	242
Difference	6,465	(1,196)	(1,407)	(1,880)	(1,033)	(137)
Effect of forward transactions and special commitments	(1,002)	2,827	2,488	847	(204)	6
Effect of options	39	(203)	(893)	1	21	-
Exposure to interest rate fluctuations in the sector	5,502	1,428	188	(1,032)	(1,216)	(131)
Cumulative exposure in sector	5,502	6,930	7,118	6,086	4,870	4,739
Israeli currency - linked to the CPI						
Total assets	424	2,529	9,207	11,098	5,943	6,082
Total liabilities	1,124	2,056	5,917	7,309	5,263	8,066
Difference	(700)	473	3,290	3,789	680	(1,984)
Effect of forward transactions and special commitments	(754)	(977)	(1,442)	(1,440)	262	(345)
Effect of options	-	-	-	-	-	-
Exposure to interest rate fluctuations in the sector	(1,454)	(504)	1,848	2,349	942	(2,329)
Cumulative exposure in sector	(1,454)	(1,958)	(110)	2,239	3,181	852

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

						As of December 31, 2008	
10-20 years	Over 20 years	Without maturity [1]	Total	Internal rate of return	Average term to maturity	Internal rate of return	Average term to maturity
				in %	Years	in %	Years
3	-	535	56,946	4.32%	0.15	3.67%	0.12
71	-	-	55,667	2.70%	0.30	3.34%	0.25
(68)	-	535	1,279	1.62%	(0.15)	0.33%	(0.13)
-	-	-	4,962				
-	-	-	(1,035)				
(68)	-	535	5,206				
4,671	4,671	5,206	5,206				
1,437	8	87	36,815	4.83%	3.09	4.93%	3.08
2,287	287	31	32,340	4.56%	4.25	4.68%	4.02
(850)	(279)	56	4,475	0.27%	(1.16)	0.25%	(0.94)
-	-	-	(4,696)				
-	-	-	-				
(850)	(279)	56	(221)				
2	(277)	(221)	(221)				

Management Discussion - Addendum B - continued

Exposure of the Bank and its Subsidiaries to Changes in Interest Rates

Reported amounts (NIS in millions)

As of September 30, 2009 – continued	On Call to 1 month	1-three months	three months to 1 year	1-3 years	3-5 years	5-10 years
Foreign currency (2)						
Total assets	9,483	5,084	3,084	732	480	955
Total liabilities	10,495	6,531	2,579	383	42	535
Difference	(1,012)	(1,447)	505	349	438	420
Effect of forward transactions and special commitments	3,672	(641)	(2,402)	(232)	(36)	(627)
Effect of options	(77)	214	897	1	-	-
Exposure to interest rate fluctuations in the sector	2,583	(1,874)	(1,000)	118	402	(207)
Cumulative exposure in sector	2,583	709	(291)	(173)	229	22
Total exposure to interest rate fluctuations						
Total assets in the balance sheet	60,619	8,585	15,225	13,124	6,814	7,142
Total liabilities in the balance sheet	55,866	10,755	12,837	10,866	6,729	8,843
Difference	4,753	(2,170)	2,388	2,258	85	(1,701)
Effect of forward transactions and special commitments	1,916	1,209	(1,356)	(825)	22	(966)
Effect of options	-	-	-	-	-	-
Total exposure to interest rate fluctuations	6,669	(961)	1,032	1,433	107	(2,667)
Total cumulative exposure	6,669	5,708	6,740	8,173	8,280	5,613

General note:
Complete data on exposure to interest rate fluctuations in every sector, by balance sheet item, will be provided upon request.
In this table, the data for each period presents the present value of future cash flows, discounted using the internal rate of return of the balance sheet item.
The discounted future cash flows as above include accrued interest until maturity date, or the date of change in interest rate, whichever is earlier.
The impact of hedging transactions is included in total assets or total liabilities, as the case may be.

(1) The column "without maturity" presents balance sheet balances.
(2) Activity in Israel, including Israeli currency linked to foreign currency, and overseas affiliates acting as integrated units.
(3) Includes shares presented in the column "without maturity date".

						As of December 31, 2008	
10-20 years	Over 20 years	Without maturity (1)	Total	Internal rate of return	Average term to maturity	Internal rate of return	Average term to maturity
				in %	Years	in %	Years
54	-	63	19,935	5.33%	0.89	6.79%	0.70
12	-	1	20,578	1.97%	0.58	3.29%	0.46
42	-	62	(643)	3.36%	0.31	3.50%	0.24
-	-	-	(266)				
-	-	-	1,035				
42	-	62	126				
64	64	126	126				
1,494	8	2,598	115,609		1.24		1.28
2,370	287	260	108,813		1.52		1.45
(876)	(279)	2,338	6,796		(0.28)		(0.17)
-	-	-	-				
-	-	-	-				
(876)	(279)	2,338	6,796				
4,737	4,458	6,796	6,796				

Management Discussion - Addendum C

Credit Risk by Economic Sector as of September 30, 2009 - Consolidated

Reported amounts (NIS in millions)

	Balance sheet risk				Off balance sheet risk (1)					
	Credit	Debentures	Fair value of derivatives	Total	Guarantees and other commitments on account of clients	Future transactions	Total	Total credit risk of the public	Expense for the first nine months of 2009 in respect of specific provision for doubtful debt	Balance of problem loans (2)
Agriculture	659	-	-	659	267	2	269	928	1	42
Industry	5,529	12	59	5,600	6,035	444	6,479	12,079	33	430
Construction and real estate	6,168	42	3	6,213	6,551	21	6,572	12,785	12	1,722
Electricity and water	229	26	166	421	869	239	1,108	1,529	-	1
Commerce	5,135	-	31	5,166	3,024	196	3,220	8,386	22	215
Hotel and food services	222	-	4	226	66	16	82	308	2	28
Transport and storage	675	3	46	724	430	106	536	1,260	-	62
Communications and computer services	636	11	19	666	661	193	854	1,520	7	63
Financial services	7,482	46	111	7,639	6,713	1,070	7,783	15,422	64	1,553
Other business services	2,408	-	3	2,411	1,302	87	1,389	3,800	6	88
Public and community services	846	-	4	850	357	3	360	1,210	9	99
Individuals: Housing loans	50,339	-	-	50,339	5,265	-	5,265	55,604	34	1,104
Other	9,493	-	34	9,527	11,078	95	11,173	20,700	51	582
Total	89,821	140	480	90,441	42,618	2,472	45,090	135,531	241	5,989
For borrowers' activities overseas	3,458	-	2	3,460	612	125	737	4,197	-	88
Total	93,279	140	482	93,901	43,230	2,597	45,827	139,728	241	6,077
Credit risk included in the various economic sectors:										
Settlement bodies (3)	1,314	-	1	1,315	786	13	799	2,114	8	173
Local authorities (4)	180	-	-	180	16	-	16	196	-	32

(1) Credit risk in 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 corporations under their control.

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

Management Discussion - Addendum C

Credit Risk by Economic Sector as of September 30, 2008 - Consolidated

Reported amounts (NIS in millions)

	Balance sheet credit risk (1)	Off-balance sheet credit risk (2) (6)	Total credit risk of the public (6)	Expense for the first nine months of 2008 in respect of specific provision for doubtful debt	Balance of problem loans (3)
Agriculture	675	332	1,007	1	25
Industry	4,925	7,325	12,250	21	257
Construction and real estate	6,510	7,800	14,310	28	2,128
Electricity and water	319	649	968	-	1
Commerce	4,835	3,727	8,562	30	180
Hotel and food services	287	85	372	1	26
Transport and storage	616	533	1,149	1	13
Communications and computer services	906	1,388	2,294	-	157
Financial services	6,895	8,458	15,353	21	831
Other business services	2,145	1,544	3,689	14	90
Public and community services	807	433	1,240	2	132
Private individuals - housing loans	43,529	3,247	46,776	36	1,217
Private individuals - other	8,889	9,470	18,359	42	538
Total	81,338	44,991	126,329	197	5,595
For borrowers' activities overseas	3,522	811	4,333	2	-
Total	84,860	45,802	130,662	199	5,595
Credit risk included in the various economic sectors:					
Settlement bodies (4)	1,362	864	2,226	-	182
Local authorities (5)	181	23	204	-	25

(1) Includes loans to the public and investments in debentures of the public of NIS 117 million and other assets related to derivatives against the public totaling NIS 671 million.

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

(3) Balance of problem loans net of loans covered by collateral that may be deducted for the purpose of 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 corporations under their control.

(6) Restated.

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

Management Discussion - Addendum C

Credit Risk by Economic Sector as of December 31, 2008 - Consolidated

Reported amounts (NIS in millions)

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

(1) Includes loans to the public and investments in debentures of the public of NIS 232 million and other assets related to derivatives against the public totaling NIS 759 million.
(2) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of per-borrower credit limitations.
(3) Balance of problem loans net of loans covered by collateral that may be deducted for the purpose of 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 corporations under their control.

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

Management Discussion - Addendum D

Exposure to Foreign Countries - Consolidated [(1)]

Reported amounts (NIS in millions)

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

Balance sheet exposure									Off-balance sheet exposure [(2)]			
Country	Cross-border balance sheet exposure			Balance sheet exposure of affiliates of the banking corporation in foreign country to local residents			Total balance sheet exposure	Balance of problem loans [(4)]			Cross-border balance sheet exposure	
	To governments [(3)]	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction in respect of local liabilities	Net balance sheet exposure after deduction of local liabilities			Total off-balance sheet exposure	Includes: Off-balance sheet problem credit risk	Maturing in under 1 year	Maturing in over 1 year
As of September 30, 2009												
USA	-	1,068	819	1,594	1,170	424	2,311	25	1,600	-	1,171	716
UK	-	364	134	680	350	330	828	29	1,706	-	349	149
Other	1	1,924	2,198	-	-	-	4,123	92	2,699	3	2,996	1,127
Total exposure to foreign countries	1	3,356	3,151	2,274	1,520	754	7,262	146	6,005	3	4,516	1,992
Total exposure to LDC countries	-	70	220	-	-	-	290	21	179	1	210	80
As of December 31, 2008												
USA	492	795	1,251	2,248	97	2,151	4,689	21	1,636	2	1,793	745
UK	-	567	111	703	306	397	1,075	27	2,575	-	413	265
Germany	-	590	96	-	-	-	686	-	752	-	387	299
Switzerland	-	358	95	-	-	-	453	3	751	-	307	146
Other	17	1,423	2,449	-	-	-	3,889	58	1,807	2	2,922	967
Total exposure to foreign countries	509	3,733	4,002	2,951	403	2,548	10,792	109	7,521	4	5,822	2,422
Total exposure to LDC countries	2	103	277	-	-	-	382	14	82	-	292	90

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

Management Discussion - Addendum D

Exposure to Foreign Countries - Consolidated [(1)]

Reported amounts (NIS in millions)

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

As of September 30, 2009

	Balance sheet exposure	Off-balance sheet exposure
Germany	245	752
Holland	738	189
Switzerland	389	503
Total	1,372	1,444

As of December 31, 2008:

	Balance sheet exposure	Off-balance sheet exposure
Holland	640	445

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

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

(1) Based on final risk, after effect of guarantees, liquid collateral and credit derivatives

Certification

I, ELIEZER YONES, declare that:

1. I have reviewed the quarterly report of Mizrahi Tefahot Bank Ltd. ("the Bank") for the quarter ended September 30, 2009 ("the Report").
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, will not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of and for the periods included in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure and to the Bank's internal control of financial reporting. Furthermore:
   - A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;
   - B. We have set such internal control of financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;
   - C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and
   - D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during this quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and
5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal control over financial reporting, to the Bank's independent auditors, the board of directors and the audit and financial statements committees of the board of directors of the Bank:
   - A. All significant deficiencies and material weaknesses in the determination or operation of internal control over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and
   - B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

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

E. YONES
President

November 23, 2009

Certification

I, MENAHEM AVIV, declare that

1. I have reviewed the quarterly report of Mizrahi Tefahot Bank Ltd. ("the Bank") for the quarter ended September 30, 2009 ("the Report").
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, will not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of and for the periods included in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure and to the Bank's internal control of financial reporting. Furthermore:

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

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

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

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

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

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

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

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

M. AVIV
Vice-President
Chief Accountant

November 23, 2009

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

Introduction

We have reviewed the enclosed financial information of Bank Mizrahi Tefahot Ltd. ("the Bank"), consisting of the condensed consolidated balance sheet as of September 30, 2009, the condensed consolidated statement of profit and loss, statements of change in shareholders' equity and cash flow statements for the nine- 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 this interim period based on our review.

We did not review the condensed interim financial information of certain consolidated subsidiaries, whose assets included in consolidation constitute 7.95% of total consolidated assets as of September 30, 2009, and whose profit from financing operations before provision for doubtful debts included in the consolidated statements of profit and loss constitute 10.43% and 10.95% of total profit from financing operations before provision for doubtful debts for the nine- 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 12 million as of September 30, 2009. 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 in respect of said companies, is based on the review reports by said 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)A with regard to lawsuits filed against the Bank and motions for class action status.

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

November 23, 2009

Condensed consolidated balance sheet as of September 30, 2009

Reported amounts (NIS in millions)

	As of September 30,		As of December 31,
	2009	2008	2008
	(unaudited)	(unaudited)	(audited)
Assets			
Cash and deposits with banks	9,833	10,892	11,038
Securities	7,878	7,449	9,259
Securities loaned or sold in repurchase agreements	486	-	12
Credit to the public	93,058	83,880	88,049
Loans to the Government	297	3	2
Investments in affiliates	12	17	17
Buildings and equipment	1,458	1,402	1,476
Other assets	2,587	3,372	4,159
Total assets	115,609	107,015	114,012
Liabilities and Shareholders' Equity			
Deposits from the public	93,405	84,681	91,779
Deposits from banks	2,122	2,465	1,867
Deposits from the Government	220	443	242
Securities loaned or sold in conjunction with repurchase agreements	-	600	972
Debentures and subordinated notes	7,888	6,870	6,837
Other liabilities	5,178	5,777	6,012
Total liabilities	108,813	100,836	107,709
Minority interest	358	333	351
Shareholders' equity	6,438	5,846	5,952
Total liabilities and shareholders' equity	115,609	107,015	114,012

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

J. PERRY
Chairman of the Board of Directors

E. YONES
President

M. AVIV
Vice-president, Chief Accountant

November 23, 2009

Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	For the three months ended		For the nine months ended		For the year ended
	September 30,		September 30,		December 31,
	2009	2008	2009	2008	2008
	(unaudited)		(unaudited)		(audited)
Profit from financing operations before provision for doubtful debts	582	598	1,730	1,701	2,289
Provision for doubtful debts	82	117	268	213	395
Profit from financing operations after provision for doubtful debts	500	481	1,462	1,488	1,894
Operating and other revenues					
Operating commissions	332	(1) 314	954	(1) 851	(1) 1,161
Gains from investments in shares, net	52	(3)	59	30	46
Other revenues	12	(1) 4	34	(1) 17	(1) 22
Total operating and other revenues	396	315	1,047	898	1,229
Operating and other expenses					
Salaries and related expenses	404	331	1,126	946	1,273
Maintenance and depreciation of buildings and equipment	139	126	416	341	473
Other expenses	111	107	313	278	407
Total operating and other expenses	654	564	1,855	1,565	2,153
Pre-tax operating profit	242	232	654	821	970
Provision for taxes on operating profit	81	86	225	309	356
After-tax operating profit	161	146	429	512	614
Share in net after-tax operating losses of affiliates	-	-	-	-	(1)
Minority interest in net after-tax operating profit of subsidiaries	(5)	(7)	(13)	(7)	(12)
Net operating profit	156	139	416	505	601
Net after-tax profit from extraordinary items	-	1	-	1	1
Net profit	156	140	416	506	602

(1) Reclassified.

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

Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	For the three months ended		For the nine months ended		For the year ended
	September 30,		September 30,		December 31,
	2009	2008	2009	2008	2008
	(unaudited)		(unaudited)		(audited)
Earnings per share (1)					
Basic earnings per share (in NIS)					
Profit from ordinary operations	0.70	0.62	1.87	2.27	2.70
Profit from extraordinary items	-	0.01	-	0.01	0.01
Total	0.70	0.63	1.87	2.28	2.71
Diluted earnings per share (in NIS)					
Profit from ordinary operations	0.69	0.62	1.86	2.25	2.68
Profit from extraordinary items	-	0.01	-	0.01	0.01
Total	0.69	0.63	1.86	2.26	2.69

(1) Share of NIS 0.1 par value each.

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

Condensed Statement of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

	For the three months ended September 30, 2009 (unaudited)								
					Total cumulative other profit				
	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 June 30, 2009	1,925	101	-	2,026	-	(51)	36	4,314	6,325
Net profit for the year	-	-	-	-	-	-	-	156	156
Purchase of treasury shares [5]	-	-	(76)	(76)	-	-	-	-	(76)
Benefit from share-based payment transactions	-	12	-	12	-	-	-	-	12
Related tax effect	-	12	-	12	-	-	-	-	12
Realized share-based payment transactions [4]	33	(33)	-	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	-	7	-	-	-	7
Related tax effect	-	-	-	-	2	-	-	-	2
Balance as of September 30, 2009	1,958	92	(76)	1,974	9	(51)	36	4,470	6,438

(1) Share premium generated prior to March 31, 1986.
(2) Foreign currency translation adjustment of autonomous overseas units.
(3) For details on various limitations on dividend distributions, see Notes 13 and 14 to the financial statements for the year ended December 31, 2008.
(4) In the third quarter of 2009, 1,254,370 ordinary NIS 0.1 par value shares were issued for exercise of options in conjunction with the Employee Stock Option Plan, and 635,936 ordinary NIS 0.1 par value shares were issued to the President for exercise of options.
(5) For details, see Note 11.A below.

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 September 30, 2008 (unaudited)							
				Total cumulative other profit				
	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 profit from cash flow hedges	Retained earnings [(3)]	Total shareholders' equity
Balance as of June 30, 2008	1,917	58	1,975	(25)	(51)	4	3,818	5,721
Net profit for the period	-	-	-	-	-	-	140	140
Benefit from share-based payment transactions	-	10	10	-	-	-	-	10
Realized share-based payment transactions (4)	2	(2)	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	(156)	-	-	-	(156)
Adjustments in respect of presentation of securities held for sale reclassified to statement of profit and loss	-	-	-	78	-	-	-	78
Related tax effect	-	-	-	35	-	-	-	35
Net profit from cash flow hedges	-	-	-	-	-	28	-	28
Related tax effect	-	-	-	-	-	(10)	-	(10)
Balance as of September 30, 2008	1,919	66	1,985	(68)	(51)	22	3,958	5,846

(1) Share premium generated prior to March 31, 1986.
(2) Foreign currency translation adjustment of autonomous overseas units.
(3) For details on various limitations on dividend distributions, see Notes 13 and 14 to the financial statements for the year ended December 31, 2008.
(4) In the third quarter of 2008, 139,917 ordinary shares, NIS 0.1 par value each have been issued against current option exercise in conjunction with the employee stock option plan.

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

Condensed Statement of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

	For the nine months ended September 30, 2009 (unaudited)								
					Total cumulative other profit				
	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 at January 1, 2009	1,920	71	-	1,991	(92)	(51)	50	4,054	5,952
Net profit for the period	-	-	-	-	-	-	-	416	416
Purchase of treasury shares [5]	-	-	(76)	(76)	-	-	-	-	(76)
Benefit from share-based payment transactions	-	48	-	48	-	-	-	-	48
Related tax effect	-	11	-	11	-	-	-	-	11
Realized share-based payment transactions (4)	38	(38)	-	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	-	104	-	-	-	104
Adjustments in respect of presentation of securities held for sale reclassified to statement of profit and loss	-	-	-	-	45	-	-	-	45
Related tax effect	-	-	-	-	(48)	-	-	-	(48)
Net gain from cash flow hedges	-	-	-	-	-	-	(22)	-	(22)
Related tax effect	-	-	-	-	-	-	8	-	8
Balance as of September 30, 2009	1,958	92	(76)	1,974	9	(51)	36	4,470	6,438

(1) Share premium generated prior to March 31, 1986.
(2) Foreign currency translation adjustment of autonomous overseas units.
(3) For details on various limitations on dividend distributions, see Notes 13 and 14 to the financial statements for the year ended December 31, 2008.
(4) In the first nine months of 2009, 1,371,266 ordinary NIS 00.1 par value shares were issued for exercise of options in conjunction with the Employee Stock Option Plan, and 635,936 ordinary NIS 0.1 par value shares were issued to the President for exercise of options.
(5) For details, see Note 11.A below.

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 nine months ended September 30, 2008 (unaudited)								
				Total cumulative other profit					
	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)	Dividends declared after balance sheet date	Total share-holders' equity
Balance at January 1, 2008	1,911	68	1,979	27	(51)	-	3,527	75	5,557
Net profit for the period	-	-	-	-	-	-	506	-	506
Dividends paid	-	-	-	-	-	-	(75)	(75)	(150)
Benefit from share-based payment transactions	-	16	16	-	-	-	-	-	16
Related tax effect	-	(10)	(10)	-	-	-	-	-	(10)
Realized share-based payment transactions (4)	8	(8)	-	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	(265)	-	-	-	-	(265)
Adjustments in respect of presentation of securities held for sale reclassified to statement of profit and loss	-	-	-	99	-	-	-	-	99
Related tax effect	-	-	-	71	-	-	-	-	71
Net gain from cash flow hedges	-	-	-	-	-	35	-	-	35
Related tax effect	-	-	-	-	-	(13)	-	-	(13)
Balance as of September 30, 2008	1,919	66	1,985	(68)	(51)	22	3,958	-	5,846

(1) Share premium generated prior to March 31, 1986.
(2) Foreign currency translation adjustment of autonomous overseas units.
(3) For details on various limitations on dividend distributions, see Notes 13 and 14 to the financial statements for the year ended December 31, 2008.
(4) In the first nine months of 2008, 346,741 ordinary NIS 0.1 par value shares were issued for exercise of options in conjunction with the Employee Stock Option Plan, and 658,987 ordinary NIS 0.1 par value shares were issued to the President for exercise of options.

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

Condensed Statement of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

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

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

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

Statement of cash flows

Reported amounts (NIS in millions)

	For the three months ended September 30, 2009	For the nine months ended September 30, 2009	For the year ended December 31, 2008
	(unaudited)	(unaudited)	(audited)
Cash flows provided by current operations			
Net profit for the period	156	416	602
Adjustments to reconcile net profit to net cash generated by operating activities:			
Share in undistributed losses of Bank affiliates, net	-	-	1
Minority interest in net after-tax operating profit of subsidiaries	5	13	12
Depreciation of buildings and equipment and amortization	53	161	181
Amortization of goodwill in investees	-	-	1
Provision for doubtful debts	82	268	395
Gain on sale of securities held for sale	(49)	(93)	(32)
Impairment of securities held for sale	-	45	218
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	(2)	6	(3)
Capital gain from sale of buildings and equipment	-	-	(2)
Reduction of cost of buildings held for sale and unused leased properties	-	-	(2)
Deferred taxes, net	(3)	(10)	54
Severance pay - increase in excess of liability over amount funded (increase in excess of amount funded over liability)	86	55	(4)
Benefit from share-based payment transactions	12	48	22
Minority interest in net profit from extraordinary items of subsidiaries	-	-	1
Deferred income, net	(15)	40	23
Net cash provided by current operations	325	949	1,467

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 September 30, 2009	For the nine months ended September 30, 2009	For the year ended December 31, 2008
	(unaudited)	(unaudited)	(audited)
Cash flows provided by activities in assets			
Acquisition of securities available for sale	(1,404)	(3,954)	(6,725)
Proceeds on sale and redemption of securities available for sale	1,191	5,237	6,257
Deposits with banks, net	(1,573)	3,197	(4,296)
Securities held for trading, net	565	275	(339)
Securities loaned or sold in repurchase agreements, net	342	(474)	(7)
Loans to the public, net	(1,375)	(5,277)	(10,735)
Loans to the Government, net	13	(295)	1
Acquisition of newly consolidated subsidiary (Appendix A)	-	-	3,330
Acquisition of shares in investees, including shareholder loans	-	-	(2)
Acquisition of buildings and equipment	(49)	(145)	(274)
Proceeds on sale of buildings and equipment	3	3	15
Other assets, net	471	1,543	(1,064)
Net cash provided by activities in assets	(1,816)	110	(13,839)

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 September 30, 2009	For the nine months ended September 30, 2009	For the year ended December 31, 2008
	(unaudited)	(unaudited)	(audited)
Cash flows provided by activities in liabilities and shareholders' equity			
Deposits from the public, net	(339)	1,626	7,311
Deposits from banks, net	86	255	(1,904)
Deposits from the Government, net	(9)	(22)	(43)
Issuance of debentures and subordinated notes	220	1,186	745
Redemption of debentures and subordinated notes	(29)	(135)	(97)
Securities loaned or sold in conjunction with repurchase agreements, net	-	(972)	972
Other liabilities, net	70	(929)	1,579
Share buy-back	(76)	(76)	-
Dividends paid to shareholders	-	-	(150)
Net cash provided by (used for) activities in liabilities and shareholders' equity	(77)	933	8,413
Increase (decrease) in cash	(1,568)	1,992	(3,959)
Cash balance at beginning of period	8,068	4,508	8,467
Cash balance at end of period	**6,500**	**6,500**	4,508
Appendix A - Acquisition of newly consolidated subsidiary			
Assets and liabilities of consolidated subsidiary, at acquisition date:			
Assets (excluding cash of NIS 3,749 million)	-	-	(6,204)
Liabilities	-	-	9,297
Rights of external interested parties	-	-	328
Goodwill	-	-	(91)
Cash flows used for acquisition of newly consolidated subsidiary	-	-	3,330
Appendix B - Non-cash Transactions			
Acquisition of buildings and equipment	1	1	5
Proceeds from sale of buildings and equipment	3	3	-
Investment in shares	-	-	37

Note 1 - Reporting Principles and Accounting Policies

A. The financial statements as of September 30, 2009 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 set forth 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, 2008.
These financial statements should be perused in conjunction with the Group's annual financial statements as of December 31, 2008 and the Notes thereto.

B. On December 31, 2007, the Supervisor of Banks published his 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 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 so as to cover expected credit losses from its credit portfolio. Furthermore, according to the circular, the Bank is required to maintain an adequate provision so as to cover expected credit losses associated with off-balance sheet credit instruments, such as contracts for provision of credit and guarantees. The required provision to cover expected credit losses from the credit portfolio would be made under one of the following tracks: "Individual provision" or "group provision".

"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. For other debts, the banking corporation may decide whether to make an individual assessment. The individual provision for credit losses will be estimated based on expected future cash flows, discounted using the original discount rate for the debts or, if the debts requires collateral or when the banking corporation determined that seizure of an asset is probable, based on the fair value of the collateral provided to secure said credit.

Note 1 - Reporting Principles and Accounting Policies

"A specific provision for credit loss using group estimate" (hereinafter "group-based provision") would be applied for large, homogeneous groups of small debts (under NIS 1 million in balance) and in respect of non-impaired large debt. The specific provision for credit losses from debts based on group estimate, except for loans for which a specific minimum provision by extent of arrears has been calculated as per directives of the Supervisor of Banks, shall be calculated based on rules set forth in USA Accounting Standard FAS 5: "Accounting for Contingencies" ("FAS 5"), using statistical models which take into consideration the extent of past losses for each homogeneous group of debt having similar risk attributes. The required provision with regard to off-balance sheet credit instruments would be assessed as per rules set forth in the USA Accounting Standard FAS 5.

The group-based provision in the period subsequent to initial implementation of the directives (through 2012) will be calculated in accordance with transition directives of the Supervisor of Banks, where by the provision for each economic sector would be based on the actual provision rate for 2008, 2009 and the first half of 2010 (and additional years, as time goes by), with a distinction made between commercial problem credit, household problem credit and other credit.

Changes to the provision for credit losses would be recorded under "Expenses in respect of 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.

In accordance with a draft directive issued by the Supervisor of Banks, implementation of this directive in financial statements of banking corporations is to be delayed from January 1, 2010 to July 1, 2010 - without retrospective implementation in financial statements for prior periods. The financial statements for the second quarter of 2010 shall include a pro-forma Note concerning the impact of the new directives on major balance sheet items in the financial statements as of June 30, 2010 - had these directives been implemented as of said date. According to transitional directives, the impact of changes due to the new directives shall be charged directly to equity upon initial application.

Note 1 - Reporting Principles and Accounting Policies

In conjunction with the Bank's preparations for application of this directive, teams were formed and an external consultant has been hired to review required changes to Bank work processes, both in terms of credit management and processing of impaired debts, as well as in terms of accounting treatment and impact on its financial statements. As of the publication of these financial statements, development of the new system is complete and the testing phase has started. System testing is scheduled for completion in the fourth quarter of 2009. Concurrently, the Bank is updating work processes, including re-preparation of procedures and comprehensive training is delivered to professional staff in preparation for implementation of this directive. In the third quarter of 2009, a pilot implementation was carried out in a small number of branches, aimed at testing operational aspects of the new system. Concurrently with implementation of these directives at the Bank, a parallel process takes place in subsidiaries, based on schedule set by the Bank.

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

By December 31, 2009:

- Completion of implementation of model for calculation of provision for credit loss in respect of debt to be treated using group-based provision, based on the draft transitional directives of the Supervisor of Banks.
- Start of deployment and training for all Bank branches and relevant headquarter units.

By March 31, 2010:

- Review of all system components concurrently with the existing system.
- Deployment of the new system and completion of implementation of work processes and training at all Bank branches and headquarter units.

By April 15, 2010:

- Report to the Supervisor of Banks the impact of the new directives on data as of December 31, 2009, had they been implemented as of said date.

At this stage of preparation for implementation of the directive, it is not possible to measure the increase in provisions for credit loss in respect of debt treated under group-based provision, including accounting write-offs, arising from implementation of the new directives. Bank management estimates that the impact of implementation of the directives to debt treated under group-based provision may be significant relative to shareholders' equity. Furthermore, review of potential implications of these directives on major borrowers has revealed that initial implementation of these directives may increase the required provision for credit loss, although at this stage it is not possible to estimate whether this increase would be material.

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 this regulations of this Law, will prepare their financial statements in conformity with the IFRS Standards, as from the reporting period commencing January 1, 2008.
This does not apply to entities which according to the Securities Regulations (Periodic and Immediate Reports of a Foreign Corporation), 2000, prepare their financial statements in accordance with the directives and guidelines of the Supervisor of Banks. The IFRS Standards will be adopted for the first time with the application of the provisions of IFRS 1 “First-time Adoption of IFRS Standards”, for transition purposes.

In June 2009, the Supervisor of Banks issued a circular concerning "IFRS-based reporting by banking corporations and credit card companies in Israel", which set forth the expected manner of adoption of IFRS standards by banking corporations. According to this circular, the target date for IFRS-based reporting by banking corporations is:

- For issues outside the core banking business - starting on January 1, 2011. From this date onwards, 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 within the core banking business - starting on January 1, 2013. The Supervisor of Banks intends to make a final decision on this issue in 2011. The final decision shall be take into account the schedule of and progress made on the convergence process between international and US standards organizations.

Note 1 - Reporting Principles and Accounting Policies

The circular explained that after completion of the process of adaptation of the directives to international standards, the Supervisor of Banks would retain the authority to publish binding clarifications with regard to the manner of implementation of requirements set forth in international standards, as well as to issue additional directives in cases where this is required in view of requirements by regulatory bodies in developed nations around the world, or on issues not referred to by the international standards. Furthermore, the Supervisor of Banks would retain its authority to stipulate disclosure and reporting requirements.

Therefore, until the target dates for adoption of IFRS, as set forth above, the Bank would continue to prepare its financial statements in accordance with directives and guidance issued by the Supervisor of Banks. Currently, no directives have been issued with regard to transition provisions which would apply for initial adoption of IFRS.

D. In January 2009, the Israeli Accounting Standards Board published a revision to Accounting Standard no. 15 "Impairment of Assets" (hereinafter: "the new standard") as well as Clarification no. 10 "Accounting Treatment of Impairment of Investment in an Investee other than a Subsidiary" (hereinafter: "Clarification no. 10").

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

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

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

It is further stipulated that should the recoverable amount of the investment subsequently increase, the impairment loss shall be reversed.

The new standard and Clarification no. 10 are to be applied starting on January 1, 2009. In accordance with the announcement by the Supervisor of Banks, it is the Supervisor's intention to apply IFRS not related to the core banking business to banking corporations starting on January 1, 2011 (see Note 1.C above). Application of the new standard and of Clarification no. 10 should have no material impact on the financial statements of the Bank Group.

E. On December 31, 2008, the Supervisor of Banks issued an Interim Directive concerning "Framework for Capital Measurement and Adequacy" (hereinafter: "the framework"). Concurrently, on December 31, 2008 an interim directive was published concerning "Quarterly Reporting of Capital Measurement and Adequacy") (hereinafter: ("the reporting directive").

In accordance with requirements of the reporting directive, the Bank is required to include in its 2009 annual report to the public, and there after, information to allow users of its financial statements to assess any significant information included there in with regard to implementation of the framework, capital, risk exposure and risk assessment processes, there by estimating the capital adequacy of the banking corporation.

This disclosure shall consist of qualitative disclosure and of quantitative data, and shall be provided for a range of subjects, including: capital structure and adequacy; credit risk, credit risk mitigation and exposure related to credit risk of counter-parties in accordance with the standard approach; securitization; market risk; operating risk; equity positions; and interest risk.

The reporting directive shall apply, as set forth above, starting with financial statements as of December 31, 2009. Qualitative disclosure shall be provided annually, in the annual report, with reference to material changes which took place during the reported period provided in the quarterly financial statements. Quantitative disclosure shall be provided quarterly.

Note 2 - Securities
As of September 30, 2009 (unaudited)

Reported amounts (NIS in millions)

	Balance sheet amount	Amortized cost	Total cumulative other profit (1) Profit	Total cumulative other profit (1) Loss	Fair value (5)
Composition					
1) Securities available for sale					
Debentures and bonds					
Of the Government of Israel (2)	5,677	5,697	69	89	5,677
Of foreign governments (2)	120	120	-	-	120
Of others	1,604	1,621	20	37	1,604
Total debentures available for sale	7,401	7,438	89	126	7,401
Shares of others (3)	318	252	67	1	(4) 318
Total securities available for sale	7,719	7,690	156	127	(4) 7,719

	Balance sheet balance	Amortized cost	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (5)
2) Securities held for trading					
- Debentures					
of Government of Israel	154	154	-	-	154
Of others	5	5	-	-	5
Total securities held for trading	159	159	(6) -	(6) -	159
Total securities	7,878	7,849	156	127	(4) 7,878

(1) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".
(2) See Note 15.A-E to the financial statements as of December 31, 2008 for information on liens on securities held by the Bank.
(3) In July 2003, a letter was received from the Supervisor of Banks, requiring the Bank to classify loans that had been given to a certain customer, which do not meet the repayment terms prescribed and against which shares of a leading telecommunication company were pledged, as “securities available for sale”, beginning from the financial statements as of June 30, 2003. The market value of these shares as of September 30, 2009, included in this item, amounts to NIS 214 million. This amount exceeds the amount of the loans, net of the provision for doubtful debts, by NIS 97 million.
(4) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 86 million.
(5) 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.
(6) Charged to statement of profit and loss.

Note 2 - Securities

As of September 30, 2008 (unaudited)

Reported amounts (NIS in millions)

	Balance sheet balance	Amortized cost	Total cumulative other profit (1)		Fair value (5)
			Profit	Loss	
Composition					
1) Securities available for sale					
Debentures and bonds					
Of the Government of Israel (2)	5,368	5,446	5	83	5,368
Of foreign governments (2)	16	16	-	-	16
Of others	1,666	1,755	-	89	1,666
Total debentures available for sale	7,050	7,217	5	172	7,050
Shares of others (3)	378	331	55	8	(4) 378
Total securities available for sale	7,428	7,548	60	180	(4) 7,428

	Balance sheet balance	Amortized cost	Unrealized profits 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	19	19	-	-	19
Of others	2	2	-	-	2
Total securities held for trading	21	21	(6) -	(6) -	21
Total securities	7,449	7,569	60	180	(4) 7,449

(1) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".

(2) See Note 15.A-E to the financial statements as of December 31, 2008 for information on liens on securities held by the Bank.

(3) In July 2003, a letter was received from the Supervisor of Banks, requiring the Bank to classify loans that had been given to a certain customer, which do not meet the repayment terms prescribed and against which shares of a leading telecommunication company were pledged, as “securities available for sale”, beginning from the financial statements as of June 30, 2003. The market value of these shares as of June 30, 2008, net of expected realization cost, amounts to NIS 294 million. This amount is larger than the borrower's debt balance net of dividends received for said shares, and since the Bank is not entitled to amounts in excess of the revaluated credit balance, the investment in said shares was included in the financial statements – amounting to NIS 281 million.

(4) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 89 million.

(5) 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.

(6) Charged to statement of profit and loss.

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

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

	Balance sheet balance	Amortized cost	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (5)
2) Securities held for trading					
- Debentures					
of Government of Israel	437	437	-	-	437
Of others	3	3	-	-	3
Total securities held for trading	440	440	(6) -	(6) -	440
Total securities	9,259	9,362	119	222	(4) 9,259

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

Note 2 - Securities

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

Reported amounts (NIS in millions)

	As of September 30, 2009			
		Total cumulative other profit		Fair value (carrying
	Amortized cost	Profit	Loss	amount)
				(unaudited)
Mortgage-backed securities				
"Pass-through" securities	-	-	-	-
Other mortgage-backed securities	-	-	-	-
Asset-backed securities (ABS)				
CDO	11	-	-	11
CDO, mostly mortgage-backed (1)	-	-	-	-
CLO	77	4	16	65
SIV(1)	-	-	-	-
Total asset-backed securities available for sale	88	4	16	76

	As of September 30, 2008			
		Total cumulative other profit		Fair value (carrying
	Amortized cost	Profit	Loss	amount)
				(unaudited)
Mortgage-backed securities				
"Pass-through" securities	-	-	-	-
Other mortgage-backed securities	-	-	-	-
Asset-backed securities (ABS)				
CDO	40	-	15	25
CDO, mostly mortgage-backed (1)	-	-	-	-
CLO	90	-	26	64
SIV(1)	-	-	-	-
Total asset-backed securities available for sale	130	-	41	89

(1) Fully amortized.

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

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

(1) Fully amortized.

Note 2 - Securities

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

Reported amounts (NIS in millions)

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

	As of September 30, 2009			
	Less than 12 months		12 months or more	
	Fair value	Unrealized loss	Fair value	Unrealized loss
Asset-backed securities (ABS)				
CDO	11	-	-	-
CLO	-	-	40	16
Total	11	-	40	16

	As of September 30, 2008			
	Less than 12 months		12 months or more	
	Fair value	Unrealized loss	Fair value	Unrealized loss
Asset-backed securities (ABS)				
CDO	-	-	25	15
CLO	-	-	64	26
Total	-	-	89	41

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

Note 2 - Securities

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

Reported amounts (NIS in millions)

Asset-backed securities (ABS)

In the first nine months of 2009, the Bank recorded expenses amounting to NIS 24 million in respect of provision for impairment of a non-temporary nature of investments in asset-backed securities (of which NIS 10 million in respect of CDO and NIS 14 million in respect of CLO), compared to NIS 30 million and NIS 57 million in the corresponding period last year and in all of 2008, respectively (in the corresponding period last year: NIS 19 million in respect of investments in instruments directly or indirectly exposed to the US mortgage market or to leveraged funds; in all of 2008: NIS 35 million in respect of CDO, NIS 3 million in respect of CLO and NIS 19 million in respect of investments in instruments directly or indirectly exposed to the US mortgage market or to leveraged funds).

The fair value of Bank investments in asset-backed securities as of September 30, 2009 amounts to NIS 76 million, compared to NIS 83 million as of December 31, 2008. For details of the calculation of fair value of investments in securities, see Note 1.F to the financial statements as of December 31, 2008. These investments include CDO and CLO securities, as set forth below:

A. **CDO (Collateralized Debts Obligation)** is a security backed by various types of debts instruments, which may include both direct debts and securitized debts. The CDO is set in layers by priority. Each layer is a separate 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 said debts.

The fair value of Bank investments in these securities as of September 30, 2009 amounted to NIS 11 million, compared to NIS 20 million as of December 31, 2008. The underlying assets are synthetic assets with significant sector diversification and of different credit ratings.

As of September 30, 2009, the Bank recognized impairment in respect of these investments amounting to NIS 45 million as impairment of a non-temporary nature. This compares with a NIS 35 million impairment recognized as impairment of a non-temporary nature as of December 31, 2008.

The expense charged in the first nine months of 2009 in respect of impairment of these investments amounted to NIS 10 million, compared to NIS 35 million in all of 2008.

B. **CLO (collateralized Loan Obligation)** is a specific type of CDO. The debts instruments which back the CLO investment are senior and junior loan portfolios provided to commercial entities. The fair value of Bank investments in these securities as of September 30, 2009 amounted to NIS 65 million, compared to NIS 63 million as of December 31, 2008. All Bank investments in this asset class are in layers with investment-grade rating (BBB- or higher) with a protection layer, managed by some of the largest investment management firms in the world, which are carefully selected. About 85% of loans backing these securities are senior secured loans. The Bank’s CLO portfolio has no exposure to mortgages, including sub prime mortgages, or to any leveraged products whose value has declined due to the current crisis.

Note 2 - Securities

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

Reported amounts (NIS in millions)

In the first nine months of 2009, the Bank recorded a provision for impairment of a non-temporary nature in respect of such investments amounting to NIS 14 million, compared to NIS 3 million in the fourth quarter of 2008. Net impairment charged to capital reserve as of September 30, 2009 in respect of the remaining such investments amounts to NIS 12 million, compared to NIS 27 million as of December 31, 2008. According to information available to the Bank, this impairment is due to the crisis sentiment in markets and to the general increase in credit spreads. The remaining protection layers for these investments, which are as yet unaffected, are significant in size and Bank management estimates that they exceed the expected loss in respect of default events in the loan portfolios which back these investments. Therefore, the Bank estimates that there is no reason to assume that issuers will default on their obligations. Furthermore, the Bank has the intention and capacity to hold said securities to redemption or until their fair value reaches the investment cost. Hence, the impairment is classified as temporary.

Note 3 – Provision for doubtful debts (unaudited)

Reported amounts (NIS in millions)

Information with regard to provision for doubtful debts

	For the three months ended September 30, 2009				For the three months ended September 30, 2008			
	Specific provision [1]				Specific provision [1]			
	By extent of arrears	Other	Supplementary provision [2]	Total	By extent of arrears	Other	Supplementary provision [2]	Total
Balance of provision as of period start	844	2,213	223	3,280	836	1,901	173	2,910
Subsidiary consolidated for the first time	-	-	-	-	-	23	6	29
Transfer	2	(2)	-	-	-	-	-	-
Provisions during reported period	59	79	-	138	72	113	13	198
Decrease in provisions	(48)	(5)	(2)	(55)	(71)	(9)	-	(80)
Recovery of debt written off in previous years	-	(1)	-	(1)	-	(1)	-	(1)
Amount charged to statement of profit and loss	11	73	(2)	82	1	103	13	117
Debt write-off	(3)	(41)	-	(44)	(1)	(21)	-	(22)
Balance of provision as of period end	854	2,243	221	3,318	836	2,006	192	3,034
Includes: Balance of provision that was not deducted from loans to the public	-	128	-	128	-	118	-	118

	For the nine months ended September 30, 2009				For the nine months ended September 30, 2008			
	Specific provision [1]				Specific provision [1]			
	By extent of arrears	Other	Supplementary provision [2]	Total	By extent of arrears	Other	Supplementary provision [2]	Total
Balance of provision as of period start	834	2,148	194	3,176	821	1,917	172	2,910
Subsidiary consolidated for the first time	-	-	-	-	-	23	6	29
Transfer	2	(2)	-	-	-	[3] (8)	-	(8)
Provisions during reported period	201	237	30	468	232	196	21	449
Decrease in provisions	(172)	(23)	(3)	(198)	(203)	(24)	(7)	(234)
Recovery of debt written off in previous years	-	(2)	-	(2)	-	(2)	-	(2)
Amount charged to statement of profit and loss	29	212	27	268	29	170	14	213
Debt write-off	(11)	(115)	-	(126)	(14)	(96)	-	(110)
Balance of provision as of period end	854	2,243	221	3,318	836	2,006	192	3,034
Includes: Balance of provision that was not deducted from loans to the public	-	128	-	128	-	118	-	118

(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, does not include a provision for interest on doubtful debts, after the debts were determined as doubtful.
(2) Includes general and special provisions for doubtful debts.
(3) Balance of provision for claims presented in previous periods under provision for doubtful debts.

Note 3 – Provision for doubtful debts

Reported amounts (NIS in millions)

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

	For the period ended September 30, 2009					
			Includes:	Specific provision		
	Balance sheet loan balance (2)	Debt balance (3)	Amount in arrears (4)	By extent of arrears	Other	Total
	(unaudited)					
Housing loans for which provision by extent of arrears must be calculated	44,668	954	560	846	-	846
Large loans (5)	5,362	121	26	8	12	20
Other loans	503	29	9	-	23	23
Total	50,533	1,104	595	854	35	889

	For the period ended September 30, 2008					
			Includes:	Specific provision		
	Balance sheet loan balance (2)	Debt balance (3)	Amount in arrears (4)	By extent of arrears	Other	Total
	(unaudited)					
Housing loans for which provision by extent of arrears must be calculated	39,478	1,061	541	828	-	828
Large loans (5)	3,606	95	31	8	11	19
Other loans	639	27	7	-	22	22
Total	43,723	1,183	579	836	33	869

(1) For details of calculation of provision for doubtful debts by extent of arrears, see Note 1.O.2 and 1.O.3 to the annual financial statements as of December 31, 2008.
(2) The balance of housing loans, after deducting specific balance for doubtful debts and provision for delinquency interest.
(3) Balance of problem loans (in arrears by more than three months) and net of the balance of the provisions.
(4) Includes delinquency interest before deduction of the provisions balance.
(5) Housing loans, the balance of each of which exceeds NIS 871 thousand (on September 30, 2008 – NIS 845 thousand).

Note 4 – Capital adequacy pursuant to directives of the Supervisor of Banks
As of September 30, 2009 (unaudited)

Reported amounts (NIS in millions)

A. Capital adequacy is 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".

1. Bank capital for calculating minimum capital ratio [1]	
Tier 1 capital:	
Paid-up share capital and capital reserves	1,974
Retained earnings [2]	4,455
Minority interest in equity of subsidiaries	358
Amortization [3]	(107)
Total tier I capital	6,680
Upper Tier II capital [4]	1,889
Other Tier II capital	3,340
Deducted investments	(2)
Total capital	11,907

	Balances [5]	Weighting of risk assets				Risk balances	Capital requirement [6]
		0%	20%	50%	100%		
2. Weighted credit risk balances by risk group							
Assets							
Cash and deposits with banks	9,833	7,066	2,767	-	-	553	50
Securities	7,878	[7] 5,959	1,124	-	795	1,020	92
Securities loaned or sold in repurchase agreements	486	486	-	-	-	-	-
Loans to the public (4)	93,168	7,780	80	21,598	63,710	74,525	6,707
Loans to the Government	297	297	-	-	-	-	-
Investments in affiliates	12	-	-	-	12	12	1
Buildings and equipment	1,458	-	-	-	1,458	1,458	131
Positive fair value of derivatives [8]	1,744	-	1,262	-	482	734	66
Other assets	769	[9] 273	33	-	463	470	42
Total assets	115,645	21,861	5,266	21,598	66,920	78,772	7,089

(1) There is no difference between the basis of consolidation according to accounting rules and the supervisory basis of consolidation according to instructions of the Supervisor of Banks with regard to minimum capital ratio.
(2) Including foreign currency translation adjustment of autonomous overseas units.
(3) Includes goodwill.
(4) The general provision for doubtful debts of NIS 110 million represents part of Tier II capital and is not deducted from loans to the public.
(5) Assets - balance sheet balances; off-balance sheet instruments - balance of stated values weighted by the conversion coefficients for loans.
(6) Capital requirement was calculated at a rate of 9%, in accordance with instructions of the Supervisor of Banks.
(7) Includes NIS 2 million deducted from capital.
(8) After deduction of offsetting agreements amounting to NIS 74 million (see Note 7.B).
(9) Includes NIS 105 million deducted from capital.

Note 4–Capital adequacy in accordance with directives of the Supervisor of Banks–cont.
As of September 30, 2009 (unaudited)

Reported amounts (NIS in millions)

	Balances (1)	Weighting of risk assets					
		0%	20%	50%	100%	Risk balances	Capital requirement (2)
2. Weighted credit risk balances by risk group							
Off-balance sheet instruments							
Transactions in which the balance represents credit risk	10,857	691	424	301	9,441	9,676	871
Financial derivatives	10,121	-	7,579	-	2,542	4,058	365
Others	292	-	101	-	191	211	19
Total off-balance sheet instruments	21,270	691	8,104	301	12,174	13,945	1,255
Total credit risk assets and capital requirement	136,915	22,552	13,370	21,899	79,094	92,717	8,344
Market risk	-	-	-	-	-	2,671	240
Total risk assets and capital requirements	136,915	22,552	13,370	21,899	79,094	95,388	8,584

3. Details of capital requirement for market risk:	
Interest risk	176
Share price risk	-
Exchange rate and inflation risk	61
Risk associated with options trading	3
Total capital requirement for market risk	240

4. Ratio of capital to risk elements(3)	in %
Ratio of Tier I capital to risk elements	7.00
Ratio of total capital to risk elements	12.48
Total minimum capital ratio required by the Supervisor of Banks	9.00

(1) Assets - balance sheet balances; off-balance sheet instruments - balance of stated values weighted by the conversion coefficients for loans.
(2) Capital requirement was calculated at a rate of 9%, in accordance with instructions of the Supervisor of Banks.
(3) Data for Tier I capital ratio and total capital to risk elements ratio at Bank Yahav as of September 30 are 11.5% and 14.8%, respectively (as of December 31 - 11.9% and 11.9%).

Note 4 – Capital adequacy pursuant to directives of the Supervisor of Banks
As of September 30, 2008 (unaudited)

Reported amounts (NIS in millions)

1. Bank capital for calculating minimum capital ratio (1)	
Tier 1 capital:	1,985
Paid-up share capital and capital reserves	3,929
Retained earnings (2)	333
Amortization (3)	(138)
Total tier I capital	6,109
Upper Tier II capital (4)	1,287
Other Tier II capital	3,057
Total capital	10,453

	Balances (5)	Weighting of risk assets				Risk balances	Capital requirement (6)
		0%	20%	50%	100%		
2. Weighted credit risk balances by risk group							
Assets							
Cash and deposits with banks	10,892	2,131	8,761	-	-	1,752	158
Securities	7,449	(9) 5,433	1,229	-	787	1,033	93
Securities loaned or sold in repurchase agreements	-	-	-	-	-	-	-
Loans to the public (4)	83,990	6,108	84	20,142	57,656	67,744	6,097
Loans to the Government	3	3	-	-	-	-	-
Investments in affiliates	17	(7) 6	-	-	11	11	1
Buildings and equipment	1,402	-	-	-	1,402	1,402	126
Positive fair value of derivatives	2,418	-	1,591	-	827	1,145	103
Other assets	954	(8) 284	10	-	660	662	60
Total assets	107,125	13,965	11,675	20,142	61,343	73,749	6,638

(1) There is no difference between the basis of consolidation according to accounting rules and the supervisory basis of consolidation according to instructions of the Supervisor of Banks with regard to minimum capital ratio.
(2) Including foreign currency translation adjustment of autonomous overseas units.
(3) Includes goodwill.
(4) The general provision for doubtful debts of NIS 110 million represents part of Tier II capital and is not deducted from loans to the public.
(5) Assets - balance sheet balances; off-balance sheet instruments - balance of stated values weighted by the conversion coefficients for loans.
(6) Capital requirement was calculated at a rate of 9%, in accordance with instructions of the Supervisor of Banks.
(7) Deducted from capital.
(8) Includes NIS 113 million deducted from capital.
(9) Includes NIS 14 million deducted from capital.

Note 4 – Capital adequacy in accordance with directives of the Supervisor of Banks – cont.
As of September 30, 2008 (unaudited)

Reported amounts (NIS in millions)

	Balances [1]	Weighting of risk assets					
		0%	20%	50%	100%	Risk balances	Capital requirement [2]
2. Weighted credit risk balances by risk group							
Off-balance sheet instruments							
Transactions in which the balance represents credit risk	10,700	277	461	287	9,675	9,911	892
Financial derivatives	12,414	-	9,342	-	3,072	4,940	445
Others	358	-	213		145	188	17
Total off-balance sheet instruments	23,472	277	10,016	287	12,892	15,039	1,354
Total credit risk assets and capital requirement	130,597	14,242	21,691	20,429	74,235	88,788	7,992
Market risk	-	-	-	-	-	2,664	240
Total risk assets and capital requirements	130,597	14,242	21,691	20,429	74,235	91,452	8,232

3. Details of capital requirement for market risk:	
Interest risk	180
Share price risk	-
Exchange rate and inflation risk	45
Risk associated with options trading	15
Total capital requirement for market risk	240

4. Ratio of capital to elements of risk	in %
Ratio of Tier I capital to risk elements	6.68
Ratio of total capital to risk elements	11.43
Total minimum capital ratio required by the Supervisor of Banks	9.00

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

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

Reported amounts (NIS in millions)

A. Capital adequacy is 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".

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

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

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

Note 4 – Capital adequacy in accordance with directives of the Supervisor of Banks – cont.

As of December 31, 2008 (audited)

Reported amounts (NIS in millions)

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

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

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

(1) Assets - balance sheet balances; off-balance sheet instruments - balance of stated values weighted by the conversion coefficients for loans.

(2) Capital requirement was calculated at a rate of 9%, in accordance with instructions of the Supervisor of Banks.

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

C. On June 29, 2009 the Bank Board of Directors resolved to instruct Bank management to act so as to have the original Tier I capital adequacy ratio for the Bank be no less than 6.7% by end of 2009.

D. In a letter dated August 30, 2009, the Bank of Israel instructed banks that, pending completion of the supervisory review and assessment process by the Bank of Israel of implementation of Pillar II of the interim directives concerning Basle II implementation (SREP), the Bank is required to continue maintaining the capital targets as defined there by in terms of Basle I (Proper Conduct of Banking Business Regulation No. 311).

Note 5 – Consolidated statement of assets and liabilities by linkage basis
As of September 30, 2009 (unaudited)

Reported amounts (NIS in millions)

	Israeli currency		Foreign currency (1)				
	Non-linked	CPI-linked	US dollars	Euro	Other currencies	Non-monetary items	Total
Assets							
Cash and deposits with banks	6,483	977	1,600	325	448	-	9,833
Securities	2,098	1,423	2,408	1,540	92	(3) 317	7,878
Securities loaned or sold in conjunction with repurchase agreements	486	-	-	-	-	-	486
Loans to the public (2)	46,085	34,032	7,802	2,367	2,772	-	93,058
Loans to the Government	-	1	296	-	-	-	297
Investments in affiliates	27	-	-	-	-	(15)	12
Buildings and equipment	-	-	-	-	-	1,458	1,458
Other assets	1,767	382	118	60	107	153	2,587
Total assets	56,946	36,815	12,224	4,292	3,419	1,913	115,609
Liabilities							
Deposits from the public	51,566	22,529	12,003	4,570	2,737	-	93,405
Deposits from banks	549	976	431	103	63	-	2,122
Deposits from the Government	3	180	37	-	-	-	220
Debentures and subordinated notes	-	7,888	-	-	-	-	7,888
Other liabilities	3,549	767	412	114	108	228	5,178
Total liabilities	55,667	32,340	12,883	4,787	2,908	228	108,813
Difference	1,279	4,475	(659)	(495)	511	1,685	6,796
Non-hedging financial derivatives:							
Derivatives (except for options)	4,962	(4,696)	380	9	(655)	-	
Net in-the-money options (in terms of underlying asset)	(490)	-	263	113	134	(20)	-
Net out-of-the-money options (in terms of underlying asset)	(545)	-	29	355	141	20	-
Total	5,206	(221)	13	(18)	131	1,685	6,796
Net in-the-money options (capitalized par value)	(327)	-	(529)	225	82	549	-
Net out-of-the-money options (capitalized par value)	(1,706)	-	1,446	623	(359)	(4)	-

(1) Includes amounts linked to foreign currency.
(2) The general, special and supplementary provisions for doubtful debts were deducted ratably from the various linkage categories.
(3) Includes NIS 214 million for shares received to secure credit. (See also Note 2).

Note 5 – Consolidated statement of assets and liabilities by linkage basis
As of September 30, 2008 (unaudited)

Reported amounts (NIS in millions)

	Israeli currency		Foreign currency [1]			Non-monetary items	Total
	Non-linked	CPI-linked	US dollars	Euro	Other currencies		
Assets							
Cash and deposits with banks	3,060	2,408	3,099	1,897	428	-	10,892
Securities	2,773	1,185	1,658	1,425	30	[3] 378	7,449
Securities loaned or sold in conjunction with repurchase agreements	-	-	-	-	-	-	-
Loans to the public (2)	37,417	34,817	7,189	1,881	2,576	-	83,880
Loans to the Government	-	2	1	-	-	-	3
Investments in affiliates	26	-	-	-	-	(9)	17
Buildings and equipment	-	-	-	-	-	1,402	1,402
Other assets	2,485	286	317	47	88	149	3,372
Total assets	45,761	38,698	12,264	5,250	3,122	1,920	107,015
Liabilities							
Deposits from the public	43,975	22,603	11,954	3,684	2,465	-	84,681
Deposits from banks	618	1,072	592	107	76	-	2,465
Deposits from the Government	188	220	35	-	-	-	443
Securities loaned or sold in conjunction with repurchase agreements	600	-	-	-	-	-	600
Debentures and subordinated notes	-	6,870	-	-	-	-	6,870
Other liabilities	4,317	655	542	34	40	189	5,777
Total liabilities	49,698	31,420	13,123	3,825	2,581	189	100,836
Difference	(3,937)	7,278	(859)	1,425	541	1,731	6,179
Non-hedging financial derivatives:							
Derivatives (except for options)	5,777	(5,189)	1,037	(1,088)	(537)	-	-
Net in-the-money options (in terms of underlying asset)	307	-	171	(515)	50	(13)	-
Net out-of-the-money options (in terms of underlying asset)	(26)	-	140	(8)	(118)	12	-
Total	2,121	2,089	489	(186)	(64)	1,730	6,179
Net in-the-money options (capitalized par value)	(1,090)	-	435	427	(204)	432	-
Net out-of-the-money options (capitalized par value)	189	-	(238)	(173)	69	153	-

(1) Includes amounts linked to foreign currency.
(2) The general, special and supplementary provisions for doubtful debts were deducted ratably from the various linkage categories.
(3) Includes NIS 275 million for shares received to secure credit. (See also Note 2).

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

Reported amounts (NIS in millions)

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

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

Note 6 - Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

	September 30 2009 (unaudited)	September 30 2008 (unaudited)	December 31 2008 (audited)
A. Off-balance sheet financial instruments			
Contract balances or their stated amounts at the end of the period			
Transactions in which the balance represents a credit risk:			
- Documentary credit	469	508	531
- Loan guarantees	3,762	3,751	3,618
- Guarantees to purchasers of homes	5,431	6,266	5,827
- Other guarantees and liabilities (1)	3,945	4,409	4,208
- Unutilized revolving credit card facilities (2)	9,117	(3) 12,073	(3) 11,878
- Unutilized debitory account and other credit facilities in accounts available on demand	18,922	(3) 20,519	17,945
- Irrevocable commitments for loans approved but not yet granted	4,848	4,158	3,834
- Commitments to provide credit to savers	1,863	1,712	1,704
- Commitments to issue guarantees	2,334	(4) 3,530	3,136

	September 30 2009 (unaudited)	September 30 2008 (unaudited)	December 31 2008 (audited)
B. Special commitments			
Liabilities in respect of:			
Long-term rental contracts	440	376	392
Computerization and software services contracts	32	18	72
Acquisition and renovation of buildings	17	22	15
Receipt of deposits on future dates (5)	5	5	5

(1) Includes the Bank's liabilities for its share in the risks fund of the MAOF Clearinghouse of NIS 101 million (as of September 30, 2008 and December 31, 2008 - NIS 107 million and NIS 146 million, respectively).
(2) May be unconditionally terminated at any time.
(3) Restated.
(4) Reclassified.
(5) Transactions with institutional depositors to receive deposits at future dates at fixed interest rates set upon the contract date.

Note 6 - Contingent Liabilities and Special Commitments (continued)

C. Contingent liabilities and other special commitments

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

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

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

   A. In October 2004, an action was lodged in Tel Aviv District Court against the Bank and against Bank Tefahot, as well as a motion for recognition as a class action.
   According to the Statement of Claim and the motion for recognition as a class action, the plaintiffs allege that their shares were acquired from them in a forced purchase and at a value below their fair value, in the process of a tender offer that the Bank published on June 24, 2004, to acquire the shares of Bank Tefahot, even though one of the plaintiffs accepted the tender offer in part. Therefore, the plaintiffs appealed, inter alia, to receive the remedy of appraisal under Section 338 of the Companies Law, 1999.
   In the purchase offer, the Bank offered to purchase from Bank Tefahot shareholders all 6,909,842 of their shares, in exchange for NIS 49.50 per share (after amendment of the purchase offer).

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

Note 6 - Contingent Liabilities and Special Commitments (continued)

The plaintiffs allege that the amount of their personal claim is NIS 171 thousand, and for all of the plaintiffs that they are petitioning to represent, they estimate the amount of the claim at NIS 2,149 million.
In February 2009, the Court dismissed the plaintiffs' motion for recognition as a class action. In March 2009, the plaintiffs appealed the Court decision.
Bank management believes, based on the opinion of legal counsel, that prospects of success for the plaintiffs are remote.

B. In July 2006, an action and motion for recognition as a class action were lodged in Tel Aviv District Court against the Bank in an amount exceeding NIS 2.5 million, for management fees commissions on securities deposits charged to customers, as defined in the Bank's commissions price list, at amounts above those to which the Bank is entitled according to its own price list and allegedly in violation of the law.

In January 2007, the Bank filed its response to the motion for class action status. In its response the Bank claims that plaintiff's claims are not only in contradiction with the Bank price list, but also in contradiction with logic and common sense. The Bank further argues that the plaintiff has no cause and therefore no foundation for a personal claim against the Bank.
The Bank also argues that, prima facie, the claim is not appropriate for class action status, and that the plaintiff has failed to meet even a single criterion required by the Class Action Act for his motion for class action status to be accepted.
In the estimation of the Bank's management, based on the opinion of its legal counsel, the prospects that the appeal, the claim and the motions for recognition of the action as a class action are "reasonably possible". The appropriate provision was made by the Bank.

C. In March 2008, a claim against the Bank was filed with the Tel Aviv District Court, including an application for class action status, amounting to over NIS 2.5 million (as set forth in the claim).
The plaintiffs claim that banks are in breach of restrictive trade practices statutes, with restrictive practices leading to reduced competition among banks with regard to various commissions. The banks, according to the claim, have shared information with regard to the various commissions they charge. The plaintiffs claim that this impacted competition in the banking sector, and customers, such as the plaintiffs, have been charged higher commissions than they would have paid had the banks acted lawfully.

Note 6 - Contingent Liabilities and Special Commitments (continued)

According to the Bank, and to evidentiary material submitted by the Antitrust Supervisor, it would appear that commissions charged by the Bank to households and small businesses were primarily impacted by the structure of the Israeli banking industry, which is dominated by three major banks which hold an 80% market share. This market has always been subject to regulatory requirements of transparencies, hence most of the relevant information with regard to commissions at different banks was public information, easily accessible by all. Therefore, any information transfer to which the Bank was party could not cause any damage, especially in view of Bank policy to charge the lowest commissions in the relevant period.

Bank management believes, based on the opinion of legal counsel, that there is a remote chance that the claim and application for class action status against the Bank would prevail.

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

The Supervisor of Capital Market and Insurance was requested to join the claim as plaintiff, alongside the provident fund account holders, claiming that the Supervisor should rightly voice his position on the claim in both material and public aspects.

The Bank has filed its response to the motion claiming, *inter alia*, that this claim is fallacious and distorts the statute. The asset sold is the provident fund management business, which was owned by the Bank. The sale was made in accordance with the BACHAR reform and legislation enacted based there upon, which required the banks to sell their provident fund management business, which was owned by the Bank and not by the members, therefore the Bank alone is entitled to the proceeds from sale of the asset owned there by.

Note 6 - Contingent Liabilities and Special Commitments (continued)

The entire sale was accompanied by national authorities, first and foremost by the Supervisor of Insurance, which reviewed and approved the agreements, including the obvious fact that proceeds from the sale are due to the seller of the asset, namely the Bank.
In the estimation of the Bank’s management, based on the opinion of its legal counsel, the prospects that the appeal, the claim and the motions for recognition of the action as a class action are "remote”.

E. In November 2008, a claim was filed with the Tel Aviv District Court, including an application for class action status, amounting to NIS 130 million, stating collection of commission for cancellation or failure to honor a standing order, collection of commission for a transaction cancelled by the Bank, collection of commission for provision of information or for cash withdrawal when the account owner has no charge card, collection of securities management fee and failure to charge it as a tax deductible expense, and charging of tax on a foreign currency deposit to a checking account, as well as other causes.
The Bank has filed a motion to dismiss the claim outright, claiming that a class action suit may not be filed for such multiple, distinct causes.
In the estimation of the Bank’s management, based on the opinion of its legal counsel, the prospects that the appeal, the claim and the motions for recognition of the action as a class action are "remote”.

F. In November 2008, a claim was filed with the Tel Aviv District Court, including an application for class action status, amounting to NIS 68 million, against the Bank, Bank Leumi Le-Israel Ltd., First International Bank of Israel Ltd. and Bank Igud Ltd. for alleged over collection of tax on interest and dividend revenues by way of tax withholding.
The plaintiff claims that the banks named in the claim over charge their customers who own bonds or stocks (the source of revenue) by not deducting the commission on said revenue prior to withholding tax. The Bank and the other banks have yet to file their response to the motion.
In the estimation of the Bank’s management, based on the opinion of its legal counsel, the prospects that the appeal, the claim and the motions for recognition of the action as a class action are "remote”.

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

The Bank has filed a response to the motion claiming, inter alia, that the plaintiff did not disclose that a special agreement was in place between him and the Bank, in which was set a fixed commission 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 the value there of, the Bank price list no longer applied to him.
In the estimation of the Bank's management, based on the opinion of its legal counsel, the prospects that the appeal, the claim and the motions for recognition of the action as a class action are "remote".

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

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

Bank management believes, based on the opinion of legal counsel, that there is a remote chance that the claim and application for class action status against the Bank would prevail.

Note 6 - Contingent Liabilities and Special Commitments

I. In November 2009, the Bank received a claim of NIS 804 million filed, by way of originating motion, with the Central District Court in PETACH TIKVA, against the Bank, Bank HA-POALIM, BANK LEUMI, First International Bank of Israel, Discount Bank, Mercantile Discount Bank and Bank IGUD (hereinafter: "the defendant banks"). The background for this claim is a loan obtained by the plaintiffs from the banks in 1999 for purchase of shares (of which the Bank's share was 10%), with the plaintiffs pledging their shares to the banks to secure the loan. Since the plaintiffs were unable to repay their debt, a Receiver was appointed for the shares at the request of the defendant banks.

The plaintiffs claim that once a Receiver was appointed for the shares, these shares were no longer under their control, and although the decision concerning the sale date of the shares was in the hands of the defendant banks and of the Receiver, the defendant banks continued to charge, allegedly un-lawfully, "arrears interest" to the plaintiffs throughout the receivership period, in respect of the arrears in loan repayment, which over the years amounted, according to the claim, to the total claim amount. The response of the defendant banks to the claim has yet to be filed.

Bank management believes, in accordance with the opinion of legal counsel representing the Bank in this case, that at this early stage of the case, the chances of the plaintiffs to prevail are estimated to be remote.

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding claims listed in section 3 below, there is additional, non-remote exposure for which no provision was made, amounting to NIS 190 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, hence no provision was made for these.

Note 6 - Contingent Liabilities and Special Commitments (continued)

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

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

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

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

4) On April 26, 2009, the Bank received a determination by the Anti-Trust Supervisor pursuant to Section 43(a)(1) of the Restrictive Trade Practices Act, 1988, whereby restrictive trade practices existed between the Bank and Bank HA-POALIM 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.

By law, the Bank is entitled to appeal this determination by December 3, 2009. The Bank is studying the determination and is considering further steps, however at this early stage it is not yet possible to estimate the impacts there of. For details of a claim filed against the Bank based on the determination by the Anti-Trust Supervisor, see Note 6.C.2)h above.

Note 6 - Contingent Liabilities and Special Commitments (continued)

5) On May 13, 2009, a claim letter was received from a shareholder of the Bank pursuant to Section 194 of the Corporate Act, 1999 in which the shareholder demands that the Bank announce within 45 days that it has filed a claim against officers, Board members and controlling shareholders of the Bank since the 1990s, requiring them to pay damages and/or to reimburse the Bank should a court of law find (or a settlement be agreed to) in one of the class action suits pending against the Bank on this matter, that the Bank should compensate its clients and/or reimburse them for unlawful charging of commissions. This claim is based on the determination by the Anti-Trust Supervisor dated April 26, 2009.

   On July 1, 2009 the Bank rejected this claim. The Bank's position, after consulting with external legal counsel, that even after the Anti-Trust Supervisor's determination has been made public, the Bank has no cause for filing a claim against its officers, Board members and controlling shareholders. At this point in time, the alleged damage has yet to be realized, and may not be realized at all, and the extent of such damage is certainly unknown at present, even should it be awarded. The class action suits are at a very preliminary stage - that of filing the motion for recognition - and it is unclear if they would be recognized as class action suits, and even should they be thus recognized, if the Bank would be found liable. Furthermore, filing a claim is not in line with the Bank's interest and is directly opposed to the Bank's position whereby the published determination is erroneous, and the Bank's actions do not constitute a restrictive practice, and even had they constituted a restrictive practice, no damage has been sustained by class plaintiffs.

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

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	September 30, 2009				
	Interest contracts				Commodities
			Currency	Contracts	and other
	NIS - CPI	Other	contracts	for shares	contracts
	(unaudited)				
1.Stated amounts of financial derivatives					
A. Hedging derivatives [1]					
Forward contracts	1,265	-	-	-	-
Swaps	-	1,615	-	-	-
Total	1,265	1,615	-	-	-
Includes interest rate (swaps) on which the Bank agrees to pay a fixed interest rate	-	1,352	-	-	-
B. ALM derivatives [1] [2]					
Forward contracts	6,828	3,586	35,449	187	429
Option contracts traded on stock exchange:					
Options written	-	-	378	-	-
Options purchased	-	-	480	-	-
Other option contracts:					
Options written	-	-	12,246	104	-
Options purchased	-	-	13,410	162	-
Swaps	20,477	11,543	3,856	-	-
Total	27,305	15,129	65,819	453	429
Includes interest rate (swaps) on which the Bank agrees to pay a fixed interest rate	8,943	8,366	-	-	-
C. Other derivatives [1]					
Forward contracts	-	-	1,959	-	-
Option contracts traded on stock exchange:					
Options written	-	-	2,142	9,042	1
Options purchased	-	-	2,119	9,042	1
Other option contracts:					
Options written	-	-	165	623	-
Options purchased	-	19	177	501	-
Total	-	19	6,562	19,208	2

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

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

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	September 30, 2009				
	Interest contracts				Commodities
			Currency	Contracts	and other
	NIS - CPI	Other	contracts	for shares	contracts
			(unaudited)		
D. Credit derivatives and foreign currency spot swaps					
Credit derivatives in which the Bank is guarantor	-	-	-	-	376
Credit derivatives in which the Bank is beneficiary	-	-	-	-	595
Foreign currency spot swap contracts	-	-	2,756	-	-
Total	-	-	2,756	-	971
2. Fair value, gross, of financial derivatives					
A. Hedging derivatives (1)					
Positive fair value, gross	7	3	-	-	-
Negative fair value, gross	58	187	-	-	-
B. ALM derivatives (1) (2)					
Positive fair value, gross	438	64	1,142	9	3
Negative fair value, gross	675	135	1,050	6	4
C. Other derivatives (1)					
Positive fair value, gross	-	-	39	115	-
Negative fair value, gross	-	-	38	112	-
D. Credit derivatives					
Credit derivatives in which the Bank is guarantor					
Negative fair value, gross	-	-	-	-	63
Credit derivatives in which the Bank is beneficiary					
Positive fair value, gross	-	-	-	-	-

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

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

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	September 30, 2008				
	Interest contracts				Commodities
			Currency	Contracts	and other
	NIS - CPI	Other	contracts	for shares	contracts
	(unaudited)				
1. Stated amounts of financial derivatives					
A. Hedging derivatives [(1)]					
Forward contracts	1,116	-	-	-	-
Swaps	-	1,082	-	-	-
Total	1,116	1,082	-	-	-
Includes interest rate (swaps) on which the Bank agrees to pay a fixed interest rate		976			
B. ALM derivatives [(1) (2)]					
Futures contracts	-	-	161	-	-
Forward contracts	10,635	5,939	40,438	510	145
Option contracts traded on stock exchange:					
Options written	-	-	480	-	-
Options purchased	-	-	354	-	-
Other option contracts:					
Options written	-	-	16,831	1,025	-
Options purchased	-	-	17,278	1,068	-
Swaps	17,507	16,946	4,455	-	-
Total	28,142	22,885	79,997	2,603	145
Includes interest rate (swaps) on which the Bank agrees to pay a fixed interest rate	7,353	10,448	-	-	-
C. Other derivatives [(1)]					
Forward contracts	-	-	55	-	-
Option contracts traded on stock exchange:					
Options written	-	-	2,131	8,766	1
Options purchased	-	-	2,219	8,766	1
Other option contracts:					
Options written	-	1,741	2,112	671	2
Options purchased	-	1,741	2,170	675	2
Swaps	-	-	-	-	-
Total	-	3,482	8,687	18,878	6

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

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

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	September 30, 2008				
	Interest contracts				
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts
	(unaudited)				
D. Credit derivatives and foreign currency spot swaps					
Credit derivatives in which the Bank is guarantor	-	-	-	-	821
Foreign currency spot swap contracts	-	-	652	-	-
Total	-	-	652	-	821
2. Fair value, gross, of financial derivatives					
A. Hedging derivatives (1)					
Positive fair value, gross	8	2	-	-	-
Negative fair value, gross	32	43	-	-	-
B. ALM derivatives (1) (2)					
Positive fair value, gross	299	100	1,508	121	6
Negative fair value, gross	360	150	1,840	118	5
C. Other derivatives (1)					
Positive fair value, gross	-	17	213	143	2
Negative fair value, gross	-	17	203	135	2
D. Credit derivatives					
Credit derivatives in which the Bank is guarantor					
Positive fair value, gross					
Negative fair value, gross	-	-	-	-	36

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

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

Reported amounts (NIS in millions)

A. Activity on consolidated basis

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

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

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

A. Activity on consolidated basis

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

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

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

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

	September 30, 2009				
	Stock exchanges	Banks	Dealers/ Brokers	Others	Total
	(unaudited)				
Positive fair value, gross, of financial derivatives (1)	131	1,291	23	375	1,820
Less offset agreements	-	29	-	45	74
Balance sheet balances of underlying assets (2)	131	1,262	23	330	1,746
Off-balance sheet credit risk on financial derivatives (3)	55	7,524	153	2,389	10,121
Total credit risk on financial derivatives	186	8,786	176	2,719	11,867

	September 30, 2008				
	Stock exchanges	Banks	Dealers/ Brokers	Others	Total
	(unaudited)				
Positive fair value, gross, of financial derivatives (1)	159	1,592	32	636	2,419
Off-balance sheet credit risk on financial derivatives (3)	61	9,341	121	2,890	12,413
Total credit risk on financial derivatives	220	10,933	153	3,526	14,832

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

(1) Of which, positive gross fair value of embedded derivatives amounting to NIS 2 million (December 31, 2008 – NIS 2 million, September 30, 2008 – NIS 4 million).

(2) The balance sheet balance of stand-alone derivatives amounting to NIS 1,744 million included under Other Assets (December 31, 2008 – NIS 3,385 million, September 30, 2008 – NIS 2,415 million).

(3) 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

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

	September 30, 2009 (unaudited)				
	Up to three months	Over three months to 1 year	1-5 years	Over 5 years	Total
Interest contracts					
NIS-CPI	4,510	10,009	9,866	4,185	28,570
Other	3,366	7,949	2,615	2,833	16,763
Currency contracts	45,454	26,755	2,192	736	75,137
Contracts for shares	18,048	1,301	312	-	19,661
Commodities and other contracts	194	237	775	196	1,402
Total as of September 30, 2009	71,572	46,251	15,760	7,950	141,533

	September 30, 2008 (unaudited)				
Total	79,022	65,806	16,941	6,727	168,496

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

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

Reported amounts (NIS in millions)

	For the three months ended September 30		For the nine months ended September 30	
	2009	2008	2009	2008
		(unaudited)		(unaudited)
A. In respect of assets [(1)]				
From loans to the public	1,141	1,734	3,644	3,117
From loans to the Government	(8)	-	(8)	-
From deposits with the Bank of Israel and from cash	(45)	29	(106)	(16)
From deposits with banks	(95)	160	(88)	(701)
From securities loaned or sold in repurchase agreement	1	-	2	1
From debentures	(92)	-	73	(226)
	902	1,923	3,517	2,175
B. In respect of liabilities [(1)]				
On deposits from the public	(140)	(1,000)	(1,859)	(276)
On deposits from the government	(5)	(8)	(12)	(13)
On deposits from the Bank of Israel and from cash	-	(1)	-	(8)
On deposits from banks	222	108	435	186
Securities loaned or sold in conjunction with repurchase agreements	-	-	-	-
On debentures and subordinated notes	(296)	(234)	(590)	(565)
	(219)	(1,135)	(2,026)	(676)
C. In respect of financial derivatives and hedging activities				
Net revenues (expenses) from ALM derivatives [(2)]	(120)	(184)	(20)	(198)
Net revenues from other derivatives	(89)	(17)	13	191
	(209)	(201)	(7)	(7)
D. Other				
Commissions from financing transactions	20	24	68	69
Financing revenues from collection of interest on arrears from individual borrowers	7	13	24	37
Interest income on problem loans	35	19	78	68
Gain (loss) from sale of debentures, net [(3)]	19	(82)	22	(86)
Other financing profit	31	45	77	145
Other financing expenses	(4)	(8)	(23)	(24)
	108	11	246	209
Total profit from financing operations before provision for doubtful debts	582	598	1,730	1,701
Includes: exchange rate differences, net	(3)	(2)	22	(36)
Details of net effect of hedging financial derivatives on profit from financing operations				
Financing revenues (expenses) for assets (section A)	(61)	(15)	(60)	1

(1) Includes the effective element in the hedging ratios.
(2) Derivatives which constitute part of the Bank's asset and liability management system, which were not intended as hedges.
(3) Includes provision for impairment of debentures held for sale amounting to NIS 38 million in the nine months ended September 30, 2009, compared to NIS 95 million in the corresponding period last year.

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

Reported amounts (NIS in millions)

	For the three months ended September 30		For the nine months ended September 30	
	2009	2008	2009	2008
		(unaudited)		(unaudited)
Gain (loss) from sale of shares available for sale, net	39	(1)	39	16
Provision for impairment of shares available for sale	-	(2)	(7)	(3)
Dividends from shares available for sale	13	-	27	17
Total profits from investments in shares, net	52	(3)	59	30

Note 10 – Operating Segments
For the nine months ended September 30, 2009
Reported amounts (NIS in millions)

A. Information regarding operating segments

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
				(unaudited)			
Profit from financing operations before provision for doubtful debts							
From outside operating segments	2,069	(34)	230	168	471	(1,174)	1,730
Inter-segment	(1,234)	67	(9)	(63)	(31)	1,270	-
Profit from financing operations before provision for doubtful debts	835	33	221	105	440	96	1,730
Operating and other revenues	594	39	149	35	129	101	1,047
Total revenues	1,429	72	370	140	569	197	2,777
Provision for doubtful debts	81	1	53	11	122	-	268
Operating and other expenses							
From outside operating segments	1,133	37	294	48	165	178	1,855
Inter-segment	(75)	1	(31)	46	54	5	-
Other operating expenses - total	1,058	38	263	94	219	183	1,855
Pre-tax operating profit	290	33	54	35	228	14	654
Provision for taxes on operating profit	100	11	18	12	78	6	225
After-tax operating profit	190	22	36	23	150	8	429
Minority interest in net after-tax operating profits of subsidiaries	(4)	-	-	-	-	(9)	(13)
Net profit (loss)	186	22	36	23	150	(1)	416
Return on equity	7.8%	46.1%	14.3%	11.6%	10.9%	(0.3%)	9.1%
Average balance of assets	58,032	1,730	4,926	4,109	27,248	21,027	117,072
Average balance of liabilities	46,965	6,746	6,439	2,180	14,851	33,202	110,383
Average balance of risk assets(1)	50,328	999	5,090	3,987	27,875	7,755	96,034
Average balance of provident and mutual fund assets	-	-	-	-	-	60,849	60,849
Average balance of securities	17,748	6,505	10,835	1,757	45,189	22,607	104,641
Credit to the public (end balance)	61,085	1,378	4,960	4,151	21,484	-	93,058
Deposits from the public (end balance)	46,779	5,826	6,240	2,302	14,019	18,239	93,405
Average balance of other assets managed	22,697	-	323	42	128	-	23,190

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

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	484	11	166	67	294	-	1,022
Margin from receiving deposits	292	19	26	6	57	-	400
Other	59	3	29	32	89	96	308
Total	835	33	221	105	440	96	1,730

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

Note 10 – Operating Segments
For the nine months ended September 30, 2008
Reported amounts (NIS in millions)

A. Information regarding operating segments

	Household (1)	Private banking (1)	Small business	Commercial banking	Business banking	Financial management (1)	Total consolidated
				(unaudited)			
Profit from financing operations before provision for doubtful debts							
From outside operating segments	2,141	(132)	19	208	563	(1,098)	1,701
Inter-segment	(1,285)	175	224	(96)	(180)	1,162	-
Profit from financing operations before provision for doubtful debts	856	43	243	112	383	64	1,701
Operating and other revenues	482	45	130	35	109	97	898
Total revenues	1,338	88	373	147	492	161	2,599
Provision for doubtful debts	79	1	44	2	78	9	213
Operating and other expenses							
From outside operating segments	896	43	287	41	140	158	1,565
Inter-segment	(78)	1	(30)	41	48	18	-
Other operating expenses - total	818	44	257	82	188	176	1,565
Operating profit (loss) before taxes	441	43	72	63	226	(24)	821
Provision for taxes on operating profit	166	17	27	24	84	(9)	309
After-tax operating profit (loss)	275	26	45	39	142	(15)	512
Minority interest in net after-tax operating profit of subsidiaries	(7)	-	-	-	-	-	(7)
Net operating profit (loss)	268	26	45	39	142	(15)	505
Net after-tax profit from extraordinary items	-	-	-	-	-	1	1
Net profit (loss)	268	26	45	39	142	(14)	506
Return on equity	13.8%	68.9%	16.5%	19.5%	10.4%	(3.8%)	12.1%
Average balance of assets	48,624	1,384	4,873	4,283	22,489	23,759	105,412
Average balance of liabilities	35,708	6,186	[1]6,290	2,082	13,235	35,663	99,164
Average balance of risk assets[2]	40,166	806	5,544	4,075	27,468	8,693	86,752
Average balance of provident and mutual fund assets	-	-	-	-	-	51,958	51,958
Average balance of securities	19,784	4,960	12,628	1,697	37,701	23,532	100,302
Credit to the public (end balance)	53,458	1,312	4,771	4,417	19,922	-	83,880
Deposits from the public (end balance) [1]	43,468	5,960	6,280	2,078	11,263	15,632	84,681
Average balance of other assets managed	18,535	-	157	23	154	-	18,869

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

	Household (1)	Private banking (1)	Small business	Commercial banking	Business banking	Financial management (1)	Total consolidated
Margin from credit granting operations	451	13	149	75	233	-	921
Margin from receiving deposits	328	27	56	13	62	-	486
Other	77	3	38	24	88	64	294
Total	856	43	243	112	383	64	1,701

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

Note 10 – Operating Segments
For the three months ended September 30, 2009
Reported amounts (NIS in millions)

A. Information regarding operating segments

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
				(unaudited)			
Profit from financing operations before provision for doubtful debts							
From outside operating segments	925	(8)	84	67	130	(616)	582
Inter-segment	(638)	17	(15)	(35)	6	665	-
Profit from financing operations before provision for doubtful debts	287	9	69	32	136	49	582
Operating and other revenues	208	13	52	14	76	33	396
Total revenues	495	22	121	46	212	82	978
Provision for doubtful debts	25	-	17	5	35	-	82
Operating and other expenses							
From outside operating segments	396	13	101	18	61	65	654
Inter-segment	(26)	1	(11)	16	19	1	-
Other operating expenses - total	370	14	90	34	80	66	654
Pre-tax operating profit	100	8	14	7	97	16	242
Provision for taxes on operating profit	33	2	3	3	32	8	81
After-tax operating profit	67	6	11	4	65	8	161
Minority interest in net after-tax operating profit of subsidiaries	(4)	-	-	-	-	(1)	(5)
Net profit	63	6	11	4	65	7	156
Return on equity	7.8%	41.4%	12.6%	6.5%	16.6%	4.2%	10.2%

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

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	163	2	50	16	94	-	325
Margin from receiving deposits	106	5	9	2	14	-	136
Other	18	2	10	14	28	49	121
Total	287	9	69	32	136	49	582

Note 10 – Operating Segments
For the three months ended September 30, 2008

Reported amounts (NIS in millions)

A. Information regarding operating segments

	Household (1)	Private banking (1)	Small business	Commercial banking	Business banking	Financial management (1)	Total consolidated
				(unaudited)			
Profit from financing operations before provision for doubtful debts							
From outside operating segments	985	(55)	135	76	163	(706)	598
Inter-segment	(626)	69	(52)	(38)	(44)	691	-
Profit from financing operations before provision for doubtful debts	359	14	83	38	119	(15)	598
Operating and other revenues	171	17	44	12	31	40	315
Total revenues	530	31	127	50	150	25	913
Provision for doubtful debts	31	1	18	3	55	9	117
Operating and other expenses							
From outside operating segments	355	17	95	11	44	42	564
Inter-segment	(29)	-	(11)	15	18	7	-
Other operating expenses - total	326	17	84	26	62	49	564
Operating profit (loss) before taxes	173	13	25	21	33	(33)	232
Provision for taxes on operating profit	65	6	9	8	10	(12)	86
After-tax operating profit (loss)	108	7	16	13	23	(21)	146
Minority interest in net after-tax operating profit of subsidiaries	(7)	-	-	-	-	-	(7)
Net operating profit (loss)	101	7	16	13	23	(21)	139
Net after-tax profit from extraordinary items	-	-	-	-	-	1	1
Net profit (loss)	101	7	16	13	23	(20)	140
Return on equity	15.0%	62.8%	14.9%	20.4%	5.3%	(19.0%)	10.0%

B. Information regarding profit from financing operations before provision for doubtful debts(1)

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	176	1	48	26	65	-	316
Margin from receiving deposits	156	11	18	4	13	-	202
Other	27	2	17	8	41	(15)	80
Total	359	14	83	38	119	(15)	598

(1) Reclassified.

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

A. Information regarding operating segments

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
				(audited)			
Profit from financing operations before provision for doubtful debts							
From outside operating segments	2,613	(154)	69	267	753	(1,259)	2,289
Inter-segment	(1,420)	235	260	(119)	(212)	1,256	-
Profit from financing operations before provision for doubtful debts	1,193	81	329	148	541	(3)	2,289
Operating and other revenues	670	68	181	48	146	116	1,229
Total revenues	1,863	149	510	196	687	113	3,518
Provision for doubtful debts	87	1	89	25	180	13	395
Operating and other expenses							
From outside operating segments	1,259	57	380	54	190	213	2,153
Inter-segment	(106)	1	(41)	55	67	24	-
Other operating expenses - total	1,153	58	339	109	257	237	2,153
Operating profit (loss) before taxes	623	90	82	62	250	(137)	970
Provision for taxes on operating profit	233	33	31	23	88	(52)	356
After-tax operating profit (loss)	390	57	51	39	162	(85)	614
Share in net, after-tax operating loss of investees	-	-	-	-	-	(1)	(1)
Minority interest in net after-tax operating profit of subsidiaries	(12)	-	-	-	-	-	(12)
Net operating profit (loss)	378	57	51	39	162	(86)	601
Net after-tax profit from extraordinary items	-	-	-	-	-	1	1
Net profit (loss)	378	57	51	39	162	(85)	602
Return on equity	13.9%	101.0%	12.3%	14.3%	8.9%	(17.9%)	10.4%
Average balance of assets	49,534	1,440	5,470	4,831	23,358	17,213	101,846
Average balance of liabilities	41,842	6,367	6,317	2,103	13,801	25,400	95,830
Average balance of risk assets(2)	41,701	843	6,188	4,077	27,246	8,569	88,624
Average balance of provident and mutual fund assets	-	-	-	-	-	51,087	51,087
Average balance of securities	18,665	5,481	11,928	1,599	36,310	22,416	96,399
Credit to the public (end balance)	54,500	1,350	4,955	4,545	22,699	-(1)	88,049
Deposits from the public (end balance)	46,170(1)	6,809	6,591	2,510	13,655	16,044(1)	91,779
Average balance of other assets managed	20,349	-	153	36	119	-	20,657

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

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

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

Note 11 – Other matters

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

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

On May 27, 2009, the Bank received the Supervisor's approval, allowing the Bank to buy back on a non-recurring basis 2,500,000 shares of NIS 0.1 par value of the Bank's issued share capital, subject to statute and to terms and conditions set forth in the Supervisor's approval. On July 20, 2009 the Bank Board of Directors approved a share buy-back plan by the Bank, to acquire up to 2,500,000 shares of NIS 0.1 par value each, subject to terms and conditions set forth in the Supervisor's approval. The share buy-back would be transacted by (one or more) entities independent of the Bank who are members of the stock exchange, subject to restrictions set forth in this regard by the Board of Directors. Through September 24, 2009, the Bank has completed the buy-back, purchasing in total 2,500,000 shares at a cost of NIS 76 million.

In accordance with the condition set forth in the Supervisor's approval, the Bank would sell all excess shares (if any) immediately after the end of the exercise period of all option warrants allotted pursuant to the stock option plan, i.e. immediately after the seventh anniversary of the date of allotment of option warrants in accordance with the stock option plan. In accordance with a pre-ruling obtained from the Tax Authority, the Bank would not incur any tax liability upon purchase of shares as set forth above. The Bank Board of Directors has concluded that buy-back of Bank shares in accordance with the aforementioned buy-back program meets the distribution criteria set forth in the Corporate Act and is compliant with terms and conditions set forth in Proper Conduct of Bank Businesses Regulation No. 331.

Note 11 – Other matters

The Board of Directors has once again reviewed the Bank's compliance with distribution criteria set forth in the Corporate Act and compliance with terms and conditions set forth in Proper Conduct of Bank Businesses Regulation No. 331 upon approval of the Bank's financial statements for the second quarter of 2009.

In conjunction with the stock option plan, the Bank allotted on June 29, 2009 to the trustee, on behalf of the offerees, 5,850,000 option warrants which would not be listed for trading on the stock exchange. The option warrants may each be exercised for one Bank ordinary share of NIS 0.1 par value, for no consideration, subject to terms and conditions of the plan. Allotment of the maximum number of exercise shares is only theoretical. Upon the exercise date of the option warrants, offerees would not be allotted the full number of exercised shares arising from the option warrants which the offerees may exercise, pursuant to plan terms, but rather only the number of shares reflecting the monetary benefit inherent in the aforementioned option warrants.

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

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

Each offeree would be eligible to exercise option warrants included in the exercise lot which vested on any date, provided that the net operating profit return on the Bank's average shareholders' equity for the reported year preceding said vesting date should be 10% or higher. Should the aforementioned rate of return for the reported year prior to said vesting date be lower than 10%, the offeree may not exercise at any time the lot vested on said vesting date.

Note 11 – Other matters

The Bank Board of Directors would be qualified, at its own discretion and subsequent to approval by the Audit Committee, to exclude the impact of non-recurring or extraordinary events from calculation of the annual rate of return for any reported period.

The fair value (theoretical benefit value) of a single option warrant in any lot of option warrants was calculated in accordance with Accounting Standard no. 24, using the Black & Scholes model. The theoretical benefit value of each lot is recognized on Bank accounts over the vesting term. The following assumptions were used for calculation of fair value:

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

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

On November 9, 2009, the Bank Board of Directors, after obtaining approval by the Bank Audit Committee, resolved to approve allotment of a further 1,104,999 option warrants, under identical terms and conditions with the exception of the exercise price, to two VPs appointed subsequent to the approval date of the stock option plan for VPs.

Note 11 – Other matters

The exercise price for each option warrant allotted to the two additional offerees pursuant to the plan is NIS 29.85, 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 November 8, 2009, the most recent trading day prior to the date of plan approval by the Board of Directors. The fair value (theoretical benefit value) of a single option warrant in any lot of the additional option warrants approved was calculated in accordance with Accounting Standard no. 24, using the Black & Scholes model. The theoretical benefit value of each lot is recognized on Bank accounts over the vesting period.

Concurrently with approval of this allotment, 1,300 options, out of the first allotment in respect of two VPs who are no longer employed by the Bank, have expired.

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

	Lot 1	Lot 2	Lot 3	Lot 4	Lot 5	Total
Allotment approved March 29, 2009						
Number of options (in thousands)	910	910	910	910	910	4,550
Annualized standard deviation	32.75%	32.04%	30.95%	30.11%	30.27%	
Exercise price (in NIS)	21.18	21.18	21.18	21.18	21.18	
Risk-free interest rate	0.65%	0.77%	0.92%	1.09%	1.28%	
Term to exercise (in years)	4.1	4.6	5.1	5.6	6.1	
Fair value per single option	4.78	5.02	5.19	5.39	5.77	
Total fair value per lot (NIS in thousands)	4,346	4,569	4,724	4,907	5,254	23,800
Allotment approved November 9, 2009						
Number of options (in thousands)	65	260	260	260	260	1,105
Annualized standard deviation	35%	34%	33%	33%	32%	
Exercise price (in NIS)	29.85	29.85	29.85	29.85	29.85	
Risk-free interest rate	0.46%	0.65%	0.83%	1.02%	1.20%	
Term to exercise (in years)	3.6	4.1	4.6	5.1	5.6	
Fair value per single option	8.00	8.39	8.73	9.16	9.44	
Total fair value per lot (NIS in thousands)	520	2,181	2,270	2,381	2,455	9,807

Note 11 – Other matters

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

On February 23, 2009, the Registrar of Corporations' approval of the merger was received, thereby completing all of the suspensive conditions for this merger. As of said date Bank Adanim has ceased to exist as a separate company, and its assets and liabilities were merged into the Bank.

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

The financial statements include an appropriate provision, whose amount is not material, in respect of retirement cost of Bank ADANIM employees.

C. On July 19, 2005, after approval by the Bank’s Audit Committee and Board of Directors, stock options were granted to Executive Management, division and sector managers, and department and branch managers of the Bank and its subsidiaries (“the offerees”) in conjunction with a compensation planned aimed at encouraging them to contribute to business development of the Bank and its subsidiaries, and to align interests of the offerees with that of the Bank and its subsidiaries.

On March 2, 2009, the Bank Board of Directors, having received approval from the Bank Audit Committee dated March 2, 2009, resolved to extend the exercise period of all options granted to employees and officers of the Bank and its subsidiaries in accordance with this stock option plan, not yet exercised into Bank shares, by a further 2 years. The extension of the exercise period for these options is only a benefit to offerees who own the options under the plan.

Pursuant to Accounting Standard no. 24 "Share-Based Payment", the Bank is required to recognize the impact of extension of option exercise periods, which increases their fair value, equal to the difference between the option's fair value immediately after extension of the exercise period and their fair value immediately before the decision by the Board of Directors ("the additional fair value").

Note 11 – Other matters

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

- The exercise price for the options are as determined upon the original grant date, adjusted for the Consumer Price Index known upon approval of the extension.
- The share price was determined using the closing price for Bank shares on the stock exchange on the trading day preceding the data of approval by the Board of Directors of this extension.
- The expected duration to exercise for the options included in lots fully vested as of the valuation date were assumed to be half of the remaining period from the date of approval of this extension until expiration of the options included in said lot.
- The standard deviation is based on historical volatility of Bank shares, in accordance with the expected terms to option exercise, and has been calculated separately for each lot.
- The interest rate for calculation of the option fair value is based, in accordance with Accounting Standard no. 24, on interest rates for risk-free, CPI-linked NIS-denominated assets as published by the Bank of Israel from time to time, for a term equal to the expected duration until each lot is exercised.
- The exercise price is adjusted for dividends, hence the dividend yield assumed for this calculation is 0%.
- The fair value calculation assumes that the option warrants would not be listed for trading on the stock exchange.

Below are data used for this calculation:

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

Note 11 – Other matters

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

On November 9, 2009, the Bank Board of Directors, after receiving approval of the Bank Audit Committee, resolved to approve allotment of a further 1,085,432 option warrants, under identical terms and conditions with the exception of the exercise price, to four officers of the Bank. The exercise price for each option warrant allotted to the four additional offerees pursuant to the plan is NIS 29.85, 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 November 8, 2009, the most recent trading day prior to the date of plan approval by the Board of Directors. The fair value (theoretical benefit value) of a single option warrant in any lot of the additional option warrants 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 each of the lots granted:

	Lot 1	Lot 2	Lot 3	Lot 4	Total
Allotment approved November 9, 2009					
Number of options (in thousands)	248	279	279	279	1,085
Annualized standard deviation	34.9%	33.9%	33.1%	32.5%	
Exercise price (in NIS)	29.85	29.85	29.85	29.85	
Risk-free interest rate	0.49%	0.68%	0.87%	1.05%	
Term to exercise (in years)	3.7	4.2	4.7	5.2	
Fair value per single option	8.05	8.43	8.82	9.21	
Total fair value per lot (NIS in thousands)	2,001	2,353	2,461	2,568	9,383

Note 11 – Other matters

D. On October 30, 2006, the Bank's Board of Directors approved the issuance of Bank subordinated notes (Series A) which will be deemed complex capital instruments ("Upper Tier II capital"), as the term is defined in Regulation 311 of Proper Banking Conduct Regulations, and in accordance with the approval received from the Supervisor of Banks on November 12, 2006), amounting up to NIS 500 million. The subordinated notes are bonds that, if certain events specified in advance in their terms, will be converted in a forced conversion, according to a formula prescribed in advance, into shares of the Bank. On May 20, 2007, the Bank's Board of Directors approved the prospectus for listing of the issued complex subordinated notes for trading. Based on this prospectus, the series may be expanded by further issuance of complex subordinated notes (Series A) up to a cumulative total of NIS 2 billion. On May 21, 2007, the Israel Securities Authority approved publication of the prospectus. The issued subordinated notes were listed for trading in early June 2007. See Note 11.A to the financial statements as of December 31, 2008 for details.

Starting in November 2006 and through 2008, the Bank issued and listed for trading additional subordinated notes amounting to NIS 1,122 million par value in exchange for NIS 1,104 million in proceeds. In the first nine months of 2009, the Bank issued and listed for trading additional subordinated notes amounting to NIS 580 million par value in exchange for NIS 541 million in proceeds.

On September 15, 2009, the Bank and the Trustee for the Bank's subordinated capital notes (Series A) signed an addendum, revising the Deed of Trust dated November 16, 2006, which is effective as of the signing date there of ("the revision"). According to the revision, the capital note section stipulating that interest payment to holders of capital notes would be suspended, *inter alia*, in case "within a period of six consecutive quarters, the financial statements for the most recent of which was published prior to the date set for payment of such interest, the Bank has not reported a cumulative net profit" (i.e. if the simple summation of quarterly net profit or loss amounts stated on the Bank financial statements, in respect of six consecutive quarters, should be negative).

On November 15, 2006, Ma'alot Israel Securities Rating Company Ltd. ("Ma'a lot") issued a rating of AA- for the subordinated notes issued. The rating of the subordinated notes in its offering is based on the rating of the Bank's debentures, including subordinated notes, which are rated AA+, with the changes required by the terms of the subordinated notes.

Note 11 – Other matters

Note, that should the Bank issue in future complex tier I capital, the Bank would maintain an original tier I capital ratio (excluding the complex tier I capital) of no less than 6%. On May 16, 2007, the same rating was approved for capital notes allocated, pursuant to the published prospectus for listing them for trading.

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

E. Debt of a client who failed to meet the agreed repayment terms and conditions, for which shares were pledged to the Bank, is included on the Bank balance sheet, starting on June 30, 2003, as "security held for sale" at its fair value, in accordance with the directive of the Supervisor of Banks. On August 10, 2009, the Receiver for this client announced sale of 34% of the shares pledged against this debt. The capital gain recorded in the Bank's financial statements for the third quarter of 2009 in respect of its portion of the sold shares amounted to NIS 24 million after tax.

The remaining shares were sold in the fourth quarter of 2009. The capital gain to be recorded in the Bank's financial statements for the fourth quarter of 2009 in respect of its portion of the sold shares shall amount to NIS 33 million after tax.

For details of a claim filed by the client in respect of interest charged by the Bank, see Note 6.2)H above.

F. On June 21, 2009 the Minister of Finance signed the Order, whereby the VAT rate would be increased to 16.5% effective from July 1, 2009 through December 31, 2010. On July 14, 2009, the Improved Economic Efficiency Act (Legislation Changes for Implementation of the Economic Plan for 2009–2010), 2009 was enacted, whereby tax rates would be lowered from 26% in 2009 to 18% in 2015. The impact of the change in tax rates on deferred tax balances would result in a tax expense amounting to NIS 10 million, included in financial statements for the third quarter of 2009.

G. On September 16, 2009, a special collective bargaining agreement was signed with the employee union, whereby the special collective bargaining agreement signed in 2006 was extended by a further 5 years, from January 1, 2011 through December 31, 2015. This agreement was approved by the Bank Board of Directors on October 19, 2009.

Note 11 – Other matters

Highlights of this agreement are as follows:

- Extension of the "employment constitution" through December 31, 2015.
- Maintaining absolute calm labor relations during the agreement period. The obligation to maintain calm labor relations shall not apply in case of a labor dispute involving all bank sector employees in Israel.
- Specification of dispute resolution mechanisms: negotiation, facilitation, arbitration.
- The Bank committed not to terminate for economic reasons any permanent employees during the term of the agreement. This commitment does not apply to individual termination for cause, incompatibility or regulatory changes.
- Enactment of a voluntary retirement program by up to 200 employees during the term of the agreement, starting in 2011. Management has the right to veto any specific voluntary retirement application without being required to provide any justification.
- Management has the option of terminating up to 50 permanent employees during the term of the agreement period, for incompatibility reasons, starting in 2011.

According to management expectations as of the publication date of these financial statements, with regard to the number of employees expected to retire and the cost of their retirement, the cost of the retirement agreement is estimated at NIS 70 million, and this was included under Payroll and Related Expenses in the third quarter of 2009. In the fourth quarter of 2009, Bank management shall review the estimated cost in view of current expectations, and update the provision made on the financial statements as required.