Condensed Financial Statements as of June 30, 2009

Table of Contents

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

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on August 17, 2009, it was resolved to approve and publish the Board of Directors' report and the consolidated financial statements of Mizrahi Tefahot Bank Ltd. and its investees as at June 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 half of 2009

Real Developments

In the second quarter of 2009, the slow-down in Israel's economy continued, although some indicators show a lower pace of slowing down compared to previous periods.

Export of goods in the second quarter of 2009, in $ terms, increased by an annualized 1.2%, compared to a 23.9% decrease in the previous quarter. Import of goods showed a slower decline of 13.4% in the second quarter of 2009, compared to a 43.4% decline in the previous quarter.

The Trade and Services Turnover Index declined from March-May 2009 by an annualized 2.6%, compared to a 10.3% decline from December 2008 to February 2009. The Industrial Output Index declined in this period by an annualized 9.9%, following a 16.8% decline in the previous three month period. The Bank of Israel Composite Index, based *inter alia* on the aforementioned indicators, showed a similar trend, with a 1.0% decline in the second quarter of 2009, compared to a 4.5% decline in the first quarter.

The upward trend in unemployment, started in 2008, continued in the second quarter of 2009. In May 2009, unemployment was at 8.4%, compared to 8.2% in the previous month and compared to 5.9% in the corresponding period last year.

Inflation and exchange rates

In the first half of 2009, the Consumer Price Index rose by 2.1%, compared to a 2.3% rise in the corresponding period last year. The index was mostly affected by the rising cost of transportation, communication and housing. In the second quarter of this year, the CPI rose by 2.2%, compared to a 0.1% decline in the first quarter.

In the first half of 2009, the NIS / USD exchange rate was devalued by 4.5%, with the NIS being devalued by 3.1% vs. the Euro. In the second quarter of 2009, the NIS / USD exchange rate was revalued by 6.4%, with the NIS revalued by 0.9% vs. the Euro, compared to devaluation of the NIS / USD by 10.2% and devaluation of the NIS / Euro by 5.5% in the previous quarter. The exchange rate as of June 30, 2009 was NIS 3.919 per USD, compared to NIS 4.188 as of March 31, 2009 and NIS 3.802 as of December 31, 2008.
Note that starting in March 2008, the Bank of Israel has been buying foreign currency on the open market.
In the first half of 2009, the Bank of Israel bought $10 billion.
The exchange rate as of June 30, 2009 was NIS 5.535 per Euro, compared to NIS 5.587 as of March 31, 2009 and NIS 5.297 as of December 31, 2008.

Monetary and fiscal policy

The Bank of Israel lowered its monetary interest rate for April by 0.25%, to 0.5%, following previous interest rate decreases starting in October 2008. In the second quarter, the monetary interest rate remained at 0.5%. Expected inflation over a one-year term, derived from the capital market, rose from 0.7% in March to 2.5% in June, against the back-drop of raising various consumption taxes and higher commodity prices.
In the first half of 2009, the government budget recorded a NIS 17.7 billion deficit, compared to a NIS 2.1 surplus in the corresponding period last year. The deficit was due to a sharp 13% decrease in tax revenues (excluding legislation amendments and adjustments), and to a 4% increase in spending. The deficit target for 2009 is NIS 44.3 billion, or 6% of GDP.

Residential construction and the mortgage market

Despite the slowing economy, demand for housing rose in the second quarter of 2009, following declining demand in the first quarter. This increase was reflected in sales of new apartments from private construction, which rose by 26% over the first quarter, as well as in sales of apartments from public construction, which rose by 65% over the first quarter.
The downward trend in supply of new apartments for sale from private construction, which had started in late 2008, continued in the second quarter of 2009, and as of end of June 2009, an inventory of 7,800 new apartments remained, compared to 10,881 at the end of 2008. Residential housing construction starts in the first four months of 2009 (at an annualized rate) were 14% lower in comparison to 2008.

In the mortgage market, the first half of 2009 recorded a 4% decrease in loan origination over the corresponding period last year. In the second quarter of 2009, loan origination rose by 34% over the first quarter. This increase was impacted, *inter alia*, by the low prevailing interest rates in the economy. The extent of arrears continued to trend downwards in the first half of 2009, despite the recession in the economy.

Capital market

The second quarter of 2009 showed a continued positive trend in the capital market, despite inconclusive macro-economic data.

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 second quarter of 2009 by 18.4% and 20.3%, respectively, compared to increases of 11.2% and 18.1% in the first quarter. The Real Estate 15 and Tel-Tech 15 indices rose even more sharply, recording increases of 37.5% and 21.3%, respectively, in the second quarter of 2009, compared to increases of 39.4% and 25.5% in the first quarter. Average daily trading volume in equities and convertible securities in the second quarter of 2009 amounted to NIS 1.8 billion, an increase over that of the previous quarter, which amounted to NIS 1.2 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 second quarter recorded a slight increase in share offerings, with a total of NIS 1 billion raised in this quarter. This compares to NIS 0.2 billion raised in the previous quarter, and NIS 2.8 billion in the corresponding period last year.

On the bond market, the General Bond Index and the CPI-Linked Bond Index rose by 3.16% and 0.92%, respectively. The Non-Linked Bond Index declined by 1.76% due to higher inflationary expectations. In total, the business sector issued bonds to the public and to institutional investors, raising NIS 11.8 billion in the second quarter of 2009, compared to NIS 4.5 billion in the previous quarter and NIS 5.9 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 4.3 billion – a 6.5% decrease over the previous quarter, and a 6.7% increase over the average daily volume in 2008.

Global economy

In the second quarter of 2009, the slow-down in the global economy continued, although some indicators showed a lower pace of slowing down compared to previous periods.
GDP in the USA declined in the second quarter of 2009 by an annualized 1.0%, following a 6.4% decline in the first quarter of 2008. Unemployment in the USA continued to rise, reaching 9.5% at the end of this quarter, compared to 5.6% at the end of the corresponding period last year, and 7.2% at the end of 2008.

GDP in the UK declined in the second quarter of 2009 by an annualized 3.1%, compared to a 9.2% decrease in the first quarter.

China's economy, which has been the main growth engine for the global economy in recent years, grew in the second quarter of 2009 by an annualized 7.9%, compared to a 6.1% growth rate in the first quarter. Inflation in the USA and in the Euro Zone for the 12 months ended June 30, 2009 was negative, standing as of the end of June at -1.3% and -0.1%, respectively. Against the back-drop of inflationary data, the monetary interest rate in the USA remained unchanged, ranging from 0.00% - 0.25%. Interest rates in the Euro Zone declined in the second quarter of 2009, reaching 1% at the end of this period.

Forward-looking information

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

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

Significant events in the Bank Group's business

Merger of Bank Adanim

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

Stock option plan for 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, amounts to NIS 31 million (NIS 36 million including Payroll Tax).

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

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

Allotment of the option warrants 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 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 expected period for share buy-back would start soon after publication of the Bank's financial statements for the second quarter of 2009, and would end no later than October 15, 2009. Share buy-back would be executed on three dates during the aforementioned period.

In accordance with the condition set forth in the Supervisor's consent, 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. The Board of Directors may decide to discontinue share buy-back pursuant to the share buy-back program at any time, subject to the Bank notifying the Supervisor of Banks of this fact. The decision by the Board of Directors to approve the share buy-back program as set forth above does not obligate the Bank to effect the share purchase, in whole or in part.

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.

Extension of exercise period in employee stock option plan

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

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%.

Profit and Profitability

Net profit for the Group in the second quarter of 2009 amounted to NIS 150 million, compared to NIS 186 million in the corresponding period last year, a 19.4% decrease, and to NIS 110 million in the previous quarter, a 36.4% increase. This profit reflects an annualized 10.1% return on equity, compared to 13.8% in the corresponding period last year and to 7.5% in the previous quarter.

Net profit for the Group in the first half of 2009 amounted to NIS 260 million, compared to NIS 366 million in the corresponding period last year - a 29.0% decrease. This profit reflects an annualized 8.7% return on equity, compared to 13.4% in the corresponding period last year and to 10.4% in all of 2008.

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

- Profit from financing operations in the first half of 2009 amounted to NIS 1,148 million, compared to NIS 1,103 million in the corresponding period last year - a 4.1% increase.
- Revenues from operating commissions increased in the first half of 2009 by NIS 85 million, or 15.8%, over the corresponding period last year. Excluding the impact of consolidation of Bank Yahav financial statements, revenue from operating commissions grew by NIS 22 million, or 4.1%.
- The provision for doubtful debts increased in the first half of 2009 by NIS 90 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 additional provision for debt classified as problem debt due, inter alia, to the impact of the financial crisis on the business sector.
- Payroll expenses in the first half of 2009, excluding the impact of initial consolidation of Bank Yahav's financial statements and the non-recurring impact of the extended exercise period of the employee stock option plan, increased by NIS 18 million, or 2.9%, over the corresponding period last year. Consolidation of Bank Yahav's financial statements, which contributed NIS 76 million to Group payroll expenses, and the impact of the extended exercise period of the stock option plan, which increased payroll expenses by NIS 13 million, brought the total payroll expenses for the Group in the first half of 2009 to NIS 722 million.
- Operating and other expenses, excluding payroll expenses, excluding the impact of consolidation of Bank Yahav's financial statements, increased by NIS 12 million (or 3.1%) 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 added NIS 81 million to these expenses, hence the total operating and other expenses, excluding payroll expenses, reached NIS 479 million.

Development of revenues and expenses

Group profit from financing operations before provision for doubtful debts in the first half of 2009 amounted to NIS 1,148 million, compared with NIS 1,103 million in the corresponding period last year - an increase of 4.1%.

Group profit from financing operations before provision for doubtful debts in the second quarter of 2009 amounted to NIS 564 million, compared with NIS 554 million in the corresponding period last year - an increase of 1.8%.

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

	First Half		
	2009	2008	Rate of change
Current operations including non-recurring effects [1]	**969**	**1,052**	**[1](7.9%)**
Revenues from interest on problem loans	61	73	
Income (loss) from realization and impairment of debentures held for sale and debentures held for trading, net	2	(5)	
Effect of accounting treatment of derivatives at fair value and others [2]	25	(17)	
Consolidation of Bank Yahav financial statements [3]	91	-	
Total	**1,148**	**1,103**	**4.1%**

(1) The lower interest rates, which significantly eroded margins on deposits, led to a significant decrease in profit from current financing operations. This effect should be reversed when interest rates rise once again.

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

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

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

Operating segment	First Half		
	2009	2008	Rate of change
Retail banking:			
Mortgages	210	(4) 203	3.4%
Household	(2) 342	294	16.3%
Small business	152	160	(5.0%)
Total	**(2) 704**	**657**	**7.2%**
Private banking	24	29	(17.2%)
Commercial banking	73	74	(1.4%)
Business banking	304	264	15.2%
Financial management	(3) 43	(4) 79	(45.6%)
Total	**1,148**	**1,103**	**4.1%**

(1) For definition of operating segments, see below the chapter on "Bank Group Operating Segments".
(2) Includes NIS 91 million due to impact of Bank Yahav consolidation.
(3) Includes NIS 26 million due to impact of Bank Yahav consolidation.
(4) 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 Half		
	2009	2008	Rate of change
Israeli currency - non-linked (1)	96,782	72,750	33.03%
Israeli currency - linked to the CPI	41,511	39,389	5.39%
Foreign currency (including Israeli currency linked to foreign currency) (2)	70,524	62,587	12.70%
Total	208,817	174,726	19.50%

(1) The increase in average balance of financial assets in the non-linked segment is due to a significant increase in derivative instrument operating volume, to diversion of deposits from overseas banks to the Bank of Israel and to a NIS 8.1 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 Half	
	2009	2008
Israeli currency - non-linked	0.96%	1.42%
Israeli currency - linked to the CPI	0.27%	0.39%
Foreign currency (including Israeli currency linked to foreign currency) (1)	0.80%	1.30%
Total including impact of derivatives	0.73%	1.13%
Total excluding impact of derivatives	1.29%	1.61%

(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 sharply reduced margins on deposits.

Provision for doubtful debts for the Group in the first half of 2009 amounted to NIS 186 million, compared to NIS 96 million in the corresponding period last year. The increase in provisions is primarily due to an increase in specific provisions for problem borrowers, and in an additional provision for debt classified as problem debt due, inter alia, to the impact of the financial crisis on the business sector.

In the second quarter of 2009, provision for doubtful debts amounted to NIS 67 million, compared with NIS 55 million in the corresponding period last year, an increase of 21.8%.

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

Linkage segments	First Half		Second Quarter	
	2009	2008	2009	2008
Specific provision:				
By extent of arrears	18	28	6	26
Other	139	67	60	36
Total specific provision	157	95	66	62
General and additional provision	29	1	1	(7)
Total	186	96	67	55
Annualized rate of provision for doubtful debts to total credit to the public	0.40%	0.25%	0.29%	0.28%

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

Operating segment	First Half		
	2009	2008	Rate of change
Retail banking:			
Mortgages	22	29	(24.1%)
Household	34	19	78.9%
Small business	36	26	38.5%
Total	**92**	**74**	**24.3%**
Private banking	1	-	
Commercial banking	6	(1)	
Business banking	87	23	
Financial management	-	-	
Total	**186**	**96**	**93.8%**

The balance of the general and supplementary provision for doubtful debt on the Group's balance sheet amounted to NIS 223 million as of June 30, 2009, compared with NIS 194 million as of December 31, 2008.

Profit from financing operations after provision for doubtful debts in the first half of 2009 amounted to NIS 962 million, compared with NIS 1,007 million in the corresponding period last year - a decrease of 4.5%. The decrease in profit from financing operations after provision for doubtful debts is primarily due to a NIS 90 million increase in the provision for doubtful debts, as set forth above.
In the second quarter, profit from financing operations after provision for doubtful debt amounted to NIS 497 million, compared with NIS 499 million in the corresponding period last year, an decrease of 0.4%.

Operating and other revenues for the Group, excluding the impact of initial consolidation of Bank Yahav's financial statements, amounted in the first half of 2009 to NIS 581 million, compared to NIS 583 million in the corresponding period last year. Excluding NIS 17 million in revenues from realized equity investment in the corresponding period last year, the increase in operating and other revenues in the first half of 2009 was 2.7%.
Including NIS 70 million from initial consolidation of Bank Yahav's financial statements, total operating and other revenues in the first half of 2009 amounted to NIS 651 million, an 11.7% increase over the corresponding period last year.

Operating and other revenues for the Group, excluding the impact of initial consolidation of Bank Yahav's financial statements, in the second quarter of 2009 amounted to NIS 296 million, compared to NIS 300 million in the corresponding period last year. Excluding NIS 14 million in revenues from realized equity investment in the corresponding period last year, the increase in operating and other revenues in the first half of 2009 was 3.5%.

Revenues from operating commissions for the Group, excluding impact of initial consolidation of Bank Yahav, amounted to NIS 559 million in the first half of 2009, compared with NIS 537 million in the same period last year - a 4.1% increase. Including NIS 63 million in revenues from consolidation of Bank Yahav's financial statements, Group revenues from operating commissions in the first half of 2009 amounted to NIS 622 million.

Revenues from operating commissions in the second quarter, excluding impact of initial consolidation of Bank Yahav, amounted to NIS 279 million, compared with NIS 270 million in the corresponding period last year - a 3.3% increase. Including NIS 34 million in revenues from consolidation of Bank Yahav's financial statements, Group revenues from operating commissions in the second quarter of 2009 amounted to NIS 313 million.

Net profit from equity investments in the first half of 2009 amounted to NIS 7 million, compared to profit of NIS 33 million in the corresponding period last year. Net profit from equity investments in the second quarter of 2009 amounted to NIS 11 million due to appreciation of investments, compared to a NIS 25 million gain in the corresponding period last year. The decrease in gain from equity investments is primarily due to gain from realized investments in the corresponding periods in 2008.

Other revenues for the Group, excluding impact of initial consolidation of Bank Yahav, amounted to NIS 15 million in the first half of 2009, compared with NIS 13 million in the same period last year - a 15.4% increase. Including NIS 7 million in revenues from consolidation of Bank Yahav's financial statements, Group other revenues in the first half of 2009 amounted to NIS 22 million.

Other revenues in the second quarter, of 2009, excluding impact of initial consolidation of Bank Yahav, amounted to NIS 6 million, compared with NIS 5 million in the corresponding period last year - a 20.0% increase. Including NIS 4 million in revenues from consolidation of Bank Yahav's financial statements, Group other revenues in the second quarter of 2009 amounted to NIS 10 million.

Operating and other expenses for the Group, excluding impact of initial consolidation of Bank Yahav, amounted to NIS 1,044 million in the first half of 2009, compared with NIS 1,001 million in the corresponding period last year - a 4.3% increase. Operating and other expenses for Bank Yahav amounted to NIS 157 million, such that total operating and other expenses for the Group in the first half of 2009 amounted to NIS 1,201 million.

Operating and other expenses for the Group, excluding impact of initial consolidation of Bank Yahav, amounted to NIS 517 million in the second quarter of 2009, compared with NIS 500 million in the corresponding period last year - a 3.4% increase. Operating and other expenses for Bank Yahav amounted to NIS 79 million, such that total operating and other expenses for the Group in the second quarter of 2009 amounted to NIS 596 million.

Payroll and associated expenses for the Group, excluding the impact of initial consolidation of Bank Yahav financial statements and of the non-recurring impact of the extended exercise period of the employee stock option plan, amounted to NIS 633 million in the first half of 2009, a 2.9% increase. Payroll and associated expenses at Bank Yahav in the first half of 2009 amounted to NIS 76 million, such that total payroll and associated expenses for the Group in the first half of 2009 amounted to NIS 722 million.

Payroll and associated expenses for the Group, excluding the impact of consolidation of Bank Yahav's financial statements, increased in the second quarter of 2009 by 4.3% over the corresponding period last year. Payroll and associated expenses at Bank Yahav in the second quarter of 2009 amounted to NIS 36 million, such that total payroll and associated expenses for the Group in the second quarter of 2009 amounted to NIS 352 million.

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 half of 2009 amounted to NIS 246 million, compared to NIS 215 million - a NIS 31 million increase (or 14.4%), primarily due to higher depreciation expenses for computers and equipment and higher software maintenance expenses - due to operation of new computer systems. Maintenance and depreciation expenses for buildings and equipment for Bank Yahav amounted to NIS 31 million, such that total maintenance and depreciation expenses for buildings and equipment for the Group in the first half of 2009 amounted to NIS 277 million.

Maintenance and depreciation expenses for buildings and equipment for the Group, excluding impact of initial consolidation of Bank Yahav, amounted to NIS 127 million in the second quarter of 2009, compared with NIS 111 million in the corresponding period last year - a NIS 16 million (or 14.4%) increase.

Maintenance and depreciation expenses for buildings and equipment for Bank Yahav amounted to NIS 16 million, such that total maintenance and depreciation expenses for buildings and equipment for the Group in the second quarter of 2009 amounted to NIS 143 million.

Operating and other expenses for the Group, excluding impact of initial consolidation of Bank Yahav, amounted to NIS 152 million in the first half of 2009, compared with NIS 171 million in the corresponding period last year - a NIS 19 million (or 11.1%) decrease. Other expenses for Bank Yahav amounted to NIS 50 million, such that total operating and other expenses for the Group in the first half of 2009 amounted to NIS 202 million.

Operating and other expenses for the Group, excluding impact of initial consolidation of Bank Yahav, amounted to NIS 74 million in the second quarter of 2009, compared with NIS 86 million in the corresponding period last year - a NIS 12 million (or 14.0%) decrease. Other expenses for Bank Yahav amounted to NIS 27 million, such that total operating and other expenses for the Group in the second quarter of 2009 amounted to NIS 101 million.

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

	First Half		All of 2008
	2009	2008	
Operational Coverage Ratio (1)	54.2%	58.2%	57.1%
Cost-Income Ratio(2)	66.8%	59.4%	61.2%
Excluding the impact of consolidation of Bank Yahav financial statements			
Operational Coverage Ratio (1)	55.7%	58.2%	58.6%
Cost-Income Ratio(2)	64.8%	59.4%	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 412 million in the first half of 2009, compared with NIS 589 million in the corresponding period last year - a decrease of 30.1%.
In the second quarter of 2009, pre-tax operating profit amounted to NIS 235 million, compared to NIS 299 million in the corresponding period last year, an 21.4% decrease.

Provision for taxes on operating profit amounted to NIS 144 million in the first half of 2009, compared with NIS 223 million in the same period last year, a 35.4% decrease.
In the second quarter of 2009, provision for taxes on operating profit amounted to NIS 79 million, compared to NIS 113 million in the corresponding period last year, a 30.1% decrease.

Operating net profit and net profit in the first half of 2009 amounted to NIS 260 million, compared to NIS 366 million in the corresponding period last year – a 29.0% decrease.

Operating net profit in the second quarter of 2009 amounted to NIS 150 million, compared to NIS 186 million in the corresponding period last year – a 19.4% decrease.

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

	First half		
	2009	2008	All of 2008
From current operations	8.7%	13.4%	10.4%
Net profit	8.7%	13.4%	10.4%

(1) Annualized return.

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

The development of average Group profit return on equity was as follows:

	2009		2008			
	Secon Quarte	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
From current operations	10.1%	7.5%	6.7%	10.0%	13.8%	13.5%
Net profit	10.1%	7.5%	6.7%	10.0%	13.8%	13.5%

Earnings per share

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

	First half		
	2009	2008	All of 2008
Basic earnings per share:			
From current operations	1.17	1.65	2.70
From net profit	1.17	1.65	2.71
Diluted earnings per share:			
From current operations	1.16	1.63	2.68
From net profit	1.16	1.63	2.69

Development of balance sheet items

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

				Change compared to	
		June 30	December 31	June 30	December 31
	2009	2008	2008	2008	2008
Balance sheet total	115,418	97,499	114,012	18.4%	1.2%
Credit to the public	91,765	77,310	88,049	18.7%	4.2%
Deposits from the public	93,744	72,928	91,779	28.5%	2.1%
Securities	8,188	4,432	9,259	84.7%	(11.6%)
Shareholders' equity	6,325	5,721	5,952	10.6%	6.3%

Loans to the public - loans to the public in the consolidated balance sheet as of June 30, 2009 accounted for 80% of total assets, compared with 77% at the end of 2008. The Group's loans to the public increased in the first half of 2009 by NIS 3.7 billion, a 4.2% increase. Excluding impact of the NIS devaluation, credit volume increased by 3.5% in the first half of 2009.

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

				Change in %	
		June 30	December 31	June 30	December 31
	2009	2008	2008	2008	2008
Israeli currency					
Non-linked	45,326	31,924	39,913	42.0%	13.6%
CPI- linked	33,107	33,882	34,211	(2.3%)	(3.2%)
Foreign currency and foreign currency linked	13,332	11,504	13,925	15.9%	(1) (4.3%)
Total	91,765	77,310	88,049	18.7%	(1) 4.2%

(1) Excluding the impact of NIS devaluation, an 8.7% increase in the foreign currency segment and a 3.5% increase due to loan volumes in the first half of 2009.

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

				Change compared to	
		June 30	December 31	June 30	December 31
Operating segment	2009	2008	2008	2008	2008
Retail banking:					
Mortgages	44,535	39,302	41,593	13.3%	7.1%
Household	(1) 13,864	8,342	(1) 12,907	66.2%	7.4%
Total	**58,399**	**47,644**	**54,500**	**22.6%**	**7.2%**
Small business	4,986	4,692	4,955	6.3%	0.6%
Private banking	1,894	1,171	1,350	61.7%	40.3%
Commercial banking	4,135	4,214	4,545	(1.9%)	(9.0%)
Business banking	22,351	19,589	22,699	14.1%	(1.5%)
Total – business and others	**33,366**	**29,666**	**33,549**	12.5%	(0.5%)
Total	**91,765**	**77,310**	**88,049**	**18.7%**	**4.2%**

(1) Includes NIS 4,001 million and NIS 3,823 million as of June 30, 2009 and as of December 31, 2008, respectively, in respect of the impact of consolidation of Bank Yahav's financial statements.

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

		June 30	December 31
	2009	2008	2008
Non-accrual debt	1,156	907	1,145
Rescheduled debt	842	203	194
Debt designated for rescheduling	297	3	(1) 307
Debt in temporary arrears	1,021	1,019	1,034
Includes: For housing loans	508	578	537
Debt under special supervision	1,903	(2) 1,658	(1) 3,275
Includes: Debt for which a specific provision was made	87	98	(1) 682
Includes: Housing loans for which there is a provision based on length of arrears	571	641	615
Total balance sheet credit to problem borrowers	5,219	3,790	5,955
Off-balance sheet credit to problem borrowers	1,088	(2) 794	941
Debentures of financial institutions classified as problematic	58	-	112
Other problem loans of financial institutions	13	-	12
Total credit risk, including in respect of problem borrowers	6,378	4,584	7,020

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

(2) Reclassified.

Securities – the balance of investment in securities decreased in the first half of 2009 by 11.6%. Excluding the impact of consolidation of Bank Yahav's securities, amounting to NIS 2.3 billion, total investment in securities decreased by 36.1% compared to December 31, 2008, and increased by 33.5% compared to June 30, 2008. The decrease in total investment in securities is within asset and liability management.

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

				Change compared to	
		June 30	December 31	June 30	December 31
Operating segment	2009	2008	2008	2008	2008
Israeli currency					
Non-linked	1,696	363	2,755	-	(38.4%)
CPI- linked	1,666	834	1,953	99.8%	(14.7%)
Foreign currency and foreign currency linked	4,398	2,828	4,171	55.5%	5.4%
Non-monetary items	428	407	380	5.2%	12.6%
Total	8,188	4,432	9,259	84.7%	(11.6%)

Distribution of balance of Group investment in securities by issuer type as of June 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	5,723	103	114	5,712
Foreign government debentures	110	-	-	110
Bank debentures	1,472	3	37	1,438
Corporate debentures	285	3	7	281
Asset-backed debentures	90	2	17	75
Other stocks	328	98	-	426
Total securities held for sale	8,008	209	175	8,042
Securities held for trading:				
Debentures of the Government of Israel	136	2	-	138
of others	8	-	-	8
Total securities held for trading	144	2	-	146
Total securities	8,152	211	175	8,188

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 June 30, 2009):

Share of impairment out of amortized cost	Duration in which fair value is lower than the amortized cost to 6 months	6-9 months	9-12 months	Over 12 months	Total
					Stocks held for sale
Up to 20%	-	-	-	-	-
20%-40%	-	-	-	-	-
Over 40%	-	-	-	-	-
Total	-	-	-	-	-
Asset-backed debentures held for sale					
Up to 20%	-	-	-	-	-
20%-40%	-	-	-	17	17
Over 40%	-	-	-	-	-
Total	-	-	-	17	17
Other debentures held for sale					
Up to 20%	6	35	13	71	125
20%-40%	1	15	-	17	33
Over 40%	-	-	-	-	-
Total	7	50	13	88	158

See Note 2 to the financial statements for additional information.

Deposits from the public - these account for 81% of the total consolidated balance sheet as of June 30, 2009, similar to their weight at the end of 2008. In the first half of 2009, deposits from the public with the Bank Group increased by NIS 2.0 billion – a 2.1% increase. Excluding impact of NIS devaluation, the increase in deposits from the public was 1.2%.

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

				Change compared to	
		June 30	December 31	June 30	December 31
	2009	2008	2008	2008	2008
Israeli currency					
Non-linked	51,025	35,306	49,273	44.5%	3.6%
CPI- linked	23,129	20,452	22,999	13.1%	0.6%
Foreign currency and foreign currency linked	19,590	17,170	19,507	14.1%	(1) 0.4%
Total	93,744	72,928	91,779	28.5%	(1) 2.1%

(1) Excluding the impact of NIS devaluation, an 4.1% decrease in the foreign currency segment and a 1.2% increase in total deposits in the first half of 2009.

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

				Change compared to	
		June 30	December 31	June 30	December 31
	2009	2008	2008	2008	2008
Retail banking:					
Household	(1) 47,153	32,224	(2) (1) 46,170	46.3%	2.1%
Small business	6,372	6,545	6,591	(2.6%)	(3.3%)
Total	**53,525**	**38,769**	**52,761**	**38.1%**	**1.4%**
Private banking	6,670	5,808	6,809	14.8%	(2.0%)
Commercial banking	2,086	1,998	2,510	4.4%	(16.9%)
Business banking	12,916	12,197	13,655	5.9%	(5.4%)
Financial management	18,547	14,166	(2) 16,044	30.9%	15.5%
Total	**93,744**	**72,938**	**91,779**	**28.5%**	**2.1%**

(1) Includes NIS 11,662 million and NIS 11,013 million as of June 30, 2009 and as of December 31, 2008, respectively, in respect of the impact of consolidation of Bank Yahav's financial statements.

(2) 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 half of 2009, less applicable taxes, amounted to a NIS 92 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 June 30, 2009, amounts to zero.

The ratio of shareholders' equity to balance sheet total for the Group as of June 30, 2009 amounted to 5.48%, compared to 5.22% as of the end of 2008.

Ratio of capital to risk components

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

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

	June 30, 2009	December 31, 2008
Ratio of Tier I capital to risk elements	6.88%	6.64%
Ratio of total capital to risk elements	12.24%	11.31%
Minimum total capital ratio required by the directives of the Supervisor of Banks	9.00%	9.00%

The ratio of capital to risk components as of June 30, 2009 also accounts for the capital adequacy requirement due to market risk, in accordance with Directive 341 – Adequacy of Capital in Respect of Market Risk, the effect of which on the capital ratio, as of December March 31, 2008, is 0.45%.

The balance of complex capital notes and subordinated notes for Group capital adequacy, as of June 30, 2009, amounts to NIS 5,022 million, compared to NIS 4,300 million at the end of 2008. These amounts include complex capital notes listed for trading, amounting to NIS 1,733 million. See Note 4 to the financial statements for details.

Major Investees

The contribution of investees to net operating income amounted to NIS 42 million in the first half of 2009, compared with NIS 24 million in the corresponding period last year.

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

Bank Yahav is a private company. On July 10, 2008, the Bank concluded the transaction to acquire 50% of Bank Yahav's issued capital and associated rights, Bank Yahav became a subsidiary of the Bank and the former's financial statements were initially consolidated within the Bank's consolidated financial statements as of September 30, 2008. As a result of the foregoing, the consolidated balance sheet as of June 30, 2009 includes assets of Bank Yahav amounting to NIS 12 billion.

Contribution by Bank Yahav to Group net profit in the first half of 2009, excluding amortization of goodwill, amounted to NIS 7.7 million (note that Bank Yahav results were initially consolidated in the third quarter of 2008, hence results for the first half of 2008 exclude those of Bank Yahav). The net profit return on equity for Bank Yahav in the first half of 2009 was 4.6%. Bank Yahav's balance sheet total as of June 30, 2009 amounted to NIS 12,442 million, compared to NIS 11,823 million as of December 31, 2008. The balance of loans to the public as of June 30, 2009 amounted to NIS 4,001 million, compared to NIS 3,823 million at end of 2008. The balance of deposits from the public as of June 30, 2009 amounted to NIS 11,622 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 half of 2009 amounted to NIS 19.2 million, compared to NIS 20.4 million in the corresponding period last year.

Net profit return on equity in the first half of 2009 amounted to 11.1%, compared to 13.4% in the corresponding period last year.

United Mizrahi Bank (Switzerland) Ltd.

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

Net profit of Mizrahi Bank Switzerland in the first half of 2009 amounted to CHF 1 million, compared to CHF 1.7 million in the corresponding period last year.

Mizrahi Bank Switzerland's balance sheet total as of June 30, 2009 amounted to CHF 178 million, compared to CHF 129 million at the end of 2008.

Total loans to the public as of June 30, 2009 amounted to CHF 71 million, compared to CHF 72 million at end of 2008; total deposits at banks as of June 30, 2009 amounted to CHF 94 million, compared to CHF 46 million at end of 2008. Total deposits from the public as of June 30, 2009 amounted to CHF 102 million, compared to CHF 52 million at end of 2008; total deposits from banks as of June 30, 2009 amounted to CHF 25 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 half of 2009, was NIS 9.7 million, compared with a loss of NIS 10.8 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 half of the year amounted to a NIS 3.4 million profit, compared to a NIS 6.6 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 83% of these investments are negotiable and presented at their market value. The other investments are presented at cost or at their carrying amount. In case of impairment of a non-temporary nature, a provision for impairment is made by the Bank.

Bank investments in non-banking corporations as of June 30, 2009 amounted to NIS 403 million, compared to NIS 352 million at end of 2008.

These investments include NIS 335 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 323 million (NIS 276 million as of end 2008), constituting the market value of securities pledged for debt of a certain customer, which were classified under securities in accordance with the letter from the Supervisor of Banks.

Bank net revenues from dividends and capital gains from non-banking corporations, after provision for impairment, amounted in the first half of 2009 to NIS 7 million, compared to NIS 33 million in the corresponding period last year. The decrease is primarily due to gain from realized investments in the corresponding period last year.

Financial Information Regarding Operating Segments

Bank Group operating segments

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

The Bank's operating segments are:

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

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

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

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

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

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

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

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

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

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

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

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

Profitability

	Net profit (loss) in the first half		Return on equity (in %) in the first half	
	2009	(1) 2008	2009	(1) 2008
Household				
Mortgages	127	127	11.2	13.3
Other	(2)	40	(0.5)	15.0
Private banking	16	12	54.6	49.4
Small business	25	29	15.8	18.0
Commercial banking	19	26	14.3	20.1
Business banking	85	119	8.8	13.1
Financial management	(10)	13	(5.4)	4.4
Total	260	366	8.7	13.4

(1) Reclassified.

Below are Bank Group operating results by operating segment

Results of Household Segment

	For the 6 months ended June 30, 2009					For the 6 months ended June 30,2008				
	Banking and finance	Credit cards	Capital market	Mortgages	Total	Banking and finance	Credit cards	Capital market	Mortgages(1)	Total
	NIS in millions					NIS in millions				
Profit from financing operations before provision for doubtful debts										
From outside operating segments	(7)	8	6	1,141	1,148	(275)	7	7	1,417	1,156
Inter-segment	341	(6)	-	(931)	(596)	560	(5)	-	(1,214)	(659)
Profit from financing operations before provision for doubtful debts	334	2	6	210	552	285	2	7	203	497
Operating and other revenues	128	63	69	126	386	94	43	43	131	311
Total profit	462	65	75	336	938	379	45	50	334	808
Provision for doubtful debts	34	-	-	22	56	19	-	-	29	48
Operating and other expenses										
From outside operating segments	575	14	30	118	737	396	26	18	101	541
Inter-segment	(47)	(2)	-	-	(49)	(46)	(3)	-	-	(49)
Total operating and other expenses	528	12	30	118	688	350	23	18	101	492
Operating profit (loss) before taxes	(100)	53	45	196	194	10	22	32	204	268
Provision for taxes on operating profit (loss)	(35)	19	16	69	69	4	8	12	77	101
After-tax operating profit (loss)	(65)	34	29	127	125	6	14	20	127	167
Minority interest in net after-tax operating profit of subsidiaries	-	-	-	-	-	-	-	-	-	-
Net profit (loss)	**(65)**	**34**	**29**	**127**	**125**	**6**	**14**	**20**	**127**	**167**
Return on equity					**8.3%**					**13.6%**
Average balance of assets	12,273	1,388	-	40,940	54,601	7,894	1,271	-	37,465	46,630
Average balance of liabilities	46,877	7	-	70	46,954	32,065	-	-	(1) 55	32,120
Average balance of risk assets	13,553	-	-	34,715	48,268	8,378	-	-	29,476	37,854
Average balance of securities	-	-	17,259	-	17,259	-	-	15,231	-	15,231
Credit to the public (end balance)	12,210	1,654	-	44,535	58,399	6,820	1,522	-	39,302	47,644
Deposits from the public (end balance)	47,153	-	-	-	47,153	32,224	-	-	-	32,224
Average balance of assets under management	6,754	-	-	15,847	22,601	172	-	-	16,621	16,793
Components of profit from financing operations before provision for doubtful debts: (1)										
Margin from credit granting operations	129	2	-	194	325	94	2	-	167	263
Margin from receiving deposits	186	-	-	-	186	172	-	-	-	172
Other	19	-	6	16	41	19	-	7	36	62
Total	**334**	**2**	**6**	**210**	**552**	**285**	**2**	**7**	**203**	**497**

(1) Reclassified.

Contribution of the household segment to Group profit in the first half of 2009, excluding the Bank's share of profit of Bank Yahav, initially consolidated in the third quarter of 2008, amounted to NIS 125 million, compared to NIS 167 million in the corresponding period last year - a 25.1% decrease.

Contribution of mortgages to segment results in the first half of 2009 amounted to NIS 127 million, unchanged compared to the corresponding period last year. Financing profit from mortgage operations increased by 3.4%, due to a 9.7% increase in average asset balance, which was partially offset by a decrease in return on free capital attributed to this segment, due to lower interest rates. The provision for doubtful debts by extent of arrears decreased by NIS 7 million. On the other hand, operating expenses attributed to this segment increased.

Contribution of households (excluding mortgages), excluding the impact of initial consolidation of Bank Yahav's financial statements, in the first half of 2009 amounted to a loss of NIS 2 million, compared to a profit of NIS 40 million in the corresponding period last year.

The decrease in contribution of households (excluding mortgages and excluding impact of Bank Yahav), is primarily due to a 14.6% decrease in profit from financing operations, due to lower interest rates which caused a significant decrease in margin on deposits from the public, to a 4.2% increase in provision for doubtful debts, and to a 7.9% increase in operating expenses attributed to this segment.

Volume of mortgages granted by the segment are as follows:

	Loans granted (NIS in millions)		
	First Half		
	2009	2008	Rate of change
Mortgages issued (for housing and any purpose)			
From the Bank's funds	5,771	4,773	20.9%
From the Treasury's funds			
Directed loans	180	341	(47.2%)
Standing loans and grants	116	97	19.6%
Management for others	-	1	
Total new loans	6,067	5,212	16.4%
Recycled loans	990	608	62.8%
Total loans issued	7,057	5,820	21.3%
Number of borrowers (includes recycled loans)	24,755	20,213	22.5%

Results of Household Segment

	For the 3 months ended June 30, 2009					For the 3 months ended June 30, 2008				
	Banking and finance	Credit cards	Capital market	Mortgages	Total	Banking and finance	Credit cards	Capital market	Mortgages(1)	Total
	NIS in millions					NIS in millions				
Profit from financing operations before provision for doubtful debts										
From outside operating segments	(8)	4	3	738	737	(144)	3	3	1,005	867
Inter-segment	180	(3)	-	(620)	(443)	289	(2)	-	(893)	(606)
Profit from financing operations before provision for doubtful debts	172	1	3	118	294	145	1	3	112	261
Operating and other revenues	65	31	37	62	195	45	22	21	66	154
Total profit	237	32	40	180	489	190	23	24	178	415
Provision for doubtful debts	16	-	-	8	24	9	-	-	27	36
Operating and other expenses										
From outside operating segments	287	7	14	59	367	208	12	7	52	279
Inter-segment	(26)	(1)	-	-	(27)	(23)	(1)	-	-	(24)
Total operating and other expenses	261	6	14	59	340	185	11	7	52	255
Operating profit (loss) Before taxes	(40)	26	26	113	125	(4)	12	17	99	124
Provision for taxes on operating profit	(13)	9	9	37	42	(3)	5	6	38	46
After-tax operating profit (loss)	(27)	17	17	76	83	(1)	7	11	61	78
Minority interest in net after-tax operating profit of subsidiaries	(3)	-	-	-	(3)	-	-	-	-	-
Net profit (loss)	**(30)**	**17**	**17**	**76**	**80**	**(1)**	**7**	**11**	**61**	**78**
Return on equity					**10.5%**					**12.7%**
Components of profit from financing operations before provision for doubtful debts: (1)										
Margin from credit granting operations	68	1	-	112	181	42	1	-	87	130
Margin from receiving deposits	93	-	-	-	93	92	-	-	-	92
Other	11	-	3	6	20	11	-	3	25	39
Total	**172**	**1**	**3**	**118**	**294**	**145**	**1**	**3**	**112**	**261**

(1) Reclassified.

Results of Private Banking Segment

	For the 6 months ended June 30, 2009			For the 6 months ended June 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	(26)	-	(26)	(77)	-	(77)
Inter-segment	50	-	50	106	-	106
Profit from financing operations before provision for doubtful debts	24	0	24	29	0	29
Operating and other revenues	21	5	26	20	8	28
Total profit	45	5	50	49	8	57
Provision for doubtful debts	1	-	1	-	-	-
Operating and other expenses						
From outside operating segments	24	-	24	37	-	37
Inter-segment	-	-	-	1	-	1
Total operating and other expenses	24	-	24	38	-	38
Pre-tax operating profit	20	5	25	11	8	19
Provision for taxes on operating profit	7	2	9	4	3	7
Net profit	**13**	**3**	**16** -	**7**	**5**	**12**
Return on equity			**54.6%**			**49.4%**
Average balance of assets	1,676	-	1,676	1,402	-	1,402
Average balance of liabilities	6,445	-	6,445	6,338	-	6,338
Average balance of risk assets	981	-	981	806	-	806
Average balance of securities	-	6,690	6,690	-	3,628	3,628
Credit to the public (end balance)	1,894	-	1,894	1,171	-	1,171
Deposits from the public (end balance)	6,670	-	6,670	5,808	-	5,808
Average balance of other assets managed	-	-	-	-	-	-
Components of profit from financing operations before provision for doubtful debts:						
Margin from credit granting operations	9	-	9	12	-	12
Margin from receiving deposits	14	-	14	16	-	16
Other	1	-	1	1	-	1
Total	**24**	**-**	**24**	**29**	**-**	**29**

(1) Reclassified.

Contribution of the private banking segment to Group profit in the first half of 2009 amounted to NIS 16 million, compared to NIS 12 million in the corresponding period last year.

The increase in segment contribution was achieved despite the impact of a 17.2% decrease in profit from financing operations, due to lower interest rates which resulted in significant decrease in margin on deposits. The major factor leading to the increase in segment contribution is the decrease in expenses attributed to this segment.

Results of Private Banking Segment

	For the 3 months ended June 30, 2009			For the 3 months ended June 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	(13)	-	(13)	(18)	-	(18)
Inter-segment	24	-	24	31	-	31
Profit from financing operations before provision for doubtful debts	11	-	11	13	-	13
Operating and other revenues	11	2	13	7	5	12
Total profit	22	2	24	20	5	25
Provision for doubtful debts	1	-	1	-	-	-
Operating and other expenses						
From outside operating segments	12	-	12	18	-	18
Inter-segment	-	-	-	1	-	1
Total operating and other expenses	12	-	12	19	-	19
Pre-tax operating profit	9	2	11	1	5	6
Provision for taxes on operating profit	3	1	4	-	2	2
Net profit	**6**	**1**	**7**	**1**	**3**	**4**
Return on equity			**51.6%**			**32.4%**
Components of profit from financing operations before provision for doubtful debts:						
Margin from credit granting operations	5	-	5	6	-	6
Margin from receiving deposits	6	-	6	7	-	7
Other	-	-	-	-	-	-
Total	**11**	**-**	**11**	**13**	**-**	**13**

(1) Reclassified.

Results of the Small Business Segment

	For the 6 months ended June 30, 2009				For the 6 months ended June 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	143	2	1	146	(121)	1	4	(116)
Inter-segment	7	(1)	-	6	277	(1)	-	276
Profit from financing operations before provision for doubtful debts	150	1	1	152	156	-	4	160
Operating and other revenues	82	6	9	97	72	5	9	86
Total profit	232	7	10	249	228	5	13	246
Provision for doubtful debts	36	-	-	36	26	-	-	26
Operating and other expenses								
From outside operating segments	190	1	2	193	189	1	2	192
Inter-segment	(20)	-	-	(20)	(19)	-	-	(19)
Total operating and other expenses	170	1	2	173	170	1	2	173
Pre-tax operating profit	26	6	8	40	32	4	11	47
Provision for taxes on operating profit	10	2	3	15	12	2	4	18
Net operating profit	16	4	5	25	20	2	7	29
Net after-tax profit from extraordinary items	-	-	-	-	-	-	-	-
Net profit	**16**	**4**	**5**	**25**	**20**	**2**	**7**	**29**
Return on equity				**15.8%**				**18.0%**
Average balance of assets	4,913	36	-	4,949	4,846	35	-	4,881
Average balance of liabilities	6,713	-	-	6,713	6,338 (1)	-	-	6,338
Average balance of risk assets	4,918	-	-	4,918	4,940	-	-	4,940
Average balance of securities	-	-	10,581	10,581	-	-	13,222	13,222
Credit to the public (end balance)	4,948	38	-	4,986	4,656	36	-	4,692
Deposits from the public (end balance)	6,372	-	-	6,372	6,545 (1)	-	-	6,545
Average balance of other assets managed	289	-	-	289	158	-	-	158
Components of profit from financing operations before provision for doubtful debts: (1)								
Margin from credit granting operations	116	-	-	116	101	-	-	101
Margin from receiving deposits	17	-	-	17	38	-	-	38
Other	17	1	1	19	17	-	4	21
Total	**150**	1	**1**	**152**	**156**	-	**4**	**160**

(1) Reclassified.

Contribution of the small business segment to Group profit in the first half of 2009 decreased by NIS 4 million compared to its contribution in the corresponding period last year. Profit from financing operations decreased by NIS 8 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 10 million. A 12.8% increase in operating revenues mitigated the decrease in segment contribution.

Results of the Small Business Segment

	For the 3 months ended June 30, 2009				For the 3 months ended June 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	93	1	1	95	(97)	-	2	(95)
Inter-segment	(18)	-	-	(18)	179	-	-	179
Profit from financing operations before provision for doubtful debts	75	1	1	77	82	-	2	84
Operating and other revenues	41	3	4	48	35	3	5	43
Total profit	116	4	5	125	117	3	7	127
Provision for doubtful debts	13	-	-	13	11	-	-	11
Operating and other expenses								
From outside operating segments	94	-	1	95	87	1	1	89
Inter-segment	(11)	-	-	(11)	(9)	-	-	(9)
Total operating and other expenses	83	-	1	84	78	1	1	80
Pre-tax operating profit	20	4	4	28	28	2	6	36
Provision for taxes on operating profit	8	1	2	11	10	2	2	14
Net profit	**12**	**3**	**2**	**17**	**18**	**-**	**4**	**22**
Return on equity				**21.3%**				**25.2%**
Components of profit from financing operations before provision for doubtful debts: (1)								
Margin from credit granting operations	60	-	-	60	54	-	-	54
Margin from receiving deposits	7	-	-	7	19	-	-	19
Other	8	1	1	10	9	-	2	11
Total	**75**	**1**	**1**	**77**	**82**	-	**2**	**84**

(1) Reclassified.

Results of the Commercial Banking Segment

	For the 6 months ended June 30, 2009				For the 6 months ended June 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	101	-	-	101	131	-	1	132
Inter-segment	(28)	-	-	(28)	(58)	-	-	(58)
Profit from financing operations before provision for doubtful debts	73	-	-	73	73	-	1	74
Operating and other revenues	17	1	3	21	19	1	3	23
Total profit	90	1	3	94	92	1	4	97
Provision for doubtful debts	6	-	-	6	(1)	-	-	(1)
Operating and other expenses								
From outside operating segments	30	-	-	30	29	-	1	30
Inter-segment	30	-	-	30	26	-	-	26
Total operating and other expenses	60	-	-	60	55	-	1	56
Pre-tax operating profit	24	1	3	28	38	1	3	42
Provision for taxes on operating profit	8	-	1	9	15	-	1	16
Net operating profit	16	1	2	19	23	1	2	26
Net after-tax profit from extraordinary items	-	-	-	-	-	-	-	-
Net profit	**16**	**1**	**2**	**19**	**23**	**1**	**2**	**26**
Return on equity				**14.3%**				**20.1%**
Average balance of assets	4,153	3	-	4,156	4,209	-	-	4,209
Average balance of liabilities	2,213	-	-	2,213	2,090	-	-	2,090
Average balance of risk assets	4,100	-	-	4,100	4,070	-	-	4,070
Average balance of securities	-	-	1,652	1,652	-	-	1,799	1,799
Credit to the public (end balance)	4,132	3	-	4,135	4,214	-	-	4,214
Deposits from the public (end balance)	2,086	-	-	2,086	1,998	-	-	1,998
Average balance of other assets managed	38	-	-	38	21	-	-	21
Components of profit from financing operations before provision for doubtful debts: (1)								
Margin from credit granting operations	57	-	-	57	49	-	-	49
Margin from receiving deposits	4	-	-	4	9	-	-	9
Other	12	-	-	12	15	-	1	16
Total	**73**	-	**-**	**73**	**73**	-	**1**	**74**

(1) Reclassified.

Contribution of the commercial banking segment to Group profit in the first half of 2009 decreased by NIS 7 million compared to its contribution in the corresponding period last year. This decrease in contribution is due to a 3.1% decrease in total revenues, to a NIS 7 million increase in provision for doubtful debts, and to a 7.1% increase in operating expenses attributed to this segment.

Results of the Commercial Banking Segment

	For the 3 months ended June 30, 2009				For the 3 months ended June 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	56	-	-	56	71	-	1	72
Inter-segment	(19)	-	-	(19)	(37)	-	-	(37)
Profit from financing operations before provision for doubtful debts	37	-	-	37	34	-	1	35
Operating and other revenues	8	-	2	10	9	-	1	10
Total profit	45	-	2	47	43	-	2	45
Provision for doubtful debts	5	-	-	5	(1)	-	-	(1)
Operating and other expenses								
From outside operating segments	14	-	-	14	13	-	1	14
Inter-segment	17	-	-	17	13	-	-	13
Total operating and other expenses	31	-	-	31	26	-	1	27
Pre-tax operating profit	9	-	2	11	18	-	1	19
Provision for taxes on operating profit	2	-	1	3	8	-	-	8
Net profit	**7**	**-**	**1**	**8**	**10**	**-**	**1**	**11**
Return on equity				**12.7%**				**17.9%**
Components of profit from financing operations before provision for doubtful debts: (1)								
Margin from credit granting operations	31	-	-	31	25	-	-	25
Margin from receiving deposits	2	-	-	2	4	-	-	4
Other	4	-	-	4	5	-	1	6
Total	**37**	**-**	**-**	**37**	**34**	**-**	**1**	**35**

(1) Reclassified.

Results of the Business Banking Segment

	For the 6 months ended June 30, 2009				For the 6 months ended June 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	205	5	131	341	173	10	217	400
Inter-segment	9	-	(46)	(37)	(8)	-	(128)	(136)
Profit from financing operations before provision for doubtful debts	214	5	85	304	165	10	89	264
Operating and other revenues	37	12	4	53	60	15	3	78
Total profit	251	17	89	357	225	25	92	342
Provision for doubtful debts	90	-	(3)	87	8	-	15	23
Operating and other expenses								
From outside operating segments	86	1	17	104	78	1	17	96
Inter-segment	30	-	5	35	25	-	5	30
Total operating and other expenses	116	1	22	139	103	1	22	126
Pre-tax operating profit	45	16	70	131	114	24	55	193
Provision for taxes on operating profit	16	6	24	46	43	9	22	74
Net operating profit (loss)	29	10	46	85	71	15	33	119
Net after-tax profit from extraordinary items	-	-	-	-	-	-	-	-
Net profit	**29**	**10**	**46**	**85**	**71**	**15**	**33**	**119**
Return on equity				**8.8%**				**13.1%**
Average balance of assets	21,654	-	6,559	28,213	16,075	-	6,354	22,429
Average balance of liabilities	13,850	-	1,070	14,920	12,837	-	1,094	13,931
Average balance of risk assets	19,790	-	9,558	29,348	16,798	-	11,204	28,002
Average balance of securities	-	40,338	-	40,338	-	37,612	-	37,612
Credit to the public (end balance)	16,333	-	6,018	22,351	13,663	-	5,926	19,589
Deposits from the public (end balance)	11,379	-	1,537	12,916	11,142	-	1,055	12,197
Average balance of other assets managed	16	-	104	120	8	-	168	176
Components of profit from financing operations before provision for doubtful debts: (2)								
Margin from credit granting operations	130	-	70	200	93	-	65	158
Margin from receiving deposits	28	-	15	43	35	-	24	59
Other	56	5	-	61	37	10	-	47
Total	**214**	**5**	**85**	**304**	**165**	**10**	**89**	**264**

(1) Includes operating results for credit cards and the capital market, in immaterial amounts.
(2) Reclassified

Contribution of the business banking segment to Group profit in the first half of 2009 amounted to NIS 85 million, compared to NIS 119 million in the corresponding period last year - a 28.6% decrease. The decrease in segment contribution is almost entirely due to the increase in provision for doubtful debts, which increased in the first half of 2009 by NIS 64 million compared to the corresponding period last year - *inter alia* due to an increase in provision in respect of major borrowers. The profit from financing operations increased by 15.2%, and was impacted by the increase in credit volume and margins on the one hand, and the decrease in margins on deposits - on the other hand. Operating revenues decreased by NIS 25 million, primarily due to gain from realized equity investments in the first half of last year. Operating expenses attributed to the segment increased by 10.3%.

Results of the Business Banking Segment

	For the 3 months ended June 30, 2009				For the 3 months ended June 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	72	2	49	123	63	3	123	189
Inter-segment	35	-	(11)	24	10	-	(79)	(69)
Profit from financing operations before provision for doubtful debts	107	2	38	147	73	3	44	120
Operating and other revenues	22	6	2	30	40	7	1	48
Total profit	129	8	40	177	113	10	45	168
Provision for doubtful debts	27	-	(3)	24	6	-	3	9
Operating and other expenses								
From outside operating segments	40	1	9	50	42	1	9	52
Inter-segment	16	-	3	19	12	-	3	15
Total operating and other expenses	56	1	12	69	54	1	12	67
Pre-tax operating profit	46	7	31	84	53	9	30	92
Provision for taxes on operating profit	16	3	10	29	20	3	12	35
Net operating profit	30	4	21	55	33	6	18	57
Net after-tax profit from extraordinary items	-	-	-	-	-	-	-	-
Net profit	**30**	**4**	**21**	**55**	**33**	**6**	**18**	**57**
Return on equity				**13.0%**				**13.0%**
Components of profit from financing operations before provision for doubtful debts: (2)								
Margin from credit granting operations	63	-	31	94	45	-	34	79
Margin from receiving deposits	15	-	7	22	13	-	10	23
Other	29	2	-	31	15	3	-	18
Total	**107**	**2**	**38**	**147**	**73**	**3**	**44**	**120**

(1) Includes operating results for credit cards and the capital market, in immaterial amounts.
(2) Reclassified

Financial Management Segment results

	For the 6 months ended June 30, 2009			For the 6 months ended June 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	(563)	1	(562)	(394)	2	(392)
Inter-segment	606	(1)	605	471	-	471
Profit from financing operations before provision for doubtful debts	43	-	43	77	2	79
Operating and other revenues	58	10	68	50	7	57
Total profit	101	10	111	127	9	136
Provision for doubtful debts	-	-	-	-	-	-
Operating and other expenses						
From outside operating segments	109	4	113	99	6	105
Inter-segment	4	-	4	11	-	11
Total operating and other expenses	113	4	117	110	6	116
Operating profit (loss) before taxes	(12)	6	(6)	17	3	20
Provision for taxes on operating profit	(6)	2	(4)	6	1	7
After-tax operating profit (loss)	(6)	4	(2)	11	2	13
Minority interest in net after-tax operating profit of subsidiaries	(8)	-	(8)	-	-	-
Net operating profit (loss)	(14)	4	(10)	11	2	13
Net after-tax profit from extraordinary items	-	-	-	-	-	-
Net profit (loss)	**(14)**	**4**	**(10)**	**11**	**2**	**13**
Return on equity			**(5.4%)**			**4.4%**
Average balance of assets	22,200	-	22,200	16,728	-	16,728
Average balance of liabilities	31,896	-	31,896	29,709 (1)	-	29,709
Average balance of risk assets	8,545	-	8,545	8,745	-	8,745
Average balance of provident and mutual fund	57,878	-	57,878	45,492	-	45,492
Average balance of securities	-	21,257	21,257	-	24,108	24,108
Credit to the public (end balance)	-	-	-	-	-	-
Deposits from the public (end balance)	18,547	-	18,547	14,166 (1)	-	14,166
Components of profit from financing operations before provision for doubtful debts:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	43	-	43	77	2	79
Total	**43**	**-**	**43**	**77**	**2**	**79**

(1) Reclassified

The financial management segment, excluding impact of initial consolidation of Bank Yahav, contributed a loss of NIS 25 million to Group profit in the first half of 2009, compared to a profit of NIS 13 million in the corresponding period last year.

The decrease in segment contribution is primarily due to a NIS 61 million decrease in profit from financing operations (excluding impact of Bank Yahav consolidation). Lower interest rates, which led to a significant decrease in margins on deposits, impacted the profit from financing operations.

Financial Management Segment results

	For the 3 months ended June 30, 2009			For the 3 months ended June 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	(433)	(1)	(434)	(461)	-	(461)
Inter-segment	433	(1)	432	502	-	502
for doubtful debts	-	(2)	(2)	41	-	41
Operating and other revenues	32	6	38	29	4	33
Total profit	32	4	36	70	4	74
Provision for doubtful debts	-	-	-	-	-	-
Operating and other expenses						
From outside operating segments	56	2	58	45	3	48
Inter-segment	2	-	2	4	-	4
Total operating and other expenses	58	2	60	49	3	52
Operating profit (loss) before taxes	(26)	2	(24)	21	1	22
Provision for taxes on operating profit	(11)	1	(10)	7	1	8
Net after-tax operating profit (loss)	(15)	1	(14)	14	-	14
Minority interest in net after-tax operating profit of subsidiaries	(3)	-	(3)	-	-	-
Net operating profit (loss)	(18)	1	(17)	14	-	14
Net after-tax profit from extraordinary items	5	-	5	-	-	-
Net profit (loss)	**(18)**	**1**	**(17)**	**14**	**-**	**14**
Return on equity			**(11.6%)**			**10.1%**
Components of profit from financing operations before provision for doubtful debts:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	-	(2)	(2)	41	-	41
Total	**-**	**(2)**	**(2)**	**41**	**-**	**41**

(1) Reclassified

International operations

General information regarding international operations

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

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

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

Details of the affiliates and their business are as follows:

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

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

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

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

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

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

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

	For the 6 months ended June 30, 2008				
	Household	Private banking	Business banking	Financial management	Total
Profit from financing operations before provision for doubtful debts	8	24	29	(43)	18
Operating and other revenues	1	21	4	4	30
Total revenues	9	45	33	(39)	48
Provision for doubtful debts	-	-	-	-	-
Operating and other expenses	6	30	20	2	58
Pre-tax operating profit	3	15	13	(41)	(10)
Provision for taxes on operating profit	1	5	5	(14)	(3)
Net profit	**2**	**10**	**8**	**(27)**	**(7)**

Off balance sheet activity

As of June 30, 2009, the balance of securities held for Bank clients amounted to NIS 104 billion, including NIS 16 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 127 million in the first half of 2009, compared with NIS 101 million in the corresponding period last year - a 25.7% increase. Revenues from securities transactions, excluding NIS 15 million in revenues due to consolidation of Bank Yahav financial statements in the first half of 2009, increased by 10.9% over the corresponding period last year.

Revenues from securities transactions for the Group amounted to NIS 68 million in the second quarter of 2009, compared with NIS 49 million in the corresponding period last year - a 38.8% increase. Revenues from securities transactions, excluding NIS 9 million in revenues due to consolidation of Bank Yahav financial statements in the second quarter of 2009, increased in the second quarter of 2009 by 20.4% over the corresponding period last year.

Sources and financing

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

Total deposits from the public for the Group as of June 30, 2009 amounted to NIS 93.7 billion (of which NIS 11.6 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 increased in the first half of 2009 by 0.6%; deposits from the public in the foreign currency and foreign-currency-linked segment increased by 0.4%; and deposits from the public in the NIS-denominated, non-CPI-linked segment increased by 3.6%.

For details, see the chapter on development of balance sheet items above.

The revalued balance of the complex capital notes as of June 30, 2009 was NIS 1.76 billion, compared to NIS 1.19 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 half 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 June 30, 2009 of the obligatory notes outstanding amounted to NIS 2,749 million, of which NIS 1,317 million is considered as Tier II capital.

In the first half of 2009, Tefahot Issuance issued subordinated capital notes amounting to NIS 337 million considered as Tier II capital, with par value of NIS 325 million.

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

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

Risk Management

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

The Group manages its risk on a day-to-day basis, in accordance with the Bank of Israel's Proper Conduct of Banking Business Directive no. 339. Within this framework, the Group has appointed risk managers, and the Bank has established a Risk Management Department. Bank management regards the Bank's risk control and management system as one of its core competencies, hence it is Bank policy to constantly strive to improve the risk control and management system, Specifically, the Bank is in advanced stages of applying the 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 regulations for calculating regulatory and economic capital. During 2007 the Bank completed a move to enable use of advanced models for management of customer exposure to the foreign currency segment of the capital market. This effort was expanded in 2008, aiming to include customers operating in other trading arenas. In the first quarter of 2009, the Bank completed calculation of the required regulatory capital in accordance with Basle II guidelines (Pillar 1 – standard method) using the system.

Credit risk

The Bank's credit policies prescribe principles and rules for making credit available and for the management and control over the loan portfolio, in order to preserve its quality and reduce the inherent risk. These principles and rules enable controlled management of the risk involved in granting loans to borrowers, at the level of the individual borrower, group of borrowers and the level of economic and business sectors. As mentioned earlier, the Bank is in advanced stages of applying the Basle II guidelines. Quantitative aspects of the regulation, and not less important – its qualitative components, have a strong impact on how credit risk is managed by the Bank.

In the first half of 2008, the bank completed a gap review with regard to requirements of the second layer of Basle II provisions concerning credit risk management, and has prepared a work plan for eliminating said gaps. The Bank has started to eliminate these gaps in accordance with its work plan.

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

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

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

Below is information on the Bank's exposure to foreign financial institutions (1) (2) as of June 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-	2,102	413	2,515
A+ to A-	854	20	874
BBB+ to BBB-	107	-	107
BB+ to B-	20	2	22
Lower than B-	77	-	77
Unrated	35	-	35
Total credit exposure to foreign financial institutions	3,195	435	3,630
Balance of problem loans (5)	58	-	58

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 computing 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.

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

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

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

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

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

Market risk

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

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

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

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

	First half of 2009	2008 (1)
At end of period	270	112
Maximum value during period	287 (April)	153 (Oct.)
Minimum value during period	164 (Jan.)	80 (Feb.)

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

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

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

Basis risk

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

Below is an analysis of the sensitivity of the Group's (pre-tax) profit to changes in the main exchange rates and in the CPI as of June 30, 2009:

Profit (loss), NIS in millions:

	Scenarios				Extreme historical scenario (1)	
	10% increase	5% increase	5% decrease	10% decrease	Maximum increase	Maximum decrease
CPI	(73.4)	(36.7)	36.7	73.4	(22.0)	6.6
Dollar	38.6	16.8	(2.3)	1.2	17.5	(3.4)
Pound Sterling	3.1	1.5	(0.2)	(0.7)	2.6	(0.2)
Yen	(0.5)	0.1	0.6	2.6	(1.4)	0.9
Euro	17.9	4.4	2.8	7.4	8.5	3.4
Swiss Franc	2.3	0.3	0.2	0.7	1.9	0.4

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

Interest risk

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

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

	June 30, 2009					
	Israeli currency		Foreign currency (2)			
	Non-linked	CPI- linked	Dollar	Euro	Other	Total
Financial assets (1)	54,494	37,539	13,204	3,820	3,220	112,277
Fair value of financial derivatives	1,710	133	332	59	107	2,341
Financial liabilities (1)	(53,093)	(33,852)	(13,415)	(4,246)	(3,014)	(107,620)
Fair value of financial derivatives	(1,494)	(131)	(400)	(108)	(112)	(2,245)
Total	1,617	3,689	(279)	(475)	201	4,753

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

	June 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%	1,665	3,892	(265)	(478)	183	4,997	244	5.1%
Concurrent immediate increase of 0.1%	1,622	3,711	(278)	(475)	200	4,780	27	0.6%
Concurrent immediate decrease of 1%	1,547	3,450	(295)	(471)	217	4,448	(305)	(6.4%)

(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 half 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 half of 2009 has large excess liquidity, following a range of monetary steps taken by the Bank of Israel to increase liquidity in the system.

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

Financial derivatives

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

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

The Bank operates in credit derivatives in its nostro portfolio. In these operations, the Bank guarantees eligibility for payment in case of change in credit rating, failure to meet obligations or any other credit event related to counter-parties which are states or overseas banks. These investments are individually reviewed by the Risk Management Committee, and are submitted for approval by the Asset and Liability Management Committee. The par value of these credit derivatives as of June 30, 2009 amounted to NIS 1,052 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.

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

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

Legal risk

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

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

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

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

In June 2006, 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 operational 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.

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

Layer 3 of the 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 December 2008, the Supervisor of Banks issued the final Framework for Measurement and Capital Adequacy (Interim Directive) as well as his directives for quarterly reporting with regard to capital adequacy (COREP). Pursuant to these directives, banking corporations in Israel are required to report to the Supervisor of Banks quarterly, starting with data for December 31, 2008, their capital adequacy ratio in accordance with 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 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.

As of the publication date of these financial statements, the Bank has completed its preparations for initial application of the directive, including data input required for capital calculation in accordance with Basle II directives, into the Algorithmics system and using the system to produce the report for the Supervisor of Banks. The Bank has completed calculations for Pillar 1 of the directive, in accordance with Bank of Israel requirements. Results for Pillar 1 indicate that as of March 31, 2009, the Bank's capital adequacy ratio, as calculated in accordance with rules of the Basle II standard model, would increase by 1% over the capital adequacy ratio indicated in financial statements as of the same date based on the previous instructions. In late June 2009, the Bank filed with the Bank of Israel its draft ICAAP document (in conjunction with Pillar 2 of the Basle II directive), which reflects the Bank's assessment of the capital required by the Bank to cover all risk exposures arising from its business operations. The Bank's ICAAP calculations, as submitted to the Bank of Israel, indicate that the Bank has excess capital for the risk to which it is exposed.

Through 2009, updates and improvements to the work processes and controls would continue in anticipation of the directive becoming effective on December 31, 2009.

For further details, see Board of Directors' Report as of December 31, 2008.

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 debts, credit risk and provision for credit loss” (hereinafter: "the directive") which would become effective starting on January 1, 2010. On July 28, 2009, the Bank received a draft circular from the Supervisor of Banks, according to which the Supervisor intends to delay implementation of the directive by six months. 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 aforementioned Order, whereby the VAT rate would be increased to 16.5% effective from July 1, 2009 through December 31, 2010.

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 as of 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 Anti-Trust Act, 1988, whereby restrictive trade practices existed between the Bank and Bank Hapoalim Ltd., Bank Leumi Le-Israel Ltd., Bank Discount Le-Israel Ltd. and First International Bank of Israel Ltd., with regard to commission-related information sharing, since the early 1990s through commencement of the Supervisor inquiry into this matter, on November 2004.

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 Bank 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 auditors have 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, including on insurance matters.

Internal Auditor

Details of internal audit within the Group, including the professional standards applied by internal audit, the annual and multi-annual work plan and considerations in its determination, extent of employment of the Internal Auditor and his team and the manner in which reports are submitted with regard to findings of the Internal Auditor have been included in the Board of Directors' Report attached to the 2008 financial statements. No material changes occurred in these details during the reported period.

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

Certification process of the financial statements

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

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

Concurrently with compiling the financial statements, and based on the draft financial statements forwarded to them, all executive management members confirm by their signature that they are not aware of any detail which may indicate that data and descriptions in the Board of Directors’ Report and financial statements with regard to their areas of responsibility include any false representation of lack of material facts, that they instituted effective controls in order to ensure that any material information in their area of responsibility is brought to their attention, and that any significant fault or material weakness of the internal audit of financial reporting which is likely to impact the Bank’s ability to record, process, summarize and report financial information in their areas of responsibility have been brought to the attention of the appropriate parties. For a listing of Bank management, with names and positions, see the Board of Directors' 2008 Report. The bank operates a Doubtful Debts Committee, headed by the manager of the Business Division, and attended by professional credit officers, as well as a doubtful debts committee headed by the President and attended by the manager of the Business Division, manager of the Retail Division, manager of the Financial Division, the Chief Accountant and the Chief Legal Counsel. In conjunction with preparation of the financial statements, the committee reviews the state of problem loans of the bank, their classification and provisions required there for. In addition, the Chief Legal Counsel and the Chief Accountant review the provisions required in respect of claims filed against the bank.

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

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

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

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

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

Board of Directors

During the first half of 2009, the Bank Board of Directors held 8 plenary meetings and 31 Board committee meetings.

At the Board meeting on January 19, 2009, Mr. Abrahan 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, mhe Chairman of the Board, Mr. Jacob Perry, announced the resignation of Mr. Joseph Rosen from the Bank Board, effective as of the notice date.

At the Board meeting held on February 16, 2009, Ms. Liora Ofer was appointed member of the Executive Committee, replacing Mr. Yuli Ofer.
At the Annual General Meeting held on June 25, 2009, Mr. Gideon Siterman was appointed independent Board member. His start date in office is July 7, 2009.

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, August 17, 2009

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

	For the 3 months ended June 30, 2009				For the 3 months ended June 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 %	
Israeli currency - non-linked								
Assets (3)	50,667	337	2.69		33,268	436	5.33	
Effect of embedded and ALM derivatives (4)	45,646	45			41,876	233		
Total assets	96,313	382		1.60	75,144	669		3.61
Liabilities (3)	50,771	(78)	(0.62)		38,331	(258)	(2.72)	
Effect of embedded and ALM derivatives (4)	38,840	(136)			34,314	(155)		
Total liabilities	89,611	(214)		(0.96)	72,645	(413)		(2.29)
Interest margin			2.07	0.64			2.61	1.32
Israeli currency - linked to the CPI								
Assets (3)	37,611	1,073	11.91		34,609	1,281	15.63	
Effect of embedded and ALM derivatives (4)	4,116	87			4,181	105		
Total assets	41,727	1,160		11.59	38,790	1,386		15.08
Liabilities (3)	33,118	(896)	(11.27)		28,062	(999)	(15.02)	
Effect of embedded and ALM derivatives (4)	6,581	(179)			10,397	(339)		
Total liabilities	39,699	(1,075)		(11.28)	38,459	(1,338)		(14.66)
Interest margin			0.64	0.31			0.62	0.42

(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 3 months ended June 30, 2009				For the 3 months ended June 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)								
Assets (3)	21,814	(838)	(14.50)		22,158	(1,319)	(21.78)	
Effect of derivatives (4)								
Hedging derivatives	1,259	(65)			621	1		
Embedded and ALM derivatives	42,148	(1,836)			41,473	(11,140)		
Total assets	65,221	(2,739)		(15.77)	64,252	(12,458)		(57.77)
Liabilities (3)	19,924	695	13.24		18,668	1,060	20.85	
Effect of derivatives (4)								
Hedging derivatives	1,380	56			629	36		
Embedded and ALM derivatives	43,979	2,118			42,811	11,382		
Total liabilities	65,283	2,868		16.45	62,108	12,478		59.23
Interest margin			(1.26)	0.68			(0.93)	1.46

(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 3 months ended June 30, 2009				For the 3 months ended June 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 %	
Total								
Monetary assets generating financing revenue (3)	110,092	572	2.09		90,035	398	1.78	
Effect of derivatives (4)								
Hedging derivatives	1,259	(65)			621	1		
Embedded and ALM derivatives	91,910	(1,704)			87,530	(10,802)		
Total assets	203,261	(1,197)		(2.33)	178,186	(10,403)		(21.39)
Monetary liabilities generating financing expenses (3)	103,813	(279)	(1.08)		85,061	(198)	(0.93)	
Effect of derivatives (4)								
Hedging derivatives	1,380	56			629	36		
Embedded and ALM derivatives	89,400	1,803			87,522	10,889		
Total liabilities	194,593	1,580		3.21	173,212	10,727		22.56
Interest margin			1.01	0.88			0.85	1.17
On options		42				110		
On other derivative instruments (excludes options, hedging and ALM derivatives and embedded derivatives that were detached (4))		67				15		
Commissions from financing transactions and other financing revenue (5)		82				114		
Other financing expenses		(10)				(9)		
Profit from financing operations before provision for doubtful debts		564				554		
Provision for doubtful debts (includes general and supplementary provision)		(67)				(55)		
Profit from financing operations after provision for doubtful debts		497				499		

(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 3 months ended June 30, 2009	For the 3 months ended June 30, 2008
	Average balance (2)	**Average balance (2)**
Total		
Monetary assets generating financing revenue (3)	110,092	90,035
Assets deriving from derivatives (4)	2,317	3,047
Other monetary assets (3)	1,679	1,693
General and supplementary provision for doubtful debts	(222)	(174)
Total monetary assets	113,866	94,601
Total		
Monetary liabilities generating financing expenses (3)	103,813	85,061
Liabilities deriving from derivatives (4)	1,729	2,267
Other monetary liabilities (3)	3,045	3,012
Total monetary liabilities	108,587	90,340
Total surplus monetary assets over monetary liabilities	5,279	4,261
Non-monetary assets	1,629	1,670
Non-monetary liabilities	207	178
Total capital resources	6,701	5,753

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

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

	For the 3 months ended June 30, 2009				For the 3 months ended June 30, 2008			
	Average balance (2)	Financing revenue (expense)	Revenue (expense) rate Excluding effect of derivatives	Revenue (expense) rate Including effect of derivatives	Average balance (2)	Financing revenue (expense)	Revenue (expense) rate Excluding effect of derivatives	Revenue (expense) rate Including effect of derivatives
			in %				in %	
Foreign currency (5)								
Monetary assets in foreign currency generating financing revenue (3)	5,419	50	3.74		6,534	69	4.29	
Effect of derivatives (4)								
Hedging derivatives	308	(12)			180	3		
Embedded and ALM derivatives	10,794	834			12,074	152		
Total assets	16,521	872		22.84	18,788	224		4.85
Monetary liabilities in foreign currency generating financing expenses (3)	5,264	(20)	(1.53)		5,478	(30)	(2.21)	
Effect of derivatives (4)								
Hedging derivatives	338	9			183	6		
Embedded and ALM derivatives	(11,562)	(852)			12,363	(146)		
Total liabilities	17,164	(863)		(21.68)	18,024	(170)		(3.83)
Interest margin			2.21	1.16			2.08	1.02

(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 6 months ended June 30, 2009				For the 6 months ended June 30, 2008			
	Average balance (2)	Financing revenue (expense)	Revenue (expense) rate: Excluding effect of derivatives	Revenue (expense) rate: Including effect of derivatives	Average balance (2)	Financing revenue (expense)	Revenue (expense) rate: Excluding effect of derivatives	Revenue (expense) rate: Including effect of derivatives
				in %			in %	
Israeli currency - non-linked								
Assets (3)	50,456	757	3.02		32,738	892	5.52	
Effect of embedded and ALM derivatives (4)	46,326	223			40,012	724		
Total assets	96,782	980		2.04	72,750	1,616		4.49
Liabilities (3)	51,536	(209)	(0.81)		37,553	(537)	(2.88)	
Effect of embedded and ALM derivatives (4)	40,694	(286)			33,222	(540)		
Total liabilities	92,230	(495)		(1.08)	70,775	(1,077)		(3.07)
Interest margin			2.21	0.96			2.64	1.42
Israeli currency - linked to the CPI								
Assets (3)	37,288	1,235	6.73		34,801	1,851	10.92	
Effect of embedded and ALM derivatives (4)	4,223	97			4,588	143		
Total assets	41,511	1,332		6.52	39,389	1,994		10.38
Liabilities (3)	31,737	(1,003)	(6.42)		28,115	(1,435)	(10.47)	
Effect of embedded and ALM derivatives (4)	7,559	(206)			10,390	(443)		
Total liabilities	39,296	(1,209)		(6.25)	38,505	(1,878)		(9.99)
Interest margin			0.31	0.27			0.45	0.39

(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 6 months ended June 30, 2009				For the 6 months ended June 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)								
Assets (3)	22,528	622	5.60		22,244	(2,507)	(21.27)	
Effect of derivatives (4)								
Hedging derivatives	1,154	(33)			575	(23)		
Embedded and ALM derivatives	46,842	2,291			39,768	(13,413)		
Total assets	70,524	2,880		8.33	62,587	(15,943)		(44.46)
Liabilities (3)	20,630	(595)	(5.85)		19,331	2,431	23.57	
Effect of derivatives (4)								
Hedging derivatives	1,285	34			585	39		
Embedded and ALM derivatives	47,849	(2,019)			40,743	13,515		
Total liabilities	69,764	(2,580)		(7.53)	60,659	15,985		45.76
Interest margin			(0.25)	0.80			2.30	1.30

(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 6 months ended June 30, 2009				For the 6 months ended June 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 %	
Total								
Monetary assets generating financing revenue (3)	110,272	2,614	4.80		89,783	236	0.53	
Effect of derivatives (4)								
Hedging derivatives	1,154	(33)			575	(23)		
Embedded and ALM derivatives	97,391	2,611			84,368	(12,546)		
Total assets	208,817	5,192		5.03	174,726	(12,333)		(13.62)
Monetary liabilities generating financing expenses (3)	103,903	(1,807)	(3.51)		84,999	459	1.08	
Effect of derivatives (4)								
Hedging derivatives	1,285	34			585	39		
Embedded and ALM derivatives	96,102	(2,511)			84,355	12,532		
Total liabilities	201,290	(4,284)		(4.30)	169,939	13,030		14.75
Interest margin			1.29	0.73			1.61	1.13
On options		33				204		
On other derivative instruments (excludes options, hedging and ALM derivatives and embedded derivatives that were detached (4))		69				4		
Commissions from financing transactions and other financing revenue (5)		157				214		
Other financing expenses		(19)				(16)		
Profit from financing operations before provision for doubtful debts		1,148				1,103		
Provision for doubtful debts (includes general and supplementary provision)		(186)				(96)		
Profit from financing operations after provision for doubtful debts		962				1,007		

(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 6 months ended June 30, 2009	For the 6 months ended June 30, 2008
	Average balance (2)	**Average balance (2)**
Total		
Monetary assets generating financing revenue (3)	110,272	89,783
Assets deriving from derivatives (4)	2,960	2,925
Other monetary assets (3)	1,219	1,485
General and supplementary provision for doubtful debts	(218)	(175)
Total monetary assets	114,233	94,018
Total		
Monetary liabilities generating financing expenses (3)	103,903	84,999
Liabilities deriving from derivatives (4)	2,819	2,197
Other monetary liabilities (3)	2,229	2,640
Total monetary liabilities	108,948	89,836
Total surplus monetary assets over monetary liabilities	5,285	4,182
Non-monetary assets	1,562	1,692
Non-monetary liabilities	193	172
Total capital resources	6,654	5,702

(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 6 months ended June 30, 2009				For the 6 months ended June 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	86	3.22		6,318	147	4.71	
Effect of derivatives (4)								
Hedging derivatives	284	(11)			163	(1)		
Embedded and ALM derivatives	11,509	139			11,286	262		
Total assets	17,173	214		2.51	17,767	408		4.65
Monetary liabilities in foreign currency generating financing expenses (3)	5,209	(29)	(1.12)		5,491	(77)	(2.82)	
Effect of derivatives (4)								
Hedging derivatives	316	11			166	5		
Embedded and ALM derivatives	11,757	(152)			11,515	(267)		
Total liabilities	17,282	(170)		(1.98)	17,172	(339)		(3.99)
Interest margin			2.10	0.53			1.89	0.66

(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 June 30, 2009

	On Call to 1 month	1-3 months	3 months to 1 year	1-3 years	3-5 years	5-10 years
Israeli currency - non-linked						
Total assets	50,463	1,525	2,236	892	266	111
Total liabilities	43,118	2,269	4,413	3,393	1,299	123
Difference	7,345	(744)	(2,177)	(2,501)	(1,033)	(12)
Effect of forward transactions and special commitments	(3,608)	1,484	4,924	946	(33)	62
Effect of options	(282)	365	(34)	5	9	-
Exposure to interest rate fluctuations in the sector	3,455	1,105	2,713	(1,550)	(1,057)	50
Cumulative exposure in sector	3,455	4,560	7,273	5,723	4,666	4,716
Israeli currency - linked to the CPI						
Total assets	689	2,132	9,434	10,991	5,508	6,234
Total liabilities	918	1,979	6,427	7,588	5,143	7,878
Difference	(229)	153	3,007	3,403	365	(1,644)
Effect of forward transactions and special commitments	(167)	(836)	(2,341)	(1,882)	650	(216)
Effect of options	-	-	-	-	-	-
Exposure to interest rate fluctuations in the sector	(396)	(683)	66	1,521	1,015	(1,860)
Cumulative exposure in sector	(396)	(1,079)	(413)	1,108	2,123	263

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

							As of December 31, 2008	
		Without		Internal rate of	Average term to	Internal rate of	Average term to
10-20 years	Over 20 years	maturity (1)	Total	return	maturity	return	maturity
				in %	Years	in %	Years
2	-	623	56,118	4.05%	0.12	3.67%	0.12
40	-	-	54,655	2.63%	0.27	3.34%	0.25
(38)	-	623	1,463	1.42%	(0.15)	0.33%	(0.13)
-	-	-	3,775				
-	-	-	63				
(38)	-	623	5,301				
4,678	4,678	5,301	5,301				
1,524	9	102	36,623	4.86%	3.01	4.93%	3.08
2,259	276	32	32,500	4.64%	4.19	4.68%	4.02
(735)	(267)	70	4,123	0.22%	(1.18)	0.25%	(0.94)
-	-	-	(4,792)				
-	-	-	-				
(735)	(267)	70	(669)				
(472)	(739)	(669)	(669)				

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

	On Call to 1 month	1-3 months	3 months to 1 year	1-3 years	3-5 years	5-10 years
Foreign currency (2)						
Total assets	10,469	4,287	3,673	724	476	893
Total liabilities	10,861	6,632	3,033	278	51	496
Difference	(392)	(2,345)	640	446	425	397
Effect of forward transactions and special commitments	5,584	1,449	(4,302)	(718)	(217)	(779)
Effect of options	269	(365)	40	(5)	-	-
Exposure to interest rate fluctuations in the sector	5,461	(1,261)	(3,622)	(277)	208	(382)
Cumulative exposure in sector	5,461	4,200	578	301	509	127
Total exposure to interest rate fluctuations						
Total assets in the balance sheet	61,621	7,944	15,343	12,607	6,250	7,238
Total liabilities in the balance sheet	54,897	10,880	13,873	11,259	6,493	8,497
Difference	6,724	(2,936)	1,470	1,348	(243)	(1,259)
Effect of forward transactions and special commitments	1,809	2,097	(1,719)	(1,654)	400	(933)
Effect of options	-	-	-	-	-	-
Total exposure to interest rate fluctuations	8,533	(839)	(249)	(306)	157	(2,192)
Total cumulative exposure	8,533	7,694	7,445	7,139	7,296	5,104

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

						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
56	-	76	20,654	4.85%	1.11	6.79%	0.70
12	-	-	21,363	1.79%	0.69	3.29%	0.46
44	-	76	(709)	3.06%	0.42	3.50%	0.24
-	-	-	1,017				
-	-	-	(61)				
44	-	76	247				
171	171	247	247				
1,582	9	2,824	115,418		1.23		1.28
2,311	276	245	108,731		1.53		1.45
(729)	(267)	2,579	6,687		(0.30)		(0.17)
-	-	-	-				
-	-	-	-				
(729)	(267)	2,579	6,687				
4,375	4,108	6,687	6,687				

Management Discussion - Addendum C
Credit Risk by Economic Sector as of June 30, 2009 - Consolidated
Reported amounts (NIS in millions)

	Balance sheet credit risk (1)	Off-balance sheet credit risk (2)	Total credit risk of the public	Expense for the first six months of 2009 in respect of specific provision for doubtful debts	Balance of problem loans (3)
Agriculture	687	258	945	-	41
Industry	6,094	7,512	13,606	32	536
Construction and real estate	6,463	6,947	13,410	4	1,782
Electricity and water	380	505	885	-	-
Commerce	4,983	3,610	8,593	13	247
Hotel and food services	232	81	313	2	48
Transport and storage	757	555	1,312	-	20
Communications and computer services	772	991	1,763	1	20
Financial services	8,426	7,375	15,801	42	1,534
Other business services	2,458	1,252	3,710	3	106
Public and community services	754	376	1,130	2	99
Private individuals - housing loans	47,966	3,700	51,666	23	1,106
Private individuals - other	9,152	9,113	18,265	35	663
Total	89,124	42,275	131,399	157	6,203
For borrowers' activities overseas	3,439	721	4,160	-	104
Total	92,563	42,996	135,559	157	6,307
Credit risk included in the various economic sectors:					
Settlement movements (4)	1,365	934	2,299	4	208
Local authorities (5)	190	14	204	-	31

(1) Includes loans to the public and investments in debentures of the public of NIS 123 million and other assets related to derivatives against the public totaling NIS 452 million.
(2) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of per-borrower credit limitations.
(3) Balance of problem loans net of loans covered by collateral that may be deducted for the purpose of computing the per-borrower credit limits of an individual borrower and a group of borrowers, including elements of off-balance sheet risk.
(4) Kibbutzim and Moshavim, regional and national organizations, and corporations controlled by the settlement movements.
(5) Includes corporations under their control.

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

Management Discussion - Addendum C
Credit Risk by Economic Sector as of June 30, 2008 - Consolidated
Reported amounts (NIS in millions)

	Balance sheet credit risk (1)	Off-balance sheet credit risk (2)	Total credit risk of the public	Expense for the first six months of 2008 in respect of specific provision for doubtful debts	Balance of problem loans (3)
Agriculture	663	134	797	1	39
Industry	4,677	2,324	7,001	13	204
Construction and real estate	6,595	7,475	14,070	9	1,786
Electricity and water	384	174	558	-	1
Commerce	4,405	1,526	5,931	13	169
Hotel and food services	265	71	336	1	34
Transport and storage	566	182	748	1	14
Communications and computer services	396	358	754	-	153
Financial services	7,459	2,585	10,044	1	232
Other business services	2,084	613	2,697	2	101
Public and community services	785	239	1,024	2	134
Private individuals - housing loans	41,313	3,329	44,642	29	1,241
Private individuals - other	5,044	4,350	9,394	22	476
Total	74,636	23,360	97,996	94	4,584
For borrowers' activities overseas	3,802	782	4,584	1	-
Total	78,438	24,142	102,580	95	4,584
Credit risk included in the various economic sectors:					
Settlement movements (4)	1,288	248	1,536	-	125
Local authorities (5)	185	26	211	-	36

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

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

Management Discussion - Addendum C
Credit Risk by Economic Sector as of December 31, 2008 - Consolidated

Reported amounts (NIS in millions)

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

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

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

Management Discussion - Addendum D

Exposure to Foreign Countries - Consolidated (1)

Reported amounts (NIS in millions)

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

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 June 30, 2009												
USA	-	475	1,035	1,909	1,065	844	2,354	38	1,694	-	1,096	414
UK	-	400	137	739	350	389	926	31	2,586	-	280	257
Germany	-	634	52	-	-	-	686	13	953	-	291	395
Other	1	1,598	2,036	-	-	-	3,635	89	1,929	-	2,631	1,004
Total exposure to foreign countries	1	3,107	3,260	2,648	1,415	1,233	7,601	171	7,162	-	4,298	2,070
Total exposure to LDC countries	-	71	251	-	-	-	322	29	133	-	236	86
As of December 31, 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 June 30, 2009, there is no exposure requiring disclosure in accordance with the public reporting directives of the Supervisor of Banks.

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

Certification

I, Eliezer Yones, declare that:

1. I have reviewed the quarterly report of Mizrahi Tefahot Bank Ltd. ("the Bank") for the quarter ended June 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.

August 17, 2009

E. Yones
President

Certification

I, Menahem Aviv, declare that

1. I have reviewed the quarterly report of Mizrahi Tefahot Bank Ltd. ("the Bank") for the quarter ended June 30, 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.

August 17, 2009

M. Aviv
Vice-President
Chief Accountant

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

Introduction

We have reviewed the enclosed financial information of Bank Mizrahi Tefahot Ltd. ("the Bank"), consisting of the condensed consolidated balance sheet as of June 30, 2009, the condensed consolidated statement of profit and loss, statements of change in shareholders' equity and cash flow statements for the six- and three-month periods then ended. The Board of Directors and management are responsible for preparation and presentation of financial information for these interim periods, in accordance with Accounting Standard no. 14 of the Israeli Accounting Standards Board "Financial Reporting for Interim Periods", and in accordance with directives and guidance of the Supervisor of Banks. We are responsible for expressing our conclusion as to the financial information for 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 7.98% of total consolidated assets as of June 30, 2009, and whose profit from financing operations before provision for doubtful debts included in the consolidated statements of profit and loss constitute 10.15% and 9.66% of total profit from financing operations before provision for doubtful debts for the six- and three-month periods then ended. Furthermore, we did not review the condensed financial information for the interim period of an affiliate, the investment in which amounted to NIS 12 million as of June 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 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. Therefore, we do not express an audit opinion.

Conclusion

Based on our review, and on 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.13)A-F) with regard to lawsuits filed against the Bank and motions for class action status, including with regard to insurance.

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

August 17, 2009

Condensed consolidated balance sheet as of June 30, 2009

Reported amounts (NIS in millions)

	As of June 30		As of December 31
	2009	2008	2008
	(unaudited)	(unaudited)	(audited)
Assets			
Cash and deposits with banks	9,828	10,439	11,038
Securities	8,188	4,432	9,259
Securities loaned or sold in repurchase agreements	828	28	12
Credit to the public	91,765	77,310	88,049
Loans to the Government	310	3	2
Investments in affiliates	11	17	17
Buildings and equipment	1,461	1,258	1,476
Other assets	3,027	4,012	4,159
Total assets	115,418	97,499	114,012
Liabilities and Shareholders' Equity			
Deposits from the public	93,744	72,928	91,779
Deposits from banks	2,036	5,620	1,867
Deposits from the Government	229	256	242
Securities loaned or sold in conjunction with re-purchase agreements	-	-	972
Debentures and subordinated notes	7,697	6,649	6,837
Other liabilities	5,025	6,325	6,012
Total liabilities	108,731	91,778	107,709
Minority interest	362	-	351
Shareholders' equity	6,325	5,721	5,952
Total liabilities and shareholders' equity	115,418	97,499	114,012

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

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

August 17, 2009

Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	For the 3 months ended		For the 6 months ended		For the year ended
	June 30		June 30		December 31
	2009	2008	2009	2008	2008
		(unaudited)		(unaudited)	(audited)
Profit from financing operations before provision for doubtful debts	564	554	1,148	1,103	2,289
Provision for doubtful debts	67	55	186	96	395
Profit from financing operations after provision for doubtful debts	497	499	962	1,007	1,894
Operating and other revenues					
Operating commissions	313	(1) 270	622	(1) 537	(1) 1,161
Profits from investments in shares, net	11	25	7	33	46
Other revenues	10	(1) 5	22	(1) 13	(1) 22
Total operating and other revenues	334	300	651	583	1,229
Operating and other expenses					
Salaries and related expenses	352	303	722	615	1,273
Maintenance and depreciation of buildings and equipment	143	111	277	215	473
Other expenses	101	86	202	171	407
Total operating and other expenses	596	500	1,201	1,001	2,153
Pre-tax operating profit	235	299	412	589	970
Provision for taxes on operating profit	79	113	144	223	356
After-tax operating profit	156	186	268	366	614
Share in net after-tax operating losses of affiliates	-	-	-	-	(1)
Minority interest in net after-tax operating profit of subsidiaries	(6)	-	(8)	-	(12)
Net operating profit	150	186	260	366	601
Net after-tax profit from extraordinary items	-	-	-	-	1
Net profit	150	186	260	366	602

(1) Reclassified.

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

Profit and loss - consolidated

Reported amounts (NIS in millions)

	For the 3 months ended June 30		For the 6 months ended June 30		For the Year Ended December 31
	2009	2008	2009	2008	2008
	(unaudited)		(unaudited)		(audited)
Earnings per share (1)					
Basic earnings per share (in NIS)					
Profit from ordinary operations	0.68	0.84	1.17	1.65	2.70
Profit from extraordinary items	-	-	-	-	0.01
Total	0.68	0.84	1.17	1.65	2.71
Diluted earnings per share (in NIS)					
Profit from ordinary operations	0.67	0.83	1.16	1.63	2.68
Profit from extraordinary items	-	-	-	-	0.01
Total	0.67	0.83	1.16	1.63	2.69

(1) Share of NIS 0.1 par value each.

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

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

For the 3 months ended June 30, 2009 (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)	Dividends declared after balance sheet date	Total shareholders' equity
Balance as of March 31, 2009	1,921	94	2,015	(115)	(51)	42	4,164	-	6,055
Net profit for the year	-	-	-	-	-	-	150	-	150
Benefit from share-based payment transactions	-	12	12	-	-	-	-	-	12
Related tax effect	-	(1)	(1)	-	-	-	-	-	(1)
Realized share-based payment transactions (4)	4	(4)	-	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	161	-	-	-	-	161
Adjustments in respect of presentation of securities held for sale re-classified to statement of profit and loss	-	-	-	12	-	-	-	-	12
Related tax effect	-	-	-	(58)	-	-	-	-	(58)
Net loss from cash flow hedges	-	-	-	-	-	(8)	-	-	(8)
Related tax effect	-	-	-	-	-	2	-	-	2
Balance as of June 30, 2009	1,925	101	2,026	-	(51)	36	4,314	-	6,325

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

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

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

	For the 3 months ended June 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)	Dividends declared after balance sheet date	Total shareholders' equity
Balance as of March 31, 2008	1,911	63	1,974	(11)	(51)	2	3,632	75	5,621
Net profit for the period	-	-	-	-	-	-	186	-	186
Dividends paid	-	-	-	-	-	-	-	(75)	(75)
Benefit from share-based payment transactions	-	4	4	-	-	-	-	-	4
Related tax effect	-	(3)	(3)	-	-	-	-	-	(3)
Realized share-based payment transactions (4)	6	(6)	-	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	(24)	-	-	-	-	(24)
Adjustments in respect of presentation of securities held for sale re-classified to statement of profit and loss	-	-	-	-	-	-	-	-	-
Related tax effect	-	-	-	10	-	-	-	-	10
Net profit from cash flow hedges	-	-	-	-	-	5	-	-	5
Related tax effect	-	-	-	-	-	(3)	-	-	(3)
Balance as of June 30, 2008	1,917	58	1,975	(25)	(51)	4	3,818	-	5,721

(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 second quarter of 2008, 42,526 ordinary NIS 00.1 par value shares were issued for current 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 condensed financial statements.

Condensed Statement of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

	For the 6 months ended June 30, 2009 (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)	Dividends declared after balance sheet date	Total shareholders' equity
Balance as of January 1, 2009	1,920	71	1,991	(92)	(51)	50	4,054	-	5,952
Net profit for the period	-	-	-	-	-	-	260	-	260
Benefit from share-based payment transactions	-	36	36	-	-	-	-	-	36
Related tax effect	-	(1)	(1)	-	-	-	-	-	(1)
Realized share-based payment transactions (4)	5	(5)	-	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	97	-	-	-	-	97
Adjustments in respect of presentation of securities held for sale re-classified to statement of profit and loss	-	-	-	45	-	-	-	-	45
Related tax effect	-	-	-	(50)	-	-	-	-	(50)
Net profit from cash flow hedges	-	-	-	-	-	(22)	-	-	(22)
Related tax effect	-	-	-	-	-	8	-	-	8
Balance as of June 30, 2009	1,925	101	2,026	-	(51)	36	4,314	-	6,325

(1) Share premium generated prior to March 31, 1986.
(2) Foreign currency translation adjustment of autonomous overseas units.
(3) For details on various limitations on dividend distributions, see Notes 13 and 14 to the financial statements for the year ended December 31, 2008.
(4) In the first half of 2009, 116,896 ordinary shares, NIS 0.1 par value each have been issued against option exercise in conjunction with the employee stock option plan.

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

Condensed Statement of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

	For the 6 months ended June 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)	Dividends declared after balance sheet date	Total shareholders' equity
Balance as of January 1, 2008	1,911	68	1,979	27	(51)	-	3,527	75	5,557
Net profit for the period	-	-	-	-	-	-	366		366
Dividends paid	-	-	-	-	-	-	(75)	(75)	(150)
Benefit from share-based payment transactions	-	6	6	-	-	-	-	-	6
Related tax effect	-	(10)	(10)	-	-	-	-	-	(10)
Realized share-based payment transactions (4)	6	(6)	-	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	(107)	-	-	-	-	(107)
Adjustments in respect of presentation of securities held for sale re-classified to statement of profit and loss	-	-	-	19	-	-	-	-	19
Related tax effect	-	-	-	36	-	-	-	-	36
Net profit from cash flow hedges	-	-	-	-	-	7	-	-	7
Related tax effect	-	-	-	-	-	(3)	-	-	(3)
Balance as of June 30, 2008	1,917	58	1,975	(25)	(51)	4	3,818	-	5,721

(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 half of 2008, 351,979 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 profit from cash flow hedges	Retained earnings (3)	Dividends declared after balance sheet date	Total shareholders' 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 re-classified to statement of profit and loss	-	-	-	(218)	-	-	-	-	(218)
Related tax effect	-	-	-	66	-	-	-	-	66
Net profit in respect of cash flow hedges	-	-	-	-	-	78	-	-	78
Related tax effect	-	-	-	-	-	(28)	-	-	(28)
Balance 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

(NIS in millions)

	For the 3 months ended June 30, 2009	For the 6 months ended June 30, 2009	For the year ended December 31, 2008
	(unaudited)	(unaudited)	(audited)
Cash flows provided by current operations			
Net profit for the period	150	260	602
Adjustments to reconcile net profit to net cash generated by current operations:			
Share in undistributed losses of Bank affiliates, net	-	-	1
Minority interest in net after-tax operating profits of subsidiaries	6	8	12
Depreciation of buildings and equipment and amortization	49	108	181
Amortization of goodwill in investees	-	-	1
Provision for doubtful debts	67	186	395
Gain on sale of securities available for sale	(12)	(44)	(32)
Impairment of securities held for sale	12	45	218
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	11	8	(3)
Gain from sale of buildings and equipment	-	-	(2)
Reduction of cost of buildings held for sale and unused leased properties	-	-	(2)
Deferred taxes, net	(57)	(7)	54
Severance pay - increase in excess of amount funded over liability	(9)	(31)	(4)
Benefit from share-based payment transactions	12	36	22
Minority interest in net profit from extraordinary items of subsidiaries	-	-	1
Deferred income, net	50	55	23
Net cash provided by current operations	279	624	1,467

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

Statement of cash flows
(NIS in millions)

	For the 3 months ended June 30, 2009 (unaudited)	For the 6 months ended June 30, 2009 (unaudited)	For the year ended December 31, 2008 (audited)
Cash flows provided by activities in assets			
Acquisition of securities available for sale	(795)	(2,550)	(6,725)
Proceeds on sale and redemption of securities available for sale	1,634	4,046	6,257
Deposits with banks, net	2,082	4,770	(4,296)
Securities held for trading, net	(593)	(290)	(339)
Securities loaned or sold in repurchase agreements, net	(45)	(816)	(7)
Loans to the public, net	291	(3,902)	(10,735)
Loans to the Government, net	(308)	(308)	1
Acquisition of newly consolidated subsidiary (Appendix A)	-	-	3,330
Acquisition of shares in investees, including shareholder loans	-	-	(2)
Acquisition of buildings and equipment	(61)	(96)	(274)
Proceeds on sale of buildings and equipment	-	-	15
Other assets, net	1,666	1,072	(1,064)
Net cash provided by (used for) activities in assets	3,871	1,926	(13,839)

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

Statement of cash flows
(NIS in millions)

	For the 3 months ended June 30, 2009 (unaudited)	For the 6 months ended June 30, 2009 (unaudited)	For the year ended December 31, 2008 (audited)
Cash flows provided by activities in liabilities and shareholders' equity			
Deposits from the public, net	(804)	1,965	7,311
Deposits from banks, net	520	169	(1,904)
Deposits from the Government, net	(8)	(13)	(43)
Issuance of debentures and subordinated notes	290	966	745
Redemption of debentures and subordinated notes	(40)	(106)	(97)
Securities loaned or sold in conjunction with re-purchase agreements	-	(972)	972
Other liabilities, net	(1,818)	(999)	1,579
Dividends paid to shareholders	-	-	(150)
Net cash provided by (used for) activities in liabilities and shareholders' equity	(1,860)	1,010	8,413
Increase (decrease) in cash	2,290	3,560	(3,959)
Cash balance at beginning of period	5,778	4,508	8,467
Cash balance at end of period	**8,068**	**8,068**	**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	3	-	5
Equity investment	-	-	37

Note 1 - Reporting Principles and Accounting Policies

A. The financial statements as of June 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 Debts, Credit Risk and Provision for Credit Losses" (hereinafter: "the circular" or "the directive"). This circular is based, *inter alia*, on USA Accounting Standards 5, 114 and 118 as well as on regulatory directives by banking supervision bodies and by the USA Securities and Exchange Commission. The guiding principles on which the directive is based introduce a material change over current directives on classification of problem debts and measuring of provisions for credit losses in conjunction with such debts.

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

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

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

This directive will be applied in financial statements of banking corporations starting on January 1, 2010 (see below with regard to possible postponement of the effective date), with no retroactive application to financial statements for previous periods. According to transition directives, the impact of changes due to the new directives shall be charged directly to shareholders' equity upon initial application.

In conjunction with the Bank's preparations for application of this directive, teams were formed and an external consultant has been hired to review required changes to Bank work processes, both in terms of credit management and processing of impaired debts, as well as in terms of accounting treatment and impact on its financial statements. As of the publication date of these financial statements, the design has been completed and most system components have been developed. Development is scheduled for completion in the third quarter of 2009. Concurrently, the Bank is updating work processes, including recompilation of procedures and comprehensive training is delivered to professional staff in preparation for implementation of this directive. 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 in 2009 pending application of the directive:

Through the third quarter -

- Review of initial application of the directive to a limited number of typical branches (pilot) during the third quarter.
- Initial review of results 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.
- Deployment of work processes and training in branches and at headquarters.

Through the fourth quarter -

- Deployment of the new system and completion of implementation of work process at all Bank branches and headquarter units.
- 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 transition directives of the Supervisor of Banks.
- Review of all system components concurrently with the existing system.

Since Bank management does not have complete data with regard to impact of group-based provision and accounting write-offs, it is currently unable to measure the increase in provision for credit loss in respect of debt treated by group-based provision, resulting from implementation of the new directives. Bank management estimates that this increase may be significant. Furthermore, review of potential implications of these directives on major borrowers has revealed that implementation of these directives may increase to a certain degree the required provision for credit loss, although at this stage it is not possible to estimate whether this increase would be material.

On July 28, 2009, the Bank received a draft circular from the Supervisor of Banks, according to which the Supervisor intends to delay implementation of the directive by six months.

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

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

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

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

The new standard and Clarification no. 10 are to be applied starting on January 1, 2009. In accordance with the notice from the Supervisor of Banks, it is the intention of the supervisor to apply to banks Israeli standards which do not apply to core banking business (see Note 1.W to the financial statements as of December 31, 2008). Application of the new standard and of Clarification no. 10 should have no material impact on the financial statements of the Bank Group.

Note 2 - Securities
As of June 30, 2009 (unaudited)
Reported amounts (NIS in millions)

	Balance sheet amount	Amortized cost	Total cumulative other profit (5) Gain	Loss	Fair value (1)
Composition					
1) Securities available for sale					
Debentures and bonds					
Of the Government of Israel (2)	5,710	5,721	103	114	5,710
Of foreign governments (2)	110	110	-	-	110
Of others	1,794	1,847	8	61	1,794
Total debentures available for sale	7,614	7,678	111	175	7,614
Shares of others (3)	428	330	98	-	(4) 428
Total securities available for sale	8,042	8,008	209	175	(4) 8,042

	Balance sheet balance	Amortized cost	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (1)
2) Securities held for trading					
- Debentures					
of Government of Israel	138	136	2	-	138
of others	8	8	-	-	8
Total securities held for trading	146	144	(6) 2	-	146
Total securities	8,188	8,152	211	175	8,188

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) See Note 15.A-E to the financial statements as of December 31, 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, 2009, included in this item, amounts to NIS 323 million. This amount exceeds the amount of the loans, net of the provision for doubtful debts, by NIS 99 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 91 million.
(5) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".
(6) Charged to statement of profit and loss.

Note 2 - Securities
As of June 30, 2008 (unaudited)
Reported amounts (NIS in millions)

	Balance sheet balance	Amortized cost	Total cumulative other profit (4) Gain	Loss	Fair value (1)
Composition					
Securities available for sale					
Debentures and bonds					
Of Government of Israel	2,574	2,587	4	17	2,574
Of foreign governments and their agencies	16	16	-	-	16
Of others	1,406	1,490	-	84	1,406
Total debentures available for sale	3,996	4,093	4	101	3,996
Shares of others (2)	407	355	52	-	(3) 407
Total securities available for sale	4,403	4,448	56	101	4,403

	Balance sheet balance	Amortized cost	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (1)
	(unaudited)				
Securities held for trading					
- Debentures					
of Government of Israel	29	29	-	-	29
Total securities held for trading	29	29	-	-	29
Total securities	4,432	4,477	56	101	4,432

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.

(2) 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.

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

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

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

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

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

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) See Note 15.A-E to the financial statements as of December 31, 2008 for information on liens on securities held by the Bank.
(3) In July 2003, a letter was received from the Supervisor of Banks, requiring the Bank to classify loans that had been given to a certain customer, which do not meet the repayment terms prescribed and against which shares of a leading telecommunication company were pledged, as “securities available for sale”, beginning from the financial statements as 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) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".

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

	As of June 30, 2009			
		Total cumulative other profit		Fair value
	Amortized cost	Gain	Loss	(carrying amount)
				(unaudited)
Mortgage-backed securities				
“Pass-through” securities	-	-	-	-
Other mortgage-backed securities	-	-	-	-
Asset-backed securities (ABS)				
CDO	12	-	-	12
CDO, mostly mortgage-backed (1)	-	-	-	-
CLO	78	2	17	63
SIV (1)	-	-	-	-
Total asset-backed securities available for sale	90	2	17	75

	As of June 30, 2008			
		Total cumulative other profit		Fair value
	Amortized cost	Gain	Loss	(carrying amount)
				(unaudited)
Mortgage-backed securities				
“Pass-through” securities	-	-	-	-
Other mortgage-backed securities	-	-	-	-
Asset-backed securities (ABS)				
CDO	50	-	20	30
CDO, mostly mortgage-backed (1)	-	-	-	-
CLO	95	-	25	70
SIV (1)	-	-	-	-
Total asset-backed securities available for sale	145	-	45	100

(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		Fair value
	Amortized cost	Gain	Loss	(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 June 30, 2009			
	Less than 12 months		12 months or more	
	Fair value	Unrealized loss	Fair value	Unrealized loss
Asset-backed securities (ABS)				
CDO	12	-	-	-
CLO	-	-	63	17
Total	12	-	**63**	**17**

	As of June 30, 2008			
	Less than 12 months		12 months or more	
	Fair value	Unrealized loss	Fair value	Unrealized loss
Asset-backed securities (ABS)				
CDO	13	4	17	16
CLO	23	5	47	20
Total	26	9	64	**36**

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

Asset-backed securities (ABS)

In the first half 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 19 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).

Note 2 - Securities
Further details with regard to asset-backed securities held for sale

The fair value of Bank investments in asset-backed securities as of June 30, 2009 amounts to NIS 75 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 June 30, 2009 amounted to NIS 12 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 June 30, 2009, the Bank recognized impairment in respect of these investments amounting to NIS 44 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 half of 2009 in respect of impairment of these investments amounted to NIS 9 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 June 30, 2009 amounted to NIS 63 million, similar to their fair value as of December 31, 2008. All Bank investments in this asset class were conducted in layers with investment-grade rating (BBB- or higher). These carefully selected financial instruments are managed by leading investment management firms globally, 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.
In the first half 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 June 30, 2009 in respect of the remaining such investments amounts to NIS 15 million, compared to NIS 27 million as of December 31, 2008. According to information available to the Bank. The latter impairment is due to market conditions related to the credit crunch leading to a systematic 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 the cash flow from these investmnts will be negatively impacted. 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 3 months ended June 30, 2009				For the 3 months ended June 30, 2008			
	Specific provision (1)		Supplementary provision (2)	Total	Specific provision (1)		Supplementary provision (2)	Total
	By extent of arrears	Other			By extent of arrears	Other		
Balance of provision as of period start	846	2,200	222	3,268	816	1,897	180	2,893
Transfer	-	-	-	-	-	(3) (8)	-	(8)
Provisions during reported period	73	66	1	140	83	42	-	125
Decrease in provisions	(67)	(6)	-	(73)	(57)	(6)	(7)	(70)
Recovery of debt written off in previous years	-	-	-	-	-	-	-	-
Amount charged to statement of profit and loss	6	60	1	67	26	36	(7)	55
Debt write-off	-	(47)	-	(47)	(6)	(24)	-	(30)
Balance of provision as of period end	852	2,213	223	3,288	836	1,901	173	2,910
Includes - Balance of provision that was not deducted from loans to the public	-	129	-	129	-	114	-	114

	For the 6 months ended June 30, 2009				For the 6 months ended June 30, 2008			
	Specific provision (1)		Supplementary provision (2)	Total	Specific provision (1)		Supplementary provision (2)	Total
	By extent of arrears	Other			By extent of arrears	Other		
Balance of provision as of period start	834	2,148	194	3,176	821	1,917	172	2,910
Transfer	-	-	-	-	-	(3) (8)	-	(8)
Provisions during reported period	142	158	30	330	160	83	8	251
Decrease in provisions	(124)	(18)	(1)	(143)	(132)	(15)	(7)	(154)
Recovery of debt written off in previous years	-	(1)	-	(1)	-	(1)	-	(1)
Amount charged to statement of profit and loss	18	139	29	186	28	67	1	96
Debt write-off	-	(74)	-	(74)	(13)	(75)	-	88
Balance of provision as of period end	852	2,213	223	3,288	836	1,901	173	2,910
Includes - Balance of provision that was not deducted from loans to the public	-	129	-	129	-	114	-	114

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

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 June 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	42,769	994	553	844	-	844
Large loans (5)	4,804	90	27	8	13	21
Other loans	594	22	10	-	25	25
Total	48,167	1,106	590	852	38	890

				For the period ended June 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	37,843	1,098	542	830	-	830
Large loans (5)	2,958	101	29	6	10	16
Other loans	704	42	9	-	15	15
Total	41,505	1,241	580	836	25	861

(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 851 thousand (as of June 30, 2008 - NIS 828 thousand).

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

Reported amounts (NIS in millions)

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

1. Bank capital for calculating minimum capital ratio (1)	
Tier I capital:	
Paid-up share capital and capital reserves	2,026
Retained earnings (2)	4,299
Minority interest in shareholders' equity of subsidiaries	362
Amortization (3)	(109)
Total tier I capital	6,578
Upper Tier II capital (4)	1,843
Other Tier II capital	3,289
Deducted investments	(6)
Total capital	11,704

	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	9,828	7,190	2,638	-	-	528	48
Securities	8,188	(7) 5,972	1,381	-	835	1,111	100
Securities loaned or sold in repurchase agreements	828	828	-	-	-	-	-
Loans to the public (4)	91,875	7,952	77	21,015	62,831	73,354	6,602
Loans to the Government	310	310	-	-	-	-	-
Investment in affiliates	11	-	-	-	11	11	1
Buildings and equipment	1,461	-	-	-	1,461	1,461	131
Positive fair value of derivatives	2,339	69	1,704	-	566	907	82
Other assets	688	(8) 173	16	-	499	502	45
Total assets	115,528	22,494	5,816	21,015	66,203	77,874	7,009

(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 6 million deducted from capital.
(8) Includes NIS 108 million deducted from capital.

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

Reported amounts (NIS in millions)

	Balances (1)	Weighting of risk assets				Risk balances	Capital requirement (2)
		0%	20%	50%	100%		
2. Weighted credit risk balances by risk group							
Off-balance sheet instruments							
Transactions in which the balance represents credit risk	10,935	752	444	282	9,457	9,687	872
Financial derivatives	12,056	480	8,799	-	2,777	4,537	408
Others	294	-	176	-	118	153	14
Total off-balance sheet instruments	23,285	1,232	9,419	282	12,352	14,377	1,294
Total credit risk assets and capital requirement	138,813	23,726	15,235	21,297	78,555	92,125	8,303
Market risk						3,354	302
Total risk assets and capital requirements	138,813	23,726	15,235	21,297	78,555	95,605	8,605

3. Details of capital requirement for market risk:	
Interest risk	218
Share price risk	-
Exchange rate and inflation risk	73
Risk associated with options trading	11
Total capital requirement for market risk	302

4. Ratio of capital to risk elements(3)	in %
Ratio of Tier I capital to risk elements	6.88
Ratio of total capital to risk elements	12.24
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 June 30 are 11.7% and 11.6%, respectively (as of December 31 - 11.9% and 11.9%).

Note 4 – Capital adequacy in accordance with directives of the Supervisor of Banks
As of June 30, 2008 (unaudited)
Reported amounts (NIS in millions)

1. Bank capital for calculating minimum capital ratio (1)	
Tier I capital:	
Paid-up share capital and capital reserves	1,974
Retained earnings (2)	3,771
Amortization (3)	(37)
Total tier I capital	5,708
Upper Tier II capital (4)	1,217
Other Tier II capital	2,856
Total capital	9,781

		Weighting of risk assets					
	Balances (5)	0%	20%	50%	100%	Risk balances	Capital requirement (6)
2. Weighted credit risk balances by risk group							
Assets							
Cash and deposits with banks	10,439	3,689	6,750	-	-	1,350	122
Securities	4,432	2,486	1,251	-	695	945	85
Securities loaned or sold in repurchase agreements	28	28	-	-	-	-	-
Loans to the public (4)	77,417	5,887	115	19,097	52,318	61,890	5,570
Loans to the Government	3	3	-	-	-	-	-
Investment in affiliates	17	(7) 7	-	-	10	10	1
Buildings and equipment	1,258	-	-	-	1,258	1,258	113
Positive fair value of derivatives	3,216	-	2,197	-	1,019	1,458	131
Other assets	796	(8) 89	-	-	707	707	64
Total assets	97,606	12,189	10,313	19,097	56,007	67,618	6,086

(1) There is no difference between the basis of consolidation according to accounting rules and the supervisory basis of consolidation according to instructions of the Supervisor of Banks with regard to minimum capital ratio.
(2) Including foreign currency translation adjustment of autonomous overseas units.
(3) Includes goodwill.
(4) The general provision for doubtful debts of NIS 107 million represents part of Tier II capital and is not deducted from loans to the public.
(5) Assets - balance sheet balances; off-balance sheet instruments - balance of stated values weighted by the conversion coefficients for loans.
(6) Capital requirement was calculated at a rate of 9%, in accordance with instructions of the Supervisor of Banks.
(7) Deducted from capital.
(8) Includes NIS 24 million deducted from capital.

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

Reported amounts (NIS in millions)

	Balances (1)	Weighting of risk assets				Risk	Capital
		0%	20%	50%	100%	balances	requirement (2)
2. Weighted credit risk balances by risk group							
Off-balance sheet instruments							
Transactions in which the balance represents credit risk	9,908	174	452	280	9,002	9,232	831
Financial derivatives	13,005	-	9,351	-	3,654	5,524	497
Others	389	-	245	-	144	193	17
Total off-balance sheet instruments	23,302	174	10,048	280	12,800	14,949	1,345
Total credit risk assets and capital requirement	120,908	12,363	20,361	19,377	68,807	82,567	7,431
Market risk	2,091	-	-	-	2,091	2,091	188
Total risk assets and capital requirements	122,999	12,363	20,361	19,377	70,898	84,658	7,619

3. **Details of capital requirement for market risk:**	
Interest risk	148
Share price risk	1
Exchange rate and inflation risk	17
Risk associated with options trading	22
Total capital requirement for market risk	188

4. **Ratio of capital to elements of risk**	in %
Ratio of Tier I capital to risk elements	6.74
Ratio of total capital to risk elements	11.55
Total minimum capital ratio required by the Supervisor of Banks	9.00

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

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

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

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

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

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

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

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

Note 4 – Capital adequacy in accordance with directives 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.

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

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	6,220	1,537	1,662	137	272	-	9,828
Securities	1,696	1,666	2,791	1,536	71	(3) 428	8,188
Securities loaned or sold in conjunction with repurchase agreements	828	-	-	-	-	-	828
Loans to the public (2)	45,326	33,107	8,342	2,144	2,846	-	91,765
Loans to the Government	-	1	309	-	-	-	310
Investments in affiliates	26	-	-	-	-	(15)	11
Buildings and equipment	-	-	-	-	-	1,461	1,461
Other assets	2,022	312	353	65	126	149	3,027
Total assets	56,118	36,623	13,457	3,882	3,315	2,023	115,418
Liabilities							
Deposits from the public	51,025	23,129	12,495	4,180	2,915	-	93,744
Deposits from banks	117	935	874	43	67	-	2,036
Deposits from the Government	6	185	38	-	-	-	229
Debentures and subordinated notes	-	7,697	-	-	-	-	7,697
Other liabilities	3,507	554	478	126	147	213	5,025
Total liabilities	54,655	32,500	13,885	4,349	3,129	213	108,731
Difference	1,463	4,123	(428)	(467)	186	1,810	6,687
Non-hedging financial derivatives:							
Derivatives (except for options)	3,775	(4,792)	688	523	(194)	-	-
Net in-the-money options (in terms of underlying asset)	(90)	-	157	(121)	78	(24)	-
Net out-of-the-money options (in terms of underlying asset)	153	-	(226)	75	(24)	22	-
Total	5,301	(669)	191	10	46	1,808	6,687
Net in-the-money options (capitalized par value)	(658)	-	435	(153)	(104)	480	-
Net out-of-the-money options (capitalized par value)	(763)	-	(81)	1,135	(235)	(56)	-

(1) Includes amounts linked to foreign currency.
(2) The general, special and supplementary provisions for doubtful debts were deducted ratably from the various linkage categories.
(3) Includes NIS 323 million for shares received to secure credit. See also Note 2.

Note 5 – Consolidated statement of assets and liabilities by linkage basis
As of June 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	2,038	580	5,252	2,341	228	-	10,439
Securities	363	834	1,291	1,491	46	(3) 407	4,432
Securities loaned or sold in conjunction with repurchase agreements	28	-	-	-	-	-	28
Loans to the public (2)	31,924	33,882	6,865	2,017	2,622	-	77,310
Loans to the Government	-	2	1	-	-	-	3
Investments in affiliates	25	-	-	-	-	(8)	17
Buildings and equipment	-	-	-	-	-	1,258	1,258
Other assets	3,120	368	277	85	95	67	4,012
Total assets	37,498	35,666	13,686	5,934	2,991	1,724	97,499
Liabilities							
Deposits from the public	35,306	20,452	11,270	3,330	2,570	-	72,928
Deposits from banks	2,837	1,599	783	274	127	-	5,620
Deposits from the Government	-	222	34	-	-	-	256
Debentures and subordinated notes	-	6,649	-	-	-	-	6,649
Other liabilities	4,850	674	403	92	121	185	6,325
Total liabilities	42,993	29,596	12,490	3,696	2,818	185	91,778
Difference	(5,495)	6,070	1,196	2,238	173	1,539	5,721
Non-hedging financial derivatives:							
Derivatives (except for options)	8,004	(5,429)	(780)	(1,507)	(288)	-	-
Net in-the-money options (in terms of underlying asset)	935	-	(571)	(394)	6	24	-
Net out-of-the-money options (in terms of underlying asset)	164	-	28	(215)	55	(32)	-
Total	3,608	641	(127)	122	(54)	1,531	5,721
Net in-the-money options (capitalized par value)	(1,151)	-	1,072	66	11	2	-
Net out-of-the-money options (capitalized par value)	(371)	-	(306)	399	216	62	-

(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 281 million for shares received to secure credit. See also Note 2.

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

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

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

Note 6 - Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

	June 30, 2009 (unaudited)	June 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	510	769	531
- Loan guarantees	3,775	2,741	3,618
- Guarantees to purchasers of homes	5,387	5,986	5,827
- Other guarantees and liabilities (1)	4,032	4,561	4,208
- Unutilized revolving credit card facilities (2)	12,673	(3) 10,398	(3) 11,878
- Unutilized debitory account and other credit facilities in accounts available on demand	17,827	(3) 20,256	17,945
- Irrevocable commitments for loans approved but not yet granted	5,274	4,477	3,834
- Commitments to provide credit to savers	1,747	1,733	1,704
- Commitments to issue guarantees	2,493	3,800	3,136

	June 30, 2009 (unaudited)	December 31, 2008 (audited)
B. Special commitments		
Liabilities in respect of:		
Long-term rental contracts	397	392
Computerization and software services contracts	56	72
Acquisition of buildings and their renovation	17	15
Receipt of deposits on future dates (4)	5	5

(1) Includes the Bank's liabilities for its share in the risks fund of the MAOF Clearinghouse of NIS 82 million (as of June 30, 2008 and December 31, 2008 - NIS 153 million and NIS 146 million, respectively).
(2) May be unconditionally terminated at any time.
(3) Restated.
(4) 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.

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

In February 2009, the Court dismissed the plaintiffs' motion for recognition as a class action. In March 2009, the plaintiffs appealed the Court decision.

Bank management believes, based on the opinion of legal counsel, that prospects of success for the plaintiffs are remote.

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

The plaintiffs claim that banks are in breach of the restrictive trade practices statute, with restrictive practices leading to reduced competition among banks with regard to various commissions. The banks, according to the claim, have shared information with regard to the various commissions they charge. The plaintiffs claim that this impacted competition in the banking sector, and customers, such as the plaintiffs, have been charged higher commissions than they would have paid had the banks acted lawfully.

According to the Bank, and to evidentiary material submitted by the Antitrust Supervisor, it would appear that commissions charged by the Bank to households and small businesses were primarily impacted by the 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.

Note 6 - Contingent Liabilities and Special Commitments (continued)

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 204 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.

A. Two motions are pending and open in District Court and the Supreme Court to recognize as class actions two legal actions against the Bank and other mortgage banks totaling more than one and one-half billion NIS. The specific amount demanded from each Bank was not stated.
In the actions, it was principally argued that the banks unlawfully collected commissions on property insurance and life insurance of borrowers and engaged in insurance brokerage, that the mortgage banks over-charged for insurance premiums, and that the banks and insurers are parties to a cartel which results in borrowers having to pay higher insurance premiums than they would pay for similar policies on the free market.

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

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

B. In August 2008, a claim was filed at the Jerusalem District Court against the Bank and against Mizrahi Provident Fund Management Company Ltd., along with an application for class action status – in the amount of NIS 374 million.

Note 6 - Contingent Liabilities and Special Commitments (continued)

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 the transfer of control of provident fund assets, management and trusteeship there for to management and control by management companies, in lieu of transferring them to provident fund account holders, pro rata to their share of fund assets since, according to his claim, these proceeds are the fruit generated by the provident fund assets and arise from rights associated with these assets, therefore, according to the claim, this profit belongs to provident fund account holders rather than to the Bank.

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

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

C. In November 2008, a claim was filed with the Tel Aviv District Court, including an application for class action status, amounting to NIS 130 million, stating collection of commission for cancellation or failure to honor a standing order, collection of commission for a transaction cancelled by the Bank, collection of commission for provision of information or for cash withdrawal when the account owner has no charge card, collection of securities management fee and failure to charge it as a tax deductible expense, and charging of tax on a foreign currency deposit to a checking account.

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

Note 6 - Contingent Liabilities and Special Commitments

D. In November 2008, a claim was filed with the Tel Aviv District Court, including an application for class action status, amounting to NIS 68 million, against the Bank, Bank Leumi Le-Israel Ltd., First International Bank of Israel Ltd. and Bank Igud Ltd. for alleged over collection of tax on interest and dividend revenues by way of tax withholding. The plaintiff claims that the banks named in the claim over charge their customers who own bonds or stocks (the source of revenue) by not deducting the commission on said revenue prior to withholding tax.

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

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

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

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

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

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

Note 6 - Contingent Liabilities and Special Commitments

4) On April 26, 2009, the Bank received a determination by the Anti-Trust Supervisor pursuant to Section 43(a)(1) of the Anti-Trust Act, 1988, whereby restrictive trade practices existed between the Bank and Bank Hapoalim Ltd., Bank Leumi Le-Israel Ltd., Bank Discount Le-Israel Ltd. and First International Bank of Israel Ltd., with regard to commission-related information sharing, since the early 1990s through commencement of the Supervisor inquiry into this matter, on November 2004.
   By law, the Bank is entitled to appeal this determination by September 1, 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.3)f above.

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

	June 30, 2009				
	Interest contracts				Commodities and other contracts
	NIS - CPI	Other	Currency contracts	Contracts for shares	(unaudited)
1. Stated amounts of financial derivatives					
A. Hedging derivatives (1)					
Forward contracts	1,265	-	-	-	-
Swaps	-	1,794	-	-	-
Total	1,265	1,794	-	-	-
Includes interest rate swaps on which the Bank agrees to pay a fixed interest rate	-	1,570	-	-	-
B. ALM derivatives (1) (2)					
Forward contracts	8,113	5,334	42,071	347	253
Option contracts traded on stock exchange:					
Options written	-	-	311	-	-
Options purchased	-	-	337	-	-
Other option contracts:	-	-			
Options written	-	-	12,631	222	-
Options purchased	-	-	13,740	201	-
Swaps	20,155	14,416	5,230	-	-
Total	28,268	19,750	74,320	770	253
Includes interest rate swaps on which the Bank agrees to pay a fixed interest rate	8,465	10,659	-	-	-
C. Other derivatives (1)					
Forward contracts	-	-	2,259	-	-
Option contracts traded on stock exchange:					
Options written	-	-	1,978	6,117	1
Options purchased	-	-	1,978	6,117	1
Other option contracts:					
Options written	-		1,168	450	-
Options purchased	-	19	1,173	275	-
Total	-	19	8,556	12,959	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

	June 30, 2009				
	Interest contracts				Commodities and other contracts
	NIS - CPI	Other	Currency contracts	Contracts for shares	
					(unaudited)
D. Credit derivatives and foreign currency spot swaps					
Credit derivatives in which the Bank is guarantor	-	-	-	-	999
Credit derivatives in which the Bank is beneficiary	-	-	-	-	53
Foreign currency spot swap contracts	-	-	2,342	-	-
Total	-	-	2,342	-	1,052
2. Fair value, gross, of financial derivatives					
A. Hedging derivatives (1)					
Positive fair value, gross	15	25	-	-	-
Negative fair value, gross	29	142	-	-	-
B. ALM derivatives (1) (2)					
Positive fair value, gross	557	120	1,220	52	2
Negative fair value, gross	614	153	848	55	3
C. Other derivatives (1)					
Positive fair value, gross	-	-	257	88	-
Negative fair value, gross	-	-	255	87	-
D. Credit derivatives					
Credit derivatives in which the Bank is guarantor					
Negative fair value, gross	-	-	-	-	59
Credit derivatives in which the Bank is beneficiary					
Positive fair value, gross	-	-	-	-	5

(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

	Interest contracts				June 30, 2008
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts
					(unaudited)
.1Stated amounts of financial derivatives					
A. Hedging derivatives (1)					
Forward contracts	1,256	-	-	-	-
Swaps	-	1,014	-	-	-
Total	1,256	1,014	-	-	-
Includes interest rate swaps on which the Bank agrees to pay a fixed interest rate	-	910	-	-	-
B. ALM derivatives (1) (2)					
Futures contracts	-	-	165	-	-
Forward contracts	10,275	1,697	45,204	740	182
Option contracts traded on stock exchange:					
Options written	-	-	447	-	-
Options purchased	-	-	347	-	-
Other option contracts:					
Options written	-	-	16,850	990	-
Options purchased	-	-	18,022	1,049	-
Swaps	14,324	17,684	4,538	-	-
Total	24,599	19,381	85,573	2,779	182
Includes interest rate swaps on which the Bank agrees to pay a fixed interest rate	8,525	10,844	-	-	-
C. Other derivatives (1)					
Forward contracts	-	-	93	-	-
Option contracts traded on stock exchange:					
Options written	-	-	1,877	10,998	1
Options purchased	-	-	1,924	10,998	1
Other option contracts:					
Options written	-	1,933	5,393	1,967	-
Options purchased	-	1,933	5,413	1,951	-
Swaps					
Total	-	3,866	14,700	25,914	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

	June 30, 2008				
	Interest contracts				Commodities and other contracts
	NIS - CPI	Other	Currency contracts	Contracts for shares	
					(unaudited)
D. Credit derivatives and foreign currency spot swaps					
Credit derivatives in which the Bank is guarantor	-	-	-	-	687
Foreign currency spot swap contracts	-	-	2,641	-	-
Total	-	-	2,641	-	687
2. Fair value, gross, of financial derivatives					
A. Hedging derivatives (1)					
Positive fair value, gross	1	16	-	-	-
Negative fair value, gross	39	20	-	-	-
B. ALM derivatives (1) (2)					
Positive fair value, gross	311	119	2,319	97	2
Negative fair value, gross	305	222	2,694	95	2
C. Other derivatives (1)					
Positive fair value, gross	-	28	174	153	-
Negative fair value, gross	-	28	169	171	-
D. Credit derivatives					
Credit derivatives in which the Bank is guarantor					
Positive fair value, gross	-	-	-	-	-
Negative fair value, gross	-	-	-	-	16

(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				
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other 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

	Interest contracts NIS - CPI	Interest contracts Other	Currency contracts	Contracts for shares	Commodities and other contracts
					December 31, 2008 (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

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

					June 30, 2008
	Stock exchanges	Banks	Dealers/ Brokers	Others	Total
					(unaudited)
Positive fair value, gross, of financial derivatives (1)	144	2,197	46	833	3,220
Off-balance sheet credit risk on financial derivatives	44	9,351	289	3,321	13,005
Total credit risk on financial derivatives	188	11,548	335	4,154	16,225

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

(1) Of which positive gross fair value of embedded derivatives amounting to NIS 2 million (as of December 31, 2008 – NIS 2 million; as of June 30, 2008 - NIS 4 million) and a balance-sheet balance of stand-alone derivatives amounting to NIS 2,339 million, included under "other assets" (as of December 31, 2008 - NIS 3,385 million; as of June 30, 2008 - NIS 3,216 million).

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

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

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

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

				June 30, 2008 (unaudited)	
Total	95,682	65,365	15,232	6,315	182,594

				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 3 months ended June 30		For the 6 months ended June 30	
	2009	2008	2009	2008
		(unaudited)		(unaudited)
A. In respect of assets (1)				
From loans to the public	921	1,052	2,503	1,383
From loans to the Government	-	-		-
From deposits with the Bank of Israel and from cash	(140)	(24)	(61)	(45)
From deposits with banks	(84)	(488)	7	(861)
From securities loaned or sold in repurchase agreement	-	1	1	1
From debentures	(134)	(106)	165	(226)
	563	435	2,615	252
B. In respect of liabilities (1)				
On deposits from the public	16	54	(1,719)	724
On deposits from the government	(2)	(5)	(7)	(5)
On deposits from the Bank of Israel and from cash	-	(5)	-	(7)
On deposits from banks	(32)	(14)	213	78
Securities loaned or sold in conjunction with re-purchase agreements	-	-	-	-
On debentures and subordinated notes	(261)	(228)	(294)	(331)
	(279)	(198)	(1,807)	459
C. In respect of financial derivatives and hedging activities				
Net revenues (expenses) from ALM derivatives (2)	99	87	100	(14)
Net revenues from other derivatives	109	125	102	208
	208	212	202	194
D. Other				
Commissions from financing transactions	26	21	48	45
Financing revenues from collection of interest on arrears from individual borrowers	6	13	17	24
Interest income on problem loans	21	19	44	49
Gain (loss) from sale of debentures, net (3)	(4)	-	2	(5)
Other financing profit	33	61	46	101
Other financing expenses	(10)	(9)	(19)	(16)
	72	105	138	198
Total profit from financing operations before provision for doubtful debts	564	554	1,148	1,103
Includes: exchange rate differences, net	20	(18)	25	(33)
Details of net effect of hedging financial derivatives on profit from financing operations				
Financing revenues (expenses) for assets (section A)	(9)	37	1	16

(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.
Includes provision for impairment of debentures held for sale amounting to NIS 38 million in the first half of 2009, compared to NIS 19 million in the corresponding period last year.

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

Reported amounts (NIS in millions)

	For the 3 months ended June 30		For the 6 months ended June 30	
	2009	2008	2009	2008
		(unaudited)		(unaudited)
Gain from sale of shares available for sale, net	-	14	-	17
Provision for impairment of shares available for sale	(3)	(1)	(7)	(1)
Dividends from shares available for sale	14	12	14	17
Total profits from investments in shares, net	11	25	7	33

Note 10 – Operating Segments
For the 6 months ended June 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
	(un-audited)						
Profit from financing operations before							
From outside operating segments	1,148	(26)	146	101	341	(562)	1,148
Inter-segment	(596)	50	6	(28)	(37)	605	-
Profit from financing operations before	552	24	152	73	304	43	1,148
Operating and other revenues	386	26	97	21	53	68	651
Total revenues	938	50	249	94	357	111	1,799
Provision for doubtful debts	56	1	36	6	87	-	186
Operating and other expenses							
From outside operating segments	737	24	193	30	104	113	1,201
Inter-segment	(49)	-	(20)	30	35	4	-
Other operating expenses - total	688	24	173	60	139	117	1,201
Operating profit (loss) before taxes	194	25	40	28	131	(6)	412
Provision for taxes on operating profit	69	9	15	9	46	(4)	144
After-tax operating profit (loss)	125	16	25	19	85	(2)	268
Minority interest in net after-tax operating profits of subsidiaries	-	-	-	-	-	(8)	(8)
Net profit (loss)	125	16	25	19	85	(10)	260
Return on equity	8.3%	54.6%	15.8%	14.3%	8.8%	(5.4%)	8.7%
Average balance of assets	54,601	1,676	4,949	4,156	28,213	22,200	115,795
Average balance of liabilities	46,954	6,445	6,713	2,213	14,920	31,896	109,141
Average balance of risk assets(1)	48,268	981	4,918	4,100	29,348	8,545	96,160
Average balance of provident and mutual	-	-	-	-	-	57,878	57,878
Average balance of securities	17,259	6,690	10,581	1,652	40,338	21,257	97,777
Credit to the public (end balance)	58,399	1,894	4,986	4,135	22,351	-	91,765
Deposits from the public (end balance)	47,153	6,670	6,372	2,086	12,916	18,547	93,744
Average balance of other assets managed	22,601	-	289	38	120	-	23,048

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

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	325	9	116	57	200	-	707
Margin from receiving deposits	186	14	17	4	43	-	264
Other	41	1	19	12	61	43	177
Total	552	24	152	73	304	43	1,148

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

Note 10 – Operating Segments
For the 6 months ended June 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
	(un-audited)						
Profit from financing operations before provision for doubtful debts							
From outside operating segments	1,156	(77)	(116)	132	400	(392)	1,103
Inter-segment	(659)	106	276	(58)	(136)	471	-
Profit from financing operations before provision for doubtful debts	497	29	160	74	264	79	1,103
Operating and other revenues	311	28	86	23	78	57	583
Total revenues	808	57	246	97	342	136	1,686
Provision for doubtful debts	48	-	26	(1)	23	-	96
Operating and other expenses							
From outside operating segments	541	37	192	30	96	105	1,001
Inter-segment	(49)	1	(19)	26	30	11	-
Other operating expenses - total	492	38	173	56	126	116	1,001
Pre-tax operating profit	268	19	47	42	193	20	589
Provision for taxes on operating profit	101	7	18	16	74	7	223
Net profit	167	12	29	26	119	13	366
Return on equity	13.6%	49.4%	18.0%	20.1%	13.1%	4.4%	13.4%
Average balance of assets	46,630	1,402	4,881	4,209	22,429	16,728	96,279
Average balance of liabilities	32,120 (1)	6,338	6,338 (1)	2,090	13,931	29,709 (1)	90,526
Average balance of risk assets(2)	37,854	806	4,940	4,070	28,002	8,745	84,417
Average balance of provident and mutual fund assets	-	-	-	-	-	45,492	45,492
Average balance of securities	15,231	3,628	13,222	1,799	37,612	24,108	95,600
Credit to the public (end balance)	47,644	1,171	4,692	4,214	19,589	-	77,310
Deposits from the public (end balance)	32,224	5,808	6,545 (1)	1,988	12,197	14,166 (1)	72,928
Average balance of other assets managed	16,793	-	158	21	176	-	17,148

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	263	12	101	49	158	-	583
Margin from receiving deposits	172	16	38	9	59	-	294
Other	62	1	21	16	47	79	226
Total	497	29	160	74	264	79	1,103

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

Note 10 – Operating Segments
For the 3 months ended June 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
	(un-audited)						
Profit from financing operations before provision for doubtful debts							
From outside operating segments	737	(13)	95	56	123	(434)	564
Inter-segment	(443)	24	(18)	(19)	24	432	-
Profit from financing operations before provision for doubtful debts	294	11	77	37	147	(2)	564
Operating and other revenues	195	13	48	10	30	38	334
Total revenues	489	24	125	47	177	36	898
Provision for doubtful debts	24	1	13	5	24	-	67
Operating and other expenses							
From outside operating segments	367	12	95	14	50	58	596
Inter-segment	(27)	-	(11)	17	19	2	-
Other operating expenses - total	340	12	84	31	69	60	596
Operating profit (loss) before taxes	125	11	28	11	84	(24)	235
Provision for taxes on operating profit (loss)	42	4	11	3	29	(10)	79
After-tax operating profit (loss)	83	7	17	8	55	(14)	156
Minority interest in net after-tax operating profit of subsidiaries	(3)	-	-	-	-	(3)	(6)
Net profit (loss)	80	7	17	8	55	(17)	150
Return on equity	10.5%	51.6%	21.3%	12.7%	13.0%	(11.6%)	10.1%

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	181	5	60	31	94	-	371
Margin from receiving deposits	93	6	7	2	22	-	130
Other	20	-	10	4	31	(2)	63
Total	294	11	77	37	147	(2)	564

Note 10 – Operating Segments
For the 3 months ended June 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
	(un-audited)						
Profit from financing operations before							
From outside operating segments	867	(18)	(95)	72	189	(461)	554
Inter-segment	(606)	31	179	(37)	(69)	502	-
Profit from financing operations before	261	13	84	35	120	41	554
Operating and other revenues	154	12	43	10	48	33	300
Total revenues	415	25	127	45	168	74	854
Provision for doubtful debts	36	-	11	(1)	9	-	55
Operating and other expenses							
From outside operating segments	279	18	89	14	52	48	500
Inter-segment	(24)	1	(9)	13	15	4	-
Other operating expenses - total	255	19	80	27	67	52	500
Pre-tax operating profit	124	6	36	19	92	22	299
Provision for taxes on operating profit	46	2	14	8	35	8	113
Net profit	78	4	22	11	57	14	186
Return on equity	12.7%	32.4%	25.2%	17.9%	13.0%	10.1%	13.7%

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	130	6	54	25	79	-	294
Margin from receiving deposits	92	7	19	4	23	-	145
Other	39	-	11	6	18	41	115
Total	261	13	84	35	120	41	554

(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	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	-	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 computed for capital adequacy.

Note 11 – Other matters

A. On March 29, 2009, the Bank Board of Directors, after obtaining approval of the Bank Audit Committee, decided to approve a plan for allotment of option warrants by private placement which does not constitute a material private placement (hereinafter: "the plan") to nine officers of the Bank who are VP members of Bank management (of which one offeree who had served as VP, took unpaid leave from the Bank and currently serves as the CEO of Bank Yahav for Government Employees Ltd.) (hereinafter: "the offerees"). The Board of Directors further decided, after obtaining approval of the Audit Committee, that allotment of the option warrants is contingent on the Supervisor of Banks allowing the Bank 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 consent, 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. The expected period for share buy-back would start soon after publication of the Bank's financial statements for the second quarter of 2009, and would end no later than October 15, 2009.
Share buy-back would be executed on three dates during the aforementioned period. For this purpose, "date" means a period of no more than 14 trading days on the stock exchange. The share buy-back would be transacted during trading on the stock exchange or by transactions off the stock exchange.

Note 11 – Other matters

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 resolved to review 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 may decide to discontinue share buy-back pursuant to the share buy-back program at any time, subject to the Bank notifying the Supervisor of Banks of this fact. The decision by the Board of Directors to approve the share buy-back program as set forth above does not obligate the Bank to effect the share purchase, in whole or in part.

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.

Note 11 – Other matters

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. 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.

Note 11 – Other matters

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

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

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

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

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.

Note 11 – Other matters

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 of a non-material amount for retirement cost of Bank Adanim employees, based on management expectations as of the date of publication of these financial statements.

C. On July 19, 2005, after approval by the Bank's Audit Committee and Board of Directors, 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.

Note 11 – Other matters

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

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.

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.

Note 11 – Other matters

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 half 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 November 15, 2006, Ma'alot Israel Securities Rating Company Ltd. ("Ma'a lot") issued a rating of (AA-) for the subordinated notes issued. The rating of the subordinated notes in its offering is based on the rating of the Bank's debentures, including subordinated notes, which are rated (AA+), with the changes required by the terms of the subordinated notes. Note, that should the Bank issue in future complex tier I capital, the Bank would maintain an original tier I capital ratio (excluding the complex tier I capital) of no less than 6%. On May 16, 2007, the same rating was approved for capital notes allocated, pursuant to the published prospectus for listing them for trading.
On April 5, 2009, Ma'alot announced that in conjunction with a review by S&P of ratings of hybrid instruments world wide, including in Israel, in view of the global financial crisis, the rating of the subordinated capital notes was lowered from (AA-) to (A+).

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 to be recorded in the Bank's financial statements for the third quarter of 2009 in respect of its portion of the sold shares is expected to amount to NIS 24 million after tax.

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, which would be included in financial statements for the third quarter of 2009.