Condensed Financial Statements as of June 30, 2014

Table of Contents

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

Additional disclosures with regard to composition of capital under Basel III, Pillar 3 are provided on the Bank website: www.mizrahi-tefahot.co.il/en >> Financial reports

Condensed Board of Directors' Report for Financial Statements as of June 30, 2014

Table of Contents

Condensed Board of Directors' Report for Financial Statements as of June 30, 2014

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on August 13, 2014, 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 of June 30, 2014.

The financial statements are compiled in accordance with generally accepted accounting policies in Israel for interim financial reporting, and in accordance with directives and guidance from the Supervisor of Banks.

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

Developments in Israel's economy in the first half of 2014

Real Developments

Macro-economic data for the first half of 2014 indicate more moderate growth in economic activity:

In the first quarter of 2014, GDP grew at an annualized 2.9%, compared to 3.3% in the fourth quarter of 2013 and to in all of 2013. GDP growth in the first quarter was more moderate due to lower investment in fixed assets and stagnant private consumption. The Bank of Israel Composite Index increased in the second quarter of this year at an annualized rate of 1.8%, compared to an annualized increase of 1.6% in the first quarter of 2014 and an increase of 3.1% in all of 2013.

Exports of goods (annualized trend in USD, excluding ships, airplanes and diamonds) decreased in the second quarter of 2014 by 13.9% compared to the previous quarter, following a decrease of 2.5% in the first quarter of this year. Imports of goods (annualized trend in USD, excluding ships, airplanes, diamonds and energy) increased in the second quarter of 2014 by a moderate 0.1%, after an increase by 4.8% in the final quarter of 2014. The trade deficit in the first half of 2014 amounted to USD 6.5 billion, compared to USD 6.0 billion in the corresponding period last year - an increase of 7.9%.

Trend data for the economic sector turnover index indicate a continuous decline year-to-date, reflecting more moderate demand. The retail chain turnover index and the Credit card purchase index increased only moderately in the first five months of this year. In addition, lower industrial output continued, primarily due to the negative effect of lower high-tech output. The purchasing manager index showed continued recovery in the first five months of this year, but in June this benchmark dropped sharply to 48.9 points - indicating a decline in activity.

The unemployment rate remained stable in the first half of 2014 at 5.9% in May 2014 - similar to its level in December 2013. This is concurrent with higher participation in the labor force, from 63.6% in December 2013 to 64.1% in May 2014.

Economic activity in the South and Center of Israel was partially paralyzed during the Tzuk Eytan military operation. The cost of combat and compensation to date is estimated at NIS 7-8 billion. According to preliminary estimates by the Ministry of Finance, business shutdown and lower business activity in the tourism, restaurant and small business sectors resulted in loss of GDP estimated at NIS 4-5 billion (0.4% of annual GDP). The budgetary implications and long-term effect on GDP are currently unknown.

In view of the foregoing, in July 2014 the Supervisor of Banks issued a range of concessions for the public with accounts located near the front line. For details, see the chapter on Legislation and Supervision of Bank Group Operations.

Inflation and exchange rates

In the first half of 2014, the Consumer Price Index remained unchanged, compared to a increase of 1.3% in the corresponding period last year. The CPI was primarily impacted by lower prices of fruits and vegetables, food, clothing and footwear offset by higher prices for the housing services component. In the twelve months ended June 2014, the CPI increased by only 0.5%.
The known CPI decreased in the first half of 2014 by 0.2%, compared to an increase of 0.7% in the corresponding period last year.

Below is information about official exchange rates and changes there to:

	June 30, 2014	December 31, 2013	Change (in %)
Exchange rate of:			
USD (in NIS)	3.438	3.471	(1.0)
EUR (in NIS)	4.694	4.782	(1.8)

On August 8, 2014, the USD/NIS exchange rate was 3.476. On that date, the EUR/NIS exchange rate was 4.650.
In support of the exchange rate, the Bank of Israel purchased foreign currency valued at USD 5.2 billion in the first half of 2014, after purchasing USD 5.3 billion in all of 2013 (of which: foreign currency purchases to offset the effect on exchange rates of natural gas production from the Tamar reservoir, amounted to USD 2.0 billion in the first half of 2014, compared to USD 2.1 billion in all of 2013).

Monetary and fiscal policies

In the first quarter of 2014, the Bank of Israel lowered its interest rate once, from 1.00% at the end of 2013 to 0.75% in March 2014 - given the inflation rate which is below the center of the stability target band, the strong NIS and continuing expansive monetary policy in major economies.

On July 28, 2014, the Bank of Israel once again lowered its interest rate to 0.5%. According to the announcement by the Bank of Israel, the decision to lower the interest rate is consistent with a monetary policy designed to converge the inflation rate and the price stability target over the coming twelve months and to support growth while maintaining financial stability.

In the first half of 2014, the government budget recorded a NIS 4.0 billion cumulative deficit, compared to a NIS 10.2 billion cumulative deficit in the corresponding period last year. In the twelve months ended June 2014, the cumulative deficit as a percentage of GDP was 2.5%, compared to 3.2% in all of 2013. Tax revenues increased in the first half of 2014 by 8.8% over the year-ago period, while Government expenditure increased by 3.0% in the same period.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in the first five months of 2014 demand for new apartments (apartments sold and apartments constructed not for sale, net of seasonal effects) was 15,880 apartments, a decrease of 13.9% over the corresponding period last year and a decrease of 5.1% over the corresponding period in 2012. This is apparently also due to uncertainty in the market with regard to Government plans and their implementation (such as "0% VAT" and Target Price tenders). In this period, all regions recorded a decrease in demand for housing (except for the North region, which was unchanged); the most significant decline, at 16.5%, was in the Center region. Based on the average pace of sales in the six months ended May 2014, the housing inventory would account for 12.9 months' sales - compared to 12.1 months in December 2013. In the first half of 2014, housing loan origination to the public amounted to NIS 25.5 billion, similar to the corresponding period last year. Loan origination was impacted by a 1.7% decrease in volume of housing loan origination along with higher housing prices.

According to data from the Central Bureau of Statistics, after a slower increase in housing prices, in terms of the past twelve months, from 10.2% in June 2013 to 7.1% in January 2014, the increase in housing prices accelerated to 8.8% in April 2014.

Capital market

In the second quarter of 2014, equity markets turned negative, with most benchmarks being lower, after rising since the third quarter of 2013.

Here is information about returns in the equity market (in percent):

CPI	Return in second quarter of 2014	Return in first half of 2014	Return in all of 2013
Tel Aviv 25	(1.0)	4.4	12.1
Tel Aviv 100	(2.3)	3.7	15.1
Real Estate 15	(0.1)	2.8	26.0
Yeter 50	(2.8)	0.9	35.6
Finance 15	(3.3)	(2.3)	18.8
Tel Aviv Banking	(2.4)	(2.8)	16.3

Average daily trading volume in equities and convertible securities decreased in the second quarter of 2014 to NIS 1.103 billion, compared to NIS 1.296 billion in the first quarter of this year and an average quarterly volume of NIS 1.236 billion over the past four quarters. Total equity issuance (excluding overseas issuance) in the second quarter of 2014 amounted to NIS 1.8 billion, compared to NIS 4.0 billion in the first quarter of 2014 and an average quarterly volume of NIS 2.4 billion over the past four quarters.

Debenture market – the debenture market was positive in the second quarter of 2014. This was in continuation of the trend over the previous four quarters.

Here is information about returns in the debenture market (in percent):

CPI	Return in second quarter of 2014	Return in first half of 2014	Return in all of 2013
Debentures - general	1.8	3.9	5.4
Debentures - CPI-linked	2.7	4.8	3.0
Debentures - non-linked	2.3	4.3	4.0
Tel Bond 20	0.5	2.5	5.9
Tel Bond 40	0.1	1.8	6.9

The yield to maturity spread on corporate debentures over Government debentures started to increase late in the second quarter of 2014. Debentures rated AA traded at the end of the second quarter of 2014 at an average spread of 0.92 percentage points, compared to 0.75 percentage points at the end of the first quarter and 0.8 percentage points at the end of 2013. The yield to maturity spread on debentures rated A over Government debentures also expanded to 1.98 percentage points at the end of the second quarter, compared to 1.57 percentage points at the end of the first quarter and to 1.96 percentage points at the end of 2013.

Overall, in the second quarter of 2014 the business sector issued debentures valued at NIS 19.7 billion to the public and to institutional investors, following issues valued at NIS 9.3 billion in the first quarter of 2014 and average quarterly issues of NIS 11.5 billion over the past four quarters.

Average daily trading volume in debentures increased in the second quarter of 2014 to NIS 4.1 billion, compared to NIS 3.9 billion in the first quarter of 2014 and an average quarterly trading volume of NIS 3.9 billion over the past four quarters.

Global economy

US GDP contracted in the first quarter of 2014 at an annualized 2.9% after growing at 2.6% in the previous quarter. Growth was negatively impacted by a sharp decline in exports and investments and by a significant slow-down in private consumption. This followed severe weather conditions in the USA early this year. However, late in the first quarter and in the second quarter of this year, economic indicators in the USA were mostly positive, with continued improvement in industrial output, in retail, in private consumption, in the labor market and in expectation surveys. The recovery in the housing market was curtailed and housing starts decreased, primarily due to higher mortgage costs. The US Federal Reserve continued to scale down its purchase program; interest rates in the USA are expected to start rising in the first quarter of 2015.

In the first half of 2014, unemployment in the Euro Zone decrease moderately, from 11.8% in December 2013 to 11.6% in May 2014. The annualized inflation rate for the twelve months ended June 2014 was lower at a record low of 0.5%, compared to 1.6% in June of last year. Retail and industrial output benchmarks were also unimproved. However, the consumer confidence index and expectation surveys of industrialists indicate positive expectations. Against the backdrop of slow recovery of the Euro Zone economy, primarily given the low inflation, the ECB announced it would take several monetary steps to stimulate the European credit market: Interest in the Euro Zone was lowered by 0.1%, to 0.15% with negative interest at (-0.1%) for short-term deposits by commercial banks with the central bank; lower interest for loans taken by banks from the central bank, by 0.35 percentage points to a record low of 0.4%; establishment of a TLTRO fund (Targeted Longer-Term Refinancing Operation) of EUR 400 billion to provide credit to households (excluding mortgages) and to the business sector; purchase of asset-backed securities (ABS) from the banking system; the ECB further announced that these monetary steps would not be sterilized, so that the monetary base is expected to expand.

In the second quarter of 2014, growth in China was stable with GDP growing in the first quarter at 7.5%, compared to 7.4% in the previous quarter and 7.5% in the year-ago period. The annualized inflation rate in China for the twelve months ended June 2014 was lower at 2.3%. In the second quarter of 2014, improvement was recorded by export of goods, industrial output and retail sales. Expectation surveys also indicate recovery, resulting in higher readings on the business confidence and purchasing manager confidence benchmarks.

Key Data for Bank Group

Evolution of revenues and expenses

	For the quarter ended				
	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013
	NIS in millions				
Profit and Profitability					
Interest revenues, net	(1)923	(1)713	784	1,005	873
Non-interest financing revenues (expenses)	(2)	81	23	(90)	48
Commissions and other revenues	(1)345	(1)357	380	364	368
Total revenues	**1,266**	**1,151**	**1,187**	**1,279**	**1,289**
Expenses with respect to credit losses	23	(5)	5	68	181
Operating and other expenses	747	727	779	755	706
Profit before provision for taxes	496	429	403	456	402
Provision for taxes	187	158	140	143	145
Net profit (2)	**302**	**264**	**252**	**301**	**245**

	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013
	NIS in millions				
Balance sheet - key items					
Balance sheet total	188,158	184,754	179,613	173,332	170,603
Loans to the public, net	143,353	141,061	138,565	136,747	132,853
Securities	9,744	6,519	7,000	7,431	6,661
Deposits from the public	148,063	145,701	141,244	135,863	135,699
Debentures and subordinated notes	19,120	17,887	16,443	16,542	14,807
Equity (2)	10,418	10,130	9,852	9,574	9,341

	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013
Key financial ratios (in percent)					
Net profit return on equity(3)	12.3	11.0	10.8	13.3	11.1
Deposits from the public to loans to the public, net	103.3	103.3	101.9	99.4	102.1
Capital to total assets	5.54	5.48	5.49	5.52	5.48
Ratio of Tier I capital to risk elements	(5)9.00	(5)8.87	9.01	8.84	8.74
Total ratio of capital to risk elements	(5)13.05	(5)12.97	13.04	12.96	12.89
Cost income ratio(4)	59.0	63.2	65.6	59.0	54.8
Expenses with respect to credit losses for the period to loans to the public, net (3)	0.06	(0.01)	0.01	0.20	0.55
Basic net earnings per share	1.31	1.15	1.10	1.32	1.07
Diluted net earnings per share	1.30	1.14	1.09	1.30	1.06

(1) For information about application of US standard FAS 91 (ASC 310-20) with regard to measurement of interest revenues, see Note 1.C.1 to the financial statements.
(2) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to equity holders of the Bank.
(3) Calculated on an annualized basis.
(4) Total operating and other expenses to total operating and financing revenues and expenses with respect to credit losses.
(5) Calculated based on Basel III directives.

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 (hereinafter: "the Law").

Actual Bank results may materially differ from those provided in the forward-looking information due to multiple factors including, inter alia, changes in local and global capital markets, macroeconomic changes, geopolitical changes, changes in legislation and regulation and other changes outside the Bank's control, which may result in non-materialization of estimates and/or in changes to business plans.

Forward-looking 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 information and expressions involve risk and lack of certainty, because they are based on management's assessment of future events which includes, inter alia: forecasted economic developments in Israel and worldwide, especially the state of the economy, including the effect of macroeconomic and geopolitical conditions; changes and developments in the inter-currency markets and the capital markets, and other factors affecting the exposure to financial risk, changes in the financial strength of borrowers, the public's preferences, legislation, supervisory regulations, the behavior of competitors, aspects related to the Bank's image, technological developments and human resources issues.

The information presented here relies, inter alia, on publications of the Central Bureau of Statistics and the Ministry of Finance, on Bank of Israel data and on various forecasts and assessments of various topics with regard to the future.

Profit and Profitability

Group net profit in the second quarter of 2014 amounted to NIS 302 million, compared to NIS 245 million in the corresponding period last year – an increase of 23.3%. This reflects a return on equity at an annualized 12.3%, compared to 11.1% in the corresponding period last year.

Net profit for the Group in the first half of 2014 amounted to NIS 566 million, compared to NIS 525 million in the corresponding period last year – an increase of 7.8%. This reflects an 11.5% annualized return on equity, compared to 11.9% in the corresponding period last year and 11.5% for all of 2013.

The following major factors affected Group operating profit in the first half of 2014 over the corresponding period last year:

- Financing revenues from current operations (net interest revenues and non-interest financing revenues), net of the increase due to application of FAS 91(1), in the first half of 2014, increased by NIS 71 million, or 4.6%, over the corresponding period last year. The increase in current operations was achieved despite the lower Bank of Israel interest rate, which affects the Bank's margin. See also the analysis of evolution of financing revenues, below. At the end of the second quarter of 2014, the Bank of Israel interest rate reached 0.75%, compared to 1.25% at the end of the second quarter of 2013. On July 28, 2014, the Bank of Israel announced it was lowering the interest rate by a quarter percentage point, to 0.5%. Group operating results in financing items were also impacted by the 0.2% decrease in known CPI, compared to an increase by 0.7% in the corresponding period last year.
- Expenses with respect to credit losses in the first half of 2014 decreased by NIS 197 million compared to the corresponding period last year. In the first half of 2013, a non-recurring provision amounting to NIS 191 million was included, due to application of the Supervisor of Banks' directive with regard to housing loans.
- Commissions and other revenues, net of the decrease due to application of FAS 91(1) in the first half of 2014 increased by NIS 6 million over the corresponding period last year. The increase in commissions and other revenues is presented along with continued growth in business volume and despite the negative effect of various regulatory directives. For more details, see the chapter on Legislation and Supervision of Bank Group Operations below.
- Operating and other expenses increased in the first half of 2014 by NIS 51 million, or 3.6%, over the corresponding period last year.

---

(1) For information about application of US standard FAS 91 (ASC 310-20) with regard to measurement of interest revenues, see Note 1.C.1 to the financial statements.

Evolution of revenues and expenses

Net interest revenues and non-interest financing revenues[1] from current operations in the first half of 2014, as listed below, amounted to NIS 1,613 million, compared to NIS 1,542 million in the corresponding period last year, an increase of 4.6%.

Total Net interest revenues and non-interest financing revenues[1] in the first half of 2014, as reported in these financial statements, amounted to NIS 1,715 million, compared to NIS 1,756 million in the corresponding period last year, a decrease of 2.3%.

Below is analysis of development in financing revenues from current operations (NIS in millions):

	Second Quarter			First half of		
	2014	2013	Change (in %)	2014	2013	Change (in %)
Interest revenues, net	923	873		1,636	1,675	
Non-interest financing revenues (expenses) [1]	(2)	48		79	81	
Total financing revenues	**921**	**921**	**-**	**1,715**	**1,756**	**(2.3)**
Less:						
Effect of application of FAS 91[2]	37	-		77	-	
Linkage differentials with respect to CPI position	46	50		(13)	54	
Revenues from collection of interest on troubled debt	16	20		40	36	
Gain from sale of debentures available for sale and gain from debentures held for trading, net	17	52		45	55	
Effect of accounting treatment of derivatives at fair value and others[3]	(16)	17		(47)	69	
Total financing revenues from current operations	**821**	**782**	**5.0**	**1,613**	**1,542**	**4.6**

(1) Non-interest financing revenues (expenses) include fair value and other effects and expense with respect to linkage differentials on CPI derivatives, where the corresponding revenue is recognized as interest revenues, in conformity with accounting rules.
(2) For information about application of US standard FAS 91 (ASC 310-20) with regard to measurement of interest revenues, see Note 1.C.1 to the financial statements.
(3) The effect of accounting treatment of derivatives at fair value is due to the difference between the accounting treatment of balance sheet instruments, charged to the profit and loss statement on the accrual basis (interest, linkage differentials and exchange rate differentials only), vs. derivatives measured at their fair value.
Other impacts include the effect of Bank coverage against tax exposure with respect to overseas investments, by allocating excess financing sources against such investments.

Below is total financing revenues by operating segment (NIS in millions):

	First half of			
Operating segment	2014	2013	Change amount	Change (in %)
Retail banking:				
Mortgages	368	329	39	11.9
Households[1]	573	591	(18)	(3.0)
Small business	250	232	18	7.8
Total	**1,191**	**1,152**	**39**	**3.4**
Private banking[1]	29	35	(6)	(17.1)
Commercial banking	81	84	(3)	(3.6)
Business banking	396	367	29	7.9
Financial management	18	118	(100)	-
Total	**1,715**	**1,756**	**(41)**	**(2.3)**

(1) The household and private banking segments were impacted by margin erosion due to lower interest rates.

Below are average balances of interest-bearing assets attributable to operations in Israel in the various linkage segments (NIS in millions):

	Second Quarter			First half of		
Linkage segment	2014	2013	Change in %	2014	2013	Change in %
Israeli currency - non-linked	104,627	87,732	19.3	102,328	85,777	19.3
Israeli currency - linked to the CPI	53,606	51,193	4.7	53,477	50,491	5.9
Foreign currency	13,283	14,187	(6.4)	13,276	14,426	(8.0)
Total	**171,516**	**153,112**	**12.0**	**169,081**	**150,694**	**12.2**

The increase in average balance of interest-bearing assets in the NIS-denominated segment is primarily due to higher excess liquidity and higher retail loans, including mortgages attributed to this segment. The increase in retail loans, including mortgages, is also the reason for the increase in average balance of assets in the CPI-linked segment. The decrease in average balances of interest-bearing assets in the foreign currency segment is primarily due to lower exchange rates and to diverting uses to other linkage segments.

Below are interest spreads (difference between interest income on assets and interest expenses on liabilities) based on average balances(1), attributable to operations in Israel in the various linkage segments, in percent:

	Second Quarter		First half of	
Linkage segment	2014	2013	2014	2013
Israeli currency - non-linked	1.93	2.07	2.07	2.26
Israeli currency - linked to the CPI	1.16	1.03	0.84	0.91
Foreign currency	1.73	1.82	1.77	1.90
Total	**1.97**	**2.07**	**1.78**	**2.02**

(1) Average balances before deduction of provision with respect to credit losses.

The decrease across all linkage segments in the first half of 2014 are due to erosion of interest spreads due to the lower interest rate environment.

The interest spread in the non-linked NIS segment was positively affected by application of the FAS 91 standard, primarily with regard to early repayment commissions. For details see Note 1.C.1.

In Management Discussion - Addendum A, interest rate differences are segmented by various criteria (type of operations, linkage segment and volume / price analysis).

Expenses with respect to credit losses for the Group amounted to NIS 18 million in the first half of 2014, or an annualized rate of 0.03% of total loans to the public, net, compared with NIS 215 million, or an annualized rate of 0.32% of total loans to the public, net in the corresponding period last year - for a decrease of NIS 197 million in total.

Expenses with respect to credit losses for the Group amounted to NIS 23 million in the second quarter of 2014, or an annualized rate of 0.06% of total loans to the public, net, compared with NIS 181 million in the corresponding period last year, or an annualized rate of 0.55% of total loans to the public, net in the corresponding period last year - a decrease of NIS 158 million in total.

In the second quarter of 2013, a non-recurring provision for credit losses amounting to NIS 191 million is included, due to application of the Supervisor of Banks' directive with regard to housing loans.

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

	Second Quarter		First half of	
	2014	2013	2014	2013
Provision for credit losses on individual basis (including accounting write-offs)	6	16	(9)	48
Provision for credit losses on Group basis:				
By extent of arrears	(1)	(6)	(7)	2
Other	18	171	34	165
Total expenses with respect to credit losses	**23**	**181**	**18**	**215**
Expense with respect to credit losses as percentage of total loans to the public (annualized):	**0.06%**	**0.55%**	**0.03%**	**0.32%**
Of which: With respect to commercial loans other than housing loans	**0.13%**	**0.10%**	**0.04%**	**0.14%**
Of which: With respect to housing loans	**0.03%**	**0.88%**	**0.01%**	**0.47%**

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

Operating segment	2014	2013
Retail banking:		
Mortgages	7	(1)198
Households	17	21
Small business	(2)43	24
Total	**67**	**243**
Private banking	2	(3)
Commercial banking	(4)	(5)
Business banking	(3)(45)	(20)
Financial management	(2)	-

(1) Includes NIS 191 million due to application of the Supervisor of Banks' directives with regard to housing loans.

(2) The increase in provision for credit losses in this segment is due, *inter alia*, to an increase in group-based provision due to significant growth of lending volume.

(3) The decrease was primarily due to collection of debt previously written-off.

Net interest revenues after expenses with respect to credit losses in the first half of 2014 amounted to NIS 1,618 million, compared to NIS 1,460 million in the corresponding period last year - an increase of 10.8% - and with non-interest financing revenues - an increase of 10.1%. Net interest revenues after expenses with respect to credit losses in the second quarter of 2014 amounted to NIS 900 million, compared to NIS 692 million in the corresponding period last year - an increase of 30.1% - and with non-interest financing revenues - an increase of 21.4%. See above the analysis of the evolution of financing revenues from current operations and analysis of expenses with respect to credit losses.

Non-interest revenues for the Group in the first half of 2014 amounted to NIS 781 million, compared to NIS 822 million in the corresponding period last year, a decrease of NIS 41 million. Non-interest revenues for the Group amounted to NIS 343 million in the second quarter of 2014, compared with NIS 416 million in the corresponding period last year - a decrease of NIS 73 million. See the explanation below, including the impact of non-interest financing revenues and the impact of application of FAS 91.

Non-interest financing revenues (expenses) in the first half of 2014 amounted to NIS 79 million, compared to NIS 81 million in the corresponding period last year. Non-interest financing revenues (expenses) for the Group in the second quarter of 2014 amounted to expenses of NIS 2 million, compared to revenues of NIS 48 million in the corresponding period last year. This item includes, inter alia, fair value effects and expenses (revenues) with respect to linkage differentials on CPI derivatives, where the corresponding expense (revenue) is recognized as interest revenues, in conformity with accounting rules.

See analysis of Financing revenues from current operations above.

Commission revenues net of the decrease due to application of FAS 91(1) in the first half of 2014 amounted to NIS 731 million, compared to NIS 728 million in the corresponding period last year, an increase of NIS 3 million. The Bank continues to grow its business in order to minimize impact to commission items due to regulatory impact and to increase total revenues – despite such impact. For details see chapter "Legislation and Supervision of Bank Group Operations" below.

Commission revenues net of the decrease due to application of FAS 91(1) in the second quarter of 2014 amounted to NIS 360 million, similar to the corresponding period last year.

Commissions in the first half of 2014, as stated on these financial statements, after the effect of application of FAS 91(1), amounted to NIS 686 million. Commissions in the second quarter of 2014, as stated on these financial statements, after the effect of application of FAS 91(1), amounted to NIS 338 million.

Other revenues amounted to NIS 16 million in the first half of 2014, compared with NIS 13 million in the corresponding period last year - an increase of NIS 3 million.

Other revenues in the second quarter of 2014 amounted to NIS 7 million, compared to NIS 8 million in the corresponding period last year, a decrease of NIS 1 million.

Operating and other expenses amounted to NIS 1,474 million in the first half of 2014, compared with NIS 1,423 million in the corresponding period last year - an increase of 3.6%. Operating and other expenses amounted to NIS 747 million in the second quarter of 2014, compared with NIS 706 million in the corresponding period last year - an increase of 5.8% - see explanation below.

(1) For information about application of US standard FAS 91 (ASC 310-20) with regard to measurement of interest revenues, see Note 1.C.1 to the financial statements.

Payroll and associated expenses amounted to NIS 918 million in the first half of 2014, compared with NIS 874 million in the corresponding period last year - an increase of 5.0%, primarily attributed to further growth of Bank business. Payroll and associated expenses amounted to NIS 462 million in the second quarter of 2014, compared with NIS 429 million in the corresponding period last year - an increase of 7.7%. The increase in payroll and associated expenses over the corresponding period last year is primarily due to continued business growth and to payroll-related provisions in the corresponding period last year.

Maintenance and depreciation expenses for buildings and equipment amounted to NIS 348 million in the first half of 2014, compared with NIS 338 million in the corresponding period last year - an increase of 3.0%. Maintenance and depreciation expenses for buildings and equipment for the Group amounted to NIS 177 million in the second quarter of 2014, compared with NIS 172 million in the corresponding period last year – an increase of 2.9%.

Other expenses in the first half of 2014, amounted to NIS 208 million compared with NIS 211 million in the corresponding period last year - a decrease of NIS 3 million. Other expenses for the Group amounted to NIS 108 million in the second quarter of 2014, compared with NIS 105 million in the corresponding period last year - an increase of NIS 3 million.

Cost-Income ratio information is as follows(1) (in percent):

	First half of		All of
	2014	2013	2013
Cost-Income Ratio(1)	61.0	57.0	59.6

	2014		2013			
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Cost-Income Ratio(1)	59.0	63.2	65.6	59.0	54.8	59.4

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

Pre-tax profit for the Group amounted to NIS 925 million in the first half of 2014, compared with NIS 859 million in the corresponding period last year - an increase of 7.7%. Pre-tax profit for the Group in the second quarter of 2014 amounted to NIS 496 million, compared to NIS 402 million in the corresponding period last year – an increase of 23.4%.

The provision for taxes amounted to NIS 345 million in the first half of 2014, compared with NIS 309 million in the corresponding period last year - an increase of 11.7%. The provision for taxes in the second quarter of 2014 amounted to NIS 187 million, compared to NIS 145 million in the corresponding period last year – an increase of 29.0%.
The change in provision for taxes is attributed to an increase in pre-tax profit and to an increase in the statutory tax rate to 37.7%, compared to 36.2% in the corresponding period last year.

The Bank's share of after-tax profit of associates in the first half of 2014 amounted to NIS 3 million, compared to a loss amounting to NIS 1 million in the corresponding period last year. The Bank's share of after-tax profit of associates in the second quarter of 2014 amounted to NIS 2 million, compared to a profit amounting to NIS 1 million in the corresponding period last year.

Below is the development of Group return(1) on equity(2) and ratio of Tier I capital to risk elements (in percent):

	First half of		All of
	2014	2013	2013
Net return on equity	11.5	11.9	11.5

	2014		2013			
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net return on equity	12.3	11.0	10.8	13.3	11.1	13.1
Ratio of Tier I capital to risk elements at end of quarter	(3)9.00	(3)8.87	9.01	8.84	8.74	8.71

(1) Annualized return.
(2) Return on average shareholders' equity, including "total capital resources", as presented in reporting of revenue and expense rates, less average balance of minority interest and less/plus the average balance of unrealized gain/loss from adjustment to fair value of debentures held for trading as well as gain/loss from debentures available for sale.
(3) Includes the effect of application of Basel III directives (a decrease of 0.28% on January 1, 2014).

Earnings per share

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

	Second Quarter		First half of		All of
	2014	2013	2014	2013	2013
Basic earnings per share:	1.31	1.07	2.46	2.31	4.72
Diluted earnings per share:	1.30	1.06	2.44	2.28	4.69

Development of balance sheet items

Development of key balance sheet items for the Bank Group (NIS in millions) is as follows:

				Change (in %) over	
	June 30,		December 31,	June 30,	December 31,
	2014	2013	2013	2013	2013
Balance sheet total	188,158	170,603	179,613	10.3	4.8
Loans to the public, net	143,353	132,853	138,565	7.9	3.5
Deposits from the public	148,063	135,699	141,244	9.1	4.8
Securities	9,744	6,661	7,000	46.3	39.2
Shareholder equity	10,418	9,341	9,852	11.5	5.7

Loans to the public, net - loans to the public, net on the consolidated balance sheet as of June 30, 2014 accounted for 76% of total assets, compared to 77% at the end of 2013. Loans to the public, net for the Group increased in the first half of 2014 by NIS 4.8 billion, an increase of 3.5%.

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

				Change (in %) over	
	June 30,		December 31,	June 30,	December 31,
	2014	2013	2013	2013	2013
Israeli currency					
Non-linked	78,726	68,783	73,715	14.5	6.8
CPI- linked	53,073	51,291	52,740	3.5	0.6
Foreign currency and foreign currency linked	11,554	12,779	12,110	(9.6)	(4.6)
Total	**143,353**	**132,853**	**138,565**	**7.9**	**3.5**

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

				Change (in %) over	
	June 30,		December 31,	June 30,	December 31,
Operating segment	2014	2013	2013	2013	2013
Retail banking:					
Mortgages	88,212	79,362	84,246	11.2	4.7
Households	19,541	18,549	19,022	5.3	2.7
Small business	8,303	7,406	7,667	12.1	8.3
Total retail	**116,056**	**105,317**	**110,935**	**10.2**	**4.6**
Private banking	961	1,217	956	(21.0)	0.5
Commercial banking	4,359	4,701	4,517	(7.3)	(3.5)
Business banking	21,977	21,618	22,157	1.7	(0.8)
Total – business and others	**27,297**	**27,536**	**27,630**	**(0.9)**	**(1.2)**
Total	**143,353**	**132,853**	**138,565**	**7.9**	**3.5**

Below are details of problem credit risk and non-performing assets before provision for credit loss, in accordance with provisions for measurement and disclosure of impaired debt, credit risk and provision for credit loss:

Reported amounts (NIS in millions)	As of June 30, 2014			As of June 30, 2013			As of December 31, 2013		
	Credit risk(1)			Credit risk(1)			Credit risk(1)		
	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total
1. Problem credit risk									
Impaired credit risk	1,074	231	1,305	1,427	245	1,672	1,241	233	1,474
Inferior credit risk	90	-	90	104	-	104	152	-	152
Credit risk under special supervision (2)	1,403	129	1,532	1,401	87	1,488	1,385	103	1,488
Total problem credit risk	**2,567**	**360**	**2,927**	**2,932**	**332**	**3,264**	**2,778**	**336**	**3,114**
Of which: Non-impaired debt in arrears 90 days or longer(2)	1,103			1,246			1,134		
2. Non-performing assets(3)	**987**			**1,311**			**1,136**		

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

(2) Including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer, amounting to NIS 1,053 million (as of June 30, 2013 - NIS 1,194 million; as of December 31, 2013 - NIS 1,081 million).

(3) Non-accruing assets.

For more details of problem credit risk, see Note 3 to the financial statements.

Below are key risk benchmarks with respect to loans to the public (in percent):

	June 30, 2014	June 30, 2013	December 31, 2013
Ratio of impaired loans to the public to total loans to the public	0.7	1.1	0.9
Ratio of impaired loans to the public to total non-housing loans	2.1	2.9	2.5
Ratio of problematic loans to the public to total non-housing loans	3.0	3.5	3.4
Ratio of housing loans in arrears 90 days or longer to total loans to the public (1)(2)	0.7	0.9	0.8
Ratio of provision for credit losses to total loans to the public	1.0	1.1	1.0
Ratio of provision for credit losses to total credit risk with respect to the public	0.7	0.8	0.7
Ratio of problem credit risk to total credit risk with respect to the public	1.5	1.8	1.6
Ratio of expenses with respect to credit losses to average balance of loans to the public, net	0.03	0.33	0.22
Ratio of net write-offs to average balance of loans to the public, net	0.06	0.64	0.42
Ratio of net write-offs to provision for credit loss	6.1	63.7	39.8

(1) This non-housing rate is negligible.

(2) Balance of credit in arrears before provision by extent of arrears.

Below is the sector composition of the top 6 borrowers for the Group as of June 30, 2014 (NIS in millions):

Borrower no.	Sector	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
1.	Power and Water	874	215	1,089
2.	Construction and real estate	137	666	803
3.	Construction and real estate	463	220	683
4.	Construction and real estate	63	466	529
5.	Construction and real estate	462	76	538
6.	Communication and computer services	526	1	527

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

Securities - the balance of investment in securities increased in the first half of 2014 by NIS 2.7 billion, and by NIS 3.1 billion compared to the corresponding period last year. The change in total investment in securities is within asset and liability management of the Bank.

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

				Change (in %) over	
		June 30,	December 31,	June 30,	December 31,
	2014	2013	2013	2013	2013
Israeli currency					
Non-linked	6,058	3,295	4,015	83.9	50.9
CPI- linked	557	284	138	96.1	303.6
Foreign currency and foreign currency linked	3,023	2,973	2,749	1.7	10.0
Non-monetary items	106	109	98	(2.8)	8.2
Total	**9,744**	**6,661**	**7,000**	**46.3**	**39.2**

Investments in securities in the held-to-maturity portfolio, the available-for-sale portfolio and the held-for-trade portfolio

Below are further details of Bank Group investments in securities (NIS in millions):

	Carrying amount as of	
	June 30, 2014	December 31, 2013
Government debentures:		
Government of Israel	9,002	6,340
US Government	221	61
Other	-	21
Total government debentures	**9,223**	**6,422**
Debentures of banks in developed nations:		
UK	85	96
Israel	123	124
Germany	103	103
Other	5	5
	316	**328**
Debentures of financial institutions (other than banks) in developed nations [(1)]:		
USA	-	10
Luxembourg	10	10
Total	10	**20**
Total debentures of banks and financial institutions in developed nations	**326**	**348**
Corporate debentures (composition by sector):		
Industry	28	65
Construction	22	24
Power and water	4	17
Public and community services	10	-
Financial services	25	26
Total corporate debentures	**89**	**132**
Shares	**106**	**98**
Total securities	**9,744**	**7,000**

(1) Exposure primarily consists of exposure to banks, investments and holding companies in bank groups.

For more information with regard to impairment of a temporary nature of securities available for sale, listing the duration of impairment and its share out of the amortized cost, see Note 2 to the financial statements.

Deposits from the public - these account for 79% of total consolidated balance sheet as of June 30, 2014, similar to their weight at the end of 2013. In the first half of 2014, deposits from the public with the Bank Group increased by NIS 6.8 billion, or 4.8%.

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

				Change (in %) over	
	June 30,		December 31,	June 30,	December 31,
	2014	2013	2013	2013	2013
Israeli currency					
Non-linked	95,761	84,323	92,888	13.6	3.1
CPI- linked	21,060	22,370	21,439	(5.9)	(1.8)
Foreign currency and foreign currency linked	31,242	29,006	26,917	7.7	16.1
Total	**148,063**	**135,699**	**141,244**	**9.1**	**4.8**

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

				Change (in %) over	
	June 30,		December 31,	June 30,	December 31,
	2014	2013	2013	2013	2013
Retail banking:					
Households	62,034	59,377	60,793	4.5	2.0
Small business	10,522	8,670	9,517	21.4	10.6
Total retail	**72,556**	**68,047**	**70,310**	**6.6**	**3.2**
Private banking	8,670	6,447	7,027	34.5	23.4
Commercial banking	4,222	3,537	3,408	19.4	23.9
Business banking	45,708	39,778	43,467	14.9	5.2
Financial management	16,907	17,890	17,032	(5.5)	(0.7)
Total	**148,063**	**135,699**	**141,244**	**9.1**	**4.8**

Evolution of deposits from the public for the Group by depositor size (NIS in millions) is as follows:

	June 30,		December 31,
	2014	2013	2013
Maximum deposit			
Up to 1	49,146	47,495	48,678
1 to 10	29,974	28,553	25,226
10 to 100	14,550	14,506	14,810
100 to 500	14,513	9,148	13,507
Above 500	39,880	35,997	39,023
Total	**148,063**	**135,699**	**141,244**

For more information about components of deposits from the public, see Note 4 to the financial statements.

The ratio of shareholders' equity to balance sheet total for the Group as of June 30, 2014 was 5.54%, compared to 5.49% as of the end of 2013.

Ratio of capital to risk elements

As per instructions of the Supervisor of Banks, every banking corporation is required to maintain a total minimum capital ratio of no less than 12.5%(2) of weighted total of risk elements of its balance sheet assets and off-balance-sheet items, and these instructions specify the manner of calculation of total capital and total risk elements. Starting on December 31, 2009, the ratio of capital to risk elements was calculated in accordance with Basel II rules.

On May 30, 2013, the Supervisor of Banks issued an amendment to Proper Conduct of Banking Business Regulations 201-211 concerning adoption of Basel III directives with regard to supervisory capital and with regard to risk assets. The directives are effective as from January 1, 2014, subject to transitional provisions.

Development of Group ratio of capital to risk elements is as follows (in percent):

	June 30, 2014	January 1, 2014	December 31, 2013	June 30, 2013
	Basel III	Basel III	Basel II	Basel II
Ratio of common equity Tier 1 to risk elements	9.00	8.73	(1)-	(1)-
Ratio of Tier I capital to risk elements	9.00	8.73	9.01	8.74
Ratio of total capital to risk elements	13.05	12.88	13.04	12.89
Minimum Tier I (core) capital adequacy ratio required by directives of the Supervisor of Banks	(2)9.00	(2)9.00	7.50	7.50
Total minimum capital ratio required by the directives of the Supervisor of Banks	(2)12.50	(2)12.50	9.00	9.00

(1) The requirement for minimum Tier I capital ratio applies as from January 1, 2014.

(2) As from January 1, 2015.

Off Balance Sheet Activity

Development of key off balance sheet items for the Bank Group (NIS in millions) is as follows:

				Change in % over	
	June 30,		December 31,	June 30,	December 31,
	2014	2013	2013	2013	2013
Off balance sheet financial instruments other than derivatives [(1)]:					
Documentary credit	179	423	296	(57.7)	(39.5)
Loan guarantees	2,255	2,668	2,413	(15.5)	(6.5)
Guarantees to home buyers	9,834	9,063	9,935	8.5	(1.0)
Guarantees and other liabilities	3,397	3,408	3,519	(0.3)	(3.5)
Unutilized revolving credit card facilities	7,290	7,057	7,135	3.3	2.2
Unutilized debitory account and other credit facilities in accounts available on demand	17,261	17,851	17,460	(3.3)	(1.1)
Irrevocable commitments for loans approved but not yet granted	9,201	9,534	9,009	(3.5)	2.1
Commitments to issue guarantees	6,687	5,359	6,265	24.8	6.7
Financial derivatives[(2)]:					
Total par value of financial derivatives	199,779	182,572	202,950	9.4	(1.6)

(1) Contract balances or their stated amounts at the end of the period, before effect of provision for credit losses. See Note 7 to the financial statements for additional information.

(2) Includes forward transactions, swaps, options and credit derivatives.

Below is the development in off balance sheet monetary assets held on behalf of Bank Group clients, for which the Bank Group provides management, operating and/or custodial services (NIS in millions):

				Change in % over	
	June 30,		December 31,	June 30,	December 31,
	2014	2013	2013	2013	2013
Client activities involving securities[(1)(2)]	201,068	174,239	178,222	15.4	12.8
Assets of provident funds for which the Group provides operating services[(3)]	63,791	46,783	64,297	36.4	(0.8)
Activity by extent of collection [(4)]	12,651	14,483	13,539	(12.6)	(6.6)

(1) Including balance of securities of provident funds and mutual funds to which the Bank provides operating services, but excluding mutual funds held by Bank clients

(2) Value of securities portfolios in Bank custody, held by clients. Revenues from securities transactions for the Group amounted to NIS 116 million in the first half of 2014, compared with NIS 111 million in the corresponding period last year - an increase of 4.5%.

(3) For information about the effect of provident market reform on the Bank's provident find operations, see chapter "Other Matters" below.

(4) Loan balances secured by deposits whose repayment to the depositor is contingent upon collection of the loans. With respect to these balances, the Bank receives margin revenues or a collection commission. These amounts exclude standing loans and government deposits extended for them.

Major Investees

The contribution of investees to net operating profit million in the first half of 2014 amounted to NIS 63 million, compared with NIS 60 million in the corresponding period last year. These data include impact of changes in exchange rates on the balance of investment in overseas investees, covered by the Bank's own sources. Therefore, exchange rates have no impact on Group net profit.

Excluding the aforementioned effect of exchange rates, contribution of investees amounted to NIS 66 million, compared to NIS 77 million in the corresponding period last year - see explanation below.

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

Bank Yahav is a banking corporation operating in accordance with a "Bank" license as per provisions of the Banking Act (Licensing), 1981.

Bank Yahav's contribution to Group net profit in the first half of 2014 amounted to NIS 17.7 million, compared to NIS 24.6 million in the corresponding period last year. Bank Yahav's net profit return on equity in the first half of 2014 was 7.2% on annualized basis, compared to 11.1% in the corresponding period last year. Bank Yahav's balance sheet total as of June 30, 2014 amounted to NIS 19,795 million, compared to NIS 19,327 million as of December 31, 2013 – an increase of NIS 468 million, or 2.4%. Net loans to the public as of June 30, 2014 amounted to NIS 6,939 million, compared to NIS 6,657 million as of December 31, 2013 – an increase of NIS 282 million, or 4.2%. Net deposits from the public as of June 30, 2014 amounted to NIS 16,888 million, compared to NIS 16,455 million as of December 31, 2013 – an increase of NIS 433 million, or 2.6%.

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

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

Tefahot Insurance's contribution to Group net profit in the first half of 2014 (after deduction of net financing revenues from excess cash at the company) amounted to NIS 22.7 million, compared to NIS 20.2 million in the corresponding period last year.

Net profit return on equity in the first half of 2014 was 10.0% on annualized basis, compared to 13.8% 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 2014 amounted to CHF 0.6 million, similar to the corresponding period last year.

Mizrahi Bank Switzerland's balance sheet total as of June 30, 2014 amounted to CHF 194 million, compared to CHF 180 million at the end of 2013 – an increase of 7.8%.

The balance of loans to the public as of June 30, 2014 amounted to CHF 92 million, compared to CHF 77 million at end of 2013 – an increase of 19.5%. Deposits with banks as of June 30, 2014 amounted to CHF 95 million, compared to CHF 92 million at end of 2013 – an increase of 3.3%. Deposits from the public as of June 30, 2014 amounted to CHF 134 million, compared to CHF 121 million at end of 2013 – an increase of 10.7%.
These data exclude off-balance-sheet items, such as fiduciary deposits which are major components of the Bank's business operations in Switzerland.

The contribution of Mizrahi International Holdings Ltd. (B.V. Holland) to Group net profit in the first half of 2014, which includes the contribution of Mizrahi Bank Switzerland to net profit, amounted to a loss of NIS 0.1 million, compared with a loss of NIS 14.3 million in the corresponding period last year. These data include the impact of changes in exchange rates on the investment balance, covered by the Bank's own sources. Therefore, exchange rates have no impact on Group net profit.

Excluding the impact of changes in exchange rates, the company's contribution to group net profit in the second quarter of 2014 amounted to a NIS 2.9 million profit, similar to the corresponding period last year.

In recent years, authorities in the USA and in Switzerland have been negotiating the tax treaty between these countries. As requested by Swiss authorities, several Swiss banks, including Mizrahi Bank Switzerland, have provided statistical information about their business with US clients, to be provided to US authorities.
In August 2013, Mizrahi Bank Switzerland was informed by US authorities that an investigation of its business has been launched. Mizrahi Bank Switzerland expressed its willingness to assist and cooperate with US authorities, in conformity with statutory provisions and the treaty signed by the USA and Switzerland - and even provided US authorities with statistical data as required. On July 25, 2014, Mizrahi Bank Switzerland was required by US authorities to provide additional statistical data with regard to Mizrahi Bank Switzerland. Mizrahi Bank Switzerland reports these events from time to time to the Swiss supervisory authorities and the Bank reports these events from time to time to the Supervisor of Banks.
Mizrahi Bank Switzerland and the Bank are in constant contact with US authorities in order to reach an appropriate outline for the Bank Group.
See chapter "Legal Proceedings" and Note 7.C.5 to the financial statements for additional information.

Investment in non-banking corporations

The Bank manages nostro investments in non-banking corporations. Shares of non-banking corporations in which the Bank thus invested were acquired for the purpose of earning capital gains, and are listed at fair value on the available-for-sale security portfolio and under investment in associates, where the Bank has a material investment in such entity. About 2.7% of these investments are negotiable and presented at their market value. The remainder of these investments is presented at cost or at their carrying amount. In case of impairment of a non-temporary nature, in accordance with management assessment, a provision for impairment is made by the Bank.

Bank investments in non-banking corporations as of June 30, 2014 amounted to NIS 133 million, compared to NIS 125 million at end of 2013. Net gain from investments in non-banking corporations, after provision for impairment, amounted in the first half of 2014 to NIS 10 million for the Bank, compared to NIS 4 million in the corresponding period last year.

Financial Information Regarding Operating Segments

Bank Group operating segments

The Bank manages its operations in six major operating segments, which are distinguished by client characteristics and type of banking services required, as well as by the organizational unit responsible for servicing each segment. Operating segment definition is based on the Bank's organizational structure, as 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 clients and activity in derivative instruments. Operations of the various segments are conducted via Bank branches, trading room, Business Centers, Bank HQ departments and subsidiaries in Israel and overseas.

The Bank's operating segments are:

Household segment - under responsibility of the Retail Division. This segment includes household clients with relatively minor financial activity, as well as the mortgage sector. The division provides appropriate banking services and financial products to segment clients, including in the field of mortgages.

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

Private banking – private banking is under responsibility of the Private Banking and International Operations sector of the Financial Division. Private banking sector clients are individual clients with liquid assets (primarily short-term deposits and security investments) over NIS 1 million. Clients of this segment have high financial wealth, to whom the Bank offers access to unique products and services in capital management activity, advisory service and investment management.

Commercial banking – clients of this segment are private and public companies of medium size (middle market) and medium level of indebtedness, and are served by the Business Banking Division, primarily by the Business sector, which operates via six business centers located throughout Israel. Business customers are assigned to the Business sector primarily using the following criteria: total indebtedness of NIS 6-25 million, sales of NIS 30-120 million or liquid assets of NIS 10-40 million. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

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

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

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

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

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

For further details, inter alia, with regard to division into operating segments and the principles used for attributing balances, revenues and expenses to customers in the system – see Note 30 to the financial statements as of December 31, 2013.
Note 12 to the financial statements includes reporting of Bank Group business results by operating segment.

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

	Net profit in the first half		Share of total net profit (in percent) for the first six months		Return on equity (in %) in the first half	
	2014	2013	2014	2013	2014	2013
Household:						
Mortgages	197	(1)73	32.0	14.0	9.5	4.2
Other	52	78	9.0	15.0	9.6	14.9
Private banking	11	17	2.0	3.0	30.0	37.9
Small business	(2)59	75	10.0	14.0	24.7	34.9
Commercial banking	32	35	5.0	7.0	15.2	16.4
Business banking	257	231	42.0	44.0	16.6	15.4
Financial management	(42)	16	-	3.0	-	8.8
Total	**566**	**525**	**100.0**	**100.0**	**11.5**	**11.9**

(1) In the second quarter of 2013, includes a non-recurring provision for credit losses amounting to NIS 191 million, due to application of comments by the Supervisor of Banks concerning housing loans.

(2) The lower profit is primarily due to increase in credit losses due to a group-based provision recorded due to a significant increase in credit volume.

Below are Bank Group operating results by operating segment

Results of Household Segment

	For the six months ended June 30, 2014					For the six months ended June 30, 2013				
	Banking and finance	Credit cards	Capital market	Mortgages	Total	Banking and finance	Credit cards	Capital market	Mortgages	Total
	NIS in millions									
Interest revenues, net:										
From outside operating segments	216	12	-	1,149	1,377	144	13	-	1,548	1,705
Inter-segment	344	(2)	-	(781)	(439)	435	(3)	-	(1,219)	(787)
Total interest revenues, net	**560**	**10**	**-**	**368**	**938**	**579**	**10**	**-**	**329**	**918**
Non-interest financing revenues	-	-	3	-	3	-	-	2	-	2
Commissions and other revenues	113	49	93	89	344	132	49	88	114	383
Total revenues	**673**	**59**	**96**	**457**	**1,285**	**711**	**59**	**90**	**443**	**1,303**
Expenses with respect to credit losses	17	-	-	7	24	21	-	-	198	219
Operating and other expenses										
From outside operating segments	707	12	35	136	890	694	14	28	132	868
Inter-segment	(55)	(1)	-	-	(56)	(55)	(2)	-	-	(57)
Total operating and other expenses	**652**	**11**	**35**	**136**	**834**	**639**	**12**	**28**	**132**	**811**
Pre-tax profit	4	48	61	314	427	51	47	62	113	273
Provision for taxes on profit	2	19	23	117	161	18	17	23	40	98
After-tax profit	2	29	38	197	266	33	30	39	73	175
Net profit (loss):										
Before attribution to non-controlling interest	2	29	38	197	266	33	30	39	73	175
Attributable to non-controlling interest	(17)	-	-	-	(17)	(24)	-	-	-	(24)
Attributable to equity holders of the banking corporation	**(15)**	**29**	**38**	**197**	**249**	**9**	**30**	**39**	**73**	**151**
Return on capital (net profit as % of average capital)					**9.5%**					**6.7%**
Average asset balance	16,521	2,823	-	86,013	105,357	15,446	2,866	-	78,211	96,523
Average balance of liabilities	61,454	2,823	-	122	64,399	59,061	2,866	-	103	62,030
Average balance of risk assets	15,894	-	-	47,595	63,489	15,345	-	-	40,274	55,619
Average balance of securities[(1)]	-	-	35,985	-	35,985	-	-	30,083	-	30,083
Average balance of loans to the public	16,474	2,823	-	86,007	105,304	15,417	2,866	-	77,922	96,205
Average balance of deposits from the public	61,267	-	-	-	61,267	58,150	-	-	-	58,150
Credit to the public (end balance)	16,574	2,967	-	88,212	107,753	.	2,870	-	79,362	97,911
Deposits from the public (end balance)	62,034	-	-	-	62,034	59,377	-	-	-	59,377
Average balance of other assets managed	1,313	-	-	8,738	10,051	9,546	-	-	10,383	19,929
Profit from interest revenues before expenses with respect to credit losses:										
Margin from credit granting operations	385	10	-	341	736	338	10	-	301	649
Margin from receiving deposits	173	-	-	-	173	236	-	-	-	236
Other	2	-	-	27	29	5	-	-	28	33
Total interest revenues, net	**560**	**10**	**-**	**368**	**938**	**579**	**10**	**-**	**329**	**918**

(1) Including balance of securities of provident funds and mutual funds to which the Bank provides operating services, but excluding mutual funds held by Bank clients

Contribution of the household segment to Group profit in the first half of 2014 amounted to NIS 249 million, compared to NIS 151 million in the corresponding period last year - an increase of 64.9%. Below are key factors affecting the change in segment contribution:

Contribution of mortgages in the first half of 2014 amounted to NIS 197 million, compared to NIS 73 million in the corresponding period last year - an increase of 169.9%. Net return on equity from mortgages was 9.5%, compared to 4.2% in the corresponding period last year. In the corresponding period last year, the Bank recognized a non-recurring group-based provision amounting to NIS 191 million, due to application of the Supervisor of Banks' directives with regard to housing loans. Net interest revenues before expenses with respect to credit losses amounted to NIS 368 million, compared to NIS 329 million in the corresponding period last year, an increase of NIS 39 million - primarily due to an increase in mortgage volume, by an average of 10.4%. Commissions and other revenues decreased by NIS 25 million - primarily due to the application of FAS 91 (ASC 310-20) with regard to measurement of interest revenues. (For details see Note 1.C.1 to the financial statements.) Operating and other expenses increased by 3.0% year-over-year.

Contribution of the household segment (excluding mortgages) in the second half of 2014 amounted to NIS 52 million, compared to NIS 78 million in the corresponding period last year – a decrease of NIS 26 million. Net interest revenues before expenses with respect to credit losses decreased by NIS 19 million, primarily due to a decrease in the margin from receiving deposits, due to the low interest rate environment. Commissions and other revenues decreased by NIS 14 million, primarily due to the application of FAS 91, as described above. Expenses with respect to credit losses in the first half of 2014 amounted to NIS 17 million, a decrease of NIS 4 million over the corresponding period last year. Operating expenses increased by 2.8% year-over-year.

Results of Household Segment

	For the three months ended June 30, 2014					For the three months ended June 30, 2013				
	Banking and finance	Credit cards	Capital market	Mortgages	Total	Banking and finance	Credit cards	Capital market	Mortgages	Total
										NIS in millions
From outside operating segments	47	6	-	858	911	66	6	-	931	1,003
Inter-segment	240	(1)	-	(672)	(433)	228	2	-	(762)	(532)
Total interest revenues, net	**287**	**5**	**-**	**186**	**478**	**294**	**8**	**-**	**169**	**471**
Non-interest financing revenues	-	-	1	-	1	-	-	-	3	3
Commissions and other revenues	53	24	47	45	169	69	18	46	56	189
Total revenues	**340**	**29**	**48**	**231**	**648**	**363**	**26**	**46**	**228**	**663**
Expenses with respect to credit losses	13	-	-	7	20	10	-	-	185	195
Operating and other expenses										
From outside operating segments	361	6	18	69	454	342	8	13	68	431
Inter-segment	(28)	-	-	-	(28)	(26)	(2)	-	-	(28)
Total operating and other expenses	**333**	**6**	**18**	**69**	**426**	**316**	**6**	**13**	**68**	**403**
Pre-tax profit	(6)	23	30	155	202	37	20	33	(25)	65
Provision for taxes on profit	(1)	9	12	58	78	13	7	13	(10)	23
After-tax profit	**(5)**	**14**	**18**	**97**	**124**	**24**	**13**	**20**	**(15)**	**42**
Net profit (loss):										
Before attribution to non-controlling interest	(5)	14	18	97	124	24	13	20	(15)	42
Attributable to non-controlling interest	(9)	-	-	-	(9)	(13)	-	-	-	(13)
Attributable to equity holders of the banking corporation	**(14)**	**14**	**18**	**97**	**115**	**11**	**13**	**20**	**(15)**	**29**
Return on capital (net profit as % of average capital)					**9.5%**					**2.6%**
Profit from interest revenues before expenses with respect to credit losses:										
Margin from credit granting operations	198	5	-	173	376	173	8	-	156	337
Margin from receiving deposits	87	-	-	-	87	117	-	-	-	117
Other	2	-	-	13	15	4	-	-	13	17
Total interest revenues, net	**287**	**5**	**-**	**186**	**478**	**294**	**8**	**-**	**169**	**471**

Volume of mortgages granted by the segment is as follows:

	Loans granted (NIS in millions)		
	First half		
	2014	2013	Change (in %)
Mortgages originated (for housing and for any purpose)			
From Bank funds	9,540	9,699	(1.6%)
From Treasury funds:			
Directed loans	69	81	(14.8%)
Standing loans and grants	100	85	17.6%
Total new loans	**9,709**	**9,865**	**(1.6%)**
Refinanced loans	1,400	1,137	23.1%
Total loans originated	**11,109**	**11,002**	**1.0%**
Number of borrowers (includes refinanced loans)	22,722	23,556	(3.5%)

Results of Private Banking Segment

	For the six months ended June 30, 2014			For the six months ended June 30, 2013		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Interest revenues, net:						
From outside operating segments	13	-	13	2	-	2
Inter-segment	16	-	16	33	-	33
Total interest revenues, net	**29**	**-**	**29**	**35**	**-**	**35**
Non-interest financing revenues	-	-	-	-	-	-
Commissions and other revenues	19	12	31	15	15	30
Total revenues	**48**	**12**	**60**	**50**	**15**	**65**
Expenses with respect to credit losses	2	-	2	(3)	-	(3)
Operating and other expenses						
From outside operating segments	39	-	39	36	-	36
Inter-segment	3	-	3	6	-	6
Total operating and other expenses	**42**	**-**	**42**	**42**	**-**	**42**
Pre-tax profit	4	12	16	11	15	26
Provision for taxes on profit	1	4	5	4	5	9
Net profit attributable to equity holders of the banking corporation	**3**	**8**	**11**	**7**	**10**	**17**
Return on capital (net profit as % of average capital)			**30.0%**			**40.3%**
Average asset balance	1,857	-	1,857	2,006	-	2,006
Average balance of liabilities	8,030	-	8,030	6,847	-	6,847
Average balance of risk assets	797	-	797	1,120	-	1,120
Average balance of securities[(1)]	-	9,518	9,518	-	8,492	8,492
Average balance of loans to the public	940	-	940	1,217	-	1,217
Average balance of deposits from the public	8,014	-	8,014	6,447	-	6,447
Loans to the public, net (end balance)	961	-	961	1,217	-	1,217
Deposits from the public (end balance)	8,670	-	8,670	6,447	-	6,447
Average balance of other assets managed	7	-	7	7	-	7
Profit from interest revenues before expenses with respect to credit losses:						
Margin from credit granting operations	12	-	12	15	-	15
Margin from receiving deposits	17	-	17	19	-	19
Other	-	-	-	1	-	1
Total interest revenues, net	**29**	**-**	**29**	**35**	**-**	**35**

(1) Including balance of securities of provident funds and mutual funds to which the Bank provides operating services, but excluding mutual funds held by Bank clients

Contribution of the private banking segment to Group profit in the first half of 2014 amounted to NIS 11 million, compared to NIS 17 million in the corresponding period last year - a decrease of NIS 6 million.

Below are key factors affecting the change in segment contribution:

Net interest revenues in the first half of 2014 amounted to NIS 29 million, compared to NIS 35 million in the corresponding period last year, a decrease of NIS 6 million, due to lower lending volume in this segment and to erosion of margin on deposits due to the low interest rate environment. Expenses with respect to credit losses amounted to NIS 2 million, compared to reduced expenses amounting to NIS 3 million in the corresponding period last year. There was no significant change in commissions and other revenues and in total operating and other expenses, compared to the corresponding period last year.

Results of Private Banking Segment

	For the three months ended June 30, 2014			For the three months ended June 30, 2013		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Interest revenues, net:						
From outside operating segments	3	-	3	3	-	3
Inter-segment	12	-	12	17	-	17
Total interest revenues, net	**15**	**-**	**15**	**20**	**-**	**20**
Non-interest financing revenues	-	-	-	-	-	-
Commissions and other revenues	10	7	17	10	5	15
Total revenues	**25**	**7**	**32**	**30**	**5**	**35**
Expenses with respect to credit losses	2	-	2	-	-	-
Operating and other expenses						
From outside operating segments	20	-	20	14	-	14
Inter-segment	-	-	-	6	-	6
Total operating and other expenses	**20**	**-**	**20**	**20**	**-**	**20**
Pre-tax profit	3	7	10	10	5	15
Provision for taxes on profit	1	2	3	3	2	5
Net profit attributable to equity holders of the banking corporation	**2**	**5**	**7**	**7**	**3**	**10**
Return on capital (net profit as % of average capital)			**36.2%**			**52.3%**
Profit from interest revenues before expenses with respect to credit losses:						
Margin from credit granting operations	6	-	6	8	-	8
Margin from receiving deposits	9	-	9	12	-	12
Other	-	-	-	-	-	-
Total interest revenues, net	**15**	**-**	**15**	**20**	**-**	**20**

Results of the Small Business Segment

	For the six months ended June 30, 2014				For the six months ended June 30, 2013			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
								NIS in millions
Interest revenues, net:								
From outside operating segments	238	4	-	242	222	4	-	226
Inter-segment	9	(1)	-	8	7	(1)	-	6
Total interest revenues, net	**247**	**3**	**-**	**250**	**229**	**3**	**-**	**232**
Non-interest financing revenues	-	-	-	-	-	-	-	-
Commissions and other revenues	97	9	8	114	106	7	10	123
Total revenues	**344**	**12**	**8**	**364**	**335**	**10**	**10**	**355**
Expenses with respect to credit losses	43	-	-	43	24	-	-	24
Operating and other expenses								
From outside operating segments	249	2	2	253	235	2	2	239
Inter-segment	(26)	-	-	(26)	(25)	-	-	(25)
Total operating and other expenses	**223**	**2**	**2**	**227**	**210**	**2**	**2**	**214**
Pre-tax profit	78	10	6	94	101	8	8	117
Provision for taxes on profit	29	4	2	35	36	3	3	42
Net profit attributable to equity holders of the banking corporation	**49**	**6**	**4**	**59**	**65**	**5**	**5**	**75**
Return on capital (net profit as % of average capital)				**24.7%**				**34.9%**
Average asset balance	7,663	354	-	8,017	7,112	334	-	7,446
Average balance of liabilities	9,855	354	-	10,209	8,404	334	-	8,738
Average balance of risk assets	5,545	-	-	5,545	5,337	-	-	5,337
Average balance of securities(1)	-	-	6,546	6,546	-	-	5,737	5,737
Average balance of loans to the public	7,655	354	-	8,009	6,956	334	-	7,290
Average balance of deposits from the public	9,804	-	-	9,804	8,570	-	-	8,570
Loans to the public, net (end balance)	7,921	382	-	8,303	7,060	346	-	7,406
Deposits from the public (end balance)	10,522	-	-	10,522	8,670	-	-	8,670
Average balance of other assets managed	180	-	-	180	207	-	-	207
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	211	-	-	211	186	-	-	186
Margin from receiving deposits	27	-	-	27	34	-	-	34
Other	9	3	-	12	9	3	-	12
Total interest revenues, net	**247**	**3**	**-**	**250**	**229**	**3**	**-**	**232**

(1) Including balance of securities of provident funds and mutual funds to which the Bank provides operating services, but excluding mutual funds held by Bank clients.

Contribution of the small business segment to Group profit in the first half of 2014 amounted to NIS 59 million, compared to NIS 75 million in the corresponding period last year - a decrease of 21.3%. Below are key factors affecting the change in segment contribution: Net interest revenues amounted to NIS 250 million, compared to NIS 232 million in the corresponding period last year, an increase of 7.8% – due to an increase in business volume for both loans and deposits, offset by lower interest spreads from deposits due to the low interest environment. Expenses with respect to credit losses amounted to NIS 43 million, compared to NIS 24 million in the corresponding period last year, an increase of NIS 19 million – primarily attributed to natural growth due to increase in group-based provision due to significant growth in credit volume in this segment. Commissions and other revenues decreased by NIS 9 million, primarily due to the application of FAS 91 (ASC 310-20) with regard to the measurement of interest revenues (for details, see Note 1.C.1 to the financial statements). Operating expenses increased by 6.1% due to increased business attributed to this segment.

Results of the Small Business Segment

	For the three months ended June 30, 2014				For the three months ended June 30, 2013			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
								NIS in millions
Interest revenues, net:								
From outside operating segments	116	2	-	118	75	2	-	77
Inter-segment	10	(1)	-	9	40	-	-	40
Total interest revenues, net	**126**	**1**	**-**	**127**	**115**	**2**	**-**	**117**
Non-interest financing revenues	-	-	-	-	-	-	-	-
Commissions and other revenues	51	5	4	60	55	3	4	62
Total revenues	**177**	**6**	**4**	**187**	**170**	**5**	**4**	**179**
Expenses with respect to credit losses	21	-	-	21	21	-	-	21
Operating and other expenses								
From outside operating segments	125	1	1	127	118	1	1	120
Inter-segment	(13)	-	-	(13)	(13)	-	-	(13)
Total operating and other expenses	**112**	**1**	**1**	**114**	**105**	**1**	**1**	**107**
Pre-tax profit	44	5	3	52	44	4	3	51
Provision for taxes on profit	17	2	1	20	15	2	1	18
Net profit attributable to equity holders of the banking corporation	**27**	**3**	**2**	**32**	**29**	**2**	**2**	**33**
Return on capital (net profit as % of average capital)				**27.0%**				**31.3%**
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	109	-	-	109	96	-	-	96
Margin from receiving deposits	13	-	-	13	17	-	-	17
Other	4	1	-	5	2	2	-	4
Total interest revenues, net	**126**	**1**	**-**	**127**	**115**	**2**	**-**	**117**

Results of the Commercial Banking Segment

	For the six months ended June 30, 2014				For the six months ended June 30, 2013			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
	NIS in millions							
Interest revenues, net:								
From outside operating segments	90	-	-	90	97	-	-	97
Inter-segment	(9)	-	-	(9)	(13)	-	-	(13)
Total interest revenues, net	**81**	**-**	**-**	**81**	**84**	**-**	**-**	**84**
Non-interest financing revenues	-	-	-	-	-	-	-	-
Commissions and other revenues	20	1	3	24	23	1	4	28
Total revenues	**101**	**1**	**3**	**105**	**107**	**1**	**4**	**112**
Expenses with respect to credit losses	(4)	-	-	(4)	(5)	-	-	(5)
Operating and other expenses								
From outside operating segments	28	-	-	28	31	-	-	31
Inter-segment	30	-	-	30	31	-	-	31
Total operating and other expenses	**58**	**-**	**-**	**58**	**62**	**-**	**-**	**62**
Pre-tax profit	47	1	3	51	50	1	4	55
Provision for taxes on profit	18	-	1	19	19	-	1	20
Net profit attributable to equity holders of the banking corporation	**29**	**1**	**2**	**32**	**31**	**1**	**3**	**35**
Return on capital (net profit as % of average capital)				**15.2%**				**16.4%**
Average asset balance	4,369	45	-	4,414	4,592	47	-	4,639
Average balance of liabilities	3,850	45	-	3,895	3,470	47	-	3,517
Average balance of risk assets	4,732	-	-	4,732	5,092	-	-	5,092
Average balance of securities[(1)]	-	-	3,814	3,814	-	-	3,774	3,774
Average balance of loans to the public	4,263	45	-	4,308	4,592	47	-	4,639
Average balance of deposits from the public	3,832	-	-	3,832	3,497	-	-	3,497
Loans to the public, net (end balance)	4,313	46	-	4,359	4,654	47	-	4,701
Deposits from the public (end balance)	4,222	-	-	4,222	3,537	-	-	3,537
Average balance of other assets managed	336	-	-	336	234	-	-	234
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	72	-	-	72	70	-	-	70
Margin from receiving deposits	7	-	-	7	9	-	-	9
Other	2	-	-	2	5	-	-	5
Total interest revenues, net	**81**	**-**	**-**	**81**	**84**	**-**	**-**	**84**

(1) Including balance of securities of provident funds and mutual funds to which the Bank provides operating services, but excluding mutual funds held by Bank clients

Contribution of the commercial banking segment to Group profit in the first half of 2014 amounted to NIS 32 million, compared to NIS 35 million in the corresponding period last year, a decrease of NIS 3 million. Below are key factors affecting the change in segment contribution: Net interest revenues decreased by NIS 3 million, primarily due to the effect of the low interest environment. Commissions and other revenues decreased by NIS 4 million, primarily due to the application of FAS 91 (ASC 310-20) with regard to the measurement of interest revenues (for details, see Note 1.C.1 to the financial statements). Expenses with respect to credit losses in the current half amounted to a decrease in expenses by NIS 4 million, compared to a decrease in expenses by NIS 5 million in the corresponding period last year. The decrease in expenses in both these periods is attributed to collection from a few clients. Total operating expenses decreased by NIS 4 million over the corresponding period last year.

Results of the Commercial Banking Segment

	For the three months ended June 30, 2014				For the three months ended June 30, 2013			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
	NIS in millions							
Interest revenues, net:								
From outside operating segments	43	-	-	43	48	-	-	48
Inter-segment	(3)	-	-	(3)	(5)	-	-	(5)
Total interest revenues, net	**40**	**-**	**-**	**40**	**43**	**-**	**-**	**43**
Non-interest financing revenues	-	-	-	-	-	-	-	-
Commissions and other revenues	10	-	1	11	12	-	1	13
Total revenues	**50**	**-**	**1**	**51**	**55**	**-**	**1**	**56**
Expenses with respect to credit losses	(3)	-	-	(3)	2	-	-	2
Operating and other expenses								
From outside operating segments	12	-	-	12	15	-	-	15
Inter-segment	15	-	-	15	17	-	-	17
Total operating and other expenses	**27**	**-**	**-**	**27**	**32**	**-**	**-**	**32**
Pre-tax profit	26	-	1	27	21	-	1	22
Provision for taxes on profit	10	-	-	10	8	-	-	8
Net profit attributable to equity holders of the banking corporation	16	-	1	17	13	-	1	14
Return on capital (net profit as % of average capital)				**16.2%**				**14.2%**
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	36	-	-	36	36	-	-	36
Margin from receiving deposits	4	-	-	4	5	-	-	5
Other	-	-	-	-	2	-	-	2
Total interest revenues, net	**40**	**-**	**-**	**40**	**43**	**-**	**-**	**43**

Results of the Business Banking Segment

	For the six months ended June 30, 2014				For the six months ended June 30, 2013			
	Banking and finance [1]	Capital market	Construction and real estate	Total	Banking and finance[1]	Capital market	Construction and real estate	Total
								NIS in millions
Interest revenues, net:								
From outside operating segments	74	-	188	262	37	-	169	206
Inter-segment	172	-	(53)	119	205	-	(62)	143
Total interest revenues, net	**246**	**-**	**135**	**381**	**242**	**-**	**107**	**349**
Non-interest financing revenues	10	5	-	15	13	5	-	18
Commissions and other revenues	37	11	66	114	39	15	59	113
Total revenues	**293**	**16**	**201**	**510**	**294**	**20**	**166**	**480**
Expenses with respect to credit losses	(17)	-	(28)	(45)	(3)	-	(17)	(20)
Operating and other expenses								
From outside operating segments	86	3	15	104	83	3	15	101
Inter-segment	34	-	7	41	31	-	7	38
Total operating and other expenses	**120**	**3**	**22**	**145**	**114**	**3**	**22**	**139**
Pre-tax profit	190	13	207	410	183	17	161	361
Provision for taxes on profit	71	5	77	153	65	6	59	130
Net profit (loss) attributable to equity holders of the banking corporation	**119**	**8**	**130**	**257**	**118**	**11**	**102**	**231**
Return on capital (net profit as % of average capital)				**16.6%**				**15.4%**
Average asset balance	16,997	-	8,055	25,052	18,811	-	7,884	26,695
Average balance of liabilities	42,349	-	2,641	44,990	33,951	-	2,334	36,285
Average balance of risk assets	18,260	-	19,330	37,590	18,766	-	17,006	35,772
Average balance of securities[2]	-	66,037	-	66,037	-	61,976	-	61,976
Average balance of loans to the public	13,796	-	7,987	21,783	14,282	-	7,191	21,473
Average balance of deposits from the public	42,245	-	2,441	44,686	33,923	-	2,250	36,173
Loans to the public, net (end balance)	13,835	-	8,142	21,977	14,425	-	7,193	21,618
Deposits from the public (end balance)	43,234	-	2,474	45,708	37,412	-	2,366	39,778
Average balance of other assets managed	188	-	33	221	191	-	60	251
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	191	-	112	303	191	-	82	273
Margin from receiving deposits	44	-	6	50	42	-	8	50
Other	11	-	17	28	9	-	17	26
Total interest revenues, net	**246**	**-**	**135**	**381**	**242**	**-**	**107**	**349**

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

(2) Including balance of securities of provident funds and mutual funds to which the Bank provides operating services, but excluding mutual funds held by Bank clients

Contribution of the business banking segment to Group profit in the first half of 2014 amounted to NIS 257 million, compared to NIS 231 million in the corresponding period last year, an increase of 11.3%.

Below are key factors affecting the change in segment contribution:

Contribution of the construction and real estate sub-segment increased in the first half of 2014 by NIS 28 million, or

27.5%, over the corresponding period last year. Interest revenues, net amounted to NIS 135 million, compared to NIS 107 million in the corresponding period last year - an increase of 26.2%, attributed to increase in business volume. Expenses with respect to credit losses decreased by NIS 28 million, compared to a decrease in expenses by NIS 17 million in the corresponding period last year. The decrease in expenses in both these periods is attributed to collection of debt previously written-off. Commissions and other revenues increased by NIS 7 million, attributed to an increase in financing commissions for closed projects. Operating and other expenses were essentially unchanged.

Contribution of business banking excluding construction and real estate in the first quarter of 2014 was essentially unchanged compared to the corresponding period last year. Total financing revenues (interest and non-interest) attributed to business banking, excluding construction and real estate, increased by NIS 1 million year over year. Expenses with respect to credit losses attributed to business banking, excluding construction and real estate, amounted to expenses of NIS 17 million, compared to a decrease in expenses by NIS 3 million in the corresponding period last year. Reduced expenses in both periods are due to collection of debt previously written-off. Commissions and other revenues decreased by NIS 6 million year-over-year, primarily due to the application of FAS 91 (ASC 310-20) with regard to the measurement of interest revenues (for details, see Note 1.C.1 to the financial statements).

Total operating expenses attributed to business banking, excluding construction and real estate, increased by 5.1% compared to the corresponding period last year.

Results of the Business Banking Segment

	For the three months ended June 30, 2014				For the three months ended June 30, 2013			
	Banking and finance[(1)]	Capital market	Construction and real estate	Total	Banking and finance[(1)]	Capital market	Construction and real estate	Total
								NIS in millions
Interest revenues, net:								
From outside operating segments	21	-	97	118	11	-	82	93
Inter-segment	96	-	(26)	70	110	-	(24)	86
Total interest revenues, net	**117**	**-**	**71**	**188**	**121**	**-**	**58**	**179**
Non-interest financing revenues	8	2	-	10	5	3	-	8
Commissions and other revenues	19	7	30	56	21	5	30	56
Total revenues	**144**	**9**	**101**	**254**	**147**	**8**	**88**	**243**
Expenses with respect to credit losses	6	-	(19)	(13)	(28)	-	(8)	(36)
Operating and other expenses								
From outside operating segments	45	1	8	54	39	1	7	47
Inter-segment	19	-	3	22	16	-	4	20
Total operating and other expenses	**64**	**1**	**11**	**76**	**55**	**1**	**11**	**67**
Pre-tax profit	74	8	109	191	120	7	85	212
Provision for taxes on profit	28	3	41	72	43	2	32	77
Net profit (loss) attributable to equity holders of the banking corporation	**46**	**5**	**68**	**119**	**77**	**5**	**53**	**135**
Return on capital (net profit as % of average capital)				**14.8%**				**18.9%**
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	91	-	57	148	89	-	40	129
Margin from receiving deposits	23	-	3	26	24	-	4	28
Other	3	-	11	14	8	-	14	22
Total interest revenues, net	**117**	**-**	**71**	**188**	**121**	**-**	**58**	**179**

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

Results of the Financial Management Segment

	For the six months ended June 30, 2014			For the six months ended June 30, 2013		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
	NIS in millions					
Interest revenues, net:						
From outside operating segments	(348)	-	(348)	(561)	-	(561)
Inter-segment	305	-	305	618	-	618
Total interest revenues, net	**(43)**	**-**	**(43)**	**57**	**-**	**57**
Non-interest financing revenues	58	3	61	60	1	61
Commissions and other revenues	59	16	75	43	21	64
Total revenues	**74**	**19**	**93**	**160**	**22**	**182**
Expenses with respect to credit losses	(2)	-	(2)	-	-	-
Operating and other expenses						
From outside operating segments	157	3	160	146	2	148
Inter-segment	8	-	8	7	-	7
Total operating and other expenses	**165**	**3**	**168**	**153**	**2**	**155**
Pre-tax profit (loss)	(89)	16	(73)	7	20	27
Provision for taxes on profit (loss)	(34)	6	(28)	3	7	10
After-tax profit (loss)	**(55)**	**10**	**(45)**	**4**	**13**	**17**
Share in net profits of associates, after tax	3	-	3	(1)	-	(1)
Net profit (loss):						
Before attribution to non-controlling interest	(52)	10	(42)	3	13	16
Attributable to non-controlling interest	-	-	-	-	-	-
Attributable to equity holders of the banking corporation	**(52)**	**10**	**(42)**	**3**	**13**	**16**
Return on capital (net profit as % of average capital)			**-**			**8.8%**
Average asset balance	37,543	-	37,543	27,535	-	27,535
Of which: Investments in associates	61	-	61	62	-	62
Average balance of liabilities	42,066	-	42,066	37,898	-	37,898
Average balance of risk assets	5,046	-	5,046	5,642	-	5,642
Average balance of provident and mutual fund assets	78,174	-	78,174	81,701	-	81,701
Average balance of securities(1)	-	72,034	72,034	-	65,237	65,237
Average balance of deposits from the public	16,569	-	16,569	17,026	-	17,026
Deposits from the public (end balance)	16,907	-	16,907	17,890	-	17,890
Profit from interest revenues before expenses with respect to credit losses:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	(43)	-	(43)	57	-	57
Total interest revenues, net	**(43)**	**-**	**(43)**	**57**	**-**	**57**

(1) Including balance of securities of provident funds and mutual funds to which the Bank provides operating services, but excluding mutual funds held by Bank clients.

Contribution of the financial management segment to Group profit in the first half of 2014 amounted to a loss of NIS 42 million, compared to a profit of NIS 16 million in the corresponding period last year. Below are key factors affecting the change in segment contribution: Total financing revenues (net interest revenues and non-interest financing revenues) decreased by NIS 100 million, primarily due to differences in fair value and other effects and to linkage differentials for a CPI-position in the current period compared to the corresponding period last year. For details, see analysis of evolution of financing revenues from current operations in chapter "Profit and profitability". Commissions and other revenues increased by NIS 11 million due to growth in business volume. Operating and other expenses increased by NIS 13 million. Expenses with respect to credit losses decreased by NIS 2 million compared to the corresponding period last year, due to a decrease in group-based provisions for banks.

Results of the Financial Management Segment

	For the three months ended June 30, 2014			For the three months ended June 30, 2013		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
	NIS in millions					
Interest revenues, net:						
From outside operating segments	(270)	-	(270)	(351)	-	(351)
Inter-segment	345	-	345	394	-	394
Total interest revenues, net	**75**	**-**	**75**	**43**	**-**	**43**
Non-interest financing revenues	(14)	1	(13)	37	-	37
Commissions and other revenues	26	6	32	19	14	33
Total revenues	**87**	**7**	**94**	**99**	**14**	**113**
Expenses with respect to credit losses	(4)	-	(4)	(1)	-	(1)
Operating and other expenses						
From outside operating segments	78	2	80	78	1	79
Inter-segment	4	-	4	(2)	-	(2)
Total operating and other expenses	**82**	**2**	**84**	**76**	**1**	**77**
Pre-tax profit (loss)	9	5	14	24	13	37
Provision for taxes on profit (loss)	2	2	4	10	4	14
After-tax profit (loss)	**7**	**3**	**10**	**14**	**9**	**23**
Share in net profits of associates, after tax	2	-	2	1	-	1
Net profit (loss):						
Before attribution to non-controlling interest	9	3	12	15	9	24
Attributable to non-controlling interest	-	-	-	-	-	-
Attributable to equity holders of the banking corporation	**9**	**3**	**12**	**15**	**9**	**24**
Return on capital (net profit as % of average capital)			**6.5%**			**21.7%**
Profit from interest revenues before expenses with respect to credit losses:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	75	-	75	43	-	43
Total interest revenues, net	**75**	**-**	**75**	**43**	**-**	**43**

Product operations

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

	For the six months ended June 30, 2014			
	Households	Small business	Commercial banking	Total consolidated
Interest revenues, net	10	3	-	13
Non-interest financing revenues	-	-	-	-
Commissions and other revenues	49	9	1	59
Total revenues	**59**	**12**	**1**	**72**
Expenses with respect to credit losses	-	-	-	-
Operating and other expenses	11	2	-	13
Pre-tax profit	**48**	**10**	**1**	**59**
Provision for taxes on profit	19	4	-	23
Net profit	**29**	**6**	**1**	**36**

	For the six months ended June 30, 2013			
	Households	Small business	Commercial banking	Total consolidated
Interest revenues, net	10	3	-	13
Non-interest financing revenues	-	-	-	-
Commissions and other revenues	49	7	1	57
Total revenues	**59**	**10**	**1**	**70**
Expenses with respect to credit losses	-	-	-	-
Operating and other expenses	12	2	-	14
Pre-tax profit	**47**	**8**	**1**	**56**
Provision for taxes on profit	17	3	-	20
Net profit	**30**	**5**	**1**	**36**

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

	For the six months ended June 30, 2014						
	House-holds	Private banking	Small business	Commercial banking	Business banking	Financial manage-ment	Total consolidated
Interest revenues, net	-	-	-	-	-	-	-
Non-interest financing revenues	3	-	-	-	5	3	11
Commissions and other revenues	93	12	8	3	11	16	143
Total revenues	**96**	**12**	**8**	**3**	**16**	**19**	**154**
Expenses with respect to credit losses	-	-	-	-	-	-	-
Operating and other expenses	35	-	2	-	3	3	43
Pre-tax profit	**61**	**12**	**6**	**3**	**13**	**16**	**111**
Provision for taxes on profit	23	4	2	1	5	6	41
Net profit	**38**	**8**	**4**	**2**	**8**	**10**	**70**

	For the six months ended June 30, 2013						
	House-holds	Private banking	Small business	Commercial banking	Business banking	Financial manage-ment	Total consolidated
Interest revenues, net	-	-	-	-	-	-	-
Non-interest financing revenues	2	-	-	-	5	1	8
Commissions and other revenues	88	15	10	4	15	21	153
Total revenues	**90**	**15**	**10**	**4**	**20**	**22**	**161**
Expenses with respect to credit losses	-	-	-	-	-	-	-
Operating and other expenses	28	-	2	-	3	2	35
Pre-tax profit	**62**	**15**	**8**	**4**	**17**	**20**	**126**
Provision for taxes on profit	23	5	3	1	6	7	45
Net profit	**39**	**10**	**5**	**3**	**11**	**13**	**81**

International Operations

The international operations segment of the Bank Group includes business operations and private banking services via subsidiaries and branches in Israel and overseas. Bank Group international operations are primarily focused on private banking, providing financial services to foreign residents and to Israeli clients who have activities outside of Israel, foreign trade finance, local credit and participation in syndicated loans. The Bank has affiliates in several countries, as described below.

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.

Details of the affiliates and their business are as follows:

Swiss subsidiary - UMB (Switzerland) Ltd. - specialized in private banking services and in extending loans for purchase of real estate in Israel. The subsidiary operates through one branch and is owned by the wholly-owned Bank holding company incorporated in Holland - UMOHC B.V. (hereinafter: ("the holding company"). The Swiss subsidiary is subject to the regulatory laws in Switzerland.

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

- **Los Angeles Branch:** The branch is primarily engaged in commercial banking, participating in syndicated loans and receiving deposits. Deposits with this branch are insured by the Federal Deposit Insurance Corporation(FDIC). The branch's clients are local, Israeli and international clients.

- **London Branch:** The branch is engaged mainly in business banking, including participation in loan syndicates, foreign trade, credit, receiving deposits, foreign currency trade and providing private banking services. The branch's clients are local, Israeli and international clients.

- **Cayman Islands Branch:** The Cayman Islands branch provides private banking services and is operated through the representation of the Bank by the Butterfield Bank in the Cayman Islands, pursuant to the management agreement between it and the Bank.

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

Representative offices - The major activities of representative offices are marketing of Bank services and its representation overseas. The Bank operates representative offices in Mexico, Uruguay, Panama and Germany.
For details of local supervision of Bank affiliates overseas, see chapter on international operations in the Board of Directors' Report included with the financial statements as of December 31, 2013.

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

	For the six months ended June 30, 2014				
	Households	Private banking	Business banking	Financial management	Total
	Unaudited amounts (NIS in millions)				
Interest revenues, net	2	24	25	13	64
Non-interest financing revenues	-	-	1	1	2
Commissions and other revenues	-	24	3	1	28
Total revenues	**2**	**48**	**29**	**15**	**94**
Reduced expenses with respect to credit losses	-	1	-	-	1
Operating and other expenses	1	34	20	3	58
Pre-tax profit	**1**	**13**	**9**	**12**	**35**
Provision for taxes on profit	-	5	3	4	12
Net profit	**1**	**8**	**6**	**8**	**23**

	For the six months ended June 30, 2014				
	Households	Private banking	Business banking	Financial management	Total
	Unaudited amounts (NIS in millions)				
Interest revenues, net	2	25	24	14	65
Non-interest financing revenues	-	-	2	6	8
Commissions and other revenues	-	22	2	1	25
Total revenues	**2**	**47**	**28**	**21**	**98**
Reduced expenses with respect to credit losses	-	(3)	-	-	(3)
Operating and other expenses	1	33	20	3	57
Pre-tax profit	**1**	**17**	**8**	**18**	**44**
Provision for taxes on profit	-	5	3	7	15
Net profit	**1**	**12**	**5**	**11**	**29**

Sources and Financing

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

Total deposits from the public for the Group as of June 30, 2014 amounted to NIS 148.1 billion, compared to NIS 141.2 billion at end of 2013. Deposits from the public in the CPI-linked segment decreased in the second quarter of 2014 by 1.8%; deposits from the public in the foreign currency and foreign-currency-linked segment increased by 16.1%, while deposits in the NIS-denominated, non-CPI-linked segment increased by 3.1%. For details, see the chapter "Development of balance sheet items" above.

As of June 30, 2014, the balance of the three top depositor groups at the Bank amounted to NIS 17.6 billion.

Obligatory notes and debentures

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

As of the balance sheet date, all obligatory notes (Series 26-37), including subordinated notes, issued to the public by Tefahot Issuance, amounted to NIS 14,021 million in total par value (as of December 31, 2013 - NIS 11,128 million), of which NIS 2,131 million in subordinated notes (which qualify for inclusion under Tier II capital with respect to maintaining a minimum capital ratio, subject to transition provisions).

On January 26, 2014, Tefahot Issuance issued debentures (Series 35 and Series 36), with total par value of NIS 1,650 million, for consideration of NIS 1,690 million, pursuant to a shelf prospectus dated July 30, 2013.

On May 29, 2014, Tefahot Issuance issued NIS-denominated debentures (Series 37), with total par value of NIS 1,243 million, for consideration of NIS 1,243 million, pursuant to a shelf prospectus dated July 30, 2013.

The proceeds from these issuances were deposited at the Bank under terms similar to those of the issuances.

Complex capital instruments

All of the Bank's complex capital instruments (Series A) issued and listed for trading, considered upper Tier II capital for maintaining minimum capital ratio, amounted to NIS1,702 million par value as of June 30, 2014, issued for consideration amounting to NIS 1,614 million.

The revalued balance of the complex capital instruments as of June 30, 2014 was NIS 2.0 billion, similar to the end of 2013.

Rating of Bank obligations

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

On January 7, 2014, Maalot confirmed the Bank's issuer rating and its Stable rating outlook, effective as from December 19, 2013.

The rating of subordinated notes issued by Tefahot Issuance remained one rank below the issuer rating, i.e. rated ilAA.

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

On December 17, 2013, Moody's rating agency maintained the Bank's long-term deposit rating at A2 with Negative outlook.

Risk Management

Basel II: Pillar 3 - Market Discipline

Below is qualitative information and quantitative data related to all risk factors to which the Bank is exposed, which are managed in line with the policies set by the Board of Directors. The information has been compiled in accordance with disclosure requirements of the Basel recommendations, Pillar 3, as applied to banks by Public Reporting Directives, and in accordance with the directive on qualitative reporting with regard to exposure to and management of market risk.

As of the balance sheet date, there were no material changes in risk management at the Group and in qualitative information, as included in the Board of Directors' report as of December 31, 2013.

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

Subject	Disclosure	Chapter in Board of Directors' Report / Note to financial statements / Bank website (1)
Application scope	Group entities, consolidation basis, limits on supervisory capital	Risk Management chapter
Capital structure	Details of capital components	Note 5 – Capital adequacy pursuant to directives of the Supervisor of Banks
	Quantitative disclosure	Bank website(1)
	Qualitative disclosure	Bank website(1)
Capital adequacy	Quantitative disclosure	Risk Management chapter
	Capital adequacy ratios for the Group	Note 5 – Capital adequacy pursuant to directives of the Supervisor of Banks
Credit risk	Quantitative disclosure	Risk Management chapter
	Credit risk exposure by economic sector	Management Discussion, Addendum C - Credit Risk by Economic Sector
	Credit risk exposure by contractual term to maturity	Risk Management chapter
	Credit risk exposure by major geographic regions	Management Discussion, Addendum D - Exposure to Foreign Countries
	Information about troubled debt	Note 3 - Credit risk, loans to the public and provision for credit loss
	Provision for credit losses by economic sector	Management Discussion, Addendum C - Credit Risk by Economic Sector
	Credit losses with respect to housing loans	Risk Management chapter
Credit risk mitigation	Quantitative disclosure	Risk Management chapter
Counter-party credit risk	Quantitative disclosure	Risk Management chapter
Securitization	Quantitative disclosure	Risk Management chapter
Equity positions in bank portfolio	Quantitative disclosure	Risk Management chapter
Market risk, liquidity risk, interest risk in bank portfolio	Quantitative disclosure	Risk Management chapter
Operating risk	Qualitative disclosure	Risk Management chapter
Legal risk	Qualitative disclosure	Risk Management chapter
Risk factors	Qualitative and quantitative disclosure	Risk Management chapter

(1) www.mizrahi-tefahot.co.il >> information about Mizrahi-Tefahot >> investor relations >> financial statements

Application scope

Provisions of Proper Conduct of Banking Business Regulations nos. 201-211 "Measurement and Capital Adequacy" apply to the Bank Group and in particular to the Bank - Bank Mizrahi-Tefahot Ltd. - the parent company of the Group. Group companies to which the framework applies, in accordance with the supervisory consolidation basis, are the companies consolidated with the Bank's consolidated financial statements. For details of Bank Group companies, see Note 6 to the financial statements as of December 31, 2013. To the best knowledge of Bank management, and relying on legal counsel, there are no prohibitions or significant restrictions on transfer of funds or supervisory capital between Bank Group companies.

Capital adequacy

The Bank assesses its capital adequacy in accordance with Basel rules, as stated in Proper Conduct of Banking Business regulation 201-211. The Bank applies the standard approach in assessing exposure to credit risk, operating risk and market risk.

The Bank started in early 2012 to develop a use test process for advanced credit risk management models (IRB). In early 2013, the Bank decided to discontinue further development related to the advanced models and to transition the project to maintenance mode, so as to preserve developments made during the year, primarily with regard to mortgages - which are a major component of the Bank's loan portfolio.

The Bank regularly monitors its capital adequacy ratio, in order to ensure compliance with requirements of the Supervisor of Banks and with limitations set by the Board of Directors, as well as to prepare in advance to respond to evolution of risk assets and capital requirements at the Bank. For this purpose, the Board of Directors has created a policy document which specifies the measurement frequency of capital adequacy, the required reporting and actions to be taken if the capital ratio drops below the minimum levels specified; a capital planning and management forum has been operating for several years, attended by the Manager, Finance Division - CFO (chair), Risk Control Division - CRO, and the Manager, Accounting and Financial Reporting Division - the Chief Accountant, the Manager, Planning, Operations and Client Assets Division and the Manager of the Bank's Business Banking Division.

For details of the risk adjusted capital ratio, see Note 5 to the financial statements.

Composition of risk assets and capital requirements with respect to credit risk by exposure group are as follows (NIS in millions):

Exposure group	As of June 30, 2014 Weighted risk asset balances	Capital requirement[(2)]	As of June 30, 2013 Weighted risk asset balances	Capital requirement[(1)]	As of December 31, 2013 Weighted risk asset balances	Capital requirement[(1)]
Sovereign debt	492	62	589	53	521	47
Public sector entity debt	427	53	430	39	455	41
Banking corporation debt	948	119	936	84	1,390	125
Corporate debt	40,388	5,049	39,505	3,555	39,688	3,572
Debt secured by commercial real estate	2,235	279	2,252	203	2,209	199
Retail exposure to individuals	10,821	1,353	10,160	914	10,445	940
Loans to small businesses	3,990	499	3,732	336	3,754	338
Residential mortgages	47,447	5,931	40,507	3,646	43,889	3,950
Other assets	4,254	532	3,815	343	3,060	275
Total	[(3)]**111,002**	**13,877**	**101,926**	**9,173**	**105,411**	**9,487**

(1) Capital requirement calculated at 9% of risk asset balance, in accordance with interim directive on application of Basel Pillar 3.
(2) The capital requirement was calculated at 12.5% of risk asset balances.
(3) Includes application of Basel III rules as from January 1, 2014. For information about the effect of application of the new rules on weighted balances, see chapter " Legislation and Supervision of Bank Group Operations" below.

Risk assets and capital requirements with respect to market risk, CVA risk and operating risk are as follows (NIS in millions):

Exposure group	As of June 30, 2014 Weighted risk asset balances	Capital requirement[(2)]	As of June 30, 2013 Weighted risk asset balances	Capital requirement[(1)]	As of December 31, 2013 Weighted risk asset balances	Capital requirement[(1)]
Market risk	919	115	1,031	93	842	76
CVA risk	826	103	-	-	-	-
Operating risk	7,095	887	7,183	646	7,154	644
Total	**8,840**	**1,105**	**8,214**	**739**	**7,996**	**720**

(1) Capital requirement calculated at 9% of risk asset balance, in accordance with interim directive on application of Basel Pillar 3.
(2) The capital requirement was calculated at 12.5% of risk asset balances.

Development of Group ratio of capital to risk elements is as follows (in %):

	Ratio of capital to risk elements		
	As of June 30, 2014	As of June 30, 2013	As of December 31, 2013
Ratio of common equity Tier 1 to risk elements	9.00	(1)-	(1)-
Ratio of Tier I capital to risk elements	9.00	8.74	9.01
Ratio of total capital to risk elements	13.05	12.89	13.04
Minimum Tier I capital ratio required by Supervisor of Banks	(2)9.00	7.50	7.50
Total minimum capital ratio required by the Supervisor of Banks	(2)12.50	9.00	9.00

(1) The minimum Tier I capital ratio requirement applies as from January 1, 2014.

(2) As from January 1, 2015.

Risk exposure and assessment

Day-to-day activities in a variety of balance sheet and off-balance-sheet financial instruments expose the Group to risk, mainly – market and liquidity risk, credit risk, and operating risk. The risk management policies, in various aspects, are designed to support achievement of the Group's business goals while limiting exposure to such risk. The Bank has a well-ordered process in place for mapping and identification of risk associated with Bank operations, as well as policy documents which govern Bank handling of various risk factors, including measurement, management and mitigation of each risk. As part of these policy documents, the Board of Directors determines the risk appetite. The Bank has a master policy document which determines the risk management and control framework.

Risk is regularly managed by the Group in conformity with the Bank of Israel's Proper Conduct of Banking Business Regulation 310 (risk management) and in conformity with the framework determined by Basel II, Pillar 2 - including required changes upon the coming into effect of Basel III, in line with Bank of Israel directives. In December 2012, the Bank of Israel issued Proper Conduct of Banking Business Regulations 310, 333, 311, 350 and 314 with regard to risk management, as well as an update to Regulation 339. The Bank has completed preparations for application of these regulations effective as from January 2014 (Regulation 333 will be effective as from July 2014), which stipulate new standards for risk management and control at the Bank. For further details, see the chapter on Legislation and Supervision of Bank Group Operations. Bank management believes that risk control and management must be an integrative process. The management of risk from a total viewpoint, for all of the Bank's financial activity, on and off-balance sheet, enables the Bank to maximize the utilization of the correlation between the different risk factors (basis and interest) in the various linkage segments, and the best possible diversification of the risk. In addition to measuring the total risk value, the Bank measures and manages the mix of risk elements.

Credit risk

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

In June 2012, as part of the reorganization of the Risk Control Division, the Division assumed responsibility for the Analysis Department, which provides an independent review of major credit applications, presenting its recommendations as part of the credit approval process to senior forums at the Bank. In early 2014, the Bank made a further reorganization whereby the credit departments of the division, the analysis department and the credit control department now report to the Risk Control Division Manager, who is the Bank's CRO.

Below is the composition of credit exposure by exposure group and by balance sheet item, before provision for credit losses(1) (NIS in millions):

	As of June 30, 2014									
	Sovereigns	Public sector	Banking corpora-tions	Corpora-tions	Secured by commercial real estate	Retail for individuals	Small business	Housing loans	Others	Total (2)
Loans(3)	24,898	469	1,681	28,033	2,374	14,591	6,616	92,574	-	171,236
Securities(4)	7,694	4	552	316	-	-	-	-	-	8,566
Derivatives(5)	117	563	978	1,341	-	29	6	-	-	3,034
Other off-balance-sheet exposures	8	176	36	38,699	464	10,336	2,632	4,277	-	56,628
Other assets(6)	-	-	-	-	-	-	-	-	4,206	4,206
Total	**32,716**	**1,212**	**3,247**	**68,389**	**2,838**	**24,956**	**9,254**	**96,851**	**4,206**	**243,669**

	As of December 31, 2013									
	Sovereigns	Public sector	Banking corpora-tions	Corpora-tions	Secured by commercial real estate	Retail for individuals	Small business	Housing loans	Others	Total (2)
Loans(3)	22,729	486	2,684	28,210	2,367	14,108	6,115	88,594	-	165,293
Securities(4)	5,466	7	566	161	-	-	-	-	-	6,200
Derivatives(5)	174	592	879	1,269	-	33	7	-	-	2,954
Other off-balance-sheet exposures	7	216	72	38,856	533	10,146	2,512	4,164	-	56,506
Other assets(6)	-	-	-	-	-	-	-	-	4,198	4,198
Total	**28,376**	**1,301**	**4,201**	**68,496**	**2,900**	**24,287**	**8,634**	**92,758**	**4,198**	**235,151**

(1) After deduction of accounting write-offs and before provision for credit losses on an individual and group basis.
(2) Balance of on- and off-balance sheet balances, after on- and off-balance-sheet offsets, excluding impact of credit risk mitigation, conversion factors and risk weighting factors, as defined under Basel rules.
(3) Includes loans to the public, loans to governments, deposits with banks and borrowed securities.
(4) Excludes balances deducted from the equity basis and investment in securities in the negotiable portfolio.
(5) Includes face value of derivatives (including credit derivatives), after effect of add-on factors and positive fair value of derivatives.
(6) Excludes derivatives and balances deducted from the equity basis, including cash, investment in shares, fixed assets and investment in investees.

Composition of credit exposure before provision for credit loss, by contractual term to maturity, by major gross credit exposure type, is as follows[(1)] (NIS in millions):

	As of June 30, 2014				
	Up to 1 year	1-5 years	Over 5 years	Without maturity	Total [(2)]
Loans[(3)]	54,265	24,721	92,137	113	171,236
Securities[(4)]	203	6,004	2,359	-	8,566
Derivatives[(5)]	1,606	1,036	392	-	3,034
Other off-balance-sheet exposures	46,772	8,881	974	-	56,627
Other assets[(6)]	1,581	820	86	1,719	4,206
Total	**104,427**	**41,462**	**95,948**	**1,832**	**243,669**

	As of December 31, 2013				
	Up to 1 year	1-5 years	Over 5 years	Without maturity	Total [(2)]
Loans[(3)]	52,322	24,404	88,454	113	165,293
Securities[(4)]	323	4,600	1,277	-	6,200
Derivatives[(5)]	1,528	590	836	-	2,954
Other off-balance-sheet exposures	46,327	9,147	1,032	-	56,506
Other assets[(6)]	2,397	-	86	1,715	4,198
Total	**102,897**	**38,741**	**91,685**	**1,828**	**235,151**

(1) After deduction of accounting write-offs and before provision for credit losses on an individual and group basis.

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

(3) Includes loans to the public, loans to governments, deposits with banks and borrowed securities.

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

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

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

Credit risk - standard approach

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

Before credit risk mitigation

	As of June 30, 2014											
	0%	20%	35%	50%	75%	100%	150%	250%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:												
Sovereign debt	30,301	2,378	-	-	-	36	-	-	-	32,715	-	32,715
Public sector entity debt	-	-	-	1,209	-	-	-	-	-	1,209	-	1,209
Banking corporation debt	-	2,632	-	479	-	83	-	-	-	3,194	-	3,194
Corporate debt	-	202	-	153	-	-	-	-	-	355	-	355
Total	**30,301**	**5,212**	**-**	**1,841**	**-**	**119**	**-**	**-**	**-**	**37,473**	**-**	**37,473**
Non-rated exposures:												
Public sector entity debt	-	-	-	4	-	-	-	-	-	4	-	4
Banking corporation debt	-	36	-	11	-	-	-	-	-	47	-	47
Corporate debt	-	-	-	-	-	67,493	531	-	-	68,024	-	68,024
Debt secured by commercial real estate	-	-	-	-	-	2,838	-	-	-	2,838	-	2,838
Retail exposure to individuals	-	-	-	-	24,836	15	62	-	-	24,913	-	24,913
Loans to small businesses	-	-	-	-	9,160	21	46	-	-	9,227	-	9,227
Residential mortgages	-	-	54,836	10,237	25,993	5,549	215	-	-	96,830	-	96,830
Other assets	1,147	-	-	-	-	2,214	53	792	-	4,206	87	4,293
Total	**1,147**	**36**	**54,836**	**10,252**	**59,989**	**78,130**	**907**	**792**	**-**	**206,089**	**87**	**206,176**
Total	**31,448**	**5,248**	**54,836**	**12,093**	**59,989**	**78,249**	**907**	**792**	**-**	**243,562**	**87**	**243,649**

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

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

After credit risk mitigation

	As of June 30, 2014											
	0%	20%	35%	50%	75%	100%	150%	250%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:												
Sovereign debt	31,007	2,378	-	-	-	20	-	-	-	33,405	-	33,405
Public sector entity debt	265	-	-	920	-	-	-	-	-	1,185	-	1,185
Banking corporation debt	-	2,624	-	479	-	80	-	-	-	3,183	-	3,183
Corporate debt	-	202	-	153	-	-	-	-	-	355	-	355
Total	**31,272**	**5,204**	**-**	**1,552**	**-**	**100**	**-**	**-**	**-**	**38,128**	**-**	**38,128**
Non-rated exposures:												
Public sector entity debt	-	-	-	4	-	-	-	-	-	4	-	4
Banking corporation debt	-	183	-	151	-	-	-	-	-	334	-	334
Corporate debt	-	-	-	-	-	58,901	518	-	-	59,419	-	59,419
Debt secured by commercial real estate	-	-	-	-	-	2,459	-	-	-	2,459	-	2,459
Retail exposure to individuals	-	-	-	-	22,793	(11)	62	-	-	22,844	-	22,844
Loans to small businesses	-	-	-	-	6,877	18	40	-	-	6,935	-	6,935
Residential mortgages	-	-	54,835	10,236	25,904	5,546	215	-	-	96,736	-	96,736
Other assets	1,147	-	-	-	-	2,214	53	792	-	4,206	87	4,293
Total	**1,147**	**183**	**54,835**	**10,391**	**55,574**	**69,127**	**888**	**792**	**-**	**192,937**	**87**	**193,024**
Total exposure	**32,419**	**5,387**	**54,835**	**11,943**	**55,574**	**69,227**	**888**	**792**	**-**	**231,065**	**87**	**231,152**

Before credit risk mitigation

	As of June 30, 2013										
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	23,353	2,428	-	-	-	103	-	-	25,884	-	25,884
Public sector entity debt	-	-	-	1,065	-	-	-	-	1,065	-	1,065
Banking corporation debt	-	2,816	-	447	-	72	-	-	3,335	-	3,335
Corporate debt	-	43	-	199	-	-	-	-	242	-	242
Other assets	-	-	-	-	-	-	-	-	-	33	33
Total	**23,353**	**5,287**	**-**	**1,711**	**-**	**175**	**-**	**-**	**30,526**	**33**	**30,559**
Non-rated exposures:											
Public sector entity debt	-	-	-	11	-	-	-	-	11	-	11
Banking corporation debt	-	16	-	16	-	-	-	-	32	-	32
Corporate debt	-	-	-	-	-	67,482	117	-	67,599	-	67,599
Debt secured by commercial real estate	-	-	-	-	-	2,876	-	-	2,876	-	2,876
Retail exposure to individuals	-	-	-	-	26,089	61	99	-	26,249	-	26,249
Loans to small businesses	-	-	-	-	5,726	18	17	-	5,761	-	5,761
Residential mortgages	-	-	58,680	3,749	19,038	5,671	232	-	87,370	-	87,370
Other assets	1,229	-	-	-	-	3,721	87	-	5,037	87	5,124
Total	**1,229**	**16**	**58,680**	**3,776**	**50,853**	**79,829**	**552**	**-**	**194,935**	**87**	**195,022**
Total	**24,582**	**5,303**	**58,680**	**5,487**	**50,853**	**80,004**	**552**	**-**	**225,461**	**120**	**225,581**

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

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

After credit risk mitigation

	As of June 30, 2013										
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	23,084	2,694	-	-	-	86	-	-	25,864	-	25,864
Public sector entity debt	293	-	-	1,015	-	-	-	-	1,308	-	1,308
Banking corporation debt	-	2,811	-	447	-	68	-	-	3,326	-	3,326
Corporate debt	-	43	-	199	-	-	-	-	242	-	242
Other assets	-	-	-	-	-	-	-	-	-	33	33
Total	**23,377**	**5,548**	**-**	**1,661**	**-**	**154**	**-**	**-**	**30,740**	**33**	**30,773**
Non-rated exposures:											
Public sector entity debt	-	-	-	11	-	-	-	-	11	-	11
Banking corporation debt	-	214	-	86	-	-	-	-	300	-	300
Corporate debt	-	-	-	-	-	58,096	113	-	58,209	-	58,209
Debt secured by commercial real estate	-	-	-	-	-	2,486	-	-	2,486	-	2,486
Retail exposure to individuals	-	-	-	-	24,168	32	98	-	24,298	-	24,298
Loans to small businesses	-	-	-	-	3,965	14	16	-	3,995	-	3,995
Residential mortgages	-	-	58,680	3,749	18,966	5,670	211	-	87,276	-	87,276
Other assets	1,229	-	-	-	-	3,721	87	-	5,037	87	5,124
Total	**1,229**	**214**	**58,680**	**3,846**	**47,099**	**70,019**	**525**	**-**	**181,612**	**87**	**181,699**
Total exposure	**24,606**	**5,762**	**58,680**	**5,507**	**47,099**	**70,173**	**525**	**-**	**212,352**	**120**	**212,472**

Before credit risk mitigation

	As of December 31, 2013										
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	25,820	2,517	-	-	-	38	-	-	28,375	-	28,375
Public sector entity debt	-	-	-	1,295	-	-	-	-	1,295	-	1,295
Banking corporation debt	-	2,707	-	1,401	-	56	-	-	4,164	-	4,164
Corporate debt	-	31	-	195	-	-	-	-	226	-	226
Other assets	-	-	-	-	-	-	-	-	-	33	33
Total	**25,820**	**5,255**	**-**	**2,891**	**-**	**94**	**-**	**-**	**34,060**	**33**	**34,093**
Non-rated exposures:											
Public sector entity debt	-	-	-	7	-	-	-	-	7	-	7
Banking corporation debt	-	14	-	12	-	-	-	-	26	-	26
Corporate debt	-	-	-	-	-	67,638	172	-	67,810	-	67,810
Debt secured by commercial real estate	-	-	-	-	-	2,881	-	-	2,881	-	2,881
Retail exposure to individuals	-	-	-	-	24,086	46	57	-	24,189	-	24,189
Loans to small businesses	-	-	-	-	8,486	21	42	-	8,549	-	8,549
Residential mortgages	-	-	56,868	7,077	22,612	5,342	217	-	92,116	-	92,116
Other assets	1,145	-	-	-	-	2,998	55	-	4,198	87	4,285
Total	**1,145**	**14**	**56,868**	**7,096**	**55,184**	**78,926**	**543**	**-**	**199,776**	**87**	**199,863**
Total exposure	**26,965**	**5,269**	**56,868**	**9,987**	**55,184**	**79,020**	**543**	**-**	**233,836**	**120**	**233,956**

After credit risk mitigation

	As of December 31, 2013										
	0%	20%	35%	50%	75%	100%	150%	350%	Net credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	26,285	2,517	-	-	-	21	-	-	28,823	-	28,823
Public sector entity debt	289	-	-	992	-	-	-	-	1,281	-	1,281
Banking corporation debt	-	2,700	-	1,401	-	53	-	-	4,154	-	4,154
Corporate debt	-	31	-	195	-	-	-	-	226	-	226
Other assets	-	-	-	-	-	-	-	-	-	33	33
Total	**26,574**	**5,248**	**-**	**2,588**	**-**	**74**	**-**	**-**	**34,484**	**33**	**34,517**
Non-rated exposures:											
Public sector entity debt	-	-	-	7	-	-	-	-	7	-	7
Banking corporation debt	-	184	-	139	-	-	-	-	323	-	323
Corporate debt	-	-	-	-	-	58,540	156	-	58,696	-	58,696
Debt secured by commercial real estate	-	-	-	-	-	2,461	-	-	2,461	-	2,461
Retail exposure to individuals	-	-	-	-	22,119	19	56	-	22,194	-	22,194
Loans to small businesses	-	-	-	-	6,511	17	38	-	6,566	-	6,566
Residential mortgages	-	-	56,867	7,074	22,512	5,340	217	-	92,010	-	92,010
Other assets	1,145	-	-	-	-	2,998	55	-	4,198	87	4,285
Total	**1,145**	**184**	**56,867**	**7,220**	**51,142**	**69,375**	**522**	**-**	**186,455**	**87**	**186,542**
Total exposure	**27,719**	**5,432**	**56,867**	**9,808**	**51,142**	**69,449**	**522**	**-**	**220,939**	**120**	**221,059**

Significant exposure to groups of borrowers

Disclosure of credit risk with respect to significant exposure to borrower groups is provided with regard to each group of borrowers whose net indebtedness, on a consolidated basis, after deductions allowed pursuant to Proper Conduct of Banking Business Regulation 313, exceeds 15% of the banking corporation's capital (as defined in Regulation 313), NIS in millions:
As of June 30, 2014, the Bank had no borrower group which meets the aforementioned criteria.

Bank business with major borrower groups is conducted subject to several guidelines designed to mitigate risk associated with such business:

- Business with borrower groups is primarily done with established, leading public companies.
- Credit is mostly provided for short- and medium term, to be used in current operations of these companies.
- Credit is diversified among group companies operating in different segments and economic sectors.
- Credit is provided, in as much as possible, to companies which are not mutually dependent or which are subject to mutual covenants or guarantees.

The Bank takes the following steps in order to manage exposure to groups of borrowers:

- Set financial covenants as needed.
- Provide credit against collateral, in as much as possible, and closely monitor exposure not secured by collateral.
- Closely monitor company operations and financial results.
- Closely monitor compliance of borrower group companies with financial covenants, if and when specified.

Leveraged financing

Leveraged financing is credit financing provided to customers which fulfills one of the following criteria:

- Credit for financing the acquisition of means of control, which typically has a high LTV ratio relative to the value of shares, and relying on the acquired shares as a source for credit repayment, as well as other credit extended to the borrower after the financing of acquisition of means of control, with repayment primarily based on the cash flow from the means of control whose acquisition was financed previously. The Bank reviews these transactions with due diligence, based inter alia on internal valuations as well as on external valuators. Terms and conditions specified for the transaction include sensitivity tests and financial covenants, which if met, require the borrower to provide additional collateral. Such credit is reported periodically.
- Financing for leveraged companies, which is credit extended to companies with attributes which indicate that an adverse change in the global economic environment or in the specific environment of the sector in which they do business, may significantly impact their capacity to repay the bank. The Bank has specified criteria which classify credit included in this category, based primarily on the credit rating of the business client, as reflected in the Criteria model and then individual review of each borrower who meets the threshold criteria. Such borrowers are reviewed by a forum which includes representatives from the Business Banking Division, the Risk Control Division and the Accounting and Financial Reporting Division, which reviews changes to financial parameters of the company and the economic environment in which it operates.

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

Credit for acquisition of means of control (NIS in millions):

	On-balance sheet credit risk as of:		
Economic sector of acquired company	June 30, 2014	June 30, 2013	December 31, 2013
Construction and real estate	179	186	179
Communications and computer services	-	218	204
Total	**179**	**404**	**383**

Credit to leveraged companies (NIS in millions):

	On-balance sheet credit risk as of [(1)]	
Economic sector of borrower	June 30, 2014	December 31, 2013
Construction and real estate	364	470
Commerce	-	224
Industry	193	212
Financial services	168	136
Total	**725**	**1,042**

(1) Note that the definition of leveraged financing above was made in December 2013 - so that no comparative figures are presented as of June 30, 2013.

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

	As of June 30, 2014		
External credit rating	On balance sheet credit risk [(3)]	Off balance sheet credit risk[(4)]	Current credit exposure
AAA to AA-	493	-	493
A+ to A-	1,362	2	1,364
BBB+ to BBB-	2	-	2
+BB to B-	-	11	11
Lower than B-	-	-	-
Unrated	4	-	4
Total credit exposure to foreign financial institutions	**1,861**	**13**	**1,874**
Of which: Troubled commercial credit risk, net[(5)]	-	-	-

	As of June 30, 2013		
External credit rating	On balance sheet credit risk [(3)]	Off balance sheet credit risk[(4)]	Current credit exposure
AAA to AA-	[(6)] 729	-	729
A+ to A-	1,356	10	1,366
BBB+ to BBB-	7	-	7
+BB to B-	-	10	10
Lower than B-	-	-	-
Unrated	[(6)]5	-	5
Total credit exposure to foreign financial institutions	**2,097**	**20**	**2,117**
Of which: Troubled commercial credit risk, net[(5)]	5	-	5

	As of December 31, 2013		
External credit rating	On balance sheet credit risk [(3)]	Off balance sheet credit risk[(4)]	Current credit exposure
AAA to AA-	768	-	768
A+ to A-	1,462	2	1,464
BBB+ to BBB-	3	-	3
BB+ to B-	-	10	10
Lower than B-	-	-	-
Unrated	4	-	4
Total credit exposure to foreign financial institutions	**2,237**	**12**	**2,249**
Of which: Troubled commercial credit risk, net[(5)]	-	-	-

(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the former. Bank exposure is almost entirely to banks and investment banks primarily incorporated in the UK, USA, Germany, Switzerland and Canada.
(2) After deduction of provision for credit losses.
(3) Bank deposits, credit to the public, investment in debentures, securities borrowed or acquired in conjunction with resale agreements and other assets with respect to derivative instruments.
(4) Primarily guarantees and commitments to grant credit, including guarantees to secure liabilities of third parties, which have been weighted at 50% of their amount – in accordance with Proper Conduct of Banking Business Regulation 313 (excluding off-balance sheet derivatives).
(5) Credit risk for impaired, inferior credit or credit under special supervision, excluding credit risk with respect to individuals.
(6) Re-classified.

The aforementioned credit exposure excludes exposure to financial institutions for which complete, explicit government guarantees are in place, and exclude investments in asset-backed securities. For further information with regard to credit exposure composition with respect to derivative instruments vis-à-vis banks and dealers/brokers (domestic and foreign), see Note 8 to the financial statements.

Some of the exposures listed in the above table are included under Management Discussion - Addendum C - Credit Risk by Economic Sector, enclosed with these financial statements under the Financial Services sector. This Management Discussion also includes deposits with banks, credit to the public, public investment in debentures and other assets with respect to derivative instruments. Future transactions, weighted in accordance with rules determined by Proper Conduct of Banking Business regulation 313, are included under Management Discussion as part of off-balance sheet credit risk, and are excluded from the above table.

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

The Bank determines the exposure limit for each financial institution based on the most recent rating available for that institution, provided by one of the leading international rating agencies– 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 that financial institution is also taken into consideration. The policies also stipulate 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 any additional information available with regard to these institutions on a regular basis in order to monitor exposure even where the credit rating may not reflect the complete picture.

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

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

The Bank acquires the ratings, and analysis underlying such ratings, from Fitch and Moody's. The main rating used by the Bank for independent analysis is the rating provided by Fitch.

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.)

In conformity with directives from the Supervisor of Banks, banks are required to 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's policy documents include dedicated environmental risk policies, including a methodology for identification, assessment and handling of environmental risk. The environmental risk policies are approved annually by the Bank Board of Directors.

Credit losses with respect to housing loans

In conjunction with credit risk management, the Bank takes various actions to mitigate risk associated with provision of housing loans. The Bank estimates the risk associated with provision of housing loans as low, relative to the inherent risk in the Bank's overall loan portfolio, due to the high level of client diversification, geographic diversification of borrowers, relatively low leverage, intensive review procedures of borrower quality and their repayment capacity, and securing credit with property as collateral. The Bank acts regularly to control and manage the risk associated with housing loans, for which the Business Banking Division, the Risk Control Division and other Bank entities are responsible. The means and tools for mitigating risk with respect to housing loans, and the parties to management of this risk factor, are listed in the Board of Directors' report as of December 31, 2013.

The key parameters used for specifying risk appetite in the mortgage segment are: results of the differential risk premium model, LTV ratio of the loan, property location (geographical risk) and credit quality benchmark. Over the past two years, the risk appetite has been extended within the Bank's policy document and additional restrictions were imposed on various parameters: loan repayment to income ratio, loan purpose, loan term, loan track mix, property type, credit insurance and cross restrictions on combinations of multiple parameters.

The Bank constantly monitors the risk profile of the mortgage portfolio, in view of the specified risk appetite.

The Bank monitors the current portfolio, including performance analysis by various criteria and by risk focal points. In addition, the Bank regularly conducts stress testing of its mortgage portfolio - challenging multiple risk factors in this portfolio, as presented below. Some stress testing is conducted using advanced methods and using current data from advanced models developed by the Bank. The Bank recently upgraded its stress testing in conformity with Bank of Israel directives (the Bank of Israel uniform scenario – a uniform macro-economic scenario for the entire banking system). The various stress tests conducted by the Bank challenge, *inter alia*, the current macro-economic situation and account for a very high level of unemployment compared to the current situation, an interest rate which is significantly higher than current interest rates as well as lower housing prices. This stress testing indicates that the Bank has sufficient capital to withstand the risk level derived from such strict stress testing.

Attributes of the Bank's housing loan portfolio

The Bank's policies with regard to mortgages are based on a conservative approach, limiting specific risk for each loan by reviewing various attributes. These attributes include: LTV ratio, ratio of repayment to regular borrower income, and borrower capacity to make current repayments even under scenarios involving a change in interest rates. Whenever loans are granted with attributes which do not meet one or more of the standards set by the Bank for these attributes, the Bank requires additional bolstering for the loan, such as additional guarantors for the loan, proven repayment capacity not based on regular borrower income etc. In recent years, due to expansion of the housing market and relatively low interest environment, the Bank has enhanced measures taken to monitor and mitigate risk, as reflected by a significant decrease in loan risk factors, as detailed below (all data below as of June 30, 2014).

LTV ratio

One of the key parameters used by the Bank in minimizing risk in its housing loan portfolio is the LTV ratio (ratio of loan amount to value of the property pledged as collateral). The average loan-to-value ratio for the Bank's mortgage portfolio as of June 30, 2014 was 56.0%, compared to 56.3% on December 31, 2013 and to 57.8% on December 31, 2012. Out of the Bank's total housing loan portfolio, amounting to NIS 93.7 million, some 91% were granted with an original LTV ratio under 75%, which secures the loan even in case of an extreme 25% decrease in value of the property pledged as collateral.

The LTV ratio in this report is the historical LTV ratio calculated upon loan approval, and does not account for any current repayments which reduce the loan balance nor any changes in value of properties pledged as collateral. The significant increase in housing prices since late 2008, along with reduced loan balances with respect to current repayment, result in a lower current LTV ratio for loans granted through 2008, so that most all of the loans currently have LTV ratios under 75%. Total loans granted at LTV ratios over 75% in the past two years amounted to NIS 1.1 billion, or only 1.1% of the total housing loan portfolio.

On November 1, 2012, the Supervisor of Banks issued directives which restrict the loan-to-value ratio for housing loans (these directives were grouped, together with other directives, in a circular with regard to housing loans dated July 15, 2014. For details, see the chapter on Legislation and Supervision of Bank Group Operations below.) These directives stipulate that the LTV ratio may not exceed:

Up to 75% – for borrowers buying a single apartment (as defined in Section 9(c) of the Real Estate Taxation Act)

Up to 70% – for second home buyers buying an alternative apartment (an apartment bought by an Israeli citizen who owns a residential apartment which would be a single apartment if not for the apartment being purchased, where the borrower commits to sell their existing apartment as set forth in Section 9(c1a)(2)(a)(2) of the Real Estate Taxation Act)

Up to 50% – for buyers of a rental property, for general-purpose loans and for loans to foreign residents.

Loans previously granted with a high LTV ratio are usually secured by credit insurance, which significantly reduces risk for the Bank, although it does not affect the LTV or repayment percentage calculation. Out of the balance of loans granted with an original LTV ratio higher than 75%, a total of NIS 4.2 billion, or 49.7%, is insured by credit insurance.

In recent years, due to measures taken by the Bank to mitigate risk in the mortgage portfolio and the aforementioned restrictions imposed by the Bank of Israel, the percentage of loans granted with a high LTV ratio out of total housing loan portfolio of the Bank decreased to 5.0% for loans granted 1-2 years ago, 0.9% for loans granted 3-12 months ago and 0.7% for loans granted in the second quarter of 2014.

Repayment as percentage of regular income

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

The average repayment ratio for the Bank's housing loan portfolio is 30.0%. Some 73% of the Bank's mortgage portfolio was granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is 24.0%); Some 20% of the mortgage portfolio was granted to borrowers with a repayment ratio of 35% to 50% (the average repayment ratio for these borrowers is 40.9%). Some 6% of the mortgage portfolio was granted to borrowers with a repayment ratio of 50% to 80% (the average repayment ratio for these borrowers is 59.9%), and only 1% was granted to borrowers with a repayment ratio over 80% (the average repayment ratio for these borrowers is 92.5%).

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

On August 29, 2013, the Supervisor of Banks issued directives with regard to restrictions on provision of housing loans, which stipulated restrictions on the ratio of monthly loan repayment to income. For further details, see above the chapter on Legislation and Supervision of Bank Group Operations on the financial statements as of December 31, 2013.

On July 15, 2014, the Supervisor of Banks issued a circular concerning restrictions on provision of housing loans dated August 29, 2013, which incorporates, *inter alia*, the directives described above. The circular also redefines the term "repayment ratio". For further details see above the chapter on Legislation and Supervision of Bank Group Operations on these financial statements.

Loans bearing variable interest

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

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

The Bank provides clients with the knowledge and expertise of its staff in order for clients to understand the risk involved with a loan bearing interest linked to the prime lending rate and how this risk may be mitigated or avoided. The Bank advises clients to attribute appropriate weighting to this risk, and to be cautious when deciding upon the loan composition.

The repayment capacity of clients who obtained loans in the period when the prime lending rate was high is reviewed using the high interest rate. In recent years, when interest rates were low, these clients benefited significantly from lower loan costs.

Total loans linked to the prime lending rate granted over the past two years, which constitute the major portion of risk associated with such mortgages, is NIS 10.6 billion, or only 11.3% of the housing loan portfolio.

Note however that before approving a loan linked to the prime lending rate, the Bank reviews the repayment capacity of the borrower under scenarios where the prime lending rate would increase by 2 percentage points.

The directive by the Supervisor of Banks dated May 3, 2011, which restricts the portion of loans extended bearing interest which may vary within a 5-year term to 33.3% of total loan amount, has also contributed to further reduction in variable interest loans extended, and to mitigation of risk in this area.

According to the Supervisor's letter dated August 29, 2013, a banking corporation may not approve a housing loan where the ratio of the loan portion bearing variable interest to the total loan amount exceeds 66.6%.

For further details, see above the chapter on Legislation and Supervision of Bank Group Operations on the financial statements as of December 31, 2013.

The aforementioned directives by the Supervisor of Banks, dated May 3, 2011 and dated August 29, 2013, were incorporated in a circular concerning restrictions on provision of housing loans dated May 15, 2014. For details, see the chapter on Legislation and Supervision of Bank Group Operations below.

Loan amount

Loans granted by the Bank with an original amount over NIS 2 million amounted in total to NIS 3.8 billion as of June 30, 2014, or only 4.0% of the Bank's housing loan portfolio.

Below are details of various risk attributes of the housing loan portfolio (NIS in millions):

LTV ratio	Repayment as percentage of regular income	Loan age [1] (time elapsed since loan grant)						
		Up to 3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Up to 60%	Up to 35%	2,640	7,506	7,299	13,344	6,540	2,026	39,355
	35%-50%	457	1,712	2,342	4,081	1,658	420	10,670
	50%-80%	3	216	787	1,597	724	187	3,514
	Over 80%	-	26	74	171	136	45	452
60%-75%	Up to 35%	1,326	4,404	4,924	9,111	3,102	626	23,493
	35%-50%	167	750	1,351	2,603	919	188	5,978
	50%-80%	1	59	346	844	342	80	1,672
	Over 80%	-	2	9	47	65	17	140
Over 75%	Up to 35%	29	107	736	2,350	1,665	1,331	6,218
	35%-50%	2	25	143	554	461	493	1,678
	50%-80%	-	3	18	109	174	171	475
	Over 80%	-	-	1	13	39	33	86
Total		**4,625**	**14,810**	**18,030**	**34,824**	**15,825**	**5,617**	**93,731**
Of which:								
Loans granted with original amount over NIS 2 million		186	507	756	1,856	437	23	3,765
Percentage of total housing loans		4.0%	3.4%	4.2%	5.3%	2.8%	0.4%	4.0%
Loans bearing variable interest:								
Non-linked, at prime lending rate		1,323	4,388	4,836	11,357	8,004	263	30,171
CPI-linked[2]		75	222	362	4,912	3,082	1,430	10,083
In foreign currency[2]		145	333	683	2,583	294	284	4,322
Total		**1,543**	**4,943**	**5,881**	**18,852**	**11,380**	**1,977**	**44,576**
Non-linked loans at prime lending rate, as percentage of total housing loans		28.6%	29.6%	26.8%	32.6%	50.6%	4.7%	32.2%
CPI-linked loans bearing variable interest as percentage of total housing loans		1.6%	1.5%	2.0%	14.1%	19.5%	25.5%	10.8%
Loans with LTV over 75% as percentage of total housing loans		0.7%	0.9%	5.0%	8.7%	14.8%	36.1%	9.0%

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

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

Provision by extent of arrears

Below are details of the provision for credit losses with respect to housing loans for which a minimum provision for credit losses was made by extent of arrears, in accordance with appendix to Proper Conduct of Banking Business Regulation 314, as of June 30, 2014 (NIS in millions):

	Extent of arrears							
		In arrears 90 days or longer					Balance with respect to re-financed loans in arrears [(4)]	Total
	In arrears 30 to 89 days[(3)]	90 days to 6 months	6-15 months	15-33 months	Over 33 months	Total over 90 days		
Amount in arrears	5	11	13	13	204	241	83	329
Of which: Balance of provision for interest [(1)]	-	-	-	1	100	101	6	107
Recorded debt balance	312	374	188	77	181	820	233	1,365
Balance of provision for credit losses [(2)]	-	-	26	37	138	201	105	306
Debt balance, net	**312**	**374**	**162**	**40**	**43**	**619**	**128**	**1,059**

(1) With respect to interest on amounts in arrears.
(2) Excludes balance of provision for interest.
(3) In conformity with Public Reporting Regulations, excludes the balance of housing loans in arrears up to 2 months.
(4) Loans for which an agreement was signed for repayment of arrears by borrower, where a change was made in the repayment schedule for the loan balance not yet due.

Credit risk mitigation

Below is the composition of net credit exposure by risk mitigation type (NIS in millions):

	As of June 30, 2014				
		Exposure covered by guarantees[(2)]			
	Gross credit exposure[(1)]	Amounts deducted	Amounts added	Exposure covered by qualified financial collateral	Net credit exposure
Sovereign debt	32,715	(265)	971	(16)	33,405
Public sector entity debt	1,213	(252)	265	(37)	1,189
Banking corporation debt	3,241	(7)	286	(3)	3,517
Corporate debt	68,379	(434)	-	(8,171)	59,774
Debt secured by commercial real estate	2,838	(24)	-	(355)	2,459
Retail exposure to individuals	24,913	(3)	-	(2,066)	22,844
Loans to small businesses	9,227	(537)	-	(1,755)	6,935
Residential mortgages	96,830	-	-	(94)	96,736
Other assets	4,206	-	-	-	4,206
Total	**243,562**	**(1,522)**	**1,522**	**(12,497)**	**231,065**

(1) Balance of on- and off-balance sheet balances, after on- and off-balance-sheet offsets, after provision for credit loss, excluding impact of credit risk mitigation, credit conversion factors and risk weighting factors, as defined under Basel rules.
(2) Mitigating credit risk by using guarantees results in exposures moving from their original exposure group to exposure groups with a lower risk weighting factor. Consequently, sometimes the extent of exposure in a given exposure group, after credit risk mitigation, is higher than the extent of exposure in this group before risk mitigation.

Below is the composition of net credit exposure by risk mitigation type (NIS in millions) - continued:

	As of December 31, 2013				
		Exposure covered by guarantees[2]			
	Gross credit exposure [1]	Amounts deducted	Amounts added	Exposure covered by qualified financial collateral	Net credit exposure
Sovereign debt	28,375	(281)	747	(18)	28,823
Public sector entity debt	1,302	(252)	289	(51)	1,288
Banking corporation debt	4,190	(7)	297	(3)	4,477
Corporate debt	68,036	(428)	-	(8,686)	58,922
Debt secured by commercial real estate	2,881	(6)	-	(414)	2,461
Retail exposure to individuals	24,189	(4)	-	(1,991)	22,194
Loans to small businesses	8,549	(355)	-	(1,628)	6,566
Residential mortgages	92,116	-	-	(106)	92,010
Other assets	4,198	-	-	-	4,198
Total	**233,836**	**(1,333)**	**1,333**	**(12,897)**	**220,939**

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

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

Counter-party credit risk

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

The trading in financial derivatives is part of the Bank's management of assets and liabilities, and is subject to limitations prescribed by the Board of Directors. The Bank trades in these financial derivatives, both for its clients and for its own account, as part of the management of basis and interest exposure in the various linkage segments. The Bank operates in credit derivatives (CDS) in its negotiable portfolio. These investments are individually reviewed by the Risk Management Committee, headed by the Manager, Financial Division, and are submitted for approval by the Asset and Liability Management Committee headed by the President.

Below is the current credit exposure with respect to derivatives (NIS in millions):

	As of June 30, 2014					
Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives(2)	Total
Par value of derivatives after impact of add-on factor	155	1,027	-	1	-	1,183
Positive fair value of financial derivatives(1)	426	806	619	-	-	1,851
Total exposure with respect to derivatives	**581**	**1,833**	**619**	**1**	**-**	**3,034**
Collateral with respect to derivatives (before safety factors)	(47)	(183)	(538)	-	-	(768)
Impact of safety factors on collateral	3	10	212	-	-	225
Total current credit exposure after credit risk mitigation	**537**	**1,660**	**293**	**1**	**-**	**2,491**

	As of December 31, 2013					
Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives(2)	Total
Par value of derivatives after impact of add-on factor	164	1,030	-	1	2	1,197
Positive fair value of financial derivatives(1)	307	935	514	1	-	1,757
Total exposure with respect to derivatives	**471**	**1,965**	**514**	**2**	**2**	**2,954**
Collateral with respect to derivatives (before safety factors)	(178)	(301)	(780)	(1)	-	(1,260)
Impact of safety factors on collateral	2	21	447	-	-	470
Total current credit exposure after credit risk mitigation	**295**	**1,685**	**181**	**1**	**2**	**2,164**

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

(2) The Bank's credit derivatives operations are not classified as brokerage operations. For information about transactions to buy and sell credit protection, see Note 8.A to the financial statements.

Securitization

The Bank does not operate in the field of asset securitization. It is Bank policy to avoid, in principle, investment in complex securitization instruments.

As of June 30, 2014, as of June 30, 2013 and as of December 31, 2013, the Bank had no investments with securitization exposure.

Equity positions in bank portfolio

For details of equity investments in the Bank's portfolio, see Note 2 to the financial statements. The investment balance includes investments in negotiable and public shares amounting to NIS 4 million, and investment in non-public shares amounting to NIS 163 million.

	As of June 30, 2014	
NIS in millions	Fair value	Capital requirement (1)
Shares	67	8
Venture capital / private equity funds	100	13
Total equity investment in bank portfolio	**167**	**21**

	As of December 31, 2013	
NIS in millions	Fair value	Capital requirement(2)
Shares	62	6
Venture capital / private equity funds	96	9
Total equity investment in bank portfolio	**158**	**15**

(1) The capital requirement was calculated at 12.5%.

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

Market risk

The market risk to which the Bank is exposed by various financial instruments is due to their sensitivity to unexpected changes in risk factors, including: interest rate, inflation and exchange rates - so that changes in market conditions may result in changes in the fair value of various financial instruments. Market risk management is intended to maximize Bank profit at the prescribed risk level. Exposure to market risk is managed in accordance with the limitations prescribed by the Board of Directors, within the frameworks of and subject to which, the Bank's Executive Management acts, according to the market conditions at any given time.

The Bank focuses on two major market risk factors:

- Interest risk - the risk of erosion of capital as a result of future interest rate changes. The exposure to interest risk results from a lack of correlation between the period to maturity of the Bank's assets and liabilities, or from incomplete correlation of the effect of change in interest rates on the different financial instruments. The Bank has applied the Bank of Israel directive concerning management of interest risk (Regulation 333), a specific directive with regard to interest risk management, emphasizing interest risk in the Bank portfolio. Interest risk management is covered by a separate policy document on interest risk management, which includes, *inter alia*, definitions of risk focal points, how risk is managed including structure and authority of different organs, risk measurement and restrictions set by the Board of Directors and management.
- Linkage-basis risk - the risk of erosion in capital due to changes in the value of the linkage basis – changes in prices, exchange rates and inflation rates. The exposure to basis risk exists when the Bank's assets and liabilities are denominated in different currency or linkage segments.

Interest risk in Bank portfolio

Interest risk in the Bank's bank portfolio is monitored on a regular basis, both in managing interest risk for the overall portfolio in VaR terms, and in EVE (Economic Value of Equity) terms, the Bank's primary model for risk assessment, which reviews changes in the economic value of the portfolio under different assumptions regarding changes to the interest rate curve under normal and stress situations, including corresponding 2% shifts upwards/downwards of the interest rate curve.

In addition, the Bank has multiple scenarios designed to review its risk profile under stress conditions, in view of the risk appetite determined by the Board of Directors. In this context, the Bank applied innovative methods to review interest risk upon occurrence of stress events, including under stress scenarios of an economic outline.

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

	June 30, 2014					
	Change in fair value					
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	(539)	(22)	103	(9)	(9)	(476)
2% decrease	533	(124)	(2)	9	5	421

	June 30, 2013					
	Change in fair value					
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	26	(437)	41	(17)	(12)	(399)
2% decrease	45	340	(10)	6	5	386

	December 31, 2013					
	Change in fair value					
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	(351)	(312)	99	(8)	1	(571)
2% decrease	410	240	(12)	4	3	645

In preparing the mortgage repayment cash flow forecast for the Bank, assumptions with regard to prepayment rate and manner are taken into account. Market risk in the Bank's negotiable portfolio, primarily composed of portfolios managed in the trading room, is managed by means of quantitative limitations specified for each portfolio based on its activity.

The VaR (Value at Risk) model

As required according to the directives of the Bank of Israel, the Bank calculates the VaR values and the stress-test values on a daily basis. In order to improve the responsiveness of the VaR to the degree of volatility in financial markets, the Bank uses a new VaR calculation method which implements a combination of two major calculation methods: the analytical method and the historical simulation method. This method allows the Bank to handle situations where market volatility increases. This method has been developed by the Bank in the past, together with overseas experts, and is subject to continuous back testing.
VaR calculations with respect to the option portfolio are conducted hourly at the Bank, using the Monte Carlo simulation method and the historical method.
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 VaR for the Bank Group (NIS in millions):

	First half of 2014	First half of 2013	All of 2013
At end of period	235	187	197
Maximum value during period	235 (JUN)	187 (JUN)	229 (JUL)
Minimum value during period	161 (JAN)	146 (MAR)	146 (MAR)

Back-testing of the historical-analytic VaR model shows that in the year ended June 30, 2014 there was one case in which the daily loss exceeded the forecasted VaR value. This number of cases is within the criteria specified by the Basel Committee. Therefore, the Bank's VaR model is valid.

Below are exceptions during the past year (NIS in millions):

Exception date	Exception value
July 17, 2013	5.5

Basis risk

Below is an analysis of the sensitivity of Bank Group capital to changes in major exchange rates and in the CPI (before tax effect) as of June 30, 2014:

Capital increase (erosion), NIS in millions

	Scenarios				Extreme historical scenario(1)	
	10% increase	5% increase	5% decrease	10% decrease	Maximum increase	Maximum decrease
CPI	837.4	418.7	(418.7)	(837.4)	122.3	(72.0)
Dollar	10.4	0.2	7.9	19.2	(0.3)	2.5
Pound Sterling	3.1	0.8	(0.7)	(1.8)	0.4	(0.3)
Yen	0.8	0.3	0.0	0.2	0.3	0.0
Euro	(8.6)	(5.0)	4.7	11.0	(4.1)	2.9
Swiss Franc	0.3	0.1	(0.1)	0.0	0.1	(0.1)

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

Interest risk

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

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

	Israeli currency		Foreign currency[2]			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
June 30, 2014						
Financial assets[1]	109,424	55,712	14,310	3,656	1,475	184,577
Amounts receivable with respect to financial derivatives[3]	66,350	3,864	48,161	10,732	4,437	133,544
Financial liabilities[1]	(104,422)	(40,059)	(24,710)	(4,826)	(2,572)	(176,589)
Amounts payable with respect to financial derivatives[3]	(71,024)	(11,571)	(37,763)	(9,630)	(3,390)	(133,378)
Total	**328**	**7,946**	**(2)**	**(68)**	**(50)**	**8,154**
December 31, 2013						
Financial assets[1]	103,110	54,401	12,880	3,484	1,778	175,653
Amounts receivable with respect to financial derivatives[3]	65,800	3,829	44,409	10,692	4,285	129,015
Financial liabilities[1]	(100,957)	(38,996)	(21,144)	(4,473)	(2,515)	(168,085)
Amounts payable with respect to financial derivatives[3]	(66,863)	(12,787)	(36,001)	(9,730)	(3,565)	(128,946)
Total	**1,090**	**6,447**	**144**	**(27)**	**(17)**	**7,637**

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

	Israeli currency		Foreign currency[2]				Change in fair value	
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total	NIS in millions	In %
June 30, 2014								
Change in interest rates:								
Concurrent immediate increase of 1%	556	7,778	(49)	(58)	(54)	8,173	19	0.2
Concurrent immediate increase of 0.1%	360	7,925	(7)	(67)	(50)	8,161	7	0.1
Concurrent immediate decrease of 1%	6	8,092	53	(71)	(46)	8,034	(120)	(1.5)
December 31, 2013								
Change in interest rates:								
Concurrent immediate increase of 1%	1,310	6,296	106	(51)	(22)	7,639	2	-
Concurrent immediate increase of 0.1%	1,116	6,433	139	(30)	(17)	7,641	4	0.1
Concurrent immediate decrease of 1%	743	6,586	183	(1)	(12)	7,499	(138)	(1.8)

(1) Includes complex financial instruments. Excludes balance sheet balances of derivatives and fair value of off-balance sheet financial instruments.
(2) Includes Israeli currency linked to foreign currency.
(3) Amounts receivable (and payable) with respect to financial derivatives, discounted using interest rates used for calculation of the fair value.
(4) Net fair value of financial instruments presented in each linkage segment is the net fair value for this segment, assuming the indicated change in all interest rates in the linkage segment. Total net fair value of financial instruments is the net fair value of all financial instruments (excluding non-monetary items), assuming the indicated change in all interest rates in all linkage segments.

The Bank is required to allocate capital with respect to interest risk in the negotiable portfolio, for exchange rate risk for all banking activities and for option risk. The Bank uses the effective term to maturity method in measuring interest risk, and the Delta Plus method in measuring option risk. This method quantifies the risk associated with operations of the option portfolio based on the "Greek letter" values. These reflect the sensitivity of the option portfolio to moves in the underlying asset and in standard deviation.

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

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

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

	As of June 30, 2014			As of December 31, 2013		
	Capital requirements[(1)]			Capital requirements[(2)]		
Risk element[(3)]	Specific risk	General risk	Total	Specific risk	General risk	Total
Interest risk[(4)]	-	92	92	-	51	51
Equity risk	-	-	-	-	-	-
Foreign currency exchange rate risk	-	23	23	-	25	25
Total market risk	**-**	**115**	**115**	**-**	**76**	**76**

(1) The capital requirement was calculated at 12.5%.

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

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

(4) Calculated using the Effective Duration approach, as defined in the Supervisor of Banks' directive.

Liquidity risk

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

The Bank has developed an internal model to estimate the liquidity needs and liquid resources, as required by Proper Conduct of Bank Businesses regulation 342 “Management of Liquidity Risk" and in accordance with Basel provisions. A revised directive was issued in January 2013 and became effective in July 2013. The revised directive is the first step in aligning liquidity management with Basel III publications. The Bank has applied the new directives as required. In conjunction with this application, the Bank specified internal system-wide integrated extreme scenarios in Israeli currency and in foreign currency for a one-month term. This is based on behavioral attributes of depositors and on risk focal points,

in line with the various scenarios. The Board of Directors specified restrictions on the Liquidity Coverage Ratio (LCR) under these scenarios and for the survival horizon in the normal course of business, as well as restrictions and guidelines on concentration and other stress scenarios for periods shorter or longer than one month. The Bank maintains liquid means, including cash and current accounts with the Bank of Israel and a high-quality, liquid debenture portfolio which may be immediately realized; the emergency plan includes additional liquid means which may be activated under each scenario. The liquidity ratios are calculated daily based on the current composition of liabilities and liquid means. There is also daily monitoring of internal and external indicators which may point to a liquidity crunch.
The Bank has a Liquidity Forum, which convenes daily, under the responsibility of the Finance Division, which meets monthly to discuss the liquidity situation and to align the liquidity needs of different Bank units with the liquidity "providers" and liquidity managers. In addition, the Risk Control Division performs back testing of model adequacy, as required by Bank of Israel directives.

Liquidity risk management is governed by a policies document submitted annually or more frequently for approval by the Board of Directors. The policy document, which includes how risk is managed, including roles and responsibilities of the various organs, the regular management of liquidity risk, all parameters used for risk measurement in the normal course of business and under various stress scenarios, restrictions specified by the Board of Directors and by management, internal and external key risk indicators which indicate potential liquidity issues for the Bank or for the banking system and a detailed emergency plan for handling a liquidity crisis, including potential means under each scenario type and the estimated time for execution.

The Bank's liquidity management is proactive and tight, both in using detailed models at different world situations, in strict maintenance of liquid means with minimal credit risk which may be immediately realized, and in active management of sources for diversification and extension of the effective duration of sources. Note that the Bank's debenture portfolio, used as liquid means, has very high levels of liquidity and credit quality.
There were no deviations from the Board of Directors’ limitations recorded in the first and second quarters of 2014.
Below is evolution of Bank cash flow by maturity, as presented in detail in Note 14 to the financial statements.
The Bank consistently acts, as part of its strategy to increase stable sources in support of Bank liquidity, to raise long-term sources.

The Bank's NIS-denominated balance sheet sources for terms longer than 1 month, as percentage of total NIS-denominated sources as of June 30, 2014, was 49% (as of December 31, 2013 - 50% and as of December 31, 2012 - 61%), of which balance sheet sources for terms longer than 1 year - 61% (as of December 31, 2013 - 58% and as of December 31, 2012 - 59%).
Most of the Bank's balance sheet sources in foreign currency as of June 30, 2014 are for terms of up to 1 year, constituting 91% of total foreign currency-denominated sources (as of December 31, 2013 - 89% and as of December 31, 2012 - 94%), of which 24% are sources for terms longer than 3 months (as of December 31, 2013 - 28% and as of December 31, 2012 - 25%).
The NIS-denominated sources have longer terms than foreign currency-denominated sources, in line with the longer term use of NIS-denominated funds, primarily for mortgages denominated in NIS.
The Bank also conducts a significant volume of future transactions to divert excess liquidity between NIS and foreign

currency and by term, as part of dynamic management of liquidity risk.

Soliciting sources and Bank liquidity status - In the first half of 2014, there was an increase in the Bank's balance of deposits from the public. The balance of deposits from the public rose from NIS 141.2 billion on December 31, 2013 to NIS 148.1 billion on June 30, 2014, an increase of 4.8%.

In the non-linked segment, total deposits from the public amounted to NIS 95.8 billion, an increase of 3.1% compared to December 31, 2013. In the CPI-linked sector, deposits from the public amounted to NIS 21.1 billion, a decrease of 1.8% compared to December 31, 2013 and in the foreign currency sector - the primary source of this increase, deposits from the public increased to NIS 31.2 billion, an increase of 16.1% compared to December 31, 2013.

For details of draft directives by the Supervisor of Banks with regard to liquidity risk management and liquidity coverage ratio - see chapter on Legislation and Supervision of Bank Group Operations below.

Operating risk

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

Legal risk

Proper Conduct of Banking Business Regulation no. 350 concerning "Operating risk" defines legal risk to include, inter alia, exposure to fines or penalties arising from supervisory action, as well as from individual arrangements.

The Bank regards legal risk in its wider definition, with regard to Bank conduct in its relationships with various stake holders (clients, suppliers, other third parties etc.) Legal risk includes risk arising from legislative and regulatory provisions, rulings by judiciary or quasi-judiciary authorities as well as legal risk arising from regular Bank operations. The Chief Legal Counsel for the Bank has been appointed Chief Legal Risk Manager. The Bank constantly strives to minimize as much as possible the legal risk associated with its current operations, and acts to disseminate a practical culture leading to identification and mitigation of legal risk in all its different aspects.

The Bank's Legal Division regularly analyzes the legal risk element of its activities, the risk boundaries (arising, for example, from the counter-party identity, from creation of collateral etc.) as well as specific risk attributes while reviewing risk level and exposure there to, with attention to the different lines of business at the Bank.

The Bank's Legal Division applies internal processes to ensure regular monitoring of developments in legislation, rulings and other regulatory provisions which could have implications for the day-to-day activities of the Bank Group. In this context, the Legal Division provides guidance to relevant Bank entities with regard to implementation of the implications arising from these updates. The Legal Division provides regular counsel to different Bank units, including to some subsidiaries. This is done, *inter alia*, by providing opinion, editing and updating legal documents, support for updates to procedures etc.

The Bank has specified procedures to help in minimizing legal risk, including regulating the interface between the Legal Division and different Bank departments. The Legal Division is also involved in training delivered to branches, at the

Bank's Training Center and in compiling professional eLearning kits for imparting the legal knowledge required for regular Bank operations.

Similar reference is made for Bank affiliates overseas (branches and subsidiaries), with these affiliates receiving assistance from local external attorneys approved by the Bank's Legal Division. The Bank's overseas subsidiaries and affiliates have adopted similar procedures with regard to management of legal risk, and provide immediate and quarterly reports to the Legal Risk Manager of the Bank with regard to any legal risk identified in these entities.

Compliance

Bank business operations are subject to regulation. Compliance risk is present in almost all business processes at the Bank, as implemented by various units throughout the organizational structure. Compliance risk is the risk of financial loss (including due to sanctions imposed by supervisory authorities) and of impact to reputation, due to Bank failure to comply with various statutory provisions applicable to the Bank. These provisions may originate in primary and secondary legislation as well as in directives from authorities which, by law, supervise the Bank.

The Manager, Risk Control Division and CRO of the Bank serves as the person in charge of enforcement of securities law and anti-trust law. As required by Proper Conduct of Banking Business regulation 308 ("Compliance Officer"), the Bank appointer a Chief Compliance Officer (reporting to the Manager, Risk Control Division) whose role is to assist Bank management and the Board of Directors in effective management of compliance risk.

The Risk Control Division, through the Division Manager (who serves as Chief Enforcement Officer for the Bank) and the Chief Compliance Officer act to instill a compliance culture throughout the Bank, including with regard to consumer regulations applicable to Bank relations with its clients, securities and anti-trust legislation, as well as requirements pursuant to US tax laws applicable to operations of the Bank Group outside the USA (FATCA - Foreign Account Tax Compliance Act).

Prohibition of money laundering

The Chief Compliance Officer for the Bank Group, appointed in the Risk Control Division, is also in charge of compliance with the Prohibition of Money Laundering Act, and the Prohibition of Financing Terrorism Act for the Bank Group, including at Bank affiliates overseas.

The Compliance and Prevention of Money Laundering Department implements statutory requirements on this issue. The Department handles subjective reports of unusual activity reported to the AML Authority, and conducts various controls over activity in different accounts based on their risk profile, providing regular advice to branches on this matter and delivers training customized for Bank staff in different roles. Moreover, in line with Bank policies set by the Board of Directors in May 2010, a knowledge test is administered once every two years to all Bank employees. Such a test was administered in 2012 and is being administered in 2014.

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

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

Risk factors

For a discussion of the risk factors that impact the Bank and its activities, see the discussion in the chapter on risk management above. Below is a mapping of risk factors, their potential impact on the Bank Group and executives appointed Risk Owners for each risk factor:

Risk factor	Risk factor impact	Risk Owner
Overall effect of credit risk	Low-medium	**Manager, Business Division**
Risk from quality of borrowers and collateral	Low-medium	
Risk from industry concentration	Low-medium	
Risk from concentration of borrowers/ borrower groups	Intermediate	
Overall effect of market risk	Low	**Manager, Financial Division**
Interest risk	Low	
Inflation risk	Intermediate	
Exchange rate risk	Low	
Share price risk	Low	
Liquidity risk	Intermediate	**Manager, Financial Division**
Operating risk	Low	**Manager, Risk Control Division**
Compliance risk	Intermediate	**Manager, Risk Control Division**
Anti-money laundering risk	Low-medium	**Manager, Risk Control Division**
Legal risk	Low	**Chief Legal Counsel**
Reputation risk(1)	Low	**Manager, Marketing, Promotion and Business Development Division**
Regulatory risk	Low	**Management, each in their own domain**
Strategic-business risk	Low	**President**

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

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

The degree of influence of the various risk factors in the above table were determined based on management's assessments, as performed from time to time, and in coordination with the ICAAP process conducted by the Bank, and outcome there of, under leadership of the Bank's risk managers.

The ICAAP process accounts for both qualitative and quantitative aspects, including the Bank's risk profile, outcome of various scenarios at the Bank and the capital planning process. In the fourth quarter of 2013, as an integral part of the ICAAP process and ahead of approval of the ICAAP document in May 2014, the Bank conducted self-assessment of the quality of risk management for risk mapped by the Bank. This process was based on rating the risk level and management quality, conducted independently by teams on behalf of risk managers and teams on behalf of risk control. This process added another dimension to the Bank's ability to evaluate the impact of different risk levels and their management quality on evolution of the Bank's risk profile given the specified risk appetite. When setting the risk level, Bank teams used, *inter alia*, the risk level scale approved by the Bank in the fourth quarter of 2013.

This scale specifies the potential loss due to each risk under normal market conditions and under turbulent market conditions (using stress testing) in terms of Bank capital and expected annual profit, as follows: Low risk is defined as potential for loss not to exceed 1% of Bank capital (monthly profit); medium risk is defined as potential for loss not to exceed 6% of Bank capital (semi-annual profit); and high risk is defined as potential for loss exceeding this amount.

As from the start of 2013, the Bank presents the development of the Bank's risk profile quarterly in its risk document in view of the specified risk appetite over the four quarters preceding the filing date of the risk document. This allows the Bank to monitor the level of its various risk exposures as well as the direction and volatility of the development there of.

Significant Events in the Bank Group's Business

Terms of office and employment for the Bank President

On June 10, 2014, the General Meeting of Bank shareholders approved the terms of office and employment for the Bank President, including approval of the remuneration plan for the Bank President which includes a monetary bonus as well as equity-based remuneration by way of award of option warrants by private offering.

For details see Note 15.E. to the financial statements.

Revised officer remuneration policy

On November 19, 2013, the Supervisor of Banks issued Proper Conduct of Banking Business regulation 301A concerning remuneration policies at banking corporations. As this directive became effective and further to discussions between the Bank and the Supervisor of Banks, the Bank has acted to revise the remuneration policy for officers, approved by the General Meeting of Bank shareholders on August 27, 2013 (hereinafter: "the original remuneration policy").

Accordingly, on April 29, 2014, the Remuneration Committee resolved to recommend that the Bank's Board of Directors should approve the revision of the original remuneration policy. On May 4, 2014, the Bank's Board of Directors approved the aforementioned policy and on June 10, 2014, the General Meeting of Bank shareholders approved the revised officer remuneration policy. For further information, see Note 15.C. to the financial statements.

Remuneration policy for Bank employees other than officers

On June 19, 2014, the Bank Board of Directors approved, as recommended by the Remuneration Committee, a remuneration policy for Bank employees other than officers. This remuneration policy is based on Proper Conduct of Banking Business Regulation 301A concerning “Remuneration policy at a banking corporation” (hereinafter: “the remuneration policy”). The remuneration policy governs remuneration of key Bank employees, other Bank managers and other Bank employees for 2014-2016.

The terms of office or employment of Bank employees include fixed remuneration and variable remuneration, as customary for the Bank, as well as retirement terms and any other benefit, payment or commitment to make such payment, provided for such office or employment.

Stock option plan for officers and key employees at the Bank and to other managers of the Bank and subsidiaries of the Bank

On June 19, 2014, after approval by the Remuneration Committee on June 16, 2014,the Bank's Board of Directors approved the offering of options to Bank officers, key Bank employees as well as other managers at the Bank and its subsidiaries. For further information, see Note 15.F. to the financial statements.

Bank share buy-back

Further to the aforementioned stock option plans, on June 2, 2014, the Bank applied to the Supervisor of Banks for approval of a buy-back of 5 million Bank shares (for more information see Note 15.E.-F. to the financial statements).

On July 27, 2014, the Supervisor of Banks approved the buy-back plan subject to conditions set forth between the Bank and the Supervisor of Banks. Such share buy-back would be made subject to approval by the Bank Board of Directors.

Buy-back of Bank shares is tantamount to a dividend distribution.

Prior to a dividend distribution, the Supervisor of Banks would review the Bank's overall plan for dividend distribution and its consistency with Bank capital planning and operations.

After such review by the Supervisor of Banks, future dividend distributions would be decided by the Board of Directors, subject to Bank policy and regulatory limitations.

Legislation and Supervision of Bank Group Operations

Laws and regulations

FATCA (Foreign Account Tax Compliance Act)

In accordance with the Act, which became effective in the USA in March 2010, foreign financial institutions, including banks around the world, are required to provide to the IRS (US Tax Authority) information about US tax payers.
According to the Act, foreign financial institutions are required to identify all accounts of individual and entities directly or indirectly owned by Americans, and to report some of them (based on criteria specified in the Act) to the IRS.
Any foreign financial institution which would not sign an agreement with the IRS, shall be required to withhold tax at 30% on relevant payments from a US Source. The withholding shall apply to financial assets of the foreign financial institution as well as to assets of its clients.

The Act is designed to:

- Reduce tax avoidance by US persons using accounts outside the USA.
- Increase tax revenues paid by US persons to the USA, and increase transparency and reporting of assets and balances of clients identified as American to the IRS.

In January 2013, the IRS published rules for implementation of the Act, and the Bank has prepared to implement these, as part of continuing preparations for implementation of the Act as from mid-2014.
The Bank avoids providing consulting or any assistance with regard to how accounts are to be identified as American or with respect to US taxation, including any advice with regard to FATCA.

On April 6, 2014, the Bank received the Supervisor of Banks' letter with regard to preparations for application of FATCA provisions. According to this letter, banking corporations should continue preparations for application of FATCA provisions, whether or not an inter-government agreement would be signed with the US Government by July 1, 2014, including review of the need to be registered in the dedicated online portal (FATCA Registration Portal).
Banking corporations are also required by said letter to set policy and procedures as to the manner of application, to be approved by the Board of Directors; to appoint a responsible person and to establish a dedicated team to coordinate application of these provisions, reporting directly to management and providing updates to management and to the Board of Directors on the progress made, at a frequency to be determined.

The steps to be taken with regard to clients of the banking corporation in the course of such preparations would be taken with due consideration to the bank's obligations to its clients and after diligent review of the circumstances.

However, the letter stipulates the cases in which a refusal to provide bank services would be considered a reasonable refusal with regard to the Banking Act (Customer Service), 1981.

On June 30, 2014, an international agreement for implementation of FATCA directives was signed by the State of Israel and by US authorities, in 1IGA format, which governs, *inter alia*, the transfer of information to US tax authorities, through the Israeli Tax Authority - which would receive information from financial institutions in Israel. The agreement also stipulates concessions, including exemption from reporting for various institutions or for accounts whose attributes indicate very low risk of tax evasion.

The Bank implements the relevant statutory provisions in accordance with schedules determined by legislation, based on the signed agreement and in conformity with directives of the Supervisor of Banks and of the Ministry of Finance.

The Dodd Frank Wall Street Reform and Consumer Protection Act and the European Market Infrastructure Regulation (EMIR)

In 2012, rules were published governing application of the Dodd Frank Wall Street Reform and Consumer Protection Act, enacted in the USA in 2010 (hereafter: "the reform").

The reform is designed, inter alia, to mitigate credit risk in trading on the OTC derivatives market, systemic risk arising there from and increase transparency of this market.

The reform stipulates, inter alia, that transactions are to be settled by a central clearing house to consist of large, major banks which would guarantee each party's compliance with their obligations, binding procedures concerning collateral are to be specified, and all swap transactions made are to be reported to central information repositories, which would store this information and make it accessible to all market players.

The reform classified financial entities by scope of trading and imposes obligations based on this classification (swap dealer, MSP etc.)

The rules specified by the reform apply to US entities and to non-US entities which conduct transactions of significant volume (as defined in the reform) with US entities. In view of the reform, such entities would not be able to conduct transactions involving the types of derivatives included in the Act with other financial entities (even those not subject to the Act, such as the Bank) - unless they comply with provisions of the Act.

Provisions of the Act gradually became effective, and today many transactions in OTC derivatives with US banks and with banks which are Swap Dealers or MSPs, require compliance with provisions of the Act, including with regard to settlement.

The Bank is preparing to apply the relevant provisions of the reform so as to be able to conduct transactions involving OTC derivatives with entities subject to the Act.

Concurrently with the Dodd Frank reform launched in the USA, a similar reform was launched in Europe -
European Market Infrastructure Regulation. (hereafter - "EMIR").

The EMIR reform, similar to the Dodd Frank reform, calls for mandatory central settlement, increased collateral requirements and reporting of executed transactions to designated data repositories.

The EMIR reform applies to all financial entities in the EU and therefore should impact Bank operations involving derivatives - since the Bank has significant business with European banks. Some provisions of this reform are already in effect (such as: reporting requirements) and the settlement requirement is expected to be phased in early 2015. Legislation

regarding application of this reform is incomplete and its impact on foreign financial institutions has yet to be clarified.
The Bank is preparing to apply the applicable provisions of this reform.

Deficit Reduction and Tax Burden Modification Act (Legislative amendments), 2012

The amendment to the Act, dated August 2012, stipulates that the rate of social security payable by employers would gradually increase from 2013 to 2015, by stipulated steps, for the portion of salary in excess of 60% of the average salary nationwide.
The amendment to the Act became effective on January 1, 2013.

On January 20, 2014, a proposed bill was enacted whereby the social security payment thus collected would be increased in January 2014 and in January 2015 to 6.25% and 7.25%, respectively.

This is in lieu of 7% and 7.5%, respectively, as stipulated in August 2012.

The social security payment as of January 2016 would be at 7.5%, as stipulated in the Act.

The expected effect of the amendment to the Act on the Bank's financial statements is not material.

Equal Rights to Handicapped Persons Regulations (Service accessibility adaptations), 2013

On February 18, 2013, the Equal Rights to Handicapped Persons Regulations (Service accessibility adaptations), 2013 were made public. The regulations include provisions governing the adaptations to be made in order to ensure accessibility for handicapped persons. "Accessibility" is defined in the Act as "possibility of reaching a location, moving and finding your way around it, beneficial use of a service, obtaining information provided or produced in conjunction with or in relation with a location or service, use of facilities and participation in programs and activities taking place there - all in a manner promoting equality, dignity, independence and safety". The required adaptations cover multiple areas, such as: installation of assistive facilities and provision of assistive services to ensure accessibility of the offered service for handicapped persons and making information accessible in various manners set forth in the regulations. Services provided online should also be made accessible.
The regulations further stipulate that the security screening process at the location where service is provided must not prevent handicapped persons from reaching the public location, entering it and receiving the service in a manner that is equal, dignified and discrete, independent and safe.
Wherever the Bank holds an event open to the general public, the Bank is also liable for such accessibility adaptations.
The regulations come into effect six months after they are made public, but in fact they would gradually come into effect through 2018. Application of the regulations have no material impact on the Bank's financial statements.

Banking Rules (Customer Service) (Commissions) (Amendment), 2013

On November 28, 2013, the amendment to the rules was published. Banking corporations maintain - by law - two price lists: a price list for individuals and small businesses and a price list for large businesses. The amendment creates a distinction between large businesses and small ones - even for individuals who manage a business, unlike the previous situation where this distinction only applied to Corporations. In view of this amendment, individuals who manage a business may also be charged for banking services rendered to them according to the price list for large businesses.
The amendment also added to the price list for individuals and small businesses commission bundles, which clients may

choose to sign up for. A commission bundle is a bundle of basic banking services at a fixed price, which should be lower than the sum total of all commissions - had they been individually charged for each service in the bundle. Once a client has signed up for a bundle (an action which they may reverse at any time), they pay the fee for the bundle monthly - even if they have not used the bundled services in full.
The amendment became effective on April 1, 2014. Application of this revision has no material impact on the Bank's financial statements.

Consequently, on March 26, 2014, the Banking Ordinance (Customer Service) (Supervision of Basic Bundle Service), 2014 was made public. The Ordinance is effective as from April 1, 2014, along with Banking Rules (Customer Service) (Commissions) (Amendment), 2013 with regard to commission bundles which banks are required to offer to clients (individuals and small businesses) as from said date. According to the ordinance, the maximum commission charged for the basic bundle (1 transaction by teller and 10 transactions by direct channel) may not exceed NIS 10 per month. Application of this ordinance has no material impact on the Bank's financial statements.

Sale Act (Apartments) (Securing Investments of Home Buyers) (Amendment no. 7), 2013

On December 2, 2013, the amendment to this Act was made public, imposing an obligation on the seller of an apartment, as defined in the Act, to ask the financing entity holding the lien on the land, to issue a contingent exception letter to the buyer, which includes the conditions which, when fulfilled, the lien in favor of the financing entity would not be realized against the apartment sold, as well as the obligation of the banking corporation to issue such letter.
The seller is required to apply to the bank for such a letter to be issued, within 30 days from the date of the first payment by the buyer using a payment voucher (for a project with financial assistance), or within 30 days from the date of first issue of a guarantee pursuant to the Sale Act to the buyer (for a project with no financial assistance - where only guarantees pursuant to the Sale Act are issued).
The banking corporation is required to issue the contingent exception letter, worded as set forth in an addendum to the amendment, within 30 days from the seller's request, whether it is a bank providing financial assistance to the project or whether it merely issues guarantees to buyers pursuant to the Sale Act. The amendment became effective on January 1, 2014.
The Bank has completed preparations and made the required adjustments to Bank procedures and legal documents.

Capital Market Relief and Promotion Act (Legislation Amendments), 2014

On January 20, 2014, the Knesset enacted the Act designed to reduce the massive regulation of the capital market. The Act combines various reliefs from different Acts which would reduce the regulatory burden in various areas. These reliefs include: Optional extension of validity of a shelf prospectus from 24 to 36 months, subject to filing an application with ISA and to compliance with certain conditions; relief with regard to double-listed corporations with regard to transition from Israeli reporting to foreign reporting; change in calculation of the statute of limitations with regard to a breach which is subject to punishment by administrative proceeding; setting a maximum for accumulated fines for an on-going administrative violation; option to allow for marketing of a deposit and bond fund without requiring an investment advisor license, thereby making such funds more accessible for the public; reduced frequency of updating of customer needs by investment advisors; option allowing analysts, under certain conditions, to be compensated by companies which they analyze.

Further to the prospectus reliefs, on February 3, 2014 the following legislation was enacted: amendments to Securities Regulations (Shelf offering of securities), 2005; Securities Regulations (Period for submitting bids for securities offered by prospectus), 2005; and Securities Regulations (Conditions for offering pursuant to a shelf prospectus), 2005.

Application of the Act has no material impact on the Bank's financial statements.

AML Ordinance (Mandatory identification, reporting and records maintenance by banking corporations to avoid money laundering and terrorism financing) (Amendment), 2013

The AML Ordinance (Mandatory identification, reporting and records maintenance by banking corporations to avoid money laundering and terrorism financing) (Amendment), 2013 was made public on February 2, 2014. The Ordinance is effective as from August 2, 2014 - except for specific sections marked "effective immediately" (reliefs for banking corporations which issue credit cards). Some of the obligations included in this amendment to the Ordinance are not new ones, but rather constitute "escalation" of regulatory provisions already applied by the Bank (their inclusion in the ordinance would allow monetary sanctions to be imposed on banks for any breach).

The following are major new obligations imposed - which the Bank is currently preparing to apply and deploy:

Obligation to conduct a brief "Getting to know the client" process with ad-hoc clients (who conduct a transaction not posted to any account), based on the degree of risk of money laundering and terrorism financing; obligation to maintain a computer-based registry of ad-hoc clients, to be kept for 7 years after the transaction date; obligation to review the reasonability of beneficiary and controlling shareholder statements, considering information available to the bank; and an obligation to verify the identity of ultimate beneficiaries and controlling shareholders (e.g. through a query to an appropriate registry or through "use of relevant information or data provided by a reliable source to the bank's satisfaction"); extension of the obligation to maintain documents (the current requirement is to maintain major documents used for "Getting to know the client" for 7 years after the account has been closed); extension of detailed information to be provided for international SWIFT wire transfers; keeping of written or signed client instructions in original format rather than in scanned format.

The Bank applies these amendments as from their effective date.

Sale Announcement (Apartments) (Securing Investments of Home Buyers), 2014

On March 6, 2014, the Sale Announcement (Apartments) (Securing Investments of Home Buyers), 2014 was made public; it includes an update, due to inflation, of monetary sanctions specified in the Sale Act (Apartments) (Securing Investments of Home Buyers), 1973.

Note that the Act imposes, *inter alia*, obligations on a banking corporation providing financial assistance - as defined in the Act - and stipulates monetary sanctions which may be imposed for breach thereof.

Application of this update has no impact on the Bank's financial statements.

The Sales Act (Apartments) (Amendment no. 7), 2014

On March 10, 2014, the Amendment to the Act was made public; it is designed to limit the amount of legal expenses which a seller, as defined in the Act, may charge to apartment buyers and to specify how these are to be paid. It is further stipulates that such legal expenses would be paid by the buyer directly to the attorney in exchange for an invoice.

The Amendment would become effective subject to regulations to be enacted by the Minister of Construction and Housing.

Note that master sales contracts for projects assisted by the Bank are reviewed to ensure that they are free of any contingencies which may impact the Bank's rights and to verify, in general, that these are not in contravention of cogent statutory provisions.

Application of this Act has no impact on the Bank's financial statements.

Countering Iran's Nuclear Development Program Act, 2012 ("the Act")

On April 10, 2014, the Countering Iran's Nuclear Development Program Act, 2012 became effective. The Act stipulates prohibitions in conjunction with international economic sanctions imposed on Iran. The Act prohibits any economic activity with any party which sells technology, knowledge or products to Iran and which aids development of its nuclear and missile programs. The Act also prohibits investments in any foreign entity deemed to have a business relationship with Iran. The Act uses the enforcement mechanism of the Prohibition on Money Laundering Act and further requires independent reporting of clients suspected of being in violation of the newly stipulated prohibitions. To this end, the Bank is required to put in place an internal enforcement regime to avoid breaches of the Act, with responsibility assigned to officers for verifying compliance on this matter. The Bank is implementing provisions of the Act.

Prohibition on Money Laundering Act, 2000

On April 10, 2014, the violation of "Maintaining economic activity with assisting foreign entity" was added to the list of original violations on the Prohibition on Money Laundering Act (section 18(e) of Addendum I).

The Bank is acting to identify such suspect activity and to report it as required.

Supervisor of Banks

Report on corporate accountability

On October 3, 2011, the Supervisor of Banks issued a circular re Report on Corporate Accountability. According to this circular, banking corporations should make public a report for a period of up to two years about their corporate accountability, as stipulated in the directive, within seven months from the end of the reported period. On July 29, 2014, the Bank issued its Corporate Accountability Report for 2012-2013, as required by Supervisor of Banks directives. The Bank's Corporate Accountability Report is available on the Bank website at www.Mizrahi-Tefahot.co.il/en >>Corporate Social Responsibility Report.

Earlier publication date of financial statements

On September 29, 2013, the Supervisor of Banks issued a circular with regard to bringing forward the publication date of financial statements. According to the circular, in order to align the publication dates of financial statements of banking corporations in Israel with those in the USA, and in order to allow users of the financial statements to obtain information about the bank's financial standing and operating results sooner, the annual reports of a banking corporation which heads a banking group would be published no later than two months after the balance sheet date, and quarterly financial statements would be published no later than 45 days after the balance sheet date.

This directive would become effective gradually:

After the schedule for the 2013 annual report was shortened by 10 days, the deadline for publication thereof is set at March 20, 2014;

The 2014 annual report will be made public by March 10, 2015.

The 2015 annual report and annual reports thereafter would be made public no later than two months after the balance sheet date.

Quarterly financial statements - in 2014 would be published no later than 55 days after the balance sheet date; in 2015, no later than 50 days after the balance sheet date; and as from 2016, no later than 45 days after the balance sheet date.

The Bank applies the schedule stipulated for quarterly reports in 2014 and is preparing to publish the financial statements for 2015 and 2016 on the dates prescribed.

Proper Conduct of Banking Business Regulation 310 concerning "Risk Management"

On December 23, 2012, the Supervisor of Banks issued Proper Conduct of Banking Business regulation 310 concerning risk management. The regulation is primarily based on Basel guidelines for risk management, as reflected in recommendations made by the Basel Committee. The regulation includes a corporate-wide risk management concept, listing five principles for risk management. The regulation also clarifies the processes required of the Board of Directors in order to duly discharge its duties pursuant to Proper Conduct of Banking Business Regulation 301, including a requirement to appoint a Risk Management Committee of the Board of Directors. According to the regulation, senior management is responsible for regular risk management, and is required to create a Risk Management function, and to appoint a Chief Risk Officer to head this function. The regulation lists the responsibilities and position of the Risk Management function. The effective start date of this regulation is January 1, 2014.

Application of this regulation has no material impact on the Bank's financial statements.

Proper Conduct of Banking Business Regulation 311 concerning "Management of credit risk"

On December 23, 2012, the Supervisor of Banks issued Proper Conduct of Banking Business Regulation 311 concerning management of credit risk. The regulation is primarily based on Basel principles dated September 2000. This regulation specifies the credit risk management structure required of a banking corporation, and the authority of different entities at the banking corporation with regard to credit risk management. These requirements adopt the approach whereby, in order to support appropriate decision making with regard to credit and to minimize the effect of any conflict of interest, strong involvement is required of an entity independent of the business units. Such involvement is particularly required in forming credit policies, classifying debt and determining provisions for credit losses. The regulation further stipulates that decisions with regard to approval of material credit exposure would be made with reference to the opinion of the Risk Management function. The effective start date of this regulation is January 1, 2014. The Bank has formulated a plan to apply the directive, which was presented in a letter sent to the Supervisor of Banks on July 31, 2013.

On April 27, 2014, the Supervisor of Banks issued draft amendments to Regulation 311 with regard to the credit control function and its location within the banking corporation. The amendments, if passed, should become effective as from January 1, 2015.

Proper Conduct of Banking Business Regulation 350 concerning "Management of operating risk"

On December 23, 2012, the Supervisor of Banks issued an update to Regulation 350 concerning management of operating risk, based on Basel Committee guidelines dated June 2011. This Regulation is an update to the previous Regulation 350 (dated February 14, 2012), with regard to application of Regulation 310. This regulation stipulates 10 guiding principles for management of operating risk, with reference to the framework for management of operating risk. The guiding principles stipulated in the regulation primarily relate to issues of corporate governance and to the operating risk management environment. The effective start date of this regulation is January 1, 2014. Application of this regulation has no material impact on the Bank's financial statements.

Proper Conduct of Banking Business Regulation 314 "Proper assessment of credit risk and proper measurement of debt"

On April 30, 2013, the Supervisor of Banks issued an update to Regulation 314 with regard to proper assessment of credit risk and proper measurement of debt. This is an update to Regulation 314 of the Basel Supervisory Committee directives (June 2006), which does not change provisions of the Public Reporting Regulations.

The revised directive adopts 7 criteria for proper assessment of credit risk and proper measurement of debt, and lists the appropriate way to apply these. The criteria listed in the directive include responsibility of the Board of Directors and management to maintain risk assessment processes. The Bank is also required to maintain a system for reliable classification of debt, to set policies including a comprehensive process for validation of internal models and to adopt and document methodology for handling credit losses. The directive further stipulates that the Bank should maintain sufficient provisions to cover estimated credit losses in the loan portfolio, to use judgment of staff experienced with credit and to maintain a uniform risk assessment process so as to provide the Bank with uniform tools and data.
The effective start date of this regulation is January 1, 2014. Application of this regulation has no material impact on the Bank's financial statements.

Proper Conduct of Banking Business Regulation 333 concerning "Management of interest risk"

On May 30, 2013, the Supervisor of Banks issued a directive on interest risk management, in conjunction with aligning the Proper Conduct of Banking Business Regulations with recommendations of the Basel Committee and with commonly applied standards in leading countries around the world. The directive covers all types of interest risk for all financial instruments at the Bank. The directive governs the existing requirements and expectations of the Supervisor of Banks of banking corporations, and is primarily based on principles published in 2004 by the Basel Committee for interest risk management and supervision. Following this directive, amendments were made to Proper Conduct of Banking Business Regulation 339 "Market risk management".
The effective start date of this regulation is July 1, 2014. Application of the directive is not expected to have any material impact on the Bank's financial statements.

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

On May 30, 2013, the Supervisor of Banks issued an amendment to Regulation 313 "Restrictions on indebtedness of borrowers and groups of borrowers". Key changes in the amended regulation include: reduced weighting for guarantees pursuant to the Apartment Sale Act, when the apartment has been delivered to the buyer and reduced indebtedness amount with respect to add-on factor in OTC derivative transactions, which reflects the future potential exposure over the remaining term of the contract. The regulation would apply retroactively with regard to reduced weighting for guarantees pursuant to the Apartment Sale Act; as for OTC derivative transactions, the regulation would become effective as from January 1, 2014. Subsequently to this regulation, amendments were made to Regulation 315 "Provision for doubtful debts". Application of these amendments has no material impact on the Bank's financial statements.

Proper Banking Conduct Regulation 421 "Interest Rate Decrease or Increase"

On September 9, 2013, the Supervisor of Banks issued a directive with regard to interest rate decreases or increases. According to this directive, the Bank is required to apply, upon the date of change in interest rates on loans (for loans where the interest rate is not known or fixed throughout the loan term, or for loans originated in multiple parts), the same decrease or increase to the base interest rates applicable upon loan origination, except where the base interest is LIBOR, where in extreme cases, the Bank may specify a mechanism for changing the increase / decrease from base interest. The directive also applies, *mutatis mutandis*, to deposits where the interest rate is not known or fixed throughout the deposit term and to renewable deposits, unless the client withdraws part of the deposit amount during the deposit term or upon its renewal. The effective start date of this directive with regard to loans is January 1, 2014. The effective start date of this directive with regard to deposits is July 1, 2014 for new deposits, and as from the first renewal date later than six months after the effective start date of this directive (January 1, 2015) for renewed deposits in which the maturity date is unknown and to be determined. Application of the directive is not expected to have any material impact on the Bank's financial statements.

Proper Conduct of Banking Business regulations 301A concerning "Remuneration policy at banking corporations"

On November 19, 2013, the Supervisor of Banks issued a directive concerning remuneration policies at banking corporations. This directive stipulates rules, designed to ensure that remuneration at banking corporations would be consistent with the risk management framework and with the long-term objectives of the banking corporation. In conformity with the directive, each banking corporation is required to set remuneration policy for all Bank employees, including key employees. The directive includes provisions and restrictions with regard to total remuneration at a banking corporation and refers to roles of the Remuneration Committee and of the Board of Directors. The directive also includes requirements applicable to groups of key employees, including setting a maximum ratio of variable remuneration to fixed remuneration, deferred payment of variable remuneration and award of shares and equity-based instruments which vest over several years. According to the directive, risk management, control and audit functions should be involved in development of the remuneration mechanism by reviewing the appropriateness of risk and compliance benchmarks that it includes. The directive further stipulates that remuneration of staff engaged in risk management, control and audit would be independent of the business results of the units which they monitor.

According to the directive, the maximum variable remuneration may not exceed 100% of each employee's fixed remuneration. Under extraordinary conditions and subject to requirements set forth in this directive, the maximum variable remuneration may be set at up to 200%.

The requirements of this directive apply to remuneration policy set as from the directive effective start date and no later than June 30, 2014.

As determined by this directive, , on June 10, 2014, the General Meeting of Bank shareholders approved the revised officer remuneration policy of the Bank (after the remuneration policy had been approved, as stipulated by Amendment 20 to the Companies Law, 1999 on August 27, 2013). For more information, see the Immediate Report dated August 18, 2013, reference 2013-01-119877. This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

Moreover, on June 19, 2014 the Bank's Board of Directors approved, as recommended by the Remuneration Committee, a remuneration policy for all Bank employees other than officers, including key employees at the Bank. For further details, see above the chapter on Significant Events in the Bank Group's Business.

Application of the directive is not expected to have any material impact on the Bank's financial statements.

Amendments to Proper Conduct of Banking Business Regulation 301 concerning "Board of Directors"

On December 31, 2012, the Supervisor of Banks issued an amendment of Regulation 301 with regard to the Board of Directors, due to updates made to the Banking Act. The regulation was adapted to changes made upon publication of Proper Conduct of Banking Business Regulation 310 with regard to risk management, and Regulation 311 with regard to credit risk management, as described above, as well as Public Reporting Regulations with regard to making provisions for credit losses. The amendment is effective as from January 1, 2014.

On December 25, 2013, after legislative amendments and experience accumulated from application of the directive, the Supervisor of Banks issued a revision to the directive.

In this revision, the Supervisor's authority to modify or exempt a banking corporation or Board member from certain provisions of the directive was expanded, and the definition of "banking corporation" was expanded to also cover clearing service providers and banking corporations which are joint service corporations. Other sections of the directive were updated, concerning *inter alia* the appointment and termination of external Board members; the composition and operation of Board committees, including the Audit Committee; and the office of the Chairman of the Board of Directors.

On May 26, 2014, the Supervisor of Banks issued an amendment of the directive, concerning the number of Board members of a banking corporation and amending the questionnaire for candidate officers of a banking corporation - in view of legislation of the Competition Enhancement and Concentration Reduction Act, 2013. The effective start date of the update and amendment to the directive is its publication date. Application of this update and amendment has no material impact on the Bank's financial statements.

Proper Conduct of Banking Business Regulation 414 "Disclosure of cost of services involving securities".

On April 2, 2014, the Supervisor of Banks issued a circular with regard to disclosure of cost of services involving securities (Proper Conduct of Banking Business Regulation 414). According to these circular, banking corporations should present to clients charged a commission for purchase, sale or redemption of Israeli and/or foreign securities, a management fee for a securities deposit - comparative information about commission rates paid by clients who have

deposits of similar value. The comparative information to be provided to clients would also be made public on the bank's website. The directive is effective as from January 1, 2015, based on data for the second half of 2014. The Bank is preparing to implement this regulation.
Application of the directive is not expected to have any material impact on the Bank's financial statements.

Proper Conduct of Banking Business regulation 312 "Banking Corporation's Business with Related Parties"

On July 10, the Supervisor of Banks issued a circular concerning "Banking Corporation's Business with Related Parties" (update to Proper Conduct of Banking Business regulation 312). The circular is intended to minimize risk due to transactions between a banking corporation and related parties and to prevent abuse of the banking corporation and action subject to conflict of interest.

The directive limits the total indebtedness of related parties of the banking corporation and stipulates that transactions between the banking corporation and related parties would be based on business considerations and at market terms. The changes to the directive are effective as from January 1, 2015. The Bank is preparing to implement this regulation.

Proper Conduct of Banking Business Regulation 329 concerning "Restrictions on provision of housing loans"

On July 15, 2014, the Supervisor of Banks issued a circular with regard to restrictions on provision of housing loans. The circular incorporates the guidelines and limits set by the Supervisor of Banks in recent years on various matters - in a single, binding document. The circular also redefines the term "repayment ratio" and limits the loan amount qualifying for a lower risk weighting, pursuant to Proper Conduct of Banking Business Regulation 203, to NIS 5 million. Any loan exceeding this amount would be assigned a 100% weighting for calculation of risk assets. The start date for the different limits is as stated in letters from the Supervisor of Banks superseded by the circular. The additional requirements shall apply to housing loans approved in principle as from the soonest possible date but no later than October 1, 2014. The Bank is preparing to implement this regulation. Application of the directive is not expected to materially impact the Bank's financial statements, beyond the impact of the original guidelines and the limits it groups, which impact was reflected by previous financial statements - as required.

Allowances for the public with accounts located near the front line

Following deterioration of the military confrontation between Israel and terror organizations in Gaza, the Supervisor of Banks issued in July 2014 a range of allowances for the public with accounts located near the front line, including: Instruction to banks, for towns where a special state of emergency has been declared, not to restrict any account or account holder for any checks declined; temporary rescinding of limits based on the Supervisor of Banks' directives with regard to extending credit exceeding the authorized credit limit; easing the process for clients to join the service for accepting instructions by telephone; instruction to banks to increase staffing of call centers as required, application of some easements listed in Proper Conduct of Banking Business regulation 355 "Business Continuity Management".

Furthermore, due to uncertainty with regard to likelihood of collection created by the military situation, the Bank of Israel directed that with regard to preparation of financial statements for the second quarter of 2014, banking corporations are not required to apply accounting write-offs to debt of borrowers in Israel, which is subject to accounting write-off requirements pursuant to the Public Reporting Regulations. This is unless the banking corporation is aware of reasons which require an accounting write-off, other than the state of arrears of the debt.

Furthermore, banking corporations are required to assess the impact of the military situation on the likelihood of debt collection and to increase, accordingly, the provision for credit losses calculated on a group basis.

The Bank is applying the Supervisor of Banks' directives. Application of these directives has no material impact on the Bank's financial statements.

Draft Supervisor of Banks' directives on group-based provision for credit loss

On April 10, 2013, the Supervisor of Banks issued draft directives on the group-based provision for credit losses. The draft includes, *inter alia*, an interim directive "Group-based provision for credit losses", which supersedes the interim directive on "Group-based provision for credit losses in 2011-2012". For details of this draft, see Note 1.D.1. to the financial statements.

By the issue date of these financial statements, the final directives on this matter have yet to be issued.

Draft Proper Conduct of Banking Business Regulations on "Liquidity coverage ratio" and on "Liquidity risk management"

On July 10, 2014, the Supervisor of Banks issued a new draft Proper Conduct of Banking Business Regulation with regard to liquidity coverage ratio, in addition to the existing Proper Conduct of Banking Business Regulation 342 "Liquidity Risk Management".

The regulation adopts Basel III recommendations with regard to liquidity coverage ratio for the Israeli banking system. This ratio is designed to improve the ability of liquidity risk profiles of banking corporations to withstand an extreme one-month liquidity scenario. The Basel III directives specify a framework for calculating the liquidity coverage ratio, designed to create uniformity at the international level.

Consequently, on July 20, 2014 the Supervisor issued the draft amendment of Public Reporting Regulations and a draft Q&A file on this matter, which stipulate quantitative disclosure as stipulated, as well as qualitative discussion of the liquidity coverage ratio in the Board of Directors' Report. Furthermore, disclosure is required of the liquidity coverage ratio (to be calculated as per Proper Conduct of Banking Business Regulations with regard to liquidity coverage ratio) on the financial statements, under the Note "Capital Adequacy and Liquidity".

Below are highlights of this new Proper Conduct of Banking Business Regulation:

- Definition of Liquidity Coverage Ratio (LCR) as the ratio of High-Quality Liquid Assets (HQLA) to total cash outflow, net under extreme conditions.
- Definition of High-Quality Liquid Assets (HQLA) – assets which may be easily and quickly converted into cash at a small loss (or no loss) which meet the specified qualification criteria.
- Definition of cash outflow, net – to be calculated as total movement of liabilities, assets and off-balance sheet operations expected to affect cash flows over a one-month period, using coefficients specified by the Bank of Israel, in line with Basel III recommendations.
- Setting of minimum liquidity coverage ratio – this ratio shall be no less than 100%, i.e. High-Quality Liquid Assets should at least equal total cash outflow, net.

The liquidity coverage ration shall be regularly monitored, on daily basis, for all currencies pooled together as well as separately for foreign currency.

This regulation shall be applied on solo basis as well as on consolidated basis.

The draft regulation shall be applied as from April 1, 2015, with the minimum liquidity coverage ratio requirement at:

- April 1, 2015 – 60%
- January 1, 2016 – 80%
- January 1, 2017 – 100%

Any value lower than the required ratio shall be immediately reported to the Supervisor, along with a plan for eliminating this gap, as needed.

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

For details of highlights of recommendations of the Basel Committee and their application to banks in Israel and their implementation by the Bank, see the Board of Directors' Report as of December 31, 2013.

Under Basel II, Pillar 2 (Proper Conduct of Banking Business Regulation 211 - ICAAP Process), the Bank has been acting in recent years to deploy a risk management and control framework. ICAAP is a comprehensive process in which senior Bank executives are involved. In this process, the Bank has identified and mapped the material risk associated with its business, has specified its risk appetite for said risk, has created policy documents for risk to which the Bank is exposed in the course of its operations, which are updated on a regular basis. The risk appetite, risk mapping and determination of the materiality there of, as well as the current policies documents are submitted for approval by the Board of Directors' Risk Management Committee and the Board of Directors plenum, on annual basis.

In May 2014, the Bank submitted to the Bank of Israel its ICAAR document (annual report for the ICAAP process referring to December 31, 2013), which reflects the Bank's assessment of the capital required to cover all risk to which the Bank is exposed in conjunction with its business operations, as per guidance from the Bank of Israel, and in coordination with Bank of Israel comments on the SREP process conducted at the Bank. The capital assessment includes qualitative and quantitative processes, including a self-review by the Bank of the quality of its risk management and control. The capital assessment was conducted by applying a range of stress testing methods, in line with Bank of Israel requirements. These methods include, as from the current process, the outcome of the uniform stress scenario (macro-economic scenario), conducted in accordance with principles stipulated by the Bank of Israel.

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

In conjunction with implementation of Pillar 2, the Bank continues to follow its work plan for eliminating the gaps identified vs. the Basel Committee requirements in various risk areas, to upgrade the activity of various forums established to handle issues of risk management and control and capital management at the Bank and to improve its policies documents with regard to risk management and capital management in conformity with Pillar 2 directives, other directives by the Bank of Israel with regard to risk management and control and evolving best practice in this field - primarily with implementation of Basel III.

On November 26, 2013, the Supervisor of Banks issued an interim directive with regard to application of disclosure requirements pursuant to Basel II, Pillar 3 – Disclosure with regard to remuneration. The new disclosure requirements were designed to support and to allow market users to assess the quality of remuneration methods and how they support the strategies and risk position of banking corporations. The disclosure requirements shall apply to annual financial statements as from January 1, 2014.

Basel III

In late 2010, the Basel Committee adopted a new directive, known as Basel III. This directive, originated by the recent crisis in global markets, consists of multiple amendments to the Basel II directive, including: Strengthening of capital base, increase in minimum capital ratios, specification of new benchmarks and methodologies for handling liquidity risk, reinforced methodology for handling counter-party risk, specification of the leverage ratio as a new ratio and other processes designed to improve risk management and control capacity at financial institutions. According to the Committee-specified schedule, this directive would be gradually applied world-wide starting in 2013.

On March 28, 2012, the Supervisor of Banks issued a directive to all banking corporations, citing a higher minimum core capital ratio than the one currently required. According to the directive, all banking corporations would be required to achieve a minimum core capital ratio of 9% by January 1, 2015. In addition, large banking corporations, whose total consolidated balance sheet assets exceed 20% of total balance sheet assets for the Israeli banking sector, would be required to achieve a minimum core capital ratio of 10% by January 1, 2017.

The directive with regard to a minimum core capital ratio of 10% does not apply to the Bank. The core capital ratio should be calculated based on Basel III directives with adjustments to be specified by the Supervisor of Banks.

On July 23, 2012, the Bank Board of Director instructed Bank management to bring forward implementation of the Supervisor of Banks' directive dated March 28, 2012 - so as to implement it, if possible, as from January 1, 2014. Moreover, the Board of Directors has resolved to instruct Bank management to maintain, in as much as possible, appropriate safety margins to this end.

On May 30, 2013, the Supervisor of Banks issued an amendment to Proper Conduct of Banking Business Regulations 201-211 concerning adoption of Basel III directives with regard to supervisory capital and with regard to risk assets (hereinafter: “the regulations”).

The amendments to the regulations are primarily focused on improving capital quality and size and improving the coverage for Credit Valuation Adjustment (CVA) risk.

Effect of implementation of Basel III directives

In total , the effect of implementation of the Basel III directives on January 1, 2014 amounts to a decrease of 0.28% in the Tier I capital ratio.

Below are the major effects of implementation of these directives:

Deferred taxes due to temporary differences - Deferred taxes due to temporary differences (and up to 10% of Tier I capital) - weighted at 250% risk weighting. The addition to risk assets as of January 1, 2014 amounted to NIS 1,230 million.

Group-based provision for credit losses - The group-based provision would be recognized as Tier II capital up to 1.25% of weighted risk assets for credit risk. Conversely, the provision amount was added to weighted risk assets for credit risk.

The addition to risk assets and to Tier II capital as of January 1, 2014 amounted to NIS 1,277 million.

Capital instruments not qualified as supervisory capital - recognition of 80% of the balance of such instruments as of December 31, 2013 and a 10% deduction annually through January 1, 2022.

The deduction from Tier II capital as of January 1, 2014 amounted to NIS 893 million.

Minority interest - The amount of minority interest recognized as capital has been limited, and excess equity of a subsidiary may not be recognized. The deduction from Tier I capital as of January 1, 2014 amounted to NIS 31 million.

Capital allocation with respect to CVA losses (Credit Value Adjustments) - losses due to revaluation at market value with respect to counter-party credit risk – In addition to capital requirement with respect to default risk arising from counter-party credit risk under the standard approach, an additional capital allocation is required to cover the risk of potential loss which may arise from marking to market value of OTC derivatives.
The addition to risk assets as of January 1, 2014 amounted to NIS 965 million.

For more information about major amendments included in these directives, the effect of application of the rules on the Bank's capital adequacy ratio and effect of transition provisions on Tier I capital ratio - see Note 5 to the financial statements.

For further information about the Bank's capital adequacy ratio see reference under section "Capital adequacy" in the chapter "Risk Management" – "Basel II: Pillar 3 - Market Discipline".

Following the publication of these directives, the Bank has revisited its compliance with the schedule for achieving the target core capital ratio of no less than 9%

Following this review and based on assumptions, as of the review date, with regard to expected profit in 2013-2014 and to growth rate of risk assets, the Bank presented to the Supervisor of Banks an outline of expected evolution of its core capital ratio, including dividend distribution, while maintaining appropriate safety margins.

After checking with the Supervisor of Banks, the Bank's Board of Directors resolved, on August 14, 2013, to adopt a core capital ratio target as of December 31, 2014 of 9% or higher. Furthermore, the Board of Directors then resolved to distribute dividends amounting to NIS 75 million and to adopt a guideline whereby, through December 31, 2014, the Bank would distribute dividends equal to up to 30% of annual operating net profit and 80% of annual profit from extraordinary items.

These resolutions supersede the Board of Directors' resolutions with regard to bringing forward the implementation of the Supervisor of Banks' directives, dated March 28, 2012, with the intention of implementing these, in as much as possible, as from January 1, 2014, and with regard to the dividend distribution policies - as described in section 1 of the Immediate Report issued by the Bank, dated July 23, 2012 (reference 2012-01-191649). This mention constitutes inclusion by way of reference of all information provided in section 1 of the aforementioned report.

For information about buy-back of Bank shares, see chapter Significant Events in the Bank Group's Business, above.

Legal Proceedings

For material changes in legal proceedings to which the Bank is party, see Notes 7.C.(2-5) to the financial statements.

Demand to provide documents to US authorities and indictment against former employee in Los Angeles

On April 14, 2014, the Bank branch in Los Angeles received a subpoena, demanding it produce documents related to a Bank employee and to a Bank employee who retired five years ago, as well as to banking services provided at the Los Angeles branch, provided that such documents are available at the Bank branch in Los Angeles. The Los Angeles branch is acting to provide the required documents.

On April 30, 2014, an indictment was filed with the Court in Los Angeles against the Bank employee in Los Angeles who has retired; the indictment alleges , *inter alia*, that the employee aided US clients of the Bank to avoid tax payment. The Bank is not named on the indictment and is referred to as Bank A of Tel Aviv, with no violation attributed to the Bank.

On July 25, 2014, the Bank was required by US authorities to provide additional statistical information with regard to the Bank Group.

Furthermore, the Bank is co-operating with US authorities in conformity with statutory provisions and continued to provide the required statistical information. The Bank reports these events from time to time to the Supervisor of Banks.

The Bank and Mizrahi Bank Switzerland are in constant contact with US authorities in order to reach an appropriate outline for the Bank Group. At this stage, based on the opinion of the Bank's legal counsel, it is not possible to assess the likelihood of the Bank realizing a loss due to these events, nor the related exposure amounts or the extent of such exposure.

See Note 7.C.5 to the financial statements for additional information.

Determination by the Restrictive Trade Practices Authority

For information about an arrangement reached by the banks and the Anti-Trust Supervisor, see Note 7.C.4 to the financial statements.

Other Matters

The Independent Auditor has drawn, in their review, attention to Note 7.C.3) to the financial statements with regard to claims filed against the Bank, including claims accompanied by motions for class action status.
Also to re-statement of asset and liability data by linkage basis and by maturity as of December 31, 2013 and December 31, 2012, as presented in Note 14.

Bonus to Chairman of the Bank Board of Directors

On June 10, 2014, the General Meeting of Bank shareholders approved, after approval by the Bank's Remuneration Committee and Board of Directors, to pay the Chairman of the Board of Directors the amount of NIS 246 thousand (1.35 monthly salaries), which is the full discretionary portion of the bonus payable to the Chairman of the Board of Directors for 2013, such that the total annual bonus paid to the Chairman of the Board of Directors for 2013 amounted to NIS 1,017 thousand. (For details of the formula for the annual monetary bonus payable to the Chairman of the Board of Directors, see revised immediate report dated June 6, 2013, reference: 2013-01-059052. This mention constitutes inclusion by way of reference of all information provided in the aforementioned immediate report.) For other components of the Chairman's remuneration, see p. 219 of the Bank's 2013 Annual Financial Statements.
The reasons cited by the Remuneration Committee and the Board of Directors noted the Chairman's considerable contribution to implementation of corporate governance principles at the Bank and the efficient operation of the Bank Board of Directors; they also noted the professional and appropriate manner in which the Chairman discharged their role, the Chairman's involvement in control of risk management at the Bank and the Chairman's understanding of issues facing the Board of Directors as well as the Chairman's contribution to Board discussions.

Bonus to the Bank's former Chairman

Terms of the non-recurring bonus to the Bank's former Chairman with respect to 2012 were discussed and approved by the Remuneration Committee at its meeting on December 30, 2013; these were discussed and approved by the Bank Board of Directors at its meeting on February 17, 2014 - subject to approval by the General Meeting of Bank Shareholders.
On March 25, 2014, the General Meeting of Bank Shareholders approved the non-recurring bonus amounting to NIS 615 thousand. For more information, see the Immediate Report dated March 25, 2014, reference 2014-01-023394.
This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

Provident fund operations

Following the reform in the provident fund market in recent years, and upon termination of the relief period allowed by Financial Services Supervision Regulations (Provident Funds) (Permission to manage multiple provident funds), 2012 - as from January 1, 2014, company which manage provident funds must elect a single operating entity for each type of provident funds which they manage.

Given the reform in provident funds, in the first quarter of 2014, two companies which had the Bank operate some of their provident funds, decided to transfer all of their provident fund assets under management to be operated by the Bank – in addition to a company which did so in 2013.

The funds were transferred from one company on January 1, 2014 and from the other - on April 1, 2014; in conformity with the agreement, another part was transferred on July 1, 2014.

Conversely, another company announced its intention to transfer its assets to be operated by another entity in the fourth quarter of 2014.

Concurrently with changes in total assets of provident funds operated by the Bank, as from January 2014, Bank Yahav discontinued its provident fund and study fund operations.

After said discontinuation of Bank Yahav operations, the Bank operated, on consolidated basis as of June 30, 2014, provident funds with total assets amounting to NIS 64 billion, compared to NIS 64 billion at the end of 2013 (excluding assets operated by Bank Yahav - NIS 46 billion).

Computer services for Bank Yahav

In 2008, Bank Mizrahi-Tefahot acquired a controlling interest in Bank Yahav (50% of shares) from Bank HaPoalim.

As of the signing date of the financial statements, Bank Yahav receives computer and operating services from Bank HaPoalim Ltd. These services are provided to Bank Yahav in conformity with approval by the Supervisor of Banks and by the Anti-Trust Supervisor. After extensive review of options for disconnection from Bank HaPoalim's systems, in which the Bank reviewed local and international proposals, in February 2014, the Bank Yahav Board of Directors approved contracting with an international company for creating a core banking system and receiving outsourced services for such system. The company selected has an advanced solution for core banking services (BANCS), including provision of outsourced services to many banks and financial institutions throughout the world. On April 7, 2014, Bank Yahav signed an MOU with this company and the project was launched. It is currently at the stage of gap mapping and solution features of the BANCS system.

Employment terms of employees of Mizrahi-Tefahot Technology Division Ltd.

On April 30, 2014, a collective bargaining agreement was signed by management of Mizrahi-Tefahot Technology Division Ltd. and the employee representation, in which the parties agreed on employee salary increases and an agreement in principle with regard to employment of students and termination of labor disputes, to be incorporated in a collective bargaining agreement.

On June 2, 2014, a collective bargaining agreement was signed by management of Mizrahi-Tefahot Technology Division Ltd., the employee representation and the trade union. This agreement primarily concerns the final settlement with respect to pay advances for previous years, details of student employment by special contract, in line with the aforementioned agreement in principle, a voluntary retirement plan and termination of the labor dispute with regard to pay.

Wage agreement with the Manager Council

On June 16, 2014, a wage agreement was concluded with the Manager Council for the period 2013-2017. The agreement primarily includes a gradual increase in management fee by 2% per annum for 2014-2017, linkage of vacation pay rates to the CPI, contribution to study fund with respect to vacation pay, extension of the agreements on other matters and ensuring labor unrest is avoided through December 31, 2017.

Senior Officers

On January 1, 2014, the following appointments became effective:

- Mr. Doron Klauzner started his term in office as Manager, Risk Control Division and CRO with the Bank. Previously, Mr. Doron Klauzner had served as Manager, Business Banking Division.
- Mr. Ophir Murad started his term in office as Manager, Business Banking Division.

On February 2, Mr. Nissan Levi started his term in office as Manager, Planning, Operations and Customer Asset Division.

On May 29, 2014, the Bank's Chief Legal Counsel, Dr. Shimon Weiss, announced he would be concluding his term in office on December 31, 2014 upon retiring. The Bank decided to appoint Attorney Racheli Friedman to the position of Chief Legal Counsel of the Bank. This appointment would become effective on January 1, 2015.

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 2013 financial statements. No material changes occurred in these details during the reported period.

Accounting policies on Critical Matters

The Group's consolidated financial statements are prepared in conformity with generally accepted accounting principles in Israel (Israeli GAAP) for interim periods, and in accordance with the directives and guidelines of the Supervisor of Banks on the preparation of the financial statements of a banking entity. Highlights of accounting policies are detailed in Note 1 to these condensed financial statements and in Note 1 to the financial statements as of December 31, 2013.
The application of generally accepted accounting principles by management at the time that the financial statements are prepared occasionally involves various assumptions, assessments and estimates that affect the amounts and business results reported in the financial statements. Some of the assumptions, assessments and estimates are critical to the financial position or the results of operations reflected in the Group's financial statements, because of the materiality of the matter, complexity of calculations or the extent of the probability that matters shrouded in uncertainty will be realized.
The Bank's 2013 financial statements include details of accounting policies on critical issues for accounting treatment of the following: Provision for credit losses, derivative instruments, securities, liabilities with respect to employee rights, share-based payment transactions, provisions for legal claims, provision for impairment of non-financial assets and deferred taxes.

As from January 1, 2014, the Bank applies generally acceptable accounting practices by US banks for measurement of interest revenues. These rules were adopted pursuant to a circular from the Supervisor of Banks dated December 29, 2011, which stipulates rules for treatment of commissions from loan generation and direct costs of loan generation. The qualified commissions and costs pursuant to criteria prescribed by the directive would not be immediately recognized on the statement of profit and loss, but rather would be accounted for in calculating the effective interest rate for the loan.
For more information about application of US standard FAS 91 (ASC 310-20) with regard to measurement of interest revenues, see Note 1.C.1 to the financial statements.
For information about the Supervisor of Banks' draft directives with regard to the group-based provision for credit loss, see Note 1.D.1 to the financial statements.

Other than the foregoing, during the reported period there were no changes to Bank accounting policies on critical issues, which are listed on the Board of Directors' report on the financial statements as of December 31, 2013.

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 stated in the Board of Directors' report as of December 31, 2013. The processes of preparing, auditing and approving the financial statements involve additional organs and officers as stipulated below.

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

Concurrently with preparing the financial statements, and based on the draft financial statements forwarded to them, all executive management members confirm by their signature that they are not aware of any detail which may indicate that data and descriptions in the Board of Directors’ Report and financial statements with regard to their areas of responsibility include any false representation or lack of material facts, that they instituted effective controls in order to ensure that any material information in their area of responsibility is brought to their attention, and that any significant fault or material weakness of the internal controls over financial reporting which is likely to impact the Bank’s ability to record, process, summarize and report financial information in their areas of responsibility have been brought to the attention of the appropriate parties. For details of names and positions of Bank executives, see the chapter on Bank management on the financial statements as of December 31, 2013 (for changes in 2014, see chapter "Senior Officers").

The process for Provision for Credit Losses is a methodical process which focuses on the outcome of discussions by two sub-committees which address troubled debt and credit exposure at the Bank, headed by the Chief Accountant and attended by the Manager, Business Division; Manager, Retail Division; Manager, Risk Control Division (CRO), relevant sector managers and other professional credit staff. The first committee discusses classified clients individually. The outcome of such discussion determines the appropriate classification and provision for each client. The second committee discusses a group-based provision for various economic sectors. The outcome of such discussion determines the required adjustments to historical group-based provision rates reported to the committee and the actual rates. The Bank also operates a Provision for Credit Losses Committee headed by the President. This committee further discusses individual classification and provisions for major clients and determines the appropriateness of the total provision for credit losses, including group-based provisions. The committee headed by the President includes the Manager, Business Division; Manager, Retail Division; Manager, Finance Division; Chief Accountant; Manager, Risk Management Division (CRO), Chief Legal Counsel; and professional credit staff. In addition, the Chief Legal Counsel and the Chief Accountant review the provisions required with respect to claims filed against the bank.

Major issues related to disclosures provided on the financial statements are discussed by the Financial Statements Disclosure Committee (hereinafter: "the Disclosure Committee") headed by the President and including the Chief Accountant, Chief Legal Counsel and other executives. These discussions include issues with material impact on the financial statements, issues of interest to the public, developments requiring disclosure to the public, material changes to application of accounting policies, requests or demands by regulatory authorities and issues on which Bank management and the independent auditor differ. As part of presentation of these issues to the Disclosure Committee, the independent auditors' professional comments are also presented.

The Board of Directors' Audit Committee discusses and recommends the approval of the Bank's annual and quarterly financial statements (for names and qualifications of Audit Committee members, see Board of Directors chapter on the December 31, 2013 financial statements).

The Audit Committee discusses the appropriateness of disclosure on the financial statements and the review of the financial statements, including all of their components, including classification of and provision for credit losses for troubled debt, prior to having these discussed and approved by the Board plenum.

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

Meetings of the Audit Committee at which the financial statements are discussed, are also attended by the Chairman of the Board of Directors, the President, the Chief Accountant, the Chief Legal Counsel and the independent auditors. The CRO and Chief Internal Auditor are invited to attend Committee meetings.

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

The Audit Committee convenes twice to discuss the quarterly financial statements and three times to discuss the annual financial statements, with the final meeting usually held, if possible, at least several days prior to the Board of Directors plenary meeting to approve the financial statements.

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

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

Board of Directors

During the first half of 2014, the Bank Board of Directors held 7 plenary meetings. During this period there were also 36 meetings of Board committees and 2 Board member workshops.

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 policies regarding the adoption of the provisions of Section 404 of the Sarbanes Oxley Act, which includes, inter alia, certification by the Chairman of the Board of Directors, the Bank President and Chief Accountant on "the effectiveness of internal controls over the financial reporting", which was attached to the financial statements as of December 31, 2013.

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

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

During the quarter ended June 30, 2014, no change occurred in the Bank's internal controls over financial reporting that had a material effect, or can reasonably be expected to have a material effect on the Bank's internal control over financial reporting.

Moshe Vidman	Eldad Fresher
Chairman of the Board of Directors	President

Ramat Gan, August 13, 2014

Management Discussion of Group Business and Operating Results

Table of Contents

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

Reported amounts (NIS in millions)

A. Average balances and interest rates - assets

	For the three months ended June 30, 2014			For the three months ended June 30, 2013		
	Average balance[2]	Interest revenues	Revenue rate	Average balance[2]	Interest revenues	Revenue rate
			In %			In %
Interest-bearing assets						
Loans to the public[3]						
In Israel	139,778	[7]1,537	4.47	129,230	[7]1,601	5.05
Outside of Israel	1,903	25	5.36	2,649	30	4.61
Total	**141,681**	**1,562**	**4.48**	**131,879**	**1,631**	**5.04**
Loans to the Government						
In Israel	303	2	2.67	310	2	2.61
Outside of Israel	-	-	-	-	-	-
Total	**303**	**2**	**2.67**	**310**	**2**	**2.61**
Deposits with banks						
In Israel	1,324	5	1.52	1,027	-	-
Outside of Israel	197	1	2.05	303	1	1.33
Total	**1,521**	**6**	**1.59**	**1,330**	**1**	**0.30**
Deposits with central banks and cash						
In Israel	24,062	43	0.72	16,057	46	1.15
Outside of Israel	596	-	-	2,093	1	0.19
Total	**24,658**	**43**	**0.70**	**18,150**	**47**	**1.04**
Securities loaned or sold in repurchase agreements						
In Israel	130	-	-	90	-	-
Outside of Israel	-	-	-	-	-	-
Total	**130**	**-**	**-**	**90**	**-**	**-**
Debentures held to maturity and available for sale[4]						
In Israel	5,097	19	1.50	5,580	16	1.15
Outside of Israel	1,058	4	1.52	1,327	4	1.21
Total	**6,155**	**23**	**1.50**	**6,907**	**20**	**1.16**
Debentures held for trading[5]						
In Israel	822	3	1.47	818	3	1.48
Outside of Israel	-	-	-	2	-	-
Total	**822**	**3**	**1.47**	**820**	**3**	**1.47**
Total interest-bearing assets	**175,270**	**1,639**	**3.79**	**159,486**	**1,704**	**4.34**
Receivables for credit card operations	2,448			3,072		
Other non-interest bearing assets[6]	7,163			5,287		
Total assets	**184,881**			**167,845**		
Total interest-bearing assets attributable to operations outside of Israel	**3,754**	**30**	**3.24**	**6,374**	**36**	**2.28**

See remarks below.

Management Discussion - Addendum A - continued

Revenue and Expense Rates – Consolidated[1]

Reported amounts (NIS in millions)

B. Average balances and interest rates - liabilities and equity

	For the three months ended June 30, 2014			For the three months ended June 30, 2013		
	Average balance[2]	Interest expenses	Expense rate	Average balance[2]	Interest expenses	Expense rate
			In %			In %
Interest-bearing liabilities						
Deposits from the public						
In Israel						
On-call	10,882	5	0.18	8,306	4	0.19
Term deposits	125,187	484	1.56	114,614	581	2.04
Outside of Israel						
On-call	628	-	-	565	-	-
Term deposits	3,727	7	0.75	4,095	11	1.08
Total	**140,424**	**496**	**1.42**	**127,580**	**596**	**1.88**
Deposits from the Government						
In Israel	58	-	-	97	1	4.19
Outside of Israel	-	-	-	-	-	-
Total	**58**	**-**	**-**	**97**	**1**	**4.19**
Deposits from banks						
In Israel	1,108	5	1.82	2,240	13	2.34
Outside of Israel	22	-	-	19	-	-
Total	**1,130**	**5**	**1.78**	**2,259**	**13**	**2.32**
Debentures and subordinated notes						
In Israel	18,078	215	4.84	14,829	221	6.10
Outside of Israel	-	-	-	-	-	-
Total	**18,078**	**215**	**4.84**	**14,829**	**221**	**6.10**
Total interest-bearing liabilities	**159,690**	**716**	**1.81**	**144,765**	**831**	**2.32**
Non-interest bearing deposits from the public	6,342			5,113		
Payables for credit card transactions	2,870			3,069		
Other non-interest bearing liabilities[8]	5,206			5,216		
Total liabilities	**174,108**			**158,163**		
Total equity	**10,773**			**9,682**		
Total liabilities and equity	**184,881**			**167,845**		
Interest margin			**1.98**			**2.02**
Net return[9] on interest-bearing assets						
In Israel	171,516	900	2.12	153,112	848	2.23
Outside of Israel	3,754	23	2.47	6,374	25	1.58
Total	**175,270**	**923**	**2.12**	**159,486**	**873**	**2.21**
Total interest-bearing liabilities attributable to operations outside of Israel	**4,377**	**7**	**0.64**	**4,679**	**11**	**0.94**

See remarks below.

Management Discussion - Addendum A - continued

Revenue and Expense Rates – Consolidated[1]

Reported amounts (NIS in millions)

A. Average balances and interest rates - assets

	For the six months ended June 30, 2014			For the six months ended June 30, 2013		
	Average balance[2]	Interest revenues	Revenue rate	Average balance[2]	Interest revenues	Revenue rate
			In %			In %
Interest-bearing assets						
Loans to the public[3]						
In Israel	138,231	[7]2,438	3.56	127,447	[7]2,871	4.56
Outside of Israel	2,169	50	4.66	2,637	55	4.21
Total	**140,400**	**2,488**	**3.58**	**130,084**	**2,926**	**4.55**
Loans to the Government						
In Israel	303	5	3.33	314	4	2.56
Outside of Israel	-	-	-	-	-	-
Total	**303**	**5**	**3.33**	**314**	**4**	**2.56**
Deposits with banks						
In Israel	1,419	12	1.70	1,146	10	1.75
Outside of Israel	254	2	1.58	319	3	1.89
Total	**1,673**	**14**	**1.68**	**1,465**	**13**	**1.78**
Deposits with central banks and cash						
In Israel	23,525	79	0.67	14,657	87	1.19
Outside of Israel	920	-	-	1,685	2	0.24
Total	**24,445**	**79**	**0.65**	**16,342**	**89**	**1.09**
Securities loaned or sold in repurchase agreements						
In Israel	236	1	0.85	124	1	1.62
Outside of Israel	-	-	-	-	-	-
Total	**236**	**1**	**0.85**	**124**	**1**	**1.62**
Debentures held to maturity and available for sale[4]						
In Israel	4,700	28	1.20	6,267	64	2.05
Outside of Israel	1,086	8	1.48	1,341	9	1.35
Total	**5,786**	**36**	**1.25**	**7,608**	**73**	**1.93**
Debentures held for trading[5]						
In Israel	667	7	2.11	739	11	3.00
Outside of Israel	-	-	-	2	-	-
Total	**667**	**7**	**2.11**	**741**	**11**	**2.99**
Total interest-bearing assets	**173,510**	**2,630**	**3.05**	**156,678**	**3,117**	**4.02**
Receivables for credit card operations	2,642			3,027		
Other non-interest bearing assets[6]	6,069			5,139		
Total assets	**182,221**			**164,844**		
Total interest-bearing assets attributable to operations outside of Israel	**4,429**	**60**	**2.73**	**5,984**	**69**	**2.32**

See remarks below.

Management Discussion - Addendum A - continued

Revenue and Expense Rates – Consolidated[1]

Reported amounts (NIS in millions)

B. Average balances and interest rates - liabilities and equity

	For the six months ended June 30, 2014			For the six months ended June 30, 2013		
	Average balance[2]	Interest expenses	Expense rate	Average balance[2]	Interest expenses	Expense rate
			In %			In %
Interest-bearing liabilities						
Deposits from the public						
In Israel						
On-call	10,892	10	0.18	8,455	7	0.17
Term deposits	123,170	706	1.15	112,054	1,031	1.85
Outside of Israel						
On-call	641	-	-	473	-	-
Term deposits	3,460	15	0.87	4,151	23	1.11
Total	**138,163**	**731**	**1.06**	**125,132**	**1,061**	**1.70**
Deposits from the Government						
In Israel	60	1	3.36	101	2	4.00
Outside of Israel	-	-	-	-	-	-
Total	**60**	**1**	**3.36**	**101**	**2**	**4.00**
Deposits from banks						
In Israel	1,562	11	1.41	2,342	23	1.97
Outside of Israel	7	-	-	23	1	8.88
Total	**1,569**	**11**	**1.41**	**2,365**	**24**	**2.04**
Debentures and subordinated notes						
In Israel	17,498	251	2.89	14,654	355	4.90
Outside of Israel	-	-	-	-	-	-
Total	**17,498**	**251**	**2.89**	**14,654**	**355**	**4.90**
Total interest-bearing liabilities	**157,290**	**994**	**1.27**	**142,252**	**1,442**	**2.04**
Non-interest bearing deposits from the public	6,332			4,964		
Payables for credit card transactions	2,873			3,025		
Other non-interest bearing liabilities[8]	5,099			5,074		
Total liabilities	**171,594**			**155,315**		
Total equity	**10,627**			**9,529**		
Total liabilities and equity	**182,221**			**164,844**		
Interest margin			**1.78**			**1.98**
Net return[9] on interest-bearing assets						
In Israel	169,081	1,591	1.89	150,694	1,630	2.18
Outside of Israel	4,429	45	2.04	5,984	45	1.51
Total	**173,510**	**1,636**	**1.89**	**156,678**	**1,675**	**2.15**
Total interest-bearing liabilities attributable to operations outside of Israel	**4,108**	**15**	**0.73**	**4,646**	**24**	**1.04**

See remarks below.

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

Reported amounts (NIS in millions)

C. Average balances and interest rates - additional information about interest-bearing assets and liabilities attributed to operations in Israel

	For the three months ended June 30, 2014			For the three months ended June 30, 2013		
	Average balance[2]	Interest revenues (expenses)	Revenue (expense) rate	Average balance[2]	Interest revenues (expenses)	Revenue (expense) rate
			In %			In %
Israeli currency - non-linked						
Total interest-bearing assets	104,627	863	3.34	87,732	853	3.95
Total interest-bearing liabilities	91,136	(319)	(1.41)	81,606	(381)	(1.88)
Interest margin			**1.93**			**2.07**
Israeli currency - linked to the CPI						
Total interest-bearing assets	53,606	678	5.16	51,193	740	5.91
Total interest-bearing liabilities	37,333	(368)	(4.00)	35,138	(421)	(4.88)
Interest margin			**1.16**			**1.03**
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	13,283	68	2.06	14,187	75	2.13
Total interest-bearing liabilities	26,844	(22)	(0.33)	23,342	(18)	(0.31)
Interest margin			**1.73**			**1.82**
Total - operations in Israel						
Total interest-bearing assets	171,516	1,609	3.81	153,112	1,668	4.43
Total interest-bearing liabilities	155,313	(709)	(1.84)	140,086	(820)	(2.36)
Interest margin			**1.97**			**2.07**

See remarks below.

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

Reported amounts (NIS in millions)

C. Average balances and interest rates - additional information about interest-bearing assets and liabilities attributed to operations in Israel

	For the six months ended June 30, 2014			For the six months ended June 30, 2013		
	Average balance(2)	Interest revenues (expenses)	Revenue (expense) rate	Average balance(2)	Interest revenues (expenses)	Revenue (expense) rate
			In %			In %
Israeli currency - non-linked						
Total interest-bearing assets	102,328	1,729	3.41	85,777	1,749	4.12
Total interest-bearing liabilities	90,603	(604)	(1.34)	80,414	(746)	(1.86)
Interest margin			**2.07**			**2.26**
Israeli currency - linked to the CPI						
Total interest-bearing assets	53,477	702	2.64	50,491	1,137	4.55
Total interest-bearing liabilities	37,109	(333)	(1.80)	35,086	(632)	(3.64)
Interest margin			**0.84**			**0.91**
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	13,276	139	2.10	14,426	162	2.26
Total interest-bearing liabilities	25,470	(42)	(0.33)	22,106	(40)	(0.36)
Interest margin			**1.77**			**1.90**
Total - operations in Israel						
Total interest-bearing assets	169,081	2,570	3.06	150,694	3,048	4.09
Total interest-bearing liabilities	153,182	(979)	(1.28)	137,606	(1,418)	(2.07)
Interest margin			**1.78**			**2.02**

See remarks below.

Management Discussion - Addendum A - continued

Revenue and Expense Rates – Consolidated[1]

Reported amounts (NIS in millions)

D. Analysis of change in interest revenues and expenses

	The three months ended June 30, 2014 compared to the three months ended June 30, 2013			For the six months ended June 30, 2014 compared to the six months ended June 30, 2013		
	Increase (decrease) due to change[10]			Increase (decrease) due to change[10]		
	Quantity	Price	Net change	Quantity	Price	Net change
Interest-bearing assets						
Loans to the public						
In Israel	116	(180)	(64)	190	(623)	(433)
Outside of Israel	(10)	5	(5)	(11)	6	(5)
Total	**106**	**(175)**	**(69)**	**179**	**(617)**	**(438)**
Other interest-bearing assets						
In Israel	18	(13)	5	33	(78)	(45)
Outside of Israel	(5)	4	(1)	(5)	1	(4)
Total	**13**	**(9)**	**4**	**28**	**(77)**	**(49)**
Total interest revenues	**119**	**(184)**	**(65)**	**207**	**(694)**	**(487)**
Interest-bearing liabilities						
Deposits from the public						
In Israel	47	(143)	(96)	72	(394)	(322)
Outside of Israel	-	(4)	(4)	(2)	(6)	(8)
Total	**47**	**(147)**	**(100)**	**70**	**(400)**	**(330)**
Other interest-bearing liabilities						
In Israel	24	(39)	(15)	28	(145)	(117)
Outside of Israel	-	-	-	-	(1)	(1)
Total	**24**	**(39)**	**(15)**	**28**	**(146)**	**(118)**
Total interest expenses	**71**	**(186)**	**(115)**	**98**	**(546)**	**(448)**

(1) Information in these tables is after effect of hedging financial derivatives.
(2) Based on balances at start of month (in Israeli currency, non-linked segment - based on daily balances).
(3) Before deduction of average balance sheet balance of provisions for credit losses. Includes impaired debt not accruing interest revenues.
(4) From the average balance of debentures available for sale, for the three-month period ended June 30, 2014, for the three-month period ended June 30, 2013, for the six-month period ended June 30, 2014 and for the six-month period ended June 30, 2013, we deducted (added) the average balance of unrealized gain (loss) from adjustment to fair value of debentures available for sale, included in equity under Other Comprehensive Income, under "Adjustments with respect to statement of securities available for sale at fair value", amounting to NIS (14) million , NIS (17) million, NIS (20) million and NIS 4 million, respectively.
(5) From the average balance of debentures held for trading for the three-month period ended June 30, 2014, for the three-month period ended June 30, 2013, for the six-month period ended June 30, 2014 and for the six-month period ended June 30, 2013, we deducted the average balance of unrealized gain from adjustment to fair value of debentures held for trading, amounting to NIS 1 million, NIS 0 million, NIS (9) million and NIS 18 million.
(6) Includes derivative instruments, other non-interest bearing assets, net of provision for credit losses.
(7) Commissions amounting to NIS 39 million, NIS 42 million, NIS 85 million and NIS 84 million are included under interest revenues for the three-month period ended June 30, 2014, for the three-month period ended June 30, 2013, for the six-month period ended June 30, 2014 and for the six-month period ended June 30, 2013, respectively.
(8) Includes financial derivatives.
(9) Net return - net interest revenues divided into total interest-bearing assets.
(10) The change attributed to change in quantity was calculated by multiplying the new price and the change in quantity. The change attributed to change in price was calculated by multiplying the old quantity and the change in price.

Management Discussion - Addendum B

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

Reported amounts (NIS in millions)

	June 30, 2014					
	On call to 1 month	1-3 months	3 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years
Israeli currency - non-linked						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets[(1)(3)]	88,980	2,819	4,015	4,654	4,579	3,446
Financial derivatives (other than options)	8,586	8,212	17,628	9,625	8,273	9,855
Options (in terms of underlying asset)	977	810	1,976	129	145	-
Total fair value	**98,543**	**11,841**	**23,619**	**14,408**	**12,997**	**13,301**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities[(1)]	82,033	4,861	6,430	6,020	2,136	2,361
Financial derivatives (other than options)	13,272	15,356	10,201	8,803	6,851	10,172
Options (in terms of underlying asset)	3,091	789	2,113	102	145	-
Total fair value	**98,396**	**21,006**	**18,744**	**14,925**	**9,132**	**12,533**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	147	(9,165)	4,875	(517)	3,865	768
Cumulative exposure in sector	147	(9,018)	(4,143)	(4,660)	(795)	(27)

Specific remarks:

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

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

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

						As of June 30, 2013			As of December 31, 2013		
10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective duration(2)	Total fair value	Internal rate of return	Average effective duration(2)	Total fair value	Internal rate of return	Average effective duration(2)
				In %	In years		In %	In years		In %	In years
558	91	282	109,424	3.43	0.81	92,562	4.21	0.52	103,110	3.85	0.59
134	-	-	62,313		1.22	62,387		1.27	60,204		1.25
-	-	-	4,037		0.73	4,389		0.73	5,596		0.73
692	**91**	**282**	**175,774**		**0.95**	**159,338**		**0.82**	**168,910**		**0.83**
463	118	-	104,422	1.13	0.50	91,375	1.28	0.40	100,957	1.31	0.39
129	-	-	64,784		1.51	64,022		1.59	60,545		1.55
-	-	-	6,240		0.85	4,795		0.85	6,318		0.85
592	**118**	**-**	**175,446**		**0.89**	**160,192**		**0.89**	**167,820**		**0.83**
100	(27)	282	328			(854)			1,090		
73	46	328	328								

Management Discussion - Addendum B - Continued

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

Reported amounts (NIS in millions)

	As of June 30, 2014					
	On call to 1 month	1-3 months	3 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years
Israeli currency - linked to the CPI						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets(1)	1,159	2,175	11,056	19,916	14,573	4,931
Financial derivatives (other than options)	20	11	991	797	647	1,398
Total fair value	**1,179**	**2,186**	**12,047**	**20,713**	**15,220**	**6,329**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities(1)	1,101	1,515	8,958	10,532	8,735	6,844
Financial derivatives (other than options)	563	1,533	3,970	1,959	2,157	1,381
Total fair value	**1,664**	**3,048**	**12,928**	**12,491**	**10,892**	**8,225**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	(485)	(862)	(881)	8,222	4,328	(1,896)
Cumulative exposure in sector	(485)	(1,347)	(2,228)	5,994	10,322	8,426

Specific remarks:

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

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

						As of June 30, 2013			As of December 31, 2013		
10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective duration(2)	Total fair value	Internal rate of return	Average effective duration(2)	Total fair value	Internal rate of return	Average effective duration(2)
				In %	In years		In %	In years		In %	In years
1,611	15	276	55,712	2.17	3.11	53,998	2.22	3.08	54,401	2.36	3.01
-	-	-	3,864		3.32	4,029		3.72	3,829		3.54
1,611	**15**	**276**	**59,576**		**3.12**	**58,027**		**3.12**	**58,230**		**3.04**
2,372	-	2	40,059	1.70	3.67	38,132	2.05	3.89	38,996	1.65	3.74
8	-	-	11,571		1.63	12,191		1.67	12,787		1.54
2,380	**-**	**2**	**51,630**		**3.21**	**50,323**		**3.35**	**51,783**		**3.20**
(769)	15	274	7,946			7,704			6,447		
7,657	7,672	7,946	7,946								

Management Discussion - Addendum B - Continued

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

Reported amounts (NIS in millions)

	As of June 30, 2014					
	On call to 1 month	1-3 months	3 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years
Foreign currency[1]						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets[2]	10,035	5,524	958	1,613	447	674
Financial derivatives (other than options)	19,277	15,370	9,225	3,851	2,879	6,100
Options (in terms of underlying asset)	831	3,252	2,312	100	133	-
Total fair value	**30,143**	**24,146**	**12,495**	**5,564**	**3,459**	**6,774**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities[2]	14,643	7,154	9,436	726	39	98
Financial derivatives (other than options)	14,131	6,651	13,622	3,624	2,927	5,677
Options (in terms of underlying asset)	733	962	2,193	130	133	-
Total fair value	**29,507**	**14,767**	**25,251**	**4,480**	**3,099**	**5,775**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	636	9,379	(12,756)	1,084	360	999
Cumulative exposure in sector	636	10,015	(2,741)	(1,657)	(1,297)	(298)

Specific remarks:
(1) Includes Israeli currency linked to foreign currency.
(2) Excludes balance sheet balances of financial derivatives, fair value of off-balance sheet financial instruments and fair value of complex financial instruments.
(3) Weighted average by fair value of average effective duration.

						As of June 30, 2013			As of December 31, 2013		
10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective duration(3)	Total fair value	Internal rate of return	Average effective duration(3)	Total fair value	Internal rate of return	Average effective duration(3)
				In %	In years		In %	In years		In %	In years
24	61	105	19,441	2.62	0.93	20,248	2.38	0.60	18,142	2.32	0.55
-	-	-	56,702		1.59	59,862		1.56	53,124		1.62
-	-	-	6,628		0.42	4,684		0.32	6,262		0.42
24	**61**	**105**	**82,771**		**1.34**	**84,794**		**1.26**	**77,528**		**1.27**
8	-	4	32,108	0.27	0.27	30,629	0.44	0.30	28,132	0.25	0.27
-	-	-	46,632		1.09	50,283		1.20	44,137		1.25
-	-	-	4,151		0.44	3,905		0.35	5,159		0.44
8	**-**	**4**	**82,891**		**0.74**	**84,817**		**0.84**	**77,428**		**0.84**
16	61	101	(120)			(23)			100		
(282)	(221)	(120)	(120)								

Management Discussion - Addendum B - Continued

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

Reported amounts (NIS in millions)

	As of June 30, 2014					
	On call to 1 month	1-3 months	3 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years
Non-monetary segment						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Options (in terms of underlying asset)	-	(2)	-	-	-	-
Total fair value	**-**	**(2)**	**-**	**-**	**-**	**-**
Total exposure to interest rate fluctuations						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets(1)(2)	100,174	10,518	16,029	26,183	19,599	9,051
Financial derivatives (other than options)	27,883	23,593	27,844	14,273	11,799	17,353
Options (in terms of underlying asset)	1,808	4,062	4,288	229	278	-
Total fair value	**129,865**	**38,173**	**48,161**	**40,685**	**31,676**	**26,404**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities(1)	97,777	13,530	24,824	17,278	10,910	9,303
Financial derivatives (other than options)	27,966	23,540	27,793	14,386	11,935	17,230
Options (in terms of underlying asset)	3,824	1,753	4,306	232	278	-
Total fair value	**129,567**	**38,823**	**56,923**	**31,896**	**23,123**	**26,533**
Financial instruments, net						
Total exposure to interest rate fluctuations	298	(650)	(8,762)	8,789	8,553	(129)
Total cumulative exposure	298	(352)	(9,114)	(325)	8,228	8,099

Specific remarks:

(1) Excludes balance sheet balances of financial derivatives, fair value of off-balance sheet financial instruments and fair value of complex financial instruments.
(2) Includes shares presented in the column "without maturity".
(3) Weighted average by fair value of average effective duration.

General remarks:

- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value recognized for the financial instruments in Note 9a to the financial statements.
- Internal rate of return is the interest rate which discounts the expected cash flows from a financial instrument to its fair value recognized under Note 9a to the financial statements.
- Average effective duration of a group of financial instruments is an approximation of the change, in percent, in fair value of the group of financial instruments which would be caused by a minor change (0.1% increase) in the internal rate of return of each of the financial instruments.
- Certain transactions conducted by the Bank constitute complex financial instruments, which include embedded derivatives not detached, in accordance with public reporting directives. These transactions include, inter alia, loans with exit points, deposits bearing gradual interest rates with withdrawal dates, credit and deposits with guaranteed minimum and deposits with optional linkage. The Bank reflects the interest rate risk with respect to these instruments in a reasonable manner, by spreading maturities of the cash flows in accordance with contract dates, and with various assumptions based on past experience. The instruments for which exposure to interest rate risk may not be reasonably reflected by spreading it over the appropriate contractual periods, are non-material in amount.

						As of June 30, 2013			As of December 31, 2013		
10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective duration[(3)]	Total fair value	Internal rate of return	Average effective duration[(3)]	Total fair value	Internal rate of return	Average effective duration[(3)]
				In %	In years		In %	In years		In %	In years
-	-	-	(2)	-	-	(2)	-	-	(1)	-	-
-	-	-	(2)	-	-	(2)	-	-	(1)	-	-
2,193	167	663	184,577	2.96	1.52	166,808	3.35	1.36	175,653	3.23	1.33
134	-	-	122,879		1.45	126,278		1.49	117,157		1.49
-	-	-	10,665		0.54	9,073		0.52	11,858		0.57
2,327	**167**	**663**	**318,121**		**1.46**	**302,159**		**1.39**	**304,668**		**1.37**
2,843	118	6	176,589	1.10	1.18	160,136	1.31	1.21	168,085	1.21	1.15
137	-	-	122,987		1.36	126,496		1.44	117,469		1.44
-	-	-	10,393		0.69	8,702		0.62	11,478		0.67
2,980	**118**	**6**	**309,969**		**1.23**	**295,334**		**1.29**	**297,032**		**1.24**
(653)	49	657	8,152			6,825			7,636		
7,446	7,495	8,152	8,152								

Management Discussion - Addendum C
Credit Risk by Economic Sector - Consolidated
As of June 30, 2014

Reported amounts (NIS in millions)

	Off balance sheet debt[1] and credit risk (other than derivatives)[2]			Total credit risk	
	Debt[1]	Guarantees and other commitments on account of clients	Total	Debentures[4]	Fair value of derivatives
Agriculture	599	198	797	-	-
Industry	5,832	3,116	8,948	3	62
Construction and real estate - construction	9,596	15,843	25,439	22	1
Construction and real estate - real estate operations	1,631	269	1,900	-	3
Power and water	687	209	896	4	458
Commerce	6,862	1,941	8,803	-	20
Hotel and food services	551	130	681	-	2
Transport and storage	1,056	439	1,495	-	2
Communications and computer services	1,094	402	1,496	-	18
Financial services	3,120	7,365	10,485	-	729
Other business services	2,436	798	3,234	-	7
Public and community services	969	320	1,289	-	73
Total commercial credit risk	**34,433**	**31,030**	**65,463**	**29**	**1,375**
Private individuals - housing loans	92,557	4,277	96,834	-	-
Private individuals - other	13,930	10,459	24,389	-	4
Total	**140,920**	**45,766**	**186,686**	**29**	**1,379**
For borrowers' activities overseas	3,726	1,013	4,739	60	22
Total credit risk to public	**144,646**	**46,779**	**191,425**	**89**	**1,401**
Banking corporations	1,512	28	1,540	326	449
Governments	3,565	10	3,575	9,335	-
Total credit risk	**149,723**	**46,817**	**196,540**	**9,750**	**1,850**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements.
(2) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits, except for derivatives.
(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).
(4) Includes borrowed securities amounting to NIS 112 million.
(5) On- and off-balance sheet credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(6) For the six-month period ended June 30, 2014.

		Total troubled credit risk	Troubled off balance sheet debt[1] and credit risk (other than derivatives)				
					Credit losses(3)		
Future transactions	Total	Troubled [5]	Impaired	Expenses with respect to credit losses [6]	Net accounting write-off[6]	Balance of provision for credit losses	
-	797	12	9	1	-	7	
75	9,088	258	91	9	7	106	
1	25,463	720	627	(19)	4	169	
-	1,903	61	56	-	1	14	
102	1,460	1	1	1	-	3	
27	8,850	295	202	20	12	113	
1	684	12	5	4	1	12	
7	1,504	30	24	-	(1)	22	
11	1,525	34	29	1	-	8	
366	11,580	190	131	(16)	(13)	100	
2	3,243	36	22	13	4	37	
38	1,400	25	22	4	1	9	
630	**67,497**	**1,674**	**1,219**	**18**	**16**	**600**	
-	96,834	1,050	2	7	18	629	
3	24,396	195	76	15	23	140	
633	**188,727**	**2,919**	**1,297**	**40**	**57**	**1,369**	
23	4,844	8	8	(20)	(15)	27	
656	**193,571**	**2,927**	**1,305**	**20**	**42**	**1,396**	
525	2,840	-	-	(2)	-	8	
-	12,910	-	-	-	-	-	
1,181	**209,321**	**2,927**	**1,305**	**18**	**42**	**1,404**	

Management Discussion - Addendum C

Credit Risk by Economic Sector - Consolidated - continued

As of June 30, 2013

Reported amounts (NIS in millions)

	Off balance sheet debt[1] and credit risk (other than derivatives)[2]			Total credit risk	
	Debt[1]	Guarantees and other commitments on account of clients	Total	Debentures[4]	Fair value of derivatives
Agriculture	503	210	713	-	-
Industry	6,144	3,550	9,694	58	79
Construction and real estate - construction	8,761	15,338	24,099	29	3
Construction and real estate - real estate operations	1,576	315	1,891	-	-
Power and water	350	428	778	18	379
Commerce	6,857	1,944	8,791	-	59
Hotel and food services	433	164	597	-	1
Transport and storage	766	455	1,221	-	5
Communications and computer services	1,744	882	2,626	1	26
Financial services	3,443	7,103	10,556	-	930
Other business services	2,343	726	3,069	-	5
Public and community services	859	306	1,165	-	57
Total commercial credit risk	**33,779**	**31,421**	**65,200**	**106**	**1,544**
Private individuals - housing loans	83,533	4,309	87,842	-	-
Private individuals - other	13,119	10,910	24,029	-	8
Total	**130,431**	**46,640**	**177,071**	**106**	**1,552**
For borrowers' activities overseas	3,811	730	4,541	52	26
Total credit risk to public	**134,242**	**47,370**	**181,612**	**158**	**1,578**
Banking corporations[3]	2,058	93	2,151	431	474
Government [7]	2,864	119	2,983	6,006	-
Total credit risk	**139,164**	**47,582**	**186,746**	**6,595**	**2,052**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements.

(2) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits, except for derivatives.

(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).

(4) Includes borrowed securities amounting to NIS 37 million.

(5) On- and off-balance sheet credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.

(6) For the six-month period ended June 30, 2013.

(7) Reclassified.

		Total troubled credit risk		Troubled off balance sheet debt[1] and credit risk (other than derivatives)		
				credit losses[3]		
Future transactions	Total	Troubled[5]	Impaired	Expenses with respect to credit losses[6]	Net accounting write-off[6]	Balance of provision for credit losses
1	714	15	12	1	-	7
238	10,069	147	105	11	2	91
8	24,139	917	834	(7)	7	191
-	1,891	78	72	-	-	18
361	1,536	2	2	1	-	1
79	8,929	248	148	(13)	23	100
1	599	8	3	2	1	9
11	1,237	32	26	(2)	-	21
60	2,713	31	30	(1)	1	11
1,401	12,887	306	293	8	(5)	173
8	3,082	37	20	2	9	27
187	1,409	11	7	(2)	(1)	6
2,355	**69,205**	**1,832**	**1,552**	**-**	**37**	**655**
-	87,842	1,185	2	198	345	671
13	24,050	211	82	21	36	139
2,368	**181,097**	**3,228**	**1,636**	**219**	**418**	**1,465**
53	4,672	36	36	(4)	(1)	28
2,421	**185,769**	**3,264**	**1,672**	**215**	**417**	**1,493**
1,449	4,505	5	5	-	-	10
-	8,989	-	-	-	-	-
3,870	**199,263**	**3,269**	**1,677**	**215**	**417**	**1,503**

Management Discussion - Addendum C

Credit Risk by Economic Sector - Consolidated - continued

As of December 31, 2013

Reported amounts (NIS in millions)

	Off balance sheet debt[1] and credit risk (other than derivatives)[2]			Total credit risk	
	Debt[1]	Guarantees and other commitments on account of clients	Total	Debentures[4]	Fair value of derivatives
Agriculture	563	190	753	-	-
Industry	5,832	3,773	9,605	51	67
Construction and real estate - construction	9,374	16,005	25,379	24	3
Construction and real estate - real estate operations	1,648	274	1,922	-	1
Power and water	631	290	921	17	472
Commerce	6,625	1,938	8,563	-	30
Hotel and food services	488	151	639	-	-
Transport and storage	1,014	396	1,410	-	5
Communications and computer services	1,221	667	1,888	-	16
Financial services	3,181	7,037	10,218	-	685
Other business services	2,411	826	3,237	-	2
Public and community services	867	307	1,174	-	112
Total commercial credit risk	**33,855**	**31,854**	**65,709**	**92**	**1,393**
Private individuals - housing loans	88,450	4,164	92,614	-	-
Private individuals - other	13,413	10,282	23,695	-	4
Total	**135,718**	**46,300**	**182,018**	**92**	**1,397**
For borrowers' activities overseas	4,162	950	5,112	40	30
Total credit risk to public	**139,880**	**47,250**	**187,130**	**132**	**1,427**
Banking corporations[7]	2,403	20	2,423	348	373
Government	1,045	10	1,055	6,502	-
Total credit risk	**143,328**	**47,280**	**190,608**	**6,982**	**1,800**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with re-sale agreements.

(2) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits, except for derivatives.

(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).

(4) Includes borrowed securities amounting to NIS 70 million.

(5) On- and off-balance sheet credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.

(6) For the year ended December 31, 2013.

(7) Reclassified.

		Total troubled credit risk	Troubled off balance sheet debt[1] and credit risk (other than derivatives)			
				credit losses [3]		
Future transactions	Total	Troubled[5]	Impaired	Expenses with respect to credit losses[6]	Net accounting write-off[6]	Balance of provision for credit losses
-	753	6	5	(1)	1	6
240	9,963	279	95	59	12	103
5	25,411	818	762	(19)	3	181
-	1,923	68	59	(3)	-	15
356	1,766	2	2	-	-	1
63	8,656	246	151	8	44	110
-	639	14	5	5	3	10
18	1,433	30	26	(3)	-	20
39	1,943	46	42	(2)	1	7
1,037	11,940	174	171	(6)	56	109
4	3,243	35	21	15	19	30
189	1,475	24	15	(1)	(1)	6
1,951	**69,145**	**1,742**	**1,354**	**52**	**138**	**598**
-	92,614	1,078	2	185	365	640
9	23,708	206	83	57	63	148
1,960	**185,467**	**3,026**	**1,439**	**294**	**566**	**1,386**
119	5,301	88	35	(6)	(1)	32
2,079	**190,768**	**3,114**	**1,474**	**288**	**565**	**1,418**
1,505	4,649	-	-	-	-	10
-	7,557	-	-	-	-	-
3,584	**202,974**	**3,114**	**1,474**	**288**	**565**	**1,428**

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:

As of June 30, 2014													
	Balance sheet exposure [(2)]									Off-balance sheet exposure [(2)(3)]			
Country	Cross-border balance sheet exposure			Balance sheet exposure of affiliates of the banking corporation in foreign country to local residents								Cross-border balance sheet exposure	
	To govern-ments [(4)]	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction with respect to local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	balance sheet troubled comm-ercial credit risk	Impa-ired debt	Total off-balance sheet exposure	Includes: Off-balance sheet troubled commer-cial credit risk	Maturing in under 1 year	Maturing in over 1 year
USA	3,199	688	1,180	308	308	-	5,067	5	-	2,253	-	4,123	944
UK	-	408	599	932	289	643	1,650	9	-	857	-	619	388
France	-	148	1,319	-	-	-	1,467	26	-	452	-	272	1,195
Other	-	776	1,709	-	-	-	2,485	5	-	1,919	-	1,301	1,184
Total exposure to foreign countries	**3,199**	**2,020**	**4,807**	**1,240**	**597**	**643**	**10,669**	**45**	**-**	**5,481**	**-**	**6,315**	**3,711**
Of which: Total exposure to LDC countries	-	-	494	-	-	-	494	1	-	110	-	142	352
Of which: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	2	33	-	-	-	35	-	-	25	-	6	29

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

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

(2) On- and off-balance sheet credit risk, troubled commercial credit risk and impaired debt are stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.

(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits.

(4) Governments, official institutions and central banks.

Management Discussion - Addendum D - Continued

Exposure to Foreign Countries - Consolidated[1]

Reported amounts (NIS in millions)

As of June 30, 2013													
	Balance sheet exposure [2]								Off-balance sheet exposure [2][3]				
Country	Cross-border balance sheet exposure			Balance sheet exposure of affiliates of the banking corporation in foreign country to local residents								Cross-border balance sheet exposure	
	To governments [4]	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction with respect to local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	balance sheet troubled commercial credit risk	Impaired debt	Total off-balance sheet exposure	Includes: Off-balance sheet troubled commercial credit risk	Maturing in under 1 year	Maturing in over 1 year
USA	[5]2,521	825	1,090	[5]303	[5]303	-	4,436	29	20	1,710	-	3,448	988
UK	-	472	727	705	224	481	1,680	4	6	1,130	-	407	792
France	-	119	1,462	-	-	-	1,581	14	-	487	-	447	1,134
Other	1	941	1,965	-	-	-	2,907	5	2	2,457	-	1,908	999
Total exposure to foreign countries	**2,522**	**2,357**	**5,244**	**1,008**	**527**	**481**	**10,604**	**52**	**28**	**5,784**	**-**	**6,210**	**3,913**
Of which: Total exposure to LDC countries	-	42	428	-	-	-	470	1	-	238	-	210	260
Of which: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	2	30	-	-	-	32	-	-	3	-	3	29
As of December 31, 2013													
USA	[5]703	898	1,259	[5]289	[5]289	-	2,860	27	16	1,750	-	1,913	947
France	-	159	1,504	-	-	-	1,663	16	-	510	-	486	1,177
UK	-	402	726	845	274	571	1,699	6	9	1,048	-	350	778
Other	-	970	1,704	-	-	-	2,674	61	2	1,860	-	1,596	1,078
Total exposure to foreign countries	**703**	**2,429**	**5,193**	**1,134**	**563**	**571**	**8,896**	**110**	**27**	**5,168**	**-**	**4,345**	**3,980**
Of which: Total exposure to LDC countries	-	37	486	-	-	-	523	4	-	249	-	180	343
Of which: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	2	61	-	-	-	63	-	-	4	-	20	43

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

(1) Based on final risk, after effect of guarantees, liquid collateral and credit derivatives.
(2) On- and off-balance sheet credit risk, troubled commercial credit risk and impaired debt are stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.
(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits.
(4) Governments, official institutions and central banks.
(5) Reclassified.

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

Reported amounts (NIS in millions)

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

	As of June 30, 2013	
	Balance sheet exposure	Off-balance sheet exposure
Switzerland	373	1,030

As of June 30, 2014 and as of December 31, 2013, there is no reportable exposure pursuant to the Supervisor of Banks' Public Reporting Regulations.

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

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

A. Movement in balance sheet exposure to foreign countries facing liquidity issues:

	For the three months ended June 30, 2014			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	1	6	-	7
Net change in short-term exposure	-	-	-	-
Exposure at end of reported period	**1**	**6**	**-**	**7**

	For the three months ended June 30, 2013			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	7	-	7
Net change in short-term exposure	-	(1)	-	(1)
Exposure at end of reported period	**-**	**6**	**-**	**6**

	For the six months ended June 30, 2014			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	5	-	5
Net change in short-term exposure	1	1	-	2
Exposure at end of reported period	**1**	**6**	**-**	**7**

	For the six months ended June 30, 2013			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	6	-	6
Net change in short-term exposure	-	-	-	-
Exposure at end of reported period	**-**	**6**	**-**	**6**

	For the year ended December 31, 2013			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	6	-	6
Net change in short-term exposure	-	(1)	-	(1)
Exposure at end of reported period	**-**	**5**	**-**	**5**

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

B. There is no material exposure to any foreign countries facing liquidity issues which have been restructured.

Certification

I, ELDAD FRESHER, certify that:

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended June 30, 2014 ("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 the dates and for the periods presented 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 controls over financial reporting. Furthermore:

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

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

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

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

5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit and Balance Sheet Committees of the Board of Directors of the Bank:

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

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

Ramat Gan, August 13, 2014

A. Fresher
President

Certification

I, MENAHEM AVIV, declare that

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended June 30, 2014 (“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 the dates and for the periods presented 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 controls over financial reporting. Furthermore:

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

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

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

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

5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank’s independent auditors, the Board of Directors and the Audit and Balance Sheet Committees of the Board of Directors of the Bank:

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

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

Ramat Gan, August 13, 2014

M. Aviv
Vice-president, Chief Accountant

Condensed Financial Statements

Table of Contents

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, 2014, the condensed consolidated statements of profit and loss, comprehensive income, change in equity and cash flows for the six-month 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 generally accepted accounting practice in Israel (Israeli GAAP) for interim financial reporting and in accordance with directives and guidance of the Supervisor of Banks. We are responsible for expressing our conclusion as to the financial information for this interim period based on our review.

We did not review the condensed financial information of certain consolidated subsidiaries, whose assets included in consolidation constitute 6.99% of total consolidated assets as of June 30, 2014, and whose net interest revenues before expenses with respect to credit losses included in the consolidated statements of profit and loss constitute 9.09% and 6.85%, respectively, of total consolidated net interest revenues before expenses with respect to credit losses for the six-month and three-month periods then ended. Furthermore, we did not review the condensed financial information for the interim period of an associate, the investment in which amounted to NIS 19 million as of June 30, 2014. The condensed financial information for the interim periods of the aforementioned companies was reviewed by other independent auditors, we have been provided with their review reports and our conclusions, in as much as it relates to the financial information with respect to those companies, is based on the review reports by those other independent auditors.

Review scope

We have conducted our review in accordance with Review Standard no. 1 of the Institute of Certified Public Accountants in Israel "Review of Financial Information for Interim Periods Conducted by the Entity's Independent Auditor" and with the review standard whose application to review of banking corporations is stipulated in accordance with directives and guidance of the Supervisor of Banks. A review of financial information for interim periods consists of discussions, mostly with persons responsible for financial and accounting issues, and of application of analytical and other review procedures. A review is significantly limited in scope as compared to an audit conducted in accordance with generally accepted audit standards in Israel, and therefore it does not enable us to achieve assurance that we have knowledge of all material matters which might have been identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, and on the review reports of other auditors, nothing has come to our attention that would cause us to believe that the aforementioned financial data has not been prepared, in all material aspects, in accordance with Israeli GAAP for interim financial reporting and in accordance with directives and guidance of the Supervisor of Banks.

Without qualifying our conclusion, we draw your attention to:

1. Note 7.C.3) A.-F. with regard to lawsuits filed against the Bank and motions for class action status.
2. Note 14 with regard to re-statement of asset and liability data by linkage bases and maturities.

Brightman Almagor Zohar & Co.

Certified Public Accountants

Brightman Almagor Zohar & Co.

August 13, 2014

Condensed consolidated balance sheet

Reported amounts (NIS in millions)

	Note	As of June 30,		As of December 31,
		2014	2013	2013
		(unaudited)	(unaudited)	(audited)
Assets				
Cash and deposits with banks		27,181	23,640	26,060
Securities[(1)]	2	9,744	6,661	7,000
Securities loaned or sold in repurchase agreements		112	37	70
Loans to the public	3	144,646	134,242	139,880
Provision for credit losses	3	(1,293)	(1,389)	(1,315)
Loans to the public, net		143,353	132,853	138,565
Loans to Governments		285	300	305
Investments in associates		61	62	60
Buildings and equipment		1,658	1,631	1,656
Intangible assets and goodwill		87	87	87
Assets with respect to derivatives	8	3,467	3,412	3,606
Other assets		2,210	1,920	2,204
Total assets		**188,158**	**170,603**	**179,613**
Liabilities and Shareholders' Equity				
Deposits from the public	4	148,063	[(3)]135,699	141,244
Deposits from banks		1,523	2,106	2,041
Deposits from the Government		56	89	62
Debentures and subordinated notes		19,120	14,807	16,443
Liabilities with respect to derivatives	8	3,303	3,259	3,538
Other liabilities[(2)]		5,176	[(3)] 4,838	5,950
Total liabilities		**177,241**	**160,798**	**169,278**
Equity attributable to equity holders of the banking corporation		10,418	9,341	9,852
Non-controlling interest		499	464	483
Total equity		**10,917**	**9,805**	**10,335**
Total liabilities and shareholders' equity		**188,158**	**170,603**	**179,613**

(1) Of which: NIS 7,797 million at fair value (June 30, 2013 - NIS 5,350 million; December 31, 2013 - NIS 5,131 million).

(2) Of which: Provision for credit losses with respect to off balance sheet credit instruments amounting to NIS 103 million (on June 30, 2013 - NIS 104 million, on December 31, 2013 - NIS 103 million).

(3) Reclassified. For details, see Note 1.B.

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

Moshe Vidman
Chairman of the Board of Directors

Eldad Fresher
President

Menahem Aviv
Vice-president, Chief Accountant

Approval date:
Ramat Gan, August 13, 2014

Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	Note	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
		2014	2013	2014	2013	2013
		(unaudited)		(unaudited)		(audited)
Interest revenues	10	(1)1,639	1,704	(1)2,630	3,117	6,442
Interest expenses	10	716	831	994	1,442	2,978
Interest revenues, net		923	873	1,636	1,675	3,464
Expenses with respect to credit losses	3	23	181	18	215	288
Interest revenues, net after expenses with respect to credit losses		**900**	**692**	**1,618**	**1,460**	**3,176**
Non-interest revenues						
Non-interest financing revenues	11	(2)	48	79	81	14
Commissions		(1)338	360	(1)686	728	1,458
Other revenues		7	8	16	13	27
Total non-interest revenues		**343**	**416**	**781**	**822**	**1,499**
Operating and other expenses						
Payroll and associated expenses		462	429	918	874	1,836
Maintenance and depreciation of buildings and equipment		177	172	348	338	683
Other expenses		108	105	208	211	438
Total operating and other expenses		**747**	**706**	**1,474**	**1,423**	**2,957**
Pre-tax profit		496	402	925	859	1,718
Provision for taxes on profit		187	145	345	309	592
After-tax profit		309	257	580	550	1,126
Share in profit (loss) of associates, after tax		2	1	3	(1)	(4)
Net profit:						
Before attribution to non-controlling interest		311	258	583	549	1,122
Attributable to non-controlling interest		(9)	(13)	(17)	(24)	(44)
Attributable to equity holders of the Bank		**302**	**245**	**566**	**525**	**1,078**

(1) For information about application of US standard FAS 91 (ASC 310-20) with regard to measurement of interest revenues, see Note 1.C.1 to the financial statements.

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

Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2014	2013	2014	2013	2013
	(unaudited)				(audited)
Earnings per share[1]					
Basic earnings per share (in NIS)					
Net profit attributable to equity holders of the Bank	1.31	1.07	2.46	2.31	4.72
Diluted earnings per share (in NIS)					
Net profit attributable to equity holders of the Bank	1.30	1.06	2.44	2.28	4.69

(1) Shares of NIS 0.1 par value each.

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

Condensed consolidated statement of comprehensive income

Reported amounts (NIS in millions)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2014	2013	2014	2013	2013
	(unaudited)		(unaudited)		(audited)
Net profit:					
Before attribution to non-controlling interest	311	258	583	549	1,122
Attributable to non-controlling interest	(9)	(13)	(17)	(24)	(44)
Net profit attributable to equity holders of the Bank	**302**	**245**	**566**	**525**	**1,078**
Other comprehensive income (loss) before taxes:					
Adjustments for presentation of available-for-sale securities at fair value, net	(19)	(17)	(25)	4	22
Adjustments from translation of financial statements	-	-	-	(1)	(3)
Net gain from cash flow hedges	1	(3)	9	(3)	-
Total other comprehensive income (loss), before tax	**(18)**	**(20)**	**(16)**	**-**	**19**
Related tax effect	7	7	6	-	(10)
Cumulative Other Comprehensive income (loss):					
Before attribution to non-controlling interest, after tax	(11)	(13)	(10)	-	9
Attributable to non-controlling interest, after tax	1	1	1	1	2
Attributable to equity holders of the Bank, after tax	**(10)**	**(12)**	**(9)**	**1**	**11**
Comprehensive income:					
Before attribution to non-controlling interest	300	245	573	549	1,131
Attributable to non-controlling interest	(8)	(12)	(16)	(23)	(42)
Attributable to equity holders of the Bank	**292**	**233**	**557**	**526**	**1,089**

Condensed Statement of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

	For the three months ended June 30, 2014 (unaudited)			
	Share capital and premium[1]	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves
Balance as of March 31, 2014	**2,112**	**125**	**(76)**	**2,161**
Net profit for the period	-	-	-	-
Benefit from share-based payment transactions	-	2	-	2
Related tax effect	-	(6)	-	(6)
Realized share-based payment transactions[2]	10	(10)	-	-
Other comprehensive income, net after tax	-	-	-	-
Balance as of June 30, 2014	**2,122**	**111**	**(76)**	**2,157**

	For the three months ended June 30, 2013 (unaudited)			
Balance as of March 31, 2013	**2,063**	**138**	**(76)**	**2,125**
Net profit for the period	-	-	-	-
Benefit from share-based payment transactions	-	7	-	7
Related tax effect	-	(7)	-	(7)
Realized share-based payment transactions [2]	11	(11)	-	-
Other comprehensive income, net after tax	-	-	-	-
Balance as of June 30, 2013	**2,074**	**127**	**(76)**	**2,125**

(1) Share premium generated prior to March 31, 1986.

(2) In the second quarter of 2014, the Bank issued 152,387 ordinary shares (in the second quarter of 2013 - 186,699 shares) of NIS 0.1 par value each, for exercise of options in conjunction with the Employee Stock Option Plan.

(3) For details see Note 13 - Cumulative Other Comprehensive Income.

(4) For details on various limitations on dividend distributions, see Note 13 to the financial statements for 2013.

	Cumulative other comprehensive income (loss)[3]	Retained earnings[4]	Total	Non-controlling interest	Total equity
	12	**7,957**	**10,130**	**491**	**10,621**
	-	302	302	9	311
	-	-	2	-	2
	-	-	(6)	-	(6)
	-	-	-	-	-
	(10)	-	(10)	(1)	(11)
	2	**8,259**	**10,418**	**499**	**10,917**
	13	**6,970**	**9,108**	**452**	**9,560**
	-	245	245	13	258
	-	-	7	-	7
	-	-	(7)	-	(7)
	-	-	-	-	-
	(12)	-	(12)	(1)	(13)
	1	**7,215**	**9,341**	**464**	**9,805**

Condensed Statement of Changes in Shareholders' Equity - Continued

Reported amounts (NIS in millions)

	For the six months ended June 30, 2014 (unaudited)			
	Share capital and premium[(1)]	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves
Balance as of January 1, 2014	**2,108**	**116**	**(76)**	**2,148**
Net profit for the period	-	-	-	-
Benefit from share-based payment transactions	-	8	-	8
Related tax effect	-	1	-	1
Realized share-based payment transactions[(2)]	14	(14)	-	-
Other comprehensive income, net after tax	-	-	-	-
Balance as of June 30, 2014	**2,122**	**111**	**(76)**	**2,157**
	For the six months ended June 30, 2013 (unaudited)			
Balance as of January 1, 2013	**2,058**	**139**	**(76)**	**2,121**
Net profit for the period	-	-	-	-
Benefit from share-based payment transactions	-	9	-	9
Related tax effect	-	(5)	-	(5)
Realized share-based payment transactions[(2)]	16	(16)	-	-
Other comprehensive income, net after tax	-	-	-	-
Balance as of June 30, 2013	**2,074**	**127**	**(76)**	**2,125**
	For the year ended December 31, 2013 (audited)			
Balance as of January 1, 2013	**2,058**	**139**	**(76)**	**2,121**
Net profit for the period	-	-	-	-
Dividends paid	-	-	-	-
Benefit from share-based payment transactions	-	14	-	14
Related tax effect	-	13	-	13
Realized share-based payment transactions[(2)]	50	(50)	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-
Balance as of December 31, 2013	**2,108**	**116**	**(76)**	**2,148**

(1) Share premium generated prior to March 31, 1986.

(2) In the first half of 2014, the Bank issued 337,547 ordinary shares (in the first half of 2013 - 496,057 shares) of NIS 0.1 par value for exercise of options in conjunction with the Employee Stock Option Plan. In 2013, the Bank issued 1,889,904 ordinary shares of NIS 0.1 par value each, for exercise of options in conjunction with the Employee Stock Option Plan.

(3) For details see Note 13 - Cumulative Other Comprehensive Income.

(4) For details on various limitations on dividend distributions, see Note 13 to the financial statements for 2013.

Cumulative other comprehensive income (loss)[3]	Retained earnings[4]	Total	Non-controlling interest	Total equity
11	**7,693**	**9,852**	**483**	**10,335**
-	566	566	17	583
-	-	8	-	8
-	-	1	-	1
-	-	-	-	-
(9)	-	(9)	(1)	(10)
2	**8,259**	**10,418**	**499**	**10,917**
-	**6,690**	**8,811**	**441**	**9,252**
-	525	525	24	549
-	-	9	-	9
-	-	(5)	-	(5)
-	-	-	-	-
1	-	1	(1)	-
1	**7,215**	**9,341**	**464**	**9,805**
-	**6,690**	**8,811**	**441**	**9,252**
-	1,078	1,078	44	1,122
-	(75)	(75)	-	(75)
-	-	14	-	14
-	-	13	-	13
-	-	-	-	-
11	-	11	(2)	9
11	**7,693**	**9,852**	**483**	**10,335**

Statement of cash flows

Reported amounts (NIS in millions)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2014	2013	2014	2013	2013
	(unaudited)			(unaudited)	(audited)
Cash flows provided by current operations					
Net profit for the period	311	258	583	549	1,122
Adjustments:					
Share of Company in undistributed earnings (loss) of associates	(2)	(1)	(3)	1	4
Depreciation of buildings and equipment	66	63	124	124	243
Expenses with respect to credit losses	23	181	18	215	288
Profit (loss) from revaluation of securities held to maturity, from revaluation and sale of securities available for sale.	15	(1)(31)	(17)	(1)11	32
Impairment of securities held for sale	-	-	-	-	3
Realized and unrealized gain from adjustment to fair value of securities held for trading	(4)	(1) (19)	(13)	(1) (22)	(38)
Benefit from share-based payment transactions	2	7	8	9	14
Deferred taxes, net	29	(48)	42	(61)	(80)
Severance pay - decrease (increase) in excess of amount funded over liability	(1)	(1)	(11)	(12)	5
Accrual differences included under investment and financing operations	25	(1) (14)	(147)	(1)4	(1)219
Effect of change in exchange rate on cash balances	105	39	63	169	332
Net change in current assets					
Deposits with banks	318	2,117	1,796	1,504	102
Loans to the public	(2,315)	(2,491)	(4,806)	(4,417)	(10,202)
Loans to Governments	17	7	20	17	12
Securities loaned or sold in repurchase agreements	185	157	(42)	170	137
Assets with respect to derivatives	(186)	286	148	103	(88)
Securities held for trade	(84)	(1)1,009	388	(1)720	780
Other assets	(431)	(239)	(34)	167	(87)
Net change in current liabilities					
Deposits from banks	(583)	52	(518)	412	347
Deposits from the public	2,362	5,302	6,819	7,222	13,163
Deposits from the Government	(5)	(9)	(6)	(18)	(45)
Liabilities with respect to derivatives	301	(493)	(235)	(514)	(235)
Other liabilities	(189)	(30)	(750)	(82)	607
Unearned revenues	(24)	7	(34)	21	37
Net cash provided by current operations	**(65)**	**6,109**	**3,393**	**6,292**	**6,672**

(1) Reclassified.

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

Statement of cash flows - continued

Reported amounts (NIS in millions)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2014	2013	2014	2013	2013
	(unaudited)		(unaudited)		(audited)
Cash flows provided by investment operations					
Acquisition of debentures held to maturity	-	(80)	(77)	(80)	(646)
Acquisition of securities available for sale	(4,095)	(92)	(5,065)	(697)	(2,942)
Proceeds on sale and redemption of securities available for sale	924	1,909	2,015	2,452	4,871
Proceeds from sale of buildings and equipment	(53)	(50)	(114)	(85)	(236)
Acquisition of buildings and equipment	-	-	2	-	-
Purchase of shares in associates	1	-	2	(4)	(6)
Net cash provided by investment operations	**(3,223)**	**1,687**	**(3,237)**	**1,586**	**1,041**
Cash flows provided by financing operations					
Issuance of debentures and subordinated notes	1,243	-	2,933	1,509	3,007
Redemption of debentures and subordinated notes	(35)	(1) (24)	(109)	(1) (745)	(1) (822)
Dividends paid to shareholders	-	-	-	-	(75)
Net cash provided by financing operations	**1,208**	**(24)**	**2,824**	**764**	**2,110**
Increase (decrease) in cash	(2,080)	7,772	2,980	8,642	9,823
Cash balance at beginning of year	28,987	15,134	23,885	14,394	14,394
Effect of change in exchange rate on cash balances	(105)	(39)	(63)	(169)	(332)
Cash balance at end of period	**26,802**	**22,867**	**26,802**	**22,867**	**23,885**
Interest, taxes paid					
Interest received	1,620	1,753	2,633	3,183	6,596
Interest paid	668	962	829	1,339	3,032
Dividends received	-	-	-	-	1
Taxes on income received	2	4	77	5	5
Taxes on income paid	178	184	387	292	654
Non-cash Operations					
Acquisition of buildings and equipment	16	12	16	12	5

(1) Reclassified.

Note 1 - Reporting Principles and Accounting Policies

A. General

The financial statements as of June 30, 2014 are prepared in accordance with Israeli GAAP for financial reporting of interim periods and in accordance with directives of the Supervisor of Banks, and do not include all information required on annual financial statements. These financial statements should be read in conjunction with the audited financial statements as of December 31, 2013.

The Group accounting policies in these condensed consolidated quarterly financial statements is consistent with the policies applied to the annual financial statements, except as noted below in section C.

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

The Bank's Board of Directors authorized publication of these condensed financial statements on August 13, 2014.

B. Reclassification

On the balance sheet as of June 30, 2013, a balance of NIS 22 million was reclassified from "Deposits from the public" to "Other liabilities with respect to securities sold short".

C. Initial application of accounting standards, accounting standard updates and directives of the Supervisor of Banks

As from reporting periods starting on January 1, 2014, the Bank applies the following new accounting standards and directives:

1. Directive with regard to format of statement of profit and loss for banking corporations and adoption of generally acceptable accounting practices by US banks for measurement of interest revenues
2. Amounts reclassified out of other comprehensive income.

Below is a description of the substance of changes made to accounting policies and reporting regulations in the condensed consolidated financial statements and description of the effect of their initial application, if any:

1. Directive with regard to format of statement of profit and loss for banking corporations and adoption of generally acceptable accounting practices by US banks for measurement of interest revenues

On December 29, 2011, the Supervisor of Banks published a circular designed to adapt the Public Reporting Regulations to US GAAP with regard to non-refundable fees and other costs (ASC 310-20, FAS91) (hereafter: “the directive”).

The directive prescribed rules for treatment of commissions from loan generation and direct costs of loan generation. The qualified commissions and costs pursuant to criteria stated in the directive would not be immediately recognized in the statement of profit and loss, but rather would be accounted for in calculating the effective interest rate for the loan.

Note 1 - Reporting Principles and Accounting Policies - continued

The directive changes the treatment of commissions and costs associated with a commitment to extend credit and also stipulates rules for treatment of changes in terms of debt which do not constitute restructuring of problem debt, treatment of early repayment of debt and treatment of other transactions to extend credit, such as syndication transactions.

Changes to terms and conditions of debt

In case of refinancing or restructuring of non-troubled debt, the Bank reviews whether a material change was made to terms and conditions of the loan. Accordingly, the Bank reviews whether the present value of cash flows under the new terms and conditions of the loan differs by at least 10% from the present value of remaining cash flows under the current terms and conditions, or whether this involves a change in loan currency. In such cases, all unamortized commissions and early repayment commissions collected from the client with respect to changes to the terms and conditions of the loan are recognized on profit & loss. Otherwise, these commissions are included as part of net investment in the new loan and are recognized as adjustments to returns, as described above.

Early repayment commissions

According to transitional provisions for implementation of the directive, dated October 17, 2013, early repayment commissions charged with respect to early repayment made prior to January 1, 2014 and yet to be amortized, will continue to be recognized over a three-year period.
Commissions charged with respect to early repayment made after January 1, 2014, are immediately recognized under Interest Revenues in conformity with the rules stipulated.
On October 31, 2013, the Supervisor of Banks issued a Q&A file with regard to non-refundable fees and other costs, which stipulates the initial implementation of the FAS 91 standard. *Inter alia*, the file stipulates that banking corporations may not defer internal costs upon loan generation, without prior approval from the Financial Reporting Department of the Supervisor of Banks.

The Bank retroactively applies the directives on the format of the statement of profit and loss as from January 1, 2012.
As from January 1, 2014, the Bank prospectively applies the revisions related to adoption of interest revenue measurement (ASC 310-20) (excluding deferral of direct cost incurred upon loan origination) to transactions created or renewed as from January 1, 2014.

Impact of initial application of the directive

As noted, the directive is applied prospectively; therefore, the Bank changed revenue recognition and classification of the indicated commissions under interest revenues or commission revenues.

Note 1 - Reporting Principles and Accounting Policies - continued

Below is information about the impact of application of the directive on net interest revenues, non-interest revenues (from commissions) and net profit for the Bank in the three-month and six-month period ended June 30, 2014 (NIS in millions):

	For the three months ended June 30, 2014	For the six months ended June 30, 2014
	(unaudited)	
	Effect of application of the directive	
Interest revenues, net	37	77
Non-interest (commission) revenues	(22)	(45)
Net profit	9	20

The impact of application is primarily due to deferral of commission revenues with respect to credit extended and discontinuation of scheduling of early repayment commissions and treatment of change in terms of debt. Furthermore, application of the directive resulted in some reclassification from interest revenues to commission revenues.

2. Amounts reclassified out of Other Comprehensive Income

As from January 1, 2014, the Bank applies the directives stipulated in the Supervisor of Banks' circular with regard to reporting or amounts reclassified out of Other Comprehensive Income. The circular is designed to align the disclosure requirements with regard to reclassification of items out of cumulative other comprehensive income, in line with an update to American accounting standard ASU 2013-02.

According to provisions of the circular, a disclosure is to be provided for any items on the statement of profit and loss which include amounts reclassified from cumulative other comprehensive income to the statement of profit and loss. These provisions will be retroactively applied as from January 1, 2014. Application of provisions of this circular had no impact the financial statements, other than the change in presentation of the Note on cumulative other comprehensive income (loss).

D. New accounting standards and new directives by the Supervisor of Banks prior to their implementation

1) Group provision for credit losses

On April 10, 2013, the Supervisor of Banks issued draft directives on group-based provision for credit losses (hereafter: "the draft"). The draft includes, *inter alia*, an interim directive "Group-based provision for credit losses", which supersedes the interim directive on "Group-based provision for credit losses in 2011-2012". The interim directive clarified the range of years for which the Bank would calculate the loss rate, based on credit exposure composition by sector, and extended calculation of the general and supplementary provision pursuant to Proper Conduct of Banking Business Regulation as the minimum provision amount, through December 31, 2014.

Note 1 - Reporting Principles and Accounting Policies - continued

The draft also added questions and answers to explain how the group-based provision for credit losses is to be calculated. The draft also included detailed directives with regard to including adjustments with respect to environmental factors in calculation of the provision rate. According to these directives, the Bank is required to develop and to document a consistent method to determine the provision rate for each sector and to determine the appropriateness of the total balance of provision for credit losses in each reporting period. The data and the tests carried out would be reported to Bank management and to its Board of Directors, for making a decision as to the appropriateness of the overall provision for credit losses on the financial statements.

The schedules itemized in the draft submitted to the Advisory Committee on Banking Business on July 18, 2013 have expired and do not apply to financial statements as of June 30, 2014.
The changes to the draft interim directive and the update to the Q&A file are not expected to materially impact the Bank's financial statements.
The expected impact due to application of the draft directives on calculation of past loss rates would be accounted for as a change in estimates and would be charged to the statement of profit and loss.
The Bank is reviewing the effect of application of the draft directives with regard to adjustments for environmental factors.

2) Adoption of US GAAP with regard to employee rights

On April 9, 2014, the Supervisor of Banks issued a circular concerning adoption of US GAAP with regard to employee rights. These principles were codified in the following sections:

- ASC 710 – Compensation – General.
- ASC 712 – Compensation – Nonretirement postemployment benefits.
- ASC 715 – Compensation – Retirement benefits.
- ASC 718 – Compensation – Stock Compensation.
- ASC 420 – Exit or Disposal Cost Obligations.

In addition to application of these principles, the circular includes specific directives for implementation in Israel, as follows:

- The discount rate used to calculate reserves and to cover employee rights would be based on market yield of government debentures in Israel.
- According to the circular, the principle previously set by the Supervisor of Banks whereby a liability should be included with respect to a material obligation - should be maintained. It is expected that in cases where a banking corporation expects payment of benefits beyond contractual terms, they would adjust these to situations where a material obligation exists. According to the circular, there was no change to rules currently applied to the financial statements on this matter.

Note 1 - Reporting Principles and Accounting Policies - continued

- Banking corporations should classify employee benefits according to groups listed in US GAAP, including setting of clear policy and procedure as to how different types of benefits may be distinguished. Employee benefits fall into the following categories:
  - Benefits prior to termination
  - Benefits post termination and prior to retirement
  - Post-retirement benefits

Bank management estimates the expected effect on Group capital as of June 30, 2014 due to use of discount rates based on market yields of Government debentures in Israel, amounts to a decrease in capital of NIS 108 million, net of tax.

In conformity with transitional provisions concerning Measurement and Capital Adequacy (Proper Conduct of Banking Business regulation 299) – remeasurement of net liabilities with respect to defined benefit plans for employees, to be included under Other Comprehensive Income, would be gradually deducted from Tier 1 capital and at a 20% rate as from January 1, 2014.

Provisions of this circular will be effective as of January 1, 2015.

Upon initial application of the proposed new directives, the Bank would be required to retrospectively revise the comparative on figures for periods starting on or after January 1, 2013.

In conformity with provisions of the aforementioned standards, there is an option whereby actuarial gain and loss would be charged to Other Comprehensive Income and would be reposted to profit and loss over the remaining service term - as well as an alternative whereby such gain / loss would be immediately recognized in profit and loss.

On July 10, 2014, the Supervisor of Banks issued draft Q&A with regard to implementation of the Public Reporting Regulations concerning employee benefits, which stipulates *inter alia* that gain or loss from a defined-benefit pension plan and from a defined-contribution pension plan – post-employment benefits, should be amortized using the straight line method over the average remaining service period for employees expected to benefit from such plan.

The Bank is currently reviewing the impact of other changes listed in this circular and in the Q&A.

3) Reporting by banking corporations and credit card issuers in Israel, in conformity with generally accepted accounting principles in the USA with regard to distinction between liabilities and equity

On April 24, 2014, the Supervisor of Banks issued a draft circular concerning reporting by banking corporations and credit card issuers in Israel, in conformity with generally accepted accounting principles in the USA with regard to distinction between liabilities and equity.

Note 1 - Reporting Principles and Accounting Policies - continued

According to this draft, a banking corporation is required to adopt generally accepted accounting principles in the USA with regard to classification as liability or equity of financial instruments, including hybrid instruments, including the presentation, measurement and disclosure rules specified in provisions of accounting standard codification 480 with regard to "distinguishing between liabilities and equity", provisions of accounting standard codification 470-20 with regard to "debt with conversion and other options" and provisions of accounting standard codification 505-30 with regard to "treasury shares". Furthermore, in distinguishing between liabilities and equity, reference should be made to Public Reporting Regulations with regard to embedded instruments.

Provisions of this circular will be effective as of January 1, 2015. Upon initial application, action should be taken in conformity with transition provisions stipulated by the codification as described above, including amendment of comparative figures if applicable.

The Bank is reviewing the effect of adopting these rules on its financial statements.

4) Interim directive - Implementation of disclosure requirements pursuant to Basel Pillar 3 - Disclosure of liquidity coverage ratio

On July 10, 2014, the Supervisor of Banks issued a new draft Proper Conduct of Banking Business Regulation with regard to liquidity coverage ratio, in addition to the existing Proper Conduct of Banking Business Regulation 342 "Liquidity Risk Management".

The regulation adopts Basel III recommendations with regard to liquidity coverage ratio for the Israeli banking system.

Further, on July 20, 2014, the Supervisor issued the draft amendment of Public Reporting Regulations and a draft Q&A file on this matter, which stipulate disclosure of the liquidity coverage ratio (to be calculated as per Proper Conduct of Banking Business Regulations with regard to liquidity coverage ratio) on the financial statements, under the Note "Capital Adequacy and Liquidity".

In conformity with this draft, disclosure of liquidity coverage ratio would be required in the Note "Capital Adequacy and Liquidity".

Note 2 - Securities

As of June 30, 2014 (unaudited)

Reported amounts (NIS in millions)

A. Composition:

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized profit from adjustments to fair value	Unrecognized loss from adjustments to fair value	Fair value[1]
(1) Government of Israel debentures held to maturity	**1,845**	**1,845**	**44**	**-**	**1,889**

	Carrying amount	Amortized cost (for shares - cost)	Cumulative other comprehensive income: Gain	Cumulative other comprehensive income: Loss	Fair value[1]
(2) Securities available for sale					
Debentures and bonds -					
Of the Government of Israel[2]	5,980	5,981	39	(40)	5,980
Of foreign governments[2][6]	221	221	-	-	221
Of banks and financial institutions in Israel	123	123	-	-	123
Of banks and financial institutions overseas	203	203	-	-	203
Of others in Israel	4	4	-	-	4
Of others overseas	85	84	1	-	85
Total debentures available for sale	**6,616**	**6,616**	**40**	**(40)**	**6,616**
Shares[3]	106	105	1	-	106
Total securities available for sale	**6,722**	**6,721**	[4]**41**	[4]**(40)**	**6,722**

	Carrying amount	Amortized cost (for shares - cost)	Unrealized profit from adjustments to fair value	Unrealized loss from adjustments to fair value	Fair value[1]
(3) Securities held for trade					
Debentures -					
Of the Government of Israel[7]	1,177	1,177	2	(2)	1,177
Total securities held for trade	**1,177**	**1,177**	[5]**2**	[5]**(2)**	**1,177**
Total securities	**9,744**	**9,743**	**87**	**(42)**	**9,788**

(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-F to the 2013 financial statements for information on liens on securities held by the Bank.
(3) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 102 million.
(4) Included in Other Comprehensive Income under "Adjustments with respect to presentation of securities available for sale at fair value, net".
(5) Charged to statement of profit and loss but not yet realized.
(6) US government debentures.
(7) Of which, securities amounting to NIS 513 million are classified as held for trade, because the Bank elected to present them in accordance with the fair value option in Section 20 of Public Reporting Regulations, even though they had not been acquired for trade.

Note: For details of results of investment in debentures – see Note 10.D., 11.A.2 and 11.B.

For details of results of investment in shares – see Note 11.A.4.

Note 2 - Securities - continued

As of June 30, 2013 (unaudited)

Reported amounts (NIS in millions)

A. Composition:

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized profit from adjustments to fair value	Unrecognized loss from adjustments to fair value	Fair value[1]
(1) Government of Israel debentures held to maturity	**1,203**	**1,203**	**6**	**-**	**1,209**

	Carrying amount	Amortized cost (for shares - cost)	Cumulative other comprehensive income: Gain	Cumulative other comprehensive income: Loss	Fair value[1]
(2) Securities available for sale					
Debentures and bonds -					
Of the Government of Israel[2]	3,078	3,080	38	(40)	3,078
Of foreign governments[2][6]	85	82	3	-	85
Of banks and financial institutions in Israel	124	124	-	-	124
Of banks and financial institutions overseas	307	306	1	-	307
Of others in Israel	31	31	-	-	31
Of others overseas	128	126	2	-	128
Total debentures available for sale	**3,753**	**3,749**	**44**	**(40)**	**3,753**
Shares [3]	109	109	-	-	109
Total securities available for sale	**3,862**	**3,858**	[4]**44**	[4]**(40)**	**3,862**

	Carrying amount	Amortized cost (for shares - cost)	Unrealized profit from adjustments to fair value	Unrealized loss from adjustments to fair value	Fair value[1]
(3) Securities held for trade					
Debentures -					
Of the Government of Israel[7]	1,596	1,591	13	(8)	1,596
Total securities held for trade	**1,596**	**1,591**	[5] **13**	[5] **(8)**	**1,596**
Total securities	**6,661**	**6,652**	**63**	**(48)**	**6,667**

(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-F to the 2012 financial statements for information on liens on securities held by the Bank.
(3) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 111 million.
(4) Included in Other Comprehensive Income under "Adjustments with respect to presentation of securities available for sale at fair value".
(5) Charged to statement of profit and loss but not yet realized.
(6) US government debentures.
(7) Of which, securities amounting to NIS 1,454 million are classified as held for trade, because the Bank elected to present them in accordance with the fair value option in Section 20 of Public Reporting Regulations, even though they had not been acquired for trade.

Note: For details of results of investment in debentures – see Note 10.D., 11.A.2 and 11.B.
For details of results of investment in shares – see Note 11.A.4.

Note 2 - Securities - continued

As of December 31, 2013 (audited)

Reported amounts (NIS in millions)

A. Composition:

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized profit from adjustments to fair value	Unrecognized loss from adjustments to fair value	Fair value(1)
(1) Government of Israel debentures held to maturity	**1,771**	**1,771**	**11**	**-**	**1,782**

	Carrying amount	Amortized cost (for shares - cost)	Cumulative other comprehensive income: Gain	Cumulative other comprehensive income: Loss	Fair value (1)
(2) Securities available for sale					
Debentures and bonds -					
Of the Government of Israel(2)	3,017	3,000	47	(30)	3,017
Of foreign governments(2)(6)	82	81	1	-	82
Of banks and financial institutions in Israel	124	124	-	-	124
Of banks and financial institutions overseas	224	223	1	-	224
Of others in Israel	23	22	1	-	23
Of others overseas	109	108	2	(1)	109
Total debentures available for sale	**3,579**	**3,558**	**52**	**(31)**	**3,579**
Shares(3)	98	98	-	-	98
Total securities available for sale	**3,677**	**3,656**	(4)**52**	(4)**(31)**	**3,677**

	Carrying amount	Amortized cost (for shares - cost)	Unrealized profit from adjustments to fair value	Unrealized loss from adjustments to fair value	Fair value(1)
(3) Securities held for trade					
Debentures -					
Of the Government of Israel(7)	1,552	1,541	11	-	1,552
Total securities held for trade	**1,552**	**1,541**	(5)**11**	**-**	**1,552**
Total securities	**7,000**	**6,968**	**74**	**(31)**	**7,011**

(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-F to the 2013 financial statements for information on liens on securities held by the Bank.
(3) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 98 million.
(4) Included in Other Comprehensive Income under "Adjustments with respect to presentation of securities available for sale at fair value, net".
(5) Charged to statement of profit and loss but not yet realized.
(6) Primarily US government debentures.
(7) Of which, securities amounting to NIS 850 million are classified as held for trade, because the Bank elected to present them in accordance with the fair value option in Section 20 of Public Reporting Regulations, even though they had not been acquired for trade.

Note: For details of results of investment in debentures – see Note 10.D., 11.A.2 and 11.B.
For details of results of investment in shares – see Note 11.A.4.

Note 2 - Securities - continued

Reported amounts (NIS in millions)

B. Additional details of the fair value and the duration in which available-for-sale securities included unrealized loss:

	As of June 30, 2014 (unaudited)							
	Less than 12 months				12 months or more			
	Fair	Unrealized loss			Fair	Unrealized loss		
	value(1)	0%-20%	20%-40%	Total	value(1)	0%-20%	20%-40%	Total
Securities available for sale								
Debentures and bonds -								
Of the Government of Israel(2)	3,216	20	-	20	200	20	-	20
Total debentures available for sale	**3,216**	**20**	**-**	**20**	**200**	**20**	**-**	**20**
Shares	-	-	-	-	-	-	-	-
Total securities available for sale	**3,216**	**20**	**-**	**20**	**200**	**20**	**-**	**20**

	As of June 30, 2013 (unaudited)							
	Less than 12 months				12 months or more			
	Fair	Unrealized loss			Fair	Unrealized loss		
	value(1)	0%-20%	20%-40%	Total	value(1)	0%-20%	20%-40%	Total
Securities available for sale								
Debentures and bonds -								
Of the Government of Israel(2)	260	11	-	11	739	29	-	29
Total debentures available for sale	**260**	**11**	**-**	**11**	**739**	**29**	**-**	**29**
Shares	-	-	-	-	-	-	-	-
Total securities available for sale	**260**	**11**	**-**	**11**	**739**	**29**	**-**	**29**

	As of December 31, 2013 (audited)							
	Less than 12 months				12 months or more			
	Fair	Unrealized loss			Fair	Unrealized loss		
	value(1)	0%-20%	20%-40%	Total	value(1)	0%-20%	20%-40%	Total
Securities available for sale								
Debentures and bonds -								
Of the Government of Israel(2)	-	-	-	-	567	30	-	30
Of others overseas	9	1	-	1	-	-	-	-
Total debentures available for sale	**9**	**1**	**-**	**1**	**567**	**30**	**-**	**30**
Shares	-	-	-	-	-	-	-	-
Total securities available for sale	**9**	**1**	**-**	**1**	**567**	**30**	**-**	**30**

(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-F to the 2013 financial statements for information on liens on securities held by the Bank.

C. Asset-backed securities -

As of June 30, 2014, June 30, 2013 and December 31, 2013, there was no balance of asset-backed securities.

Note 3 - Credit risk, loans to the public and provision for credit losses

Reported amounts (NIS in millions)

A. Off balance sheet debt[1] and credit instruments

1. Change in balance of provision for credit loss

	For the three months ended June 30, 2014					
	Provision for credit losses					
	Loans to the public				Banks and governments	Total
	Commercial	Housing	Individual - other	Total		
Balance of provision for credit losses at year start	611	641	143	1,395	12	1,407
Expenses with respect to credit losses	12	7	8	27	(4)	23
Accounting write-offs	(31)	(13)	(29)	(73)	-	(73)
Recovery of debt written off in previous years	29	-	18	47	-	47
Net accounting write-offs	(2)	(13)	(11)	(26)	-	(26)
Balance of provision for credit losses at year end	**621**	**635**	**140**	**1,396**	**8**	**1,404**
Of which: With respect to balance sheet credit instruments	91	-	12	103	-	103

	For the three months ended June 30, 2013					
	Provision for credit losses					
	Loans to the public				Banks and governments	Total
	Commercial	Housing	Individual - other	Total		
Balance of provision for credit losses at year start	709	811	149	1,669	11	1,680
Expenses with respect to credit losses	(12)	185	9	182	(1)	181
Accounting write-offs	(59)	(322)[2]	(43)	(424)	-	(424)
Recovery of debt written off in previous years	42	-	24	66	-	66
Net accounting write-offs	(17)	(322)	(19)	(358)	-	(358)
Balance of provision for credit losses at year end	**680**	**674**	**139**	**1,493**	**10**	**1,503**
Of which: With respect to balance sheet credit instruments	93	-	11	104	-	104

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Includes balance of provision for credit losses, amounting to NIS 281 million, with respect to housing loans fully provided for and written off.

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

A. Off balance sheet debt[(1)] and credit instruments

1. Change in balance of provision for credit losses - continued

	For the six months ended June 30, 2014					
	Provision for credit losses					
	Loans to the public				Banks and governments	Total
	Commercial	Housing	Individual - other	Total		
Balance of provision for credit losses at year start	624	646	148	1,418	10	1,428
Expenses with respect to credit losses	(2)	7	15	20	(2)	18
Accounting write-offs	(70)	(18)	(61)	(149)	-	(149)
Recovery of debt written off in previous years	69	-	38	107	-	107
Net accounting write-offs	(1)	(18)	(23)	(42)	-	(42)
Balance of provision for credit losses at year end	**621**	**635**	**140**	**1,396**	**8**	**1,404**
Of which: With respect to balance sheet credit instruments	91	-	12	103	-	103

	For the six months ended June 30, 2013					
	Provision for credit losses					
	Loans to the public				Banks and governments	Total
	Commercial	Housing	Individual - other	Total		
Balance of provision for credit losses at year start	720	821	154	1,695	10	1,705
Expenses with respect to credit losses	(4)	198	21	215	-	215
Accounting write-offs	(88)	(345)[(2)]	(75)	(508)	-	(508)
Recovery of debt written off in previous years	52	-	39	91	-	91
Net accounting write-offs	(36)	(345)	(36)	(417)	-	(417)
Balance of provision for credit losses at year end	**680**	**674**	**139**	**1,493**	**10**	**1,503**
Of which: With respect to balance sheet credit instruments	93	-	11	104	-	104

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with re-sale agreements, except for deposits with Bank of Israel.

(2) Includes balance of provision for credit losses, amounting to NIS 281 million, with respect to housing loans fully provided for and written off.

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

A. Off balance sheet debt[(1)] and credit instruments

2. Additional information about calculation of the provision for credit losses with respect to debt, and debt for which the provision has been calculated

	June 30, 2014					
	Loans to the public					
	Commercial	Housing	Individual - other	Total	Banks and governments	Total
Recorded debt balance of debt[(1)]						
reviewed on individual basis	29,897	2	738	30,637	5,077	35,714
reviewed on individual basis	6,269	94,037	13,703	114,009	-	114,009
Total debt	**36,166**	[(2)]**94,039**	**14,441**	**144,646**	**5,077**	**149,723**
Loans for which a provision for credit losses is assessed by extent of arrears	-	93,396	-	93,396	-	93,396
Provision for credit losses with respect to debt[(1)]						
reviewed on individual basis	467	2	26	495	8	503
reviewed on individual basis	63	633	102	798	-	798
Total provision for credit losses	**530**	**635**	**128**	**1,293**	**8**	**1,301**
Of which: Provision by extent of arrears	-	306	-	306	-	306

	June 30, 2013					
	Loans to the public					
	Commercial	Housing	Individual - other	Total	Banks and governments	Total
Recorded debt balance of debt[(1)]						
reviewed on individual basis	29,594	2	548	30,144	[(3)]4,922	35,066
reviewed on individual basis	6,097	85,115	12,886	104,098	-	104,098
Total debt	**35,691**	[(2)]**85,117**	**13,434**	**134,242**	**4,922**	**139,164**
Loans for which a provision for credit losses is assessed by extent of arrears	-	84,323	-	84,323	-	84,323
Provision for credit losses with respect to debt[(1)]						
reviewed on individual basis	536	2	32	570	10	580
reviewed on individual basis	51	672	96	819	-	819
Total provision for credit losses	**587**	**674**	**128**	**1,389**	**10**	**1,399**
Of which: Provision by extent of arrears	-	378	-	378	-	378

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Includes the balance of general-purpose loans secured by a lien on a residential apartment, amounting to NIS 5,192 million (as of June 30, 2013 - NIS 5,081 million and as of December 31, 2013 - NIS 5,180 million).

(3) Reclassified.

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

A. Off balance sheet debt[(1)] and credit instruments

2. Additional information about calculation of the provision for credit losses with respect to debt, and debt for which the provision has been calculated-Continued

	December 31, 2013					
	Loans to the public					
	Commercial	Housing	Individual - other	Total	Banks and governments	Total
Recorded debt balance of debt[(1)]						
reviewed on individual basis	29,582	2	645	30,229	[(3)]3,448	33,677
reviewed on individual basis	6,326	90,070	13,255	109,651	-	109,651
Total debt	**35,908**	[(2)]**90,072**	**13,900**	**139,880**	**3,448**	**143,328**
Loans for which a provision for credit losses is assessed by extent of arrears	-	89,359	-	89,359	-	89,359
Provision for credit losses with respect to debt[(1)]						
reviewed on individual basis	476	2	42	520	10	530
reviewed on individual basis	56	644	95	795	-	795
Total provision for credit losses	**532**	**646**	**137**	**1,315**	**10**	**1,325**
Of which: Provision by extent of arrears	-	331	-	331	-	331

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Includes the balance of general-purpose loans secured by a lien on a residential apartment, amounting to NIS 5,192 million (as of June 30, 2013 - NIS 5,081 million and as of December 31, 2013 - NIS 5,180 million).
(3) Reclassified.

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debt[1]

1. A. Credit quality and arrears

	As of June 30, 2014					
		Troubled[2]			Non impaired debt - additional information	
	Non troubled	Non impaired	Impaired[3]	Total	In arrears 90 days or longer[4]	In arrears 30 to 89 days[5]
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	7,874	30	463	8,367	5	4
Construction and real estate - real estate operations	1,620	5	6	1,631	-	2
Financial services	2,930	60	130	3,120	2	31
Commercial – other	19,464	232	390	20,086	25	54
Total commercial	**31,888**	**327**	**989**	**33,204**	**32**	**91**
Private individuals - housing loans	92,731	(7)1,053	2	93,786	(7)1,053	(6)312
Private individuals - other	13,742	113	75	13,930	18	65
Total public – activity in Israel	**138,361**	**1,493**	**1,066**	**140,920**	**1,103**	**468**
Banks in Israel	445	-	-	445	-	-
Government of Israel	1	-	-	1	-	-
Total activity in Israel	**138,807**	**1,493**	**1,066**	**141,366**	**1,103**	**468**
Borrower activity overseas						
Public - commercial						
Construction and real estate	1,393	-	5	1,398	-	-
Commercial – other	1,562	-	2	1,564	-	61
Total commercial	**2,955**	**-**	**7**	**2,962**	**-**	**61**
Private individuals	763	-	1	764	-	-
Total public – activity overseas	**3,718**	**-**	**8**	**3,726**	**-**	**61**
Overseas banks	1,067	-	-	1,067	-	-
Overseas governments	3,564	-	-	3,564	-	-
Total activity overseas	**8,349**	**-**	**8**	**8,357**	**-**	**61**
Total public	142,079	1,493	1,074	144,646	1,103	529
Total banks	1,512	-	-	1,512	-	-
Total governments	3,565	-	-	3,565	-	-
Total	**147,156**	**1,493**	**1,074**	**149,723**	**1,103**	**529**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with re-sale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debt does not accrue interest revenues. For information about certain impaired debt restructured using problem debt restructuring, see Note 3.B.2.c. below.
(4) Classified as problem non-impaired debt. Accruing interest revenues.
(5) Accruing interest revenues. Debt in arrears 30 to 89 days amounting to NIS 43 million was classified as problem non-impaired debt.
(6) In conformity with Public Reporting Regulations, excludes the balance of housing loans in arrears up to 2 months.
(7) Includes balance of housing loans amounting to NIS 233 million provided for by extent of arrears, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debt[1]

1. A. Credit quality and arrears - continued

	June 30, 2013					
		Troubled[2]			Non impaired debt - additional information	
	Non troubled	Non impaired	Impaired[3]	Total	In arrears 90 days or longer[4]	In arrears 30 to 89 days[5]
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	6,692	20	654	7,366	7	4
Construction and real estate - real estate operations	1,548	6	22	1,576	-	13
Financial services	3,151	12	280	3,443	3	9
Commercial – other	19,498	149	352	19,999	21	63
Total commercial	**30,889**	**187**	**1,308**	**32,384**	**31**	**89**
Private individuals - housing loans	83,732	(7)1,194	2	84,928	(7)1,194	(6)(8)340
Private individuals - other	12,914	124	81	13,119	21	58
Total public – activity in Israel	**127,535**	**1,505**	**1,391**	**130,431**	**1,246**	**487**
Banks in Israel	(8)983	-	-	983	-	-
Government of Israel	307	-	-	307	-	-
Total activity in Israel	**128,825**	**1,505**	**1,391**	**131,721**	**1,246**	**487**
Borrower activity overseas						
Public - commercial						
Construction and real estate	1,531	-	34	1,565	-	-
Commercial – other	1,740	-	2	1,742	-	-
Total commercial	**3,271**	**-**	**36**	**3,307**	**-**	**-**
Private individuals	504	-	-	504	-	-
Total public – activity overseas	**3,775**	**-**	**36**	**3,811**	**-**	**-**
Overseas banks	1,070	-	5	1,075	-	-
Overseas governments	2,557	-	-	2,557	-	-
Total activity overseas	**7,402**	**-**	**41**	**7,443**	**-**	**-**
Total public	131,310	1,505	1,427	134,242	1,246	487
Total banks	(8)2,053	-	5	2,058	-	-
Total governments	2,864	-	-	2,864	-	-
Total	**136,227**	**1,505**	**1,432**	**139,164**	**1,246**	**487**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debt does not accrue interest revenues. For information about certain impaired debt restructured using problem debt restructuring, see Note 3.B.2.c. below.
(4) Classified as problem non-impaired debt. Accruing interest revenues.
(5) Accruing interest revenues. Debt in arrears 30 to 89 days amounting to NIS 29 million was classified as problem non-impaired debt.
(6) In conformity with Public Reporting Regulations, excludes the balance of housing loans in arrears up to 2 months.
(7) Includes balance of housing loans amounting to NIS 286 million provided for by extent of arrears, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.
(8) Reclassified.

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debt[(1)]

1. A. Credit quality and arrears - continued

	As of December 31, 2013					
		Troubled[(2)]			Non impaired debt - additional information	
	Non troubled	Non impaired	Impaired[(3)]	Total	In arrears 90 days or longer[(4)]	In arrears 30 to 89 days[(5)]
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	7,351	16	598	7,965	2	6
Construction and real estate - real estate operations	1,630	9	9	1,648	-	6
Financial services	3,011	5	165	3,181	2	11
Commercial – other	19,044	258	350	19,652	32	86
Total commercial	**31,036**	**288**	**1,122**	**32,446**	**36**	**109**
Private individuals - housing loans	88,776	(7)1,081	2	89,859	(7)1,081	(6)349
Private individuals - other	13,216	115	82	13,413	17	72
Total public – activity in Israel	**133,028**	**1,484**	**1,206**	**135,718**	**1,134**	**530**
Banks in Israel	(8)1,034	-	-	1,034	-	-
Government of Israel	1	-	-	1	-	-
Total activity in Israel	**134,063**	**1,484**	**1,206**	**136,753**	**1,134**	**530**
Borrower activity overseas						
Public - commercial						
Construction and real estate	1,398	-	32	1,430	-	-
Commercial – other	1,977	53	2	2,032	-	53
Total commercial	**3,375**	**53**	**34**	**3,462**	**-**	**53**
Private individuals	699	-	1	700	-	-
Total public – activity overseas	**4,074**	**53**	**35**	**4,162**	**-**	**53**
Overseas banks	1,369	-	-	1,369	-	-
Overseas governments	1,044	-	-	1,044	-	-
Total activity overseas	**6,487**	**53**	**35**	**6,575**	**-**	**53**
Total public	137,102	1,537	1,241	139,880	1,134	583
Total banks	(8)2,403	-	-	2,403	-	-
Total governments	1,045	-	-	1,045	-	-
Total	**140,550**	**1,537**	**1,241**	**143,328**	**1,134**	**583**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debt does not accrue interest revenues. For information about certain impaired debt restructured using problem debt restructuring, see Note 3.B.2.c. below.
(4) Classified as problem non-impaired debt. Accruing interest revenues.
(5) Accruing interest revenues. Debt in arrears 30 to 89 days amounting to NIS 27 million was classified as problem non-impaired debt.
(6) In conformity with Public Reporting Regulations, excludes the balance of housing loans in arrears up to 2 months.
(7) Includes balance of housing loans amounting to NIS 255 million provided for by extent of arrears, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.
(8) Reclassified.

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

1. B. Credit quality

The state of debt arrears is monitored daily and automatically, providing one of the key indications of credit quality. The state of arrears, and consequently classification of the debt, is based, *inter alia*, on the actual number of days in arrears for each debt.

Debt is classified as non-performing (impaired) debt, i.e. debt not accruing interest revenues, after 90 days in arrears for debt measured on an individual basis. Debt is classified as inferior debt after 60 days in arrears for debt measured on an individual basis, and after 90 days in arrears for debt measured on group basis. At this stage, i.e. within the 60 and 90 days for debt measured on individual basis and for debt measured on group basis, respectively, the debt would be classified as performing debt, i.e. accruing interest revenues.

Debt measured on group basis will be subject to accounting write-off after 150 days in arrears.

The state of arrears for housing loans is monitored by the extent of arrears for the loan.

Credit risk attributes, including specific risk for housing loans, are included on the Board of Directors' Report under Risk management, Basel II: Pillar 3.

Below is the recorded debt balance by credit quality and by credit segment of the Bank:

	As of June 30, 2014					
	Credit segment					
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Problem-free debt, investment grade	32,046	92,984	14,249	3,565	1,505	144,349
Problem-free debt, other than investment grade	2,797	-	3	-	7	2,807
Problem non-impaired debt (1)	327	1,053	113	-	-	1,493
Impaired debt	996	2	76	-	-	1,074
Total	**36,166**	**94,039**	**14,441**	**3,565**	**1,512**	**149,723**

	As of June 30, 2013					
	Credit segment					
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Problem-free debt, investment grade	31,772	83,921	13,227	2,864	(2)2,042	133,826
Problem-free debt, other than investment grade	2,388	-	2	-	11	2,401
Problem non-impaired debt (1)	187	1,194	124	-	-	1,505
Impaired debt	1,344	2	81	-	5	1,432
Total	**35,691**	**85,117**	**13,434**	**2,864**	**2,058**	**139,164**

	December 31, 2013					
	Credit segment					
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Problem-free debt, investment grade	31,386	88,989	13,691	1,045	2,395(2)	137,506
Problem-free debt, other than investment grade	3,025	-	11	-	8	3,044
Problem non-impaired debt (1)	341	1,081	115	-	-	1,537
Impaired debt	1,156	2	83	-	-	1,241
Total	**35,908**	**90,072**	**13,900**	**1,045**	**2,403**	**143,328**

(1) Balance sheet credit risk which is inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.

(2) Reclassified.

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debt[1]

2. Additional information about impaired debt

A. Impaired debt and individual provision

	June 30, 2014				
	Balance of impaired debt for which an individual provision has been made[2][3]	Balance of individual provision	Balance of impaired debt for which no individual provision has been made[2]	Total balance of impaired debt[2]	Contractual principal balance of impaired debt
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	440	26	23	463	722
Construction and real estate - real estate operations	-	-	6	6	7
Financial services	118	7	12	130	157
Commercial – other	192	70	198	390	574
Total commercial	**750**	**103**	**239**	**989**	**1,460**
Private individuals - housing loans	2	2	-	2	2
Private individuals - other	20	10	55	75	87
Total public – activity in Israel	**772**	**115**	**294**	**1,066**	**1,549**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	**772**	**115**	**294**	**1,066**	**1,549**
Borrower activity overseas					
Public - commercial					
Construction and real estate	5	-	-	5	6
Commercial – other	2	-	-	2	6
Total commercial	**7**	**-**	**-**	**7**	**12**
Private individuals	1	-	-	1	3
Total public – activity overseas	**8**	**-**	**-**	**8**	**15**
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	**8**	**-**	**-**	**8**	**15**
Total public	780	115	294	1,074	1,564
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	**780**	**115**	**294**	**1,074**	**1,564**
Of which:					
Measured at present value of cash flows	407	98	221	628	
Debt under problem debt restructuring	471	36	103	574	

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Recorded debt balance.

(3) Debt balance net of accounting write-off, if any.

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debt[(1)]

2. Additional information about impaired debt

A. Impaired debt and individual provision - continued

	June 30, 2013				
	Balance of impaired debt for which an individual provision has been made[(2)(3)]	Balance of individual provision	Balance of impaired debt for which no individual provision has been made[(2)]	Total balance of impaired debt[(2)]	Contractual principal balance of impaired debt
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	220	22	434	654	1,067
Construction and real estate - real estate operations	19	3	3	22	42
Financial services	260	119	20	280	294
Commercial – other	240	78	112	352	559
Total commercial	**739**	**222**	**569**	**1,308**	**1,962**
Private individuals - housing loans	2	1	-	2	2
Private individuals - other	23	10	58	81	95
Total public – activity in Israel	**764**	**233**	**627**	**1,391**	**2,059**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	**764**	**233**	**627**	**1,391**	**2,059**
Borrower activity overseas					
Public - commercial					
Construction and real estate	34	-	-	34	100
Commercial – other	2	-	-	2	5
Total commercial	**36**	**-**	**-**	**36**	**105**
Private individuals	-	-	-	-	2
Total public – activity overseas	**36**	**-**	**-**	**36**	**107**
Overseas banks	5	-	-	5	5
Overseas governments	-	-	-	-	-
Total activity overseas	**41**	**-**	**-**	**41**	**112**
Total public	800	233	627	1,427	2,166
Total banks	5	-	-	5	5
Total governments	-	-	-	-	-
Total	**805**	**233**	**627**	**1,432**	**2,171**
Of which:					
Measured at present value of cash flows	676	231	621	1,297	
Debt under problemdebt restructuring	279	60	510	789	

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Recorded debt balance.
(3) Debt balance net of accounting write-off, if any.

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debt[(1)]

2. Additional information about impaired debt

A. Impaired debt and individual provision - continued

	December 31, 2013				
	Balance of impaired debt for which an individual provision has been made [(2)(3)]	Balance of individual provision	Balance of impaired debt for which no individual provision has been made [(2)]	Total balance of impaired debt [(2)]	Contractual principal balance of impaired debt
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	214	25	384	598	1,048
Construction and real estate - real estate operations	2	1	7	9	9
Financial services	153	36	12	165	211
Commercial – other	198	69	152	350	646
Total commercial	**567**	**131**	**555**	**1,122**	**1,914**
Private individuals - housing loans	2	2	-	2	2
Private individuals - other	23	11	59	82	96
Total public – activity in Israel	**592**	**144**	**614**	**1,206**	**2,012**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	**592**	**144**	**614**	**1,206**	**2,012**
Borrower activity overseas					
Public - commercial					
Construction and real estate	32	-	-	32	100
Commercial – other	2	-	-	2	5
Total commercial	**34**	**-**	**-**	**34**	**105**
Private individuals	1	-	-	1	3
Total public – activity overseas	**35**	**-**	**-**	**35**	**108**
Overseas banks	-	-	-	-	4
Overseas governments	-	-	-	-	-
Total activity overseas	**35**	**-**	**-**	**35**	**112**
Total public	627	144	614	1,241	2,120
Total banks	-	-	-	-	4
Total governments	-	-	-	-	-
Total	**627**	**144**	**614**	**1,241**	**2,124**
Of which:					
Measured at present value of cash flows	512	138	186	698	
Debt under problem debt restructuring	232	19	486	718	

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Recorded debt balance.

(3) Debt balance net of accounting write-off, if any.

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debt[(1)]

2. Additional information about impaired debt

B. Average balance and interest revenues

	For the three months ended June 30, 2014			For the three months ended June 30, 2013		
	Average impaired debt balance[(2)]	Interest revenues recorded[(3)]	Of which: Recorded on cash basis	Average impaired debt balance[(2)]	Interest revenues recorded[(3)]	Of which: Recorded on cash basis
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	501	1	1	664	9	9
Construction and real estate - real estate operations	13	5	5	22	-	-
Financial services	132	1	1	279	-	-
Commercial – other	351	3	3	379	2	2
Total commercial	**997**	**10**	**10**	**1,344**	**11**	**11**
Private individuals - housing loans	2	-	-	2	-	-
Private individuals - other	78	1	1	92	3	2
Total public – activity in Israel	**1,077**	**11**	**11**	**1,438**	**14**	**13**
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	**1,077**	**11**	**11**	**1,438**	**14**	**13**
Borrower activity overseas						
Public - commercial						
Construction and real estate	18	-	-	34	-	-
Commercial – other	2	-	-	2	-	-
Total commercial	**20**	**-**	**-**	**36**	**-**	**-**
Private individuals	1	-	-	-	-	-
Total public – activity overseas	**21**	**-**	**-**	**36**	**-**	**-**
Overseas banks	-	-	-	5	-	-
Overseas governments	-	-	-	-	-	-
Total activity overseas	**21**	**-**	**-**	**41**	**-**	**-**
Total public	1,098	11	11	1,474	14	13
Total banks	-	-	-	5	-	-
Total governments	-	-	-	-	-	-
Total[(4)]	**1,098**	**11**	**11**	**1,479**	**14**	**13**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Average recorded debt balance.

(3) Interest revenues recorded in the reported period with respect to average balance of debt in arrears, in the period in which the debt was classified as impaired.

(4) Had the impaired debt accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 24 million (as of June 30, 2013 – NIS 23 million).

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debt[1]

2. Additional information about impaired debt

B. Average balance and interest revenues – Continued

	For the six months ended June 30, 2014			For the six months ended June 30, 2013		
	Average impaired debt balance[2]	Interest revenues recorded[3]	Of which: Recorded on cash basis	Average impaired debt balance[2]	Interest revenues recorded[3]	Of which: Recorded on cash basis
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	530	14	13	695	9	9
Construction and real estate - real estate operations	7	5	5	22	-	-
Financial services	148	1	1	296	-	-
Commercial – other	370	5	5	403	6	6
Total commercial	**1,055**	**25**	**24**	**1,416**	**15**	**15**
Private individuals - housing loans	2	-	-	4	-	-
Private individuals - other	79	2	2	83	4	3
Total public – activity in Israel	**1,136**	**27**	**26**	**1,503**	**19**	**18**
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	**1,136**	**27**	**26**	**1,503**	**19**	**18**
Borrower activity overseas						
Public - commercial						
Construction and real estate	19	-	-	36	-	-
Commercial – other	2	-	-	4	-	-
Total commercial	**21**	**-**	**-**	**40**	**-**	**-**
Private individuals	1	-	-	3	-	-
Total public – activity overseas	**22**	**-**	**-**	**43**	**-**	**-**
Overseas banks	-	-	-	5	-	-
Overseas governments	-	-	-	-	-	-
Total activity overseas	**22**	**-**	**-**	**48**	**-**	**-**
Total public	1,158	27	26	1,546	19	18
Total banks	-	-	-	5	-	-
Total governments	-	-	-	-	-	-
Total[4]	**1,158**	**27**	**26**	**1,551**	**19**	**18**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Average recorded debt balance.

(3) Interest revenues recorded in the reported period with respect to average balance of debt in arrears, in the period in which the debt was classified as impaired.

(4) Had the impaired debt accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 53 million (as of June 30, 2013 – NIS 43 million)..

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debt[1]

2. Additional information about impaired debt

C. Problem debt under restructuring

	June 30, 2014				
	Recorded debt balance[3]				
	Not accruing interest revenues	Accruing interest revenues[2] in arrears 90 days or longer	Accruing interest revenues[2] in arrears 30-89 days	Accruing interest revenues[2] not in arrears	Total
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	381	-	-	30	411
Construction and real estate - real estate operations	-	-	-	1	1
Financial services	6	-	-	2	8
Commercial – other	71	-	-	17	88
Total commercial	**458**	**-**	**-**	**50**	**508**
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	25	-	1	34	60
Total public – activity in Israel	**483**	**-**	**1**	**84**	**568**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	**483**	**-**	**1**	**84**	**568**
Borrower activity overseas					
Public - commercial					
Construction and real estate	3	-	-	2	5
Commercial – other	-	-	-	-	-
Total commercial	**3**	**-**	**-**	**2**	**5**
Private individuals	1	-	-	-	1
Total public – activity overseas	**4**	**-**	**-**	**2**	**6**
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	**4**	**-**	**-**	**2**	**6**
Total public	487	-	1	86	574
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	**487**	**-**	**1**	**86**	**574**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Accruing interest revenues.

(3) Included under impaired debt.

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debt[1]

2. Additional information about impaired debt

C. Problem debt under restructuring - continued

	June 30, 2013				
	Recorded debt balance[3]				
	Not accruing interest revenues	Accruing interest revenues[2] in arrears 90 days or longer	Accruing interest revenues[2] in arrears 30-89 days	Accruing interest revenues[2] not in arrears	Total
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	517	-	-	48	565
Construction and real estate - real estate operations	14	-	-	1	15
Financial services	51	-	-	1	52
Commercial – other	66	-	-	26	92
Total commercial	**648**	**-**	**-**	**76**	**724**
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	25	-	2	36	63
Total public – activity in Israel	**673**	**-**	**2**	**112**	**787**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	**673**	**-**	**2**	**112**	**787**
Borrower activity overseas					
Public - commercial					
Construction and real estate	-	-	-	2	2
Commercial – other	-	-	-	-	-
Total commercial	**-**	**-**	**-**	**2**	**2**
Private individuals	-	-	-	-	-
Total public – activity overseas	**-**	**-**	**-**	**2**	**2**
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	**-**	**-**	**-**	**2**	**2**
Total public	673	-	2	114	789
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	**673**	**-**	**2**	**114**	**789**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Accruing interest revenues.

(3) Included under impaired debt.

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debt[(1)]

2. Additional information about impaired debt

C. Problem debt under restructuring - continued

	December 31, 2013				
	Recorded debt balance[(3)]				
	Not accruing interest revenues	Accruing interest revenues[(2)] in arrears 90 days or longer	Accruing interest revenues[(2)] in arrears 30-89 days	Accruing interest revenues[(2)] not in arrears	Total
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	517	-	-	39	556
Construction and real estate - real estate operations	-	-	1	-	1
Financial services	8	-	-	1	9
Commercial – other	57	-	-	26	83
Total commercial	**582**	**-**	**1**	**66**	**649**
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	27	-	1	35	63
Total public – activity in Israel	**609**	**-**	**2**	**101**	**712**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	**609**	**-**	**2**	**101**	**712**
Borrower activity overseas					
Public - commercial					
Construction and real estate	3	-	-	2	5
Commercial – other	-	-	-	-	-
Total commercial	**3**	**-**	**-**	**2**	**5**
Private individuals	1	-	-	-	1
Total public – activity overseas	**4**	**-**	**-**	**2**	**6**
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	**4**	**-**	**-**	**2**	**6**
Total public	613	-	2	103	718
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	**613**	**-**	**2**	**103**	**718**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Accruing interest revenues.
(3) Included under impaired debt.

As of June 30, 2014, the Bank had no commitments to provide additional credit to debtors subject to problem debt restructuring, in which credit terms have been revised.

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debt[1]

2. Additional information about impaired debt

C. Problem debt under restructuring – continued

	Restructurings made[2]					
	in the three months ended June 30, 2014			in the three months ended June 30, 2013		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	3	1	1	1	3	3
Construction and real estate - real estate operations	4	-	-	-	-	-
Financial services	-	-	-	-	-	-
Commercial – other	25	14	14	3	5	5
Total commercial	**32**	**15**	**15**	**4**	**8**	**8**
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	218	8	8	133	7	5
Total public – activity in Israel	**250**	**23**	**23**	**137**	**15**	**13**
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	**250**	**23**	**23**	**137**	**15**	**13**
Borrower activity overseas						
Public - commercial						
Construction and real estate	-	-	-	-	-	-
Commercial – other	-	-	-	-	-	-
Total commercial	**-**	**-**	**-**	**-**	**-**	**-**
Private individuals	-	-	-	1	-	-
Total public – activity overseas	**-**	**-**	**-**	**1**	**-**	**-**
Overseas banks	-	-	-	-	-	-
Overseas governments	-	-	-	-	-	-
Total activity overseas	**-**	**-**	**-**	**1**	**-**	**-**
Total public	250	23	23	138	15	13
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total	**250**	**23**	**23**	**138**	**15**	**13**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Included under impaired debt.

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debt[1]

2. Additional information about impaired debt

C. Problem debt under restructuring – continued

	Restructurings made[2]					
	in the six months ended June 30, 2014			in the six months ended June 30, 2013		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	4	1	1	2	3	3
Construction and real estate - real estate operations	4	-	-	-	-	-
Financial services	3	1	1	2	1	1
Commercial – other	51	35	35	43	43	43
Total commercial	**62**	**37**	**37**	**47**	**47**	**47**
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	435	18	17	398	17	15
Total public – activity in Israel	**497**	**55**	**54**	**445**	**64**	**62**
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	**497**	**55**	**54**	**445**	**64**	**62**
Borrower activity overseas						
Public - commercial						
Construction and real estate	-	-	-	-	-	-
Commercial – other	-	-	-	-	-	-
Total commercial	**-**	**-**	**-**	**-**	**-**	**-**
Private individuals	-	-	-	1	-	-
Total public – activity overseas	**-**	**-**	**-**	**1**	**-**	**-**
Overseas banks	-	-	-	-	-	-
Overseas governments	-	-	-	-	-	-
Total activity overseas	**-**	**-**	**-**	**1**	**-**	**-**
Total public	497	55	54	446	64	62
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total	**497**	**55**	**54**	**446**	**64**	**62**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Included under impaired debt.

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debt[1]

2. Additional information about impaired debt

C. Problem debt under restructuring – continued

	Restructurings made which are in default[2]			
	in the three months ended June 30, 2014		in the three months ended June 30, 2013	
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel				
Public - commercial				
Construction and real estate - construction	-	-	-	-
Construction and real estate - real estate operations	-	-	-	-
Financial services	-	-	-	-
Commercial – other	4	-	5	8
Total commercial	**4**	**-**	**5**	**8**
Private individuals - housing loans	-	-	-	-
Private individuals - other	26	-	12	2
Total public – activity in Israel	**30**	**-**	**17**	**10**
Banks in Israel	-	-	-	-
Government of Israel	-	-	-	-
Total activity in Israel	**30**	**-**	**17**	**10**
Borrower activity overseas				
Public - commercial				
Construction and real estate	-	-	-	-
Commercial – other	-	-	-	-
Total **commercial**	**-**	**-**	**-**	**-**
Private individuals	-	-	-	-
Total public – **activity overseas**	**-**	**-**	**-**	**-**
Overseas banks	-	-	-	-
Overseas governments	-	-	-	-
Total activity overseas	**-**	**-**	**-**	**-**
Total public	30	-	17	10
Total banks				
Total governments	-	-	-	-
Total	**30**	**-**	**17**	**10**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Debt which became, in the reported period, debt in arrears of 30 days or longer, which was restructured under problem debt restructuring in the 12 months prior to the date on which it became debt in arrears

Note 3 - Credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debt[(1)]

2. Additional information about impaired debt

C. Problem debt under restructuring - continued

	Restructurings made which are in default[(2)]			
	in the six months ended June 30, 2014		in the six months ended June 30, 2013	
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel				
Public - commercial				
Construction and real estate - construction	1	-	-	-
Construction and real estate - real estate operations	-	-	-	-
Financial services	-	-	-	-
Commercial – other	12	1	7	8
Total commercial	**13**	**1**	**7**	**8**
Private individuals - housing loans	-	-	-	-
Private individuals - other	69	1	73	3
Total public – activity in Israel	**82**	**2**	**80**	**11**
Banks in Israel	-	-	-	-
Government of Israel	-	-	-	-
Total activity in Israel	**82**	**2**	**80**	**11**
Borrower activity overseas				
Public - commercial				
Construction and real estate	-	-	-	-
Commercial – other	-	-	-	-
Total commercial	**-**	**-**	**-**	**-**
Private individuals	-	-	-	-
Total public – activity overseas	**-**	**-**	**-**	**-**
Overseas banks	-	-	-	-
Overseas governments	-	-	-	-
Total activity overseas	**-**	**-**	**-**	**-**
Total public	82	2	80	11
Total banks	-	-	-	-
Total governments	-	-	-	-
Total	**82**	**2**	**80**	**11**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Debt which became, in the reported period, debt in arrears of 30 days or longer, which was restructured under problem debt restructuring in the 12 months prior to the date on which it became debt in arrears

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debt

3. Additional information about housing loans

Balance at year end by loan-to-value ratio (LTV) [(1)], repayment type and interest type

		June 30, 2014			
		Housing loan balance			Off-balance sheet credit risk
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total
Senior lien: LTV ratio	Up to 60%	51,505	1,529	38,438	2,937
	Over 60%	42,437	505	32,674	1,377
Junior lien or no lien		97	2	79	1,531
Total		**94,039**	**2,036**	**71,191**	**5,845**
		June 30, 2013			
Senior lien: LTV ratio	Up to 60%	44,492	1,211	33,874	2,670
	Over 60%	40,541	518	31,755	1,687
Junior lien or no lien		84	2	64	1,417
Total		**85,117**	**1,731**	**65,693**	**5,774**
		December 31, 2013			
Senior lien: LTV ratio	Up to 60%	48,070	1,362	36,502	2,664
	Over 60%	41,907	504	32,723	1,396
Junior lien or no lien		95	3	75	1,511
Total		**90,072**	**1,869**	**69,300**	**5,571**

(1) Ratio of approved facility upon extending the facility to the property value, as approved by the Bank upon extending the facility

Note 4 - Deposits from the Public

Reported amounts (NIS in millions)

A. Deposit types by location and depositor type

	June 30,		December 31,
	2014	2013	2013
	(unaudited)	(unaudited)	(audited)
In Israel			
On-call			
Non interest-bearing	16,781	13,917	[2]15,411
Interest-bearing	5,467	4,063	[2]4,804
Total on-call	22,248	17,980	20,215
Term deposits	122,268	113,087	117,140
Total deposits in Israel[1]	**144,516**	**131,067**	**137,355**
Outside of Israel			
On-call			
Non interest-bearing	620	557	654
Interest-bearing	8	8	-
Total on-call	628	565	654
Term deposits	2,919	4,067	3,235
Total deposits overseas	**3,547**	**4,632**	**3,889**
Total deposits from the public	**148,063**	**135,699**	**141,244**
(1) Includes:			
Deposits from individuals	**68,139**	**64,377**	**65,819**
Deposits from institutional investors	**44,113**	**39,750**	**41,918**
Deposits from corporations and others	**32,264**	**26,940**	**29,618**

B. Deposits from the public by size on consolidated basis

	June 30,		December 31,
	2014	2013	2013[2]
	(unaudited)	(unaudited)	(audited)
Maximum deposit – NIS in millions			
Up to 1	49,146	47,495	48,678
1 to 10	29,974	28,553	25,226
10 to 100	14,550	14,506	14,810
100 to 500	14,513	9,148	13,507
Above 500	39,880	35,997	39,023
Total	**148,063**	**135,699**	**141,244**

(2) Reclassified.

Note 5 - Capital adequacy pursuant to directives of the Supervisor of Banks

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

Reported amounts (NIS in millions)

A. Capital adequacy information

	As of June 30, 2014	As of January 1, 2014	As of December 31, 2013	As of June 30, 2013
	Basel III[1]		Basel II[2]	
	(unaudited)	(audited)	(audited)	(unaudited)
1. Consolidated data				
A. Capital for purpose of calculating minimum capital ratio				
Tier 1 capital	10,784	10,206	-	-
Tier 1 capital	10,784	10,206	10,217	9,625
Tier 2 capital	4,855	4,850	4,569	4,577
Total capital	**15,639**	**15,056**	**14,786**	**14,202**
B. Weighted risk asset balances				
Credit risk	111,828	108,917	105,411	101,926
Market risk	919	842	842	1,031
Operating risk	7,095	7,154	7,154	7,183
Total weighted risk asset balances	**119,842**	**116,913**	**113,407**	**110,140**

	As of June 30, 2014	As of January 1, 2014	As of December 31, 2013	As of June 30, 2013
	Basel III[1]		Basel II[2]	
		In %		
C. Ratio of capital to risk elements				
Bank data:				
Ratio of common equity Tier 1 to risk elements	9.00	8.73	[3]-	[3]-
Ratio of Tier I capital to risk elements	9.00	8.73	9.01	8.74
Ratio of total capital to risk elements	13.05	12.88	13.04	12.89
Minimum Tier I capital ratio required by Supervisor of Banks	[4]9.00	[4]9.00	7.50	7.50
Total minimum capital ratio required by the Supervisor of Banks	[4]12.50	[4]12.50	9.00	9.00

(1) Calculated in accordance with Proper Conduct of Banking Business Regulation No. 201-211, 299 concerning "Measurement and Capital Adequacy", in effect as from January 1, 2014.

(2) Calculated in accordance with Proper Conduct of Banking Business Regulation 201-211 concerning "Measurement and Capital Adequacy", in effect through December 31, 2013.

(3) The requirement as for minimum Tier I capital ratio applies as from January 1, 2014.

(4) As from January 1, 2015.

Note 5 - Capital adequacy pursuant to directives of the Supervisor of Banks- continued

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

Reported amounts (NIS in millions)

A. Capital adequacy information (continued)

	As of June 30,	As of January 1,	As of December 31,	As of June 30,
	2014	2014	2013	2013
	Basel III[(1)]		Basel II[(2)]	
				In %
2. Significant subsidiaries				
Bank Yahav for Government Employees Ltd. and subsidiaries there of				
Ratio of common equity Tier 1 to risk elements	9.92	9.90	[(3)]-	[(3)]-
Ratio of Tier I capital to risk elements	9.92	9.90	10.00	9.27
Ratio of total capital to risk elements	14.04	12.88	15.03	13.95
Minimum Tier I capital ratio required by Supervisor of Banks	[(4)]9.00	[(4)]9.00	7.50	7.50
Total minimum capital ratio required by the Supervisor of Banks	[(4)]12.50	[(4)]12.50	9.00	9.00

(1) Calculated in accordance with Proper Conduct of Banking Business Regulation No. 201-211, 299 concerning "Measurement and Capital Adequacy", in effect as from January 1, 2014.

(2) Calculated in accordance with Proper Conduct of Banking Business Regulation 201-211 concerning "Measurement and Capital Adequacy", in effect through December 31, 2013.

(3) As from January 1, 2015.

(4) The requirement as for minimum Tier 1 Capital ratio applies from January 1,2014.

Note 5 - Capital adequacy pursuant to directives of the Supervisor of Banks- continued

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

Reported amounts (NIS in millions)

	As of June 30,	As of January 1,	As of December 31,	As of June 30,
	2014	2014	2013	2013
		Basel III(1)		Basel II(2)
	(unaudited)	(audited)	(audited)	(unaudited)
3. Capital components for calculation of capital ratio (on consolidated basis)				
A. Tier 1 capital				
Shareholders' equity	10,917	10,335	10,335	9,805
Differences between shareholders' equity and Tier 1 capital	(39)	(35)	(14)	(76)
Total Tier 1 equity before regulatory adjustments and deductions	**10,878**	**10,300**	**10,321**	**9,724**
Regulatory adjustments and deductions:				
Goodwill	(87)	(87)	(87)	(87)
Regulatory adjustments and other deductions - Tier 1 capital	(7)	(7)	(17)	(17)
Total regulatory adjustments and other deductions - Tier 1 capital	**(94)**	**(94)**	**(104)**	**(104)**
Total Tier 1 capital after regulatory adjustments and deductions	**10,784**	**10,206**	**10,217**	**9,625**
B. Tier 2 capital				
Tier 2 capital: Instruments, before deductions	3,573	3,573	4,467	4,484
Tier 2 capital: Provisions, before deductions	1,282	1,277	110	110
Total Tier 2 capital, before deductions	**4,855**	**4,850**	**4,577**	**4,594**
Deductions:				
Total deductions - Tier 2 capital	**-**	**-**	**(8)**	**17**
Total Tier II capital	**4,855**	**4,850**	**4,569**	**4,577**

(1) Calculated in accordance with Proper Conduct of Banking Business Regulation No. 201-211, 299 concerning "Measurement and Capital Adequacy", in effect as from January 1, 2014.

(2) Calculated in accordance with Proper Conduct of Banking Business Regulation 201-211 concerning "Measurement and Capital Adequacy", in effect through December 31, 2013.

Note 5 - Capital adequacy pursuant to directives of the Supervisor of Banks- continued

B. Effect of transitional provisions on Tier 1 capital (for details see section I. below):

	As of June 30, 2014	As of January 1, 2014
	Basel III	
	(unaudited)	(audited)
	In %	
Ratio of capital to risk elements		
Ratio of common equity Tier 1 to risk elements before application of transitional provisions	8.85	8.60
Effect of transitional provisions	0.15	0.13
Ratio of common equity Tier 1 to risk elements after application of transitional provisions	9.00	8.73

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

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

E. On March 28, 2012, the Supervisor of Banks issued a directive to all banking corporations, citing a higher minimum core capital ratio than the one currently required. According to the directive, all banking corporations would be required to achieve a minimum core capital ratio of 9% by January 1, 2015. In addition, large banking corporations, whose total consolidated balance sheet assets exceed 20% of total balance sheet assets for the Israeli banking sector, would be required to achieve a minimum core capital ratio of 10% by January 1, 2017. The directive with regard to a minimum core capital ratio of 10% does not apply to the Bank.

Note 5 - Capital adequacy pursuant to directives of the Supervisor of Banks- continued

F. On July 23, 2012, the Bank Board of Director instructed Bank management to advance implementation of the Supervisor of Banks' directive dated March 28, 2012 - so as to implement it, if possible, as from January 1, 2014. Moreover, the Board of Directors has resolved to instruct Bank management to maintain, in as much as possible, appropriate safety margins to this end.

G. On March 21, 2013, the Supervisor of Banks issued directives with regard to residential real estate. In conformity with the directives, capital allocation for loans originated as from January 1, 2013 is calculated using the following weighting:

For loans with LTV ratio up to 45%	– risk weighting of 35%
For loans with LTV ratio over 45% and up to 60%	– risk weighting of 50%
For loans with LTV ratio over 60%	– risk weighting of 75%
For leveraged loans with LTV ratio over 60% with an adjustable interest component of 25% or higher	– risk weighting of 75%
This compares with the former weighting:	
For loans with LTV ratio up to 75%	– risk weighting of 35%
For loans with LTV ratio over 75%	– risk weighting of 75%
For leveraged loans with LTV ratio over 60% with an adjustable interest component of 25% or higher	– risk weighting of 100%

In addition, the credit conversion factor for guarantees to secure investments of apartment buyers was reduced from 20% to 10% if the apartment has been delivered to the resident.

H. On April 30, 2013, the Supervisor of Banks issued a letter confirming that notes to be issued by the Bank would count as lower Tier II capital with regard to maintaining a minimum capital ratio.
Changes to conditions for recognition as lower Tier II capital, following implementation of Basel III directives, would retroactively apply to these notes.

Note 5 - Capital adequacy pursuant to directives of the Supervisor of Banks- continued

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

Reported amounts (NIS in millions)

I. On May 30, 2013, the Supervisor of Banks issued an amendment to Proper Conduct of Banking Business Regulations 201-211 concerning adoption of Basel III directives with regard to supervisory capital and with regard to risk assets (hereafter: “the regulations”).
The amendments to the regulations are primarily focused on improving capital quality and size and improving the coverage for Credit Valuation Adjustment (CVA) risk.
The directives are effective as from January 1, 2014, subject to transitional provisions.

Below are the key amendments included in these directives:

- **Capital structure**

  Supervisory capital would be composed of only two tiers: Tier I capital (including Tier I equity and Tier I additional capital) and Tier II capital.
  The requirement for Tier III capital to cover market risk was eliminated.

- **Qualified capital instruments for Tier I additional capital and Tier II capital**
  Qualification criteria were specified for capital instruments classified as Tier I additional capital and as Tier II capital. These instruments are to include a mechanism for absorbing loss of principal, whereby conversion into shares or principal reduction would take place when the Tier I equity ratio drops below 7% for Tier I additional capital instruments, or below 5% for Tier II capital instruments.

- **Non-controlling interest**
  The amount of non-controlling interest recognized as capital would be limited, and excess equity of a subsidiary would not be recognized.

- **Group provision for credit losses**
  The amount of the group provision would be recognized as Tier II capital up to 1.25% of weighted risk assets for credit risk.

  On the other hand, the provision amount would be added to the weighted risk assets for credit risk.

- **Adjustments to and deductions from supervisory capital**
  - Deferred taxes due to temporary differences would be accounted for as follows:
    Up to 10% of Tier I equity - weighted at 250% risk weighting.
    Over 10% of Tier I equity - would be deducted from capital.

Note 5 - Capital adequacy pursuant to directives of the Supervisor of Banks- continued

- Investments in equity components of financial institutions - banks, insurance companies and any company doing business in the capital market segment - would be accounted for as a deduction from capital or by risk weighting, subject to specified tests.
- The accumulated gain with respect to cash flow hedging of items not listed at fair value on the balance sheet - would be deducted from capital. This means that positive amounts would be deducted from capital and negative amounts would be added to capital.
- Accounting adjustments with respect to liabilities of derivatives arising from a change in the Bank's credit risk (Debit Valuation Adjustment - DVA) would be deducted from capital.

- **Capital allocation with respect to CVA loss (Credit Value Adjustments) - loss due to revaluation at market value with respect to counter-party credit risk.**

  In addition to the capital requirement with respect to default risk arising from counter-party credit risk under the standard approach, an additional capital allocation is required to cover the risk of potential loss which may arise from marking to market value of OTC derivatives.

  In order to comply with the new requirements in conjunction with application of the Basel III directives, a graduated transition period of several years was specified, until these directives are completely applied.

  - Supervisory adjustments and deductions from capital and non-controlling interest not qualified for inclusion under supervisory capital - an annual 20% deduction as from January 1, 2014.
  - Capital instruments not qualified as supervisory capital - recognition of 80% of the balance of such instruments as from the effective start date and a 10% deduction annually through January 1, 2022.

  The amendment to Regulation 202 stipulates that the target date for compliance with the minimum 9% Tier I capital ratio for a non-large banking corporation is January 1, 2015 - in line with the Supervisor of Banks' letter dated March 28, 2012.

J. Following the publication of these directives, the Bank has revisited its compliance with the schedule for achieving the target core capital ratio of no less than 9%

Following this review and based on assumptions with regard to expected profit in 2013-2014 and to the growth rate of risk assets, the Bank presented to the Supervisor of Banks an outline of expected evolution of its core capital ratio, including dividend distribution, while maintaining appropriate safety margins.

Note 5 - Capital adequacy pursuant to directives of the Supervisor of Banks- continued

After checking with the Supervisor of Banks, the Bank's Board of Directors resolved, on August 14, 2013, to adopt a core capital ratio target as of December 31, 2014 of 9% or higher. Furthermore, the Board of Directors then resolved to distribute dividends amounting to NIS 75 million and to adopt a guideline whereby, through December 31, 2014, the Bank would distribute dividends equal to up to 30% of annual operating net profit and 80% of annual profit from extraordinary items.

These resolutions supersede the Board of Directors' resolutions with regard to advancing the implementation of the Supervisor of Banks' directives, dated March 28, 2012, with the intention of implementing these, in as much as possible, as from January 1, 2014, and with regard to the dividend distribution policies - as described in section 1 of the Immediate Report issued by the Bank, dated July 23, 2012 (reference 2012-01-191649). This mention constitutes inclusion by way of reference of all information provided in section 1 of the aforementioned report.

K. On August 29, 2013, the Supervisor of Banks issued directives with regard to "Restrictions on provision of housing loans". According to the directives, as from September 1, 2013 a bank may not approve nor originate housing loans where the ratio of monthly repayment to borrower income exceeds 50%.

Furthermore, loans with a ratio of monthly repayment to borrower income in excess of 40% will have a 100% risk weighting in calculation of capital allocation.

Note 6 – Consolidated statement of assets and liabilities by linkage basis

As of June 30, 2014 (unaudited)

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]				
	Non-linked	CPI-linked	US dollars	Euro	Other currencies	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	22,420	148	4,069	253	291	-	27,181
Securities	6,058	557	1,892	1,126	5	106	9,744
Securities loaned or sold in conjunction with repurchase agreements	11	101	-	-	-	-	112
Loans to the public, net	78,726	53,073	7,831	2,095	1,628	-	143,353
Loans to Governments	-	-	118	167	-	-	285
Investments in investees	34	-	-	-	-	27	61
Buildings and equipment	-	-	-	-	-	1,658	1,658
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	2,650	576	154	53	34	-	3,467
Other assets	1,840	287	26	1	14	42	2,210
Total assets	**111,739**	**54,742**	**14,090**	**3,695**	**1,972**	**1,920**	**188,158**
Liabilities							
Deposits from the public	95,761	21,060	24,025	4,742	2,475	-	148,063
Deposits from banks	414	384	571	72	82	-	1,523
Deposits from the Government	9	19	28	-	-	-	56
Debentures and subordinated notes	3,443	15,677	-	-	-	-	19,120
Liabilities with respect to derivatives	2,339	269	384	289	22	-	3,303
Other liabilities	4,109	716	33	11	27	280	5,176
Total liabilities	**106,075**	**38,125**	**25,041**	**5,114**	**2,606**	**280**	**177,241**
Difference	**5,664**	**16,617**	**(10,951)**	**(1,449)**	**(634)**	**1,640**	**10,917**
Impact of hedging derivatives:							
Derivatives (other than options)	3,578	(3,578)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (other than options)	(5,731)	(4,438)	8,792	825	552	-	-
Net in-the-money options (in terms of underlying asset)	(2,207)	-	1,680	560	(34)	1	-
Net out-of-the-money options (in terms of underlying asset)	(472)	-	496	(50)	29	(3)	-
Total	**832**	**8,601**	**17**	**(84)**	**(87)**	**1,638**	**10,917**
Net in-the-money options (capitalized par value)	1,080	-	(232)	(732)	(116)	-	-
Net out-of-the-money options (capitalized par value)	(229)	-	168	(180)	241	-	-

(1) Includes linked to foreign currency.

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

Note 6 – Consolidated statement of assets and liabilities by linkage basis - continued

As of June 30, 2013 (unaudited) - Continued

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency [1]				
	Non-linked	CPI-linked	US dollars	Euro	Other currencies	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	19,579	141	3,450	204	266	-	23,640
Securities	3,295	284	2,170	774	29	109	6,661
Securities loaned or sold in conjunction with repurchase agreements	37	-	-	-	-	-	37
Loans to the public, net	68,783	51,291	8,849	2,504	1,426	-	132,853
Loans to Governments	-	-	108	192	-	-	300
Investments in associates	34	-	-	-	-	28	62
Buildings and equipment	-	-	-	-	-	1,631	1,631
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	2,545	447	316	43	61	-	3,412
Other assets	1,397	422	36	1	20	44	1,920
Total assets	**95,670**	**52,585**	**14,929**	**3,718**	**1,802**	**1,899**	**170,603**
Liabilities							
Deposits from the public	84,323	22,370	22,384	4,172	2,450	-	135,699
Deposits from banks	490	344	1,126	143	3	-	2,106
Deposits from the Government	16	42	31	-	-	-	89
Debentures and subordinated notes	2,198	12,609	-	-	-	-	14,807
Liabilities with respect to derivatives	2,265	249	490	204	51	-	3,259
Other liabilities	3,774	678	52	1	27	306	4,838
Total liabilities	**93,066**	**36,292**	**24,083**	**4,520**	**2,531**	**306**	**160,798**
Difference	**2,604**	**16,293**	**(9,154)**	**(802)**	**(729)**	**1,593**	**9,805**
Impact of hedging derivatives:							
Derivatives (other than options)	375	(375)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (other than options)	(2,155)	(7,986)	8,774	620	747	-	-
Net in-the-money options (in terms of underlying asset)	(482)	-	319	172	(4)	(5)	-
Net out-of-the-money options (in terms of underlying asset)	(143)	-	177	(32)	(4)	2	-
Total	**199**	**7,932**	**116**	**(42)**	**10**	**1,590**	**9,805**
Net in-the-money options (capitalized par value)	433	-	(220)	(228)	(8)	23	-
Net out-of-the-money options (capitalized par value)	459	-	(660)	256	(68)	13	-

(1) Includes linked to foreign currency.

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

Note 6 – Consolidated statement of assets and liabilities by linkage basis - continued

As of December 31, 2013 (audited) - Continued

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[(1)]				
	Non-linked	CPI-linked	US dollars	Euro	Other currencies	Non-monetary items[(2)]	Total
Assets							
Cash and deposits with banks	23,064	114	2,346	88	448	-	26,060
Securities	4,015	138	1,972	747	30	98	7,000
Securities loaned or sold in conjunction with repurchase agreements	13	57	-	-	-	-	70
Loans to the public, net	73,715	52,740	8,352	2,317	1,441	-	138,565
Loans to Governments	-	-	122	183	-	-	305
Investments in investees	35	-	-	-	-	25	60
Buildings and equipment	-	-	-	-	-	1,656	1,656
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	2,726	552	219	78	31	-	3,606
Other assets	1,842	280	26	1	12	43	2,204
Total assets	**105,410**	**53,881**	**13,037**	**3,414**	**1,962**	**1,909**	**179,613**
Liabilities							
Deposits from the public	92,888	21,439	20,064	4,221	2,632	-	141,244
Deposits from banks	434	439	1,050	102	16	-	2,041
Deposits from the Government	11	22	29	-	-	-	62
Debentures and subordinated notes	2,146	14,297	-	-	-	-	16,443
Liabilities with respect to derivatives	2,443	294	494	291	16	-	3,538
Other liabilities	4,523	1,022	43	1	35	326	5,950
Total liabilities	**102,445**	**37,513**	**21,680**	**4,615**	**2,699**	**326**	**169,278**
Difference	**2,965**	**16,368**	**(8,643)**	**(1,201)**	**(737)**	**1,583**	**10,335**
Impact of hedging derivatives:							
Derivatives (other than options)	1,083	(1,083)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (other than options)	(1,437)	(8,042)	8,238	524	717	-	-
Net in-the-money options (in terms of underlying asset)	(343)	-	(11)	380	(35)	9	-
Net out-of-the-money options (in terms of underlying asset)	(756)	-	474	271	20	(9)	-
Total	**1,512**	**7,243**	**58**	**(26)**	**(35)**	**1,583**	**10,335**
Net in-the-money options (capitalized par value)	(725)	-	948	(160)	(63)	-	-
Net out-of-the-money options (capitalized par value)	6	-	77	(233)	150	-	-

(1) Includes linked to foreign currency.

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

Note 7 - Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

			As of June 30,		As of December 31,	
	2014		2013		2013	
	Unaudited				audited	
	Balance(1)	Provision(2)	Balance(1)	Provision(2)	Balanc (1)	Provision(2)
A. Off-balance sheet financial instruments						
Contractual balances or their denominated amounts at the end of the year						
Transactions in which the balance represents a credit risk:						
- Documentary credit	179	2	423	3	296	2
- Loan guarantees	2,255	27	2,668	27	2,413	27
- Guarantees to home buyers	9,834	7	9,063	8	9,935	8
- Other guarantees and liabilities(3)	3,397	14	3,408	13	3,519	13
- Unutilized revolving credit card facilities	7,290	5	7,057	5	7,135	5
- Unutilized debitory account and other credit facilities in accounts available on demand	17,261	29	17,851	24	17,460	28
- Irrevocable commitments for loans approved but not yet granted	9,201	14	9,534	18	9,009	15
- Commitments to issue guarantees	6,687	5	5,359	6	6,265	5

(1) Contract balances or their stated amounts at the end of the period, before effect of provision for credit losses.

(2) Balance of provision for credit losses at end of period.

(3) Includes the Bank's liabilities for its share in the risks fund of the MAOF Clearinghouse of NIS 155 million. (as of March 31, 2013 and December 31, 2013 - NIS 98 million and NIS 133 million, respectively). For additional details, see Note 19.D.2 and Note 15.B. to Financial Statements as of December 31, 2013.

Note 7 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

	As of June 30,		As of December 31,
	2014	2013	2013
	(unaudited)		(audited)
B. Special commitments			
Obligations with respect to:			
Long-term leases	602	617	603
Computerization and software service contracts	189	178	174
Acquisition and renovation of buildings	15	15	10
Receipt of deposits on future dates[(1)]	400	400	400

(1) Transactions with institutional depositors to receive deposits at future dates at fixed interest rates set upon the contract date.

Note 7 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

C. Contingent liabilities and other special commitments

1) For details of other contingent liabilities and special commitments by the Bank group, see Note 19 to the financial statements for the year ended December 31, 2013. Below is a description of material changes relative to the description provided in the 2013 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, including motions for class action status and 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 2013 financial statements:

A. 1) 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 stated in the claim). The plaintiffs claim that banks are in breach of restrictive trade practices statutes, with restrictive practices leading to reduced competition among banks with regard to various commissions. The banks, according to the claim, have shared information with regard to the various commissions they charge. The plaintiffs claim that this impacted competition in the banking sector, and customers, such as the plaintiffs, have been charged higher commissions than they would have paid had the banks acted lawfully.

2) In May 2009, a claim and application for class action status was filed with 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. (hereafter: "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 Bank HA-POALIM Ltd., Bank LEUMI LE-ISRAEL Ltd., Bank Discount LE-ISRAEL Ltd. and First International Bank of Israel Ltd., with regard to commission-related information sharing" (see section 4 below). The claim alleges, based on the determination by the Supervisor, that the defendant banks were party to a restrictive trade practice, which affected competition and caused coordination of commissions, so that the plaintiffs paid excessive prices for services rendered to them.

Note 7 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

The plaintiffs have set the amount of their claim against all defendant banks at NIS 1 billion based, according to the plaintiffs, only as an estimation so as to place the issue under the material jurisdiction of the District Court.

In November 2009, at the Bank's request, the Court handed down its decision, whereby legal proceedings with regard to the two aforementioned lawsuits would currently be put on hold for at least two years.

In February 2012, the Court decided that hearing of these two claims would be delayed pending a resolution by the Anti-Trust Court of an appeal filed by the Bank of the decision by the Anti-Trust Supervisor, whereby the Bank was party to a restrictive trade practice concerning transfer of information with regard to commissions applicable to households and small businesses.

The parties have been in discussion to resolve their disagreements and have formulated a draft settlement agreement; For more information about these lawsuits, see also section 4 below in this Note.

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

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

In January 2010, the Court decision was handed down, whereby the lawsuit would be referred for resolution in the course of a regular claim for monetary remedy, and the Court fee with respect there to would be paid by the plaintiffs. Accordingly, the plaintiffs filed in February 2010 a statement of claim in the amount of NIS 829 million.

In March 2010, the defendants, including the Bank, filed their statements of defense.

Evidence in this case was heard between March 2011 and April 2012, and the parties have filed their summations.

Note 7 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

After hearing the evidence, a partial verdict was handed down in July 2013 against the defendant banks and in November 2013, the Court handed down a complementary verdict, requiring the defendants to pay to the plaintiffs the amount of NIS 48.5 million plus interest and linkage differentials since November 9, 2009, reimbursement of fees amounting to NIS 0.5 million and legal fees amounting to NIS 4.2 million. According to the opinion of Legal Counsel, the Bank's share is the same as its share of financing, i.e. 10%.

The banks have appealed the verdict to the Supreme Court and also filed a motion for a stay of execution of this verdict. The plaintiffs also appealed the verdict. The parties have reached agreement with regard to a stay of execution.

In May 2014, the plaintiffs filed their summation in their appeal; in July 2014, the banks filed their summation in their appeal as well as their summation in the companies' appeal.

A hearing of additional claims is scheduled for October 2014.

C. In June 2010, the Bank received a claim and motion for approval of class action in the amount of NIS 26 million. According to the plaintiffs, the Bank is in breach of its obligations pursuant to section 9a(a) of the Banking Act (Customer Service), 1981 - by failing to remove and/or to issue notification of removal of recorded liens and lien warnings on land and other rights recorded in various registries (Lien Registry, Land Registration Bureau, Israel Land Authority and housing companies) as collateral for loans extended to Bank clients - once the loan has been repaid by these clients.

The Court, in a decision dated November 24, 2013, requested the Supervisor of Banks' position on several issues related to the requested approval and with regard to how liens are removed. The parties pursued a reconciliation process designed to try and resolve their differences outside the Court.

The parties have reached a settlement agreement, brought before the Court for approval in March 2014.

In March 2014, the Court ruled that, in conformity with the Class Action Lawsuit Act, a notice with regard to filing of the motion for approval of the settlement agreement would be published in daily newspapers and a hearing by the Court of the motion for approval of the settlement agreement is scheduled for July 2014.

In July 2014, the Attorney General and the Supervisor of Banks filed their opinions; consequently, the Court resolved that the parties should discuss the reconciliation agreement and its provisions with the Supervisor of Banks.

A further discussion of the settlement agreement is scheduled for November 2014.

D. In July 2011, a claim was filed with the Central District Court in the amount of NIS 81.8 million for alleged forward transactions made in the plaintiffs' account, which allegedly caused the plaintiffs to incur a loss. The plaintiffs claim that the Bank acted unilaterally in the account and without prior notification about collateral calculation, causing the plaintiffs to incur losses by taking risky positions. The plaintiffs claim that the Bank, by deed or omission, caused the account and the investment portfolio to collapse.

Note 7 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

In January 2012, the Bank filed a statement of defense. The Bank claims that the plaintiff is skilled and familiar with the capital market, and the Bank acted professionally, thoroughly and skillfully at all times. In November 2012, the plaintiffs filed their evidence with the Court and the Bank did so in April 2013.

The parties conducted an arbitration proceeding and reached a settlement agreement. On February 19, 2014, the Court approved the settlement agreement, which was adopted as a verdict.

E. In August 2012, a claim against the Bank was filed with the Tel Aviv District Court, including an application for class action status, amounting to NIS 2.3 billion against Automated Bank Services Ltd. (hereinafter: "ABS"), major banks including the Bank and others, with regard to alleged unlawful charging of commissions upon cash withdrawal from ATMs operated by ABS and located on premises of the defendant banks.

The main claim is that by restricting the maximum withdrawal amount per transaction in these ATMs, the number of withdrawal commissions paid to ABS increased, as did the number of direct channel transaction commissions charged for each withdrawal by the bank where the account is managed. According to the claim, the four other banks are named as defendants for being shareholders of ABS, while the Bank is named as defendant, even though its ABS shares were transferred to other shareholders in 1980, but the Bank retained, according to the plaintiff, rights associated with shareholding.

In January 2014, the plaintiff asked in writing for consent by all defendants to withdrawal of this claim with no payment of expenses. The Bank has consented, subject to consent by all defendants and subject to impact of the withdrawal.
On January 29, 2014, the Court approved the agreed motion for withdrawal and the claim was rejected.

F. In October 2012, a claim with motion for class action status was filed with the Tel Aviv District Court, against the five large banks - including the Bank - alleging failure to match the client debt amount on Bank accounts and the debt amount indicated in Court Order Execution Service files. The plaintiffs indicate that the claim amount cannot be estimated at this stage. In March 2014, the Bank filed its response to the motion and in April 2014, the plaintiff filed their response to the Bank's response.

Note 7 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

G. In December 2012, a claim and motion for class action status were filed with the Tel Aviv District Court, in the amount of NIS 6 billion, alleging that no notice was given to mortgage borrowers that provisions of a HEYTER ISKA ("transaction permit") apply to their loans and therefore, the Bank over-charged arrears interest on these loans.
The plaintiffs claim that the Bank has failed to fulfill its obligations pursuant to the HEYTER ISKA, and charged the plaintiffs arrears interest which was 10% higher than regular interest.
In July 2013, the Bank filed its response to the motion with the Court.
In January 2014, the plaintiffs requested to withdraw the motion with no award of expenses. The Court agreed to this request and adopted it as a verdict. This concluded legal proceedings in this case.

H. In December 2012, an action and a motion for recognition as a class action were filed with the Tel Aviv District Court, with regard to setting rates of arrears interest charged by the Bank in Court Order Execution Service cases filed against debtors. According to the plaintiff, the Bank charges interest significantly higher than the maximum interest rate on checking accounts.
The plaintiff is currently unable to estimate the amount claimed.

The parties agreed to add this motion for reconciliation together with other motions which make similar claims against the Banks and other banks.
The Bank is due to file its response to the motion by September 30, 2014.

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 40 million.

3) Motions for recognition as class actions are pending against the Bank, where the amount claimed is material, as itemized below, which, in the opinion of the Bank's management, based on the opinion of their legal counsel, the prospects for which cannot be estimated at this stage, so that no provision was made for them.

A. 1) In August 2013, a claim and motion for class action status in the amount of NIS 10.5 billion were filed with the Tel Aviv District Court against the 5 major banks, including the Bank, and against bank Presidents, including the Bank President, in person - with respect to unlawful charging of commissions by the banks with regard to foreign currency conversion and transfer.
In September 2013, the defendants filed a motion with the Court, seeking dismissal of the personal claim against bank Presidents, and the individual claim against them was dismissed.
The Bank's response to the motion is to be filed by mid-August 2014.

Note 7 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

2) In March 2014, a claim and motion for class action status in the amount of NIS 2.07 billion were filed with the Tel Aviv District Court against the Bank and 4 other banks (Bank Otzar HaChayal Ltd., Mercantile Discount Bank Ltd., Bank Igud LeIsrael Ltd. and Bank Yahav for Government Employees Ltd.) alleging unlawful commissions charged by the banks with regard to conversion and transfer of foreign currency (this claim is identical to the one in section A.1 above).
The Bank's response is due by mid-August 2014.

3) In August 2014, a claim and motion for class action status in the amount of NIS 1.5 billion were filed with the Tel Aviv District Court against the 5 major banks, including the Bank, as well as against Bank Otzar HaChayal Ltd. and Mercantile Discount Bank Ltd.
The plaintiff is among the plaintiffs who filed the action mentioned above in section 2).
The claim concerns a matter similar to that of sections 1) and 2) above.
The claim also alleges that the Bank unlawfully charges variable minimum commission for foreign currency transfers.

B. In October 2013, a claim was filed with the Tel Aviv District Court, along with a motion for class action status, in the amount of NIS 622 million, alleging services unlawfully made contingent on other services and excessive interest charged with respect to loans guaranteed by the State. The plaintiffs claim that, as a precondition for providing loans guaranteed by the State, in which the State guarantees repayment to the Bank up to 70% of the loan amount, the Bank makes this contingent on the client depositing at least 25% of the loan amount. The plaintiffs claim that, in so doing, the Bank is in fact only lending 75% of the loan amount to the borrower, while charging interest on the full loan amount.
The Bank filed its response to the motion in May 2014.

C. In October 2013, a claim and motion for class action status were filed with the Tel Aviv District Court against the Bank and against Bank Leumi, whose amount exceeds NIS 112.5 million, with the monetary remedy against the Bank was set in the motion at NIS 37.5 million, with regard to placement of monitoring cameras at ATM locations without proper signage informing clients of the presence of such cameras, which allegedly constitutes an invasion of their privacy.
In May 2014, the banks filed their response to the motion and a pre-trial hearing is scheduled for October 2014.

Note 7 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

D. In March 2014, a claim and motion for class action status were filed with the Central District Court against the Bank, alleging unlawful charging of warning letter commission and excessive interest charged for exceeding the authorized limit on accounts, allegedly in breach of Proper Conduct of Banking Business Regulation 325 concerning "management of credit facility in checking account". The plaintiffs claim this regulation is breached, *inter alia*, by the Bank allowing charges to clients which the Bank could have rejected, since the Bank may not allow clients to exceed their credit facility - thereby causing them to exceed their credit facility.

The plaintiff claimed to be unable to estimate the damage caused to potential class members, but believes this amounts to hundreds of millions of NIS.

The Bank is due to file its response to the motion by September 2014. A pre-trial hearing is scheduled for December 2014.

E. In June 2014, a claim was filed with the Central District Court, along with a motion for class action status, in the amount of NIS 3 million, concerning application of the Public Building Act (Cold Water Fountains), 1986 - due to lack of cold water fountains at Bank branches, alleging unlawful enrichment.

The Bank has yet to file a response to this motion.

F. In August 2014, a counter-claim was filed with the Supreme Court of New York by a plaintiff subject to legal proceedings with regard to a guarantee they have provided for a loan extended to a company indirectly controlled there by.

The plaintiff alleges that they incurred damage amounting to at least USD 57 million, due to a breach of a verbal commitment given by the Bank to the plaintiff, whereby the plaintiff's personal guarantee would not be enforced.

The plaintiff claims that deeds and omissions by the Bank resulted in the plaintiff failing to meet their various obligations and in destruction of his businesses.

The Bank has yet to file a response to this motion.

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

On March 24, 2010, the Bank appealed the ruling to the Anti-Trust Court. On June 18, 2012, the Court ordered parts of the Supervisor's response to the appeal to be erased.

Note 7 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

The Bank and the other banks mentioned in the lawsuit have reached agreement with the Anti-Trust Supervisor based, *inter alia*, on cancellation of the ruling and payment by the Bank (and the other banks, respectively) of the amount initially designated for settlement of class action lawsuits concerning alleged breach of anti-trust statutes with regard to the aforementioned collection of commissions.

On May 1, 2014, the Anti-Trust Supervisor filed a motion with the Anti-Trust Court to confirm the settlement agreement.

On June 16, 2014, the Anti-Trust Court confirmed the settlement agreement.

For details of claims filed based on the determination by the Anti-Trust Supervisor, see section 2.A in this Note.

5) In recent years, authorities in the USA and in Switzerland have been negotiating the tax treaty between these countries. As requested by Swiss authorities, several Swiss banks, including Mizrahi Bank Switzerland, have provided statistical information about their business with US clients, to be provided to US authorities.

In August 2013, Mizrahi Bank Switzerland was informed by US authorities that an investigation of its business has been launched. Mizrahi Bank Switzerland expressed its willingness to assist and cooperate with US authorities, in conformity with statutory provisions and the treaty signed by the USA and Switzerland - and even provided statistical data to US authorities as required. Mizrahi Bank Switzerland reports these events from time to time to the Swiss supervisory authorities and the Bank reports these events from time to time to the Supervisor of Banks.

On April 14, 2014, the Bank branch in Los Angeles received a subpoena, demanding it produce documents related to a Bank employee and to a Bank employee who retired five years ago, as well as to banking services provided at the Los Angeles branch, provided that such documents are available at the Bank branch in Los Angeles. The Los Angeles branch is acting to provide the required documents.

On April 30, 2014, an indictment was filed with the Court in Los Angeles against the Bank employee in Los Angeles who has retired; the indictment alleges , *inter alia*, that the employee aided US clients of the Bank to avoid tax payment. The Bank is not named on the indictment and is referred to as Bank A of Tel Aviv, with no violation attributed to the Bank.

On July 25, 2014, the Bank was required by US authorities to provide additional statistical information.

The Bank is co-operating with US authorities in conformity with statutory provisions and continued to provide the required statistical information. The Bank reports these events from time to time to the Supervisor of Banks.

The Bank and Mizrahi Bank Switzerland are in constant contact with US authorities in order to reach an appropriate outline for the Bank Group.

At this stage, based on the opinion of the Bank's legal counsel, it is not possible to assess the likelihood of the Bank realizing a loss due to these events, nor the related exposure amounts or the extent of such exposure.

Note 8 - Financial derivatives activity – volume, credit risk and maturity dates

Reported amounts (NIS in millions)

a) Activity on consolidated basis

	As of June 30, 2014 (unaudited)					
	Interest contracts				Commodities	
			Currency	Contracts	and other	
	NIS - CPI	Other	contracts	for shares	contracts	Total
1. Stated amounts of financial derivatives						
A. Hedging derivatives (1)						
Forward contracts	3,743	-	-	-	-	3,743
Swaps	-	1,914	-	-	-	1,914
Total	**3,743**	**1,914**	**-**	**-**	**-**	**5,657**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	1,914	-	-	-	1,914
B. ALM derivatives(1)(2)						
Forward contracts	6,538	2,000	53,354	-	17	61,909
Option contracts traded on stock exchange:						
Options written	-	-	3,458	1,625	-	5,083
Options purchased	-	-	3,323	1,625	-	4,948
Other option contracts:						
Options written	-	-	13,070	-	4	13,074
Options purchased	-	-	11,491	-	3	11,494
Swaps	2,306	32,507	9,294	-	-	44,107
Total	**8,844**	**34,507**	**93,990**	**3,250**	**24**	**140,615**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,707	18,279	-	-	-	19,986
C. Other derivatives(1)						
Forward contracts	-	-	779	-	-	779
Option contracts traded on stock exchange:						
Options written	-	-	8,319	11,136	-	19,455
Options purchased	-	-	8,319	11,136	-	19,455
Other option contracts:						
Options written	-	481	-	2	-	483
Options purchased	-	283	-	26	-	309
Swaps	-	228	180	2,865	-	3,273
Total	**-**	**992**	**17,597**	**25,165**	**-**	**43,754**

(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 8 - Financial derivatives activity – volume, credit risk and maturity dates - continued

Reported amounts (NIS in millions)

a) Activity on consolidated basis - continued

	As of June 30, 2014 (unaudited)					
	Interest contracts				Commodities	
	NIS - CPI	Other	Currency contracts	Contracts for shares	and other contracts	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	17	17
Foreign currency spot swap contracts	-	-	9,736	-	-	9,736
Total	**-**	**-**	**9,736**	**-**	**17**	**9,753**
Total stated amounts of derivatives	**12,587**	**37,413**	**121,323**	**28,415**	**41**	**199,779**
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives[(1)]						
Positive fair value, gross	70	2	-	-	-	72
Negative fair value, gross	-	145	-	-	-	145
B. ALM derivatives[(1)(2)]						
Positive fair value, gross	247	1,285	1,358	250	-	3,140
Negative fair value, gross	207	1,512	1,151	5	-	2,875
C. Other derivatives[(1)]						
Positive fair value, gross	-	6	107	153	-	266
Negative fair value, gross	-	45	94	149	-	288
D. Total						
Carrying amount of assets with respect to derivatives [(3)]	**317**	**1,293**	**1,465**	**403**	**-**	**3,478**
Of which: Carrying amount of assets with respect to derivatives not subject to a master netting agreement or to similar agreements	77	129	348	403	-	957
Carrying amount of liabilities with respect to derivatives [(3)]	**207**	**1,702**	**1,245**	**154**	**-**	**3,308**
Of which: Carrying amount of liabilities with respect to derivatives not subject to a master netting agreement or to similar agreements	6	131	819	154	-	1,110

(1) Except for credit derivatives.

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

(3) Of which: positive fair value, gross of assets with respect to embedded derivatives amounting to NIS 11 million and negative fair value, gross of liabilities with respect to embedded derivatives amounting to NIS 5 million.

Note 8 - Financial derivatives activity – volume, credit risk and maturity dates - continued

Reported amounts (NIS in millions)

a) Activity on consolidated basis **- continued**

	As of June 30, 2013 (unaudited)					
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
1. Stated amounts of financial derivatives						
A. Hedging derivatives(1)						
Forward contracts	335	-	-	-	-	335
Swaps	-	2,291	-	-	-	2,291
Total	**335**	**2,291**	**-**	**-**	**-**	**2,626**
Of which: Interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	2,230	-	-	-	2,230
B. ALM derivatives(1)(2)						
Forward contracts	9,945	200	55,018	-	33	65,196
Option contracts traded on stock exchange:						
Options written	-	-	2,397	889	-	3,286
Options purchased	-	-	2,885	867	-	3,752
Other option contracts:						
Options written	-	-	9,771	12	-	9,783
Options purchased	-	-	8,482	47	-	8,529
Swaps	2,038	39,862	11,502	-	-	53,402
Total	**11,983**	**40,062**	**90,055**	**1,815**	**33**	**143,948**
Of which: Interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,488	23,378	-	-	-	24,866
C. Other derivatives(1)						
Forward contracts	-	-	2,102	-	-	2,102
Option contracts traded on stock exchange:						
Options written	-	-	3,944	8,419	83	12,446
Options purchased	-	-	3,944	8,419	83	12,446
Other option contracts:						-
Options written	-	76	117	251	-	444
Options purchased	-	94	135	241	-	470
Swaps	-	-	-	5,588	-	5,588
Total	**-**	**170**	**10,242**	**22,918**	**166**	**33,496**

(1) Except for credit derivatives and spot contracts for foreign currency swaps.

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

Note 8 - Financial derivatives activity – volume, credit risk and maturity dates - continued

Reported amounts (NIS in millions)

a) Activity on consolidated basis - continued

	As of June 30, 2013 (unaudited)					
	Interest contracts				Commodities	
			Currency	Contracts	and other	
	NIS - CPI	Other	contracts	for shares	contracts	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	127	127
Foreign currency spot swap contracts	-	-	2,375	-	-	2,375
Total	**-**	**-**	**2,375**	**-**	**127**	**2,502**
Total stated amounts of derivatives	**12,318**	**42,523**	**102,672**	**24,733**	**326**	**182,572**
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives(1)						
Positive fair value, gross	1	3	-	-	-	4
Negative fair value, gross	-	224	-	-	-	224
B. ALM derivatives(1)(2)						
Positive fair value, gross	227	1,083	1,624	162	4	3,100
Negative fair value, gross	180	1,325	1,248	-	4	2,757
C. Other derivatives(1)						
Positive fair value, gross	-	6	106	196	-	308
Negative fair value, gross	-	-	101	179	-	280
D. Total						
Total positive fair value, gross(3)	**228**	**1,092**	**1,730**	**358**	**4**	**3,412**
Of which: Carrying amount of assets with respect to derivatives not subject to a master netting agreement or to similar agreements	81	115	830	357	3	1,386
Total negative fair value, gross(3)	**180**	**1,549**	**1,349**	**179**	**4**	**3,261**
Of which: Carrying amount of liabilities with respect to derivatives not subject to a master netting agreement or to similar agreements	8	134	850	178	2	1,172

(1) Except for credit derivatives.

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

(3) Includes positive fair value, gross of assets with respect to embedded financial derivatives amounting to NIS 8 million and negative fair value, gross, of embedded financial derivatives amounting to NIS 2 million.

Note 8 - Financial derivatives activity – volume, credit risk and maturity dates - continued

Reported amounts (NIS in millions)

a) Activity on consolidated basis **- continued**

	As of December 31, 2013 (audited)					
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
1. Stated amounts of financial derivatives						
A. Hedging derivatives[1]						
Forward contracts	1,803	-	-	-	-	1,803
Swaps	-	1,900	-	-	-	1,900
Total	**1,803**	**1,900**	**-**	**-**	**-**	**3,703**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	1,900	-	-	-	1,900
B. ALM derivatives[1][2]						
Forward contracts	9,066	900	52,204	-	47	62,217
Option contracts traded on stock exchange:						
Options written	-	-	4,540	2,317	-	6,857
Options purchased	-	-	3,536	2,318	-	5,854
Other option contracts:						
Options written	-	-	12,362	-	-	12,362
Options purchased	-	-	12,542	-	-	12,542
Swaps	2,042	34,703	11,027	-	-	47,772
Total	**11,108**	**35,603**	**96,211**	**4,635**	**47**	**147,604**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,492	20,082	-	-	-	21,574
C. Other derivatives[1]						
Forward contracts	-	-	931	-	-	931
Option contracts traded on stock exchange:						
Options written	-	-	7,180	15,305	-	22,485
Options purchased	-	-	7,180	15,305	-	22,485
Other option contracts:						
Options written	-	75	-	514	-	589
Options purchased	-	65	-	560	-	625
Swaps	-	230	-	3,291	-	3,521
Total	**-**	**370**	**15,291**	**34,975**	**-**	**50,636**

(1) Except for credit derivatives and spot contracts for foreign currency swaps.

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

Note 8 - Financial derivatives activity – volume, credit risk and maturity dates - continued

Reported amounts (NIS in millions)

a) Activity on consolidated basis - **continued**

	As of December 31, 2013 (audited)					
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	17	17
Foreign currency spot swap contracts	-	-	990	-	-	990
Total	**-**	**-**	**990**	**-**	**17**	**1,007**
Total stated amounts of derivatives	**12,911**	**37,873**	**112,492**	**39,610**	**64**	**202,950**
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives(1)						
Positive fair value, gross	3	7	-	-	-	10
Negative fair value, gross	-	140	-	-	-	140
B. ALM derivatives(1)(2)						
Positive fair value, gross	169	1,082	1,595	335	2	3,183
Negative fair value, gross	191	1,320	1,450	17	2	2,980
C. Other derivatives(1)						
Positive fair value, gross	-	12	159	253	-	424
Negative fair value, gross	-	41	143	248	-	432
Total						
Carrying amount of assets with respect to derivatives(3)	**172**	**1,101**	**1,754**	**588**	**2**	**3,617**
Of which: Carrying amount of assets with respect to derivatives not subject to a master netting agreement or to similar agreements	48	153	1,049	588	1	1,839
Carrying amount of liabilities with respect to derivatives(3)	**191**	**1,501**	**1,593**	**265**	**2**	**3,552**
Of which: Carrying amount of liabilities with respect to derivatives not subject to a master netting agreement or to similar agreements	8	167	970	265	1	1,411

(1) Except for credit derivatives.

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

(3) Of which: positive fair value, gross of assets with respect to embedded derivatives amounting to NIS 11 million and negative fair value, gross of liabilities with respect to embedded derivatives amounting to NIS 14 million.

Note 8 - Financial derivatives activity – volume, credit risk and maturity dates - continued

Reported amounts (NIS in millions)

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

	As of June 30, 2014 (unaudited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivatives[1]	**494**	**2,090**	**7**	**71**	**816**	**3,478**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(1,716)	-	-	(5)	(1,721)
Mitigation of credit risk with respect to cash collateral received	-	(304)	-	(33)	(143)	(480)
Net amount of assets with respect to derivatives	**494**	**70**	**7**	**38**	**668**	**1,277**
Off-balance sheet credit risk on financial derivatives[2]	-	1,649	-	-	1,868	3,517
Mitigation of off-balance sheet credit risk	-	(498)	-	-	(10)	(508)
Net off-balance sheet credit risk with respect to derivatives	**-**	**1,151**	**-**	**-**	**1,858**	**3,009**
Total credit risk on financial derivatives	**494**	**1,221**	**7**	**38**	**2,526**	**4,286**
Carrying amount of liabilities with respect to derivatives[3]	**214**	**2,250**	**-**	**-**	**844**	**3,308**
Gross amounts not offset on the balance sheet:						
Financial instruments	-	(1,716)	-	-	(5)	(1,721)
Pledged cash collateral	-	(465)	-	-	-	(465)
Net amount of liabilities with respect to derivatives	**214**	**69**	**-**	**-**	**839**	**1,122**

(1) Includes positive fair value, gross, of embedded derivatives amounting to NIS 11 million.

(2) The difference, if positive, between total amount with respect to derivatives (including with respect to derivatives with a negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, before mitigation of credit risk, and the carrying amount of assets with respect to derivatives of the borrower.

(3) Includes negative fair value, gross, of embedded derivatives amounting to NIS 5 million.

Note 8 - Financial derivatives activity – volume, credit risk and maturity dates - continued

Reported amounts (NIS in millions)

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

	As of June 30, 2013 (unaudited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivatives[1]	**383**	**2,118**	**16**	**-**	**895**	**3,412**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(1,644)	-	-	-	(1,644)
Mitigation of credit risk with respect to cash collateral received	-	(466)	-	-	-	(466)
Net amount of assets with respect to derivatives	**383**	**8**	**16**	**-**	**895**	**1,302**
Off-balance sheet credit risk on financial derivatives[2]	-	1,575	435	-	2,270	4,280
Mitigation of off-balance sheet credit risk	-	(488)	-	-	-	(488)
Net off-balance sheet credit risk with respect to derivatives	**-**	**1,087**	**435**	**-**	**2,270**	**3,792**
Total credit risk on financial derivatives	**383**	**1,095**	**451**	**-**	**3,165**	**5,094**
Carrying amount of liabilities with respect to derivatives[3]	**207**	**2,376**	**-**	**-**	**678**	**3,261**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(1,644)	-	-	-	(1,644)
Mitigation of credit risk with respect to cash collateral pledged	-	(349)	-	-	-	(349)
Net amount of liabilities with respect to derivatives	**207**	**383**	**-**	**-**	**678**	**1,268**

(1) Includes positive fair value, gross of embedded financial derivatives amounting to NIS 8 million.

(2) The difference, if positive, between total amount with respect to derivatives (including with respect to derivatives with a negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, before mitigation of credit risk, and the carrying amount of assets with respect to derivatives of the borrower.

(3) Includes negative fair value, gross, of embedded derivatives amounting to NIS 2 million.

Note 8 - Financial derivatives activity – volume, credit risk and maturity dates - continued

Reported amounts (NIS in millions)

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

	As of December 31, 2013 (audited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivatives[(1)]	**681**	**2,003**	**29**	**-**	**904**	**3,617**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(1,627)	-	-	-	(1,627)
Mitigation of credit risk with respect to cash collateral received	-	(95)	-	(72)	(17)	(184)
Net amount of assets with respect to derivatives	**681**	**281**	**29**	**(72)**	**887**	**1,806**
Off-balance sheet credit risk on financial derivatives[(2)]	-	1,501	76	-	2,038	3,615
Mitigation of off-balance sheet credit risk	-	(502)	-	-	-	(502)
Net off-balance sheet credit risk with respect to derivatives	**-**	**999**	**76**	**-**	**2,038**	**3,113**
Total credit risk on financial derivatives	**681**	**1,280**	**105**	**(72)**	**2,925**	**4,919**
Carrying amount of liabilities with respect to derivatives[(3)]	**388**	**2,341**	**-**	**-**	**823**	**3,552**
Gross amounts not offset on the balance sheet:						
Financial instruments	-	(1,627)	-	-	-	(1,627)
Pledged cash collateral	-	(597)	-	-	-	(597)
Net amount of liabilities with respect to derivatives	**388**	**117**	**-**	**-**	**823**	**1,328**

(1) Includes positive fair value, gross, of embedded derivatives amounting to NIS 11 million.

(2) The difference, if positive, between total amount with respect to derivatives (including with respect to derivatives with a negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, before mitigation of credit risk, and the carrying amount of assets with respect to derivatives of the borrower.

(3) Includes negative fair value, gross, of embedded derivatives amounting to NIS 14 million.

In the six-month period ended June 30, 2014, the Bank recognized credit losses with respect to derivatives, amounting to NIS 2 million (in the six-month period ended June 30, 2013, the Bank recognized revenues from a decrease in credit losses with respect to derivatives amounting to NIS 19 million).

Note 8 - Financial derivatives activity – volume, credit risk and maturity dates - continued

Reported amounts (NIS in millions)

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

	As of June 30, 2014 (Unaudited)				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	**Total**
Interest contracts:					
NIS - CPI	2,113	4,243	4,799	1,432	12,587
Other	4,100	5,416	15,486	12,411	37,413
Currency contracts	61,109	49,881	4,942	5,391	121,323
Contracts for shares	22,630	5,717	2	66	28,415
Commodities and other contracts	38	3	-	-	41
Total	**89,990**	**65,260**	**25,229**	**19,300**	**199,779**

	As of June 30, 2013 (Unaudited)				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	**Total**
Interest contracts:					
NIS - CPI	1,856	5,968	2,414	2,080	12,318
Other	3,916	10,386	14,181	14,040	42,523
Currency contracts	60,009	31,139	4,491	7,033	102,672
Contracts for shares	21,158	3,512	63	-	24,733
Commodities and other contracts	20	179	91	36	326
Total	**86,959**	**51,184**	**21,240**	**23,189**	**182,572**

	As of December 31, 2013 (Audited)				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	**Total**
Interest contracts:					
NIS - CPI	2,406	4,949	3,501	2,055	12,911
Other	4,062	6,794	13,466	13,551	37,873
Currency contracts	59,784	41,447	4,360	6,901	112,492
Contracts for shares	37,083	2,413	114	-	39,610
Commodities and other contracts	31	33	-	-	64
Total	**103,366**	**55,636**	**21,441**	**22,507**	**202,950**

Note 9 – Balances and Estimates of Fair Value of Financial Instruments

Reported amounts (NIS in millions)

A. Fair value balances

	As of June 30, 2014 (Unaudited)				
	Carrying amount	Level 1(1)	Level 2(1)	Level 3(1)	Fair value Total
Financial assets					
Cash and deposits with banks	27,181	4,651	17,800	4,723	27,174
Securities(3)	9,744	6,692	2,793	303	9,788
Securities loaned or sold in repurchase agreements	112	112	-	-	112
Loans to the public, net	143,353	-	9,542	135,578	145,120
Loans to Governments	285	-	-	283	283
Investments in associates	34	-	-	34	34
Assets with respect to derivatives	3,467	501	2,500	(2)466	3,467
Other financial assets	2,066	925	-	1,141	2,066
Total financial assets	**(4)186,242**	**12,881**	**32,635**	**142,528**	**188,044**
Financial liabilities					
Deposits from the public	148,063	-	31,403	119,301	150,704
Deposits from banks	1,523	-	38	1,518	1,556
Deposits from the Government	56	-	-	64	64
Debentures and subordinated notes	19,120	18,526	-	1,873	20,399
Liabilities with respect to derivatives	3,303	215	2,196	(2)892	3,303
Other financial liabilities	3,865	-	3,167	699	3,866
Total financial liabilities	**(4)175,930**	**18,741**	**36,804**	**124,347**	**179,892**

(1) Level 1 - Fair value measurement using quoted prices on an active market; Level 2 - Fair value measurement using other significant observed data; Level 3 - Fair value measurement using significant non-observed data.
(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.
(3) For details of the carrying amount and fair value of securities, see Note 2.
(4) Includes assets and liabilities amounting to NIS 44,515 million and NIS 32,530 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on a recurring basis and on a non-recurring basis, see B.-D. below.

Note 9 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

A. Fair value balances

	As of June 30, 2013 (Unaudited)				
	Carrying amount	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Fair value Total
Financial assets					
Cash and deposits with banks	23,640	3,800	15,222	4,628	23,650
Securities[(3)]	6,661	3,577	2,840	250	6,667
Securities loaned or sold in repurchase agreements	37	37	-	-	37
Loans to the public, net	132,853	-	9,342	124,968	134,310
Loans to Governments	300	-	-	300	300
Investments in associates	34	-	-	34	34
Assets with respect to derivatives	3,412	388	2,261	[(2)]763	3,412
Other financial assets	1,810	[(5)]794	-	[(5)]1,016	1,810
Total financial assets	[(4)]**168,747**	**8,596**	**29,665**	**131,959**	**170,220**
Financial liabilities					
Deposits from the public	135,699	-	30,779	[(5)]107,408	138,187
Deposits from banks	2,106	-	32	2,132	2,164
Deposits from the Government	89	-	-	101	101
Debentures and subordinated notes	14,807	14,078	-	2,033	16,111
Liabilities with respect to derivatives	3,259	212	2,095	[(2)]952	3,259
Other financial liabilities	3,572	-	3,018	[(5)]555	3,573
Total financial liabilities	[(4)]**159,532**	**14,290**	**35,924**	**113,181**	**163,395**

(1) Level 1 - Fair value measurement using quoted prices on an active market. Level 2 - Fair value measurement using other significant observed data. Level 3 - Fair value measurement using significant non-observed data.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

(3) For details of the carrying amount and fair value of securities, see Note 2.

(4) Includes assets and liabilities amounting to NIS 39,359 million and NIS 28,927 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

(5) Re-classified.

Note 9 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

A. Fair value balances - Continued

	As of December 31, 2013 (Audited)				
	Carrying amount	Fair value			
		Level 1[1]	Level 2[1]	Level 3[1]	Total
Financial assets					
Cash and deposits with banks	26,060	3,067	19,878	3,118	26,063
Securities [3]	7,000	4,222	2,491	298	7,011
Securities loaned or sold in repurchase agreements	70	70	-	-	70
Loans to the public, net	138,565	-	9,775	130,354	140,129
Loans to Governments	305	-	-	305	305
Investments in associates	35	-	-	35	35
Assets with respect to derivatives	3,606	708	2,362	[2]536	3,606
Other financial assets	2,040	908	-	1,132	2,040
Total financial assets	[4]**177,681**	**8,975**	**34,506**	**135,778**	**179,259**
Financial liabilities					
Deposits from the public	141,244	-	31,700	111,891	143,591
Deposits from banks	2,041	-	42	2,035	2,077
Deposits from the Government	62	-	-	74	74
Debentures and subordinated notes	16,443	15,684	-	2,024	17,708
Liabilities with respect to derivatives	3,538	389	2,417	[2]732	3,538
Other financial liabilities	4,634	21	3,185	1,429	4,635
Total financial liabilities	[4]**167,962**	**16,094**	**37,344**	**118,185**	**171,623**

(1) Level 1 - Fair value measurement using quoted prices on an active market. Level 2 - Fair value measurement using other significant observed data. Level 3 - Fair value measurement using significant non-observed data.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

(3) For details of the carrying amount and fair value of securities, see Note 2.

(4) Includes assets and liabilities amounting to NIS 41,640 million and NIS 32,478 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on a recurring basis and on a non-recurring basis, see B.-D. below.

Note 9 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

B. Items measured at fair value:

1. On recurring basis

	As of June 30, 2014 (Unaudited)			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Securities available for sale				
Debentures and bonds				
Of Government of Israel	3,446	2,534	-	5,980
Of foreign governments	221	-	-	221
Of banks and financial institutions in Israel	123	-	-	123
Of banks and financial institutions overseas	-	28	175	203
Of others in Israel	4	-	-	4
Of others overseas	3	60	22	85
Securities held for trade				
Debentures of the Government of Israel	1,177	-	-	1,177
Securities loaned or sold in repurchase agreements	112	-	-	112
Credit with respect to inter-client loaning	248	-	-	248
Assets with respect to derivatives[(1)]				
Interest contracts:				
NIS / CPI	-	164	153	317
Other	-	1,223	70	1,293
Currency contracts	186	1,044	235	1,465
Contracts for shares	315	69	8	392
Commodities and other contracts	-	-	-	-
Other financial assets	925	-	-	925
Other	-	-	11	11
Total assets	**6,760**	**5,122**	**674**	**12,556**
Liabilities				
Deposits with respect to inter-client loaning	248	-	-	248
Liabilities with respect to derivatives[(1)]				
Interest contracts:				
NIS / CPI	-	195	12	207
Other	-	1,544	158	1,702
Currency contracts	145	450	650	1,245
Contracts for shares	70	7	72	149
Commodities and other contracts				
Other financial liabilities				
Other	-	-	5	5
Total liabilities	**463**	**2,196**	**897**	**3,556**

(1) Fair value measurement of derivatives classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

Note 9 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

B. Items measured at fair value:

1. On recurring basis - continued

	As of June 30, 2013 (Unaudited)			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Securities available for sale				
Debentures and bonds				
Of Government of Israel	553	2,525	-	3,078
Of foreign governments	63	22	-	85
Of banks and financial institutions in Israel	124	-	-	124
Of banks and financial institutions overseas	-	87	220	307
Asset-Backed	-	-	-	-
Of others in Israel	31	-	-	31
Of others overseas	-	98	30	128
Shares	1	-	-	1
Securities held for trade				
Debentures of the Government of Israel	1,596	-	-	1,596
Credit with respect to inter-client loaning	(2)37	-	-	37
Assets with respect to derivatives(1)	342	-	-	342
Interest contracts:				
NIS / CPI	-	111	117	228
Other	-	961	131	1,092
Currency contracts	181	1,187	362	1,730
Contracts for shares	207	1	150	358
Commodities and other contracts	-	1	3	4
Other financial assets	(2)794	-	-	794
Total assets	**3,929**	**4,993**	**1,013**	**9,935**
Liabilities				
Deposits with respect to inter-client loaning	342	-	-	342
Liabilities with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	-	175	5	180
Other	-	1,303	246	1,549
Currency contracts	167	614	568	1,349
Contracts for shares	45	1	131	177
Commodities and other contracts	-	2	2	4
Other	-	-	2	2
Total liabilities	**554**	**2,095**	**954**	**3,603**

(1) Fair value measurement of derivatives classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

(2) Reclassified.

Note 9 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

B. Items measured at fair value:

1. On recurring basis - Continued

	As of December 31, 2013 (Audited)			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Securities available for sale				
Debentures and bonds				
Of Government of Israel	659	2,358	-	3,017
Of foreign governments	82	-	-	82
Of banks and financial institutions in Israel	124	-	-	124
Of banks and financial institutions overseas	-	48	176	224
Of others in Israel	23	-	-	23
Of others overseas	-	85	24	109
Securities held for trade				
Debentures of the Government of Israel	1,552	-	-	1,552
Securities loaned or sold in repurchase agreements	70	-	-	70
Credit with respect to inter-client loaning	278	-	-	278
Assets with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	-	116	56	172
Other	-	1,034	67	1,101
Currency contracts	222	1,211	321	1,754
Contracts for shares	486	-	91	577
Commodities and other contracts	-	1	1	2
Other financial assets	908	-	-	908
Other	-	-	11	11
Total assets	**4,404**	**4,853**	**747**	**10,004**
Liabilities				
Deposits with respect to inter-client loaning	278	-	-	278
Liabilities with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	-	180	11	191
Other	-	1,367	134	1,501
Currency contracts	221	869	503	1,593
Contracts for shares	168	-	83	251
Commodities and other contracts	-	1	1	2
Other financial liabilities	21	-	-	21
Other	-	-	14	14
Total liabilities	**688**	**2,417**	**746**	**3,851**

(1) Fair value measurement of derivatives classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

Note 9 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

B. Items measured at fair value:

2. On non-recurring basis – Continued

	June 30, 2014 (Unaudited)				For the three months ended June 30, 2014	For the six months ended June 30, 2014
	Fair value					
	Level 1	Level 2	Level 3	Total	Gain	
Impaired credit whose collection is contingent on collateral	-	-	104	104	2	31

	June 30, 2013 (Unaudited)				For the three months ended June 30, 2013	For the six months ended June 30, 2013
	Level 1	Level 2	Level 3	Total	Gain	
Impaired credit whose collection is contingent on collateral	-	-	135	135	1	2

	As of December 31, 2013 (Audited)				For the year ended December 31, 2013
	Level 1	Level 2	Level 3	Total	Loss
Impaired credit whose collection is contingent on collateral	-	-	188	188	(21)

Note 9 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3:

	For the three months ended June 30, 2014 (Unaudited)								
		Realized / unrealized gain (loss) included net[1]							
	Fair value as of March 31, 2014	In statement of profit and loss	In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of June 30, 2014	Unrealized gain (loss) with respect to instruments held as of June 30, 2014
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	176	(1)	-	-	-	-	-	175	(1)
Of others overseas	23	(1)	-	-	-	-	-	22	(2)
Assets with respect to derivatives[(2)(3)]									
Interest contracts:									
NIS / CPI	146	16	-	8	-	(17)	-	153	78
Other	68	1	-	1	-	-	-	70	34
Currency contracts	318	24	-	73	-	(180)	-	235	97
Contracts for shares	7	(12)	-	16	-	(3)	-	8	-
Commodities and other contracts									
Other[(3)]	12	(1)	-	-	-	-	-	11	-
Total assets	**750**	**26**	**-**	**98**	**-**	**(200)**	**-**	**674**	**206**
Liabilities									
Liabilities with respect to derivatives[(2)(3)]									
Interest contracts:									
NIS / CPI	11	-	-	1	-	(1)	1	12	-
Other	178	(23)	-	3	-	-	-	158	(2)
Currency contracts	467	148	-	131	-	(96)	-	650	(390)
Contracts for shares	78	20	-	16	-	(42)	-	72	-
Commodities and other contracts	1	-	-	-	-	(1)	-	-	-
Other[(3)]	5	-	-		-	-	-	5	-
Total liabilities	**740**	**145**	**-**	**151**	**-**	**(140)**	**1**	**897**	**(392)**

(1) Realized gain (loss) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gain and loss included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties. Standard 157 applies as from January 1, 2011. Level 3 classifications with respect to credit risk are included under column "Transfer to level 3".

(3) Included in statement of profit and loss under "Non-interest financing revenues".

Note 9 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3 - continued

	For the three months ended June 30, 2013 (unaudited)								
		Realized / unrealized gain (loss), net [1] included							
	Fair value as of March 31, 2013	In statement of profit and loss	In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of June 30, 2013	Unrealized gain (loss) with respect to instruments held as of June 30, 2013
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	221	(1)	-	-	-	-	-	220	(9)
Of others overseas	30	-	-	-	-	-	-	30	(1)
Assets with respect to derivatives [2][3]									
Interest contracts:									
NIS / CPI	92	15	-	1	-	(9)	18	117	133
Other	214	(10)	-	1	-	(74)	-	131	91
Currency contracts	610	129	-	73	-	(450)	-	362	181
Contracts for shares	134	42	-	21	-	(47)	-	150	-
Commodities and other contracts	1	2	-	1	-	(1)	-	3	2
Total assets	**1,302**	**177**	**-**	**97**	**-**	**(581)**	**18**	**1,013**	**397**
Liabilities									
Liabilities with respect to derivatives[2][3]									
Interest contracts:									
NIS / CPI	6	(4)	-	4	-	(2)	1	5	(1)
Other	353	(26)	-	1	-	(82)	-	246	(52)
Currency contracts	870	(45)	-	158	-	(415)	-	568	(442)
Contracts for shares	121	19	-	21	-	(30)	-	131	-
Commodities and other contracts	1	1	-	1	-	(1)	-	2	(2)
Other	5	(3)	-	-	-	-	-	2	-
Total liabilities	**1,356**	**(58)**	**-**	**185**	**-**	**(530)**	**1**	**954**	**(497)**

(1) Realized gain (loss) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gain and loss included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties. Standard 157 applies as from January 1, 2011. Level 3 classifications with respect to credit risk are included under column "Transfer to level 3".

(3) Included on statement of profit and loss under "Non-interest financing revenues".

Note 9 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3 - continued

	For the six months ended June 30, 2014 (unaudited)								
		Realized / unrealized gain (loss) included, net(1)							
	Fair value as of December 31, 2013	In statement of profit and loss	In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of June 30, 2014	Unrealized gain (loss) with respect to instruments held as of June 30, 2014
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	176	(1)	-	-	-	-	-	175	(1)
Of others overseas	24	(2)	-	-	-	-	-	22	(2)
Assets with respect to derivatives(2)(3)									
Interest contracts:									
NIS / CPI	56	76	-	13	-	(28)	36	153	78
Other	67	3	-	2	-	(2)	-	70	34
Currency contracts	321	(45)	-	167	-	(208)	-	235	97
Contracts for shares	91	(24)	-	32	-	(91)	-	8	-
Commodities and other contracts	1	-	-	-	-	(1)	-	-	-
Other	11	-	-	-	-	-	-	11	-
Total assets	**747**	**7**	**-**	**214**	**-**	**(330)**	**36**	**674**	**206**
Liabilities									
Liabilities with respect to derivatives(2)(3)									
Interest contracts:									
NIS / CPI	11	1	-	1	-	(3)	2	12	-
Other	134	19	-	13	-	(8)	-	158	(2)
Currency contracts	503	169	-	220	-	(242)	-	650	(390)
Contracts for shares	83	24	-	28	-	(63)	-	72	-
Commodities and other contracts	1	1	-	-	-	(2)	-	-	-
Other	14	(2)	-	-	-	(7)	-	5	-
Total liabilities	**746**	**212**	**-**	**262**	**-**	**(325)**	**2**	**897**	**(392)**

(1) Realized gain (loss) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gain and loss included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties. Standard 157 applies as from January 1, 2011. Level 3 classifications with respect to credit risk are included under column "Transfer to level 3".

(3) Included in statement of profit and loss under "Non-interest financing revenues".

Note 9 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3 - continued**:**

	For the six months ended June 30, 2013 (unaudited)								
		Realized / unrealized gain (loss) included, net [(1)]							
	Fair value as of December 31, 2012	In statement of profit and loss	In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of June 30, 2013	Unrealized gain (loss) with respect to instruments held as of June 30, 2013
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	229	(9)	-	-	-	-	-	220	(9)
Of others overseas	31	(1)	-	-	-	-	-	30	(1)
Assets with respect to derivatives [(2)(3)]									
Interest contracts:									
NIS / CPI	101	(8)	-	2	-	(26)	48	117	133
Other	173	32	-	5	-	(79)	-	131	91
Currency contracts	493	167	-	265	-	(563)	-	362	181
Contracts for shares	84	64	-	60	-	(58)	-	150	-
Commodities and other contracts	1	2	-	2	-	(2)	-	3	2
Total assets	**1,112**	**247**	**-**	**334**	**-**	**(728)**	**48**	**1,013**	**397**
Liabilities									
Liabilities with respect to derivatives[(2)(3)]									
Interest contracts:									
NIS / CPI	48	(7)	-	5	-	(45)	4	5	(1)
Other	325	32	-	10	-	(121)	-	246	(52)
Currency contracts	709	133	-	489	-	(763)	-	568	(442)
Contracts for shares	68	47	-	60	-	(44)	-	131	-
Commodities and other contracts	2	1	-	2	-	(3)	-	2	(2)
Other[(3)]	4	(2)	-	-	-	-	-	2	-
Total liabilities	**1,156**	**204**	**-**	**566**	**-**	**(976)**	**4**	**954**	**(497)**

(1) Realized gain (loss) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gain and loss included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties. Standard 157 applies as from January 1, 2011. Level 3 classifications with respect to credit risk are included under column "Transfer to level 3".

(3) Included in statement of profit and loss under "Non-interest financing revenues".

Note 9 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

C. Change in items **measured at fair value on recurrent basis, included in level 3** - continued**:**

	For the year ended December 31, 2013 (audited)								
		Realized / unrealized gain (loss) included, net[1]							
	Fair value as of December 31, 2012	In statement of profit and loss	In statement of other compre-hensive income under Equity	Acquisi tions	Sales	Disposi tions	Transfer to level 3	Fair value as of December 31, 2013	Unrealized gain (loss) with respect to instruments held as of December 31, 2013
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	229	(13)	-	-	-	(40)	-	176	(12)
Of others overseas	31	(2)	-	-	(5)	-	-	24	(2)
Assets with respect to derivatives[2][3]									
Interest contracts:									
NIS / CPI	101	(64)	-	4	-	(65)	80	56	65
Other	173	43	-	5	-	(154)	-	67	38
Currency contracts	493	326	-	466	-	(964)	-	321	189
Contracts for shares	78	122	-	76	-	(185)	-	91	-
Commodities and other contracts	1	2	-	2	-	(4)	-	1	1
Other[3]	6	5	-	-	-	-	-	11	-
Total assets	**1,112**	**419**	**-**	**553**	**(5)**	**(1,412)**	**80**	**747**	**279**
Liabilities									
Liabilities with respect to derivatives[2][3]									
Interest contracts:									
NIS / CPI	48	(6)	-	7	-	(51)	13	11	(1)
Other	325	95	-	11	-	(297)	-	134	3
Currency contracts	709	236	-	791	-	(1,233)	-	503	(422)
Contracts for shares	68	108	-	76	-	(169)	-	83	-
Commodities and other contracts	2	-	-	3	-	(4)	-	1	(1)
Other[3]	4	10	-	4	-	(4)	-	14	-
Total liabilities	**1,156**	**443**	**-**	**892**	**-**	**(1,758)**	**13**	**746**	**(421)**

(1) Realized gain (loss) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gain and loss included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties. Standard 157 applies as from January 1, 2011. Level 3 classifications with respect to credit risk are included under column "Transfer to level 3".

(3) Included in statement of profit and loss under "Non-interest financing revenues".

Note 9 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

D. Additional information about non-observed significant data and valuation techniques used in fair value measurement of items classified at Level 3:

	Consolidated				
	Fair value as of June 30, 2014	Valuation technique	Non-observed data	Range	Weighted average
Securities available for sale:					
Debentures of foreign banks and financial institutions	5	Estimated recuperation rate	Recuperation rate	5.00%	5.00%
CLN	170	Cash flow discounting	Probability of default	1.21%-0.28%	1.06%
Debentures of foreign others	22	Cash flow discounting	Discount rate	5.57%-4.44%	5.33%
Assets with respect to derivatives:					
Interest contracts - NIS CPI	106	Cash flow discounting	Inflationary expectations	0.29% - 0.20%	0.22%
Contracts for shares	11	Option pricing model	Standard deviation of shares	28.45% - 20.35%	25.98%
Other	360	Cash flow discounting	Counter-party credit quality	3.10% - 0.30%	1.95%
Liabilities with respect to derivatives:					
Interest contracts - NIS CPI	11	Cash flow discounting	Inflationary expectations	0.22% - 0.20%	0.21%
Other	886	Cash flow discounting	Counter-party credit quality	3.10% - 0.30%	2.03%

Note 9 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

E. Transfers between Levels 1 and 2 of the fair value hierarchy

There were no transfers from Level 2 to Level 1 during the reported period.

F. Election of fair value option

Due to election of the fair value option, the Bank treats investments in certain debentures at fair value, charging the changes to profit and loss and classified to the portfolio held for trading - even though they had not been purchased for this purpose.

Election of the fair value option was made for under the following circumstances:

1. Reduce volatility in profit and loss resulting from changes between the original measurement basis of financial instruments designated at the fair value option, and the measurement basis of financial derivatives used to manage risk with respect to such investments.
2. Complexity of implementing hedge accounting.
3. More accurate economic presentation of assets managed on fair value basis.

The following table lists the fair value of items measured at fair value due to election of the fair value option:

	Fair value as of June 30, 2014	Gain with respect to change in fair value for the six months ended June 30, 2014
Securities available for sale	513	10

	Fair value as of June 30, 2013	Gain with respect to change in fair value for the six months ended June 30, 2013
Securities available for sale	907	(2)

	Fair value as of December 31, 2013	Gain with respect to change in fair value for the year ended December 31, 2013
Securities available for sale	850	21

Note 10 - Interest revenues and expenses

Reported amounts (NIS in millions)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2014	2013	2014	2013	2013
	(unaudited)		(unaudited)		(audited)
A. Interest revenues[1]					
From loans to the public	1,562	1,631	2,488	2,926	6,066
From loans to Governments	2	2	5	4	9
From deposits with the Bank of Israel and from cash	43	47	79	89	172
From deposits with banks	6	1	14	13	42
From securities loaned or sold in repurchase agreements	-	-	1	1	1
From debentures	26	23	43	84	152
Total interest revenues	**1,639**	**1,704**	**2,630**	**3,117**	**6,442**
B. Interest expenses					
On deposits from the public	496	596	731	1,061	2,153
On deposits from governments	-	1	1	2	4
On deposits from banks	5	13	11	24	35
On debentures and subordinated notes	215	221	251	355	786
Total interest expenses	**716**	**831**	**994**	**1,442**	**2,978**
Total interest revenues, net	**923**	**873**	**1,636**	**1,675**	**3,464**
C. Details of net effect of hedging financial derivatives on interest revenues	**(17)**	**28**	**(25)**	**31**	**25**
D. Details of interest revenues on accrual basis from debentures					
Held to maturity	6	6	13	12	23
Available for sale	17	14	23	61	112
Held for trade	3	3	7	11	17
Total included under interest revenues	**26**	**23**	**43**	**84**	**152**

(1) Includes the effective element in the hedging ratios.

Note 11 - Non-interest financing revenues

Reported amounts (NIS in millions)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2014	2013	2014	2013	2013
	(unaudited)		(unaudited)		(audited)
A. Non-interest financing revenues (expenses) with respect to non-trade operations					
1. From activity in derivatives					
Non-effective element of hedging ratios (1)	-	-	-	(1)	-
Net expenses with respect to ALM derivatives(2)	(155)	(100)	(72)	(132)	(548)
Total from activity in derivatives	**(155)**	**(100)**	**(72)**	**(133)**	**(548)**
2. From investment in debentures(3)					
Gain on sale of debentures available for sale	13	28	32	33	52
Loss on sale of debentures available for sale	-	-	-	-	(1)
Total from investment in debentures	**13**	**28**	**32**	**33**	**51**
3. Exchange rate differences, net	**166**	**55**	**114**	**196**	**525**
4. Gain (loss) from investment in shares					
Gains on sale of available-for-sale shares	3	2	3	5	1
Provision for impairment of available-for-sale shares	-	-	-	-	(3)
Dividends from available-for-sale shares	2	-	4	-	1
Total from investment in shares	**5**	**2**	**7**	**5**	**(1)**
Total non-interest financing revenues(expenses) with respect to non-trade operations	**29**	**(15)**	**81**	**101**	**27**

(1) Excludes the effective element in the hedging ratios.
(2) Derivatives which constitute part of the Bank's asset and liability management system, which were not intended as hedges.
(3) Reclassified from Cumulative Other Comprehensive Income.

Note 11 - Non-interest financing revenues - Continued

Reported amounts (NIS in millions)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2014	2013	2014	2013	2013
	(unaudited)		(unaudited)		(audited)
B. Non-interest financing revenues (expenses) with respect to trading activities[1]					
Net revenues (expenses) with respect to other derivatives	(35)	45	(15)	(41)	(51)
Realized gain from adjustment to fair value of debentures held for trade, net	3	18	22	3	20
Unrealized gain from adjustment to fair value of debentures held for trade, net	1	-	(9)	18	18
Total from trade operations[2]	**(31)**	**63**	**(2)**	**(20)**	**(13)**
Risk exposure	1	20	12	24	45
Foreign currency exposure	(26)	44	(22)	(58)	(80)
Exposure to shares	(12)	(3)	7	14	13
Exposure to commodities and others	6	2	1	-	9
Total	**(31)**	**63**	**(2)**	**(20)**	**(13)**

(1) Includes exchange rate differentials resulting from trade operations.

(2) For interest revenues from investment in debentures held for trade, see Note 10.D.

Note 12 – Operating Segments

For the six months ended June 30, 2014 (unaudited)

Reported amounts (NIS in millions)

A. Information on operating segments

	House-holds	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	1,377	13	242	90	262	(348)	1,636
Inter-segment	(439)	16	8	(9)	119	305	-
Total interest revenues, net	938	29	250	81	381	(43)	1,636
Non-interest financing revenues	3	-	-	-	15	61	79
Commissions and other revenues	344	31	114	24	114	75	702
Total revenues	1,285	60	364	105	510	93	2,417
Expenses with respect to credit losses	24	2	43	(4)	(45)	(2)	18
Operating and other expenses							
From outside operating segments	890	39	253	28	104	160	1,474
Inter-segment	(56)	3	(26)	30	41	8	-
Other operating expenses - total	834	42	227	58	145	168	1,474
Pre-tax profit	427	16	94	51	410	(73)	925
Provision for taxes on profit	161	5	35	19	153	(28)	345
After-tax profit	266	11	59	32	257	(45)	580
Share in net profits of associates, after tax	-	-	-	-	-	3	3
Net profit:							
Before attribution to non-controlling interest	266	11	59	32	257	(42)	583
Attributable to non-controlling interest	(17)	-	-	-	-	-	(17)
Attributable to equity holders of the banking corporation	249	11	59	32	257	(42)	566
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**9.5%**	**30.0%**	**24.7%**	**15.2%**	**16.6%**	**-**	**11.5%**
Average asset balance	105,357	1,857	8,017	4,414	25,052	37,543	182,240
Of which: Investments in associates	-	-	-	-	-	61	61
Average balance of liabilities	64,399	8,030	10,209	3,895	44,990	42,066	173,589
Average balance of risk assets (1)	63,489	797	5,545	4,732	37,590	5,046	117,199
Average balance of provident and mutual fund assets	-	-	-	-	-	78,174	78,174
Average balance of securities(2)	35,985	9,518	6,546	3,814	66,037	72,034	193,934
Average balance of loans to the public	105,304	940	8,009	4,308	21,783	-	140,344
Average balance of deposits from the public	61,267	8,014	9,804	3,832	44,686	16,569	144,172
Loans to the public, net (end balance)	107,753	961	8,303	4,359	21,977	-	143,353
Deposits from the public (end balance)	62,034	8,670	10,522	4,222	45,708	16,907	148,063
Average balance of other assets managed	10,051	7	180	336	221	-	10,795

B. Information on profit from interest revenues before expenses with respect to credit losses

	House-holds	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	736	12	211	72	303	-	1,334
Margin from receiving deposits	173	17	27	7	50	-	274
Other	29	-	12	2	28	(43)	28
Total interest revenues, net	938	29	250	81	381	(43)	1,636

(1) Risk weighted assets - as calculated for capital adequacy (Proper Conduct of Banking Business Regulation No. 201).

(2) Including balance of securities of provident funds and mutual funds to which the Bank provides operating services, but excluding mutual funds held by Bank clients.

Note 12 – Operating Segments - Continued

For the six months ended June 30, 2013 (unaudited)

Reported amounts (NIS in millions)

A. Information on operating segments

	Households(3)	Private banking(3)	Small business(3)	Commercial banking(3)	Business banking(3)	Financial management(3)	Total consolidated
Interest revenues, net:							
From outside operating segments	1,705	2	226	97	206	(561)	1,675
Inter-segment	(787)	33	6	(13)	143	618	-
Total interest revenues, net	918	35	232	84	349	57	1,675
Non-interest financing revenues	2	-	-	-	18	61	81
Commissions and other revenues	383	30	123	28	113	64	741
Total revenues	1,303	65	355	112	480	182	2,497
Expenses with respect to credit losses	219	(3)	24	(5)	(20)	-	215
Operating and other expenses							
From outside operating segments	868	36	239	31	101	148	1,423
Inter-segment	(57)	6	(25)	31	38	7	-
Other operating expenses - total	811	42	214	62	139	155	1,423
Pre-tax profit	273	26	117	55	361	27	859
Provision for taxes on profit	98	9	42	20	130	10	309
After-tax profit	175	17	75	35	231	17	550
Share in net profits of associates, after tax	-	-	-	-	-	(1)	(1)
Net profit:							
Before attribution to non-controlling interest	175	17	75	35	231	16	549
Attributable to non-controlling interest	(24)	-	-	-	-	-	(24)
Attributable to equity holders of the banking corporation	151	17	75	35	231	16	525
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**6.7%**	**37.9%**	**34.9%**	**16.4%**	**15.4%**	**8.8%**	**11.9%**
Average asset balance	96,523	2,006	7,446	4,639	26,695	27,534	164,843
Of which: Investments in associates	-	-	-	-	-	62	62
Average balance of liabilities	62,030	6,847	8,738	3,517	36,285	37,899	155,316
Average balance of risk assets (1)	55,619	1,120	5,337	5,092	35,772	5,642	108,582
Average balance of provident and mutual fund assets	-	-	-	-	-	81,701	81,701
Average balance of securities (2) (3)	30,083	8,492	5,737	3,774	61,976	65,237	175,299
Average balance of loans to the public	96,205	1,217	7,290	4,639	21,473	-	130,824
Average balance of deposits from the public	58,150	6,447	8,570	3,497	36,173	17,026	129,863
Loans to the public, net (end balance)	97,911	1,217	7,406	4,701	21,618	-	132,853
Deposits from the public (end balance) (3)	59,377	6,447	8,670	3,537	39,778	17,890	135,699
Average balance of other assets managed	19,929	7	207	234	251	-	20,628

B. Information on profit from interest revenues before expenses with respect to credit losses

	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	649	15	186	70	273	-	1,193
Margin from receiving deposits	236	19	34	9	50	-	348
Other	33	1	12	5	26	57	134
Total interest revenues, net	918	35	232	84	349	57	1,675

(1) Risk weighted assets - as calculated for capital adequacy (Proper Conduct of Banking Business Regulation No. 201).
(2) Including balance of securities of provident funds and mutual funds to which the Bank provides operating services, but excluding mutual funds held by Bank clients
(3) Reclassified.

Note 12 – Operating Segments - Continued

For the three months ended June 30, 2014 (unaudited)

Reported amounts (NIS in millions)

A. Information on operating segments

	House-holds	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	911	3	118	43	118	(270)	923
Inter-segment	(433)	12	9	(3)	70	345	-
Total interest revenues, net	**478**	**15**	**127**	**40**	**188**	**75**	**923**
Non-interest financing revenues	1	-	-	-	10	(13)	(2)
Commissions and other revenues	169	17	60	11	56	32	345
Total revenues	**648**	**32**	**187**	**51**	**254**	**94**	**1,266**
Expenses with respect to credit losses	20	2	21	(3)	(13)	(4)	23
Operating and other expenses							
From outside operating segments	454	20	127	12	54	80	747
Inter-segment	(28)	-	(13)	15	22	4	-
Other operating expenses - total	**426**	**20**	**114**	**27**	**76**	**84**	**747**
Pre-tax profit	202	10	52	27	191	14	496
Provision for taxes on profit	78	3	20	10	72	4	187
After-tax profit	**124**	**7**	**32**	**17**	**119**	**10**	**309**
Share in net profits of associates, after tax	-	-	-	-	-	2	2
Net profit:							
Before attribution to non-controlling interest	124	7	32	17	119	12	311
Attributable to non-controlling interest	(9)	-	-	-	-	-	(9)
Attributable to equity holders of the banking corporation	**115**	**7**	**32**	**17**	**119**	**12**	**302**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**9.5%**	**36.2%**	**27.0%**	**16.2%**	**14.8%**	**6.5%**	**12.3%**

B. Information on profit from interest revenues before expenses with respect to credit losses

	House-holds	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	376	6	109	36	148	-	675
Margin from receiving deposits	87	9	13	4	26	-	139
Other	15	-	5	-	14	75	109
Total interest revenues, net	**478**	**15**	**127**	**40**	**188**	**75**	**923**

Note 12 – Operating Segments - Continued

For the three months ended June 30, 2013 (unaudited)

Reported amounts (NIS in millions)

A. Information on operating segments

	House-holds(1)	Private banking	Small business(1)	Commercial banking(1)	Business banking(1)	Financial management(1)	Total consolidated
Interest revenues, net:							
From outside operating segments	1,003	3	77	48	93	(351)	873
Inter-segment	(532)	17	40	(5)	86	394	-
Total interest revenues, net	**471**	**20**	**117**	**43**	**179**	**43**	**873**
Non-interest financing revenues	3	-	-	-	8	37	48
Commissions and other revenues	189	15	62	13	56	33	368
Total revenues	**663**	**35**	**179**	**56**	**243**	**113**	**1,289**
Expenses with respect to credit losses	195	-	21	2	(36)	(1)	181
Operating and other expenses							
From outside operating segments	431	14	120	15	47	79	706
Inter-segment	(28)	6	(13)	17	20	(2)	-
Other operating expenses - total	**403**	**20**	**107**	**32**	**67**	**77**	**706**
Pre-tax profit	65	15	51	22	212	37	402
Provision for taxes on profit	23	5	18	8	77	14	145
After-tax profit	**42**	**10**	**33**	**14**	**135**	**23**	**257**
Share in net profits of associates, after tax	-	-	-	-	-	1	1
Net profit:							
Before attribution to non-controlling interest	42	10	33	14	135	24	258
Attributable to non-controlling interest	(13)	-	-	-	-	-	(13)
Attributable to equity holders of the banking corporation	**29**	**10**	**33**	**14**	**135**	**24**	**245**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**2.6%**	**52.3%**	**31.3%**	**14.2%**	**18.9%**	**21.7%**	**11.1%**

B. Information on profit from interest revenues before expenses with respect to credit losses

	House-holds	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	337	8	96	36	129	-	606
Margin from receiving deposits	117	12	17	5	28	-	179
Other	17	-	4	2	22	43	88
Total interest revenues, net	**471**	**20**	**117**	**43**	**179**	**43**	**873**

(1) Reclassified.

Note 12 – Operating Segments - Continued

For the year ended December 31, 2013 (audited) - continued

Reported amounts (NIS in millions)

A. Information on operating segments

	House-hold[2]	Private banking[2]	Small business[2]	Commercial banking[2]	Business banking[2]	Financial management[2]	Total consolidated
Interest revenues, net:							
From outside operating segments	3,689	(15)	444	190	419	(1,263)	3,464
Inter-segment	(1,803)	70	22	(24)	299	1,436	-
Total interest revenues, net	**1,886**	**55**	**466**	**166**	**718**	**173**	**3,464**
Non-interest financing revenues	7	2	-	1	32	(28)	14
Commissions and other revenues	771	54	248	59	212	141	1,485
Total revenues	**2,664**	**111**	**714**	**226**	**962**	**286**	**4,963**
Expenses with respect to credit losses	239	-	72	(5)	(17)	(1)	288
Operating and other expenses							
From outside operating segments	1,802	76	501	68	211	299	2,957
Inter-segment	(117)	14	(52)	64	79	12	-
Other operating expenses - total	**1,685**	**90**	**449**	**132**	**290**	**311**	**2,957**
Pre-tax profit	740	21	193	99	689	(24)	1,718
Provision for taxes on profit	255	7	67	34	237	(8)	592
After-tax profit	485	14	126	65	452	(16)	1,126
Share in net profits of associates, after tax	-	-	-	-	-	(4)	(4)
Net profit:							
Before attribution to non-controlling interest	485	14	126	65	452	(20)	1,122
Attributable to non-controlling interest	(44)	-	-	-	-	-	(44)
Attributable to equity holders of the banking corporation	**441**	**14**	**126**	**65**	**452**	**(20)**	**1,078**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**9.0%**	**15.4%**	**26.1%**	**14.4%**	**14.0%**	**-**	**11.5%**
Average asset balance	98,659	1,814	7,511	4,689	25,426	30,660	168,759
Of which: Investments in associates	-	-	-	-	-	60	60
Average balance of liabilities	62,681	7,002	8,862	3,505	38,412	38,490	158,952
Average balance of risk assets[1]	57,431	1,007	5,363	5,028	36,110	5,366	110,305
Average balance of provident and mutual fund assets	-	-	-	-	-	82,642	82,642
Average balance of securities[3]	31,406	8,604	6,420	3,806	62,203	61,525	173,964
Average balance of loans to the public	97,652	1,217	7,409	4,653	22,468	-	133,399
Average balance of deposits from the public	59,500	6,444	8,767	3,485	38,285	16,626	133,107
Loans to the public, net (end balance)	103,268	956	7,667	4,517	22,157	-	138,565
Deposits from the public (end balance)	60,793	7,027	9,517	3,408	43,467	17,032	141,244
Average balance of other assets managed	20,008	7	198	284	230	-	20,727

B. Information on profit from interest revenues before expenses with respect to credit losses

	House-holds	Private banking	Small business[2]	Commercial banking[2]	Business banking	Financial management	Total consolidated
Margin from credit granting operations	1,362	23	377	143	582	-	2,487
Margin from receiving deposits	455	30	63	16	96	-	660
Other	69	2	26	7	40	173	317
Total interest revenues, net	**1,886**	**55**	**466**	**166**	**718**	**173**	**3,464**

(1) Risk weighted assets - as calculated for capital adequacy (Proper Conduct of Banking Business Regulation No. 201).
(2) Reclassified.
(3) Including balance of securities of provident funds and mutual funds to which the Bank provides operating services, but excluding mutual funds held by Bank clients.

Note 13 - Cumulative Other Comprehensive Income

A. Changes to cumulative other comprehensive income, after tax effect

	Other comprehensive income (loss), before attribution to non-controlling interest					
	Adjustments for presentation of securities available for sale at fair value	Translation adjustments	Net gain from cash flow hedges	Total	Other comprehensive income attributed to non-controlling interest	Other comprehensive income attributable to equity holders of the banking corporation
	For the three months ended June 30, 2014 (unaudited)					
Balance as of March 31, 2014	**8**	**(3)**	**8**	**13**	**1**	**12**
Net change in the period	(12)	-	1	(11)	(1)	(10)
Balance as of June 30, 2014	**(4)**	**(3)**	**9**	**2**	**-**	**2**
	For the three months ended June 30, 2013 (unaudited)					
Balance as of March 31, 2013	**14**	**(1)**	**3**	**16**	**3**	**13**
Net change in the period	(11)	-	(2)	(13)	(1)	(12)
Balance as of June 30, 2013	**3**	**(1)**	**1**	**3**	**2**	**1**
	For the six months ended June 30, 2014 (unaudited)					
Balance as of January 1, 2014	**12**	**(3)**	**3**	**12**	**1**	**11**
Net change in the period	(16)	-	6	(10)	(1)	(9)
Balance as of June 30, 2014	**(4)**	**(3)**	**9**	**2**	**-**	**2**
	For the six months ended June 30, 2013 (unaudited)					
Balance as of January 1, 2013	**-**	**-**	**3**	**3**	**3**	**-**
Net change in the period	3	(1)	(2)	-	(1)	1
Balance as of June 30, 2013	**3**	**(1)**	**1**	**3**	**2**	**1**
	For the year ended December 31, 2013 (audited)					
Balance as of December 31, 2013	**-**	**-**	**3**	**3**	**3**	**-**
Net change in the period	12	(3)	-	9	(2)	11
Balance as of December 31, 2013	**12**	**(3)**	**3**	**12**	**1**	**11**

Note 13 - Cumulative other comprehensive income - continued

B. Changes in items of cumulative other comprehensive income before and after tax effect

	For the three months ended June 30					
	2014			2013		
	(unaudited)					
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Change in items of other comprehensive income, before attribution to non-controlling interest:						
Adjustments for presentation of securities available for sale at fair value						
Net unrealized gain (loss) from adjustments to fair value	(6)	2	(4)	(11)	(5)	6
Net gain (loss) with respect to available-for-sale securities reclassified to the statement of profit and loss(1)	(13)	5	(8)	(28)	11	(17)
Net change in the period	**(19)**	**7**	**(12)**	**(17)**	**6**	**(11)**
Translation adjustments						
Adjustments from translation of financial statements	-	-	-	-	-	-
Net change in the period	**-**	**-**	**-**	**-**	**-**	**-**
Cash flow hedges						
Net gain (loss) with respect to cash flow hedges	1	-	1	2	(1)	1
Net (gain) loss reclassified to the statement of profit and loss(2)	-	-	-	(5)	2	(3)
Net change in the period	**1**	**-**	**1**	**(3)**	**1**	**(2)**
Total net change in the period	(18)	7	(11)	(20)	7	(13)
Total net change in the period attributable to non-controlling interest	1	-	1	2	(1)	1
Total net change in the period attributable to equity holders of the banking corporation	**(17)**	**7**	**(10)**	**(18)**	**6**	**(12)**

(1) Pre-tax amount included on the statement of profit and loss under "Non-interest financing revenues". For details, see Note 11.A.2.

(2) Pre-tax amount included on the statement of profit and loss under "Interest revenues". For details, see Note 10.C.

				For the six months ended June 30,			For the year ended December 31,		
	2014			2013			2013		
	(unaudited)			(audited)			(audited)		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
	7	(3)	4	37	(13)	24	73	(29)	44
	(32)	12	(20)	(33)	12	(21)	(51)	19	(32)
	(25)	**9**	**(16)**	**4**	**(1)**	**3**	**22**	**(10)**	**12**
	-	-	-	(1)	-	(1)	(3)	-	(3)
	-	**-**	**-**	**(1)**	**-**	**(1)**	**(3)**	**-**	**(3)**
	11	(4)	7	2	(1)	1	5	(2)	3
	(2)	1	(1)	(5)	2	(3)	(5)	2	(3)
	9	**(3)**	**6**	**(3)**	**1**	**(2)**	**-**	**-**	**-**
	(16)	6	(10)	-	-	-	19	(10)	9
	1	-	1	2	(1)	1	3	(1)	2
	(15)	**6**	**(9)**	**2**	**(1)**	**1**	**22**	**(11)**	**11**

Note 14 - Assets and Liabilities Classified by Term to Maturity and Linkage Basis(1)(2) - consolidated

As of June 30, 2014

Reported amounts (NIS in millions)

	Expected contractual future cash flows					
	On-call to 1 month	1-3 months	3 months to 1 year	1-2 years	2-3 years	3-4 years
Israeli currency (including linked to foreign currency)						
Assets(4)	35,094	5,109	18,735	17,366	12,155	11,765
Liabilities	77,082	13,846	15,543	10,644	5,699	5,859
Difference	**(41,988)**	**(8,737)**	**3,192**	**6,722**	**6,456**	**5,906**
Future transactions	(4,117)	(8,417)	4,179	(9)	(164)	(207)
Stock Options	(93)	(17)	(97)	30	4	-
Difference after effect of derivatives	**(46,198)**	**(17,171)**	**7,274**	**6,743**	**6,296**	**5,699**
Foreign currency						
Assets	5,223	1,651	3,248	2,414	1,075	1,014
Liabilities	14,766	7,458	7,191	2,648	56	56
Difference	**(9,543)**	**(5,807)**	**(3,943)**	**(234)**	**1,019**	**958**
Of which: Difference in USD	(3,489)	(3,637)	(4,133)	(35)	205	167
Of which: Difference with respect to foreign operations	2,112	(409)	(269)	186	623	335
Future transactions	4,117	8,417	(4,179)	9	164	207
Stock Options	93	17	97	(30)	(4)	-
Difference after effect of derivatives	**(5,333)**	**2,627**	**(8,025)**	**(255)**	**1,179**	**1,165**
Total						
Assets	40,317	6,760	21,983	19,780	13,230	12,779
Liabilities	91,848	21,304	22,734	13,292	5,755	5,915
Difference	**(51,531)**	**(14,544)**	**(751)**	**6,488**	**7,475**	**6,864**
Of which: Loans to the public	12,408	5,247	20,881	15,760	12,453	9,727
Of which: Deposits from the public	87,468	17,729	20,161	7,711	2,726	3,216

(1) Data as of December 31, 2013 and as of December 31, 2012 was re-stated. As of December 31, 2013, this re-statement primarily consists of classification of deposit groups for a period matching the first possible deposit withdrawal instead of the contractual maturity. As of December 31, 2012, this re-statement primarily consists of classification of deposit groups for a period matching the first possible deposit withdrawal instead of the contractual maturity and alignment of data for NIS-denominated loans at Prime lending rate for terms shorter than 2 years. The amounts thus classified are: As of December 31, 2013: deposits amounting to NIS 25,530 million classified under "On demand to 1 month" and deposits amounting to NIS 6,851 million classified under "1-3 months" (these amounts were re-classified from longer periods, primarily from "3-12 months" and "1-2 years". As of December 31, 2012: loans amounting to NIS 9,504 million classified under "1-3 months" and loans amounting to NIS 7,489 million classified under "1-2 years" (primarily re-classified from "On demand to 1 month").

(2) Presented in this note are expected contractual future cash flows with respect to assets and liabilities, according to linkage basis, according to the remaining contractual period to maturity of each flow. The data is stated net of provisions for doubtful debts.

(3) Includes assets totaling NIS 383 million which are past due.

(4) Includes NIS 6,648 million of loans at debitory account terms and NIS 318 million exceeding limits in debitory account facilities.

(5) Contractual rate of return is the interest rate which discounts the expected contractual future cash flows, as presented in this Note, for the monetary item to its balance sheet balance.

Expected contractual future cash flows - continued					Balance sheet balance		Forecasted rate of return[(5)]
4-5 years	5-10 years	10-20 years	Over 20 years	Total cash flows	Without maturity	Total	
8,738	34,841	37,208	11,585	192,596	1,234[(3)]	169,851	4.96%
5,518	12,412	4,876	112	151,591	117	144,497	2.72%
3,220	**22,429**	**32,332**	**11,473**	**41,005**	**1,117**	**25,354**	
328	(1,378)	-	-	(9,785)	-	(9,785)	
-	-	-	-	(173)	-	(173)	
3,548	**21,051**	**32,332**	**11,473**	**31,047**	**1,117**	**15,396**	
870	1,469	377	105	17,446	19[(3)]	16,374	3.14%
53	205	11	-	32,444	4	32,360	1.48%
817	**1,264**	**366**	**105**	**(14,998)**	**15**	**(15,986)**	
141	341	66	-	(10,374)	-	(10,726)	
545	122	162	-	3,407	-	3,480	
(328)	1,378	-	-	9,785	-	9,785	
-	-	-	-	173	-	173	
489	**2,642**	**366**	**105**	**(5,040)**	**15**	**(6,028)**	
9,608	36,310	37,585	11,690	210,042	1,253	186,225	4.65%
5,571	12,617	4,887	112	184,035	121	176,857	2.69%
4,037	**23,693**	**32,698**	**11,578**	**26,007**	**1,132**	**9,368**	
8,905	32,404	37,383	11,327	166,495	1,021	143,353	4.85%
2,827	5,332	3,404	1,057	151,631	2	148,063	2.49%

Note 14 - Assets and Liabilities Classified by Term to Maturity and Linkage Basis (1) (2) - consolidated - Continued

As of December 31, 2013

Reported amounts (NIS in millions)

	Expected contractual future cash flows					
	On-call to 1 month	1-3 months	3 months to 1 year	1-2 years	2-3 years	3-4 years
Israeli currency (including linked to foreign currency)						
Assets[4]	35,496	1,522	19,679	19,239	12,287	10,845
Liabilities	72,815	19,723	10,650	11,925	5,420	5,900
Difference	**(37,319)**	**(18,201)**	**9,029**	**7,314**	**6,867**	**4,945**
Future transactions	(8,692)	(4,910)	5,544	(85)	(263)	72
Stock Options	132	417	465	1	-	-
Difference after effect of derivatives	**(45,879)**	**(22,694)**	**15,038**	**7,230**	**6,604**	**5,017**
Foreign currency						
Assets	3,404	4,057	1,249	2,862	1,168	744
Liabilities	13,637	4,389	6,977	2,401	271	48
Difference	**(10,233)**	**(332)**	**(5,728)**	**461**	**897**	**696**
Of which: Difference in USD	(2,596)	(3,215)	(4,007)	(183)	348	218
Of which: Difference with respect to foreign operations	(123)	(847)	111	366	479	340
Future transactions	8,692	4,910	(5,544)	85	263	(72)
Stock Options	(132)	(417)	(465)	(1)	-	-
Difference after effect of derivatives	**(1,673)**	**4,161**	**(11,737)**	**545**	**1,160**	**624**
Total						
Assets	38,900	5,579	20,928	22,101	13,455	11,589
Liabilities	86,452	24,112	17,627	14,326	5,691	5,948
Difference	**(47,552)**	**(18,533)**	**3,301**	**7,775**	**7,764**	**5,641**
Of which: Loans to the public	11,386	3,740	19,928	19,159	12,515	9,911
Of which: Deposits from the public	81,213	21,331	17,011	4,910	3,585	2,528

(1) Data as of December 31, 2013 was re-stated. This re-statement primarily consists of classification of deposit groups for a period matching the first possible deposit withdrawal instead of the contractual maturity. The amounts thus classified are: deposits amounting to NIS 25,530 million classified under “On demand to 1 month” and deposits amounting to NIS 6,851 million classified under “1-3 months” (these amounts were re-classified from longer periods, primarily from “3-12 months” and “1-2 years”.

(2) Presented in this note are expected contractual future cash flows with respect to assets and liabilities, according to linkage basis, according to the remaining contractual period to maturity of each flow. The data is stated net of provisions for doubtful debts.

(3) Includes assets totaling NIS 361 million which are past due.

(4) Includes NIS 6,508 million of loans at debitory account terms and NIS 310 million exceeding limits in debitory account facilities.

(5) Contractual rate of return is the interest rate which discounts the expected contractual future cash flows, as presented in this Note, for the monetary item to its balance sheet balance.

Expected contractual future cash flows - continued					Balance sheet balance		Forecasted rate of return[5]
4-5 years	5-10 years	10-20 years	Over 20 years	Total cash flows	Without maturity	Total	
8,416	34,178	37,151	11,492	190,305	968[3]	163,402	4.64%
2,029	10,262	5,323	1,292	145,339	81	141,024	2.50%
6,387	**23,916**	**31,828**	**10,200**	**44,966**	**887**	**22,378**	
(169)	(1,045)	-	-	(9,548)	-	(9,479)	
-	-	-	-	1,015	-	1,005	
6,218	**22,871**	**31,828**	**10,200**	**36,433**	**887**	**13,904**	
769	1,336	393	13	15,995	114[3]	14,302	3.73%
46	307	160	-	28,236	4	27,928	1.48%
723	**1,029**	**233**	**13**	**(12,241)**	**110**	**(13,626)**	
143	326	72	-	(8,894)	-	(8,527)	
531	250	(4)	-	1,103	-	813	
169	1,045	-	-	9,548	-	9,479	
-	-	-	-	(1,015)	-	(1,005)	
892	**2,074**	**233**	**13**	**(3,708)**	**110**	**(5,152)**	
9,185	35,514	37,544	11,505	206,300	1,082	177,704	4.58%
2,075	10,569	5,483	1,292	173,575	85	168,952	2.47%
7,110	**24,945**	**32,061**	**10,213**	**32,725**	**997**	**8,752**	
8,746	32,321	37,381	11,328	166,415	725	138,565	4.70%
1,724	4,931	4,421	1,066	142,720	2	141,244	2.50%

Note 14 - Assets and Liabilities Classified by Term to Maturity and Linkage Basis (1) (2) - consolidated - Continued

As of December 31, 2012

Reported amounts (NIS in millions)

	Expected contractual future cash flows				
	On-call to 1 month	1-3 months	3-12 months	1-2 years	2-3 years
Consolidated					
Assets(3)	32,328	14,332	14,819	19,313	11,080
Liabilities	66,628	29,131	16,856	13,760	7,990
Difference	**(34,300)**	**(14,799)**	**(2,037)**	**5,553**	**3,090**

(1) Data as of December 31, 2012 was re-stated. This re-statement primarily consists of classification of deposit groups for a period matching the first possible deposit withdrawal instead of the contractual maturity and alignment of data for NIS-denominated loans at Prime lending rate for terms shorter than 2 years. The amounts thus classified are: As of December 31, 2012: loans amounting to NIS 9,504 million classified under “1-3 months” and loans amounting to NIS 7,489 million classified under “1-2 years” (primarily re-classified from “On demand to 1 month”).

(2) In this Note, future contractual cash flows expected with respect to asset and liability items by linkage basis are presented based on remaining duration to contractual maturity of each cash flow.

(3) Includes NIS 6,459 million of loans at debitory account terms and NIS 284 million exceeding limits in debitory account facilities.

(4) Includes assets totaling NIS 352 million which are past due.

(5) Contractual rate of return is the interest rate which discounts the expected contractual future cash flows, as presented in this Note, for the monetary item to its balance sheet balance.

Expected contractual future cash flows - continued						Balance sheet balance		Contractual rate of return[(5)]
3-4 years	4-5 years	5-10 years	10-20 years	Over 20 years	Total cash flows	Without maturity	Total	
9,263	9,154	34,019	34,512	10,266	189,136	[(4)]1,381	160,301	4.47%
7,244	4,864	10,542	4,229	1,976	163,231	98	152,706	3.11%
2,019	**4,290**	**23,477**	**30,283**	**8,290**	**25,905**	**1,283**	**7,595**	

Note 15 – Other matters

A. On January 26, 2014, Tefahot Issuance issued NIS 1,650 million par value debentures (Series 35 and 36, CPI-linked), pursuant to the shelf prospectus dated July 30, 2013, for consideration of NIS 1,690 million.

On May 29, 2014, Tefahot Issuance issued NIS 1,243 million par value debentures (Series 37, NIS-denominated), pursuant to the shelf prospectus dated July 30, 2013, for consideration of NIS 1,243 million.

The proceeds from these issuances were deposited at the Bank under terms similar to those of issuances.

B. On December 30, 2013, the Remuneration Committee discussed and approved terms of the non-recurring bonus to the former Chairman of the Board of Directors with respect to 2012. Furthermore, on February 17, 2014, the Bank's Board of Directors discussed and approved terms of this bonus, subject to approval by the General Meeting of Bank shareholders.

On March 25, 2014, the General Meeting of Bank Shareholders approved the non-recurring bonus amounting to NIS 615 thousand. For more information, see immediate Report dated March 25, 2014, reference 2014-01-023394.

This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

C. On November 19, 2013, the Supervisor of Banks issued Proper Conduct of Banking Business regulation 301A concerning remuneration policies at banking corporations. As this directive became effective and following discussions between the Bank and the Supervisor of Banks, the Bank has acted to revise the remuneration policy for officers, approved by the General Meeting of Bank shareholders on August 27, 2013 (hereafter: "the original remuneration policy").

Accordingly, on April 29, 2014, the Remuneration Committee resolved to recommend that the Bank Board of Directors should approve the revision of the original remuneration policy. On May 4, 2014, the Bank's Board of Directors approved the aforementioned policy and on June 10, 2014, the General Meeting of Bank shareholders approved the revised officer remuneration policy.

The revised remuneration policy incorporates provisions of the Corporate Act and directives by the Supervisor of Banks concerning remuneration, with general principles which the Bank Board of Directors, after recommendations by the Remuneration Committee, saw fit to adopt with regard to officer remuneration at the Bank with due attention, *inter alia*, to the Bank's strategic plan and to current employment terms of officers at the Bank.

The remuneration of officers, other than Board members, will include two major components: A monthly salary (as well as related benefits) and variable, performance-based remuneration which will include a monetary bonus and long-term share-based remuneration. The remuneration package may also include remuneration related to retirement. The mid-term remuneration (annual bonus) and the long-term remuneration are designed to align the interests of officers with those of the Bank and to strengthen the link between overall Bank performance and the officer's contribution to achievement of such performance to the officer's remuneration, in line with the Bank's risk profile.

Note 15 - Other matters - continued

As stipulated by Bank of Israel directives with regard to remuneration, the maximum variable remuneration shall not exceed 100% of the fixed remuneration and for officers who are gatekeepers – 77% of the fixed remuneration.

The reasons cited by the Remuneration Committee and by the Bank Board of Directors for approval of the revised remuneration policy were:

- The revised remuneration policy is in conformity with Regulation 301A.
- The revised remuneration policy is in conformity with statutory provisions and offers Bank management tools for recruiting and preserving officers with skills appropriate for the Bank, since officer remuneration terms are a proper incentive for incumbents and future candidates for senior positions with the Bank.
- When setting the revised remuneration policy, the Remuneration Committee and the Bank's Board of Directors reviewed the current situation at the Bank as well as officer remuneration at other major banks.
- The remuneration composition was specified by position, with a distinction made between officers who are gatekeepers and other officers.
- The variable components in the revised remuneration policy, including how they are determined and their ratio to the fixed component, were reviewed with attention to the officer's contribution to achievement of Bank objectives, considering the Bank's strategic plan and maximizing Bank profit, from a long-term view and based on the officer's role.
- The revised remuneration policy provides Bank management with reasonable leeway in exercising judgment when setting officers' remuneration terms. The ratio of officers' remuneration to that of other Bank employees is reasonable and should not affect labor relations at the Bank due, *inter alia*, to the Bank structure where officers are few in proportion to all Bank employees and due to the differences in roles and responsibilities of officers compared to other Bank employees. It was further noted that these ratios reflect common remuneration gaps in the Israeli banking system, given that the Bank enjoys correct labor relations.
- The revised remuneration policy is in line with the Bank's results in recent years.
- For more information about the revised remuneration policies, its guidelines and scope – see Appendix A to the Immediate Report dated May 4, 2014, reference 2014-01-056838. This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

D. On June 19, 2014, the Bank Board of Directors, based on recommendations by the Remuneration Committee, approved a remuneration policy for all Bank employees other than officers. The remuneration policy is based on Proper Conduct of Banking Business Regulation 301A with regard to remuneration policy at banking corporations (hereinafter: "the remuneration policy").

The remuneration policy discusses remuneration terms of key employees at the Bank and those of other managers at the Bank and of other Bank employees for 2014-2016.

Note 15 - Other matters - continued

The terms of office or employment of Bank employees include fixed and variable remuneration, as customary at the Bank, as well as retirement terms and any other benefit, payment or commitment to make a payment, provided with respect to the aforementioned office or employment.

E. On June 17, 2013, the Bank's Board of Directors approved the appointment of Mr. Eldad Fresher as Bank President. Mr. Fresher started in his office as full-time Bank President on August 16, 2013. On May 4, 2014, the Bank's Board of Directors approved, after approval by the Remuneration Committee, the Bank President's terms of office and employment. On June 10, 2014, these terms of office and employment were approved by the General Meeting of Bank shareholders.

The Bank President's terms of office and employment were set in conformity with the Bank's remuneration policy as adjusted for Bank of Israel regulations, as described above. This policy was approved by the Remuneration Committee, the Bank's Board of Directors and the General Meeting of Bank shareholders.

Below is a summary of the Bank President's terms of office and employment - as listed in Appendix B to a report issued by the Bank on May 4, 2014, reference 2014-01-056838 (hereinafter: "Appendix B to the Immediate Report"):

The employment contract is for an unlimited term and either party may terminate it for any reason by three months' advance notice to the other party.

For his work, the Bank President is entitled to monthly salary at NIS 185 thousand, fully linked to the Consumer Price Index, based on the CPI known on August 16, 2013, and to benefits.

The Bank provides to the Bank President a budget equal to 15.83% of his salary for contributions towards provident fund, retirement and severance pay. The Bank also contributes, on behalf of the Bank President, to a study fund at 7.5% of his salary.

Upon termination of the Bank President's employment, at any time and for any reason, the Bank would pay him a retirement bonus equal to 150% of his last monthly salary multiplied by his number of years in service. The Bank would also issue a letter releasing all payments made pursuant to the individual employment contract signed by the Bank and the Bank President, with regard to his employment by the Bank prior to his appointment as Bank President. The Bank would also release the study fund to the Bank President. The Bank would also pay a bonus in return for non-competition, equal to six monthly salaries plus social benefit contributions.

Note 15 - Other matters - continued

In addition, upon termination of the Bank President's employment, he would be paid additional amounts as set forth in the employment contract, subject to conditions set forth in the employment contract.
The Bank President committed that for six (6) months after termination of his position and employment with the Bank, for any reason, he would not directly or indirectly act or engage in or on behalf of any other banking corporation and would not be employed as an officer by or on behalf of any entity competing with the Bank.

Variable remuneration based on targets and performance

According to the employment contract, the Bank President would be eligible for a monetary bonus and equity-based remuneration, in conformity with the Bank's remuneration policy as it may be from time to time, with a mix and subject to conditions as approved.

Monetary bonus – According to the employment contract, the Bank President would be eligible for a monetary bonus, capped at NIS 1,517 thousand plus CPI linkage differentials, based on the CPI known on August 16, 2013 - for each calendar year between 2014-2016. This is subject to meeting threshold conditions during the bonus year, based on rates of return on equity, overall capital adequacy ratio and core capital adequacy ratio at the Bank for the bonus years.
The monetary bonus is performance-dependent and constitutes part of the Bank President's variable remuneration. For details of threshold conditions for eligibility for the monetary bonus, conditions for eligibility for the monetary bonus, the Board of Directors' authority to reduce the monetary bonus and provisions with regard to reimbursement of the monetary bonus – see Appendix B to the Immediate Report.

Equity-based remuneration – As part of the Bank President's variable remuneration for 2014-2016, the Bank President is eligible for equity-based remuneration which includes a plan for award of options by private offering the Bank President.

As part of the option plan and in conformity with its terms and conditions, the Bank would allot to a trustee, on behalf of the Bank President, options in three annual lots as follows: 186,915 options for 2014, 177,720 options for 2015 and 172,503 options for 2016. Each option may be exercised for one Bank ordinary share of NIS 0.1 par value, subject to adjustments for bonus share distribution, rights issuance, share split or reverse-split, dividend distributions etc. Assuming full exercise of all options, and assuming allotment of the maximum possible number of exercise shares, all options allotted under the stock option plan to the Bank President pursuant to the option plan (based on the report "Equity status and securities registries of the corporation and changes there to", issued by the Bank on April 10, 2014) would be equal to 0.23% of the Bank's issued share capital and voting rights (after allotment of the full number of exercise shares), and assuming full dilution – 0.18% of the Bank's issued share capital and voting rights.

Note 15 - Other matters - continued

For details of threshold conditions for eligibility for options, conditions for eligibility for the options and the Board of Directors' authority to reduce the number of options – see Appendix B to the Immediate Report.

The Bank President's eligibility for options included in any annual lot would be calculated soon after publication of the Bank's financial statements for the bonus year for which the annual lot has been allotted, based on fulfillment of the specified eligibility conditions.

Each of the annual lots for 2014-2016 would vest in three equal parts as from April 1 of 2016-2020 as listed in Appendix B to the immediate report.

The exercise price for each option to be allotted to the Bank President pursuant to the plan is NIS 46.19 plus CPI linkage differentials, from the known CPI upon approval by the Board of Directors to the known CPI upon the exercise date. The exercise price was determined based on the average closing price per Bank ordinary share on the stock exchange over the thirty trading days preceding the date of approval by the Board of Directors. Accordingly, note that on the exercise date, the Bank President would not be required to pay the exercise price - which would only serve to determine the monetary benefit amount and the number of exercise shares actually allotted to the Bank President.

For calculation of fair value as of approval of the option award by the General Meeting of Bank shareholders, as noted above, the terms of the option plan and the data and assumptions as listed in Appendix B to the immediate report were taken into account.

Based on the assumptions listed in Appendix B to the immediate report, the average fair value of each option awarded to the Bank President pursuant to the option plan, as of the approval date of option award by the General Meeting of Bank shareholders, is as follows: Options included in the first lot - NIS 7.90; options included in the second lot - NIS 8.37; options included in the third lot - NIS 8.67. Consequently, the theoretical benefit value (fair value) of the options in this plan, calculated in accordance with the accounting rules of IFRS 2, amounts to NIS 4.5 million (NIS 5.3 million including Payroll Tax). This value will be recognized in non-linear fashion over the eligibility period.

The options would be allotted under the "wages" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the Bank President from exercise of these options shall be taxed at the marginal tax rate applicable to the Bank President upon exercise of the options. The Bank would be required to pay the payroll tax with respect to the benefit arising to the President from exercise of the options under the stock option plan. Furthermore, upon payment of the tax with respect to this benefit by the President, the Bank may make a deduction for tax purposes with respect to the aforementioned options based on the effective tax rate applicable upon the exercise date.

All other terms of office and employment of the President were listed in Appendix B to an Immediate Report dated May 4, 2014, reference number 2014-01-056838. This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

Note 15 - Other matters - continued

F. On June 10, 2014, the General Meeting of Bank shareholders approved, after approval by the Board of Directors and recommendation by the Remuneration Committee, the revised officer remuneration policy at the Bank (for details see section C. above).

On June 19, 2014, the Bank's Board of Directors approved, after approval by the Remuneration Committee on June 16, 2014, the offering of options to Bank officers, pursuant to section 15B(1)(a) of the Securities Act. Further, the Bank's Board of Directors approved, after approval by the Remuneration Committee, an option offering to key Bank employees and to other managers of the Bank and its subsidiaries, pursuant to section 15B(1)(a) of the Securities Act, all as described in a report issued by the Bank on June 19, 2014, reference 2014-01-091176 (hereinafter: "the outline report").

As resolved by the Board of Directors on June 19, 2014, the following option plans were approved:

- Option plan A - up to 2,083,197 options A to be awarded to up to eight Bank officers who are not gatekeepers, exercisable for up to 2,083,197 Bank ordinary shares of NIS 0.1 par value each.
- Option plan B - up to 873,066 options B to be awarded to up to five Bank officers who are gatekeepers, exercisable for up to 873,066 Bank ordinary shares of NIS 0.1 par value each.
- Option plan C - up to 2,708,060 options C to be awarded to up to forty-three key Bank employees and up to ten managers at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 2,708,060 Bank ordinary shares of NIS 0.1 par value each.
- Option plan D - up to 1,183,110 options D to be awarded to up to twenty-eight managers employed by the Bank subject to individual employment contracts and up to eight managers at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 1,183,110 Bank ordinary shares of NIS 0.1 par value each.
- Option plan E - up to 5,046,390 options E to be awarded to up to two hundred fifty-three managers employed by the Bank subject to collective bargaining agreements, exercisable for up to 5,046,390 Bank ordinary shares of NIS 0.1 par value each.

The number of exercise shares, as stated above, is the maximum number of shares arising from exercise of all options which may be issued pursuant to all plans. However, the number of options which offerees may actually exercise, pursuant to terms and conditions of each plan, would be derived from the eligibility terms set for each plan, as follows. Furthermore, allotment of the maximum number of exercise shares is but theoretical, since in actual fact the Bank would not allot to the offerees the full number of exercise shares arising from the options which the offerees may exercise pursuant to terms and conditions of each plan - but only the number of shares reflecting the monetary benefit inherent in those options, based, inter alia, on the closing price cap of NIS 80 plus linkage differentials from the known CPI upon approval by the Board of Directors to the known CPI upon the exercise date.

Also note that the number of exercise shares for each plan is subject to adjustments for bonus share distribution, rights issuance, share split or reverse-split, dividend distributions etc.

Note 15 - Other matters - continued

The options to be issued in the name of the trustee for each officer, pursuant to option plans A or B, would be divided into three annual lots, one for each bonus year. The total number of options in each annual lot of options A, awarded to all officers who are not gatekeepers, is: 728,451 options for 2014; 689,523 options for 2015; and 665,223 options for 2016.

The total number of options in each annual lot of options B, awarded to all officers who are gatekeepers, is: 314,100 options for 2014; 284,136 options for 2015; and 274,830 options for 2016.

The options to be issued in the name of the trustee for each officer, pursuant to option plans C, D or E, would be divided into three equal annual lots, one for each bonus year. Each lot would vest in three portions as from April 1 of 2016-2020, as set forth in the outline report.

Each of the annual lots for options D and E would vest as follows:

- The adjusted annual lot for 2014 may be exercised from the first anniversary of the option issuance date through 4.5 years thereafter.
- The adjusted annual lot for 2015 may be exercised from the second anniversary of the option issuance date through 4.5 years thereafter.
- The adjusted annual lot for 2016 may be exercised from the third anniversary of the option issuance date through 4.5 years thereafter.

Threshold conditions and eligibility conditions for options.

An offeree's eligibility for options pursuant to each of the aforementioned option plans, for any bonus year, is contingent on fulfillment of all of the following threshold conditions in the bonus year:

- Return on equity for the bonus year shall be at least 9%;
- Overall capital adequacy ratio and core capital adequacy ratio for the Bank, for the bonus year, shall be no less than the minimum ratios specified in Bank of Israel regulations.

In addition, eligibility conditions for options would be based on the following criteria:

- Options A and options B to be issued to offerees who are officers of the Bank, as noted above, constitute part of these officers' variable remuneration. Officer eligibility to options A or to options B included in any annual lot would be determined based on four criteria which are measurable "company-wide criteria" (hereafter: "the quantitative benchmarks") and on two qualitative criteria based on supervisor assessment of achievement of individual targets (hereafter: "the individual targets") of the officer specified in the employee offering outline and on assessment of the officer's performance by the supervisor at the latter's discretion (hereafter: "supervisor's discretion"). The individual targets and supervisor's discretion, hereafter: "the qualitative benchmarks").

  The total weight assigned to quantitative benchmarks would be 80% of the annual lot of options A or options B. The total weight assigned to the qualitative benchmarks would be 20%: the weight assigned to the individual target benchmark would be 10% and the weight assigned to the supervisor's discretion benchmark would be 10%.

Note 15 - Other matters - continued

- Eligibility of offerees who are not officers of the Bank to options C and options D, with respect to any bonus year, would be determined based on the quantitative benchmarks and would not be based on any qualitative benchmark. Eligibility of offerees who are not officers of the Bank to options E, with respect to any bonus year, would be determined based on the quantitative benchmarks and on the quality rating assigned to such offerees, as set forth in section 2.12.9 of the outline report.
  The quantitative benchmarks specified in the option plan are: return on equity, return on Bank shares relative to benchmark, operating efficiency ratio and average ratio of deposits to loans.
  The exercise price for each option to be issued pursuant to any of the plans is NIS 46.21 plus CPI linkage differentials, from the known CPI upon approval of option issuance to offerees by the Board of Directors to the known CPI upon the option exercise date by the offeree. The exercise price was determined based on the average closing price per Bank ordinary share on the stock exchange over the thirty trading days preceding the date of approval by the Board of Directors. Accordingly, note that on the exercise date, the offeree would not be required to pay the exercise price - which would only serve to determine the monetary benefit amount and the number of exercise shares actually issued to the offeree.
  For calculation of fair value as of approval of the option award by the Board of Directors, as noted above, the terms of the option plans and the data and assumptions listed in the outline report were taken into account.

Based on the assumptions listed in the outline report, the average fair value of each option awarded pursuant to each of the option plans, as of the approval date of option issuance by the Board of Directors, is as follows:

- Options A: options included in the first lot - NIS 7.69; options included in the second lot - NIS 8.13; options included in the third lot - NIS 8.43.
- Options B: options included in the first lot - NIS 7.73; options included in the second lot - NIS 8.16; options included in the third lot - NIS 8.44.
- Options C: options included in the first lot - NIS 7.64; options included in the second lot - NIS 8.06; options included in the third lot - NIS 8.35.
- Options D and E: options included in the first lot - NIS 8.42; options included in the second lot - NIS 8.17; options included in the third lot - NIS 7.64.

The theoretical benefit value of the options in these plans, calculated in accordance with accounting rules of IFRS 2, amounts to NIS 96 million (NIS 113 million including Payroll Tax).

The Bank, in recognizing the theoretical benefit value, would account for the estimated departure rate of plan offerees.

The options would be allotted under the "wages" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the offerees from exercise of these options shall be taxed at the marginal tax rate applicable to the offerees upon exercise of the options. The Bank would be required to pay the payroll tax with respect to the benefit arising to the offerees from exercise of the options under the stock option plan.

Note 15 - Other matters - continued

Furthermore, upon payment of the tax with respect to this benefit by the offerees, the Bank may make a deduction for tax purposes with respect to the aforementioned options based on the effective tax rate applicable upon the exercise date.
All other details of the plans and the outline of offering to employees (including the threshold conditions for eligibility for options, vesting and exercise periods of options and the Board of Directors' authority to reduce the number of options and provisions with regard to reimbursement of the monetary benefit are described in an Immediate Report dated June 19, 2014, reference 2014-01-091176. This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

G. Further to the aforementioned stock option plans, on June 2, 2014, the Bank applied to the Supervisor of Banks for approval of a buy-back of 5 million Bank shares (for more information see sections E.-F. above).
On July 27, 2014, the Supervisor of Banks approved the buy-back plan subject to conditions set forth between the Bank and the Supervisor of Banks. Such share buy-back would be made subject to approval by the Bank Board of Directors.
Buy-back of Bank shares is tantamount to a dividend distribution.
Prior to a dividend distribution, the Supervisor of Banks would review the Bank's overall plan for dividend distribution and its consistency with Bank capital planning and operations.
After such review by the Supervisor of Banks, future dividend distributions would be decided by the Board of Directors, subject to Bank policy and regulatory limitations.

H. On June 10, 2014, the General Meeting of Bank shareholders approved, after approval by the Bank's Remuneration Committee and Board of Directors, to pay the Chairman of the Board of Directors the amount of NIS 246 thousand (1.35 monthly salaries), which is the full discretionary portion of the bonus payable to the Chairman of the Board of Directors for 2013, such that the total annual bonus paid to the Chairman of the Board of Directors for 2013 amounted to NIS 1,017 thousand. (For details of the formula for the annual monetary bonus payable to the Chairman of the Board of Directors, see revised immediate report dated June 6, 2013, reference: 2013-01-059052. This mention constitutes inclusion by way of reference of all information provided in the aforementioned immediate report.) For other components of the Chairman's remuneration, see p. 219 of the Bank's 2013 Annual Financial Statements.

The reasons cited by the Remuneration Committee and the Board of Directors noted the Chairman's considerable contribution to implementation of corporate governance principles at the Bank and the efficient operation of the Bank Board of Directors; they also noted the professional and appropriate manner in which the Chairman discharged their role, the Chairman's involvement in control of risk management at the Bank and the Chairman's understanding of issues facing the Board of Directors as well as the Chairman's contribution to Board discussions.