2013 Annual Report

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

Report of the Board of Directors to the General Meeting of Shareholders

Table of Contents

Report of the Board of Directors to the General Meeting of Shareholders

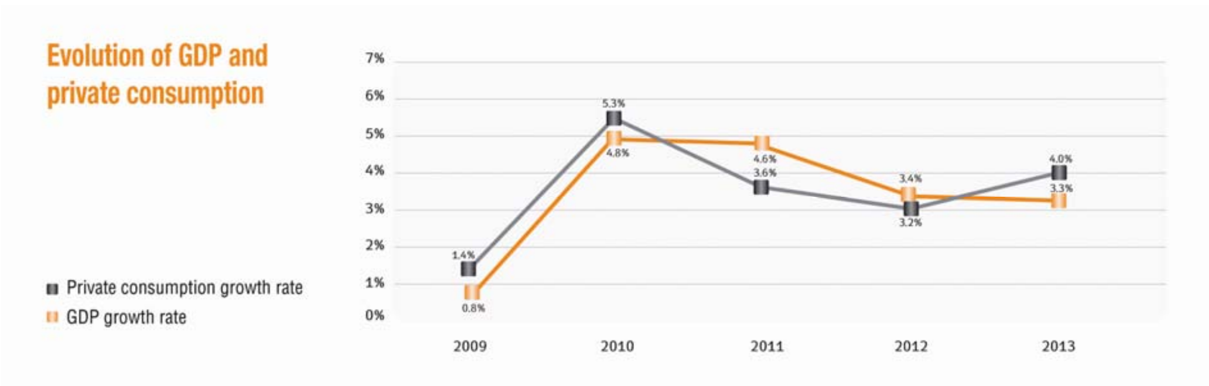
At the meeting of the Board of Directors held on March 9, 2014, it was resolved to approve and publish the consolidated financial statements of Mizrahi Tefahot Bank Ltd. and its investees as of December 31, 2013.
The financial statements were prepared in accordance with the directives and guidelines issued by the Supervisor of Banks.

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

Developments in Israel's Economy in 2013

Real Developments

In 2013, moderate economic growth continued. According to an initial estimate by the Central Bureau of Statistics for the second half of 2013, Israeli GDP growth in 2013 was 3.3% (including the impact of natural gas production), similar to 3.4% growth in 2012 and compared to 4.6% growth in 2011. Business output is expected to grow by 3.6% in 2013, compared to 3.4% in 2012 and to 4.7% in 2011. GDP growth in 2013 was impacted by higher domestic demand, with private consumption expenditure increasing by 3.6%, compared to 3.2% in 2012. On the other hand, growth was more moderate due to slower global demand and to the NIS growing stronger against the currency basket: Exports of goods and services increased in 2013 by 0.8%, similar to 0.9% growth in 2012. Investment in fixed assets increased in 2013 by only 1.6%, compared to 3.5% growth in 2012. Total uses increased by a mere 2.4%, after growing by 3.1% in the previous year and by 6.1% in 2011.

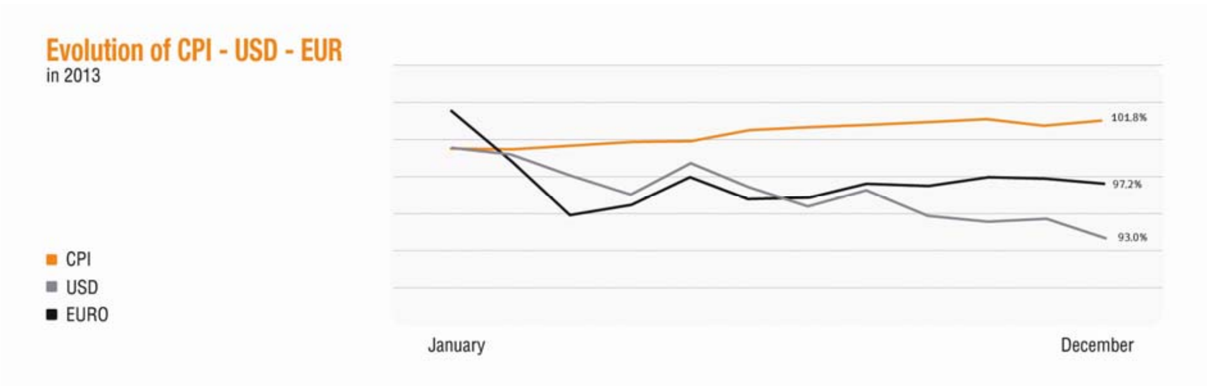


Exports of goods (original data in USD, excluding ships, airplanes and diamonds) increased in 2013 by 4.0% after decreasing by 3.1% in 2012. Conversely, imports of goods decreased by 1.0% this year after a decrease of 1.4% in 2012. The trade deficit decreased in 2013, amounting to USD 14 billion, compared to USD 18 billion last year - a decrease of 22.2%.

In 2013, unemployment trended lower, with average unemployment rate for the year at 6.2%, compared to 6.9% last year. The employment rate increased slightly - averaging 63.7% in 2013, compared to 63.6% last year.

Inflation and exchange rates

In 2013, the Consumer Price Index increased by 1.8%, compared to an increase of 1.6% last year. The CPI increase was primarily due to higher prices of housing, food, fruits and vegetables. These price increases were offset by lower prices of transportation and communications. The Consumer Price Index declined by 0.6% in January 2014 - a sharp decline compared to various economic forecasts, which called for a decline of only 0.3%. The lower CPI was primarily due to lower cost of clothing and shoes, housing and food.



In 2013, the USD was devalued by 7.0% against the NIS. At end of 2013, the USD/NIS exchange rate was 3.471, compared to 3.733 at the end of 2012. The EUR was devalued against the NIS by 2.8% in this period. At end of 2013, the EUR/NIS exchange rate was 4.782, compared to 4.921 at the end of 2012. On March 5, 2014, the USD/NIS exchange rate was 3.487 and the EUR/NIS exchange rate was 4.789.

In support of the exchange rate, the Bank of Israel purchased in 2013 foreign currency valued at USD 5.3 billion (including: purchase of foreign currency amounting to USD 2.1 billion to offset the impact of natural gas production from the Tamar reservoir on exchange rates). In 2012, the Bank of Israel avoided any intervention in the foreign currency market.

Monetary and fiscal policies

In 2013, the Bank of Israel lowered its interest rate several times, from 2.0% at the end of 2012 to 1.0% in October 2013. This was against the backdrop of further appreciation of the NIS, continued expansive monetary policies of central banks around the world and downward revision of global growth forecasts.
On February 24, 2014, the Monetary Committee decided to lower the interest rate for March 2014 by 0.25% - to 0.75%. As announced by the Bank of Israel, this lowering of the interest rate is in line with the monetary policy designed to establish inflation within the price stability range specified and to support growth while maintaining financial stability.
In 2013, the Government budget deficit amounted to NIS 33.2 billion, or 3.2% of GDP, compared to a NIS 40.0 billion deficit last year (3.9% of GDP). The deficit target for 2013 was 4.3%, compared to a 2.0% deficit target for 2012. Tax revenues increased in 2013 by 9.9% over the previous year, while Government expenditure increased by 6.6% in the same period.

On November 13, 2013, Dr. Karnit Flug started in office as Governor of the Bank of Israel.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in 2013 demand for new apartments (apartments sold and apartments constructed not for sale) was 42,540 apartments, an slight increase of 0.3% over the previous year and an increase of 6.2% over 2011. In the Haifa and Jerusalem regions, the increase rate was 10.4% and 8.3%, respectively. In the Tel Aviv and Northern regions, the decrease rate was 11.5% and 4.9%, respectively. The Central region was unchanged from the corresponding period last year.
The pace of housing construction starts slightly accelerated, with construction started on 44,350 residential units, compared to 42,880 residential units in 2012. This construction start rate is high compared to the annual average over the past decade, which was 36,700 housing construction starts. The strong demand resulted in decreased inventory of new apartments for sale from private development, which at the end of 2013 was at 16,400 apartments, compared to 16,800 at the end of 2012. Based on the average pace of sales in the six months ended December 2013, this inventory would account for 11.4 months' sales - compared to 12.1 months at the end of December 2012.
In the first ten months of 2013, housing prices continued to trend higher - but as from July 2013 the rate of price increase declined in TTM (trailing 12 months) terms. Apartment prices, on nation-wide average, increase by 8.0% in the 12 months ended October 2013, compared to 10.2% in the 12 months ended June 2013.
Further increases in housing prices along with stable demand for housing resulted in record levels of housing loan origination: in 2013, housing loans to the public amounted to NIS 52.2 billion, compared to NIS 47.2 billion in 2012 - an increase of 10.6%.
In 2013, the Bank of Israel continued to take steps to decrease the risk assumed by borrowers in the mortgage market. These steps included, *inter alia*, a requirement for the banking system to increase capital allocation proportionately to the LTV ratio for the loan, an increase of the group-based provision rate with respect to housing loans and restrictions

imposed on the loan repayment to borrower income ratio (for details see chapter on Legislation and Supervision of Bank Group Operations below as well as Note 1.D.6 and 14 to the financial statements.

Capital market

The capital market rallied in 2013. This followed the upward trend in 2012 in Israel and around the world, with the increase rate in Israel lagging behind most global financial markets.

Equity market - The leading benchmarks, Tel Aviv 25 and Tel Aviv 100, were higher in 2013 by 12.1% and 15.1%, respectively, compared to increases of 9.2% and 7.2% in 2012. The Tel Aviv 75 Index was up an impressive 24.7%, compared to an increase of 4.8% in 2012. The Real Estate 15 Index was up by 26.0%, compared to a decrease of 14.1% in 2012. The Yeter 50 Index rose by 35.6%, compared to an increase of 21.6% in the previous year. Financial sector shares were also sharply higher: The Banking and Financials 15 indices were up by 16.3% and 18.8%, respectively, compared to increases of 22.9% and 23.1% in 2012.

The average daily trading volume in shares and convertible securities in 2013 was NIS 1.2 billion, compared to NIS 1.1 billion in 2012. In the final quarter of 2013, trading volumes increased and the average daily trading volume was NIS 1.3 billion. compared to NIS 1.2 billion in the final quarter of 2012.

Share issuance (excluding shares issued overseas) increased significantly, amounting to NIS 7.7 billion, compared to NIS 4.0 billion in 2012.

Debenture market - the Government debenture market was higher in 2013 as well, due to lower interest rates, low inflation in Israel and low interest and yield environments overseas. Debentures with longer terms were up more sharply than those with shorter terms. Corporate debenture benchmarks were higher, over-performing government debentures.

The General Debenture Index was up by 5.4% in 2013, compared to 8.8% in 2012. The CPI-Linked Government Debenture Index rose in 2013 by 3.0%, after rising by 9.4% in 2012. The Non-Linked Debenture Index was up by 4.0%, following an increase of 7.0% in 2012. The leading Tel Bond benchmarks were also higher: In 2013, the Tel Bond 20 Index was up by 5.9%, compared to an increase of 7.9% in 2011, and the Tel Bond 40 Index rose in 2013 by 6.9%, compared to an increase of 9.1% in 2012.

The low interest rate environment was reflected by corporate debentures, with further lower spreads of their yield to maturity compared to Government debentures: Debentures rated AA traded at the end of 2013 at a yield spread of 0.8 percentage points, similar to the spread at the end of 2012; debentures rated A traded at a yield spread of 1.96 percentage points, compared to 2.75 percentage points at the end of 2012.

In total, the business sector raised from the public and from institutional investors by debenture issuance approxiately NIS 36.7 billion in 2013, slightly below the NIS 39.7 billion raised in 2012. The average daily trading volume in debentures in 2013 amounted to NIS 4.3 billion, compared to NIS 4.1 billion in 2012 - an increase of 4.9%.

Global economy

In 2013, the US economy as well as the Japanese economy showed signs of improvement. Conversely, the Euro Zone recovery was being challenged, with emerging markets growing more moderately than in recent years.

In 2013, GDP growth in the USA was 1.9%, compared to growth at 2.8% in the previous year. However, the growth rate accelerated during the year. An increase of 5.4% in investments and an increase of 2.7% in exports underlined the GDP growth. Conversely, an increase of only 2.0% in private consumption and a negative 2.3% growth in government expenditure weighed down on GDP growth. Given the improving trend in industrial output, in private consumption, in the housing market, in employment data and in sentiment surveys - the US Federal Reserve Bank started in December to take steps to taper the quantitative expansion. When this plan was launched, the yield to maturity for 10-year US debentures ranged around 3.0%, dropping even lower in January 2014.

Economic indicators in the Euro Zone point to a certain recovery, with low positive growth in the final three quarters of 2013, following six consecutive quarters of negative growth. The unemployment rate in the Euro Zone remained stable at 12.0%. The inflation rate slowed down in 2013, to 0.8%, compared to 2.2% in 2012. Given the more moderate demand, the monetary interest rate in the Euro Zone was reduced in November 2013 from 0.5% to its lowest ever level – 0.25%. However, looking forward, various expectation surveys indicate a certain optimism among manufacturers, service providers and consumers.

Chinese GDP grew by 7.7% in 2013 - a similar rate to that in 2012. Given the relatively weak growth and the increasing credit crunch, in 2013 the Chinese government announced a set of incentives designed to promote activity, including a reduction in tax rates for small companies, relief for exporter operations, investment in infrastructure, public investment in housing and liquidity injection into local banks.

The Dow Jones Index rose by 26.5% in 2013, compared to 6.7% in 2012. The S&P 500 Index rose in 2013 by 29.6%, compared to 12.9% in 2012. The NASDAQ 100 Index rose in 2013 by 35.0%, compared to 16.4% in 2012.

In the UK, the FTSE 100 Index in 2013 was up by 14.4%, after an increase of 5.9% in 2012; the German DAX and French CAC benchmarks were higher by 25.4% and 18.0%, respectively, in 2013 - following increases of 30.2% and 16.4%, respectively, in 2012. In Japan, the Nikkei Index was up by 56.7% in 2013, compared to an increase of 23.4% in 2012.

Key Data for Bank Group

Evolution of revenues and expenses

	For the year ended December 31,			Change in % over	
	2013	2012	2011	2012	2011
					NIS in millions
Profit and profitability - major items					
Interest revenues, net	3,464	3,214	3,099	7.8	11.8
Non-interest financing revenues	14	95	18	-	(22.2)
Commissions and other revenues	1,485	1,478	1,491	0.5	(0.4)
Total revenues	4,963	4,787	4,608	3.7	7.7
Expenses with respect to credit losses	288	276	338	4.3	(14.8)
Operating and other expenses	2,957	2,786	2,667	6.1	10.9
Profit before provision for taxes	1,718	1,725	1,603	(0.4)	7.2
Provision for taxes	592	599	522	(1.2)	13.4
Net profit [(1)]	1,078	1,076	1,044	0.2	3.3

	For the year ended December 31,			Change in % over	
	2013	2012	2011	2012	2011
					NIS in millions
Balance sheet - key items					
Balance sheet total	179,613	162,242	150,246	10.7	19.5
Loans to the public, net	138,565	128,651	119,293	7.7	16.2
Securities	7,000	9,041	8,432	(22.6)	(17.0)
Deposits from the public	141,244	[(2)]128,081	[(2)]118,883	10.3	18.8
Debentures and subordinated notes	16,443	14,039	12,202	17.1	34.8
Equity[(1)]	9,852	8,811	7,666	11.8	28.5

	2013	2012	2011
Key financial ratios (in percent)			
Net profit return on equity	11.5	13.1	14.6
Net loans to the public to deposits from the public	98.1	100.4	100.3
Capital to total assets	5.49	5.43	5.10
Ratio of Tier I capital to risk elements	9.01	8.55	7.77
Total ratio of capital to risk elements	13.04	13.35	13.4
Cost income ratio	59.6	58.2	57.9
Expenses with respect to credit losses to loans to the public, net for the period	0.21	0.21	0.28
Basic net earnings per share	4.72	4.77	4.65
Diluted net earnings per share	4.69	4.74	4.57

(1) 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.

(2) Re-classified.

Evolution of revenues and expenses

	For the quarter ended				
	December 31, 3013	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012
	NIS in millions				
Profit and profitability - major items					
Interest revenues, net	784	1,005	873	802	643
Non-interest financing revenues (expenses)	23	(90)	48	33	229
Commissions and other revenues	380	364	368	373	373
Total revenues	1,187	1,279	1,289	1,208	1,245
Expenses with respect to credit losses	5	68	181	34	48
Operating and other expenses	779	755	706	717	740
Profit before provision for taxes	403	456	402	457	457
Provision for taxes	140	143	145	164	176
Net profit (1)	252	301	245	280	270

	December 31, 3013	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012
	NIS in millions				
Balance sheet - key items					
Balance sheet total	179,613	173,332	170,603	165,557	162,242
Loans to the public, net	138,565	136,747	132,853	130,543	128,651
Securities	7,000	7,431	6,661	9,374	9,041
Deposits from the public	141,244	(2)135,863	(2)135,699	(2)130,117	(2)128,081
Debentures and subordinated notes	16,443	16,542	14,807	14,845	14,039
Equity(1)	9,852	9,574	9,341	9,108	8,811

	December 31, 3013	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012
Key financial ratios (in percent)					
Net profit return on equity(3)	10.8	13.3	11.1	13.1	13.1
Net loans to the public to deposits from the public	98.1	100.7	97.9	100.3	100.4
Capital to total assets	5.49	5.52	5.48	5.50	5.43
Ratio of Tier I capital to risk elements	9.01	8.84	8.74	8.71	8.55
Total ratio of capital to risk elements	13.04	12.96	12.89	13.25	13.35
Cost income ratio(4)	65.6	59.0	54.8	59.4	59.4
Expenses with respect to credit losses for the period to loans to the public, net (3)	0.01	0.20	0.55	0.10	0.15
Basic net earnings per share	1.10	1.32	1.07	1.23	1.19
Diluted net earnings per share	1.09	1.31	1.06	1.22	1.17

(1) 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.

(2) Re-classified.

(3) Quarterly on annualized basis.

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

Bank Group Operations and Description of its Businesses Development

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, macro-economic changes, geo-political 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: forecast 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 in 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 on various topics with regard to the future.

Bank Group

Mizrahi Tefahot Bank Ltd. ("the Bank") was among the first banks established in the State of Israel. The Bank was associated as a public company on June 6, 1923, under the name Mizrahi Bank Ltd., and it was issued the license to commence business on May 13, 1924. The Bank was founded at the initiative of the World Mizrahi Center, in order to facilitate the financing of settlement, construction, manufacturing, labor and commercial activities of the new settlers in the Land of Israel. In 1969, upon the merger of the businesses of the Bank with the businesses of Hapoel Hamizrahi Bank Ltd., the Bank’s name was changed to United Mizrahi Bank Ltd. In 1983, within the framework of the arrangement formulated between the Israeli Government and the Banks, the shares of the Bank were transferred to the control of the State through a securities company that was established for this purpose. In the years 1995 and 1997, the Bank was privatized in two stages, and was transferred to control of the present controlling shareholders. Following the merger between United Mizrahi Bank Ltd and “Tefahot” Israel Mortgage Bank Ltd. (“Tefahot”), the merged bank's name was changed on November 7, 2005 to its present name, Mizrahi Tefahot Bank Ltd.

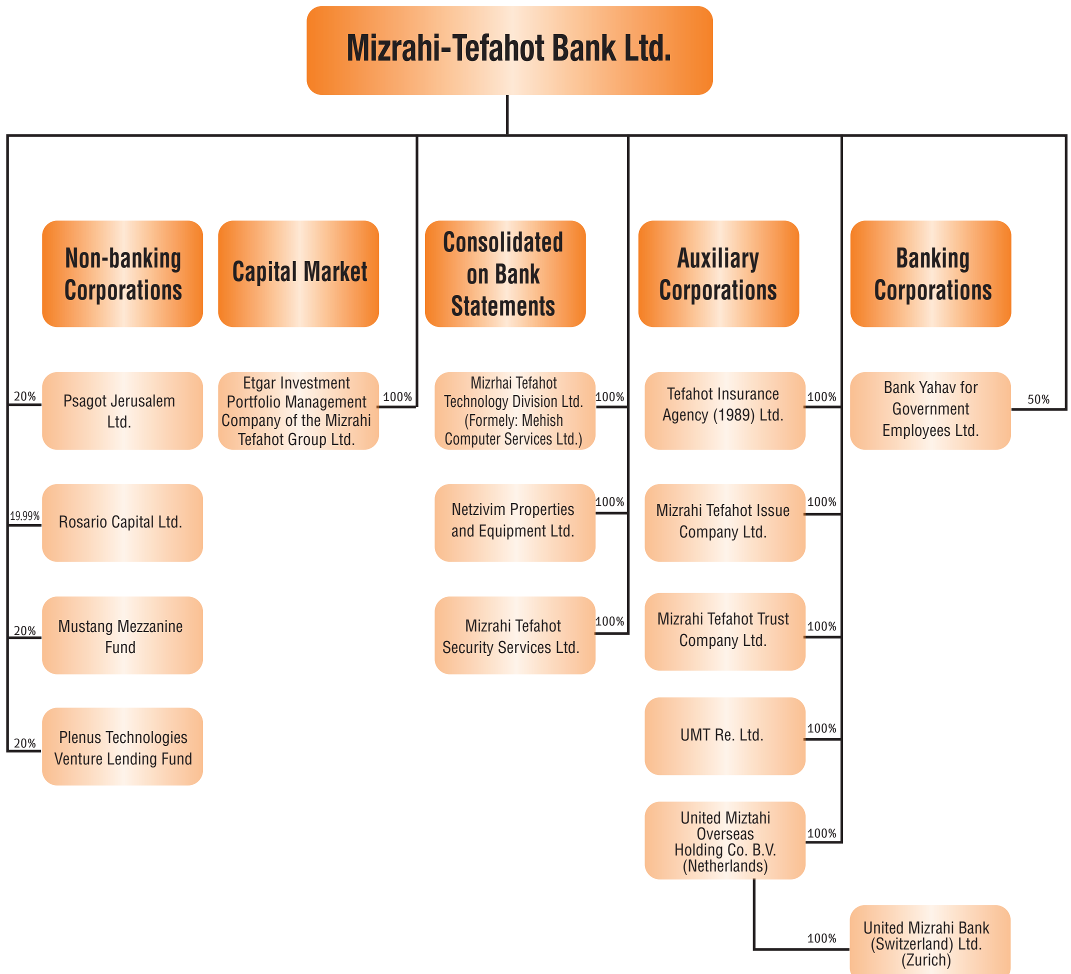
The Bank Group operates in Israel and overseas. The Bank Group is engaged in commercial banking (business and retail) as well as mortgage activities in Israel, through a nation-wide network of 177 branches and business centers. Furthermore, business clients are supported by business centers and professional departments at Bank headquarters, which specialize by sector. The Bank's overseas operations are conducted via 4 bank affiliates (three branches and a subsidiary) and 4 representative offices in Europe and Latin America.

In addition to its banking activities, the Bank Group is engaged in various activities related to the capital market, including: Consultancy for capital market activities, management of securities portfolios for clients, pension advisory service, trust services, distribution of mutual funds and provident fund operation.

The Bank is one of the five largest bank groups in Israel. Below is the Bank Group share out of the Top 5 groups (based on financial statements as of September 30, 2013):

Loans to the public	17%
Deposits from the public	15%
Balance sheet total	14%
Shareholders' equity	12%

Holding Structure - Major Companies [1]:



For further information about organizational changes in the Group, see Note 6 to the financial statements.

[1] The Bank has holdings in other companies which are not material to Bank operations.

Control of the Bank Group

To the best of the knowledge of the Bank and the Board of Directors, the holding stakes of controlling shareholders of the Bank, as of December 31, 2013, are as follows:

	Holder	No. of shares	% of capital and voting rights
Wertheim Group	M.W.Z. (Holdings) Ltd. (1)	20,563,785	8.96
	F & W (Registered Partnership) (2)	29,842,844	13.00
	Total Wertheim Group	**50,406,629**	**21.96**
Ofer Group	C.A.B.M. Ltd. (3)	7,097,764	3.09
	L.A.B.M. (Holdings) Ltd. (4)	7,814,717	3.41
	A.A.B.M. Ltd. (5)	15,224,131	6.63
	Ofer Investments Ltd. (6)	14,591,953	6.36
	Ofer Sahaf Ltd. (7)	7,477,642	3.26
	Total Ofer Group	**52,206,207**	**22.75**
	Total holding stake of controlling shareholders	**102,612,836**	**44.71**
Total shares issued by the Bank		(8) **229,478,480**	**100.00%**

(1) A private company owned (100%) by Mr. Moshe Wertheim.

(2) A registered partnership held by Mr. Moshe Wertheim (1%) and by M.W.Z. (Holdings) Ltd (99%).

(3) A private company wholly-owned and controlled by Ofer Development and Investments Ltd., a private company, the shares of which are held by Ofer Holdings Properties Ltd. (89.1%) and by Nazareth Industrial Properties (10.9%). Nazareth Industrial Properties Ltd. is a private company wholly-owned and controlled by Ofer Development and Investments Ltd. Ofer Holdings Properties Ltd. is a private company wholly-owned and controlled by Ofer Holdings (1989) Ltd. ("Ofer Holdings"). Ofer Holdings is a private company held by the Yehuda (Yuli) Ofer RIP estate (36.67%), Liora Ofer (15%), Doron Ofer (15%) and L.I.N. (Holdings) Ltd. (33.33%) (see also footnotes 4 and 6 below).

(4) A private company wholly-owned and controlled by L.I.N. (Holdings) Ltd. ("L.I.N."), which is a private company owned by a foreign trust whose main benefactor, with regard to Bank shares, is Mr. Eyal Ofer (95%) and a foreign-resident company (5%). The foreign trust has given Mr. Eyal Ofer power-of-attorney to vote at General Meetings of L.I.N. with regard to issues concerning the control permit of the Bank, Bank shares directly and indirectl owned by L.I.N., appointment of Board members at the Bank and all matters concerning the Bank. The power-of-attorney gives Eyal Ofer full authority to act on these matters as he sees fit.

(5) A private company wholly-owned and controlled by Ofer Brothers Holdings Properties Ltd., a private company wholly-owned and controlled by Ofer Holdings (see also footnote 3 above).

(6) A private company, the shares of which are held by Yehuda (Yuli) Ofer RIP estate (36.67%), Liora Ofer (15%), Doron Ofer (15%) and L.I.N. (33.33%) (see also footnote 4 above).

Prior to the death of Mr. Yuli Ofer RIP, he together with his children, Liora Ofer and Doron Ofer, were the controlling shareholders of Ofer Investments and Ofer Holdings. Upon the death of Mr. Yuli Ofer RIP on September 11, 2011, his shares of Ofer Investments and Ofer Holdings became part of his estate, such that the controlling shareholder of Ofer Investments and Ofer Holsings is the Mr. Yuli Ofer RIP estate, through the temporary estate administrators - subject to decisions by the Court.

On December 18, 2013, the Family Affairs Court issued an order to execute the will of Mr. Yuli Ofer RIP. As of this date, the Yuli Ofer RIP estate continues to hold the shares held by Mr. Yuli Ofer RIP. Shares of Ofer Investments and Ofer Holdings would be transferred to Ms. Liora Ofer, in conformity with the aforementioned will, subject to instructions by the Court. On January 30, 2014, Doron Ofer and his children appealed the aforementioned verdict to the Tel Aviv-Yafo District Court as an Appelate Court for Civil Appeals.

(7) A private company wholly-owned and controlled by Ofer Investments Ltd.

(8) Excludes 2,500,000 dormant shares bought back by the Bank in 2009.

Shareholder agreements

Between A.A.B.M. Ltd., C.A.B.M. Ltd., and L.A.B.M. (Holdings) Ltd. as the first party (hereafter: (“Ofer Group”) and between Feinberg-Wertheim (Registered Partnership) as the other party ("Wertheim Group") for cooperation in exercising rights associated with Bank shares ("voting agreement"). The aforementioned voting agreement prescribes, inter alia, rules for joint voting of controlling shareholders at General Meetings, for each party's right of refusal upon sale of controlling shares by the other parties, for rights to appoint Board members and rights to appoint the Chairman of the Board of Directors.

Ofer Group

On January 17, 2013 the Bank received notice from Ofer Investments Ltd. (hereinafter: “Ofer Investments”), with regard to a permit dated January 15, 2013 given by the Governor of the Bank of Israel, for holding control and means of control over the Bank by the Ofer Group (as defined in the control permit - i.e. Eyal Ofer, Doron Ofer, Liora Ofer and the estate of Juli Ofer RIP managed by temporary estate administrators, Attorneys Zvi Efrat and Reuven Bachar) and by the Wertheim Group (i.e. Mr. Moshe Wertheim), pursuant to the Banking Act (Licensing), 1981 (hereinafter: "the new permit"). On this matter, see the report issued by the Bank on January 17, 2013 (reference 2013-01-016320). This mention constitutes inclusion by way of reference of all information provided in the aforementioned report.

Through the receipt date of the new permit, the Ofer Group held Bank shares (controlling interest shares and non-controlling interest shares) through Ofer Investments and its subsidiaries, and through L.I.N. (Holdings) Ltd. (hereinafter: "L.I.N") and its subsidiary. Upon receiving the new permit, the outline of change in the Bank holding structure came into effect, referring only to holding of Bank shares by Ofer Investments, to separation of holding of controlling interest shares of the Bank from other operations of Ofer Investments, including holding of real estate properties (hereinafter: "new structure change"). The new structure change includes transfer of controlling interest shares of the Bank (indirectly held by Ofer Investments) to be indirectly held by a sister company of Ofer Investments, Ofer Holdings (1989) Ltd. (hereinafter: "Ofer Holdings"). As a result of the new structure change, Ofer Investments would continue to hold ordinary Bank shares (not part of the controlling interest), directly and through a subsidiary. For more details see footnote 6 to the table Control of Bank Group above.

New cooperation agreement between individuals of Ofer Group and corporations under their control -

As Ofer Investments informed the Bank, upon receiving the new permit and implementing the new structure change, a new cooperation agreement became effective between individuals of Ofer Group and corporations under their control, who hold Bank shares directly and indirectly. The new cooperation agreement replaces previous agreements between the parties. In the aforementioned agreement, the parties agree that relations with regard to Bank holdings, control over the Bank and management rights between Juli Group (recipients of the control permit from family of Juli Ofer RIP, including temporary or permanent administrators of his estate, pending distribution of shares owned by Juli Ofer RIP) (hereafter: "Juli Group") and L.I.N (in which Eyal Ofer has power of attorney to act with regard to Bank business), would be shared on a 50-50 basis, hence the Board member quota of Ofer Group would be equally divided between L.I.N and Juli Group, and no decisions would be made by Ofer Group with regard to any Bank-related matter without mutual consent of L.I.N and July Group. For more information, see section 3 in the Bank's Immediate Report dated January 17, 2013 (reference 2013-01-016320). This mention constitutes inclusion by way of reference of all information provided in the aforementioned report.

The notice from Ofer Investments to the Bank further indicated that Ofer Investments and Ofer Sahaf Ltd. (who would continue to hold a non-controlling interest Bank shares) have committed, in the new cooperation agreement, to act pursuant to provisions of the control permit, as it may be from time to time, if applicable to them, including to only exercise voting rights with respect to Bank shares they hold in accordance with the decision made with regard to exercise of voting rights with respect to controlling interest Bank shares. Moreover, these companies committed that, should their shares be offered in future to the public, their aforementioned commitment would be reflected in the prospectus to be made public. For more details see footnote 6 to the table Control of Bank Group above.

Wertheim Group

On February 17, 2013, Mr. Moshe (Mosie) Wertheim informed the Bank that he had gifted to his children his shares and holdings of corporations holding Bank shares which are part of the controlling interest in the Bank, M.W.Z (Holdings) Ltd. and F&W (Registered Partnership), as follows: to Mr. David Wertheim - 63% of his holding stake, and to Ms. Drorit Wertheim - 37% of his holding stake.

According to Mr. Moshe Wertheim's notice to the Bank, this transfer of shares is subject, inter alia, to obtaining a control permit from the Governor of the Bank of Israel, pursuant to the Banking Act (Licensing), 1981.

Investments in Bank Capital and Transactions in Bank Shares

The Bank holds 2,500,000 of its shares bought back in 2009, as approved by the Bank of Israel, for consideration of NIS 76 million. On January 30, 2013, the Bank of Israel allowed the Bank to use the shares held by the Bank for its 2013 stock option plan. See Note 13 to the financial statements for additional information.

Board of Directors' decision with regard to capital adequacy ratio

On March 28, 2012, the Supervisor of Banks issued a directive to all banking corporations,requiring them to maintain a higher minimum Tier I 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 Tier I capital ratio of 10% by January 1, 2017.

The directive with regard to a minimum Tier I capital ratio of 10% does not apply to the Bank. The Tier I capital ratio is calculated in conformity with Basel III provisions and adjustments specified by the Supervisor of Banks.

On July 23, 2012, the Bank's 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.

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

The amendments to the directives concern the reinforcement of capital size and quality and improving the coverage for Credit Valuation Adjustment (CVA) risk.

For details of amendment of Proper Conduct of Banking Business regulations 201-211 (with regard to adoption of Basel III directives concerning supervisory capital and risk assets) and its effect on the Bank's capital adequacy as of January 1, 2014, see chapter “Legislation and Supervision of Bank Group Operations” below and Note 14 to the financial statements.

Following publication of these directives, inclusing supervisory adjustments, deductions from capital and directives on measurement and capital adequacy – the Bank reviewed once again its compliance with schedules to achieve the core capital ratio target of 9% or higher.

Following this review and based on assumptions, as of the review date, 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.

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, 2013, with the intention of implementing these, 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.

Raising of capital sources

In conjunction with the Bank's work plan, which is set by the Board of Directors and includes growth objectives for different operating segments, an assessment is made of the impact of achieving the objectives on total risk assets for the Bank, and therefore on its capital adequacy ratio. Accordingly, along with business and profitability objectives, a plan is set to raise capital sources in order to maintain capital adequacy, in accordance with instructions of the Board of Directors concerning capital adequacy, as mentioned above.

Bank management believes, in conformity with the expected evolution of the outline of core capital ratio and overall capital ratio, as noted above, that no capital needs to be raised over the next 12 months for compliance with the minimum capital ratio requirement pursuant to Proper Conduct of Banking Business Regulations No. 201.

This information is forward-looking information, as defined in the Securities Act, 1968, based on assumptions, facts and data (hereafter jointly: "assumptions") brought to the attention of the Board of Directors. These assumptions may not materialize due to factors not all of which are under the Bank's control.

For details of raising funds by means of obligatory notes and debentures, see chapter on Sources and Financing.

Dividend Distribution

Dividend distribution policies

On April 3, 2006, the Bank's Board of Directors adopted a resolution on a dividend distribution policies, whereby, provided that the Bank's capital ratio is not less than 10% (in terms of Proper Conduct of Banking Business Regulation 311 - Basel I), dividends will be distributed every year at the rate of 40% of the net operating profit and 80% of the profit from extraordinary items of that year. The dividend distribution policies is in effect as from the year 2006. On July 23, 2012, the Bank Board of Directors determined, in conjunction with approval of the new strategic five-year plan for 2013-2017, that during the plan term, the Bank's adopted dividend distribution policies would be maintained.

On August 14, 2013, the Bank's Board of Directors resolved 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, 2013, 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.

In addition to the aforesaid, the distribution of dividends by the Bank is subject to the provisions of law and additional limitations, as provided in Note 13 to the financial statements.

Below are details of dividends distributed by the Bank since 2011 through the publication date of these financial statements (in reported amounts):

Payment date	Dividends per share	Total dividends paid
	(Agorot)	(NIS in millions)
April 17, 2011	53.65	120
September 10, 2013	32.77	75

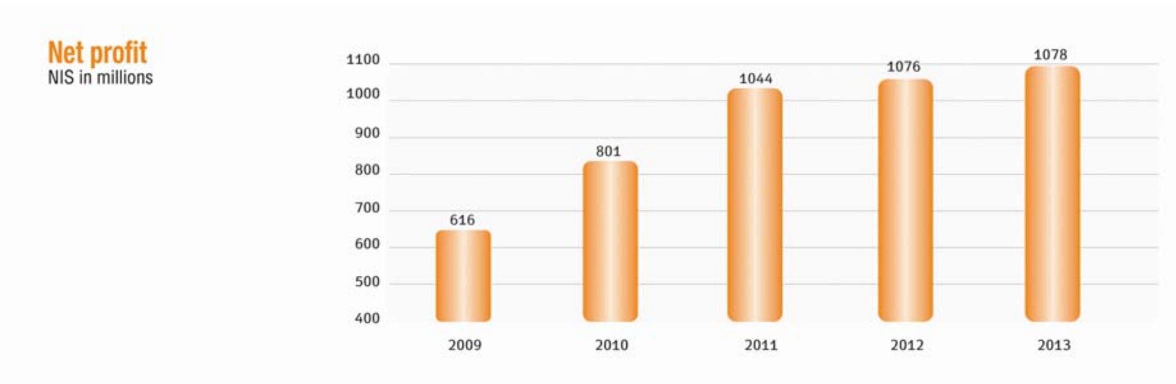
Profit and Profitability

Net profit for the Group in 2013 amounted to NIS 1,078 million, compared to NIS 1,076 million in the previous year.

In 2013, the Bank recorded a non-recurring provision for credit losses with respect to housing loans amounting to NIS 191 million - due to implementation of the Supervisor of Banks' directives with regard to housing loans(1) (which decreased net profit by NIS 122 million).
Excluding the effect of this non-recurring provision, Group net profit amounted to NIS 1,200 million, an increase of 11.5%.

The Bank achieved the capital adequacy target set by the Bank of Israel and adopted by the Board of Directors - one year ahead of schedule (a target of 9% as of December 31, 2014). The Tier I capital adequacy ratio as of December 31, 2013 was 9.01% before implementation of the Basel III rules(2), along with an increase in the Bank's capital base to NIS 9.9 billion (an increase of 11.9% over the corresponding period last year).
This increase naturally reflects on the rates of return shown for similar profit margins.
Consequently, return on equity for 2013 was 11.5%, compared to 13.1% in the corresponding period last year.
Excluding the effect of the non-recurring provision as noted above, return on equity in 2013 was 12.8%.

Group net profit in the fourth quarter of 2013 amounted to NIS 252 million, compared to NIS 270 million in the corresponding period last year – a decrease of 6.7%, primarily due to non-recurring payroll expenses, as described below.
This reflects a return on equity at 10.8%, compared to 13.1% in the corresponding period last year.



(1) For more information about the Supervisor of Banks' directives with regard to housing loans, see Note 1.D.6 to the financial statements (Page 297).
(2) For more information about Basel III directives and the effect of their implementation as from January 1, 2014, see chapter "Legislation and Supervision of Bank Group Operations" (Pages 127-129).

The following key factors affected Group profit in 2013, compared to 2012:

- Financing revenues (including net interest revenues and non-interest financing revenues) from current business operations increased in 2013 by NIS 218 million, an increase of 7.1% over the corresponding period last year. This growth rate is concurrent with the effect of erosion of deposit margins due to the prevailing low interest rate environment. See also the analysis of evolution of financing revenues, below.
- Expenses with respect to credit losses increased in 2013 by NIS 12 million - an increase of 4.3%. See above for the effect of a non-recurring provision [(1)].
- Commissions and other revenues in 2013 amounted to NIS 1,485 million, compared with NIS 1,478 million in 2012, an increase of NIS 7 million. Current growth in commission revenues was offset by regulatory effects reducing the commissions charged to Bank clients. For details, see the chapter on Legislation and Supervision of Bank Group Operations below.
- Operating and other expenses, including non-recurring payroll expenses for the Group (expenses with respect to employee retirement, pay agreement at Bank Yahav and reimbursement of benefit expenses at Bank Mizrahi-Tefahot) amounting to NIS 50 million, reached NIS 2,957 million in 2013, compared with NIS 2,786 million in 2012, an increase of 6.1%. Excluding these non-recurring payroll expenses, operating and other expenses in 2013 increased by 4.3%. See explanation below.

(1) For more information about the Supervisor of Banks' directives with regard to housing loans, see Note 1.D.6 to the financial statements (Page 297).

Evolution of revenues and expenses

Net interest revenues and **non-interest financing revenues** [1] for the Group in 2013 amounted to NIS 3,478 million, compared to NIS 3,309 million in the corresponding period last year, an increase of 5.1%.

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

	For the year ended December 31,			For the quarter ended December 31,		
	2013	2012	Change rate (%)	2013	2012	Change rate (%)
Interest revenues, net	3,464	3,214	7.8	784	643	21.9
Non-interest financing revenues [1]	14	95		23	229	
Total financing revenues	**3,478**	**3,309**	**5.1**	**807**	**872**	**(7.5)**
Less:						
Revenues from collection of interest on troubled debt	74	155		18	35	
Exchange rate and linkage differentials with respect to impaired debt	(9)	1		(5)	(13)	
Gain from realized debentures available for sale and from debentures held for trade, net	88	146		26	82	
Effect of accounting treatment of derivatives at fair value and others[2]	21	(79)		(27)	32	
Total financing revenues from current operations	**3,304**	**3,086**	**7.1**	**795**	**736**	**8.0**

(1) Non-interest financing revenues include effect of fair value and others 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) 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 an accrual basis (interest, linkage differentials and exchange rate differentials only), vs. derivatives measured at their fair value.

Below is total financing revenues by operating segment (NIS in millions) [1]:

	For the year ended December 31,			
Operating segment	2013	2012	Change amount	Change rate (%)
Retail banking:				
Mortgages	645	609	36	5.9
Households [1]	[1]1,210	1,206	4	0.3
Small business	466	450	16	3.6
Total retail	**2,321**	**2,265**	**56**	**2.5**
Private banking [1]	[1]57	72	(15)	(20.8)
Commercial banking	167	172	(5)	(2.9)
Business banking	715	694	21	3.0
Financial management	218	106	112	-
Total	**3,478**	**3,309**	**169**	**5.1**

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

(2) Re-classified.

For definition of operating segments, see below in chapter "Description of Businesses of the Bank Group by Operating Segment".

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

Linkage segment - financial assets	2013	2012	Change rate (%)
Israeli currency - non-linked	89,515	78,467	14.1
Israeli currency - linked to the CPI	51,568	48,248	6.9
Foreign currency	13,889	16,401	(15.3)
Total	**154,972**	**143,116**	**8.3**

The increase in average balances of interest-bearing assets in the NIS-denominated non-linked and CPI-linked segments is due to an average increase of 16.5% in the Bank's loan portfolio and the continued transition to credit in these segments.
The decrease in average balances of interest-bearing assets in the foreign currency segment is primarily due to lower exchange rates and to realized securities in conjunction with management of the Bank's assets and liabilities.
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:

	For the year ended December 31,		For the quarter ended December 31,	
Linkage segment	2013	2012	2013	2012
Israeli currency - non-linked	2.10	2.37	2.19	2.39
Israeli currency - linked to the CPI	0.94	0.76	0.82	0.78
Foreign currency (including Israeli currency linked to foreign currency)	1.97	1.79	1.74	1.75
Total	**1.99**	**1.94**	**1.81**	**1.72**

(1) Average balances before expenses with respect to credit losses.

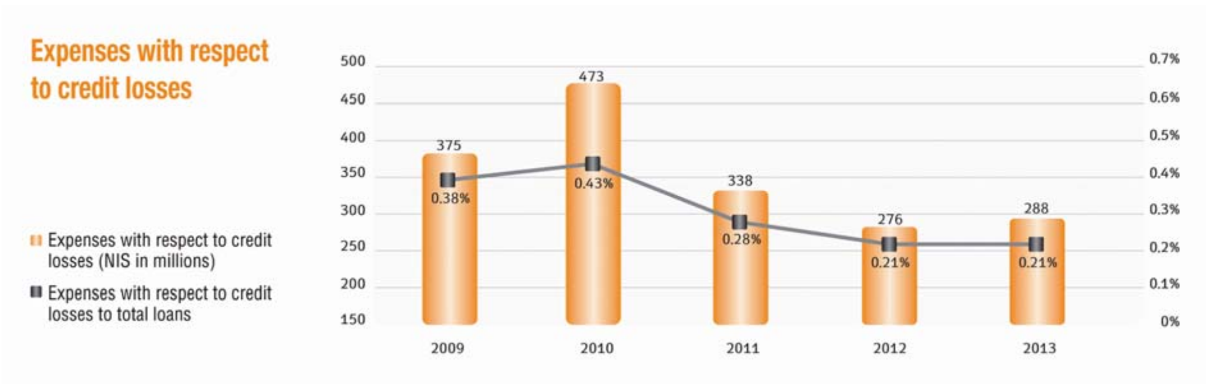
The decrease in interest spread in the non-linked NIS segment is primarily due to the lower interest rate environment. The increase in interest spread in the CPI-linked NIS segment is primarily due to the decrease in cost of long-term funds for the Bank (excluding off balance sheet sources).
The increase in interest spread in the foreign currency segment is primarily due to temporary differences in the effect of lower interest rates on sources and uses.
See Management Discussion - Addendum C for interest rate differences by various criteria (type of operations, linkage segment and volume / price analysis).

Expenses with respect to credit losses[(2)] for the Group in 2013 amounted to NIS 288 million, or 0.21% of total loans to the public, net compared to NIS 276 million in 2012 (smae percentage of total loans ot the public, net), for a total increase of NIS 12 million.
Expenses with respect to credit losses amounted to NIS 5 million in the fourth quarter of 2013, or an annualized rate of 0.01% of total loans to the public, net, compared with NIS 48 million, or an annualized rate of 0.15% of total loans to the public, net in the corresponding period last year-in total , a decrease of NIS 43 million, primarily due to success in collection of debt in arrears in the mortgage segment in this quarter.

(2) For more information about the Supervisor of Banks' directives with regard to housing loans, see Note 1.D.6 to the financial statements. (Page 297).

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

	For the year ended December 31,		For the quarter ended December 31,	
	2013	2012	2013	2012
Provision for credit losses on individual basis (including accounting write-offs)	98	275	24	(12)
Provision for credit losses on Group basis:				
By extent of arrears	(31)	3	(38)	-
Other	221	(2)	19	60
Total expenses with respect to credit losses	**288**	**276**	**5**	**48**
Expense with respect to credit losses as percentage of total loans to the public, net (annualized)	**0.21%**	**0.21%**	**0.01%**	**0.15%**
Includes: With respect to commercial loans other than housing loans	**0.20%**	**0.55%**	**0.23%**	**0.35%**
Includes: With respect to housing loans	**0.21%**	**0.01%**	**-**	**0.03%**



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

	For the year ended December 31,		
Operating segment	2013	2012	Change in %
Retail banking:			
Mortgages	[(1)]190	10	
Households	49	55	
Small business	72	36	
Total retail	**311**	**101**	
Private banking	-	[(2)](1)	
Commercial banking	(5)	8	
Business banking	(17)	[(2)]167	
Financial management	(1)	1	
Total	**288**	**276**	**4.3**

(1) Includes adjustment of a provision included in the financial statements for 2013, amounting to NIS 191 million, due to application of the Supervisor of Banks' directive with regard to housing loans. See Note 1.D.6 to the financial statements for further information.

(2) Re-classified.

Net interest revenues after expenses with respect to credit losses in 2013 amounted to NIS 3,176 million, compared to NIS 2,938 million in the corresponding period last year - an increase of 8.1%.

Net interest revenues after expenses with respect to credit losses in the fourth quarter of 2013 amounted to NIS 779 million, compared to NIS 595 million in the corresponding period last year - an increase of 30.9%. See above the analysis of evolution of financing revenues from current operations and analysis of expenses with respect to credit losses.

Non-interest revenues for the Group amounted to NIS 1,499 million in 2013, compared with NIS 1,573 million in 2012, a decrease of NIS 74 million. See remarks below.

Non-interest revenues for the Group in the fourth quarter of 2013 amounted to NIS 403 million, compared to NIS 602 million in the corresponding period last year, a decrease of NIS 199 million. See remarks below.

Non-interest financing revenues for the Group amounted to NIS 14 million in 2013, compared with NIS 95 million in 2012, a decrease of NIS 81 million.

Non-interest financing revenues in the fourth quarter of 2013 amounted to NIS 23 million, compared to NIS 229 million in the corresponding period last year, a decrease of NIS 206 million. This item includes, inter alia, the effect of fair value, realized gain on debentures and expenses with respect to linkage differentials on CPI derivatives, where the corresponding revenue is recognized as interest revenues, in conformity with accounting rules. See analysis of Financing revenues from current operations above.

Commission revenues for the Group amounted to NIS 1,458 million in 2013, compared with NIS 1,452 million in 2012, an increase of 0.4%. Commission revenues for the Group in the fourth quarter of 2013 amounted to NIS 374 million, compared to NIS 367 million in the corresponding period last year - an increase of 1.9%.

In the fourth quarter of 2013 and in all of 2013, current growth in commission revenues was offset by regulatory effects reducing the commissions charged to Bank clients. For details, see the chapter on Legislation and Supervision of Bank Group Operations below.

Other revenues for the Group amounted to NIS 27 million in 2013, compared with NIS 26 million in 2012, an increase of NIS 1 million.

Other revenues for the Group amounted to NIS 6 million in the fourth quarter of 2013, similar to the corresponding period last year.

Operating and other expenses for the Group amounted to NIS 2,957 million in 2013, compared with NIS 2,786 million in 2012, an increase of 6.1%.

Excluding non-recurring provision for benefit reimbursement to Bank employees for 2009-2013 and non-recurring provision at Bank Yahav, primarily with regard to pay agreements and voluntary retirement program in conjunction with discontinued provident fund operations – in total, non-recurring provisions amounting to NIS 50 million – the rate of increase in 2013 was 4.3%.

Operating and other expenses amounted to NIS 779 million in the fourth quarter of 2013 – including most of the aforementioned non-recurring provisions - compared with NIS 740 million in the corresponding period last year - an increase of 5.3%.

Payroll and associated expenses for the Group amounted to NIS 1,836 million in 2013, compared with NIS 1,701 million in 2012, an increase of 7.9%.

Payroll expenses for the Group include non-recurring provisions amounting to NIS 50 million as noted above.

The increase in payroll and associated expenses in 2013 over the corresponding period last year (excluding non-recurring provision for the Bank and for Bank Yahav, as noted above) is 5.0%.

Payroll and associated expenses, including most of the aforementioned provisions, amounted to NIS 491 million in the fourth quarter of 2013, compared with NIS 454 million in the corresponding period last year - an increase of 8.1% (excluding the aforementioned non-recurring provisions – 0.7%).

Maintenance and depreciation expenses for buildings and equipment for the Group in 2013 amounted to NIS 683 million, compared to NIS 652 million in 2012, an increase of 4.8%.

Maintenance and depreciation expenses for buildings and equipment for the Group amounted to NIS 173 million in the fourth quarter of 2013, compared with NIS 171 million in the corresponding period last year – an increase of 1.2%.

Other expenses for the Group in 2013 amounted to NIS 438 million, compared with NIS 433 million in 2012, an increase of 1.2%.

Other expenses for the Group amounted to NIS 115 million in the fourth quarter of 2013, similar to the corresponding period last year.

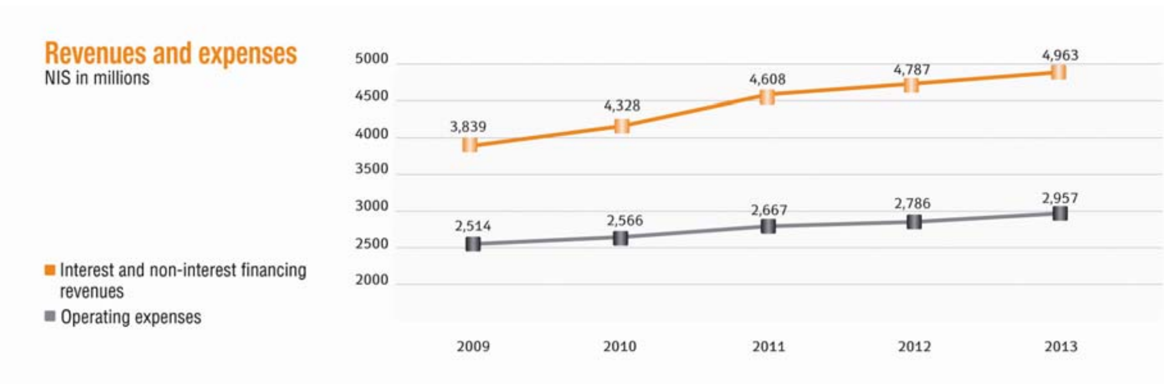
Cost-Income ratio information is as follows[(1)] (in percent):

	For the year ended December 31,	
	2013	2012
Cost-income ratio	[(2)]59.6	58.2

	2013				2012			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Cost-income ratio	65.6	59.0	54.8	59.4	59.4	57.0	56.1	60.3

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

(2) Excluding non-recurring provisions for the Group, amounting to NIS 50 million, the cost-income ratio is 58.6%.



Pre-tax profit for the Group amounted to NIS 1,718 million in 2013, compared with NIS 1,725 million in 2012, a decrease of NIS 7 million.

Pre-tax profit for the Group amounted to NIS 403 million in the fourth quarter of 2013, compared with NIS 457 million in the corresponding period last year - a decrease of 11.8%. See above for explanation of various profit components.

Provision for taxes for the Group in 2013 amounted to NIS 592 million, compared to NIS 599 million in 2012, a decrease of 1.2%. The provision for taxes in 2013 included a reduction in tax expenses amounting to NIS 28 million with respect to deferred taxes, due to the 1.5% increase in corporate tax rate as from January 1, 2014.

The provision for taxes amounted to NIS 140 million in the fourth quarter of 2013, compared with NIS 176 million in the corresponding period last year - a decrease of NIS 36 million - primarily attributed to the effect of pre-tax profit in the quarter.

The rate of provision for taxes on profit in 2013 was 34.5%, compared to 34.7% in 2012.

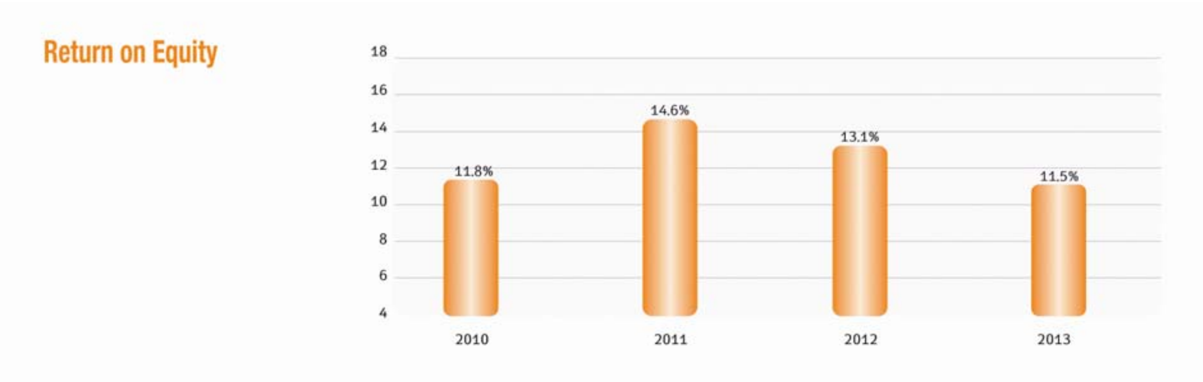
The Bank's share of after-tax losses of associates in 2013 amounted to NIS 4 million. Last year, the Bank had no after-tax profit from associates.

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

	For the year ended December 31,		
	2013	2012	2011
Net return on equity	11.5	13.1	14.6
Ratio of Tier I capital to risk elements at year end	9.01	8.55	7.77

	2013				2012			
In %	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net return on equity	10.8	13.3	11.1	13.1	13.1	13.0	15.4	13.6
Ratio of Tier I capital to risk elements at end of quarter	9.01	8.84	8.74	8.71	8.55	8.23	8.03	7.94

(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.



Earnings per share

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

	2013	2012	2011
Basic earnings per share	4.72	4.77	4.65
Diluted earnings per share	4.69	4.74	4.57

Development of balance sheet items

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

	December 31,		
	2013	2012	Change in %
Balance sheet total	179,613	162,242	10.7
Loans to the public, net	138,565	128,651	7.7
Deposits from the public	141,244	(1)128,081	10.3
Securities	7,000	9,041	(22.6)
Shareholders' equity	9,852	8,811	11.8

(1) Re-classified.

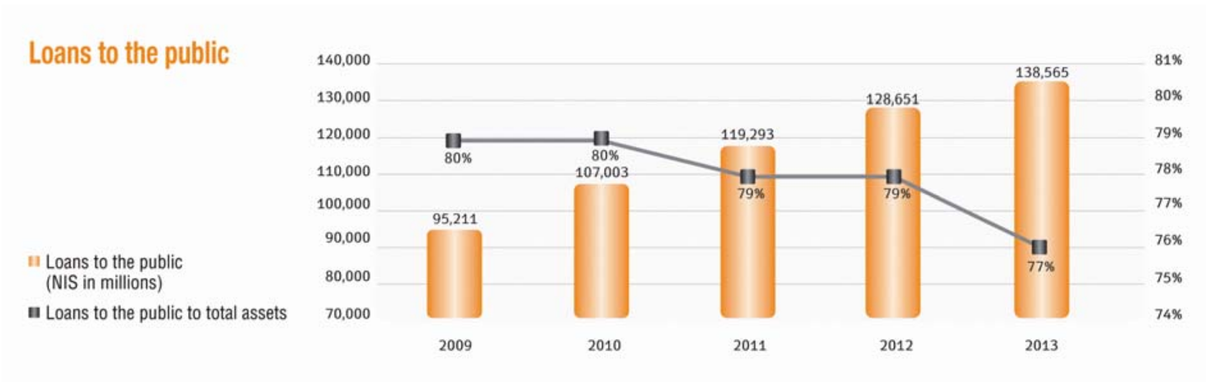
Loans to the public, net - loans to the public, net on the consolidated balance sheet as of December 31, 2013 accounted for 77% of total assets, compared to 79% at the end of 2012. Loans to the public, net for the Group increased in 2013 by NIS 9.9 billion, an increase of 7.7%.

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

	Balance as of December 31		Change rate	Percentage of total loans to the public as of December 31	
	2013	2012	In %	2013	2012
Israeli currency					
Non-linked	73,715	66,160	11.4	53.2	51.4
CPI- linked	52,740	49,221	7.1	38.1	38.3
Foreign currency and foreign currency linked	12,110	13,270	(8.7)	8.7	10.3
Total	**138,565**	**128,651**	**7.7**	**100.0**	**100.0**

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

Operating segment	2013	2012 [1]	Change in %
Retail banking:			
Mortgages	84,246	75,011	12.3
Households	19,022	18,002	5.7
Small business	7,667	6,860	11.8
Total retail	**110,935**	**99,873**	**11.1**
Private banking	956	1,178	(18.8)
Commercial banking	4,517	4,679	(3.5)
Business banking	22,157	22,921	(3.3)
Total – business and others	**27,630**	**28,778**	**(4.0)**
Total	**138,565**	**128,651**	**7.7**



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

Reported amounts (NIS in millions)	As of December 31, 2013			As of December 31, 2012		
	Credit risk[1]			Credit risk[1]		
	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total
1. Troubled credit risk:						
Impaired credit risk	1,241	372	1,613	1,664	423	2,087
Inferior credit risk	152	-	152	161	2	163
Credit risk under special supervision [2]	[4]1,385	103	1,488	1,927	181	2,108
Total troubled credit risk	**2,778**	**475**	**3,253**	**3,752**	**606**	**4,358**
Includes: Non-impaired debt in arrears 90 days or longer [2].	1,134			1,659		
2. Non-performing assets[3]	**1,136**			**1,609**		

(1) On- and off-balance sheet credit 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.

(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 1,081 million (as of December 31, 2012 - NIS 1,599 million).

(3) Non-accruing assets.

(4) After write-off amounting to NIS 281 million, with respect to housing loans fully provided for. See Note 4.A.1 to the financial statements for further information.

For more details of troubled credit risk, see Note 4 to the financial statements.

Below are key risk benchmarks with respect to loans to the public:

	December 31, 2013	December 31, 2012
Ratio of impaired loans to the public to total loans to the public	0.9	1.3
Ratio of impaired loans to the public to total non-housing loans	2.5	3.4
Ratio of troubled loans to the public to total non-housing loans	3.4	4.4
Ratio of housing loans in arrears 90 days or longer to total loans to the public [1][2]	0.8	1.2
Ratio of provision for credit losses to total loans to the public	1.0	1.3
Ratio of provision for credit losses to total credit risk with respect to the public	0.7	0.9
Ratio of troubled credit risk to total credit risk with respect to the public	1.7	2.4
Ratio of expenses with respect to credit losses to average balance of loans to the public, net	0.22	0.22
Ratio of net write-offs to average balance of loans to the public, net	0.42	0.27
Ratio of net write-offs to provision for credit losses [3]	39.8	19.9

(1) This non-housing rate is negligible.

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

(3) Includes balance of provision for credit losses, amounting to NIS 281 million, with respect to housing loans fully provided for and written off. Net of this effect, the ratio of net write-offs to the balance of provision for credit losseses was 27.6%. See Note 4.A.1 to the financial statements for details.

Below is the sector composition of the top 6 borrowers for the group as of December 31, 2013:

Borrower no.	Sector	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
1.	Power and water	797	395	1,192
2.	Construction and real estate	187	665	852
3.	Construction and real estate	28	728	756
4.	Construction and real estate	44	623	667
5.	Construction and real estate	331	320	651
6.	Construction and real estate	60	536	596

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.

Development of Group credit risk distribution by size of borrower (in %) is as follows:

		2013		2012
Credit risk for borrower (NIS in thousands)	Share of total Group credit risk	Share of total Group number of borrowers	Share of total Group credit risk	Share of total Group number of borrowers
Up to 150	12.0	75.1	12.8	76.2
150-600	23.1	17.2	23.6	16.9
600-2,000	28.6	7.1	25.8	6.2
Above 2,000	36.3	0.6	37.8	0.7

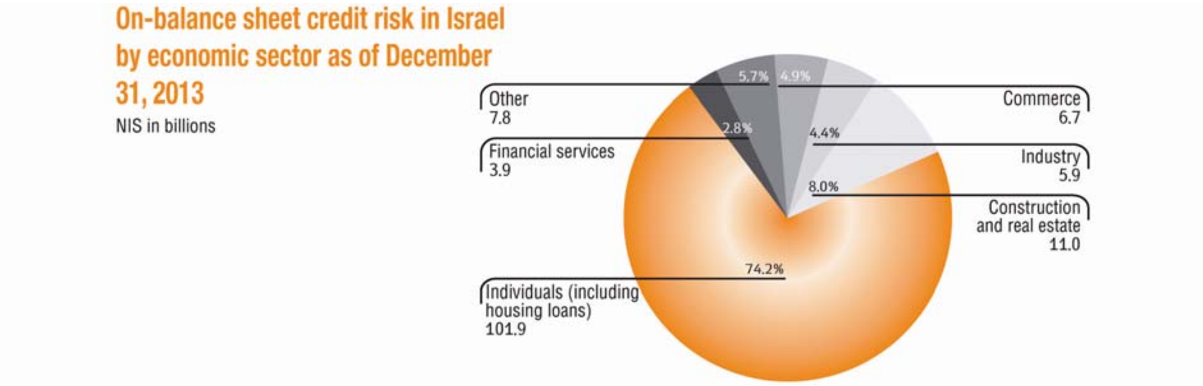
Credit risk by major industrial sectors [(1)] with respect to borrower operations in Israel (in NIS millions):

		2013			2012
Sector	Balance sheet credit risk	Percentage of total balance-sheet credit risk	On balance sheet credit risk [(2)]	Percentage of total balance-sheet credit risk	Change in %
Private individuals (includes mortgages)	101,867	74.2	92,044	72.1	10.7
Construction and real estate	11,050	8.1	10,251	8.0	7.8
Financial services	3,872	2.8	4,824	3.8	(19.7)
Industry	5,944	4.3	6,215	4.9	(4.4)
Commerce	6,655	4.9	7,074	5.5	(5.9)
Other	7,819	5.7	7,251	5.7	7.8
Total	**137,207**	**100.0**	**127,659**	**100.0**	**7.5**

(1) Includes credit and investments in debentures by the public, and other assets with respect to derivatives of the public.

(2) Reclassified.

Credit risk for loans to the public is composed of on-balance-sheet risk and off-balance-sheet credit risk, which are weighted by nature of the borrower and credit type, as per Bank of Israel instructions. On-balance-sheet risk includes balances of loans to the public, derivative instruments purchased by the public and Group investment in public debentures. Off-balance-sheet credit risk includes guarantees and transactions in off-balance-sheet instruments, obligations to provide credit and unutilized credit facilities.



Total credit risk for the Bank Group as of December 31, 2013 amounted to NIS 191 billion, compared to NIS 178 billion in 2012 - an increase of 7.3%.

Securities - investment in securities decreased in 2013 by NIS 2.0 billion, or 22.6%. The decrease in total investment in securities is within asset and liability management.

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

	Balance as of December 31,		
Linkage segment	2013	2012	Change (in %)
Israeli currency			
Non-linked	4,015	5,487	(26.8)
CPI- linked	138	251	(45.0)
Foreign currency and foreign currency linked	2,749	3,184	(13.7)
Non-monetary items	98	119	(17.6)
Total	**7,000**	**9,041**	**(22.6)**

Composition of Bank Group securities portfolio by issuer type (NIS in millions):

	Carrying amount as of	
	December 31, 2013	December 31, 2012
Government debentures:		
Government of Israel	6,340	8,114
US Government	61	95
Other	21	-
Total government debentures	**6,422**	**8,209**
Debentures of banks in developed nations:		
UK	96	137
Israel	124	123
Germany	103	109
South Korea	-	26
Holland	-	38
Other	5	5
	328	**438**
Debentures of financial institutions (other than banks) in developed nations [(1)]:		
USA	10	51
UK	-	20
Luxembourg	10	11
	20	**82**
Total debentures of banks and financial institutions in developed nations	**348**	**520**
Corporate debentures (composition by sector):		
Industry	65	75
Construction	24	31
Power and water	17	57
Communications and computer services	-	1
Financial services	26	29
Total corporate debentures	**132**	**193**
Shares	**98**	**119**
Total securities	**7,000**	**9,041**

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

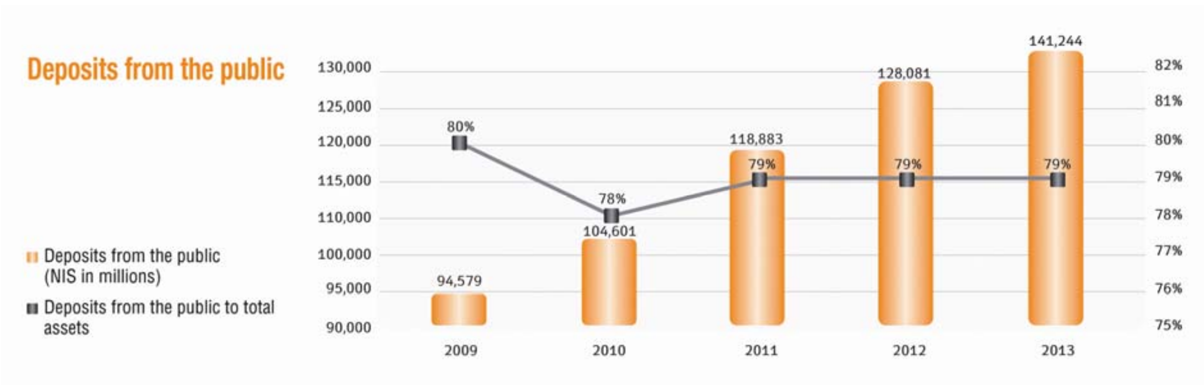
For more information with regard to impairment of a temporary nature of securities available for sale, listing the duration of impairment and its share out of the amortized cost, see Note 3 to the financial statements.

Deposits from the public - these account for 79% of total consolidated balance sheet as of December 31, 2013, similar to their weight at the end of 2012. In 2013, deposits from the public for the Bank Group increased by NIS 13.2 billion, an increase of 10.3%.

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

	Balance as of December 31		Change rate	Share of total deposits from the public as of December 31	
Linkage segment	2013	2012		2013	2012
Israeli currency					
Non-linked	92,888	(1)83,285	11.5	65.8	65.0
CPI- linked	21,439	(1)21,531	(0.4)	15.2	16.8
Foreign currency and foreign currency linked	26,917	23,265	15.7	19.0	18.2
Total	**141,244**	**128,081**	**10.3**	**100.0**	**100.0**

(1) Re-classified.



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

Operating segment	2013	2012	Change rate
Retail banking:			
Households	60,793	58,645	3.7
Small business	9,517	8,159	16.6
Total retail	**70,310**	**66,804**	**5.2**
Private banking	7,027	7,077	(0.7)
Commercial banking	3,408	3,358	1.5
Business banking	43,467	33,934	28.1
Financial management	17,032	(1)16,908	0.7
Total	**141,244**	**128,081**	**10.3**

(1) Re-classified.

As of December 31, 2013, the balance of the top 3 depositors for the Bank Group amounted to NIS 15,785 million.

Below is the evolution of deposits from the public for the Group by depositor size (NIS in millions):

	December 31,	
	2013	2012
Maximum deposit		
Up to 1	57,067	45,074
1 to 10	26,427	23,593
10 to 100	13,029	11,023
100 to 500	9,815	7,427
Above 500	34,906	40,964
Total	**141,244**	**128,081**

For further details on deposits from the public and deposits from banks, see Notes 9 and 10 to the financial statements.

The ratio of shareholders' equity to balance sheet total for the Group as of December 31, 2013 was 5.49%, compared to 5.43% as of the end of 2012.

Ratio of capital to risk elements

As per instructions of the Supervisor of Banks, every banking corporation is required to maintain a total minimum capital ratio of no less than 9% of weighted total of risk elements of its balance sheet assets and off-balance-sheet items, and these instructions describe the manner of calculation of total capital and total risk elements. From December 31, 2009 through December 31, 2013 the ratio of capital to risk elements is 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.

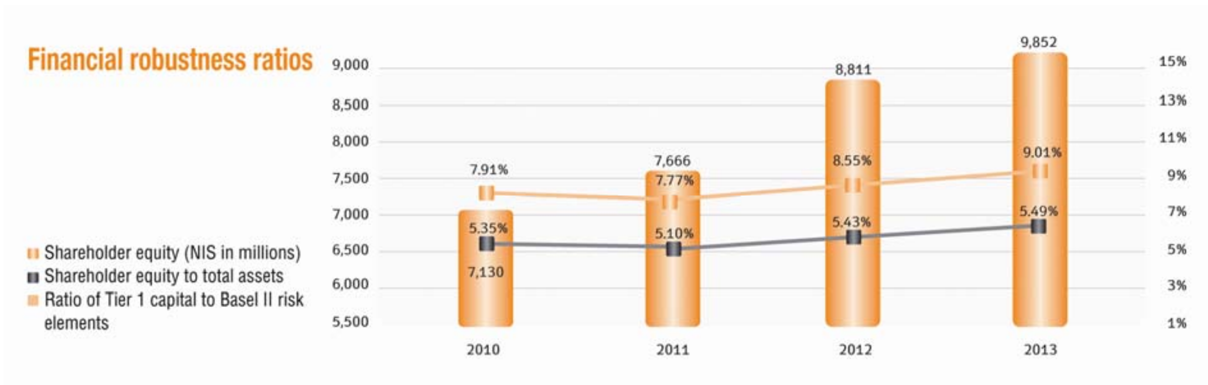
These regulations are effective as from January 1, 2014 subject to transition provisions.

For information on amendment of these directives, the decision by the Bank Board of Directors regarding the Bank’s capital targets and their effect on the Bank's capital adequacy, see chapter “Legislation and Supervision of Bank Group Operations” and Note 14 to the financial statements.

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

	january 1 2014	December 31, 2013	December 31, 2012
	Basel III	Basel II	Basel II
Ratio of Tier I capital to risk elements	8.73	9.01	8.55
Ratio of total capital to risk elements	12.88	13.04	13.35
Minimum capital ratio required by the directives of the Supervisor of Banks	(1) 9.00	9.00	9.00

(1) As from January 1, 2015, the minimum capital ratio required is 12.5%



Off-balance sheet activity

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

			Change in %
	December 31,	December 31,	December 31,
	2013	2012	2012
Off balance sheet financial instruments other than derivatives [(1)]:			
Documentary credit	296	387	(23.5)
Loan guarantees	2,413	2,705	(10.8)
Guarantees to home buyers	9,935	8,096	22.7
Guarantees and other liabilities	3,519	3,281	7.3
Unutilized revolving credit card facilities	7,135	6,718	6.2
Unutilized debitory account and other credit facilities in accounts available on demand	17,460	16,313	7.0
Irrevocable commitments for loans approved but not yet granted	9,009	9,724	(7.4)
Commitments to issue guarantees	6,265	5,198	20.5
Financial derivatives [(2)]:			
Total par value of financial derivatives	202,950	185,135	9.6

(1) Contract balances or their stated amounts at the end of the period, before effect of provision for credit losses. For more information see Note 19.A. to the financial statements.

(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 %
	December 31,	December 31,	December 31,
	2013	2012	2012
Client activities involving securities [(1)(2)]	178,222	165,012	8.0
Assets of provident funds for which the Group provides operating services	67,121	64,241	4.5
Activity by extent of collection [(3)]	13,539	15,827	(14.5)

(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 223 million in 2013, compared with NIS 215 million in 2012 - an increase of 3.7%.

(3) 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 2013 amounted to NIS 118 million, compared with NIS 142 million last year. This includes the effect of exchange rate fluctuations on investment in overseas investees covered by the Bank. Therefore, the effect of exchange rate fluctuations has no impact on net profit for the Group.

Excluding the effect of these exchange rate fluctuations, contribution of investees amounted to NIS 134 million, compared to NIS 143 mlilion in the corresponding period last year. See explanation for the following investees.

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. On January 28, 2009, the replacement license for the Bank's previous license dated January 11, 2005, was received which allows the Bank to do business with government and public sector employees. In accordance with the new license, Bank Yahav may engage in new operations and may expand its client base, subject to advance permission by the Supervisor of Banks.

Concurrently with receiving the new license, Bank Yahav received approval from the Supervisor of Banks to provide services to individual clients (such as salaried employees, self employed and households) and to corporations, provided that credit granted to corporations shall not exceed the specified limit. Bank Yahav operates in accordance with the new license, subject to policies of Bank Yahav's Board of Directors on this matter.

Bank Yahav's contribution to Group net profit in 2013 amounted to NIS 44 million, compared with NIS 50 million in 2012. The decrease in net profit is primarily due to increased expenses due to preparation by the Bank for discontinuation of provident fund and mutual fund operating services. Net profit return on equity for Bank Yahav (average equity, as defined in the Supervisor of Banks' Public Reporting Regulations) amounted in 2013 to 9.5%, compared to 12.2% in 2012. Bank Yahav's balance sheet total as of December 31, 2013 amounted to NIS 19,327 million, compared to NIS 18,367 million as of December 31, 2012, an increase of 5.2%. The balance of loans to the public as of December 31, 2013 amounted to NIS 6,657 million, compared to NIS 6,124 million at end of 2012, an increase of 8.7%.

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 2013 amounted to NIS 78 million, compared with NIS 69 million in 2012.

Net return on equity amounted to 11.6% in 2013, compared to 11.5% in 2012.

Other investees operating in Israel

Other investees operating in Israel, wholly controlled by the Bank and supported by Bank infrastructure, contributed NIS 15 million to the Bank's profit in 2013, net, compared with net profit of NIS 8 million in 2012.

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 2013 amounted to CHF 0.2 million, compared to CHF 0.7 million in 2012. The decrease in contribution to Group net profit is primarily due to erosion of margins on deposits from the public.

Mizrahi Bank Switzerland's balance sheet total as of December 31, 2013 amounted to CHF 180 million, compared to CHF 167 million at the end of 2012.

The balance of loans to the public as of December 31, 2013 increased to CHF 77 million, compared to CHF 53 million at end of 2012, due to increased business volume. The deposits with banks as of December 31, 2013 amounted to CHF 92 million, compared to CHF 103 million at end of 2012. Deposits from the public as of December 31, 2013 amounted to CHF 121 million, compared to CHF 110 million at end of 2012. Deposits from banks as of December 31, 2013 amounted to CHF 0.2 million, compared to CHF 0.5 million at end of 2012.

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

The contribution of Mizrahi International Holdings Ltd. (B.V. Holland), which owns United Mizrahi Bank Switzerland, to Group net profit in 2013, amounted to a loss of NIS 15 million, compared with profit of NIS 2 million in 2012. These data include impact of changes in exchange rates on the investment balance, covered by the Bank's own sources. Therefore, the impact of exchange rates on the consolidated statement is not meaningful.

Excluding the impact of changes in exchange rates, the company's contribution to Group net profit in 2013 amounted to a profit of NIS 1 million, compared to NIS 3 million in 2012 – see explanation for decrease in profit of Mizrahi Bank Switzerland above.

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 to US authorities statistical data as required. Mizrahi Bank Switzerland reports these events from time to time to the Swiss supervisory authorities. The Bank reports these events to the Supervisor of Banks from time to time.

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 on Legal Proceedings below).

For more details see Note 19.D.13.

Investment in non-banking corporations

The Bank manages nostro investments in non-banking corporations. Shares of non-banking corporations in which the Bank 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 0.2% of these investments are negotiable and presented at their market value. The remainder of these investments are 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 December 31, 2013 amounted to NIS 125 million, compared to NIS 146 million at end of 2012, as stated below.

Under the available-for-sale securities portfolio:

- NIS 0.2 million (NIS 4 million as of the end of 2012) is with respect to negotiable investments.
- NIS 57 million is with respect to participation units in various equity funds (NIS 74 million as of end of 2012).
- Investments in several different other corporations, which are stated at cost, the balance of the investment in which amounted to NIS 8 million as of December 31, 2013 (similar to the end of 2012).

Under investment in associates:

- NIS 39 million (NIS 41 million as of end of 2012) constituting the balance of Bank investment in mezzanine funds. A mezzanine fund is a fund for interim financing, providing companies in various sectors with financing complementary to bank credit. This financing is typically extended in return for interest, stock options and other equity instruments.
- NIS 19 million (as of end of 2012 - NIS 17 million) is the balance of the Bank's investment in Psagot Jerusalem Ltd., a private company which acquired land in the Jerusalem area for residential development. The carrying amount of the Bank's investments as of December 31, 2013 amounted to NIS 35 million, (as of end of 2012 – Nis 31 million). The balance also includes a loan extended by the Bank to Psagot Jerusalem Ltd., which as of December 31, 2013 amounted to NIS 16 million (same amount as of the end of 2012).
- NIS 2 million (identical amount as of end of 2012) is the balance of the Bank's investment in Rosario Capital Ltd., a private company engaged in underwriting, assistance and consulting on private and public issuance, mergers & acquisitions, investment in securities and distribution of securities.

The Bank's net loss from investments in non-banking corporations, after provision for impairment, in 2013 amounted to NIS 5 million, compared with gain amounting to NIS 29 million in 2012.

Branch layout and direct channels

Branch deployment

Group branches are primarily aimed at providing professional, high-quality service to clients of all banking segments, close to the location where the service is required (residence, place of business). To this end, branches manage day-to-day client activities and offer to clients and the public at large advanced financial products and services, including advisory services for capital market activity and pension advisory service.

Group branches are deployed throughout Israel. The merger of Bank Mizrahi and Bank Tefahot in early 2005, the merger of Bank Adanim in 2009 and acquisition of Bank Yahav, completed in 2008, created a combined nation-wide branch network which includes, as of the date of these financial statements, 177 business centers, branches and affiliates, including 45 Yahav branches.

The Bank operates a unique service – the LIVE branches – which are branches providing full personalized service during extended business hours using a range of communication channels between clients and bankers (via telephone, fax, internet, email, SMS, video conferencing). In 2012, the Bank opened two more branches as part of this service - one of which is dedicated to students. In total, six LIVE branches are in operation, and a seventh branch is due to open in 2014.

In 2013, efforts continued to make optimal use of the branch network, adapting the branches, their nature and location to the Bank's business plan, based on a comprehensive review of branch deployment conducted by the Bank - following which it determined a nation-wide framework for launching new points of sale, relocation, merging and closing branches. This plan is updated in accordance with market conditions and needs in the different regions. In 2014, the Bank intends to open 3 new branches, add 2 commercial spaces within mortgage branches, add 4 mortgage points of sale within commercial branches and add 2 mortgage points of sale within Bank Yahav branches.

This information constitutes forward-looking information, and is based on various assumptions and forecasts presented to Bank management, as described below. The information may not be realized, if Bank management finds that it is not expedient to carry out the plan, or due to changes that could occur in various influencing factors that are not under the sole control of the Bank. The influencing factors include forecasts on various matters related to economic development in Israel and internationally, especially the state of the economy, including macro-economic and geo-political conditions, economic policies, currency markets and capital markets, clients' financial robustness, public preferences, legislation, directives of regulatory entities, the behavior of competitors, aspects related to the Bank's image, technological development, developments in availability, purchase and rental prices of properties and staffing issues.

Direct channels

In 2013, there was continued transition of some client banking activities to direct banking channels (telephone, Internet, cell phone and self-service stations). The enlistment and usage rates of the direct banking systems continue to grow. The banking system as a whole has gradually adopted a multi-channel strategy, at the center of which stands the branch, and direct banking services constitute an integral part thereof.

- **Hybrid Banking -** In 2013, Hybrid Banking was deployed as a differentiated service concept among Bank employees and clients.
- **Online service** - In 2013, the range of client services on the website was expanded and IT improvements were made in order to continue improving the user interface of the system and to enhance client use of the website.

  In 2013, the Bank launched a project to upgrade its websites and mobile websites with regard to investments, in order to offer Bank clients a usage and trading experience among the most advanced in Israel.

  This plan supports the Bank's objectives for intensifying activity with existing clients, preserving clients and improving the Bank's capacity to recruit clients with securities and deposits. The project will be launched in the fourth quarter of 2014.
- **Cellular application** – In 2013, the Bank expanded the services offered to Bank clients through this application, and also deployed an option to directly correspond with the banker - as part of the Hybrid Service concept at the Bank. In 2014, Bank clients would be able to trade on the capital market using their smartphones.
- **Service stations at branches** - in 2012 and in 2013, the Bank invested considerable effort in a project to replace service stations at the Bank with new service stations. The new service stations are among the newest available, with check deposit service available on all of them.

  In 2012-2013, the Bank deployed 93 new service stations and 34 machines for immediate printing of checkbooks. By the end of the first quarter of 2014, the Bank should complete the deployment of all new service stations and machines for immediate printing of checkbooks.

  The service provided through the Internet, as well as the Hybrid Banking service, constitute the leading channels in the process of improving and strengthening customer access to the Bank's services and to improved service in general, while diverting in-person activity from the branch. Additionally, these services enable the Bank's employees to specialize in service and sales.

The Bank's operating policies in the direct banking sector are:

- To expand and upgrade the services provided through the main direct channels (telephone, Internet, cell phones, self-service stations).
- Expand use of direct channels by Bank clients, designed to improve service.
- Develop Hybrid Banking as a key channel for telephone, email and SMS contact for the commercial and mortgage areas.

Direct channels offered to Bank clients include:

Telephone services

- **Banking Center** – allows Bank clients to enter transactions and obtain information, as part of the integrated Hybrid Service provided at branches and by branch staff at the Banking Center. This service is provided between 7am and midnight.
- **Mortgage Center** - allowing clients to transact a range of mortgage-related transactions. These include: filing an application and obtaining advice on housing loans, obtaining information about existing loans and making arrangements and payments for delinquent loans.

- **Sales center** - intended to enhance selling capabilities of Bank branches, as part of marketing campaigns to recruit clients, who are referred directly to the sales center, or by means of sales calls. In addition, the sales center handles sales of Mizrahi Tefahot credit cards, refinancing mortgages from other banks for Bank clients, sale of car loans and preventing churn.
- **Investment center** - provide skilled, professional rapid response to capital market clients for conducting transactions and investment advice, from 7am till midnight, new clients with deposits, maximize investment campaigns (Pomegranate, Cherry, Lychee etc.), provide foreign currency services within a foreign currency extension of the trading room, launched in early 2012, and training investment advisors to be assigned to branches.
- **IVR service** - telephone-based system for hearing computer-based information about frequently asked questions and conducting transactions, including free check ordering and receiving a fax at reduced cost. This service is available 24 hours a day.

Online, cell phone, email and fax services:

- **Online service** – receive banking information and execute transactions in your account for a range of banking products available to Bank clients at a reduced cost. This service is available 24 hours a day.
- **Cell phone application** – obtain banking information and conduct transactions by means of cellular browsing using smartphones.

  Notification Box service – a system for receiving Bank notifications of account activity in a personal notification box via the Bank's online service.
- **Cell phone service** – a system for disseminating banking and financial information through cell phones.
- **PC service** – a system parallel to "Mizrahi online", enabling direct connection to the Bank's computer, not through the Internet, and consequently – faster execution of transactions;
- **E-mail service** – a system to distribute details on transactions executed in an account through e-mail, direct to the customer's e-mail address;
- **Fax service** – makes it possible to receive current banking information about the client account on a range of subjects, at the frequency specified by the customer.

Self-service at branches:

- **Service stations** - Mizrahi-Tefahot provides clients with service stations which allow them to conduct transactions and obtain information about accounts in the commercial sector and in the mortgage sector - using self-service, 24 hours a day - even when the branch is closed. Currently there are 144 service stations deployed in branches; 102 branches allow clients to deposit checks using the service stations; and 39 branches allow you to immediately produce checks.
- **ATMs** – the Bank has 144 cash-withdrawal machines (108 at Bank branches and 36 remote); 14 ATMs include optional foreign currency withdrawal; 20 ATMs have an optional check deposit feature.

Fixed assets and installations

Information on the Bank's fixed assets is presented in Note 7 "Buildings and equipment" to the financial statements. See the section on IT systems and computers below for additional details.

Real estate

The total area of real estate owned by the Bank or leased by the Bank for its use, as of December 31, 2013, is 126.3 thousand m^2, as provided in the table below:

Type of property (1)	Gross area, thousand m^2, as of December 31, 2013		
	Owned	Leased	Total area
Branches throughout Israel	35.2	31.9	67.1
Offices and warehouses (2)	38.6	7.9	46.5
Unused property with potential future use (3)	11.0	1.3	12.3
Properties not in use and designated for sale or to be vacated	0.3	0.1	0.4
Total	**85.1**	**41.2**	**126.3**

(1) The Bank owns a total area of 17.2 thousand m^2 used as covered parking space, which is not included in the table above.

(2) In 2013, the Bank completed the construction of an underground facility in Lod, with an area of 1,200 m^2. In 2012, the report included the land area only - 3,700 m^2.

(3) Of the assets not in use and serving for potential future use, 11.1 thousand m^2 is undergoing refurbishment and adaptation for Bank needs (including 8.4 thousand m^2 in a building in Lod), 1.0 thousand m^2 leased to others, and 0.2 thousand m^2 unoccupied.

It is Bank policy to only invest in real estate actually needed or expected to be need in the future. The Bank regularly reviews the extent, attributes and location of required area, based on its business plan and nation-wide branch deployment plan, and makes the required adjustments.

This information constitutes forward-looking information, based inter alia on various assumptions and forecasts with regard to the state of the economy, legislation, directives of supervisory entities, technological developments, developments in the real estate and construction market and human resource issues. This information may not materialize, or materialize in part, to the extent and on dates to be determined by Bank management or due to changes that could occur in various influencing factors that are not under sole control of the Bank.

The amortized cost of buildings and real estate for the Bank Group (including installations and leasehold improvements), net of provision for impairment, as of December 31, 2013 amounts to NIS 926 million, compared to NIS 930 million at the end of 2012.

Intangible assets

The Bank Group has data base entries of clients and employees.

The Bank owns the rights to the trademarks "Mizrahi-Tefahot", including with the infinity symbol and the words "Team", "Live", "Tefahot", "Tefahot - No. 1 in Mortgages", "Retirement portfolio Based on a Nobel Prize Winning Model", "Mizrahi Bank" with the image of the sun, "Market Leader in Mortgages Tefahot", "Israel No.1 Du Credit Hypothecaire En

Tefahot" and variations of these marks. The Bank owns the rights to trademarks associated with the Bank's name in the USA, Canada, Switzerland and in the European Union as well.

IT and computers

IT services for Bank Mizrahi-Tefahot are provided by a wholly-owned subsidiary of the Bank - Mizrahi Tefahot Technology Division Ltd. (hereinafter: "the Technology Division"). The Technology Division works to develop sophisticated IT systems and to continuously improve the level of the Bank's technology equipment.

The main site serving the Bank Group IT systems includes mainframe computers, servers, data storage systems, communications equipment, printers and terminal equipment, all serving as development and operational infrastructure of the Technology Division (see below under section - "Infrastructure and operation").

The Disaster Recovery Site (DRP), located separately, includes a mainframe computer, servers, storage, communications and terminal equipment (see section "Backup and Disaster Recovery" below).

Located in the Bank's branches spread throughout the country is equipment serving as the operational infrastructure of the branches: branch server, end user stations, communications equipment, printers and other special equipment such as: counters providing information for clients, scanners and check readers.

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 these 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 the Anti-Trust Supervisor. Following comprehensive review of alternatives for disconnecting the Bank HaPoalim systems, including review of both domestic and international proposals, in February 2014 the Bank Yahav Board of Directors approved contracting with an international vendor for provision of a core banking system and outsourcing the services of said system. Based on this decision, Bank Yahav is negotiating the contract with this vendor.

Infrastructure and operations

The core banking systems are based on a mainframe platform manufactured by IBM. Most of the new projects are now being developed in the open environment of Windows and Linux platforms. In the open environment around the mainframes are close interfaces designed to transfer data between the two environments. The system operates on three mainframe computers and 1,800 servers. Most of the updating of the core systems is done nightly, updating the data base for the current activity that occurred during that day and the main books of the Bank, in order to provide the Bank with updated data in preparation for the next day's opening.

Backup and disaster recovery

The Bank's disaster recovery policies are based on operating the main systems at a backup site within no more than 8 hours. To this end, a disaster recovery plan (DRP) was established, based on an agreement with an international vendor, to obtain backup facility services at the international vendor's sites, combined with equipment owned by the Bank installed at the backup site. The solution includes a mainframe computer, data storage means, servers and 150 work stations. Data at the DRP site is updated in real time by the "hot backup" method. There are open systems, defined by the Bank as having a low criticality level, which are not included in the backup site. Data for these systems is fully backed up. In case of emergency, the required equipment would be installed and the software would be loaded from the central disk facility. In 2014, site expansion will continue and systems will be added, according to priorities to be set by the Bank.

In order to ensure reliability of the DRP system and the disaster recovery capability, exercises are conducted together with the different divisions, in order to test the systems.

Concurrently with update of the information at the backup site, critical information for core systems on the central computer are updated at a third site, located on Heleni HaMalka Street, Jerusalem - in order to provide information survivability in case of an extreme scenario where both the main site and the backup site are impacted simultaneously.

In addition to the backup system, other means provide physical equipment and infrastructure security, in both the main site and the backup site: identification of leaks, identification of flooding, preventing electrical surges, etc.

In conjunction with the special collective bargaining agreement signed with the Employee Council of the Technology Division of Mizrahi-Tefahot Ltd. on November 27, 2013, the parties agreed to relocate the Bank's backup site from its current location to a new, better protected site which is compliant with Bank of Israel regulations. The relocation projected has started and should be concluded in June 2015.
This information constitutes forward-looking information, as defined in the Securities Act, 1968. This information is based on assumptions, facts and data (hereinafter jointly: “assumptions”) brought before the Bank Board of Directors, which may not materialize – due to factors not entirely under Bank control.

Relocation of data center to Lod

Bank Mizrahi-Tefahot has decided to consolidate the data center services of the Technology Division at a new site in the city of Lod. This data center would include the IT and telephony infrastructure currently located at the central site in Tel Aviv.
In 2010, construction of the site to hold the data center was completed. In 2011, the communications core was installed and some Bank employees were relocated to offices in Lod. Concurrently, the relocation of servers to the Lod site was started. In conjunction with the special collective bargaining agreement signed with the Employee Council of the Technology Division of Mizrahi-Tefahot Ltd. on November 27, 2013, the parties agreed to relocate the Bank's main data center to the new site in Lod. The relocation project has started and should be concluded by March 2015 - after which time this site would become the Bank's production site. Relocation of the mainframe computer to the new site in Lod would be made after completion of addressing the contractor staff and making payroll provisions for the period 2005-2009. According to the expected schedule, the relocation should be possible even sooner than March 2015.

This information constitutes forward-looking information, as defined in the Securities Act, 1968. This information is based on assumptions, facts and data (hereinafter jointly: “assumptions”) brought before the Bank Board of Directors, which may not materialize – due to factors not entirely under Bank control.

Information security

The Bank Group has a function for managing the security of applications and the network, which is responsible for information security technology, in accordance with Proper Conduct of Banking Business Regulation 357, as follows:

- Realization of the Bank's policies on data security issued from a technology standpoint, including in overseas branches.
- Implementation of regulatory requirements related to data security.
- Immediate response to information security events (in particular - cyber events).
- Approval of the transfer and removal of information, in accordance with the Bank's policies.
- Involvement in design and implementation of projects and project approval from information security standpoint.
- Developing infrastructures and management of data security projects.
- Information security policies for overseas Bank affiliates.

The Bank is ISO-certified with regard to information security for direct banking. See the chapter on Risk Management for Bank policies on information security.

Implications of information security risk and cyber incidents at the Bank

In line with technology development around the world, especially in cyber space, the Bank uses multiple channels, such as internet, telephone and cellular networks, which expose the Bank to cyber risk. According to estimates, there are concerns that these risk factors would be exacerbated in future.

The Bank regards the risk of cyber incidents as a key component of information security risk. Therefore, and in line with Bank of Israel requirements, in 2013 the Bank conducted a comprehensive assessment of information security risk. This assessment included a "cyber risk assessment" survey, and reviewed the Bank's risk level compared to similar organizations in Israel and world-wide. Based on the assessment, the Bank's readiness for facing a cyber event was determined to be high. The Bank constantly operates comprehensive, dynamic defences. In addition, the Bank takes specific measures to identify risk in those operations exposed to cyber incidents, in order to prevent and mitigate information security risk for Bank employees, subcontractors and outsourcers.

In 2013, the Bank took several cyber-focused measures, including:

- Gathering of relevant intelligence.
- Real time monitoring.
- Deploying protection products to network and to applications.
- Identifying anomalies.
- Scans and external tests.
- Team drills.
- Formulating procedures and responses.
- Emphasis on physical security.
- Reliabilty and robustness testing.

In conjunction with preparations for handling cyber threat and its variations, over the past year the Bank also acted with regard to recruitment and training of professional staff, purchased and deployed advanced tools for implementing a dynamic and proactive protective envelope.
In 2013, there were no significant cyber attack events at the Bank.

Vendors

The Bank Group, through the Technology Division, has several significant suppliers of hardware and software infrastructure, some of which have unique expertise and knowledge of their field, or a limited number of suppliers operate in the relevant field:

- IBM – hardware and software for mainframes in a server environment and for storage infrastructure, including maintenance services. IBM provides the main infrastructure in hardware and software for the core banking systems. IBM is a major international corporation, providing similar services, on an almost exclusive basis, to all major banks in Israel, and to most of the world's major banks.
- Microsoft – operating systems and infrastructure for servers, computerized office and end stations.
- CA – mainframe software.
- Cisco - communications equipment.

Projects

The Bank Group, through the Technology Division, is pursuing multiple projects requiring major IT investment, which are in various development and deployment stages. These projects may be grouped as follows:

- Projects under development.
- Projects put into operation in recent years, which are handled in conjunction with the regular work plan.
- Development of IT infrastructure.

A. Projects under development:
    - Trading room operation system - replacement of the current system used for operating the trading room, so as to adapt the computer system to the range of transactions and scope of operations.
    - Continued development of the Hybrid Banking project, which was launched in 2011, including installation of an IP telephony system to replace the old call center systems and to link business systems at the call center and branches. Project development for the commercial side was completed in 2012.

B. Projects put into operation in recent years, which are handled in conjunction with the regular work plan:
    - New mortgage system - completed conversion of mortgages to the new Shoham mortgage system.
    - Impaired debt management system - a system intended as response to directives of the Bank of Israel with regard to this issue. The system was partially launched in 2010 to produce reports for Bank of Israel, and was fully operational in early 2011.

- CRM system at Bank branches - customization of the CRM system for work at Bank branches, with emphasis on maximizing client opportunities.
- Dedicated system for management of audit reports. The system enables improved computer-based monitoring of findings and recommendations in audit reports.
- New system for General Ledger management and for compiling the Bank's financial statements. The system started operation in preparing the financial statements for the first quarter of 2012.
- Bank website – the existing website was replaced by a new one, based on advanced infrastructure.

C. Development of IT infrastructure:

Investment in infrastructure development forms an important basis, allowing the Bank to support expansion of its business through development of new, state-of-the-art banking systems. This includes, inter alia, mainframe computer upgrade, server farm expansion and upgrade, storage system customization, communication system expansion and workstation replacement at branches.

Investments and expenses with respect to IT

Below is information about investments and expenses for the Bank with respect to IT:

IT-related expenses, as listed on the statement of profit and loss (NIS in millions):

	For the year ended December 31 (reported amounts)							
	2013				2012			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
Payroll and associated expenses (1)	146	24	53	223	150	24	53	227
Usage license expenses not capitalized to assets (2)	85	13	1	99	84	10	-	94
Outsourcing expenses (3)	24	2	1	27	17	3	1	21
Depreciation expenses (4)	156	30	4	190	144	30	4	178
Other expenses (5)	11	1	93	105	12	1	90	103
Total expenses	**422**	**70**	**152**	**644**	**407**	**68**	**148**	**623**

Additional IT-related assets not expensed (NIS in millions):

	For the year ended December 31 (reported amounts)							
	2013				2012			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
Payroll and associated expenses (1)	10	-	-	10	8	-	-	8
Cost of acquisition of usage licenses (2)	43	36	4	83	41	30	4	75
Outsourcing expenses (3)	78	-	-	78	71	7	-	78
Total	**131**	**36**	**4**	**171**	**120**	**37**	**4**	**161**

Balance of IT-related assets (NIS in millions):

	For the year ended December 31 (reported amounts)							
	2013				2012			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
Total depreciated balance	**463**	**81**	**10**	**554**	**468**	**74**	**10**	**552**
Includes: Payroll and associated expenses	31	-	-	31	35	-	-	35

(1) Includes payroll of hardware and software professionals as well as payroll of other IT staff, such as: administrative staff, maintenance staff, operations staff. Payroll costs added to assets include labor costs for development of software for the Bank's own use, capitalized to assets in accordance with generally accepted accounting principles.

(2) These expenses primarily consist of current software maintenance. These expenses are included on the financial statements under "Maintenance and depreciation expenses for buildings and equipment". Additions to assets with respect to usage licenses are with respect to software acquisition.

(3) These expenses are with respect to hardware and software maintenance by external employees. These expenses are included on the financial statements under "Maintenance and depreciation expenses for buildings and equipment". Additions to assets with respect to outsourcing include cost of external employees employed by the Bank to develop software for the Bank's own use.

(4) For details of accounting policies with regard to depreciation expenses, see Note 1.L. to the financial statements.

(5) In 2013, includes NIS 44 million (similar to 2012) which constitutes payments to banks providing IT services to Bank Yahav. Also includes expenses with respect to rent and taxes, communication and general & administrative expenses.

Description of Businesses of the Bank Group by Operating Segment

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 stated 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 assets 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 a 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.

The principles used in assigning balances, revenues and expenses to clients in the system are as follows:

- Credit interest revenues and deposit interest expenses are directly attributed to the client. For credit, an expense set at cost of capital raised is attributed to clients, against an inter-segment credit to the Financial Management segment. For deposits, revenue set at cost of capital raised is attributed to clients, against an inter-segment debit to the Financial Management segment. Each of the segments is credited for capital attributed to its operations, against a debit to the Financial Management segment. Capital consumption is measured by the average risk-free assets managed by the segment.
- For derivative instrument operations, profits are attributed to the client at the spread incorporated in the price of the derivative instrument quoted to the client. Profit arising from changes to fair value of derivatives is attributed to the Financial Management segment.
- Profit and loss from Bank investment in securities and from strategic positions are attributed to the Financial Management segment.
- Expenses with respect to credit losses are directly attributed to clients on behalf of whom they were incurred.
- Commission and other revenues are specifically attributed to clients.
- Payroll, building maintenance and other expenses attributed specifically to branches, are loaded on branch clients.
- Payroll expenses of headquarters staff, maintenance and other expenses not specifically related to branches, are loaded on clients based on appropriate load bases.
- Expenses attributed directly to Bank branches, including salary and benefits, rent and maintenance are attributed to different segments as inter-segment expenses, based on segment affiliation of clients services by the branches.

- Provision for tax on operating profit is attributed to clients, pro-rated in accordance with the effective tax rate and accounting for tax impact referring to specific segments and not to all Bank operations.
- Return on equity is calculated as the ratio of net profit to attributed equity. Equity is attributed based on the average risk assets of the customers.
- Balance sheet and assets-under-management balances are specifically attributed to clients.
- Fixed assets are attributed based on appropriate ratios.

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.

Financial Information for Operating Segments

Since uniform rules have not been prescribed to allocate the clients to the segments, it is not possible to compare information regarding the Bank's pro rata share of the Banking system in the different operating segments, in profit and return on capital.

Summary of financial results of operating sectors, as defined by the Bank, (reported amounts, NIS in millions) are as follows. See Note 30 to the financial statements for details.

Profitability

	Net profit		Share of total net profit (in %)		Return on equity (in %)	
	For the year ended December 31,					
	2013	(2)2012	2013	2012	(1)2013	2012
Household:						
Mortgages	267	366	25	34	7.1	12.5
Other	146	191	14	18	13.0	19.5
Private banking	17	29	2	3	18.8	30.4
Small business	127	160	12	15	26.3	38.8
Commercial banking	63	59	6	5	13.9	14.3
Business banking	435	288	39	27	13.5	9.9
Financial management	23	(17)	2	(2)	13.6	(3.6)
Total	**1,078**	**1,076**	**100**	**100**	**11.5**	**13.1**

(1) Includes a non-recurring provision for credit losses amounting to NIS 191 million (effect on net profit amounting to NIS 122 million), due to implementation of the Supervisor of Banks' directive with regard to housing loans. See Note 1.D.6 to the financial statements for further information. Return on equity excluding the effect of this provision was 11.8%.

(2) Re-classified.

Household segment

General information on the operating segment

The household segment mainly consists of individual clients, with low levels of indebtedness and relatively small-scale financial activity. Segment clients include those with individual accounts, joint accounts for two spouses etc. as well as mortgage borrowers. The segment is highly diversified, and is handled by the Bank's Retail Division.

In 2013, the Bank continued to deploy Hybrid Banking, which was launched in late 2011. Hybrid Banking – an optimal combination of personal and digital banking, allowing all clients direct access to their personal banker at the branch by using a range of communication channels. This unique, innovative service concept puts to use technological advances in the banking world, to create an immediate, direct link between the client and their personal banker at the branch. Unlike other banking concepts, technology is not intended as replacement of personal bankers at the branch, but rather to bond and solidify their ties with clients. As part of the Hybrid Banking campaign, the call center became a banking center, composed of 13 clusters. Furthermore, "branch teams" were formed, with each team assigned to 8-9 branches in a certain region, constituting an integral part of those branches. Accordingly, Bank clients can reach their banker at the branch, or one of the branch team members, by telephone, cell phone, SMS and email messages from anywhere during 12 hours of operation, from 8am to 8pm.

Products

Below is a description of the notable products in the household segment and the primary services offered within the scope of these products.

Banking and finance

Most of the services are provided within this framework

- **Credit and debitory accounts** – The credit limits for debitory account activity are determined according to the client's needs, his income level and Bank judgment, based on factors including economic models. In accordance with Proper Conduct of Banking Business Regulation 325, clients are not allowed to exceed their determined credit limit.
- **Investments** – providing investment-related services to customers, such as: Various deposits for different terms.
- **Loans** – general-purpose loans which include, inter alia, loans not intended for home purchase secured by pledging a lien on a residential property, and other loans for various terms and under different conditions.
- **Assistance in financing car purchase** - activity related to loans for new car purchase from importers, whereby the Bank and several car importers work jointly to offer joint promotions for financing car purchasing by clients.

Mortgages

The main services in the mortgage sector are loans from the Bank's funds; additionally, the Bank is engaged in the mortgage sector in providing execution and clearinghouse services for loans provided by the State, including loans in conjunction with the Ministry of Housing and Construction Assistance Program. Mortgage operations also include the offering of life and property insurance to borrowers (insurance incidental to the mortgage) via the Bank-owned insurance agency.

Volume of mortgages granted by the Household segment is as follows:

	Loans granted (NIS in millions)			Rate of change	
	2013	2012	2011	2013 over 2012	2012 over 2011
Mortgages issued (for housing and any purpose)					
From Bank funds	19,434	17,333	16,437	12.1%	5.5%
From Treasury funds:					
Directed loans	149	184	85	(19.0%)	116.5%
Standing loans and grants	197	215	101	(8.4%)	112.9%
Total new loans	**19,780**	**17,732**	**16,623**	**11.5%**	**6.7%**
Refinanced loans	2,645	1,755	1,422	50.7%	23.4%
Total loans originated	**22,425**	**19,487**	**18,045**	**15.1%**	**8.0%**
Number of borrowers (includes re-financed loans)	47,274	48,261	47,413	(2.0%)	1.8%

A description of the main mortgage services is provided below:

Loans out of Bank funds - loans out of Bank funds and at its risk, granted as free loans (which are not within the scope of the Ministry of Housing's aid program) for the purchase of real estate, for construction, generally for the borrower's residence. The loans are issued for long terms of up to 30 years, considering the loan type and borrower repayment capacity.

The Bank issues credit in different linkage segments and offers a "combined mortgage" – a loan composition that combines the following elements or a part thereof: CPI-linked component at fixed or variable interest, non-linked NIS component bearing fixed or adjustable interest and a foreign-currency linked component bearing adjustable interest. The combined mortgage enables the Bank to maintain profitability and allowing clients to diversify risk.

In view of the low Bank of Israel interest rates, and its decrease in recent years, this year too (similar to 2010-2012) saw borrowers prefer to take out adjustable-rate loans in the non-linked NIS-denominated sector as well as in the CPI-linked sector, where the interest rate is more attractive, compared to fixed-rate loans. Concurrently, the share of loans bearing fixed interest in the non-linked track increased.

For information about restrictions on LTV ratio for housing loans, see below under legislation in this segment.

Services in conjunction with the Ministry of Housing Assistance Program – Beyond the banking activity of granting credit, the Bank acts as an extension of the State in servicing eligible Ministry of Housing recipients. These services include loans within the Ministry of Construction and Housing's assistance program, including location-based loans, contingent grants and rental subsidies, as provided below:

A. **Loans** - as from July 1, 2004, a new two-year agreement went into effect between Bank Tefahot, at that time, and the Government, whereby the collection commission rate determined by the tender held by the Ministry of Finance, with the participation of the mortgage banks will apply to loans to eligible borrowers issued on or after July 1, 2004, which are significantly lower than the commission rate on loans issued until June 30, 2004. The agreement is between the entire banking sector, including the Bank, and the Government - with the decision as to which bank to use to realize the entitlement is up to the client obtaining the mortgage. This agreement is extended annually.

Bank revenues from all loans to eligible borrowers under State responsibility in 2013 amounted to NIS 69 million, compared to NIS 75 million in 2012.

For details of the agreement between the Ministry of Finance and banks, for provision of loans to eligible borrowers with low point rating out of Bank funds and under Bank responsibility, see Note 19.D.19.

In addition to ordinary loans in conjunction with the Assistance Program, there is a special arrangement for providing subsidized loans, issued by the Ministry of Housing and Construction under conditions that are updated from time to time, the objective of which is to encourage the purchase of new homes in certain communities that the State has an interest in populating ("location-based loans").

In the loans area, the Bank is involved, in addition to the ordinary banking services, in the array of administrative aspects required for services to Ministry of Housing and Construction eligible participants, such as issuance of eligibility certificates.

B. Contingent grant – A loan given as part of housing assistance from State funds that gradually is converted to a grant, subject to the conditions stipulated by the Ministry of Housing and Construction.

Life insurance and property insurance of borrowers (incidental to mortgages) – The vast majority of borrowers are insured in life insurance policies related to the loan, and most of the properties serving as collateral are insured by property insurance.

Through November 30, 2005, some borrowers would obtain insurance coverage under insurance arrangements which were customary at the Bank at the time. As from December 2005, a call center is operated at an insurance company, which is a wholly-owned and wholly-controlled subsidiary of the Bank, and some borrowers choose to obtain insurance coverage through the Bank's insurance agency while others make other insurance arrangements.

Life insurance and property insurance of borrowers (incidental to mortgages) – The vast majority of borrowers are insured in life insurance policies related to the loan, and most of the properties serving as collateral are insured by property insurance.

Through November 30, 2005, some borrowers would obtain insurance coverage under insurance arrangements which were customary at the Bank at the time. As from December 2005, a call center is operated at an insurance company, which is a wholly-owned and wholly-controlled subsidiary of the Bank, and some borrowers choose to obtain insurance coverage through the Bank's insurance agency while others make other insurance arrangements.

Marketing of insurance

In accordance with directives of the Supervisor of Insurance and of the Supervisor of Banks, life insurance and home insurance incidental to housing loans are marketed by an insurance agency wholly-owned by the Bank (Tefahot Insurance Agency (1989) Ltd.), whose operations are separate from those of the Bank, and is restricted to exclusively engage in home insurance, including water damage, and in life insurance incidental to loans granted by the Bank.

In order to maintain the required separation between the mortgage activities and insurance activities, special stations linked directly to the Bank-owned insurance agency were set up in the Bank branches that issue mortgages. At these stations, the client purchases life insurance and property insurance independently and produces the insurance forms necessary for taking out the loan.

Bank revenues from insurance incidental to mortgages (in NIS millions):

	2013	2012	2011
Life insurance	91	101	92
Property insurance	24	26	33
Total revenues from sale of insurance	**115**	**127**	**125**

In 2013, life insurance revenues decreased due to changes in markt terms of insurance incidental to mortgages and decreased agent commissions. The decrease in property insurance revenues is due to lower commissions and lower premiums for building insurance, with no similar increase in client pricing, as determined by the Ministry of Finance.

Capital market

This product includes client activities in the capital market, including buying, selling and custody of various securities and services provided for such securities (receiving interest, dividends, bonuses etc.) This also includes mutual fund distribution services and provident fund operating services.

Credit cards

Credit cards are one of the key means of payment in the economy. As part of the activities with clients in the household segment, a range of credit cards are offered. In this area, the segment works vis-à-vis credit card companies Isracard and CAL. The Bank offers its clients credit cards that are issued by these companies when opening a private account in the Bank, according to the client's request. Credit card companies, on their part, use the Bank as a conduit for distributing their cards to the Bank’s clients. The Bank offers its clients almost all kinds of credit cards existing in the Israeli economy. The Bank also has several products in the credit card sector:

"The Card" - a branded credit card unique to the Bank. The Card provides unique promotions and activity focused on consumer and banking benefits. The objective of The Card is to reinforce relationships and extend activity with existing clients, as well as another means of recruiting new clients by the Bank.

For details of the agreement with CAL group, inter alia, with regard to issuance of the branded credit card, see Note 19.D.13) to the financial statements.

"Tefahot Credit Card" – the product is aimed at assisting mortgage sales as well as opening of current accounts. The product enables the allocation of a credit facility, based on the client’s repayment ability and the asset already pledged to the Bank, through which the client can finance additional expenses involved in purchasing a home (furniture, renovations, etc.), or for any other reason. To this end, the client will be issued a unique credit card. The credit card charges will accumulate in the current account and be transferred periodically to the mortgage account.

"Current" credit card for Tefahot clients - in conjunction with the Bank's synergy activity, it offers a credit card based on "The Card" platform, intended for clients who took out a mortgage at the Bank and do not have an active current account at the Bank. These clients enjoy the various benefits of "The Card" club, and monthly charges are paid to the Bank by debit order to the client's active account at another bank.

"Free Student credit card" – this card provides students with general-purpose credit. Credit with this card may be used over 3 years and bears a special, attractive interest rate for the actual credit utilized. Credit payments are flexible, with initial repayment of principal and interest starting on the third anniversary of the card issue date (a 1-year extension may be applied for). Clients may repay early, in full or partial payment, with no fees or charges.

Unique Bank services

The key unique service offered by the Bank is Hybrid Banking, which allows clients easy, direct access to a personal banker using a range of readily available technologies, as described above. Moreover, under the household segment, the Bank offers its clients services which express the advantages of the combination of products offered by the Bank to its clients as described above. Within this structure, the Bank offers various benefits in current accounts and credit of clients who take out mortgages, in order to encourage the mortgage clients to maintain their current account in the Bank. The Bank also offers mortgage-related benefits to clients with current accounts in the Bank, in order to encourage these clients to take out mortgages through the Bank. The applicable benefits have also been applied to Bank Yahav clients, based on their activity and attributes.

The unique services that the Bank offers its clients in the household segment include retail banking products and mortgage products, as provided below:

Executive Account – the unique brand, "Executive Account", launched in 2007 allows a preferred segment of individuals to make the most of managing their current account with the Bank. The brand emphasizes service, account management, bank value propositions, financial benefits and non-banking services provided to Executive Account clients. Clients may use professional advisors for financial, pension and mortgage advisory services.

"Interest-free Overdraft" – Set-off of debit and credit balances of a customer during the month; this service is provided to select customers.

Benefits to mortgage holders – unique benefits offered to specific groups of clients who have a mortgage account with the Bank. The benefits included an interest-free facility in the current account, as well as interest on the credit balance up to the level of the monthly mortgage payment. The benefit is given every month, subject to the client's meeting other prescribed conditions during that month.

Retirement advisory service - the Bank offers a retirement advisory service to Bank clients and to clients of other banks, both salaried and self-employed, based on an advisory model supported by a computer system developed by the Bank. This advisory service is provided by qualified pension advisors, providing an objective advisory service.

See the description of competition in the segment below for alternatives to these products.

Legislation

In November 2012, the Supervisor of Banks issued a letter instructing all banks not to approve housing loans with an LTV ratio in excess of 75% for purchase of a real estate interest constituting a single apartment, 70% - for an alternative apartment and 50% - for any other apartment, including for investment purposes.

In November 2012, the Governor of the Bank of Israel issed an amendment to Banking Rules (Customer Service) (Commissions), 2008 and also issued the Banking Ordinance (Customer Service) (Elimination of Supervision of Certain Banking Service and Modification in Another Case), 2012. The new directives apply to banking corporations as from

January 1, 2013. According to the new amendment and ordinance, the Bank is required to provide public transparency with regard to commissions charged, and to take several actions to reduce commissions charged to individual and small business accounts.

In November 2012, the Supervisor of Banks directed banking corporations to take measures, starting on March 1, 2013, including to respecify the rate of commissions on securities, aligning these in as much as possible with commissions actually charged, and change the nature of client contracting to be based on the commission rate or amount, rather than on a discount off the list price.

In March 2013, the Supervisor of Banks issued a letter updating the directives with regard to residential real estate, given the rapid growth in loan portfolios secured by residential property and the significantly higher housing prices. In conformity with the directives, guidelines with regard to calculation of group-based provision for credit losses with respect to housing loans were updated - for more information see Note 1.D.6 to the financial statements. Guidelines with regard to capital adequacy were also updated. See Note 14 to the financial statements for details.

In August 2013, the Supervisor of Banks issued a letter concerning "Restrictions on provision of housing loans" designed, according to the Supervisor, "to reinforce the resilience of borrowers and of the banking system to potential negative impact upon a future increase in interest rates".

For details, see the chapter on Legislation and Supervision of Bank Group Operations.

For further details and description of the normative framework applicable to the Bank, and recently-published legislative arrangements, some of which have effect on operations of the household segment, see below in chapter on Legislation and Supervision of Bank Group Operations.

Technological changes

For technology changes, see chapter "IT and Computer Systems".

Critical success factors in the Household Segment

The Bank has a potential base of thousands of mortgage clients - a natural target audience for marketing of additional Bank products. Expansion of the client base and broadening the array of services to clients in the Household segment, while exploiting the reservoir of the mortgage clients represents another material factor for the success of this segment.

Moreover, upon acquisition by the Bank of 50% of Bank Yahav's issued share capital in 2009, these clients serve to reinforce operations of the retail segment, while exposing them to potential mortgage operations within the Group.

Clients

The activities of the household segment are characterized by broad diversification of loans and deposits in the retail banking sector and of the loans portfolio among the hundreds of thousands of households that took out mortgages from the Bank over the years. Therefore, the loss of one client or another does not have a material effect on the overall activity of the segment.

Marketing and distribution

Generally, marketing and distribution of the products and services of this segment are carried out through the network of Bank branches and through direct channels, serving Hybrid Banking.

Bank branches – the Group operates 177 business centers, branches, affiliates and representative offices across the country, including 45 Yahav branches. The Bank continues to improve branch deployment and to expand its points of sale, through measures including the addition of commercial activity to the mortgage branches and mortgage activity in the commercial branches. For details, see chapter on Branches.

Direct channels - after launching Hybrid Banking as described above, the nature of direct channel operation changed, and they were redefined to be tools serving the branch.

Currently, the stand-along direct channels (i.e. not assigned to bank branches) are:

- Telephone service through: Investment Center, Banking Center, Sales Center and Mortgage Center:
- Investment center - provide skilled, professional rapid response to capital market clients for conducting transactions and investment advice, from 7am till midnight, recruiting new clients for deposits, maximize investment campaigns (Pomegranate, Cherry, Lychee etc.), provide foreign currency services through a foreign currency extension of the trading room, launched in 2012, investment in overseas stock exchanges through a foreign securities extension, launched in early 2013, and training of investment advisors to be assigned to branches.
- Banking Center – the Banking Center serves Bank clients in the commercial sector through "branch teams", operating during Hybrid Banking business hours (8am to 8pm).

  In order to expand business hours, the Banking Center is a general backup call center for clients (not assigned to the branch team), from 8pm to midnight and between 7am and 8am.
- Sales center - intended to enhance selling capabilities of Bank branches, as part of marketing campaigns to recruit clients, who are referred directly to the sales center, or by means of outbound sales calls. In addition, the sales center handles sales of Tefahot credit cards, refinancing mortgages from other banks for Bank clients, sale of car loans and churn prevention and client preservation.
- Mortgage Center – provides a hub for activities related to mortgages: filing an application and obtaining advice on housing loans, obtaining information about existing loans and making arrangements and payments for delinquent loans.
- Website – receive banking information and execute transactions in your account for a range of banking products available to Bank clients 24 hours a day. In 2013 the Bank expanded the range of services available to clients in order to continued its policies of reducing client dependence on the actual branch. In 2009, IT improvements to the website were specified in order to continue improving the user interface of the system and to enhance client use of the website.
- Expanded services provided by the application and significantly increased the number of clients who enrolled for this service.
- Cell phone service – a system for disseminating banking and financial information through cell phones.

- Self-service machines – service stations at branches and ATMs for cash withdrawals form an additional arm for sales and for providing service. In 2013, most service stations were replaced by new, advanced stations.

See the chapter on Marketing Operations below for additional information.

The Bank has no dependence on outside marketing and distribution parties in this segment.

Competition

Banking and Finance, credit cards and the capital market

The number of competitors in the household segment is the number of banks operating in the economy, with the focus on the five commercial bank groups. In recent years, the retail banking market sees strong competition among banks. Generally, one can state that the retail banking products offered by the different banks are similar, and therefore, competition focuses on the quality of service, the rates of the margins and commissions paid by the clients.

In addition to the inter-bank competition, intensified efforts are discerned by non-banking entities (mainly insurance companies, credit card companies) that also approach this population segment with offers to provide credit. The credit card companies, together with retail chains and other entities, are also taking measures to issue credit cards directly to clients, not through a bank. See below regarding barriers to entry and exit.

In the capital market sector, the competitors also include private investment houses, in addition to insurance companies.

The Bank deals with the existing competition by aspiring to provide quality service and launching unique products. As noted above, the Bank believes that the Yahav acquisition holds potential for expanding activities in the household segment, based on on-going activities vis-à-vis clients.

Mortgages

Most of the mortgage activity in Israel is conducted through 10 banks operating in this field. For dozens of years, the Bank has been the leader in the mortgage sector, in terms of the volume of loans issued and the balance of the loans portfolio. Based on Bank of Israel data, the Group's share of provision of housing credit, out of Bank funds and out of State funds in the mortgage sector, reached 36% at the end of 2013, compared to 35% at the end of 2012. The Bank's major competitors are Bank Leumi, Bank Hapoalim and Discount Bank. Insurance companies also compete in the mortgage sector. See below regarding barriers to entry and exit .

The Bank has adopted different means to deal with the competitive environment in which the mortgages sector operates, including extensive advertising, use of marketers in the field, development and institution of new products, maintaining a presence in the new-homes market, by financing residential construction projects, etc. Another facet of the Bank's dealing with the competition in the mortgage sector is investing resources in constant improvement of its professional standard and the service it provides to clients.

The main barriers to entry into this segment are:

- Client habits
- Regulatory limitations
- Minimum capital requirements
- Training professional personnel
- Construction and maintenance of physical infrastructures (such as branches) and technological infrastructures (IT systems).

Cooperation agreements

- Several years ago, the Bank contracted an agreement with EMI – Ezer Mortgage Insurance Company Ltd. ("EMI") – a company holding a license for mortgage credit risk insurance. Credit risk of some Bank clients, who obtain new loans in which the loan to value ratio is high, is insured by EMI. This insurance is intended to cover damage that the Bank could sustain in the event of a credit failure, if the proceeds from foreclosing the collateral are insufficient to cover the balance of the borrower's debt. The insurance is for the upper layer of the loan, so that EMI is meant to cover the first loss and then reduce (or absolutely prevent) a loss to the Bank in the event of realization at a loss.

  Given the Bank of Israel restriction on LTV ratio for originating housing loans, the Bank no longer approves new loans with credit insurance in excess of 75% (except for loans exempted from this Bank of Israel directive, such as: refinancing loans).

  For details, see the chapter on Legislation and Supervision of Bank Group Operations below.

- The Bank entered into a series of agreements with several companies that issue credit cards, principally Isracard Ltd. (since 1979) and Israel Credit Cards Ltd. (since 1995), that arrange the relations between the parties. Pursuant to the agreements, the Bank will take action to distribute the credit cards issued by the companies to their clients. The agreements prescribe mechanisms for calculating the amounts to which the Bank is entitled for the activities of its clients in the cards issued, including based on the volume of usage by the Bank's clients of the credit cards of these companies. The agreements specify the manner in which the credit cards are to be used, the division of liability between the credit card companies and the Bank. Pursuant to the agreements, the Bank is entitled to appoint an overseer on its behalf, who will participate in meetings of the Board of Directors (including meetings of the Board of Directors' subcommittees, except for the audit committee) of Isracard Ltd.

  For details of the agreement signed with the CAL Group, including a new arrangement whereby Bank-branded credit cards have been issued - see Note 19.D.14 to the financial statements.

Business goals and strategy

The Bank sees importance in continuing to develop the household segment as part of the Bank's future activities. The key goals in the household segment and the resultant business strategy are presented below:

- Increasing household market share by broadening the client base, mainly among the clients of the former Bank Tefahot, of Adanim and of Bank Yahav, as a platform for achieving growth in market share and revenues.

- Retaining the Bank's share of the mortgages market and expanding it, while focusing on areas with high profitability, by providing valuable proposals to clients, based on the synergy between the mortgage, commercial and financial activities.
- Expanding activity in the branch network and converting all the branches into sales units in the household segment, for traditional banking activity and mortgage activity, and for cross-selling to clients.
- Continued development of products aimed at focused population groups, in order to increase volumes of activity.
- Leveraging the ties between the business banking segment in the construction and real estate industry and between the mortgages segment. In this area, emphasis is placed on maximizing the marketing of mortgages to the buyers of homes in projects built by the real estate segment's clients.

Material systems on which the segment relies for developing its operations are:

- The CRM (Client Relations Management) system, aimed at presenting all relevant information to the Banker in order to offer appropriate products to the client and improve client relations.
- Computer system to support the mortgage origination and administration process, allows for online operations and processing, as well as daily updates of balances. The system allows for flexible specification and on-going operation of various mortgage products, as well as for development of new, flexible products - allowing the Bank to be competitive and to rapidly react to changes in the business environment.
- In recent years, the Bank has upgraded its branch computer system, initiating use of ".NET" technology. This system positions the Bank in the top tier in terms of operations and service to clients and employees.

The results of the segment are exposed to a threat, due to reasons including the strong competition deriving from its attractiveness, since it is a segment in which the risk is low (due to the relatively high dispersal of clients). Additionally, the segment's results are affected by the entry of credit card companies into retail financing (for details see below).

The population of mortgage clients at the Bank and acquisition of the holding stake in Bank Yahav, offer an opportunity to expand the Group's client base and to expand operations in the household segment.

This information constitutes forward-looking information, and is based on various assumptions and forecasts presented to Bank management, as described below. The information may not be realized, if Bank management finds that it is not expedient to carry out the plan, or due to changes that could occur in various influencing factors that are not under the sole control of the Bank. The influencing factors include forecasts on various matters related to economic development in Israel and internationally, especially the state of the economy, demand for housing and mortgages, legislation, directives of regulatory entities, the behavior of competitors (including non-banking entities), aspects related to the Bank's image, technological development, developments in availability and price of properties and staffing issues.

Results of Household Segment

	For the year ended December 31, 2013					For the year ended December 31, 2012				
	Banking and finance	Credit cards	Capital market	Mortgages	Total	Banking and finance (1)	Credit cards	Capital market	Mortgages (1)	Total
										NIS in millions
Interest revenues, net:										
From outside operating segments	395	25	-	3,269	3,689	214	28	-	3,032	3,274
Inter-segment	788	(5)	-	(2,624)	(1,841)	977	(20)	-	(2,423)	(1,466)
Total interest revenues, net	**1,183**	**20**	**-**	**645**	**1,848**	**1,191**	**8**	**-**	**609**	**1,808**
Non-interest financing revenues	-	-	7	-	7	-	-	7	-	7
Commissions and other revenues	237	130	176	228	771	244	130	165	239	778
Total revenues	**1,420**	**150**	**183**	**873**	**2,626**	**1,435**	**138**	**172**	**848**	**2,593**
Expenses with respect to credit losses	49	-	-	190	239	55	-	-	10	65
Operating and other expenses										
From outside operating segments	1,435	25	67	275	1,802	1,355	28	55	279	1,717
Inter-segment	(112)	(3)	-	-	(115)	(116)	(3)	-	-	(119)
Total operating and other expenses	**1,323**	**22**	**67**	**275**	**1,687**	**1,239**	**25**	**55**	**279**	**1,598**
Pre-tax profit	48	128	116	408	700	141	113	117	559	930
Provision for taxes on profit	17	45	40	141	243	49	40	41	193	323
After-tax profit	**31**	**83**	**76**	**267**	**457**	**92**	**73**	**76**	**366**	**607**
Net profit (loss):										
Before attribution to non-controlling interest	31	83	76	267	457	92	73	76	366	607
Attributable to non-controlling interest	(44)	-	-	-	(44)	(50)	-	-	-	(50)
Attributable to equity holders of the banking corporation	**(13)**	**83**	**76**	**267**	**413**	**42**	**73**	**76**	**366**	**557**
Return on capital (net profit as % of average capital)					**8.4%**					**14.2%**
Average asset balance	15,804	2,899	-	78,696	97,399	14,840	2,560	-	71,757	89,157
Average balance of liabilities	59,676	2,899	-	106	62,681	55,799	2,560	-	87	58,446
Average balance of risk assets	15,411	-	-	42,020	57,431	15,038	-	-	36,725	51,763
Average balance of securities(2)	-	-	31,406	-	31,406	-	-	26,895	-	26,895
Average balance of loans to the public	15,565	2,849	-	77,978	96,392	14,830	2,524	-	71,708	89,062
Average balance of deposits from the public	59,500	-	-	-	59,500	55,795	-	-	-	55,795
Credit to the public (end balance)	16,036	2,986	-	84,246	103,268	15,219	2,783	-	75,011	93,013
Deposits from the public (end balance)	60,793	-	-	-	60,793	58,645	-	-	-	58,645
Average balance of other assets managed	9,969	-	-	10,039	20,008	8,675	-	-	11,531	20,206
Profit from interest revenues before expenses with respect to credit losses:										
Margin from credit granting operations	725	20	-	628	1,373	656	8	-	577	1,241
Margin from receiving deposits	455	-	-	-	455	530	-	-	-	530
Other	3	-	-	17	20	5	-	-	32	37
Total interest revenues, net	1,183	20	-	645	1,848	1,191	8	-	609	1,808

(1) Reclassified.

(2) Includes balance of securities of provident funds and mutual funds for which the Bank provides operating services, but excludes mutual funds held by Bank clients.

Contribution of the household segment to Group profit in 2013 amounted to NIS 413 million, compared to NIS 557 million in the corresponding period last year - a decrease of 25.8%. Below are key factors affecting the change in segment contribution:

Contribution of mortgages in 2013 amounted to NIS 267 million, compared to NIS 366 million in the corresponding period last year – a decrease of 27%. The decrease is primarily due to a non-recurring group-based provision for credit losses amounting to NIS 191 million (net after-tax: NIS 122 million) due to implementation of the Supervisor of Banks' directive with regard to housing loans. This provision is included on the 2013 financial statements. However, business volume attributed to this segment increased, so that excluding the effect of this non-recurring provision, net profit increased by NIS 23 million, or 6.3%, over the corresponding period last year. Net return on equity for mortgages, excluding the non-recurring provision, was 10.3% compared to 12.5% in the corresponding period last year. The decrease in net return on equity is primarily due to the increase in capital base of the Bank, in conformity with regulatory requirements – see also chapter "Profit and profitability".

Net interest revenues before before expenses with respect to credit losses amounted to NIS 645 million, compared to NIS 609 million in the corresponding period last year, an increase of NIS 36 million primarily due to expanded operations, reflected in an increase of 9.7% in average assets.

Commissions and other revenues decreased by NIS 11 million, due to various regulatory effects which reduce commissions charged to Bank clients. See chapter "Legislation and Supervision of Bank Group Operations". Other operating expenses were essentially unchanged compared to the corresponding period last year.

Contribution of households (excluding mortgages) in 2013 amounted to NIS 146 million, compared to NIS 191 million in the corresponding period last year, a decrease of NIS 45 million. Net interest revenues before expenses with respect to credit losses increased by NIS 4 million, primarily due to higher margin on loan provision, attributed to increased business volume along with margin erosion on deposits received, due to the low interest rate environment.

Commissions and other revenues increased by NIS 4 million, primarily due to increased business volume. In this segment, growth in commission revenues was offset by various regulatory effects which reduce commissions charged to Bank clients. See chapter "Legislation and Supervision of Bank Group Operations".

Expenses with respect to credit losses decreased by NIS 6 million, while operating expenses increased by 7%. The increase in operating expenses is primarily due to payroll expenses, which increased due to non-recurring provisions by the Bank and by Bank Yahav. See also chapter "Profit and profitability".

Private Banking Segment

General information on the operating segment

Private banking is the concept of banking services geared to clients with high financial wealth, with a considerable part of their activity executed in the management of financial assets. Private banking clients at the Bank are primarily individual clients with liquid assets and security investments over NIS 2.5 million, and corporations with liquid assets in excess of NIS 8 million.

Financial consulting, which constitutes a significant part of the service offered to this operating segment, is provided to the clients of the segments who have signed consulting agreements. A response is also provided for other financial needs of these clients, while providing high-quality personal service and offering a range of advanced products.
The banks in Israel have invested substantial resources in recent years in the development and upgrading of the private banking services and in increasing their market share in this segment. This is due to the following factors:

- The potential in expanding business relationships with clients of a high socio-economic position assigned to this segment.
- Growing demand by clients of this segment for a high standard of professional and personal service, as prevails worldwide.
- Accelerated development of advanced investment products, such as: structured products, hedge funds, ETFs and others, which are alternatives to traditional products (savings accounts, securities etc.)

Products

The products and services offered to clients of this segment are as follows:

- **Banking and finance** – A wide range of banking and finance products are offered to this segment's clients, while formulating an investment strategy suitable for each client, tailored to his character and special needs, as well as an array of advanced investment products.
- **Credit cards** - the Bank offers to segment clients a range of exclusive credit cards issued by Israeli credit card companies.
- **Capital market** - this product includes client operations in the capital market, including buying, selling and custodial services of various securities, and provision of services with respect to securities (receipt of interest, dividends, bonus etc.) This also includes mutual fund distribution services.

Legislation

A description of the normative framework applicable to the Bank, including to the Private Banking segment, is provided below under the chapter Restrictions on and Regulation of Bank Group Operations.

Technological changes

For technology changes, see chapter "IT and Computer Systems".

Critical success factors

The critical success factors in the Private Banking Segment include development of marketing and business activities that rest on the understanding of the clients' needs and on providing professional, fast and effective service that offers a comprehensive solution to the client's needs in all banking areas.

Clients

This segment serves clients with high financial wealth, mainly individual clients with liquid deposits and security investments exceeding NIS 2.5 million and business clients with such liquid balances in excess of NIS 8 million.
The client group served by this segment is heterogeneous, there are no material dependencies or relations between clients and the Bank, hence the private banking segment is not dependent on any specific group of clients whose loss may materially impact its operations.

Marketing and distribution

In addition to the marketing and distribution activities through the Bank's private banking department and through direct channels, conferences are conducted for clients in this segment, according to select population segments and inquiries through direct mail. The Bank has no dependence on outside marketing and distribution parties in this segment.

Competition

The concept of the unique services defined by the Bank as "private banking" prevails throughout the global and international banking system, and also in Israel. However, it should be noted that the criteria that determine whether one belongs to this segment, the service approach and its specific nature change, and do not rest on identical principles in all the banks. Also, accordingly, the volume of the Bank's activities in this segment relative to its competitors is not known, and public information is not available about the proportionate share in the private banking system of the different banks.
In addition to local banks, there is competition in this segment from foreign banks and non-banking entities, such as investment houses, types of funds (from Israel and overseas) and insurance companies.
In order to deal with current competition in this segment, the Bank invests substantial resources in the professional training of its employees, in providing high quality service and in maintaining strong ties with the client, in the organization of professional conferences for the segment's select clients, in introduction of specialized and unique products to the segment's clients, and in efforts to identify and attract new clients on a regular basis.

The main barriers to entry into this segment are:

- Regulatory limitations
- Minimum capital requirements
- Training professional personnel
- Building and maintaining physical and technological infrastructure (IT systems, with emphasis on consulting systems and CRM).
- A supply of unique financial products.

Business goals and strategy

The Bank plans to continue to develop its global private banking network, based on centralized management, centers of professional support and cooperation between Bank affiliates and units in Israel and throughout the world.

Continuing to provide professional, reliable service and to maintain close relationships with clients would allow the Bank to expand its business with segment clients.

This information constitutes forward-looking information, and is based on various assumptions and forecasts presented to Bank management, as described below. The information may not be realized, if Bank management finds that it is not expedient to carry out the plan, or due to changes that could occur in various influencing factors that are not under the sole control of the Bank. The influencing factors include forecasts on various matters related to economic developments in Israel and internationally, especially the state of the economy, including macroeconomic and geopolitical conditions, economic policies, the currency market and capital market in Israel and world-wide, other factors that impact the exposure to financial risk, clients' financial robustness, the public's preferences, legislation, directives of regulatory entities, the behavior of competitors, aspects related to the Bank's image, technological developments and manpower matters.

Results of Private Banking Segment

	For the year ended December 31, 2013			For the year ended December 31, 2012		
	Banking and finance	Capital market	Total	Banking and finance [1]	Capital market	Total
						NIS in millions
Interest revenues, net:						
From outside operating segments	(15)	-	(15)	(12)	-	(12)
Inter-segment	70	-	70	83	-	83
Total interest revenues, net	**55**	**-**	**55**	**71**	**-**	**71**
Non-interest financing revenues	2	-	2	1	-	1
Commissions and other revenues	26	28	54	26	29	55
Total revenues	**83**	**28**	**111**	**98**	**29**	**127**
Expenses with respect to credit losses	-	-	-	(1)	-	(1)
Operating and other expenses						
From outside operating segments	75	1	76	78	-	78
nter-segment	10	-	10	5	-	5
Total operating and other expenses	**85**	**1**	**86**	**83**	**-**	**83**
Pre-tax profit	(2)	27	25	16	29	45
Provision for taxes on profit	(1)	9	8	6	10	16
Net profit attributable to equity holders of the banking corporation	**(1)**	**18**	**17**	**10**	**19**	**29**
Return on capital (net profit as % of average capital)			**18.8%**			**30.4%**
Average asset balance	2,214	-	2,214	2,274	-	2,274
Average balance of liabilities	7,002	-	7,002	6,958	-	6,958
Average balance of risk assets	1,007	-	1,007	1,191	-	1,191
Average balance of securities[2]	-	8,604	8,604	-	7,767	7,767
Average balance of loans to the public	1,217	-	1,217	1,558	-	1,558
Average balance of deposits from the public	6,444	-	6,444	5,741	-	5,741
Loans to the public, net (end balance)	956	-	956	1,178	-	1,178
Deposits from the public (end balance)	7,027	-	7,027	7,077	-	7,077
Average balance of other assets managed	7	-	7	2	-	2
Profit from interest revenues before Expenses with respect to credit loss:						
Margin from credit granting operations	24	-	24	28	-	28
Margin from receiving deposits	30	-	30	42	-	42
Other	1	-	1	1	-	1
Total interest revenues, net	**55**	**-**	**55**	**71**	**-**	**71**

(1) Reclassified.
(2) Includes securities of provident funds and mutual funds for which the Bank provides operating services, but excludes mutual fund held by Bank clients.

Contribution of the private banking segment to Group profit in 2013 amounted to NIS 17 million, compared to NIS 29 million in the corresponding period last year - a decrease of NIS 12 million. Below are key factors affecting the change in segment contribution:

Net interest revenues amounted to NIS 55 million in 2013, compared to NIS 71 million in the corresponding period last year, a decrease of 22.6%, primarily due to margin erosion on deposits due to the low interest rate environment and to lower revenues from loans due to lower lending volume. Expenses with respect to credit losses were essentially unchanged compared to the previous period last year. Commissions and other revenues decreased by NIS 1 million. Operating and other expenses increased by NIS 3 million.

Small Business Segment

General information on the operating segment

The small business segment operates within the retail division, and mainly serves small companies and small business clients with relatively low turnover and total indebtedness of up to NIS 6 million. This segment is characterized by large client diversification. In view of the fact that the availability of data and their quality regarding the clients of this segment is relatively lower than for major business clients, there is a need for professional service and appropriate means of control, in order to assess the quality of the client for the purpose of issuing credit. Additionally, this segment is characterized by a high percentage of collateral required from the clients to ensure credit repayment.

Products

Banking and finance

Within the scope of this product, the Bank provides the following services:

- Loans for various purposes – business loans, loans against the discounting of checking, credit cards etc.
- Import/export activities – foreign currency operations, adaptation of credit facilities to the nature of the client's activities using technological means, such as: EDI online.
- Investments – an array of investment activities, such as: Various deposits for different terms.
- Management of checking account facilities – The facilities are determined according to the client's needs, turnover and judgment of the Bank.

Credit cards - the Bank offers to segment clients a range of credit cards issued by Israeli credit card companies.

Capital market - this product includes customer activities in the capital market, including buying, selling and custody of various securities and services provided for such securities (receiving interest, dividends, bonuses etc.) This also includes mutual fund distribution services and provident fund operating services.

Legislation

A description of the normative framework applicable to the Bank is provided under the chapter Legislation and Regulation of Bank Group Operations.

Technological changes

See the chapter on IT Systems above for the technological changes, including with respect to provident funds and pension consultancy.

Critical success factors

The critical success factors in this operating segment are personal service and providing banking solutions for the range of the client’s financial needs.

Clients

Operations of the small business segment are typically highly diversified in terms of retail credit and deposits. Therefore loss of any client does not materially impact segment operations, hence the segment is not dependent on any individual client nor on any small number of clients.

Marketing and distribution

The main marketing and distribution factors in the segment are the Bank's branches and direct channels. There is no dependence on outside marketing channels. For details of these marketing and distribution factors, see description of the household segment.

Competition

Competition in this operating segment is primarily within the banking system, as well as activity by non-bank credit providers, such as insurance companies, non-bank credit cards and various financing companies. The Bank's principal methods for dealing with the competition are active marketing, personal ties with the client, providing personal service and comprehensive professional solutions for the full range of client financial needs.
Due to differences among banks in segment definitions, the Bank is unable to estimate its market share of this segment.

The main barriers to entry into this segment are:

- Regulatory limitations
- Minimum capital requirements
- Training professional personnel
- Construction and maintenance of physical infrastructures (such as branches) and technological infrastructures (IT systems).
- Customer habits – with emphasis on maintaining current relationships and reputation of banking institutions

Business goals and strategy

The Bank's business strategy consists of expansion of its operations in the small business segment, while constantly evaluating risk at the individual client level and for the entire sector and industry.

Below are the key goals in the small business segment and the business strategy deriving from these goals:

- Increasing marketing activity vis-à-vis clients, while segmenting the clients by occupation, size of operation and individual needs.
- Maximize potential profitability for each client by adopting a comprehensive view of client activity, creating a comprehensive relationship based on credit products and marketing of other products – depending on client attributes.
- Expanded activity in the State fund for small and medium businesses.
- Expand geographic deployment of services provided to segment clients.

This information constitutes forward-looking information, and is based on various assumptions and forecasts presented to Bank management, as described below. The information may not be realized, if Bank management finds that it is not expedient to carry out the plan, or due to changes that could occur in various influencing factors that are not under the sole control of the Bank. The influencing factors include forecasts on various matters related to economic developments in Israel and internationally, especially the state of the economy, including GDP growth and impact of macroeconomic and geopolitical conditions, borrowers' financial robustness, the public's preferences, legislation, directives of regulatory entities, the behavior of competitors, technological developments and issues of human resources.

Results of the Small Business Segment

	For the year ended December 31, 2013				For the year ended December 31, 2012			
	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	436	8	-	444	309	7	-	316
Inter-segment	24	(2)	-	22	138	(5)	-	133
Total interest revenues, net	**460**	**6**	**-**	**466**	**447**	**2**	**-**	**449**
Non-interest financing revenues	-	-	-	-	1	-	-	1
Commissions and other revenues	215	15	18	248	206	14	18	238
Total revenues	**675**	**21**	**18**	**714**	**654**	**16**	**18**	**688**
Expenses with respect to credit losses	72	-	-	72	36	-	-	36
Operating and other expenses								
From outside operating segments	493	4	4	501	450	4	5	459
Inter-segment	(52)	-	-	(52)	(53)	-	-	(53)
Total operating and other expenses	**441**	**4**	**4**	**449**	**397**	**4**	**5**	**406**
Pre-tax profit	162	17	14	193	221	12	13	246
Provision for taxes on profit	55	6	5	66	77	4	5	86
Net profit attributable to equity holders of the banking corporation	**107**	**11**	**9**	**127**	**144**	**8**	**8**	**160**
Return on capital (net profit as % of average capital)				**26.3%**				**38.8%**
Average asset balance	7,161	350	-	7,511	6,873	306	-	7,179
Average balance of liabilities	8,862	-	-	8,862	8,280	-	-	8,280
Average balance of risk assets	5,363	-	-	5,363	5,160	-	-	5,160
Average balance of securities(1)	-	-	6,420	6,420	-	-	5,606	5,606
Average balance of loans to the public	7,060	349	-	7,409	6,739	250	-	6,989
Average balance of deposits from the public	8,767	-	-	8,767	8,035	-	-	8,035
Loans to the public, net (end balance)	7,290	377	-	7,667	6,538	322	-	6,860
Deposits from the public (end balance)	9,517	-	-	9,517	8,159	-	-	8,159
Average balance of other assets managed	198	-	-	198	191	-	-	191
Profit from interest revenues before Expenses with respect to credit loss:								
Margin from credit granting operations	380	-	-	380	344	-	-	344
Margin from receiving deposits	63	-	-	63	80	-	-	80
Other	17	6	-	23	23	2	-	25
Total interest revenues, net	**460**	**6**	**-**	**466**	**447**	**2**	**-**	**449**

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

Contribution of the small business segment to Group profit in 2013 amounted to NIS 127 million, compared to NIS 160 million in the corresponding period last year – a decrease of 20.6%. Below are key factors affecting the change in segment contribution:

Net interest revenues in 2013 amounted to NIS 466 million, compared to NIS 449 million in the corresponding period last year, an increase of NIS 17 million, primarily due to increased business volume and decrease in margin on deposits due to the low interest rate environment. Commissions and other revenues increased by 4.2% over the corresponding period last year.

Expenses with respect to credit losses amounted to NIS 72 million, compared to NIS 36 million in the corresponding period last year, an increase of NIS 36 million, primarily due to changes to group-based provision rate attributed to this segment, compared to the corresponding period last year. Operating expenses increased by 10.6%, due to this segment's share of the increase in payroll expenses due to non-recurring provisions at the Bank. See also chapter "Profit and profitability".

Commercial Banking Segment

General information on the operating segment

The Commercial Banking segment primarily includes medium-sized private and public companies (Middle Market), having medium turnover, ranging from NIS 30 to 120 million, and total indebtedness ranging from NIS 6 to 25 million. This is highly diversified over different economic sectors. Segment clients are served under responsibility of the Bank's Business Division.

Clients in this segment use a range of banking services, associated with a relatively high ratio of collateral compared to Business Banking segment clients.

Products

Segment clients are primarily offered services in the banking and finance sector. Within this framework, the Bank issues different kinds of credit, including for working capital purposes: foreign trade services – importing, exporting, documentary credit; short and intermediate-term loans, bank guarantees, etc.; transactions in foreign currency, including trading in derivatives, factoring services and investment in deposits and in securities.

Legislation

A description of the normative framework applicable to the Bank, including to this segment, is provided below under the chapter Restrictions on and Regulation of Bank Group Operations.

Technological changes

For details of technology changes and projects undertaken by the Bank's IT department, see below under Information Systems and Computing.

Critical success factors

The critical success factors in the Commercial Banking Segment include development of marketing and business activity resting on understanding the needs of clients, and providing fast and effective professional services that offer a comprehensive solution adapted for all of the client's banking needs. This is done by offering diverse and innovative products while controlling the risk deriving from the segment's activities.

Clients

Segment clients are mainly medium-sized private and public companies (Middle Market) with medium turnover of NIS 30-120 million and total indebtedness from NIS 6-25 million. In this segment, there is no dependence on a major individual client.

Marketing and distribution

The segment primarily engages in marketing and distribution using six business hubs for which the Business Division is responsible, as well as business centers and Bank branches throughout Israel. There is no dependence on outside marketing channels.

Competition

The existing competition in this operating segment is mainly within the banking system. Activities of non-banking financing entities is small, and is mainly evident in factoring activities.
The Bank's main methods for dealing with the competition are to provide comprehensive professional solutions for the client's needs, to maintain personal ties with the client, and tailor a professional solution for the client's needs quickly and effectively.
Due to differences among banks in segment definitions, the Bank is unable to estimate its market share of this segment.
The major barriers facing a customer in moving to and from the Bank, derive mainly from the difficulty in transferring collateral from one bank to another; a factor that is significant in this sector, which is characterized by a relatively large volume of collateral. In order to increase the Bank's market share of this segment, despite the aforementioned challenges, the Bank primarily strives to improve service, professional attitude and responsiveness to client needs.

The main barriers to entry into this segment are:

- Regulatory limitations on banking corporations – including per-borrower and per-group of borrower limitations, These limitations are primarily effective for smaller banks in Israel.
- Minimum capital requirements – requirements due to total segment volume of activity.
- Training and retaining professional manpower – the activity in the Commercial Banking segment requires professional knowledge, experience and familiarity with the different industry and with the typical clients and their needs. The service provider must provide high quality, rapid service, while providing optimal solutions.
- Construction and maintenance of physical infrastructures (such as branches) and technological infrastructures (IT systems).
- Client habits – based on maintaining current relationships and reputation of banking institutions

Business goals and strategy

The Bank's business strategy emphasizes the significant expansion of the client base and growth in the activities of the commercial banking segment.
The Bank intends to continue significantly expanding operations in this segment, primarily by recruiting new clients and expanding banking services to current and secondary clients. This is based on the range of products offered to segment clients, as described above.
The Bank will continue to operate, under the Business Banking Division, dedicated departments for serving clients of the various segments, assisted by regional business hubs.
For details regarding risk management, see chapter on Risk Management.
This information constitutes forward-looking information, and is based on various assumptions and forecasts presented to Bank management, as described below. The information may not be realized, if Bank management finds that it is not expedient to carry out the plan, or due to changes that could occur in various influencing factors that are not under the sole control of the Bank. The influencing factors include forecasts on various matters related to economic developments in Israel and internationally, especially the state of the economy, including macroeconomic and geopolitical conditions impacting, inter alia, GDP growth, the currency market and capital market in Israel and world-wide, other factors that impact the exposure to financial risk, borrowers' financial robustness, the public's preferences, legislation, directives of regulatory entities, the behavior of competitors, including non-banking entities, aspects related to the Bank's image, technological developments and manpower matters.

Results of the Commercial Banking Segment

	For the year ended December 31, 2013				For the year ended December 31, 2012			
	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	190	-	-	190	198	-	-	198
Inter-segment	(24)	-	-	(24)	(27)	-	-	(27)
Total interest revenues, net	**166**	**-**	**-**	**166**	**171**	**-**	**-**	**171**
Non-interest financing revenues	-	-	1	1	-	-	1	1
Commissions and other revenues	49	2	8	59	48	3	9	60
Total revenues	**215**	**2**	**9**	**226**	**219**	**3**	**10**	**232**
Expenses with respect to credit losses	(5)	-	-	(5)	8	-	-	8
Operating and other expenses								
From outside operating segments	67	-	1	68	65	-	1	66
Inter-segment	65	-	-	65	68	-	-	68
Total operating and other expenses	**132**	**-**	**1**	**133**	**133**	**-**	**1**	**134**
Pre-tax profit	88	2	8	98	78	3	9	90
Provision for taxes on profit	31	1	3	35	27	1	3	31
Net profit attributable to equity holders of the banking corporation	**57**	**1**	**5**	**63**	**51**	**2**	**6**	**59**
Return on capital (net profit as % of average capital)				**13.9%**				**14.3%**
Average asset balance	4,640	49	-	4,689	4,655	49	-	4,704
Average balance of liabilities	3,505	-	-	3,505	3,545	-	-	3,545
Average balance of risk assets	5,028	-	-	5,028	5,172	-	-	5,172
Average balance of securities(1)	-	-	3,806	3,806	-	-	3,633	3,633
Average balance of loans to the public	4,604	49	-	4,653	4,570	38	-	4,608
Average balance of deposits from the public	3,485	-	-	3,485	3,399	-	-	3,399
Loans to the public, net (end balance)	4,462	55	-	4,517	4,625	54	-	4,679
Deposits from the public (end balance)	3,408	-	-	3,408	3,358	-	-	3,358
Average balance of other assets managed	284	-	-	284	224	-	-	224
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	145	-	-	145	144	-	-	144
Margin from receiving deposits	16	-	-	16	24	-	-	24
Other	5	-	-	5	3	-	-	3
Total interest revenues, net	**166**	**-**	**-**	**166**	**171**	**-**	**-**	**171**

(1) Includes balance of securities of provident funds and mutual funds for which the Bank provides operating services, but excludes mutual funds held by Bank clients.

Contribution of the commercial banking segment to Group profit in 2013 amounted to NIS 63 million, compared to NIS 59 million in the corresponding period last year – an increase of 6.8%. Below are key factors affecting the change in segment contribution:

Interest revenues, net decreased by NIS 5 million, primarily due to margin erosion on deposits due to the low interest rate environment.

Expenses with respect to credit losses decreased by NIS 13 million compared to the corresponding period last year. Revenues in 2013 are attributed to collection from a few clients. Operating expenses were essentially unchanged.

Business Banking Segment

General information on the operating segment

The segment specializes in providing complete banking and financing services to the largest companies, in a range of sectors, with total indebtedness exceeding NIS 25 million per client and turnover in excess of NIS 120 million. This segment also includes the banking service group for companies in the construction and real estate sector - even if they have medium indebtedness levels. This is in accordance with the approach of the Bank's Executive Management regarding the segment allocation of the real estate activities and corresponds with the manner in which these customers are serviced and the organizational structure of the Bank. The Bank's business division is in charge of serving clients of this segment.
In its activities in this segment, the Bank emphasizes improved profitability through expansion of activity in innovative financing areas with very high profitability relative to capital, mainly trading in derivative instruments.

Products

Segment clients are offered a range of banking and finance products, including: Different types of credit – on call, short-term, intermediate-term and long-term loans, different types of guarantees; foreign trade activity – importing, exporting, documentary credit; financing of infrastructure products, mergers and acquisitions; and trading in derivatives.

Real estate

In this sector, the Bank offers credit to finance the purchase and construction of real estate, mainly residential construction products in areas of high demand, while insisting on the applications of tests prescribed in order to maintain the quality of the loan portfolio, and these include ties with customers having financial strength and stability, transactions characterized by favorable safety cushions for the Bank, and management using methods that reduce the risk.

The main services provided to clients of the real estate sector are:

Credit for construction - in this sector, the Bank provides credit, in particular short- and medium-term loans, used to finance land acquisition and investment in construction, as well as various types of bank guarantees.

Financing for construction projects - construction project financing is a unique service, provided by the Bank exclusively to clients in this sector. Within this framework, the client is allocated a package of financial and banking services, suited to the specific needs of each project and based on its characteristics. This includes allotment of credit facilities for land acquisition, construction loans, financial guarantees, performance guarantees and guarantees to home buyers in projects. The Bank issues construction financing mainly by the financial support method, in which the Bank channels the financing sources, including the buyers' monies deposited with it, in a manner that advances completion of the project.

Purchase groups - a purchase group is a collection of individuals, gathered for the purpose of jointly acquiring land and buying construction services on the land. Alternatively, existing land owners join forces to jointly construct, by ordering construction services.
The Bank provides dedicated financing for projects of this type, and assists them from preliminary stages of forming the group, through completion of construction.

Legislation

A description of the normative framework applicable to the Bank is provided below under the chapter Restrictions on and Regulation of Bank Group Operations. Below we describe some of this legislation and other arrangements, which impact operations of the Business Banking segment.

Transactions with related parties - pursuant to Proper Conduct of Banking Business Regulation No. 312 ("Banking Corporation's Business with Related Parties"), the Bank is subject to a restriction, whereby the indebtedness of any Group component may not exceed the product of its share of the controlling block and 10% of the banking corporation's capital, i.e. 5% for each of the controlling shareholders' borrower groups.
For details of criteria for transactions with controlling shareholders, stipulated by the Audit Committee and its reconfirmation , see below under Transactions with Controlling Shareholders.

Financing acquisition of means of control – The provisions of Proper Conduct of Banking Business Regulation No. 323 ("Financing an Acquisition of Means of Control in Corporations") limit the balance of loans given to acquire the means of control in corporations, where the percentage of the financing for this acquisition exceeds 50% of the acquisition cost, at a percentage not to exceed 70% of the Bank's capital. Additionally, the regulation limits the balance of credit given by a banking corporation for an acquisition of the means of control of another banking corporation or a banking holding company, when the percentage of the financing of such an acquisition exceeds 30% of their acquisition cost, to the lower of 5% of the lending bank's capital or 5% of the capital of the acquired bank, or another rate that the Supervisor prescribes for a bank corporation with capital below NIS 500 million. This limitation is not effective with respect to the Bank's activity as of the date of the financial statements.

Industry limit – The provisions of Proper Conduct of Banking Business Regulation No. 315 ("Supplementary Provision for Doubtful Debts") stipulate that when all the debts ("debt" –as defined in the regulation, after all the deductions permitted by the regulation are deducted from it) of a certain industry to the bank corporation (on an unconsolidated basis) exceeds 20% of the total debts of the public to the bank corporation, this excess will be considered as debt in deviation, for which the bank must make a supplementary provision for doubtful debts. This limit is evaluated on an unconsolidated basis. The amendment to a directive issued by the Supervisor of Banks in September 2009 stipulated that, with regard to the real estate sector, the Bank may choose to reach exposure of up to 22%, provided that exposure to infrastructure projects in the real estate sector shall not exceed 18%. This limitation is not effective with respect to Bank operations.

Limits on indebtedness of a borrower and a group of borrowers – In accordance with Proper Conduct of Banking Business Regulation No. 313 ("Limitations on Debts of a Borrower and a Group of Borrowers"), a limitation has been imposed on the Bank, whereby the Bank is permitted to grant credit to a "borrower" or a "group of borrowers", as defined in regulation, after certain amounts provided in the regulation were deducted from the debts, not to exceed 15% or 25% of the Bank's capital, respectively. The Regulation further stipulates that total indebtedness of borrowers and groups of borrowers at the Bank, whose net indebtedness to the Bank exceeds 10% of the Bank's equity, may not exceed 120% of said equity.

Securing home buyers – the Sale Law (Apartments) (Securing Investments of Home Buyers), 1974 (“the Sale Act” or “the Act") prohibits the apartment seller (“seller” and “apartment” as defined in the Act) to receive proceeds exceeding 7% of the price, unless the buyer is secured through one of the alternatives provided in the Act. One of the alternatives provided in the Act to secure apartment buyers is the furnishing of a bank guarantee under the Sale Act. The use of this alternative is very prevalent and accepted by companies engaged in the construction industry and contributes to the growth in the Bank's off-balance sheet credit risk.

Financial assistance - Proper Conduct of Banking Business Regulation 326 on Financial Assistance stipulates that a banking corporation shall not finance a construction project using the financial assistance method, unless a book of payment vouchers is produced and provided to the construction contractor for each apartment to be sold in the project. This is designed to secure funds of apartment buyers in project financed using the financial assistance method, and to ensure concentration of resources designated for project construction, and in particular proceeds from sale of apartments, in the project account designated for this purpose. These payment vouchers will be used for all payments to be made by the apartment buyer to the developer for the cost of the apartment. The regulation specifies the details to be included on each payment voucher. The regulation required the banking corporation to issue a guarantee to the apartment buyer for any amount paid by a payment voucher, or to ensure provision of other collateral pursuant to the Apartment Sale Act within 14 days from the payment date. Furthermore, the regulation describes arrangements for providing information to buyers with regard to matching of the project account to a specific project, and determines the details to be included in the assistance agreement with the developer in order to allow for implementation of the voucher system.
This regulation applies to financial assistance agreements signed on June 1, 2008 or later.

Credit risk management – in December 2012, the Bank of Israel issued Proper Conduct of Banking Regulation 301 concerning credit risk management, which includes, inter alia, a definition of the credit risk management structure required of banking corporations and the allocation of authority at the bank with regard to credit risk management. The directive is effective as from January 1, 2014 and the Bank applies it as of that date.

Proper Conduct of Banking Business Regulation No. 202 (Basel II) - the Business Division, which is in charge of the Business Banking segment, implements the implications of provisions of Basel II, in conjunction with the Bank's overall activity concerning this issue. The Business Division deals mainly with the credit aspects deriving from the Basel II directives and related directives. For details of Basel II directives and preparation for implementation of Basel III directives, see below the chapter on Legislation and Supervision of Bank Group Operations.

Technological changes

See the Chapter on IT systems and computerization for information on technological changes and the computerization projects being carried out in the Bank.

Critical success factors

Critical factors for success in the Business Banking segment include a strong ability to analyze the client's needs and their financial condition. Identification of risk arising from activity vis-à-vis clients, including as a result of expected changes in the economy and the industry in which it is engaged, and provision of professional, fast and effective service that offers a comprehensive and appropriate solution to the client's needs in all banking areas. This is done by a variety of innovative products. The Bank also sees the continuous, high-quality monitoring of risk and handling of troubled debt as a key tool for managing the credit portfolio in this sector, allowing the Bank to minimize exposure to credit losses.

Clients

Segment clients include large business clients with sales in excess of NIS 120 million or total indebtedness in excess of NIS 25 million. Furthermore, according to Bank management approach with regard to segment assignment of real estate operations, and in line with serving of these clients and with the Bank's organizational structure, the Business Banking segment includes all clients who receive banking services in the construction and real estate sector, even though they may have medium indebtedness levels. In this segment, there is no dependence on a major individual client.

Marketing and distribution

The main marketing and distribution parties in this segment are the managers and liaisons in the Business Banking Division, concurrent with the Bank's branches and business centers. The Bank has no dependence on outside marketing channels.

In order to provide an optimal response to segment client needs, the servicing of major business banking clients in this segment was placed under the Corporation Sector of the Bank's Business Division, divided into departments and teams having specific industry specialization. The teams are assisted, as needed, by consulting provided by professional Bank departments involved in factoring, foreign trade, capital market, derivatives operations etc. - in order to provide a comprehensive solution for client needs. Real estate clients are served by the construction and real estate segment, which is also part of the Business Division, and which operates, inter alia, via three regional business departments located at major activity hubs, the Purchase Group Department and 12 branches specialized in providing financial assistance.

Competition

Most of the competition in the Business Banking Segment is with large and mid-sized banks in Israel, and for some services – the entire capital market. Entry by foreign banks and non-banking entities, mostly insurance companies, is focused on long-term credit.

Alternatives for the products and services offered by the Bank to clients of the Business Banking segment include raising capital and debt through public and private offerings, and through the services provided by insurance companies. The Bank's key asset for dealing with the competition is the existing human infrastructure and the experience gained in providing professional service and adapting banking solutions to the client's needs.

The Bank's main methods for dealing with the competition are to provide professional service that is fast and effective, while offering optimal solutions for the customer's needs in a diverse array of its financial activities. As part of its operations in this segment, the Bank places emphasis on the best possible personal service to the business client and adapting it to the client's needs according to his unique characteristics, while focusing on industry expertise and providing specific professional advice in specialty areas.

Similar to the competition within the banking and financial products, most of the competition in providing unique services to real estate and construction comes from the banking system. In recent years, more and more non-banking entities have launched operations for financing projects in this sector. Recently, some of them have started providing assistance to projects on their own, without cooperation with any banks.

The Bank’s primary methods for dealing with the competition in the area of construction and real estate services are based on providing comprehensive professional solutions for the clients’ needs, readily available and fast service, and maintaining

close and personal ties with clients. This is achieved mainly via dedicated business departments specializing in the construction and real estate sector.
Due to differences among banks in segment definitions, the Bank is unable to estimate its market share of this segment.

The main barriers to entry into this segment are:

- Regulatory limitations on banking corporations – including per-borrower and per-group of borrower limitations, This is due to large credit volume required for operations in this segment.
- Minimum capital requirements – requirements due to business activity volume.
- Training and retaining professional manpower – the activity in the Commercial Banking segment requires professional knowledge, experience and familiarity with the different industry and with the typical customers and their needs. The service provider must provide high quality, rapid service, while providing optimal solutions. These factors form a significant barrier to entry for financing providers wishing to launch operations in this segment.
- Construction and maintenance of physical infrastructures (such as branches) and technological infrastructures (IT systems).
- Given the legal complexity of transactions in recent years, *inter alia* in combination projects and in urban renewal projects, these require significant legal resources and a custom legal specialization.

Business goals and strategy

The Bank's business strategy in the Business Banking segment is directed toward maximizing the economic potential of the capital, based on the existing customers, by focusing on activities having high profitability relative to the capital needed for them, through, inter alia, the following activities:

- Implement an approach based on total outlook on the business client, leveraging credit products and offering other products to establish a comprehensive client relationship.
- Segment business clients by size, sector of operation and other attributes in order to optimally specify their business needs and to provide an appropriate, professional solution.
- Given the legal complexity of transactions in recent years, *inter alia* in combination projects and in urban renewal projects, these require significant legal resources and a customized legal support.
- Emphasis on profitability and return on uses, and transition to measuring return and risk pursuant to rules stipulated in Basel II recommendations on management of credit risk and operating risk.

The risk in realizing the above strategy is mainly a reduction in the volume of activity with certain clients, from which the Bank's profit is relatively low, or a relatively high risk associated with doing business with these clients.. In contrast, the overall profitability of the Bank could rise, as it focuses on profitable clients and expansion of activity with them, while utilizing the Bank's capital resources.

Note that macro-economic change poses significant challenges to credit management, at the Bank in general and in the Business Banking segment in particular, with some segment clients exposed, directly or indirectly, to extensive financial and economic operations in Israel and overseas, as well as to capital raising capacity on financial markets. Therefore, the

Bank allocates significant resources to enhancing means for testing and control of exposure, aimed at tightening supervision of the credit portfolio. Credit applications are reviewed most diligently, including analysis of exposure under different scenarios.

For details regarding risk management, see chapter on Risk Management.

This information constitutes forward-looking information, and is based on various assumptions and forecasts presented to Bank management, as described below. The information may not be realized, if Bank management finds that it is not expedient to carry out the plan, or due to changes that could occur in various influencing factors that are not under the sole control of the Bank. The influencing factors include forecasts on various matters related to economic developments in Israel and internationally, especially the state of the economy, including macroeconomic and geopolitical conditions impacting, inter alia, GDP growth, the capacity to raise funds in the capital market and demand for real estate, economic policies, the currency market and capital market in Israel and world-wide, other factors that impact the exposure to financial risk, clients' financial robustness, the public's preferences, legislation, directives of regulatory entities, the behavior of competitors, including non-banking entities, aspects related to the Bank's image, technological developments and manpower matters.

Results of the Business Banking Segment

	For the year ended December 31, 2013				For the year ended December 31, 2012			
	Banking and finance[1]	Capital market	Construction and real estate	Total	Banking and finance[1][2]	Capital market	Construction and real estate	Total
								NIS in millions
Interest revenues, net:								
From outside operating segments	71	-	348	419	(2)	-	333	331
Inter-segment	388	-	(124)	264	415	-	(115)	300
Total interest revenues, net	**459**	**-**	**224**	**683**	**413**	**-**	**218**	**631**
Non-interest financing revenues	22	10	-	32	55	8	-	63
Commissions and other revenues	68	27	128	223	81	26	109	216
Total revenues	**549**	**37**	**352**	**938**	**549**	**34**	**327**	**910**
Expenses with respect to credit losses	25	-	(42)	(17)	158	-	9	167
Operating and other expenses								
From outside operating segments	173	6	32	211	176	7	34	217
Inter-segment	66	-	15	81	71	-	15	86
Total operating and other expenses	**239**	**6**	**47**	**292**	**247**	**7**	**49**	**303**
Pre-tax profit	285	31	347	663	144	27	269	440
Provision for taxes on profit	97	11	120	228	50	9	93	152
Net profit (loss) attributable to equity holders of the banking corporation	**188**	**20**	**227**	**435**	**94**	**18**	**176**	**288**
Return on capital (net profit as % of average capital)				**13.5%**				**9.9%**
Average asset balance	18,462	-	8,225	26,687	19,707	-	7,212	26,919
Average balance of liabilities	36,027	-	2,385	38,412	29,370	-	2,332	31,702
Average balance of risk assets	18,407	-	17,703	36,110	20,490	-	15,833	36,323
Average balance of securities[3]	-	62,203	-	62,203	-	59,957	-	59,957
Average balance of loans to the public	16,144	-	7,584	23,728	17,499	-	6,411	23,910
Average balance of deposits from the public	35,993	-	2,292	38,285	28,383	-	2,230	30,613
Loans to the public, net (end balance)	14,270	-	7,887	22,157	15,788	-	7,133	22,921
Deposits from the public (end balance)	40,842	-	2,625	43,467	31,285	-	2,649	33,934
Average balance of other assets managed	180	-	50	230	171	-	90	261
Profit from interest revenues before expenses with respect to credit loss:								
Margin from credit granting operations	369	-	198	567	370	-	182	552
Margin from receiving deposits	81	-	15	96	53	-	17	70
Other	9	-	11	20	(10)	-	19	9
Total interest revenues, net	**459**	**-**	**224**	**683**	**413**	**-**	**218**	**631**

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

(2) Reclassified.

(3) Includes balance of securities of provident funds and mutual funds for which the Bank provides operating services, but excludes mutual funds held by Bank clients.

Contribution of the business banking segment to Group profit in 2013 amounted to NIS 435 million, compared to NIS 288 million in the corresponding period last year - an increase of 51.0%.

Below are key factors affecting the change in segment contribution:
Contribution of the construction and real estate sector increased by NIS 51 million, or 28.9%, compared to the corresponding period last year.

Interest revenues, net increased by NIS 6 million compared to the the corresponding period last year. This increase is due to increased business volume over in the corresponding period last year.

Commissions and other revenues increased by 17.4%, primarily due to commissions on closed projects. Expenses with respect to credit losses amounted to revenues of NIS 42 million, compared to the corresponding period last year which amounted to expenses of NIS 9 million. The decrease in expenses with respect to credit losses is primcarily due to collection from a few clients in 2013.

Contribution of business banking excluding construction and real estate increased by 85.7% compared to the corresponding period last year. Interest revenues, net, increased by NIS 46 million due to significant growth in deposits. Non-interest financing revenues decreased by NIS 31 million, primarily due to extraordinary activity in derivatives in 2012. Commissions and other revenues decreased by NIS 12 million compared to the corresponding period last year, due to several significant transactions for which commission revenues of a similar amount were recognized in 2012.

Expenses with respect to credit losses, attributed to business banking excluding construction and real estate, amounted to NIS 25 million, compared to NIS 158 million in the corresponding period last year. The corresponding period last year included a significant specific provision for several specific borrowers. Total operating expenses, attributed to business banking excluding construction and real estate, decreased by 3.5% compared the corresponding period last year, due to the decrease in this segment’s share of loans to the public.

Financial Management Segment

Operations in the Financial Management segment cover several key areas: Management of Bank assets and liabilities, management of the debenture portfolio, management of exposure to market risk and liquidity management as well as trading room operations in the financial and capital markets. Additionally, the segment includes investment in shares in non-banking corporations. This is in line with management view of how these operations should be managed.

Operations of this segment are managed by the Financial Division, except for investments in non-banking corporations which is managed by the Business Banking Division.

The sources of the activity in the debenture portfolio are the surplus Israeli currency and foreign currency liquidity. The surplus liquidity is surplus of the sources beyond the holding of liquid means against financing needs, as required in the liquidity model prescribed Proper Conduct of Banking Business Regulation No. 342, the management of liquidity risks (see the chapter on Risk Management for details on the liquidity model and limitations of management and the Board of Directors). Segment operations are intended to maximize returns on investment of the surplus, through highly-liquid assets with low credit risk, subject to the market risk management policies, and within limitations imposed by the Board of Directors and by management with regard to exposure to market risk. Threshold criteria were also prescribed for nostro debenture activity, based on the credit risk inherent in the portfolio's activity, to diversify investments and to increase their liquidity . Debenture operations are subject to compliance with credit limits specified by the Bank for countries, banks and companies - with the bulk of these operations involving risk exposure to the State of Israel. The Financial Management segment operates in Israel and overseas.

As for management of market risk exposure, the Bank actively manages the negotiable portfolio in order to generate gain at the specified risk level. The Bank's portfolio is regularly managed and monitored in order to improve interest revenues, subject to the risk appetite. The volume of activity and risk must meet the market risk exposure limits prescribed by the Board of Directors and management. See the chapter on risk management for details on the risk limitations and the manner in which the exposure to market risks are managed.

The Bank's activities in the financial management segment require that the Bank allot capital. Capital requirements with regard to market risk is in accordance with Proper Conduct of Banking Business Regulation no. 208 (Basel II, Pillar 1), which refers, inter alia, to interest risk in the negotiable portfolio, which is monitored using the standard model. Capital allocation with regard to interest risk in the Bank portfolio is required in conjunction with Basel II, Pillar 2. The Bank manages this risk in terms of erosion of economic capital, under different scenarios of changes to interest rates.

The financial management segment functions as an activity that "clears" all of the Bank's trading activity, and leaves for those executing transactions a fixed margin, known in advance, that is calculated assuming full coverage of the transaction. The exposure to market risk remains in financial management. The prices at which the segment "buys" and "sells" sources and uses vis-à-vis the Bank's other units, for the purpose of their carrying out regular business activities, are the transfer prices (“shadow prices”) of the Bank that are determined regularly by the financial management segment.

One of the tools used by the segment in managing liquidity and exposure to market risk is the issuance of subordinated notes, inter alia, through the subsidiary, Mizrahi-Tefahot Issuance Company Ltd., as provided below in the chapter on Sources and Financing.

The segment includes the Bank’s trading room operations in financial and capital markets. These operations include market making in all standard derivative instruments trading over-the-counter in Israel and back-to-back trading in complex derivative instruments. The trading room also serves major clients trading in securities in Israel and overseas.

Business goals and strategy

The segment includes management of the debenture portfolio, management of exposure to market risk and liquidity management. Segment objectives in these areas are: active management of exposure and of the debenture portfolio, aimed at maximizing gain, while maintaining appropriate, controlled exposure to market- and liquidity risk, which reflects the Bank's risk appetite, subject to limits specified by decisions of the Board of Directors and management.

The segment also acts to raise financial sources as needed for Bank operations, while complying with liquidity limitations and minimum capital ratio objectives, as per decision of the Board of Directors. This would be achieved by raising deposits in different linkage segments and for different terms, and by issuing various obligatory notes.

This segment also includes Bank operations in the trading room on financial and capital markets. The Bank constantly strives to expand its operations in this area by expanding the client base and intensifying business activity and client relationships, inter alia, by improving cooperation between Bank departments operating within the trading room, development of new transaction types and investing in acquiring professional knowledge.

A critical success factor in this operating segment is the Bank's ability to understand the macro and micro factors affecting the market trends and conditions, for correctly identifying the market conditions and the ability to act quickly in opening and closing positions. In addition, professionalism of staff in this area and technology systems in support of the various activities, identification of needs of other units as well as cooperation on between different Bank units.

Management of the financial segment and its various components requires highly professional skills, supported by appropriate IT systems and by advanced models for management of transactions and risk. These are all guided by the policies which includes clear restrictions and rules, and are controlled using advanced means of control. In particular, with regard to Bank exposure to other financial institutions in Israel and overseas, in exposure to different financial products and in exposure to clients whose financial robustness may be particularly sensitive. For details of Bank exposure to foreign financial institutions, see chapter on Risk Management.

This information constitutes forward-looking information, and is based on various assumptions and forecasts presented to Bank management, as described below. The information may not be realized, if Bank management finds that it is not expedient to carry out the plan, or due to changes that could occur in various influencing factors that are not under the sole control of the Bank. The influencing factors include forecasts on various matters related to economic developments in Israel and internationally, especially the state of the economy, including macroeconomic and geopolitical conditions impacting, inter alia, GDP growth, the capacity to raise funds in the capital market, economic policies, the currency market and capital market in Israel and world-wide, other factors that impact the exposure to financial risk, clients' financial robustness, the public's preferences, legislation, directives of regulatory entities, the behavior of competitors, including non-banking entities, aspects related to the Bank's image, technological developments and manpower matters.

Results of the Financial Management Segment

	For the year ended December 31, 2013			For the year ended December 31, 2012[1]		
	Banking and finance	Capital market	Total	Banking and finance[1]	Capital market	Total
						NIS in millions
Interest revenues, net:						
From outside operating segments	(1,263)	-	(1,263)	(893)	-	(893)
Inter-segment	1,509	-	1,509	977	-	977
Total interest revenues, net	**246**	**-**	**246**	**84**	**-**	**84**
Non-interest financing revenues	(31)	3	(28)	8	14	22
Commissions and other revenues	78	52	130	82	49	131
Total revenues	**293**	**55**	**348**	**174**	**63**	**237**
Expenses with respect to credit losses	(1)	-	(1)	1	-	1
Operating and other expenses						
From outside operating segments	295	4	299	244	5	249
Inter-segment	11	-	11	13	-	13
Total operating and other expenses	**306**	**4**	**310**	**257**	**5**	**262**
Pre-tax profit (loss)	(12)	51	39	(84)	58	(26)
Provision for taxes on profit (loss)	(6)	18	12	(29)	20	(9)
After-tax profit (loss)	**(6)**	**33**	**27**	**(55)**	**38**	**(17)**
Share in net profits of associates, after tax	(4)	-	(4)	-	-	-
Net profit (loss):						
Before attribution to non-controlling interest	(10)	33	23	(55)	38	(17)
Attributable to non-controlling interest	-	-	-	-	-	-
Attributable to equity holders of the banking corporation	**(10)**	**33**	**23**	**(55)**	**38**	**(17)**
Return on capital (net profit as % of average capital)			**13.6%**			**-**
Average asset balance	30,259	-	30,259	24,810	-	24,810
Includes: Investments in associates	60	-	60	60	-	60
Average balance of liabilities	38,490	-	38,490	35,811	-	35,811
Average balance of risk assets	5,366	-	5,366	5,476	-	5,476
Average balance of provident and mutual fund assets	82,642	-	82,642	73,821	-	73,821
Average balance of securities[2]	-	61,525	61,525	-	42,271	42,271
Average balance of deposits from the public	16,626	-	16,626	16,810	-	16,810
Deposits from the public (end balance)	17,032	-	17,032	16,908	-	16,908
Profit from interest revenues before expenses with respect to credit losses:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	246	-	246	84	-	84
Total interest revenues, net	**246**	**-**	**246**	**84**	**-**	**84**

(1) Reclassified.

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

Contribution of the financial management segment to Group profit in 2013 amounted to a profit of NIS 23 million, compared to loss of NIS 17 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) increased by NIS 112 million, primarily due to fair value effects of financial derivatives. Commissions and other revenues were essentially unchanged.

Operating and other expenses increased by NIS 48 million, or 18.3%, attributed to this segment's share of payroll expenses due to non-recurring provision at the Bank (see also chapter "Profit and profitability") and to increased volume of derivatives trading in the trading room.

Product operations

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

	For the year ended December 31, 2013			
	Households	Small business	Commercial banking	Total consolidated
Interest revenues, net	20	6	-	26
Non-interest financing revenues	-	-	-	-
Commissions and other revenues	130	15	2	147
Total revenues	**150**	**21**	**2**	**173**
Operating and other expenses	22	4	-	26
Pre-tax profit	**128**	**17**	**2**	**147**
Provision for taxes on profit	45	6	1	52
Net profit	**83**	**11**	**1**	**95**

	For the year ended December 31, 2012			
	Households	Small business	Commercial banking	Total consolidated
Interest revenues, net	8	2	-	10
Non-interest financing revenues	-	-	-	-
Commissions and other revenues	130	14	3	147
Total revenues	**138**	**16**	**3**	**157**
Operating and other expenses	25	4	-	29
Pre-tax profit	**113**	**12**	**3**	**128**
Provision for taxes on profit	40	4	1	45
Net profit	**73**	**8**	**2**	**83**

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

	For the year ended December 31, 2013						
	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net	-	-	-	-	-	-	-
Non-interest financing revenues	7	-	-	1	10	3	21
Commissions and other revenues	176	28	18	8	27	52	309
Total revenues	**183**	**28**	**18**	**9**	**37**	**55**	**330**
Expenses with respect to credit losses	-	-	-	-	-	-	-
Operating and other expenses	67	1	4	1	6	4	83
Pre-tax profit	**116**	**27**	**14**	**8**	**31**	**51**	**247**
Provision for taxes on profit	40	9	5	3	11	18	86
Net profit	**76**	**18**	**9**	**5**	**20**	**33**	**161**

	For the year ended December 31, 2012						
	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net	-	-	-	-	-	-	-
Non-interest financing revenues	7	-	-	1	8	14	30
Commissions and other revenues	165	29	18	9	26	49	296
Total revenues	**172**	**29**	**18**	**10**	**34**	**63**	**326**
Expenses with respect to credit losses	-	-	-	-	-	-	-
Operating and other expenses	55	-	5	1	7	5	73
Pre-tax profit	117	29	13	9	27	58	253
Provision for taxes on profit	41	10	5	3	9	20	88
Net profit	**76**	**19**	**8**	**6**	**18**	**38**	**165**

International Operations

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

Legislation and regulation

The overseas affiliates are subject, inter alia, to the laws of the country in which they operate, and to the regulation of the relevant authorities in that country, as set forth below:

Subsidiary in Switzerland - Federal Supervisory Authority of Switzerland FINMA.

Los Angeles branch - The State of California Financial Institution Department, the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve Bank. In accordance with regulations of the Federal Deposit Insurance Corporation, the Los Angeles Branch must hold "eligible assets", as defined in the regulations, at a ratio of 106% to its total liabilities. According to these regulations, a deposit in a bank that did not waive the set off agreement vis-à-vis the depositor does not meet the definition of "eligible assets". Therefore, the Los Angeles Branch has limited possibilities for depositing in the Bank in Israel. Furthermore, branch operations are subject to limitations of the US Bank Holding Company Act of 1956.

As for arrest and plea bargain of bank employee in the USA, see chapter "Legal proceedings".

London branch – Until recently, this branch was subject to Financial Services Authority (FSA), which was recently split into two authorities: the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA), to which this branch is now subject.

Cayman Islands branch - the Cayman Islands Monetary Authority (CIMA).

Mexico affiliate - Comision Nacional Bancaria y de Valores (banking regulators).

Uruguay affiliate - Banking regulation - Banco Central Del Uruguay.

Panama affiliate – banking supervision - Superintendencia de Bancos.

Germany affiliate - Financial Supervisory Authority - Financial Supervisory Authority (BaFin)

Bank Group international operations are primarily focused on private banking, foreign trade financing and credit. Following the crisis in global financial markets in recent years, the Bank's overseas affiliates have tightened the means of control and reporting of exposures to the head office, including a comprehensive sweep of all accounts and clients, in order to better supervise and control the credit portfolio. Specifically, Bank exposure to entities directly and indirectly exposed to the global financial crisis have been mapped and evaluated. Furthermore, the Bank regularly monitors its exposure to foreign financial institutions, in accordance with directives of the Supervisor of Banks.

International operations involve several unique risk factors:

- Operation under specific statutory and regulatory regimes of each country.
- Risk associated with challenges to controlling remote affiliates from the head office.
- Business risk (credit and market risk) are impacted by local factors, which may differ from the environment and factors in Israel.

Each overseas affiliate operates subject to local laws and regulations, and is regularly assisted by local legal counsel who specialize in banking operations applicable for each affiliate.

In order to handle geographic distance, which increases control risk, professional representatives of the Bank and management conduct regular visits to these affiliates.. The Internal Audit Division conducts regular audits at Bank affiliates, conducted by Division staff and by external professional entities. Risk management and internal control at affiliates are conducted jointly by the International Operations sector, the Legal Division, the Risk Control Division and the Audit Division. Credit risk is managed by specific limits set for the affiliates. Credit applications are discussed by the relevant credit committees of Bank management. The Bank's Risk Control Division monitors and controls credit at affiliates, based on the annual work plan approved by the Bank and using local controllers who report directly to the Division. Market risk at affiliates is regularly managed by the affiliates and by the Financial Management Sector, by imposing PV and VAR limits on each affiliate and by monitoring these limits by the Risk Control Division. Operating risk at affiliates is monitored by the Compliance and Business Risk Control Division, and all affiliates report using a uniform format of any materialized operating event. The Compliance and Business Risk Control Division conducts external surveys, including operating risk and SOX surveys at affiliates, and monitors the resolution of any control gaps identified. In order to handle money laundering and terror financing issues, operating procedures for this matter have been determined by affiliates, workshops have been delivered to relevant affiliate staff, a person responsible for such issues has been appointed under International Operations, a forum has been established for prevention of money laundering and global terror financing, and technology systems for monitoring money laundering risk have been acquired.

For details regarding risk management at the Bank, arising from international operations as well, see chapter on Risk Management.

Affiliate operations in a competitive market

Bank affiliates overseas compete with local banks in their countries, with international banks and with affiliates of Israeli banks overseas. Competition is focused on the level of service and range of services provided to clients. Each international operations affiliate has a unique target audience. Critical success factors are based on providing global service at an international level. Service provided to clients is based on understanding their personal needs and providing individual solutions based on intensive knowledge of local markets in order to find the appropriate range of products.

In order to compete with current competition in this segment, extensive resources are dedicated to recruiting high-quality staff with extensive global market experience, in professional training of staff, and in offering a high-quality range of products compared to global competition. The Bank is also focused on providing high-quality service and maintaining strong client relationships, organizing professional events for select clients, launching of custom products for clients and efforts to locate and recruit new clients on a day-to-day basis.

Business goals and strategy

The Bank strives to develop international business by existing affiliates and to create strategic alliances with leading financial institutions in international banking and jointly work with them. The Bank also reviews options for launching unique products appropriate for each affiliate, which respond to varying needs in each market along with technology, business and regulatory changes.

This information constitutes forward-looking information, and is based on various assumptions and forecasts presented to Bank management, as described below. The information may not be realized, if Bank management finds that it is not expedient to carry out the plan, or due to changes that could occur in various influencing factors that are not under the sole control of the Bank. The influencing factors include future forecasts on various matters related to economic developments in Israel and internationally, especially the state of the economy, including macroeconomic and geopolitical conditions, and the currency market and capital market world-wide, other factors that impact the exposure to financial risk, clients' financial robustness, the public's preferences, legislation, directives of regulatory entities in Israel and overseas, the behavior of competitors, aspects related to the Bank's image, technological developments and manpower matters.

Results of international operations are divided among the different segments. Analysis of segment results below makes reference, inter alia, to the impact of assignment of international operations to the various segments, wherever such impact has been material.

Below are details of the impact of international operations on results of the different operating segments of the Bank Group (NIS in millions):

					All of 2013
	Household	Private banking	Business banking	Financial management	Total
					Reported amounts (NIS in millions)
Interest revenues, net	5	44	49	27	125
Non-interest financing revenues	-	1	8	1	10
Commissions and other revenues	1	42	4	2	49
Total revenues	**6**	**87**	**61**	**30**	**184**
Expenses with respect to credit losses	-	(2)	-	-	(2)
Operating and other expenses	3	67	39	7	116
Pre-tax profit	**3**	**22**	**22**	**23**	**70**
Provision for taxes on profit	-	7	7	8	22
Net profit	**3**	**15**	**15**	**15**	**48**

					All of 2012
	Household	Private banking	Business banking	Financial management	Total
					Reported amounts (NIS in millions)
Interest revenues, net	3	53	40	28	124
Non-interest financing revenues	-	1	14	3	18
Commissions and other revenues	-	40	4	2	46
Total revenues	**3**	**94**	**58**	**33**	**188**
Expenses with respect to credit losses	-	(13)	-	-	(13)
Operating and other expenses	3	64	46	7	120
Pre-tax profit	**-**	**43**	**12**	**26**	**81**
Provision for taxes on profit	-	15	4	9	28
Net profit	**-**	**28**	**8**	**17**	**53**

Human Resources

Staff – general information

Provided below is information on the number of employees, in terms of full-time positions (including impact of overtime) in the Bank and in subsidiaries. The number of Bank employees provided below also includes employees who are not employed by the Bank but by companies associated with the Bank, including employees of Technology Division Ltd. and Mizrahi-Tefahot Security Services Ltd. – service companies that provide computerization, security and protection services to the Bank:

						2013
	At the Bank	Overseas branches	Total for the Bank	Subsidiaries in Israel	Overseas subsidiaries	Group total
Number of full-time equivalent positions as of December 31, 2013	4,805	56	4,861	940	26	5,827
Number of full-time employees based on monthly average	4,752	56	4,808	932	27	5,767

						2012
	At the Bank	Overseas branches	Total for the Bank	Subsidiaries in Israel	Overseas subsidiaries	Group total
Number of full-time equivalent positions as of December 31, 2012	4,699	56	4,755	887	28	5,670
Number of full-time employees based on monthly average	4,648	57	4,705	881	27	5,613

Below is the distribution of number of positions in the Group by operating segment [(1)]:

		As of December 31,
Operating segment	2013	2012
Households	3,604	3,484
Private banking	156	152
Small business	917	902
Commercial banking	298	290
Business banking	533	525
Financial management	319	317
Total	**5,827**	**5,670**

(1) Including Head Office employees that are allocated pro-rata to the various segments.

Human resource management

Bank management regards all Bank employees and managers as a key component for achieving its business strategy and growth objectives for operations and profitability. Human resources at the Bank are managed on two levels: One is services to individual employees, from recruiting through ongoing services and up to retirement. The second level is in the organizational development and training department, in conjunction with development of the Bank's human resources in all aspects.

The Bank invests in development of its staff and constant improvement of the professional and personal skills of Bank employees and managers. This is achieved through training events throughout employee tenure at the organization, from starting on the job, through promotion and development tracks and a range of training programs for banking, personal and managerial skills. In addition, the Bank encourages achievement and expansion of academic education of its employees, as well as broadening their horizons via external workshops.

The Organizational Development Division is in charge of the comprehensive process of employee evaluation and feedback at the Bank. All Bank managers and staff are evaluated based on their performance over the past year. The process is concluded by a feedback interview between the employee and their supervisor, at which they discuss issues to be improved and preserved, targets for the coming year and potential professional development for the employee.

The Department is also responsible for development of intra-organizational communication, by expanding and intensifying channels for relaying messages and exposing the Bank to employees, by presenting the detailed organizational chart on the Intranet (with detailed roles and responsibilities of the various Bank departments and their managers) and through "Among us Online", a monthly newsletter, launched in 2012, which highlights professional issues, Bank departments and employees through various articles. The internal communication platform was also used to celebrate the Bank's 90th anniversary.

The Bank Training Center is responsible for professional and managerial training of Bank employees, as well as for refresher courses - as required for each position. To this end, the Training Center creates a schedule of courses, seminars and workshops in response to knowledge gaps in the various banking disciplines, in management skills and in knowledge and learning of Bank systems.

In 2013, the Bank continued to implement the management development concept, which regards unit managers as organizational change leaders who are responsible for the professional skills of their staff; deployed service values through the "Service is in our hands" campaign; and emphasized deployment of existing and new regulations. The Training Center continued to implement the Learning Organization concept, whereby managers and staff regard learning as a continuous activity which also takes place at their work station, through materials made available to managers and employees through the Bank's Learning Portal. Learning is also achieved through "Did you know?" messages disseminated weekly throughout the Bank, as well as through "Learning Bank".

In order to improve professional skills and to streamling learning processes, the Training Center conducts a regular effectiveness testing of new learning content as well as of existing learning content. In 2013, the Training Center developed 15 new courses and seminars, and improved 13 existing courses, using a mix of learning methods.

Training expenses in 2013 amounted to NIS 7 million, compared to NIS 8 million in 2012.

In 2013, all Bank employees attended training (in-person and online), for a total of 29,478 training days, compared to 26,912 training days in 2012.

Collective labor relations

The labor relations in the Bank are collective (except for a limited group of senior employees, as specified below), which are expressed in two employee organizations:

A. **The Association of Bank Mizrahi-Tefahot Employees Ltd.** is a long-standing organization, which has authorized, by virtue of an inter-organization agreement signed by the Association and the HaPoel HaMizrahi Union, by the Union to act as the representative organization of Bank employees for the purpose of signing collective bargaining agreements and of representing Bank employees (hereinafter: ("Employees' Association").

B. **The Association of Managers and Authorized Signatories at Bank Mizrahi-Tefahot Ltd.** was founded by branch- and department managers in 2005 (hereinafter: ("Manager Council"). This organization has been recognized by the Bank and by the Employee's Association as a "bargaining unit" for negotiation and signing agreements.

C. **Technology Division Employee Committee** – the organization authorized to sign, together with the MAOF trade union, on behalf of Technology Division employees, any collective bargaining agreements applicable to company employees (except for Technology Division employees employed pursuant to individual employment contracts)

D. **Bank Yahav employee representatives** - empowered to sign on behalf of Bank Yahav employees any collective bargaining agreements applicable to Bank Yahav employees.

Employment terms of employees represented by the Bank's Employee Association

General

The employment terms are anchored in a series of collective agreements, together called "labor constitution". The labor constitution presents the general framework of the undertaking between the employees and the Bank, and arranges the basic employment terms. In addition, wage agreements are signed from time to time, within the framework of the constitution.

On February 20, 2014, the Bank received the arbitrator’s decision with regard to payment of vacation pay.

The arbitrator decided that as from 2014, the rate per vacation day would be determined based on the calculation used through 2008 (unless the parties agree otherwise). The arbitrator's decision also stipulated that the Bank would pay employees and those employees who have retired since 2009 differences in vacation pay for 2009-2013, with these differences subject to social benefits as is customary at the Bank, with interest and linkage differentials.

Salary agreements

In December 2003, a salary agreement was signed for the period 2002-2004, which was effective through December 31, 2004. This agreement applies to all Bank employees, except for those employees who, on December 31, 2004, were employees of the former Bank Tefahot, which was merged with the Bank on January 1, 2005.

On January 18, 2006, a salary agreement was signed for the period April 1, 2004 through March 31, 2005, for those who on December 31, 2004 were employees of Bank Tefahot, and then became employees of the Bank.

On December 21, 2005 and on January 23, 2006, agreements were signed with regard to conversion of salaries of former managers and employees of Bank Tefahot, respectively, to the salary regime used at Bank Mizrahi, and the labor constitution was applied to said employees (hereinafter: ("salary conversion agreements").

No salary agreement has been signed yet for the period 2005-2013 (except with former Tefahot employees, for whom a salary agreement was signed for the period through March 31, 2005). The Bank records, as necessary, appropriate provisions for years for which no salary agreements have been signed.

Salary update method

Salaries of most Bank employees (except for a small number of employees employed under individual contracts signed by them and by the Bank - see below under Individual Employment Contracts) are updated, in addition to cost of living adjustments in Israel, based on three key components:

A. Components which are updated regularly at rates and in the manner prescribed from time to time, in negotiations of labor agreements The key component in this group is the base salary, and other components derived from the base salary, including the key Seniority Bonus - which is updated at the start of each year at a higher rate with increasing employee seniority, are also updated with these components and reach a 4% annual increment (to base salary) for Bank employees with over 26 years' seniority.

B. Components updated in accordance with changes in the Consumer Price Index.

C. Components linked to changes in external tariffs.

All of the above components apply uniformly to all the employees, the employment terms of whom are subject to the labor constitution and to the labor agreements signed between the Bank and the Employee Association. Updates to part of the salary based on criteria not linked to the CPI, as well as payment of automatic Seniority Bonus as stated above, result in a situation where the real rate of salary increase at the Bank is higher the lower the inflation rate. In a reality of low single-digit inflation, these factors lead to an increase in real salaries, despite the absence of an update to the wage agreement.

Special payments

In addition to the regular salary elements, the Bank pays to its employees, as stipulated in the labor constitution, a one-time grant upon reaching seniority of thirteen years and eighteen years. The Bank's financial statements include a provision for these obligations, according to an actuarial calculation that is based on past experience and the probability that on the date of record, the employee will still be employed by the Bank.

The Bank also provides individual compensation tools, through which the personal compensation of each and every employee is carried out. These compensation tools are selective and are based on specific assessments of the direct managers of the Bank's employees in the different segments regarding the performance of every employee. Personal promotion is achieved primarily via promotion in rank, about which Bank management decides each year, as well as via the bonus component. Decisions relating to the extent of personal promotion and bonus or grant are not derived from provisions of labor agreements, but are influenced by the individual assessment of the employee performance, the Bank's situation and profitability in the relevant period.

Pension and benefit arrangements

A. Bank liabilities for payment of pensions and severance pay to those employed by the Bank prior to the merger with Tefahot are covered by current contributions in the employees' names to pension, provident and severance pay funds. These contributions, as well as future amounts and a one-time amount deposited in the past, release the Bank from its statutory obligation to pay severance pay to those employees. See Note 16 to the financial statements for additional information.

B. Pursuant to the labor agreement signed between the Bank and its employees on December 30, 1993, the Bank made available long-term loans to its employees, to finance the retroactive purchase of pension rights from certain pension funds with which the Bank had undertakings in this connection. See Note 19.D.16 to the financial statements for further information.

C. Those who were employees of Bank Tefahot on the eve of the merger are covered by the Bank's obligations to pay pension and severance pay by regular deposits in the employees' names to pension, benefit and severance pay funds as well as one-time deposits. These deposits release the Bank from the obligation make severance and pension payments for the period commencing February 1, 2006, for those employees who were included in the salary conversion agreement. with respect to its liability through February 1, 2006, the Bank paid all the amounts required to cover the liability, by a deposit in pension and provident funds See Note 16 to the financial statements for information on the special liability for retirement of employees in the Bank or the former Bank Tefahot.

Special collective bargaining agreement

On April 11, 2006, the Employee Association and the Bank signed an agreement to end the labor dispute, declared with regard to the merger with Bank Tefahot ("special collective bargaining agreement"). Provisions of the special collective bargaining agreement are effective through December 31, 2010 ("term of the special collective bargaining agreement"). It stipulates, inter alia, that during the term of the special collective bargaining agreement, all of the disputes will be resolved by the mechanisms prescribed, the objective of which is to prevent the striking of the Banks' activities and applying to the relevant bodies, in order to reduce the deviations prescribed in the agreement (such as in the event of a strike of the entire economy). Therefore, throughout the term of the special collective bargaining agreement, labor unrest will be avoided, whereby the Association has undertaken that it will not go on strike. Due to the signing of the agreement, the parties to the agreement withdrew the legal proceedings between them that were outstanding and pending.

The agreement stipulates that Bank employees may choose whether or not to be members of the Employee Association. Note that the collective bargaining agreements that the Bank signs with the Employee Association also apply to those employees who are not members of the organization. The collective agreement also increased the quota of employees that may be employed under personal agreements. Furthermore, under the terms of the special collective bargaining agreement, the parties agreed to establish a collective bargaining unit for managers, as defined therein, alongside the collective bargaining unit for all Bank employees (regarding the agreement between the Manager Council and the Bank, see below).

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

Highlights of the agreement, as for the old agreement, are as follows:

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

  The financial statements include an actuarial provision in accordance with directives of the Supervisor of Banks, to cover the expected cost of early retirement of all Bank employees. See Note 16 to the financial statements for details.

Employment terms for employees represented by the Council of Managers and Authorized Signatories

Overview – Wage Agreements

A. On April 10, 2006, the Manager Council and the Bank signed a special collective bargaining agreement in which the Bank and the Manager Council ratified the pact (hereinafter, together with previous agreements between the parties: "manager constitution"), in which the Bank recognized the Manager Council as a collective bargaining unit, within the scope of which principles were prescribed according to which the Bank would act to promote Bank managers' ranks. The manager constitution stipulates, *inter alia*, ways to resolve conflicts through reconciliation, restriction of the number of managers employed under individual contracts as well as financing for the Manager Council. The Bank has undertaken that the salary agreements and employment terms of members of the Manager Council will be determined in negotiations with the organization (although the organization has the right reserved to it, as long as a salary is not signed between it and the Bank, to adopt a salary agreement entered into with the Employee Association, instead of negotiating with the Bank or continue it).

   The parties also stipulated that the manager constitution will be in effect until September 19, 2008. If the organization does not cancel it until one month of days previously, the effective period of the constitution will be extended until September 19, 2011, and thereafter, for a two-year period each time, unless one of the parties gives written notice of its cancellation, all in accordance with the mechanism prescribed in the manager constitution. For details of extension of validity of the manager constitution through December 31, 2015, see section D. below.

B. By virtue of the pact and the collective agreement to ratify the pact signed between the Bank and the Manager Council (see below), the collective agreements signed between the Bank and the Employee Council signed until September 19, 2005 apply to the managers, as well as all the agreements that were and will be signed between the Bank and the Manager Council from September 19, 2005 and thereafter.

C. On March 22, 2007, the Manager Council and the Bank signed a salary agreement for 2005-2007, wherein the parties agreed on the annual salary raise for managers, payment of seniority bonus, management fee and a non-recurring bonus granted to all managers. The agreement further stipulates that the Manager Constitution shall be effective through September 19, 2011, and while it is in effect, no permanent manager with the Bank shall be terminated for economic reasons (as defined in the Manager Constitution), except for individual termination (for cause and/or incompatibility) not to exceed 8 managers for incompatibility, or termination due to regulatory changes unknown to the parties as of the date of signing the agreement. Upon expiration of the labor constitution, the commitment for non-termination for economic reasons shall expire, as set forth above.

D. On August 19, 2008, a special collective bargaining agreement was signed with the Manager Council whereby managers may choose to receive a seniority bonus under the new format, which is updated based on success benchmarks and on the Bank's return on equity. Furthermore, this agreement contains an extension of validity of the Manager Employment Constitution through December 31, 2015, as well as a commitment by the Council not to engage in labor unrest through this date, except in case of Bank operations being merged with another bank during the term of this agreement.

E. On March 5, 2009, a wage agreement was concluded with the Manager Council for the period 2008-2010. This agreement primarily consists of gradual expansion through July 2014 of the base used for making deposits to study funds, as well as payment of certain annual amounts by monthly installments.

F. On February 29, 2012, a wage agreement was concluded with the Manager Council for the period 2011-2012.

Pension and benefit arrangements

A. Managers who were employees of Mizrahi Bank on the eve of the merger with Bank Tefahot are covered by the Bank's obligations for the payment of pension and severance pay, by current contributions in the employees' names to pension, provident and severance pay funds, and all the aforesaid in the previous paragraph regarding the Employee Council applies to them.

B. Managers who were employees of Bank Tefahot on the eve of the Tefahot merger are covered by the Bank's obligation for the payment of pension and severance pay, by regular deposits on behalf of employees to pension funds, provident funds and severance pay funds, and non-recurring deposits. These deposits release the Bank from its obligations for the payment of severance and pension for the period as from January 1, 2006, for whoever was a manager on that date. With respect to its liability through January 1, 2006, the Bank paid all the amounts required to cover the liability, by a deposit in pension and provident funds

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

Employment terms of employees of the Technology Division are arranged in the labor constitution that was signed in 1989 and in a series of agreements signed by the Technology Division Employee Council, the Labor Union and the Technology Division over the years, the key points of which are provided below:

A. Salary updates for Technology Division employees are determined according to a linkage model for salary increments and for changes in the provisions given to employees of the Bank (the parent company). If in a certain year, a salary agreement is not signed by the Bank by the end of March in the subsequent year, Technology Division employees would be entitled to an advance that will be calculated according to the agreed mechanism, which would be reviewed by independent experts. The balance of the salary increase would also be calculated by an agreed mechanism soon after signing the Bank's salary agreement. It was also stipulated that if the terms of the salary agreement include a new salary increment and/or salary element that was not included in the linkage model, negotiations will be conducted with representatives of the employees regarding the increments to be given to Technology Division employees.

B. The labor constitution prescribes the maximum quota for contracted employees, pursuant to the undertaking between the Technology Division and outside vendors, which make workers available to the Technology Division , and under the professional management of the Technology Division. In this context, it should be noted that disputes have arisen in the past between Technology Division management and the Employee Council regarding the quota of contracted employees and the outsourcing of projects. On December 29, 2003, a labor dispute was announced at the Technology Division. On March 31, 2004, the parties signed an agreement to end the labor dispute, in which certain conditions were stipulated with regard to the Technology Division's undertakings with outside vendors and in outsourcing contracts. However, the parties agreed that the said agreement does not exhaust the dispute regarding outsourcing and that each party reserves for itself all the rights and claims in this matter.

C. Similar to employees of the Bank, the obligations of the Technology Division to pay pension and severance payments to its employees, except for a limited group of employees for which a provision was made, are covered by regular deposits on behalf of the employees to pension funds, provident funds and severance pay funds, in accordance to the provisions of the collective agreement applicable to these employees.

D. On January 11, 2007, a collective agreement was signed between the management of the Technology Division and the Employee Council which contains a voluntary retirement program. The plan provides for retirement in an early retirement track, for employees, who on their retirement date will be at least 55 years old and are insured in managers' insurance or an aggregating pension fund, or an increased severance pay track for other employees. The final decision on acceptance or rejection of the request for early retirement rests with the General Manager of the Technology Division. This agreement was extended by a further 12 months on February 19, 2008.

E. On March 8, 2007, the Employee Association, Manager Council, Technology Division Employee Council and the Bank signed a special collective bargaining agreement which sets terms for integrating the computer employees of Tefahot (except for a small group of employees) into the Technology Division. The agreement prescribes the format in which the terms of the computer employees of the former Tefahot will be converted and adapted to the terms prevailing in the Technology Division. Pursuant to this agreement, the collective bargaining agreements applicable to Technology Division employees, including the Labor Constitution infrastructure at the Technology Division from 1989, as well as any new collective bargaining agreement to be signed, will apply to the Tefahot employees who have been integrated.

F. On October 21, 2010, a labor dispute was declared between the MAOF trade union and the Technology Division, the Bank's IT arm. The main causes of this dispute are the demand by employees to sign wage agreements for 2005-2009, their demand to update the wage linkage mechanism, as well as restructuring by management which, the employees claim, infringes on their rights.

Based on guidance from the MAOF trade union, since no agreement has been signed by November 7, 2010, Technology Division employees may go on strike effective immediately.

G. On January 2, 2012, the former Bank President announced that Technology Division employees would not be relocated to the Technology-Logistics Center in Lod, and that this facility would be rapidly set up as the Bank's primary computer site, featuring standards appropriate for emergencies. This notification was delivered to employee representatives and to the MAOF trade union.

H. On November 27, 2013, a special collective bargaining agreement was signed by management of the Mizrahi Tefahot Technology Division Ltd., the Division Employee Council and the Labor Union, in which the parties agreed on a process to resolve their disagreement with regard to contractors, which was the cause of one of the labor disputes declared between the parties.

I. In conjunction with the agreement dated November 27, 2013, the parties also agreed on the process for relocating the Bank's data center to the Technology-Logistics Center in Lod and relocation of the DRP facility from its current location to a secure facility in Ramat Gan.

As of the publication date of these financial statements, the Technology Division management and staff representatives continue to negotiate in order to finalize the other issues under dispute in order to completely eliminate them.

Individual employment contracts

The labor agreements signed in the Bank in the years 1995, 1998, 2003 and 2006, stipulated that the Bank will be permitted to enter into individual employment contracts with senior employees, as defined in the agreements, as well as several individual employment contracts with certain officers. Some of the senior employees employed under individual employment contracts are eligible, in the event of termination by the Bank, to severance bonuses based on their period of service with the Bank, in addition to other amounts and benefits accrued to their credit in various funds. The financial statements include a provision for the severance bonuses accrued through the balance sheet date. See Note 16 to the financial statements for additional information.

Employees of Bank Yahav

Overview – Labor Agreements

The employment terms and conditions of Yahav employees are provided in collective bargaining agreements and in individual employment contracts. A special collective bargaining agreement was signed in September 2013, governing the employees' labor conditions and pay for the period 2013-2016.

Severance pay and pension

Bank Yahav's obligation to pay severance or retirement pay is primarily covered by current deposits based on the salary for pension purposes to official provident funds in the name of the employees. The Bank customarily makes up the difference, for employees eligible to receive severance pay, between the employee's most recent salary multiplied by their number of years in service and the amount accrued in their name in the aforementioned provident funds.

With regard to a few of its employees, Bank Yahav committed to deliver, upon termination of their employment for any reason, the severance pay component of recognized provident funds (pursuant to Section 14 of the Severance Pay Act). The Bank is not required to make up the difference for these employees between the employee's most recent salary multiplied by their number of years in service and the amount accrued in their name in the aforementioned provident funds.

As for senior executives, the Bank has committed to release to them the severance pay component accrued in the pension fund, in addition to their final salary multiplied by their number of years in service. In addition, Yahav has committed to pay senior executives' salary during an adjustment period, should their employment be terminated by the Bank. An appropriate provision with respect to these obligations has been made on the financial statements.

Yahav committed to make monthly payments through the official retirement age to two senior executives who retired from Yahav, with this payment linked to changes in the salary of Bank Yahav’s President. The financial statements include an appropriate provision based on actuarial estimate.

Redemption of unutilized sick leave

Retiring employees are entitled, under the labor agreement, to partial cashing of unused sick days. Bank Yahav has included a proper provision in its accounts, based on an actuarial assessment.

Jubilee bonus

Yahav employees are eligible to receive a Jubilee bonus upon completion of 25 years of service, and bank retirees are eligible to receive holiday gifts. Bank Yahav has made a provision for the Jubilee bonus and for holiday gifts to retirees based on an actuarial assessment.

Stock Options

For details of the stock option plan for Bank officers and for other employees, see Note 16.A to the financial statements.

Bank remuneration policies

Upon enactment of Amendment no. 20 to the Corporate Act, 1999, the Bank Remuneration Committee, on July 18, 2013, after reviewing data brought before the Committee and taking into consideration all aspects required pursuant to Amendment no. 20 to the Corporate Act, resolved to recommend that the Bank Board of Directors approve the officer remuneration policy. On July 22, 2013, the remuneration policy was approved by the Bank Board of Directors. The remuneration policy was approved by the General Meeting of shareholders on August 27, 2013. For more information about the remuneration policy, its guidelines and scope – see immediate report dated July 18, 2013, reference 2013-01-119877, included herein by way of reference.

On November 19, 2013, the Bank of Israel issued Proper Conduct of Banking Business regulation 301, concerning remuneration policies at banking corporations. Concurrently, the Bank of Israel sent a draft for discussion to the Bank, including some aspects where, according to the Bank of Israel's position, the Bank's remuneration policy should be adjusted to align with Proper Conduct of Banking Business regulations.

Bank representatives and the Remuneration Task Force established by the Bank of Israel discussed and clarified various issues in the Bank's remuneration policy and in the Bank of Israel's draft for discussion.

The Remuneration Committee is formulating the adjustments to the Bank's remuneration policy to align it with Proper Conduct of Banking Business regulations, as well as the remuneration plan for the Bank President – and its decisions would be brought for approval by the Board of Directors and by the General Meeting of shareholders. The Remuneration Committee is also formulating the remuneration plan for officers – and its decisions would be brought for approval by the Board of Directors.

Bank organizational structure

The Bank organizational structure is intended to support achievement of Bank objectives and realization of its business plan**.** The organizational structure is based on divisions and other units that report to the President (except for the Internal Audit Division, which reports to the Chairman of the Board of Directors), as follows:

Retail Division – This division consolidates most of the banking activity of private customers and small business customers. Division operations include: The retail sector, primarily responsible for operations of the Household segment and of the Small Business segment; and the mortgage sector, responsible for mortgage operations. Bank branches and business centers operate under this division in six geographic regions and the LIVE sector, which is operates by personal bankers via a range of communication channels (internet, telephone, SMS, fax and video chat).

Business Banking Division – this division consolidates most of the banking activity of the large corporations and of business customers. This division includes the corporate sector, in charge of operations of the business banking segment, and the business sector, in charge of operations of the commercial banking segment, operating 6 geographically-distributed business centers. The division also includes other units providing specialized services for clients in specific sectors: the construction and real estate sector, the international finance and trade sector and the diamonds business center. The division also operates the special client sector, in charge of arrangement and collection of troubled debt.

Finance Division – The division includes the financial management sector - which is responsible for management of the Bank's financial assets and liabilities - and the capital market trading sector, which operates an integrated trading room active in all financial markets, in trading currencies, interest rates and Israeli and overseas securities, and the Information & Client Service Sector which supports all financial market operations, providing Back Office services. The division is also in charge of international operations of the Group and of its private banking operations. This is achieved via the private banking and international operations sector, which is responsible for these operations via the private banking units in Israel and via affiliates and subsidiaries overseas.

Information Technology Division - in charge of information technology, including pursuant to requirements of Proper Conduct of Banking Business Regulation 357, through the Mizrahi-Tefahot Technology Division Ltd., a wholly-owned subsidiary of the Bank.

Planning, Operations and Customer Asset Division – in 2013, the Bank merged the Customer Assets and Consultancy Division with the Planning and Operations Division. The merged division includes the Process Engineering Division, responsible, inter alia, for back-office banking operations and the Planning & Economics Division, responsible for supervision and control of subsidiaries. The division is also responsible for Bank insurance business (including: banking insurance as well as officer and director insurance), insurance incidental to mortgages and the clearinghouse.

The division also includes the departments which provide pension consulting and financial consulting services offered to clients. The division is also responsible for subsidiaries operating in the capital market, including: Etgar Investment Portfolio Management Company of the Mizrahi Tefahot Group Ltd., Mizrahi-Tefahot Trust Company Ltd. and the provident fund sector.

Risk Control Division - this division includes the various risk control departments at the Bank (including market, interest, liquidity, credit and derivatives), including management of the Bank's operating risk. This division is in charge of information security issues. The Division includes the Bank's Chief Compliance Officer as well as the Analysis Department, tasked with formulating independent recommendations with regard to extending credit as well as opinions with regard to associated risk.

Human Resources and Administration Division – this division includes management of human resources, training, logistics, administration and improved efficiency (including properties and construction) as well as security.

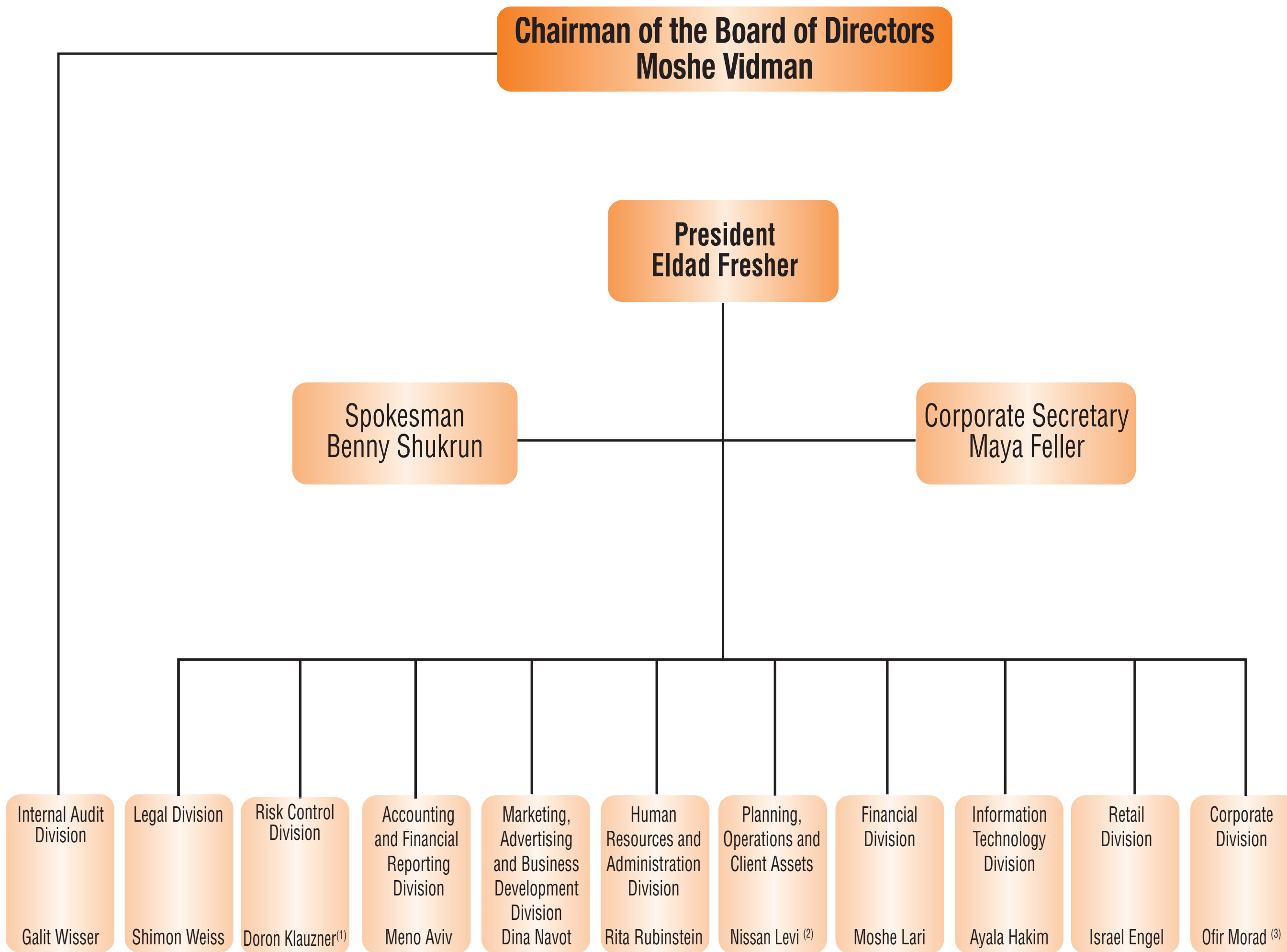
Marketing, Advertising and Business Development Division – This division consolidates activities relating to advertising, marketing, and development of financial products that the Bank markets to customers.

Accounting & Financial Reporting Division – in charge of preparing the Bank's public financial statements, reporting to statutory authorities and to management, taxation, main ledger, mortgage ledger, accounting, treasury and payroll department. The division is also in charge of classification of and provisions for troubled debt.

Legal Division – this division is responsible for providing legal services for all of the Bank's units, for creating the legal infrastructure for the Bank's activities, for management of exposure to legal risk and to handle claims against the Bank.

Internal Audit Division – the division is responsible for conducting internal audits of Bank business and operating units. The division is also responsible for handling the public inquiries and complaints against the Bank.

Organizational Chart of the Bank



(1) Until December 31, 2013 Manager, Corporate Division
(2) From Febuary 2, 2014
(3) From January 1, 2014

Tax Laws Applicable to the Bank Group

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

Corporate tax and profit tax

The overall tax rate for corporate tax and profit tax applicable to Bank revenues in 2013 was 36.22%. The payroll tax rate was 17% through May 2013, and as from June 2, 2013 was increased to 18% of payroll expenses paid by the Bank. Payroll tax is considered an expense for calculation of the corporate tax. For details of the ncrease in VAT rate, see below the chapter "Legislation and Supervision of Bank Group Operations".

Tax assessments

The Bank has finalized tax assessments (or deemed finalized) through 2010. Bank Yahav has finalized tax assessments through 2009. In December 2013, the Tax Assessor issued a payroll tax assessment for 2009. The Bank disputes this tax assessment and has filed an appeal.

Arrangements and approvals from tax authorities

The Bank has made arrangements and obtained approvals from tax authorities for the following merger transactions executed by the Group:
In conjunction with the merger of the Mizrahi Bank Investment Company Ltd. into the Bank, the former's assets and liabilities were transferred to the Bank. Accumulated tax losses and accounting losses generated as of the merger date may be offset by the Bank in accordance with a formula stated in the tax authority approval over a 10 year term, starting in 2004.
See Note 28 to the financial statements for additional information.

The Bank has arrangements with the tax authorities, as follows:

- Overseas Affiliates Arrangement – According to this arrangement, certain wholly-owned affiliates of the Bank that operate overseas pay taxes in Israel on their income, based on the financial statements of these companies. Taxes paid overseas may be set off from the tax liability in Israel, and dividend distributions to the Bank are exempt from tax in Israel.
- On December 31, 2007, the Supervisor of Banks published a circular regarding “Measurement and Disclosure of Impaired Debt, Credit Risk and Provision for Credit Loss”, effective as from January 1, 2011.
  According to an agreement signed by the banks and the Tax Authority in 2012, provisions for credit losses for individually-handled debt would be allowed as a tax deductible expense in the year in which it was recorded. In any tax year in which the provision balance is decreased, the Bank would be taxed at the tax rate applicable on the date of recording the provision, plus interest and linkage differences. As for accounting write-offs with respect to debt treated on a group basis, one half of the net write-offs in each tax year would be allowed as a deduction in the year following the write-off, and the other half would be allowed in the following year. No deductible expense would

be allowed with respect to provisions recorded on a group basis. Provisions with respect to housing loans are excluded from this agreement, and would be treated as previously.

Certain differences deducted from the Bank's shareholders equity as of December 31, 2010 due to initial application of the new directive would be allowed as a tax deduction in five equal annual installments starting in the 2011 tax year.

The aforementioned principles would apply to debt provided for during 5 years from the effective start date of the new directive. After said date, mechanisms were set for extension of the agreement with the Tax Authority.

Overseas operations

The Bank has branches in Los Angeles, London and the Cayman Islands. Profit or loss of these branches is included in the profit or loss reported by the Bank to the tax authorities in Israel.

The State of Israel has signed treaties for avoidance of double taxation with the U.S. and England. Pursuant to the provisions of the treaty with these countries, taxes paid in these countries for the activities of the branches there may be offset against the Bank's tax liability in Israel. The limit for offsetting foreign taxes in Israel is the amount of the tax liability in Israel deriving from the profits of these branches.

The branch in the Cayman Islands is not subject to tax in its country of incorporation.

The Bank has a subsidiary in Holland operating as a holding company, which owns a Swiss company that operates a bank in Switzerland. These companies are covered by the Overseas Affiliates Arrangement as described above.

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 is preparing to implement these, as part of continuing preparations for implementation of the Act as from 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.
The Bank is preparing to apply the legislative provisions on the required schedule, including signing an agreement with US tax authorities.

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 (hereinafter: "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 at which large, major banks would settle, 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 prescribed in 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, these entities may not conduct transactions involving the types of derivatives included in the Act, with other financial institutions (even those not subject to the legislation, such as the Bank) unless they are in compliance with provisions of the Act.

Provisions of the Act become effective gradually, with some transactions involving OTC derivatives with US banks and banks which are swap dealers or MSPs, requiring compliance with the Act, including settlement, as of today.
The Bank is preparing to apply the relevant rules of the reform so as to be able to continue trading OTC derivatives with entities which are 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. (hereinafter - "EMIR").

The EMIR reform, similar to the Dodd Frank reform, includes, *inter alia*, a requirement 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 European Union and therefore should affect Bank operations involving derivatives - since the Bank has significant operations vis-à-vis European banks. However, the EMIR reform is still in legislation phases and the final schedule for implementation of its various stages has yet to be determined. Furthermore, the ex-territorial provisions of this reform have yet to be published and its effect on foreign financial entities or on European branches thereof has yet to be clarified. Central settlement, in conformity with this reform, is scheduled to gradually start in mid-2014.

The Bank is preparing to apply the provisions of this reform which apply to it.

Countering Iran's Nuclear Development Program Act, 2012

The Act, made public on August 3, 2012, should become effective when the regulations enacted pursuant to section 37(a)(1) of the Act would come into effect, except for Chapter C (concerning creation of the ministerial committee, advisory committee and sanctions council) and Section 40 (amendment of the Trading with the Enemy Ordinance, 1939) - which have already come into effect. Currently, the regulations have been approved but have yet to be officially published.

The Act is designed to encumber Iran's nuclear development program by imposing of economic sanctions. These include:

Stipulated authority to classify any entity which sells to Iran technologies, knowledge or products which assist in development and promotion of Iran's nuclear and missile development project as "assisting foreign entity"; stipulated authority to classify any foreign corporation as "conducting business with Iran", on behalf of or within Iran; any breach of the aforementioned prohibitions would be considered a criminal offense and would be subject to strict punishment. These prohibitions also apply to the State.

Since the criminal offenses relate primarily to actions by corporations, corporate officers have been made accountable in order to set compliance norms. "Officer", for this matter, is: an active manager with the corporation, a partner - other than a limited partner, or a person in charge on behalf of the corporation for the area in which the violation has occurred.

In case of a violation by the corporation or by any of its employees - it is assumed that an officer of the corporation is in breach of this obligation and the burden of proof is on him to prove he did everything possible to fulfill his obligation. Application of the Act is not expected to have any material impact on the Bank's financial statements.

The Securities Act (Amendments no. 50,51), 2012

On August 8, 2012, the amendments to the Securities Act were published - designed to bolster the role and position of the trustee for holders of obligatory notes and to explicitly stipulate their obligation to regularly monitor issuer compliance with obligations towards holders of obligatory notes. The trustee must also fulfill additional criteria (in addition to existing ones) with regard to the obligation to make a deposit, obligation to obtain insurance coverage and requirements re professional expertise of financial and accounting skills of Board members and officers. The trustee must also be registered in the Trustee Registry to be administered by ISA. Additional provisions included concern: convening a General Meeting of holders and rules for conducting such General Meeting; prohibition of assuming office in case of conflict of interests; trustee fees and deposit for expense reimbursement; administration of Holder Registry; new restrictions to be added to the Deed of Trust concerning changes to collateral; specification of reporting obligations of the trustee; and review of validity of pledged assets. Some provisions of this amendment would become effective once related regulations are made public. These amendments have no material impact on the Bank's financial statements.

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 the 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. 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. Furthermore, service 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 is not expected to have any material impact on the Bank's financial statements.

Mutual Investment Regulations (Distribution commission) (Amendment), 2013

On March 11, 2013, the Knesset Finance Committee approved the amendment to Mutual Investment Regulations, so as to reduce the distribution commissions paid by investment houses to banks for distributing their mutual funds. Pursuant to this amendment, commissions for money market funds would be reduced from 0.125% to 0.10%; for debenture and equity funds the commissions would be reduced to 0.35% from 0.40% and 0.80%, respectively; and for NIS funds they would be reduced to 0.20% from 0.25%.
The amendment to the regulations became effective on May 1, 2013. Application of these regulations has no material impact on the Bank's financial statements.

Banking Rules (Customer Service) (Commissions), 2008

On August 1, 2013, Amendment 2 to the Banking Rules (Customer Service) (Commissions), 2008 became effective. In this Amendment, a change was made in the retail price list to the maximum turnover for a "small business" – from NIS 1 million to NIS 5 million. According to the Amendment, the banking corporation should have written to corporations no later than August 15, 2013 to inform them of the fact that, should they provide to the banking corporation an "annual report" (as defined in Section 1 of Commission Rules), whereby their annual turnover is less than NIS 5 million, the banking corporation would act to classify their account as a "small business". This classification is effective for one year, to be renewed subject to provision of current documents. Application of this revision has no material impact on the Bank's financial statements.

Corporate Regulations (Reliefs for transactions with interested parties) (Revision 2), 2013

On August 6, 2013, a revision of the aforementioned regulations was published, adding the following reliefs:

- Contracting of insurance terms and conditions for the General Manager;
- Contracting of liability insurance for company officers shall not be subject to approval by the General Meeting of Shareholders and may be approved by only the Remuneration Committee, provided that terms and conditions of such contracting have been specified in the company's remuneration policies, which has been lawfully approved by the General Meeting of Shareholders, provided that such contracting is at market terms and may not materially impact company profitability, assets or liabilities;
- Contracting with the General Manager with regard to his terms of office and employment is not subject to approval by the General Meeting of Shareholders if the company has adopted a remuneration policies which is exempt from approval by the General Meeting of Shareholders pursuant to the Relief Regulations.

Infiltration Prevention Act (Violations and Jurisdiction) (Interim Directive), 2013 and Prohibition on Money Laundering Act (Interim Directive), 2013

On September 11, 2013, the Infiltration Prevention Act (Violations and Jurisdiction) (Interim Directive), 2013 became effective. This Act is one of two legislative steps taken in order to combat "labor infiltrators" into Israel: The Act stipulates a criminal prohibition on sending infiltrators' money overseas while they are in Israel (to reduce the incentive to infiltrate in order to work in Israel and send money back to their families). The definition of "infiltrators" includes asylum seekers for whom bank accounts have been opened. The prohibition (on sending infiltrators' money outside of Israel without permission) applies not only to the actual refugee - but also to any person or bank, since the Act is also intended to enhance enforcement against those who assist infiltrators in sending money outside of Israel (whose action provides an incentive for more infiltrators). "Money" includes any means of payment and includes provision of assets to the refugee in another country against assets in Israel. In conjunction with preparations at a bank, additional restrictions and controls should be added for management of refugees' accounts and to ensure that other clients do not carry out such transactions on behalf of refugees.

On September 11, 2013, the Prohibition on Money Laundering Act (Interim Directive), 2013 came into effect, being the second of two legislative steps taken in order to combat "labor infiltrators" into Israel: This adds the violation of prohibition on sending infiltrators' money overseas - as an origin violation pursuant to the Prohibition on Money Laundering Act - in order to allow for use of the reporting and enforcement mechanism created and operated pursuant to the Prohibition on Money Laundering Act, even allowing the money to be forfeited as stipulated by this Act. The outcome of the Act: Any action designed to send infiltrators' money overseas without permission - constitutes money laundering. In conjunction with preparations, employees must be guided to also prevent sending infiltrators' money overseas through other clients' accounts (money laundering).

These Acts have no 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 would became effective on April 1, 2014. Application of the Amendment is not expected to have any material impact on the Bank's financial statements.

The Competition Enhancement and Concentration Reduction Act, 2013 ("the Anti-Concentration Act")

On December 11, 2013, the Anti-Concentration Act was officially published; this Act is designed to enhance competition and to reduce concentration in the market. The Act includes several chapters concerning restriction on control over companies in a pyramid structure, separation of holdings in significant non-financial corporations from those in significant financial corporations, as well as reference to allocation of rights to National resources. The restriction on control, in accordance with the Act, would be reflected, *inter alia*, in prohibition of creation of new pyramids; mandatory competitive process for transactions with controlling shareholders; and appointment of external and independent board members in companies in layer three or more - such that the board of directors would include an independent majority.

The Act stipulates a transition period of 4 to 6 years for compliance with provisions of the Act with regard to restriction on control of companies in a pyramid structure and separation of holdings in significant financial and non-financial corporations.

Application of the Act would result in company groups, including groups controlled by the controlling shareholders of the Bank, to be affected by the Act and to be required to make changes to the ownership structure and financing - in order to comply with provisions of the Act.

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.

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

Increase in VAT rate and corporate tax rate

On May 27, 2013, the Knesset Finance Committee decided to increase the VAT rate to 18%, effective as from June 2, 2013 (the profit tax and payroll tax rates applied to financial institutions increased accordingly). This legislation was officially published on June 3, 2013. Consequently, the tax rate applicable to the Bank increased to 36.21% in 2013 (compared to 35.90% prior to this change).
The increase in VAT rate has no material impact on the Bank's financial statements.
On July 30, 2013, the Knesset Plenum approved, by second and third vote, the Budget Act and the Arrangements Act for 2013-2014. In conjunction with this legislation, the increase in corporate tax rate to 26.5% was approved, effective as from January 1, 2014.
The Act was officially published on August 5, 2013.
Consequently, the tax rate applicable to the Bank as from 2014 would be 37.71%.

The increase in tax rate applicable to the Bank increases the Bank's deferred tax balance. With respect to said increase, the Bank recognized on these financial statements revenues amounting to NIS 28 million. See Note 28 to the financial statements for details.

Team for review of increased competition in the banking system

The Governor of the Bank of Israel and the Minister of Finance appointed the team for review of increased competition in the banking system, following recommendations by the Trachtenberg Committee for Social-Economic Change. The letter of appointment of this team, headed by the Supervisor of Banks specifies the team's objectives and stipulates that the team would review and recommend various means and measures to increase competition in the Israeli banking market. The team would consider measures to simplify the banking product, to enhance clients' bargaining position and to improve and enhance credit information in the household and small business segments.
On July 16, 2012, the team issued an interim report listing highlights of its recommendations for increasing competition

and enhancing the position of households and small businesses. Upon publication of the interim recommendations, the public was invited to comment; after receiving comments from the public, on March 19, 2013 the team published the complete report listing its work, conclusions and final recommendations.
As from publication of the interim report, the Supervisor of Banks started to apply the team's recommendations. In order to fully apply these recommendations, the Bank of Israel and relevant Government ministries continue to work on the appropriate legislative changes to include the team's recommendations.

Below are specific legislative provisions arising from the team's work:

A. Banking Rules (Customer Service) (Commissions) (Amendment), 2012
On November 28, 2012, the Bank of Israel published the amendment which abolishes securities management fee with respect to MAKAM (short-term Government debentures) and with respect to money market funds; imposes restrictions on bank commissions with respect to securities transactions; and abolishes other commissions applicable to households and small businesses.
The amendment became effective on January 1, 2013.
Application of the amendment and update to the commission price list pursuant to the new legislation is expected to reduce commissions charged to households and small businesses. Overall, application of the amendment is not expected to have any material impact on the Bank's financial statements.

B. Repricing of commissions with respect to securities transactions
On November 28, 2012, the Supervisor of Banks issued a circular concerning repricing of commissions with respect to securities transactions.
Further to findings and recommendations included on the interim report by the team created to review increasing competition in the banking sector, with regard to commissions and benefits with respect to securities transactions, and further to the Amendment to Addendum I to Banking Rules (Customer Service) (Commissions), 2008 - as described above - the Bank is required to set the new rate of commissions charged for buying, selling and redeeming securities with respect to shares and debentures, taking into consideration the changes made to the commission structure in the aforementioned Amendment to Addendum I (setting a differential rate by transaction channel and setting a maximum commission), as well as the need to align these, in as much as possible, with the price actually charged.
The Bank is also required to inform the Supervisor of Banks of its new commission rates, as described above, by March 1, 2013 concurrently with issuing a public notice of this change, as mandated by Banking Rules (Customer Service) (Due Disclosure and Document Delivery), 1992. In addition, the Bank is required its contracting with clients with regard to discounts allowed on commissions with respect to securities transactions, to be based on the commission rate or amount - rather than on a discount percentage off the price list commission rate or amount – for new or renewed agreements as from March 1, 2013. The update to the commission price list is expected to reduce commissions charged to households and small businesses. Overall, application of the circular is not expected to have any material impact on the Bank's financial statements.

Proposed legislation

From time to time, proposals for legislative amendments are brought before the Knesset on various matters, some of which could have an impact on the businesses of banking corporations, including the Bank. However, as of the date of the financial statements, these bills are in different stages of legislation, they may be modified and there is no certainty as to when they will be completed or if they will eventually become provisions of binding legislation.

Supervisor of Banks

The Supervisor of Banks' letters concerning updated directives and restrictions with regard to housing loans

On March 21, 2013, the Supervisor of Banks issued a letter including "updated directives with regard to housing real estate". In conformity with the directives, guidelines with regard to group-based provision for credit losses with respect to housing loans were updated. For details of the updated directives and their effect on the Bank's financial statements for 2013, see Note 1.D.6 to the financial statements.

On August 29, 2013, the Supervisor of Banks issued another letter 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%.

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.

Furthermore, a bank may not approve housing loans where the ratio of the loan portion bearing variable interest to total loan amount exceeds 67% (in addition to the current directive, which caps the loan portion bearing interest which may vary in a period shorter than 5 years, at 33%).

Furthermore, a bank may not approve housing loans with a term to maturity exceeding 30 years.

The aforementioned restrictions apply to housing loans approved in principle as from September 1, 2013.

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 stated in the directive. The report would be published for the period starting on January 1, 2012. The Bank is preparing to publish the financial statements on the prescribed dates.

Letter from the Supervisor of Banks with regard to adoption of recommendations by the ministerial committee on regulation of custodian services

On January 16, 2013, the Supervisor of Banks announced the adoption of recommendations by the ministerial committee on regulation of custodian services (hereinafter "the custodian services report"), published in January 2012, in order to establish basic norms in this field (most of which are already currently applied by the Bank). The committee's recommendations would gradually come into effect as from October 2013. These recommendations govern the issue of custody of client assets and stipulate, inter alia, that:

The Bank, being custodian or intermediary, has a duty of diligence and a fiduciary duty to its clients, and should take all reasonable measures in order to ensure the safeguarding of ownership rights in client assets and cash, and safeguarding of rights arising from asset ownership. A custodian or intermediary shall not mix, including on their records and accounts, the assets of one client with those of another client, nor client assets with those of the custodian / intermediary. Moreover, a custodian or intermediary shall not create any right lien right, offset, lien or any other right with respect to client assets without consent of the client. The recommendations further stipulate that an independent auditor shall conduct, at least once annually, an audit of the custodian or intermediary with regard to compliance with various provisions of the custodian services report. The report further regulates reporting which the Bank should provide to its clients with regard to being custodian of their assets. The custodian or intermediary should specify and apply standards and internal procedures for selection, appointment and periodic review of any financial institution used to deposit assets and cash, and should review the financial robustness of such financial institutions. An intermediary should act diligently, in good faith and with due card in selecting and contracting with a third-party custodian. Application of this directive has no material impact on the Bank's financial statements.

Corporate governance aspects

In an Immediate Report dated February 4, 2013, reference no. 2013-01-029781, the Bank made public the Supervisor of Banks' complete review report with regard to corporate governance aspects. In an Immediate Report dated February 6, 2013, reference no. 2013-01-031425, the Bank made public the actions it was required to take pursuant to findings of this report.

These references constitute inclusion by way of reference of all information included in the aforementioned Immediate Reports published by the Bank on February 4, 2013 and February 6, 2013.

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:

The 2013 annual report would be made public by March 20, 2014.

The 2014 annual report would 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 is preparing to publish the financial statements 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 310, 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 the directive is not expected to have any 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 loss. 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.

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 set forth 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. 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 331 "Dividend distribution by banking corporations"

On January 15, 2013, the Bank of Israel amended Proper Conduct of Banking Business Regulation 331 with regard to dividend distributions by banking corporations. The regulation revises the reference to certain profit and loss of banking corporations which are recognized under Other Comprehensive Income rather than on the statement of profit and loss. The regulation adapts the current restrictions on dividend distributions by the Bank and expands them so that restrictions on retained earnings would also include items of cumulative other comprehensive income, and restrictions on net profit would be extended to restrictions on comprehensive income.

The effective start date of this regulation is January 1, 2013. 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. 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 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 01, 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 the 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. Consequently to this regulation, amendments were made to Regulation 315 "Provision for doubtful debts". The Bank is preparing to implement these updated regulation. Application of these amendments is not expected to have any 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 decrease or increase.

According to this directive, the Bank is required to apply, upon the date of change in interest rate 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. Application of the directive is not expected to have any material impact on the Bank's financial statements.

Proper Conduct of Banking Business regulations 301 and 301A concerning "Remuneration policies 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. The directive includes requirements applicable to all remuneration at banking corporations, including roles of the Board of Directors and of the Remuneration Committee, remuneration policies, controls and documentation; the directive also includes requirements applicable to key staff, 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 multiple 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 included there in. 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.

The directive includes questions and answers with regard to calculation of the maximum ratio required for measurement of variable remuneration awarded or paid with respect to a calendar year.

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 shall apply to remuneration policies set as from the directive effective start date through June 30, 2014.
The effective start date of this directive is its publication date.
Application of this regulation is not expected to have any material impact on the Bank's financial statements. See also chapter “Bank Remuneration Policies” above.

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. The effective start date of the updated directive is the date of its publication. Application of these amendments has no material impact on the Bank's financial statements.

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

On April 10, 2013, the Supervisor of Banks issued draft directives on 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.AA.3. to the financial statements.

Other directives

In addition, banking corporations are required to file immediate reports with the Supervisor of Banks (inter alia, with regard to embezzlement, fraud and acquisition of means of control), as well as monthly reports (inter alia, reporting of financial data, of the banking corporation's board of directors, senior staff and accountant, ratio of capital to elements of risk, etc.).

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

The Basel Committee is an international body established in 1974 by the central banks of different countries. The Committee's decisions and recommendations, although they have no binding legal validity, prescribe the supervisory regulations acceptable to the supervisory bodies of the banking systems in a majority of countries throughout the world. On June 26, 2004, the Basel Committee published new recommendations intended to assure proper regulation for arranging the rules of capital adequacy of banks in different countries (hereinafter: "Basel II"). A final, updated version of these regulations was published in June 2006. Basel II recommendations supersede the previous regulation dated 1988, known as Basel I, which included capital requirements due to credit risk, and was expanded in 1996 to include capital requirements for market risk as well.

Application of Basel II directives improves measuring and management of different risk factors facing the financial institution, and ensures better alignment of capital requirements to the risk level to which the financial institution is exposed. Following the global financial crisis, the Basel Committee issued a new directive, known as Basel III. This directive is designed to handle the failings discovered during the crisis. For details see below.

Key recommendations of the Basel Committee

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

Basle II, Pillar 1 includes minimum capital allocation with respect to market risk, credit risk and operating risk. The guidelines stipulate how capital is allocated for credit risk by enabling calculation of the minimum capital using a standard model relying on external debt rating by rating agencies recognized by the regulatory authority (in Israel: the Supervisor of Banks) , uses a large number of exposure groups while adapting risk coefficients to the various groups, and recognizes financial collateral which may be offset against the exposure. The regulations allow banks to calculate the minimum capital requirement using internal models. These models are based on bank assessment of its borrowers' quality, the probability of borrowers entering a state of credit default, and the expected loss to the bank in case of credit default. Use of internal models requires approval by the regulatory authority, which is only granted after extensive validation of the model.

In the area of market risk, capital allocation in Israel is determined based on a standard model which estimates the bank's exposure with respect to basis, interest and equity risk in the bank's negotiable portfolio.

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

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

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

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

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

Application of the Basel Committee recommendations by the Israeli banking system

In Israel, Basel Committee recommendations have been implemented in Proper Conduct of Banking Business Regulations as follows:
Proper Conduct of Banking Business regulation 201 - Introduction, scope and requirement calculation;
Proper Conduct of Banking Business regulation 202 - Supervisory capital;
Proper Conduct of Banking Business regulation 203 - Calculation of capital required with respect to credit risk using the standard approach;
Proper Conduct of Banking Business regulation 204 - Calculation of capital required with respect to credit risk using the internal rating approach;
Proper Conduct of Banking Business regulation 205 - Handling of securitization transactions;
Proper Conduct of Banking Business regulation 206 - Calculation of capital required with respect to operating risk;
Proper Conduct of Banking Business regulation 208 - Calculation of capital required with respect to market risk;
Proper Conduct of Banking Business regulation 211 - Directives for assessment process of appropriateness of capital adequacy at banking corporations (Pillar 2);

Pillar 3, which stipulates directives and expectations with regard to market discipline (disclosure requirements), was incorporated into the collection of public reporting directives. On February 14, 2011, the Supervisor of Banks issued a circular which stipulates that as from January 1, 2011, the capital requirements included in Proper Conduct of Banking Business regulation 311 (Basel I). are canceled
The disclosure stipulated by the Supervisor of Banks, in accordance with Pillar 3 requirements, is included below. The Bank's capital adequacy as of the report date, in the disclosure format set by the Supervisor of Banks, is presented in Note 14 to the financial statements.
Under Basel II, Pillar 2 (Proper Conduct of Banking Business Regulation 211 - ICAAP Process), all risk types material to Bank operations have been mapped. ICAAP is a comprehensive process in which senior Bank executives are involved. In this process, the Bank has specified its risk appetite for all material risk types to its operations, authored policies documents for risk types added during mapping and extended existing policies documents. The risk appetite, risk mapping and determination of their materiality, 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 an annual basis.

In April 2013, the Bank submitted to the Bank of Israel its ICAAP document (as of December 31, 2012), 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.

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 the launch 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 allow market users to assess the quality of remuneration methods and how they support the strategies and risk position of banking corporations. The effective start date of this regulation is January 1, 2014. Application of the directive is not expected to have any material impact on the Bank's financial statements.

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's 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.

On May 30, 2013, the Supervisor of Banks issued amendments 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.

The directives are effective as from January 1, 2014, subject to transition provisions.

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 amounts 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 would be added to weighted risk assets for credit risk.

The addition to risk assets and to Tier II capital as of January 1, 2014 amounts 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 amounts to NIS 893 million.

Minority interest - The amount of minority interest recognized as capital would be limited, and excess equity of a subsidiary may not be recognized.

The deduction from Tier I capital as of January 1, 2014 amounts 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 amounts to NIS 965 million.

For more information about key amendments made to the regulations and the effect of application of these rules on the Bank’s capital adequacy ratio, see Note 14.H. 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 distributions, 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, 2013, 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.

Material Agreements

A. Employment agreements signed with the Employee Council, the Manager and Authorized Signatory Association, the Yahav Employee Committee and the Technology Division Employee Committee. For details, see "Human Resources" chapter above.

B. Letters of indemnification. See Note 19.D.4 through 19.D.9 to the financial statements for details.

C. Agreement with Israel Credit Cards Ltd. (hereinafter: "CAL") and with Diners Club Israel Ltd., a company controlled by CAL, for joint issue of Visa, MasterCard and Diners Club debit cards, including Bank-branded cards, to be distributed by the Bank to its clients. See Note 19.D.14 to the financial statements for further information.

Legal Proceedings

For material legal proceedings to which the Bank is party, see Notes 19.D. 10) and 19.D.11) to the financial statements.

Arrest and plea bargain of bank employee in the USA

On December 19, 2007, a Bank employee, since then retired, was arrested in the USA on claims that he assisted a Yeshiva, resident in the USA, to defraud the US tax and securities authorities; this employee and others were indicted before the Los Angeles Court of Law.

The Bank's Los Angeles branch has been subpoenaed to produce documents. Since this is a criminal investigation still under way by US law enforcement agencies ("law enforcement agencies”), the subpoena includes prohibition of disclosing information to others; however the Bank informed the law enforcement agencies that proper disclosure of this matter would be made in its financial statements.

Further note that the law enforcement agencies reported that the Bank is a target of this investigation, but the agencies are still considering their position with regard to the Bank. Based on review conducted by the Bank, it has not committed any offence in Israel nor in the USA, and if any offences have been committed by the Bank employee as the indictment alleges, he did so in violation of Bank procedures and his obligations to the Bank.

On June 27, 2008, in conjunction with a plea bargain, the bank employee (who has since retired) admitted to assisting only one bank client to avoid tax payments. All other charges against the bank employee, including money laundering offenses, will be erased. In the plea agreement, the bank employee does not implicate the bank or any of its employees in his actions. The plea agreement was filed with the Los Angeles Court. In early March 2009, the (former) Bank employee was sentenced to a prison term concurrent with the actual period since his arrest, and was released.

The Bank has expressed its consent to cooperate with law enforcement agencies, subject to legal provisions and to the US-Israel Treaty. The law enforcement agencies consented to the Bank responding to the subpoena by a document discovery process to last several months. The Bank has provided the aforementioned documents, and continues to provide documents as requested by enforcement agencies in the USA, subject to orders of the competent Court in Israel.
US law enforcement agencies have requested statistical information about Bank business conducted with US clients. The Bank provides such statistical information to US law enforcement agencies.
The Bank is in constant contact with US law enforcement agencies in order to reach an acceptable outline for the Bank Group.
The Bank reports these events from time to time to the Supervisor of Banks.

Determination by the Restrictive Trade Practices Authority

On April 26, 2009, the Bank received a determination by the Anti-Trust Supervisor pursuant to Section 43(a)(1) of the Restrictive Trade Practices Act, 1988, whereby restrictive trade practices existed between the Bank and Bank Hapoalim Ltd., Bank Leumi Le-Israel Ltd., Bank Discount Le-Israel Ltd. and First International Bank of Israel Ltd., with regard to commission-related information sharing, since the early 1990s through commencement of the Supervisor's inquiry into this matter, in November 2004. This is a civil determination which constitutes a-priori evidence of the content there of in any legal proceeding.

On March 24, 2010, the Bank appealed this ruling to the Anti-Trust Court. The Restrictive Trade Practices Authority filed its response to the appeal on February 22, 2011. In accordance with the Court's proposal, all parties have consented to transfer discussion of the appeal to arbitration. However, these were un-successful. A hearing date, prior to the Supervisor’s decision as to a complementary determination, is scheduled for March 14, 2014. The Bank and the other banks included in this determination are in negotiations with the Anti-Trust Supervisor, designed to reach an agreement based, *inter alia*, on cancellation of the determination and payment by the Bank (and the other banks, pro-rata) of an amount initially designated for settlement of class action lawsuits concerning commissions allegedly charged in breach of anti-trust legislation.

For details of a claim filed against the Bank, based on the determination by the Anti-Trust supervisor, see Note 19.D.10.E. to the financial statements.

Events outside the Normal Course of Bank Group Business

Bank President's term in office

At the Board meeting held on April 24, 2013, former Bank President, Mr. Eli Yones, announced his intention to not continue in his office for a further term. The date of employment termination stated in his employment contract dated November 30, 2008 is April 1, 2014.

The Board of Directors, at its meeting on April 29, 2013, resolved to establish a search committee for the position of Bank President.

On June 17, 2013, the Board of Directors held a meeting and resolved to approve the recommendation by the search committee, to appoint Mr. Eldad Fresher as the Bank's next President.

On June 26, 2013, the Bank received notice from the Supervisor of Banks that the Supervisor had no objection to appointment of Mr. Eldad Fresher as President of Bank Mizrahi-Tefahot.

The Board of Directors, at its meeting held on July 22, 2013, resolved that Mr. Eli Yones would conclude his term in office as Bank President on August 15, 2013.

The Bank Board of Directors wishes to thank Mr. Eli Yones for his contribution to the Bank over his years of service as Bank President.

As from August 16, 2013, Mr. Eldad Fresher serves as Bank President.

Updates to employee stock option plan

On April 29, 2013, the Bank Board of Directors, after receiving approval of the Bank Remuneration Committee, resolved to approve a plan for allotment of a further 5,921,340 options to 330 offerees who are not officers and who are employees of the Bank and its subsidiaries. The option plan is based on the principles of the stock option plan for employees at the Bank. For further information, see Note 16.A. to the financial statements.

The options were awarded in one lot, exercisable as from the first anniversary through 90 days after the second anniversary of the award date, subject to the average rate of net operating profit return on equity for the Bank, as set forth in Note 16.A. to the financial statements. The exercise price for each option warrant allotted to offerees pursuant to the plan is NIS 36.6, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank. The exercise price was based on the closing price of Bank shares on the stock exchange on April 28, 2013, the most recent trading day prior to the date of plan approval by the Board of Directors. The fair value (theoretical benefit value) of a single option in any lot of the additional options approved was calculated in accordance with IFRS 2, using the Black & Scholes model. The theoretical benefit value of the option warrants in this allotment, calculated in accordance with accounting rules of IFRS 2, amounts to NIS 17 million (NIS 20 million including Payroll Tax). The benefit value is recognized by the Bank over the vesting term of the options. See Note 16.A to the financial statements for additional information.

Business Strategy

On July 23, 2012 the Bank's Board of Directors approved a strategic plan for 2013-2017, based on the following principles:

- The target set in the plan is to present, in 2017, an average net operating profit return on equity of 17%, based on the target core capital ratio of 7.5%.
- The Bank's Board of Directors instructed the Bank to advance forward implementation of the Supervisor of Banks' directive dated March 28, 2012, whereby the Bank should adopt by December 31, 2014 a target core capital ratio of no less than 9%, to be applied, 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. The core capital ratio will be calculated based on Basel III directives with adjustments to be specified by the Supervisor of Banks. Consequently, the average equity basis used for Bank operations would be increased, therefore, arithmetically, any given profit would result in a lower return figure. Accordingly, the target average net operating profit return on equity, adjusted for the regulatory requirement for core capital ratio of 9% or higher, would be 14.5% in 2017. For comparison, this return on equity is equivalent to 17% based on regulatory capital requirements during the term of the previous strategic plan.
- During this strategic plan, the dividend distribution policies adopted by the Bank would be maintained, whereby, subject to the Bank’s core capital ratio being no less than the target set by the Board of Directors, the Bank would distribute annually dividends equal to 40% of net operating profit and 80% of profit from extraordinary items.

Following publication of the Supervisor of Bank's directives dated May 30, 2013, with regard to adoption of Basel III recommendations in Israel, including Supervisory adjustments, deductions from capital and directives on measurement and capital adequacy – the Bank reviewed once again its compliance with schedules to achieve the core capital ratio target of 9% or higher.

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 advancing the implementation of the Supervisor of Banks' directives, 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.

Forecasts and Assessments with Regard to Bank Group Business

The Bank bases its five-year plan on several major goals and efforts in the following areas:

- Maintain Bank position as a leader in the mortgage market.
- Further increase in Bank market share of the household segment, reinforcing the service concept derived from Hybrid Banking and operation of the Bank's LIVE branches.
- Position the Bank as a key service provider to small and medium businesses.
- Expand the business client base and form unique value propositions, in line with needs of such clients.
- Increase the Bank's market share of deposits from the public.
- Continue establishing the Bank's leadership position in currency markets and expand Bank market share in this segment.

Growth engines for achieving the goals of the multi-annual strategic plans are:

- Maintain the operating efficiency ratio (total expenses to total revenues), and take steps to improve it to less than 55%.
- Reinforce capital management capacity and prepare for issuing complex, innovative capital instruments.
- Reinforcing risk management capacity, by applying advanced risk pricing models (application of these advanced models was not taken into consideration for compliance with objectives of the new strategic plan).
- Foster a service-oriented organizational culture.
- Take further steps to continue organizational growth of Bank core operations, at a higher rate than for all of the banking system, similar to Bank achievements over the past 9 years.

The growth engines are aimed to increase the Bank's revenues at an average annual rate of over 8% (though not in linear fashion), while maintaining expenses at a moderate annual growth rate of 4.5% (also not in linear fashion).

The Bank bases its multi-annual strategic plan, inter alia, on the following efforts: reinforcing the Bank position as an efficient, service-oriented bank which controls expenses, constantly improves as part of the organizational culture, a new performance-based remuneration plan which is being prepared by the Bank, continued expansion of activity of the Back-office Operations Division, transferring additional logistics and operations activities from the branches to this Division, improved efficiency of the IT Department and continued activity by Bank Yahav on development of price-focused banking service, offering an appropriate service alternative.

The aforementioned plan is a strategic plan which specifies Bank objectives for 2013-2017 and does not constitute a forecast or assessment with regard to achievement of these objectives; as such, by its nature, the strategic plan may not materialize. Moreover and without derogating from the generality of the aforesaid, in as much as this plan includes forward-looking information, as defined in the Securities Act, 1968, this information is based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank's Board of Directors, including: Absence of change in legislation and regulatory provisions which would impact the business environment, absence of geo-political developments and changes which would change or impact the business environment, stabilization of the global economy in coming years at negligent growth rates in per-capita GDP (following the global economic slow-down in recent years), growth of Israeli economy in coming years by an average 3.5% or higher, higher prices in Israeli economy in coming years at a rate not to exceed the known Government-set target, and an interest environment which reflects such target. These assumptions may fail to materialize due to factors other than under the Bank's control, which may affect the aforementioned issues and cause the strategic plan not to materialize. The influencing factors include forecasts on various matters related to economic developments in Israel and internationally, especially the state of the economy, including macroeconomic and geopolitical conditions, and the currency market and capital market, other factors that impact the exposure to financial risk, the public's preferences, legislation, directives of regulatory entities, the behavior of competitors, aspects related to the Bank's image, technological developments and manpower matters.

The Board of Directors will monitor execution of the strategic plan, and may make changes to this plan from time to time, as required, including due to changes in factors which may affect the plan, as described above.

Marketing Operations

The Bank's marketing operations and marketing strategy are derived from the Bank's strategic plan. Marketing channels used by the Bank to base the strategic plan there upon, include: the nation-wide branch network, business center branches, business centers, professional headquarters units and LIVE branches.

Marketing strategy

The marketing strategy is derived from key growth and profitability targets prescribed within the Bank’s business plan, which is based on the Bank striving to achieve the goals listed below:

- Establish and reinforce the Mizrahi-Tefahot brand as an attractive banking brand which provides a better banking alternative.
- Increase the Bank's share of the retail market, by expansion of the customer base, in particular growth in the total number of customers in the Bank's household segment, while focusing on profitable target groups.
- Increase the Bank's share of small to medium business clients.
- Maximize Bank client recruitment and increase profitability of existing clients.
- Continue to lead the mortgage market in terms of both market share and image, and further reinforce the expertise of Bank employees in this area.
- Maintain Group market share in mortgages, and maintain the Group's positioning as leader in this area and continue to reinforce expertise of Bank staff in this field.
- Leverage the extensive client base for mortgages to promote further growth of retail banking.
- Focus activity on recruitment of new deposits and increasing investment activities among existing clients.

In order to achieve these objectives of the marketing plan, the Bank operates based on the following principles and means:

- Focus the Bank on quality of service provided to its client base, making the service component into a comprehensive client experience - a key component of Bank operations vis-à-vis clients.

- Focus on recruitment of high-quality clients by creating unique value propositions and developing a service policy to support the unique positioning and needs of such clients.
- Intensive client awareness and communicating the existing benefits of the combination of retail banking and mortgage banking to clients, employees and the general public. This combination enables the Bank to offer customers a broader range of solutions under one roof, and to provide better service.
- Total financial viewpoint, placing the customer and his current account in the center, with the Bank offering other value propositions, which provide real added value to the customer in various areas, including: Investment management, retail credit products, credit cards, mortgage and pension advisory service.
- Offer innovative products and services based on client needs, by applying professional analysis of needs and price-performance considerations with regard to the client.
- better alignment of financial products with client needs, increasing the number of products per client, enhancing use of existing products and by using advanced marketing tools to prevent a decrease in volume of activity, increasing loyalty of existing clients, preserving and increasing the volume of their financial activity and preventing churn.
- Use a distinctive and differentiating media language to base the Bank's position as a desired, preferred brand.

In 2013, the Bank continued to focus its marketing and communications efforts on reducing the psychological barrier to switching banks, continuing to encourage clients to switch to Mizrahi Tefahot through two major recruitment campaigns in the media - Dvir's Journey across the country, on which he met with real clients of other banks, and then the campaign "Fix the Redhead".

As for deposits, the Bank continued to establish its unique marketing communications "fruit language", in order to continue growth in this area, recruit new deposits and to further simplify the complex world of deposits and to make it accessible to the general public.

As for mortgages, the Bank further reinforced its expertise perception through marketing and media activity through the Tefahot brand.

Based on market research conducted by the Bank, one may deduce that these Bank activities have impacted banking in Israel as follows:

- Mizrahi-Tefahot now has an image perception advantage over its competitors in the public's mind, and is perceived by the public at large as the most different bank in the Israeli banking system.
- The perception of Mizrahi Tefahot is that Bank clients are the best looked after in the entire banking system.
- Mizrahi-Tefahot's potential market share is significantly higher than its reported market share - which means there are many potential clients interested in joining the Mizrahi-Tefahot family.
- Mizrahi Tefahot leads the banking system in client satisfaction.
- The Tefahot brand leads in client satisfaction in the mortgage area - significantly higher than competitors.
- Mizrahi Tefahot is the bank with the strongest growth momentum in the entire banking system.

Marketing products and tools

- To strengthen and set apart the Mizrahi-Tefahot brand and to build an outstanding, differentiating competitive positioning intended to give the Bank a leading position in the current and future competitive arena.
- The brand-related positioning activities include use of mass media, internet media and regional promotional activities intended to create an image effect, to raise the public's awareness of the Bank and to fortify the Bank's positioning and values.
- Create a marketing strategy for the major Group brands:
  - "Mizrahi-Tefahot" – service differentiation through Hybrid Banking
  - "Tefahot" – the Mortgage Experts.
  - Investment world - the Professionals.
  - "Executive Account"
  - "The Card" – through the Group Power concept.
  - "Mizrahi Tefahot Live" – a unique banking service where each client has their own personal banker, regardless of physical branch.
- Develop the client experience for all Bank clients in all branches and sectors, and contact potential clients for recruitment.
- Nurture and preserve current customers in the strategic target audience, and intensify activities with them. Activity among existing customers is based mainly on retaining and intensifying activities of the share of retail and business clients, formulating unique offers with value and developing a service policies that supports the positioning and needs of the customer and aids in improving customer satisfaction over time, thereby helping to achieve the growth, profitability and preservation objectives which the Bank had set for itself and through the Mizrahi Tefahot loyalty club.
- Further position Tefahot as the mortgage experts and foster synergy between Mizrahi-Tefahot and Tefahot while intensifying the link between the checking account and mortgage domains.
- Establish "The Card" - Mizrahi-Tefahot's credit card - as a unique loyalty club with added value reflected by attractive value propositions in both banking and non-banking fields, under the Group Power concept.
- Development of appropriate infrastructure, in order to enable the required marketing activity, centered on approaching each client with the suitable value proposition, at the right time, using the right channel and message for the client. Infrastructure development primarily includes constant improvement of getting to know the clients using the enterprise data warehouse (DWH) and continued development and improvement of Client Relationship Management (CRM) systems. These activities help the Bank to provide better service and to offer more focused value propositions through the Bank's improved value proposition system.
- Control and understand what is happening on the net - monitor and respond on social networks and in the blogosphere, by using advanced technologies for real time monitoring and response on multiple levels:
  - Understanding clients: Real-time monitoring of consumer calls to assist in improvement of products and services offered to clients.
  - Active involvement in social media: Identify questions and enquiries by clients and provide a quick, efficient response.
  - Useful insights for new product development.
  - Monitor and measure campaigns.

Sources and Financing

Group financing sources include: deposits from the public and from banking institutions, including by means of credit obtained from the Bank of Israel; issuance of obligatory notes; various debentures; and 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.

Deposits

The Bank distinguishes between different source types by type of clients. The Bank examines the degree of concentration of the depositors, and within this framework, management has specified guidelines with regard to holding of liquid resources against large depositors. Furthermore, guidelines have been specified with regard to the ratio of volatile deposits to total deposits. These guidelines are part of the liquidity risk management system.

Total deposits from the public for the Group as of December 31, 2013 amounted to NIS 141.2 billion, compared to NIS 128.1 billion at end of 2012 – a 10.2% increase. Deposits from the public in the NIS-denominated, non-CPI linked segment increased in 2013 by 11.5%; deposits in the CPI-linked segment decreased by 0.4%; and deposits denominated in or linked to foreign currency increased by 15.7% - for details see chapter "Development of balance sheet items" above.

Bank of Israel

The Bank of Israel serves as a key party for the short-term financing and absorbing money for the entire banking system, and for Mizrahi Bank in particular. It should be noted that a bank that borrows money from the Bank of Israel must provide collateral, and the Bank takes this parameter into account in its day-to-day management of liquidity.

Another source for raising short-term funds is the inter-bank money market.

Among the factors influencing the scope and types of deposits in the banking system is the monetary policies of the Bank of Israel.

Below is a survey of the monetary tools used by the Bank of Israel for the purpose of implementing its monetary policies:

Bank of Israel interest rate - The Bank of Israel publishes monthly the interest rate for the following month. This interest constitutes the base interest rate for tenders on loans and deposits made available to the banking system, as will be provided below.

Liquidity requirement - The directives of the Bank of Israel require banks to hold liquid balances for deposits from the public, at varying percentages, according to the period of the deposit. The required liquidity percentages are presently 6% on demand deposits and 3% on time deposits of one week to one year. In deposits for periods of one year or more, there is no liquidity requirement. As from late January 2011, the Bank of Israel imposed a new liquidity requirement with respect to currency swap transactions and FOREX futures transactions with foreign residents, including foreign banks. See the chapter on risk management for information on the management of liquidity risk by the Bank.

Deposits with Bank of Israel to absorb excess liquidity - When there is excess liquidity in the system, the Bank of

Israel absorbs it through tenders on deposits that it makes available to the banking system. The deposit tenders are for a short term of 1,7 or 30 days. The maximum interest rate for these tenders is the stated interest rate of the Bank of Israel. Moreover, there is a window for depositing daily deposits in the Bank of Israel, unlimited in amount, at interest that is 0.50% lower than the Bank of Israel interest rate. In 2013, the banking system - including the Bank - had excess liquidity, and throughout the year, the Bank of Israel offered deposit tenders for terms of one day, week, month in order to absorb this excess.

Short-term Government debentures (MAKAM) - Another financial instrument used to absorb surplus shekel liquidity is the short-term Government debenture (MAKAM), through regular issuances to the public and the activity of the Bank of Israel in the secondary market.

Tools for enhancing system liquidity - For the purpose of injecting liquidity into the banking system, the Bank of Israel makes available short-term credit tenders for 1-7 days, in which the minimum interest is the Bank of Israel interest. Moreover, the Bank of Israel provides a daily credit window at interest that is 0.5% higher than the Bank of Israel interest. Receipt of credit from the Bank of Israel, whether through the credit tender or the credit window, is limited to the collateral amount that each bank has in the Bank of Israel. In 2013, the banking system and the Bank had excess liquidity - and the Bank of Israel did not conduct any credit tenders.

Real Time Gross Settlement (RTGS) system - the RTGS system allows clients to transfer in real time NIS-denominated amounts from an account at one bank to an account at another bank. Settlement is immediate and final.

Obligatory notes and debentures issued to the public

Obligatory notes

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 date of the financial statements, total obligatory notes (Series 26-36), including subordinated notes, issued to the public by Tefahot Issuance amounted to NIS 8,997 million par value (as of December 31, 2012 - NIS 8,928 million), of which NIS 2,131 million in subordinated notes (as of December 31, 2012 - NIS 2,131 million).

On July 30, 2013, Tefahot Issuance issued a shelf prospectus for issuance of up to 10 new series of subordinated notes (Series H-Q), 10 new series of debentures (Series 36-45), expansion of debenture series (Series 29 and 32-35), expansion of subordinated note series (Series 31) and issuance of 2 series of commercial paper (Series 1-2). The shelf prospectus is valid through July 29, 2015.

In 2013, Tefahot Issuance issued obligatory notes amounting to NIS 2,745 million par value for consideration amounting to NIS 3,007 million, of which NIS 1,305 million par value for consideration amounting to NIS 1,509 million, issued in January 2013 pursuant to the shelf prospectus dated February 25, 2011, and a total of NIS 1,440 million par value for consideration amounting to NIS 1,498 million, issued in September 2013 pursuant to the shelf prospectus dated July 30, 2013.

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.

Complex capital instruments

In November 2006, the Bank raised, in a private placement to institutional investors, the sum of NIS 451 million (NIS 460 million par value) via issuance of subordinated notes (Series A), that will be deemed Upper Tier II capital for maintaining a minimum capital ratio. On May 21, 2007 the Bank published a prospectus under which the complex capital instruments were listed for trading in early June 2007. Starting in June 2007 and through publication of these financial statements, the Bank issued and listed for trading additional complex capital instruments amounting to NIS 1,242 million par value in exchange for NIS 1,193 million in proceeds.
All of the Bank's complex capital instruments (Series A) as of December 31, 2013, issued and listed for trading amounted to NIS 1,702 million par value, issued for consideration amounting to NIS 1,644 million.
The revalued balance of the complex capital instruments as of December 31, 2013 was NIS 1.9 billion, similar to the end of 2011. See Note 14 to the financial statements for details.

Rating of Bank obligations

In accordance with rating provided by Maalot Standard & Poor's (hereinafter: "Maalot"), the Bank's issuer rating, including deposits deposited with the Bank, is AA+, 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 upper 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 rating outlook.

Adjustable rate credit

A significant part of the credit loans issued by the Bank are at adjustable interest rates. In the non-linked shekel sector, the variable-interest loans are issued based on the changes in the prime interest rate. The prime interest rate is based on the Bank of Israel interest plus 1.5%, and if this ratio changes, the Bank is permitted to change the method for determining the variable interest accordingly. The prime interest rate could change every month, according to a decision by the Governor of the Bank of Israel on a change in the monetary interest.
The Bank also provides NIS-denominated mortgages bearing variable interest varying at 5 year intervals, with the interest rate update mechanism ("anchor") based on NIS-denominated Government debentures bearing fixed interest.
In the CPI-linked sector, most variable-interest loans are mortgages, with various frequencies for interest rate updates: 1 year, 2.5 years, 5 years, 7 years and 10 years. The interest rate update mechanism ("anchor") is based on CPI-linked Government debentures.
In the foreign currency (and/or foreign currency linked) segment, most of the loans are at adjustable rates, varying with changes in the LIBOR interest rates. The commonly used periods are 1-month LIBOR and 3-month LIBOR.

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 Basel II recommendations, Pillar 3, as applied to banks by Public Reporting Directives, and in accordance with the directive on qualitative reporting with regard to exposure to and management of market risk.

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

Subject	Disclosure	Chapter in Board of Directors' Report / Note to financial statements
Application scope	Group entities, consolidation basis, limits on supervisory capital	Risk Management chapter
Capital structure	Key attributes of equity instruments Details of capital components	Note 14 – Capital Adequacy Note 14 – Capital Adequacy
Capital adequacy	Qualitative and quantitative disclosure Capital adequacy ratios for the Group	Risk Management chapter Note 14 – Capital Adequacy
Credit risk	Qualitative and quantitative disclosure Credit risk exposure by economic sector Credit risk exposure by contractual term to maturity Credit risk exposure by major geographic regions Information about troubled debt Provision for credit losses by economic sector Credit losses with respect to housing loans	Risk Management chapter Management Discussion, Addendum E - Credit Risk by Economic Sector Risk Management chapter Management Discussion, Addendum F - Exposure to Foreign Countries Note 4 - Loans to the Public Management Discussion, Addendum E - Credit Risk by Economic Sector Risk Management chapter
Credit risk mitigation	Qualitative and quantitative disclosure	Risk Management chapter
Counter-party credit risk	Qualitative and quantitative disclosure	Risk Management chapter
Securitization		Risk Management chapter
Equity positions in bank portfolio	Qualitative and quantitative disclosure Accounting policies	Risk Management chapter Note 1 - Reporting Principles and Accounting Policies
Market risk, liquidity risk, interest risk in bank portfolio	Qualitative and quantitative disclosure	Risk Management chapter
Operating risk	Qualitative disclosure	Risk Management chapter
Legal risk	Qualitative and quantitative disclosure	Risk Management chapter
Risk factors	Qualitative and quantitative disclosure	Risk Management chapter

Application scope

Provisions of Proper Conduct of Banking Business Regulations nos. 201-211 "Measurement and Capital Adequacy" apply to the Bank Group and in particular to the Bank - Bank Mizrahi-Tefahot Ltd. - the parent company of the Group. Group companies to which the framework applies, in accordance with the supervisory consolidation basis, are the companies consolidated with the Bank's consolidated financial statements. For details of Bank Group companies, see Note 6 to the financial statements. 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 II 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 created, 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, Retail Division at the Bank.

For further details of the Bank's capital adequacy ratio, see reference in chapter "Legislation and Supervision of Bank Group Operations".
For details of the risk adjusted capital ratio, see Note 14 to the financial statements.

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

	As of December 31, 2013		As of December 31, 2012	
Exposure group	Weighted risk asset balances	Capital requirement(1)	Weighted risk asset balances	Capital requirement(1)
Sovereign debt	521	47	565	51
Public sector entity debt	455	41	374	34
Banking corporation debt	1,390	125	927	83
Corporate debt	39,688	3,572	39,572	3,561
Debt secured by commercial real estate	2,209	199	2,194	197
Retail exposure to individuals	10,445	940	10,132	912
Loans to small businesses	3,754	338	3,666	330
Residential mortgages	43,889	3,950	37,396	3,366
Other assets	3,060	275	3,910	352
Total	**105,411**	**9,487**	**98,736**	**8,886**

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

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

	As of December 31, 2013		As of December 31, 2012	
	Weighted risk asset balances	Capital requirement(1)	Weighted risk asset balances	Capital requirement(1)
Market risk	842	76	1,119	101
Operating Risk	7,154	644	7,093	638
Total	**7,996**	**720**	**8,212**	**739**

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

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

	Ratio of capital to risk elements	
As of December 31,	2013	2012
Ratio of Tier I capital to risk elements	9.01	8.55
Ratio of total capital to risk elements	13.04	13.35
Total minimum capital ratio required by the Supervisor of Banks	9.00	9.00

Risk exposure and assessment thereof

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, is designed to support achievement of the Group's business goals while limiting exposure to such risk.

Risk management at the Group is conducted regularly in accordance with Proper Conduct of Banking Business Regulation 310 of the Bank of Israel (risk management), and in accordance with the framework specified in Basel II, Pillar 2. 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 conducted a gap survey for these regulations and is preparing to apply them in accordance with the schedule set by the Bank of Israel. 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.

The Bank has put in place an organization whereby risk management and control for the Group is composed of 5 major layers:

Board of Directors - Sets Bank policies on risk and capital management, including approval of the risk appetite framework and limitations, approval of business objectives and setting the strategic plan, as well as the risk profile derived there from. The Board of Directors approves policy on handling various risk factors and management of capital and monitors the implementation of such policy, while monitoring the Bank's risk profile in view of the risk appetite approved by the Board.

Management - committed to identification and management of material risk to which the Bank is exposed (each Risk Owner in their own area). Management is tasked with setting policies for management of each risk factor, compliance with the risk appetite set by the Board of Directors and development of strategies and tools for risk mitigation and for reducing potential damage.

Business units - these risk-taking units are at the fore-front of risk management, and use tools, processes and procedures for on-going risk management within the specified risk appetite framework.

CRO - in 2011, the Bank established a dedicated division for risk control. The Risk Control Division Manager is the Bank's Chief Risk Officer (CRO). The Risk Control Division is the central line for risk control operations, using dedicated systems (sometimes different than those used by the business units) and procedures. The Division uses monitoring tools as close as possible to operations of the business units and to the risk-taking events. These include intra-day monitoring tools, as described below. The Division is tasked with constantly challenging the Bank's risk appetite, while monitoring the Bank's risk profile with respect to various risk factors - both under normal and stress conditions. The Risk Control Division is responsible, *inter alia*, through designated units for handling compliance risk and money laundering risk at the Bank and for validation of models used by the Bank (model risk) and for providing an independent opinion with regard to extending credit (analysis).

Internal Audit - forms another layer for tracking and monitoring risk level. Internal Audit operations usually take place after risk has been taken. Internal Audit, using the tools in its use, acts independently to map and assess the risk level at the various units.

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.

The Bank's Board of Directors has defined the credit policies, including the Bank's risk appetite for sectors, borrower groups, mortgages etc. The limitations specified under risk appetite are monitored at the frequency specified under the credit policies, and compliance with these limitations is reported to Bank Board of Directors and management. Monitoring is performed by the business units and by the Risk Control Division.

The Bank has approved a dedicated policies on credit concentration risk, in which it has specified the risk appetite in this area and specified methodology for measurement, control and reporting. Bank policies with regard to credit is based upon the Bank's objectives and business strategy, emphasizing macro-economic changes in Israel and overseas and the implications there of on credit risk.

The Bank’s credit policies prescribe principles and rules for making credit available and for the management and control over the loan portfolio, in order to preserve its quality and reduce the inherent risk. These principles and rules enable controlled management of the risk involved in granting loans to borrowers, at the level of the individual borrower, group of borrowers and the level of economic and business sectors. The credit policies is reviewed during the year, in view of developments in the business environment in which the Bank and Bank clients operate.
In 2013, the Bank implemented Proper Banking Conduct Regulation 311 concerning "Credit risk management" and is preparing to implement Proper Banking Conduct Regulation 301 with regard to work of the Board of Directors. For further details, see above the chapter on Legislation and Supervision of Bank Group Operations.

Quantitative components of Basel II, and to an even greater extent, its qualitative components, significantly affect how credit risk is managed at the Bank, in particular the ICAAP process conducted in conjunction with Basel II, Pillar 2. The ICAAP process reviews credit risk management processes, including setting of credit policies and specification of risk appetite, in view of evolution of the Bank's risk profile.

Group operations with regard to credit to the public are managed by several key segments, which differ in client attributes and types of banking services these clients require, as well as in the organizational unit responsible for handling each client type:

- The Household segment, Small Business segment and mortgage operations are under the responsibility of the Retail Division.
- The Commercial Banking segment and Business Banking segment are under the responsibility of the Business Division.
- Clients of international operations are under the responsibility of the International Operations sector of the Financial Division.

For details of client attributes in each segment, see chapter on Description of Bank Group Business by Operating

Segment and chapter on International Operations.

As part of the credit granting process, transaction data is reviewed in accordance with criteria determined by the Bank. The decision making process for granting credit is hierarchical, from branch level to Board of Directors level. Each unit which provides credit monitors on a regular basis credit repayment in accordance with terms agreed as well as the financial status of the client, based on their level of indebtedness. Any findings requiring action are reported to the entity in charge of the relevant credit. In addition, the credit granting process involves the Analysis Department, which is part of the Bank's risk management function. This involvement includes, with regard to major credit exposures as stipulated by Bank procedures, independent analysis of credit applications and presentation of conclusions and recommendations in a written document enclosed with the credit application and brought for discussion by the Supreme Credit Committee.
The Bank operates on multiple levels to monitor and mitigate credit risk in as much as possible, from the credit approval stage, required collateral and financial covenants specified in accordance with procedures, authorization and diversification policies specified by the Bank, through to regular control by business units and dedicated control units. This is done with constant effort invested in improving the professional expertise of those involved with credit, by means of banking courses and training, as well as professional seminars at all levels. Concurrently, the Bank invests extensive resources in improving its control mechanisms and IT systems available to decision makers in the credit sector.

Considerations in extending credit – The considerations involved in granting credit are based mainly on the quality of the client, his reliability, financial strength, liquidity, repayment ability, seniority in the industry, length of time with the Bank, behavior in the account and on the quality of the collateral, as described below. Likewise, the Bank works to match credit type and terms to client needs. In cases in which loans are issued based solely on the quality of the borrower, without a collateral requirement, certain contingencies are set at times, including compliance with financial covenants.

Procedures - Procedures for granting credit and for processing credit and collateral, as well as the relevant IT systems there for, are regularly reviewed and updated to adapt them to the changing business environment, while learning lessons from different events.

.

Risk diversification - The Bank's credit policies are based on diversification and controlled management of risk. Risk diversification is characterized by several aspects: Diversification of the loan portfolio across economic sectors, including increased exposure to specific sectors, diversification across client size groups, diversification across different linkage bases, geographic diversification if applicable (construction sector, mortgages). For details on concentration risk management, see below.

Authority to grant credit – In order to streamline the decision-making process as it relates to granting credit while minimizing risk, a ranking of authority was determined for officers and credit committees at different levels, up to the level of the Board of Directors and its Credit Committee. In 2013, the Bank adjusted the authority ranking in line with Proper Conduct of Banking Business regulation 301.
Credit-granting decisions, beginning from the district level, are made by credit committees in order to minimize the risk in

relying on the judgment of a single individual. The credit authorizations include limitations on credit limit as well as on the percentage of unsecured credit that each authorized official is permitted to approve, and other guidelines were prescribed relating to the prerogative to exercise authority in certain situations.

Currency exposure in credit - Borrowers with currency exposure are offered means of safety and protection (hedging transactions) in order to reduce their exposure, in addition to other measures that the Bank adopts to minimize the risk of the Bank's exposure from the activities of these customers. Guidelines were prescribed to intensify the monitoring, control, and supervision of the activities of borrowers whose debts to the Bank are sensitive to exchange rate fluctuations, including the creation of simulations and future scenarios of changes in exchange rates. Special controls are also used for clients, when securities form a significant element of their collateral.

Credit in the construction and real estate sectors- In financing the construction and real estate industry, specific analysis and monitoring tools are used to assist the Bank in reaching decisions on the granting of financial support to the various projects. Construction financing in this industry is focused mainly on residential construction in areas with strong demand and mid-level prices. In addition, the financing is allocated between geographic regions, based inter alia on relevant demand.

In providing credit for construction, the Bank focuses on the financial support method (closed assistance). The application of this method is designed to reduce the exposure to risk in the granting of the loans, because it incorporates current and close monitoring of the progress of the financed project, both before the loans are provided, and as the project receives the financial support, while maintaining a distinction between the financed projects and the business risk inherent in the other activities of the developer-borrower. The Bank is assisted by outside construction supervisors, and also relies on liens on the land in the project, to secure the loans. Loans are issued for financed projects only by branches with professional knowledge of the subject, and under the supervision of the regional affiliates of the construction and real estate sector.

Borrower rating - The Bank has developed a system for rating business borrowers, based on a computerized testing model that combines quantitative and qualitative assessments of borrower, which has been adapted for a range of business borrowers according to various economic sectors. The Bank regularly maintains the different existing models and develops new models, and acts to adapt, update and improve them in line with changes in the business environment.

This system is used for most of the Bank's business loans. The objective of the system is to provide for credit risk management and to support decision making processes. The system determines the rating of a borrower as a function of the quality of the client, the collateral furnished and the amount of credit received.

The Bank has developed a capacity for rating clients in the mortgage segment and in the retail segment, using advanced models. Each of these clients is assigned a credit score.

Monitoring and control - Control over credit operations is a key component in maintaining quality of credit extended by the Bank to clients, including maintaining the quality and position of collateral required to secure credit. The Bank continuously acts to identify and locate, as soon as possible, any indications of impairment of borrowers' repayment capacity or any deterioration in the state of their collateral, in order to avoid potential credit failure. The Bank applies different control mechanisms, some of which are internal controls within the credit management chain, which are regularly conducted by branches, regions, headquarters and specific units involved there with, and some - controls by entities external to the credit process.

The control mechanisms at branches, regions and headquarters are based on Bank procedures as well as internal procedures of these units, and are regularly followed as part of the normal business routine of the various levels. Each credit level controls the relevant credit decisions of those levels reporting to it, as well as the current credit behavior of these clients.

Additional controls are implemented by headquarter units of the Business Division, at different frequencies, by different entities which report to the supervisors there of. There are lateral identification and control processes in place, along with specific processes adapted to each sector's unique operations.

Furthermore, the Mortgage sector conducts an internal review process aimed at identifying faults and weaknesses soon after they actually occur. The process is designed to draw attention of the relevant entities to quality of work at the branch, quality of underwriting and adherence to procedures and regulations.

Concurrently, control is exercised by dedicated Bank units. The Business Credit Control Department, of the Business Division, uses computer systems to discover and alert to unusual accounts and clients, including based on information external to the Bank. Control is applied to banking operations in accounts flagged due to risk indications, based on criteria specified by the Bank for the population under control, as well as for all Bank clients by means of IT systems which provide alerts and report notifications and unusual occurrences. In the Real Estate sector, a dedicated control unit operates to control and review various aspects with regard to handling of real estate transactions by the Bank. In the Mortgage sector, a nation-wide underwriting center operates to enhance control of complex loan approval or of special populations, where loan approvals are provided by a professional, specialized team working at the Mortgage headquarters. In addition, both the Business Division and the Retail Division include division controllers, who perform various controls at division level, including responsibility for watch lists.

The Risk Control Division is a control entity for credit risk within the second defensive line. In June 2012, as part of a reorganization of the Risk Control Division, the Division assumed responsibility for the Analysis Department, which provides independent review of major credit applications, presenting its recommendations for the credit approval process to senior forums at the Bank.

The Analysis Department participates in approval of credit applications - as an independent entity. The Department reviews all credit applications discussed by the Business Division's credit committee, by the Supreme Credit Committee and by the Board of Directors' Credit Committee - providing its independent opinion with regard to such applications. The analysis recommendations include a recommendation as to actual approval of the application, and as to any further conditions or restrictions to be considered as a condition for approval of the credit application. The department representative regularly attends meetings of the aforementioned credit committees.

The Risk Control Division, through a dedicated department, also applies controls for credit risk, in conformity with Proper Conduct of Banking Business regulation 319, by rating borrower quality retroactively and by reviewing the quality of the Bank's loan portfolio, including stress testing, based on an annual work plan approved by the Board's Risk Management Committee and by the Board of Directors. This work plan regularly includes the following:

- Monitoring low-rated borrowers on criteria model or on independent rating by the Credit Risk Control Department.
- Credit control at London and Los Angeles branches via external entities which report to and are professionally guided by the Credit Risk Control Department in Israel.
- Testing of reliability and quality of rating provided by the credit departments, with reference to quality of the model and rating results generated there by, and their implications for the Bank's loan portfolio.
- Analysis of the Bank's loan portfolio - and in particular, analysis of its mortgage portfolio - including evolution of housing loans granted and loan composition by various risk factors.
- Review of the Bank's loan portfolio in view of the credit policies and risk appetite limitations adopted by the Bank.

Monitoring and control systems - the Bank Group regularly uses computer systems for management and control of credit risk. These computer systems provide control tools for personnel, including the specific unit assigned with identifying and controlling credit risk, to identify loans that exceed credit limits or are under-collateralized, as well as tools for identifying credit-risk developments resulting from the existence of various parameters in client-account development and management. There are several significant systems which play an important role in processes of credit management, risk management and control, including risk management systems, systems for identifying and alerting credit risk, for providing alert information, monitoring of financial covenants, automatic debt classification system and computer system for control and management of all accounts under legal proceedings.

Handling of non-performing loans and collection of debts – The handling of problem loans requires special focus and professionalism, other than the level that approved or processed the credit extended and collateral received. Initial identification is typically computer-based by designated departments for identification and control. Identified clients are handled by the Special Client Sector of the Business Division.

In order to identify credit risk materializing, or which may materialize, at the Bank, the Bank regularly conducts a process to review and identify debt, based on specified criteria. Some of these criteria require debt to be classified as troubled debt, while others provide a warning and allow the professional entity to exercise discretion. Debt is reviewed by a ranking of authorizations specified in Bank procedures. This authorization ranking includes individual authorizations, from branch and headquarters staff, to authorizations at higher levels, granted to committees headed by the Manager, Accounting and Financial Reporting Division and senior Bank management. Concurrently with the identification and classification process, a built-in, independent control process is conducted by regional management and by designated units at headquarters.

A computer system which supports application of measurement and disclosure provisions for impaired debt, credit risk and provision for credit losses, including in identification and control processes, carries out logical, criteria-based testing and determines defaults for debt classification as debt under special supervision, inferior debt, impaired debt or debt in restructuring, as required.

Identification of housing loans (mortgages) with risk attributes is automated by identifying criteria for arrears and other qualitative criteria. In early stages of arrears, the Bank mostly applies automated collection processes. Later on, the Bank applies proactive processes, both internal and external, including legal proceedings.

Provision for credit losses - upon application of the new directive for measurement and disclosure of impaired debt, credit risk and provision for credit losses on January 1, 2011, the Bank implemented a computer system for identification and classification of debt where risk of credit losses exists or may emerge. The system is connected to various infrastructure systems at the Bank, combining data to allow for debt review designed to assess their robustness and expected cash flows. The new system applies automated processes for identification, review, classification and determination of provisions, including process documentation and hierarchical approvals based on authorities specified in Bank procedures. The system also allows for handling troubled debt not identified by the automated identification processes, but rather using qualitative tests of the Bank's loan portfolio.

The decision about the amount of provision for credit losses is derived from the quality of credit and collateral, the financial and legal standing of the borrower and guarantors, as well as environmental and sector conditions in the client environment.

For further details of the new directives and their effect on financial statements, see Note 1.J.1 to the financial statements.

Environmental risk - In recent years, global awareness of the potential financial exposure arising from regulations related to environmental protection has grown. Environmental risk to the Bank is the risk of loss which may be incurred due to the Bank being directly liable for an environmental hazard caused by a project financed by the Bank, to impairment of collateral exposed to environmental risk or to deterioration in the financial standing of a borrower due to high expenses arising from environmental protection regulation. Environmental risk also includes other risk factors derived from this risk (goodwill, third party liability etc.)

Therefore, it is of prime importance that the Bank set its policies for management of environmental risk, including the capacity to identify, assess and monitor the risk over time.

On June 11, 2009, the Bank received a letter from the Supervisor of Banks, demanding that banks act to incorporate management of exposure to environmental risk within all risk factors at the Bank, including specification of procedures for identification of significant risk when granting credit and inclusion of risk assessment within periodic assessment of quality of credit extended. The Bank established a dedicated environmental risk policies, including a methodology for identification, assessment and handling of environmental risk. The environmental risk policies is approved annually by the Bank Board of Directors.

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

	Sovereigns	Public sector	Banking corporations	Corporations	Secured by commercial real estate	Retail for individuals	Small business	Housing loans	Others	Total [(2)]
										As of December 31, 2013
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**

	Sovereigns	Public sector	Banking corporations	Corporations	Secured by commercial real estate	Retail for individuals	Small business	Housing loans	Others	Total [(2)]
										As of December 31, 2012
Loans[(3)]	14,589	250	1,788	29,322	2,360	12,922	5,972	79,587	-	146,790
Securities[(4)]	6,726	13	756	240	-	-	-	-	-	7,735
Derivatives[(5)]	-	385	915	1,669	-	26	4	-	-	2,999
Other off-balance-sheet exposures	84	284	35	35,767	374	9,601	2,325	4,267	-	52,737
Other assets[(6)]	-	-	-	-	-	-	-	-	4,900	4,900
Total	**21,399**	**932**	**3,494**	**66,998**	**2,734**	**22,549**	**8,301**	**83,854**	**4,900**	**215,161**

(1) After deduction of accounting write-offs and before provision for credit losses on 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 II rules.

(3) Includes credit to the public, credit to the Government, 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 losses, by contractual term to maturity, by major gross credit exposure type, is as follows[(1)]:

					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**

					As of December 31, 2012
	Up to 1 year	1-5 years	Over 5 years	Without maturity	Total [(2)]
Loans [(3)]	44,052	23,536	79,097	105	146,790
Securities[(4)]	504	4,601	2,630	-	7,735
Derivatives [(5)]	1,533	549	917	-	2,999
Other off-balance-sheet exposures	43,520	8,177	1,040	-	52,737
Other assets [(6)]	3,096	-	86	1,718	4,900
Total	**92,705**	**36,863**	**83,770**	**1,823**	**215,161**

(1) After deduction of accounting write-offs and before provision for credit losses on 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 II 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 composition of credit exposure amounts[(1)] by exposure group and weighting, before and after credit risk mitigation [(2)]:

Before credit risk mitigation

	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
											As of December 31, 2013
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**

(1) Balance of on- and off-balance sheet balances, after on- and off-balance-sheet offsets, after provision for credit losses, 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 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**

Before credit risk mitigation

									As of December 31, 2012		
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	18,926	2,355	-	-	-	118	-	-	21,399	-	21,399
Public sector entity debt	-	-	-	920	-	-	-	-	920	-	920
Banking corporation debt	-	2,994	-	364	-	84	-	-	3,442	-	3,442
Corporate debt	-	51	-	231	-	-	-	-	282	-	282
Other assets	-	-	-	-	-	-	-	-	-	33	33
Total	**18,926**	**5,400**	**-**	**1,515**	**-**	**202**	**-**	**-**	**26,043**	**33**	**26,076**
Non-rated exposures:											
Public sector entity debt	-	-	-	13	-	-	-	-	13	-	13
Banking corporation debt	-	19	-	23	-	-	-	-	42	-	42
Corporate debt	-	-	-	-	-	65,904	262	-	66,166	-	66,166
Debt secured by commercial real estate	-	-	-	-	-	2,709	-	-	2,709	-	2,709
Retail exposure to individuals	-	-	-	-	22,647	60	105	-	22,812	-	22,812
Loans to small businesses	-	-	-	-	7,814	13	17	-	7,844	-	7,844
Residential mortgages	-	-	62,621	-	13,962	6,253	211	-	83,047	-	83,047
Other assets	999	-	-	-	-	3,796	105	-	4,900	87	4,987
Total	**999**	**19**	**62,621**	**36**	**44,423**	**78,735**	**700**	**-**	**187,533**	**87**	**187,620**
Total exposure	**19,925**	**5,419**	**62,621**	**1,551**	**44,423**	**78,937**	**700**	**-**	**213,576**	**120**	**213,696**

After credit risk mitigation

											As of December 31, 2012
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	18,644	2,504	-	-	-	106	-	-	21,254	-	21,254
Public sector entity debt	312	-	-	868	-	-	-	-	1,180	-	1,180
Banking corporation debt	-	2,987	-	364	-	81	-	-	3,432	-	3,432
Corporate debt	-	51	-	231	-	-	-	-	282	-	282
Other assets	-	-	-	-	-	-	-	-	-	33	33
Total	**18,956**	**5,542**	**-**	**1,463**	**-**	**187**	**-**	**-**	**26,148**	**33**	**26,181**
Non-rated exposures:											
Public sector entity debt	-	-	-	13	-	-	-	-	13	-	13
Banking corporation debt	-	144	-	90	-	-	-	-	234	-	234
Corporate debt	-	-	-	-	-	56,789	246	-	57,035	-	57,035
Debt secured by commercial real estate	-	-	-	-	-	2,397	-	-	2,397	-	2,397
Retail exposure to individuals	-	-	-	-	20,856	38	104	-	20,998	-	20,998
Loans to small businesses	-	-	-	-	6,279	10	16	-	6,305	-	6,305
Residential mortgages	-	-	62,620	-	13,894	6,253	188	-	82,955	-	82,955
Other assets	999	-	-	-	-	3,796	105	-	4,900	87	4,987
Total	**999**	**144**	**62,620**	**103**	**41,029**	**69,283**	**659**	**-**	**174,837**	**87**	**174,924**
Total exposure	**19,955**	**5,686**	**62,620**	**1,566**	**41,029**	**69,470**	**659**	**-**	**200,985**	**120**	**201,105**

Significant exposure to groups of borrowers

Below is credit risk with respect to significant exposure to borrower groups as of December 31, 2013.
Disclosure is provided with regard to each group of borrowers whose net indebtedness, on consolidated basis, after allowed deductions 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:

	On-balance sheet credit risk, net (1)	Off-balance sheet credit risk				
		With respect to derivatives	Other	Deductions	Total credit risk	Share of equity
Group 1	1,029	192	1,101	(7)	2,315	15.6%

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

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 for 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 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.

Below is information about Bank exposure to credit which constitutes leveraged financing:

Credit for acquisition of means of control:

	On-balance sheet credit risk as of December 31,	
Economic sector of acquired company	2013	2012
Construction and real estate	179	304
Communications and computer services	204	235
Commerce	-	115
Total	**383**	**654**

Credit for leveraged companies:

	On-balance sheet credit risk as of December 31 (1)
Economic sector of borrower	2013
Construction and real estate	470
Commerce	224
Industry	212
Financial services	136
Total	**1,042**

(1) Note that the definition of leveraged credit above was specified in December 2013, therefore no comparison data is presented.

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

			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**
Includes: Troubled commercial credit risk, net[5]	-	-	-

			As of December 31, 2012
External credit rating	On-balance sheet credit risk [3]	Off balance sheet credit risk[4]	Current credit exposure
AAA to AA-	709	-	709
A+ to A-	2,183	21	2,204
BBB+ to BBB-	8	-	8
BB+ to B-	-	7	7
Lower than B-	-	-	-
Unrated	5	-	5
Total credit exposure to foreign financial institutions	**2,905**	**28**	**2,933**
Includes: Troubled commercial credit risk, net[5]	5	-	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 re-sale 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.

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 19.E. to the financial statements.

Some of the exposures listed in the above table are included under Management Discussion - Addendum E - 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 specified in 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 to each financial institution based on the most recent rating available for said institution, provided by one of the leading international rating agencies are used – based on financial information for the institution under review. Exposure limits per institution include maximum exposure amount and maximum time to maturity for different types of activities and transactions. To this end, the existence (or absence) of an offset agreement for derivative operations with the financial institution is also taken into consideration. The policies also specify a hierarchy of authority for approval of specific transactions within the exposure limits.

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

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

Ratings - Bank activity with overseas entities generates exposure to 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.

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

Risk appetite in mortgage segment

As part of its credit policies and its credit risk policies, the Bank has set various restrictions on housing loan operations, to account for major risk factors. These factors are reviewed from time to time and additional restrictions are imposed as needed, i.e. based on the risk profile of the mortgage portfolio and on regulatory directives from the Bank of Israel.

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

Means for risk management in housing loans

Criteria for loan approval

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

A. Accumulated experience at the Bank with regard to housing loans, including lessons learned over time with regard to parameters which determine borrower quality and quality of loan collateral.
B. Results of current credit reviews which include, inter alia, review of changes to credit quality in certain sectors.
C. Assessment of credit risk arising from variable macro-economic market conditions.
D. Assessment of credit risk in different areas of the country, due to security-related and other events.

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

Credit authority

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

Model for determination of differential risk premium

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

Built-in controls in loan origination system

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

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

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

Mortgage-related training

The Bank Training Center delivers courses for training, development and improvement of all those involved in provision of housing loans. Training content is determined in cooperation with the Mortgage Headquarters, and staff at headquarters participates in training delivery to bankers. In 2013, the Bank continued to deliver, along with the basic course, an advanced mortgage banker's course as well as a mortgage course designed for managers of commercial branches. These courses include, inter alia, special emphasis on risk management. An additional track for training and certification of mortgage bankers was also developed. This track will be launched in 2014.
Training of staff and management has significant impact on their professional level when granting credit and making credit-related decisions, as well as during on-going management of client credit.

Professional conferences

The Retail Division regularly holds professional conferences for managers and bankers. In these conferences, extensive reviews of developments in the mortgage market are presented, along with steps to be taken to handle the risk associated with such developments. Over the past year, as in the previous year, special emphasis was placed at conferences on Bank of Israel directives issued in recent years and their impact on providing housing loans (including capital and risk asset allocation, restrictions on originating adjustable interest rate loans, restrictions on LTV, loan repayment ratio etc.)

Credit control

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

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

The Bank maintains control over quality of new credit provided by branches, by means of a monthly Credit Quality report, which includes all loans originated by the Bank between 6-18 months prior to the reported date which are over 3 months in arrears. This report is designed to assist branches in reducing the extent of arrears, and to increase awareness of troubled loans by those originating and approving loans in order to learn lessons for future credit approval.

Along with the individual report, listing loans, details of arrears etc., a statistical report is also produced, showing the extent of arrears at each branch, compared to the region and to the Bank as a whole, and compared to previous months. Management of the Retail Division regularly monitors handling of debt in arrears, using this report.

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

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

Tools for risk mitigation in housing loans

Collateral

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

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

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

Insurance

According to Bank procedures, all properties serving as collateral must be insured under property insurance. In addition, the borrowers are insured by life insurance assigned to the Bank in case of death prior to complete repayment of the loan.
For some loans (usually loans with LTV ratio higher than 75%), the Bank contracted with EMI Corp., which provides credit insurance in case the proceeds from realization of the property collateral for the loan should fail to cover the outstanding loan amount. This credit insurance process is a key risk mitigator.
As from November 1, 2012, the Bank of Israel restricted origination of housing loans with LTV over 75%, so that as of this date the Bank no longer approves new loans with credit insurance and LTV over 75% (except for loans exempted from this directive, such as refinancing loans).

LTV ratio

The maximum LTV ratio approved by the Bank is determined by the credit policies and is periodically reviewed. Generally, the Bank requires borrowers to contribute part of the financing for the acquisition. This equity payment forms a safety cushion in case the property is realized during a down-turn in the real estate market. Furthermore, borrower equity is a further indication of the borrower's financial robustness.As from November 1, 2012, the Bank restricted the LTV ratio for approval of applications for housing loans, pursuant to the Bank of Israel directive on this matter. The LTV ratio for loans to acquire rights to real estate constituting a "single apartment" (as defined in the directive) shall not exceed 75%, for an "alternative apartment" (as defined in the directive), the LTV ratio shall not exceed 70%, and for acquisition of an investment property, general-purpose loan or loan extended to foreign residents - the LTV ratio shall not exceed 50%. For details, see the chapter on Legislation and Supervision of Bank Group Operations. For details of the Supervisor of Banks’ directives with regard to capital adequacy, see Note 14.F. to the financial statements.

Entities participating in risk management for housing loans

Mortgage Management Department of the Retail Division

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

Risk Control Division

The Risk Control Division reviews the quality of the Bank's loan portfolio and the evolution of the Bank portfolio's risk profile, in view of the specified risk appetite. As for mortgages, since 2012 the portfolio is analyzed semi-annually, including analysis of developments in housing loan grants and our market share, as well as credit composition by various criteria. This report is discussed by the Supreme Credit Committee and by the Board of Directors' Risk Management Committee and is then presented to the Bank Board of Directors. The division is responsible for regularly performing stress testing of the Bank's mortgage portfolio, while challenging many risk factors in this portfolio, as described below. Some of the stress testing is conducted using advanced methods, using current data from advanced models developed by the Bank. The Bank's stress testing was recently upgraded following the Bank of Israel directive (Bank of Israel Scenario 1) and action taken by overseas regulators (in particular, US regulators in conjunction with stress testing conducted as part of the Dodd-Franks reform. For more information about this reform and Bank preparations for its implementation, see chapter "Legislation and Supervision of Bank Group Operations" above). The varied stress testing conducted by the Bank challenge, *inter alia*, the current macro-economic conditions and take into consideration a far higher unemployment rate than the current one, a significantly higher interest rate than current market interest – as well as a decline in housing prices. This stress testing indicates that the Bank has sufficient capital to withstand the risk level derived from such excessive stress testing.

Credit risk and credit concentration monitoring forum

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

Early in the second quarter of 2012, the Bank started monitoring its mortgage portfolio using advanced Basel models (IRB II). This monitoring is part of the Bank project for development, validation and application of advanced models for various segments of the mortgage portfolio. Analysis of the mortgage portfolio using the new models is in addition to current analysis conducted by the Bank using "traditional" tools. As noted above, in early 2013 development of this project was discontinued, while maintaining the capabilities already achieved with regard to portfolio analysis and, in particular, conducting regular stress testing.

Legal Division

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

Collection Department

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

Arrears Forum

The Arrears Forum of Bank management convenes monthly, headed by the Manager, Business Division, and reviews the current state of affairs with regard to collection in the previous month, implications on the financial statements and on the provision for credit losses. The Forum specifies targets for debt processing and for reducing arrears.

Internal Audit

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

Attributes of the Bank's housing loan portfolio

The Bank's policies with regard to mortgages is based on a conservative approach, limiting specific risk for each loan by reviewing various attributes. These attributes include: LTV ratio, ratio of repayment to regular 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, 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 December 31, 2013):

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 December 31, 2013 was 56.3%, compared to 57.8% on December 31, 2012 and to 58.6% on December 31, 2011. Out of the total loan portfolio of the Bank, amounting to NIS 89.7 million, some 87% 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 3.3 billion, or only 3.6% of the total housing loan portfolio.

On November 1, 2012, the Supervisor of Banks issued directives which restrict the LTV ratio for housing loans. 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 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 4.6 billion is insured by credit insurance - 39.1%.

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 11.5% for loans granted 1-2 years ago, 7.6% for loans granted 3-12 months ago and 6.5% for loans granted in the fourth quarter of 2013.

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 30.6%. Some 70.0% of the Bank's mortgage portfolio were granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is 23.7%). Some 22% of the mortgage portfolio were granted to borrowers with a repayment ratio of 35% to 50% (the average repayment ratio for these borrowers is 40.4%). Some 7% of mortgages were granted to borrowers with a repayment ratio of 50% to 80% (the average repayment ratio for these borrowers is 59.2%), and only 1% were granted to borrowers with a repayment ratio over 80% (the average repayment ratio for these borrowers is 92.0%).

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 details, see the chapter on Legislation and Supervision of Bank Group Operations.

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 2009-2013. Therefore, 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 a positive real interest in the economy.

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

The repayment capacity of clients who obtained loans in the period when the prime lending rate was high is reviewed using the high interest rate. Over the past two years, when interest rates were low, these clients benefited significantly from lower loan costs. Even in this period of low interest rates, the Bank has acted to reduce loans linked to the prime lending rate, down to 24.8% of loans awarded 1-2 years ago, 27.5% of loans awarded 3-12 months ago and only 28.5% of loans awarded in the fourth quarter of 2013.

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 9.4 billion, or only 10.4% 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% 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 total loan amount exceeds 67%.
For details, see the chapter on Legislation and Supervision of Bank Group Operations.

Loan amount

Loans granted by the Bank with an original amount over NIS 2 million amounted in total to NIS 3.6 billion, 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%	2,264	5,736	5,190	11,699	5,700	2,090	32,679
	35%-50%	558	2,033	2,116	3,761	1,507	403	10,378
	50%-80%	28	611	710	1,521	668	183	3,721
	Over 80%	7	58	53	186	133	45	482
60%-75%	Up to 35%	1,238	3,603	4,177	9,176	2,634	666	21,494
	35%-50%	271	1,197	1,507	2,856	876	194	6,901
	50%-80%	12	249	481	978	335	86	2,141
	Over 80%	1	11	18	69	69	16	184
Over 75%	Up to 35%	266	895	1,401	2,967	1,632	1,443	8,604
	35%-50%	33	181	392	757	521	527	2,411
	50%-80%	5	31	56	193	178	182	645
	Over 80%	-	-	-	20	44	35	99
Total		**4,683**	**14,605**	**16,101**	**34,183**	**14,297**	**5,870**	**89,739**
Includes:								
Loans granted with original amount over NIS 2 million		183	509	736	1,779	383	21	3,611
Percentage of total housing loans		3.9%	3.5%	4.6%	5.2%	2.7%	0.4%	4.0%
Loans bearing variable interest:								
Non-linked, at prime lending rate		1,336	4,019	3,997	12,839	6,367	220	28,778
CPI-linked(2)		76	299	383	5,850	2,695	1,548	10,851
In foreign currency (2)		129	307	697	2,623	357	238	4,351
Total		**1,541**	**4,625**	**5,077**	**21,312**	**9,419**	**2,006**	**43,980**
Non-linked loans at prime lending rate, as percentage of total housing loans		28.5%	27.5%	24.8%	37.6%	44.5%	3.7%	32.1%
CPI-linked loans bearing variable interest as percentage of total housing loans		1.6%	2.0%	2.4%	17.1%	18.9%	26.4%	12.1%
Loans with LTV over 75% as percentage of total housing loans		6.5%	7.6%	11.5%	11.5%	16.6%	37.3%	13.1%

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

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

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 December 31, 2013:

	Extent of arrears							
		In arrears 90 days or longer						
	In arrears 30-89 days	90 days to 6 months	6-15 months	15-33 months	Over 33 months	Total over 90 days	Balance with respect to re-financed loans in arrears (3)	Total
Amount in arrears	6	11	13	14	209	247	87	340
Includes: Balance of provision for interest (1)	-	-	-	1	101	102	6	108
Recorded debt balance	349	372	180	80	194	826	255	1,430
Balance of provision for credit losses (2)	-	-	27	39	149	215	116	331
Debt balance, net	**349**	**372**	**153**	**41**	**45**	**611**	**139**	**1,099**

(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

The Bank Group takes different actions to mitigate risk associated with extending credit and with credit concentration (on this issue, see chapter "Credit risk and credit concentration monitoring forum"). Below is a description of major tools used to mitigate risk in conjunction with the Bank's credit policies.

Collateral – Bank procedures specify the asset types which may be recognized as collateral for providing credit. The commonly used collateral types at the Bank are: Deposits, securities, liens on real estate, vehicles, , credit vouchers, checks, bank guarantees and institutional, corporate or individual guarantees. As part of the collateral policies, rules and principles were prescribed as to the level of reliance on each type of collateral, with regard to its character, marketability, price volatility, promptness of realization and legal status, in addition to assessing the repayment ability of a client as a criterion for issuing the loans.

The collateral is matched, as far as possible, to the type of credit that it secures, while taking into account the period of time, types of linkage, character of loans and their purpose, as well as how quickly it can be realized. Collateral coefficients determine the extent to which the Bank is willing to rely on specific collateral to secure credit. The value of the collateral, with the use of safety factors, is, as far as possible, calculated automatically by the IT systems. The safety factors for different types of collateral are examined at least once a year and are approved by the Board of Directors' Credit Committee and by the Board of Directors. There is also collateral in place which is not accounted for in calculating safety factors, but only used to reinforce existing collateral. The Bank also approves, on a limited, case-by-case basis, the granting of credit solely on the basis of the borrower's obligation.

Bank procedures specify rules for ongoing collateral management, including updates to the value of collateral: Deposits and bank guarantees are regularly updated based on their terms and conditions; collateral consisting of negotiable securities is regularly updated based on their market value; with regard to collateral consisting of real estate, the procedure determines the date for valuation by a licensed assessor in accordance with the type of credit secured by the property. Valuation is also carried out in case of concern regarding material impairment of the collateral, which may cause the Bank to face shortage of collateral.

As mentioned above, including in the chapter on Basel Committee Recommendations, the Bank makes extensive use of collateral not recognized under credit mitigation rules of Basel II (real estate, liens on automobiles, personal guarantees) in order to mitigate credit risk.

Hedges - Borrowers with currency exposure are offered means of safety and protection (hedging transactions) in order to reduce their exposure, in addition to other measures that the Bank adopts to minimize the risk of the Bank's exposure from the activities of these clients. Guidelines were prescribed to intensify the monitoring, control, and supervision of the activities of borrowers whose debts to the Bank are sensitive to exchange rate fluctuations, including the creation of simulations and future scenarios of changes in exchange rates. Special controls are also used for clients, when securities form a significant element of their collateral.

Concentration - The Bank has approved a current, dedicated policies on concentration risk with regard to credit. The Bank's credit policies are based on diversification and controlled management of risk.

Risk diversification is characterized by several aspects:

- Diversification of the loan portfolio among the different economic sectors, including limiting exposure in certain sectors.
- Diversification oversized groups of clients.
- Diversification over linkage segments.
- Geographic diversification where relevant (construction industry, mortgages).

Economic sectors: The Bank's Executive Management and Board of Directors hold discussions on the issue of credit to certain industrial sectors, as is necessary, mainly as it relates to industries that are sensitive to fluctuations in business cycles. Credit policies for the sensitive industries is set on the basis of an economic analysis of the developments forecast for these industries. The Bank maintains distribution of indebtedness among different sectors, so as not to create extraordinary indebtedness according to provisions of Proper Conduct of Banking Business Regulation 315. Loans to certain sectors, such as diamonds, construction, leasing credit and start-up companies – are handled by professional units or by personnel specializing in these industries. Specific rules and procedures have been prescribed for these specific sectors, beyond those relating to the issue of credit, in order to deal with their special credit risk.

Large clients: The Bank provides credit to large clients through the Corporate sector, which operates teams with sector expertise. Occasionally the Bank limits its share of credit to a major client relative to total extent of credit to that client in the banking system, and in some cases, in order to participate in financing of certain transactions, the Bank requires a financing package to be put in place with participation of other banks (under consortium agreements). The Bank strictly complies with limits on indebtedness of a borrower and a group of borrowers, as well as on total indebtedness of major borrowers and groups of borrowers whose net indebtedness to the Bank exceeds 10%, pursuant to Proper Conduct of Banking Business Regulation 313. For further details with regard to clients served by the Corporate segment, see chapter describing the Bank Group business by operating segments - Business Banking segment.

Linkage segments: This distribution is also reflected in providing credit in various linkage segments, so that part of the credit is more susceptible to fluctuations in the Consumer Price Index (CPI-linked credit), some is more susceptible to changes in the prime lending rate (non-linked NIS-denominated credit), and some – to foreign currency exchange rate fluctuations (foreign-currency denominated credit or linked to foreign-currency exchange rate).

Geographic diversification: The Bank maintains geographic diversification with regard to credit for construction and mortgages, in order to reduce over-concentration in extending credit.

Model validation: In 2013, the Bank's Validation Department concluded preliminary validation of models used by Bank departments for handling credit risk. The Department is scheduled to conclude an extensive validation process of the Bank's criteria model in the first half of 2014. These models would be further validated as instructed (on-going validation).

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

	As of December 31, 2013				
		Exposure covered by guarantees			
	Gross credit exposure [1]	Amounts deducted [2]	Amounts added [2]	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**

	As of December 31, 2012				
		Exposure covered by guarantees			
	Gross credit exposure [1]	Amounts deducted [2]	Amounts added [2]	Exposure covered by qualified financial collateral	Net credit exposure
Sovereign debt	21,399	(291)	157	(11)	21,254
Public sector entity debt	933	-	312	(52)	1,193
Banking corporation debt	3,484	(9)	193	(2)	3,666
Corporate debt	66,448	(251)	23	(8,903)	57,317
Debt secured by commercial real estate	2,709	(7)	-	(305)	2,397
Retail exposure to individuals	22,812	(1)	-	(1,813)	20,998
Loans to small businesses	7,844	(103)	-	(1,436)	6,305
Residential mortgages	83,047	(23)	-	(69)	82,955
Other assets	4,900	-	-	-	4,900
Total	**213,576**	**(685)**	**685**	**(12,591)**	**200,985**

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

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

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, and are submitted for approval by the Asset and Liability Management Committee headed by the President.

Restrictions and controls - a limit restriction applies for banks and sovereigns, including reference to derivatives. Furthermore, a restriction applies to customer facilities based on certain parameters. The Risk Control Division includes a dedicated department, specialized in control of exposure arising from capital market operations, which daily reviews clients active in this field. The trading room operations are controlled, including testing of compliance with various limitations prescribed by the Board of Directors and Executive Management.

Risk mitigation - in order to participate in capital market activity, clients are required to provide collateral in accordance with Bank procedures. In its activities vis-à-vis banks and sovereigns, the Bank signs ISDA agreements and CSA addendums. This allows for setting off transactions, such that the amount exchanged between parties to the transaction is limited to the net exposure amount, thereby reducing exposure of either party. CSA addendums regulate funds transfer between parties to a transaction whenever exposure reaches a certain pre-defined level, thereby reducing counter-party exposure.

Below is the current credit exposure with respect to derivatives, as of December 31, 2013:

Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives[2]	Total
Par value of derivatives (OTC) after impact of add-on factor	164	1,030	-	1	2	1,197
Positive fair value, gross, 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

Below is the current credit exposure with respect to derivatives, as of December 31, 2012:

Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives[2]	Total
Par value of derivatives (OTC) after impact of add-on factor	195	1,079	-	1	4	1,279
Positive fair value, gross, of financial derivatives [1]	410	611	688	-	11	1,720
Total exposure with respect to derivatives	605	1,690	688	1	15	2,999
Collateral with respect to derivatives (before safety factors)	(94)	(247)	(1,635)	(1)	-	(1,977)
Impact of safety factors on collateral	53	110	1,079	-	-	1,242
Total current credit exposure after credit risk mitigation	564	1,553	132	-	15	2,264

(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 19e.

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 December 31, 2013 and as of December 31, 2012, the Bank had no investments with securitization exposure.

Equity positions in bank portfolio

For details of equity investments in the Bank portfolio, see Notes 3 and 6.A. The investment balance includes investments in negotiable and public shares amounting to NIS 0.2 million, and investment in non-public shares amounting to NIS 158 million.

	As of December 31, 2013	
	Fair value	Capital requirement(1)
Shares	62	6
Venture capital / private equity funds	96	9
Total equity investment in bank portfolio	**158**	**15**

	As of December 31, 2012	
	Fair value	Capital requirement (1)
Shares	64	6
Venture capital / private equity funds	115	10
Total equity investment in bank portfolio	**179**	**16**

(1) 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 - such 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 is preparing to apply the Bank of Israel directive concerning management of interest risk, which would become effective in mid-2014, a specific directive with regard to interest risk management, emphasizing interest risk in the Bank portfolio. The directive stipulated qualitative and quantitative requirements and governs the supervisory requirements and expectations in this area.
- 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.

Any new activity by the Bank (new financial product, new exposure type, market making, new banking product etc.) is approved by the Board of Directors, after studying the various risks involved, including market risk associated with this activity and setting limitations and mechanisms for management, measurement and control of such risk, in accordance with Bank policy for handling a new product. Over the past year, the Bank has updated this policy document in conformity with the Bank of Israel's Proper Conduct of Banking Business regulation 310, emphasizing in the policy document the various tracks for handling Bank products and operations, whether new or updated, and the approval and monitoring mechanisms for such products and operations.

In conformity with the Bank of Israel's Proper Conduct of Banking Business regulation 310, in the course of risk management at the Bank, it also accounts for exposure to market risk by subsidiaries. However, note that the market risk and interest risk facing Mizrahi Tefahot subsidiaries is low and non-material.

Risk management at the Bank consists of two main risk clusters: the bank portfolio and the negotiable portfolio. Basel II defines the negotiable portfolio with emphasis on marketability, with clear guidance as to negotiable instruments which the Bank intends to trade for gain. The Bank's negotiable portfolio includes the portfolios managed as market maker in the trading room, as well as portfolios of securities held for trade and transactions in derivatives conducted as part of a specific market strategy, managed by Financial Management under specific limitations on exposure and profitability. The Bank portfolio, which is the Bank's primary activity, consists of all transactions not included in the negotiable portfolio, including financial derivatives used to hedge the Bank portfolio.

Interest risk in Bank portfolio

Interest risk in the Bank portfolio is the risk of erosion of the Bank portfolio 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.

Interest risk in the Bank’s bank portfolio is monitored on a regular basis, both in managing interest risk for the overall portfolio in VaR terms, and in EVE (Economic Value of Equity) terms - a model which reviews changes in the economic value of the portfolio under different assumptions regarding changes to the interest rate curve, including corresponding 2% shifts upwards/downwards of the interest rate curve and historical change for various time horizons, including one year. 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):

						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

						December 31, 2012
						Change in fair value
		Israeli currency				Foreign currency
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	89	(267)	57	(14)	(7)	(142)
2% decrease	(92)	179	(19)	7	2	77

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

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

The VaR model (Value at Risk)

A summary of the models used by the Bank in calculating value at risk is presented below:

The VAR model is a statistical model that estimates the loss expected for the Bank in a certain investment period and at a pre-determined statistical level of assurance.

The VaR value constitutes an estimate of the level of market risk in financial terms. The VaR value can increase as a result of an increase in volatility in those risk factors, or as a result of an increase in the risk level inherent in different positions in a bank's portfolio. The VAR estimate is to be seen as a “risk thermometer”, because an analysis of the VAR results on a day-to-day basis enables management to obtain value information on the risk level inherent in the Bank's various activities, to ascertain the Bank's risk profile, and to take the measures necessary to hedge certain risk in Bank operations. The Bank has specified restrictions (risk appetite) in VaR terms, for the entire Bank portfolio and for its activities in various option portfolios (various underlying assets). VaR calculations for the Bank's overall portfolio are made daily. Calculations for the option portfolios are made hourly. The results of the VaR calculation and other risk benchmarks for the Bank are reported on a dedicated portal.

The VaR model is suitable for ordinary market conditions and does not estimate possible losses beyond the absolute level that was determined in the calculation. Therefore, the Bank strengthens the methodology through stress testing.

Stress testing – Methods designed to estimate the Bank's expected loss as a result of sharp fluctuations in market prices of risk factors. This model estimates, using different methods, the potential loss at the left tail of the distribution, i.e. beyond the significance level determined in calculating the VaR. The Bank’s stress test methods are two-fold: subjective methods, relying on an economic outline based on a decision by the Risk Monitoring Forum established at the Bank; and objective methods, relying on factors including extreme events and scenarios that occurred in the past. The Bank has specified restrictions (risk appetite), including in terms of stress testing.

As required according to the directives of the Bank of Israel, the Bank calculates the VaR values and the stress testing values on a daily basis. The VaR is calculated based on a calculation method developed by the Bank in conjunction with world renowned experts. This calculation method was designed to improve the response speed of the VaR value to the volatility level of financial markets; in fact it combines multiple commonly used calculation methods. This method allows the Bank to handle situations where market volatility increases.

The Bank has set up a managerial and technical infrastructure to calculate the VaR model and the stress tests under different alternatives. Results of the models, including analysis of these results, are regularly reported to the Bank's CRO, to the Market Risk Manager, President, the Board's Risk Management Committee and to the Board of Directors - as part of regular monitoring of the Bank's risk profile, given the risk appetite specified by the Board of Directors. VaR estimates and stress tests are used by the Bank for its daily operation and in particular for specifying its risk appetite. The Bank examines the quality of models used in the VaR calculations, including through back testing, in order to improve the forecasting ability of the models that it uses. The Bank's VaR calculation - and in particular its back testing process - have been extensively validated in 2012, pursuant to guidance by the Bank of Israel with regard to model validation.

The Bank works constantly to improve the models that it uses, from all of the necessary standpoints, viewing these innovative models as important management tools. The Bank sees these models as highly important managerial tools, which are extensively used as tools for monitoring and controlling the risk level inherent in its activities, in different areas. Over the past year, the Bank continued to review emerging methodologies world-wide for calculation of risk benchmarks (some - as a result of the recent global market crisis) in conjunction with Bank preparations for implementation of the new Bank of Israel directive on handling interest risk.

As an outcome of this process, the Bank has expanded use of other models which allow the Bank to challenge its risk profile and in particular, those events beyond the significance level (exploration of the left-hand tail of the distribution); in 2012 the Bank started calculation of Stressed VaR, which estimates the VaR value in case of return to market conditions under the 2008-2009 financial crisis, when the market was in turmoil; the Bank also calculates the Expected Shortfall VaR, which estimates the average loss beyond the specified significance level.

Market risk in both portfolios (bank and negotiable) are managed overall by using the VaR model and stress tests. The Bank operates within the Board of Directors’ limitations on market risk in terms of VaR and stress tests. For application of these models, the Bank's available capital is defined as a non-linked NIS-denominated source. The Board of Directors' limitations prescribe that the VaR for all of the Bank’s activities in one-month investments, will not exceed 6% of shareholders’ equity, and that the maximum loss in stress tests, in the highest of all calculation methods, will not exceed 15% of equity, as noted above. This risk appetite is reviewed annually or more often, as part of the Bank's approval process of its policy documents - and in particular, its market risk and interest risk management policies. According to guidelines set by the Bank, this document policy indicates the risk appetite specified in this area.

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

	All of 2013	All of 2012
At end of period	197	167
Maximum value during period	229 (JUL)	239 (FEB)
Minimum value during period	146 (MAR)	144 (APR)

Back-testing of the historical-analytic VaR model shows that in the year ended December 31, 2013 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
April 2, 2013	1.6

Organizational structure of market risk management function (interest and basis)

Management of market risk exposure is based on a policy document which is brought annually or more often for approval by the Bank Board of Directors, after being approved by Bank management and by the Board Risk Management Committee. This document outlines, *inter alia*, the authority ranking for market risk management and the frequency of discussions and reporting of exposure status at different levels. According to this procedure, the President is authorized to make risk-management decisions, subject to the frameworks prescribed by the Board of Directors. As noted above, the Bank’s risk management policies are discussed, formulated, and monitored by the Management Committee for the Management of Assets and Liabilities chaired by the Bank’s President. This committee generally meets once a month, or more frequently, when special developments in the various markets occur or are forecast. According to Bank policy, the Bank President is required to immediately report to the Board of Directors any deviation from the Board restrictions, and any occurrence of extraordinary events, whether internal or external.
The Finance Division Manager, who also functions as Risk Manager, heads a Monetary Committee that meets weekly to deal with practical aspects of the management of assets and liabilities. The Risk Manager is empowered to reach decisions on issues relating to the management of exposure in all the linkage segments, in order to implement the policies prescribed by the President, subject to the limitations prescribed by the Board of Directors. The Manager, Financial Division specifies guidelines for current operations of market risk management, subject to limitations specified by the Board of Directors.

The Manager, Financial Division reports to the Bank President any deviation from management limitations, in excess of the deviation permitted to the market risk manager. Any use of the market risk manager's authority to deviate should be reported at the next meeting of the Management Committee on Asset and Liability Management after the date of such deviation.

Examination and control of the various market risk is carried out on a day-to-day basis by the Financial Management Sector in the Finance Division. Market risk controls are carried out by the Risk Control Department in the Risk Control Division. The mechanisms for quantifying the exposures and controlling the compliance within the approved activity frameworks are anchored in internal work procedures. The Board of Directors also holds a quarterly discussion on the

"Risk Document", as defined in Proper Conduct of Banking Businesses regulation 310. In this context, as noted above, the Bank regularly monitors the market- and interest risk profile - using the aforementioned benchmarks - both under normal and stress conditions. Upon any unusual occurrence in the capital market, such as an unexpected change in interest rates, shake-ups in the foreign currency markets, changes in fiscal and/or monetary policies, the committees and special forums created by the Bank for such situations, convene for a special discussion in order to reach the decisions required by these occurrences.

Nature and scope of reporting systems for market risk (interest and basis)

The Bank operates a Risk Monitoring Forum which convenes monthly or more often, with the objective of setting the Bank's extreme scenarios, discuss and prescribe the methodology for managing and controlling risk, as well as addressing aspects arising from market risk, interest risk and liquidity risk. The Forum is headed by the Manager of the Risk Control Division. Also members are representatives of the Finance Division, of the Risk Control Division and of the Accounting and Reporting Department. The regular activities of the forums enables the existence of day-to-day communications regarding the management of different risk among all the divisions in the Bank that are take part in the process of managing and controlling risk. In 2012, this forum expanded its activities and now also handles issues arising from the validation process at the Bank.

Hedging and risk mitigation policies

The Bank reduces exposure to market risk of on- and off-balance sheet positions by initiating hedging derivatives transactions, managing composition of the debenture portfolio, and price alignment aimed at promoting activity in desired areas. Derivatives transactions, which are identified as hedging balance sheet positions in accordance with accounting rules, are to be specified as hedge accounting transactions, in accordance with the Bank's hedging procedure. Hedge effectiveness is the degree of correlation between changes in fair value or cash flows of the hedged item and of the hedging derivative. The hedge is considered highly effective if the changes in fair value or cash flows of the hedged item, are nearly fully set off by changes in fair value or cash flows of the hedging instrument. When hedging instruments and hedged items are not fully identical, hedge effectiveness is tested quarterly.

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 December 31, 2013:

Capital increase (erosion), NIS in millions

	Scenarios				Extreme historical scenario[1]	
	10% increase	5% increase	5% decrease	10% decrease	Maximum increase	Maximum decrease
CPI	738.3	369.1	(369.1)	(738.3)	107.8	(63.5)
Dollar	6.8	3.3	2.6	5.0	1.5	1.0
Pound Sterling	1.1	0.3	(0.3)	(1.7)	0.2	0.0
Yen	1.3	0.6	(0.7)	(1.5)	0.6	(0.5)
Euro	39.8	13.8	(2.6)	1.1	9.2	(2.5)
Swiss Franc	0.6	0.3	(0.4)	(0.9)	0.3	(0.6)

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

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
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**
December 31, 2012						
Financial assets [1]	87,360	51,348	13,961	3,707	[5] 1,988	158,364
Amounts receivable with respect to financial derivatives[3]	68,105	5,316	48,135	7,889	5,294	134,739
Financial liabilities [1]	(89,998)	(37,080)	(17,825)	(4,409)	[5] (2,268)	(151,580)
Amounts payable with respect to financial derivatives[3]	(66,079)	(12,555)	(44,211)	(7,254)	(4,893)	(134,992)
Total	**(612)**	**7,029**	**60**	**(67)**	**121**	**6,531**

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 %
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%)
December 31, 2012								
Change in interest rates:								
Concurrent immediate increase of 1%	(321)	6,860	(4)	(93)	115	6,557	26	0.4%
Concurrent immediate increase of 0.1%	(581)	7,013	52	(71)	120	6,533	2	-
Concurrent immediate decrease of 1%	(945)	7,453	132	(16)	129	6,753	222	3.4%

(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.
(5) Reclassified.

For further details of assumptions used in calculation of the fair value of financial instruments, see Note 20 to the financial statements.

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 December 31, 2013			As of December 31, 2012		
	Capital requirement			Capital requirement		
risk element[(1)]	Specific risk	General risk	Total	Specific risk	General risk	Total
Interest risk[(2)]	-	51	51	1	61	62
Equity risk	-	-	-	-	-	-
Foreign currency exchange rate risk	-	25	25	-	39	39
Total market risk	**-**	**76**	**76**	**1**	**100**	**101**

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

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

Liquidity risk

Liquidity risk result from uncertainty as to the availability of sources and the ability to realize assets within a specified period of time and at a reasonable price. Liquidity risk is managed subject to the limitations of the Board of Directors and Executive Management, as described below, 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. 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.

In 2013 there were no recorded deviations from the Board of Directors’ limitations.

Nature and scope of reporting systems for liquidity risk

In conjunction with application of Regulation 342, a system of daily and immediate emergency reports to various entities at the Bank has been implemented, in conformity with the liquidity risk management policy. The Bank's Board of Directors and management receive various reports on a daily, weekly, monthly and quarterly basis. Unusual events in liquidity management, including unusual developments in liquidity sources of the Bank, are immediately reported to management and/or to the Board of Directors.

Surplus liquid means over financing requirements in NIS is invested mainly in deposits with the Bank of Israel and in government debentures. Surplus liquid means over financing requirements in foreign currency is invested with the Bank of Israel, with the Federal Reserve Bank and in highly rated debentures which may be quickly realized. In 2013, investments were primarily in debentures issued by the State of Israel denominated in foreign currency. The credit exposure management policies reflected in management of excess liquidity in foreign currency has been revised in line with the global economic reality. The Bank frequently reviews credit facilities to various financial entities and primarily works with banks with the highest level of financial robustness, for the shortest duration possible, while maintaining diversification among different entities. In 2013, activity in this area vis-a-vis foreign banks was negligible.

Presented below are major data reflecting market risk, as reflected in the financial statements, while relating to the difference between the accounting presentation and measurement of economic exposure:

Financial capital - As of December 31, 2013, the Group capital exceeded its non-monetary items by NIS 8,426 million. In 2013, free capital for the Group, including financial capital, primarily financed uses in the CPI-linked NIS segment in line with the current asset and liability management policies at all times.

Linkage status – Details on the assets and liabilities in the various linkage segments at December 31, 2013 and 2012 are presented in Note 17 to the financial statements. However, the extent of the Bank's economic exposure is not fully reflected in the positions included in this note because of differences between the accounting approach and the economic approach in the treatment of capital items, non-monetary items and investments in investees, as explained below.

Surplus CPI-linked assets of the Group, which include balance sheet and off-balance-sheet items as of December 31, 2013 as presented in Note 17 to the financial statements, amounts to NIS 7.2 billion, representing the economic exposure. As of December 31, 2012, excess use in this segment amounted to NIS 5.2 billion.

Excess liabilities in foreign currency for the Group as of December 31, 2013 amounted to NIS 6 million. After adjustment of the economic reference to deposits used to cover investments in overseas subsidiaries, which are presented as non-monetary items, and to temporary impairment of investments in securities, the position in this segment amounts to surplus uses of NIS 43 million. As of December 31, 2011, the foreign currency position for the Group, after the aforementioned adjustments and after attribution of the general and supplementary provision for doubtful debts to free capital, amounted to surplus uses of NIS 309 million.

The position in the non-linked NIS segment balances the open economic positions in the CPI-linked and foreign currency segments.

In Addendum D to Management Discussion, the Group's exposure to interest on a consolidated basis is presented in terms of average effective duration and in terms of fair value. Cash flows used in calculating exposure are based on assumptions with regard to withdrawal rates at exit points for early mortgage repayment. The percentage of withdrawals is based on empirical data.

For further details of assumptions used in calculation of cash flows and fair value of financial instruments, see Note 20 to the financial statements.

Below is the average effective duration of assets and liabilities as of December 31, 2012:

	Including early repayment assumptions [1]					Excluding early repayment assumptions				
	Assets		Liabilities		Average effective duration difference	Assets		Liabilities		Average effective duration difference
	Average effective duration	Fair value	Average effective duration	Fair value		Average effective duration	Fair value	Average effective duration	Fair value	
Non-linked	0.83	168,910	0.83	167,820	-	0.91	168,812	0.92	167,828	(0.01)
Linked to CPI	3.04	58,230	3.20	51,783	(0.16)	3.56	58,703	3.39	51,783	0.17
Foreign currency and linked to foreign currency	1.27	77,528	0.84	77,428	0.43	1.27	77,528	0.89	77,428	0.43
Total	**1.37**	**304,668**	**1.24**	**297,031**	**0.13**	**1.51**	**305,043**	**1.31**	**297,039**	**0.20**

(1) For details about fair value calculations and early maturity assumptions, see Note 20 to the financial statements.

In the non-linked NIS segment, the effective duration of liabilities is higher than that of assets by only 0.01 years. The difference between internal rate of return (IRR) of financial assets and IRR of financial liabilities is 2.54%. Excluding these early maturity assumptions, the IRR for financial liabilities exceeds the IRR for financial assets by 1.84%.

In the CPI-linked segment, the effective duration of liabilities exceeds that of assets by 0.16 years. Calculation of the effective duration is based on assumptions with regard to early withdrawals of savings and loans. Excluding these assumptions, the effective duration of liabilities exceeds that of assets by 0.17 years.
The difference between IRR of financial assets and IRR of financial liabilities is 0.71%. Excluding the early maturity assumptions, the difference increases to 1.03%.

In the foreign currency sector, the duration to maturity of assets exceeds that of liabilities by 0.43 of a year. In this sector, most of the activity is in variable interest, linked to the Libor rate, and, therefore the duration to maturity in this sector is low. The effect of the assumption of prepayment of savings and loans on differences in the duration to maturity and IRR is negligible.
The difference between IRR of financial assets and IRR of financial liabilities is 2.07%.
Term to maturity - The Bank's cash flows by term to maturity, as detailed in Note 18 to the financial statements.

The Bank consistently acts, as part of its strategy on resource and use management, 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 December 31, 2013, was 65% (as of December 31, 2012 - 63%), of which balance sheet sources for terms longer than 1 year - 63% (as of December 31, 2012 - 57%).
Most of the Bank's balance sheet sources in foreign currency as of December 31, 2013 are for terms of up to 1 year, constituting 92% of total foreign currency-denominated sources (as of December 31, 2012 - 91%), of which 26% are sources for terms longer than 3 months (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 sources and uses.

In 2013, the Bank recycled 114% of the linked deposits redeemed during the year, compared to a recycling ratio of 117% in 2012.

Soliciting sources and Bank liquidity status - During 2013, there was an increase in the Bank's balance of deposits from the public. The balance of deposits from the public rose from NIS 128.1 billion on December 31, 2012 to NIS 141.2 billion on December 31, 2013, an increase of 10.2%.

The increase was primarily in the non-linked segment, in which total deposits from the public amounted to NIS 92.9 billion, an increase of 11.7% compared to 2012. In the CPI-linked sector, deposits from the public amounted to NIS 92 billion, a decrease of 0.4%, and in the foreign currency sector - to NIS 26.9 billion, an increase of 15.7% compared to 2012.

Market risk associated with derivatives activities

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 trades in financial derivatives in the foreign currency, non-linked Israeli currency and CPI-linked Israeli currency sectors.

The trading in financial derivatives is mainly conducted in the Bank's trading room and is classified into three categories: hedging trades, trades for the purpose of asset and liability management (ALM) and other trades, as detailed in Note 1.O to the accompanying financial statements.

The Bank operates in credit derivatives (CDS) in its negotiable portfolio. These investments are individually reviewed by the Risk Management Committee, and are submitted for approval by the Asset and Liability Management Committee.

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

The Bank operates, as part of its risk management system, a module which tests the VaR, sensitivity of option prices to changes in various parameters which determine its price (such as: price of underlying asset, standard deviation and interest rate), and the value of stress tests on the Bank's option portfolio. System VaR calculations are made hourly within each trading day (intra-day VaR).

The volume of transactions in financial derivatives according to the different categories is detailed in Note 19.E to the financial statements.

Operating risk

Operating risk is defined as the risk of loss due to failure or inappropriateness of internal procedures, people, systems or external events. Furthermore, the Basel I 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.
Operating failure events which occurred at financial institutions in recent years have increased legislator awareness and that of financial institutions to operating failure events and their main attributes, including:

a. Operating events may occur throughout the organization and are inherent to financial institution operations.
b. These events may result from an operating failure or may also be combined with other risk types, such as market risk, credit risk, liquidity risk, reputation risk etc.
c. A significant share of operating failures has very low probability but relatively large damage potential.
d. Operating events sometimes occur which are not under control of the financial institution, and may develop as a result of external events, some of which are unforeseen, with chances of occurring which cannot be estimated in advance, such as: natural disaster, security event.

Operating risk is inherent by its nature, and exists throughout the organization. Bank management and the Board of Directors attach great importance to this risk, and take an integrative approach to handling and management of operating risk, as an integral part of the overall corporate culture, by implementing this culture by means of training, dissemination of related content and application of elevated standards of operating control at all levels. The operational risk manager for the Bank is the head of its Risk Control Division.

The Bank approach is that responsibility for operating risk management lies primarily with managers and staff of the different lines of business.

On February 14, 2012, the Bank of Israel issues Proper Conduct of Banking Business Regulation 350 with regard to operational risk management (hereinafter: "Regulation 350"). This regulation became effective on January 1, 2013.
Bank policies with regard to operating risk states that this is a process which requires creation of an appropriate, enterprise-wide corporate culture in order to handle it. The policies addressees how risk is managed and regularly reviewed at the Bank via committees and forums, such as the Management Committee on this subject, tasked with development of plans, processes and procedures for risk management in all material products, activities, processes and systems of the Bank. The Stress Testing Forum at the Bank is tasked with specifying stress scenarios at different severity levels, in order to quickly identify events and malfunctions, and handle them so as to reduce their frequency and severity of the damage arising there from. The Bank also analyzes external events in Israel and overseas, which may provide information about potential circumstances and damage which may result in materialization of operating risk. Risk management is also achieved by means of the Internal Control Trustees forum, as well as a forum headed by Bank division managers, designed to handle such risk at division level. Concurrently, the Internal Control Forum, tasked with integrating multiple central control entities, including the Risk Control Division, the Compliance, Operating Risk, Process Engineering and Internal Audit units.

At the end of 2011, the Board of Director's Risk Management Committee and Plenum approved a new policies document on internal control, including reference to Bank handling of operating risk. This document specifies the high-

level principles for handling internal control aspects, and is based on the Basel Committee directive dated 1998. In late 2012, the Board of Directors' Risk Management Committee and the Board plenum approved an update to the policies document related to operating risk, as part of Bank preparations for implementation of Regulation 350.
Those policies which are documented as of others in the Bank are updated at least once a year.
Another layer in the area of operating risk is that of internal audit, which acts independently. The operating risk policies specifies the role of Internal Audit as the entity in charge of carrying out periodic audits of risk management processes, taking part in methodologies for capital calculation with respect to risk, involvement with fraud and embezzlement issues, data gathering, documentation, debriefing and reporting of events, participation as observer on committees and involvement with the Internal Control Forum. The policies also specifies the roles of different professional units and of branches.

In recent years, the Bank has prepared to put in place comprehensive infrastructure of processes and methods for handling operating risk. These preparations include, inter alia, the following:

- Deployment of a corporate culture, as determined by the Board of Directors and by Bank management, by means of training and instilling a supportive corporate culture throughout the organization.
- Putting in place an appropriate organizational structure for the Risk Control Division.
- Appointment of internal control trustees in branches and headquarters units.
- Assignment of a dedicated representative of the Risk Control Division in the trading room.
- Conducting risk surveys and establishing work plans to handle those risk factors identified.
- Quantitative data gathering and analysis with respect to actual monetary losses.
- Creation of a system for management and addressing operating risk and SOX.
- Debriefing various events.

In 2007, the Bank conducted operating surveys to map these risk elements for most Bank departments. These reviews are one of the major tools used in identifying operating risk in order to mitigate it. Findings of these operating risk reviews, as well as reports of relevant events, are discussed by the Steering Committee on Operating Risk, headed by the Operating Risk Manager. The Bank is taking action to eliminate gaps as they are identified, and to improve controls in order to ensure minimized operating risk. This is based on priorities derived from the risk severity and probability, and based on decisions by the Steering Committee. The Operating Risk Department closely monitors progress made on required improvements and reports to the Steering Committee. Since then and in 2012, the Bank continued to conduct surveys which were integrated with process mapping and control review as part of application of provisions of the Sarbanes-Oxley Act (SOX). In early 2013, responsibility for the SOX process was reassigned to the Accounting and Financial Reporting Division.

In 2013, the Bank started conducting operating risk surveys, which include mapping of business processes - a continuous process which should take 3 years. The risk surveys include a review of operating risk along with compliance risk and legal risk, utilizing the overall view and interactions between these risk factors.

In 2013, the Bank specified a range of Key Risk Indicators (KRI), which present in quantitative values statistical benchmarks which reflect various risk factors, and serve to measure operating risk in various areas at any time and over a period of time. Risk is monitored quarterly by using these indicators. The Bank intends to continue reviewing the

addition of other indicators for other risk focal points identified while continuing to conduct the risk surveys.
As part of preparations for handling operating risk and for application of the Basel directives on this issue, the Risk Control Division gathers and identifies operating risk and loss / near loss events from all Bank units. The Risk Control Division operates the Operating Risk Management System for the Bank, used as a repository for managerial information and as a key tool for analysis and reporting of the level of operating risk at Bank business units. This system was expanded in recent years with additional internal control aspects, and additional models were developed for information security, internal audit and compliance.

The risk monitoring process at the Bank includes reporting of internal financial data, operating data, regulatory compliance data and external data with regard to events and conditions relevant to operating risk. These reports include regular reports made by the business units to the Risk Control Division, and integrated reporting routines to Bank management and to the Board of Directors.

Operating risk mitigation

Due to the significance of operating risk, the Bank takes different steps to mitigate this risk. The most important step is to instill a corporate culture which promotes strong awareness of operating risk, and of deployment of risk-mitigating processes, as well as to implement operating procedures with regard to risk control and to deliver training to Bank employees. The Bank has developed a mechanism designed to empower internal control officers with tools for conducting lesson learning processes at their units, in addition to lesson learning processes regularly conducted by the Bank.
The Bank has established a policies and operating plans for case of emergency, for backup, recovery and business continuity in case of physical damage to Bank infrastructure.

Mitigating operating risk via insurance - the Bank is insured under a banking insurance policies, against damage which may be incurred in the course of normal operations, as a result of human error, fraud, embezzlement etc. The Bank obtains an officers' insurance policies, which applies to all officers at the Bank and at the different Bank Group companies, which provides insurance coverage for personal claims which may be filed against officers with respect to their actions in the course of their position with Group companies. Obtaining such an officer liability insurance policy is subject to approval by the General Meeting of Bank shareholders.

The Bank has obtained specific insurance policies for property damage and liability, which provide insurance coverage of Bank property and liability.

Information security

In accordance with Proper Conduct of Banking Business regulation 357, the Bank appointed a Cyber and Information Security Manager, who reports to the Manager, Risk Control Division. The unit is in charge of setting information security policy for the Bank, developing work plans in these areas, monitoring the implementation of these work plans at the Bank and reviewing the effectiveness of cyber and information security systems and processes. Cyber and information security policies at the Bank is implemented, inter alia, by the Mizrahi Tefahot Technology Division Ltd., a wholly-owned subsidiary of the Bank. See also under chapter on IT above.

Business continuity

The Bank applies Proper Conduct of Banking Business regulation 355, issued on December 25, 2011 and which became effective on July 1, 2012. In the first quarter of 2013, the Bank of Israel reviewed the application and deployment of the framework for business continuity management at the Bank, with emphasis on application of Proper Conduct of Banking Business regulation 355.
Further to significant moves carried out, the Bank has completed addressing most of the gaps found in the survey.
In conjunction with handling Bank preparations for business continuity, the policy document and the exercise policy were updated and approved by Bank management and by the Board of Directors. A periodic reporting format to the Board of Directors has also been approved.

Bank management and the Board of Directors have decided to implement a project for relocation of the Bank's primary data center to the Bank site in Lod and relocation of the secondary data center to the Bank facility in Ramat Gan - in order to improve site survivability in emergency scenarios, *inter alia*. Site relocation will be completed in 2015. For further details see chapter "IT and computers" above.
The Bank diligently maintains and conducts a training and drill program which includes conducting technology-related drills and trials to test and improve the readiness and awareness of Bank management and employees to dealing with disaster scenarios.

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 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 Bank operates based on a compliance program approved by the Bank Board of Directors. The Compliance Officer, through the Compliance Department, acts to instill a compliance culture across the Bank and, in this context, to deploy the consumer directives applicable to Bank relations with its clients. This is done in order to reduce the probability of violation of laws and regulations and lead to discovery, as soon as possible, of such violations, and thereby to reduce the Bank's exposure to claims and other damage it may sustain as a result of these.

The Bank also maintains an effective enforcement program for securities law and for anti-trust law, adapted for the Bank and its unique circumstances, as part of overall risk management at the Bank. This is designed to ensure compliance with securities law and to avoid violation thereof. The Chief Enforcement Officer, through the Compliance Officer and the Compliance department, handles issues of Bank compliance with obligations arising from securities law in general and in accordance with the enforcement program in particular. The Chief Enforcement Officer is the person responsible, on behalf of Bank management, for on-going implementation of the enforcement program and its deployment across the Bank.

The Chief Compliance Officer is also in charge of verifying Bank compliance with obligations arising from US tax laws applicable to Bank Group operations outside of the USA (the Foreign Account Tax Compliance Act - "FATCA").

The Compliance Department conducts compliance surveys on different issues and provides training to implement compliance policies at the Bank. The Compliance Officer is member of different forums at the Bank, in order to ensure an enterprise-wide view of various compliance aspects.

Prohibition of money laundering

The Chief Compliance Officer for the Bank Group, appointed in the Risk Control Division, is also in charge of implementation of the Prohibition of Money Laundering Act, and of the Prohibition of Financing Terrorism Act for the

Bank Group, including 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 conducted in 2012.

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. A mapping of the risk factors and their impact on the Bank Group are presented below:

Risk factor	Risk factor impact	Risk Owner
Overall effect of credit risk	Low-medium	
Risk from quality of borrowers and collateral	Low-medium	Corporate Division manger
Risk from industry concentration	Low-medium	
Risk from concentration of borrowers/ borrower groups	Intermediate	
Overall effect of market risk	Low	Financial Division manger
Interest risk	Low	
Inflation risk	Intermediate	
Exchange rate risk	Low	
Share price risk	Low	
Liquidity risk	Intermediate	Financial Division manger
Operating risk	Low	Risk Control Division manger
Compliance risk	Intermediate	Risk Control Division manger
Money laundering risk	Low	Risk Control Division manger
Legal risk	Low	Legal Division Manger
Reputation risk(1)	Low	Marketing Advertising and Business Development Division manger
Regulatory risk	Low	Each manger, in his area
Strategic-business risk	Low	CEO

(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 its outcomef, 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 2012, as an integral part of the ICAAP process and ahead of approval of the ICAAP document in April 2013, 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 2012. 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 quarterly in its risk document (previously titled the exposure document) the development of the Bank's risk profile 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.

The impact of compliance risk, as assessed by the Bank, increased from Low to Medium - especially in view of stricter regulatory requirements with regard to compliance and their impact across all Bank operations, including in areas of administrative enforcement and international regulation related to taxation (FATCA, see above the chapter on Legislation and Supervision of Bank Group Operations).

Social involvement and charitable donation

As a business organization whose activities and achievements depend on the community in which it operates, the Bank sees itself as obligated to show involvement and to support all facets of the community's needs.

The Bank emphasizes a focused social area "**Advancing and Nurturing Disadvantaged Children and Youth in Crisis**" and channeled to it most of the charitable donations and volunteer activities of the Bank and its employees. The Bank is working to realize social policies in a manner that expresses its strength, involves the Bank's employees in active volunteerism and leverages its physical, financial and human abilities and resources by means of **"Mizrahi-Tefahot in the Community"**. This social brand is intended to differentiate the social activities of the Bank and to create identification among the Bank's employees and managers. The focused communal activities are carried out with the maximum collaboration of its employees and managers, geographic diffusion and diversification of activities, while utilizing the Bank's diversification, the existence of extensive partnerships with communal organizations throughout the country, and intensified intra-organizational and extra-organizational community involvement.

Contributions to the community became a central and important goal on the agenda of the Bank's employees, while management is providing incentives and encouragement to employees to take part in these activities, and the results are already evident in the field and in employee response.

Some 125 Bank branches have connections to different social organizations and institutions working on behalf of disadvantaged children and youth at risk, in communities in which branches are located. “Adoption” of these organizations is reflected by volunteer work by branch and headquarters staff, assistance and mentoring while providing assistance to the populations they treat, and providing financial assistance – Bank donations for purchase of products to benefit the children and youth.

In 2013, the activity in the field was expanded significantly, by branches and Head Office units that have not yet forged ties with suitable organizations in the community, and activities with organizations already adopted by the Bank were intensified.

Within the scope of the Bank's activities, an educational package "Financial" was prepared, to train youth in financial areas and is moderated by employees of the Bank who volunteer in schools and social organizations. The "Financial" package was translated into Sign Language, in order to make it accessible to the deaf and hearing-impaired community in Israel, for which the Bank was awarded first prize in the Israeli Management Center's human resources competition, for promoting social agendas.

In 2013, the educational package was upgraded and renamed "The Money Road". The new package, available on the Bank website, includes additional relevant lessons designed to assist a wider audience of teachers, instructors, counsellors etc. to learn the content of this package and to train more youngsters in the life skills and content listed in this package.

In order to expand the range of partners in these activities, the Bank initiates projects to add additional stakeholders:

- Employees and family members - the Passover Walk and the popular race of the Jerusalem Marathon, conducted in cooperation with the Israel Cancer Society.

- Clients – continuation of project "Partners by Choice" to include Bank clients in the designation of charitable donations to social organizations focused on helping children and youth, to whom the Bank provides support for social ventures. Upon conclusion of the project, the Bank's charitable donation was divided among 9 organizations selected by the clients.
- In conjunction with Bank assistance to non-profits who employ people with special needs, the Bank held several events designed to help these non-profits increase their revenues by enhancing public awareness of the important social endeavors of these non-profits and to help in gaining exposure for their following products:
- The Bank upgraded a unique website, "Added Value", was issued, listing community and environmentally-friendly products produced in community organizations by people with special needs, and by organizations which promote and distribute green products in support of the environment.
- The "Heart-felt creation for the community" fair took place, with 30 non-profits participating in order to expose their products to extensive audiences and to allow the non-profits to sell their products to tens of thousands of fair visitors.
- The Bank promotes an organizational culture which encourages its employees to purchase gift items for their own needs, in addition to purchases made by the Bank from these non-profits.
- The Bank conducted the "Added Value Shield" competition for social business entrepreneurship, with outstanding NGOs that leverage social causes for social business entrepreneurship. Five NGOs have won recognition awards to leverage their activities.
- The Bank held a seminar for managers of social NGOs designed to provide them with managerial tools, to improve their management skills.
- The Bank intensified links with institutions of higher education, by cooperating with the Management College in establishing a banking track, sponsored by the Bank, delivering lectures to students by volunteer employees and managers and by providing scholarships for students in need of assistance.
- The Bank has provided scholarships to students in need who attend institutions of higher education.
- "ZAZIM" – youth movements for the community. The project goal is to encourage youngsters and members of youth movements, to act and volunteer for the society and community in which they live.
- Art summer camp for youngsters with artistic talent from families of limited means in Ramat Gan, in co-operation with Shenkar College.
- Community activity in Lod - following relocation of Bank units to Lod, the Bank started being involved in this city, with the Bank and its staff helping in financing and carrying out significant social projects in the city.
- "Me for you" - an educational program for social entrepreneurship, volunteer work and empowerment of youth, especially those of limited means, in co-operation with LATET NGO.
- Pre-military school – assistance in funding a "cross-Israel" trek held by the pre-military schools for Israel, in which students at these schools meet with communities and neighborhoods where social and cultural activities will be conducted.

The Bank also sponsored various benefits for children at risk, including:

- REalizing dreams and wishes of children with severe illness, together with Heartwish foundation and Bank employees.
- Together with Zichron Menachem foundation, which cares for children with cancer, the Bank held a fun day in Eilat for 150 sick children, with financing and assistance from Bank employees.

Below is a list of new ventures launched by the Bank in 2013:

- Promoting teenagers with artistic skills from a low socio-economic background, training them for academic studies over the school year, through students from Shenkar College.
- Social-environmental project for collection of unused cell phones to contribute money to the Ezer MeZion bone marrow database initiative. Collection containers were placed at all Bank branches and units.
- The Bank sponsored the creation of Melodica, a municipal youth center in Lod, together with the Lod municipality and the Lod Foundation, as part of Bank involvement in this city.

- "Mizrahi-Tefahot in the Community" and JDC Volunteers teamed for a joint pilot of setting up 5 groups for youths at risk. The team counsellors were trained, using the educational package "The Money Road", to provide knowledge and tools for life skills related to financial conduct. The youths would impart the knowledge acquired in their volunteer activity to the communities where they live.

- Together with the Israel Association of Community Centers, we joined the Shachaf program, assisting collaborators and SLA populations. We have trained 25 counsellors for this program, using the educational package "The Money Road", in order for them to train children from collaborator families.

- Bank branches are an integral part of the local communities in which they operate. In order to reinforce these relationships, the Bank has developed a project, together with local communities named "Let us meet at Mizrahi Tefahot". In 2013, a pilot was conducted for this project in which lectures and activities on various topics were held at Bank branches - some financial topics and some general interest topics. These activities were open to the public at no cost, subject to advance registration.

- Collaboration with IVN (Israel Venture Network) to create a foundation to promote and support social businesses.

In 2013, the Bank Group allocated NIS 7.9 million to social involvement and charitable donation, compared to NIS 6.6 million last year. In addition, Bank employees and managers invested in 2013 over 27,500 hours in community work on different projects, compared to 27,400 hours last year.

Disclosure concerning the Internal Auditor

The following is information about the Chief Internal Auditor of the Bank Group, who started in office on July 7, 2011:

Name	Galit Weiser
Start of term in office	July 2011
Education	CPA;; undergraduate degree in Accounting and Economics (Hebrew University); graduate degree in Business Administration (Hebrew University).
Experience	Deputy Chief Internal Auditor at the Bank; previously, Chief Internal Auditor of Bank Tefahot.

Pursuant to provisions of Section 146(B) of the Corporations Act, 1999 - the Internal Auditor is not an interested party of the corporation, or an officer or relativef.

Pursuant to provisions of Section 8 of the Internal Audit Act, 1992, the Internal Auditor holds no other position in addition to her position as Chief Internal Auditor, other than as Ombudsman, Internal Auditor of Bank Yahav and Auditor of Bank Mizrahi-Tefahot subsidiaries. Furthermore, the Bank’s Internal Auditor holds no position outside of the Bank which creates or may create conflict of interest with her position as Internal Auditor.

In conformity with Proper Conduct of Banking Business regulation 307, audit staff are only appointed subject to consent of the Internal Auditor. Audit staff act on behalf of the Internal Auditor for the purpose of internal audit, and are only instructed on audit-related matters by the Internal Auditor. Internal audit staff do not hold other positions with the banking corporation in addition to internal audit, other than as Ombudsman. Internal Audit staff may only sign on behalf of the banking corporation documents related to audit work or to inquiries from the public. Internal audit employees are terminated with due process and consent of the Internal Auditor.

As of December 31, 2013, the Internal Auditor is eligible to receive 50,000 options to buy Bank shares. For further details, see Note 16.A. to the financial statements.

The Board of Directors believes that the extent of Bank securities owned by the Internal Auditor does not impact the quality of her work.

The Internal Auditor is a full-time employee of the Bank.

Appointment

In June 2011, appointment of the Internal Auditor was confirmed by the Audit Committee and the Board of Directors, based on the Auditor's experience and educational qualifications.

Identity of the Internal Auditor’s Supervisor

The Internal Auditor reports to the Chairman of the Board of Directors.

Internal Audit work plan

Internal Audit work is based on a multi-annual audit plan focused on risk for a 4-year period from which an annual work plan is derived.

Considerations in determining the multi-annual audit plan

- Mapping of activities carried out by different Bank departments according to organizational structure, assignment of potential risk to each activity and setting audit frequency accordingly.
- Risk surveys conducted at the Bank.
- Regulatory requirements arising from directives of the Supervisor of Banks.
- Basel II directives and the ICAAP process.
- Current audit reports of the Bank of Israel.
- Findings in audit reports of the Audit Division.
- Decisions of the Audit Committee and the Chairman of the Board of Directors, as well as requests from the Bank's President.

The multi-annual work plan is prepared by the Internal Auditor, brought up for discussion by the Board of Directors' Audit Committee and sent to the Bank President. After discussion and recommendation by the Audit Committee, the plan is submitted for approval by the Board of Directors.
Accordingly, on January 20, 2014, the Board of Directors approved the Internal Audit work plan for 2014-2017.

Considerations in determining the annual audit plan

In addition to the aforementioned considerations, used as basis for determining the multi-annual audit plan from which the annual audit plan is derived, the annual work plan includes additional special tests required of Internal Audit by request of the Audit Committee. In addition, the audit refers to issues as requested by the Bank President.
Any material changes will be brought for approval by the Audit Committee and by the Board of Directors. In case of non-material changes, the Audit Committee is informed after the fact.
Similar to the multi-annual audit plan, the annual audit plan is also prepared by the Internal Auditor and brought for discussion by the Board's Audit Committee. The plan is also submitted to the President. After the Board's Audit Committee recommends approval of the plan, the plan is submitted for approval by the Board of Directors.

Accordingly, on January 20, 2014, the Board of Directors approved the Internal Audit work plan for 2014.

Overseas audits or audits of held corporations

The Bank's Internal Auditor includes in the annual and multi-annual audit program the active corporations held by the Bank, during her tenure as their internal auditor, except for Bank Mizrahi Switzerland, which had its own internal auditor during the reported period. With respect to this company, the Internal Auditor verifies on a regular basis that there is proper internal auditing.
At Bank Yahav, a separate audit plan is submitted to the Bank Yahav Board of Directors.

Scope of employment of the Internal Auditor and their staff

The Internal Auditor is a full-time employee of the Bank.

The average number of positions for employees reporting to the Internal Auditor in 2013, including internal auditors of subsidiaries and overseas branches is as follows:

In Israel		Outside of Israel
Employees engaged in internal audit	Employees engaged in role of Ombudsman	Employees engaged in internal audit
(1) 45.5	6	(2) 2.5

(1) Includes 5 full-time positions for audit at Bank Yahav. In addition, Internal Audit at Bank Mizrahi-Tefahot used outsourced services equivalent to 1 full time position.
(2) Includes use of external service providers overseas.

Conducting audits

The Internal Auditor performs the audit based on the generally accepted professional standards.

- Various legal requirements, including provisions of the Internal Audit Act, 1992, Banking Regulations (Internal Audit), 1992 and regulatory authorities' instructions relevant to the audited area, including guidelines and directives of the Supervisor of Banks, including Proper Conduct of Banking Business Regulation 307 concerning "Internal Audit function".
- Standards for Professional Engagement in Internal Audit of the Global Institute of Internal Auditors.

The Board of Directors and the Audit Committee believe that audit is conducted in accordance with the aforementioned professional standards so as to achieve the objectives of the internal audit.

Access to information

The Internal Auditor received complete access to all the information he needed, in conformity with Proper Conduct of Banking Business Regulation 307, as stated in Section 9 of the Internal Audit Law, 1992, including constant and direct access to the Bank's IT systems, including financial data. Note that in conducting audits of subsidiaries and overseas operations, auditors are also given full access as stated above.

Submitting report on Auditor's findings

The Auditor regularly sends every audit report to the Chairman of the Board of Directors, the chairman of the Audit Committee, the President and head of the internal audit unit. Audit reports are submitted in writing. Once every six months, the Auditor submits to members of the Audit Committee the list of all reports submitted during the six-month period. All of the reports are discussed in a forum including the division manager and/or official in-charge of the audited unit or activity. The significant reports, at the request of the President or the Chief Internal Auditor, are discussed in a forum headed by the President or the Bank's Executive Management. The Chairman of the Audit Committee, in consultation with the Internal Auditor, determines the material audit reports to be discussed by the Audit Committee.

On July 28, 2013, a semi-annual list was distributed in conjunction with reporting the performance of the Internal Audit work plan for the first half of 2013. This report was discussed by the Audit Committee at its meeting held on August 19, 2013. The annual summary report of Internal Audit work for 2013 was distributed on February 27, 2014 and it will be discussed by the by Audit Committee prior to the publication of the annual repots. Other major reports were discussed during the year at regular meetings of the Audit Committee.

Assessment of Internal Auditor's activities

The Board of Directors and the Audit Committee believe that the scope, nature, continuity of the activity and the work plan of the Internal Auditor are meant to realize the objectives of internal auditing.

Remuneration of the Internal Auditor

Below is information about the salary, provision for social benefits, benefits, employer contributions and provisions paid or provided for to the Chief Internal Auditor in 2013: Salary of NIS 1,108 thousand, provision for social benefits amounting to NIS 346 thousand, benefit with respect to share-based payment amounting to NIS 341 thousand, value of other benefits amounting to NIS 70 thousand. The balance of loans extended at standard terms amounted to NIS 88 thousand.

The Board of Directors believes that the size of remuneration provided to the Internal Auditor should not influence her judgment with respect to his work.

Accounting policies on Critical Matters

The consolidated financial statements of the Group are prepared in accordance with the directives and guidelines of the Supervisor of Banks on the preparation of annual financial statements of a banking entity. The significant accounting policies are detailed in Note 1 to the financial statements.
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.

Provided below are accounting policies on critical matters:

Provision for credit losses is made as from January 1, 2011 in accordance with public reporting regulations of the Supervisor of Banks, which are based on US accounting standards codification ASC 310-10 and on guidelines by US supervisory authorities, as adopted by the Supervisor of Banks. The provision for credit losses is made in one of two tracks: individual provision and group provision, which also includes the provision for the housing loan portfolio based on a formula for extent of arrears. See Note 1.J. to the financial statements for details. The individual provision for credit losses is calculated based on public reporting regulations of the Supervisor of Banks, based on estimates by Bank management, with regard to expected cash flows and their dates, with respect to debt in excess of NIS 700 thousand. The expected cash flows would be received from different repayment sources of the debtor, including their business operations, private repayment capacity of the borrower, realized collateral provided to secure the credit, or guarantees provided by the borrower or by any third party. The provision for credit losses is the difference between the carrying amount of the debt and the value of expected cash flows, discounted using the effective interest rate of the original debt. Any debt constituting "final loss" should be written off no later than as stated in regulations. In cases where collateral is the exclusive source for debt repayment, value measurement is based on the fair value of collateral and the carrying amount of the debt is in excess of the fair value of collateral is written off against Expenses with Respect to Credit Losses. The actual losses could turn out to be different than the specific provisions made.

Group provision for credit losses - is applied for large, homogeneous groups of small debts (whose balance is below NIS 700 thousand, as determined by the Bank) (such as: credit card debts, housing loans and consumer debts repaid by installments) as well as for large, non-impaired debts. The provision for credit losses from debts based on group estimate, except for housing loans for which a specific minimum provision by extent of arrears has been calculated as per directives of the Supervisor of Banks, is calculated based on rules specified in USA Accounting Standard FAS 5: "Accounting for Contingencies" (hereinafter "FAS 5"), based on a formula stated in the interim directive issued by the Supervisor of Banks, in effect through December 31, 2012. This formula is based on past loss rates by economic sector and by troubled / non troubled debt, as well as rates of on net accounting write-offs actually recognized as from January 1, 2011. In addition to calculating the range of historic loss rates for various economic sectors, as per the above, for determining the appropriate rate of provision, the Bank also accounts for other data, including trends in credit volume for each sector as well as sector condition, macro-economic data and general quality assessment of credit to each economic sector.

According to the Supervisor of Banks' directive, pending publication of updated, final guidance with regard to the group-based provision, the Bank continues to apply the provisions of the interim directive.

Pursuant to provisions determined in the interim directive, as from January 1, 2011 the Bank does not maintain general and supplementary provisions, but continued to calculate the supplementary provision and to verify that in any case, the amount of the group provision at the end of each reporting period shall be no less than the sum of general and supplementary provisions which would have been calculated as of the same date, gross of tax.

A minimum provision with respect to housing loans is calculated based on the formula stipulated by the Supervisor of Banks, by extent of arrears, such that the provision rate is higher the longer the arrears. Upon the start date of application of the new directive, the amendment to appendix to Proper Conduct of Banking Business Regulation 314 "Troubled debt in housing loans at mortgage banks" became effective, expanding the scope of calculation of the provision by extent of arrears to all housing loans, other than loans not repaid by periodic installments and loans used to finance activity of a business nature.

The Bank applies the Supervisor's directives in the letter dated March 21, 2013, which updated directives with regard to residential real estate.

In conformity with the directives, guidelines with regard to calculation of the group-based provision for credit losses with respect to housing loans were updated as described below.

In conformity with the Supervisor of Banks' directives, the Bank is required to review, and update as needed, the method for determining the group-based provision for credit losses with respect to housing loans. When reviewing the method, all factors which impact the likelihood of collecting these loans should be taken into consideration. The Bank is also required, as from the second quarter of 2013, to ensure that the group-based provision for credit losses with respect to housing loans shall not be less than 0.35% of the balance of said loans (excluding housing loans provided for by extent of arrears or on individual basis).

Pending application of the new directives as stated above, the balance of the group-based provision with respect to housing loans is derived from the increase in current loans awarded, compared to the past.

In the second quarter of 2013, the Bank updated its group-based provision for credit losses with respect to housing loans to 0.35%.

The adjustment to the provision included on the financial statements for the second quarter of 2013 amounted to NIS 191 million before tax.

As from this date, the provision is regularly updated accordingly.

Derivatives are treated and presented based on US accounting standards codification ASC 815 and ASC 820. According to the guidelines, all derivatives are stated in the balance sheet at fair value. FAS 157 (ASC 820) defines fair value, and sets forth a consistent work framework for fair value measurement, by defining valuation techniques and a fair value ranking. The ranking divides instruments measured at fair value into three levels:

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

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

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

The Bank evaluates whether markets on which financial instruments are traded are active, based on the following parameters: Volume and value of transactions conducted on the market, current bid/ask spread and alignment of prices for similar transactions on the same market.

According to the standard, the non-performance risk should be reflected in estimating the fair value of debt, including derivatives, measured at fair value. The Bank estimates credit risk for derivatives using a model based on indications of credit quality of the counter-party, derived from prices of debt instruments of the counter-party traded on an active market, and from prices of credit derivatives based on the counter-party's credit quality. In the absence of such indications, the Bank calculates the adjustments based on internal ratings. The Bank reviews the materiality of the credit risk element compared to fair value as a whole, in conjunction with review of instrument classification under fair value ranking levels.

In June 2012, the Bank of Israel directed the Bank (in conjunction with a review of the banking system), that fair value measurement of a derivative instrument, when no quoted prices, liquid collateral or offset agreements exist which adequately secure the derivative's credit quality, and when no market information exists as to the credit quality of the counter-party (such as CDS or negotiable debentures of the counter-party) – shall be classified as a Level 3 fair value measurement. According to the Supervisor of Banks' directive, the aforementioned classification requirement shall apply to financial statements as from September 30, 2012, including an update of comparison figures.

See Note 1.T. to the financial statements for additional information. For details of derivatives measured at fair value by different fair value levels - see Note 20 to the financial statements.

Securities in the portfolio held for trading and in the portfolio of available for sale securities are stated at fair value, in accordance with the public reporting guidelines of the Supervisor of Banks. Securities classified in the portfolio held to maturity are measured at depreciated cost. The fair value of the securities is determined based on quoted market prices in active markets for the securities or for securities with similar terms, i.e. stock market price, quotes from recognized data services, such as Bloomberg, or quotes from banks acceptable to the Bank. The Bank uses internal models for reviewing the fair value of financial instruments for which there is no quote on a stock exchange, and does not rely entirely on prices obtained from counter-parties or from quoting firms. The fair value calculation was validated by the Bank's Risk Control Department, which does not participate in the fair value calculation process, assisted by an external professional consultant specializing in models for calculating fair value of financial instruments. Validation is conducted by reviewing the model assumptions and parameters; reviewing the model methodology and its applicationf; and independently reviewing the model in comparison with other models, to the extent possible.

For details of securities measured at fair value by different fair value levels - see Note 20 to the financial statements.

The financial statements as of December 31, 2013 include critical estimates with regard to other-then-temporary impairment of several investments in securities, with a total original investment cost of USD 40 million (NIS 139 million). Total impairment recognized as other-than-temporary in nature as of December 31, 2013 amounted to USD 39 million (NIS 135 million). For the purpose of estimating the aforementioned impairment, the fair value of these investments was

calculated using an internal model based on a methodology for assessment of the quality of collateralized debts, as well as on objective data, if available. In accordance with directives of the Supervisor of Banks, the fair value calculation is validated by an independent professional appointed for this purpose by the Bank. It is assumed that impairment compared to deviation of the original investment is not of a temporary nature, primarily in view of the significant decrease, the duration in which the quoted value has not increased, and the erosion of investments' safety cushions. The value of these investments in financial statements for December 31, 2013 is USD 1 million (NIS 3 million).
The actual value of these investments may turn out in the future to be materially different from the aforementioned estimate. The extent of impact on future financial statements may range from recording of a further expense amounting to USD 1 million (NIS 3 million), should it emerge that the investment value continued to decline, to recording a further revenue amounting to USD 39 million (NIS 135 million) should it turn out that the full impairment was temporary.
The Bank has specified a validation procedure for fair value of instruments measured at fair value on recurring basis on the financial statements, for which the Risk Control Division is responsible. The validation process includes review of the process for determining fair value, of the assumptions included in this process and the models used for calculation. The validation process refers to both the pure fair value, calculated at relevant market conditions according to standards, and to the credit risk element included in fair value.

Liabilities for employee rights are calculated according to actuarial models, based on the discount rates prescribed by the Supervisor of Banks. The actuarial models include assumptions related to the mortality tables, disability rates, departure rates and wage hike rates. A change in any of the parameters could lead to a change in the amount of the Bank's liabilities for employee rights. Pursuant to the Supervisor of Banks' directive, the discount rate used in actuarial calculation for retired employees choosing a pension is 4%.
Bank liabilities for employee rights calculated based on an actuarial model amount to NIS 634 million. (Including provision for employee retirement at beneficial terms).

The following is a sensitivity analysis of total provision for employee rights to changes in key assumptions used as basis for the actuarial estimate, as of the transition date (NIS in millions):

	A 0.25% increase in discount rate	A 1% change in annual payroll increase rate		A 5% change in departure rate before retirement age		A 10% change in average benefit per retiree receiving benefits	
		Increase	Decrease	Increase	Decrease	Increase	Decrease
Severance pay provision	(5)	22	(20)	10	(10)	3	(3)
Budgetary pension	(4)	-	-	-	-	-	-
Bonuses	(2)	-	-	-	-	-	-

For information about adoption of accounting rules in the USA with regard to employee rights and their expected impact on Bank capital, see Note 1.AA.5 to the financial statements.

Share-based payment transactions The financial statements include the benefit value of the stock option plan for Bank managers, estimated based on the opinion of an expert external consultant, using the Black & Scholes model based on various assumptions, mainly with regard to expected exercise date of the options and standard deviation of Bank share price. Changes in the price of the Bank's share, the standard deviation for the Bank's shares and other factors which could affect the economic value of the benefit.

The benefit value is recognized by the Bank over the vesting term of the options using accelerated amortization. See also Note 16.A to the financial statements for details.

The actual benefit value upon exercise of the options is a deductible expense by the Bank for tax purposes, and is subject to payroll tax. The total allowed expense for tax purposes, for which the Bank would record a tax benefit on the profit & loss statement shall not exceed the original benefit value upon option grant. Any tax benefit exceeding this amount would be charged directly to equity.

Some of the Bank's stock option plans include multiple lots which vest on specified dates. The number of options which the offerees may actually exercise, will be based on the net operating profit return on the Bank's average shareholders' equity, up to an annual rate of return equal to 15%, based on the exercise eligibility formula, as set forth in the option plan. Bank management has estimated a trend of annual rates of return (although not linear) in each of the plan years, and using this trend, estimated the number of stock options which each offeree would be eligible to exercise out of the total number of stock options to be granted to them in accordance with the plan. As of December 31, 2013, the number of options which each offeree may exercise have been adjusted based on actual annual rates of return for each year of the plan. Consequently, the total benefit value, charged on the financial statements to payroll expenses, whose balance (not yet recognized as payroll expenses) as of December 31, 2013 amounted to NIS 8 million.

Changes to management estimates, or to actual return on equity compared to the original estimate, would impact the number of stock options which would be granted and consequently - the payroll expense. The total benefit value balance, as described above, may decrease by NIS 2 million if return on equity would be below 9% in 2014, or it may increase by NIS 17 million if return on equity would be 15% or higher.

Provisions for legal claims - The financial statements include appropriate provisions to cover possible damage, where, in the estimation of the Bank's management, based on the opinion of its legal counsel, a provision is required.

In accordance with the directives of the Supervisor of Banks, claims have been classified according to the range of probability of realization of the risk exposure, as follows:

1) Probable risk: there is a probability of more than 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Probable, an appropriate provision was made in the financial statements.
2) Reasonably Possible risk: there is a probability of between 20% and 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Reasonably Possible, an appropriate provision is sometimes made on the financial statements, at the discretion of Bank management and based on the opinion of legal counsel.
3) Remote risk: there is a probability of less than 20% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Remote, no provision was made in the financial statements.

See Note 19 D for disclosure of material claims (whose amount, excluding interest and expenses, is over 1% of equity).

Likewise, disclosure is given to motions for recognition as class actions, when the amount claimed in them is material, when, in the estimation of the Bank's management, based on the opinion of its legal counsel, it is not possible, on the date of preparing these financial statements, to estimate their possible outcome, and therefore, no provision was recorded for them.

In accordance with the directives of the Supervisor of Banks, the Bank is permitted to determine for class actions that it is not possible to estimate the prospects for realization of the exposure to risk in the four financial statements published since the claim was filed, or in case of delay of proceedings by decision of the Court. Beyond this, only in rare cases is the Bank permitted to determine that the prospects for realizing the exposure cannot be determined.

Provision for impairment of non-financial assets is made in accordance with IAS 36 “Impairment of Assets”. Provision for impairment, if needed, is based on assessor valuations updated by the assessor or valuator as required.

Deferred taxes - Deferred taxes are recognized with respect to temporary difference between the carrying amount of asset and liabilities for the purpose of financial reporting, and their value for tax purposes.

Deferred taxes are measured so as to reflect the tax implications expected to arise from the manner in which the Bank, at the end of the reported period, anticipates recovering or discharging the carrying amount of assets and liabilities.

Deferred taxes are measured using tax rates expected to apply to temporary differences when realized, based on statutes enacted, or essentially enacted, as of the balance sheet date.

Deferred tax assets are recognized with respect to carry-forward loss, tax credits and deductible temporary differences, when taxable revenue is more likely than not in future, which may enable utilization of these deferred tax assets.

The consolidated balance sheet as of December 31, 2013 includes deferred taxes, net amounting to NIS 820 million (excluding deferred taxes with respect to securities, which do not affect the provision for taxes). An increase of 1% in tax rates would cause a decrease of NIS 22 million in the provision for taxes. With respect to tax uncertainties, the Bank only recognizes the effect of tax positions if it is more likely than not that those positions would be accepted by the Tax Authority or by the Court. Tax positions recognized are measured at the maximum amount whose likelihood of realization exceeds 50%. Changes in recognition or measurement are reflected in the period in which a change in circumstances resulted in a change in judgment.

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 specified in the Board of Directors' report below. The processes of preparing, auditing and approving the financial statements involve additional organs and officers as described 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 below.

The Bank operates two committees for provision for credit losses, headed by the Chief Accountant. The first committee discusses classified clients individually, while the other discusses the group-based provision for various economic sectors. Both committees receive, *inter alia*, reports of the outcome of discussions by other sub-committees which handle the Bank's debt and credit exposure. 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; 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's Audit Committee discusses and recommends the approval of the Bank's quarterly and annual financial statements. For a listing of the names and qualifications of Audit Committee members, see below in chapter "Board of Directors".

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 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 at least one week 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 an 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.

Independent Auditors' report

The Independent Auditor drew attention in the Auditors' Opinion to the following:
Claims filed against the Bank with motions for class action status, as described in Note 19.D.11)a-c to the financial statements.

Controls and Procedures

In accordance with the public reporting directives of the Supervisor of Banks, based on the US 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").

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 certification also refers to setting of internal controls over financial reporting 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.

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 annual report, in accordance with the Public Reporting Regulations of the Supervisor of Banks, on the date stipulated in these Regulations.

During the quarter ended December 31, 2013, no change occurred in the Bank's internal controls over financial reporting that had a material effect, or can reasonably be expected to have a material effect on the Bank's internal controls over financial reporting.

In accordance with the directive by the Supervisor of Banks with regard to adoption of provisions of Section 404 of the Sarbanes-Oxley Act, starting with financial statements as of December 31, 2008, this report includes a declaration concerning the responsibility of management and the Board of Directors for setting and maintaining proper internal controls over financial reporting and management's assessment of the effectiveness of internal controls over financial reporting as of the date of the financial statements. Concurrently, the opinion of the Bank's independent auditors with regard to appropriateness of the Bank's internal controls over financial reporting in accordance with the applicable standards of the Public Company Accounting Oversight Board (PCAOB) is also provided.

The Code of Ethics

Full transparency is a prerequisite of corporate governance, and in particular as relates to efficient risk management. A policies of proper disclosure of events, support processes and appropriate organizational structure create regular work interfaces which support the Board of Directors and allow it to discharge its duties. In order to perform the foregoing with due professional approach, the organization promotes an "internal control culture". This means that the Bank's Board of Directors and management promote, throughout the organization, a high level of ethics and integrity, to be disseminated by the following means:

- Effective communication channels to ensure messages with regard to ethics, integrity and the importance of internal audit are conveyed from the Board of Directors and executive management to all Bank staff.
- Personal example set by executive management.
- A written code of ethics, with documentation of all employees having read it and confirmed it.
- Supervisory mechanisms to ensure staff compliance with requirements and rules of conduct.
- Mechanisms to promote reporting of suspected improper actions.
- Enforcement mechanisms against those in breach of the code of conduct.

The Bank's Code of Ethics was written following over one year of meetings and discussions, attended by many Bank managers and staff. Definitely, acquiring a ready-made code of ethics from external ethics experts would have shortened this process - but this would have missed the main objective of this code: to accurately and authentically reflect the Bank Spirit and its organizational culture, as reflected by its management and staff.

The process of writing the Code, based on analysis of events from the field, and deploying its values, have prepared the ground for integrating the Code in day-to-day activities as a way of life, using its values to face issues and dilemmas arising from the business routine.

On November 24, 2008 the Bank's Board of Directors approved the values of the Code of Ethics which is binding on the organization as a whole and on each employee and manger individually.

To ensure that Ethics remain constantly engaging and highly actual, the Bank established an Ethics Committee, headed by the Bank Secretary. The committee includes representatives from headquarter units and branches. The committee assisted in deployment of the Code of Ethics, in 2009, when all Bank employees and management attended workshops for deployment of the Code of Ethics, after which each staff member signed the Code of Ethics. Upon completion of the deployment process, the Code of Ethics was published on the Bank website. The Ethics Committee convenes monthly and continues to regularly deploy the code by publishing dilemmas to Bank staff, discussing dilemmas raised from the field and reviewing the deployment process of the Code of Ethics.

In 2010, a portal dedicated to the Code of Ethics was created on the intranet including, inter alia, reports from Committee meetings, dilemmas and professional articles in this field. This portal provides another channel for reporting ethical dilemmas. Moreover, in 2012, in addition to regular activities, a management conference was held on the topic of improvement and development of skills for handling complex ethical dilemmas. In his opening address to this conference, the Bank President commented on the connection between the Bank's strategic plan and its Code of Ethics values. In addition, an ethics conference was held at the Financial Division, attended by managers of overseas affiliates - further to training delivered at these affiliates.

In 2013, Bank units continued to deploy the Code of Ethics, using various tools, in accordance with the work plan.

After five years of work on the Bank's Code of Ethics, in 2013 the Bank launched an activity to review the effectiveness of Code deployment across Bank units.

This process included the following:

- Focus groups conducted with Bank employees.
- A survey, consisting of several questions, designed to assess respondent views on the success of deployment of the Code.

The survey was completed by a sample of over 400 Bank employees (with / without direct reports, in headquarters and in branches).

In 2014, the Bank will continue to hold focus groups and will conduct another survey to assess the progress of the process of deployment of the Code of Ethics among Bank employees. In conjunction with the 2014 work plan, a cross-unit Ethics event would be held, at which various Bank units would be exposed to ethical dilemmas faced by other Bank units.

Executive Management

Below is a listing of Executive Management Forum members as of December 31, 2013 with their title and position:

Eldad Fresher	President	
Menahem Aviv	Vice-President	Manager, Accounting & Financial Reporting Division and Chief Accountant
Israel Engel	Vice-President	Manager, Retail Division
Haim Git (1)	Vice-President	Manager, Risk Control Division and Chief Risk Officer (CRO)
Ayala Hakim	.	Manager, Mizrahi-Tefahot Technology Division Ltd.
Moshe Lari (2)	Vice-President	Manager, Financial Division and Chief Financial Officer (CFO)
Dinah Navot	Vice-President	Manager, Marketing, Promotion and Business Development Division
Doron Klauzner(3)	Vice-President	Manager, Business Banking Division
Rita Rubinstein	Vice-President	Manager, Human Resources and Administration Division
Galit Weiser		Chief Internal Auditor; Manager, Internal Audit Division
Dr. Shimon Weiss		Chief Legal Counsel; Manager, Legal Division
Maya Feller		Corporate Secretary
Benny Shoukroun		Bank Spokesman

(1) On December 31, 2013, Mr. Haim Git concluded his term in office as Manager, Risk Control Division and as CRO with the Bank upon his retirement.

(2) On August 15, 2013 Mr. Moshe Lari concluded his term in office as Manager, Planning and Operations Division and as Manger, Customer Assets and Consultancy Division. On August 16, 2013 Mr. Moshe Lari was appointed as Manger, Financial Division and Chief Financial (CFO).
On February 2, 2013 Mr. Nissan Levi was appointed as Manger, Planning, Operations and Client Assets Division.

(3) On January 1, 2014, Mr. Doron Klauzner started his term in office as Manager, Risk Control Division and CRO with the Bank. As of said date, Mr. Ofir Morad replaced him as Manager, Business Banking Division.(As of December 31, 2013 Mr. Ofir Morad was Deputy Manger of the Corporate Division)

Senior Officers

Below are details of senior officers who are not members of the Bank's Board of Directors:

Eldad Fresher	
Start of term in office	November 3, 2004 (in current position - August 16, 2013)
Title	President
Position held in banking corporation	President
Position held in subsidiary	Chairman of the Board UMB Switzerland Ltd.(Zurich)
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Business Administration – Hebrew University, Jerusalem; MBA – Hebrew University, Jerusalem
Business experience (in past 5 years)	Manager, Financial Division - CFO and Market Risk Manager at Bank Mizrahi-Tefahot Ltd.

Menahem Aviv	
Start of term in office	April 13, 2005.
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Accounting & Financial Reporting Division and Chief Accountant Board member of Mizrahi Tefahot Issue Company Ltd.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Accounting and Economics – Tel Aviv University; MBA – Tel Aviv University; CPA
Business experience (in past 5 years)	Chief Accountant, Bank Mizrahi-Tefahot Ltd.

Israel Engel	
Start of term in office	January 1, 2005.
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Retail Division Board member of Bank Yahav; Board member of Tefahot Insurance(1)
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Accounting and Economics – Bar Ilan University; MBA (Finance) – Bar Ilan University; CPA
Business experience (in past 5 years)	Manager, Retail Division - Bank Mizrahi-Tefahot Ltd.

(1) Tefahot insurance - Tefahot Insurance Agency (1989) Ltd.

Senior officers - continued

Haim Git [(1)]	
Start of term in office	February 1, 1999 (in this position - July 7, 2011)
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Risk Control Division, CRO.
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Accounting – Tel Aviv University; Accounting Diploma – Hebrew University, Jerusalem; CPA
Business experience (in past 5 years)	Chief Internal Auditor, Bank Mizrahi-Tefahot Ltd.

Galit Weiser	
Start of term in office	July 7, 2011.
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Chief Internal Auditor; Manager, Internal Audit Division Chief Internal Auditor, Bank Yahav and of the following companies: Etgar, Ne'emanut, Mizrahi Tefahot Issuance, Tefahot Insurance [(2)]
Family member of another senior officer or of an interested party in the banking corporation	No
Education	undergraduate degree in Accounting and Economics (Hebrew University); graduate degree in Business Administration (Hebrew University); CPA
Business experience (in past 5 years)	Deputy Chief Internal Auditor at the Bank; previously, Chief Internal Auditor of Bank Tefahot.

Shimon Weiss	
Start of term in office	October 2, 1999
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Chief Legal Counsel Legal risk manager
Family member of another senior officer or of an interested party in the banking corporation	No
Education	LL.B. – Hebrew University, Jerusalem; LL.M. – Hebrew University, Jerusalem; DR.JUR. – Hebrew University, Jerusalem; MBA – Tel Aviv University
Business experience (in past 5 years)	Chief Legal Counsel, Bank Mizrahi-Tefahot Ltd.

(1) Mr. Haim Git, Manager, Risk Control Division and CRO of the Bank, concluded his term in office upon his retirement on December 31, 2013.

(2) Etgar – Etgar Investment Portfolio Management Company of the Mizrahi Tefahot Group Ltd.
Ne'emanut – Mizrahi Tefahot Trust Company Ltd.
Mizrahi Tefahot Issuance - Mizrahi Tefahot Issue Company Ltd.
Tefahot insurance - Tefahot Insurance Agency (1989) Ltd.

Senior officers - continued

Ayala Hakim	
Start of term in office	July 1, 2013.
Title	Manager, Mizrahi-Tefahot Technology Division Ltd.; CIO for the Bank
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Accounting and Political Science – Bar Ilan University; Graduate degree in Business Administration – Bar Ilan University;
Business experience (in past 5 years)	Lt. General, Commander, LOTEM unit of IDF Computer Corps

Moshe Lari	
Start of term in office	November 8, 2009 (in current position - August 16, 2013)
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Finance Division – CFO and Market Risk Manager Chairman, Mizrahi Tefahot Issue Company Ltd.; Board Member, Bank Yahav
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Economics and Accounting - Hebrew University, Jerusalem; Graduate degree in Business Administration - Tel Aviv University; CPA
Business experience (in past 5 years)	CRO; Manager, Planning, Operations and Control Division at Bank Mizrahi-Tefahot Ltd.; Manager, Planning and Economics Division at Bank Mizrahi-Tefahot Ltd.

Dinah Navot	
Start of term in office	April 1, 2012
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Marketing, Promotion and Business Development Division
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undegraduate degree in Social Work, Tel Aviv University; graduate degree in Journalism and Media, Bar Ilan University; graduate degree in Social Psychology and Sociology, Bar Ilan University
Business experience (in past 5 years)	VP, Marketing with HOT Communication Systems; VP, Marketing with Careline - Prigo Israel

Senior officers - continued

Maya Feller	
Start of term in office	April 20, 1997
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Corporate Secretary
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree Humanities – Tel Aviv University
Business experience (in past 5 years)	Secretary, Bank Mizrahi-Tefahot Ltd.

Doron Klauzner[(1)]	
Start of term in office	November 8, 2009.
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Corporate Banking Division and Credit Risk Manager
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Economics and Business Administration - Bar Ilan University
Business experience (in past 5 years)	Manager, Human Resources, Logistics and Procurement Division at Bank HaPoalim Ltd.; Manager, Risk and Strategy Division, Bank HaPoalim Ltd.

Rita Rubinstein	
Start of term in office	January 1, 2007
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Human Resources and Administration Division
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Humanities and Social Sciences – Hebrew University, Jerusalem; MA in Humanities and Social Sciences, Bar Ilan University
Business experience (in past 5 years)	Manager, Human Resources and Administration Division at Bank Mizrahi-Tefahot Ltd.

(1) On January 1, 2014, Mr. Doron Klauzner started his term in office as Manager, Risk Control Division and CRO with the Bank. As of said date, Mr. Ofir Morad replaced him his role of Manager, Business Banking Division.(As of December 31, 2013 Mr. Ofir Morad was Deputy Manger of the Corporate Division)

Senior officers - continued

Additional changes in 2013

On February 5, 2013, Mr. Dov Fogel concluded his term as senior officer of the Bank.
On July 1, 2013, Mr. Zvi Agrovich concluded his term as senior officer of the Bank.

On August 15, 2013, Mr. Eli Yones concluded his term in office as Bank President. For details of the conclusion of the term in office of the Bank's former President, Mr. Eli Yones, and the appointment of the current President, Mr. Eldad Fresher, see chapter "Events outside the Normal Course of Bank Group Business" above.

At the Board of Directors' meeting held on September 16, 2013, the Board resolved that Mr. Nissan Levi would be appointed Manager, Planning, Operations and Customer Asset Division. This appointment became effective on February 2, 2014.

Details of senior officer remuneration (1)

(NIS in thousands)

All of 2013													
Details of remunerated party				Remuneration for services rendered(2)					Other remuneration	Total	Loans granted at beneficial terms(3)		Loans granted at standard terms
Name	Position	Extent of employment	Holding stake in Bank equity	Salary	Bonuses(16)	Social benefit contributions(4)	Share-based payment(5)	Value of additional benefits(6)			Balance as of December 31, 2011	Average term to repayment (in years)	
Moshe Vidman (7)	Chairman of the Board of Directors	100%	-	2,486	-	1,917	-	123		4,526	1,849	5.0	69
Eldad Fresher(8	President	100%	-	1,131	-	384	274	93		1,882	40	1.0	11
Eliezer Yones (9)	Former President	100%	-	3,030	-	259	* 1,900	155		5,344	-	-	98
Dan Lubash (10)	President of subsidiary - United Mizrahi Bank (Switzerland) Ltd.	100%	-	1,231	292	656	-	103		2,282	-	-	-
Dina Navot(11)	Deputy President , Manger, Marketing, Promotion and Business Development Division	100%	-	1,107	-	336	733	71		2,247	758	7.5	36
Doron Klauzner (12)	Deputy President and Manager, Business Division	100%	-	1,120	-	341	557	83		2,101	22	1.0	36

* Includes non-linear accounting of stock option plan for the President, approved on November 30, 2008, over a term of 5 years and 4 months. The options would be granted to the President in five lots, on April 1 of each year between 2010-2014. The plan is accounted for as follows:

NIS 1.2 million in 2008, NIS 14.3 million in 2009, NIS 10.4 million in 2010, NIS 6.4 million in 2011, NIS 3.9 million in 2012, NIS 1.9 million in 2013 and NIS .5 million in 2014. See Note 16.A.1 to the financial statements for details.

Details of senior officer remuneration [(1)] - continued

(NIS in thousands)

All of 2012												
Details of remunerated party		Remuneration for services rendered[(2)]						Other remuneration	Total	Loans granted at beneficial terms[(3)]		Loans granted at standard terms
Name	Position	Extent of employment	Holding stake in Bank equity	Salary	Bonuses[(16)]	Social benefit contributions[(4)]	Share-based payment[(5)]	Value of additional benefits[(6)]		Balance as of December 31, 2011	Average term to repayment (in years)	
Jacob Perry [(13)]	Chairman of the Board of Directors	60%	-	1,933	-	227	-	131	2,291	-	-	199
Eliezer Yones [(9)]	President	100%	-	2,965	-	1,162	* 3,900	154	8,181	-	-	111
Doron Klauzner [(12)]	Deputy President and Manager, Business Division	100%	-	1,023	-	272	1,227	82	2,604	-	-	62
Moshe Lari [(14)]	Deputy President; Manager, Planning, Operations and Control Division; and Manager, Customer Assets and Consultancy Division	100%	-	1,021	-	274	1,145	81	2,521	281	5	11
Dan Lubash [(10)]	President of subsidiary - United Mizrahi Bank (Switzerland) Ltd.	100%	-	1,193	408	744	-	111	2,456	-	-	-
Sammy Keinan [(15)]	Deputy President and Manager, Information Technology Division	100%	-	852	-	1,503	-	81	2,436	-	-	36

* Includes non-linear accounting of stock option plan for the President, approved on November 30, 2008, over a term of 5 years and 4 months. The options would be granted to the President in five lots, on April 1 of each year between 2010-2014. The plan is accounted for as follows:
NIS 1.2 million in 2008, NIS 14.3 million in 2009, NIS 10.4 million in 2010, NIS 6.4 million in 2011, NIS 3.9 million in 2012, NIS 1.9 million in 2013 and NIS .5 million in 2014. See Note 16.A.1 to the financial statements for details.

Remarks:

(1) Remuneration is in terms of cost to the Bank and excludes payroll tax.

(2) The amounts are included under "salaries and related expenses" in the statement of profit and loss.

(3) The benefit is under the same terms and conditions granted to all Bank employees.

(4) Includes severance pay, pension, study fund, acclimation bonus, paid leave and social security.

(5) For details of share-based payment to the President and to officers, see Note 16.A to the financial statements.

(6) Interest relates to loans granted at beneficial terms compared to market terms. There is no interest benefit with respect to deposits. In other banking transactions, the benefits apply to all Bank employees and the amount there of is immaterial.

(7) Mr. Moshe Vidman – On June 17, 2013, the General Meeting of shareholders approved the Bank contracting of terms of office and employment of the Chairman of the Bank Board of Directors.

Mr. Moshe Vidman serves as Chairman of the Bank Board of Directors, at a full-time position equivalent, as from December 1, 2012. The employment agreement is for a 3-year term from the actual start date in office, and would terminate on November 30, 2015. Notwithstanding the foregoing, each party may inform the other party of termination of employment on any date, even before the end of the specified term, by three months' prior notice.

The Chairman would be eligible to receive for his work a monthly salary amounting to NIS 180 thousand, linked to the Consumer Price Index. The Chairman would also be eligible to receive an annual bonus of up to nine monthly salaries and an additional deferred bonus of up to nine monthly salaries, deferred until the end of his term in office. The bonus payments would be calculated based on return on equity, annual return of Bank shares, the Bank's operating efficiency ratio and the Board of Directors' evaluation of the Chairman's performance in discharging his special duties in the assigned areas.

The Bank provides to the Chairman of the Board of Directors 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 Chairman of the Board of Directors, to a study fund at 7.5% of his salary. These amounts are contributed to provident / pension / study funds as selected by the Chairman of the Board of Directors.

Upon termination of the Chairman's employment, the Bank would pay him an amount equal to 150% of his last monthly salary multiplied by his number of years in service. The Bank would also pay an acclimation bonus equal to 6 monthly salaries plus social benefits.

In addition to the foregoing, should the Chairman be terminated prior to completion of the specified term, he would be paid additional amounts as set forth in the employment agreement - subject to conditions set forth in the employment contract.

Upon termination of the Chairman, the Bank would provide him with a letter releasing all contributions made to provident, pension and severance pay funds - in lieu of the full severance pay to which the Chairman of the Board of Directors is entitled. The Bank would also release the study fund to the Chairman.

All other terms of office and employment of the Chairman of the Board of Directors were listed in an immediate report dated April 24, 2013, reference number 2013-01-044368. This mention constitutes inclusion by way of reference of all information provided in the aforementioned immediate report.

(8) Mr. Eldad Fresher – Following the announcement by Bank President, Mr. Eli Yones, that he did not intend to continue in his office as Bank President for a further term, the Board of Directors, at its meeting on April 29, 2013, resolved to establish a search committee for the position of Bank President. The Committee concluded its work on June 9, 2013.

On June 17, 2013, the Board of Directors approved the recommendation by the search committee, to appoint Mr. Eldad Fresher as the Bank's next President.

The Board of Directors, at its meeting held on July 22, 2013, resolved that Mr. Eli Yones would conclude his term in office as Bank President on August 15, 2013.

On August 15, 2013, Mr. Eli Yones concluded his term in office as Bank President.

On August 16, 2013, Mr. Eldad Fresher started his term in office as Bank President.

Employment terms of Mr. Eldad Fresher, the new Bank President, have yet to be agreed.

The Board of Directors' Remuneration Committee is finalizing the employment terms of Mr. Eldad Fresher, the new Bank President, and its decisions would be brought for approval by the Board of Directors and by the General Meeting of Bank shareholders (see chapter "Remuneration policy").

Mr. Fresher is currently employed by the Bank under an individual employment contract effective since November 3, 2004 for an unspecified term. Mr. Presher's monthly salary is linked to the Consumer Price Index. Upon termination of his employment at the Bank, Mr. Presher is eligible to receive an acclimation bonus equal to 6 monthly salaries, with no additional benefits whatsoever. Furthermore, Mr. Presher is eligible to have the Bank, upon termination of his employment, release to him all amounts accumulated on his behalf in the various funds. Notwithstanding the above, Mr. Presher shall not be eligible for an acclimation bonus and release of amounts accumulated on his behalf in the various funds in case of termination of his employment under extraordinary circumstances, as set forth in the agreement. Each of the parties to the employment contract may terminate the contract with six months' prior notice and subject to terms and conditions set forth in the employment agreement. As for bonuses, see details in section 16 below.

(9) For further information about employment terms of Mr. Eliezer Yones – see Note 16.D. to the financial statements. As for bonuses, see details in section (16) below.

(10) Mr. Dan Lubash is employed as President of the Bank's subsidiary UMB Switzerland Ltd. in Switzerland (hereinafter: "the subsidiary").

As from May 1, 2011, Mr. Lubash is employed by an individual employment contract for a fixed term of 4 years (through April 30, 2015). Either party may teminate the contract by six months' advance notice. Should the subsidiary decide to terminate Mr. Lubash's employment prior to the term set forth in the contract, under other than extraordinary circumstances as listed in the contract, the subsidiary would pay the salary, bonus and other payments, as listed in the contract, for three months beyond the six months' notice as described above.

Mr. Lubash's pay is determined by the Swiss subsidiary, and is denominated in Swiss Franks. In addition, Mr. Lubash is eligible to receive rent reimbursement for his residence in Switzerland. As for bonuses, see section (16) below.

(11) Ms. Dina Navot – employed by the Bank under an individual employment contract effective since March 05, 2012 for an unspecified term. Ms. Navot's monthly salary is linked to the Consumer Price Index. Upon termination of her employment at the Bank, Ms. Navot is eligible to receive an acclimation bonus equal to 6 monthly salaries, with no additional benefits whatsoever. Furthermore, Ms. Navot would be eligible to have the Bank, upon termination of her employment, release to him all amounts accumulated on her behalf in the various funds. Notwithstanding the above, Ms. Navot shall not be eligible for an acclimation bonus and release of amounts accumulated on his behalf in the various funds in case of termination of his employment under extraordinary circumstances, as set forth in the agreement. Each of the parties to the employment contract may terminate the contract with 3 months' prior notice

and subject to terms and conditions set forth in the employment contract. As for bonuses, see details in section (16) below.

(12) Mr. Doron Klauzner – employed by the Bank under an individual employment contract effective since November 8, 2009 for an unspecified term. Mr. Klauzner's monthly salary is linked to the Consumer Price Index. Upon termination of his employment at the Bank, Mr. Klauzner is eligible to receive an acclimation bonus equal to 6 monthly salaries, with no additional benefits whatsoever. Furthermore, Mr. Klauzner is eligible to have the Bank, upon termination of his employment, release to him all amounts accumulated on his behalf in the various funds. Notwithstanding the above, Mr. Klauzner shall not be eligible for an acclimation bonus and release of amounts accumulated on his behalf in the various funds in case of termination of his employment under extraordinary circumstances, as set forth in the agreement. Each of the parties to the employment contract may terminate the contract with 3 months' prior notice and subject to terms and conditions set forth in the employment contract. As for bonuses, see details in section (16) below.

(13) Mr. Jacob Perry – Chairman of the Bank Board of Directors – was employed by the Bank under an individual employment contract at 60% of a full-time job, effective since February 24, 2003 for an unspecified term. Mr. Perry's monthly salary is linked to the Consumer Price Index. Upon termination of his employment by the Bank as Chairman of the Bank Board of Directors, including by resignation, Mr. Perry is entitled to have the Bank release to him all amounts accumulated on his behalf in the executive pension insurance policy, except in case of termination of his employment under circumstances where, by law, severance pay may be denied to Mr. Perry, in whole or in part, in which case Mr. Perry is only entitled to amounts accumulated in said pension insurance from his own contributions. Each of the parties to the employment contract may terminate the contract with six months' prior notice and subject to terms and conditions set forth in the employment agreement. Mr. Perrry retired from the Bank on October 31, 2012.

As for bonuses, see details in section 16 below.

(14) Mr. Larry Moshe – employed by the Bank under an individual employment contract effective since November 8, 2009 for an unspecified term. Mr. Larry's monthly salary is linked to the Consumer Price Index. Upon termination of his employment at the Bank, Mr. Larry is eligible to receive an acclimation bonus equal to 6 monthly salaries, with no additional benefits whatsoever. Furthermore, Mr. Larry is eligible to have the Bank, upon termination of his employment, release to him all amounts accumulated on his behalf in the various funds. Notwithstanding the above, Mr. Larry shall not be eligible for an acclimation bonus and release of amounts accumulated on his behalf in the various funds in case of termination of his employment under extraordinary circumstances, as set forth in the agreement. Each of the parties to the employment contract may terminate the contract with 3 months' prior notice and subject to terms and conditions set forth in the employment contract. As for bonuses, see details in section (16) below.

(15)Mr. Sammy Keinan – employed by the Bank under an individual employment contract since July 1, 2004 for an unspecified term. Mr. Keinan's monthly salary is linked to the Consumer Price Index. Upon termination of his employment at the Bank, Mr. Keinan is eligible to receive an acclimation bonus equal to 6 monthly salaries, with no additional benefits whatsoever. Furthermore, Mr. Keinan is eligible to have the Bank, upon termination of his employment, release to him all amounts accumulated on his behalf in the various funds. Notwithstanding the above, Mr. Keinan shall not be eligible for an acclimation bonus and release of amounts accumulated on his behalf in case of termination of his employment under extraordinary circumstances, as stated in the agreement. Each of

the parties to the employment contract may terminate the contract with 3 months' prior notice and subject to terms and conditions stated in the employment agreement.

As for bonuses, see details in section (16) below.

Mr. Keinan concluded his work for the Bank at the end of July 2012, and as of October 31, 2012 he is no longer employed by the Bank.

On September 10, 2012, the Board of Directors decided, after approval by the Audit Committee on September 3, 2012, to approve payment of a retirement bonus to Mr. Keinan, amounting to NIS 976,360 (gross), or 150% of the product of his most recent monthly salary and the number of his years in service with the Bank. In addition, in accordance with his employment terms, Mr. Keinan would receive a letter releasing to him all deposits made on his behalf to provident funds with respect to severance pay throughout his years of service with the Bank and its subsidiary, including all gain accrued This amount was NIS 634,297 as of August 31, 2012. It was further decided that Mr. Keinan would be entitled to use the company car provided to him as well as to payment for his cell phone up to NIS 500 per month (tax not grossed-up by the Bank for these benefits) through 2012 or until his start date in another employment, whichever is sooner.

It was further decided that Mr. Keinan is entitled to a notice period starting on August 1, 2012 and ending on October 31, 2012. It was further approved that the Bank would waive Mr. Keinan's work for the period from August 1, 2012 through August 31, 2012, during which period Mr. Keinan would receive full payment as it was paid to him during his work at the Bank.

Moreover, in the period from September 1, 2012 through October 31, 2012, Mr. Keinan would be on leave, in exchange for his accrued leave period as per his employment terms. The unused paid leave balance would be redeemed by the Bank upon conclusion of Mr. Keinan's employment.

It was further approved that in accordance with his employment contract, Mr. Keinan would receive payment of an acclimation bonus equal to six monthly salaries, amounting to NIS 468,294.

Moreover, in accordance with Mr. Keinan's employment terms, during six months after discontinuation of Mr. Keinan's employment by the Bank, Mr. Keinan would not provide his services, in salaried nor freelance capacity, nor as consultant or in any other manner whatsoever, directly nor indirectly, to any competing entity as listed on his employment contract.

For this matter, the Board of Directors approved, after approval by the Audit Committee, that Mr. Keinan's cooling period would start upon conclusion of Mr. Keinan's employment by the Bank (i.e. on November 1, 2012) and would end on May 31, 2013.

(16) Bonuses

1. Bonus for 2013

1.1 Bonus to Chairman of the Board of Directors

Bank organs have yet to discuss the amount of the Chairman's annual bonus, in conformity with his individual employment contract. For further details, see (7) above.

1.2 Bonus for the former President

In the most recent employment agreement, effective from December 1, 2008 through April 1, 2014, the former President waived the annual bonus to which he is entitled under the previous agreement, starting on the termination date of the previous agreement. For further information, see Note 16.D. to the financial statements.

1.3. Bonuses to VPs

VPs at the Bank received option allotment pursuant to the stock option plan approved in 2009. Each VP agreed, at their discretion, to be excluded from the framework plan for payment to Bank officers for each of the years 2009 through 2013. For details, see Note 16.N to the financial statements.

1.4. Bonus to CEO of the subsidiary

On February 12, 2014, the subsidiary's Board of Directors discussed the recommendation by the subsidiary's Chairman to award a bonus to the subsidiary's CEO, in line with his employment contract and based on results in the subsidiary's financial statements and achievement of the subsidiary's objectives, with due notice to developments in the regulatory environment and to challenges facing the subsidiary; the subsidiary's Board decided to award a bonus amounting to CHF 75 thousand to the subsidiary's CEO.

2. Bonus for 2012

2.1 Bonus to former Chairman of the Board of Directors

Terms of the one-time bonus to the former Chairman of the Board of Directors with respect to 2012 were discussed and approved by the Remuneration Committee at its meeting on December 30, 2013; they were discussed and approved by the Board of Directors at its meeting on February 17, 2014; and they are subject to approval by the General Meeting of Bank shareholders to be held on March 25, 2014 (for more information see immediate report dated February 18, 2014, reference: 2014-01-041482, included herein by way of reference).

2.2 Bonus for the former President

In the most recent employment agreement, effective from December 1, 2008 through April 1, 2014, the former President waived the annual bonus to which he is entitled under the previous agreement, starting on the termination date of the previous agreement. For further information, see Note 16.D. to the financial statements.

2.3. Bonuses to VPs

VPs at the Bank received option allotment pursuant to the stock option plan approved in 2009. Each VP consented by choice not to be included in the bonus payment plan for Bank officers for each year between 2009-2012, and not to be included in the bonus payment plan for Bank officers for 2013, should it be approved by the Bank. For details, see Note 16.N. to the financial statements.

2.4. Bonus to CEO of the subsidiary

On February 21, 2013, the subsidiary's Board of Directors discussed the recommendation by the subsidiary's Chairman to award a bonus to the subsidiary's CEO, in line with his employment contract and based on results in the subsidiary's financial statements and achievement of the subsidiary's objectives, with due notice to developments in the regulatory environment and to challenges facing the subsidiary; the subsidiary's Board decided to award a bonus amounting to CHF 100 thousand to the subsidiary's CEO.

Transactions with controlling shareholders

On August 6, 2008, the amendment to Securities Regulations (Periodic and Immediate Reports), 1970 became effective ("the Amendment"), whereby, inter alia, a reporting corporation is required to issue an immediate report with regard to "details of a transaction with a controlling shareholder, or which the controlling shareholder has a personal interest in its confirmation, including highlights of the transaction or contract, details of the organ which confirmed the transaction and its summary reasons for said confirmation; in this paragraph, "transaction" excludes a transaction which the most recent financial statements classify transactions of its type as immaterial."

The Bank Association has applied to the Securities Authority with regard to implementation of the provision concerning "immaterial transaction" and the disclosure outline. According to agreements between the Bank Association and the Securities Authority, banks have been exempted from issuing immediate reports about banking transactions which are not unusual, provided that the banks specify criteria for unusual and immaterial transactions.

The criteria for unusual and immaterial transactions, as previously set by the Audit Committee of the Board of Directors and reconfirmed on February 17, 2014 are as follows:

Transaction other than a banking transaction

Definition of "immaterial transaction":

A transaction other than a banking transaction, conducted in the normal course of business at market terms and conditions, and which meets one or more of the following criteria, is an immaterial transaction:

In this section, "transaction" means a transaction with a controlling shareholder, or a transaction in which a controlling shareholder has a personal interest.

A. Transaction for sale of retail products in the normal course of Bank business and at market conditions, amounting up to NIS 1.5 million per transaction, or a continuous transaction as specified above (multiple, essentially identical transactions with the same company), whose aggregate amount over one calendar year is up to 0.1% of the regulatory shareholders' equity, as defined in Proper Conduct of Banking Business regulation 312 (hereinafter - "regulatory equity"). This amount would not apply to individual transactions whose amount is under NIS 25 thousand each.

B. Transaction for provision of services, including in the field of TV advertising, in the normal course of Bank business and at market conditions, amounting up to 0.1% of regulatory equity, or a continuous transaction as mentioned above (multiple, essentially identical transactions with the same company), whose aggregate amount over one calendar year is up to .75% of total annual operating and other expenses by the Bank's most recent annual financial statements. This amount would not apply to individual transactions whose amount is under NIS 25 thousand each.

C. Transactions involving leasing of space, in the normal course of Bank business and at market conditions, approved in a single calendar year and amounting up to 0.1% of regulatory equity.

D. Any other transaction in the normal course of Bank business and at market conditions, where the total amount for such a transaction type in a single calendar year is up to 0.1% of regulatory equity. This amount would not apply to individual transactions whose amount is under NIS 25 thousand each.

Banking transaction

Definition of "unusual transaction" - a transaction other than at market conditions or not in the normal course of business or a material transaction.

A banking transaction which meets one of the following criteria shall be deemed to be, for this matter, a "material transaction":

A. **Indebtedness transaction** - an indebtedness transaction (after deductions, as set forth in Proper Conduct of Banking Business Regulation no. 312), which results in total indebtedness of any group of controlling shareholders exceeding 5% of regulatory equity, or a transaction which results in the increase in indebtedness of an individual borrower from among the controlling shareholders exceeding 2% of regulatory equity. If multiple indebtedness transactions are approved for the same borrower in a single calendar year, these indebtedness transactions shall be measured in aggregate. Any specific provision for doubtful debts, or write-off of any amount with regard to indebtedness of a controlling shareholder or a corporation affiliated there with, shall be deemed to be a material transaction. Measurement of total indebtedness, for this matter, shall be separate for the Wertheim Group and for the Ofer Group.

   "**Group of controlling shareholders**" - a controlling shareholder, as defined in the Securities Act, together with affiliated corporations , as the term "affiliated person" is defined in Proper Conduct of Banking Businesses regulation 312, and together with relatives of controlling shareholders included in the group.

B. **Deposits** - receipt of deposit from a controlling shareholder shall be deemed to be a material transaction if, consequently, total deposits from the same group of controlling shareholders would exceed 2% of total deposits at the Bank. Receipt of deposit from a company which is an "affiliated person" of the controlling shareholder, and which is not a company it controls, shall be deemed to be a material transaction if, consequently, total deposits from said company, on consolidated basis, would exceed 2% of total deposits at the Bank. Total deposits at the Bank would be calculated based on the most recent annual financial statements published by the Bank prior to the transaction date.

C. **Transaction in securities or in foreign currency (other than an indebtedness transaction or deposit transaction, as set forth above)** - a transaction in securities or in foreign currency where the annual commission charged with respect there to does not exceed 2% of total annual operating revenues of the Bank (less revenues from investment in shares), based on the most recent annual financial statements published by the Bank prior to the transaction date.

D. **Other transactions** - any other transaction for provision of financial and banking services, the revenues from which to the Bank exceed 0.1% of the Bank's total regulatory equity.

Any temporary, immaterial deviation for a period of up to 30 days would not change classification of the transaction as an immaterial transaction, and disclosure of such deviation would be provided in the annual report.

"Market terms" - terms which are not preferable to those at which similar transactions are made by the Bank with individuals or corporations which are not controlling shareholders of the Bank, or where the controlling shareholder has no personal interest in transactions there with. Market terms with regard to banking transactions are compared to terms of similar transactions, of similar volume, as used for review of transactions with affiliated persons in accordance with Proper Conduct of Banking Businesses regulation 312, with Bank clients who are not affiliated persons, or are not entities where the controlling shareholder has a personal interest in transactions there with; market conditions with regard to transactions other than banking transactions are compared to conditions of similar transactions made by the Bank with suppliers and/or with regard to offers from other suppliers reviewed prior to deciding to make the commitment. In cases where the Bank has no similar transactions, market conditions are to be compared with regard to similar transactions made in the market, provided that such transactions are made in the normal course of business and that such transactions have a market in which similar transactions are made.

Indebtedness transactions to which Proper Conduct of Banking Businesses regulation 312 does not apply - as for Indebtedness transactions to which Proper Conduct of Banking Businesses regulation 312 does not apply, should the Bank become aware of any such transaction, the Bank commits to bring any such transaction for approval pursuant to Proper Conduct of Banking Businesses regulation 312 and to provide disclosure there for in the Bank's annual financial statements. The definition of "immaterial transaction" and "unusual transaction" with regard to these transactions would be similar to the aforementioned definitions by the Bank.

Below is summary data with regard to banking transactions with controlling shareholders (NIS in millions):

A. Indebtedness transactions

					December 31, 2013
Group of controlling shareholders	Loan balance on balance sheet	Unutilized facility	Risk assets due to derivatives activity	Guarantees provided by the Bank to secure credit of controlling shareholder or affiliated party there to	Total indebtedness[(1)]
Wertheim Group and private companies controlled there by	-	-	-	-	-
Relatives of Wertheim Group	17	32	1	8	58
Total - Wertheim Group	**17**	**32**	**1**	**8**	**58**
Ofer Group and private companies controlled there by	-	-	-	-	-
Relatives of Ofer Group	254	51	43	26	374
Reporting entities controlled by relatives of Ofer Group					
Oil Refineries Ltd.	107	46	-	-	153
Israel Chemicals Ltd.	-	9	-	-	9
Carmel Ulpinim Ltd.	-	-	-	2	2
Total - Ofer Group	**361**	**106**	**43**	**28**	**538**

					December 31, 2012
Group of controlling shareholders	Loan balance on balance sheet	Unutilized facility	Risk assets due to derivatives activity	Guarantees provided by the Bank to secure credit of controlling shareholder or affiliated party there to	Total indebtedness[(1)]
Wertheim Group and private companies controlled there by	-	-	-	-	-
Relatives of Wertheim Group	28	34	-	-	62
Total - Wertheim Group	**28**	**34**	**-**	**-**	**62**
Ofer Group and private companies controlled there by	-	-	-	-	-
Relatives of Ofer Group	262	66	6	24	358
Reporting entities controlled by relatives of Ofer Group					
Gadot Industries Biochemicals Ltd.	22	-	-	-	22
Oil Refineries Ltd.	165	3	-	-	168
Israel Chemicals Ltd.	-	7	2	-	9
Israel Corporation Ltd.	-	19	-	-	19
Carmel Ulpinim Ltd.	-	-	-	2	2
Total - Ofer Group	**449**	**95**	**8**	**26**	**578**

(1) Indebtedness as defined in Proper Conduct of Banking Businesses regulation 312, after set off of allowed deductions.

B. Deposits

	December 31, 2013	
Group of controlling shareholders	Balance as of December 31, 2011	Highest balance in 2011
Wertheim Group and private companies controlled there by	2	5
Relatives of Wertheim Group and private companies controlled there by	24	24
Reporting entities controlled by relatives of Wertheim Group		
Amot Investments Ltd.	1	3
Total - Wertheim Group	**27**	**37**
Ofer Group and private companies controlled there by	9	8
Relatives of Ofer Group and private companies controlled there by	148	393
Reporting entities controlled by Ofer Group		
Meliseron Ltd.	-	2
Reporting entities controlled by relatives of Ofer Group		
Oil Refineries Ltd.	-	2
Israel Corporation Ltd.	797	897
Israel Chemicals Ltd.	4	6
Carmel Ulpinim Ltd.	-	3
Total - Ofer Group	**958**	**1,311**

	December 31, 2012	
Group of controlling shareholders	Balance as of December 31, 2012	Highest balance in 2012
Wertheim Group and private companies controlled there by	7	7
Relatives of Wertheim Group and private companies controlled there by	11	20
Reporting entities controlled by relatives of Wertheim Group		
Amot Investments Ltd.	2	3
Total - Wertheim Group	**20**	**30**
Ofer Group and private companies controlled there by	4	8
Relatives of Ofer Group and private companies controlled there by	110	653
Reporting entities controlled by Ofer Group		
Meliseron Ltd.	1	2
Reporting entities controlled by relatives of Ofer Group		
Oil Refineries Ltd.	2	10
Israel Corporation Ltd.	1	963
Israel Chemicals Ltd.	5	7
Carmel Ulpinim Ltd.	-	2
Total - Ofer Group	**123**	**1,645**

To the best of the Bank's knowledge, transactions with affiliated persons were executed in the ordinary course of business, at market terms and under terms similar to those of transactions effected with unrelated entities.

Independent Auditors' Fees [1][2][3]

(NIS in thousands)

	Consolidated		The Bank	
	2013	2012	2013	2012
For audit activities: [4]				
Independent auditors [5]	7,131	[9] 7,084	6,312	[9] 6,206
Other independent auditors	1,114	1,060	419	381
Total	**8,245**	**8,144**	**6,731**	**6,587**
For audit-related services [6]**:**				
Independent auditors [5]	-	41	-	27
Other independent auditors	-	-	-	-
For tax services: [7]				
Independent auditors [5]	-	12	-	-
Other independent auditors	176	206	176	206
For other services:				
Independent auditors [5][8]	1,281	588	1,281	588
Other independent auditors	711	509	-	-
Total	**2,168**	**1,356**	**1,457**	**821**
Total fees to independent auditors	**10,413**	**9,500**	**8,188**	**7,408**

(1) Board of Directors' report to the annual general meeting on auditors' fees for audit activities and for other services in addition to the audit, in accordance with Sections 165 and 167 of the Companies Law, 1999.

(2) Independent auditors' fees include payments to partnerships and corporations under their control, as well as payments under the VAT Law.

(3) Includes fees paid and accrued.

(4) Audit of annual financial statements and review of interim financial statements.

(5) Includes other independent auditors in overseas branches.

(6) Primarily includes: prospectuses, special certifications, comfort letters and forms or reports to authorities requiring auditors' signature, as well as special projects not part of regular audit services.

(7) Includes payments for preparation of reports adjusted for income tax purposes and reports to tax authorities.

(8) Includes mainly payments for consulting and various services.

(9) Reclassified.

Board of Directors

The Bank's members of the board of directors, their principal occupation, and other directorships as of the publication date of these financial statements are presented below:

Moshe Vidman, Chairman [(1)(2)]	
Membership of Board of Directors' committees	Credit - Chairman, Risk Management - Chairman
External Board member as defined in Proper Conduct of Banking Business Regulation 301	No
External Board member as defined in the Corporate Act	No
Independent Board member	No
Has accounting and financial expertise?	Yes
Has professional qualifications?	No
Expert Board member [(3)]	Yes
Employed by the corporation, a subsidiary/affiliate or by an interested party in the corporation?	No
Start date in office as member of the Bank's Board of Directors	August 2, 2010.
Education	Undergraduate degree - Economics and Political Science, Hebrew University, Jerusalem. MBA (Financing), Hebrew University, Jerusalem.
Current occupation	Chairman of the Board of Directors, Moshe Vidman Ltd. (owner)
Previous occupation (in past 5 years)	Board member of Bank Leumi Le-Israel Ltd.; Partner Communications Ltd.; Israel Corporation Ltd. Board member: ICL Ltd.; Dead Sea Works Ltd.; Rotem Amfert Negev Ltd.; Melisaron Ltd.; Elrov Real Estate and Hotels Ltd.; Rosebud Ltd.; Yafora Tavori Ltd.; Ofer Investments Ltd.; Dash Apex Holdings Ltd.; CABM Ltd.; Ofer Development and Investments Ltd.; Ofer Sachaf Ltd.; Ofer Bros. Investments Ltd.; Ofer Bros. (Ashkelon Industries) Ltd.; Ofer Bros. (Haifa 1974) Ltd.; Ofer Bros. (Jerusalem) Ltd.; Ofer Bros. Holdings Properties Ltd.; Ofer Centers Ltd.; Ofer Commercial Centers Ltd.; Hof Almog Eilat Ltd.; AABM Ltd.; Ofer Bros. Engineering and Development Ltd.; Ofer Nazareth Industrial Properties Ltd.; Mivnei Oferim Ltd.; Melisa Ltd.; CID Israeli Investments and Development Company Ltd.; Mistletoe Holding BV Ltd.; Ofer Investment Development Energy and Management Ltd.; Ofer Investment Energy Sources Ltd.; Herbert Samuel 10 (Management) Ltd.; Ofer Vacatins Tourism Ltd.; Ofer Bros. Holdings (1989) Ltd.; Melifar Shopping Malls Ltd. (in voluntary dissolution); Ofer Commercial Centers Management Maof Ltd. (in voluntary dissolution); Neot Hof Almog 1990 Ltd.; Residence Towers Ltd.; Carmeli - Yuliad Ltd.
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	No

(1) Has "banking experience", pursuant to directives of the Supervisor of Banks.
(2) Serves as Chairman of the Board of Directors since December 1, 2012.
(3) As this term is defined in Corporate Regulations (Rules for remuneration and expense reimbursement for independent board members), 2000.

Board of Directors - continued

Zvi Efrat [1]	
Membership of Board of Directors' committees	Credit
External Board member as defined in Proper Conduct of Banking Business Regulation 301	No
External Board member as defined in the Corporate Act	No
Independent Board member	No
Has accounting and financial expertise?	No
Has professional qualifications?	No
Expert Board member [2]	Yes
Employed by the corporation, a subsidiary/affiliate or by an interested party in the corporation?	No
Start date in office as member of the Bank's Board of Directors	January 24, 1995.
Education	LL.B. - Hebrew University, Jerusalem; Attorney
Current occupation and in the past 5 years	Senior Partner, J. Gurnitzki & Co. law firm, Board member, Efrat Smith Trust Company; Board member, Efrat Legal Services
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	No

Sabina Biran	
Membership of Board of Directors' committees	Audit, Risk Management, Remuneration
External Board member as defined in Proper Conduct of Banking Business Regulation 301	Yes
External Board member as defined in the Corporate Act	No
Independent Board member	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	No
Expert Board member [2]	Yes
Employed by the corporation, a subsidiary/affiliate or by an interested party in the corporation?	No
Start date in office as member of the Bank's Board of Directors	February 27, 2012
Education	Undergraduate degree in Political Science and Economics, Haifa University; MBA, Harriett-Watt University; MA studies in Political Studies and International Relations, Tel Aviv University.
Current occupation	Owner and Co-CEO of MVP-B Ltd. Board member: Shufersal Ltd.
Previous occupation (in past 5 years)	Chairman, Tel Aviv Tourism NGO; Chairman, Chem Nir Ltd. Board member: Leumi Partners Underwriting Ltd.; Raphael; HaPhoenix Gemel Ltd.; HaPhoenix Insurance Ltd,; Fox Wiezel Ltd.
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	No

(1) Has "banking experience", pursuant to directives of the Supervisor of Banks.

(2) As this term is defined in Corporate Regulations (Rules for remuneration and expense reimbursement for independent board members), 2000.

Board of Directors - continued

Ron Gazit	
Membership of Board of Directors' committees	Risk Management, Claims against the Bank
External Board member as defined in Proper Conduct of Banking Business Regulation 301	No
External Board member as defined in the Corporate Act	No
Independent Board member	No
Has accounting and financial expertise?	No
Has professional qualifications?	No
Expert Board member [(1)]	Yes
Employed by the corporation, a subsidiary/affiliate or by an interested party in the corporation?	No
Start date in office as member of the Bank's Board of Directors	December 14, 2003
Education	Undergraduate degree (LLB) Law degree, Attorney – Tel Aviv University
Current occupation	Ron, Gazit, Ruthenberg & Co. - law firm; Board member, Gazit Ruthenberg Trust Company; R. Gazit Attorney (2002)
Previous occupation (in past 5 years)	Board member - Gover Radio Ltd.
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	No

(1) As this term is defined in Corporate Regulations (Rules for remuneration and expense reimbursement for independent board members), 2000.

Board of Directors - continued

Moshe (Mosie) Wertheim [1]	
Membership of Board of Directors' committees	-
External Board member as defined in Proper Conduct of Banking Business Regulation 301	No
External Board member as defined in the Corporate Act	No
Independent Board member	No
Has accounting and financial expertise?	Yes
Has professional qualifications?	No
Expert Board member [1]	Yes
Employed by the corporation, a subsidiary/affiliate or by an interested party in the corporation?	Board member, Central Bottling Company Ltd. (Coca Cola) (Owned by Moshe Wertheim)
Start date in office as member of the Bank's Board of Directors	January 24, 1995.
Education	Academic - M. Jur. and attorney; holds certificate in Business Administration
Current occupation	Board member: Central Bottling Company Ltd. (Coca Cola); Ilanim Development and Investments Ltd.; MWZ Holding Ltd.; Info-Prod (Middle East Research) Ltd.; F&W (Registered Partnership); AMPG Management Ltd.; T.T. Transport and Marketing Services (1978) Ltd. (in voluntary dissolution); TSRON Management Ltd.; Mada'im Shimushim (2000) Ltd.; W.H.M. Properties Ltd., Alcorp Ltd., Ramcon Ltd.
Previous occupation (in past 5 years)	Board member: Keshet Broadcasting Ltd., Keshet Communication Services Group Ltd. Alony Hetz Ltd.; Chairman, Central Bottling Company Ltd. (Coca Cola)
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	Yes

(1) Has "banking experience", pursuant to directives of the Supervisor of Banks.
(2) As this term is defined in Corporate Regulations (Rules for remuneration and expense reimbursement for independent board members), 2000.

Board of Directors - continued

Avi Ziegelman	
Membership of Board of Directors' committees	Audit - Chairman; Credit, Risk Management, Remuneration - Chairman
External Board member as defined in Proper Conduct of Banking Business Regulation 301	Yes
External Board member as defined in the Corporate Act	Yes
Independent Board member	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	No
Expert Board member (1)	Yes
Employed by the corporation, a subsidiary/affiliate or by an interested party in the corporation?	No
Start date in office as member of the Bank's Board of Directors	September 19, 2007
Education	BA in Accounting and Economics – Tel Aviv University; MA in Business Economy (Finance) – Tel Aviv University; CPA
Current occupation	Financial consultant and Board member, Board member: Tafron Ltd.; Gindi Investments 1 Ltd.; Orev Technologies 1977 Ltd.; Cialo Technolgoy Israel Ltd.; Clal Biotechnolgy Industries Ltd.; Ormat Industries Ltd.; Cialo Technolgoy Israel (in temporary dissolution)
Previous occupation (in past 5 years)	Financial consultant and Board member,
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	Yes

(1) Has "banking experience", pursuant to directives of the Supervisor of Banks.

Board of Directors - continued

Nahshon Yoav-Asher	
Membership of Board of Directors' committees	Credit
External Board member as defined in Proper Conduct of Banking Business Regulation 301	No
External Board member as defined in the Corporate Act	No
Independent Board member	No
Has accounting and financial expertise?	Yes
Has professional qualifications?	No
Expert Board member [(2)]	Yes
Employed by the corporation, a subsidiary/affiliate or by an interested party in the corporation?	Yes
Start date in office as member of the Bank's Board of Directors	February 27, 2012
Education	Academic, undergraduate degree in Economics and Accounting, Tel Aviv University; MBA (specialized in Strategy), Mt. Scopus University, Jerusalem
Current occupation	CFO; VP, Finance and Business Development; Central Bottling Company Ltd. (Coca Cola) Chairman of the Board of Directors, Neviot Teva HaGalil Ltd. Board member: Mey Galil Ltd. (application filed to merge with Neviot Teva HaGalil Ltd.), Central Beverage Distribution Company Ltd., Dairy Manufacturers Association Ltd. (in voluntary dissolution), Meshek Tzuriel Dairy Ltd. (in voluntary dissolution), Tavor Winery (2005) Ltd., Meshek Tzuriel Distribution Ltd. (in voluntary dissolution), Keshet Broadcasting Ltd., Mira Trading Ltd., TURK TUBORG BIRA VE MALT, SANAYII A.S (Turkey), BIMPAS BIRA VE MESRUBAT PAZARLAMA A.S (Turkey), INTERNATONAL DAIRIES CORPORATION B.V. (Holland), AL BREWERIES B.V (Holland), UNITED ALBANIAN BREWERIES SH.P.K (Albania)
Previous occupation (in past 5 years)	Chairman of the Board of Directors, Dash Apex Holding Ltd. and Milko Industries Ltd.; Board member, Meshek Tzuriel Dairy Ltd.
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	No

(1) As this term is defined in Corporate Regulations (Rules for remuneration and expense reimbursement for independent board members), 2000.

Board of Directors - continued

Mordechai Meir	
Membership of Board of Directors' committees	Audit
External Board member as defined in Proper Conduct of Banking Business Regulation 301	No
External Board member as defined in the Corporate Act	No
Independent Board member	No
Has accounting and financial expertise?	Yes
Has professional qualifications?	No
Expert Board member [(1)]	Yes
Employed by the corporation, a subsidiary/affiliate or by an interested party in the corporation?	No
Start date in office as member of the Bank's Board of Directors	December 24, 2008
Education	BA in Accounting and Economics – Tel Aviv University; CPA.
Current occupation	Board member of: Ofer Investments Ltd.; Melisaron Ltd,; Melisa Ltd.; C.A.B.M. Ltd.; Ofer Bros. Foreign Investments Ltd.; Ofer Bros. (Ashkelon Industries) Ltd.; Ofer Bros. (Haifa 1974) Ltd.; Ofer Bros. (Jerusalem) Ltd.; Ofer Centers Ltd.; Ofer Bros. Engineering and Development Ltd.; Mistletoe BV; Ofer Commercial Centers Management Maof Ltd. (in voluntary dissolution).
Previous occupation (in past 5 years)	British Investments Ltd., Carasson Real Estate Ltd.
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	No

(1) As this term is defined in Corporate Regulations (Rules for remuneration and expense reimbursement for independent board members), 2000.

Board of Directors - continued

Avraham Neuman	
Membership of Board of Directors' committees	Audit, Remuneration, Risk Management
External Board member as defined in Proper Conduct of Banking Business Regulation 301	No
External Board member as defined in the Corporate Act	Yes
Independent Board member	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	No
Expert Board member (1)	Yes
Employed by the corporation, subsidiary, affiliate or interested party thereof?	No
Start date in office as member of the Bank's Board of Directors	April 11, 2013.
Education	PhD in Mathematics from Hebrew University, Jerusalem
Current occupation	Professor of Mathematics, Hebrew University, Jerusalem; Board member of: A. Neuman Investments Ltd.; A. Neuman Ltd.; NAE Holdings Ltd.; TLD Holdings Ltd.; BidOrBuy.com
Previous occupation (in past 5 years, other than current occupation)	-
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	No

(1) As this term is defined in Corporate Regulations (Rules for remuneration and expense reimbursement for independent board members), 2000.

Board of Directors - continued

Gideon Sitterman	
Membership of Board of Directors' committees	Remuneration, Audit, Risk Management
External Board member as defined in Proper Conduct of Banking Business Regulation 301	Yes
External Board member as defined in the Corporate Act	Yes
Independent Board member	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	No
Expert Board member (1)	Yes
Employed by the corporation, a subsidiary/affiliate or by an interested party in the corporation?	No
Start date in office as member of the Bank's Board of Directors	July 7, 2009
Education	Undergraduate degree in Economics and Accounting, Tel Aviv University; CPA.
Current occupation	Chairman, Ashdod Port Company Ltd.; Chairman and Owner, Pninush Ltd.
Previous occupation (in past 5 years)	CEO, Kal Construction Ltd.; Business Development Manager, Central Bottling Company Ltd. (Coca Cola); Director General, Ministry of Transportation and Road Safety; Board member, Camor Ltd.
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	Yes

(1) As this term is defined in Corporate Regulations (Rules for remuneration and expense reimbursement for independent board members), 2000.

Board of Directors - continued

Liora Ofer	
Membership of Board of Directors' committees	Credit
External Board member as defined in Proper Conduct of Banking Business Regulation 301	No
External Board member as defined in the Corporate Act	No
Independent Board member	No
Has accounting and financial expertise?	No
Has professional qualifications?	No
Expert Board member (1)	Yes
Employed by the corporation, a subsidiary/affiliate or by an interested party in the corporation?	Board member of Ofer Investments Group companies as listed below, including Ofer Investments Group companies which (directly and indirectly) hold Bank shares.
Start date in office as member of the Bank's Board of Directors	January 23, 2006
Education	High school – HaReali HaIvri Haifa
Board memberships:	Chairman, Melisaron Ltd.; Chairman, Ofer Investments Ltd. Board member: Oro Investments Ltd.; Oro Consulting and Management Ltd.; Helidor Entrepreneurs Ltd.; Ramat Aviv Mall Ltd.; Ofer Bros. Properties (Ra'anana) Ltd. (in voluntary dissolution); Ofer Sachaf Ltd.; Ofer Bros. Property Holdings Ltd.; Hof Almog Eilat Ltd.; AABM Ltd., Mivnei Oferim Ltd.,Ofer Development and Investments Ltd.; Ofer Industrial Properties (Nazareth) Ltd., Ofer Commercial Centers Ltd., Ofer Commercial Centers Ltd., CID Israeli Investments and Development Company Ltd.; Neot Hof Almog (1990) Ltd.; Residence Towers Ltd.; Carmeli Yuliad Ltd.; Herbert Samuel 10 (Management) Ltd.; Ofer Investments Energy Sources Ltd.; Ofer Investment Development Energy and Management Ltd.
Previous occupation (in past 5 years)	Business and corporate management in real estate, investments and other sectors, including Board memberships as listed above.
Family member of another interested party in the corporation?	Daughter of Mr. Yuli Ofer, RIP and the sister of Doron Ofer
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	No

(1) As this term is defined in Corporate Regulations (Rules for remuneration and expense reimbursement for independent board members), 2000.

Board of Directors - continued

Jonathan Kaplan	
Membership of Board of Directors' committees	Risk Management
External Board member as defined in Proper Conduct of Banking Business Regulation 301	No
External Board member as defined in the Corporate Act	No
Independent Board member	No
Has accounting and financial expertise?	Yes
Has professional qualifications?	No
Expert Board member [(1)]	Yes
Employed by the corporation, a subsidiary/affiliate or by an interested party in the corporation?	No
Start date in office as member of the Bank's Board of Directors	May 12, 2011
Education	Undergraduate degree in Economics and Accounting, Tel Aviv University; CPA; graduate degree in Political Science and National Security, Haifa University; National Security College, Tel Aviv.
Current occupation	Economic Advisor Board member: Vilar International Ltd.; Clal Biotechnology Industries Ltd.; Amir Agricultural Marketing and Investments Ltd.; Central Bottling Company Ltd.; International Breweries Ltd.; PharmUp Marketing (1966) Ltd.
Previous occupation (in past 5 years)	Board member: Solbar Industries Ltd.
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	Yes

(1) As this term is defined in Corporate Regulations (Rules for remuneration and expense reimbursement for independent board members), 2000.

Board of Directors - continued

Osnat Ronen	
Membership of Board of Directors' committees	Credit, Audit, Remuneration
External Board member as defined in Proper Conduct of Banking Business Regulation 301	Yes
External Board member as defined in the Corporate Act	Yes
Independent Board member	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	No
Expert Board member [(1)]	Yes
Employed by the corporation, subsidiary, affiliate or interested party thereof?	No
Start date in office as member of the Bank's Board of Directors	October 23, 2013.
Education	Undergraduate degree in Mathematics and Computer Science, Tel Aviv University. MBA (Financing), Tel Aviv University.
Current occupation	Board member of Partner Communications Ltd.; Fox Wiezel Ltd., advisor to Liquident.
Previous occupation (in past 5 years, other than current occupation)	Partner, Viola Private Equity. Board member of: Amiad Water Systems Ltd.; Aeronautics Ltd.; Orad High-tech Systems Ltd.; Matomi Media Group Ltd.; Degania Silicon Ltd.; Audiocodes Ltd.; D-Pharm Ltd.
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	No

(1) As this term is defined in Corporate Regulations (Rules for remuneration and expense reimbursement for independent board members), 2000.

Board of Directors - continued

Yossef Shachak	
Membership of Board of Directors' committees	Credit, Audit , Remuneration
External Board member as defined in Proper Conduct of Banking Business Regulation 301	Yes
External Board member as defined in the Corporate Act	No
Independent Board member	Yes
Has accounting and financial expertise?	Yes
Has professional qualifications?	No
Expert Board member (1)	Yes
Employed by the corporation, a subsidiary/affiliate or by an interested party in the corporation?	No
Start date in office as member of the Bank's Board of Directors	April 26, 2010
Education	Academic, Undergraduate degree in Accounting, Hebrew University, Jerusalem; CPA
Current occupation	Accounting and Financial Advisor to corporations and Boards Board member: Psagot Investment House Ltd.; Tafron Ltd.; Academic Track, Management College (external Board member); Yogi Consulting and Investments Ltd. - controlling shareholder; Shachak & Co. Assets Ltd. - shareholder; Campus Solutions Ltd. (external Board member); Y.S. Ltd. - shareholder; Member, Public Council of Accounting Standards Board; HaBima National Theater (external Board member); Peleg Nia Ltd.
Previous occupation (in past 5 years)	Member, Audit Committee of Bank of Israel; Board member, Dash Provident Fund Management Ltd., Board member of Elul Tamarind Ltd.
Family member of another interested party in the corporation?	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board?	No

(1) As this term is defined in Corporate Regulations (Rules for remuneration and expense reimbursement for independent board members), 2000.

Board of Directors - continued

During 2013, the Bank Board of Directors held 26 plenary meetings, of which 3 meetings via telecom. During this period there were also 106 meetings of Board committees and 6 Board member workshops.
The permanent Board committees are: Audit Committee, Risk Management Committee, Credit Committee, Remuneration Committee and Committee for Claims Against the Bank

The Board of Directors, at its meeting held on January 21, 2013, resolved to merge the Audit Committee and the Financial Statements Review Committee.
Presented below are the changes which occurred during 2013 and through publication of these financial statements:

A. On January 28, 2013, Mr. Dov Mishor resigned his position as member of the Bank's Board of Directors and member of the Audit Committee and Committee for Claims Against the Bank. Upon his departure, the number of Board members having accounting and financial qualifications is 9.
B. On February 11, 2013, Mr. Zvi Efrat resigned his position as member of the Board's Credit Committee.
C. On April 11, 2013, Mr. Avraham Neuman was appointed external Board member of the Bank, as this term is defined in the Companies Law, 1999. Upon his appointment, the number of Board members having accounting and financial qualifications is 10. On that date, Mr. Gideon Sitterman gave notice to the Chairman of the Board of Directors of his resignation from the position of Chairman of the Remuneration Committee.
D. The Board of Directors, at its meeting held on April 14, 2013, approved the appointment of Mr. Avraham Neuman as member of the Audit Committee and of the Remuneration Committee. At that meeting, the Board of Directors approved the appointment of Mr. Avi Ziegelman to the position of Chairman of the Remuneration Committee and the appointment of Mr. Yossef Shachak as member of the Remuneration Committee.
E. At the Board meeting held on April 24, 2013, Bank President, Mr. Eli Yones, announced his intention not to continue in his office as Bank President for a further term.
   The Board of Directors, at its meeting on April 29, 2013, resolved to establish a search committee for the position of Bank President. The Committee concluded its work on June 9, 2013.
   On June 17, 2013, the Board of Directors approved the recommendation by the search committee, to appoint Mr. Eldad Fresher as the Bank's next President.
   The Board of Directors, at its meeting held on July 22, 2013, resolved that Mr. Eli Yones would conclude his term in office as Bank President on August 15, 2013.
   On August 15, 2013, Mr. Eli Yones concluded his term in office as Bank President.

   The Bank's Board of Directors wishes to thank Mr. Eli Yones for his contribution to the Bank over his years of service as Bank President.

   On August 16, 2013, Mr. Eldad Fresher started his term in office as Bank President.

F. On August 27, 2013, the General Meeting of Bank shareholders approved the appointment of Mr. Avi Ziegelman as external Board member of the Bank, as defined in the Companies Law, 1999, for an additional 3-year term in office,

Board of Directors – continued

starting on September 20, 2013.

G. On October 23, 2013, the General Meeting of Shareholders approved the appointment of Ms. Osnat Ronen as external Board member of the Bank, as defined in the Companies Law, 1999. Upon her appointment, the number of Board members having accounting and financial qualifications is 11. On said date, the General Meeting of Shareholders approved the appointment of Mr. Yossef Shachak as external Board member of the Bank, as defined in Proper Conduct of Banking Business Regulation 301 "Bard of Directors", for an additional 3-year term in office, starting on April 26, 2013.

H. The Board of Directors, at its meeting on October 28, 2013, resolved to change the composition of these committees:
Mr. Avi Ziegelman and Mr. Gideon Sitterman concluded their membership of the Credit Committee. In conformity with this resolution, as of said date, Ms. Osnat Ronen and Mr. Zvi Efrat became members of that committee. Furthermore, Mr. Avraham Neuman was appointed member of the Risk Management Committee and Ms. Osnat Ronen was appointed member of the Remuneration Committee.
Moreover, in this meeting it was decided to cancel the Claims against the Bank committee.

Board members having accounting and financial qualifications

The Bank's Board of Directors prescribed that at 3 three directors should have accounting and finance skills. In the Board's opinion, this number enables it to meet all of the obligations imposed on it, especially with respect to its responsibility to examine the financial position of the corporation and to prepare and approve financial statements. The Board has also determined that the Audit Committee would have as members at least 2 Board members having accounting and financial qualifications. Upon publication of these financial statements, there are 11 Board members with accounting and finance skills: Messrs. Moshe Vidman Sabina Biran, Moshe (Mosie) Wertheim, Avi Ziegelman, Nahshon Yoav-Asher, Mordechai Meir, Avraham Neuman, Gideon Sitterman, Jonathan Kaplan, Osnat Ronen and Yossef Shachak. The Audit Committee includes 7 Board members having accounting and financial qualifications.

Below are the facts related to each of the directors in the Bank named above, and by virtue of which they are to be deemed having accounting and financial skills:

Moshe Vidman

Undergraduate degree in Economics; Graduate degree in Business Administration; specialized in Financing; served as CEO of two industrial companies; Board member at leading companies for over 25 years; member, Finance Committee and Audit Committee, served as Chairman of multiple companies.

Sabina Biran

Undergraduate degree in Political Science and Economics, Haifa University; MBA; served as CEO of two airlines; Board member of private and public companies; formerly - Chairperson of the Board of Directors of an industrial company.

Board of Directors - continued

Moshe (Mosie) Wertheim

Attorney, Bachelors of Law degree, certificate of business administration, serves as chairman of the board and CEO of Central Bottling Co. Ltd., director in Alony-Hetz Properties and Investments Ltd., in the Keshet Group companies and in other companies.

Avi Ziegelman

Holds undergraduate degree in Accounting and Economics and graduate degree in Business Economics (Finance). Licensed CPA. Provides financial consulting and serves as Board member with different companies. Was Senior Partner, Head of Professional Department with KPMG Somekh Chaykin CPA.

Nahshon Yoav-Asher

Undergraduate degree in Economics and Accounting, Tel Aviv University; MBA (specialized in Strategy); CFO, VP, Finance and Business Development; Chairman and Board member of private and public companies.

Mordechai Meir

Undergraduate degree in Economics and Accounting, Tel Aviv University. CPA. Worked for nine years at Somekh Chaikin as Senior CPA, board member of public companies, consultant to interested parties in public companies. For the past 10 years: CEO of consulting firm, MERAV Management Ltd. - specialized in consulting to and representation of real estate and financial sectors for major corporations and enterprises.

Avraham Neuman

Professor at Hebrew University, Mathematics Institute (since 1982), Economics Department (1982-1999) and Center for Research into Rationality (since 1990). Has served as Board member of public companies; currently serves as Chairman of the Board of Directors of BIDORBUY.COM.

Gideon Sitterman

CPA, former member of Securities Authority, former Director General of the Ministry of Transportation, has extensive accounting, economics and financial knowledge.

Jonathan Kaplan

Undergraduate degree in Economics and Accounting, Tel Aviv University; CPA; graduate degree in Political Science and National Security; Economic Advisor; Board member of private and public companies; formerly - Superintendent of Income Tax.

Board of Directors - continued

Osnat Ronen

Undergraduate degree in Mathematics and Computer Science from Tel Aviv University. MBA (Finance) from Tel Aviv University. Has served as Deputy CEO of investment house; Board member of private and public companies.

Yossef Shachak

Undergraduate degree in Accounting, Hebrew University, Jerusalem; CPA; accounting and financial advisor to private companies; Board member of private and public companies; previously - President, Institute of Certified Public Accountants in Israel.

The Bank's Board of Directors thanks the Bank President, management and employees for their efforts to promote the Bank, the result of their diligent efforts to maintain the Bank's services with due responsibility. The Board of Directors appreciates the constant efforts of the President, the Bank's management and its employees to expand the business activities and client base.

Moshe Vidman
Chairman of the Board of Directors

Eldad Fresher
President

Ramat Gan, March 9, 2014

Management Discussion of Group Business and Operating Results

Table of Contents

Management Discussion - Addendum A
Consolidated Balance Sheet – Multi-period information

As of year end, 2009-2013

Reported amounts (NIS in millions)

	2013	2012	2011	2010	2009
Assets					
Cash and deposits with banks	26,060	16,671	15,972	12,614	11,011
Securities	7,000	9,041	8,432	7,449	7,643
Securities loaned or sold in repurchase agreements	70	207	136	247	307
Loans to the public	139,880	130,244	120,931	110,474	98,445
Provision for credit losses	(1,315)	(1,593)	(1,638)	(3,471)	(3,234)
Loans to the public, net	138,565	128,651	119,293	107,003	95,211
Loans to Governments	305	317	196	92	301
Investments in associates	60	60	52	52	50
Buildings and equipment	1,656	1,658	1,616	1,546	1,522
Intangible assets and goodwill	87	87	87	87	101
Assets with respect to derivatives	3,606	3,518	3,115	3,405	1,491
Other assets	2,204	2,032	1,347	809	839
Total assets	**179,613**	**162,242**	**150,246**	**133,304**	**118,476**
Liabilities and Shareholders' Equity					
Deposits from the public(1)	141,244	128,081	118,883	104,601	94,579
Deposits from banks	2,041	1,694	2,007	2,432	1,899
Deposits from the Government	62	107	152	172	209
Debentures and subordinated notes	16,443	14,039	12,202	9,813	8,166
Liabilities with respect to derivatives	3,538	3,773	3,964	2,892	1,981
Other liabilities	5,950	5,296	4,984	5,898	4,849
Total liabilities	**169,278**	**152,990**	**142,192**	**125,808**	**111,683**
Equity attributable to equity holders of the banking corporation	9,852	8,811	7,666	7,130	6,447
Non-controlling interest	483	441	388	366	346
Total equity	**10,335**	**9,252**	**8,054**	**7,496**	**6,793**
Total liabilities and shareholders' equity	**179,613**	**162,242**	**150,246**	**133,304**	**118,476**

(1) Comparison numbers were re-classified. For details see Note 12 to the financial statements.

Management Discussion - Addendum B

Consolidated Statement of Profit and Loss – Multi-period information

For the years ended December 31, 2009-2013

Reported amounts (NIS in millions)

	2013	2012	2011 (1)	2010 (1)	2009 (1)
Interest revenues	6,442	6,591	6,840	5,509	4,892
Interest expenses	2,978	3,377	3,741	2,621	2,273
Interest revenues, net	3,464	3,214	3,099	2,888	2,619
Expenses with respect to credit losses	288	276	338	473	375
Interest revenues, net after expenses with respect to credit losses	**3,176**	**2,938**	**2,761**	**2,415**	**2,244**
Non-interest revenues					
Non-interest financing revenues (expenses)	14	95	18	(25)	(215)
Commissions	1,458	1,452	1,474	1,432	1,410
Other revenues	27	26	17	33	25
Total non-interest revenues	**1,499**	**1,573**	**1,509**	**1,440**	**1,220**
Operating and other expenses					
Payroll and associated expenses	1,836	1,701	1,615	1,529	1,504
Maintenance and depreciation of buildings and equipment	683	652	608	585	557
Amortization and impairment of intangible assets and goodwill	-	-	-	14	14
Other expenses	438	433	444	438	439
Total operating and other expenses	**2,957**	**2,786**	**2,667**	**2,566**	**2,514**
Pre-tax profit	1,718	1,725	1,603	1,289	950
Provision for taxes on profit	592	599	522	469	322
After-tax profit	1,126	1,126	1,081	820	628
Share in profit (loss) of associates, after tax	(4)	-	1	-	(1)
Net profit:					
Before attribution to non-controlling interest	1,122	1,126	1,082	820	627
Attributable to non-controlling interest	(44)	(50)	(38)	(19)	(11)
Attributable to equity holders of the banking corporation	**1,078**	**1,076**	**1,044**	**801**	**616**

(1) Data on the statement of profit and loss for previous periods were reclassified to adjust them for the new format adopted by the Supervisor of Banks. For details, see Note 1.D.1. to the financial statements.

Management Discussion - Addendum B - Continued
Consolidated Statement of Profit and Loss – Multi-period information

For the years ended December 31, 2009-2013

Reported amounts

	2013	2012	2011	2010	2009
Earnings per Ordinary share (in NIS) [(1)]					
Basic earnings:					
Total net profit attributable to holders of ordinary shares of the banking corporation	4.72	4.77	4.65	3.63	2.76
Diluted earnings:					
Total net profit attributable to holders of ordinary shares of the banking corporation	4.69	4.74	4.57	3.58	2.75

(1) Share of NIS 0.1 par value.

Management Discussion - Addendum C

Revenue and Expense Rates - of the Bank and its Subsidiaries (1)

For the year ended December 31,

Reported amounts (NIS in millions)

A. Average balances and interest rates - assets

			2013			2012			2011
	Average balance (2)	Interest expenses	Revenue rate	Average balance (2)	Interest expenses	Revenue rate	Average balance (2)	Interest expenses	Revenue rate
			In %			In %			In %
Interest-bearing assets									
Loans to the public (3)									
In Israel	130,481	5,966	4.57	120,786	6,048	5.01	110,388	6,244	5.66
Outside of Israel	2,545	100	3.93	2,670	98	3.67	2,440	120	4.92
Total	**133,026**	(7)**6,066**	**4.56**	**123,456**	(7)**6,146**	**4.98**	**112,828**	(7)**6,364**	**5.64**
Loans to the Government									
In Israel	310	9	2.90	235	7	2.98	125	4	3.20
Outside of Israel	-	-	-	-	-	-	-	-	-
Total	**310**	**9**	**2.90**	**235**	**7**	**2.98**	**125**	**4**	**3.20**
Deposits with banks									
In Israel	1,073	21	1.96	1,893	40	2.11	2,347	49	2.09
Outside of Israel	348	21	6.03	251	16	6.37	311	19	6.11
Total	**1,421**	**42**	**2.96**	**2,144**	**56**	**2.61**	**2,658**	**68**	**2.56**
Deposits with central banks and cash									
In Israel	16,648	170	1.02	12,147	157	1.29	12,700	276	2.17
Outside of Israel	1,546	2	0.13	1,209	2	0.17	1,264	-	-
Total	**18,194**	**172**	**0.95**	**13,356**	**159**	**1.19**	**13,964**	**276**	**1.98**
Securities loaned or sold in repurchase agreements									
In Israel	125	1	0.80	194	4	2.06	179	4	2.24
Outside of Israel	-	-	-	-	-	-	-	-	-
Total	**125**	**1**	**0.80**	**194**	**4**	**2.06**	**179**	**4**	**2.24**
Debentures held to maturity and available for sale (4)									
In Israel	5,632	118	2.10	7,153	177	2.47	4,405	99	2.25
Outside of Israel	1,249	17	1.36	1,522	23	1.51	937	16	1.71
Total	**6,881**	**135**	**1.96**	**8,675**	**200**	**2.31**	**5,342**	**115**	**2.15**
Debentures held for trading (5)									
In Israel	703	17	2.42	708	19	2.68	730	9	1.23
Outside of Israel	1	-	-	3	-	-	4	-	-
Total	**704**	**17**	**2.41**	**711**	**19**	**2.67**	**734**	**9**	**1.23**
Total interest-bearing assets	**160,661**	**6,442**	**4.01**	**148,771**	**6,591**	**4.43**	**135,830**	**6,840**	**5.04**
Receivables for credit card operations	2,941			2,853			2,444		
Other non-interest bearing assets (6)	5,159			5,436			4,118		
Total assets	**168,761**			**157,060**			**142,392**		
Total interest-bearing assets attributable to operations outside of Israel	**5,689**	**140**	**2.46**	**5,655**	**139**	**2.46**	**4,956**	**155**	**3.13**

See remarks below.

Management Discussion - Addendum C - Continued

Revenue and Expense Rates - of the Bank and its Subsidiaries (1)

For the year ended December 31,

Reported amounts (NIS in millions)

B. Average balances and interest rates - liabilities and equity

	2013			2012			2011		
	Average balance (2)	Interest revenues	Revenue rate	Average balance (2)	Interest revenues	Revenue rate	Average balance (2)	Interest revenues	Revenue rate
			In %			In %			In %
Interest-bearing liabilities									
Deposits from the public									
In Israel									
On-call	9,850	15	0.15	7,013	25	0.36	6,543	29	0.44
Term deposits	113,936	2,097	1.84	105,527	2,510	2.38	98,457	2,917	2.96
Outside of Israel									
On-call	654	1	0.15	366	1	0.16	342	1	0.17
Term deposits	3,918	40	1.02	4,729	58	1.24	4,412	57	1.30
Total	**128,358**	**2,153**	**1.68**	**117,635**	**2,594**	**2.21**	**109,753**	**3,004**	**2.74**
Deposits from the Government									
In Israel	91	4	4.40	132	5	3.79	155	11	7.09
Outside of Israel	-	-	-	-	-	-	-	-	-
Total	**91**	**4**	**4.40**	**132**	**5**	**3.79**	**155**	**11**	**7.09**
Deposits from banks									
In Israel	2,139	34	1.59	2,892	67	2.32	1,585	14	0.88
Outside of Israel	95	1	1.05	99	1	1.01	54	1	1.84
Total	**2,234**	**35**	**1.57**	**2,991**	**68**	**2.27**	**1,639**	**15**	**0.92**
Debentures and subordinated notes									
In Israel	15,243	786	5.16	13,678	710	5.19	10,991	711	6.47
Outside of Israel	-	-	-	-	-	-	-	-	-
Total	**15,243**	**786**	**5.16**	**13,678**	**710**	**5.19**	**10,991**	**711**	**6.47**
Total interest-bearing liabilities	**145,926**	**2,978**	**2.04**	**134,436**	**3,377**	**2.51**	**122,538**	**3,741**	**3.05**
Non-interest bearing deposits from the public	5,137			4,634			4,132		
Payables for credit card transactions	2,937			2,853			2,444		
Other non-interest bearing liabilities	4,961			6,465			5,698		
Total liabilities	**158,961**			**148,388**			**134,812**		
Total equity	**9,800**			**8,672**			**7,580**		
Total liabilities and equity	**168,761**			**157,060**			**142,392**		
Interest margin			**1.97**			**1.92**			**1.98**
Net return on interest-bearing assets									
In Israel	154,972	3,366	2.17	143,116	3,135	2.19	130,874	3,003	2.29
Outside of Israel	5,689	98	1.72	5,655	79	1.40	4,956	96	1.94
Total	**160,661**	**3,464**	**2.16**	**148,771**	**3,214**	**2.16**	**135,830**	**3,099**	**2.28**
Total interest-bearing liabilities attributable to operations outside of Israel	**4,667**	**42**	**0.90**	**5,194**	**60**	**1.16**	**4,808**	**59**	**1.23**

See remarks below.

Management Discussion - Addendum C - Continued
Revenue and Expense Rates - of the Bank and its Subsidiaries [(1)]

For the year ended December 31,

Reported amounts (NIS in millions)

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

			2013			2012			2011
	Average balance [(2)]	Interest revenues (expenses)	Revenue (expense) rate	Average balance [(2)]	Interest revenues (expenses)	Revenue (expense) rate	Average balance [(2)]	Interest revenues (expenses)	Revenue (expense) rate
			In %			In %			In %
Israeli currency - non-linked									
Total interest-bearing assets	89,515	3,448	3.85	78,467	3,798	4.84	70,939	3,821	5.39
Total interest-bearing liabilities	82,888	(1,449)	1.75	73,643	(1,816)	2.47	64,647	(1,846)	2.86
Interest margin			**2.10**			**2.37**			**2.53**
Israeli currency - linked to the CPI									
Total interest-bearing assets	51,568	2,530	4.91	48,248	2,248	4.66	43,833	2,481	5.66
Total interest-bearing liabilities	35,377	(1,405)	3.97	34,733	(1,356)	3.90	33,643	(1,701)	5.06
Interest margin			**0.94**			**0.76**			**0.60**
Foreign currency (including Israeli currency linked to foreign currency)									
Total interest-bearing assets	13,889	324	2.33	16,401	406	2.48	16,102	383	2.38
Total interest-bearing liabilities	22,994	(82)	0.36	20,866	(145)	0.69	19,440	(135)	0.69
Interest margin			**1.97**			**1.79**			**1.69**
Total - operations in Israel									
Total interest-bearing assets	154,972	6,302	4.07	143,116	6,452	4.51	130,874	6,685	5.11
Total interest-bearing liabilities	141,259	(2,936)	2.08	129,242	(3,317)	2.57	117,730	(3,682)	3.13
Interest margin			**1.99**			**1.94**			**1.98**

See remarks below.

Management Discussion - Addendum C - Continued
Revenue and Expense Rates - of the Bank and its Subsidiaries [(1)]

For the year ended December 31,

Reported amounts (NIS in millions)

D. Analysis of change in interest revenues and expenses

	2013 compared to 2012			2012 compared to 2011		
	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	443	(525)	(82)	521	(717)	(196)
Outside of Israel	(5)	7	2	8	(30)	(22)
Total	**438**	**(518)**	**(80)**	**529**	**(747)**	**(218)**
Other interest-bearing assets						
In Israel	30	(98)	(68)	33	(70)	(37)
Outside of Israel	2	(3)	(1)	6	-	6
Total	**32**	**(101)**	**(69)**	**39**	**(70)**	**(31)**
Total interest revenues	**470**	**(619)**	**(149)**	**568**	**(817)**	**(249)**
Interest-bearing liabilities						
Deposits from the public						
In Israel	192	(615)	(423)	170	(581)	(411)
Outside of Israel	(5)	(13)	(18)	4	(3)	1
Total	**187**	**(628)**	**(441)**	**174**	**(584)**	**(410)**
Other interest-bearing liabilities						
In Israel	36	6	42	186	(140)	46
Outside of Israel	-	-	-	-	-	-
Total	36	6	42	186	(140)	46
Total interest expenses	**223**	**(622)**	**(399)**	**360**	**(724)**	**(364)**

(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, 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 23 million (2012 - NIS 73 million, 2011 - NIS (57) million).
(5) To the average balance of debentures held for trade, we added the average balance of unrealized loss from adjustment to fair value of debentures held for trade, amounting to NIS 18 million (2012 - NIS 12 million, 2011 - NIS 8 million).
(6) Includes derivative instruments, other non-interest bearing assets, net of provision for credit losses.
(7) Commissions amounting to NIS 167, 153 and 129 million were included in interest revenues for 2013, 2012 and 2011, 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 D
Exposure of the Bank and its Subsidiaries to changes in interest rates

Reported amounts (NIS in millions)

	As of December 31, 2013					
	On Call to 1 month	1-3 months	3 months to 1 year	1-3 years	3-5 years	5-10 years
Israeli currency - non-linked						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets(1)(3)	86,424	2,733	3,574	3,712	3,097	2,768
Financial derivatives (other than options)	8,184	4,420	20,441	9,083	7,658	10,405
Options (in terms of underlying asset)	1,646	1,270	2,465	81	46	88
Total fair value	**96,254**	**8,423**	**26,480**	**12,876**	**10,801**	**13,261**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities (1)	78,696	5,194	7,882	5,800	1,948	991
Financial derivatives (other than options)	15,282	9,586	10,606	7,929	6,679	10,450
Options (in terms of underlying asset)	933	2,717	2,453	81	46	88
Total fair value	**94,911**	**17,497**	**20,941**	**13,810**	**8,673**	**11,529**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	1,343	(9,074)	5,539	(934)	2,128	1,732
Cumulative exposure in sector	1,343	(7,731)	(2,192)	(3,126)	(998)	734

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".

10 to 20 years	Over 20 years	Without maturity	As of December 31, 2013 Total fair value	Internal rate of return	Average effective duration (2)	As of December 31, 2012 Total fair value	Internal rate of return	Average effective duration (2)
				In %	In years		In %	In years
445	-	357	103,110	3.85	0.59	87,360	3.76	0.55
13	-	-	60,204		1.25	64,565		1.22
-	-	-	5,596		0.73	3,540		1.12
458	**-**	**357**	**168,910**		**0.83**	**155,465**		**0.84**
347	99	-	100,957	1.31	0.39	89,998	1.59	0.39
13	-	-	60,545		1.55	61,987		1.69
-	-	-	6,318		0.85	4,092		1.10
360	**99**	**-**	**167,820**		**0.83**	**156,077**		**0.92**
98	(99)	357	1,090			(612)		
832	733	1,090	1,090					

Management Discussion - Addendum D - continued

Exposure of the Bank and its Subsidiaries to changes in interest rates

Reported amounts (NIS in millions)

	As of December 31, 2013					
	On Call to 1 month	1-3 months	3 months to 1 year	1-3 years	3-5 years	5-10 years
Israeli currency - linked to the CPI						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets [(1)]	923	1,951	10,207	19,571	15,604	4,434
Financial derivatives (other than options)	9	13	973	690	445	1,699
Total fair value	**932**	**1,964**	**11,180**	**20,261**	**16,049**	**6,133**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities [(1)]	1,134	1,153	6,754	11,496	7,193	8,998
Financial derivatives (other than options)	2,229	236	4,853	2,118	1,708	1,643
Total fair value	**3,363**	**1,389**	**11,607**	**13,614**	**8,901**	**10,641**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	(2,431)	575	(427)	6,647	7,148	(4,508)
Cumulative exposure in sector	(2,431)	(1,856)	(2,283)	4,364	11,512	7,004

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 December 31, 2013			As of December 31, 2012
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)
				In %	In years		In %	In years
1,400	8	303	54,401	2.36	3.01	51,348	2.63	3.08
-	-	-	3,829		3.54	5,316		4.15
1,400	**8**	**303**	**58,230**		**3.04**	**56,664**		**3.18**
2,266	-	2	38,996	1.65	3.74	37,080	1.99	4.12
-	-	-	12,787		1.54	12,555		1.68
2,266	**-**	**2**	**51,783**		**3.20**	**49,635**		**3.50**
(866)	8	301	6,447			7,029		
6,138	6,146	6,447	6,447					

Management Discussion - Addendum D - continued

Exposure of the Bank and its Subsidiaries to changes in interest rates

Reported amounts (NIS in millions)

	As of December 31, 2013					
	On Call to 1 month	1-3 months	3 months to 1 year	1-3 years	3-5 years	5-10 years
Foreign currency(1)						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets(2)	8,576	5,867	1,217	1,506	174	513
Financial derivatives (other than options)	20,374	10,999	7,996	4,824	1,771	7,160
Options (in terms of underlying asset)	844	2,590	2,583	119	43	83
Total fair value	29,794	19,456	11,796	6,449	1,988	7,756
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities (2)	14,165	6,565	6,256	995	26	111
Financial derivatives (other than options)	11,263	5,710	13,804	4,671	1,608	7,081
Options (in terms of underlying asset)	1,194	1,136	2,584	119	43	83
Total fair value	26,622	13,411	22,644	5,785	1,677	7,275
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	3,172	6,045	(10,848)	664	311	481
Cumulative exposure in sector	3,172	9,217	(1,631)	(967)	(656)	(175)

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 December 31, 2013			As of December 31, 2012		
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)
				In %	In years		In %	In years
27	9	253	18,142	2.32	0.55	19,656	2.58	0.89
-	-	-	53,124		1.62	56,845		1.71
-	-	-	6,262		0.42	4,473		0.37
27	**9**	**253**	**77,528**		**1.27**	**80,974**		**1.44**
10	-	4	28,132	0.25	0.27	24,502	0.48	0.29
-	-	-	44,137		1.25	52,625		1.46
-	-	-	5,159		0.44	3,733		0.49
10	**-**	**4**	**77,428**		**0.84**	**80,860**		**1.06**
17	9	249	100			114		
(158)	(149)	100	100					

Management Discussion - Addendum D - continued
Exposure of the Bank and its Subsidiaries to changes in interest rates

Reported amounts (NIS in millions)

	As of December 31, 2013					
	On Call to 1 month	1-3 months	3 months to 1 year	1-3 years	3-5 years	5-10 years
Non-monetary segment						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Options (in terms of underlying asset)	-	(1)	-	-	-	-
Total fair value	**-**	**(1)**	**-**	**-**	**-**	**-**
Total exposure to interest rate fluctuations						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets (1)(2)	95,923	10,551	14,998	24,789	18,875	7,715
Financial derivatives (other than options)	28,567	15,432	29,410	14,597	9,874	19,264
Options (in terms of underlying asset)	2,490	3,860	5,048	200	89	171
Total fair value	**126,980**	**29,843**	**49,456**	**39,586**	**28,838**	**27,150**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities(1)	93,995	12,912	20,892	18,291	9,167	10,100
Financial derivatives (other than options)	28,774	15,532	29,263	14,718	9,995	19,174
Options (in terms of underlying asset)	2,127	3,854	5,037	200	89	171
Total fair value	**124,896**	**32,298**	**55,192**	**33,209**	**19,251**	**29,445**
Financial instruments, net						
Total exposure to interest rate fluctuations	2,084	(2,455)	(5,736)	6,377	9,587	(2,295)
Total cumulative exposure	2,084	(371)	(6,107)	270	9,857	7,562

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 20.2)B. 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 20.3) 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 December 31, 2013			As of December 31, 2012
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)
				In %	In years		In %	In years
-	-	-	(1)	-	-	(2)	-	-
-	**-**	**-**	**(1)**	**-**	**-**	**(2)**	**-**	**-**
1,872	17	913	175,653	3.23	1.33	158,364	3.24	1.41
13	-	-	117,157		1.49	126,726		1.56
-	-	-	11,858		0.57	8,013		0.70
1,885	**17**	**913**	**304,668**		**1.37**	**293,103**		**1.46**
2,623	99	6	168,085	1.21	1.15	151,580	1.51	1.28
13	-	-	117,469		1.44	127,167		1.59
-	-	-	11,478		0.67	7,827		0.81
2,636	**99**	**6**	**297,032**		**1.24**	**286,574**		**1.41**
(751)	(82)	907	7,636			6,529		
6,811	6,729	7,636	7,636					

Management Discussion - Addendum E
Credit Risk by Economic Sector - Consolidated

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	Deben-tures [4]	Fair value of derivatives
Agriculture	563	190	753	-	-
Industry	5,832	4,052	9,884	51	61
Construction and real estate - construction	9,374	16,271	25,645	24	3
Construction and real estate - real estate operations	1,648	274	1,922	-	1
Power and water	631	336	967	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	-	691
Other business services	2,411	826	3,237	-	2
Public and community services	867	307	1,174	-	112
Total commercial credit risk	**33,855**	**32,445**	**66,300**	**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**	**46,891**	**182,609**	**92**	**1,397**
For borrowers' activities overseas	4,162	359	4,521	40	30
Total credit risk to public	**139,880**	**47,250**	**187,130**	**132**	**1,427**
Banking corporations	1,521	20	1,541	348	373
Government	1,045	10	1,055	6,502	-
Total credit risk	**142,446**	**47,280**	**189,726**	**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 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 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.

		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	Net accounting write-off	Balance of provision for credit losses
-	753	6	5	(1)	1	6
240	10,236	279	95	59	12	103
5	25,677	957	901	(19)	3	181
-	1,923	68	59	(3)	-	15
356	1,812	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	11,946	174	171	(6)	56	109
4	3,243	35	21	15	19	30
189	1,475	24	15	(1)	(1)	6
1,951	**69,736**	**1,881**	**1,493**	**52**	**138**	**598**
-	92,614	1,078	2	185	365	640
9	23,708	206	83	57	63	148
1,960	**186,058**	**3,165**	**1,578**	**294**	**566**	**1,386**
119	4,710	88	35	(6)	(1)	32
2,079	**190,768**	**3,253**	**1,613**	**288**	**565**	**1,418**
1,505	3,767	-	-	-	-	10
-	7,557	-	-	-	-	-
3,584	**202,092**	**3,253**	**1,613**	**288**	**565**	**1,428**

Management Discussion - Addendum E - continued

Credit Risk by Economic Sector - Consolidated

As of December 31, 2012 (1)

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	480	172	652	-	-
Industry	6,076	3,797	9,873	60	79
Construction and real estate - construction	8,716	13,921	22,637	31	3
Construction and real estate - real estate operations	1,501	297	1,798	-	-
Power and water	299	383	682	57	204
Commerce	7,051	2,037	9,088	-	23
Hotel and food services	414	136	550	-	4
Transport and storage	783	391	1,174	-	3
Communications and computer services	1,762	844	2,606	1	12
Financial services	3,888	7,368	11,256	-	936
Other business services	2,355	1,002	3,357	-	6
Public and community services	838	427	1,265	-	33
Total commercial credit risk	**34,163**	**30,775**	**64,938**	**149**	**1,303**
Private individuals - housing loans	79,361	4,267	83,628	-	-
Private individuals - other	12,680	9,144	21,824	-	3
Total	**126,204**	**44,186**	**170,390**	**149**	**1,306**
For borrowers' activities overseas	4,040	629	4,669	44	9
Total credit risk to public	**130,244**	**44,815**	**175,059**	**193**	**1,315**
Banking corporations	1,666	96	1,762	520	380
Government	1,153	169	1,322	8,209	-
Total credit risk	**133,063**	**45,080**	**178,143**	**8,922**	**1,695**

(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 207 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) 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	Net accounting write-off	Balance of provision for credit losses
2	654	15	13	2	4	6
306	10,318	213	161	(2)	35	89
25	22,696	1,288	1,138	49	9	211
-	1,798	80	70	(7)	13	18
540	1,483	1	-	-	-	-
51	9,162	367	158	27	27	136
5	559	9	3	1	4	8
8	1,185	33	30	16	1	23
14	2,633	32	30	(13)	-	13
992	13,184	356	291	120	35	160
7	3,370	53	34	(1)	56	34
292	1,590	17	16	-	(7)	7
2,242	**68,632**	**2,464**	**1,949**	**192**	**177**	**705**
-	83,628	1,594	5	10	73	818
7	21,834	251	89	64	70	154
2,249	**174,094**	**4,309**	**2,038**	**266**	**320**	**1,677**
24	4,746	49	49	14	17	18
2,273	**178,840**	**4,358**	**2,087**	**280**	**337**	**1,695**
1,542	4,204	5	5	(4)	-	10
-	9,531	-	-	-	-	-
3,815	**192,575**	**4,363**	**2,092**	**276**	**337**	**1,705**

Management Discussion - Addendum F

Exposure to Foreign Countries - Consolidated [(1)]

Reported amounts (NIS in millions)

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

	Balance sheet exposure [(2)]									Off-balance sheet exposure [(2)(3)]			
Country	Cross-border balance sheet exposure			Balance sheet exposure of affiliates of the banking corporation in foreign country to local residents								Cross-border balance sheet exposure	
	To 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
As of December 31, 2013													
USA	-	898	1,259	993	993	-	2,157	27	16	1,750	-	1,213	944
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	**-**	**2,429**	**5,193**	**1,838**	**1,267**	**571**	**8,193**	**110**	**27**	**5,168**	**-**	**3,645**	**3,977**
Includes: Total exposure to LDC countries	-	37	486	-	-	-	523	4	-	249	-	180	343
Includes: 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.

Management Discussion - Addendum F - continued

Exposure to Foreign Countries - Consolidated (1)

Reported amounts (NIS in millions)

As of December 31, 2012

Country	Balance sheet exposure (2)									Off-balance sheet exposure (2)(3)			
	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	-	991	1,079	1,131	1,131	-	2,070	29	21	1,752	-	1,074	996
UK	-	1,136	899	748	234	514	2,549	6	13	1,070	-	1,052	983
France	-	41	1,321	-	-	-	1,362	13	3	427	-	401	961
Others (5)	1	1,099	1,802	-	-	-	2,902	5	2	2,359	-	1,533	1,369
Total exposure to foreign countries	**1**	**3,267**	**5,101**	**1,879**	**1,365**	**514**	**8,883**	**53**	**39**	**5,608**	**-**	**4,060**	**4,309**
Includes: Total exposure to LDC countries	-	81	391	-	-	-	472	1	2	166	-	130	342
Includes: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	3	26	-	-	-	29	-	-	3	-	4	25

(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) Restated.

Management Discussion - Addendum F - 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 December 31, 2013 and as of December 31, 2012, there is no reportable exposure pursuant to the Supervisor of Banks' Public Reporting Regulations.

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

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

	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**

	For the year ended December 31, 2012			
	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**

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

Management Discussion - Addendum G
Consolidated Balance Sheet – Multi-quarter information

As of the end of each quarter in 2013

Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Assets				
Cash and deposits with banks	26,060	21,743	23,640	18,024
Securities	7,000	7,431	6,661	9,374
Securities loaned or sold in repurchase agreements	70	153	37	194
Loans to the public	139,880	138,112	134,242	132,118
Provision for credit losses	(1,315)	(1,365)	(1,389)	(1,575)
Loans to the public, net	138,565	136,747	132,853	130,543
Loans to the Government	305	304	300	307
Investments in associates	60	62	62	61
Buildings and equipment	1,656	1,634	1,631	1,632
Intangible assets and goodwill	87	87	87	87
Assets with respect to derivatives	3,606	3,180	3,412	3,701
Other assets	2,204	1,991	1,920	1,634
Total assets	**179,613**	**173,332**	**170,603**	**165,557**
Liabilities and Shareholders' Equity				
Deposits from the public	141,244	(1)135,863	(1)135,699	(1)130,117
Deposits from banks	2,041	1,950	2,106	2,054
Deposits from the Government	62	77	89	98
Debentures and subordinated notes	16,443	16,542	14,807	14,845
Liabilities with respect to derivatives	3,538	3,378	3,259	3,752
Other liabilities	5,950	(1)5,473	(1)4,838	(1)5,131
Total liabilities	**169,278**	**163,283**	**160,798**	**155,997**
Equity attributable to equity holders of the banking corporation	9,852	9,574	9,341	9,108
Non-controlling interest	483	475	464	452
Total equity	**10,335**	**10,049**	**9,805**	**9,560**
Total liabilities and shareholders' equity	**179,613**	**173,332**	**170,603**	**165,557**

(1) Comparison figures were re-classified. For details see Note 12 to the financial statements.

Management Discussion - Addendum G - continued
Consolidated Balance Sheet – Multi-quarter information

As of the end of each quarter in 2012

Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Assets				
Cash and deposits with banks	16,671	16,658	15,846	13,006
Securities	9,041	7,966	9,565	11,230
Securities loaned or sold in repurchase agreements	207	251	131	211
Loans to the public	130,244	128,220	125,025	122,033
Provision for credit losses	(1,593)	(1,654)	(1,639)	(1,664)
Loans to the public, net	128,651	126,566	123,386	120,369
Loans to the Government	317	313	209	190
Investments in associates	60	54	53	56
Buildings and equipment	1,658	1,601	1,594	1,605
Intangible assets and goodwill	87	87	87	87
Assets with respect to derivatives	3,518	2,780	2,964	2,199
Other assets	2,032	1,534	1,476	1,291
Total assets	**162,242**	**157,810**	**155,311**	**150,244**
Liabilities and Shareholders' Equity				
Deposits from the public (1)	128,081	123,900	121,968	119,015
Deposits from banks	1,694	2,031	1,787	1,700
Deposits from the Government	107	119	137	143
Debentures and subordinated notes	14,039	14,186	13,873	12,722
Liabilities with respect to derivatives	3,773	3,553	3,959	3,244
Other liabilities (1)	5,296	5,077	4,943	5,086
Total liabilities	**152,990**	**148,866**	**146,667**	**141,910**
Equity attributable to equity holders of the banking corporation	8,811	8,514	8,231	7,933
Non-controlling interest	441	430	413	401
Total equity	**9,252**	**8,944**	**8,644**	**8,334**
Total liabilities and shareholders' equity	**162,242**	**157,810**	**155,311**	**150,244**

(1) Comparison figures were re-classified. For details see Note 12 to the financial statements.

Management Discussion - Addendum H

Consolidated Statement of Profit and Loss – Multi-quarter information

Condensed Consolidated Statement of Profit and Loss by Quarter - for 2013

Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest revenues	1,267	2,058	1,704	1,413
Interest expenses	483	1,053	831	611
Interest revenues, net	784	1,005	873	802
Expenses with respect to credit losses	5	68	181	34
Interest revenues, net after expenses with respect to credit losses	**779**	**937**	**692**	**768**
Non-interest revenues				
Non-interest financing revenues (expenses)	23	(90)	48	33
Commissions	374	356	360	368
Other revenues	6	8	8	5
Total non-interest revenues	**403**	**274**	**416**	**406**
Operating and other expenses				
Payroll and associated expenses	491	471	429	445
Maintenance and depreciation of buildings and equipment	173	172	172	166
Other expenses	115	112	105	106
Total operating and other expenses	**779**	**755**	**706**	**717**
Pre-tax profit	403	456	402	457
Provision for taxes on profit	140	143	145	164
After-tax profit	263	313	257	293
Share in net profit (loss) of associates, after tax	(4)	1	1	(2)
Net profit:				
Before attribution to non-controlling interest	259	314	258	291
Attributable to non-controlling interest	(7)	(13)	(13)	(11)
Attributable to equity holders of the banking corporation	**252**	**301**	**245**	**280**
Earnings per Ordinary share (in NIS) [(1)]				
Basic earnings:				
Total net profit attributable to holders of ordinary shares of the banking corporation	1.10	1.32	1.07	1.23
Diluted earnings:				
Total net profit attributable to holders of ordinary shares of the banking corporation	1.09	1.31	1.06	1.22

(1) Share of NIS 0.1 par value.

Management Discussion - Addendum H - continued

Consolidated Statement of Profit and Loss – Multi-quarter information

Condensed Consolidated Statement of Profit and Loss by Quarter - for 2012

Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest revenues	1,179	1,892	2,000	1,520
Interest expenses	536	992	1,116	733
Interest revenues, net	643	900	884	787
Expenses with respect to credit losses	48	116	45	67
Interest revenues, net after expenses with respect to credit losses	**595**	**784**	**839**	**720**
Non-interest revenues				
Non-interest financing revenues (expenses)	229	(98)	(35)	(1)
Commissions	367	378	348	359
Other revenues	6	7	7	6
Total non-interest revenues	**602**	**287**	**320**	**364**
Operating and other expenses				
Payroll and associated expenses	454	405	408	434
Maintenance and depreciation of buildings and equipment	171	163	160	158
Other expenses	115	108	108	102
Total operating and other expenses	**740**	**676**	**676**	**694**
Pre-tax profit	457	395	483	390
Provision for taxes on profit	176	121	174	128
After-tax profit	281	274	309	262
Net profit:				
Before attribution to non-controlling interest	281	274	309	262
Attributable to non-controlling interest	(11)	(14)	(14)	(11)
Attributable to equity holders of the banking corporation	**270**	**260**	**295**	**251**
Earnings per Ordinary share (in NIS) [(1)]				
Basic earnings:				
Total net profit attributable to holders of ordinary shares of the banking corporation	1.19	1.15	1.31	1.12
Diluted earnings:				
Total net profit attributable to holders of ordinary shares of the banking corporation	1.17	1.14	1.29	1.11

(1) Share of NIS 0.1 par value.

Certification

I, ELDAD FRESHER, certify that:

1. I have reviewed the annual report of Mizrahi Tefahot Bank Ltd. ("the Bank") for 2013 ("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 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[1] and to the Bank's internal controls over financial reporting[1] as well as:

   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 them set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks.

   C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and have presented in this report 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 the fourth 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 Committee 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.

Eldad Fresher — March 9, 2014
President

(1) As defined in public reporting regulations with regard to "Report of the Board of Directors".

Certification

I, MENAHEM AVIV, declare that

1. I have reviewed the annual report of Mizrahi Tefahot Bank Ltd. ("the Bank") for 2013 ("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 financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of and for the periods 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[(1)] and to the Bank's internal controls over financial reporting[(1)] as well as:
   - 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 them set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks.
   - C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and have presented in this report 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 the fourth 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 Committee 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.

Menahem Aviv March 9, 2014
Vice-president, Chief Accountant

(1) As defined in public reporting regulations with regard to "Report of the Board of Directors".

Report of the Board of Directors and Management as to Internal Controls over Financial Reporting

The Board of Directors and Management of Mizrahi Tefahot Bank Ltd. (hereinafter: "the Bank") are responsible for establishing and maintaining proper internal controls over financial reporting (as defined in public reporting regulations with regard to "Report of the Board of Directors"). The Bank's internal controls system has been designed to provide the Bank's Board of Directors and management with a reasonable degree of certainty as to proper preparation and presentation of financial statements published in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks. Regardless of the quality of their design, all internal controls systems have inherent limitations. Therefore, even should it be determined that these systems are effective, they may only provide a reasonable degree of certainty with regard to preparation and presentation of financial statements.

The management, under supervision of the Board of Directors, maintains a comprehensive system of controls intended to ensure that transactions are executed in line with management authorization, that assets are protected, and that accounting records are reliable. Furthermore, management under supervision of the Board of Directors, takes steps to ensure that information and communication channels are effective and monitor execution, including execution of internal control procedures.

The Bank's management, under supervision of the Board of Directors, has evaluated the effectiveness of the Bank's internal controls system over financial reporting as of December 31, 2013 based on criteria specified in the internal controls model (1992) of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the aforementioned evaluation, management believes that as of December 31, 2013, the Bank's internal controls over financial reporting are effective.

The effectiveness of the Bank's internal controls over financial reporting as of December 31, 2013 was audited by the Bank's independent auditors, Brightman Almagor Zohar & Co. ,as noted in their report on page 281, which includes their unqualified opinion as to the effectiveness of the Bank's internal controls over financial reporting as of December 31, 2013.

Moshe Vidman	**Eldad Fresher**	**Menahem Aviv**
Chairman of the Board of Directors	President	Vice-president, Chief Accountant

Ramat Gan, March 9, 2014

Financial Statements

Table of Contents

Independent Auditors' Report to Shareholders of Bank Mizrahi-Tefahot Limited Pursuant to Public Reporting Directives of the Supervisor of Banks Concerning Internal Controls over financial Reporting

We have audited the internal controls over financial reporting at Bank Mizrahi-Tefahot Ltd. and subsidiaries (hereinafter jointly: "the Bank") as of December 31, 2013 based on criteria specified under the integrated framework for internal controls (1992) published by the Committee of Sponsoring Organizations of the Tread way Commission ("COSO"). The Bank's Board of Directors and management are responsible for maintaining effective internal controls over financial reporting, and for evaluating the effectiveness of these internal controls over financial reporting which is included in the attached report of the Board of Directors and management with regard to internal controls over financial reporting, enclosed herewith. We are responsible for our opinion of the Bank's internal controls over financial reporting, based on our audit.

We have not audited the effectiveness of internal controls over financial reporting at subsidiaries whose assets and whose net interest revenues before provision for credit loss included in consolidation account for 7.5% and 6.82%, respectively of the related amounts on the consolidated financial statements as of December 31, 2013 and for the year then ended. The effectiveness of internal controls over financial reporting at these companies was audited by other independent auditors whose reports have been provided to us and our opinion, in as much as it refers to effectiveness of internal controls over financial reporting at these companies, Is based on the reports of these other independent auditors.

We have conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (PCAOB) in the USA with regard to audit of internal controls over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel. In accordance with these standards, we are required to design and execute the audit so as to achieve a reasonable degree of certainty as to the existence of effective internal controls over financial reporting, in all material aspects. Our audit included: understanding of the internal controls over financial reporting, evaluation of the risk of existence of any material weakness, testing and evaluation of the effective design and operation of internal controls based on the evaluated risk. Our audit also included additional procedures which we believed to be necessary under the circumstances. We believe that our audits and the reports of the other independent auditors provide a reasonable basis for our opinion.

A bank's internal controls over financial reporting is a process designed to provide a reasonable degree of certainty as to the reliability of financial reporting and preparation of financial statements for external use in accordance with Israeli GAAP, directives and guidelines of the Supervisor of Banks. A bank's internal controls over financial reporting include policies and procedures which: (1) refer to recordkeeping which, with reasonable detail, accurately and properly reflects transactions and transfers of Bank assets (including their removal from Bank ownership); (2) provide a reasonable degree of certainty that transactions are properly recorded so as to allow for preparation of financial statements in accordance with Israeli GAAP and directives and guidelines of the Supervisor of Banks, and that the Bank's receipts and expenditures are made exclusively in line with authorizations of the Bank's management and Board members; and (3) provide a reasonable degree of certainty with regard to avoidance or timely discovery of any unauthorized acquisition, use or transfer of Bank assets (including removal from Bank ownership) which may materially impact the financial statements.

Due to their apparent limitations, internal controls over financial reporting may fail to prevent or discover any misrepresentation. Also, drawing conclusions about the future on the basis of any evaluation of current effectiveness is subject to the risk that controls may become inappropriate due to changes in circumstances or due to negative change in the extent to which policies or procedures are adhered to.

We believe that the Bank maintained, in all material aspects, effective internal controls over financial reporting as of December 31, 2013 based on criteria set forth in the integrated framework for internal controls (1992) published by COSO.

We have also audited, in accordance with audit standards generally accepted in Israel and certain audit standards whose application to audits of banking corporations was stipulated in directives of and guidance from the Supervisor of Banks, the balance sheet of the Bank and consolidated as of December 31, 2013 and 2012 and the statements of profit and loss, the statements of comprehensive income, the statements of changes to shareholder equity and the statements of cash flow, for the Bank and consolidated, for each of the three years ended December 31, 2013, and our report dated March 9, 2014 includes our unqualified opinion on the aforementioned financial statements, based on our audit and on reports of other independent auditors, as well as a call for attention with regard to a claim filed against the Bank, including a motion for grant of class action status.

Brightman Almagor Zohar & Co.
Certified Public Accountants
Brightman Almagor Zohar & Co.
Tel Aviv, March 9, 2014

Independent Auditors' Report to Shareholders of Bank Mizrahi-Tefahot Limited

We have audited the accompanying balance sheets of Mizrahi Tefahot Limited ("the Bank") as of December 31, 2013 and 2012, and the consolidated balance sheets as of such dates, and the statements of profit and loss, comprehensive income, changes in shareholders' equity and cash flows – of the Bank and on a consolidated basis – for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Bank's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have not audited the financial statements of subsidiaries whose assets included in consolidation account for 7.5% and 7.29% of total consolidated assets as of December 31, 2013 and 2012, respectively and whose net interest revenues before expenses with respect to credit losses, included on the consolidated statements of profit and loss, account for 6.82%, 5.34% and 4.84%, respectively, of total consolidated net interest revenues before expenses with respect to credit losses for the years ended December 31, 2013, 2012 and 2011, respectively. Furthermore, we have not audited the financial statements of an associate, the investment in which amounts to NIS 19 million and NIS 17 million as of December 31, 2013 and 2012, respectively. The financial statements of these companies were audited by other auditors, whose reports were furnished to us, and our opinion, insofar as it relates to amounts included with respect to these companies, is based on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Mode of Performance), 1973 and certain auditing standards, the application of which was mandated by the directives of the Supervisor of Banks. These regulations require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the above financial statements present fairly, in all material respects, the financial position - of the Bank and on a consolidated basis – as of December 31, 2013 and 2012, and the results of operations, changes in shareholders' equity and cash flows – of the Bank and on a consolidated basis – for each of the three years in the period ended December 31, 2013, in conformity with generally accepted accounting principles in Israel (Israeli GAAP). Also, in our opinion, the financial statements have been prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our aforementioned opinion, we draw your attention to Note 19.D.11)A.-C. with regard to lawsuits filed against the Bank, including motions for class action status.

We have also audited in accordance with PCAOB standards in the USA with regard to audit of internal controls over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the internal controls over financial reporting at the Bank as of December 31, 2013, based on criteria specified in the integrated framework for internal control (1992) published by COSO, and our report dated March 9, 2014 included an unqualified opinion of the effectiveness of internal controls over financial reporting at the Bank.

Brightman Almagor Zohar & Co.
Brightman Almagor Zohar & Co.
Certified Public Accountants

Tel Aviv, March 9, 2014

Balance sheet – consolidated and the Bank – as of December 31

Reported amounts (NIS in millions)

	Note	Consolidated		The Bank	
		2013	2012	2013	2012
Assets					
Cash and deposits with banks	2	26,060	16,671	21,121	13,586
Securities(1)	15, 3	7,000	9,041	5,046	6,284
Securities loaned or sold in repurchase agreements	15	70	207	70	207
Loans to the public		139,880	130,244	132,894	123,870
Provision for credit losses		(1,315)	(1,593)	(1,287)	(1,564)
Loans to the public, net	4	138,565	128,651	131,607	122,306
Loans to Governments	5	305	317	305	317
Investments in investees (for consolidated - associates)	6	60	60	2,366	(3)2,218
Buildings and equipment	7	1,656	1,658	1,498	1,505
Intangible assets and goodwill	6.D.	87	87	-	(3)-
Assets with respect to derivatives	19.E.	3,606	3,518	3,602	3,518
Other assets	8	2,204	2,032	2,064	1,904
Total assets		**179,613**	**162,242**	**167,679**	**151,845**
Liabilities and Shareholders' Equity					
Deposits from the public	9	141,244	(4)128,081	137,756	(4)122,796
Deposits from banks	10	2,041	1,694	7,915	8,204
Deposits from the Government		62	107	51	93
Debentures and subordinated notes	11	16,443	14,039	3,985	4,125
Liabilities with respect to derivatives	19.E.	3,538	3,773	3,537	3,773
Other liabilities (2)	12	5,950	(4) 5,296	4,583	(4)4,043
Total liabilities		**169,278**	**152,990**	**157,827**	**143,034**
Equity attributable to equity holders of the banking corporation		9,852	8,811	9,852	8,811
Non-controlling interest		483	441	-	-
Total equity	13	**10,335**	**9,252**	**9,852**	**8,811**
Total liabilities and shareholders' equity		**179,613**	**162,242**	**167,679**	**151,845**

(1) Includes: NIS 5,131 million at fair value on consolidated basis (December 31, 2012 - NIS 7,803 million) and for the Bank - NIS 4,948 million (December 31, 2012 - NIS 6,169 million).
(2) Includes: provision for credit losses with respect to off-balance sheet credit instruments, consolidated - NIS 103 million (on December 31, 2012 - NIS 102 million) and at the Bank - NIS 102 million (on December 31, 2012 - NIS 100 million).
(3) Reclassified. The balance of investments in investees includes a goodwill balance amounting to NIS 87 million.
(4) Reclassified. For details, see Note 12.

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, March 9, 2014

Statement of Profit and Loss - Consolidated and the Bank

For the year ended December 31,

Reported amounts (NIS in millions)

	Note	Consolidated			The Bank		
		2013	2012	2011 (1)	2013	2012	2011 (1)
Interest revenues		6,442	6,591	6,840	6,049	6,158	6,343
Interest expenses		2,978	3,377	3,741	3,046	3,355	3,606
Interest revenues, net	22	3,464	3,214	3,099	3,003	2,803	2,737
Expenses with respect to credit losses	4.A.	288	276	338	283	277	326
Interest revenues, net after expenses with respect to credit losses		**3,176**	**2,938**	**2,761**	**2,720**	**2,526**	**2,411**
Non-interest revenues							
Non-interest financing revenues (expenses)	23	14	95	18	26	82	(15)
Commissions	24	1,458	1,452	1,474	1,202	1,180	1,200
Other revenues	25	27	26	17	19	20	12
Total non-interest revenues		**1,499**	**1,573**	**1,509**	**1,247**	**1,282**	**1,197**
Operating and other expenses							
Payroll and associated expenses	26	1,836	1,701	1,615	1,578	1,474	1,394
Maintenance and depreciation of buildings and equipment		683	652	608	588	566	538
Other expenses	27	438	433	444	326	318	332
Total operating and other expenses		**2,957**	**2,786**	**2,667**	**2,492**	**2,358**	**2,264**
Pre-tax profit		1,718	1,725	1,603	1,475	1,450	1,344
Provision for taxes on profit	28	592	599	522	515	516	451
After-tax profit		1,126	1,126	1,081	960	934	893
Share in profits of associates (for consolidated - associates), after tax	6.B	(4)	-	1	118	142	151
Net profit:							
Before attribution to non-controlling interest		1,122	1,126	1,082	1,078	1,076	1,044
Attributable to non-controlling interest		(44)	(50)	(38)	-	-	-
Attributable to equity holders of the banking corporation		**1,078**	**1,076**	**1,044**	**1,078**	**1,076**	**1,044**

(1) Data on the statement of profit and loss for previous periods were reclassified to adjust them for the new format adopted by the Supervisor of Banks. For details, see Note 1.AA.2.

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

Statement of Profit and Loss - Consolidated and the Bank - continued

For the year ended December 31,

Reported amounts

	Note	2013	2012	2011
Earnings per share[1]	1.W.			
Basic earnings per share (in NIS)				
Net profit attributable to equity holders of the banking corporation		4.72	4.77	4.65
Diluted earnings per share (in NIS)				
Net profit attributable to equity holders of the banking corporation		4.69	4.74	4.57

(1) Share of NIS 0.1 par value each.

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

Consolidated statement of comprehensive income

Reported amounts (NIS in millions)

	2013	2012	2011
Net profit:			
Before attribution to non-controlling interest	1,122	1,126	1,082
Attributable to non-controlling interest	(44)	(50)	(38)
Net profit attributable to equity holders of the Bank	**1,078**	**1,076**	**1,044**
Other comprehensive income (loss) before taxes:			
Adjustments for presentation of available-for-sale securities at fair value, net	22	73	(57)
Adjustments from translation of financial statements	(3)	-	-
Net gain (loss) with respect to cash flow hedges	-	(22)	(12)
Total other comprehensive income, before tax	**19**	**51**	**(69)**
Related tax effect	(10)	(18)	23
Cumulative Other Comprehensive income (loss):			
Before attribution to non-controlling interest, after tax	9	33	(46)
Attributable to non-controlling interest, after tax	2	(3)	1
Attributable to equity holders of the Bank, after tax	**11**	**30**	**(45)**
Comprehensive income:			
Before attribution to non-controlling interest	1,131	1,159	1,036
Attributable to non-controlling interest	(42)	(53)	(37)
Attributable to equity holders of the Bank	**1,089**	**1,106**	**999**

Statement of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

	Share capital and premium (2)	Capital reserve from benefit from share-based payment transactions	Treasury shares
Balance as of January 1, 2011(1)	**1,986**	**156**	**(76)**
Net profit for the period	-	-	-
Dividends paid	-	-	-
Benefit from share-based payment transactions	-	43	-
Related tax effect	-	(27)	-
Realized share-based payment transactions (3)	17	(17)	-
Other comprehensive income (loss), net, after tax	-	-	-
Balance as of December 31, 2011	**2,003**	**155**	**(76)**
Net profit for the period	-	-	-
Benefit from share-based payment transactions	-	11	-
Related tax effect	-	28	-
Realized share-based payment transactions (3)	55	(55)	-
Other comprehensive income (loss), net, after tax	-	-	-
Balance as of December 31, 2012	**2,058**	**139**	**(76)**
Net profit for the period	-	-	-
Dividends paid	-	-	-
Benefit from share-based payment transactions	-	14	-
Related tax effect	-	13	-
Realized share-based payment transactions (3)	50	(50)	-
Other comprehensive income (loss), net, after tax	-	-	-
Balance as of December 31, 2013	**2,108**	**116**	**(76)**

(1) Includes adjustment from application of new standards and directives which were in effect as of said date:
- Cumulative effect, net of tax, of initial application on January 1, 2011 of the directive with regard to impaired debt measurement and provision for credit losses, amounting to NIS 359 million (decrease in shareholder equity).
- Cumulative effect, net of tax, of initial application on January 1, 2011 of certain IFRS standards.

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

(3) In 2013, the Bank issued 1,889,904 ordinary shares of NIS 0.1 par value each, for exercise of options pursuant to the Employee Stock Option Plan, and issued 489,076 ordinary NIS 0.1 par value shares to the former President for exercise of options. In 2012, the Bank issued 1,948,544 ordinary shares of NIS 0.1 par value each, for exercise of options pursuant to the Employee Stock Option Plan, and issued 413,036 ordinary NIS 0.1 par value shares to the former President for exercise of options. In 2011, the Bank issued 575,122 ordinary shares of NIS 0.1 par value each, for exercise of options pursuant to the Employee Stock Option Plan, and issued 513,627 ordinary NIS 0.1 par value shares to the former President for exercise of options.

(4) For details see Note 31 - Cumulative Other Comprehensive Income.

(5) For details on various limitations on dividend distributions, see Note 13 below.

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

Total paid-up share capital and capital reserves	Cumulative other comprehensive income (loss) [4]	Retained earnings [5]	Total	Non-controlling interest	Total equity
2,066	**15**	**4,690**	**6,771**	**350**	**7,121**
-	-	1,044	1,044	39	1,083
-	-	(120)	(120)	-	(120)
43	-	-	43	-	43
(27)	-	-	(27)	-	(27)
-	-	-	-	-	-
-	(45)	-	(45)	(1)	(46)
2,082	**(30)**	**5,614**	**7,666**	**388**	**8,054**
-	-	1,076	1,076	50	1,126
11	-	-	11	-	11
28	-	-	28	-	28
-	-	-	-	-	-
-	30	-	30	3	33
2,121	**-**	**6,690**	**8,811**	**441**	**9,252**
-	-	1,078	1,078	44	1,122
-	-	(75)	(75)	-	(75)
14	-	-	14	-	14
13	-	-	13	-	13
-	-	-	-	-	-
-	11	-	11	(2)	9
2,148	**11**	**7,693**	**9,852**	**483**	**10,335**

Statements of Cash Flows - Consolidated and the Bank [1]

For the year ended December 31

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2013	2012	2011	2013	2012	2011
Cash flows provided by current operations						
Net profit for the period	1,122	1,126	1,082	1,078	1,076	1,044
Adjustments:						
Share of Company in undistributed earnings of associates	4	-	(1)	(118)	(142)	(152)
Depreciation of buildings and equipment	243	230	219	215	207	201
Expenses with respect to credit losses	288	276	338	283	277	326
Net profit from revaluation of securities held to maturity, from revaluation and sale of securities available for sale.	32	(244)	(419)	33	(160)	(352)
Impairment of securities held for sale	3	8	10	3	8	10
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	(38)	(44)	(19)	(38)	(44)	(19)
Net loss (gain) from sale of buildings and equipment	-	-	(5)	-	-	(5)
Benefit from share-based payment transactions	14	11	43	14	11	43
Deferred taxes, net	(80)	17	(105)	(86)	6	(62)
Severance pay - decrease in excess of amount funded over liability	5	(8)	123	(10)	(8)	119
Accrual differences included under investment and financing operations	454	73	213	266	(36)	76
Effect of change in exchange rate on cash balances	332	66	(234)	311	63	(215)
Net change in current assets						
Deposits with banks.	102	(1,296)	1,798	(750)	(39)	(139)
Loans to the public.	(10,202)	(9,669)	(13,318)	(9,584)	(9,296)	(12,944)
Loans to the Governments.	12	(121)	(104)	12	(121)	(104)
Securities loaned or sold in repurchase agreements.	137	(71)	111	137	(71)	111
Assets with respect to derivatives.	(88)	(425)	-	(84)	(432)	(3)
Securities held for trading.	780	(1,064)	(878)	778	(1,065)	(880)
Other assets.	(87)	(689)	191	(73)	(660)	135
Net change in current liabilities						
Deposits from banks.	347	(313)	(425)	(289)	993	(63)
Deposits from the public.	13,163	9,263	13,245	14,960	10,099	14,231
Deposits from the Government.	(45)	(45)	(20)	(42)	(48)	(28)
Liabilities with respect to derivatives.	(235)	(191)	1,072	(236)	(183)	1,071
Other liabilities.	607	[1]197	(35)	512	[1]98	(145)
Unearned revenues, net	37	11	(45)	37	14	(47)
Net cash provided by current operations	**6,907**	**(2,902)**	**2,837**	**7,329**	**547**	**2,209**

(1) Reclassified.

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

Statement of Cash Flows - Consolidated and the Bank - continued

For the year ended December 31,

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2013	2012	2011	2013	2012	2011
Cash flows provided by investment operations						
Acquisition of debentures held to maturity	(646)	(420)	(703)	-	-	-
Proceeds on redemption of debentures held to maturity	-	25	8	-	-	-
Acquisition of securities available for sale	(2,942)	(7,479)	(8,265)	(2,942)	(6,581)	(7,145)
Proceeds on sale and redemption of securities available for sale	4,871	8,717	9,159	3,399	7,392	7,721
Acquisition of buildings and equipment	(236)	(1)(228)	(252)	(203)	(1)(200)	(231)
Proceeds from sale of buildings and equipment	-	-	14	-	-	14
Purchase of shares in associates	(6)	(8)	(1)	(6)	(1) (8)	(30)
Net cash provided by investment operations	**1,041**	**607**	**(40)**	**248**	**603**	**329**
Cash flows provided by financing operations						
Issuance of debentures and subordinated notes	3,007	2,161	2,620	-	-	57
Redemption of debentures and subordinated notes	(1,057)	(397)	(375)	(406)	(414)	(239)
Dividends paid to shareholders	(75)	-	(120)	(75)	-	(120)
Net cash provided by financing operations	**1,875**	**1,764**	**2,125**	**(481)**	**(414)**	**(302)**
Increase (decrease) in cash	9,823	(531)	4,922	7,096	736	2,236
Cash balance at beginning of year	14,394	14,991	9,835	12,942	12,269	9,818
Effect of change in exchange rate on cash balances	(332)	(66)	234	(311)	(63)	215
Cash balance at end of period	**23,885**	**14,394**	**14,991**	**19,727**	**12,942**	**12,269**
Interest, taxes paid						
Interest received	6,596	6,602	6,827	6,085	6,139	6,330
Interest paid	3,032	3,270	3,605	3,079	3,301	3,552
Dividends received	1	24	-	-	24	1
Taxes on income received	5	-	59	1	-	58
Taxes on income paid	654	556	512	623	528	489
Appendix A - Non-cash Transactions						
Acquisition of buildings and equipment	5	44	67	5	44	67

(1) Reclassified.

Notes to financial statements as of December 31, 2013

Note 1 - Reporting Principles and Accounting Policies

A. General

1) The financial statements are compiled in accordance with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with directives and guidance from the Supervisor of Banks.

2) The notes to the financial statements refer to the financial statements of the Bank, as well as to the consolidated financial statements of the Bank and its subsidiaries, unless a note explicitly states that it refers only to the statements of the Bank, or to the consolidated statements.

   The Bank's Board of Directors authorized publication of these financial statements on March 9, 2014.

3) Definitions:

   "Generally Accepted Accounting Practices" Accounting rules which American banks traded in the USA are required to apply at US banks as stipulated by the ASC 105 codification.

"International Financial Reporting Standards"	Standards and interpretations adopted by IASB, including International Financial Reporting Standards (hereinafter: "IFRS") and International Accounting Standards (hereinafter: "IAS"), including interpretations of these standards by the International Financial Reporting Interpretations Committee (IFRIC) or interpretations by the Standing Interpretations Committee (SIC), respectively.
"IASB"	International Accounting Standards Board.
"FASB"	Financial Accounting Standards Board in the USA.
“Subsidiaries”	Companies controlled by the banking corporation.
“Associates”	Entities in which the Group has material influence over financial and operational policies, but over which it has no control. Investment in associates is included on the financial statements using the equity method.
“Investees”	Subsidiaries and associates.
"Overseas affiliates"	Representatives, branches or subsidiaries of the Bank outside Israel.
"Functional currency"	The currency of the major economic environment in which the Bank operates. Usually, this is the currency of the environment in which a corporation generates and expends most of the cash.

Note 1 - Reporting Principles and Accounting Policies - continued

"Reporting currency"	The currency in which the financial statements are presented.
“Adjusted amount”	The historical nominal amount that was adjusted to the CPI for December 2003, in conformity with provisions of Opinions no. 23 and 36 of the Institute of Certified Public Accountants in Israel.
"Adjusted financial reporting"	Financial reporting in amounts adjusted to changes in the economic purchase power of Israeli currency, in conformity with provisions of the opinion of the Institute of Certified Public Accountants in Israel.
“Reported amount”	An amount adjusted as of December 31, 2003 (hereinafter: "the transition date"), plus amounts in nominal values that were added after the transition date, minus amounts deducted after the transition date.
“Cost”	Cost in reported amount.
"Related parties"	As defined in IAS 24 "Related party disclosures", other than interested parties.
"Interested parties"	As defined in Section 1 of the Securities Act, 1968.

B. Principles of financial reporting

These financial statements have been prepared as follows:

1) As for core banking business issues - the accounting treatment is in accordance with directives of the Supervisor of Banks and in accordance with generally accepted accounting principles for US banks, as adopted in the Supervisor of Banks' Public Reporting Regulations. Core banking business issues were defined by the Supervisor of Banks as financial instruments, including *inter alia*: hedge accounting, revenue recognition. provision for credit losses, contingent liabilities and provisions, presentation of financial statements and segment reporting.

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

In conformity with public reporting regulations of the Supervisor of Banks, international standards are applied based on the following principles:

- In cases where a material issue arises, which is not addressed by the international standards or by application directives issued by the Supervisor of Banks, the Group shall handle the issue in accordance with generally accepted accounting principles at US banks which specifically apply to these issues.
- In cases where no specific reference is made in the standards or interpretations of material issues, or where there are multiple alternatives for handling a material issue, the Group shall act in accordance with specific application directives issued by the Supervisor of Banks.

Note 1 - Reporting Principles and Accounting Policies - continued

- In cases where the adopted international standard makes reference to another international standard adopted under the public reporting directives, the Group shall act in accordance with provisions of the international standard.
- In cases where the adopted international standard makes reference to an international standard not adopted under the public reporting directives, the Group shall act in accordance with reporting directives and in accordance with generally accepted accounting principles in Israel.
- In cases where the adopted international standard makes reference to definition of a term also defined in the public reporting directives, the reference to the definition in the directives shall replace the original reference.

3) Functional currency and reporting currency

The consolidated financial statements are presented in NIS, which is the Bank's functional currency, rounded to the nearest one million, unless otherwise indicated. NIS is the currency which reflects the primary economic environment in which the Bank does business. For information about the functional currency of overseas banking affiliates, see section 1.E. below.

4) Measurement basis

The financial statements were prepared based on historical cost, except for the following items:

- Financial derivatives and other financial instruments measured at fair value on the statement of profit and loss (such as: investments in securities in the held-for-trade portfolio or instruments for which the fair value option was selected);
- Financial instruments classified as available for sale;
- Share-based payments;
- Non-current assets held for sale and asset group held for sale;
- Deferred tax assets and liabilities
- Various provisions, such as provisions for credit losses and provision for legal claims;
- Assets and liabilities with respect to employee benefits;
- Investments in associates

The value of non-monetary assets and capital items measured based on historical cost was adjusted for changes in the Consumer Price Index through December 31, 2003. Through this date, the Israeli economy was considered a hyper-inflationary economy. As from January 1, 2004, the Bank prepares its financial statements in reported amounts.

5) Use of estimates

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

These estimates and assumptions are regularly reviewed, and changes to accounting estimates are recognized in the period in which these estimates were revised and in any affected future period.

Note 1 - Reporting Principles and Accounting Policies - continued

C. Reclassification

Following initial application of the Supervisor of Banks' directives with regard to adaptation of presentation of the statement of comprehensive income, as described in section D.1 below, to requirements specified in US GAAP (ASU 2011-05 and ASU 2011-12) and to acceptable presentation of the statement of comprehensive income in financial statements of US banking corporations, items of other comprehensive income on the financial statements for 2012 and 2011 were reclassified so as not to be separately presented on the statement of changes to equity, but rather are reported on a separate report named Consolidated Statement of Comprehensive Income which is presented following the Statement of Profit and Loss.

Furthermore, data in some Notes to the financial statements were reclassified to align them with the new definitions, headings and presentation in the current reported period.

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

For periods starting on or after January 1, 2013, the Bank first applies accounting standards and directives of the Supervisor of Banks. Below is a description of the substance of changes in accounting policies on the financial statements and description of the effect of their initial application, if any:

1. Directive on Statement of Comprehensive Income

In conformity with the Supervisor of Banks' circular dated December 9, 2012 with regard to amendment of the Supervisor's public reporting regulations concerning the statement of comprehensive income, the Bank has adapted the presentation of the statement of comprehensive income to the US GAAP requirements (ASU 2011-05 and ASU 2011-12) and to acceptable presentation of the statement of comprehensive income on financial statements of US banking corporations. In conformity with these directives, items of other comprehensive income are reported on a separate statement named "Statement of Comprehensive Income", to be presented immediately following the statement of profit and loss. Furthermore, the Bank presents the composition and movement in Cumulative Other Comprehensive Income in a new note on Cumulative Other Comprehensive Income. The aforementioned disclosure is provided in Note 31 "Cumulative Other Comprehensive Income".

The Bank retroactively applies the directives on the statement of comprehensive income as from January 1, 2013. Initial application of the directive did not impact the Bank's financial statements, other than the change in presentation.

2. Directive with regard to offset of assets and liabilities

The Bank applies the rules specified in the Supervisor of Banks' circular dated December 12, 2012, which updates the Supervisor of Banks' Public Reporting Regulations with regard to offset of assets and liabilities.
Initial application of the directive had no effect on the Bank’s financial statements other than a change in presentation of Notes to the financial statements.
For details see section G. below.

Note 1 - Reporting Principles and Accounting Policies - continued

3. Directive with regard to disclosure concerning deposits

The Bank applies the directives in the Supervisor of Banks' circular dated January 13, 2013. The circular adapts the Public Reporting Regulations with regard to diclosure concerning deposits, to provide more extensive information about sources of operations of banking corporations and in order to adopt standards of disclosure applied by US banks. In conformity with the circular, the disclosure requirements concerning deposits were updated to include new disclosures with regard, *inter alia*, to deposits from institutional investors, interest-bearing and non-interest bearing deposits, term deposits and on-call deposits, composition of deposits by parameters such as depositor size, with distinction between deposits made in Israel and overseas.

The Bank retroactively applies the rules set forth in this directive.

4. Disclosures pursuant to the Supervisor of Banks' directive with regard to disclosure of credit quality of debt and of provision for credit losses, to adopt accounting standard update ASU 2010-20 which is required to be initially applied as from January 1, 2013.

The Bank applies the Supervisor of Banks' directive with regard to update of disclosure of credit quality of debt and of provision for credit losses, to adopt accounting standard update ASU 2010-20, which stipulates wider disclosure of debt balances, movement in balance of provision for credit losses, any material acquisition and sale of debt during the reported period and disclosures with regard to credit quality.

Inter alia, the Bank is required to provide quantitative disclosure of indicated credit quality, at least for the troubled debt balance in each debt group. Disclosure of credit quality of housing loans is also included. The new disclosure is required for each credit segment (such as: commercial credit, individuals – housing loans, individuals – other, banks and governments) and for each major debt group, as defined in the directive, with distinction between borrower activity in Israel and overseas, if this is material.

As from financial statements as of March 31, 2013, initial disclosure is required of restructured debt, with regard to the number of contracts and balance before and after such restructuring. In addition, disclosure of the contractual balance and recorded balance is required for debt restructuring in default during the reported period. This new disclosure is required for each credit segment as described above.

The Bank prospectively applies the directives starting with the 2012 annual financial statements. For balance sheet information initially required pursuant to this directive, the Bank has reclassified, to the extent possible, the comparison figures. The Bank applies part of the new disclosure requirements with regard to restructuring of troubled debt on as from financial statements for March 31, 2013.

The Bank is not required to include comparison information about new disclosure requirements with regard to restructuring of troubled debt.

Initial application of the directives had no effect other than the updated disclosure format in Note 4 - credit risk, loans to the public and provision for credit losses.

Note 1 - Reporting Principles and Accounting Policies - continued

5. New IFRS set with regard to consolidation of financial statements and related matters

The Bank applies the new IFRS set with regard to consolidation of financial statements and related matters. Below is a description of key provisions of the new IFRS set with regard to consolidation of financial statements and related matters, as applied by the Supervisor of Banks and their effect on the Bank:

a. IFRS 10 "Consolidated financial statements"
The standard presents a new control model used to determine whether an investee should be consolidated, to be applied for all investees. According to the standard, *de facto* circumstances would be taken into consideration when assessing control, so that existence of effective control over an investee would require consolidation of its financial statements. Moreover, when assessing the existence of control, all significant potential voting rights would be taken into account, not only those which may be immediately realized.

b. Revised IAS 28 "Investments in Associates and in Joint Ventures"
In conformity with the revision, revaluation of existing or remaining interest in the investment at fair value upon transition from material influence to joint control and vice versa was discontinued; it was further stipulated that IFRS 5 "Non-current assets held for sale and discontinued operations" applies to any investment or part there of which meets the criteria for classification as held for sale.

c. IFRS 12 "Disclosure of interests in other entities"
The standard provides extensive disclosure requirements with regard to interests in subsidiaries, joint arrangements, associates and structured entities not consolidated. Disclosure requirements with regard to structured entities do not apply to the Bank. For such entities, disclosure requirements specified in ASC 810 (FAS 167) would continue to apply, as incorporated in section 22 of the Public Reporting Regulations with regard to disclosures for entities with variable interests.

Application of the set of standards s from January 1, 2013 had no impact on the Bank's financial statements.

6. The Supervisor of Banks' letter concerning updated directives with regard to residential real estate

The Bank applies the Supervisor's directives in the letter dated March 21, 2013, which updated directives with regard to residential real estate.

In conformity with the directives, guidelines with regard to calculation of group-based provision for credit losses with respect to housing loans were updated as described below.

In conformity with the Supervisor of Banks' directives, the Bank is required to review, and update as needed, the method for determining the group-based provision for credit losses with respect to housing loans. When reviewing the method, all factors which impact the likelihood of collecting these loans should be taken into consideration. The Bank is also required, as from the second quarter of 2013, to ensure that the group-based provision for credit losses with respect to housing loans shall not be less than 0.35% of the balance of said loans (excluding housing loans provided for by extent of arrears or on individual basis).

Note 1 - Reporting Principles and Accounting Policies - continued

Pending application of the new directives as stated above, the balance of group-based provision with respect to housing loans is derived from the increase in current loans awarded, compared to the past.

Initial adjustment of the group-based provision for credit losses with respect to housing loans to 0.35%, included on the financial statements for 2013, amounted to NIS 191 million before tax is regularly updated accordingly.

7. **Updates to Note on securities stipulated in the Supervisor of Banks' circular with regard to integration of the Supervisor of Banks' letters in the Public Reporting Regulations**

On June 20, 2013, the Supervisor of Banks issued a circular with regard to incorporation of Supervisor of Banks' letters in Public Reporting Regulations, designed to incorporate certain letters from the Supervisor of Banks issued in recent years, within the Public Reporting Regulations.

As part of this incorporation, updates were stipulated with regard to disclosures provided in the Note on securities, including a change in the disclosure format in this Note, as well as disclosure of securities held to maturity and available for sale which are in a position of unrealized loss.

The updates pursuant to this directive apply to annual and quarterly financial statements as from December 31, 2013. According to this directive, comparison figures should be reclassified to align with the new disclosure format, if applicable. Application of this regulation has no material impact on the Bank's financial statements.

8. **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:

The 2013 annual report would be made public by March 20, 2014.

The 2014 annual report would 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 is preparing to publish the financial statements on the dates prescribed.

Note 1 - Reporting Principles and Accounting Policies - continued

9. Updates with regard to presentation of assets and liabilities by linkage basis and by term to maturity

On September 30, 2013, the Supervisor of Banks issued a circular with regard to assets and liabilities by linkage basis and by term to maturity. According to this circular, the Public Reporting Regulations have been amended to allow users of the financial statements to better understand the liquidity risk to which the banking corporation is exposed.

The key changes, according to this circular, include presentation of cash flows with respect to assets and liabilities separately for Israeli currency (including Israeli currency linked to foreign currency) and for foreign currency, instead of the previous distinction between domestic and foreign operations.

Furthermore, the reporting of cash flows with respect to derivatives settled on a net basis would change, so that the net expected contractual on-balance sheet cash flow for the derivative would be classified under Israeli currency or under foreign currency - based on the currency used for settlement. Off-balance sheet amounts for such derivatives would not be reported.

The Bank has started to apply provisions of this circular as from financial statements for 2013. Application of this circular had no effect on the financial statements, other than a change in presentation in the Note on assets and liabilities by linkage basis and by term to maturity.

The Group's accounting policies, as described below, incorporate the new accounting policies with regard to application of these accounting standards, accounting standard updates and directives of the Supervisor of Banks, and present the manner of initial application, if any.

E. **Foreign currency and linkage:**

1) Foreign currency transactions

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

Non-monetary assets and liabilities denominated in foreign currency and measured at fair value, are translated into the functional currency using the exchange rate as of the date on which the fair value is determined. Exchange rate differences arising from translation into the functional currency are recognized on the statement of profit and loss, other than differences arising from translation into the functional currency of cash flow hedges, as well as adjustments to fair value of investments of certain funds accounted for using the equity method, which are recognized on the statement of Other Comprehensive Income.

Non-monetary items denominated in foreign currency and measured at historical cost, are translated at the exchange rate as of the transaction date.

Note 1 - Reporting Principles and Accounting Policies - continued

2) Overseas banking affiliates

Through 1994, affiliates in certain overseas jurisdictions were classified as operations whose functional currency differed from the NIS and foreign currency translation differences were directly recognized in equity, under Translation Differences. As from 1995, according to directives by the Supervisor of Banks prior to adoption of IFRS, an overseas banking affiliate of a banking corporation was classified as a foreign operation whose functional currency is the same as that of the banking corporation.
Pursuant to IAS 21 and to the Supervisor of Banks' circular on this matter, dated February 14, 2012, in order to determine the functional currency, the banking corporation is required to consider, inter alia, the following:

- The currency which primarily affects the selling price of goods and services (usually this would be the currency in which selling prices of goods and services are denominated and settled), and the currency of the country whose competitive forces and regulation primarily determine the selling prices of goods and services.
- The currency which primarily affects labor costs, material and other costs for delivery of goods or services (usually, this would be the currency in which these costs are denominated and settled).
- Other factors which may serve as evidence of the entity's functional currency, such as: The currency in which monetary resources are generated by financing operations, and the currency in which receipts from current operations are usually kept.
- Relations of the affiliate with the Bank - is the foreign operation significantly independent, do transactions between the affiliate and the Bank constitute a large or small percentage of the foreign operation, do cash flows from the foreign operation directly affect the cash flows of the Bank and are readily available to be transferred, and are cash flows from the foreign operation sufficient to fund its current and anticipated liabilities in the normal course of business of the entity, without resources being provided by the Bank.
- Does the affiliate recruit clients by itself and is affiliate business with Bank clients (not recruited by the affiliate) not significant.
- Affiliate operations with the Bank, such as asset and liability balances or revenues and expenses, are not significant.
- Affiliate operations are essentially independent, stand alone and are not an extension of or complementary to the Group's domestic operations. Furthermore, the affiliate conducts its operations with significant autonomy.

Note 1 - Reporting Principles and Accounting Policies - continued

Based on review of these criteria, the Bank continues to treat its overseas banking affiliates as operations whose functional currency is the same as the Bank's (NIS).

Below is information about official exchange rates, the Consumer Price Index and relevant changes:

	As of December 31			Change in %		
	2013	2012	2011	2013	2012	2011
Consumer Price Index:						
CPI for December (points)	107.6	105.7	104.0	1.8	1.6	2.2
Known CPI for November (points)	107.5	105.5	104.0	1.9	1.4	2.6
Exchange rate of:						
USD (in NIS)	3.471	3.733	3.821	(7.0)	(2.3)	7.7
EUR (in NIS)	4.782	4.921	4.938	(2.8)	(0.4)	4.2

F. Consolidation basis

1) Subsidiaries

Financial statements of subsidiaries are included on the consolidated financial statements from the date control is achieved and through the date control is terminated. Control is the power to determine financial and operational policies of an entity to achieve benefits from their operationsf. The Bank exercises judgment in determining the acquisition date and whether or not control has been achieved.

Accounting policies of subsidiaries was modified as needed, to align them with the accounting policies adopted by the Group.

2) Attribution of Comprehensive Income to shareholders

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

3) Investments in associates

In reviewing the existence of material influence, the assumption is that a holding stake of 20%-50% in an investee confers material influence.

In conformity with IAS 28, investment in associates is accounted for using the equity method and is initially recognized at cost. The investment cost includes transaction costs. The consolidated financial statements include the Group's share of revenues and expenses, profit or loss and Other Comprehensive Income of investees accounted for using the equity method, after required adjustments to the accounting policies of the associate to align them with that of the Group, as from the date on which material influence exists until material influence ceases to exist.

Note 1 - Reporting Principles and Accounting Policies - continued

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

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

4) Transactions reversed upon consolidation

Mutual balances within the Group and unrealized revenues and expenses arising from inter-company transactions have been cancelled in the course of preparing the consolidated financial statements. Unrealized gain from transactions with associates have been cancelled against the investment, in accordance with the Group's rights in these investments. Unrealized losses haves been cancelled in the same manner as cancellation of unrealized gains, provided there was no evidence of impairment.

5) Business combinations

The Bank applies the acquisition method to all business combinations.

The acquisition date is the date on which the acquiring entity achieves control over the acquired entity. The Group controls the acquired entity when it is exposed to, or has an interest in variable returns from its involvement with the acquired entity and is able to influence these returns through its influence over the acquired entity. When reviewing for existence of control, we account for the real interest of the Group and of others.

In conformity with directives of the Supervisor of Banks, the Bank has adopted the relief specified in sections C4 and C5 of IFRS 1 "First-time Adoption of International Financial Reporting Standards". Accordingly, the Group applies IFRS 3 prospectively to financial statements for periods starting on January 1, 2011, so that no reattribution of excess cost was made for acquisitions prior to application of the standard. Amortization of goodwill with respect to investments made prior to application of the standard were discontinued, and in lieu, the need for making a provision for impairment of other-than-temporary nature is periodically reviewed.

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

The Bank will recognize upon acquisition a contingent liability assumed upon business combination, if there is a present obligation due to past events, and its fair value may be reliably measured.

6) New IFRS set with regard to consolidation of financial statements and related matters

As noted in Note 1.D.5 above, the Bank applies a new set of international financial reporting standards (IFRS) with regard to consolidation of financial statements and related matters.

Note 1 - Reporting Principles and Accounting Policies - continued

G. Offset of assets and liabilities

The Bank applies the rules stipulated in the Supervisor of Banks' circular dated December 12, 2012, which updates the Supervisor of Banks' Public Reporting Regulations with regard to offset of assets and liabilities. In conformity with the directives, a banking corporation should offset assets and liabilities arising from the same counter-party and present their net balance on the balance sheet, when all of the following conditions are fulfilled:

- The banking corporation has an enforceable legal right to offset assets against liabilities with regard to those liabilities
- The banking corporation intends to repay the liabilities and realize the assets on a net basis or concurrently;
- Both the banking corporation and the counter-party owe each other amounts which may be determined.

According to the directives, a banking corporation should offset assets and liabilities with two different counter-parties and present the net amount on the balance sheet when all of the aforementioned conditions are fulfilled, and provided that the three parties have an agreement which clearly stipulates the banking corporation's set-off rights with regard to these liabilities.
It was further stipulated that a banking corporation should offset deposits whose repayment to the depositor is contingent on the extent of collection of borrowing against those deposits, when the banking corporation has no risk of credit losses.

A banking corporation should not offset assets with respect to derivatives against liabilities with respect to derivatives, unless all of the aforementioned conditions are fulfilled. However, the directives stipulate that under certain conditions, a banking corporation may offset fair value amounts recognized with respect to derivative instruments and fair value amounts recognized with respect to the right to call cash collateral (receivables) or the commitment to reimburse cash collateral (payables) arising from derivative instruments transacted with the same counter-party in accordance with a master netting arrangement – even if there is no intention to repay on a net basis or concurrently.
Moreover, a banking corporation may offset securities purchased in conjunction with repurchase agreements against securities sold in conjunction with repurchase agreements, if certain conditions specified in US GAAP on this matter are fulfilled.
However, the banking corporation may not offset amounts on the balance sheet without prior approval of the Supervisor of Banks.
Currently, the Bank continues to present exposures with transactions on a gross basis, except for deposits whose repayment to the depositor is contingent on the extent of collection of borrowing, as described above. Initial application of the circular did not impact the Bank's financial statements, other than the change in presentation in Note 19.E. As for financial derivatives activity – volume, credit risk and maturity - as required by the directive.
Financial assets and liabilities are set off when there is an enforceable legal right of set-off between them and intent to set-off the amounts on the maturity dates. Assets and liabilities with two different counter-parties will only be set off subject to an additional condition: existence of an agreement between the three parties which clearly stipulates the Bank's set-off rights with regard to those liabilities. Accordingly, designated deposits for which repayment to the depositor is contingent upon the collection of the loan (when the Bank Group is not at risk of credit loss) were set off against the loans issued out of these deposits. The interest margins from this activity are presented in the statement of profit and loss under “commissions”.

Note 1 - Reporting Principles and Accounting Policies - continued

H. Statement of cash flows

The statement of cash flows is presented classified under cash flows from current operations, from investment operations and from financing operations. Cash flows from major Bank operations are classified under current operations. Cash and cash equivalents includes cash, deposits with banks, negotiable deposit notes and deposits with central banks with an original term of up to three months.

I. Securities

1) Investments in securities were classified into three categories, as follows:

a) Debentures held to maturity - debentures that the Bank has the intention and ability to hold until maturity date. These debentures are presented at their amortized cost, i.e. at par value plus accrued interest and linkage or exchange rate differentials, plus or minus the discount or premium component generated upon acquisition and not yet amortized and minus loss with respect to other-than-temporary impairment. Income from debentures held to maturity is recorded accordingly to the statement of profit and loss on accrual basis.

b) Securities held for trade - securities acquired or held in order to be sold in the near term, or securities which the Bank has elected to measure at fair value through profit & loss using the fair value option, except for shares for which no fair value is available. These securities were included on the balance sheet at fair value as of the reporting date; unrealized gain or loss from adjustment to fair value was recorded to the statement of profit and loss.

c) Securities available for sale - securities not classified as debentures held to maturity or as securities held for trade. Securities available for sale are presented on the balance sheet at fair value. Shares having no available fair value are presented at fair value as of the date they were received – which does not exceed their cost – and net of provision for impairment which is not of a temporary nature, which is recorded to the statement of profit and loss, as are dividends received from investment in shares available for sale, originating from earnings of a company which are distributed after the investment date.

Any unrealized gain or loss from adjustment to fair value is not included in the statement of profit and loss and are reported net of the appropriate tax reserve, under a separate equity item under Cumulative Other Comprehensive Income. Interest and dividend income is recognized in the statement of profit and loss. Dividends received from an investment in shares available for sale, originating in the profits of the distributing company after the acquisition date, were recorded to the statement of profit and loss.

For securities which include embedded derivatives – see section S.3) below.

When a security is other than temporarily impaired, its cost is written down to its fair value and serves as the new cost basis. The accumulated loss related to an available-for-sale security, previously charged to a separate item under shareholders' equity under Other Comprehensive Income, is transferred to the Statement of Profit and Loss when its impairment is other than of a temporary nature. Appreciation in subsequent reported periods is recorded to a separate item under shareholders' equity under Accumulated Other Comprehensive Income, and is not recognized on the Statement of Profit and Loss (using the new cost basis). For details of determination of fair value and provision for impairment, see sections 4) and 5) below.

Note 1 - Reporting Principles and Accounting Policies - continued

2) Bank investments in venture capital funds and other equity funds are stated at cost net of any other-than-temporary impairment loss. Gain from venture capital investments are recognized in the Statement of Profit and Loss upon realization of the investment. Dividends received from Bank investments in these funds are recorded to profit & loss when the Bank has the right to receive them, up to the amount of accumulated gain since this investment was acquired.

3) The cost of realized securities is calculated on FIFO basis, except for securities acquired as part of a hedge, or in conjunction with creating a strategic position or for any other specific purpose, which is separately identified.

4) With regard to calculation of fair value, see section T. below.

5) Impairment:

Pursuant to directives and guidelines of the Supervisor of Banks, the Bank periodically reviews whether impairment of the fair value of securities classified under the available-for-sale portfolio or the held-to-maturity portfolio, below the cost there of, is of an other-than-temporary nature. To this end, the following indicators, inter alia, are reviewed:

– Intent and capacity of the Bank to hold the securities for a sufficient period which would allow the security to recover its original cost.
– The time period during which the value of the security was lower than its cost.
– The ratio of impairment to total cost.
– Adverse change in conditions of the issuer or of the economy as a whole.
– Review of conditions reflecting the financial standing of the issuer, including whether or not the impairment is due to individual reasons related to the issuer, or to any macro-economic conditions.

Furthermore, in any of the following situations, the Bank recognizes other-than-temporary impairment:

– The security was sold prior to publication of the financial statements for the period.
– The Bank intends, as of the publication of the financial statements for the period, to sell the security within a short time.
– Debenture is significantly impaired between its rating upon acquisition by the Bank and its rating upon publication of the financial statements for the period.
– Debenture classified by the Bank as troubled after its acquisition.
– Debenture which is in payment default after its acquisition.
– Security where, in general, its fair value as of the end of the reported period and soon prior to publication of the financial statements, is significantly lower than its cost (amortized cost), or where any payment failure has occurred after its acquisitions, unless proven with a high degree of confidence and based on objective evidence, that the impairment is merely of a temporary nature.

Note 1 - Reporting Principles and Accounting Policies - continued

If the impairment of fair value is deemed to be other-than-temporary in nature, the cost of the security is written-off to its fair value, so that any loss amounts referring to securities classified as available for sale, accrued in equity under Other Comprehensive Income, would be classified upon impairment to the statement of profit and loss. This value would serve as the new cost basis, and would not be revised even if in subsequent reporting periods (after recognizing the impairment) the fair value should increase.

Subsequently to impairment recognition any interest revenues from investments in securities which are debt instruments would generally be recognized on an accrual basis, based on the difference between expected cash flows of the debt instrument and the fair value of the instrument upon impairment (new cost basis).

J. Impaired debt, credit risk and provision for credit losses

1) Pursuant to the Supervisor of Banks' directive on measurement and disclosure of impaired debt, credit risk and provision for credit losses, the Bank applies as from January 1, 2011 the rules stipulated by codification of US accounting standards ASC 310 and the opinion of the US banking supervision authorities and of the US SEC, as adopted in the Public Reporting Regulations. Moreover, as from the aforementioned date, the Bank applies the Supervisor of Banks' directive with regard to treatment of troubled debt. Moreover, as from the 2012 financial statements, the Bank applies the Supervisor of Banks' directive with regard to updated disclosure of credit quality of debt and to provision for credit losses.

2) Loans to the public and other debt balances

The directive is applied to all debt balances, including deposits with banks, debentures, securities borrowed or purchased in repurchase agreements, loans to the public, loans to the government etc. Loans to the public and other debt balances (such as: loans to the government, deposits with banks etc.) are reported on the Bank's accounts at their recorded debt balance. The recorded debt balance is defined as the debt balance after accounting write-offs but before deduction of the provision for credit losses for that debt. The recorded debt balance does not include any accrued interest not recognized, or previously recognized and then reversed.

3) Identification and classification of impaired debt

The Bank classifies all troubled debt and troubled off-balance sheet credit items under: special supervision, inferior or impaired. Debt under special supervision is debt with potential weaknesses, which require special attention by Bank management. Should these weaknesses not be addressed, the likelihood of debt repayment may deteriorate. Inferior debt is debt insufficiently secured by collateral or by debtor repayment capacity, and for which the Bank may incur a loss if faults are not corrected, including debt over NIS 700 thousand which is 60-89 days in arrears. Impaired debt is debt which the Bank anticipates not being able to collect all amounts due pursuant to the debt contract, including debt in arrears 90 days or more.

Note 1 - Reporting Principles and Accounting Policies - continued

Debt is classified as impaired when, based on current information and events, it is expected that the Bank would be unable to collect all amounts due pursuant to contractual terms of the debt contract. In any case, debt is classified as impaired when its principal or interest is in arrears over 90 days, unless the debt is well secured and is in collection proceedings. Further, any debt whose terms and conditions have been changed in conjunction with restructuring of troubled debt would be classified as impaired debt, unless prior to and following such restructuring, a provision for credit losses by extent of arrears was made with respect to that debt pursuant to the appendix to Proper Conduct of Banking Business Regulation 314 on troubled debt in housing loans at mortgage banks.

Restructing of troubled debt - Debt which has been formally restructured as troubled debt is defined as debt for which, for economic or legal reasons related to financial difficulties of the debtor, the Bank has made a concession by way of modification to terms and conditions of the debt, designed to make it easier for the debtor to make cash payments in the near term (reduction or postponement of cash payments due from the debtor), or by way of receiving other assets as debt repayment (in whole or in part).

In order to determine whether debt restructuring by the Bank constitutes troubled debt restructuring, the Bank conducts a qualitative review of all restructuring terms and circumstances in order to determine whether the debtor is in financial duress and whether: (1) the creditor is in financial duress; and (2) the Bank made a concession to the debtor in conjunction with the restructuring.

In order to determine whether the creditor is in financial duress, the Bank reviews for indications of the creditor being in financial duress at the time of restructuring, or for reasonable likelihood that the creditor would be in financial duress if not for the restructuring. Inter alia, the Bank reviews the existence of one or more of the following circumstances: As of the debt restructuring date, the borrower is in default, including when any other debt of the borrower is in default; for debt which, as of the restructuring date, is not in arrears, the Bank assesses whether, based on the current repayment capacity, it is likely that in the foreseeable future the borrower would be in default and would fail to comply with original contractual conditions of the debt; the creditor has declared bankruptcy, is in Receivership or there is significant doubt as to the borrower continuing as a going concern; and without changes to debt terms, the debtor would not be able to raise funds from other sources at market interest typical for debtors not in default.

The Bank concludes that a concession was made to the creditor in conjunction with the restructuring, even if the contractual interest rate was increased in the restructuring - if one or more of the following exists: Due to the restructuring, the Bank does not expect to collect all debt amounts (including accrued interest pursuant to contractual terms); the current fair value of collateral, for debt contingent on collateral, does not cover the contractual debt balance and indicates inability to collect all debt amounts; the creditor is unable to raise funds at market rates for debt with similar terms and conditions to those of the restructured debt.

Note 1 - Reporting Principles and Accounting Policies - continued

The Bank does not classify debt as restructured troubled debt, if in conjunction with the restructuring, it granted to the creditor a delay in payments which is not material considering the payment frequency, the contractual term to maturity and the expected effective maturity of the original debt. For this matter, if multiple restructurings took place involving changes to debt terms, the Bank accounts for the accumulated effect of previous restructurings in order to determine whether the delay in payments is not material.

Restructured debt, including debt assessed on a group basis prior to restructuring, shall be classified as impaired debt and shall be individually assessed for making a provision for credit losses or accounting write-off. Since the debt being restructured would not be repaid as per its original contractual terms, the debt continues to be classified as impaired debt even after the debtor resumes repayments pursuant to the new terms and conditions.

Reinstatement of impaired debt to non-impaired status - impaired debt is reclassified as non-impaired debt upon one of these conditions occurring:

- It includes no principal or interest components which are past due, and the Bank anticipates payment of the outstanding principal and interest in full according to contractual terms (includes amounts subject to accounting write-off or provision).
- When the debtor has become well-secured and is in collection proceedings.

Rules governing re-instatement from the Impaired classification, as noted above, shall not apply to debt classified as impaired due to restructuring of troubled debt.

Reinstatement of impaired debt to impaired and accruing status - debt which has been formally restructured, so that after restructuring all of the following conditions are fulfilled::

- There is reasonable certainty that the debt would be repaid and will perform according to its new terms and conditions, based on a current, well-documented credit evaluation of the debtor's financial situation and repayment schedule according to its new terms and conditions.
- The debtor has made cash and cash equivalent payments over a reasonable period of at least six months for loans repaid (principal and interest) by monthly installments, or has repaid 20% of the restructured debt for loans with longer maturities.
- The loan, after restructuring, is not in arrears of 90 days or more.

4) Provision for credit losses

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

Note 1 - Reporting Principles and Accounting Policies - continued

The required provision to cover expected credit losses from the credit portfolio is estimated under one of the following tracks: "individual provision" or "group provision". Further, the Bank reviews the overall appropriateness of the provision for credit loss.

An individual provision for credit losses is applied for any debts determined to be impaired, whose contractual balance (including accounting write-offs, unrecognized interest, provisions for credit losses and collateral) is NIS 700 thousand or higher.

For other debt, the Bank may decide whether to make an individual assessment. The individual provision for credit losses is estimated based on expected future cash flows, discounted using the effective interest rate of the original debt. Where debt collection is contingent upon collateral, or if the Bank determines that an asset is expected to be seized, the individual provision for credit losses is estimated based on fair value of the collateral securing the credit. For this matter, the Bank defines debt as debt contingent upon collateral, when it is expected to be entirely repaid by pledged collateral, or when the Bank expects repayment from an asset even with no specific pledge on such asset, provided that the borrower has no other reliable sources available for repayment.

The Bank regularly reviews the forecasted expected credit loss, based on actual cash flows, and adjusts the individual provision to the current forecast. Actual credit losses may differ from the Bank's original estimates upon classification of the debt as impaired.

Group provision for credit losses - is applied for large, homogeneous groups of small debts (whose balance is below NIS 700 thousand, as determined by the Bank) (such as: credit card debts, housing loans and consumer debts repaid by installments) as well as for large, non-impaired debts. The provision for credit losses from debts based on a group estimate, except for housing loans for which a specific minimum provision by extent of arrears has been calculated as per directives of the Supervisor of Banks, is calculated based on rules stipulated in USA Accounting Standard FAS 5: "Accounting for Contingencies" (hereinafter "FAS 5"), based on a formula specified in the interim directive issued by the Supervisor of Banks, in effect through December 31, 2012. This formula is based on past loss rates by economic sector and by troubled / non troubled debt, as well as rates of on net accounting write-offs actually recognized as from January 1, 2011. In addition to calculating the range of historic loss rates for various economic sectors, as per the above, for determining the appropriate rate of provision, the Bank also accounts for other data, including trends in credit volume for each sector as well as sector condition, macro-economic data and general quality assessment of credit to each economic sector.

According to the Supervisor of Banks' directive, pending publication of updated, final guidance with regard to the group-based provision, the Bank continues to apply the provisions of the interim directive. For information about the Supervisor of Banks' draft directives with regard to the group-based provision for credit losses, see section AA.3) below.

Note 1 - Reporting Principles and Accounting Policies - continued

Pursuant to provisions described in the interim directive, as from January 1, 2011 the Bank does not maintain general and supplementary provisions, but continues to calculate the supplementary provision and to verify that in any case, the amount of the group provision at the end of each reporting period shall be no less than the sum of the general and supplementary provisions which would have been calculated as of the same date, gross of tax.

A minimum provision with respect to housing loans is calculated based on the formula stipulated by the Supervisor of Banks, by extent of arrears, so that the provision rate is higher the longer the arrears. Upon the start date of application of the new directive, the amendment to appendix to Proper Conduct of Banking Business Regulation 314 "Troubled debt in housing loans at mortgage banks" became effective, expanding the scope of calculation of provision by extent of arrears to all housing loans, other than loans not repaid by periodic installments and loans used to finance activity of a business nature.
The Bank also applies the provisions of the Supervisor's letter with regard to updated directives with regard to housing real estate, as described in section D.6 above.

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

5) Revenue recognition

Upon classification of debt as impaired, the Bank classifies the debt as non-accruing debt and discontinues accrual of the relevant interest revenues, except as stated above for certain restructured debt. Further, upon classification of debt as impaired, the Bank reverses all accrued and uncollected interest revenues recognized as income in profit and loss. The debt continues to be classified as non-accruing debt for as long as it is classified as impaired debt. For further information about revenue recognition on the cash basis with respect to debt classified as impaired, see section U. 1)a) below.
For debt reviewed and provided for on a group basis, the Bank discontinues accrual of interest revenues when conditions for accounting write-off of the debt are fulfilled, usually after 150 days in arrears, unless the debt is well-secured and in collection proceedings. Such debt is subject to assessment of provision for credit losses, which ensures that Bank profit is not slanted upwards. Commissions for delinquency of such debt is included as revenues when the Bank has the right to receive them from the client, provided that collection is reasonably secured.

Note 1 - Reporting Principles and Accounting Policies - continued

6) Accounting write-off

The Bank makes accounting write-offs of any debt, or part of them, individually assessed as not collectible and of low value, so that maintaining it as an asset is not justified, or any debt which is subject to long-term collection effort by the Bank (typically defined as terms in excess of two years). For debt whose collection is contingent on collateral, the Bank immediately writes off the debt against the balance of the provision for credit losses amounting to the recorded debt balance in excess of the fair value of collateral. For debt assessed on a group basis, write-off rules have been put in place based on extent of arrears (mostly - over 150 consecutive days in arrears) and on other problem parameters. Note that accounting write-offs do not involve any legal concession, and merely reduce the debt balance reported for accounting purposes, while creating a new cost basis for the debt in Bank accounts.

7) policies on provision for doubtful debts prior to application of directives on impaired debt, credit risk and provision for credit losses.

Prior to January 1, 2011, the provision for doubtful debts was specifically determined, and a general provision and supplementary provision were also included, as per directives of the Supervisor of Banks.

The specific provision for doubtful debts was made based on careful assessment by management of any loss inherent in the loan portfolio, including liabilities under off-balance sheet items. In this assessment, management accounted for, inter alia, the degree of risk associated with financial robustness of borrowers, based on information available to it with regard to their financial position, business operations, compliance with obligations and evaluation of collateral received from them. interest revenues received with respect to debt classified as doubtful is not recognized as from the start of the quarter in which the debt was classified as doubtful. Upon collection of interest, interest revenues was recorded to Other Financing Revenues.

A specific provision with respect to housing loans originated by the Bank and banking investees in Israel, was calculated according to directives of the Supervisor of Banks, considering the extent of arrears, with a larger provision percentage as the arrears are longer.

The supplementary provision for doubtful debts is based on the quality of the client indebtedness portfolio, based on risk attributes as defined in directives of the Supervisor of Banks. The supplementary provision for doubtful debts is calculated using percentages specified for each of these risk attributes. The general provision is in amounts adjusted up to the end of 2004, an amount which constituted 1% of total indebtedness under responsibility of the Bank and banking investees as of December 31, 1991.

Pursuant to provisions stated in the interim directive, as from January 1, 2011 the Bank does not maintain general and supplementary provisions, but continues to calculate the supplementary provision and to verify that in any case, the amount of group provision at the end of each reporting period shall be no less than the sum of general and supplementary provisions which would have been calculated as of the same date, gross of tax.

For information about the Supervisor of Banks' draft directives with regard to the group-based provision for credit losses, see section AA.3) below.

Note 1 - Reporting Principles and Accounting Policies - continued

8) Directives of the Supervisor of Banks with regard to the update of disclosure of credit quality of debt and of provision for credit losses, in order to adopt accounting standard update ASU 2010-20 .
The Bank applies the Supervisor of Banks' directive with regard to update of disclosure of credit quality of debt and of provision for credit losses, in order to adopt accounting standard update ASU 2010-20, which stipulates wider disclosure of debt balances, movement in balance of provision for credit losses, any material acquisition and sale of debt during the reported period and disclosures with regard to credit quality. See the aforementioned note 1. D.4

K. Transfer and service of financial assets and discharge of liabilities

The Bank applies measurement and disclosure rules specified in US Accounting Standard FAS 140 (ASC 860-10), "Transfer and service of financial assets and discharge of liabilities", as amended by FAS 166, "Transfer and service of financial assets" (ASC 860-10), for handling the transfer of financial assets and discharge of liabilities.

Under these rules, the accounting treatment of a transfer of a financial asset would only be deemed a sale if all of these conditions are fulfilled: (1) the transferred financial asset was separated from the transferring entity, even in case of bankruptcy or other form of Receivership; (2) any recipient (or, if the recipient is an entity designed to engage in securitization or asset-backed financing operations, and the entity is prohibited from pledging or exchanging the financial assets it received - any third party holding beneficiary interests) may pledge or replace the assets (or the beneficiary interests) received, and there is no condition which limits the recipient (or third party holding beneficiary interests) from exercising their right to pledge or exchange, and grants the transferror a non-trivial benefit; (3) the transferror, or subsidiaries consolidated on its financial statements, or its agents, do not retain effective control over the financial assets or beneficiary interests related to these transferred assets. As from January 1, 2012, the Bank prospectively applies Accounting Standard Update ASU 2011-03, on reconsideration of effective control for repurchase agreements, which is an update to rules specified in FAS 860 (ASC 166). Upon the transition date, there was no impact to the Bank's financial statements. According to the update, the assessment of existence of effective control is focused on the contractual rights and obligations of the transferror, therefore the following are not taken into consideration: (1) any criterion requiring the transferror to be able to acquire transferred securities even in case of failure by the transferee; and (2) any directives with regard to required collateral with respect to the above criterion (1).

In transactions involving transfer of financial assets, the Bank determines that the transferor maintains effective control over transferred assets (and therefore the asset transfer shall be accounted for as secured debt) if all of the following conditions are fulfilled:

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

Note 1 - Reporting Principles and Accounting Policies - continued

Moreover, for the transfer of part of a financial asset to be considered a sale, the transferred part must fulfill the definition of participatory interests. Participatory interests must fulfill the following criteria: the interest should represent an interest proportional to the complete financial asset; all cash flows received from the assets are divided among participatory interest pro-rata to their ownership stake; interests are not subordinated to other interests; there is no recourse to the transferror or to other holders of participatory interests (other than in case of breach of representation or obligation, current contractual obligations to service the financial asset as a whole and management of the transfer contract, and contractual obligations to share in offset of any benefits received by any holder of participatory interests); and the transferror and the holder of participatory interests have no right to pledge or replace the financial asset in whole, unless all holders of participatory interests agree to pledge or replace the financial asset in whole.

If the transaction fulfills the conditions for treating it as a sale, the transferred financial assets are removed from the Bank's balance sheet. If the sale conditions are not fulfilled, the transfer is considered secured debt. Sale of part of a financial asset, other than a participatory interest, is treated as secured debt - that is, the transferred assets remain on the Bank's balance sheet and proceeds from the sale are recognized as a Bank liability.

The Bank applies specific provisions stipulated in Public Reporting Regulations for handling transactions to borrow or loan securities, in which lending is made against the borrower's general credit and collateral quality, where the borrower does not provide as collateral for the loaner any liquid instruments specifically related to the securities loaning transaction, which the loaner may sell or pledge.

Such loaning and borrowing are treated as credit or deposit, measured at fair value of the related security. Revenues on the accrual basis with respect to such securities are recognized as interest income from credit and changes to fair value (in excess of changes to the accrual basis) are recognized under Non-interest Financing Revenues in case of securities in the held-for-trade portfolio or under Other Comprehensive Income in case of securities available for sale.

The Bank only derecognizes a liability if it has been settled, i.e. if one of the following conditions has been fulfilled: (a) the Bank has paid the lender and is no longer liable for that liability; or (b) the Bank was legally released of the liability by a judicial process or by consent of the lender, being the major party liable for that liability.

L. Buildings and equipment

This item includes investments by the Bank in fixed assets (including payments on account), assets leased by the Bank under a financing lease, and cost of software for its own use, recognized as an asset.

Fixed assets:

1) A fixed asset is a tangible item held for use in production or delivery of goods or services, for renting to others or for administrative needs, which is expected to be used for more than one period.

2) Fixed assets are initially recognized at cost, including cost directly attributable to acquisition of the fixed asset and to bringing it to the location and state required for its operation.

Note 1 - Reporting Principles and Accounting Policies - continued

Cost of software for the Bank's own use, incurred during the development phase, are presented under "Buildings and equipment" if the following conditions are fulfilled:

a) Technical feasibility is provable with regard to completion of the software so as to be available for use.

b) The Bank intends to complete development and use the software.

c) The Bank is able to use the software.

d) The Bank can prove the manner in which the software would produce the expected economic benefits.

e) There are technical, financial and other resources available for completing development and use of the software.

The initial recognition, as described above, is based on costs directly attributable to and required for software development, to be used in the manner intended by the Bank.

3) In periods subsequent to initial recognition, fixed assets are stated at cost net of accumulated depreciation and net of any accumulated impairment loss.

4) Depreciation and depreciation method:

a) According to the component method, the Bank depreciates separately any component of a fixed asset whose cost is significant relative to the total item cost. Depreciation expense for each period is recognized in the statement of profit and loss.

b) The depreciable amount of the fixed asset item is methodically allocated across its useful life. The depreciation method used reflects the expected pattern of consumption of future economic benefits from the asset. For further information, see Note 7.A.

c) The Bank reviews the residual value, the useful life of the fixed asset and the depreciation method used - at least at the end of each fiscal year. Any changes required are treated as changes in accounting estimate.

5) Current maintenance cost for an item is recognized in the statement of profit and loss when incurred.

6) As for impairment, see section O. below.

7) The carrying amount of a fixed asset item is derecognized upon realization, or when no future economic benefits are expected from its use or realization. The difference between net proceeds from realization, if any, and the carrying amount of the derecognized asset, is recognized in the statement of profit and loss under "Other Revenues".

M. Intangible assets and goodwill

This item includes goodwill and will include any intangible assets acquired separately or as part of a business combination, intangible assets developed by the Bank (other than development cost of software for own use, included under "Buildings and equipment") and service assets.

Goodwill is not systematically depreciated. For impairment of intangible assets, see section O. below.

Note 1 - Reporting Principles and Accounting Policies - continued

N. Leases

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

Prepaid leasing fee paid to ILA with respect to land leases classified as operating leases are presented on the balance sheet as prepaid expenses, and are recognized in the statement of profit and loss over the lease term. The lease term and amortization amounts account for any option to extend the lease term, if upon contracting the lease it was reasonably certain that the option would be exercised.

In a lease for land and buildings, the land and building components are individually reviewed for the purpose of classifying such leases; the key consideration in classification of the land component is the fact that land typically has an unspecified useful life.

Payments for an operating lease are charged to the statement of profit and loss using the straight line method over the lease term. Lease incentives received are recognized as an integral part of all lease expenses using the straight line method over the lease term.

Minimum leasing fees payable for a financing lease are divided into financing expenses and reduction of the liability balance. Financing expenses are allocated for all periods in the lease term, so as to obtain a fixed periodic interest rate for the outstanding liability balance. Minimum leasing fees with respect to contingent leasing fees are updated when the contingency is resolved.

O. Impairment of non-financial assets

1) General

Upon each balance sheet date, a review is made for indications of impairment of various assets within the scope of IAS 36. For some assets, the review for impairment is annual if there are no indications of impairment, namely:

a) Intangible asset not yet ready for use;

b) Assets with unspecified useful life; and

c) Goodwill acquired upon business combination.

For review of impairment, the Bank estimates the recoverable amount of the asset or of the cash-generating unit. The recoverable amount is the higher of the fair value net of selling cost of the asset (or cash-generating unit) or its value in use. Value in use is the present value of future cash flows expected from an asset or cash-generating unit.

Note 1 - Reporting Principles and Accounting Policies - continued

Should the recoverable amount be lower than the carrying amount for the asset, the Bank recognizes an impairment loss and writes down the asset in its books to its recoverable amount. Impairment loss is immediately recognized in the statement of profit and loss.

If it is not possible to estimate the recoverable amount of an individual asset, the Bank calculates the recoverable amount of the cash-generating unit to which the asset belongs.

For review of impairment, goodwill acquired in a business combination is allocated, as from the acquisition date, to each of the cash-generating units expected to benefit from the synergy of the business combination.

The Bank recognizes an impairment loss for a cash-generating unit when the unit's recoverable amount is lower than its carrying amount. In such case, the Bank allocates the impairment loss to reducing the value of unit assets, first against goodwill allocated to the unit and then to all assets pro-rata to their carrying amounts (subject to their recoverable amount). Such loss is immediately recognized in the statement of profit and loss.

The Bank estimates, at the end of each reported period, if there are indications that any impairment loss for the asset, except for goodwill, recognized in previous periods, no longer exists or is reduced. When such indications exist, the Bank calculates the recoverable amount of the asset. Impairment loss for an asset, except for goodwill, and is only reversed in case of changes to estimates used to determine the recoverable amount of the asset, since the date on which impairment loss was most recently recognized. The carrying amount of an asset, except for goodwill, which increased due to reversal of impairment loss, shall not exceed the carrying amount assigned (net of depreciation or amortization), had no impairment loss been recognized in previous periods.

Reversal of impairment loss for an asset, except for goodwill, is immediately recognized in the statement of profit and loss. Reversal of impairment loss for a cash-generating unit is allocated to unit assets, except goodwill, pro-rata to their carrying amounts. Due to reversal, the carrying amount of an asset shall not exceed the lower of its recoverable amount or its carrying amount if no impairment loss had been recognized. Impairment loss with respect to goodwill is not reversed.

2) In addition, when reviewing for impairment of capitalized development cost of software for own use, the Bank also applies the following criteria:

    a) Use of the software is not expected to provide significant potential service;
    b) A significant change has occurred in the manner or scope of use or expected use of the software.
    c) Significant change has been or is expected to be made to the software; and
    d) The cost of software development significantly exceeds the amount budgeted by the entity for such development.

    Moreover, if development of the software is not expected to be completed, based on certain indications (such as programming challenges which may not be resolved within a reasonable time), the Bank writes off the entire carrying amount of software development.

Note 1 - Reporting Principles and Accounting Policies - continued

3) Impairment of investment in associates:

Impairment of investment in an associate is reviewed when evidence indicates potential impairment of the investment, as specified in sections 58-70 of IAS 39 "Financial Instruments: Recognition and Measurement". In addition, the Bank reviews the indications listed in resolution 1-4 of the Israeli Securities Authority "Guidelines for review of need to write down permanent investments".

Impairment is measured pursuant to provisions of IAS 36, by comparing the recoverable amount of the investment to its carrying amount. When determining the value in use of the investment, the Bank estimates its share of the present value of estimated future cash flows to be produced by the associate, or alternatively, the present value of estimated future cash flows expected from dividends received from this investment and from its final realization. Any impairment loss incurred is allocated to the investment as a whole.

In subsequent reporting periods after the period in which the Bank was first required to record a provision for impairment, the investment in an associate would be stated at the lower of the recoverable amount and the carrying amount using the equity method. The recoverable amount is calculated in each reported period in which indications exist of change in the recoverable amount. If, at a later date, the recoverable amount should increase, the recognized impairment would be reversed.

P. Contingent liabilities -

The financial statements include appropriate provisions to cover possible damage, where, in the estimation of the Bank's management, based on the opinion of its legal counsel, a provision is required.

In accordance with the directives of the Supervisor of Banks, claims have been classified according to the range of probability of realization of the risk exposure, as follows:

1) Probable risk: there is a probability of more than 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Probable, an appropriate provision was made in the financial statements.

2) Reasonably Possible risk: there is a probability of between 20% and 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Reasonably Possible, an appropriate provision is sometimes made on the financial statements, at the discretion of Bank management and based on the opinion of legal counsel.

3) Remote risk: there is a probability of less than 20% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Remote, no provision was made in the financial statements.

See Note 19 D for disclosure of material claims whose amount, (excluding interest and expenses), is over 1% of equity.

Note 1 - Reporting Principles and Accounting Policies - continued

Likewise, disclosure is given to motions for recognition as class actions, when the amount claimed in them is material, and to appeals to the High Court of Justice when, in the estimation of the Bank's management, based on the opinion of its legal counsel,

it is not possible at this stage to estimate their possible outcome, and therefore, no provision was recorded for them.

In accordance with the directives of the Supervisor of Banks, the Bank is permitted to determine for class actions that it is not possible to estimate the prospects for realization of the exposure to risk in the four financial statements published since the claim was filed, or in case of delay of proceedings by decision of the Court. Beyond this, only in rare cases is the Bank permitted to determine that the prospects for realizing the exposure cannot be determined.

Q. Employee rights

1) Pension and severance pay liability

Pension and severance pay liabilities are covered by regular deposits to funds and by appropriate provisions. The financial statements included all of the liabilities for employee rights, including appropriate provisions for severance pay and for voluntary retirement programs, which are recorded in accordance with the law, agreement, custom and management's expectations. The future contractual pension liabilities are calculated based on regular actuarial consultation, based on recommendation of the Supervisor of Insurance. Also, see Note 16 below.

2) Supervisor of Banks' directives with regard to strengthening internal controls over financial reporting of employee rights.

On March 27, 2011, the Supervisor of Banks published directives with regard to strengthening internal controls over financial reporting of employee rights. These directives provide several clarifications with regard to assessment of liabilities with respect to employee rights, as well as directives concerning internal control over the financial reporting process for employee rights, including a requirement to include a qualified actuary, identify and classify liabilities with respect to employee rights, maintain internal controls for reliance on the actuarial assessment and validation there of, as well as certain disclosure requirements.

In accordance with these directives, a banking corporation which expects payments to be made to a group of employees in excess of contractual terms, shall take into account the expected number of departing employees (including employees expected to retire under voluntary retirement plans or upon receiving other beneficial terms) and the benefits expected to be paid to them upon departure.

The severance pay liability for this group of employees shall be stated on the financial statements at the amount of liability calculated on an actuarial basis, accounting for the additional cost expected to be incurred by the banking corporation with respect to providing such benefits, or the liability amount calculated as the product of the employee's monthly salary and their number of years in service, as required by Accounting Opinion 20 of the Institute of Certified Public Accountants in Israel - whichever is higher.

Note 1 - Reporting Principles and Accounting Policies - continued

R. Share-based payment transactions

The fair value, upon award, of share-based payment awards to employees is recognized as payroll expense, against an increase in equity, over the period in which non-contingent eligibility for such award is gained, pursuant to IFRS2. The amount charged as expense with respect to share-based payment awards contingent on vesting conditions, which are service or performance conditions other than market conditions, is adjusted to reflect the number of awards expected to vest. As for share-based payment awards contingent on non-vesting conditions, the Bank accounts for these conditions when estimating the fair value of equity instruments awarded. Therefore, the Bank recognizes an expense with respect to these awards, regardless of fulfillment of these conditions.

For transactions in which the Bank awards to employees of subsidiaries rights to equity instruments of the Bank, the award is accounted for by the Bank as a share-based payment transaction discharged using equity instruments.

For details of the Supervisor's draft circular with regard to adoption of US GAAP for employee rights, see section AA.5 below.

S. Derivative instruments and hedging activities

1) The Bank trades in financial derivatives, including currency and interest contracts and credit derivatives. The currency contracts include forwards, futures, swaps and options. These trades are executed in all linkage sectors. The trades are executed with the public and with banks in Israel and overseas, as part of the Bank’s day-to-day activities as a market maker, and as part of the overall strategy of managing the expedient level of exposure for the various market risk, including basis and interest risk – risk to which the Bank is exposed in its day-to-day activities.

2) Derivatives are stated at fair value on the Bank balance sheet, under Assets or Liabilities, as the case may be. Changes to fair value of derivatives, other than derivatives used as cash flow hedges, are recognized in the Statement of Profit and Loss.

3) It is possible that the Bank will enter into a contract, which by itself is not a derivative, but contains an embedded derivative. When an embedded derivative has economic characteristics that are not clearly and closely tied to the economic characteristics of the host contract, and a separate instrument with the same conditions as the embedded derivative would qualify as a derivative instrument, then the embedded derivative is detached from the host contract and is treated as a hedge by itself.

   A detached embedded derivative is stated in the balance sheet together with the host contract. When the host contract is measured at fair value and changes in its fair value are reported currently in the statement of profit and loss, or when the Bank is unable to reliably identify and measure the embedded derivative for the purpose of detaching it from the host contract, the entire contract is measured at fair value in the balance sheet.

Note 1 - Reporting Principles and Accounting Policies - continued

4) In certain cases, in which the embedded derivative must be detached from the host contract, the Bank adopts a policy of measuring the entire contract according to its fair value, and records the changes in its fair value in the statement of profit and loss. This policies was adopted for structured securities in the available-for-sale portfolio.

5) The Bank designates certain derivates as fair value hedges or as cash flow hedges. The Bank documents in writing all of the hedging relationships between the hedging financial derivatives and the hedged items, as well as the objective and strategy of the management of risk through the creating of a hedge transaction. The documentation includes specific identification of the asset designated as the hedged item and states the manner in which the hedging instrument is expected to hedge the risk related to the hedged item. The Bank estimates the effectiveness of the hedging relationship at the inception of the hedge and continuously, in accordance with its risk management policies. Based on the above, a determination is made as to whether the derivative qualifies as a hedge in accordance with public reporting directives.

6) Changes in the fair value of an item hedged by a fair value hedge using a derivative that meets the above conditions, arising from changes in the specified risk factors, are recorded currently to the statement of profit and loss, concurrent with the changes in the fair value of the hedging derivative.
Changes in the fair value of a derivative which qualifies as a cash flow hedge, which arise from changes in the risk factor being hedged (which impacts the cash flows resulting from the hedged instrument), are charged to capital reserve from cash flow hedging, in Other Comprehensive Income, under shareholders' equity.

7) The Bank stops hedge accounting immediately, when:

   a) It is determined that a hedge is no longer effective for offsetting the changes in the fair value or cash flow of the hedged item, as the case may be;
   b) The derivative expires, is sold, cancelled or realized;
   c) Management revokes the designation of the derivative as a hedging instrument.

   When a fair value hedge is discontinued because it is determined that the hedge no longer qualifies as an effective fair value hedge, the derivative will continue to be recorded in the balance sheet at its fair value, but the hedged asset or liability will no longer be adjusted for changes in fair value. When a cash flow hedge is discontinued because it is determined that the hedge no longer qualifies as an effective cash flow hedge, changes in the fair value of the derivative since the date of discontinuation of hedging are recorded in the statement of profit and loss.

T. Fair value

1) As from January 1, 2011, the Bank applies FAS 157 (ASC 820-10) defines fair value, and specifies a consistent work framework for fair value measurement, by defining valuation techniques and a fair value ranking. Moreover, as from January 1, 2012, the Bank applies the Supervisor of Banks' directive on fair value measurement, which includes in the Public Reporting Regulations the rules stipulated by Accounting Standard Update ASU 2011-04 with regard to fair value measurement (ASN 820): Amendments to achieve uniform fair value measurement and disclosure requirements in US GAAP and in IFRS.

Note 1 - Reporting Principles and Accounting Policies - continued

The ranking divides instruments measured at fair value into three levels:

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

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

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

FAS 157 expands the disclosure requirements for fair value measurements. Application of the standard allows recognition of "first day" gains, and eliminates the obligation to determine the fair value of derivative instruments not traded on an active market based on the transaction price. (Also see the Bank of Israel directive dated June 2012 below)

For the purpose of fair value measurement, the basic "in use" assumption is not applied to financial instruments. However, under certain conditions, financial assets and financial liabilities held and managed within a portfolio, are measured at fair value using the price which would have been received or paid upon sale or transfer of the net position in such groups of financial assets or financial liabilities.

Moreover, fair value of financial instruments is measured without accounting for the blockage factor (holding size), both for financial instruments measured based on Level 1 data and for financial instruments measured based on Level 2 or 3.

The standard stipulates that the Bank should reflect credit risk and non-performance risk in measuring the fair value of debt, including derivatives, issued in connection with it and measured at fair value. Non-performance risk includes the Bank's credit risk, but is not limited to this risk alone.

The Bank assesses credit risk in derivatives as follows:

- When there is sufficient liquid collateral with respect to the exposure, which specifically secures the derivative, the Bank assumes that credit risk is zero, and does not adjust the fair value with respect to credit quality of the counter-party.
- In other cases, the Bank estimates the fair value based on indications from transactions on an active market of the credit quality of the counter party, if such indications are available at reasonable effort. The Bank derives these indications, inter alia, from prices of debt instruments of the counter-party traded on an active market, and from prices of credit derivatives based on the credit quality of the counter-party. In the absence of such indications, the Bank calculates the adjustments based on internal ratings.

Note 1 - Reporting Principles and Accounting Policies - continued

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

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

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

In June 2012, the Bank of Israel directed the Bank (in conjunction with a review of the banking system), that fair value measurement of a derivative instrument, when no quoted prices, liquid collateral or offset agreements exist which adequately secure the derivative's credit quality, and when no market information exists as to the credit quality of the counter-party (such as CDS or negotiable debentures of the counter-party) – shall be classified as a Level 3 fair value measurement.

How fair value is determined:

a) Securities

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

b) Financial derivatives

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

c) Financial instruments other than derivatives

Most of the financial instruments in this category (such as: loans to the public and loans to the Government, deposits from the public and deposits with banks, non-negotiable subordinated notes and bonds) no "market price" is quotable, since there is no active market on which they are traded. Therefore, the fair value is estimated using acceptable pricing models, such as present value of future cash flows, discounted at an interest rate that reflects the level of risk inherent in the instrument.

To this end, the future cash flows for impaired and other debt have been calculated net of effects of accounting write-offs and provision for credit losses with respect to this debt.

Note 1 - Reporting Principles and Accounting Policies - continued

2) Fair value option

FAS 159 (ASC 825-10) allows banking corporations to elect, upon specified election dates, to measure at fair value financial instruments and certain other items ("qualified items") which, according to public reporting directives, are not required to be measured at fair value. Unrealized gain and loss due to changes in fair value of items for which the fair value option has been selected, are recognized in the statement of profit and loss at each subsequent reporting date. Furthermore, prepaid costs and commissions related to items for which the fair value option has been elected, are recognized in the statement of profit and loss as they are incurred. Election of the fair value option, as mentioned above, is made for each instrument individually, and may not be cancelled.

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

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

U. Basis of recognition of revenues and expenses

1) Interest revenues and expenses are included on accrual basis, except as follows:

a) Interest accrued on troubled debt classified as non-performing debt is recognized as revenue on the cash basis when there is no doubt about collection of the outstanding recorded balance of the impaired debt. In such cases, the amount collected on account of interest to be recognized as interest revenues, is limited to the amount which would have accrued in the reported period for the outstanding recorded debt balance at the contractual interest rate. Interest revenues on the cash basis are classified as interest revenue under the relevant item in the statement of profit and loss.

When collection of the outstanding recorded balance is doubtful, all payments collected serve to decrease the loan principal, until such doubt has been eliminated. Moreover, interest on amounts in arrears with respect to housing loans are recognized in the statement of profit and loss based on actual collection.

Note 1 - Reporting Principles and Accounting Policies - continued

Impaired debt under restructuring is treated as debt accruing interest revenues if all of the following conditions are fulfilled:

- After restructuring, the debt is reasonably certain to be fully repaid under the new terms.
- The agreement is complied with for at least six months for debt repaid by monthly installments, or over 20% for debt with longer maturities.
- The restructured debt is not 90 days or more in arrears.

b) Revenues from early repayment fees for loans, after deduction of the share related to financial capital, are recognized in the statement of profit and loss at equal annual installments over the remaining term to maturity of the loan, or over three years from the date of early repayment, whichever is shorter. For details of the Supervisor's circular with regard to non-refundable fees and other costs, see Note 1.AA. 2 below.

c) Commissions for allocation of credit facilities, as well as commissions from financing business (such as: commissions with respect to acceptances, guarantees and documentary credit) are recognized in the statement of profit and loss pro-rata to the transaction terms.

d) securities - see section i) above.

e) financial derivatives - see section s) above.

2) Commission revenues with respect to services rendered (such as: activities in securities and derivatives, credit cards, account management, handling of credit, conversion differences and foreign trade activities) are recognized in the statement of profit and loss when the Bank becomes eligible to receive them.

3) In subsequent periods to other-than-temporary impairment. Revenue accrual in the reported period is based on excess expected cash flows from the debt instrument (the base amount of debt instrument upon other-than-temporary impairment is its fair value).

4) Other revenues and expenses - are recognized on the accrual basis.

V. Taxes on income

Taxes on income include current and deferred taxes. Current and deferred taxes are charged to the statement of profit & loss, unless the taxes arise from a business combination, or charged directly to equity if they arise from items directly recognized under equity.

1) Current taxes

Current tax is the tax amount expected to be payable (or receivable) on taxable income for the year, calculated using tax rates which apply pursuant to statutes enacted, or essentially enacted, as of the reporting date, including changes to tax payments with regard to previous years.
The provision for taxes on income of the Bank and its subsidiaries that are financial institutions for VAT purposes includes profit tax levied on earnings under the Value Added Tax Act. The payroll tax levied on the salaries of financial institutions is included under “Payroll and associated expenses”.

Note 1 - Reporting Principles and Accounting Policies - continued

2) Deferred taxes

Deferred taxes are recognized with respect to temporary difference between the carrying amount of asset and liabilities for the purpose of financial reporting, and their value for tax purposes.

Deferred tax are measured so as to reflect the tax implications expected to arise from the manner in which the Bank, at the end of the reported period, anticipates recovering or discharging the carrying amount of assets and liabilities.

Deferred taxes are measured using tax rates expected to apply to temporary differences when realized, based on statutes enacted, or essentially enacted, as of the balance sheet date.

Deferred tax assets are recognized with respect to carry-forward loss, tax credits and deductible temporary differences, when taxable income is more likely than not in future, which may enable utilization of these deferred tax assets.

3) Offset of deferred tax assets and liabilities

The Bank offsets deferred tax assets and liabilities when there is an enforceable legal right of set-off between them, and they are attributed to the same taxable income, taxed by the same tax authority with respect to the same taxable entity, or to consolidated companies, which intend to discharge current tax assets and liabilities on a net basis, or with tax assets and liabilities settled concurrently.

4) Additional tax with respect to dividend distributions

The Bank may incur additional tax with respect to earnings of certain investees, should these earnings be distributed as dividends by the investees. No provision for tax is recorded for subsidiaries, if the Bank has control as of the distribution date and dividend distributions are not expected in the foreseeable future.

5) Uncertain tax positions

In cases of uncertainty about income taxes, banking corporations are required to apply the rules in clarification FIN 48 with regard to uncertainty about income taxes, provided these do not contradict the international financial reporting standards, by way of setting policies, procedures and implementing documentation requirements with respect to tax positions of varying degrees of uncertainty.

In this context, the Bank only recognizes the effect of tax positions if it is more likely than not that those positions would be accepted by the Tax Authority or by the Court. Tax positions recognized are measured at the maximum amount whose likelihood of realization exceeds 50%. Changes in recognition or measurement are reflected in the period in which a change in circumstances resulted in a change in judgment.

W. Earnings per share

The Bank states earnings per share data, both basic and diluted, for its ordinary share capital. Basic earnings per share is calculated by dividing the earnings attributable to holders of ordinary shares of the Group, by the weighted average number of ordinary shares outstanding during the period, after adjustment for treasury shares.

Diluted earnings per share is calculated by adjusting earnings (such as adjustment for after-tax effect of dividends, financing costs and other changes, if any) related to holders of ordinary shares, and adjusting the weighted average number of ordinary shares outstanding, after adjustment for treasury shares and for the effect of all potentially dilutive ordinary shares, stock options and stock options awarded to employees.

Note 1 - Reporting Principles and Accounting Policies - continued

X. Segment reporting

An operating segment is a component of the Bank engaged in operations from which it may derive revenues and incur expenses, its operating results are regularly reviewed by management and by the Board of Directors for the purpose of making decisions about resource allocation and for assessing its performance, and separate financial information is available with regard to it. The format for reporting Bank operating segments was stated in public reporting directives by the Supervisor of Banks, and is based on client attributes.

Y. Related party disclosures

IAS 24 stipulates the required disclosure by an entity of its relations with any related party, as well as of transactions and outstanding balances with any related party. Further disclosure is required of remuneration of key executives. Key executives are defined as persons having the authority and responsibility for planning, directing and controlling entity operations, either directly or indirectly, including any (active or inactive) Board member of the entity.

Z. Capitalized borrowing costs

In the reported period there were no borrowing costs capitalized.

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

1) Adoption of International Financial Reporting Standards

In July 2006, the Israeli Accounting Standards Board published Accounting Standard No. 29 "Adoption of International Financial Reporting Standards". The standard stipulates that entities subject to the Securities Act, 1968 which are required to report pursuant to regulations based on this Act, shall prepare their financial statements in accordance with IFRS for periods starting on or after January 1, 2008. The foregoing does not apply to banking corporations whose financial statements are prepared in accordance with directives and guidance of the Supervisor of Banks. In June 2009, the Supervisor of Banks issued a letter with regard to reporting by banking corporations and credit card companies in Israel in accordance with IFRS; this letter stipulates the expected manner of adoption of IFRS by banking corporations.

According to this circular, the target date for reporting by banking corporations in accordance with IFRS is:

a) Standards with regard to core banking business issues – the Supervisor of Banks intends to make a final decision, accounting for the schedule to be stipulated in the USA and for the progress made on convergence of International and American standards boards.

b) Standards with regard to non-core banking business issues – were gradually adopted in 2011 and 2012. However, IAS 19 "Employee Benefits" has yet to become effective. For details of the Supervisor's draft circular with regard to adoption of US GAAP for employee rights, see section AA. 5 below.

Note 1 - Reporting Principles and Accounting Policies - continued

2) 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.

The directive determines rules for treatment of commissions from loan generation and direct costs of loan generation. The qualified commissions and costs pursuant to criteria specified 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.

The directive also changes the treatment of commissions and costs related to commitments to extend credit, including credit card transactions. The directive also stipulates rules for treatment of changes in terms of debt which do not constitute restructuring of troubled debt, treatment of early repayment of debt and treatment of other transactions to extend credit, such as syndication transactions.

On October 17, 2013, the transition provisions were issued, including *inter alia* a requirement to further schedule early redemption fees generated prior to January 1, 2014, as well as a directive to include information about the effect of implementation in all quarterly financial statements and in the 2014 annual report.

On October 31, 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.

The amendments related to adoption of interest revenue measurement (without deferring direct costs incurred upon loan origination) would be prospectively applied to transactions created or renewed as from January 1, 2014.

The Bank expects no material effect on its financial statements other than reclassification on profit and loss, as stipulated in the directive.

3) Group provision for credit losses

On April 10, 2013, the Supervisor of Banks issued draft directives on the group-based provision for credit losses (hereinafter: "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 year 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. The draft also added questions and answers to explain how the group-based provision for credit losses is to be calculated.

Note 1 - Reporting Principles and Accounting Policies - continued

The draft also included detailed directives with regard to including adjustments with respect to environmental factors in calculation of the provision rate. Moreover, 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 listed 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 December 31, 2013.
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 Bank is reviewing the effect of application of the directives with regard to adjustments for environmental factors.

4) Amounts reclassified out of other comprehensive income

On September 30, 2013, the Supervisor of Banks issued a circular with regard to reporting of amounts reclassified out of cumulative 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. The circular adds to the Note on cumulative other comprehensive income (loss), a disclosure requirement of any items in 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 retroactive applied as from January 1, 2014. Application of this circular is not expected to impact the financial statements, other than the change in presentation of the Note on cumulative other comprehensive income (loss).

5) Adoption of US GAAP with regard to employee rights

On January 30, 2014, the Supervisor of Banks issued a draft 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 – Non-retirement post-employment benefits
- ASC 715 – Compensation – Retirement benefits
- ASC 718 – Compensation – Stock Compensation
- ASC 420 – Exit or Disposal Cost Obligations

Note 1 - Reporting Principles and Accounting Policies - continued

In addition to application of these principles, the draft 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 draft, the principle previously set by the Supervisor of Banks whereby a liability should be included with respect to an implied liability - 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 an implied obligation exists. According to the draft, there was no change to rules currently applied to the financial statements on this matter.
- The actuarial report should also be enclosed with quarterly reports made public in conformity with rules for enclosing valuations.
- 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 that the expected effect on Bank capital as of December 31, 2013 due to use of discount rates as described above, amounts to a decrease in capital of NIS 72 million, net of tax.

In conformity with transition 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.

Upon initial application of the proposed new directives, the Bank would be required to retrospectively revise the comparison figures for periods starting on or after January 1, 2013.

According to provisions of the aforementioned standards, there is an alternative whereby actuarial gain and loss would be charged to Other Comprehensive Income and would be reclassified in future periods to Profit & Loss over the remaining service term, as well as an alternative whereby such gain or loss would be recognized immediately on profy & loss. As of this date, the Supervisor of Banks has yet to publishe their position with regard to application of these alternatives.

Note 2 - Cash and Deposits with Banks

As of December 31,

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	2013	2012	2013	2012
Cash and deposits with central banks	23,657	15,005	19,878	12,333
Deposits with commercial banks	2,403	1,589	1,243	1,180
Deposits with special banking entities	-	77	-	73
Total cash and deposits with banks	**26,060**	**16,671**	**21,121**	**13,586**
Includes - cash, deposits with banks and deposits with central banks for an original period of up to three months	23,885	14,394	19,727	12,942

Note 3 - Securities – Consolidated

As of December 31, 2013

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		Fair value [(1)]
			Gain	Loss	
(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 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) Recorded to statement of profit and loss but not yet realized.
(6) US government debentures.
(7) Of which, securities amounting to NIS 850 million 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 operating results of investments in debentures - see Notes 22.D., 23.A.2. and 23.B.; for details of operating results of investment in shares – see Note 23.A.4.

Note 3 - Securities - Consolidated - continued

As of December 31, 2012

Reported amounts (NIS in millions)

A. Composition - continued

	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)]	**1,123**	**1,123**	**3**	**-**	**1,126**

	Carrying amount	Amortized cost (for shares - cost)	Cumulative other comprehensive income		Fair value [(1)]
			Gain	Loss	
(2) Securities available for sale					
Debentures and bonds -					
Of the Government of Israel [(2)]	4,700	4,705	46	(51)	4,700
Of foreign governments[(2)(6)]	95	95	-	-	95
Of banks and financial institutions in Israel	123	123	2	(2)	123
Of banks and financial institutions overseas	394	392	2	-	394
Of others in Israel	25	24	1	-	25
Of others overseas	168	166	2	-	168
Total debentures available for sale	**5,505**	**5,505**	**53**	**(53)**	**5,505**
Shares[(3)]	119	120	-	(1)	119
Total securities available for sale	**5,624**	**5,625**	[(4)] **53**	[(4)] **(54)**	**5,624**

	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)]	2,291	2,272	39	(20)	2,291
Of banks and financial institutions overseas	3	3	-	-	3
Total securities held for trade	**2,294**	**2,275**	[(5)]**39**	[(5)]**(20)**	**2,294**
Total securities	**9,041**	**9,023**	**95**	**(74)**	**9,044**

(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 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 115 million.

(4) Included in Other Comprehensive Income under "Adjustments with respect to presentation of securities available for sale at fair value, net".

(5) Recorded to statement of profit and loss but not yet realized.

(6) US government debentures.

(7) Of which, securities amounting to NIS 1,106 million 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 operating results of investments in debentures - see Notes 22.D., 23.A.2. and 23.B.; for details of operating results of investment in shares – see Note 23.A.4.

Note 3 - Securities - The Bank - continued

As of December 31, 2013

Reported amounts (NIS in millions)

A. Composition - continued

	Carrying amount	Amortized cost (for shares - cost)	Cumulative other comprehensive income Gain	Loss	Fair value [1]
(2) Securities available for sale					
Debentures and bonds -					
Of the Government of Israel [2]	2,996	2,979	47	(30)	2,996
Of foreign governments[2][6]	82	81	1	-	82
Of banks and financial institutions in Israel	-	-	-	-	-
Of banks and financial institutions overseas	194	194	-	-	194
Of others in Israel	15	15	-	-	15
Of others overseas	109	108	2	(1)	109
Total debentures available for sale	**3,396**	**3,377**	**50**	**(31)**	**3,396**
Shares[3]	98	98	-	-	98
Total securities available for sale	**3,494**	**3,475**	[4]**50**	[4]**(31)**	**3,494**

	Carrying amount	Amortized cost (for shares - cost)	Unrealized profit from adjustments to fair value	Unrealized loss from adjustments to fair value	Fair value [1]
(2) 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	**5,046**	**5,016**	**61**	**(31)**	**5,046**

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) See Note 15.A-E 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) Recorded to statement of profit and loss but not yet realized.
(6) US government debentures.
(7) Of which, securities amounting to NIS 850 million 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 operating results of investments in debentures - see Notes 22.D., 23.A.2. and 23.B. For details of results of investment in shares – see Note 23.A.4.

Note 3 - Securities - The Bank - continued

As of December 31, 2012

Reported amounts (NIS in millions)

A. Composition - continued

	Carrying amount	Amortized cost (for shares - cost)	Cumulative other comprehensive income Gain	Cumulative other comprehensive income Loss	Fair value (1)
(1) Securities available for sale					
Debentures and bonds -					
Of the Government of Israel (2)	3,257	3,268	40	(51)	3,257
Of foreign governments (2)(6)	95	95	-	-	95
Of banks and financial institutions overseas	364	362	2	-	364
Of others overseas	158	156	2	-	158
Total debentures available for sale	**3,874**	**3,881**	**44**	**(51)**	**3,874**
Shares(3)	119	120	-	(1)	119
Total securities available for sale	**3,993**	**4,001**	(4)**44**	(4)**(52)**	**3,993**

	Carrying amount	Amortized cost (for shares - cost)	Unrealized profit from adjustments to fair value	Unrealized loss from adjustments to fair value	Fair value (1)
(2) Securities held for trade					
Debentures -					
Of the Government of Israel (7)	2,291	2,272	39	(20)	2,291
Total securities held for trade	**2,291**	**2,272**	(5)**39**	(5)**(20)**	**2,291**
Total securities	**6,284**	**6,273**	**83**	**(72)**	**6,284**

(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 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 115 million.

(4) Included in Other Comprehensive Income under "Adjustments with respect to presentation of securities available for sale at fair value, net".

(5) Recorded to statement of profit and loss but not yet realized.

(6) US government debentures.

(7) Of which, securities amounting to NIS 1,106 million 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 operating results of investments in debentures - see Notes 22.D., 23.A.2. and 23.B. For details of results of investment in shares – see Note 23.A.4.

Note 3 - Securities - Consolidated - 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 December 31, 2013							
	Less than 12 months				12 months or more			
	Fair value [1]	Unrealized loss 0%-20%	Unrealized loss 20%-40%	Total	Fair value [1]	Unrealized loss 0%-20%	Unrealized loss 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**

	As of December 31, 2012							
	Less than 12 months				12 months or more			
	Fair value [1]	Unrealized loss 0%-20%	Unrealized loss 20%-40%	Total	Fair value [1]	Unrealized loss 0%-20%	Unrealized loss 20%-40%	Total
Securities available for sale								
Debentures and bonds -								
Of the Government of Israel [2]	16	1	-	1	1,116	32	20	52
Total debentures available for sale	**16**	**1**	**-**	**1**	**1,116**	**32**	**20**	**52**
Shares	7	1	-	1	-	-	-	-
Total securities available for sale	**23**	**2**	**-**	**2**	**1,116**	**32**	**20**	**52**

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

(2) See Note 15.A-E for information on liens on securities held by the Bank.

C. Asset-backed securities –

As of December 31, 2013 and as of December 31, 2012, there was no balance of asset-backed securities.

Note 4 - 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 losses

Consolidated

						December 31, 2013
						Provision for credit losses
	Loans to the public					
	Commercial	Housing	Individual - other	Total	Banks and governments	Total
Balance of provision for credit losses at year start	720	821	154	1,695	10	1,705
Expenses with respect to credit losses	41	190	57	288	-	288
Accounting write-offs	(248)	[(3)](365)	(142)	(755)	-	(755)
Recovery of debt written off in previous years	111	-	79	190	-	190
Net accounting write-offs	(137)	(365)	(63)	(565)	-	(565)
Balance of provision for credit losses at year end	**624**	**646**	**148**	**1,418**	**10**	**1,428**
Includes: With respect to balance sheet credit instruments	92	-	11	103	-	103
						December 31, 2012[(4)]
Balance of provision for credit losses at year start	708	878	166	1,752	14	1,766
Expenses with respect to credit losses	207	10	63	280	(4)	276
Accounting write-offs	(298)	(67)	(151)	(516)	-	(516)
Recovery of debt written off in previous years	103	-	76	179	-	179
Net accounting write-offs	(195)	(67)	(75)	(337)	-	(337)
Balance of provision for credit losses at year end	**720**	**821**	**154**	**1,695**	**10**	**1,705**
Includes: With respect to balance sheet credit instruments	85	-	17	102	-	102
						December 31, 2011[(2)]
Balance of provision for credit losses at year start	2,388	846	369	3,603	3	3,606
Net accounting write-offs recognized as of January 1, 2011	(2,165)	-	(395)	(2,560)	-	(2,560)
Other changes to provision as of January 1, 2011 (charged to shareholders' equity)	644	93	176	913	6	919
Expenses with respect to credit losses	243	2	88	333	5	338
Accounting write-offs	(444)	(63)	(157)	(664)	-	(664)
Recovery of debt written off in previous years	42	-	85	127	-	127
Net accounting write-offs	(402)	(63)	(72)	(537)	-	(537)
Balance of provision for credit losses at year end	**708**	**878**	**166**	**1,752**	**14**	**1,766**
Includes: With respect to balance sheet credit instruments	90	-	24	114	-	114

(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) As from the 2012 financial statements, the Bank applies the Supervisor of Banks' directives with regard to updated disclosure of credit quality of debt and of provision for credit losses. Comparison figures were reclassified, in as much as possible, to adapt them to the format required pursuant to the aforementioned directives. For details see Note 1.J.8.
(3) Includes write-off of housing loans fully provided for, amounting to NIS 281 million.
(4) Reclassified.

Note 4 - 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

The Bank

						December 31, 2013
						Provision for credit losses
	Loans to the public					
	Commercial	Housing	Individual - other	Total	Banks and governments	Total
Balance of provision for credit losses at year start	720	821	123	1,664	8	1,672
Expenses with respect to credit losses	41	190	52	283	-	283
Accounting write-offs	(248)	[3](365)	(121)	(734)	-	(734)
Recovery of debt written off in previous years	111	-	65	176	-	176
Net accounting write-offs	(137)	(365)	(56)	(558)	-	(558)
Balance of provision for credit losses at year end	**624**	**646**	**119**	**1,389**	**8**	**1,397**
Includes: With respect to balance sheet credit instruments	92	-	10	102	-	102
						December 31, 2012[4]
Balance of provision for credit losses at year start	708	878	135	1,721	12	1,733
Expenses with respect to credit losses	221	10	50	281	(4)	277
Accounting write-offs	(312)	(67)	(124)	(503)	-	(503)
Recovery of debt written off in previous years	103	-	62	165	-	165
Net accounting write-offs	(209)	(67)	(62)	(338)	-	(338)
Balance of provision for credit losses at year end	**720**	**821**	**123**	**1,664**	**8**	**1,672**
Includes: With respect to balance sheet credit instruments	85	-	15	100	-	100
						December 31, 2011 [2]
Balance of provision for credit losses at year start	2,388	846	318	3,552	-	3,552
Net accounting write-offs recognized as of January 1, 2011	(2,165)	-	(332)	(2,497)	-	(2,497)
Other changes to provision as of January 1, 2011 (charged to shareholders' equity)	644	93	134	871	6	877
Expenses with respect to credit losses	243	2	75	320	6	326
Accounting write-offs	(444)	(63)	(133)	(640)	-	(640)
Recovery of debt written off in previous years	42	-	73	115	-	115
Net accounting write-offs	(402)	(63)	(60)	(525)	-	(525)
Balance of provision for credit losses at year end	**708**	**878**	**135**	**1,721**	**12**	**1,733**
Includes: With respect to balance sheet credit instruments	90	-	21	111	-	111

(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) As from the 2012 financial statements, the Bank applies the Supervisor of Banks' directives with regard to updated disclosure of credit quality of debt and of provision for credit losses. Comparitive figures were reclassified, in as much as possible, to adapt them to the format required pursuant to the aforementioned directives. For details see Note 1.J.8.

(3) Includes write-off of housing loans fully provided for, amounting to NIS 281 million.

(4) Reclassified.

Note 4 - 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

Consolidated

						December 31, 2013
	Loans to the public					
			Individual -		Banks and	
	Commercial	Housing	other	Total	governments	Total
Recorded debt balance of debt [(1)]						
reviewed on individual basis	29,582	2	645	30,229	2,566	32,795
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**	**2,566**	**142,446**
Loans for which a provision for credit losses is assessed by extent of arrears	-	89,359	-	89,359	-	89,359
Provision for credit loss with respect to debt [(1)]						
reviewed on individual basis	476	2	42	520	10	530
reviewed on individual basis	56	[(3)(4)]644	95	795	-	795
Total provision for credit loss	**532**	**646**	**137**	**1,315**	**10**	**1,325**
Loans for which a provision for credit losses is assessed by extent of arrears	-	331	-	331	-	331

						December 31, 2012[(5)]
	Loans to the public					
			Individual -		Banks and	
	Commercial	Housing	other	Total	governments	Total
Recorded debt balance of debt [(1)]						
reviewed on individual basis	30,378	5	611	30,994	2,819	33,813
reviewed on individual basis	5,980	80,864	12,406	99,250	-	99,250
Total debt	**36,358**	[(2)]**80,869**	**13,017**	**130,244**	**2,819**	**133,063**
Loans for which a provision for credit losses is assessed by extent of arrears	-	79,970	-	79,970	-	79,970
Provision for credit loss with respect to debt [(1)]						
reviewed on individual basis	583	2	35	620	10	630
reviewed on individual basis	52	819	102	973	-	973
Total provision for credit loss	**635**	**821**	**137**	**1,593**	**10**	**1,603**
Loans for which a provision for credit losses is assessed by extent of arrears	-	721	-	721	-	721

(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 general-purpose loans secured by a lien on a residential apartment, amounting to NIS 5,180 million (as of December 31, 2012 - NIS 5,037 million).

(3) Includes an update to the group-based provision for credit losses with respect to housing loans to 0.35%. For details see Note 1.D.6.

(4) Includes write-off of housing loans fully provided for, amounting to NIS 281 million.

(5) Reclassified.

Note 4 - 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

The Bank

						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	313	29,897	2,251	32,148
reviewed on individual basis	6,326	90,055	6,616	102,997	-	102,997
Total debt	**35,908**	**[(2)]90,057**	**6,929**	**132,894**	**2,251**	**135,145**
Loans for which a provision for credit losses is assessed by extent of arrears	-	89,344	-	89,344	-	89,344
Provision for credit loss with respect to debt [(1)]						
reviewed on individual basis	476	2	38	516	8	524
reviewed on individual basis	56	[(3)(4)]644	71	771	-	771
Total provision for credit loss	**532**	**646**	**109**	**1,287**	**8**	**1,295**
Loans for which a provision for credit losses is assessed by extent of arrears	-	331	-	331	-	331

						December 31, 2012[(5)]
	Loans to the public					
	Commercial	Housing	Individual - other	Total	Banks and governments	Total
Recorded debt balance of debt [(1)]						
reviewed on individual basis	30,378	5	611	30,994	2,819	33,813
reviewed on individual basis	5,980	80,864	12,406	99,250	-	99,250
Total debt	**36,358**	**[(2)]80,869**	**13,017**	**130,244**	**2,819**	**133,063**
Loans for which a provision for credit losses is assessed by extent of arrears	-	79,970	-	79,970	-	79,970
Provision for credit loss with respect to debt [(1)]						
reviewed on individual basis	583	2	35	620	10	630
reviewed on individual basis	52	819	102	973	-	973
Total provision for credit loss	**635**	**821**	**137**	**1,593**	**10**	**1,603**
Loans for which a provision for credit losses is assessed by extent of arrears	-	721	-	721	-	721

(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 general-purpose loans secured by a lien on a residential apartment, amounting to NIS 5,180 million (as of December 31, 2012 - NIS 5,037 million).
(3) Includes an update to the group-based provision for credit losses with respect to housing loans to 0.35%. For details see Note 1.D.6.
(4) Includes write-off of housing loans fully provided for, amounting to NIS 281 million.
(5) Reclassified.

Note 4 - 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
Consolidated

						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)(8)]1,081	2	89,859	[(7)(8)]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	152	-	-	152	-	-
Government of Israel	1	-	-	1	-	-
Total activity in Israel	**133,181**	**1,484**	**1,206**	**135,871**	**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	1,521	-	-	1,521	-	-
Total governments	1,045	-	-	1,045	-	-
Total	**139,668**	**1,537**	**1,241**	**142,446**	**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 troubled debt restructuring, see Note 4.B.2.c. below.
(4) Classified as troubled 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 troubled 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 (as of December 31, 2012 – NIS 311 million) provisioned for by extent of arrears, in which an agreement for repayment of borrower arrears has been signed, where a change was made to the repayment schedule with respect to the loan balance not yet due.
(8) Includes write-off of housing loans fully provided for, amounting to NIS 281 million.

Note 4 - 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

Consolidated

	As of December 31, 2012 [7]					
		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	6,590	32	800	7,422	7	5
Construction and real estate - real estate operations	1,473	8	20	1,501	1	2
Financial services	3,573	24	291	3,888	2	13
Commercial – other	19,376	264	418	20,058	22	201
Total commercial	**31,012**	**328**	**1,529**	**32,869**	**32**	**221**
Private individuals - housing loans	79,051	[7]1,599	5	80,655	[7]1,599	[6]301
Private individuals - other	12,438	161	81	12,680	28	109
Total public – activity in Israel	**122,501**	**2,088**	**1,615**	**126,204**	**1,659**	**631**
Banks in Israel	512	-	-	512	-	-
Government of Israel	1	-	-	1	-	-
Total activity in Israel	**123,014**	**2,088**	**1,615**	**126,717**	**1,659**	**631**
Borrower activity overseas						
Public - commercial						
Construction and real estate	1,597	-	38	1,635	-	-
Commercial – other	1,849	-	5	1,854	-	-
Total commercial	**3,446**	**-**	**43**	**3,489**	**-**	**-**
Private individuals	545	-	6	551	-	-
Total public – activity overseas	**3,991**	**-**	**49**	**4,040**	**-**	**-**
Overseas banks	1,149	-	5	1,154	-	-
Overseas governments	1,152	-	-	1,152	-	-
Total activity overseas	**6,292**	**-**	**54**	**6,346**	**-**	**-**
Total public	126,492	2,088	1,664	130,244	1,659	631
Total banks	1,661	-	5	1,666	-	-
Total governments	1,153	-	-	1,153	-	-
Total	**129,306**	**2,088**	**1,669**	**133,063**	**1,659**	**631**

(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 troubled debt restructuring, see Note 4.B.2.c. below.

(4) Classified as troubled non-impaired debt. Accruing interest revenues.

(5) Accruing interest revenues. Debt in arrears 30 to 89 days amounting to NIS 70 million was classified as troubled 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 311 million provisioned for by extent of arrears, in which an agreement for repayment of borrower arrears has been signed, where a change was made to the repayment schedule with respect to the loan balance not yet due.

(8) Reclassified.

Note 4 - 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, are 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 individual basis. Debt is classified as non-performing (inferior) debt, i.e. debt not accruing interest revenues, after 150 days in arrears for debt measured on group basis.

Furthermore, debt is classified as inferior debt after 60 days in arrears for debt measured on 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.

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:

Consolidated

						December 31, 2013
						Credit segment
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Trouble-free debt, investment grade	31,375	88,989	13,702	1,045	1,513	136,624
Trouble-free debt, other than investment grade	3,036	-	-	-	8	3,044
Troubled non-impaired debt.	341	1,081	115	-	-	1,537
Impaired debt	1,156	2	83	-	-	1,241
Total	**35,908**	**90,072**	**13,900**	**1,045**	**1,521**	**142,446**

						December 31, 2012(2)
						Credit segment
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Trouble-free debt, investment grade	31,034	79,265	12,769	1,153	1,650	125,871
Trouble-free debt, other than investment grade	3,424	-	-	-	11	3,435
Troubled non-impaired debt.	328	1,599	161	-	-	2,088
Impaired debt	1,572	5	87	-	5	1,669
Total	**36,358**	**80,869**	**13,017**	**1,153**	**1,666**	**133,063**

(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 4 - 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
Consolidated

					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**
Includes:					
Measured at present value of cash flows	512	138	186	698	
Debt under troubled 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 re-sale agreements, except for deposits with Bank of Israel.
(2) Recorded debt balance.
(3) Debt balance net of accounting write-off, if any.

Note 4 - 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

Consolidated

					December 31, 2012[(4)]
	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	725	31	75	800	1,607
Construction and real estate - real estate operations	20	1	-	20	20
Financial services	267	91	24	291	351
Commercial – other	325	107	93	418	856
Total commercial	**1,337**	**230**	**192**	**1,529**	**2,834**
Private individuals - housing loans	5	2	-	5	5
Private individuals - other	21	11	60	81	115
Total public – activity in Israel	**1,363**	**243**	**252**	**1,615**	**2,954**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	**1,363**	**243**	**252**	**1,615**	**2,954**
Borrower activity overseas					
Public - commercial					
Construction and real estate	36	-	2	38	102
Commercial – other	5	-	-	5	5
Total commercial	**41**	**-**	**2**	**43**	**107**
Private individuals	6	-	-	6	6
Total public – activity overseas	**47**	**-**	**2**	**49**	**113**
Overseas banks	5	-	-	5	5
Overseas governments	-	-	-	-	-
Total activity overseas	**52**	**-**	**2**	**54**	**118**
Total public	1,410	243	254	1,664	3,067
Total banks	5	-	-	5	5
Total governments	-	-	-	-	-
Total	**1,415**	**243**	**254**	**1,669**	**3,072**
Includes:					
Measured at present value of cash flows	1,279	241	176	1,455	
Debt under troubled debt restructuring	736	56	124	860	

(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) Recorded debt balance.

(3) Debt balance net of accounting write-off, if any.

(4) Reclassified.

Note 4 - 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

Consolidated

	December 31, 2013		
	Average balance of impaired debt [2]	Interest revenues recorded [3]	Includes: Recorded on cash bais
Borrower activity in Israel			
Public - commercial			
Construction and real estate - construction	669	19	17
Construction and real estate - real estate operations	16	2	2
Financial services	233	1	1
Commercial – other	407	14	13
Total commercial	**1,325**	**36**	**33**
Private individuals - housing loans	3	-	-
Private individuals - other	83	6	5
Total public – activity in Israel	**1,411**	**42**	**38**
Banks in Israel	-	-	-
Government of Israel	-	-	-
Total activity in Israel	**1,411**	**42**	**38**
Borrower activity overseas			
Public - commercial			
Construction and real estate	34	-	-
Commercial – other	3	-	-
Total commercial	**37**	**-**	**-**
Private individuals	2	-	-
Total public – activity overseas	**39**	**-**	**-**
Overseas banks	3	-	-
Overseas governments	-	-	-
Total activity overseas	**42**	**-**	**-**
Total public	**1,450**	**42**	**38**
Total banks	3	-	-
Total governments	-	-	-
Total [4]	**1,453**	**42**	**38**

	December 31, 2012[5]	December 31, 2011[5]
Average recorded debt balance of impaired loans to the public during reported period	1,562	1,433
Total interest revenues recognized in the reported period with respect to such loans in the period in which it was classified as impaired [6]	126	73
Total interest revenues which would have been recognized in the reported period had this credit accrued interest at its original terms	78	73
(6) Includes: Interest revenues recognized in accordance with cash basis accounting policies	120	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) 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 97 million.
(5) In conformity with draft transition provisions for 2013, as from November 25, 2013 comparison figures may be included in conformity with the format provided in the appendix to transition provisions for 2012.

Note 4 - 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. Troubled debt under restructuring
Consolidated

	December 31, 2013				
	Recorded debt balance				
	Revenues not accruing interest	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 [(3)]
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 activity	-	-	-	-	-
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.

Note 4 - 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. Troubled debt under restructuring - continued

Consolidated

	December 31, 2012				
	Recorded debt balance				
	Revenues not accruing interest	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 [(3)]
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	711	-	-	-	711
Construction and real estate - real estate operations	14	-	3	-	17
Financial services	10	-	-	1	11
Commercial – other	42	-	-	10	52
Total commercial	**777**	**-**	**3**	**11**	**791**
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	28	-	3	36	67
Total public – activity in Israel	**805**	**-**	**6**	**47**	**858**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	**805**	**-**	**6**	**47**	**858**
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 activity	-	-	-	-	-
Total activity overseas	**-**	**-**	**-**	**2**	**2**
Total public	805	-	6	49	860
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	**805**	**-**	**6**	**49**	**860**

(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.

(4) Reclassified.

As of December 31, 2013, the Bank has no commitments to extend additional credit to debtors who have undergone restructuring of troubled debt, in which changes were made to credit terms.

Note 4 - 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. Troubled debt under restructuring - continued

Consolidated

	Re-structurings made		
	December 31, 2013		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel			
Public - commercial			
Construction and real estate - construction	8	6	6
Construction and real estate - real estate operations	1	-	-
Financial services	2	1	1
Commercial – other	90	57	54
Total commercial	**101**	**64**	**61**
Private individuals - housing loans	-	-	-
Private individuals - other	816	36	32
Total public – activity in Israel	**917**	**100**	**93**
Banks in Israel	-	-	-
Government of Israel	-	-	-
Total activity in Israel	**917**	**100**	**93**
Borrower activity overseas			
Public - commercial			
Construction and real estate	-	-	-
Commercial – other	-	-	-
Total commercial	**-**	**-**	**-**
Private individuals	3	-	-
Total public – activity overseas	**3**	**-**	**-**
Overseas banks	-	-	-
Overseas governments	-	-	-
Total activity overseas	**3**	**-**	**-**
Total public	920	100	93
Total banks	-	-	-
Total governments	-	-	-
Total	**920**	**100**	**93**

(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) In conformity with the Supervisor of Banks' directives with regard to updated disclosure of credit quality of debt and of provision for credit losses, new disclosures are required with regard to, *inter alia*, restructuring of troubled debt which the transition provisions stipulate should be included on financial statements as from March 31, 2013. The new disclosure requirements should be applied prospectively. For details see also Note 1.D.4.

(3) Accruing interest revenues.

(4) Included under impaired debt.

Note 4 - 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. Troubled debt under restructuring - continued
Consolidated

	Restructurings made which are in default [(3)]	
	December 31, 2013	
		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	4	1
Commercial – other	12	12
Total commercial	**17**	**13**
Private individuals - housing loans	-	-
Private individuals - other	109	3
Total public – activity in Israel	**126**	**16**
Banks in Israel	-	-
Government of Israel	-	-
Total activity in Israel	**126**	**16**
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	126	16
Total banks	-	-
Total governments	-	-
Total	**126**	**16**

(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) In conformity with the Supervisor of Banks' directives with regard to updated disclosure of credit quality of debt and of provision for credit losses, new disclosures are required with regard to, *inter alia*, restructuring of troubled debt which the transition provisions stipulate should be included on financial statements as from March 31, 2013. The new disclosure requirements should be applied prospectively. See also Note 1.D.4.
(3) Debt which became, in the reported period, debt in arrears of 30 days or longer, which was restructured under troubled debt restructuring in the 12 months prior to the date on which it became debt in arrears

Note 4 - 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

Below is the composition of balances by loan-to-value ratio (LTV) [(1)], repayment type and interest type

Consolidated

					December 31, 2013
				Housing loan balance	Off-balance sheet credit risk
		Total	Includes: Bullet / balloon	Includes: Variable interest	Total
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**

					December 31, 2012
Senior lien: LTV ratio	Up to 60%	40,382	1,066	30,227	2,339
	Over 60%	40,392	527	31,084	1,719
Junior lien or no lien		95	2	59	1,440
Total		**80,869**	**1,595**	**61,370**	**5,498**

(1) Ratio of approved facility upon extending the facility to the property value, as approved by the Bank upon extending the facility

Note 4 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

C. Balances of loans to the public and off-balance sheet credit risk according to extent of borrower credit risk:

Loan ceiling and credit risk (NIS in thousands)		Number of Borrowers (1)	Credit (2)	Credit risk Off-balance sheet (3)
	Up to 10	189,377	247	265
Above 10	Up to 20	72,472	490	574
Above 20	Up to 40	111,308	1,526	1,711
Above 40	Up to 80	133,906	4,195	3,460
Above 80	Up to 150	93,678	7,393	2,825
Above 150	Up to 300	71,273	13,473	1,662
Above 300	Up to 600	65,883	26,832	1,870
Above 600	Up to 1,200	47,075	36,078	3,423
Above 1,200	Up to 2,000	9,304	12,928	1,783
Above 2,000	Up to 4,000	3,097	7,259	1,157
Above 4,000	Up to 8,000	1,003	4,181	1,197
Above 8,000	Up to 20,000	506	4,550	1,696
Above 20,000	Up to 40,000	221	3,698	2,329
Above 40,000	Up to 200,000	259	10,134	10,419
Above 200,000	Up to 400,000	41	4,380	7,497
Above 400,000	Up to 650,460	20	2,516	7,958
Total		**799,423**	**139,880**	**49,826**

(1) Number of borrowers is based on total loans and off-balance sheet credit risk.

(2) Off-balance sheet credit and 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.

(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limitation. Data is in conformity with the definition of indebtedness in Proper Conduct of Banking Business Regulation 313.

Note 4 - Credit risk, loans to the public and provision for credit losses - continued

As of December 31, 2012 - Consolidated

Reported amounts (NIS in millions)

C. Balances of loans to the public and off-balance sheet credit risk according to extent of borrower credit risk:

Loan ceiling and credit risk (NIS in thousands)		Number of Borrowers [1]	Credit [2]	Credit risk Off-balance sheet [3]
	Up to 10	185,675	573	255
Above 10	Up to 20	70,242	489	549
Above 20	Up to 40	109,570	1,547	1,662
Above 40	Up to 80	132,223	4,294	3,310
Above 80	Up to 150	91,057	7,371	2,637
Above 150	Up to 300	69,588	13,372	1,576
Above 300	Up to 600	60,938	25,047	1,896
Above 600	Up to 1,200	39,889	30,068	3,253
Above 1,200	Up to 2,000	8,326	10,862	1,534
Above 2,000	Up to 4,000	2,992	6,859	1,149
Above 4,000	Up to 8,000	1,007	4,181	1,253
Above 8,000	Up to 20,000	531	4,608	1,846
Above 20,000	Up to 40,000	220	3,884	2,220
Above 40,000	Up to 200,000	234	9,680	10,183
Above 200,000	Up to 400,000	43	4,373	7,840
Above 400,000	Up to 512,898	18	3,036	5,925
Total		**772,553**	**130,244**	**47,088**

(1) Number of borrowers is based on total loans and off-balance sheet credit risk.

(2) Off-balance sheet credit and 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.

(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limitation. Data is in conformity with the definition of indebtedness in Proper Conduct of Banking Business Regulation 313.

(4) Reclassified.

D. Debt sale and purchase

In the reported period, the Bank had no debt sales or purchases.

Note 5 - Loans to Governments

As of December 31,

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	2013	2012	2013	2012
Loans to Government of Israel	1	1	1	1
Loans to foreign governments	304	316	304	316
Total loans to governments	**305**	**317**	**305**	**317**

Note 6 - Investments in Investees and related Details

As of December 31,

Reported amounts (NIS in millions)

A. Consolidated

			2013			2012
	Associates	Subsidiaries	Total	Associates	Subsidiaries	Total
Investment in shares stated on equity basis	25	-	25	27	-	27
Subordinated notes and capital notes	35	-	35	33	-	33
Total investments	**60**	**-**	**60**	**60**	**-**	**60**
Includes:						
Losses accrued since acquisition date	(19)	-	(19)	(15)	-	(15)
Post-acquisition items accrued in shareholders' equity:						
Other Capital reserves	(3)	-	(3)	-	-	-

Note 6 - Investments in Investees and related Details - continued

Reported amounts (NIS in millions)

B. The Bank

			2013			2012
	Associates	Subsidiaries	Total	Associates	Subsidiaries[2]	Total
Investment in shares stated on equity basis						
Other investments	25	1,797	1,822	27	1,679	1,706
Subordinated notes and capital notes	35	509	544	33	479	512
Total investments	**60**	**2,306**	**2,366**	**60**	**2,158**	**2,218**
Includes:						
Profits (losses) accrued since acquisition date	(19)	942	923	(15)	820	805
Post-acquisition items accrued in shareholders' equity:	-	(16)	(16)	-	(16)	(16)
Capital reserve from implementation of directive on impaired debt	(3)	(2)	(5)	-	3	3
Other Capital reserves						

Bank's share in profits (losses) of investees:

			Consolidated			The Bank
	2013	2012	2011	2013	2012	2011
Bank's share in after-tax operating profit (loss) of investees [1]	(4)	-	1	118	142	151

(1) No loss from impairment of investees.

(2) Goodwill balance with respect to subsidiaries are included on the Bank's balance sheet under "Investments in investees".

Note 6 - Investments in Investees and related Details - continued

Reported amounts (NIS in millions)

	Company information	Share in capital conferring rights to profits		Share in voting rights	
		As of December 31,			
		2013	2012	2013	2012
C. Details of principal investees (2)					
1) Subsidiaries					
Bank Yahav for Government Employees Ltd. (3)	The Bank	50%	50%	50%	50%
Tefahot Insurance Agency (1989) Ltd.	Insurance agency	100%	100%	100%	100%
Mizrahi International Holding Company Ltd. (B.V. Holland) (4)	International holding company	100%	100%	100%	100%
Etgar Investment Portfolio Management Company of the Mizrahi Tefahot Group Ltd.	Portfolio management	100%	100%	100%	100%
Mizrahi Tefahot Issue Company Ltd.	Issuance company	100%	100%	100%	100%
Mizrahi Tefahot Trust Company Ltd.	Trust company	100%	100%	100%	100%
2) Associates					
Psagot Jerusalem Ltd. ("Psagot")	Land for construction	(8)20%	(8)20%	20%	20%
Rosario Capital Ltd. ("Rosario") (6)	Underwriting company	19.99%	19.99%	19.99%	19.99%
Mustang Mezzanine Fund Limited Partnership	Extending credit	20%	20%	-	-
Plenus Tecnoligies Venture Lending Fund	Extending credit	20%	20%	-	-
3) Main subsidiary of a subsidiary of United Mizrahi Overseas International Holding Ltd. (BV Holland)					
United Mizrahi Bank (Switzerland) Ltd. (6)	Commercial bank	100%	100%	100%	100%

(1) Includes capital notes.
(2) The above list does not include wholly owned and controlled subsidiaries constituting property companies that provide services to the Bank, or companies that provide services to the Bank, and whose assets and liabilities and operating results are included in the Bank's financial statements.
(3) Balance of goodwill with respect to acquisition of Bank Yahav is included on the consolidated balance sheet under Intangible Assets and Goodwill and on the Bank's balance sheet – under Investments in Investees.
(4) The company is incorporated in Holland; for a subsidiary of the Company, see section C. 3).
(5) Includes loss due to devaluation of the shekel, relative to foreign currency exchange rates, totaling NIS 16 million (2012 – loss of NIS 1 million).
(6) United Mizrahi Bank (Switzerland) Ltd. is a commercial bank registered in Switzerland, and is presented on the Bank's financial statements as an affiliate whose functional currency is the same as the Bank's.
(7) Includes loss due to devaluation of the NIS vs. the CHF, amounting to NIS 10 million (2012 – gain of NIS 1 million).
(8) Share of contribution in case of loss is 27%.
(9) Includes goodwill balance included on the consolidated balance sheet under "Intangible assets and goodwill".

Investment in shares at equity value [10]		Goodwill balance [3]		Other capital investments [1]		Contribution to net profit (loss) attributable to equity holders of the banking corporation		Dividends recorded		Other items accrued under shareholders' equity	
				As of December 31,		For the year ended December 31,				As of December 31,	
2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
552	509	69	69	509	479	44	50	-	-	(2)	3
676	598	-	-	-	-	78	69	-	-	-	-
308	323	-	-	-	-	[5](15)	[5] 2	-	-	-	-
25	24	-	-	-	-	1	2	-	-	-	-
41	39	-	-	-	-	2	2	-	-	-	-
24	17	-	-	-	-	7	3	-	-	-	-
(16)	(15)	-	-	35	33	(1)	-	-	-	-	-
2	1	-	-	-	-	1	-	-	-	-	-
33	40	-	-	-	-	(9)	8	-	-	-	-
6	1	-	-	-	-	5	(2)	-	-	-	-
218	227	-	-	-	-	[7](9)	[7]3	-	-	-	-

Note 6 - Investments in Investees and related Details - continued

Reported amounts (NIS in millions)

D. Balance of goodwill related to subsidiaries – consolidated and the Bank: [(1)]

	December 31, 2013		
	Cost	Accumulated amortization	Amortized balance
Consolidated	140	53	87
Bank[(3)]	140	53	87

(1) The goodwill balance includes goodwill with respect to acquisition of Tefahot Mortgage Bank Ltd., whose amortized balance as of December 31, 2013 amounted to NIS 14 million (similar to amortized balance as of December 31, 2012 and as of December 31, 2011), and with respect to acquisition of Adanim Mortgage Bank Ltd., whose amortized balance as of December 31, 2013 amounted to NIS 4 million (similar to amortized balance as of December 31, 2012 and as of December 31, 2011).

(2) The balance as of December 31, 2012 and as of December 31, 2011 are identical.

(3) Goodwill balance with respect to subsidiaries is included on the consolidated balance sheet under “Intangible assets and goodwill” and on the Bank’s balance sheet – under “Investments in investees”.

Note 7 - Buildings and Equipment

Reported amounts (NIS in millions)

	Consolidated				The Bank			
	Buildings and land (including installations and leasehold improvements)	Equipment, furniture and vehicles	Cost of software	Total	Buildings and land (including installations and leasehold improvements)	Equipment, furniture Vehicles	Cost of software	Total
Average depreciation rate as of December 31, 2013.	4.1%	13.2%	17.3%		3.8%	12.9%	17.1%	
Average depreciation rate as of December 31, 2012.	4.4%	14.1%	21.6%		4.1%	16.1%	21.7%	
Cost of the assets - December 31, 2011	**1,405**	**880**	**1,132**	**3,417**	**1,219**	**716**	**1,112**	**3,047**
Additions	75	77	120	272	64	64	116	244
Disposals	-	(23)	-	(23)	-	(23)	-	(23)
December 31, 2012	**1,480**	**934**	**1,252**	**3,666**	**1,283**	**757**	**1,228**	**3,268**
Additions	44	66	131	241	30	58	120	208
Disposals	(1)	(1)	(18)	(20)	(1)	(1)	(18)	(20)
Cost of assets as of December 31, 2013	**1,523**	**999**	**1,365**	**3,887**	**1,312**	**814**	**1,330**	**3,456**
Depreciation								
Accured as of December 31 2011	**503**	**659**	**639**	**1,801**	**434**	**519**	**626**	**1,579**
Depreciation	47	38	145	230	35	30	142	207
Disposals	-	(23)	-	(23)	-	(23)	-	(23)
Accured as of December 31 2012	**550**	**674**	**784**	**2,008**	**469**	**526**	**768**	**1,763**
Depreciation	48	59	136	243	34	52	129	215
Disposals	(1)	(1)	(18)	(20)	(1)	(1)	(18)	(20)
Accumulated depreciation as of December 31, 2013	**597**	**732**	**902**	**2,231**	**502**	**577**	**879**	**1,958**
Balance to deprtecieted								
as of December 31 2013 (1)	**926**	**267**	**463**	**1,656**	**810**	**237**	**451**	**1,498**
as of December 31 2012 (1)	**930**	**260**	**468**	**1,658**	**814**	**231**	**460**	**1,505**
as of December 31 2011 (1)	**902**	**221**	**493**	**1,616**	**785**	**197**	**486**	**1,468**

(1) Includes amortized capitalized cost of independently developed computer software as of December 31, 2013 amounting to NIS 343 million - consolidated and for the Bank (December 31, 2012 - NIS 360 million and as of December 31, 2011 – NIS 362 million, consolidated and for the Bank).

Note 7 - Buildings and Equipment - continued

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	December 31,		December 31,	
	2013	2012	2013	2012
B. The above assets include assets not used by the Group:				
Not designated for sale	25	5	25	5
Includes - leased to others	25	5	25	5
Designated for sale	-	-	-	-

	Lease term end dates (In years)	Consolidated		The Bank	
		December 31,		December 31,	
		2013	2012	2013	2012
C. Leasing rights to buildings					
Capitalized lease	5-59	76	76	76	76
Non-capitalized lease	5-9	27	26	27	26

D. Management estimates that, on the basis of decisions taken, a loss on realization of the buildings intended for sale is not anticipated beyond the relevant provision recorded.

E. This item includes installations, leasehold rights and payments on account. Part of the buildings and leasing rights, amounting to NIS 299 million on consolidated and to NIS 273 million for the Bank (as of December 31, 2012 - NIS 297 million consolidated and NIS 270 million for the Bank), have yet to be recorded at the Land Registry Office in the name of the Bank or its subsidiaries. Most of these properties are in the process of being registered.

Note 8 - Other Assets

As of December 31,

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	December 31,		December 31,	
	2013	2012	2013	2012
Deferred taxes receivable, net [(1)]	856	772	807	721
Excess of advance tax payments over current provisions	118	77	94	75
Revenues receivable	99	83	51	45
Other receivables and debit balances	1,131	1,100	1,112	1,063
Total other assets	**2,204**	**2,032**	**2,064**	**1,904**

(1) See Note 28.

Note 9 - Deposits from the Public

Reported amounts (NIS in millions)

A. Deposit types by location and depositor type

	Consolidated		The Bank	
	December 31,		December 31,	
	2013	2012(1)	2013	2012(1)
In Israel				
On-call				
Non interest-bearing	18,052	14,333	14,300	11,399
Interest-bearing	2,163	1,935	1,180	1,040
Total on-call	20,215	16,268	15,480	12,439
Term deposits	117,140	107,293	118,861	106,287
Total deposits in Israel (1)	**137,355**	**123,561**	**134,341**	**118,726**
Outside of Israel				
On-call				
Non interest-bearing	654	366	654	366
Interest-bearing	-	-	-	-
Total on-call	654	366	654	366
Term deposits	3,235	4,154	2,761	3,704
Total deposits overseas	**3,889**	**4,520**	**3,415**	**4,070**
Total deposits from the public	**141,244**	**128,081**	**137,756**	**122,796**
(1) Includes:				
Deposits from individuals	**65,819**	**63,979**	**49,708**	**48,557**
Deposits from institutional investors	**41,918**	**33,445**	**41,914**	**33,438**
Deposits from corporations and others	**29,618**	**26,137**	**42,719**	**36,731**

B. Deposits from the public by size on consolidated basis, reported amounts

	December 31,	
	2013	2012
Maximum deposit – NIS in millions		
Up to 1	57,067	45,074
1 to 10	26,427	23,593
10 to 100	13,029	11,023
100 to 500	9,815	7,427
Above 500	34,906	40,964
Total	**141,244**	**128,081**

(1) As from December 31, 2013, the Bank applies the Supervisor of Banks' circular concerning disclosure with regard to deposits. For more information see Note1.D.3.

Note 10 - Deposits from Banks

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	December 31,		December 31,	
	2013	2012[(1)]	2013	2012[(1)]
In Israel				
Commercial banks:				
On-call deposits	271	153	288	159
Term deposits	1,351	1,074	7,208	7,578
Acceptances	358	291	358	291
Outside of Israel				
Commercial banks:				
On-call deposits	59	32	59	32
Term deposits	2	144	2	144
Total deposits from banks	**2,041**	**1,694**	**7,915**	**8,204**

(1) As from December 31, 2013, the Bank applies the Supervisor of Banks' circular concerning disclosure with regard to deposits. For more information see Note1.D.3.

Note 11 - Debentures and Subordinated Notes

As of December 31,

Reported amounts (NIS in millions)

	Average maturity in years (1)	Internal rate of return (2)	Consolidated		The Bank	
			2013	2012	2013	2012
Debentures and subordinated notes not convertible into shares:						
In Israeli currency - non-linked						
Debentures	1.25	5.16%	2,146	2,094	-	-
In Israeli currency - CPI-linked						
Debentures	2.79	1.82%	7,757	5,316	-	-
Subordinated notes (3)	5.02	4.65%	6,540	6,629	3,985	4,125
Total debentures and subordinated notes	**3.69**	**3.58%**	**16,443**	**14,039**	**3,985**	**4,125**

(1) Average maturity is the average of the repayment periods, weighted by the flows discounted according to the internal rate of return.
(2) Internal rate of return is the interest rate used to discount the projected flow of payments to the carrying value in the financial statements.
(3) Upon dissolution, the subordinated notes issued by the Bank and included under this item are repayable after all other liabilities.

A. On October 30, 2006, the Bank's Board of Directors approved the issuance of Bank subordinated notes (Series A) which will be deemed complex capital instruments ("Upper Tier II capital"), as the term is defined in Proper Conduct of Banking Business Regulation 311 and in accordance with the approval received from the Supervisor of Banks on November 12, 2006 amounting up to NIS 500 million. The subordinated notes are obligatory notes that, if certain events specified in advance in their terms should occur, will be converted in a forced conversion, according to a formula prescribed in advance, into shares of the Bank. On November 15, 2006, Ma'alot Israel Securities Rating Company Ltd. issued a rating of AA- for the subordinated notes issued. The rating of the subordinated notes in the offering is based on the rating of the Bank's debentures, including subordinated notes, which are rated AA+, with the changes required by the terms of the subordinated notes. Note, that should the Bank issue in the future complex tier I capital, the Bank would maintain an original tier I capital ratio (excluding the complex tier I capital) of no less than 6%. On May 16, 2007, the same rating was approved for capital notes allocated, pursuant to the published prospectus for listing them for trading. On April 5, 2009, Ma'alot announced that in conjunction with a review by S&P of ratings of hybrid instruments world wide, including in Israel, in view of the global financial crisis, the rating of the subordinated capital notes was lowered from AA- to A+.

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

Note 11 - Debentures and Subordinated Notes - continued

The Bank has issued to the public, pursuant to a prospectus dated May 20, 2007, subordinated capital notes (Series A) whose balance as of December 31, 2013 amounted to NIS 1,946 million par value for consideration of NIS 1,644 million.

B. Mizrahi Tefahot Issue Company ("the Company"), a company wholly-owned and controlled by the Bank, issued to the public pursuant to a prospectus CPI-linked, debentures and subordinated notes with a par value of NIS 9,009 million and non-linked debentures with a par value of NIS 2,119 million, as of December 31, 2013, and deposited the proceeds in the Bank earmarked for its day-to-day activities.

To secure fulfillment of the Company's obligations with respect to some of the debentures and subordinated notes totaling NIS 496 million, the Company undertook to assign all of its rights in each of the deposits that it had deposited in the Bank from the proceeds of securities offered pursuant to the Prospectus in favor of the Trustee of the issued securities.

The Company issued in 2013 additional debentures (Series 29, 35 and 36) of NIS 2,745 million par value for consideration of NIS 3,007 million.

On January 26, 2014, after the balance sheet date, the Company issued further debentures (Series 35 and Series 36), amounting to NIS 1,650 million par value for consideration of NIS 1,690 million.

Note 12 - Other Liabilities

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	December 31,		December 31,	
	2013	2012	2013	2012
Provision for deferred taxes, net [(1)]	36	34	36	34
Excess of current provisions for income taxes over advances paid	-	3	-	-
Excess of provision over funding severance pay, retirement and pension [(2)]	674	669	641	652
Unearned revenues	296	259	296	259
Accrued expenses	234	204	196	169
Provision for unutilized vacations and long- service bonus	127	113	106	93
Guarantees payable	72	60	72	60
Provision for doubtful debts for off-balance sheet and other items	103	102	98	100
Payables for credit card operations	3,186	2,889	1,978	1,766
Fair value of securities which were sold short	715	[(3)]418	715	[(3)]418
Other payables and credit balances	507	545	445	492
Total other liabilities	**5,950**	**5,296**	**4,583**	**4,043**

(1) See Note 28.
(2) See Note 16.
(3) Reclassified.

Note 13 - Share capital and shareholders' equity [(1)]

A. Details on share capital of the Bank (in NIS):

	Registered		Issued and paid-in	
	December 31,		December 31,	
	2013	2012	2013	2012
Ordinary shares, NIS 0.1 [(2)]	40,000,000	40,000,000	[(3)] 23,197,848	[(3)] 22,959,950

(1) For allotment of stock options – see Note 16.A.

(2) The shares are listed for trading on the Tel Aviv Stock Exchange.

(3) Includes 2,500,000 dormant shares, acquired and held by the Bank. For details, see section D. below.

B. On April 3, 2006, the Bank's Board of Directors adopted a resolution on a dividend distribution policies, whereby, provided that the Bank's capital ratio is not less than 10%, dividends will be distributed every year at the rate of 40% of the net operating profit and 80% of the profit from extraordinary items of that year. The dividend distribution policies is in effect as from the year 2006.

On July 23, 2012, the Bank's Board of Directors determined, in conjunction with approval of the new strategic five-year plan for 2013-2017, that during the plan term, the Bank's adopted dividend distribution policies would be maintained, subject to maintaining the core capital ratio above the target set by the Board of Directors.

On August 14, 2013, the Bank's Board of Directors resolved 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 dated July 23, 2012 with regard to advancing the implementation of the Supervisor of Banks' directives, dated March 28, 2013, with the intention of implementing these, in as much as possible, as from January 1, 2014.

It should be noted that a dividend distribution by the Bank is subject, in addition to the aforesaid, to the provisions of the law and additional limitations set forth in Proper Conduct of Banking Business Regulation 331.

C. Information on dividend distribution limitations is provided below:

- According to the directives of the Supervisor of Banks with respect to a dividend distribution by banking corporations, a bank may not distribute cash dividends, as long as its non-monetary assets exceed its adjusted shareholders' equity. As of December 31, 2013, the Bank’s reported capital exceeds its non-monetary assets by NIS 6,422 million.

- The permit issued to the purchasers of the controlling interest by the Governor of the Bank of Israel stipulates that dividends will not be distributed out of profits accumulated through September 30, 1994, amounting to NIS 100 million (after capitalization into capital reserves in 1998).

Note 13 - Share capital and shareholders' equity [(1)] - continue

Furthermore, the Bank may not distribute dividends without prior consent of the Supervisor of Banks when:

1. The Bank's retained earnings net of debit differences included in Other Comprehensive Income is not positive.
2. One or more of the most recent three years ended with a comprehensive loss.
3. The cumulative results for the most recent three quarters ending at the end of the interim period for which the most recent financial statements have been published indicate a comprehensive loss.

D. On May 27, 2009, the Bank received the Supervisor's approval, allowing the Bank to buy back on a non-recurring basis 2,500,000 shares of NIS 0.1 par value of the Bank's issued share capital, subject to statute and to conditions stated in the Supervisor's approval. On July 20, 2009 the Bank's Board of Directors approved a share buy-back plan by the Bank, to acquire up to 2,500,000 shares of NIS 0.1 par value each, subject to terms and conditions stated in the Supervisor's approval. On September 24, 2009, the Bank completed the buy-back, purchasing in total 2,500,000 shares at a cost of NIS 76 million.

The shares held by the Bank are designated to be provided as consideration for exercise of stock options under the stock option plan for VPs - for details see Note 16.A. In accordance with the condition stated in the Supervisor's approval, the Bank would sell all excess shares (if any) immediately after the end of the exercise period of all options allotted pursuant to the stock option plan, i.e. immediately after the seventh anniversary of the date of allotment of options in accordance with the stock option plan.

In accordance with a pre-ruling obtained from the Tax Authority, the Bank would not incur any tax liability upon purchase of shares as stated above. The Bank's Board of Directors has concluded that buy-back of Bank shares in accordance with the aforementioned buy-back program meets the distribution criteria stipulated in the Companies Law and is compliant with terms and conditions stated in Proper Conduct of Bank Businesses Regulation No. 331. The Board of Directors has reexamined Bank compliance with distribution tests stipulated in the Companies Law, as well as compliance with conditions stated in Regulation 331, immediately prior to these acquisitions.

On January 30, 2013, the Bank of Israel allowed the Bank to use the excess shares for its 2013 stock option plan for managers who are not part of Bank management nor Bank officers. The Bank should sell the remaining excess shares (if any) immediately after the end of the exercise period of options pursuant to the stock option plan for managers who are not part of Bank management nor Bank officers, or pursuant to the original plan - whichever is later.

Note 14 - 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

	December 31,	
	2013	2012
1. Consolidated data		
A. Capital for purpose of calculating minimum capital ratio		
Tier I capital, after deductions	10,217	9,145
Tier II capital, after deductions	4,569	5,129
Total capital	**14,786**	**14,274**
B. Weighted risk asset balances		
Credit risk	105,411	98,736
Market risk	842	1,119
Operating Risk (1)	7,154	7,093
Total weighted risk asset balances	**113,407**	**106,948**

	2013	2012
	In %	
C. Ratio of capital to risk elements		
Ratio of Tier I capital to risk elements	9.01	8.55
Ratio of total capital to risk elements	13.04	13.35
Total minimum capital ratio required by the Supervisor of Banks	9.00	9.00
2. Significant subsidiaries		
Bank Yahav for Government Employees Ltd. And subsidiaries there of		
Ratio of Tier I capital to risk elements	10.00	9.45
Total ratio of capital to risk elements	15.03	14.22
Total minimum capital ratio required by the Supervisor of Banks	9.00	9.00

Note 14 - Capital adequacy pursuant to directives of the Supervisor of Banks – cont.

Calculated in accordance with Proper Conduct of Banking Business Regulation No. 201-211

"Measurement and Capital Adequacy

Reported amounts (NIS in millions)

	December 31,	
	2013	2012
3. Capital components for calculation of capital ratio (on consolidated basis)		
A. Tier I capital		
Paid-up share capital and capital reserves	2,148	2,121
Cumulative other comprehensive loss (1)	(3)	(3)
Retained earnings	7,693	6,690
Non-controlling interest of external shareholders in equity of consolidated subsidiaries	483	441
Less:		
Goodwill	(87)	(87)
Tier I capital after Tier I deductions alone	**10,234**	**9,162**
Less:		
Investments in supervisory capital components of banking corporations	(17)	(17)
Other deductions from Tier I capital		-
Total Tier I capital	**10,217**	**9,145**
B. Tier II capital		
1. Upper Tier II capital		
45% of net profit before related tax effect, with respect to adjustment to fair value of available-for-sale securities	9	-
General provision for doubtful debts (2)	110	110
Complex capital instruments	1,934	1,896
2. Lower Tier II capital		
Subordinated notes	2,533	3,140
3. Deductions from Tier II capital		
Investments in supervisory capital components of banking corporations	(17)	(17)
Other deductions from Tier II capital	-	-
Total Tier II capital	**4,569**	**5,129**

(1) Excludes net gain from cash flow hedges.

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

Note 14 - Capital adequacy pursuant to directives of the Supervisor of Banks – cont.

B. 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.

C. 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 ration shall be no less than the foregoing. The Bank's Board of Directors further resolved that the overall capital adequacy ratio shall be no less than 12.5%.

D. The Bank is in compliance with all capital requirements pursuant to directives of the Supervisor of Banks, and in accordance with limits set by the Board of Directors. Bank policies requires regular review of the ration of capital to risk elements, and taking action whenever this ratio approached the limits set by the Board of Directors, in order to minimize the risk of exceeding said limits. Failure to comply with minimum capital requirements would require the Bank or Group companies to reduce risk exposure, in order to reduce the capital requirement in line with existing capital. Reducing risk exposure may be associated with a cost, due to the need to enter into transactions under sub-optimal conditions.

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.

F. 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.

Note 14 – Capital adequacy pursuant to directives of the Supervisor of Banks – cont.

G. 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.
In conformity with transition provisions for implementation of Basel III directives, equity instruments issued after January 1, 2014 are required to meet all criteria specified in provisions of Basel III for inclusion in Tier II capital.

H. 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.
The directives are effective as from January 1, 2014, subject to transition 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 loss**
  The amount of 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.
  - 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.

Note 14 – Capital adequacy pursuant to directives of the Supervisor of Banks – cont.

- 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.

  The Bank is prepared to implement these directives and is reviewing their impact on the Bank's strategic plan.

I. 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 advancing the implementation of the Supervisor of Banks' directives, dated March 28, 2013, 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.

Note 14 – Capital adequacy pursuant to directives of the Supervisor of Banks – cont.

J. 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.

K. Effect of adoption of Basel III directives on January 1, 2014 is as follows:

In calculation of the expected impact of adoption of the Basel III directives on January 1, 2014, the Bank accounted for the transition provisions.

	According to the Supervisor of Banks' directives applicable as of December 31, 2013 (Basel II)	Expected impact of application of Basel III	In conformity with Basel III directives
			NIS in millions
A. Regulatory capital after supervisory deductions and adjustments			
Tier I capital	10,217	(11)	10,206
Tier II capital	4,569	281	4,850
Total capital	**14,786**	**270**	**15,056**
B. Weighted risk asset balances			
Credit risk	105,411	3,506	108,917
Market risk	842	-	842
Operating risk	7,154	-	7,154
Total weighted risk asset balances	**113,407**	**3,506**	**116,913**
C. Ratio of capital to risk elements			
Bank data:			
Ratio of Tier I capital to risk assets	9.01%	(0.28%)	8.73%
Total ratio of capital to risk elements	13.04	(0.16%)	12.88%
Minimum capital ratio required by the directives of the Supervisor of Banks			
Tier 1 capital ratio	7.50%		(1)7.50%
Total capital ratio	9.00%		(1)9.00%

(1) As from January 1, 2015 – minimum Tier I capital ratio of 9% and minimum capital ratio of 12.5%.

The calculation of the expected effect of adoption of Basel III directives on January 1, 2014 accounts for the transition provisions.

Note 14 – Capital adequacy pursuant to directives of the Supervisor of Banks – cont.

L. Upper Tier II capital includes complex capital notes amounting to NIS 1,934 million as of December 31, 2013, and to NIS 1,896 million as of December 31, 2012. A summary of terms and conditions there of follows:

- Capital notes bear interest and are linked to the CPI.
- Capital notes are not secured by liens on Bank assets or by any other collateral.
- Under certain circumstances, the Bank may suspend interest payments for the notes.
- The Bank would be required to convert the subordinated capital notes into ordinary Bank shares, using a pre-determined formula, if the Bank's ratio of tier I capital to risk elements would decrease significantly, if the Bank's retained earnings balance would turn negative, or if the Bank's external auditors should raise significant doubt with regard to continued Bank status as a going concern - all under conditions set forth in the capital note terms.
- The Bank's obligation to make payments for the subordinated capital notes would be subordinate to all other Bank obligations to creditors of all types, including to holders of subordinated capital notes issued or to be issued by the Bank and/or its subsidiaries, and would only outrank the rights of shareholders to a refund of excess Bank assets upon its dissolution.

M. Tier II capital includes subordinated notes amounting to NIS 2,533 million as of December 31, 2013, compared to NIS 3,140 million as of December 31, 2012. A summary of terms and conditions there of follows:

- Subordinated notes bear interest and are linked to the CPI.
- The notes shall rank below all other Bank liabilities which are not specified as having an equal or lower ranking, as set forth above.
- The notes are not secured by any collateral, are not subject to any lien, and the Bank may not receive any lien with respect there to, to secure any loan granted by the Bank or by a subsidiary there of.
- The notes are not subject to early repayment nor to any change in terms, without prior written consent of the Supervisor of Banks.

N. For details of issuance of complex capital notes and subordinated notes, see Note 11 above.

Note 15 - Liens

A. Stock exchange members are required to deposit a system of collateral to secure the fulfillment of all the obligations of their customers and the obligations of the other stock exchange members that are not members of the clearinghouse and their customers, to the stock exchange clearinghouse, with respect to transactions executed through the stock exchange clearinghouse, and to secure their share in the risks fund for this activity as discussed below in Note 19.D.1).

In the framework of system of collateral, the Bank deposits liquid collateral, as provided below:

1) Government debentures of the Bank were deposited in the account opened by the stock exchange clearinghouse in its name ("collateral account in clearinghouse") as collateral in favor of the stock exchange clearinghouse, at the full value of the customers' obligations plus the Bank's share in the risk fund. As of December 31, 2013 - NIS 28 million were deposited. (As of December 31, 2012, no debentures were deposited in the clearinghouse).

2) Additionally, in the account opened by the stock exchange clearinghouse in its name for the Bank in another bank, cash is deposited that the Bank furnishes as collateral, as well as the cash to be paid as income on securities that were deposited in the account, the clearinghouse's collateral or cash originating in any other financial right deriving from the securities, including cash proceeds from their sale. As of December 31, 2013, deposits to this account amounted to NIS 32 million (as of December 31, 2012 - NIS 34 million).

3) The accounts discussed in Par. 1 and 2 above have been pledged under a first-level fixed lien in favor of the stock exchange clearinghouse.

B. Stock exchange members are required to deposit a system of collateral that secures the fulfillment of their obligations relating to MAOF transactions that are executed by them or their customers or by stock exchange members that are not members of the MAOF Clearinghouse, and to secure their share in the risks fund covering this activity, as provided below in Note 19.D.

Accordingly, the Bank was required to deposit only liquid collateral, for the full exposure of activity in derivatives and for its share in the risks fund, as provided below:

1) In the account opened in the TASE Clearinghouse in the name of the MAOF Clearinghouse ("main MAOF collateral account"), government debentures of the Bank were deposited as security in favor of the MAOF Clearinghouse, at the full value of the requirements for customers' collateral plus the Bank's share in the risks fund. The value of debentures deposited as of December 31, 2013 is NIS 662 million (as of December 31, 2012 – NIS 387 million).

2) Additionally, in the account opened by the MAOF clearinghouse in its own name on behalf of the Bank with another bank, cash is deposited that the Bank furnishes as collateral, as well as the cash to be paid as income on securities that will be deposited in a major clearinghouse collateral account or cash originating in any other financial right deriving from the securities, including cash proceeds from their sale. As of December 31, 2013, deposits to this account amounted to NIS 33 million (as of December 31, 2012 - NIS 99 million).

3) The aforementioned accounts in sections 1-2 are pledged under a floating and fixed lien to benefit the MAOF clearinghouse.

Note 15 - Liens - continued

C. The Bank of Israel operates the Real Time Gross Settlement system (RTGS) - a system which allows customers to transfer in real time NIS-denominated amounts between bank accounts in the same bank or between banks.

The Bank of Israel provides daily and intra-day credit for participants in the RTGS system against specific liens on Bank debentures in the Bank of Israel account with the stock exchange clearinghouse. As of December 31, 2013 and as of December 31, 2012, no debentures were deposited in this account.

D. In accordance with the requirement of the regulatory agencies in the U.S., the Bank's branch there pledged securities worth USD 17 million as of the balance sheet date (as of December 31, 2012 – USD 25 million), used to secure deposits of the public or to comply with other government regulations, or to fulfill other government directives. Most of the amount pledged, which as of December 31, 2013 amounted to USD 12 million (as of December 31, 2012 – USD 15 million), relates to a demand by U.S. regulatory agencies to secure 7.5% of the branch's liabilities, as defined by the authorities there.

E. To secure credit facilities provided to the Bank by the Bank of Israel, the Bank has pledged an account containing foreign securities. As of December 31, 2013, the Bank did not pledge any foreign securities (as of December 31, 2012, the Bank did not pledge any foreign securities).

F. Debentures acquired by Bank Yahav, held at Bank HaPoalim, are pledged by floating lien in favor of the Bank of Israel.

G.

	December 31,	
	2013	2012
Sources of securities which have been received and which the Bank may sell or pledge, at fair value excluding set-offs:		
Securities received in transactions for borrowing securities against cash	70	207

These securities have been provided as collateral to the Bank, who may sell or pledge them.

Note 16 - Employees' Rights

A. The employment terms of the vast majority of the Group's employees and managers (except for those detailed in paragraphs B - I below) are determined in accordance with the provisions of collective labor agreements. Liabilities to these employees, except for Bank Yahav employees – as set forth in section N. below, are covered by regular deposits to pension, provident and severance-pay funds, which release the Bank from severance-pay liabilities provided for those employees by law. With respect to several previous Tefahot employees, the Bank is legally absolved from making compensation payments only for the period commencing on February 1, 2006 (with respect to previous Tefahot management, the bank is absolved from its obligation commencing January 1st, 2006). with respect to the banks' obligation until the end of 2005 (until January 2006 for previous Tefahot management), the Bank has contributed to pension and retirement funds and has recorded a provision for the difference between liability and contributions.

B. A small group of employees who retired in the past is entitled to a fixed monthly pension from the Bank. Employees who retired from the Bank prior to June 30, 1997 are entitled to pension payments from the Bank for certain salary components. Bank retirees are also eligible to receive non-pension benefits. The Bank's liability for these payments is covered by provisions, based on an actuarial calculation.

C. On June 17, 2013, the General Meeting of shareholders approved the Bank contracting of terms of office and employment of the Chairman of the Bank Board of Directors.

Below is a summary of the terms of office and employment of the Chairman of the Board of Directors, Mr. Moshe Vidman :

Mr. Moshe Vidman serves as Chairman of the Bank Board of Directors, at a full-time position equivalent, as from December 1, 2012. The employment agreement is for a 3-year term from the actual start date in office, and would terminate on November 30, 2015. Notwithstanding the foregoing, each party may inform the other party of termination of employment on any date, even before the end of the specified term, by three months' prior notice.

The Chairman would be eligible to receive for his work a monthly salary amounting to NIS 180 thousand, linked to the Consumer Price Index. The Chairman would also be eligible to receive an annual bonus of up to nine monthly salaries and an additional deferred bonus of up to nine monthly salaries, deferred until the end of his term in office. The bonus payments would be calculated based on return on equity, annual return of Bank shares, the Bank's operating efficiency ratio and the Board of Directors' evaluation of the Chairman's performance in discharging his special duties in the assigned areas.

The Bank provides to the Chairman of the Board of Directors 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 Chairman of the Board of Directors, to a study fund at 7.5% of his salary. These amounts are contributed to provident / pension / study funds as selected by the Chairman of the Board of Directors.

Upon termination of the Chairman's employment, the Bank would pay him an amount equal to 150% of his last monthly salary multiplied by his number of years in service. The Bank would also pay an acclimation bonus equal to 6 monthly salaries plus social benefits.

Note 16 - Employees' Rights - cont.

In addition to the foregoing, should the Chairman be terminated prior to completion of the specified term, he would be paid additional amounts as set forth in the employment agreement - subject to conditions set forth in the employment contract.

Upon termination of the Chairman, the Bank would provide him with a letter releasing all contributions made to provident, pension and severance pay funds - in lieu of the full severance pay to which the Chairman of the Board of Directors is entitled. The Bank would also release the study fund to the Chairman.

All other terms of office and employment of the Chairman of the Board of Directors were listed in an immediate report dated April 24, 2013, reference number 2013-01-044368. This mention constitutes inclusion by way of reference of all information provided in the aforementioned immediate report.

D. The Bank's former President ("the former President") entered into an agreement with the Bank ("the agreement") whereby he was employed by the Bank for a term of 5 years and 4 months starting December 1, 2008 and ending April 1, 2014. This agreement is further to a previous 5-year agreement commencing on March 29, 2004. The agreement was approved by the Bank's Board of Directors on November 30, 2008, after receiving approval of the Bank's Audit Committee and then accepting the recommendation by the Compensation Committee concerning the principles of major terms of employment of the former President.

Pursuant to the agreement, the former President is entitled to receive upon termination of his employment for any reason whatsoever (other than termination under specific circumstances stipulated in the employment agreement) severance pay equal to 200% of his most recent monthly salary upon termination of his employment for each year of service to the Bank, a 3-month adjustment period as well as current amounts with respect to pension payments deposited on his behalf at the usual rates. The financial statements included provisions for thse liabilities.

In the agreement, the former President waived the annual bonus to which he is entitled under the previous agreement, starting on the termination date of the previous agreement.

For details of options to acquire Bank shares allotted to the former President under the latest agreement, see Note 16.A.1.

At the Board meeting held on April 24, 2013, the Bank's former President announced his intention to not continue in his office for a further term. On August 15, 2013, he concluded his term in office as Bank President.

The date of employment termination set forth in the former President's employment contract dated November 30, 2008 is April 1, 2014.

E. Employment terms of the new Bank President have yet to be agreed.

The Board of Directors' Remuneration Committee is finalizing the employment terms of the new Bank President and its decisions would be brought for approval by the Board of Directors and by the General Meeting of Bank shareholders.

Note 16 - Employees' Rights - cont.

The Bank President is currently employed by the Bank under an individual employment contract effective since November 3, 2004 for an unspecified term. The Bank President's monthly salary is linked to the Consumer Price Index.

Upon termination of his employment at the Bank, the Bank President is eligible to receive an acclimation bonus equal to 6 monthly salaries, with no additional benefits whatsoever. Furthermore, the Bank President is eligible to have the Bank, upon termination of his employment, release to him all amounts accumulated on his behalf in the various funds.

Notwithstanding the above, the Bank President shall not be eligible for an acclimation bonus and release of amounts accumulated on his behalf in the various funds in case of termination of his employment under extraordinary circumstances, as set forth in the agreement.

Each of the parties to the agreement may terminate the contract with six months' prior notice and subject to terms and conditions set forth in the employment agreement.

F. Personal employment contracts have been signed with a group of senior employees, entitling them to a special bonus upon termination, under the circumstances prescribed in the agreements that could, in a few years' time, reach seventeen months' salary for certain employees with high seniority. These employees are also eligible, upon retirement, to other sums and rights, as accrued in their favor in various funds. The Bank has no intention to terminate any of these senior Bank employees.

The Bank's liability for these payments is covered by provisions, based on an actuarial calculation.

Note 16 - Employees' Rights - cont.

G. Several senior employees are eligible upon their retirement to an acclimation grant of six months' salary, for which a provision was recorded in the financial statements.

H. Two senior employees are eligible upon their retirement to increased severance pay of 150% of their last monthly salary multiplied by the number of their years of employment in the Bank, beyond the amounts deposited in funds, as required by law. Alternatively, these employees are entitled, provided they have passed age 55, to a pension until they reach retirement age. for which a provision was recorded in the financial statements.

I. A pension agreement was signed with an employee of an overseas affiliate of the Bank, whereby they would be entitled to a monthly pension for 180 months from retirement, after aggregating 20 years' seniority in the Bank, and under certain other circumstances prescribed in the agreements. The actuarial value of the provision recorded in the financial statements for this liability was calculated using a discount rate of 6%, which corresponds with the yield on the monies deposited for payment of these pension rights, and assuming that the annual pay raise will be at a rate of 3.5%.

J. Some Bank employees who take early retirement, sometimes receive, upon retirement, higher amounts than their entitlement pursuant to the law and to agreements. Sometimes the Bank pays these employees a pension until they reach the full retirement age. According to the Supervisor of Banks' directive, an actuarial reserve with respect to these payments is included on the financial statements.

K. On September 16, 2009, a special collective bargaining agreement was signed with the employee union - clerks sector, whereby the special collective bargaining agreement signed on April 27, 2006 was extended by a further 5 years, from January 1, 2011 through December 31, 2015. This agreement was approved by the Bank's Board of Directors on October 19, 2009.

Highlights of this agreement are as follows:

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

The cost of the voluntary retirement program is covered by an actuarial provision.

Note 16 - Employees' Rights - cont.

L. Long-service bonuses

Bank employees are entitled to special lump-sum bonuses upon attaining thirteen and eighteen years of service. A provision for these liabilities was recorded in the financial statements according to an actuarial calculation based on past experience and the likelihood that the employee will still be employed by the Bank on the vesting date.

M. Provisions for long-service bonuses and the voluntary retirement agreement were based on actuarial calculations using a 4% discount rate. The calculation takes into account a future real pay increase at 2.5%. Calculation of the reserve with respect to voluntary retirement was made in conformity with retirees' eligibility to linkage of their pension to the Consumer Price Index.

N. Bonuses for officers

1. On May 19, 2008, the Board of Directors, after receiving approval of the Audit Committee, resolved to approve a bonus framework for Bank officers, other than Board members including the Chairman of the Board of Directors and other than the Bank President (hereinafter in this section "the officers") for each of the years 2008-2012 (inclusive) (each of these years hereinafter in this section "report year") inter alia by way of creating a pool for bonus payments to officers. On March 2, 2009, an amendment to the bonus plan was approved, concerning the date on which the Board of Directors would discuss bonus payments pursuant to the aforementioned plan (hereinafter: "the bonus plan"). On October 26, 2010, an amendment of the bonus plan was approved, with regard to the annual rate of return for each of the years 2010 through 2012.

2. In accordance with the bonus plan, the Board of Directors would determine in each reported year, the number of monthly salaries to be deposited for each officer of the Bank, to a fund designated for bonus payment to officers. For any reported year, the number of monthly salaries would be based on the Bank's average operating net profit return on equity, as defined in the bonus plan (hereinafter: "the annual return ratio"). Accordingly, the Board of Directors shall determine in each report year the number of salaries to be transferred to the pool, if the annual return ratio should range from 10.5% (12% prior to the amendment dated October 26, 2010) to the maximum return ratio to be determined by the Board of Directors for that report year (hereinafter in this section: "the maximum return ratio") based on a scale to be determined by the Board of Directors for this purpose.

3. Shortly prior to publication of the Bank's annual report for the report year, and based on the expected annual return ratio for the report year, pursuant to the Bank's draft annual statements for the report year, subject to approval there of by law, the Board of Directors shall decide, after discussing recommendations of the Bank President and subject to approval by the Audit Committee (in as much as required by law), as specified below -

   a) Should the annual return ratio for the report year range from 10.5% (12% prior to the amendment dated October 26, 2010) to the maximum return ratio set by the Board of Directors for that report year, the Board of Directors shall determine the bonus amount to be paid out of the bonus payment pool, for the report year, provided that no single officer be paid a bonus higher than 12 salaries for the report year.

   b) Should the annual return ratio for the report year be lower than 10.5% (12% prior to the amendment dated October 26, 2010), the Board of Directors shall determine the bonus amount to be paid (if any). Furthermore, should the annual return ratio for the report year be higher than the maximum ratio set by the Board of Directors for the report year, then the Board shall determine the bonus amount to be paid for the report year.

Note 16 - Employees' Rights - cont.

4. Furthermore, in accordance with the bonus plan, the Board of Directors may decide, at its discretion, to have bonuses paid to officers with respect to net profit from extraordinary items at the Bank for any report year.

5. For details of the stock option plan for VPs, in which the offerees waived their right to receive a bonus as mentioned above, see Note 16.A.2.

O. At Bank Yahav, the Bank customarily makes up the difference, for employees eligible to receive severance pay, between the employee's most recent salary multiplied by their number of years in service and the amount accrued in their name in provident funds. Retiring Bank Yahav employees are also entitled, under the labor agreement, to partial redemption of unused sick days.

To some of its employees, Bank Yahav committed to deliver, upon termination of their employment for any reason, the severance pay component of recognized provident funds (pursuant to Section 14 of the Severance Pay Act). The Bank is not required to make up the difference for these employees between the employee's most recent salary multiplied by their number of years in service and the amount accrued in their name in the aforementioned provident funds.

Bank Yahav has committed to pay senior executives' salary during an adjustment period, should their employment be terminated by the Bank. To some, the Bank has committed to release to them the severance pay component accrued in the pension fund, in addition to their final salary multiplied by their number of years in service.

Bank Yahav committed to make monthly payments through the official retirement age to two senior executives who retired from Bank Yahav, with this payment linked to changes in the salary of Bank Yahav's CEO.

Bank Yahav's commitments are covered by appropriate reserves and provisions based on anactuarial calculation.

P. The provisions and deposits for employees' rights to pension, severance pay and acclimation grants are included in "other liabilities", as follows (reported amounts, NIS in millions):

	Consolidated		The Bank	
	2013	2012	2013	2012
Provision amount	788	781	651	662
Deposit amount [(1)]	114	112	10	10
Excess of provision over deposit	**674**	**669**	**641**	**652**

(1) The Bank and its subsidiaries may not withdraw the funded amounts other than for severance ayment.

Q. Provisions for employees' rights to paid leave, redemption of unused sick leave and seniority grants are included in "other liabilities" as follows (in reported amounts, NIS in millions):

	Consolidated		The Bank	
	2013	2012	2013	2012
Provision for vacation	101	91	93	83
Provision for seniority bonuses	26	22	13	10
Provision for redemption of sick leave [(1)]	15	14	-	-

(1) Presented under Other Liabilities, under Other Accounts Payable.

Note 16.A. – Share-based Payment Transactions

1. Stock option plan for the former President

On November 30, 2008, the Bank's Board of Directors, following approval by the Bank's Audit Committee at its meeting on November 30, 2008, resolved to approve the new stock option plan for allotment of options by private offer to the former Bank President.

In conjunction with the stock option plan, the Bank allotted to a trustee on February 1, 2009, on behalf of the former President, at no cost 5,571,381 options, each exercisable into one Bank ordinary share of NIS 0.1 par value, subject to adjustment for distribution of bonus shares, rights issuance, split or reverse split of shares or dividend distribution. Assuming full exercise of all options, and assuming allotment of the maximum possible number of exercised shares, all options allotted under the stock option plan would be equal to 2.44% of the Bank's issued share capital and voting rights (after allotment of the full number of exercised shares), and assuming full dilution – 1.54% of the Bank's issued share capital and voting rights.

Should the former President elect to exercise the options, in whole or in part, by way of allotment against the benefit amount, as stated below, then the assumption with regard to allotment of the maximum number of exercised shares is merely theoretical, since in this way the full amount of resulting exercised shares would not be allotted, but rather only enough shares to reflect the monetary benefit amount inherent in the options, as stated below.

The trustee would grant the options to the former President, subject to provisions of the stock option plan, in 5 lots (4 equal lots of 1,114,276 options each, and one lot of 1,114,277 options) on April 1 of each year between 2010-2014.
The former President may exercise the options as from the grant date through April 1, 2014 or through the second anniversary of his last day in office as Bank President, whichever is later, but no later than April 1, 2016.

At the Board meeting held on April 24, 2013, the Bank's former President announced his intention to not continue in his office for a further term. On August 15, 2013, he concluded his term in office as Bank President.
The exercise price for each option is NIS 21.18, plus linkage differentials to the Consumer Price Index starting on the date on which the Board of Directors approved the stock option plan and up to the CPI known upon the exercise date. The exercise price has been determined based on the closing price of Bank shares on the stock exchange on November 9, 2008 (the trading day preceding the date on which the recommendation by the Compensation Committee was received, as stated above). Note that the exercise price is higher by 9.5% than the closing price of Bank shares on the stock exchange on November 27, 2008 (NIS 19.35), when the exercise price was discussed by the Audit Committee, which was the trading day preceding the date on which the Board of Directors approved the employment agreement and the stock option plan.

The options may be exercised, in whole or in part, in any of the following ways:

1) Each option would be exercised into one Bank share (subject to adjustments), in exchange for payment of the full exercise price.

2) The Bank would allot, at no cost, a number of shares whose market value based on the closing price for Bank shares on the stock exchange on the trading day preceding the exercise date would be equal to the monetary benefit amount inherent in the options upon the exercise date.

Note 16.A. – Share-based Payment Transactions - continued

The Bank applies IFRS 2 "Share-based Payment". In accordance with provisions of this standard, the Bank records in its financial statements an expense equal to the fair value of the options. The expense, for each of the 5 lots, is allocated over the period from the allotment date to the grant date for that lot. The theoretical fair value of the options was calculated using the Black & Scholes model. Calculation of the fair value accounts for terms and conditions of the plan as well as for the following data and assumptions:

1) Calculation of the fair value does not account for the fact that the options would not be listed for trading on the stock exchange, nor does it account for blocking of the options, as specified in the stock option plan.

2) The exercise price for each option, for the purpose of this calculation, is NIS 21.18 as stated above.

3) It was assumed that all options would be exercised on the last day of the exercise period, i.e. expected duration of 7 years and 4 months.

4) The standard deviation used for this calculation was 27.06%, which was calculated by measuring the historic standard deviation of share prices on the stock exchange over a period equal to the expected duration of the options, ending on November 27, 2008.

5) The risk-free interest rate used for the calculation - 3.88% - was calculated based on interest rate quotes for risk-free, CPI-linked NIS-denominated assets traded on the stock exchange as of November 27, 2008 for a term equal to the expected duration for exercise of each option.

6) The exercise price is adjusted for dividends, so that the dividend yield assumed for this calculation is 0%.

Based on the assumptions stated above, the fair value of all options to be granted to the former President under the new stock option plan is NIS 38.6 million (NIS 44.6 million, including payroll tax at a rate of 15.5% as it stood at that time).

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 former President from exercise of these options shall be taxed at the marginal tax rate applicable to the former President upon exercise of the options. The Bank would be required to pay the payroll tax with respect to the benefit arising to the former President from exercise of the options under the new stock option plan. Furthermore, upon payment of the tax with respect to this benefit by the former 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.

2. Stock option plan for VPs

On March 29, 2009, the Bank's Board of Directors, after obtaining approval of the Bank's Audit Committee, decided to approve a plan for allotment of options by private placement which does not constitute a material private placement (hereinafter: "the plan") to nine officers of the Bank who are VP members of Bank management (of which one offeree who had served as VP, took unpaid leave from the Bank and currently serves as the CEO of Bank Yahav for Government Employees Ltd.) (hereinafter: "the offerees"). The Board of Directors further decided, after obtaining approval of the Audit Committee, that allotment of the options is contingent on the Supervisor of Banks allowing the Bank to buy back at least 1,400,000 shares of NIS 0.1 par value in the Bank's issued share capital. For details of 2,500,000 Bank shares bought back by the Bank in accordance with approval of the Supervisor of Banks, see Note 13.D.

Note 16.A. – Share-based Payment Transactions - continued

Each offeree pursuant to the stock option plan consented, by their own choice, that should the Bank allot to them stock options pursuant to the plan, they would be excluded from the framework bonus plan for Bank officers for each of the years 2009 through 2012, and would not be included in a bonus plan for Bank officers for 2013, should such plan be approved by the Bank.

In conjunction with the stock option plan, the Bank allotted on June 23, 2009 to the trustee, on behalf of the offerees, 5,850,000 options which would not be listed for trading on the stock exchange. The options may each be exercised for one Bank ordinary share of NIS 0.1 par value for no consideration, subject to terms and conditions of the plan. Allotment of the maximum number of exercise shares is only theoretical. Upon the exercise date of the options, offerees would not be allotted the full number of exercised shares arising from the options which the offerees may exercise, pursuant to plan terms, but rather only the number of shares reflecting the monetary benefit inherent in the aforementioned options.

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

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

In accordance with the original plan, each offeree would be eligible to exercise options included in the exercise lot which vested on any date, provided that the net operating profit return on the Bank's average shareholders' equity for the reported year preceding said vesting date should be 10% or higher. Should the aforementioned rate of return for the reported year prior to said vesting date be lower than 10%, the offeree may not exercise at any time the lot vested on the vesting date. The Bank's Board of Directors would be qualified, at its own discretion and subsequent to approval by the Audit Committee, to exclude the impact of non-recurring or extraordinary events from calculation of the annual rate of return for any reported period.

On October 26, 2010, the Board of Directors resolved, after receiving approval of the Audit Committee, to update the vesting eligibility rate for each of the stock option plans for VPs for lots vesting in 2011, 2012, 2013 and 2014, where the vesting eligibility would be determined based on the annual rate of return in reported fiscal 2010, 2011, 2012 and 2013, respectively. Accordingly, it was resolved that the vesting eligibility rate for each of the stock option Plans for VPs would be reduced from 10% to 9%.

The fair value (theoretical benefit value) of a single option in any lot of options was calculated in accordance with IFRS 2, using the Black & Scholes model. The theoretical benefit value of each lot is recognized in the Bank's accounts over the vesting term. The following assumptions were used for calculation of fair value:

- The exercise price for each option, for the purpose of this calculation, is NIS 21.18.
- The expected term to exercise of each lot was assumed to be the average of the vesting period of each lot (from one year for lot 1, to five years for lot 5) and the plan term (7 years).

Note 16.A. – Share-based Payment Transactions - continued

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

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

On November 9, 2009, the Bank's Board of Directors, after obtaining approval by the Bank's Audit Committee, resolved to approve allotment of a further 1,104,999 options, under identical terms and conditions with the exception of the exercise price, to two VPs appointed subsequent to the approval date of the stock option plan for VPs. The exercise price for each option allotted to the two additional offerees pursuant to the plan is NIS 29.85, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank. The exercise price was based on the closing price of Bank shares on the stock exchange on November 8, 2009, the most recent trading day prior to the date of plan approval by the Board of Directors. The fair value (theoretical benefit value) of a single option in any lot of additional options approved was calculated in accordance with IFRS 2, using the Black & Scholes model. The theoretical benefit value of each lot is recognized in the Bank's accounts over the vesting period.

On April 30, 2012, the Bank's Board of Directors resolved, after approval by the Bank's Audit Committee, to approve a plan for award of 238,333 options to an officer who was hired by the Bank in March 2012. The option plan is based on the principles of the stock option plan for VPs at the Bank, as described above.

Options would be awarded in 2 lots vesting on three dates ("vesting dates") starting on the first anniversary (lot 1) and second anniversary (lot 2) of the award date, subject to the net profit rate of return on average equity for each year preceding each vesting date, as stated above. The exercise price for each option pursuant to the plan is NIS 33.79, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank. The exercise price was based on the closing price of Bank shares on the stock exchange on April 29, 2012, the most recent trading day prior to the date of plan approval by the Board of Directors. The fair value (theoretical benefit value) of a single option in any lot of the additional options approved was calculated in accordance with IFRS 2, using the Black & Scholes model. The theoretical benefit value of the options in this allotment, calculated in accordance with the accounting rules of IFRS 2, amounts to NIS 1.7 million (NIS 1.9 million including Payroll Tax).

Calculation of the total theoretical benefit value for the allotment is based on assumptions regarding the number of options that the offeree would be eligible to exercise based on management's estimate of the range of annual rates of return, as stated above, as well as based on Bank management's assessment with regard to the average churn rate of plan offerees, meaning that some of the options to be granted would expire due to the offerees' retirement. The theoretical benefit value of each lot is recognized in the Bank's accounts over the vesting period.

Note 16.A. – Share-based Payment Transactions - continued

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

	Lot 1	Lot 2	Lot 3	Lot 4	Lot 5	Total
Allotment approved March 29, 2009						
Number of options (in thousands)	910	910	910	650	650	(1)4,030
Annualized standard deviation	32.75%	32.04%	30.95%	30.11%	30.27%	
Exercise price (in NIS)	21.18	21.18	21.18	21.18	21.18	
Risk-free interest rate	0.65%	0.77%	0.92%	1.09%	1.28%	
Term to exercise (in years)	4.1	4.6	5.1	5.6	6.1	
Fair value per single option	4.78	5.02	5.19	5.39	5.77	
Total fair value per lot (NIS in thousands)	4,346	4,569	4,724	3,504	3,751	20,894
Allotment approved November 9, 2009						
Number of options (in thousands)	65	260	260	260	260	1,105
Annualized standard deviation	35%	34%	33%	33%	32%	
Exercise price (in NIS)	29.85	29.85	29.85	29.85	29.85	
Risk-free interest rate	0.46%	0.65%	0.83%	1.02%	1.20%	
Term to exercise (in years)	3.6	4.1	4.6	5.1	5.6	
Fair value per single option	8.00	8.39	8.73	9.16	9.44	
Total fair value per lot (NIS in thousands)	520	2,181	2,270	2,381	2,455	9,807
Allotment approved April 30, 2012						
Number of options	108	130	-	-	-	238
Annualized standard deviation	30.23%	32.27%	-	-	-	
Exercise price (in NIS)	33.79	33.79	-	-	-	
Risk-free interest rate	0.2%	0.3%	-	-	-	
Term to exercise (in years)	2.7	3.2	-	-	-	
Fair value per single option	6.63	7.75	-	-	-	
Total fair value per grant (NIS in thousands)	718	1,008	-	-	-	1,726

(1) After expiration of 1,820 thousand options with respect to four VPs who resigned from the Bank.

Note 16.A. – Share-based Payment Transactions - continued

Details of the number of stock options and their exercise price are as follows:

		2013		2012		2011
	Number of stock options	Weighted average exercise price (in NIS)	Number of stock options	Weighted average exercise price (in NIS)	Number of stock options	Weighted average exercise price (in NIS)
Outstanding at year start	2,851,666	25.46	4,804,999	23.65	5,656,999	24.76
Granted during the year (1)	-	-	238,333	33.85	-	-
Forfeited during the year	-	-	520,000	22.07	520,000	35.96
Exercised during the year [(2)]	1,505,000	23.55	1,671,666	22.58	332,000	21.73
Outstanding at year end	1,346,666	26.83	2,851,666	25.46	4,804,999	23.65

(1) The weighted average fair value of stock options granted in 2012 was NIS 7.24.

(2) The weighted average share price upon exercise of options into shares during 2013 was NIS 39.37 (2012 – NIS 34.37; 2011 - NIS 36.01).

Stock options in circulation at year end by exercise price range:

	December 31, 2013			December 31, 2012			December 31, 2011		
Range of exercise prices (in NIS)	17-25	26-32	33-42	17-25	26-32	33-42	17-25	26-32	33-42
Number of stock options	715,000	393,333	238,333	1,790,000	823,333	238,333	3,700,000	1,104,999	-
Weighted average exercise price (in NIS)	22.16	30.67	34.47	22.07	30.42	33.85	21.76	29.98	-
Weighted average remaining contractual term (in years)	2.48	2.48	2.48	3.48	3.48	3.48	-	-	-
Of which vested:							4.49	4.48	-
Number of stock options	65,000	133,333	108,333	490,000	303,333	-	970,000	324,999	-
Weighted average exercise price (in NIS)	22.16	30.67	34.47	22.07	30.42	-	21.76	29.98	-

3. Stock option plan for employees

A. On July 19, 2005, after approval by the Bank's Audit Committee and Board of Directors, stock options were granted to Executive Management, division and sector managers, and department and branch managers of the Bank and its subsidiaries ("the offerees") in conjunction with a compensation plan aimed at encouraging them to contribute to business development of the Bank and its subsidiaries, and to align interests of the offerees with that of the Bank and its subsidiaries. Up to 12,000,000 options were allotted in accordance with the plan, which may be exercised for shares, NIS 0.1 par value each. As of December 31, 2009, a total of 11,379,103 options have been allotted to 338 offerees.

Note 16.A. – Share-based Payment Transactions - continued

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

The remaining options expired on February 18, 2013. The theoretical benefit value of the options allocated was charged to the statement of profit & loss through 2011. Upon exercise of vested options, the Bank classified the relevant portion of the capital reserve to share premium.

Details of the number of stock options and their exercise price are as follows:

	2013		2012		2011	
	Number of stock options	Weighted average exercise price (in NIS)	Number of stock options	Weighted average exercise price (in NIS)	Number of stock options	Weighted average exercise price (in NIS)
Outstanding at year start	-	-	393,922	28.24	1,049,492	22.18
Granted during the year	-	-	-	-	-	-
Forfeited during the year	-	-	-	-	-	-
Exercised during the year [(1)]	-	-	393,922	28.37	655,570	18.51
Outstanding at year end	-	-	-	-	393,922	28.24

(1) The weighted average share price upon exercise of options into shares during 2012 was NIS 34.07 (2011 – NIS 36.01).

Stock options outstanding at year end by exercise price range:

	December 31, 2013		December 31, 2012		December 31, 2011	
Range of exercise prices (in NIS)	17-25	26-32	17-25	26-32	17-25	26-32
Number of stock options	-	-	-	-	100,740	293,182
Weighted average exercise price (in NIS)	-	-	-	-	23.44	29.88
Weighted average remaining contractual term (in years)	-	-	-	-	0.6	0.9
Of which vested:						
Number of stock options	-	-	-	-	100,740	293,182
Weighted average exercise price (in NIS)	-	-	-	-	23.44	29.88

Note 16.A. – Share-based Payment Transactions - continued

B. On May 19, 2008, the Bank's Board of Directors resolved, after obtaining approval of the Bank's Audit Committee and the recommendations of the Bank Board's Compensation and Management Committees with regard to principles of the stock option plan, to approve a stock option plan ("the plan" or "the option plan") for Bank officers, branch-, department- and affiliate managers as well as for other employees of the Bank and its subsidiaries – as specified in the option plan and in the outline published on June 8, 2008 ("the outline"). No stock options would be granted, pursuant to the plan, to members of the Bank's Board of Directors, including the Chairman of the Board, nor to the Bank President.

The option plan is for a term of 5 years and 90 days, starting on the date of option allotment in accordance with the plan. In conjunction with approval of the plan, the Board of Directors resolved that the number of options to be used as a pool for allotment of options pursuant to the plan, would include 32,500,000 options, registered in the owner's name, not listed for trading on the Tel Aviv Stock Exchange, which would be granted at no cost to offerees, and which may be exercised for up to 32,500,000 Bank ordinary shares, NIS 0.1 par value each, subject to adjustments as stipulated in the plan, and subject to achieving the eligibility conditions it has determined..

The options allotted to the trustee for each offeree, in accordance with the plan, will be allotted in 5 equal lots. The vesting period for each such lot would be at the end of each of the 1st, 2nd, 3rd, 4th and 5th anniversaries of the allotment date of options pursuant to the plan, respectively. The number of exercised shares, as stated above, is the maximum number of shares arising from exercise of all options which may be allotted pursuant to the plan. However, the number of options which the offerees may actually exercise, pursuant to terms of the plan, will be based on the net operating profit return on the Bank's average shareholders' equity, up to an annual rate of return equal to 18% (under the original plan), based on the exercise eligibility formula, as stated in the option plan.

The personal eligibility rate for each offeree included in the group of branch managers, department managers and affiliate managers (as defined in the plan) to exercise the options granted to them in accordance with the plan will be determined, in addition to the aforementioned, also by the quality rating assigned to them, as stated in the option plan.

Furthermore, allotment of the full number of exercised shares is merely theoretical, since in actual fact the offerees would not be allotted the full number of exercised shares arising from the options which the offerees may exercise, pursuant to plan terms, but rather only the number of shares reflecting the monetary benefit inherent in the aforementioned options, as stated in the option plan.

The exercise price for each of the options allotted pursuant to the plan was determined based on the closing price of the Bank's ordinary shares on the stock exchange on July 7, 2008 - the final trading day preceding the allotment date of options to the offeree. The exercise price is NIS 25.15 plus linkage differentials to the Consumer Price Index starting on the allotment date, adjusted for dividends to be distributed by the Bank.

On July 8, 2008, 28,625,300 options were allotted, in accordance with the plan, at no cost to 313 offerees who are Bank officers, branch managers, department managers and affiliate managers, as well as other employees of the Bank and its subsidiaries, as stated in the option plan.

Note 16.A. – Share-based Payment Transactions - continued

The options pursuant to the plan were allotted in accordance with terms of the work income track, via a trustee, pursuant to provisions of Section 102 of the Income Tax Ordinance (New Version), 1961 including all regulations, rules, circulars and guidelines issued based there upon.

On November 24, 2008, the Board of Directors resolved, after receiving approval of the Bank's Audit Committee dated November 23, 2008, to extend the exercise periods of all options allotted in accordance with the plan and the framework, and which would be allotted thereby in the future, by 24 months.

Accordingly, the exercise period for each lot of the options allotted or to be allotted pursuant to the option plan, including all options allotted on July 8, 2008, would be extended by 24 months, to end after 7 years and 90 days from the date of allotment, rather than after 5 years and 90 days from the date of allotment, as stated in the original plan.

For recording the expense in the Bank's financial statements, and based on the strategic 5-year plan, as mentioned above, management has estimated a range of annual rates of return (though not linear) for each plan year (2008-2012) up to an 18% annual rate of return in 2012. Using this range, the number of options each offeree may exercise out of the total number of options granted to them in accordance with the plan has been estimated, as determined in the framework.

On November 24, 2008, the Bank's Board of Directors approved an updated strategic plan, whereby the Bank's objective is to achieve an annual rate of return of 18% in 2013, rather than in 2012, as stated in the strategic plan prior to its update. Accordingly, management's estimate with regard to the framework of annual rates of return has been updated for the purpose of recording this expense in the Bank's financial statements.

On October 26, 2010, the Board of Directors resolved, after receiving approval of the Audit Committee, to update the vesting eligibility formula for each of the stock option plans for VPs for lots vesting in 2011, 2012 and 2013, where the vesting eligibility would be determined based on the annual rate of return in reported fiscal 2010, 2011 and 2012, respectively. In accordance with the updated formula, the offerees would be eligible to exercise in full the options in each lot, provided that the average net profit rate of return on equity would be 15%, compared to 18% in the original formula, all as stipulated in the update to the stock option plan. For recording the expense on the Bank's financial statements, Bank management has estimated the trend of annual rates of return (though not linear) for each of the years 2010, 2011 and 2012. Using this trend, the number of options each offeree may exercise out of the total number of options granted to them in accordance with the plan were reestimated for lots vesting in 2011 through 2013. The update to the vesting eligibility formula, as well as management estimates with regard to the trend of annual rates of return, are arithmetical results of the Board of Directors' decision with regard to the capital adequacy target. Pursuant to this reestimation, it is expected that the number of options exercisable by each offeree, as stated above, would be similar to the number of options exercisable by each offeree based on previous estimates by management, and that the change would not materially impact the Bank's financial statements.

Note 16.A. – Share-based Payment Transactions - continued

The theoretical benefit value of the options currently allotted, as stated above, calculated in accordance with accounting principles in IFRS 2, including adjustment of option value with respect to the change in option terms and the impact of change in number of options expected to vest, as of December 31, 2012 amounted to NIS 154 million (NIS 179 million including payroll tax); Calculation of the total theoretical benefit value for the allotment is based on assumptions regarding the number of options that offerees would be eligible to exercise based on management's estimate of the range of annual rates of return, as statedh above, as well as based on Bank management's assessment with regard to the average churn rate of plan offerees, meaning that some of the options to be granted would expire due to the offerees' retirement. Adjustment of the benefit value with respect to the change in option terms is the difference between the fair value of the options, under their original terms, upon the date of change in these terms, and their fair value under the new terms upon the same date. The theoretical benefit value is recorded in the Bank's accounts starting on the grant date and over a 5-year period. Management's estimates with regard to the range of annual rates of return and churn rates are reviewed and updated on an on-going basis, and the extent of total expenditure recorded in the financial statements is updated accordingly.

The theoretical benefit value of the options was determined using the Black and Scholes model. Standard deviation was separately calculated for each lot, based on daily share prices in a period equal to the expected life of each lot. The option term in the model was determined based on the average time between the vesting period and the option expiration date (Simplified Approach). The rate of risk-free interest is determined based on gross yield to maturity for CPI-linked government debentures bearing fixed interest ("Galil"), for a term equal to the expected life to exercise of each lot.

Note 16.A. – Share-based Payment Transactions - continued

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for each of the lots granted on July 8, 2008, as of the grant date and as of the date of modification of terms:

	Lot 1	Lot 2	Lot 3	Lot 4	Lot 5
As of July 8, 2008 – the grant date					
Annualized standard deviation	26.05%	26.23%	25.44%	24.71%	24.98%
Exercise price (in NIS)	25.15	25.15	25.15	25.15	25.15
Interest	2.03%	2.20%	2.34%	2.47%	2.58%
Term to exercise (in years)	3.10	3.60	4.10	4.60	5.10
Fair value per single option	5.25	5.79	6.13	6.45	6.95
As of November 24, 2008 – for the original exercise period (exercise price unchanged)					
Annualized standard deviation	29.84%	29.22%	28.76%	28.35%	27.43%
Share price	15.70	15.70	15.70	15.70	15.70
Exercise price	25.70	25.70	25.70	25.70	25.70
Interest	4.08%	4.11%	4.13%	4.15%	4.16%
Term to exercise (in years)	2.75	3.25	3.75	4.25	4.75
Fair value per single option	1.17	1.43	1.69	1.94	2.12
As of November 24, 2008 – for the updated exercise period (exercise price unchanged)					
Annualized standard deviation	28.76%	28.35%	27.43%	26.77%	27.18%
Share price	15.70	15.70	15.70	15.70	15.70
Exercise price	25.70	25.70	25.70	25.70	25.70
Interest	4.13%	4.15%	4.16%	4.18%	4.19%
Term to exercise (in years)	3.75	4.25	4.75	5.25	5.75
Fair value per single option	1.69	1.94	2.12	2.32	2.66
Value of change per single option	0.52	0.51	0.43	0.38	0.54
Cumulative value per single option	5.77	6.30	6.56	6.83	7.49

On June 29, 2009, the Bank's Board of Directors approved allotment of a further 2,263,700 options, under identical terms and conditions except for the exercise price, to two officers and 37 additional employees. The exercise price for each option allotted to offerees pursuant to the plan is NIS 23.6, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank. The exercise price was based on the closing price of Bank shares on the stock exchange on June 28, 2009, the most recent trading day prior to the date of plan approval by the Board of Directors.

Note 16.A. – Share-based Payment Transactions - continued

Based on assumptions with regard to number of options which offerees would be eligible to exercise, as stated above, the theoretical benefit value of the options amounted to NIS 11 million (NIS 12 million including payroll tax).

On November 9, 2009, the Bank's Board of Directors, after receiving approval of the Bank's Audit Committee, resolved to approve allotment of a further 1,085,432 options, under identical terms and conditions with the exception of the exercise price, to four officers of the Bank. The exercise price for each option allotted to the four additional offerees pursuant to the plan is NIS 29.85, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank. The exercise price was based on the closing price of Bank shares on the stock exchange on November 8, 2009, the most recent trading day prior to the date of plan approval by the Board of Directors. The fair value (theoretical benefit value) of a single option in any lot of the additional options approved was calculated in accordance with Accounting Standard no. 24, using the Black & Scholes model. The theoretical benefit value of each lot is recognized in the Bank's accounts over the vesting period.

Based on assumptions with regard to number of options which offerees would be eligible to exercise, as stated above, the theoretical benefit value of the options amounted to NIS 6 million (NIS 7 million including payroll tax).

On October 26, 2010, the Bank's Board of Directors, after receiving approval of the Bank's Audit Committee, resolved to approve a plan for allotment of a further 1,652,500 options, under identical terms and conditions with the exception of the exercise price, to 41 employees, including one officer of the Bank. Options would be allotted in 3 equal lots vesting on three dates ("vesting dates") starting on the first anniversary (lot 1), second anniversary (lot 2) and third anniversary (lot 3) of the allotment date, subject to the net profit rate of return on average equity for each year preceding each vesting date, as stated above. The exercise price for each option allotted to the additional offerees pursuant to the plan is NIS 35.40, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank.

The exercise price was based on the closing price of Bank shares on the stock exchange on October 25, 2010, the most recent trading day prior to the date of plan approval by the Board of Directors. The fair value (theoretical benefit value) of a single option in any lot of the additional options approved was calculated in accordance with Accounting Standard no. 24, using the Black & Scholes model. The theoretical benefit value of each lot is recognized in the Bank's accounts over the vesting period.

Based on assumptions with regard to number of options which offerees would be eligible to exercise, as stated above, the theoretical benefit value of the options amounted to NIS 11 million (NIS 13 million including payroll tax).

On October 3, 2011, the Bank's Board of Directors, after receiving approval of the Bank's Audit Committee, resolved to approve a plan for allotment of a further 701,300 options, under identical terms and conditions with the exception of the exercise price, to 31 employees, including one officer of the Bank. Options would be allotted in 2 equal lots vesting on three dates ("vesting dates") starting on the first anniversary (lot 1) and second anniversary (lot 2) of the allotment date, subject to the net profit rate of return on average equity for each year preceding each vesting date, as stated above. The exercise price for each option allotted to the additional offerees pursuant to the plan is NIS 31.62, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank.

The exercise price was based on the closing price of Bank shares on the stock exchange on October 2, 2011, the most recent trading day prior to the date of plan approval by the Board of Directors. The fair value (theoretical benefit value) of a single option in any lot of the additional options approved was calculated in accordance with IFRS 2, using the Black & Scholes model.

Note 16.A. – Share-based Payment Transactions - continued

The theoretical benefit value of the options in this allotment, calculated in accordance with accounting rules of Accounting Standard no. 24, amounts to NIS 4.4 million (NIS 5 million including Payroll Tax).

The options were allotted to employees on November 17, 2011.

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for each of the lots granted on June 28, 2009, on November 9, 2009 and on October 3, 2011:

	Lot 1	Lot 2	Lot 3	Lot 4	Total
Allotment approved on June 29, 2009					
Number of options (in thousands)	566	566	566	566	2,264
Annualized standard deviation	34.27%	33.29%	32.65%	31.55%	
Exercise price (in NIS)	23.60	23.60	23.60	23.60	
Risk-free interest rate	0.91%	1.20%	1.50%	1.71%	
Term to exercise (in years)	3.7	4.2	4.7	5.2	
Fair value per single option	6.40	8.75	7.15	7.45	
Total fair value per lot, NIS in thousands	3,622	3,820	4,046	4,194	15,682
Allotment approved on November 9, 2009					
Number of options (in thousands)	248	279	279	279	1,085
Annualized standard deviation	34.88%	33.92%	33.15%	32.45%	
Exercise price (in NIS)	29.85	29.85	29.85	29.85	
Risk-free interest rate	0.49%	0.68%	0.87%	1.05%	
Term to exercise (in years)	3.7	4.2	4.7	5.2	
Fair value per single option	8.05	8.43	8.82	9.21	
Total fair value per lot, NIS in thousands	2,000	2,352	2,461	2,569	9,382
Allotment approved on October 26, 2010					
Number of options (in thousands)		551	551	551	1,653
Annualized standard deviation		36.73%	35.07%	33.88%	
Exercise price (in NIS)		35.40	35.40	35.40	
Risk-free interest rate		0.22%	0.38%	0.53%	
Term to exercise (in years)		3.2	3.7	4.2	
Fair value per single option		9.23	9.55	9.92	
Total fair value per lot (NIS in thousands)		5,084	5,260	5,464	15,808
Allotment approved on October 3, 2011					
Number of options (in thousands)			351	351	702
Annualized standard deviation			31.93%	36.90%	
Exercise price (in NIS)			31.62	31.62	
Risk-free interest rate			1.07%	1.13%	
Term to exercise (in years)			2.71	3.21	
Fair value per single option			6.93	8.63	
Total fair value per lot (NIS in thousands)			1,700	2,783	4,483

Note 16.A. – Share-based Payment Transactions - continued

Details of the number of stock options and their exercise price are as follows:

	2013		2012		2011	
	Number of stock options	Weighted average exercise price (in NIS)	Number of stock options	Weighted average exercise price (in NIS)	Number of stock options	Weighted average exercise price (in NIS)
Outstanding at year start	9,260,886	28.22	15,841,665	27.24	20,342,887	27.05
Granted during the year (1)	-	-	-	-	701,300	31.59
Forfeited during the year	2,615,397	27.97	1,033,267	26.94	4,732,979	27.26
Exercised during the year (2)	4,481,512	27.83	5,547,512	26.68	469,543	6.79
Outstanding at year end (3)	2,163,977	30.11	9,260,886	28.22	15,841,665	27.24

(1) The weighted average fair value of stock options granted in 2011, as of the measurement date, was NIS 7.30.

(2) The weighted average share price upon exercise of options into shares during 2013 was NIS 40.07 (2012 - NIS 36.26; 2011 - NIS 36.16).

(3) Stock options outstanding at year end by exercise price range:

	December 31, 2013			December 31, 2012			December 31, 2011		
Range of exercise prices (in NIS)	17-25	26-32	33-42	17-25	26-32	33-42	17-25	26-32	33-42
Number of stock options	200,469	1,363,410	600,098	794,422	6,730,713	1,735,751	1,323,678	13,346,010	1,171,977
Weighted average exercise price (in NIS)	24.41	35.24	36.67	24.28	26.99	34.79	23.93	26.82	35.79
Weighted average remaining contractual term (in years)	1.98	2.44	2.18	2.98	2.80	3.17	3.98	3.81	4.18
Of which vested:									
Number of stock options	200,469	1,363,410	600,098	255,522	1,998.733	900,603	245,878	2,357,790	182,978
Weighted average exercise price (in NIS)	24.41	35.24	36.67	24.28	27.09	34.99	23.93	26.56	35.79

C. On April 29, 2013, the Bank's Board of Directors, after receiving approval of the Bank's Audit Committee, resolved to approve a plan for allotment of a further 5,921,340 options to 330 offerees. Employees of the Bank and Employees of its subsidiaries who are not hold position in the Bank. The option plan is based on the principles of the stock option plan for employees at the Bank.

The stock option plan is based on the layout and principles of the employee stock option plans approved by the Bank in 2008 through 2011, whereby the Bank allocated options on July 8, 2008, on September 24, 2009, on December 5, 2010 and on November 17, 2011. Terms of the aforementioned options were listed in detail in outlines made public by the Bank, as amended. The stock option plan pursuant to this outline is intended for Bank employees other than officers and to employees of Bank subsidiaries. For further information, see Note 16.A.3.A-B.

Note 16.A. – Share-based Payment Transactions - continued

The number of options which offerees may actually exercise, pursuant to plan terms and conditions, is derived from the average rate of net operating profit return on equity for the Bank, based on the formula for exercise eligibility - all as described and similar to plans approved in 2008 through 2011.

The options were awarded in one lot, exercisable as from the first anniversary through 90 days after the second anniversary of the award date. Subject to the average rate of net operating profit return on equity for the Bank, as described above. The exercise price for each option allotted to offerees pursuant to the plan is NIS 36.6, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank. The exercise price was based on the closing price of Bank shares on the stock exchange on April 28, 2013, the most recent trading day prior to the date of plan approval by the Board of Directors. The fair value (theoretical benefit value) of a single option in any lot of the additional options approved was calculated in accordance with IFRS 2, using the Black & Scholes model. The theoretical benefit value of the options in this allotment, calculated in accordance with accounting rules of IFRS 2, amounts to NIS 17 million (NIS 20 million including Payroll Tax).

Calculation of the total theoretical benefit value for the allotment is based on assumptions regarding the number of options that the offerees would be eligible to exercise based on management estimate of the range of annual rates of return, as stated above, as well as based on Bank management assessment with regard to the average churn rate of plan offerees, meaning that some of the options to be granted would expire due to the offerees' retirement. The theoretical benefit value of the lot is recognized by the Bank over the vesting period.

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

	Lot 1	Total
Allotment approved April 29, 2013		
Number of options	5,921,340	
Annualized standard deviation	31.36%	
Exercise price (in NIS)	36.6	
Risk-free interest rate	-0.18%	
Term to exercise (in years)	1.71	
Fair value per single option	5.894	
Total fair value of award (NIS in thousands)	34,899	34,899

Note 16.A. – Share-based Payment Transactions - continued

Details of the number of stock options and their exercise price are as follows:

		2013
	Number of stock options	Weighted average exercise price (in NIS)
Outstanding at year start	-	-
Granted during the year (1)	5,901,340	36.71
Forfeited during the year	41,100	36.71
Exercised during the year (2)	-	-
Outstanding at year end (3)	5,860,240	36.71

(1) The weighted average fair value of stock options granted in 2013, as of the measurement date, was NIS 5.54.
(2) Stock options outstanding at year end by exercise price range:

Exercise price range			December 31, 2013
(in NIS)	17-25	26-32	33-42
Number of stock options	-	-	5,860,240
Weighted average exercise price (in NIS)	-	-	36.71
Weighted average remaining contractual term (in years)	-	-	1.72
Of which vested:			
Number of stock options	-	-	-
Weighted average exercise price (in NIS)	-	-	-

Note 17 - Assets and Liabilities by Linkage Basis - Consolidated

As of December 31, 2013

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 17 - Assets and Liabilities by Linkage Basis - Consolidated - continued

As of December 31, 2012

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency [1]			Non-monetary items[2]	Total
	Non-linked	CPI-linked	US dollars	Euro	Other currencies		
Assets							
Cash and deposits with banks	14,068	170	1,802	166	465	-	16,671
Securities	5,487	251	2,396	757	31	119	9,041
Securities loaned or sold in conjunction with repurchase agreements	15	192	-	-	-	-	207
Loans to the public, net	66,160	49,221	8,908	2,568	1,794	-	128,651
Loans to Governments	-	-	103	213	1	-	317
Investments in investees	33	-	-	-	-	27	60
Buildings and equipment	-	-	-	-	-	1,658	1,658
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	2,653	318	358	74	115	-	3,518
Other assets	1,525	388	51	2	16	50	2,032
Total assets	**89,941**	**50,540**	**13,618**	**3,780**	**2,422**	**1,941**	**162,242**
Liabilities							
Deposits from the public	[3]83,285	[3]21,531	16,369	4,179	2,717	-	[3]128,081
Deposits from banks	196	532	688	222	56	-	1,694
Deposits from the Government	13	62	32	-	-	-	107
Debentures and subordinated notes	2,094	11,945	-	-	-	-	14,039
Liabilities with respect to derivatives	2,645	271	572	269	16	-	3,773
Other liabilities	[3]3,972	[3]955	58	8	19	284	[3]5,296
Total liabilities	**92,205**	**35,296**	**17,719**	**4,678**	**2,808**	**284**	**152,990**
Difference	**(2,264)**	**15,244**	**(4,101)**	**(898)**	**(386)**	**1,657**	**9,252**
Impact of hedging derivatives:							
Derivatives (other than options)	400	(400)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (other than options)	2,342	(6,886)	3,984	355	205	-	-
Net in-the-money options (in terms of underlying asset)	(577)	-	91	381	89	16	-
Net out-of-the-money options (in terms of underlying asset)	(147)	-	64	94	7	(18)	-
Total	**(246)**	**7,958**	**38**	**(68)**	**(85)**	**1,655**	**9,252**
Net in-the-money options (capitalized par value)	88	-	370	(394)	(64)	-	-
Net out-of-the-money options (capitalized par value)	(457)	-	(141)	538	60	-	-

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

Note 17 - Assets and Liabilities by Linkage Basis - The Bank - continued

As of December 31, 2013

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	18,871	42	1,865	234	109	-	21,121
Securities	2,112	118	2,003	746	-	67	5,046
Securities loaned or sold in conjunction with repurchase agreements	13	57	-	-	-	-	70
Loans to the public, net	67,637	52,160	8,157	2,270	1,383	-	131,607
Loans to Governments	-	-	122	183	-	-	305
Investments in investees [3]	35	509	-	-	-	1,822	2,366
Buildings and equipment	-	-	-	-	-	1,498	1,498
Assets with respect to derivatives	2,722	552	219	78	31	-	3,602
Other assets	1,706	280	26	1	8	43	2,064
Total assets	**93,096**	**53,718**	**12,392**	**3,512**	**1,531**	**3,430**	**167,679**
Liabilities							
Deposits from the public	82,797	29,210	19,311	4,183	2,255	-	137,756
Deposits from banks	3,342	2,905	1,356	249	63	-	7,915
Deposits from the Government	-	22	29	-	-	-	51
Debentures and subordinated notes	-	3,985	-	-	-	-	3,985
Liabilities with respect to derivatives	2,442	294	494	291	16	-	3,537
Other liabilities	3,136	1,062	35	1	23	326	4,583
Total liabilities	**91,717**	**37,478**	**21,225**	**4,724**	**2,357**	**326**	**157,827**
Difference	**1,379**	**16,240**	**(8,833)**	**(1,212)**	**(826)**	**3,104**	**9,852**
Impact of hedging derivatives:							
Derivatives (other than options)	1,083	(1,083)					-
Non-hedging financial derivatives:							
Derivatives (other than options)	(1,437)	(8,042)	8,351	536	592	-	-
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	**(74)**	**7,115**	**(19)**	**(25)**	**(249)**	**3,104**	**9,852**
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.

(3) Includes investments in overseas subsidiaries totaling NIS 313 million.

Note 17 - Assets and Liabilities by Linkage Basis - The Bank - continued

As of December 31, 2012

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	11,378	93	1,612	121	382	-	13,586
Securities	2,787	238	2,383	757	-	119	6,284
Securities loaned or sold in conjunction with repurchase agreements	15	192	-	-	-	-	207
Loans to the public, net	60,663	48,591	8,766	2,527	1,759	-	122,306
Loans to Governments	-	-	103	213	1	-	317
Investments in investees [(3)]	33	478	-	-	-	1,707	[(4)]2,218
Buildings and equipment	-	-	-	-	-	1,505	1,505
Assets with respect to derivatives	2,653	318	358	74	115	-	3,518
Other assets	1,401	393	51	2	7	50	1,904
Total assets	**78,930**	**50,303**	**13,273**	**3,694**	**2,264**	**3,381**	**151,845**
Liabilities							
Deposits from the public	[(5)]73,891	[(5)]26,662	15,742	3,924	2,577	-	[(5)]122,796
Deposits from banks	3,243	3,228	1,211	405	117	-	8,204
Deposits from the Government	-	61	32	-	-	-	93
Debentures and subordinated notes	-	4,125	-	-	-	-	4,125
Liabilities with respect to derivatives	2,645	271	572	269	16	-	3,773
Other liabilities	[(5)]2,741	[(5)]949	48	2	19	284	[(5)]4,043
Total liabilities	**82,520**	**35,296**	**17,605**	**4,600**	**2,729**	**284**	**143,034**
Difference	**(3,590)**	**15,007**	**(4,332)**	**(906)**	**(465)**	**3,097**	**8,811**
Impact of hedging derivatives:							
Derivatives (other than options)	400	(400)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (other than options)	2,342	(6,886)	4,089	367	88	-	-
Net in-the-money options (in terms of underlying asset)	(578)	-	92	381	89	16	-
Net out-of-the-money options (in terms of underlying asset)	(146)	-	64	94	7	(19)	-
Total	**(1,572)**	**7,721**	**(87)**	**(64)**	**(281)**	**3,094**	**8,811**
Net in-the-money options (capitalized par value)	88	-	370	(394)	(64)	-	-
Net out-of-the-money options (capitalized par value)	(457)	-	(141)	538	60	-	-

(1) Includes linked to foreign currency.
(2) Includes derivatives whose base relates to a non-monetary item.
(3) Includes investments in overseas subsidiaries totaling NIS 325 million.
(4) Reclassified, The balance of investments in investees includes goodwill amounting to NIS 87 million.
(5) Reclassified.

Note 18 - Assets and Liabilities Classified by Term to Maturity and Linkage Basis [(1)] - consolidated

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 [(3)]	33,745	5,219	19,679	16,595	12,287	10,845
Liabilities	56,208	9,288	30,030	25,722	9,124	9,744
Difference	**(22,463)**	**(4,069)**	**(10,351)**	**(9,127)**	**3,163**	**1,101**
Future transactions	(8,692)	(4,910)	5,544	(85)	(263)	72
Stock Options	(1,950)	386	465	-	-	-
Difference after effect of derivatives	**(33,105)**	**(8,593)**	**(4,342)**	**(9,212)**	**2,900**	**1,173**
Foreign currency [(4)]						
Assets	5,863	1,431	1,249	2,503	1,168	744
Liabilities	12,656	6,815	6,977	1,312	271	48
Difference	**(6,793)**	**(5,384)**	**(5,728)**	**1,191**	**897**	**696**
Includes: Difference in USD	(2,596)	(3,215)	(4,007)	(183)	348	218
Includes: 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	1,949	(386)	(465)	1	-	-
Difference after effect of derivatives	**3,848**	**(860)**	**(11,737)**	**1,277**	**1,160**	**624**
Total						
Assets	39,608	6,650	20,928	19,098	13,455	11,589
Liabilities	68,864	16,103	37,007	27,034	9,395	9,792
Difference	**(29,256)**	**(9,453)**	**(16,079)**	**(7,936)**	**4,060**	**1,797**
Includes: Loans to the public	12,131	5,396	19,928	16,013	12,515	9,911
Includes: Deposits from the public	55,683	14,480	35,646	23,168	7,211	7,016

(1) 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.

(2) Includes assets totaling NIS 361 million which are past due.

(3) Includes NIS 6,508 million of loans at debitory account terms and NIS 310 million exceeding limits in debitory account facilities.

(4) 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 (5)		Forecasted
	4-5 years	5-10 years	10-20 years	Over 20 years	Total cash flows	Without maturity	Total	internal rate of return (4)
	8,416	34,178	37,151	11,492	189,607	(2)968	163,024	4.64%
	3,931	12,140	5,323	1,292	162,802	81	140,646	2.50%
	4,485	**22,038**	**31,828**	**10,200**	**26,805**	**887**	**22,378**	
	(169)	(1,045)	-	-	(9,548)	-	(9,479)	
	-	-	-	-	(1,099)	-	(1,099)	
	4,316	**20,993**	**31,828**	**10,200**	**16,158**	**887**	**11,800**	
	769	1,336	393	13	15,469	(2)114	14,680	3.73%
	46	307	160	-	28,592	4	28,306	1.48%
	723	**1,029**	**233**	**13**	**(13,123)**	**110**	**(13,626)**	
	143	326	72	-	(8,894)	-	(8,527)	
	531	250	(4)	-	1,103	-	813	
	169	1,045	-	-	9,548	-	9,479	
	-	-	-	-	1,099	-	1,099	
	892	**2,074**	**233**	**13**	**(2,476)**	**110**	**(3,048)**	
	9,185	35,514	37,544	11,505	205,076	1,082	177,704	4.58%
	3,977	12,447	5,483	1,292	191,394	85	168,952	2.47%
	5,208	**23,067**	**32,061**	**10,213**	**13,682**	**997**	**8,752**	
	8,746	32,321	37,381	11,328	165,670	725	138,565	4.70%
	2,675	8,732	4,421	1,066	160,098	2	141,244	2.50%

Note 18 - Assets and Liabilities Classified by Term to Maturity and Linkage Basis [(1)] - The Bank - 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 [(3)]	28,624	4,798	18,573	14,723	11,248	9,710
Liabilities	44,207	7,952	31,143	26,051	9,365	9,727
Difference	**(15,583)**	**(3,154)**	**(12,570)**	**(11,328)**	**1,883**	**(17)**
Future transactions	(8,692)	(4,910)	5,544	(85)	(263)	72
Stock Options	(1,950)	386	465	-	-	-
Difference after effect of derivatives	**(26,225)**	**(7,678)**	**(6,561)**	**(11,413)**	**1,620**	**55**
Foreign currency						
Assets	5,268	891	1,621	2,503	1,168	744
Liabilities	11,587	6,945	7,452	1,312	271	48
Difference	**(6,319)**	**(6,054)**	**(5,831)**	**1,191**	**897**	**696**
Includes: Difference in USD	(2,322)	(3,685)	(4,094)	(183)	348	218
Includes: Difference with respect to foreign operations	(230)	(917)	10	366	479	340
Future transactions	8,692	4,910	(5,544)	85	263	(72)
Stock Options	1,949	(386)	(465)	1	-	-
Difference after effect of derivatives	**4,322**	**(1,530)**	**(11,840)**	**1,277**	**1,160**	**624**
Total						
Assets	33,892	5,689	20,194	17,226	12,416	10,454
Liabilities	55,794	14,897	38,595	27,363	9,636	9,775
Difference	**(21,902)**	**(9,208)**	**(18,401)**	**(10,137)**	**2,780**	**679**
Includes: Loans to the public	10,710	4,985	18,146	14,889	11,702	9,297
Includes: Deposits from the public	44,079	12,839	33,467	22,411	7,020	6,955

(1) 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.
(2) Includes assets totaling NIS 249 million which are past due.
(3) Includes NIS 5,579 million of loans at debitory account terms and NIS 241 million exceeding limits in debitory account facilities.
(4) 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 internal rate of return [4]
4-5 years	5-10 years	10-20 years	Over 20 years	Total cash flows	Without maturity	Total	
7,967	32,882	37,078	11,328	176,931	[2]839	150,351	4.68%
3,991	12,907	5,323	1,292	151,958	51	129,651	2.78%
3,976	**19,975**	**31,755**	**10,036**	**24,973**	**788**	**20,700**	
(169)	(1,045)	-	-	(9,548)	-	(9,479)	
-	-	-	-	(1,099)	-	(1,099)	
3,807	**18,930**	**31,755**	**10,036**	**14,326**	**788**	**10,122**	
769	1,336	393	13	14,706	[2]114	13,898	3.82%
46	307	160	-	28,128	4	27,850	1.48%
723	**1,029**	**233**	**13**	**(13,422)**	**110**	**(13,952)**	
143	326	72	-	(9,177)	-	(8,833)	
531	250	(4)	-	825	-	507	
169	1,045	-	-	9,548	-	9,479	
-	-	-	-	1,099	-	1,099	
892	**2,074**	**233**	**13**	**(2,775)**	**110**	**(3,374)**	
8,736	34,218	37,471	11,341	191,637	953	164,249	4.62%
4,037	13,214	5,483	1,292	180,086	55	157,501	2.74%
4,699	**21,004**	**31,988**	**10,049**	**11,551**	**898**	**6,748**	
8,368	31,673	37,368	11,328	158,466	712	131,607	4.74%
2,654	8,630	4,421	1,066	143,542	2	137,756	2.48%

Note 18 - Assets and Liabilities Classified by Term to Maturity and Linkage Basis - Consolidated and the Bank - continued

As of December 31, 2011

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 [(1)]	45,445	4,828	15,679	11,824	11,080
Liabilities	62,029	20,595	28,608	13,982	7,990
Difference	**(16,584)**	**(15,767)**	**(12,929)**	**(2,158)**	**3,090**
The Bank					
Assets [(2)]	40,726	4,074	14,001	10,623	10,281
Liabilities	49,785	19,655	30,031	14,458	8,054
Difference	**(9,059)**	**(15,581)**	**(16,030)**	**(3,835)**	**2,227**

(1) Includes NIS 6,459 million of loans at debitory account terms and NIS 284 million exceeding limits in debitory account facilities.
(2) Includes NIS 5,530 million of loans at debitory account terms and NIS 220 million exceeding limits in debitory account facilities.
(3) Includes assets totaling NIS 352 million which are past due.
(4) Includes assets totaling NIS 337 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 [5]		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	186,070	[3] 1,381	160,301	4.47%
7,244	4,864	10,542	4,229	1,976	162,059	98	152,706	3.11%
2,019	**4,290**	**23,477**	**30,283**	**8,290**	**24,011**	**1,283**	**7,595**	
8,679	7,905	32,613	34,498	10,266	173,666	[4] 1,268	148,464	4.52%
7,242	4,884	11,305	4,229	1,976	151,619	60	142,750	3.41%
1,437	**3,021**	**21,308**	**30,269**	**8,290**	**22,047**	**1,208**	**5,714**	

Note 19 - Contingent Liabilities and Special Commitments

As of December 31,

Reported amounts (NIS in millions)

Consolidated

	As of December 31,			
	2013		2012	
	Balance [1]	Provision for credit losses	Balance [1]	Provision for credit losses
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	296	2	387	1
- Loan guarantees	2,413	27	2,705	21
- Guarantees to home buyers	9,935	8	8,096	7
- Other guarantees and liabilities [3]	3,519	13	3,281	23
- Unutilized revolving credit card facilities	7,135	5	6,718	6
- Unutilized debitory account and other credit facilities in accounts available on demand	17,460	28	16,313	21
- Irrevocable commitments for loans approved but not yet granted	9,009	15	9,724	17
- Commitments to issue guarantees	6,265	5	5,198	6

The Bank

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	296	2	387	1
- Loan guarantees	2,394	24	2,690	21
- Guarantees to home buyers	9,935	8	8,096	7
- Other guarantees and liabilities [3]	3,487	13	3,252	22
- Unutilized revolving credit card facilities	4,734	4	4,499	5
- Unutilized debitory account and other credit facilities in accounts available on demand	15,639	28	14,640	21
- Irrevocable commitments for loans approved but not yet granted	9,009	15	9,724	17
- Commitments to issue guarantees	6,265	5	5,198	6

(1) Contract balances or their stated amounts at the end of the period, before effect of provision for credit losses.

(2) Includes the Bank's liabilities for its share in the risks fund of the MAOF Clearinghouse of NIS 133 million. (on December 31, 2012 - NIS 127 million) see Note 19.D. 2) and Note 15.B.

Note 19 - Contingent Liabilities and Special Commitments - continued

As of December 31,

Reported amounts (NIS in millions)

B. Off-balance sheet liability for activities based on extent of collection at year end(1)

1. Balance of loans from deposits based on extent of collection (2)

	Consolidated	
	2013	2012
Israeli currency - linked to the CPI	11,168	13,198
Israeli currency - non-linked	2,161	1,863
Foreign currency	210	171
Total	**13,539**	**15,232**

2. Cash flows with respect to collection commissions on activities based on extent of collection (3)

	Consolidated							
	2013							2012
	Up to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years to 20 years	Over 20 years	Total	Total
Cash flows of futures contracts	61	119	113	195	64	3	555	629
Expected future cash flows net of management's estimate of early repayments	61	118	110	178	49	1	517	574
Discounted expected future flows net of management's estimate of early repayments (4)	60	114	103	158	40	1	476	515

3. Information on loans made available during the year

	Consolidated	
	2013	2012
Loans out of deposits according to extent of collection	149	186
Standing loans and grants	197	213

(1) Loans and deposits from deposits the repayment of which to the depositor is contingent upon collection of the loans (or deposits), with margin or with collection commission (instead of margin).

(2) Standing loans and Government deposits given with respect to them totaling NIS 5,494 million (2012 - NIS 3,015 million) are not included in this table.

(3) Includes unlinked shekel sector and foreign currency sector.

(4) Discounted at the rate of 1.65% (2012 - 2.05%).

Note 19 - Contingent Liabilities and Special Commitments - continued

As of December 31,

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	2013	2012	2013	2012
C. Special commitments:				
Obligations with respect to:				
Long-term rental contracts [(1)]	603	624	458	489
Computerization and software service contracts	174	178	174	178
Acquisition and renovation of buildings	10	18	10	18
Receipt of deposits on future dates [(2)]	400	400	400	400

(1) The Bank and subsidiaries have long-term leases on buildings and equipment for which the rental payments are as follows (subject to linkage conditions):

(2) Transactions with institutional depositors to receive deposits at future dates at fixed interest rates set upon the contract date.

	Consolidated		The Bank	
	2013	2012	2013	2012
First year	60	66	42	46
Second year	58	58	40	43
Third year	51	50	34	36
Fourth year	48	47	32	33
Fifth year	42	44	31	30
Sixth year and thereafter	344	359	279	301
Total	**603**	**624**	**458**	**489**

Note 19 - Contingent Liabilities and Special Commitments - continued

D. Contingent liabilities and other special commitments

1) In accordance with a resolution of the Board of Directors of the Tel Aviv Stock Exchange ("TASE"), a risk fund was established, which totaled NIS 578 million as of December 31, 2013. The Bank's share of the fund as of December 31, 2013 is estimated at NIS 47 million (as of December 31, 2012 – NIS 34 million). The size of the risk fund is updated semi-annually based on the average daily total clearing volume - but no less than NIS 150 million. Each member's share in the risk fund will be determined by a ratio between the member's clearing volume and the total clearing volume of all members (except for the Bank of Israel) during that period, but no less than NIS 500 thousand.

   In accordance with a decision by the stock exchange clearinghouse Board of Directors, starting on December 15, 2008 each member of the clearing house deposits in cash at least 25% of their share in the risk fund.

   See Note 15.A regarding liens that the Bank has undertaken to furnish for this liability.

2) The Bank has undertaken toward the MAOF Clearinghouse Ltd., a subsidiary of the TASE ("MAOF Clearinghouse"), to pay any monetary charge deriving from transactions in derivatives traded on the TASE, executed through it by its customers, and from such transactions executed by several members of the TASE that are not members of the MAOF Clearinghouse, for their customers.

   The amount of the liability for these customers, as of the balance sheet date, amounts to NIS 307 million (as of December 31, 2012 – NIS 225 million).

   Likewise, the Bank has undertaken to refund its share in the risk fund of the MAOF Clearinghouse, which totaled NIS 1,102 million as of December 31, 2013. The Bank's share of the fund as of December 31, 2013 is estimated at NIS 133 million (as of December 31, 2012 – NIS 127 million).

   In accordance with a decision by the MAOF clearinghouse Board of Directors, starting on December 15, 2008 each member of the clearing house deposits in cash at least 25% of their share in the risk fund.

   For information regarding charges that the Bank undertook to furnish with respect to these liabilities, see Note 15.B.

3) The Bank has made undertakings to the Tel Aviv Stock Exchange ("TASE") for operations of a company which is a member of the stock exchange but not a member of the clearinghouse. The undertaking is to honor any monetary charge arising from transactions executed by that company.

4) In 1992, a General Meeting of the Bank's shareholders ratified a resolution to indemnify officers of the Bank with the following wording:

   - The Bank will indemnify in full each of the officers for financial liabilities and legal expenses incurred for actions, acts, and omissions performed within the framework stipulated in the Companies Ordinance and the Bank's by-laws, and subject to the above provisions.

   - These officers will be indemnified whether the claim is brought against them during their employment period at the Bank, or whether subsequently and refers to an act performed in their capacity as officers.

Note 19 - Contingent Liabilities and Special Commitments - continued

There are differing legal opinions regarding a company's authority to approve such broad indemnification, and whether invoking it in a specific case requires additional approval, in a manner stipulated by law. Should the Bank be required to pay any amounts on the basis of the above decision, it will seek advice from its legal counsel regarding its obligation, taking into consideration the specific and special circumstances of each incident, if applicable.

5) In December 2001, a General Meeting of the Bank's shareholders ratified the granting a waiver in advance (as described below) as well as advance commitment by the Bank to indemnify Board members and other officers (hereinafter jointly: "the officers"). Pursuant to the resolution by the General Meeting of shareholders, the Bank waives in advance any liability by officers of the Bank towards the Bank with respect to any damage incurred by the Bank due to breach of the officer's duty of care towards the Bank in the former's conduct, arising from their position as officer of the Bank; the Bank also committted to indemnify officers of the Bank for any liability or expense incurred by the officer in conjunction with his action in the course of their office, all as stated in the letter of commitment to indemnify, including with regard to actions by officers who are not Board members in conjunction with their action as Board member on behalf of the Bank, or at the Bank's request, of another company whose shares are owned by the Bank (hereinafter: "the original letter of indemnification").

   According to the original letter of indemnification, the amount of indemnification paid by the Bank to all officers on aggregate shall not exceed 25% of the Bank's shareholder equity on the Bank's 2000 financial statements, adjusted for the CPI as from December 2000 (hereinafter: ("total indemnification amount). This indemnification applies to actions related, directly or indirectly, to one or more of the event types listed in the Addendum to the letter of commitment to indemnify.

   On October 28, 2004, the General Meeting of Bank shareholders resolved to add to the list of events for which the Bank granted a commitment to indemnify to its officers, pursuant to the original letter of indemnification, a merger event, as defined in the Companies Law, including any decision, action or reporting with regard to a merger. It was resolved that in all that relates to indemnification resulting from a merger event, the maximum amount of the indemnification will be the lesser of: 25% of the Bank's shareholders' equity according to its financial statements as of December 31, 2000, plus linkage differentials beginning from the CPI for December 2000, or 25% of the Bank's shareholders' equity according to the last financial statements published in proximity to the actual payment date with respect to the indemnification.

   On May 14, 2006, the General Meeting of Bank shareholders resolved to adapt the wording of the letter of indemnification to the provisions of the Companies Law (Amendment 3), 2005 and resolved to grant an advance commitment to indemnify, or identical wording, to Bank employees serving as Board member on a company in which the Bank owns some shares, and to those serving, from time to time at the Bank's request, as Board member on a company controlled by the Bank.

Note 19 - Contingent Liabilities and Special Commitments - continued

On November 9, 2011, the General Meeting of Bank shareholders resolved to add a commitment by the Bank to indemnify Bank employees who are not officers of the Bank, who serve from time to time, upon request by the Bank, as officers of companies controlled by the Bank (such a resolution was also passed by the Bank's Board of Directors on February 16, 2009 - resolving to provide a letter of indemnification identical to the one granted to Bank officers), and to those who are not employees or officers of the Bank, who serve from time to time as officers of a company, other than a banking corporation, wholly-owned by the Bank (jointly: "the parties eligible for indemnification").

The General Meeting of Bank shareholders further decided to add a commitment by the Bank to indemnify the parties eligible for indemnification for any monetary liability arising from payment to any party injured by the breach and with respect to expenses related to any administrative proceeding, including reasonable litigation expenses - all as specifief in the ISA Enforcement Proceeding Streamlining Act (Legislative Amendments), 2011.

The General Meeting of Bank shareholders also resolved that the maximum indemnification amount payable by the Bank, on aggregate to all those eligible for indemnification pursuant to the letter of commitment to indemnify, shall not exceed 25% of the Bank's shareholders equity, based on its most recent financial statements published soon prior to the actual payment date of the indemnification amount ("maximum indemnification amount"). Should the total indemnification amount exceed the maximum indemnification amount specified above, the maximum amount payable by the Bank on aggregate to all those eligible for indemnification shall not exceed the total indemnification amount, but the differences between these two amounts would only be used for indemnification with respect to action taken before November 9, 2011.

On September 20, 2012, the General Meeting of Bank shareholders further decided to add a commitment by the Bank to indemnify the parties eligible for indemnification for any monetary liability arising from payment to any party injured by the breach and with respect to expenses related to any administrative proceeding, including reasonable litigation expenses - all as specified in the ISA Enforcement Proceeding Streamlining Act (Legislative Amendments), 2011 and in the Financial Services Supervision Act (Provident Funds), 2005 and with respect to expenses related to any administrative proceeding, including reasonable litigation expenses - all as specified in the Restrictive Trade Practices Act, 1988.

The General Meeting of Bank shareholders further decided to add a commitment by the Bank to indemnify the parties eligible for indemnification for any monetary liability arising from payment to any party injured by the breach or similar, pursuant to any other statute, including reasonable litigation expenses, including attorneys' fees, with regard to any administrative proceeding pursuant to any other statute, provided that such indemnification is not prohibited by law.

6) In May 1998, General Meetings of the shareholders of the Bank and of Bank Tefahot ratified an undertaking to indemnify officers, which had previously been approved by their Audit Committees and Boards of Directors as follows:

Note 19 - Contingent Liabilities and Special Commitments - continued

The Bank and Bank Tefahot will irrevocably indemnify any of their officers for any action taken in their capacity as officers, in connection with the causes of action listed below, and for any financial obligation to be imposed by a court judgment, including a compromise, or arbitrator's decision that is subsequently approved by a court, and also for any reasonable legal expenses for which they may be indemnified in accordance with provisions of the Companies Ordinance.

The indemnification will be made for all the officers on a cumulative basis, up to a sum not to exceed – for each bank separately - NIS 750 million (linked to the CPI of March 1998), for any financial liability that the officer incurs as a result of an action that he took that is directly or indirectly connected to the prospectus published in 1998, or to the draft prospectus that was filed in that year, in connection with the offer of sale of the Bank's securities by the State, including in connection with the reports submitted by the banks subsequent to the date of the prospectus regarding any matter that occurred before the date of the prospectus.

Furthermore, the total cumulative amount of indemnification to be paid for all officers for any action or matter related to the insurance of borrowers by mortgage banks mentioned in the above prospectus included in the letter of indemnification – by each bank separately - will not exceed NIS 750 million (linked to the CPI of March 1998).

The letters of undertaking for indemnification stipulated further that, notwithstanding the aforesaid, the total cumulative amount of indemnification to be paid for all the officers with regard to all the causes of action included in the letter of indemnification – by each bank separately - will be limited to NIS 1,000 million (linked to the CPI of March 1998).

Under terms and conditions of the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

7) In November 2001, approval was given by General Meetings of the shareholders of Bank Tefahot and of a wholly-owned and controlled subsidiary of Bank Tefahot ("Tefahot Issuance"), in connection with the prospectus for issuance of debentures and subordinated notes of Bank Tefahot from November 2001, that Tefahot Issuance irrevocably undertakes to indemnify all of its officers, for any action taken in connection with matters detailed in the letter of indemnity, by virtue of his being an officer ("indemnification").

The indemnification will be given for any financial debt, if imposed by a judgment, including a judgment issued in a compromise or arbitration that was approved by a court, and with respect to any reasonable legal expenses (including fees to attorneys and other experts), which may be indemnified in accordance with the provisions of the Companies Law, all up to a limit of NIS 1 billion, linked to the CPI.

Bank Tefahot undertook vis-à-vis Tefahot Issuance that, should it be unable to fulfill its obligations to the indemnity recipients, or any one of them, Bank Tefahot would pay to Tefahot Issuance any amount that Tefahot Issuance will be found liable to indemnify, beyond the amounts paid by Tefahot Issuance.

Under terms and conditions of the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

Note 19 - Contingent Liabilities and Special Commitments - continued

8) In October 2002, the Board of directors of Bank Tefahot, following the approval of the Audit Committee, approved the bestowing of an advance undertaking for indemnification of directors and other officers of Bank Tefahot (together – "the officers"). Accordingly, Bank Tefahot undertakes, subject to the conditions detailed in the letter of undertaking and to the provisions of the Companies Law, to indemnify the officers for any liabilities or expenses imposed on the officer due to his capacity as an officer in Bank Tefahot, provided that these activities are related, directly or indirectly, to one or more of the events listed in the addendum to the letter of undertaking the indemnification.

   The cumulative amount of the indemnification to be paid by Bank Tefahot to all the officers will not exceed 25% of the shareholders' equity of Bank Tefahot according to its annual financial statements for 2001, adjusted for the CPI, beginning from December 2001, or 25% of the shareholders' equity of Bank Tefahot according to the latest financial statements published as of the actual payment date of the indemnification, whichever is lower.

   In November 2002, a General Meeting of the shareholders of Bank Tefahot ratified this resolution.

   Under terms and conditions of the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

9) On June 30, 1998, an extraordinary general meeting of Bank Adanim, following approval by its Board of Directors and approval of its Audit Committee, ratified an undertaking to indemnify ("indemnification letter") the officers in Bank Adanim. The indemnification letter will apply to officers, as defined in Section 96(24) of the Companies Ordinance, who, on the approval date of the indemnification by the General Meeting ("date of record"), are serving in Bank Adanim or whose tenure ended in a period not earlier than 4 years from the date of record.

   Pursuant to the indemnification letter, Bank Adanim will indemnify any officers in Bank Adanim for any financial liabilities imposed on them by a ruling, including legal expenses, for an act or omission done directly or indirectly in the matters itemized in the letter of indemnification, namely the offer of sale to the public of securities of Mizrahi Tefahot by the State, pursuant to a prospectus published in May 1998.

   Pursuant to the indemnification letter, the amount of the indemnification to be paid by Bank Adanim (in addition to the amounts to be received according to the officers' insurance policies as detailed below) to all officers, on a cumulative basis will not exceed NIS 70 million, with the amount linked to the last CPI published before the date of record until the CPI published before the date of payment.

   Bank Adanim will take action, to the extent possible, so that during the 10-year period beginning on the date of record, an officers' insurance policies will be purchased by or for Bank Adanim, which will cover the matters covered by the indemnification, the amount of which, including restitution/reinstatement will not be lower than the aforementioned amounts.

   On December 16, 2002, a General Meeting of Bank Adanim, following approval by the Audit Committee and ratification by its Board of Directors, ratified the letter of indemnification undertaking ("indemnification letter") for officers in Bank Adanim. The indemnification letter will apply to officers, as defined in Section 1 of the Companies Law, 1999, who, on the approval date of the indemnification letter by the general meeting ("date of record") serve in Bank Adanim. Pursuant to the indemnification letter, Bank Adanim will indemnify all of the officers in Bank Adanim for all the financial liabilities to be imposed on them by a ruling, including legal expenses, relating to an act or omission done directly or indirectly in matters listed in the indemnification letter, up to the indemnification amounts.

Note 19 - Contingent Liabilities and Special Commitments - continued

The indemnification amounts to be paid by Bank Adanim for each officer, on a cumulative basis, for one or more of the types of events provided in the addendum to the letter of undertaking, shall not exceed 25% of the shareholders' equity of Bank Adanim according to its financial statements for the year 2001, adjusted from time to time, according to the rate of increase in the CPI compared with the CPI for December 2001 that was published in January 2002 ("total indemnification amount). In the event the officer will receive indemnification from the insurer of the officers' insurance policies for the matter covered by the indemnification, the indemnification will be provided by Bank Adanim in the amount of the difference between the amount of financial liabilities imposed on the officer and/or legal expenses incurred by or charged to the officer, and between the amount received from the insurer on this matter, provided that the amount of indemnification for which Bank Adanim will be charged will not exceed the total indemnification amount.
Beginning December 2002, Bank Adanim was one of the insured parties in the officers' insurance policies purchased by the Bank for itself and its subsidiaries and related companies, which is in effect until April 5, 2007.

Under terms and conditions of the merger of Bank Adanim into the Bank, the Bank assumed this commitment.

10) 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 significant claims, including motions for approval of class action status and claims in which the amount claimed (excluding interest and fees) exceeds 1% of the Bank's shareholders' equity:

A. In December 2001, a statement of claim was filed against the Bank in Tel Aviv District Court in the amount of NIS 80 million. The plaintiffs allege that a bank clerk (who was suspended), when he was an employee of the Bank, executed numerous unlawful transactions in their accounts, without their permission and without their knowledge. The plaintiffs allege that as a result of these acts, they experienced a credit crisis, which required them to effect financial transactions that would not have been effected otherwise, as a result of which they allege that they sustained direct and indirect losses, in tens of millions of NIS.

In January 2002, the Bank filed a statement of defense, in which it argued as preliminary arguments, inter alia, that the statue of limitations had expired for all of the plaintiffs' allegations relating to transactions executed more than seven years prior to the filing of the claim. It was also argued that the plaintiffs had received statements on what was occurring in their accounts, and that they cannot deny the accuracy of the contents of the Bank's books of account. In the body of the statement of defense, it was argued that the plaintiffs knew and/or should have known what was done in their accounts, and that unfortunately they were very negligent in examining their account statements, thus enabling the alleged transactions, which are denied by the Bank, to be executed in their accounts. It was further argued that the improper transactions, to the extent they were executed, were executed by a bank clerk at that time, acting on his own, and exceeding authority, and the Bank could not have prevented them with the reasonable means available to it.

Note 19 - Contingent Liabilities and Special Commitments - continued

In May 2008, the plaintiff filed an amended statement of claim in the amount of NIS 102 million, and consequently the Bank has filed an amended statement of defense. The evidentiary hearings and parties' summations were concluded in July 2010.

In February 2012, a verdict was given which recognizes some of the causes for claim, and instructs recalculation of the corresponding financial values.

The Court appointed an expert, consented to by both parties, to quantify and calculate the amount due to the plaintiff.

In March 2013, the amount was paid to the plaintiff in accordance with the verdict and with calculations made by the expert on behalf of the Court.

This concluded legal proceedings in this case.

B. In March 2004, an action and a motion for recognition as a class action were filed in Nazareth District Court against Bank Tefahot ("the Action"). The action was filed on behalf of borrowers of Bank Tefahot, in the amount of NIS 69 million. The action alleges that Bank Tefahot overcharged interest on arrears beyond that permitted by law, and that it charged a commission for non-payment of a standing order for current repayments of a loan drawn by borrowers of Bank Tefahot. The plaintiffs allege that this commission should be deemed to be interest on the loan in arrears, so that this commission, together with the interest on arrears that Bank Tefahot charges for the period in arrears, exceeds the ceiling of permitted interest on arrears under the Interest Law, 1957, and the related legislation.

In January 2007, the Supreme Court ruled to dismiss outright the motion for recognition as a class action, and ordered the parties to file their positions on the issue of the implications of the Class Actions Law, 2006, on this case. The plaintiffs have appealed the Court's' decision. In May 2007, the Supreme Court ruled that processing of this appeal would be suspended pending a court decision in the action based on the same claim against the Bank, which was filed with the Haifa District Court by some of the plaintiffs in these proceedings, in June 2006. The ruling further stipulates that should the decision in the identical case under way at the Haifa District Court be appealed, both appeals may be reviewed concurrently when such a decision is handed down.

In February 2013, the Supreme Court denied both appeals filed by the plaintiffs.

C. In April 2006, a claim was lodged with Tel-Aviv District Court in the amount of NIS 100 million for damages allegedly sustained by the plaintiffs as a result of an alleged misrepresentation made to them by an employee of the Bank's Givatayim branch who has since been dismissed from employment with the Bank. Plaintiffs claim that they have deposited with the Bank over years large amounts totaling NIS millions, and made many investment transactions in various asset classes, mainly by daily telephone contact with an employee at the Bank branch, who carried out their instructions and reported to them on execution of their instructions and the balances in their accounts.

Note 19 - Contingent Liabilities and Special Commitments - continued

The plaintiffs claim that according to reports of the Bank branch employee who handled their accounts, at end of 2003 the balance of their accounts amounted to NIS 91 million. Based on this information, the plaintiffs claim they entered into a contract to purchase a house at a cost of over NIS 10 million. However, the plaintiffs claim, in retrospect after signing the contract to buy the house, they discovered that reports made by the Bank employee were false, and in actual fact no investment actions were taken in their accounts, which in fact had a debit balance.

Therefore, the plaintiffs claim, they have sustained heavy damages, and the amount claimed by them is composed of the last reported balance in their Bank accounts of NIS 91 million, damage sustained by them due to cancellation of the house purchase contract and claimed damages for distress.

In July 2006, the Bank filed a statement of defense arguing, inter alia, that plaintiffs were unable to provide details or proof of the investment instructions they had given, and in fact not a single investment transaction was made in the plaintiffs' accounts in the capital market during the alleged period, and therefore the alleged balances did not accrue in their accounts. The Bank further claimed that the returns alleged by the plaintiffs - at thousands of percent with a growth rate in excess of NIS 30 million per year - are unreasonable and unacceptble, let alone in the case of investors who are not expert in the field with initial equity of only NIS 150 thousand.

The Bank further argues that reports provided to plaintiffs by the Bank employee with regard to enormous amounts accumulated in their accounts, in as much as such reports were provided, are also unreasonable and were provided only at the Bank employee’s discretion, using false pretenses and acts of fraud and deception, without the Bank’s consent or knowledge, and with the Bank being incapable of preventing it by reasonable means available to it. In September 2010, the plaintiff filed an amended claim, reducing the claim amount by half to NIS 50 million.

In June 2013, the case was settled by the parties. The Court has confirmed the settlement agreement, which was adopted as a verdict.

D. In June 2006, an action and a motion for recognition as a class action in the amount of NIS 57 million were lodged in Haifa District Court against the Bank for charges to borrowers whose loans (linked to the CPI) are in arrears and bear delinquent interest, the rate of which allegedly exceeds the rate stipulated in the Interest Law, 1957 and the Interest Order enacted accordingly. The plaintiffs allege that the arrears clause in the loan agreement, which stipulates that at the time of arrears, the Bank will provide the borrowers with unlinked loans, is apparently illegal, since it contradicts the Interest Order. The plaintiffs also claim that their being charged commissions for not honoring automatic debits, in addition to the delinquent interest, is allegedly illegal, since a commission for not honoring an automatic debit is essentially arrears interest in all respects.

Note 19 - Contingent Liabilities and Special Commitments - continued

The Bank filed a motion to dismiss out of hand the plaintiffs' motion for class action status, arguing that its actions were and are lawful. In November 2010, the evidence was heard in this motion, and as decided by the Court, the parties filed their summary claims in conclusion.

On March 7, 2011 the Haifa District Court dismissed the plaintiffs' motion for class action status. The plaintiffs have appealed the decision by the District Court to the Supreme Court.

In February 2013, the Supreme Court denied the plaintiffs' appeal.

E. 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 stipulated 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. (hereinafter: "the defendant banks").

The claim is based on the determination by the Anti-Trust Supervisor dated April 26, 2009 headed "Re: restrictive trade practices existed between the Bank and Bank HA-POALIM Ltd., Bank LEUMI LE-ISRAEL Ltd., Bank Discount LE-ISRAEL Ltd. and First International Bank of Israel Ltd., with regard to commission-related information sharing" (see section 12 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.

The plaintiffs have set the amount of their claim against all defendant banks at NIS 1 billion based, according to the plaintiffs, only on an estimation 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 respect to both of the aforementioned claims would currently be put on hold for at least two years.

Note 19 - Contingent Liabilities and Special Commitments - continued

In February 2012, the Court decided that the 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. A hearing of the motion to resume proceedings is scheduled for May 18, 2014. For more information with regard to these claims, see also section 12 below in this Note.

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

The parties negotiated out of Court, and in April 2013 the Court approved the settlement agreement between the parties, which was adopted as a verdict.

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

The plaintiffs claim that once a receiver was appointed for the shares, these shares were no longer under their control, and although the decision concerning the sale date of the shares was in the hands of the defendant banks and of the receiver, the defendant banks continued to charge, allegedly 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 relevant Court fee would be paid by the plaintiffs. Accordingly, the plaintiffs filed in February 2010 a statement of claim in the amount of NIS 829 million.

Note 19 - Contingent Liabilities and Special Commitments - continued

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.

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.

The appeal hearing is scheduled for January 2015.

H. 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 reached an agreed settlement which will be brought before the Court by March 19, 2014.

I. In May 2011, the Bank received a claim and motion for approval of class action in the amount of NIS 181 million. The claim involves alleged unlawful charging of early repayment commission for additional housing loans. The plaintiff claims that the Bank allegedly unlawfully charges an early repayment commission for additional loans, without the reduction required by law.

In March 2012, the Bank has filed its response to the motion, in which it claimed that according to a decision by the Bank of Israel, the Bank recognizes as additional loans any loans granted prior to as well as after granting the directed loan.

The parties negotiated to settle their differences.

In June 2013, the Court approved the settlement agreement negotiated by the parties, which was adopted as a verdict.

Note 19 - Contingent Liabilities and Special Commitments - continued

J. In May 2011, the Bank received a claim and motion for approval of class action status. The claim concerns two alleged claims made against the Bank - firstly, late reporting to the Court Order Execution Service of payments made to reduce debt

which is subject to proceedings at the Court Order Execution Service. Secondly, failure to indicate on the reporting forms the number of the principal to be reduced by the reported credit, and the number of the interest calculation rule applied to the reported payment amount.

The lawsuit and motion allege that, by late reporting to the Court Order Execution Service and by failure to provide the aforementioned indications on the reporting forms, the Bank misleads clients, causes clients not to be credited with interest in line with the date of their payment and in accordance with the correct interest rate, creates a situation in which the debt on Court Order Execution Service files is higher than the real debt, and over-charges in payments. The lawsuit and motion further allege that the Enforcement and Collection Authority and the Court Order Execution Service admit that under crediting occurs in case of late reporting and failure to provide the required indications on the reporting form.

The plaintiff claims he is unable to estimate the damage incurred by the entire class of plaintiffs, but believes (on a basis which is not clear to the Bank) that it amounts to hundreds of millions of NIS.

On January 9, 2012, the Bank filed its response to the motion, describing in detail the factual and legal defense claims made by the Bank. On May 20, 2012, the plaintiff filed its response to the Bank's response to the motion. In view of new claims made by the plaintiff in their response to the Bank's response, the Bank filed a further, more detailed response on August 15, 2012. On October 17, 2012 and on October 29, 2012, the Court held preliminary hearings in this case.

The parties have agreed and launched a reconciliation process aimed to try and resolve their differences. The reconciliation process is concurrently ongoing with regard to other motions filed against other banks for the same cause, and has yet to be completed.

K. 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.

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.

Note 19 - Contingent Liabilities and Special Commitments - continued

In November 2012, the plaintiffs filed their evidence with the Court and the Bank did so in April 2013.
The parties conducted a reconciliation process and reached an agreed settlement. On February 19, 2014 the Court approved the settlement agreement, which was adopted as a verdict.

L. In August 2011, a claim and motion for class action status was filed with the Central District Court amounting to hundreds of millions of NIS (as per the claim statement); no specific amount was claimed. The plaintiff seeks a verdict, pursuant to the Class Action Lawsuit Act, whereby the claim would be made on behalf of all Bank clients whose account was charged legal fees not approved by any legal jurisdiction, or whose account was charged unlawful interest with respect to approved legal fees.
This proceeding is in early stages. In November 2012, the parties launched a continuous reconciliation process designed to try and settle their disagreements. The reconciliation process is concurrently ongoing with regard to other motions filed against other banks for the same cause, and has yet to be completed.

M. In September 2011, a claim and motion for class action status were filed with the Central District Court against the Bank and against other banks with regard to alleged unlawful charging of compound interest, in contravention of the law and of agreements, on housing loans, including directed loans, eligibility loans and additional loans, with the exception of standing loans. The total amount claimed, for all banks, amounted to NIS 927 million; the claim against Bank Mizrahi Tefahot was set at NIS 364 million.
In May 2012, the Bank filed its response to this claim, claiming that it was unfounded, that the Bank acted in accordance with statutory provisions and did not charge any compounded interest in the manner in which banks in general and the Bank, in particular, acted.
The position of the Supervisor of Banks, which supports the banks' position, was also filed in this case.
In July 2013, an evidentiary hearing took place and the experts on behalf of the parties were questioned. The banks, including the Bank, have yet to file their summations.

N. In November 2011, Bank Yahav received a claim filed with the Haifa District Court, against Bank Yahav and Bank Benleumi. As alleged in the claim, the banks over-charged a cash handling commission in alleged contravention of the law, and in particular - in contravention of Banking Rules (Commissions). The plaintiff also filed a motion for class action status, for a total amount of NIS 200 million.
Bank Yahav has filed its response to this motion. In a pre-trial hearing held in this case, the plaintiff withdrew all of his claims, except for the claim alleging unlawful charging of the commission. In March 2013, the parties' summations in this case were heard.
In November 2013, the Court dismissed the plaintiff's motion for class action status.

Note 19 - Contingent Liabilities and Special Commitments - continued

O. In December 2011, a claim was filed with the Tel Aviv District Court, along with a motion for class action status, in the amount of NIS 26 million, for commission charged for the service "cash handling by teller". The plaintiff claims that the Bank may only charge a commission for withdrawals in excess of NIS 10,000.
In November 2012, the Bank filed its response to the motion with the Court, in which the Bank rejected the plaintiff's claims.
Following the Court's recommendation, on December 8, 2013 the plaintiff withdrew the motion.

P. 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.
The Bank has yet to file a response to this motion.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.

Q. In September 2012, a claim and motion for class action status were filed with the Tel Aviv District Court, with regard to charging VAT on attorneys' fees in Court Order Execution Service cases filed against debtors. The plaintiff has not stated a specific amount claimed in its class action lawsuit.
In March 2013, the Bank filed its response to the motion with the Court.
In June 2013, the Court dismissed the motion after the plaintiff had asked to withdraw the claim.

R. 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. The Bank filed its response to the motion on January 14, 2014.

Note 19 - Contingent Liabilities and Special Commitments - continued

S. 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.

T. 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 unable to estimate the amount claimed. The parties agreed to add this motion to the reconciliation process on-going with regard to other motions which also concern collection processes conducted by the Bank against clients in debt. The Bank has yet to file its response to the motion for class action status.

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding claims listed in section 11 below, there is additional, non-remote exposure for which no provision was made, amounting to NIS 49 million.

11) Motions for class action status are pending against the Bank, where the amount claimed is material, as well as appeals to the High Court of Justice, as itemized below, which, in the opinion of the Bank's management, based on the opinion of the managements of its subsidiaries, and on the opinion of their legal counsel, the prospects for which cannot be estimated on the date of the financial statements, so that no provision was made for these.

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.

Note 19 - Contingent Liabilities and Special Commitments - continued

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 has yet to file a response to this motion.

A.2. In March 2014, a claim was filed with the Tel Aviv District Court, along with a motion for class action status, in the amount of NIS 2.07 billion, against the Bank and 4 other banks (Bank Otzar HaChayal Ltd., Mercantile Discount Bank Ltd., Bank Igud Le-Israel Ltd. and Bank Yahav for Government Employees Ltd.) with respect to alleged unlawful charging of commissions by the banks with regard to foreign currency conversion and transfer services.
The Bank has yet to file its response to this claim.

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 has yet to file a response to this motion.

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 regard to placement of monitoring cameras at ATM locations without proper notification informing clients of the presence of such cameras, which allegedly constitutes an invasion of their privacy.
The Bank has yet to file a response to this motion.

12) 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 the content there of in any legal proceeding.
On March 24, 2010, the Bank appealed this ruling to the Anti-Trust Court. On February 22, 2011, the Anti-Trust Supervisor filed their response. On June 18, 2012, the Court instructed that some parts of the Anti-Trust Supervisor's response to the appeal should be withdrawn.
A hearing in this case is scheduled for March 14, 2014, after which the Supervisor would decide whether to publish a complementary determination.

Note 19 - Contingent Liabilities and Special Commitments - continued

The Bank and other banks in this claim are in negotiations with the Anti-Trust Supervisor designed to reach a settlement agreement based, *inter alia*, on withdrawal of this claim and on the banks paying an amount first designated for settlement of class action lawsuits concerning alleged breach of Anti-Trust statutes with respect to the aforementioned charging of commissions.

For details of the claim filed against the Bank based on the determination by the Anti-Trust Supervisor, see section 10).E. in this Note.

13) In recent years, authorities in Switzerland and in the USA have held discussions with regard to the double taxation avoidance treaty signed by those two countries. At the request of authorities in Switzerland, several Swiss banks – including Mizrahi Bank Switzerland, have provided statistical information about their business with US clients, to be transferred to authorities in the USA.

In August 2013, Mizrahi Bank Switzerland was informed by authorities in the USA that an investigation into its business had been launched. Mizrahi Bank Switzerland expressed willingness to assist and co-operate with US authorities, in conformity with statutory provisions and with the treaty signed by Switzerland and the USA, and even provided the required statistical information to US authorities. Mizrahi Bank Switzerland reports from time to time to Swiss supervisory authorities with regard to the aforementioned events and the Bank reports these to the Supervisor of Banks from time to time.

Mizrahi Bank Switzerland and the Bank are in constant contact with authorities in the USA in order to reach an appropriate outline for the Bank Group. At this stage it is not feasible to assess the likelihood of materialization of a loss for the Bank with respect to these developments at the Swiss subsidiary with the authorities, nor the related exposure amounts or range of exposure.

14) On November 18, 2008, the Bank entered into an agreement with Israel Credit Cards Ltd. (hereinafter: "CAL") and with Diners Club Israel Ltd., a company controlled by CAL (hereinafter: "Diners") - (hereinafter jointly: "CAL Group") with regard to jointly providing Visa, MasterCard and Diners Club charge cards, including cards under the Bank brand (hereinafter: “the crds”, to be distributed by the Bank to its customers. The agreement determines the parties' rights as well as operating arrangements and service provision by CAL Group for the cards, as well as all other terms and conditions related there to.

In conjunction with the agreement, the Bank received an option to acquire from CAL, by way of allotment, up to 121,978 ordinary CAL shares, which if allotted upon the date of signing the agreement would have constituted up to 10% of CAL's ordinary share capital, fully diluted.

The agreement is effective for a 5-year term from its date of signing. Should the option be exercised or cashed as stated above, the agreement term shall be extended to 10 years from its signing date, and may be further extended.

The agreement expired on November 18, 2013 and the Bank did not exercise any options during its term.

Note 19 - Contingent Liabilities and Special Commitments - continued

On March 2, 2014, the Bank and CAL Group signed an agreement revising the joint issuance agreement. This revised agreement is effective for a 5-year term as from its date of signing.

In this agreement, the operating and marketing arrangements for the cards were updated, as were the parties' copmensation mechanisms.

The agreement is subject to all regulatory requirements required by statute, if any.

The signed agreement has no material impact on Group financial statements.

15) A trust company that is a subsidiary of the Bank executes trust transactions that include primarily trusteeships for trust funds, for debenture holders, for owners of restricted shares and for the maintenance of bank accounts.

16) In a labor agreement signed between the Bank and its employee representatives on December 30, 1993, the Bank made available long-term loans to its employees, to finance the retroactive purchase of pension rights from certain pension funds with which the Bank had undertakings in this connection, which bear specified interest and are CPI-linked. It was agreed that if, on the maturity date of each of the aforementioned loans, it becomes clear that the linkage differentials and the interest accrued exceed the yield accumulated in an agreed provident fund, they would be reduced accordingly. The tax effects, if any, related to this reduction will devolve on the Bank. When such a difference is created, an appropriate provision is made. At the balance sheet date, the balances of these loans amount to NIS 19 million.

17) The Bank has undertaken vis-à-vis the trustee of the debentures and subordinated notes issued by Tefahot Issue Company from the United Mizrahi Bank Group Ltd., to fulfill the payment terms, as stated in the debentures and subordinated notes. For further details, see Note 11.

18) The Bank has committed to borrowers in certain savings plans who would borrow from the Bank, to the following fixed terms:

		December 31,
	2013	2012
90% of the interest rate prevailing at the time the loan was issued (1)	1,228	1,216
0.25% less than the interest prevailing at the time the loan was issued (1)	36	253
	1,264	**1,469**

(1) The commitment may be utilized only if certain conditions stipulated in the savings plans are met. Granting of credit is subject at all times to the Bank's exclusive discretion, in accordance with procedures determined by the Bank, with due consideration to client attributes and subject to review of the actual client application for credit to be granted by the Bank.

Note 19 - Contingent Liabilities and Special Commitments - continued

19) As from July 1, 2004, a new two-year agreement went into effect between Bank Tefahot, at that time, and the Government, whereby the collection commission rate determined by the tender held by the Ministry of Finance, with the participation of the mortgage banks will apply to loans to eligible borrowers issued on or after July 1, 2004, which are significantly lower than the commission rate on loans issued until June 30, 2004. This agreement has been continuously extended each year, most recently through June 30, 2014.

In May 2008, a new agreement between the Ministry of Finance and the banks became effective (the agreement is expected to be renewed annually, unless any of the parties gives notice of their wish to terminate the agreement), whereby loans to eligible borrowers with low point rating are provided out of Bank funds and at Bank risk. The interest on these loans is determined based on interest for special assistance loans out of Ministry of Finance funds. Loan terms have been specified to be 25, 20, 15 or up to 10 years, at the customer's choice, but no longer than the term of assistance out of Ministry of Finance funds. The remainder of the conditions would be in line with generally acceptable conditions for assistance out of Ministry of Finance funds, including a waiver of early repayment commission.

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

The agreement for provision of assistance to eligible borrowers out of Bank funds, signed in 2008, has been extended through April 30, 2014.

Group revenues from all loans to eligible borrowers under State responsibility in 2013 amounted to NIS 64 million, compared to NIS 66 million in 2012.

Note 19 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

E. Financial derivatives activity – volume, credit risk and maturity

a) Activity on consolidated basis

	As of December 31, 2013					
	Interest contracts				Commodity	
	NIS - CPI	Other	Currency contracts	Contracts for shares	contracts and others	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 19 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

E. Financial derivatives activity – volume, credit risk and maturity - continued

a) Activity on consolidated basis - continued

	As of December 31, 2013					
	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
E. Total						
Carrying amount of assets with respect to derivatives (3)	**172**	**1,101**	**1,754**	**588**	**2**	**3,617**
Includes: 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**
Includes: 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) Includes: 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 19 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

E. Financial derivatives activity – volume, credit risk and maturity - continued

a) Activity on consolidated basis - continued

	As of December 31, 2012					
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodity contracts and others	Total
1. Stated amounts of financial derivatives						
A. Hedging derivatives (1)						
Forward contracts	100	-	-	-	-	100
Swaps	-	2,457	-	-	-	2,457
Total	**100**	**2,457**	**-**	**-**	**-**	**2,557**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	2,449	-	-	-	2,449
B. ALM derivatives (1)(2)						
Forward contracts	10,481	1,550	54,712	-	38	66,781
Option contracts traded on stock exchange:						
Options written	-	-	1,640	2,900	-	4,540
Options purchased	-	-	2,372	2,939	-	5,311
Other option contracts:						
Options written	-	-	8,245	-	-	8,245
Options purchased	-	-	8,505	-	-	8,505
Swaps	2,042	38,153	12,625	-	-	52,820
Total	**12,523**	**39,703**	**88,099**	**5,839**	**38**	**146,202**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,493	21,717	-	-	-	23,210
C. Other derivatives (1)						
Forward contracts	-	-	342	-	-	342
Option contracts traded on stock exchange:						
Options written	-	-	3,872	9,836	-	13,708
Options purchased	-	-	3,872	9,836	-	13,708
Other option contracts:						
Options written	-	161	148	809	1	1,119
Options purchased	-	72	174	787	1	1,034
Swaps	-	-	-	3,957	-	3,957
Total	**-**	**233**	**8,408**	**25,225**	**2**	**33,868**

(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 19 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

E. Financial derivatives activity – volume, credit risk and maturity - continued

a) Activity on consolidated basis - continued

	Interest contracts					As of December 31, 2012
	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	-	-	-	-	177	177
Foreign currency spot swap contracts	-	-	2,331	-	-	2,331
Total	**-**	**-**	**2,331**	**-**	**177**	**2,508**
Total stated amounts of derivatives	**12,623**	**42,393**	**98,838**	**31,064**	**217**	**185,135**
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives (1)						
Positive fair value, gross	1	-	-	-	-	1
Negative fair value, gross	-	316	-	-	-	316
B. ALM derivatives (1)(2)						
Positive fair value, gross	245	1,280	1,451	282	1	3,259
Negative fair value, gross	215	1,490	1,377	131	1	3,214
C. Other derivatives (1)						
Positive fair value, gross	-	2	79	177	-	258
Negative fair value, gross	-	1	79	166	-	246
D. Credit derivatives						
Credit derivatives in which the Bank is guarantor						
Negative fair value, gross	-	-	-	-	1	1
E. Total						
Carrying amount of assets with respect to derivatives(3)	**246**	**1,282**	**1,530**	**459**	**1**	**3,518**
Includes: Carrying amount of assets with respect to derivatives not subject to a master netting agreement or to similar agreements	62	126	568	459	1	1,216
Carrying amount of liabilities with respect to derivatives(3)	**215**	**1,807**	**1,456**	**297**	**2**	**3,777**
Includes: Carrying amount of liabilities with respect to derivatives not subject to a master netting agreement or to similar agreements	50	211	783	297	2	1,343

(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: Of which positive fair value, gross of assets with respect to embedded derivatives amounting to NIS 6 million and negative fair value, gross of liabilities with respect to embedded derivatives amounting to NIS 4 million.

Note 19 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

E. Financial derivatives activity – volume, credit risk and maturity - continued

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

	As of December 31, 2013					
	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.

Note 19 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

E. Financial derivatives activity – volume, credit risk and maturity - continued

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

	As of December 31, 2012[1]					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivatives[2]	**470**	**2,358**	**23**	**-**	**667**	**3,518**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(1,754)	-	-	-	(1,754)
Mitigation of credit risk with respect to cash collateral received	-	(246)	-	-	-	(246)
Net amount of assets with respect to derivatives	**470**	**358**	**23**	**-**	**667**	**1,518**
Off-balance sheet credit risk on financial derivatives [3]	-	1,255	433	-	2,214	3,902
Mitigation of off-balance sheet credit risk	-	(540)	-	-	-	(540)
Net off-balance sheet credit risk with respect to derivatives	-	**715**	**433**	-	**2,214**	**3,362**
Total credit risk on financial derivatives	**470**	**1,073**	**456**	-	**2,881**	**4,880**
Carrying amount of liabilities with respect to derivatives[4]	**337**	**2,691**	-	-	**749**	**3,777**
Gross amounts not offset on the balance sheet:						
Financial instruments	-	(1,754)	-	-	-	(1,754)
Pledged cash collateral	-	(553)	-	-	-	(553)
Net amount of liabilities with respect to derivatives	**337**	**384**	**-**	**-**	**749**	**1,470**

(1) Restated.

(2) Includes positive fair value, gross, of embedded derivatives amounting to NIS 6 million.

(3) 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.

(4) Includes negative fair value, gross, of embedded derivatives amounting to NIS 4 million.

In 2013, the Bank recognized revenues from decrease of credit losses with respect to derivatives, amounting to NIS 28 million (in 2012, the Bank recognized credit losses amounting to NIS 42 million; in 2011 the Bank recognized credit losses amounting to NIS 19 million).

Note 19 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

E. Financial derivatives activity – volume, credit risk and maturity - continued

c) Maturity dates – stated amounts: year-end balances - Consolidated

	As of December 31, 2013				
	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**

	As of December 31, 2012				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	**Total**
Interest contracts:					
NIS - CPI	1,528	5,702	3,122	2,271	12,623
Other	2,989	11,061	13,475	14,868	42,393
Currency contracts	52,778	32,715	5,549	7,796	98,838
Contracts for shares	28,114	2,340	610	-	31,064
Commodities and other contracts	34	6	40	137	217
Total	**85,443**	**51,824**	**22,796**	**25,072**	**185,135**

Note 19 - Contingent Liabilities and Special Commitments - continued

E. Financial derivatives activity – volume, credit risk and maturity - continued

d) Description of derivative instruments and the risks inherent in such activity

1) General

The Bank's activities in derivative instruments, such as futures contracts and forward trades, options and financial swaps, are executed both as broker for its customers and on its own account, as part of the management of its assets and liabilities and in order to minimize as much as possible the Bank's exposure to market risks.

2) Types and description of activity in derivative instruments

The activities in derivative instruments include currency contracts, interest rate contracts and other contracts, and contracts for customers in the MAOF market, on different indices and assets, as outlined below:

- Forward transactions and futures contracts:
  A contract between two parties to buy or sell a specified quantity of commodities, currencies, interest or other financial instruments ("underlying asset"), to be executed on a future date and at a price specified in advance.
- Swaps:
  Contracts to exchange a specified quantity of underlying assets on the transaction date, with a reciprocal obligation to reexchange the items that had been exchanged on a future date.
- Options:
  Contracts that confer, in return for the payment of a premium, the right to purchase (call) or sell (put) the underlying assets at a pre-determined fixed price, quantity and time.
- Credit derivatives:
  Contracts that confer, in return for the payment of a one-time or periodic premium, the right to receive payment in the event of a change in credit rating, the inability to honor obligations or any other credit event, relating to the State or the company, as stipulated in the contract.
- Spot trades (transactions for immediate delivery):
  Exchanges of two currencies, based on an exchange rate agreed in advance, to be executed within two business days.

Note 19 - Contingent Liabilities and Special Commitments - continued

3) Risks inherent in derivative instrument activities:

The Bank's activities in derivative instruments expose it to credit risks and to market risks that include interest risks, basis risks and liquidity risks, as detailed below:

A. Credit exposure in derivative instruments, which is defined by the Supervisor of Banks as "present credit exposure", quantifies the maximum possible loss that the Bank will sustain if the other party does not fulfill the terms of the transaction, after deducting enforceable set-off agreements, and without taking collateral into account. In the credit derivatives written by the Bank, the credit exposure is expressed in the amount that the Bank will be obliged to pay if the event stipulated in the contract occurs. To manage the credit extent of the exposure inherent in derivative instruments over the life of the transaction, the exposure is estimated at the price of the commitment in the reverse transaction for the remaining life of the transaction. Collateral requirements are determined according to the type of customer, and sometimes, at a fixed percentage of the credit facility determined for a given customer. In other cases, exposure is determined according to scenarios based on the Black and Scholes Model. The collateral required by the Bank usually includes liquid collateral such as securities, deposits, etc., and is valued as collateral in accordance with the various collateral coefficients used by the Bank.

B. The market risks in derivative instruments with which the Bank contends result from their various sensitivities to unexpected fluctuations in interest rates, the inflation rate, exchange rates and other financial indices. The Bank manages the market risks involved in financial derivatives by including these instruments within the management of exposure to market risks of the entire range of the Bank's operations.

C. Liquidity risk from transactions in derivative financial instruments derives from the inability to quickly close the exposure by cash payment or by creating reverse exposure. The derivative instruments and their effect on liquidity needs are an integral part of the management of the Bank's liquidity risk in accordance with Proper Conduct of Banking Business Regulation 342.

D. The operational risk in derivative instruments is due to the risk of erroneous execution of transactions, beginning from the date they are entered into until they are settled, due to human error or to mechanical error.

Note 20 – Balances and Estimates of Fair Value of Financial Instruments

1) Fair value of financial instruments

For most of the Bank's financial instruments, a "market price" cannot be quoted, because there is no active market in which they are traded. Therefore, the fair value is estimated using acceptable pricing models, such as present value of future cash flows, discounted at an interest rate that reflects the level of risk inherent in the instrument.

The estimate of fair value using future cash flows and determination of a discount rate are subjective. Therefore, for most financial instruments, the estimation of fair value is not necessarily an indication of the realization value of the financial instrument on the balance sheet date. The fair value valuation uses interest rates prevailing at the balance sheet date, and does not take into account fluctuations in interest rates. The assumption of different interest rates will result in fair values that could be substantially different. Essentially, this relates to financial instruments that bear fixed interest or are interest-free, or to CPI-linked financial instruments with shorter maturities than those in which similar transactions are actually effected. In addition, in determining the fair value, the commissions to be received or paid as a result of the business activity are not taken into account, nor does it include the tax effect. Moreover, the difference between the carrying value and the fair value balances may not be realized, because, in most cases, the Bank will hold the financial instrument to maturity. Consequently, it should be emphasized that the data included in this note do not indicate the value of the Bank as a going concern. In addition, because of the broad range of valuation techniques and the possible estimates to be applied during the valuation of the fair value, one must be cautious when comparing the fair values between different banks.

2) The principal methods and assumptions for estimating fair value of financial instruments:

A. Fair value was calculated by the managements in the Bank Group, taking into account the possibility of early repayment based on empirical analysis.
The early repayment assumptions in mortgages are based on empirical testing of the early repayment rate out of all mortgages, on annual basis. These assumptions are tested from time to time against actual early repayments for each linkage segment and for each interest type individually.
The Bank has deposits and savings accounts with exit points (bearing fixed or variable interest, linked or non-linked to the CPI) for which interest terms are known in advance. Assumptions concerning exit at these points are based on empirical analysis and are reviewed and updated from time to time. The early repayment assumptions resulted in a NIS 375 million decrease in total fair value of assets, and in a NIS 8 million decrease in total fair value of liabilities.

B. Deposits from the public, deposits with banks and loans to Governments, as well as debentures and subordinated notes – the discounting of future cash flows using interest rates at which, in the estimation of the managements in the Bank Group, similar transactions could have been executed on the balance sheet date. For transactions which bear variable interest, the difference between the spread over the variable interest base for the transaction, and the spread for similar transactions upon the reporting date is separated. In calculating fair value, this difference is treated as a fixed interest component.

C. Securities, including asset-backed securities, see Note 1.I.

Note 20 – Balances and Estimates of Fair Value of Financial Instruments - continued

D. Investments in corporations for which a market value cannot be quoted are not included in this Note at their fair value but rather at cost, (net of impairment provisions) which, in the estimation of management, is not lower than the fair value of the investment.

E. Loans to the public – The fair value of loans to the public is estimated by the present value of cash flows method, using an appropriate discount rate. For loans which bear variable interest, the difference between the spread over the variable interest base for the transaction, and the spread for similar loans upon the reporting date is separated. In calculating fair value, this difference is treated as a fixed interest component. The balance of the loans was broken down according to the risk level of the individual borrower at the balance sheet date, and as to mortgages, according to homogeneous categories, for which the flows of future receipts (principal and interest) were calculated.

   These receipts were discounted at the interest rate at which the Bank estimates it will be possible to execute similar transactions on the balance sheet date, and which reflects the risk level inherent in the loans to a customer at a similar risk level, and as to mortgages, according to homogeneous categories.

   In certain loans granted by the Bank and a subsidiary at variable interest that changes at a frequency of up to three months, namely housing loans, the carrying value approximates fair value.

F. The fair value of problem debt is calculated using a discount rate that reflects the level of credit risk inherent in them. In no case were these discount rates lower than the highest interest rate used by the members of the Bank Group in providing loans on the balance sheet date. The future cash flows of problematic debt were calculated after deducting the provisions for credit losses.

   A decrease of 1% in the discount rate affects the fair value of the problematic debts of the Group by NIS 14 million.

G. Off-balance sheet financial instruments in which the balance represents credit risk and contingent liabilities and special commitments – the balance in the financial statements as of the balance sheet date approximates the fair value.

H. Financial derivatives – Financial derivatives that have an active market were valued at market value. Financial derivatives not traded on an active market have been valued using internal models and have been validated by a professional appointed by the Bank to this end.

Note 20 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

3) Information on the fair value of financial instruments is presented below:

A. Fair value balances

					Consolidated
					December 31, 2013
	Carrying				Fair value
	amount	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 3.

(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 20 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

A. Fair value balances - Continued

					Consolidated
					December 31, 2012
	Carrying				Fair value
	amount	Level 1 (1)	Level 2 (1)	Level 3 (1)	Total
Financial assets					
Cash and deposits with banks	16,671	2,259	11,930	2,495	16,684
Securities (3)	9,041	5,783	(5)2,886	(5)375	9,044
Securities loaned or sold in repurchase agreements	207	207	-	-	207
Loans to the public, net	128,651	-	10,463	119,690	130,153
Loans to Governments	317	-	-	317	317
Investments in associates	33	-	-	33	33
Assets with respect to derivatives	3,518	484	2,182	(2)852	3,518
Other financial assets	1,926	(5)895	-	(5)1,031	1,926
Total financial assets	**(4)160,364**	**9,628**	**27,461**	**124,793**	**161,882**
Financial liabilities					
Deposits from the public	(5)128,081	-	32,232	(5)97,951	130,183
Deposits from banks	1,694	-	71	1,669	1,740
Deposits from the Government	107	-	-	120	120
Debentures and subordinated notes	14,039	13,259	-	2,203	15,462
Liabilities with respect to derivatives	3,773	351	2,270	(2)1,152	3,773
Other financial liabilities	(5)4,075	-	2,889	(5)1,186	4,075
Total financial liabilities	**(4)151,769**	**13,610**	**37,462**	**104,281**	**155,353**

(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 3.

(4) Includes assets and liabilities amounting to NIS 36,578 million and NIS 29,564 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.

(5) Reclassified.

Note 20 – 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

				Consolidated
				For the year ended December 31, 2013
	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 20 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

B. Items measured at fair value - continued:

1. On recurring basis

	Consolidated			
	For the year ended December 31, 2012			
	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	2,106	2,594	-	4,700
Of foreign governments	95	-	-	95
Of banks and financial institutions in Israel	123	-	-	123
Of banks and financial institutions overseas	-	165	229	394
Of others in Israel	25	-	-	25
Of others overseas	10	127	31	168
Shares	4	-	-	4
Securities held for trade				
Securities Loaned or Sold in repurchase agreements	2,291	-	-	2,291
Debentures of the Government of Israel	3	-	-	3
Of banks and financial institutions overseas	207	-	-	207
Credit with respect to inter-client loaning	393	-	-	393
Assets with respect to derivatives (1)				
Interest contracts:				
NIS / CPI	-	145	101	246
Other	-	1,109	173	1,282
Currency contracts	109	928	493	1,530
Contracts for shares (2)	375	-	(2)78	453
Commodities and other contracts	-	-	1	1
Other Financial Liabilities	895	-	-	895
Other (2)	-	-	(2)6	6
Total assets	**6,636**	**5,068**	**1,112**	**12,816**
Liabilities				
Deposits with respect to inter-client loaning	393	-	-	393
Liabilities with respect to derivatives (1)				
Interest contracts:				
NIS / CPI	-	167	48	215
Other	-	1,482	325	1,807
Currency contracts	126	621	709	1,456
Contracts for shares	225	-	68	293
Commodities and other contracts				
Other Financial Liabilities	-	-	2	2
Other	-	-	4	4
Total liabilities	**744**	**2,270**	**1,156**	**4,170**

(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 20 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

B. Items measured at fair value - continued:

2. On non-recurring basis

	Consolidated				
	December 31, 2013				For the year ended December 31, 2013
	Fair value				
	Level 1 [1]	Level 2 [1]	Level 3 [1]	Total	Loss
Impaired credit whose collection is contingent on collateral	-	-	188	188	(21)

	Consolidated				
	December 31, 2012				For the year ended December 31, 2012
	Fair value				
	Level 1 [1]	Level 2 [1]	Level 3 [1]	Total	Loss
Impaired credit whose collection is contingent on collateral	-	-	[2]209	209	(72)

(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) Reclassified.

Note 20 – 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:

									Consolidated
									For the year ended December 31, 2013
		Realized / unrealized gain (loss), net (1) included							
	Fair value as of December 31, 2012	On statement of profit and loss	On statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	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	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	4	10	-	4	-	(4)	-	14	-
Total liabilities	**1,156**	**443**	**-**	**892**	**-**	**(1,758)**	**13**	**746**	**(421)**

(1) Realized gain (loss) included on 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 20 – 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:

									Consolidated
									For the year ended December 31, 2012
		Realized / unrealized gain (loss), net [(1)] included							
	Fair value as of December 31, 2011	On statement of profit and loss	On statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of December 31, 2012	Unrealized gain (loss) with respect to instruments held as of December 31, 2012
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	220	9	-	-	-	-	-	229	9
Asset-backed	61	(11)	(1)	-	(49)	-	-	-	(1)
Of others overseas	37	2	-	-	-	(8)	-	31	2
Assets with respect to derivatives [(2)(3)]									
Interest contracts:									
NIS / CPI	128	8	-	48	-	(106)	23	101	111
Other	119	19	-	40	-	(5)	-	173	125
Currency contracts	682	94	-	300	-	(583)	-	493	91
Contracts for shares	93	(3)	-	63	-	(75)	-	78	-
Commodities and other contracts	1	-	-	1	-	(1)	-	1	-
Other	15	3	-	-	-	(12)		6	-
Total assets	**1,356**	**121**	**(1)**	**452**	**(49)**	**(790)**	**23**	**1,112**	**337**
Liabilities									
Liabilities with respect to derivatives[(2)(3)]									
Interest contracts:									
NIS / CPI	28	2	-	45	-	(30)	3	48	(6)
Other	309	(67)	-	90	-	(7)	-	325	(100)
Currency contracts	793	73	-	413	-	(570)	-	709	(10)
Contracts for shares	125	-	-	68	-	(125)	-	68	-
Commodities and other contracts	10	-	-	1	-	(9)	-	2	-
Other	6	(1)	-	-	-	(1)	-	4	(1)
Total liabilities	**1,271**	**7**	**-**	**617**	**-**	**(742)**	**3**	**1,156**	**(117)**

(1) Realized gain (loss) included on 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".

(4) Reclassified.

Note 20 – 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 December 31, 2013	Valuation technique	Non-observed data	Range	Weighted average
Securities available for sale:					
Debentures of foreign banks and financial institutions	5	Estimated recouperation rate	Recouperation rate	5.00%	5.00%
CLN	171	Cash flow discounting	Probability of default	0.40%-1.46%	1.24%
Debentures of foreign others	24	Cash flow discounting	Discount rate	4.47%-5.85%	5.57%
Assets with respect to derivatives:					
Interest contracts - NIS CPI	39	Cash flow discounting	Inflationary expectations	1.59%-1.67%	1.62%
Contracts for shares	11	Option pricing model	Standard deviation of shares	19.00%-29.23%	21.9%
Other	497	Cash flow discounting	Counter-party credit quality	1.20%-3.60%	1.90%
Liabilities with respect to derivatives:					
Interest contracts - NIS CPI	10	Cash flow discounting	Inflationary expectations	1.59%-1.67%	1.62%
Other	736	Cash flow discounting	Counter-party credit quality	1.20%-3.60%	1.94%

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 the under 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.

Note 20 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

The following table lists the fair value of items measured at fair value due to election of the fair value option:

		Consolidated
	Fair value as of December 31, 2013	Profit with respect to change in fair value for the year ended December 31, 2013
Securities available for sale	850	21

		Consolidated
	Fair value as of December 31, 2012	Profit with respect to change in fair value for the year ended December 31, 2012
Securities available for sale	1,106	21

Note 21 - Interested and Related Parties - Consolidated

Reported amounts (NIS in millions)

A. Balances

	As of December 31, 2013									
	Interested parties								Related parties owned by the banking corporation	
	Controlling shareholders		Key executives (4)		Others (5)		Interested parties upon the transaction date		Jointly-owned associates or investees	
	Balance as of balance sheet date	Highest balance during the year (1)	Balance as of balance sheet date	Highest balance during the year (1)	Balance as of balance sheet date	Highest balance during the year (1)	Balance as of balance sheet date	Highest balance during the year (1)	Balance as of balance sheet date	Highest balance during the year (1)
Assets										
Loans to the public	-	-	13	15	378	476	-	-	2	15
Investments in associates	-	-	-	-	-	-	-	-	60	62
Liabilities										
Deposits from the public	9	10	53	57	978	1,070	1	5	5	6
Shares (included in shareholders' equity) (2)	4,405	4,405	-	-	-	-	-	-	-	-
Credit risk in off-balance sheet financial instruments (3)	-	1	6	7	218	243	1	1	-	7

(1) Based on balances at the end of each month.

(2) The share of interested and related parties in the Bank's capital.

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

(4) Key executives of the banking corporation or its parent company, including Board members and CEOs, along with their relatives.

(5) Any corporation in which a person or corporation included in one of these interested party groups has a controlling interest, jointly owns, has significant influence or owns 25% or more of their issued share capital or voting rights thereof, or may appoint 25% or more of their Board members.

	As of December 31, 2012									
	Interested parties								Related parties owned by the banking corporation	
	Controlling shareholders		Key executives (4)		Others (5)		Interested parties upon the transaction date		Jointly-owned associates or investees	
	Balance as of balance sheet date	Highest balance during the year (1)	Balance as of balance sheet date	Highest balance during the year (1)	Balance as of balance sheet date	Highest balance during the year (1)	Balance as of balance sheet date	Highest balance during the year (1)	Balance as of balance sheet date	Highest balance during the year (1)
	4	4	4	6	473	647	-	1	8	20
	-	-	-	-	-	-	-	-	60	60
	9	11	34	44	134	1,069	-	-	1	7
	4,164	4,164	-	39	-	-	-	-	-	-
	1	1	5	5	162	173	-	-	-	-

Note 21 - Interested and Related Parties - continued

Reported amounts (NIS in millions)

B. Summary of business results with interested and related parties

	For the year ended December 31,			
	2013			
	Interested parties			Related parties owned by the banking corporation
	Controlling shareholders	Key executives (1)	Others (2)	Jointly-owned associates or investees
Interest revenues from loans to the public	-	-	6	-
Interest expenses for deposits from the public				
Total interest revenues (expenses), net	-	-	(1)	-
Non-interest financing revenues	-	-	5	-
Operating and other expenses	-	-	-	-
Total	-	(40)	(3)	-

C. Remuneration and other benefits payable to interested parties (by the banking corporation and its investees)

	For the year ended December 31,			
	2013			
	Key executives (1)		Others (2)	
	Total benefits	Total number of beneficiaries	Total benefits	Total number of beneficiaries
Interested party employed by or on behalf of the corporation	(2)33	14	-	-
Board member not employed by or on behalf of the corporation	7	14	-	-
Other interested party not employed by or on behalf of the corporation	-	-	3	3

(1) Key executives of the banking corporation or its parent company, including Board members and CEOs, along with their relatives.

(2) Any corporation in which a person or corporation included in one of these interested party groups has a controlling interest, jointly owns, has significant influence or owns 25% or more of their issued share capital or voting rights thereof, or may appoint 25% or more of their Board members.

(3) Includes: Short-term employee benefits: NIS 25 million (2012- 23; 2011 - 26); post-employment benefits NIS 3 million (2012- 1; 2011 - 5); share-based payment: NIS 5 million (2012- 10; 2011 - 18).

(4) Restated.

	2012				2011			
		Interested parties [(4)]		Related parties owned by the banking corporation		Interested parties [(4)]		Related parties owned by the banking corporation
	Controlling shareholders	Key executives [(1)]	Others [(2)]	Jointly-owned associates or investees	Controlling shareholders	Key executives [(1)]	Others [(2)]	Jointly-owned associates or investees
	-	-	20	1	-	-	16	1
	-	-	(2)	-	-	-	(1)	-
	-	**-**	**18**	**1**	**-**	**-**	**15**	**1**
	-	-	2	-	**-**	**-**	2	**-**
	-	(41)	(3)	-	-	(55)	(2)	-
	-	**(41)**	**17**	**1**	**-**	**(55)**	**15**	**1**

	2012 [(4)]				2011 [(4)]			
	Key executives [(1)]		Others [(2)]		Key executives [(1)]		Others [(2)]	
	Total benefits	Total number of beneficiaries	Total benefits	Total number of beneficiaries	Total benefits	Total number of beneficiaries	Total benefits	Total number of beneficiaries
	[(3)]34	14	-	-	[(3)]49	15	**-**	**-**
	7	14	-	-	6	12	**-**	**-**
	-	-	3	3	-	-	2	4

Note 22 - Interest revenues and expenses

For the year ended December 31

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2013	2012	2011 [1]	2013	2012	2011 [1]
A. Interest revenues [2]						
From loans to the public	6,066	6,146	6,364	5,723	814,5	6,046
From loans to Governments	9	7	4	9	7	4
From deposits with the Bank of Israel and from cash	172	[3]159	276	139	153	225
From deposits with banks	42	[3]56	68	33	16	10
From securities loaned or sold in repurchase agreements	1	4	4	1	4	4
From debentures	152	219	124	144	164	54
Total interest revenues	**6,442**	**6,591**	**6,840**	**6,049**	**6,158**	**6,343**
B. Interest expenses						
On deposits from the public	2,153	2,594	3,004	2,514	2,823	3,115
On deposits from governments	4	5	11	4	5	11
On deposits from banks	35	68	15	246	252	133
On debentures and subordinated notes	786	710	711	282	275	347
Total interest expenses	**2,978**	**3,377**	**3,741**	**3,046**	**3,355**	**3,606**
Total interest revenues, net	**3,464**	**3,214**	**3,099**	**3,003**	**2,803**	**2,737**
C. Details of net effect of hedging financial derivatives on interest revenues	**25**	**(73)**	**(78)**	**25**	**(73)**	**(78)**
D. Details of interest revenues (expenses) on accrual basis from debentures						
Held to maturity	23	26	5	-	-	-
Available for sale	112	174	[3]110	127	147	[3]45
Held for trade	17	19	[3]9	17	17	[3]9
Total included under interest revenues	**152**	**219**	**124**	**144**	**164**	**54**

(1) Reclassified upon initial application of the Supervisor of Banks' directives concerning format of statement of profit and loss for banking corporations. For details see Note 1.AA.2.
(2) Includes the effective element in the hedging ratios.
(3) Reclassified.

Note 23 - Non-interest financing revenues

For the year ended December 31

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2013	2012	2011 [(1)]	2013	2012	2011 [(1)]
A. Non-interest financing revenues (expenses) with respect to non-trade operations						
1. **From activity in derivatives**						
Non-effective element of hedging ratios [(2)]	-	(2)	(2)	-	(2)	(2)
Net expenses with respect to ALM derivatives [(3)]	(548)	(100)	369	(548)	(100)	369
Total from activity in derivatives	**(548)**	**(102)**	**367**	**(548)**	**(102)**	**367**
2. From investment in debentures						
Gain on sale of debentures available for sale	52	118	11	38	113	11
Loss on sale of debentures available for sale	(1)	(5)	(2)	(1)	(4)	(2)
Provision for impairment of debentures available for sale	-	(8)	(10)	-	(8)	(10)
Total from investment in debentures	**51**	**105**	**(1)**	**37**	**101**	**(1)**
3. Exchange rate differences, net	**525**	**(21)**	**(409)**	**551**	**(30)**	**(442)**
4. **Gain (loss) from investment in shares**						
Gains on sale of available-for-sale shares	1	5	5	1	5	5
Provision for impairment of available-for-sale shares	(3)	-	-	(3)	-	-
Dividends from available-for-sale shares	1	24	1	1	24	1
Total from investment in shares	**(1)**	**29**	**6**	**(1)**	**29**	**6**
5. Net gain with respect to loans sold	**-**	**-**	**6**	**-**	**-**	**6**
Total non-interest financing revenues (expenses) with respect to non-trade operations	**27**	**11**	**(31)**	**39**	**(2)**	**(64)**

(1) Reclassified upon initial application of the Supervisor of Banks' directives concerning layout of statement of profit and loss for banking corporations. For details see Note 1.AA.2.

(2) Excludes the effective element in the hedging ratios.

(3) Derivatives which constitute part of the Bank's asset and liability management system, which were not intended as hedges.

Note 23 - Non-interest financing revenues - continued

For the year ended December 31,

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2013	2012	2011 [1]	2013	2012	2011 [1]
B. Non-interest financing revenues (expenses) with respect to trading activities [2]						
Net revenues (expenses) with respect to other derivatives	(51)	40	30	(51)	40	30
Realized gain from adjustment to fair value of debentures held for trade, net	20	32	11	20	32	11
Unrealized gain (loss) from adjustment to fair value of debentures held for trade, net	18	12	8	18	12	8
Total from trade operations [3]	**(13)**	**84**	**49**	**(13)**	**84**	**49**
Details of non-interest financing revenues (expenses) with respect to trade operations, by risk exposure						
Risk exposure	45	[4]44	22	45	[4]44	22
Foreign currency exposure	(80)	22	21	(80)	22	21
Exposure to shares	13	(3)	6	13	(3)	6
Exposure to commodities and others	9	[4]21	-	9	[4]21	-
Total	**(13)**	**84**	**49**	**(13)**	**84**	**49**

(1) Reclassified upon initial application of the Supervisor of Banks' directives concerning format of statement of profit and loss for banking corporations. For details see Note 1.AA.2.
(2) Includes exchange rate differentials resulting from trade operations.
(3) For interest revenues from investment in debentures held for trade, see Note 22.
(4) Reclassified.

Note 24 - Commissions

For the year ended December 31,

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2013	2012	2011	2013	2012	2011
Account management (1)	295	294	296	275	273	275
Translation differences	132	129	127	121	117	119
Credit cards	150	142	141	105	98	100
Handling credit	148	161	135	143	150	127
Foreign trade activity	34	34	43	34	34	39
Activity in securities and certain derivatives	223	215	265	178	169	212
Net revenues from credit portfolio service	72	77	88	69	75	86
Commissions on distribution of financial products (2)	47	40	43	36	32	35
Home insurance distribution commissions	24	26	33	-	-	-
Life insurance distribution commissions	91	103	92	27	34	30
Commissions from financing transactions	168	153	131	167	152	127
Provident fund operations (2)	40	42	49	20	21	27
Other commissions	34	36	31	27	25	23
Total operating commissions	**1,458**	**1,452**	**1,474**	**1,202**	**1,180**	**1,200**

(1) In Israeli and foreign currency
(2) Reclassified.

Note 25 - Other revenues

For the year ended December 31,

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2013	2012	2011	2013	2012	2011
Capital loss from sale of buildings and equipment	-	-	(2)	-	-	(2)
Management fees from subsidiaries	-	-	-	-	-	1
Revenues from security services	7	6	6	7	6	6
Trustee fees	11	6	7	-	-	-
Other	9	14	6	12	14	7
Total other revenues	**27**	**26**	**17**	**19**	**20**	**12**

Note 26 - Salaries and Related Expenses

For the year ended December 31,

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2013	2012	2011(1)	2013	2012	2011(1)
Salaries (including bonuses)	1,215	1,108	1,057	1,034	951	907
Expense arising from share-based payment transactions (2)	8	31	24	6	28	22
Severance pay, provident and pension, continuing education fund and vacation	214	202	188	185	188	174
National Insurance and VAT on salaries	358	322	302	334	288	271
Other related expenses	26	24	26	17	17	18
Supplement to provisions for related expenses, due to changes in salaries during the current year	15	14	18	2	2	2
Total salaries and related expenses	**1,836**	**1,701**	**1,615**	**1,578**	**1,474**	**1,394**
Includes: salaries and related expenses overseas	49	49	44	37	35	30

(1) Reclassified.

(2) See Note 16A.

Note 27 - Other Expenses

For the year ended December 31,

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2013	2012	2011	2013	2012	2011
Marketing and advertising	68	65	72	52	50	58
Communications	42	43	44	32	32	33
Computer	60	72	77	9	12	13
Office expenses	40	34	30	33	27	23
Insurance	11	12	11	11	11	11
Professional services	71	74	74	61	64	62
Board members' fees	10	9	8	7	7	6
Training and continuing education	7	8	9	4	5	6
Commissions	28	23	28	28	23	29
Cars and travel	38	42	39	37	41	39
Sundry	63	51	52	52	46	52
Total other expenses	**438**	**433**	**444**	**326**	**318**	**332**

Note 28 - Provision for Taxes on Profit

For the year ended December 31,

Reported amounts (NIS in millions)

A. Composition

	Consolidated			The Bank		
	2013	2012	2011	2013	2012	2011
Current taxes -						
For the current year	636	(1)566	(1)528	552	(1)486	437
For prior years	12	(1)26	(1)(1)	21	(1)25	-
Total current taxes	**648**	**592**	**527**	**573**	**511**	**437**
Changes in deferred taxes -						
For the current year	(62)	7	(1)7	(57)	5	14
For prior years	6	-	(1)(12)	(1)	-	-
Total deferred taxes	**(56)**	**7**	**(5)**	**(58)**	**5**	**14**
Total provision for taxes on income	**592**	**599**	**522**	**515**	**516**	**451**
Includes provision for taxes overseas	20	18	7	19	16	4

(1) Reclassified.

B. Reconciliation between the theoretical tax amount that would be applicable had the profit been taxable at the statutory tax rate applicable to banks in Israel, and between the provision for taxes on profit as included in the statement of profit and loss:

	Consolidated			The Bank		
	2013	2012	2011	2013	2012	2011
Statutory tax rate applicable to a bank in Israel	36.21%	53.35%	34.48%	36.21%	53.35%	34.48%
Tax amount based on statutory tax rate	622	613	553	534	519	464
Tax (tax saving) from:						
Income of subsidiaries in Israel (2)	(21)	(16)	(16)	(8)	(6)	(7)
Income of subsidiaries overseas	7	(2)	(8)	-	-	-
Special and supplementary provision for doubtful debts	4	4	-	4	4	-
Exempt income	-	(2)	(1)	-	-	(1)
Adjustment differences on depreciation, amortization and capital gains	(1)	(1)	(1)	(1)	(1)	(1)
Other non-deductible expenses	7	9	12	6	8	10
Temporary differences and losses for which deferred taxes have not been recorded (1)	(4)	(14)	11	(4)	(14)	11
Taxes for prior years	18	(1)26	-	20	(1)25	-
Change in deferred tax balances due to change in tax rates	(38)	(12)	(29)	(36)	(11)	(25)
Adjustment differences on monetary assets and other differences, net	(2)	(1)(6)	1	-	(1)(8)	-
Total provision for taxes on income	**592**	**599**	**522**	**515**	**516**	**451**

(1) Reclassified.

(2) At the Bank - revenues of auxiliary corporations.

Note 28 - Provision for Taxes on Profit - continued

For the year ended December 31,

Reported amounts (NIS in millions)

C. On May 28, 2013, the Minister of Finance signed an ordinance which increased the VAT rate on transactions and imports of goods from 17% to 18%, as from June 2, 2013.

On June 2, 2013, the VAT Ordinance (VAT Rate for Non-Profits and Financial Institutions) (Revised), 2013 was published, updating the profit tax and payroll tax rates applicable to financial institutions, to 18% as from June 2, 2013. Furthermore, the payroll tax rate applicable to financial institutions was increased from 17% to 18% with respect to pay for work performed as from June 2013.

On July 30, 2013, the Knesset Plenum approved the 2013-2014 Economic Plan (the Budget Act), which includes an increase of the corporate tax rate from 25% to 26.5% as from January 1, 2014.

Following the aforementioned amendments, the statutory tax rates applicable to banking corporations have been amended as follows:

Tax year	Statutory tax rate
2012	35.53%
2013	36.21%
2014 and later	37.71%

D. The Bank has finalized tax assessments, or tax assessments deemed to be final, through the 2010 tax year. Bank Yahav has finalized tax assessments through 2009. In December 2013, the Tax Assessor issued a payroll tax assessment with respect to 2009. The Bank disputes this tax assessment and has filed its reservations.

Note 28 - Provision for Taxes on Profit - continued

For the year ended December 31,

Reported amounts (NIS in millions)

E. Deferred tax assets and provision for deferred taxes

	Consolidated				The Bank			
	December 31,				December 31,			
	Balances		Average tax rate in %		Balances		Average tax rate in %	
	2013	2012	2013	2012	2013	2012	2013	2012
Deferred taxes for:								
Provision for credit losses [(1)]	449	372	37.7	35.9	428	342	37.7	35.9
Provision for vacation pay, long-service bonuses and employee rights [(1)]	93	102	37.7	35.9	80	90	37.7	35.9
Excess provision for employee rights on retirement, net [(1)]	256	239	37.7	35.9	244	233	37.7	35.9
Other securities [(1)(3)]	-	4	37.7	35.9	-	4	37.7	35.9
Adjustment of depreciable non-monetary assets [(2)]	(27)	(22)	37.7	35.9	(28)	(23)	37.7	35.9
Other - from monetary assets [(1)(2)(4)]	13	15	37.7	35.9	13	15	37.7	35.9
Other - from non-monetary assets, net [(1)(2)]	36	28	37.7	35.9	34	26	37.7	35.9
Total deferred taxes	**820**	**738**	**37.7**	**35.9**	**771**	**687**	**37.7**	**35.9**
Deferred taxes include:								
(1) Deferred tax assets included under Other Assets	856	772	37.7	35.9	807	721	37.7	35.9
(2) Deferred taxes payable included under Other Liabilities	(36)	(34)	37.7	35.9	(36)	(34)	37.7	35.9
Deferred taxes, net	**820**	**738**	**37.7**	**35.9**	**771**	**687**	**37.7**	**35.9**

(3) Changes in this item amounting to NIS 10 million due to adjustment of fair value of securities available for sale (last year - NIS 24 million) were charged to a separate item in shareholders' equity.

(4) Changes in this item amounting to NIS 1 million due to net gain from cash flow hedges (previous year - NIS 7 million) were charged to a separate item in shareholders' equity.

Note 29 - Earnings per Ordinary Share

	Consolidated		
	For the year ended December 31,		
	Reported amounts (NIS in millions)		
	2013	2012	2011
Net profit used to calculate earnings per share:			
Basic earnings			
Total net profit attributable to holders of ordinary shares of the banking corporation	1,078	1,076	1,044
Diluted earnings			
Total net profit attributable to holders of ordinary shares of the banking corporation	1,078	1,076	1,044
Earnings per share:			
Basic earnings			
Total net profit attributable to holders of ordinary shares of the banking corporation	4.72	4.77	4.65
Diluted earnings			
Total net profit attributable to holders of ordinary shares of the banking corporation	4.69	4.74	4.57

	2013	2012	2011
Weighted average number of shares [(1)]			
Weighted average number of ordinary shares used to calculate basic earnings	228,260,414	225,483,132	224,737,921
Weighted average number of ordinary shares used to calculate diluted earnings	229,842,592	997,469,226	228,446,525

(1) Excludes 2,500,000 shares bought back by the Bank. For details see Note 13.D.

Note 30 - Operating Segments and Geographic Regions - Consolidated

Bank Group operating segments

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

The Bank's operating segments are:

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

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

Private banking – private banking is under responsibility of the Private Banking and International Operations sector of the Financial Division. Private banking sector clients are individual clients with liquid assets (primarily short-term deposits and security investments) over NIS 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 - the Major Corporations sector in the Business Division is responsible for the Business Banking segment, which is the focal point for handling the largest business clients. Criteria by which clients are assigned to the Corporate sector include: total indebtedness over NIS 25 million, sales over NIS 120 million or liquid assets over NIS 40 million. This segment provides a range of banking and financial services to the largest companies in the economy, in an array of industries, at relatively high levels of indebtedness. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

Note 30 - Operating Segments and Geographic Regions - Consolidated - continued

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

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

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

The principles used in assigning balances, revenues and expenses to clients in the system are as follows:

- Credit interest revenues and deposit interest expenses are directly attributed to the client. For credit, an expense set at cost of capital raised is attributed to clients, against an inter-segment credit to the Financial Management segment. For deposits, revenue set at cost of capital raised is attributed to clients, against an inter-segment debit to the Financial Management segment. Each of the segments is credited for capital attributed to its operations, against a debit to the Financial Management segment. Capital consumption is measured by the average risk-free assets managed by the segment.
- For derivative instrument operations, profits are attributed to the client at the spread incorporated in the price of the derivative instrument quoted to the client. Profit arising from changes to fair value of derivatives is attributed to Financial Management.
- Profit and loss from Bank investment in securities and from strategic positions are attributed to Financial Management.
- Expenses with respect to credit losses are directly attributed to clients on behalf of whom they were made.
- Commission and other revenues are specifically attributed to clients.
- Payroll, building maintenance and other expenses attributed specifically to branches, are loaded on branch clients.

Note 30 - Operating Segments and Geographic Regions - Consolidated - continued

- Payroll expenses of headquarters staff, maintenance and other expenses not specifically related to branches, are loaded on clients based on appropriate load bases.
- Expenses attributed directly to Bank branches, including salary and benefits, rent and maintenance are attributed to different segments as inter-segment expenses, based on segment affiliation of clients services by the branches.
- Provision for tax on operating profit is attributed to clients, pro-rated in accordance with the effective tax rate and accounting for tax impact referring to specific segments and not to all Bank operations.
- Return on equity is calculated as the ratio of net profit to attributed equity. Equity is attributed based on the average risk assets of the customers.
- Balance sheet and assets-under-management balances are specifically attributed to clients.
- Fixed assets are attributed based on appropriate ratios.

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.

Note 30 - Operating Segments and Geographic Regions - Consolidated - continued

For the year ended December 31, 2013

Reported amounts (NIS in millions)

B. Information on operating segments [(2)]

	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	3,689	(15)	444	190	419	(1,263)	3,464
Inter-segment	(1,841)	70	22	(24)	264	1,509	-
Total interest revenues, net	**1,848**	**55**	**466**	**166**	**683**	**246**	**3,464**
Non-interest financing revenues	7	2	-	1	32	(28)	14
Commissions and other revenues	771	54	248	59	223	130	1,485
Total revenues	**2,262**	**111**	**714**	**226**	**938**	**348**	**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	(115)	10	(52)	65	81	11	-
Other operating expenses - total	1,687	86	449	133	292	310	2,957
Pre-tax profit	700	25	193	98	663	39	1,718
Provision for taxes on profit	243	8	66	35	228	12	592
After-tax profit	457	17	127	63	435	27	1,126
Share in net profits of associates, after tax	-	-	-	-	-	(4)	(4)
Net profit:							
Before attribution to non-controlling interest	457	17	127	63	435	23	1,122
Attributable to non-controlling interest	(44)	-	-	-	-	-	(44)
Attributable to equity holders of the banking corporation	413	17	127	63	435	23	1,078
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**8.4%**	**18.8%**	**26.3%**	**13.9%**	**13.5%**	**13.6%**	**11.5%**
Average asset balance	97,399	2,214	7,511	4,689	26,687	30,259	168,759
Includes: 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	1,700	5,363	5,028	36,110	5,366	305,110
Average balance of provident and mutual fund assets	-	-	-	-	-	82,642	82,642
Average balance of securities	31,406	8,604	6,420	3,806	62,203	61,525	173,964
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	244,141
Average balance of other assets managed	20,008	7	198	284	230	-	20,727

(1) Risk weighted assets - as calculated for capital adequacy (Proper Conduct of Banking Business Regulation No. 201).
(2) Reclassified.
(3) Includes securities of provident funds and mutual funds for which the Bank provides operational services, but excludes mutual funds held by Bank clients.

Note 30 - Operating Segments and Geographic Regions - Consolidated - continued

For the year ended December 31, 2013

Reported amounts (NIS in millions)

C. 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	1,373	24	380	145	567	-	2,489
Margin from receiving deposits	455	30	63	16	96	-	660
Other	20	1	23	5	20	246	315
Total interest revenues, net	**1,848**	**55**	**466**	**166**	**683**	**246**	**3,464**

D. Information on geographic regions [(1)]

	Revenues for the year ended December 31, 2013 [(2)]	Net profit for the year ended December 31, 2013	Total assets as of December 31, 2013
Israel	4,843	1,047	172,820
Outside of Israel	120	31	6,793
Total consolidated	**4,963**	**1,078**	**179,613**

(1) Revenues and assets by geographic regions were allocated based on Group office locations.
(2) Includes operating profit from financing operations before expenses with respect to credit losses and other operating revenues.

Note 30 - Operating Segments and Geographic Regions - Consolidated - continued

For the year ended December 31, 2012

Reported amounts (NIS in millions)

B. Information on operating segments

	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	3,274	(12)	316	198	331	(893)	3,214
Inter-segment	(2)(1,466)	83	133	(27)	300	(2)977	-
Total interest revenues, net	**1,808**	**71**	**449**	**171**	**631**	**84**	**3,214**
Non-interest financing revenues	7	1	1	1	63	22	95
Commissions and other revenues	778	55	238	60	216	131	1,478
Total revenues	**2,593**	**127**	**688**	**232**	**910**	**237**	**4,787**
Expenses with respect to credit losses	65	(1)	36	8	167	1	276
Operating and other expenses							
From outside operating segments	1,717	78	459	66	217	249	2,786
Inter-segment	(119)	5	(53)	68	86	13	-
Other operating expenses - total	**1,598**	**83**	**406**	**134**	**303**	**262**	**2,786**
Pre-tax profit	930	45	246	90	440	(26)	1,725
Provision for taxes on profit	323	16	86	31	152	(9)	599
After-tax profit	**607**	**29**	**160**	**59**	**288**	**(17)**	**1,126**
Share in net profits of associates, after tax	-	-	-	-	-	-	-
Net profit:							
Before attribution to non-controlling interest	607	29	160	59	288	(17)	1,126
Attributable to non-controlling interest	(50)	-	-	-	-	-	(50)
Attributable to equity holders of the banking corporation	**557**	**29**	**160**	**59**	**288**	**(17)**	**1,076**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	(2) **14.2%**	(2)**30.4%**	**38.8%**	**14.3%**	**9.9%**	(2)**-**	**13.1%**
Average asset balance	89,157	2,274	7,179	4,704	26,919	24,810	155,043
Includes: Investments in associates	-	-	-	-	-	60	60
Average balance of liabilities	58,446	6,958	8,280	3,545	31,702	35,811	144,742
Average balance of risk assets (1)	51,763	1,191	5,160	5,172	36,323	5,476	105,085
Average balance of provident and mutual fund assets	-	-	-	-	-	73,821	73,821
Average balance of securities	26,895	7,767	5,606	3,633	59,957	42,271	146,129
Loans to the public, net (end balance)	93,013	1,178	6,860	4,679	22,921	-	128,651
Deposits from the public (end balance)	58,645	7,077	8,159	3,358	33,934	16,908	128,081
Average balance of other assets managed	20,206	2	191	224	261	-	20,884

(1) Risk weighted assets - as calculated for capital adequacy (Proper Conduct of Banking Business Regulation No. 201).

(2) Reclassified.

(3) Includes securities of provident funds and mutual funds for which the Bank provides operational services, but excludes mutual funds held by Bank clients.

Note 30 - Operating Segments and Geographic Regions - Consolidated - continued

For the year ended December 31, 2012

Reported amounts (NIS in millions)

C. Information on profit from interest revenues before expenses with respect to credit loss

	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	(1)1,241	28	344	144	552	(1)-	2,309
Margin from receiving deposits	530	42	80	24	70	-	746
Other	37	1	25	3	9	84	159
Total interest revenues, net	**1,808**	**71**	**449**	**171**	**631**	**84**	**3,214**

(1) Reclassified.

D. Information on geographic regions [1]

	Revenues for the year ended December 31, 2012 [2]	Net profit for the year ended December 31, 2012	Total assets as of December 31, 2012
Israel	4,672	1,054	155,010
Outside of Israel	115	22	7,232
Total consolidated	**4,787**	**1,076**	**162,242**

(1) Revenues and assets by geographic regions were allocated based on Group office locations.
(2) Includes operating profit from financing operations before expenses with respect to credit losses and other operating revenues.

Note 30 - Operating Segments and Geographic Regions - Consolidated - continued

For the year ended December 31, 2011

Reported amounts (NIS in millions)

B. Information regarding operating segments[3]

	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	3,600	10	413	240	216	(1,380)	3,099
Inter-segment	[2](1,915)	79	26	(67)	304	[2]1,573	-
Total interest revenues, net	**1,685**	**89**	**439**	**173**	**520**	**193**	**3,099**
Non-interest financing revenues	11	1	3	2	44	(43)	18
Commissions and other revenues	808	56	236	65	196	130	1,491
Total revenues	**2,504**	**146**	**678**	**240**	**760**	**280**	**4,608**
Expenses with respect to credit losses	68	(5)	84	6	164	21	338
Operating and other expenses							
From outside operating segments	1,635	74	441	65	223	229	2,667
Inter-segment	(116)	5	(50)	66	84	11	-
Other operating expenses - total	**1,519**	**79**	**391**	**131**	**307**	**240**	**2,667**
Pre-tax profit	917	72	203	103	289	19	1,603
Provision for taxes on profit	298	26	66	34	91	7	522
After-tax profit	**619**	**46**	**137**	**69**	**198**	**12**	**1,081**
Share in net profits of associates, after tax	-	-	-	-	-	1	1
Net profit:							
Before attribution to non-controlling interest	619	46	137	69	198	13	1,082
Attributable to non-controlling interest	(38)	-	-	-	-	-	(38)
Attributable to equity holders of the banking corporation	**581**	**46**	**137**	**69**	**198**	**13**	**1,044**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**17.1%**	**41.0%**	**34.9%**	**17.2%**	**7.7%**	**4.6%**	**14.6%**
Average asset balance	77,528	2,533	6,545	4,888	25,222	24,802	141,518
Includes: Investments in associates	-	-	-	-	-	52	52
Average balance of liabilities	51,460	6,352	7,164	3,189	30,213	35,562	133,940
Average balance of risk assets [1]	46,260	1,201	5,046	5,176	33,362	4,960	96,005
Average balance of provident and mutual fund assets	-	-	-	-	-	77,626	77,626
Average balance of securities	26,998	11,599	8,558	3,799	72,352	57,135	180,441
Loans to the public, net (end balance)	83,803	1,191	6,428	4,778	23,128	-	119,328
Deposits from the public (end balance)	54,091	5,831	7,773	3,471	32,524	15,546	119,326
Average balance of other assets managed	21,150	-	223	154	86	-	21,613

(1) Risk weighted assets - as calculated for capital adequacy (Proper Conduct of Banking Business Regulation No. 201).

(2) Reclassified.

(3) Reclassified upon initial application of the Supervisor of Banks' directives concerning format of statement of profit and loss for banking corporations. For details see Note 1.AA.2..

(4) Includes securities of provident funds and mutual funds for which the Bank provides operational services, but excludes mutual funds held by Bank clients.

Note 30 - Operating Segments and Geographic Regions - Consolidated - continued

For the year ended December 31, 2011

Reported amounts (NIS in millions)

C. Information on profit from interest revenues before expenses with respect to credit loss

	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	(1)1,086	35	323	144	402	-	(1) 1,990
Margin from receiving deposits	527	52	83	22	71	-	755
Other	72	2	33	7	47	(1)193	(1)354
Total interest revenues, net	**1,685**	**89**	**439**	**173**	**520**	**193**	**3,099**

(1) Reclassified.

D. Information on geographic regions [1]

	Revenues for the year ended December 31, 2011 [2]	Net profit for the year ended December 31, 2011	Total assets as of December 31, 2011
Israel	4,476	1,010	142,365
Outside of Israel	132	34	7,881
Total consolidated	**4,608**	**1,044**	**150,246**

(1) Revenues and assets by geographic regions are attributed based on location of Group offices.
(2) Includes profit from financing operations before expenses with respect to credit losses and other operating revenues.

Note 31 - 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 compre-hensive income attributed to non-controlling interest	Other compre-hensive income attributable to equity holders of the banking corporation
Balance as of January 1, 2011	**(10)**	**-**	**26**	**16**	**1**	**15**
Net change in the period	(38)	-	(8)	(46)	(1)	(45)
Balance as of January 1, 2012	**(48)**	**-**	**18**	**(30)**	**-**	**(30)**
Net change in the period	48	-	(15)	33	3	30
Balance as of January 1, 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 31 - Cumulative other comprehensive income - continued

B. Changes in items of cumulative other comprehensive income before and after tax effect

	For the year ended December 31,		
	2013		
	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	73	(29)	44
Loss (gain) with respect to available-for-sale securities reclassified to the statement of profit and loss (1)	(51)	19	(32)
Net change in the period	**22**	**(10)**	**12**
Adjustments from translation of financial statements			
Adjustments from translation of financial statements	(3)	-	(3)
Net change during the period from adjustments from translation of financial statements	**(3)**	**-**	**(3)**
Cash flow hedges			
Net gain (loss) with respect to cash flow hedges	-	-	-
Net change during the period with respect to cash flow hedges	**-**	**-**	**-**
Total net change in the period	**19**	**(10)**	**9**
Total net change in the period attributable to non-controlling interest	**3**	**(1)**	**2**
Total net change in the period attributable to equity holders of the banking corporation	**22**	**(11)**	**11**

(1) Pre-tax amount included on the statement of profit and loss under "Non-interest financing revenues". For details see Note 23 below.

(2) Reclassified.

						For the year ended December 31,
			2012			2011
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
	[2]178	[2](62)	[2]116	(58)	19	(39)
	[2](105)	[2]37	[2](68)	1	-	1
	73	**(25)**	**48**	**(57)**	**19**	**(38)**
	-	-	-	-	-	-
	-	**-**	**-**	**-**	**-**	**-**
	(22)	7	(15)	(12)	4	(8)
	(22)	**7**	**(15)**	**(12)**	**4**	**(8)**
	51	**(18)**	**33**	**(69)**	**23**	**(46)**
	(4)	**1**	**(3)**	**2**	**(1)**	**1**
	47	**(17)**	**30**	**(67)**	**22**	**(45)**

Note 32 - Information Based on Nominal Data - the Bank

(NIS in millions)

	As of December 31,	
	2013	2012
Total assets	167,486	151,659
Total liabilities	157,831	143,029
Total shareholders' equity	**9,655**	**8,630**

	For the year ended December 31,		
	2013	2012	2011
Nominal net profit	1,082	1,083	1,070

עמוד ריק

MIZRAHI TEFAHOT

http://www.mizrahi-tefahot.co.il E-Mail:bank@umtb.co.il

HEAD OFFICE

7 Jabotinsky Street,
P.O.Box 3450, Ramat Gan 5252007, Israel
Tel. 03-7559000, Fax. 03-7559210
BIC: MIZBILIT

International Activities & Private Banking Sector
7 Jabotinsky Street,
P.O.Box 3450, Ramat Gan 5252007, Israel
Tel. 03-7559200, Fax. 03-7559210

Trading in Financial Markets Sector
7 Jabotinsky Street,
P.O.Box 3450, Ramat Gan 5252007, Israel
Tel. 03-7559178, Fax. 03-7559029

Marketing & Business Development Division
7 Jabotinsky Street,
P.O.Box 3450, Ramat Gan 5252007, Israel
Tel. 03-7559260 Fax. 03-7559270

International Finance & Trade Sector
105 Allenby Street,
Tel Aviv 6513444, Israel
Tel. 03-5649530 , Fax. 03-5649533

Tel -Aviv Principal Business Center
105 Allenby Street,Tel Aviv 6513444
Tel. 03-5649300 Fax. 03-5642034
BIC: MIZBILITTLV

INTERNATIONAL PRIVATE BANKING CENTERS

Jerusalem:
9 Helene Hamalka Street
Jerusalem 9422105, Israel
Tel. 02-6755208, Fax. 02-6222146

Tel-Aviv:
32 Ben Yehuda Street
Tel-Aviv, 6380501, Israel
Tel. 03-6213222, Fax. 03-6213223

Ashdod:
12 Sderot Yerushalayim Street
Ashdod, 7752305, Israel
Tel. 08-8628226, Fax. 08-8654671

Netanya:
2 Benny Berman Street
Ir Yamim Mall, Netanya, 4249330, Israel
Tel. 076-8011420, Fax. 09-8358800

BRANCHES ABROAD

London Branch:
Mizrahi Tefahot Bank Ltd.
30 Old Broad Street
London EC2N 1HQ, England
Tel. +44 (0) 20-7448-0600
Fax. +44 (0) 20-7448-0610
BIC: MIZBGB2L
www.umtb.co.uk

Los Angeles Branch:
Mizrahi Tefahot Bank Ltd.
800 Wilshire Blvd.
Los Angeles, CA. 90017, U.S.A.
Tel. +1-213-362-2999, Fax. +1-213-362-2987
BIC: MIZBUS6L
info@umtbusa.com
www.umtbusa.com

Cayman Islands Branch:
Mizrahi Tefahot Bank Ltd.
P.O.B. 705
Grand Cayman, Cayman Islands
British West Indies
Tel. +345- 949-9639, Fax.+345-949-7004

SUBSIDIARIES ABROAD

United Mizrahi Bank (Switzerland) Ltd.
Nuschelerstrasse 31 CH-8021
Zurich, Switzerland
Tel. +41 (0) 44-226-8686
Fax. +41 (0) 44-226-8687
BIC: UMBLCHZZ
info@umbzh.ch
www.umbzh.ch

United Mizrahi Overseas Holding Company B.V.
Paasheuvelweg 16,
1105 BH Amsterdam
The Netherlands

German Representative Office
Woehlerstr. 5
60323 Frankfurt am Main, Germany
Tel. +49 (0) 69-710423270
Fax. +49 (0) 69-710423425

Mexico Representative Office
Sierra Candela 111 Desp 312
Col, Lomas De Chapultepec
Mexico, D.F., C.P. 11000 Mexico
Tel. +52 (0) 55-5202-5607
Fax. +52 (0) 55-5202-5531
contacto@umtb-mex.com

Uruguay Representative Office
Plaza Independencia 831 of. 309
Edificio Plaza Mayor, Montevideo 11.100 Uruguay
Tel. +59 (0) 82-909-0036
Fax. +59 (0) 82-908-3879
umtb@umtb.com.uy

Panama Representative Office
Torre C Piso 15 No 1503
Torres de las Americas
Punta Pacifica, Panama
Tel. +507 2168080
Fax. +507 2168081
info@umtb-pa.com

SUBSIDIARY COMPANIES IN ISRAEL

ETGAR Portfolio Management of Mizrahi Tefahot Bank Ltd.
123 Hashmonaim Street,
Tel Aviv 6713329, Israel
Tel. 03-5631520
Fax. 03-5631531

Technology Division of Mizrahi Tefahot Ltd.
15 Lincoln St.
Tel Aviv 6713407, Israel
Tel. 03-5634333
Fax. 03-5611342

Mizrahi Tefahot Trust Company Ltd.
123 Hashmonaim Street
Tel Aviv 6713329, Israel
Tel. 03-5630733
Fax. 03-5630752