Condensed Financial Statements as of June 30, 2013

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

Condensed Board of Directors' Report for Financial Statements as of June 30, 2013

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Condensed report by the Board of Directors for financial statements as of June 30, 2013

The Board of Directors of Bank Mizrahi-Tefahot, at its meeting held on August 14, 2013, resolved to approve and to publish the consolidated financial statements of Bank Mizrahi-Tefahot and subsidiaries as of June 30, 2013. These financial statements are prepared in conformity with Israeli GAAP for interim financial reporting and in accordance with directives from the Supervisor of Banks.

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

Developments in Israel's economy in the first half of 2013

Real Developments

Macro-economic data in the first half of 2013 indicate continued slow economic growth.

The Bank of Israel Composite Index rose in the second quarter of 2013 by an annualized 1.8%, compared to 1.2% in the first quarter of this year. This increase is higher than the 1.5% increase in 2012, but still significantly lower than the 5.4% increase in 2011.

Export of goods (annualized trend in USD, excluding ships, airplanes and diamonds) decreased in the second quarter of 2013 by 1.3% after increasing by 4.3% in the first quarter of this year. Conversely, import of services (annualized trend) increased by 6.9%, following a decrease of 0.8% in the first quarter of this year.

Various economic indicators point to a mixed trend: The economic sector turnover index increased in March-May 2013 (based on trend data) by an annualized 7.5%, following an increase of 3.1% in the previous three months. The retail chain turnover index increased in the second quarter of 2013 by 1.3%, further to a 1.6% increase in the first quarter of this year. Conversely, the industrial production index decreased in March-May 2013 by an annualized 1.5%, further to a decrease of 4.1% in the previous three months. This was due to a decrease of 12.6% in high-tech production.The purchasing manager index increased moderately compared to December 2012, but since February 2013, this benchmark decreased by 7.6 poins, from 53.6 points in February to 46.0 points in June - an indication of economic decline.

In the second quarter of 2013, unemployment was at 6.9%, compared to 6.6% in the previous quarter and to 7.0% unemployment in the year-ago period - with stable employment rate at 63.7% in these quarters.

Inflation and exchange rates

In the second quarter and in the first half of 2013, the Consumer Price Index rose by 1.3%, compared to a 1.0% rise in the corresponding period last year. The CPI was impacted by higher prices of fruits and vegetables, food, housing and house maintenance - which were offset by lower prices of clothing and footwear, home furnishings, transportation and communications. In June, the CPI rose by 0.8% due the raising of VAT rate to 18%.

In the first half of 2013, the USD was devalued by 3.1% against the NIS. At end of June 2013, the USD/NIS exchange rate was 3.618, compared to 3.733 at the end of 2012. The EUR was devalued against the NIS by 4.1% in this period. At end of June 2013, the EUR/NIS exchange rate was 4.720, compared to 4.921 at the end of 2012. On August 9, 2013, the USD/NIS exchange rate was 3.530 and the EUR/NIS exchange rate was 4.723.
In support of the exchange rate, the Bank of Israel purchased in the second quarter of 2013 foreign currency valued at USD 2.5 million, after having avoided interfering in the foreign currency market throughout 2012. Furthermore, on May 13, 2013, the Bank of Israel issued a notice whereby, as from 2013, it would purchase foreign currency to offset the effect of natural gas production on exchange rates.

Monetary and fiscal policy

In the first half of 2013, the Bank of Israel lowered interest rates multiple times, from 2.00% at end of 2012 to 1.25% in May 2013 - due to continued appreciation of the NIS, start of gas production from Tamar reservoir, interest rates lowered by central banks around the world and downward-revised global growth forecasts.
In the first half of 2013, the government budget recorded a NIS 10.3 billion cumulative deficit, compared to a NIS 11.1 billion cumulative deficit in the corresponding period last year. The cumulative deficit for the 12 months ended June 2013 amounted to NIS 38 billion, or 4.0% of GDP. Tax revenues increased in the first half of 2013 by 6.9% over the corresponding period last year. Government expenditures increased by 4.3% in this period.
According to the proposed budget approved by the Knesset Finance Committee in July, a range of taxes would be raised, along with planned cut-backs in Government spending, to achieve the deficit target of 4.65% of GDP in 2013 and 3.0% of GDP in 2014.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics net of seasonal effect, in the first half of 2013 demand for new apartments (apartments sold and apartments constructed not for sale) was 20,760 apartments, an increase of 3.6% over the corresponding period last year and unchanged over the corresponding period in 2011. Based on the average pace of sales in the six months ended June 30, 2013, this inventory would account for 10.8 months' sales - similar to the end of 2012 and compared to 12.8 months in June 2012.

In the first quarter of 2013, housing prices continued to trend higher, although at a more moderate rate in the second quarter of 2013. Apartment prices, on nation-wide average, for the 12 months ended June 2013 were higher by 8.4% - compared to 8.9% for the period ended in May and 10.1% for the period ended in April. In the first half of 2013, housing loans originated to the public amounted to NIS 25.5 billion, compared to NIS 20.5 billion in the corresponding period last year - an increase of 24.4%.

Capital market

In the second quarter of 2013, the upward trend in equity markets from the first quarter of this year was reversed, and some major equity indices were lower.

Equity market – the major indexes, Tel Aviv 25 and Tel Aviv 100, declined in the second quarter of 2013 by 3.8% and 2.6%, respectively, and for the first half of the year increased by 0.4% and 2.1%, respectively. The Real Estate 15 index rose in the second quarter of 2013 by 4.7% and by 13.6% year to date. The Yeter 50 index rose in the second quarter of 2013 by 8.6% and by 21.9% year to date. Declining shares were led by finance shares, with the Finance 15 and Tel Aviv Banking indices declining by 2.5% and 3.2%, respectively, in the second quarter. Year to date, the Finance index was lower by 2.0% and the Banking index was lower by 1.5%.

The average daily trading volume of shares and convertible securities in the second quarter of 2013 amounted to NIS 1.1 billion - similar to the average for the first quarter. Share issuance (excluding shares issued overseas) increased, amounting to NIS 2.4 billion, compared to NIS 1.6 billion in the first quarter of 2013.

Debenture market – the debenture market trend was positive. The General Debenture index rose in the second quarter of 2013 by 1.5%, to end the first half of this year higher by 2.1%. The CPI-Linked Debenture Index increased by .9% in the second quarter of 2013, compared to a decrease of 0.9% in the first quarter. The Non-Linked Debenture Index increased by 1.5% in the second quarter of 2013, following an increase of 0.4% in the first quarter of this year. The Tel Bond 20 Index increased by 1.1% in the second quarter of 2013, following an increase of 1.2% in the first quarter of this year. The Tel Bond 40 Index, which includes more real estate issues, increased by 1.6% in the second quarter of 2013, following an increase of 1.5% in the first quarter of this year.

The margin of yield to maturity on high-rated corporate debentures over Government debentures was higher in the second quarter. Debentures rated AA were trading at the end of the quarter at a 1.2 Percentage point spread, compared to 0.8 Percentage points at the end of the first quarter and at the end of 2012. Conversely, the margin of yield to maturity on debentures rated A over Government debentures contracted to 2.4 percentage points, compared to 2.5 percentage points at the end of the first quarter of this year, and to 2.8 percentage points at the end of 2012.

In total, the business sector raised NIS 8.7 billion worth of debentures in the second quarter of 2013 from the public and from institutional investors, following NIS 10.7 billion raised in the first quarter of this year.

The average daily trading volume in debentures for the second quarter of 2013 amounted to NIS 5.4 billion, compared to NIS 4.3 billion in the first quarter of this year.

Global economy

In the first quarter of 2013, the IMF revised its global growth forecast for 2013 downward, from 3.3% to 3.1%. The growth forecasts for Europe, USA and China were also revised downwards (-0.6%, 1,7% and 7.8%, respectively).

Unemployment in the Euro Zone continued to rise in the second quarter of 2013, reaching 12.2% in May. Monthly inflation, in annualized terms, was lower at 1.6% in June 2013, compared to 2.4% in June of last year.

The European Union continued to support "struggling" nations in return for stringent budgetary restraint. In order to comply with terms for EU assistance, the "struggling" nations adopt austerity measures which entail negative growth and rising unemployment. However, calls for a policy to support growth, rather than austerity, are increasing.

The US labor market showed a positive trend in the first half of this year, with the unemployment rate at the end of the first half at 7.6%, compared to 7.8% at the end of 2012 and compared to 8.2% at the end of the corresponding period last year. Moreover, 606 thousand new jobs created in the first half of 2013, compared to a quarterly average of 548 thousand new jobs in 2012 and 525 thousand new jobs in 2011. Other indicators, including real estate and manufacturing benchmarks, pointed towards improvement in the US economy in the first half of 2013.

Economic growth in China slowed down in the first half of 2013: GDP in China grew in the second quarter of 2013 by 7.5%, compared to 7.7% growth in the first quarter of 2013 and 7.9% growth in the final quarter of 2012. Inflation in China, as of June 2013, was at 2.7%, compared to 2.5% at the end of 2012 and 2.2% in the corresponding period last year.

Leading benchmarks in global capital markets were affected by positive macro-economic indicators, which somewhat buoyed investor confidence - especially given the low interest rate environment around the world.

The Dow Jones index continued to rise by 2.3% in the second quarter of 2013, rising by 13.8% year to date. The NASDAQ 100 and S&P 500 benchmarks rose in the second quarter of 2013 by 3.2% and 2.4%, respectively, rising by 9.3% and 12.6%, respectively, year to date. The German DAX benchmark rose by 2.1% in the second quarter of 2013, for a total rise of 4.6% year to date. The FTSE 100 benchmark declined by 3.1% in the second quarter of 2013, but was higher by 5.4% year to date. The Nikkei 225 benchmark rose by 9.5% in the second quarter of 2013, and was up by 31.6% year to date - outstanding performance against the back-drop of the newly appointed government.

Key Data for Bank Group

Evolution of revenues and expenses

					For the quarter ended
	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012
					NIS in millions
Profit and Profitability					
Interest revenues, net	873	802	643	900	(3) 884
Non-interest financing revenues (expenses)	48	33	229	(98)	(35)
Commissions and other revenues	368	373	373	385	(3) 355
Total revenues	**1,289**	**1,208**	**1,245**	**1,187**	**1,204**
Expenses with respect to credit losses	181	34	48	116	45
Operating and other expenses	706	717	740	676	676
Profit before provision for taxes	402	457	457	395	483
Provision for taxes	145	164	176	121	174
Net profit (1)	**245**	**280**	**270**	**260**	**295**

	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012
					NIS in millions
Balance sheet - key items					
Balance sheet total	170,603	165,557	162,242	157,810	155,311
Loans to the public, net	132,853	130,543	128,651	(3) 126,566	(3) 123,386
Securities	6,661	9,374	9,041	7,966	9,565
Deposits from the public	135,721	130,419	128,499	124,322	122,284
Debentures and subordinated notes	14,807	14,845	14,039	14,186	13,873
Equity (1)	9,341	9,108	8,811	8,514	8,231

	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012
Key financial ratios (in percent)					
Net profit return on equity(2)	11.1	13.1	13.1	13.0	15.4
Net loans to the public to deposits from the public	97.9	100.1	100.1	101.8	100.9
Capital to total assets	5.48	5.50	5.43	5.40	5.30
Ratio of Tier I capital to risk elements	(4)8.74	8.71	8.55	8.23	8.03
Total ratio of capital to risk elements	(4)12.89	13.25	13.35	13.11	12.93
Cost income ratio	54.8	59.4	59.4	57.0	56.1
Expenses with respect to credit losses for the period to loans to the public, net (2)	0.55	0.10	0.15	0.37	0.15
Basic net earnings per share	1.07	1.23	1.19	1.14	1.29
Diluted net earnings per share	1.06	1.22	1.17	1.13	1.28

(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) Calculated on annualized basis.
(3) Reclassified.
(4) In conformity with Basel II directives, presented including the effect of declared dividend distribution.

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.

Dividends

Dividend distribution policy

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 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 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 resolved to distribute a dividend 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 supercede the Board of Directos' resolutions with regard to bringing forward the application of the Supervisor of Banks' directives dated March 28, 2012, so as to apply these, in as much as possible, as from January 1, 2014 and with regard to dividend distribution policy, as described in section 1 of the Bank's immediate report dated July 23, 2012 (reference 2012-01-191649). This mention constitutes inclusion by way of reference of the information provided in section 1 of the aforementioned immediate report.

Below are details of dividends distributed and declared by the Bank since 2004 through the publication date of these financial statements (in reported amounts):

Payment date	Total dividends paid / declared (NIS in millions)
2004	130
2006	325
2007	400
2008	150
2010	200
2011	120
September 10, 2013[(1)]	75

(1) On August 14, 2013, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 75 million, or 328.1% of the issued share capital, i.e. NIS 0.3281 for each NIS 0.1 par value share. The effective date for dividend payment is August 28, 2013, payment date is September 10, 2013.

Profit and Profitability

The second quarter of 2013 saw revenues at a record level, but also includes the effect of a non-recurring provision for credit losses amounting to NIS 191 million. This non-recurring provision was recorded due to application of the Supervisor of Banks' directives with regard to housing loans.(1)

The provision for credit losses in this quarter also includes other regulatory effects, so that the total extraordinary provision for credit losses in this quarter amounts to NIS 175 million (or NIS 112 million effect on net profit).

Net profit for the Bank in the second quarter of 2013 amounted to NIS 245 million. This profit reflects an annualized return on equity at 11.1%.

Net profit in the second quarter of 2012 amounted to NIS 295 million (return on equity – 15.4%).

Net profit for the Group in the first half of 2013 amounted to NIS 525 million. This profit reflects an annualized return on equity at 11.9%.

Net profit in the first half of 2012 amounted to NIS 546 million (return on equity – 14.3%).

Continued growth and momentum in Bank business, as presented in these financial statement, resulted overall, after the extraordinary provision, in net profit decreasing minimally in the second quarter of 2013, by NIS 50 million and in the first half - by NIS 21 million (a decrease of 16.9% and 3.8%, respectively, over the corresponding period last year).

The accelerated increase in the Bank's capital base to NIS 9.3 billion (reflecting a Tier 1 capital adequacy ratio of 8.81% and an increase of 14% year-over-year) allows the Bank to present an updated outline for achieving the target core capital ratio of 9% and to declare a dividend distribution amounting to NIS 75 million in this quarter(2).

The Tier 1 capital adequacy ratio as of June 30, 2013, net of the effect of declared dividends, was 8.74%.

The following major factors affected Group operating profit in the first half of 2013 over the corresponding period last year:

- Financing revenues (including net interest revenues and non-interest financing revenues) from current business operations increased in the first half of 2013 by NIS 78 million, an increase of 5.0% over the corresponding period last year - see explanation below.
- Expenses with respect to credit losses in the first half of 2013 increased by NIS 103 million compared to the corresponding period last year. See above for effect of extraordinary provision in this quarter(1).
- Commissions and other revenues in the first half of 2013 amounted to NIS 741 million, compared to NIS 720 million in the corresponding period last year – an increase of 2.9%. Business growth exceeded the regulatory effects, which reduced commissions charged to Bank clients. For details, see the below chapter on Legislation and Supervisory Directives over Bank Group Operations.
- Operating and other expenses increased in the first half of 2013 by NIS 53 million, or 3.9%, over the corresponding period last year.

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(1) For more information about the Supervisor of Banks' directives with regard to housing loans, see Note 1.C.6 to the financial statements (page 144).

(2) For information about the dividend distribution declared on August 14, 2013, see chapter "Dividends" above.

Evolution of revenues and expenses

Net interest revenues and non-interest financing revenues [1] for the Group in the first half of 2013 amounted to NIS 1,756 million, compared to NIS 1,635 million in the corresponding period last year, an increase of 7.4%.

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

	Second Quarter			First half of		
	2013	2012	Change rate	2013	2012	Change rate
Interest revenues, net	873	[3] 884		1,675	[3] 1,671	
Non-interest financing revenues (expenses) [1]	48	[3] (35)		81	[3] (36)	
Total financing revenues	**921**	**849**	**8.5%**	**1,756**	**1,635**	**7.4%**
Less:						
Revenues from collection of interest on troubled debt	20	43		36	87	
Exchange rate and linkage differentials with respect to impaired debt	2	15		(5)	3	
Gain from realized debentures available for sale and from debentures held for trade, net	47	31		55	42	
Effect of accounting treatment of derivatives at fair value and others[2]	24	(57)		43	(46)	
Total financing revenues from current operations	**828**	**817**	**[4]1.3%**	**1,627**	**1,549**	**[4]5.0%**

(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 accounting treatment of balance sheet instruments, charged to the profit and loss statement on accrual basis (interest, linkage differentials and exchange rate differentials only), vs. derivatives measured at their fair value.
(3) Reclassified.
(4) Net of the effect of inflation (which is not linear across the year) on the CPI position, the increase in the second quarter and in the first half was 4.9% and 6.7%, respectively.

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

	First half of			
Operating segment	2013	2012	Change amount	Change in %
Retail banking:				
Mortgages	349	311	38	12.2
Household	538	558	(20)	(3.6)
Small business	232	225	7	3.1
Total retail	**1,119**	**1,094**	**25**	**2.3**
Private banking	35	38	(3)	(7.9)
Commercial banking	84	86	(2)	(2.3)
Business banking	355	352	3	0.9
Financial management	163	65	98	-
Total	**1,756**	**1,635**	**121**	**7.4**

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

	Second Quarter			First half of		
Linkage segment	2013	2012	Change rate	2013	2012	Change rate
Israeli currency - non-linked	87,732	77,611	13.0%	85,777	77,612	10.5%
Israeli currency - linked to the CPI	51,193	47,125	8.6%	50,491	47,168	7.0%
Foreign currency	14,187	16,396	(13.5%)	14,426	15,930	(9.4%)
Total	**153,112**	**141,132**	**8.5%**	**150,694**	**140,710**	**7.1%**

The increase in the average balances of interest-bearing assets in the NIS-denominated non-linked and CPI-linked segments is primarily due to the increase in volume of mortgages in these segments.

The decrease in the 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 margins[(1)] (difference between interest income on assets and interest expenses on liabilities) based on average balances[(2)], attributable to operations in Israel in the various linkage segments, in percent:

	First half of	
Linkage segment	2013	2012
Israeli currency - non-linked	2.36%	2.61%
Israeli currency - linked to the CPI	0.91%	0.79%
Foreign currency	1.90%	1.75%
Total	**2.09%**	**2.17%**

(1) Financing revenues in the various linkage segments also include non-interest financing revenues. Non-interest financing revenues include, *inter alia*, the results of activities involving financial derivatives.

(2) Average balances before deduction of provision with respect to credit loss.

The decrease in interest margin in the NIS-denominated non-linked and CPI-linked segments is due to lower margin on deposit activities due to the low interest rate environment.

The increase in interest margin 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 margin in the foreign currency segment is due to a decrease in average balance of deposits of excess liquidity by the Bank with central banks overseas.

Expenses with respect to credit losses[(1)] for the Group amounted to NIS 215 million in the first half of 2013, or an annualized rate of 0.32% of total loans to the public, net, compared with NIS 112 million, or an annualized rate of 0.18% of total loans to the public, net in the corresponding period last year - an increase of NIS 103 million in total.

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(1) For details of the Supervisor of Banks' directives with regard to housing loans, see Note 1.c.6 to the financial statements (page 144)

Expenses with respect to credit losses for the Group amounted to NIS 181 million in the second quarter of 2013, or an annualized rate of 0.55% of total loans to the public, net, compared with NIS 45 million, or an annualized rate of 0.15% of total loans to the public, net in the corresponding period last year - a total increase of NIS 136 million.

In this quarter, the Bank recorded a non-recurring provision for credit losses, amounting to NIS 191 million, due to application of the Supervisor of Banks' directive with regard to housing loans. The provision for credit losses in this quarter includes other regulatory effects as well, which reduced the group-based provision with respect to commercial loans by NIS 16 million, so that the total regulatory effect in this quarter amounts to NIS 175 million.

Moreover, for some significantly impaired clients, the provision for credit losses decreased due to collection efforts which bore fruit in this quarter.

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

	Second Quarter		First half of	
	2013	2012	2013	2012
Provision for credit losses on individual basis (including accounting write-offs)	16	106	48	142
Provision for credit losses on Group basis:				
By extent of arrears	(6)	2	2	3
Other	[(1)]171	(63)	[(1)]165	(33)
Total	181	45	215	112
Expense with respect to credit losses as percentage of total loans to the public (annualized):	**0.55%**	**0.15%**	**0.32%**	**0.18%**
Includes: With respect to commercial loans other than housing loans[(2)]	**0.10%**	**0.38%**	**0.14%**	**0.45%**
Includes: With respect to housing loans	**0.88%**	**0.00%**	**0.47%**	**0.01%**

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

Operating segment	First half of	
	2013	2012
Retail banking:		
Mortgages	[(1)]198	4
Household	21	33
Small business	24	15
Total retail	**243**	**52**
Private banking	(3)	(3)
Commercial banking	(5)	2
Business banking	[(3)](20)	53
Financial management	-	8
Total	**215**	**112**

(1) Includes NIS 191 million due to application of the Supervisor of Banks' directives with regard to housing loans. The provision for credit losses in this quarter includes other regulatory effects as well, which reduced the group-based provision with respect to commercial loans by NIS 16 million, so that the total regulatory effect in this quarter amounts to NIS 175 million. See Note 1.C.6 to the financial statements for further information.

(2) Excludes a NIS 16 million decrease in group-based provision with respect to commercial loans, as described above.

(3) For some significantly impaired clients, the provision for credit losses decreased due to collection efforts which bore fruit in this quarter.

Net interest revenues after expenses with respect to credit losses in the first half of 2013 amounted to NIS 1,460 million, compared to NIS 1,559 million in the corresponding period last year - a decrease of 6.4%. Including non-interest financing revenues – an increase of 1.2%. Net interest revenues after expenses with respect to credit losses in the second quarter of 2013 amounted to NIS 692 million, compared to NIS 839 million in the corresponding period last year - a decrease of 17.5%. Including non-interest financing revenues – a decrease of 8.0%. Also see above - the analysis of evolution of financing revenues and analysis of expenses with respect to credit losses.

Non-interest revenues in the first half of 2013 amounted to NIS 822 million, compared to NIS 684 million in the corresponding period last year, an increase of NIS 138 million. Non-interest revenues for the Group in the second quarter of 2013 amounted to NIS 416 million, compared to NIS 320 million in the corresponding period last year, an increase of NIS 96 million - see explanation below.

Non-interest financing revenues (expenses) in the first half of 2013 amounted to revenues of NIS 81 million, compared to expenses of NIS 36 million in the corresponding period last year. Non-interest financing revenues (expenses) for the Group in the second quarter of 2013 amounted to revenues of NIS 48 million, compared to expenses of NIS 35 million in the corresponding period last year. This item includes, inter alia, the effect of fair value and others 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 amounted to NIS 728 million in the first half of 2013, compared with NIS 707 million in the corresponding period last year - an increase of 3.0%. Commission revenues for the Group in the second quarter of 2013 amounted to NIS 360 million, compared to NIS 348 million in the corresponding period last year - an increase of 3.4%. Business growth exceeded the effect of regulatory effects which decreased commissions charged to Bank clients. For details, see the chapter on Legislation and Supervision of Bank Group Operations below.

Other revenues amounted to NIS 13 million in the first half of 2013, similar to the corresponding period last year. Other revenues for the Group in the second quarter of 2013 amounted to NIS 8 million, compared to NIS 7 million in the corresponding period last year, an increase of NIS 1 million.

Operating and other expenses amounted to NIS 1,423 million in the first half of 2013, compared with NIS 1,370 million in the corresponding period last year - an increase of 3.9%. Operating and other expenses amounted to NIS 706 million in the second quarter of 2013, compared with NIS 676 million in the corresponding period last year - a year-over-year increase of 4.4%.

Payroll and associated expenses amounted to NIS 874 million in the first half of 2013, compared with NIS 842 million in the corresponding period last year - an increase of 3.8%. Payroll and associated expenses in the second quarter of 2013 amounted to NIS 429 million, compared to NIS 408 million in the corresponding period last year - an increase of 5.1%, due also to a 13.8% increase at Bank Yahav due to a higher head count in branches.

Maintenance and depreciation expenses for buildings and equipment amounted to NIS 338 million in the first half of 2013, compared with NIS 318 million in the corresponding period last year - an increase of 6.3%. Maintenance and depreciation expenses for buildings and equipment for the Group amounted to NIS 172 million in the second quarter of 2013, compared with NIS 160 million in the corresponding period last year – an increase of 7.5%. The increase in maintenance and depreciation expenses for buildings and equipment is primarily due to an increase in depreciation expenses with respect to investment in technology.

Other expenses amounted to NIS 211 million in the first half of 2013, compared with NIS 210 million in the corresponding period last year - an increase of NIS 1 million. Other expenses for the Group amounted to NIS 105 million in the second quarter of 2013, compared with NIS 108 million in the corresponding period last year - a decrease of NIS 3 million.

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

	First half of		All of
	2013	2012	2012
Cost-Income Ratio(1)	57.0	58.2	58.2

	2013					2012
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Cost-Income Ratio(1)	54.8	59.4	59.4	57.0	56.1	60.3

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

Pre-tax profit for the Group amounted to NIS 859 million in the first half of 2013, compared with NIS 873 million in the corresponding period last year - a decrease of 1.6%. Pre-tax profit for the Group amounted to NIS 402 million in the second quarter of 2013, compared with NIS 483 million in the corresponding period last year - a decrease of 16.8%.

The provision for taxes amounted to NIS 309 million in the first half of 2013, compared with NIS 302 million in the corresponding period last year - an increase of 2.3%. The provision for taxes amounted to NIS 145 million in the second quarter of 2013, compared with NIS 174 million in the corresponding period last year - a decrease of 16.7%.

The rate of provision for taxes on profit in the first half of 2013 was 36.0% - compared to 34.6% in the corresponding period last year. The rate of provision for taxes on profit in the second quarter of 2013 was 36.1% - compared to 36.0% in the corresponding period last year.

The Bank's share of after-tax loss of associates in the first half of 2013 amounted to NIS 1 million. The Bank had no after-tax profit from associates in the corresponding period last year. The Bank's share of after-tax profit of associates in the second quarter of 2013 amounted to NIS 1 million. The Bank had no after-tax profit from associates in the corresponding period last year.

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

		2013				2012
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net return on equity	11.1	13.1	13.1	13.0	15.4	13.6
Ratio of Tier I capital to risk elements at end of quarter	[3] 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.

(3) In conformity with Basel II directives, presented after effect of declared dividend distribution.

Earnings per share

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

		Second Quarter		First half of	All of
	2013	2012	2013	2012	2012
Basic earnings per share:	1.07	1.29	2.31	2.40	4.77
Diluted earnings per share:	1.06	1.28	2.28	2.39	4.74

Development of balance sheet items

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

				Change in % over	
	June 30 ,		December 31,	June 30,	December 31,
	2013	2012	2012	2012	2012
Balance sheet total	170,603	155,311	162,242	9.8	5.2
Loans to the public, net	132,853	(1)123,386	128,651	7.7	3.3
Deposits from the public	135,721	122,284	128,499	11.0	5.6
Securities	6,661	9,565	9,041	(30.4)	(26.3)
Shareholders' equity	9,341	8,231	8,811	13.5	6.0

Loans to the public, net - loans to the public, net on the consolidated balance sheet as of June 30, 2013 accounted for 78% of total assets, compared to 79% at the end of 2012. Loans to the public, net for the Group increased in the first half of 2013 by NIS 4.2 billion, an increase of 3.3%.

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

				Change in % over	
	June 30,		December 31,	June 30,	December 31,
	2013	2012	2012	2012	2012
Israeli currency					
Non-linked	68,783	62,441	66,160	10.2	4.0
CPI- linked	51,291	47,235	49,221	8.6	4.2
Foreign currency and foreign currency linked	12,779	(1)13,710	13,270	(6.8)	(3.7)
Total	**132,853**	**123,386**	**128,651**	**7.7**	**3.3**

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

				Change in % over	
	June 30,		December 31,	June 30,	December 31,
Operating segment	2013	2012	2012	2012	2012
Retail banking:					
Mortgages	79,362	70,609	75,011	12.4	5.8
Household	18,549	16,996	18,002	9.1	3.0
Small business	7,406	6,606	6,860	12.1	8.0
Total retail	**105,317**	**94,211**	**99,873**	**11.8**	**5.5**
Private banking	1,217	1,188	1,178	2.4	3.3
Commercial banking	4,701	4,716	4,679	(0.3)	0.5
Business banking	21,618	(1)23,271	22,921	(7.1)	(5.7)
Total – business and others	**27,536**	**29,175**	**28,778**	**(5.6)**	**(4.3)**
Total	**132,853**	**123,386**	**128,651**	**7.7**	**3.3**

(1) Reclassified.

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 June 30, 2013			As of June 30, 2012			As of December 31, 2012		
	Credit risk[1]			Credit risk[1]			Credit risk[1]		
	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total
1. Troubled credit risk:									
Impaired credit risk	1,427	385	1,812	1,467	427	1,894	1,664	423	2,087
Inferior credit risk	104	-	104	73	-	73	161	2	163
Credit risk under special supervision [2]	[4] 1,401	87	1,488	2,126	123	2,249	1,927	181	2,108
Total troubled credit risk	**2,932**	**472**	**3,404**	**3,666**	**550**	**4,216**	**3,752**	**606**	**4,358**
Includes: Non-impaired debt in arrears 90 days or longer [2].	1,246			1,737			1,659		
2. Non-performing assets[3]	**1,311**			**1,385**			**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 1,194 million (as of June 30, 2012 - NIS 1,667 million; as of December 31, 2012 - NIS 1,599 million).
(3) Non-accruing assets.
(4) Includes balance of provision for credit losses amounting to NIS 281 million with respect to housing loans, which are fully amortized and had an accounting write off – for details see Note 3.A.1 to the financial statements.

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

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

	June 30, 2013	June 30, 2012	December 31, 2012
Ratio of impaired loans to the public to total loans to the public	1.06	1.17	1.28
Ratio of impaired loans to the public to total non-housing loans	2.90	3.01	3.37
Ratio of housing loans in arrears 90 days or longer to total loans to the public [1][2]	0.89	1.33	1.23
Ratio of provision for credit losses to total loans to the public	1.11	1.40	1.30
Ratio of provision for credit losses to total credit risk with respect to the public	0.80	1.00	0.95
Ratio of troubled credit risk to total credit risk with respect to the public	1.83	2.42	2.44
Ratio of expenses with respect to credit losses to average balance of loans to the public, net	0.33	0.19	0.22
Ratio of net write-offs to average balance of loans to the public, net	0.64	0.18	0.27
Ratio of net write-offs to provision for credit losses	63.66[3]	13.13	19.88

(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, which are fully amortized and had an accounting write - off Net of this effect, net write-offs were at 19.05% rate of accounting write-offs net of the balance of provision for credit losses with no property collateral – for details see Note 3.A.1 to the financial statements.

Below is the sector composition of the top 6 borrowers for the Group as of June 30, 2013 (NIS in millions):

Borrower no.	Sector	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
1.	Power and water	435	478	913
2.	Construction and real estate	6	836	842
3.	Construction and real estate	239	582	820
4.	Communications and computer services	636	1	637
5.	Construction and real estate	150	405	555
6.	Construction and real estate	145	398	543

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

Securities - the balance of investment in securities increased in the first half of 2013 by NIS 2.4 billion, and by NIS 2.9 billion compared to the corresponding period last year. The change in total investment in securities is within asset and liability management of the Bank.

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

	For the quarter ended		For the year ended	Change in % over	
	June 30,		December 31,	June 30,	December 31,
	2013	2012	2012	2012	2012
Israeli currency					
CPI- linked	3,295	4,255	5,487	(22.6)	(39.9)
Non-linked	284	939	251	(69.8)	13.1
Foreign currency and foreign currency linked	2,973	4,291	3,184	(30.7)	(6.6)
Non-monetary items	109	80	119	36.3	(8.4)
Total	**6,661**	**9,565**	**9,041**	**(30.4)**	**(26.3)**

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

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

	Carrying amount as of	
	June 30, 2013	December 31, 2012
Government debentures:		
Government of Israel	5,877	8,114
US Government	63	95
Other	22	-
Total government debentures	**5,962**	**8,209**
Debentures of banks in developed nations:		
UK	98	137
Israel	124	123
Germany	106	109
South Korea	-	26
Holland	18	38
Other	5	5
	351	**438**
Debentures of (non-banking) financial institutions in developed nations: (1)		
USA	51	51
UK	19	20
Luxembourg	10	11
Total	**80**	**82**
Total debentures of banks and financial institutions in developed nations	**431**	**520**
Corporate debentures (composition by sector):		
Industry	73	75
Construction	30	31
Power and water	18	57
Communications and computer services	1	1
Financial services	37	29
Total corporate debentures	**159**	**193**
Shares	**109**	**119**
Total securities	**6,661**	**9,041**

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

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

	As of June 30, 2013				
	Duration in which fair value is lower than the amortized cost				
Share of impairment out of amortized cost	Up to 6 months	6-9 months	9-12 months	Over 12 months	Total
Other debentures available for sale					
20%	2	9	-	29	40
20%-40%	-	-	-	-	-
Over 40%	-	-	-	-	-
Total securities available for sale	**2**	**9**	**-**	**29**	**40**

	As of December 31, 2012				
	Duration in which fair value is lower than the amortized cost				
Share of impairment out of amortized cost	Up to 6 months	6-9 months	9-12 months	Over 12 months	Total
Other debentures available for sale					
20%	1	-	-	32	33
20%-40%	-	-	-	20	20
Over 40%	-	-	-	-	-
Total	**1**	**-**	**-**	**52**	**53**
Shares					
20%	1	-	-	-	1
20%-40%	-	-	-	-	-
Over 40%	-	-	-	-	-
Total	**1**	**-**	**-**	**-**	**1**
Total securities available for sale	**2**	**-**	**-**	**52**	**54**

See Note 2 to the financial statements for additional information.

Deposits from the public - these account for 80% of total consolidated balance sheet as of June 30, 2013, compared to 79% at the end of 2012. In the first half of 2013, deposits from the public with the Bank Group increased by NIS 7.2 billion, or 5.6%.

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

				Change in % over	
	June 30,		December 31,	June 30,	December 31,
	2013	2012	2012	2012	2012
Israeli currency					
Non-linked	84,335	74,161	83,411	13.7	1.1
CPI- linked	22,380	22,750	21,823	(1.6)	2.6
Foreign currency and foreign currency linked	29,006	25,373	23,265	14.3	24.7
Total	**135,721**	**122,284**	**128,499**	**11.0**	**5.6**

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

				Change in % over	
	June 30,		December 31,	June 30,	December 31,
	2013	2012	2012	2012	2012
Retail banking:					
Household	59,377	56,825	58,645	4.5%	1.2%
Small business	8,670	8,021	8,159	8.1%	6.3%
Total retail	**68,047**	**64,846**	**66,804**	**4.9%**	**1.9%**
Private banking	6,447	6,671	7,077	(3.4%)	(8.9%)
Commercial banking	3,537	3,683	3,358	(4.0%)	5.3%
Business banking	39,778	32,574	33,934	22.1%	17.2%
Financial management	17,912	14,510	17,326	23.4%	3.4%
Total	**135,721**	**122,284**	**128,499**	**11.0%**	**5.6%**

The ratio of shareholders' equity to balance sheet total for the Group as of June 30, 2013 was 5.48%, 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 stipulate the manner of calculation of total capital and total risk elements. Starting on December 31, 2009, 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 nos. 201-211. These concern adoption of Basel III directives with regard to supervisory capital and to risk assets.

For details of these directives and the anticipated effect on the Bank's capital adequacy, see Note 5.H to the financial statements.

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

	June 30, 2013	December 31, 2012
Ratio of Tier I capital to risk elements	(1) 8.74	8.55
Ratio of total capital to risk elements	(1) 12.89	13.35
Minimum total capital ratio required by the directives of the Supervisor of Banks	9.00	9.00

(1) In accordance with Basel II directives, presented after effect of declared dividend distribution.

Major Investees

The contribution of investees to net operating profit million in the first half of 2013 amounted to NIS 60 million, compared with NIS 84 million in the corresponding period last year.
Excluding the effect of exchange rates, the contribution of investees amounted to NIS 77 million, compared to NIS 79 million in the corresponding period last year.

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

Bank Yahav is a banking corporation operating in accordance with a "Bank" license as per provisions of the Banking Act (Licensing), 1981.
Bank Yahav's contribution to Group net profit in the first half of 2013 amounted to NIS 24.6 million, similar to the corresponding period last year. Bank Yahav's net profit return on equity in the first half of 2013 was 11.1% on annualized basis, compared to 12.7% in the corresponding period last year. Bank Yahav's balance sheet total as of June 30, 2013 amounted to NIS 18,762 million, compared to NIS 18,367 million as of December 31, 2012. The balance of loans to the public, net as of June 30, 2013 amounted to NIS 6,365 million, compared to NIS 6,124 million at end of 2012. The balance of deposits from the public as of June 30, 2013 amounted to NIS 16,041 million, compared to NIS 15,692 million at end of 2012.

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

Tefahot Insurance is an insurance agency wholly owned by the Bank, which manages life insurance policies and property insurance policies of clients obtaining mortgages from the Bank.
Tefahot Insurance's contribution to Group net profit in the first half of 2013 amounted to NIS 42.8 million, compared to NIS 33.1 million in the corresponding period last year. The increase in net profit is primarily due to the non-recurring effect of a change in interest rates received on deposits of excess cash.
Net profit return on equity in the first half of 2013 was 13.8% on annualized basis, compared to 12.1% in the corresponding period last year.

United Mizrahi Bank (Switzerland) Ltd.

United Mizrahi Bank (Switzerland) Ltd. "Mizrahi Bank Switzerland") is focused on international private banking services. The Swiss bank is held by a wholly-owned Bank subsidiary, UMOHC B.V., incorporated in Holland.
Net profit of Mizrahi Bank Switzerland in the first half of 2013 amounted to CHF 0.6 million, similar to the corresponding period last year.
Mizrahi Bank Switzerland's balance sheet total as of June 30, 2013 amounted to CHF 169 million, compared to CHF 167 million at the end of 2012.
Loans to the public as of June 30, 2013 amounted to CHF 67 million, compared to CHF 53 million at end of 2012. The deposits with banks as of June 30, 2013 amounted to CHF 91 million, compared to CHF 103 million at end of 2012. Deposits from the public as of June 30, 2013 amounted to CHF 110 million, similar to the balance at end of 2012.

Deposits from banks as of June 30, 2013 amounted to CHF 0.4 million, compared to CHF 0.5 million at end of 2012. These data exclude off-balance-sheet items, such as fiduciary deposits which are major components of the Bank's business operations in Switzerland.

The contribution of Mizrahi International Holdings Ltd. (B.V. Holland) to Group net profit in the first half of 2013, which includes the contribution of Mizrahi Bank Switzerland to net profit, amounted to a loss of NIS 14.3 million, compared with profit of NIS 8.2 million in the corresponding period last year. These data include impact of changes in exchange rates on the investment balance, covered by the Bank's own sources. Therefore, the impact of exchange rates on the consolidated statement is not meaningful.

Excluding the impact of changes in exchange rates, the company's contribution to group net profit in the first half of the year amounted to a NIS 2.5 million profit, similar to the corresponding period last year.

In recent months, authorities in the USA and Switzerland were in negotiations with regard to an investigation by US authorities into Swiss banks, concerning apparent abuse of the double tax avoidance treaty between the USA and Switzerland. 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.

Recently, authorities in Switzerland negotiated with US authorities to reach certain legal understandings, whereby fines of different amounts would be imposed on several Swiss banks. The subsidiary in Switzerland has yet to be informed if and how it would be part of the aforesaid understandings.

The MOU agreed by authorities in Switzerland and in the USA was brought for discussion and approval by the Swiss parliament, but has not been approved as it currently stands and the parties have been requested to further negotiate this issue.

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 1.1% 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 June 30, 2013 amounted to NIS 138 million, compared to NIS 146 million at end of 2012 – a decrease of NIS 8 million which is primarily due to realized investments. Net income from dividends and realized gain on investments in non-banking corporations, after provision for impairment, amounted in the first half of 2013 to NIS 5 million for the Bank, compared to NIS 3 million in the corresponding period last year.

Financial Information Regarding Operating Segments

Bank Group operating segments

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

The Bank's operating segments are:

Household segment - under responsibility of the Retail Division, This segment includes 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 a liquid asset balance of less than NIS 10 million. Banking services and financial products, including commercial banking services as required, are provided to segment clients.

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

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

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

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

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

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

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

For further details, inter alia, with regard to division into operating segments and the principles used for attributing balances, revenues and expenses to customers in the system – see Note 30 to the financial statements as of December 31, 2012.
Note 12 to the financial statements includes a reporting of Bank Group business results by operating segment.

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

	Net profit in the first half		Share of total net profit (in percent) for the first six months		Return on equity (in %) in the first half	
	2013	2012 (1)	2013	2012 (1)	2013	2012 (1)
Household:						
Mortgages	(2) 85	198	16	36	(2) 4.9	14.4
Other	43	70	8	13	8.1	32.9
Private banking	18	18	3	3	40.3	30.5
Small business	75	84	14	15	34.9	44.3
Commercial banking	36	30	7	6	16.9	14.9
Business banking	226	161	44	29	15.1	11.6
Financial management	42	(15)	8	(2)	24.0	(10)
Total	**525**	**546**	**100**	**100**	**11.9**	**14.3**

(1) Includes non-recurring provision for credit losses amounting to NIS 191 million (effect on net profit of NIS 122 million) due to application of the Supervisor of Banks' directives with regard to housing loans. For details see Note 1.C.6 to the financial statements. Excluding this provision, return on equity would be 12.2%.

Below are Bank Group operating results by operating segment

Results of Household Segment

	For the six months ended June 30, 2013					For the six months ended June 30, 2012				
	Banking and finance	Credit cards	Capital market	Mortgages	Total	Banking and finance	Credit cards	Capital market	Mortgages	Total
	NIS in millions									
Interest revenues, net:										
From outside operating segments	144	13	-	1,548	1,705	67	14	-	1,759	1,840
Inter-segment	382	(3)	-	(1,199)	(820)	483	(10)	-	(1,448)	(975)
Total interest revenues, net	**526**	**10**	**-**	**349**	**885**	**550**	**4**	**-**	**311**	**865**
Non-interest financing revenues	(1)	-	3	-	2	-	-	4	-	4
Commissions and other revenues	112	69	88	114	383	122	70	81	119	392
Total revenues	**637**	**79**	**91**	**463**	**1,270**	**672**	**74**	**85**	**430**	**1,261**
Expenses with respect to credit losses	21	-	-	(2)198	219	33	-	-	4	37
Operating and other expenses										
From outside operating segments	694	14	28	132	868	669	14	27	124	834
Inter-segment	(54)	(2)	-	-	(56)	(56)	(2)	-	-	(58)
Total operating and other expenses	**640**	**12**	**28**	**132**	**812**	**613**	**12**	**27**	**124**	**776**
Pre-tax profit	(24)	67	63	133	239	26	62	58	302	448
Provision for taxes on profit	(9)	25	23	48	87	10	21	20	104	155
After-tax profit	**(15)**	**42**	**40**	**85**	**152**	**16**	**41**	**38**	**198**	**293**
Net profit (loss):										
Before attribution to non-controlling interest	(15)	42	40	85	152	16	41	38	198	293
Attributable to non-controlling interest	(24)	-	-	-	(24)	(25)	-	-	-	(25)
Attributable to equity holders of the banking corporation	**(39)**	**42**	**40**	**85**	**128**	**(9)**	**41**	**38**	**198**	**268**
Return on capital (net profit as % of average capital)					(2) **5.7%**					**14.5%**
Average asset balance	14,027	3,009	-	76,211	93,247	14,657	2,493	-	67,859	85,009
Average balance of liabilities	57,361	3,009	-	103	60,473	41,288	2,493	-	97	43,878
Average balance of risk assets	15,345	-	-	40,274	55,619	14,852	-	-	35,685	50,537
Average balance of securities	-	-	30,083	-	30,083	-	-	26,499	-	26,499
Loans to the public, net (end balance)	15,679	2,870	-	79,362	97,911	14,318	2,678	-	70,609	87,605
Deposits from the public (end balance)	59,377	-	-	-	59,377	56,825	-	-	-	56,825
Average balance of other assets managed	9,546	-	-	10,383	19,929	8,508	-	-	11,885	20,393
Profit from interest revenues before expenses with respect to credit losses:										
Margin from credit granting operations	272	10	-	337	619	249	4	-	296	549
Margin from receiving deposits	237	-	-	-	237	281	-	-	-	281
Other	17	-	-	12	29	20	-	-	15	35
Total interest revenues, net	**526**	**10**	**-**	**349**	**885**	**550**	**4**	**-**	**311**	**865**

(1) Reclassified.

(2) Includes non-recurring provision for credit losses amounting to NIS 191 million (effect on net profit of NIS 122 million) due to application of the Supervisor of Banks' directives with regard to housing loans. For details see Note 1.C.6 to the financial statements. Excluding this provision, return on equity would be 12.2%.

Contribution of the household segment to Group profit in the first half of 2013 amounted to NIS 128 million, compared to NIS 268 million in the corresponding period last year, a decrease of 52.2%. Below are key factors affecting the change in segment contribution:

Contribution of the mortgage segment in the first half of 2013 amounted to NIS 85 million, compared to NIS 198 million in the corresponding period last year, a decrease of 57.1%. The decrease was 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 application of the Supervisor of Banks' directives with regard to housing loans. However, business attributable to this segment increased, so that excluding the effect of this non-recurring provision, net profit increased by NIS 9 million (4.6% year-over-year increase).

Net interest revenues before expenses with respect to credit losses amounted to NIS 349 million, compared to NIS 311 million in the year-ago period, for a NIS 38 million increase, primarily due to incrased business volume refleced by a 12.2% increase in average asset balance, as described above. Operating expenses increased by NIS 8 million due to the significant change in business volume attributable to this segment.

Contribution of the household segment (other than mortgages) in the first half of 2013 amounted to NIS 43 million, compared to NIS 70 million in the corresponding period last year, a decrease of NIS 27 million. Net interest revenues before expenses with respect to credit losses decreased by 3.2% primarily due to a decrease in margin from receiving deposits, due to the low interest rate environment. Expenses with respect to credit losses decreased by NIS 12 million along with a year-over-year increase of 4.3% in operating expenses.

Results of Household Segment

	For the three months ended June 30, 2013					For the three months ended June 30, 2012				
	Banking and finance	Credit cards	Capital market	Mortgages	Total	Banking and finance	Credit cards	Capital market	Mortgages	Total
	NIS in millions									
Interest revenues, net:										
From outside operating segments	66	6	-	931	1,003	8	7	-	1,204	1,219
Inter-segment	202	2	-	(749)	(545)	269	(5)	-	(1,042)	(778)
Total interest revenues, net	268	8	-	182	458	277	2	-	162	441
Non-interest financing revenues	(1)	-	1	3	3	1	-	2	-	3
Commissions and other revenues	49	38	46	56	189	54	40	40	58	192
Total revenues	316	46	47	241	650	332	42	42	220	636
Expenses with respect to credit losses	10	-	-	185	195	25	-	-	-	(1) 25
Operating and other expenses										
From outside operating segments	342	8	13	68	431	328	7	13	58	406
Inter-segment	(28)	(2)	-	-	(30)	(27)	(1)	-	-	(28)
Total operating and other expenses	314	6	13	68	401	301	6	13	58	378
Pre-tax profit	(8)	40	34	(12)	54	6	36	29	162	233
Provision for taxes on profit	(3)	15	12	(4)	20	3	13	10	58	84
After-tax profit	(5)	25	22	(8)	34	3	23	19	104	149
Net profit (loss):										
Before attribution to non-controlling interest	(5)	25	22	(8)	34	3	23	19	104	149
Attributable to non-controlling interest	(13)	-	-	-	(13)	(14)	-	-	-	(14)
Attributable to equity holders of the banking corporation	**(18)**	**25**	**22**	**(8)**	**21**	**(11)**	**23**	**19**	**104**	**135**
Return on capital (net profit as % of average capital)					**1.8%**					**14.5%**
Profit from interest revenues before expenses with respect to credit losses:										
Margin from credit granting operations	136	8	-	174	318	138	2	-	154	294
Margin from receiving deposits	121	-	-	-	121	119	-	-	-	119
Other	11	-	-	8	19	20	-	-	8	28
Total interest revenues, net	**268**	**8**	**-**	**182**	**458**	**277**	**2**	**-**	**162**	**441**

(1) Reclassitied.

Volume of mortgages granted by the segment is as follows:

	Loans granted (NIS in millions)		
	First half of		
	2013	2012	Change in %
Mortgages originated (for housing and for any purpose)			
From Bank funds	9,699	7,714	25.7
From Treasury funds:			
Directed loans	81	87	(6.9)
Standing loans and grants	85	106	(19.8)
Total new loans	**9,865**	**7,907**	**24.8**
Refinanced loans	1,137	830	37.0
Total loans originated	**11,002**	**8,737**	**25.9**
Number of borrowers (includes refinanced loans)	23,556	22,795	3.3

Results of Private Banking Segment

	For the six months ended June 30, 2013			For the six months ended June 30, 2012		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Interest revenues, net:						
From outside operating segments	2	-	2	(8)	-	(8)
Inter-segment	33	-	33	46	-	46
Total interest revenues, net	35	-	35	38	-	38
Non-interest financing revenues	-	-	-	-	-	-
Commissions and other revenues	15	15	30	11	16	27
Total revenues	50	15	65	49	16	65
Expenses with respect to credit losses	(3)	-	(3)	(3)	-	(3)
Operating and other expenses						-
From outside operating segments	36	-	36	38	-	38
Inter-segment	5	-	5	3	-	3
Total operating and other expenses	41	-	41	41	-	41
Pre-tax profit	12	15	27	11	16	27
Provision for taxes on profit	4	5	9	4	5	9
Net profit attributable to equity holders of the banking corporation	**8**	**10**	**18**	**7**	**11**	**18**
Return on capital (net profit as % of average capital)			**40.3%**			**30.5%**
Average asset balance	2,306	-	2,306	2,393	-	2,393
Average balance of liabilities	6,847	-	6,847	5,550	-	5,550
Average balance of risk assets	1,120	-	1,120	1,582	-	1,582
Average balance of securities	-	8,492	8,492	-	7,548	7,548
Loans to the public, net (end balance)	1,217	-	1,217	1,188	-	1,188
Deposits from the public (end balance)	6,447	-	6,447	6,671	-	6,671
Average balance of other assets managed	7	-	7	-	-	-
Profit from interest revenues before expenses with respect to credit losses:						
Margin from credit granting operations	15	-	15	12	-	12
Margin from receiving deposits	19	-	19	26	-	26
Other	1	-	1	-	-	-
Total interest revenues, net	**35**	**-**	**35**	**38**	**-**	**38**

(1) Reclassified.

Contribution of the private banking segment to Group profit in the first half of 2013 amounted to NIS 18 million, unchanged from the corresponding period last year.

Net interest revenues decreased by NIS 3 million, primarily due to a decrease in margin from receiving deposits, due to the low interest rate environment. Conversely, commissions and other revenues increased by NIS 3 million year-over-year. There was no significant change in expenses with respect to credit losses and total operating and other expenses, compared to the corresponding period last year.

Results of Private Banking Segment

	For the three months ended June 30, 2013			For the three months ended June 30, 2012		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Interest revenues, net:						
From outside operating segments	3	-	3	(9)	-	(9)
Inter-segment	17	-	17	28	-	28
Total interest revenues, net	**20**	**-**	**20**	**19**	**-**	**19**
Non-interest financing revenues	-	-	-	1	-	1
Commissions and other revenues	10	5	15	6	8	14
Total revenues	**30**	**5**	**35**	**26**	**8**	**34**
Expenses with respect to credit losses	-	-	-	1	-	1
Operating and other expenses						
From outside operating segments	14	-	14	20	-	20
Inter-segment	5	-	5	(1)	-	(1)
Total operating and other expenses	**19**	**-**	**19**	**19**	**-**	**19**
Pre-tax profit	11	5	16	6	8	14
Provision for taxes on profit	4	1	5	3	2	5
Net profit attributable to equity holders of the banking corporation	**7**	**4**	**11**	**3**	**6**	**9**
Return on capital (net profit as % of average capital)			**52.3%**			**32.9%**
Profit from interest revenues before expenses with respect to credit losses:						
Margin from credit granting operations	8	-	8	6	-	6
Margin from receiving deposits	12	-	12	13	-	13
Other	-	-	-	-	-	-
Total interest revenues, net	**20**	**-**	**20**	**19**	**-**	**19**

(1) Reclassified.

Results of the Small Business Segment

	For the six months ended June 30, 2013				For the six months ended June 30, 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	222	4	-	226	177	4	-	181
Inter-segment	7	(1)	-	6	47	(3)	-	44
Total interest revenues, net	**229**	**3**	**-**	**232**	**224**	**1**	**-**	**225**
Non-interest financing revenues	-	-	-	-	-	-	-	-
Commissions and other revenues	106	7	10	123	100	7	10	117
Total revenues	**335**	**10**	**10**	**355**	**324**	**8**	**10**	**342**
Expenses with respect to credit losses	24	-	-	24	15	-	-	(1) 15
Operating and other expenses								
From outside operating segments	235	2	2	239	220	2	2	224
Inter-segment	(25)	-	-	(25)	(25)	-	-	(25)
Total operating and other expenses	**210**	**2**	**2**	**214**	**195**	**2**	**2**	**199**
Pre-tax profit	101	8	8	117	114	6	8	128
Provision for taxes on profit	36	3	3	42	39	2	3	44
Net profit attributable to equity holders of the banking corporation	**65**	**5**	**5**	**75**	**75**	**4**	**5**	**84**
Return on capital (net profit as % of average capital)				**34.9%**				**44.3%**
Average asset balance	7,112	329	-	7,441	6,442	298	-	6,740
Average balance of liabilities	8,738	-	-	8,738	5,326	-	-	5,326
Average balance of risk assets	5,337	-	-	5,337	5,220	-	-	5,220
Average balance of securities	-	-	5,737	5,737	-	-	6,097	6,097
Loans to the public, net (end balance)	7,060	346	-	7,406	6,304	302	-	6,606
Deposits from the public (end balance)	8,670	-	-	8,670	8,021	-	-	8,021
Average balance of other assets managed	207	-	-	207	167	-	-	167
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	188	-	-	188	174	-	-	174
Margin from receiving deposits	34	-	-	34	39	-	-	39
Other	7	3	-	10	11	1	-	12
Total interest revenues, net	**229**	**3**	**-**	**232**	**224**	**1**	**-**	**225**

(1) Reclassified.

Contribution of the small business segment to Group profit in the first half of 2013 amounted to NIS 75 million, compared to NIS 84 million in the corresponding period last year, a decrease of 10.7%.

Below are key factors affecting the change in segment contribution:

Net interest revenues in the first half of 2013 amounted to NIS 232 million, compared to NIS 225 million in the year-ago period – an increase of NIS 7 million. This was primarily due to increased credit and deposit business. Interest margin on deposits received were lower due to the low interest rate environment. Commissions and other revenues increased by NIS 6 million, or 5.1%, over the year-ago period.

Expenses with respect to credit losses amounted to NIS 24 million, compared to NIS 15 million in the corresponding period last year, an increase of NIS 9 million. Operating expenses increased by 7,5%: in the first half of 2013, operating expenses amounted to NIS 214 million, compared to NIS 199 million in the year-ago period. This increase is due to increased business attributable to this segment.

Results of the Small Business Segment

	For the three months ended June 30, 2013				For the three months ended June 30, 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	75	2	-	77	64	2	-	66
Inter-segment	40	-	-	40	46	(2)	-	44
Total interest revenues, net	**115**	**2**	**-**	**117**	**110**	**-**	**-**	**110**
Non-interest financing revenues	-	-	-	-	-	-	-	-
Commissions and other revenues	55	3	4	62	48	4	4	56
Total revenues	**170**	**5**	**4**	**179**	**158**	**4**	**4**	**166**
Expenses with respect to credit losse	21	-	-	21	22	-	-	(1) 22
Operating and other expenses								
From outside operating segments	118	1	1	120	108	1	1	110
Inter-segment	(14)	-	-	(14)	(12)	-	-	(12)
Total operating and other expenses	**104**	**1**	**1**	**106**	**96**	**1**	**1**	**98**
Pre-tax profit	45	4	3	52	40	3	3	46
Provision for taxes on profit	16	2	1	19	15	1	1	17
Net profit attributable to equity holders of the banking corporation	**29**	**2**	**2**	**33**	**25**	**2**	**2**	**29**
Return on capital (net profit as % of average capital)				**31.3%**				**30.1%**
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	97	-	-	97	89	-	-	89
Margin from receiving deposits	17	-	-	17	19	-	-	19
Other	1	2	-	3	2	-	-	2
Total interest revenues, net	**115**	**2**	**-**	**117**	**110**	**-**	**-**	**110**

(1) Reclassified.

Results of the Commercial Banking Segment

	For the six months ended June 30, 2013				For the six months ended June 30, 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	97	-	-	97	102	-	-	102
Inter-segment	(13)	-	-	(13)	(16)	-	-	(16)
Total interest revenues, net	**84**	**-**	**-**	**84**	**86**	**-**	**-**	**86**
Non-interest financing revenues	-	-	-	-	-	-	-	-
Commissions and other revenues	23	1	4	28	25	1	3	29
Total revenues	**107**	**1**	**4**	**112**	**111**	**1**	**3**	**115**
Expenses with respect to credit losses	(5)	-	-	(5)	2	-	-	(1) 2
Operating and other expenses								
From outside operating segments	31	-	-	31	34	-	-	34
Inter-segment	31	-	-	31	33	-	-	33
Total operating and other expenses	**62**	**-**	**-**	**62**	**67**	**-**	**-**	**67**
Pre-tax profit	50	1	4	55	42	1	3	46
Provision for taxes on profit	18	-	1	19	15	0	1	16
Net profit attributable to equity holders of the banking corporation	**32**	**1**	**3**	**36**	**27**	**1**	**2**	**30**
Return on capital (net profit as % of average capital)				**16.9%**				**14.9%**
Average asset balance	4,592	49	-	4,641	4,680	53	-	4,733
Average balance of liabilities	3,517	-	-	3,517	2,354	-	-	2,354
Average balance of risk assets	5,092	-	-	5,092	5,213	-	-	5,213
Average balance of securities	-	-	3,774	3,774	-	-	3,551	3,551
Loans to the public, net (end balance)	4,654	47	-	4,701	4,669	47	-	4,716
Deposits from the public (end balance)	3,537	-	-	3,537	3,683	-	-	3,683
Average balance of other assets managed	234	-	-	234	209	-	-	209
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	72	-	-	72	75	-	-	75
Margin from receiving deposits	9	-	-	9	10	-	-	10
Other	3	-	-	3	1	-	-	1
Total interest revenues, net	**84**	**-**	**-**	**84**	**86**	**-**	**-**	**86**

(1) Reclasified.

Contribution of the commercial banking segment to Group profit in the first half of 2013 amounted to NIS 36 million, compared to NIS 30 million in the corresponding period last year, an increase of 20%.

Below are key factors affecting the change in segment contribution:

Total net interest revenues decreased by NIS 2 million due to a slight decrease in credit business and to erosion of interest margins on deposits due to the low interest rate environment. Expenses with respect to credit losses amounted to revenues were lower by NIS 7 million compared to the corresponding period last year. Revenues posted in this half relate to collection from a single client. Total operating expenses decreased by NIS 5 million over the year-ago period, due to the decreased share of this segment relative to other segments.

Results of the Commercial Banking Segment

	For the three months ended June 30, 2013				For the three months ended June 30, 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	48	-	-	48	49	-	-	49
Inter-segment	(5)	-	-	(5)	(7)	-	-	(7)
Total interest revenues, net	**43**	**-**	**-**	**43**	**42**	**-**	**-**	**42**
Non-interest financing revenues	-	-	-	-	-	-	-	-
Commissions and other revenues	12	-	1	13	11	-	1	12
Total revenues	**55**	**-**	**1**	**56**	**53**	**-**	**1**	**54**
Expenses with respect to credit losses	2	-	-	2	3	-	-	(1) 3
Operating and other expenses								
From outside operating segments	15	-	-	15	16	-	-	16
Inter-segment	17	-	-	17	17	-	-	17
Total operating and other expenses	**32**	**-**	**-**	**32**	**33**	**-**	**-**	**33**
Pre-tax profit	21	-	1	22	17	-	1	18
Provision for taxes on profit	7	-	-	7	7	-	-	7
Net profit attributable to equity holders of the banking corporation	**14**	**-**	**1**	**15**	**10**	**-**	**1**	**11**
Return on capital (net profit as % of average capital)				**14.2%**				**14.9%**
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	37	-	-	37	38	-	-	38
Margin from receiving deposits	5	-	-	5	5	-	-	5
Other	1	-	-	1	(1)	-	-	(1)
Total interest revenues, net	**43**	**-**	**-**	**43**	**42**	**-**	**-**	**42**

(1) Reclassified.

Results of the Business Banking Segment

	For the six months ended June 30, 2013				For the six months ended June 30, 2012[2]			
	Banking and finance[1]	Capital market	Construction and real estate	Total	Banking and finance [1]	Capital market	Construction and real estate	Total
								NIS in millions
Interest revenues, net:								
From outside operating segments	37	-	169	206	10	-	164	174
Inter-segment	193	-	(62)	131	204	-	(64)	140
Total interest revenues, net	**230**	**-**	**107**	**337**	**214**	**-**	**100**	**314**
Non-interest financing revenues	13	5	-	18	34	4	-	38
Commissions and other revenues	39	15	66	120	37	12	50	99
Total revenues	**282**	**20**	**173**	**475**	**285**	**16**	**150**	**451**
Expenses with respect to credit losses	(3)	-	(17)	(20)	44	-	9	53
Operating and other expenses								
From outside operating segments	83	3	15	101	92	3	16	111
Inter-segment	32	-	7	39	34	-	7	41
Total operating and other expenses	**115**	**3**	**22**	**140**	**126**	**3**	**23**	**152**
Pre-tax profit	170	17	168	355	115	13	118	246
Provision for taxes on profit	63	6	60	129	40	4	41	85
Net profit (loss) attributable to equity holders of the banking corporation	**107**	**11**	**108**	**226**	**75**	**9**	**77**	**161**
Return on capital (net profit as % of average capital)				**15.1%**				**11.6%**
Average asset balance	18,811	-	7,884	26,695	19,822	-	7,368	27,190
Average balance of liabilities	33,631	-	2,334	35,965	20,658	-	1,508	22,166
Average balance of risk assets	18,766	-	17,006	35,772	20,102	-	15,524	35,626
Average balance of securities	-	61,976	-	61,976	-	60,639	-	60,639
Loans to the public, net (end balance)	14,425	-	7,193	21,618	16,439	-	6,832	23,271
Deposits from the public (end balance)	37,412	-	2,366	39,778	30,416	-	2,158	32,574
Average balance of other assets managed	191	-	60	251	229	-	84	313
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	185	-	88	273	193	-	79	272
Margin from receiving deposits	42	-	8	50	44	-	8	52
Other	3	-	11	14	(23)	-	13	10
Total interest revenues, net	**230**	**-**	**107**	**337**	**214**	**-**	**100**	**314**

(1) Includes results with respect to business card operations whose amount is insignificant.
(2) Reclassified.

Contribution of the commercial banking segment to Group profit in the first half of 2013 amounted to NIS 226 million, compared to NIS 161 million in the corresponding period last year, an increase of 40.4%. .

Below are key factors affecting the change in segment contribution:

Contribution of construction and real estate increased by NIS 31 million, or 40.3% compared to the corresponding period last year. Net interest revenues increased by NIS 7 million due to higher credit business. Commissions and other reveues increased by 32.0%, primarily due to financing business commissions. Expenses with respect to credit losses amounted to revenues of NIS 17 million, compared to expenses of NIS 9 million in the year-ago period, due to a decrease in individual-based provisions due to collection from a few clients.

Contribution of the business banking segment, excluding construction and real estate, increased by 40.5% compared to the corresponding period last year. Total financing revenues (interest and non-interest) attributed to business banking, excluding construction and real estate, decreased by NIS 4 million year over year. Expenses with respect to credit losses attributed to business banking, excluding construction and real estate, decreased by NIS 47 million. The decrease in provision for credit losses is due to a decrease in provision for credit losses with respect to several impaired clients, due to successful collection efforts in this quarter. In addition, the group-based provision attributedto this segment decreased due to regulatory effects with regard to group-based commercial provisions. Total operating expenses attributed to business banking, excluding construction and real estate, decreased by 8.5% compared to the year-ago period.

Results of the Business Banking Segment

	For the three months ended June 30, 2013				For the three months ended June 30, 2012[2]			
	Banking and finance[1]	Capital market	Construction and real estate	Total	Banking and finance [1]	Capital market	Construction and real estate	Total
	NIS in millions							
Interest revenues, net:								
From outside operating segments	11	-	82	93	6	-	90	96
Inter-segment	111	-	(24)	87	116	-	(36)	80
Total interest revenues, net	**122**	**-**	**58**	**180**	**122**	**-**	**54**	**176**
Non-interest financing revenues	5	3	-	8	4	2	-	6
Commissions and other revenues	21	5	32	58	14	6	24	44
Total revenues	**148**	**8**	**90**	**246**	**140**	**8**	**78**	**226**
Expenses with respect to credit losses	(28)	-	(8)	(36)	(8)	-	(2)	(10)
Operating and other expenses								
From outside operating segments	39	1	7	47	44	3	8	55
Inter-segment	16	-	4	20	17	-	4	21
Total operating and other expenses	**55**	**1**	**11**	**67**	**61**	**3**	**12**	**76**
Pre-tax profit	121	7	87	215	87	5	68	160
Provision for taxes on profit	46	2	31	79	30	2	25	57
Net profit (loss) attributable to equity holders of the banking corporation	**75**	**5**	**56**	**136**	**57**	**3**	**43**	**103**
Return on capital (net profit as % of average capital)				**18.9%**				**14.7%**
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	93	-	43	136	118	-	43	161
Margin from receiving deposits	24	-	4	28	28	-	4	32
Other	5	-	11	16	(24)	-	7	(17)
Total interest revenues, net	**122**	**-**	**58**	**180**	**122**	**-**	**54**	**176**

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

(2) Reclassified.

Results of the Financial Management Segment

	For the six months ended June 30, 2013			For the six months ended June 30, 2012[1]		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Interest revenues, net:						
From outside operating segments	(561)	-	(561)	(618)	-	(618)
Inter-segment	663	-	663	761	-	761
Total interest revenues, net	**102**	**-**	**102**	**143**	**-**	**143**
Non-interest financing revenues	60	1	61	(83)	5	(78)
Commissions and other revenues	36	21	57	32	24	56
Total revenues	**198**	**22**	**220**	**92**	**29**	**121**
Expenses with respect to credit losses	-	-	-	8	-	8
Operating and other expenses						
From outside operating segments	146	2	148	127	2	129
Inter-segment	6	-	6	6	-	6
Total operating and other expenses	**152**	**2**	**154**	**133**	**2**	**135**
Pre-tax profit (loss)	46	20	66	(49)	27	(22)
Provision for taxes on profit (loss)	16	7	23	(16)	9	(7)
After-tax profit (loss)	**30**	**13**	**43**	**(33)**	**18**	**(15)**
Share in net profits of affiliates, after tax	(1)	-	(1)	-	-	-
Net profit (loss):						
Before attribution to non-controlling interest	29	13	42	(33)	18	(15)
Attributable to non-controlling interest	-	-	-	-	-	-
Attributable to equity holders of the banking corporation	**29**	**13**	**42**	**(33)**	**18**	**(15)**
Return on capital (net profit as % of average capital)			**24.0%**			**(10.0%)**
Average asset balance	30,513	-	30,513	22,978	-	22,978
Includes: Investments in associates	62	-	62	53	-	53
Average balance of liabilities	39,776	-	39,776	33,192	-	61,379
Average balance of risk assets	5,642	-	5,642	5,541	-	5,541
Average balance of provident and mutual fund assets	81,701	-	81,701	72,249	-	72,249
Average balance of securities	-	44,147	44,147	-	41,245	41,245
Loans to the public, net (end balance)	-	-	-	-	-	-
Deposits from the public (end balance)	17,912	-	17,912	14,510	-	14,510
Profit from interest revenues before expenses with respect to credit losses:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	102	-	102	143	-	143
Total interest revenues, net	**102**	**-**	**102**	**143**	**-**	**143**

(1) Reclassified.

Contribution of the financial management segment to Group profit in the first half of 2013 amounted to a profit of NIS 42 million, compared to a loss of NIS 15 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 98 million, primarily due to fair value and other effects and due to realied debentures. Commission revenues and other revenues were essentially unchanged. Expenses with respect to credit losses in the corresponding period last year are due to an increase in group-based provision for financial institutions. Operating and other expenses increased by NIS 19 million or 14.1%.

Results of the Financial Management Segment

	For the three months ended June 30, 2013			For the three months ended June 30, 2012[1]		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
	NIS in millions					
Interest revenues, net:						
From outside operating segments	(351)	-	(351)	(537)	-	(537)
Inter-segment	406	-	406	633	-	633
Total interest revenues, net	**55**	**-**	**55**	**96**	**-**	**96**
Non-interest financing revenues	37	-	37	(49)	4	(45)
Commissions and other revenues	17	14	31	26	11	37
Total revenues	**109**	**14**	**123**	**73**	**15**	**88**
Expenses with respect to credit losses	(1)	-	(1)	4	-	4
Operating and other expenses						
From outside operating segments	78	1	79	69	-	69
Inter-segment	2	-	2	3	-	3
Total operating and other expenses	**80**	**1**	**81**	**72**	**-**	**72**
Pre-tax profit (loss)	30	13	43	(3)	15	12
Provision for taxes on profit (loss)	10	5	15	(1)	5	4
After-tax profit (loss)	**20**	**8**	**28**	**(2)**	**10**	**8**
Share in net profits of affiliates, after tax	1	-	1	-	-	-
Net profit (loss):	-	-	-	-	-	-
Before attribution to non-controlling interest	21	8	29	(2)	10	8
Attributable to non-controlling interest	-	-	-	-	-	-
Attributable to equity holders of the banking corporation	**21**	**8**	**29**	**(2)**	**10**	**8**
Return on capital (net profit as % of average capital)			**34.5%**			**12.2%**
Profit from interest revenues before expenses with respect to credit losses:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	55	-	55	96	-	96
Total interest revenues, net	**55**	**-**	**55**	**96**	**-**	**96**

(1) Reclassified.

Product operations

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

For the six months ended June 30, 2013				
	Household	Small business	Commercial banking	Total consolidated
Interest revenues, net	10	3	-	13
Non-interest financing revenues	-	-	-	-
Commissions and other revenues	69	7	1	77
Total revenues	**79**	**10**	**1**	**90**
Expenses with respect to credit losses	-	-	-	-
Operating and other expenses	12	2	-	14
Pre-tax profit	**67**	**8**	**1**	**76**
Provision for taxes on profit	25	3	-	28
Net profit	**42**	**5**	**1**	**48**

For the six months ended June 30, 2012				
	Household	Small business	Commercial banking	Total consolidated
Interest revenues, net	4	1	-	5
Non-interest financing revenues	-	-	-	-
Commissions and other revenues	70	7	1	78
Total revenues	**74**	**8**	**1**	**83**
Expenses with respect to credit losses	-	-	-	-
Operating and other expenses	12	2	-	14
Pre-tax profit	**62**	**6**	**1**	**69**
Provision for taxes on profit	22	2	-	24
Net profit	**40**	**4**	**1**	**45**

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

For the six months ended June 30, 2013	Household	Private banking	Small business	Commercial banking	Business banking	Financial manage-ment	Total consolida-ted
Interest revenues, net	-	-	-	-	-	-	-
Non-interest financing revenues	3	-	-	-	5	1	9
Commissions and other revenues	88	15	10	4	15	21	153
Total revenues	**91**	**15**	**10**	**4**	**20**	**22**	**162**
Expenses with respect to credit losses	-	-	-	-	-	-	-
Operating and other expenses	28	-	2	-	3	2	35
Pre-tax profit	**63**	**15**	**8**	**4**	**17**	**20**	**127**
Provision for taxes on profit	23	5	3	1	6	7	45
Net profit	**40**	**10**	**5**	**3**	**11**	**13**	**82**

For the six months ended June 30, 2012	Household	Private banking	Small business	Commercial banking	Business banking	Financial manage-ment	Total consolida-ted
Interest revenues, net	-	-	-	-	-	-	-
Non-interest financing revenues	4	-	-	-	4	5	13
Commissions and other revenues	81	16	10	3	12	24	146
Total revenues	**85**	**16**	**10**	**3**	**16**	**29**	**159**
Expenses with respect to credit losses	-	-	-	-	-	-	-
Operating and other expenses	27	-	2	-	3	2	34
Pre-tax profit	**58**	**16**	**8**	**3**	**13**	**27**	**125**
Provision for taxes on profit	20	5	3	1	4	9	43
Net profit	**38**	**11**	**5**	**2**	**9**	**18**	**82**

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. – specializes in private banking services, has one branch, owned by a wholly-owned subsidiary of the Bank registered in Holland – UMOHC B.V. (hereafter: ("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.

Mortgage center for foreign residents -The Bank operates this center in Jerusalem, specializing in marketing and approval of foreign-currency denominated mortgages for foreign residents.

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

For details of local supervision of Bank affiliates overseas, see chapter on international operations segment in the Board of Directors' Report included with the financial statements as of December 31, 2012.

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

	For the six months ended June 30, 2013				
	Household	Private banking	Business banking	Financial management	Total
Interest revenues, net	2	25	24	14	65
Non-interest financing revenues	-	-	2	6	8
Commissions and other revenues	-	22	2	1	25
Total revenues	**2**	**47**	**28**	**21**	**98**
Expenses with respect to credit losses	-	(3)	-	-	(3)
Operating and other expenses	1	33	20	3	57
Pre-tax profit	**1**	**17**	**8**	**18**	**44**
Provision for taxes on profit	-	5	3	7	15
Net profit	**1**	**12**	**5**	**11**	**29**

	For the six months ended June 30, 2012				
	Household	Private banking	Business banking	Financial management	Total
Interest revenues, net	2	29	30	(1)	60
Non-interest financing revenues	-	-	-	17	17
Commissions and other revenues	-	19	2	1	22
Total revenues	**2**	**48**	**32**	**17**	**99**
Expenses (reduced expenses) with respect to credit losses	-	(1)	-	-	(1)
Operating and other expenses	1	30	22	3	56
Pre-tax profit	**1**	**19**	**10**	**14**	**44**
Provision for taxes on profit	-	7	4	5	16
Net profit	**1**	**12**	**6**	**9**	**28**

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Off Balance Sheet Activity

Provident funds – the Group provides operating services to provident funds. The value of assets in funds to which the Group provides operating services, amounted as of June 30, 2013 to NIS 64.2 billion, compared to NIS 62.5 billion as of December 31, 2012.

Client activity in securities – The value of the securities portfolios in the custody of the Bank, held by clients, amounted to NIS 174 billion as of June 30, 2013, compared with NIS 165 billion at the end of 2012. Revenues from securities transactions for the Group amounted to NIS 111 million in the first half of 2013, compared with NIS 107 million in the corresponding period last year - an increase of 3.7%.

Activities based on extent of collection - the Group has loan balances secured by deposits the repayment of which to the depositor is contingent upon collection of the loans. With respect to these balances, the Bank receives margin revenues or a collection commission. The balance of credit from deposits based on extent of collection as of June 30, 2013 amounted to NIS 14.5 billion, compared to NIS 15.2 billion at end of 2012. These amounts exclude standing loans and government deposits extended for them.

Sources and Financing

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

Total deposits from the public for the Group as of June 30, 2013 amounted to NIS 135.7 billion, compared to NIS 128.5 billion at end of 2012. Deposits from the public in the CPI-linked segment increased in the first half of 2013 by 2.6%; deposits from the public in the foreign currency and foreign-currency-linked segment increased by 24.7% due to foreign currency deposits received; and deposits from the public in the NIS-denominated, non-CPI-linked segment increased by 1.1%. For details, see chapter "Development of balance sheet items" above.

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 balance sheet date, all obligatory notes (Series 26-35), including subordinated notes, issued to the public by Bank Mizrahi-Tefahot, amounted to NIS 9,688 million in total par value (as of December 31, 2012 - NIS 8,928 million), of which NIS 2,131 million in subordinated notes.

On January 21, 2013, Tefahot Issuance issued debentures (Series 29 and Series 35), with total par value of NIS 1,305 million, for consideration of NIS 1,509 million, pursuant to a shelf prospectus dated February 25, 2011.

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

Complex capital instruments

All of the Bank's complex capital instruments (Series A) (considered upper Tier 2 capital for maintaining minimum capital ratio) as of June 30, 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 June 30, 2013 was NIS 1.9 billion, similar to the end of 2012.

Rating of Bank obligations

In accordance with a rating provided by Maalot Standard & Poor's (hereinafter: "Maalot"), the Bank's issuer rating, including deposits made at the Bank, is ilAA+.

On January 13, 2013, Maalot confirmed the Bank's issuer rating and its Stable rating outlook. According to Maalot: "The

Bank's rating reflects its strong business position in the Israeli banking system, which accounts for its system-wide importance, as reflected in the support reflected by the final rating, good credit quality and a diverse, stable base of retail sources... The stable rating outlook reflects our assessment that Mizrahi-Tefahot would maintain its business position and appropriate risk profile, even should the Israeli economy come under certain pressures over the short to medium term. We believe that these pressures would not significantly impact the Bank's profitability or capital base..."

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 January 3, 2013, Moody's rating agency maintained the Bank's long-term deposit rating at A2 with Negative outlook.

Risk Management

Basel II: Pillar 3 - Market Discipline

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

As of the balance sheet date, there were no material changes in risk management at the Group and in qualitative information, as included in the Board of Directors' report as of December 31, 2012.

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

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

Application scope

Provisions of Proper Conduct of Banking Business Regulations nos. 201-211 "Measurement and Capital Adequacy" apply to the Bank Group and in particular to the Bank - Bank Mizrahi-Tefahot Ltd. - the parent company of the Group. Group companies to which the framework applies, in accordance with the supervisory consolidation basis, are the companies consolidated with the Bank's consolidated financial statements. For details of Bank Group companies, see Note 6 to the financial statements as of December 31, 2012. 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 ll rules, as stipulated by Proper Conduct of Banking Business Directive Nos. 201-211. The Bank applies the standard approach to assess exposure to credit risk, the standard approach to assess 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 an internal procedure which specifies the measurement frequency of capital adequacy, the required reporting and actions to be taken if the capital ratio drops below the minimum levels specified; a capital 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 and the Manager, Planning and Operations Division.

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

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

Exposure group	As of June 30, 2013		As of June 30, 2012		As of December 31, 2012	
	Weighted risk asset balances	Capital requirement[(1)]	Weighted risk asset balances	Capital requirement[(1)]	Weighted risk asset balances	Capital requirement[(1)]
Sovereign debt	589	53	865	78	565	51
Public sector entity debt	430	39	345	31	374	34
Banking corporation debt	936	84	1,472	132	927	83
Corporate debt	39,505	3,555	40,859	3,677	39,572	3,561
Debt secured by commercial real estate	2,252	203	1,785	161	2,194	197
Retail exposure to individuals	11,616	1,045	11,416	1,027	11,585	1,043
Loans to small businesses	2,276	205	2,321	209	2,213	199
Residential mortgages	40,507	3,646	34,866	3,138	37,396	3,366
Securitization	-	-	46	4	-	-
Other assets	3,815	343	3,017	272	3,910	352
Total	**101,926**	**9,173**	**96,992**	**8,729**	**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:

Exposure group	As of June 30, 2013		As of June 30, 2012		As of December 31, 2012	
	Weighted risk asset balances	Capital requirement[(1)]	Weighted risk asset balances	Capital requirement[(1)]	Weighted risk asset balances	Capital requirement[(1)]
Market risk	1,031	93	884	80	1,119	101
Operating Risk[(2)]	7,183	646	8,177	736	7,093	638
Total	**8,214**	**739**	**9,061**	**816**	**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.

(2) Pursuant to Proper Conduct of Banking Business Regulation 206, calculated using the standard approach (as of June 30, 2012 – using the basic indicator approach).

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

	Ratio of capital to risk elements		
	As of June 30, 2013	As of June 30, 2012	As of December 31, 2012
Ratio of Tier I capital to risk elements	[(1)]8.74	8.03	8.55
Ratio of total capital to risk elements	[(1)]12.89	12.93	13.35
Total minimum capital ratio required by the Supervisor of Banks	9.00	9.00	9.00

(1) In conformity with Basel II directives. Presented after effect of declared dividend distribution.

Risk exposure and assessment there of

Day-to-day activities in a variety of balance sheet and off-balance-sheet financial instruments expose the Group to risk, mainly – market and liquidity risk, credit risk, and operating risk. The risk management policy, 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 339 of the Bank of Israel (market and interest risk management), and in accordance with the framework stipulated by Basel II, Pillar 2. In December 2012, the Bank of Israel issued Proper Conduct of Banking Business Regulations 350, 310 and 311 with regard to risk management, as well as an update to Regulation 339. For further details, see above the chapter on Legislation and Supervision of Bank Group Operations. To this end, the Group appointed risk managers, as well as the CRO - who is the Risk Control Division Manager. Bank management regards the Bank's risk control and management system as one of its core competencies, so that it is Bank policy to constantly strive to improve the risk control and management system,

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

Credit risk

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

In June 2012, as part of re-organization of the Risk Control Division, the Division assumed responsibility for the Analysis Department, which provides independent review of major credit applications, presenting its recommendations as part of the credit approval process to senior forums at the Bank.

Below is the composition of credit exposure by exposure group and by balance sheet item, before provision for credit losses[1]:

	As of June 30, 2013										
	Sovereigns	Public sector	Banking corporations	Corporations	Secured by commercial real estate	Retail for individuals	Small business	Housing loans	Securitization	Others	Total [2]
Loans[3]	20,668	254	1,695	28,634	2,348	15,450	4,102	83,737	-	-	156,888
Securities[4]	5,028	11	662	186	-	-	-	-	-	-	5,887
Derivatives[5]	116	500	987	1,667	-	38	9	-	-	-	3,317
Other off-balance-sheet exposures	72	311	37	37,851	555	10,895	1,703	4,309	-	-	55,733
Other assets[6]	-	-	-	-	-	-	-	-	-	5,037	5,037
Total	**25,884**	**1,076**	**3,381**	**68,338**	**2,903**	**26,383**	**5,814**	**88,046**	**-**	**5,037**	**226,862**

	As of December 31, 2012										
	Sovereigns	Public sector	Banking corporations	Corporations	Secured by commercial real estate	Retail for individuals	Small business	Housing loans	Securitization	Others	Total [2]
Loans[3]	14,589	250	1,788	29,322	2,360	15,058	3,836	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	10,324	1,602	4,267	-	-	52,737
Other assets[6]	-	-	-	-	-	-	-	-	-	4,900	4,900
Total	**21,399**	**932**	**3,494**	**66,998**	**2,734**	**25,408**	**5,442**	**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, and excluding the general provision for doubtful debts, which is part of the equity basis.
(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 June 30, 2013
	Up to 1 year	1-5 years	Over 5 years	Without maturity	Total [2]
Loans [3]	49,447	23,480	83,853	108	156,888
Securities[4]	399	3,460	2,028	-	5,887
Derivatives [5]	1,931	602	784	-	3,317
Other off-balance-sheet exposures	46,399	8,477	857	-	55,733
Other assets[6]	3,258	-	86	1,693	5,037
Total	**101,434**	**36,019**	**87,608**	**1,801**	**226,862**

					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

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

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

Before credit risk mitigation

	As of June 30, 2012										
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	16,193	3,363	-	-	-	196	-	-	19,752	-	19,752
Public sector entity debt	-	-	-	1,051	-	-	-	-	1,051	-	1,051
Banking corporation debt	-	3,623	-	1,183	-	77	-	-	4,883	-	4,883
Corporate debt	-	53	-	286	-	-	-	-	339	-	339
Securitization	-	-	-	-	-	-	-	13	13	20	33
Other assets	-	-	-	-	-	-	-	-	-	33	33
Total	**16,193**	**7,039**	**-**	**2,520**	**-**	**273**	**-**	**13**	**26,038**	**53**	**26,091**
Non-rated exposures:											
Public sector entity debt	-	-	-	22	-	-	-	-	22	-	22
Banking corporation debt	-	12	-	32	-	-	-	-	44	-	44
Corporate debt	-	-	-	-	-	66,689	249	-	66,938	-	66,938
Debt secured by commercial real estate	-	-	-	-	-	2,209	-	-	2,209	-	2,209
Retail exposure to individuals	-	-	-	-	24,803	37	124	-	24,964	-	24,964
Loans to small businesses	-	-	-	-	5,548	15	16	-	5,579	-	5,579
Residential mortgages	-	-	58,927	-	13,524	5,166	206	-	77,823	-	77,823
Other assets	997	-	-	-	-	2,983	27	-	4,007	87	4,094
Total	**997**	**12**	**58,927**	**54**	**43,875**	**77,099**	**622**	**-**	**181,586**	**87**	**181,673**
Total exposure	**17,190**	**7,051**	**58,927**	**2,574**	**43,875**	**77,372**	**622**	**13**	**207,624**	**140**	**207,764**

After credit risk mitigation

	As of June 30, 2012										
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	16,167	3,392	-	-	-	196	-	-	19,755	-	19,755
Public sector entity debt	46	-	-	933	-	-	-	-	979	-	979
Banking corporation debt	-	3,616	-	1,183	-	66	-	-	4,865	-	4,865
Corporate debt	-	51	-	286	-	-	-	-	337	-	337
Securitization	-	-	-	-	-	-	-	13	13	20	33
Other assets	-	-	-	-	-	-	-	-	-	33	33
Total	**16,213**	**7,059**	**-**	**2,402**	**-**	**262**	**-**	**13**	**25,949**	**53**	**26,002**
Non-rated exposures:											
Public sector entity debt	-	-	-	22	-	-	-	-	22	-	22
Banking corporation debt	-	57	-	166	-	-	-	-	223	-	223
Corporate debt	-	-	-	-	-	58,961	240	-	59,201	-	59,201
Debt secured by commercial real estate	-	-	-	-	-	1,880	-	-	1,880	-	1,880
Retail exposure to individuals	-	-	-	-	23,085	16	124	-	23,225	-	23,225
Loans to small businesses	-	-	-	-	4,131	11	14	-	4,156	-	4,156
Residential mortgages	-	-	58,927	-	13,465	5,165	206	-	77,763	-	77,763
Other assets	997	-	-	-	-	2,983	27	-	4,007	87	4,094
Total	**997**	**57**	**58,927**	**188**	**40,681**	**69,016**	**611**	**-**	**170,477**	**87**	**170,564**
Total exposure	**17,210**	**7,116**	**58,927**	**2,590**	**40,681**	**69,278**	**611**	**13**	**196,426**	**140**	**196,566**

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	-	-	-	-	25,104	60	105	-	25,269	-	25,269
Loans to small businesses	-	-	-	-	5,357	13	17	-	5,387	-	5,387
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%	Net 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	-	-	-	-	23,313	38	104	-	23,455	-	23,455
Loans to small businesses	-	-	-	-	3,822	10	16	-	3,848	-	3,848
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 June 30, 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	Off-balance sheet credit risk Other	Deductions	Total credit risk	Share of equity
Group 1	933	87	1,244	(21)	2,243	15.8%

(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

The Bank conducts, in some cases, leveraged financing transactions, in which a client is extended credit for purchasing a controlling interest, characterized by a high LTV ratio compared to the value of shares, and relying exclusively on the shares being acquired as the source for credit repayment. The Bank reviews these transactions with due diligence, based inter alia on internal valuations as well as on external valuators. Terms and conditions specified for the transaction include sensitivity tests and financial covenants, which if met, require the borrower to provide additional collateral.

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

Economic sector of acquired company	Credit risk		
	As of June 30,		As of December 31,
	2013	2012	2012
Commerce	-	141	115
Communications and computer services	218	241	235
Construction and real estate	186	342	304
Total	**404**	**724**	**654**

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

External credit rating	As of June 30, 2013 On-balance sheet credit risk [3]	Off-balance sheet credit risk [4]	Current credit exposure
AAA to AA-	692	-	692
A+ to A-	1,356	10	1,366
BBB+ to BBB-	7	-	7
BB+ to B-	-	10	10
Lower than B-	-	-	-
Unrated	42	-	42
Total credit exposure to foreign financial institutions	**2,097**	**20**	**2,117**
Includes: Troubled commercial credit risk, net[5]	5	-	5

External credit rating	As of June 30, 2012 On-balance sheet credit risk [3]	Off-balance sheet credit risk [4]	Current credit exposure
AAA to AA-	1,635	13	1,648
A+ to A-	1,329	183	1,512
BBB+ to BBB-	7	-	7
BB+ to B-	-	6	6
Lower than B-	-	-	-
Unrated	6	-	6
Total credit exposure to foreign financial institutions	**2,977**	**202**	**3,179**
Includes: Troubled commercial credit risk, net[5]	5	-	5

External credit rating	As of December 31, 2012 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 and Canada. Exposure is primarily with respect to institutions incorporated in OECD countries.

(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 details of investments in asset-backed securities, see Note 2 to the financial statements. For further information with regard to credit exposure composition with respect to derivative instruments vis-à-vis banks and dealers/brokers (domestic and foreign), see Note 8 to the financial statements.

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

In conjunction with its policy regarding management of exposure to foreign financial institutions, the Bank's Board of Directors sets, inter alia, the maximum exposure limit for states and foreign financial institutions, while adjusting the exposure limit to the risk assessment for each state and financial institution. Exposure limits are set based, inter alia, on ratings of the various states and financial institutions and on the Bank's 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 the 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 policy also stipulates 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 the 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 a policy with regard to review and routing of risk arising from this exposure. For credit risk exposure management, as mentioned 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 investments in the nostro portfolio.

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

Environmental risk - In recent years, global awareness of the potential financial exposure arising from regulations related to environmental protection has grown. Environmental risk to the Bank is the risk of loss which may be incurred due to the Bank being directly liable for an environmental hazard caused by a project financed by the Bank, to impairment of collateral exposed to environmental risk or to deterioration in the financial standing of a borrower due to high expenses arising from environmental protection regulation. Environmental risk also includes other risk factors derived from this risk (goodwill, third party liability etc.)

Therefore, it is of prime importance that the Bank set its policy for management of environmental risk, including the capacity to identify, assess and monitor the risk over time.

On June 11, 2009, the Bank received a letter from the Supervisor of Banks, demanding that banks act to incorporate management of exposure to environmental risk within all risk factors at the Bank, including specification of procedures for identification of significant risk when granting credit and inclusion of risk assessment within periodic assessment of quality of credit extended. The Bank is forming a dedicated environmental risk policy, including a methodology for identification, assessment and handling of environmental risk. The environmental risk policy is approved annually by the Bank's Board of Directors.

Credit loss 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, and occasionally with credit insurance as well. The Bank act regularly to control and manage the risk associated with housing loans, for which the Retail Division and other Bank entities are responsible. The means and tools for mitigating risk with respect to housing loans, and the parties to management of this risk factor, are listed in the Board of Directors' report as of December 31, 2012. The Bank regularly conducts stress testing (distress tests, pressure tests) of its mortgage portfolio - challenging multiple risk factors in this portfolio, as presented below. Some stress testing is conducted using advanced methods and using current data from advanced models developed by the Bank. The varied stress testing conducted by the Bank indicates that the risk level associated with the Bank's mortgage portfolio is low.

Attributes of the Bank's housing loan portfolio

The Bank's policy 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, such as credit insurance, additional guarantors for the loan, proven repayment capacity not based on regular borrower income etc. In recent years, due to expansion of the housing market and relatively low interest environment, the Bank has enhanced measures taken to monitor and mitigate risk, as reflected by a significant decrease in loan risk factors, as detailed below (all data below as of June 30, 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 June 30, 2013 was 57.1%, 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 84.1 million, some 86% 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 3.2 billion, or only 3.8% of the total housing loan portfolio.

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 4.9 billion is insured by credit insurance – or 41.0%.

Over the past two years, due to measures taken by the Bank to mitigate risk in the mortgage portfolio, the percentage of loans granted with a high LTV ratio out of total housing loan portfolio of the Bank decreased to 10.5% for loans granted 1-2 years ago, 10.4% for loans granted 3-12 months ago and 7.3% for loans granted in the second 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 30.5%. Some 70% of the Bank's mortgage portfolio were granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is -23.6%). 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 40.5%) and some 8% of the mortgage portfolio were granted to borrowers with a repayment ratio of 50% to 80% (the average repayment ratio for these borrowers is 59.1%), and only 1% were granted to borrowers with a repayment ratio over 80% (the average repayment ratio for these borrowers is 88.9%).

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.

Even loans granted with a repayment ratio higher than 50% maintain the average LTV ratio, and some -89% of these are granted with a LTV ratio under 75%.

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%-4% in 2009-2012. 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 22.4% of loans awarded 1-2 years ago, 26.4% of loans awarded 3-12 months ago and only 26.2% of loans awarded in the second 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 7.9 billion, or only 9.4% 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 variable interest to 33.3% of total loan amount, has also contributed to further reduction in variable interest loans extended, and to mitigation of risk in this area.

Loan amount

Loans granted by the Bank with an original amount over NIS 2 million amounted in total to NIS 3.4 billion, or only 4.1% 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%	1,877	4,801	4,337	11,651	5,282	2,252	30,200
	35%-50%	668	1,801	1,840	3,374	1,130	368	9,181
	50%-80%	216	582	717	1,325	449	164	3,453
	Over 80%	19	51	65	162	62	31	390
60%-75%	Up to 35%	1,102	3,539	3,407	9,471	2,303	739	20,561
	35%-50%	356	1,280	1,338	2,718	655	186	6,533
	50%-80%	90	367	489	946	255	82	2,229
	Over 80%	3	19	20	67	35	15	159
Over 75%	Up to 35%	270	1,122	1,037	3,348	1,524	1,570	8,871
	35%-50%	58	280	336	801	422	547	2,444
	50%-80%	12	39	54	216	138	190	649
	Over 80%	-	-	-	16	21	30	67
Total		**4,671**	**13,881**	**13,640**	**34,095**	**12,276**	**6,174**	**84,737**
Includes:								
Loans granted with original amount over NIS 2 million		145	544	688	1,754	258	21	3,410
Percentage of total housing loans		3.1%	3.9%	5.0%	5.1%	2.1%	0.3%	4.1%
Loans bearing variable interest:								
Non-linked, at prime lending rate		1,216	3,647	3,031	14,625	4,694	219	27,432
CPI-linked[2]		130	319	420	7,019	1,963	1,620	11,471
In foreign currency [2]		101	434	759	2,573	451	189	4,507
Total		**1,447**	**4,400**	**4,210**	**24,217**	**7,108**	**2,028**	**43,410**
Non-linked loans at prime lending rate, as percentage of total housing loans		26.0%	26.3%	22.2%	42.9%	38.2%	3.5%	32.4%
CPI-linked loans bearing variable interest as percentage of total housing loans		2.8%	2.3%	3.1%	20.6%	16.0%	26.2%	13.5%
Loans with LTV over 75% as percentage of total housing loans		7.8%	10.9%	11.3%	12.8%	14.8%	27.0%	13.3%

(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 is information about provision for credit losses with respect to housing loans for which a minimum provision for credit loss was made by extent of arrears, in accordance with appendix to Proper Conduct of Banking Business Regulation 314, as of June 30, 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
	June 30, 2013							
	Unaudited							
Amount in arrears	11	12	16	17	228	273	85	369
Includes: Balance of provision for interest[1]	-	-	-	1	107	108	6	114
Recorded debt balance	870	396	214	88	210	908	286	2,064
Balance of provision for credit losses[2]	-	-	30	45	172	247	131	378
Debt balance, net	**870**	**396**	**184**	**43**	**38**	**661**	**155**	**1,686**

(1) With respect to interest on amounts in arrears.
(2) Excludes balance of provision for interest.
(3) Loans for which an agreement was signed for repayment of arrears by borrower, where a change was made in the repayment schedule for the loan balance not yet due.

Credit risk mitigation

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

	As of June 30, 2013				
		Exposure covered by guarantees[2]		Exposure covered by qualified financial collateral	
	Gross credit exposure[1]	Amounts de-recognized	Amounts added		Net credit exposure
Sovereign debt	25,884	(276)	273	(17)	25,864
Public sector entity debt	1,076	-	293	(50)	1,319
Banking corporation debt	3,367	(8)	269	(2)	3,626
Corporate debt	67,841	(333)	21	(9,078)	58,451
Debt secured by commercial real estate	2,876	(25)	-	(365)	2,486
Retail exposure to individuals	26,249	(2)	-	(1,949)	24,298
Loans to small businesses	5,761	(191)	-	(1,575)	3,995
Residential mortgages	87,370	(21)	-	(73)	87,276
Other assets	5,037	-	-	-	5,037
Total	**225,461**	**(856)**	**856**	**(13,109)**	**212,352**

(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.

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

	As of June 30, 2012				
		Exposure covered by guarantees(2)		Exposure covered by	
	Gross credit exposure(1)	Amounts de-recognized	Amounts added	qualified financial collateral	Net credit exposure
Sovereign debt	19,752	(32)	35	-	19,755
Public sector entity debt	1,073	-	46	(118)	1,001
Banking corporation debt	4,927	(15)	178	(2)	5,088
Corporate debt	67,277	(178)	-	(7,561)	59,538
Debt secured by commercial real estate	2,209	(8)	-	(321)	1,880
Retail exposure to individuals	24,964	(2)	-	(1,737)	23,225
Loans to small businesses	5,579	(24)	-	(1,399)	4,156
Residential mortgages	77,823	-	-	(60)	77,763
Securitization	13	-	-	-	13
Other assets	4,007	-	-	-	4,007
Total	**207,624**	**(259)**	**259**	**(11,198)**	**196,426**

	As of December 31, 2012				
		Exposure covered by guarantees(2)		Exposure covered by	
	Gross credit exposure(1)	Amounts de-recognized	Amounts added	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	25,269	(1)	-	(1,813)	23,455
Loans to small businesses	5,387	(103)	-	(1,436)	3,848
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 in its nostro portfolio. These investments are individually reviewed by the Risk Management Committee, and are submitted for approval by the Asset and Liability Management Committee headed by the President.

Below is the current credit exposure with respect to derivatives:

	As of June 30, 2013					
Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives[2]	Total
Par value of derivatives after impact of add-on factor	173	1,107	1	1	11	1,293
Positive fair value of financial derivatives [1]	373	975	671	5	-	2,024
Total exposure with respect to derivatives	**546**	**2,082**	**672**	**6**	**11**	**3,317**
Collateral with respect to derivatives (before safety factors)	(7)	(81)	(1,795)	-	-	(1,883)
Impact of safety factors on collateral	4	47	1,251	-	-	1,302
Total current credit exposure after credit risk mitigation	**543**	**2,048**	**128**	**6**	**11**	**2,736**

	As of June 30, 2012					
Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives[2]	Total
Par value of derivatives after impact of add-on factor	187	1,137	12	-	4	1,340
Positive fair value of financial derivatives [1]	354	743	541	-	26	1,664
Total exposure with respect to derivatives	**541**	**1,880**	**553**	**-**	**30**	**3,004**
Collateral with respect to derivatives (before safety factors)	(80)	(513)	(661)	-	-	(1,254)
Impact of safety factors on collateral	47	250	286	-	-	583
Total current credit exposure after credit risk mitigation	**508**	**1,617**	**178**	**-**	**30**	**2,333**

	As of December 31, 2012					
Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives[2]	Total
Par value of derivatives after impact of add-on factor	195	1,079	-	1	4	1,279
Positive fair value 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 8.A to the financial statements.

Securitization

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

As of June 30, 2013 and as of December 31, 2012, the Bank had no investments with securitization exposure.

Below are details of investments in collateralization exposures and relevant capital requirements:

	As of June 30, 2012		
	Risk weighting	Exposure amount	Capital requirements (1)
BB+ to BB-	350%	13	4
B+ or lower	Deducted from equity	20	20
Total		**33**	**24**

(1) Capital requirement (except with respect to exposures deducted from capital) calculated at 9% of risk asset balance, in accordance with interim directive on application of Basel II, Pillar 3.

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

Market risk

Market risk to which the Bank is exposed in different financial instruments arises from their susceptibility to unexpected changes in interest rates, inflation rates and exchange rates, so that changes in market conditions may lead to changes in the fair value of the different financial instruments. Market risk management is intended to maximize Bank profit at the prescribed risk level. Exposure to market risk is managed in accordance with the limitations prescribed by the Board of Directors, within the frameworks of and subject to which, the Bank's Executive Management acts, according to the market conditions at any given time.

The Bank focuses on two major market risk factors:

- Interest risk - the risk of erosion of capital as a result of future interest rate changes. The exposure to interest risk is due, *inter alia*, to 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 currently preparing to apply the Bank of Israel draft directive on interest risk management, which should become effective in mid-2014.
- Linkage-basis risk - the risk of erosion in capital due to changes in the value of the linkage basis – changes in prices, exchange rates and inflation rates. The exposure to basis risk exists when the Bank's assets and liabilities are denominated in different currency or linkage segments.

Interest risk in Bank's portfolio

Interest risk in the Bank's 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 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.

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

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

	June 30, 2012					
	Change in fair value					
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	277	(139)	92	(12)	(6)	212
2% decrease	(315)	30	(44)	8	2	(319)

	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 (Value at Risk) model

As required according to the directives of the Bank of Israel, the Bank calculates the VaR values and the stress-test values on a daily basis. In order to improve the responsiveness of the VaR to the degree of volatility in financial markets, the Bank uses a new VaR calculation method which implements a combination of two major calculation methods: the analytical method and the historical simulation method. This method allows the Bank to handle situations where market volatility increases. This method has been developed by the Bank in the past, together with overseas experts, and is subject to continuous back testing.

VaR calculations with respect to the option portfolio are conducted hourly at the Bank, using the Monte Carlo method and the historical method.

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

	First half of 2013	First half of 2012	All of 2012
At end of period	187	183	167
Maximum value during period	187 (JUN)	239 (FEB)	239 (FEB)
Minimum value during period	146 (MAR)	144 (APR)	144 (APR)

Back-testing of the historical-analytic VaR model shows, for the year ended June 30, 2013, three cases where the daily loss exceeded the projected VaR value (one case in 2013 year to date) - this number of cases is in line with Basel Committee criteria. Hence, the Bank's VaR model is in the Green Zone - i.e. the model is accurate.

The following table describes the three exceptions recorded by the Bank over the past year:

Exception date	Exception size (NIS in millions)
September 19, 2012	18.5
October 16, 2012	18.5
April 02, 2013	1.6

Basis risk

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

Below is an analysis of the sensitivity of Bank Group capital to changes in major exchange rates and in the CPI (before tax effect) as of June 30, 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	763.7	381.8	(381.8)	(763.7)	111.5	(65.7)
Dollar	(16.4)	(3.1)	4.2	11.6	(0.5)	1.1
Pound Sterling	-	-	(0.2)	(0.5)	-	(0.1)
Yen	(0.1)	-	0.7	1.9	-	0.4
Euro	9.9	3.0	0.3	(4.3)	1.7	0.7
Swiss Franc	0.1	-	(0.1)	(0.4)	-	(0.2)

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

Interest risk

Interest risk is the risk of erosion of capital as a result of future interest rate changes. The exposure to interest risk results from a lack of correlation between the period to maturity of the Bank's assets and liabilities, or from incomplete correlation of the effect of change in interest rates on the different financial instruments.

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

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

	Israeli currency		Foreign currency[2]			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
June 30, 2013						
Financial assets [1]	92,562	53,998	14,834	3,676	1,738	166,808
Amounts receivable with respect to financial derivatives[3]	66,776	4,029	47,367	10,131	7,048	135,351
Financial liabilities [1]	(91,375)	(38,132)	(23,894)	(4,318)	(2,417)	(160,136)
Amounts payable with respect to financial derivatives[3]	(68,817)	(12,191)	(38,354)	(9,531)	(6,303)	(135,196)
Total	**(854)**	**7,704**	**(47)**	**(42)**	**66**	**6,827**
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 %
June 30, 2013								
Change in interest rates:								
Concurrent immediate increase of 1%	(423)	7,482	(66)	(63)	61	6,991	164	2.4%
Concurrent immediate increase of 0.1%	(807)	7,682	(49)	(45)	66	6,847	20	0.3%
Concurrent immediate decrease of 1%	(1,267)	8,294	18	(4)	73	7,114	287	4.2%
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.

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 fluctuations in the underlying asset and in standard deviation.

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

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

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

	As of June 30, 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)	1	58	59	1	61	62
Equity risk	-	-	-	-	-	-
Foreign currency exchange rate risk	-	34	34	-	39	39
Total market risk	**1**	**92**	**93**	**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 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. The Bank’s internal model is based on statistical findings on the public’s behavior. In this model there are four types of stress events activated, reflecting different withdrawal rates by deposit type and client type (individual, corporate and large clients). Calculation for each scenario is made separately, and the Bank holds liquid means, including current account and cash with the Bank of Israel and a high-quality liquid debenture portfolio which may be immediately realized, against the worst scenario. The liquidity model is calculated daily based on the current composition of liabilities and liquid means.

The Risk Control Division performs back testing of model adequacy, as required by Bank of Israel directives.

An information system was built for daily measurement, control and reporting of the liquidity status. The Bank has a Liquidity Forum, which convenes daily, under the responsibility of the Finance Division, which meets monthly to discuss the liquidity situation and to align the liquidity needs of different Bank units with the liquidity "providers" and liquidity managers.

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.

The Bank frequently reviews the global practice in this field, including Basel III directives, FSA directives and updates to the Bank of Israel directives in Proper Conduct of Banking Business Regulation 342 "Liquidity Risk Management", published in January 2013 and effective as from July 1, 2013. The Bank has completed preparations for application this updated directive, and has started applying the updated directive to its liquidity risk management as from the third quarter of 2013.

Operating risk

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

Equity positions in Bank portfolio

For details of equity investments in the Bank's portfolio, see Note 2 to the financial statements. The investment balance includes investments in negotiable and public shares amounting to NIS 1 million, and investment in non-public shares amounting to NIS 170 million.

	As of June 30, 2013	
	Fair value	Capital requirement(1)
Shares	63	6
Venture capital / private equity funds	108	10
Total equity investment in Bank portfolio	**171**	**16**

	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.

Legal risk

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

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

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

The complexity and development of banking activity requires the Bank to adhere strictly to fulfilling the range of obligations imposed on it in its business ties with its customers, by virtue of statutory provisions applicable to a banking corporation. As stipulated by Proper Conduct of Banking Business Regulation 308 with regard to Compliance Officer, the Bank has appointed a Compliance Officer who heads the Compliance and AML Department. In June 2012, as part of reorganization of the Risk Control Division, a Chief Compliance Officer for the Bank Group was appointed in the Risk Control Division. The Compliance Department, headed by the Bank Compliance Officer, is no longer part of the Legal Division, and now reports to the Chief Compliance Officer in the Risk Control Division.

In November 2011, the Bank's Board of Directors approved an updated compliance program. The Compliance Department acts to disseminate a compliance culture across the Bank and strives to implement consumer provisions applicable to Bank relationships with its clients, so as to minimize the likelihood of any breach of laws and regulations, to discover, as early as possible, any such breach - thereby minimizing Bank exposure to claims and other damage which may ensue.

The Compliance Department conducts compliance surveys on different issues and provides training to implement compliance policy 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

In June 2012, as part of reorganization of the Risk Control Division, a Chief Compliance Officer was appointed in the Risk Control Division, who 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 Officer, who is also in charge of implementation of the Prohibition of Money Laundering Act, and of the Prohibition of Financing Terrorism Act for the Bank, is no longer part of the Legal Division, and now reports to the Chief Compliance Officer in the Risk Control Division.

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 policy 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 a Group basis, with required changes, its policy 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
Overall effect of credit risk	Intermediate
Risk from quality of borrowers and collateral	Intermediate
Risk from industry concentration	Intermediate
Risk from concentration of borrowers/ borrower groups	Intermediate
Overall effect of market risk	Low
Interest risk	Low
Inflation risk	Intermediate
Exchange rate risk	Low
Share price risk	Low
Liquidity risk	Intermediate
Operating risk	Low
Compliance risk	Low
Money laundering risk	Low
Legal risk	Low
Reputation risk[(1)]	Low
Regulatory risk	Low
Strategic-business risk	Low

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

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

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 outcome, 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, 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.

Note that with regard to the impact of market risk, the Bank's Board of Directors prescribed the VaR limit in order to prevent the creation of high market risk. Therefore, it was prescribed that risk with VaR value equal to or higher than the Board of Directors' limitation has strong effect. Risk with VaR value equal to or higher than 70% of the Board of Directors' limitation has intermediate effect and the risk with VaR value below this is considered having a low effect.

Significant Events in the Bank Group's Business

Bank President's term in office

At the Board meeting held on April 24, 2013, Bank President, Mr. Eli Yones, announced his intention to not continue in his office for a further term. The date of employment termination set forth 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. As from August 16, 2013, Mr. Eldad Fresher would serve as Bank President.

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

Stock option plan for employees

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 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. See Note 14 to the financial statements for details.

On June 20, 2013, the Bank alotted 5,901,340 options to employees of the Bank and of Bank subsidiaries pursuant to the plan dated April 29, 2013. The exercise price of each option option allotted to offerees is NIS 36.6 plus CPI linkage differentials, in accordance with the stock option plan. The exercise price was based on the closing price of Bank Ordinary 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 options approved for allotment was calculated in accordance with IFRS 2, using the Black & Scholes model. The theoretical benefit value of options in this alottmen amounts to NIS 35 million. This amount would be recognized by the Bank on its accounts over the vesting period of these options.

Business Strategy

On July 23, 2012 the Bank's Board of Directors approved a strategic plan for 2013-2017. For information about highlights of this plan, see chapter "Business Strategy" of the 2012 financial statements.

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 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 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 resolved to distribute a dividend 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 policy - 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.

Legislation and Supervision of Bank Group Operations

The Supervisor of Banks' letter concerning updated directives with regard to housing loans

On March 21, 2013, the Bank received the Supervisor of Banks' letter concerning updated directives with regard to residential 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 the second quarter of 2013, see Note 1.C.6 to the financial statements.

A 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.

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 0.1%; for debenture and equity funds they would be reduced to 0.35% from 0.4% and 0.8%, respectively; and for NIS funds they would be reduced to 0.2% 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.

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 anIimmediate 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.

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

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 to consist of large, major banks which would guarantee each party's compliance with their obligations.

Binding procedures concerning collateral are to be specified, and all swap transactions made are to be reported to central information repositories, which would store this information and make it accessible to all market players.

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

The rules 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.
The Bank is preparing to apply the relevant rules of the reform, which would come into effect during 2014, as they apply to the Bank with regard to its relations with foreign financial institutions.

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.

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 write 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 the Amendment is not expected to have any 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 applicable to financial institutions increased by a similar rate). 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 is not expected to have any 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 expected effect of the increased corporate tax rate on the Bank's deferred tax balance is a revenue of NIS 28 million. This revenue is expected to be recognized on the financial statements as of September 30, 2013.

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. Re-pricing 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 has no material impact on the Bank's financial statements.

Proper Conduct of Banking Business Regulation 311 "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 minimze 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 policy, 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 forumulated a plan to apply the directive, which was presented to the Supervisor of Banks in a letter dated July 31, 2013.

Proper Conduct of Banking Business Regulation 350 "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. The regulation stipulates 10 basic principles for management of operating risk, in reference to the framework for management of operating risk and the listed principles mostly 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 distribution by banking corporations. The directive 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 directive adapts the current restrictions on dividend distribution 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 policy 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 1, 2014. Application of adopting this directive on the Bank's financial statements is not expected to be material.

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

On May 30, 2013, the Supervisor of Banks issued an amendment to Regulation 313 "Restrictions on indebtedness of borrowers and groups of borrowers". Key changes in the amended regulation include: reduced weighting for guarantees pursuant to the Apartment Sale Act, when the apartment has been delivered to the buyer and reduced indebtedness amount with respect to add-on factor in OTC derivative transactions, which reflects the future potential exposure over the remaining term of the contract. The regulation would apply retroactively with regard to reduced weighting for guarantees pursuant to the Apartment Sale Act; as for OTC derivative transactions, the regulation would become effective as from January 1, 2014. 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.

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

For details of highlights of recommendations of the Basel Committee and their application to banks in Israel and their implementation by the Bank, see the Board of Directors' Report as of December 31, 2012.
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 policy

documents for risk types added during mapping and extended existing policy documents. The risk appetite, risk mapping and determination of the materiality there of are submitted for approval by the Board of Directors' Risk Management Committee and the Board of Directors plenum, on annual basis.

In April 2012, the Bank submitted to the Bank of Israel its ICAAP document (as of December 31, 2011), 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.

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 application of Pillar 2, the Bank continues in accordance with the work plan to regularly eliminate gaps identified vis-à-vis requirements of the Basel Committee in various risk areas, to deliver appropriate training to senior staff at the Bank and to improve its risk management and capital management policy documents in line with Pillar 2 directives.

On April 30, 2013, the Bank submitted to the Bank of Israel its ICAAP document as of December 31, 2012, on schedule.

Basel III

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

On March 28, 2012, the Supervisor of Banks issued a directive to all banking corporations, citing a higher minimum core capital ratio than the one currently required. According to the directive, all banking corporations would be required to achieve a minimum core capital ratio of 9% by January 1, 2015. In addition, large banking corporations, whose total consolidated balance sheet assets exceed 20% of total balance sheet assets for the Israeli banking sector, would be required to achieve a minimum core capital ratio of 10% by January 1, 2017. The directive with regard to a minimum core capital ratio of 10% does not apply to the Bank. The core capital ratio should be calculated based on Basel III directives with adjustments to be specified by the Supervisor of Banks.

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

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

For more information about key amendments made to the regulations, see Note 5.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".

As directed by the Supervisor of Banks, the Bank was required to present the effect of anticipated application of Basel III directives upon the transition date; the Bank believes this would result in a 0.3% decrease in Tier I capital ratio.

Following the publication of these directives, the Bank has revisited its compliance with the schedule for achieving the target core capital ratio of no less than 9%
Following this review and based on assumptions with regard to expected profit in 2013-2014 and to 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 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 resolved to distribute a dividend 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 policy - 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.

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

On April 10, 2013, the Supervisor of Banks issued draft directives on group-based provision for credit loss. The draft includes, *inter alia*, an interim directive "Group-based provision for credit loss", which supersedes the interim directive on "Group-based provision for credit loss in 2011-2012". For details of this draft, see Note 1.D.2.

Draft Supervisor of Banks' directives on remuneration policy at banking corporations

On July 4, 2013, the Supervisor of Banks issued draft directives on remuneration policy at banking corporations. This draft 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 draft includes requirements applicable to all remuneration at banking corporations, including roles of the Board of Directors and of the Remuneration Committee, remuneration policy, controls and documentation; the draft 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 draft, 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 draft 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 draft 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.

Draft directive by the Supervisor of Banks with regard to interim directive - disclosure requirements pursuant to Basel II, Pillar 3 – Disclosure requirements with regard to remuneration

On June 2, 2013, the Supervisor of Banks issued a draft directive with regard to disclosure requirements pursuant to Basel II, Pillar 3 – Disclosure requirements with regard to remuneration. The new disclosure requirements were designed to support effective market discipline and to allow market users to assess the quality of remuneration methods and how they support the strategies and risk position of banking corporations. The effective start date of this directive is January 1, 2014.

Legal Proceedings

For material changes in legal proceedings to which the Bank is party, see Notes 7.D.(2-4).

Other Matters

The Independent Auditor has drawn, in their review, attention to Note 7.D.3) to the financial statements with regard to claims filed against the Bank, including claims accompanied by motions for class action status.

Employment terms of employees of Mizrahi-Tefahot Technology Division Ltd. (hereinafter: "Technology Division")

A. 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.

   On April 30, 2013, the management of the Technology Division and the employee union signed an agreement which includes compensation for linkage of payroll for 2009 as well as compensation for the period 2005-2011. This agreement covers all demands and claims with regard to compensation for payroll differences through 2011.

B. On January 26, 2012, a labor dispute was declared between the MAOF trade union and the Technology Division. The key reasons for this dispute are the employee's demand for agreement on methods for hiring contractors at the company.

As of the date of these financial statements, Division management and employee representatives are in continuing negotiations with regard to other disputed issues, primarily the relocation to the Technology-Logistics Center in Lod and hiring of independent contractors by the company - but the parties have yet to reach a signed agreement.

Computer services for Bank Yahav

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

Bank Yahav receives IT and operations services from Bank HaPoalim Ltd. These services are provided pursuant to a permit issued by the Bank of Israel, effective through 2015. The Bank of Israel stipulated that Bank Yahav should be disconnected from the aforementioned systems by the specified date, and also issued directives with regard to schedules for making decisions and for making progress in this regard. In conformity with these Bank of Israel directives, Bank Yahav is reviewing potential routes for disconnecting from the Bank HaPoalim systems currently being used. Bank Yahav's repor of the outcome of this review has been provided to the Bank of Israel.

Approval of terms of office and employment of Chairman of the Board of Directors

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's Board of Directors. See Note 14(3) to the financial statements for details.

Approval of officer remuneration policy

Following the effective start date of Amendment 20 to the Companies Law, 1999 ("the Corporate Act"), the Bank acted to formulate and adopt an officer remuneration policy in line with provisions of the Act.

On July 18, 2013, the Remuneration Committee, having reviewed the information presented to it and taken into consideration all the elements required pursuant to Amendment 20 to the Companies Law, resolved to recommend that the Bank's Board of Directors approve the officer remuneration policy; on July 22, 2013, the Bank's Board of Directors approved the remuneration policy. The remuneration policy would be brought for approval by an extraordinary General Meeting of shareholders, to be convened on August 27, 2013.

Senior Officers

On April 29, 2013, the Bank Board of Directors approved the appointment of Ms. Ayala Hakim to Manager of the Bank's Technology Division and member of Bank management. The appointment became effective on July 1, 2013.
Ms. Ayala Hakim replaced Mr. Zvi Agrovich, who had held this position for the past 5.5 years. Mr. Zvi Agrovich was appointed Deputy Chairman of the Bank's Technology Division. Ms. Hakim also serves as the Bank's Chief Information Officer.
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 July 22, 2013, the Bank Board of Directors approved appointment of Mr. Moshe Lari to the position of Manager, Financial Division and CFO of the Bank, effective as from August 16, 2013. This appointment would become effective after receiving the Supervisor of Banks' consent, but not prior to August 16, 2013.
On July 30, 2013, The Supervisior of Banks' cohsent was received.
For more information about termination of the Bank President's term in office, see chapter "Significant events in the Bank Group's business".

Internal Auditor

Details of internal audit within the Group, including the professional standards applied by internal audit, the annual and multi-annual work plan and considerations in its determination, extent of employment of the Internal Auditor and his team and the manner in which reports are submitted with regard to findings of the Internal Auditor have been included in the Board of Directors' Report attached to the 2012 financial statements. No material changes occurred in these details during the reported period.

Accounting Policies on Critical Matters

The Group's consolidated financial statements are prepared in conformity with generally accepted accounting principles in Israel (Israeli GAAP) for interim periods, and in accordance with the directives and guidelines of the Supervisor of Banks on the preparation of the financial statements of a banking entity. Highlights of accounting policies are itemized in Note 1 to these condensed financial statements and in Note 1 to the financial statements as of December 31, 2012.
The application of generally accepted accounting principles by management at the time that the financial statements are prepared occasionally involves various assumptions, assessments and estimates that affect the amounts and business results reported in the financial statements. Some of the assumptions, assessments and estimates are critical to the financial position or the results of operations reflected in the Group's financial statements, because of the materiality of the matter, complexity of calculations or the extent of the probability that matters shrouded in uncertainty will be realized.
The financial statements for 2012 include details of accounting policies on critical issues for accounting treatment of the following: Provision for credit losses, derivative instruments, securities, liabilities with respect to employee rights, provisions for legal claims, provision for impairment of non-financial assets and deferred taxes.

In conformity with the Supervisor of Banks' letter dated March 21, 2013, with regard to housing loans, the directives with regard to the group-based provision for credit losses with respect to housing loans were updated See Note 1.C.6 to the financial statements for further information.

For information about the Supervisor of Banks' draft directives with regard to the group-based provision for credit losses, see Note 1.D.2 to the financial statements.

Other than the foregoing, during the reported period there were no changes to the Bank's accounting policies on critical issues, which are listed in the Board of Directors' report on the financial statements as of December 31, 2012.

Certification Process of the Financial Statements

The organ in charge of audit supervision at the bank is its Board of Directors. Board members' names, accounting and financial skills and professional qualifications are stated in the Board of Directors' report as of December 31, 2012. The processes of preparing, auditing and approving the financial statements involve additional organs and officers as stated 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 policy set by the Bank's Board of Directors.

Concurrently with preparing the financial statements, and based on the draft financial statements forwarded to them, all executive management members confirm by their signature that they are not aware of any detail which may indicate that data and descriptions in the Board of Directors' Report and financial statements with regard to their areas of responsibility include any false representation or lack of material facts, that they instituted effective controls in order to ensure that any material information in their area of responsibility is brought to their attention, and that any significant fault or material weakness of the internal controls over financial reporting which is likely to impact the Bank's ability to record, process, summarize and report financial information in their areas of responsibility have been brought to the attention of the appropriate parties. For details of names and positions of Bank executives, see the chapter on Bank management on the financial statements as of December 31, 2012. The Bank operates a Provision for Credit Losses Committee, headed by the Chief Accountant and attended by professional credit staff, as well as a Provision for Credit Losses Committee headed by the President and attended by the Manager, Business Division; Manager, Retail Division; Manager, Finance Division; Chief Accountant; Chief Legal Counsel and other professional credit staff. In conjunction with preparation of the financial statements, the committee reviews the state of troubled loans of the Bank, their classification and provisions required. In addition, the Chief Legal Counsel and the Chief Accountant review the provisions required with respect to claims filed against the bank.

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

As from January 1, 2013, pursuant to Section 36(D) of the Proper Conduct of Banking Business Regulation 301, the Board of Directors' Audit Committee discusses and recommends the approval of the Bank's quarterly and annual financial statements. (For names and qualifications of Audit Committee members, see chapter "Board of Directors" of the financial statements as of December 31, 2012).

The Audit Committee discusses the apporpriateness of disclosure on the financial statements and the review of the financial statements, including all of their components, 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 held usually 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, such that Board members receive the documents at least three days prior to the discussion there of by the Board of Directors. In conjunction with discussion by the Board of Directors, the Chief Accountant presents the financial results and analysis thereof. The Chair of the Audit Committee presents the Audit Committee's recommendations to the Board of Directors - with regard to issues discussed by the Committee and to approval of the financial statements. The Board of Directors' meeting to discuss approval of the financial statements is attended, other than by members of the Board, by the President, Chief Accountant, Chief Legal Counsel, Chief Internal Auditor and independent auditors, as well as other participants invited to attend on per-case basis. The independent auditors present their comments.

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

Board of Directors

During the first half of 2013, the Bank Board of Directors held 11 plenary meetings, of which 1 meeting by telephone. During this period there were also 58 meetings of Board committees and 4 Board member workshops.

The Board of Directors, at its meeting held on January 21, 2013, resolved to merge the Audit Committee and the Financial Statements Review Committee.

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.

On February 11, 2013, Mr. Zvi Efrat resigned his position as member of the Board Credit Committee.

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.

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.

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 Bank Board of Directors approved the recommendation made by the search committee, to appoint Mr. Eldad Fresher to be the next Bank President.

Mr. Eli Yones would conclude his office as Bank President on August 15, 2013.

Mr. Eldad Fresher would become the Bank President on August 16, 2013.

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.

Controls and Procedures

In accordance with the public reporting directives of the Supervisor of Banks, based on Section 302 of the American Sarbanes Oxley Act, the President and the Chief Accountant of the Bank have each separately signed a Certification attached to the financial statements on "Disclosure Controls and Procedures ("Disclosure Certification"). This directive of the Supervisor of Banks is part of an overall policy regarding the adoption of the provisions of Section 404 of the Sarbanes Oxley Act, which includes, inter alia, certification by the President and Chief Accountant on "the effectiveness of internal controls over the financial reporting", which was attached to the financial statements as of December 31, 2012.

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

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

Following shortcomings indicated by an audit conducted by the Supervisor of Banks with respect to disclosure of overall risk associated with loans to the public by economic sector, several improvements have been made to controls and procedures related to disclosures, in order to eliminate these shortcomings. These improvements include reinforcement of and creation of procedures for client classification processes into sectors by business units, as well as expansion of control processes of classification into sectors - both at business units and at the Accounting and Financial Reporting Division. Specifically, the Bank reinforced controls to ensure proper disclosure of overall risk associated with loans to the public by economic sector in the financial statements as from December 31, 2012. Correction of Significant shortcomings found by the Audit has been completed by the publication date of these financial statements.

During the quarter ended June 30, 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 control over financial reporting.

Moshe Weidman
Chairman of the Board of Directors

Eliezer Yones
President

Ramat Gan, August 14, 2013

Management Discussion of Group Business and Operating Results

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Management Discussion - Addendum A

Revenue and Expense Rates – Consolidated [1]

Reported amounts (NIS in millions)

A. Average balances and interest rates – assets

	For the three months ended June 30, 2013			For the three months ended June 30, 2012		
	Average balance[2]	Interest revenues	Revenue rate	Average balance[2]	Interest revenues	Revenue rate
			In %			In %
Interest-bearing assets						
Loans to the public [3]						
In Israel	129,230	[7] 1,601	5.05	118,842	[7] 1,897	6.54
Outside of Israel	2,649	30	4.61	2,790	25	3.63
Total	**131,879**	**1,631**	**5.04**	**121,632**	**1,922**	**6.47**
Loans to the Government						
In Israel	310	2	2.61	203	1	1.99
Outside of Israel	-	-	-	-	-	-
Total	**310**	**2**	**2.61**	**203**	**1**	**1.99**
Deposits with banks						
In Israel	1,027	-	-	2,165	7	1.30
Outside of Israel	303	1	1.33	155	1	2.61
Total	**1,330**	**1**	**0.30**	**2,320**	**8**	**1.39**
Deposits with central banks						
In Israel	16,057	46	1.15	11,704	42	1.44
Outside of Israel	2,093	1	0.19	994	1	0.40
Total	**18,150**	**47**	**1.04**	**12,698**	**43**	**1.36**
Securities loaned or sold in repurchase agreements						
In Israel	90	-	-	221	1	1.82
Outside of Israel	-	-	-	-	-	-
Total	**90**	**-**	**-**	**221**	**1**	**1.82**
Debentures held to maturity and available for sale[4]						
In Israel	5,580	16	1.15	7,627	17	0.89
Outside of Israel	1,327	4	1.21	1,562	6	1.55
Total	**6,907**	**20**	**1.16**	**9,189**	**23**	**1.00**
Debentures held for trading[5]						
In Israel	818	3	1.48	370	2	2.18
Outside of Israel	2	-	-	4	-	-
Total	**820**	**3**	**1.47**	**374**	**2**	**2.16**
Total interest-bearing assets	**159,486**	**1,704**	**4.34**	**146,637**	**2,000**	**5.57**
Receivables for credit card operations	3,072			2,724		
Other non-interest bearing assets [6]	5,287			4,718		
Total assets	**167,845**			**154,079**		
Total interest-bearing assets attributable to operations outside of Israel	**6,374**	**36**	**2.28**	**5,505**	**33**	**2.42**

See remarks below.

Management Discussion - Addendum A

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

Reported amounts (NIS in millions)

B. Average balances and interest rates - liabilities and equity

	For the three months ended June 30, 2013			For the three months ended June 30, 2012		
	Average balance[(2)]	Interest expenses	Revenue rate	Average balance[(2)]	Interest expenses	Revenue rate
			In %			In %
Interest-bearing liabilities						
Deposits from the public						
In Israel	127,631	585	1.85	114,196	787	2.79
Outside of Israel	4,660	11	0.95	5,328	16	1.21
Total	**132,291**	**596**	**1.81**	**119,524**	**803**	**2.71**
Deposits from the Government						
In Israel	97	1	4.19	136	2	6.01
Outside of Israel	-	-	-	-	-	-
Total	**97**	**1**	**4.19**	**136**	**2**	**6.01**
Deposits from banks						
In Israel	2,240	13	2.34	3,389	19	2.26
Outside of Israel	19	-	-	25	-	-
Total	**2,259**	**13**	**2.32**	**3,414**	**19**	**2.24**
Debentures and subordinated notes						
In Israel	14,829	221	6.10	13,325	292	9.06
Outside of Israel	-	-	-	-	-	-
Total	**14,829**	**221**	**6.10**	**13,325**	**292**	**9.06**
Total interest-bearing liabilities	**149,476**	**831**	**2.24**	**136,399**	**1,116**	**3.31**
Non-interest bearing deposits from the public	402			332		
Payables for credit card operations	3,069			2,724		
Other non-interest bearing liabilities [(8)]	5,216			6,054		
Total liabilities	**158,163**			**145,509**		
Total capital resources	9,682			8,570		
Total liabilities and equity	**167,845**			**154,079**		
Interest margin			**2.10**			**2.26**
Net return [(9)] on interest-bearing assets						
In Israel	153,112	848	2.23	141,132	867	2.48
Outside of Israel	6,374	25	1.58	5,505	17	1.24
Total	**159,486**	**873**	**2.21**	**146,637**	**884**	**2.43**
Total interest-bearing liabilities attributable to operations outside of Israel	**4,679**	**11**	**0.94**	**5,353**	**16**	**1.20**

See remarks below.

Management Discussion - Addendum A

Revenue and Expense Rates – Consolidated (1) - Continued

Reported amounts (NIS in millions)

A. Average balances and interest rates - assets

	For the three months ended June 30, 2013			For the three months ended June 30, 2012		
	Average balance(2)	Interest revenues	Revenue rate	Average balance(2)	Interest revenues	Revenue rate
			In %			In %
Interest-bearing assets						
Loans to the public (3)						
In Israel	127,447	(7) 2,871	4.56	118,187	(7) 3,234	5.55
Outside of Israel	2,637	55	4.21	2,764	50	3.65
Total	**130,084**	**2,926**	**4.55**	**120,951**	**3,284**	**5.50**
Loans to the Government						
In Israel	314	4	2.56	198	3	3.05
Outside of Israel	-	-	-	-	-	-
Total	**314**	**4**	**2.56**	**198**	**3**	**3.05**
Deposits with banks						
In Israel	1,146	10	1.75	1,937	14	1.45
Outside of Israel	319	3	1.89	223	3	2.71
Total	**1,465**	**13**	**1.78**	**2,160**	**17**	**1.58**
Deposits with central banks						
In Israel	14,657	87	1.19	11,907	94	1.59
Outside of Israel	1,685	2	0.24	1,138	2	0.35
Total	**16,342**	**89**	**1.09**	**13,045**	**96**	**1.48**
Securities loaned or sold in repurchase agreements						
In Israel	124	1	1.62	195	2	2.06
Outside of Israel	-	-	-	-	-	-
Total	**124**	**1**	**1.62**	**195**	**2**	**2.06**
Debentures held to maturity and available for sale(4)						
In Israel	6,267	64	2.05	7,842	94	2.41
Outside of Israel	1,341	9	1.35	1,511	11	1.46
Total	**7,608**	**73**	**1.93**	**9,353**	**105**	**2.26**
Debentures held for trading(5)						
In Israel	739	11	3.00	444	13	5.94
Outside of Israel	2	-	-	3	-	-
Total	**741**	**11**	**2.99**	**447**	**13**	**5.90**
Total interest-bearing assets	**156,678**	**3,117**	**4.02**	**146,349**	**3,520**	**4.87**
Receivables for credit card operations	3,027			2,713		
Other non-interest bearing assets (6)	5,139			4,135		
Total assets	**164,844**			**153,197**		
Total interest-bearing assets attributable to operations outside of Israel	**5,984**	**69**	**2.32**	**5,639**	**66**	**2.35**

See remarks below.

Management Discussion - Addendum A

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

Reported amounts (NIS in millions)

B Average balances and interest rates - liabilities and equity

	For the six months ended June 30, 2013			For the six months ended June 30, 2012		
	Average balance[2]	Interest expenses	Revenue rate	Average balance[2]	Interest expenses	Revenue rate
			In %			In %
Interest-bearing liabilities						
Deposits from the public						
In Israel	125,072	1,038	1.67	114,529	1,354	2.38
Outside of Israel	4,623	23	1.00	5,332	32	1.20
Total	**129,695**	**1,061**	**1.64**	**119,861**	**1,386**	**2.33**
Deposits from the Government						
In Israel	101	2	4.00	140	3	4.33
Outside of Israel	-	-	-	-	-	-
Total	**101**	**2**	**4.00**	**140**	**3**	**4.33**
Deposits from banks						
In Israel	2,342	23	1.97	3,064	34	2.23
Outside of Israel	23	1	8.88	26	-	-
Total	**2,365**	**24**	**2.04**	**3,090**	**34**	**2.21**
Debentures and subordinated notes						
In Israel	14,654	355	4.90	13,010	426	6.66
Outside of Israel	-	-	-	-	-	-
Total	**14,654**	**355**	**4.90**	**13,010**	**426**	**6.66**
Total interest-bearing liabilities	**146,815**	**1,442**	**1.97**	**136,101**	**1,849**	**2.74**
Non-interest bearing deposits from the public	401			335		
Payables for credit card operations	3,025			2,713		
Other non-interest bearing liabilities [8]	5,074			5,658		
Total liabilities	**155,315**			**144,807**		
Total capital resources	**9,529**			**8,390**		
Total liabilities and equity	**164,844**			**153,197**		
Interest margin			**2.04**			**2.13**
Net return [9] on interest-bearing assets						
In Israel	150,694	1,630	2.18	140,710	1,637	2.34
Outside of Israel	5,984	45	1.51	5,639	34	1.21
Total	**156,678**	**1,675**	**2.15**	**146,349**	**1,671**	**2.30**
Total interest-bearing liabilities attributable to operations outside of Israel	**4,646**	**24**	**1.04**	**5,358**	**32**	**1.20**

See remarks below.

Management Discussion - Addendum A

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

Reported amounts (NIS in millions)

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

	For the three months ended June 30, 2013			For the three months ended June 30, 2012		
	Average balance(2)	Interest revenues (expenses)	Revenue rate	Average balance(2)	Interest revenues (expenses)	Revenue rate
			In %			In %
Israeli currency - non-linked						
Total interest-bearing assets	87,732	853	3.95	77,611	948	4.98
Total interest-bearing liabilities	86,317	(381)	(1.78)	74,390	(420)	(2.28)
Interest margin			**2.17**			**2.70**
Israeli currency - linked to the CPI						
Total interest-bearing assets	51,193	740	5.91	47,125	949	8.30
Total interest-bearing liabilities	35,138	(421)	(4.88)	35,130	(626)	(7.32)
Interest margin			**1.03**			**0.98**
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	14,187	75	2.13	16,396	70	1.72
Total interest-bearing liabilities	23,342	(18)	(0.31)	21,526	(54)	(1.01)
Interest margin			**1.82**			**0.71**
Total - operations in Israel						
Total interest-bearing assets	153,112	1,668	4.43	141,132	1,967	5.69
Total interest-bearing liabilities	144,797	(820)	(2.28)	131,046	(1,100)	(3.40)
Interest margin			**2.15**			**2.29**

See remarks below.

Management Discussion - Addendum A

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

Reported amounts (NIS in millions)

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

	For the six months ended June 30, 2013			For the six months ended June 30, 2012		
	Average balance(2)	Interest revenues (expenses)	Revenue rate	Average balance(2)	Interest revenues (expenses)	Revenue rate
			In %			In %
Israeli currency - non-linked						
Total interest-bearing assets	85,777	1,749	4.12	77,612	1,897	4.95
Total interest-bearing liabilities	84,977	(746)	(1.76)	75,072	(875)	(2.34)
Interest margin			**2.36**			**2.61**
Israeli currency - linked to the CPI						
Total interest-bearing assets	50,491	1,137	4.55	47,168	1,349	5.80
Total interest-bearing liabilities	35,086	(632)	(3.64)	34,287	(848)	(5.01)
Interest margin			**0.91**			**0.79**
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	14,426	162	2.26	15,930	208	2.63
Total interest-bearing liabilities	22,106	(40)	(0.36)	21,384	(94)	(0.88)
Interest margin			**1.90**			**1.75**
Total - operations in Israel						
Total interest-bearing assets	150,694	3,048	4.09	140,710	3,454	4.97
Total interest-bearing liabilities	142,169	(1,418)	(2.00)	130,743	(1,817)	(2.80)
Interest margin			**2.09**			**2.17**

See remarks below.

Management Discussion - Addendum A

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

Reported amounts (NIS in millions)

D. Analysis of change in interest revenues and expenses

	The three months ended June 30, 2013 - compared to the three months ended June 30, 2012			The six months ended June 30, 2013 - compared to the six months ended June 30, 2012		
	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	129	(425)	(296)	209	(572)	(363)
Outside of Israel	(2)	7	5	(3)	8	5
Total	**127**	**(418)**	**(291)**	**206**	**(564)**	**(358)**
Other interest-bearing assets						
In Israel	4	(7)	(3)	6	(49)	(43)
Outside of Israel	2	(4)	(2)	2	(4)	(2)
Total	**6**	**(11)**	**(5)**	**8**	**(53)**	**(45)**
Total interest revenues	**133**	**(429)**	**(296)**	**214**	**(617)**	**(403)**
Interest-bearing liabilities						
Deposits from the public						
In Israel	62	(264)	(202)	87	(403)	(316)
Outside of Israel	(2)	(3)	(5)	(4)	(5)	(9)
Total	**60**	**(267)**	**(207)**	**83**	**(408)**	**(325)**
Other interest-bearing liabilities						
In Israel	4	(82)	(78)	(39)	(44)	(83)
Outside of Israel	-	-	-	-	1	1
Total	**4**	**(82)**	**(78)**	**(39)**	**(43)**	**(82)**
Total interest expenses	**64**	**(349)**	**(285)**	**44**	**(451)**	**(407)**

(1) Information in these tables is after effect of hedging financial derivatives.
(2) Based on balances at start of month (in Israeli currency, non-linked segment - based on daily balances).
(3) Before deduction of average balance sheet balance of provisions for credit losses. Includes impaired debt not accruing interest revenues.
(4) From the average balance of debentures available for sale, for the three-month periods ended June 30, 2013 and June 30, 2012, 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 (17) million and NIS 4 million. From the average balance of debentures available for sale, for the six-month periods ended June 30, 2013 and June 30, 2012, we deducted the average balance of unrealized gain 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 10 million and NIS 23 million, respectively.
(5) From the average balance of debentures held for trading, for the three-month periods ended June 30, 2013 and June 30, 2012, we deducted the average balance of unrealized gain from adjustment to fair value of debentures held for trading, amounting to NIS 0 million and NIS 18 million.From the average balance of debentures held for trading, for the six-month periods ended June 30, 2013 and June 30, 2012, we deducted the average balance of unrealized gain from adjustment to fair value of debentures held for trading, amounting to NIS 10 million and NIS 7 million.
(6) Includes derivative instruments, other non-interest bearing assets, net of provision for credit losses.
(7) Commissions amounting to NIS 42 million, NIS 50 million, NIS 84 million and NIS 85 million were included in interest revenues for the three-month periods ended June 30, 2013 and June 30, 2012 and for the six-month periods ended June 30, 2013 and June 30, 2012, respectively.
(8) Includes financial derivatives.
(9) Net return - net interest revenues divided into total interest-bearing assets.
(10) The change attributed to change in quantity was calculated by multiplying the new price and the change in quantity. The change attributed to change in price was calculated by multiplying the old quantity and the change in price.

Management Discussion - Addendum B
Exposure of the Bank and its Subsidiaries to Changes in Interest Rates

Reported amounts (NIS in millions)

	June 30, 2013					
	On Call to 1 month	1-3 months	3 month 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)	79,365	2,706	2,938	2,450	2,772	1,741
Financial derivatives (other than options)	7,113	7,013	21,856	9,439	6,202	10,764
Options (in terms of underlying asset)	1,331	952	1,906	51	47	102
Total fair value	**87,809**	**10,671**	**26,700**	**11,940**	**9,021**	**12,607**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities (1)	69,286	5,340	6,641	7,394	1,778	581
Financial derivatives (other than options)	10,893	12,488	14,425	8,964	6,564	10,688
Options (in terms of underlying asset)	2,183	1,108	1,306	49	47	102
Total fair value	**82,362**	**18,936**	**22,372**	**16,407**	**8,389**	**11,371**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	5,447	(8,265)	4,328	(4,467)	632	1,236
Cumulative exposure in sector	5,447	(2,818)	1,510	(2,957)	(2,325)	(1,089)

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".

General remarks:

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

						As of June 30, 2012			As of December 31, 2012		
10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average [2] effective duration	Total fair value	Internal rate of return	Average [2] effective duration	Total fair value	Internal rate of return	Average [2] effective duration
				In %	In years		In %	In years		In %	In years
183	(3)	410	92,562	4.21	0.52	80,582	4.18	0.34	87,360	3.76	0.55
-	-	-	62,387		1.27	64,811		1.20	64,565		1.22
-	-	-	4,389		0.73	3,904		0.13	3,540		1.12
183	**(3)**	**410**	**159,338**		**0.82**	**149,297**		**0.71**	**155,465**		**0.84**
296	59	-	91,375	1.28	0.40	80,323	2.47	0.45	89,998	1.59	0.39
-	-	-	64,022		1.59	64,346		1.58	61,987		1.69
-	-	-	4,795		0.85	6,050		0.11	4,092		1.10
296	**59**	**-**	**160,192**		**0.89**	**150,719**		**0.92**	**156,077**		**0.92**
(113)	(62)	410	(854)			(1,422)			(612)		
(1,202)	(1,264)	(854)	(854)								

Management Discussion - Addendum B - Continued
Exposure of the Bank and its Subsidiaries to Changes in Interest Rates

Reported amounts (NIS in millions)

	As of June 30, 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)	1,159	2,377	9,722	18,250	16,031	4,757
Financial derivatives (other than options)	93	11	673	955	612	1,685
Total fair value	**1,252**	**2,388**	**10,395**	**19,205**	**16,643**	**6,442**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities (1)	1,538	1,602	5,488	12,948	6,205	8,023
Financial derivatives (other than options)	653	1,143	6,151	1,658	867	1,719
Total fair value	**2,191**	**2,745**	**11,639**	**14,606**	**7,072**	**9,742**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	(939)	(357)	(1,244)	4,599	9,571	(3,300)
Cumulative exposure in sector	(939)	(1,296)	(2,540)	2,059	11,630	8,330

Specific remarks:

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

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

General remarks:

- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value recognized for the financial instruments in Note 9a to the financial statements.
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						As of June 30, 2012			As of December 31, 2012		
10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average [2]effective duration	Total fair value	Internal rate of return	Average [2]effective duration	Total fair value	Internal rate of return	Average [2]effective duration
				In %	In years		In %	In years		In %	In years
1,423	7	272	53,998	2.22	3.08	50,058	2.79	3.10	51,348	2.63	3.08
-	-	-	4,029		3.72	5,570		3.62	5,316		4.15
1,423	**7**	**272**	**58,027**		**3.12**	**55,628**		**3.15**	**56,664**		**3.18**
2,326	-	2	38,132	2.05	3.89	37,469	2.22	4.24	37,080	1.99	4.12
-	-	-	12,191		1.67	10,144		1.64	12,555		1.68
2,326	**-**	**2**	**50,323**		**3.35**	**47,613**		**3.69**	**49,635**		**3.50**
(903)	7	270	7,704			8,015			7,029		
7,427	7,434	7,704	7,704								

Management Discussion - Addendum B - Continued
Exposure of the Bank and its Subsidiaries to Changes in Interest Rates

Reported amounts (NIS in millions)

	As of June 30, 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)	10,001	5,716	1,878	1,257	495	605
Financial derivatives (other than options)	17,811	17,041	10,276	3,941	3,494	7,216
Options (in terms of underlying asset)	1,102	1,551	1,837	47	46	101
Total fair value	**28,914**	**24,308**	**13,991**	**5,245**	**4,035**	**7,922**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities(2)	15,807	8,710	5,133	794	24	141
Financial derivatives (other than options)	13,632	10,437	12,191	3,772	2,961	7,169
Options (in terms of underlying asset)	765	976	1,970	47	46	101
Total fair value	**30,204**	**20,123**	**19,294**	**4,613**	**3,031**	**7,411**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	(1,290)	4,185	(5,303)	632	1,004	511
Cumulative exposure in sector	(1,290)	2,895	(2,408)	(1,776)	(772)	(261)

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.

General remarks:

- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value recognized for the financial instruments in Note 9a to the financial statements.
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						As of June 30, 2012			As of December 31, 2012		
10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average [3]effective duration	Total fair value	Internal rate of return	Average [3]effective duration	Total fair value	Internal rate of return	Average [3]effective duration
				In %	In years		In %	In years		In %	In years
29	-	267	20,248	2.38	0.60	21,396	2.40	1.12	19,656	2.58	0.89
83	-	-	59,862		1.56	61,156		1.73	56,845		1.71
-	-	-	4,684		0.32	6,631		0.57	4,473		0.37
112	**-**	**267**	**84,794**		**1.26**	**89,183**		**1.50**	**80,974**		**1.44**
11	-	9	30,629	0.44	0.30	26,827	0.59	0.27	24,502	0.48	0.29
121	-	-	50,283		1.20	58,153		1.47	52,625		1.46
-	-	-	3,905		0.35	4,369		0.60	3,733		0.49
132	**-**	**9**	**84,817**		**0.84**	**89,349**		**1.07**	**80,860**		**1.06**
(20)	-	258	(23)			(166)			114		
(281)	(281)	(23)	(23)								

Management Discussion - Addendum B - Continued
Exposure of the Bank and its Subsidiaries to Changes in Interest Rates

Reported amounts (NIS in millions)

	As of June 30, 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)	-	-	-	(2)	-	-
Total fair value	**-**	**-**	**-**	**(2)**	**-**	**-**
Total exposure to interest rate fluctuations						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets (1)(2)	90,525	10,799	14,538	21,957	19,298	7,103
Financial derivatives (other than options)	25,017	24,065	32,805	14,335	10,308	19,665
Options (in terms of underlying asset)	2,433	2,503	3,743	98	93	203
Total fair value	**117,975**	**37,367**	**51,086**	**36,390**	**29,699**	**26,971**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities(1)	86,631	15,652	17,262	21,136	8,007	8,745
Financial derivatives (other than options)	25,178	24,068	32,767	14,394	10,392	19,576
Options (in terms of underlying asset)	2,948	2,084	3,276	98	93	203
Total fair value	**114,757**	**41,804**	**53,305**	**35,628**	**18,492**	**28,524**
Financial instruments, net						
Total exposure to interest rate fluctuations	3,218	(4,437)	(2,219)	762	11,207	(1,553)
Total cumulative exposure	3,218	(1,219)	(3,438)	(2,676)	8,531	6,978

Specific remarks:

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

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

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

General remarks:

- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value recognized for the financial instruments in Note 9a to the financial statements.
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						As of June 30, 2012			As of December 31, 2012		
10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average [3]effective duration	Total fair value	Internal rate of return	Average [3]effective duration	Total fair value	Internal rate of return	Average [3]effective duration
				In %	In years		In %	In years		In %	In years
-	-	-	(2)	-	-	(1)	-	-	(2)	-	-
-	**-**	**-**	**(2)**	**-**	**-**	**(1)**	**-**	**-**	**(2)**	**-**	**-**
1,635	4	949	166,808	3.35	1.36	152,036	3.47	1.36	158,364	3.24	1.41
83	-	-	126,278		1.49	131,537		1.55	126,726		1.56
-	-	-	9,073		0.52	10,535		0.41	8,013		0.70
1,718	**4**	**949**	**302,159**		**1.39**	**294,108**		**1.41**	**293,103**		**1.46**
2,633	59	11	160,136	1.31	1.21	144,619	2.06	1.40	151,580	1.51	1.28
121	-	-	126,496		1.44	132,643		1.54	127,167		1.59
-	-	-	8,702		0.62	10,420		0.32	7,827		0.81
2,754	**59**	**11**	**295,334**		**1.29**	**287,682**		**1.43**	**286,574**		**1.41**
(1,036)	(55)	938	6,825			6,426			6,529		
5,942	5,887	6,825	6,825								

Management Discussion - Addendum C

Credit Risk by Economic Sector - Consolidated

As of June 30, 2013

Reported amounts (NIS in millions)

	Off balance sheet debt [1] and credit risk (other than derivatives) [2]			Total credit risk	
	Debt [1]	Guarantees and other commitments on account of clients	Total	Debentures[4]	Fair value of derivatives
Agriculture	503	210	713	-	-
Industry	6,144	3,550	9,694	58	71
Construction and real estate - construction	8,761	15,338	24,099	29	3
Construction and real estate - real estate operations	1,576	315	1,891	-	-
Power and water	350	428	778	18	379
Commerce	6,847	1,944	8,791	-	59
Hotel and food services	433	164	597	-	1
Transport and storage	766	455	1,221	-	5
Communications and computer services	1,744	882	2,626	1	26
Financial services	3,453	7,103	10,556	-	938
Other business services	2,343	726	3,069	-	5
Public and community services	859	306	1,165	-	57
Total commercial credit risk	**33,779**	**31,421**	**65,200**	**106**	**1,544**
Private individuals - housing loans	83,533	4,309	87,842	-	-
Private individuals - other	13,119	10,910	24,029	-	8
Total	**130,431**	**46,640**	**177,071**	**106**	**1,552**
For borrowers' activities overseas	3,811	730	4,541	52	26
Total credit risk to public	**134,242**	**47,370**	**181,612**	**158**	**1,578**
Banking corporations	1,475	93	1,568	431	474
Government	2,864	119	2,983	6,006	-
Total credit risk	**138,581**	**47,582**	**186,163**	**6,595**	**2,052**

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

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

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

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

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

		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-offs	Balance of provision for credit losses
1	714	15	12	1	-	7
238	10,061	146	105	11	2	98
8	24,139	1,057	974	(7)	7	197
-	1,891	78	72	-	-	18
361	1,536	2	2	1	-	1
79	8,929	248	148	(13)	23	100
1	599	8	3	2	1	9
11	1,237	32	26	(2)	-	21
60	2,713	31	30	(1)	1	11
1,401	12,895	307	293	8	(5)	173
8	3,082	37	20	2	9	27
187	1,409	11	7	(2)	(1)	6
2,355	**69,205**	**1,972**	**1,692**	**-**	**37**	**668**
-	87,842	1,185	2	198	345	671
13	24,050	211	82	21	36	139
2,368	**181,097**	**3,368**	**1,776**	**219**	**418**	**1,478**
53	4,672	36	36	(4)	(1)	15
2,421	**185,769**	**3,404**	**1,812**	**215**	**417**	**1,493**
1,449	3,922	5	5	-	-	10
-	8,989	-	-	-	-	-
3,870	**198,680**	**3,409**	**1,817**	**215**	**417**	**1,503**

Management Discussion - Addendum C - Continued

Credit Risk by Economic Sector - Consolidated

As of June 30, 2012 [6]

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	539	225	764	-	1
Industry	6,059	4,086	10,145	89	139
Construction and real estate - construction	8,818	13,688	22,506	36	5
Construction and real estate - real estate operations	1,574	199	1,773	-	1
Power and water	293	665	958	68	69
Commerce	6,864	1,884	8,748	-	32
Hotel and food services	349	103	452	-	2
Transport and storage	848	436	1,284	-	4
Communications and computer services	1,861	729	2,590	3	9
Financial services	3,283	8,264	11,547	-	931
Other business services	2,432	1,117	3,549	-	10
Public and community services	950	466	1,416	-	2
Total commercial credit risk	**33,870**	**31,862**	**65,732**	**196**	**1,205**
Private individuals - housing loans	74,662	3,934	78,596	-	-
Private individuals - other	12,533	9,476	22,009	-	4
Total	**121,065**	**45,272**	**166,337**	**196**	**1,209**
For borrowers' activities overseas	3,960	385	4,345	45	6
Total credit risk to public	**125,025**	**45,657**	**170,682**	**241**	**1,215**
Banking corporations	3,469	267	3,736	582	342
Government	486	148	634	8,606	-
Total credit risk	**128,980**	**46,072**	**175,052**	**9,429**	**1,557**

(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 131 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) Following shortcomings indicated by an audit conducted by the Supervisor of Banks with respect to disclosure of overall risk associated with loans to the public by economic sector, several improvements have been made to controls and procedures related to disclosures, in order to eliminate these shortcomings. These improvements include reinforcement of and creation of procedures for client classification processes into sectors by business units, as well as expansion of control processes of classification into sectors - both at business units and at the Accounting and Financial Reporting Division. Specifically, the Bank reinforced controls to ensure proper disclosure of overall risk associated with loans to the public by economic sector in the financial statements as from December 31, 2012. Correction of shortcomings found by the Audit has been completed by the publication date of these financial statements. Given this background, the comparative figures have been re-stated.

		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-offs	Balance of provision for credit losses
3	768	14	10	(1)	1	9
322	10,695	208	220	13	38	126
11	22,558	745	622	71	13	206
-	1,774	78	75	(1)	15	19
562	1,657	1	-	-	-	-
57	8,837	277	103	6	10	143
4	458	9	4	-	1	9
7	1,295	10	5	1	-	9
22	2,624	9	8	(4)	-	20
1,053	13,531	355	186	-	(28)	137
7	3,566	532	520	(7)	-	52
309	1,727	34	24	-	-	6
2,357	**69,490**	**2,272**	**1,777**	**78**	**50**	**736**
-	78,596	1,663	-	4	30	842
8	22,021	265	101	22	31	157
2,365	**170,107**	**4,200**	**1,878**	**104**	**111**	**1,735**
3	4,399	16	16	-	-	10
2,368	**174,506**	**4,216**	**1,894**	**104**	**111**	**1,745**
1,636	6,296	5	5	8	-	22
-	9,240	-	-	-	-	-
4,004	**190,042**	**4,221**	**1,899**	**112**	**111**	**1,767**

Management Discussion - Addendum C - Continued

Credit Risk by Economic Sector - Consolidated

As of December 31, 2012 [(6)]

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) Following shortcomings indicated by an audit conducted by the Supervisor of Banks with respect to disclosure of overall risk associated with loans to the public by economic sector, several improvements have been made to controls and procedures related to disclosures, in order to eliminate these shortcomings. These improvements include reinforcement of and creation of procedures for client classification processes into sectors by business units, as well as expansion of control processes of classification into sectors - both at business units and at the Accounting and Financial Reporting Division. Specifically, the Bank reinforced controls to ensure proper disclosure of overall risk associated with loans to the public by economic sector in the financial statements as from December 31, 2012. Correction of shortcomings found by the Audit has been completed by the publication date of these financial statements. Given this background, the comparative figures have been re-stated.

		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 [es]	Net accounting write-offs	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 D
Exposure to Foreign Countries - Consolidated [(1)]

Reported amounts (NIS in millions)

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

	Balance sheet exposure [(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 June 30, 2013													
USA	-	825	1,090	2,823	1,606	1,217	3,132	29	20	1,710	-	927	988
UK	-	472	727	705	224	481	1,680	4	6	1,130	-	407	792
France	-	119	1,462	-	-	-	1,581	14	-	487	-	447	1,134
Other	1	941	1,965	-	-	-	2,907	5	2	2,457	-	1,908	999
Total exposure to foreign countries	**1**	**2,357**	**5,244**	**3,528**	**1,830**	**1,698**	**9,300**	**52**	**28**	**5,784**	**-**	**3,689**	**3,913**
Includes: Total exposure to LDC countries	-	42	428	-	-	-	470	1	-	238	-	210	260
Includes: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	2	30	-	-	-	32	-	-	3	-	3	29

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

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

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

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

(4) Governments, official institutions and central banks.

Management Discussion - Addendum D - Continued

Exposure to Foreign Countries - Consolidated [1]

Reported amounts (NIS in millions)

	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	Off-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 over 1 year
As of June 30, 2012 [5]													
USA	-	1,288	1,245	618	618	-	2,533	41	35	2,277	-	1,575	958
UK	-	677	943	707	248	459	2,079	7	13	1,192	-	497	1,123
France	-	73	1,144	-	-	-	1,217	15	3	386	-	347	870
Other	-	1,457	1,774	-	-	-	3,231	5	4	1,940	-	1,770	1,461
Total exposure to foreign countries	**-**	**3,495**	**5,106**	**1,325**	**866**	**459**	**9,060**	**68**	**55**	**5,795**	**-**	**4,189**	**4,412**
Includes: Total exposure to LDC countries	-	83	376	-	-	-	459	2	4	164	-	159	300
Includes: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	4	37	-	-	-	41	-	-	15	-	12	29
As of December 31, 2012													
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 [5]	-	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

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

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

Management Discussion - Addendum D - Continued

Exposure to Foreign Countries - Consolidated (1)

Reported amounts (NIS in millions)

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

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

As of June 30, 2012(2)		
	Balance sheet exposure	Off-balance sheet exposure
Germany	874	636

As of December 31, 2012, there is no reportable exposure pursuant to the Supervisor of Banks' Public Reporting Regulations.

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

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

Reported amounts (NIS in millions)

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

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

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

	For the three months ended June 30, 2012 [(2)]			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	6	-	6
Net change in short-term exposure	-	-	-	-
Exposure at end of reported period	**-**	**6**	**-**	**6**

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

	For the six months ended June 30, 2012 [(2)]			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	6	-	6
Net change in short-term exposure	-	-	-	-
Exposure at end of reported period	**-**	**6**	**-**	**6**

	For the year ended December 31, 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.
(2) Restated.

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

Certification

I, ELIEZER YONES, certify that:

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

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

E. Yones
President

Ramat Gan
August 14, 2013

Certification

I, MENAHEM AVIV, declare that

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

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

M. Aviv
Vice-president, Chief Accountant

Ramat Gan
August 14, 2013

Condensed Financial Statements

Table of Contents

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

Introduction

We have reviewed the enclosed financial information of Bank Mizrahi Tefahot Ltd. ("the Bank"), consisting of the condensed consolidated balance sheet as of June 30, 2013, the condensed consolidated statements of profit and loss, comprehensive income, change in equity and cash flows for the three-month and six-month periods then ended. The Board of Directors and management are responsible for preparation and presentation of financial information for these interim periods, in accordance with generally accepted accounting practice in Israel (Israeli GAAP) for interim financial reporting and in accordance with directives and guidance of the Supervisor of Banks. We are responsible for expressing our conclusion as to the financial information for this interim period based on our review.

We did not review the condensed financial information of certain consolidated subsidiaries, whose assets included in consolidation constitute 6.72% of total consolidated assets as of June 30, 2013, and whose net interest revenues before expenses with respect to credit losses included in the consolidated statements of profit and loss constitute 6.76% and 5.68% of total consolidated net interest revenues before expenses with respect to credit losses, respectively, for the six-month and three-month periods then ended. Furthermore, we did not review the condensed financial information for the interim period of an affiliate, the investment in which amounted to NIS 18 million as of June 30, 2013. The condensed financial information for the interim periods of the aforementioned companies was reviewed by other independent auditors, we have been provided with their review reports and our conclusions, in as much as it relates to the financial information with respect to those companies, is based on the review reports by those other independent auditors.

Review scope

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

Conclusion

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

Without qualifying our conclusion, we draw your attention to Note 7.D.3)A.-E. with regard to lawsuits filed against the Bank and motions for class action status.

Brightman Almagor Zohar & Co.
Certified Public Accountants

Brightman Almagor Zohar & Co.

August 14, 2013

Condensed consolidated balance sheet

Reported amounts (NIS in millions)

	Note	As of June 30,		As of December 31,
		2013	2012	2012
		(unaudited)	(unaudited)	(audited)
Assets				
Cash and deposits with banks		23,640	15,846	16,671
Securities (1)	2	6,661	9,565	9,041
Securities loaned or sold in repurchase agreements		37	131	207
Loans to the public	3	134,242	(3) 125,025	130,244
Provision for credit losses	3	(1,389)	(1,639)	(1,593)
Loans to the public, net		132,853	123,386	128,651
Loans to Governments		300	209	317
Investments in associates		62	(3) 53	60
Buildings and equipment		1,631	1,594	1,658
Intangible assets and goodwill		87	87	87
Assets with respect to derivatives	8	3,412	2,964	3,518
Other assets		1,920	1,476	2,032
Total assets		**170,603**	**155,311**	**162,242**
Liabilities and Shareholders' Equity				
Deposits from the public	4	135,721	122,284	128,499
Deposits from banks		2,106	1,787	1,694
Deposits from the Government		89	137	107
Debentures and subordinated notes		14,807	13,873	14,039
Liabilities with respect to derivatives	8	3,259	3,959	3,773
Other liabilities(2)		4,816	4,627	4,878
Total liabilities		**160,798**	**146,667**	**152,990**
Equity attributable to equity holders of the Bank		9,341	8,231	8,811
Non-controlling interest		464	413	441
Total equity		**9,805**	**8,644**	**9,252**
Total liabilities and shareholders' equity		**170,603**	**155,311**	**162,242**

(1) Includes: NIS 5,350 million at fair value (June 30, 2012 - NIS 8,431 million; December 31, 2012 - NIS 7,803 million).
(2) Includes: Provision for credit losses with respect to off balance sheet credit instruments amounting to NIS 104 million (on June 30, 2012 - NIS 106 million, on December 31, 2012 - NIS 102 million).
(3) Reclassified.

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

Moshe Weidman
Chairman of the Board of Directors

Eliezer Yones
President

Menahem Aviv
Vice-president, Chief Accountant

Approval date:
Ramat Gan, August 14, 2013

Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31,
	2013	2012	2013	2012	2012
		(unaudited)		(unaudited)	(audited)
Interest revenues	1,704	(1) 2,000	3,117	(1) 3,520	6,591
Interest expenses	831	(1) 1,116	1,442	(1) 1,849	3,377
Interest revenues, net	873	884	1,675	1,671	3,214
Expenses with respect to credit losses	181	45	215	112	276
Interest revenues, net after expenses with respect to credit loss	**692**	**839**	**1,460**	**1,559**	**2,938**
Non-interest revenues					
Non-interest financing revenues (expenses)	48	(35)	81	(1) (36)	95
Commissions	360	(1) 348	728	707	1,452
Other revenues	8	7	13	13	26
Total non-interest revenues	**416**	**320**	**822**	**684**	**1,573**
Operating and other expenses					
Payroll and associated expenses	429	408	874	842	1,701
Maintenance and depreciation of buildings and equipment	172	160	338	318	652
Other expenses	105	108	211	210	433
Total operating and other expenses	**706**	**676**	**1,423**	**1,370**	**2,786**
Pre-tax profit	402	483	859	873	1,725
Provision for taxes on profit	145	174	309	302	599
After-tax profit	257	309	550	571	1,126
Share in profit (loss) of affiliates, after tax	1	-	(1)	-	-
Net profit:					
Before attribution to non-controlling interest	258	309	549	571	1,126
Attributable to non-controlling interest	(13)	(14)	(24)	(25)	(50)
Attributable to equity holders of the Bank	**245**	**295**	**525**	**546**	**1,076**

(1) Reclassified.

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

Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31,
	2013	2012	2013	2012	2012
		(unaudited)		(unaudited)	(audited)
Earnings per share[1]					
Basic earnings per share (in NIS)					
Net profit attributable to equity holders of the Bank	1.07	1.29	2.31	2.40	4.77
Diluted earnings per share (in NIS)					
Net profit attributable to equity holders of the Bank	1.06	1.28	2.28	2.39	4.74

(1) Shares of NIS 0.1 par value each.

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

Condensed consolidated statement of comprehensive income

Reported amounts (NIS in millions)

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31,
	2013	2012	2013	2012	2012
		(unaudited)		(unaudited)	(audited)
Net profit:					
Before attribution to non-controlling interest	258	309	549	571	1,126
Attributable to non-controlling interest	(13)	(14)	(24)	(25)	(50)
Net profit attributable to equity holders of the Bank	**245**	**295**	**525**	**546**	**1,076**
Other comprehensive income (loss) before taxes:					
Adjustments for presentation of available-for-sale securities at fair value, net	(17)	10	4	23	73
Adjustments from translation of financial statements	-	-	(1)	-	-
Net gain (loss) with respect to cash flow hedges	(3)	-	(3)	(12)	(22)
Total other comprehensive income, before tax	**(20)**	**10**	**-**	**11**	**51**
Related tax effect	7	(4)	-	(5)	(18)
Cumulative Other Comprehensive income (loss):					
Before attribution to non-controlling interest, after tax	**(13)**	**6**	**-**	**6**	**33**
Attributable to non-controlling interest, after tax	1	2	1	-	(3)
Attributable to equity holders of the Bank, after tax	**(12)**	**8**	**1**	**6**	**30**
Comprehensive income:					
Before attribution to non-controlling interest	**245**	**315**	**549**	**577**	**1,159**
Attributable to non-controlling interest	(12)	(12)	(23)	(25)	(53)
Attributable to equity holders of the Bank	**233**	**303**	**526**	**552**	**1,106**

Condensed Statement of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

	For the three months ended June 30, 2013 (unaudited)			
	Share capital and share premium [1]	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves
Balance as of March 31, 2013	**2,063**	**138**	**(76)**	**2,125**
Net profit for the period	-	-	-	-
Benefit from share-based payment transactions	-	7	-	7
Related tax effect	-	(7)	-	(7)
Realized share-based payment transactions [2]	11	(11)	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-
Balance as of June 30, 2013	**2,074**	**127**	**(76)**	**2,125**
	For the three months ended June 30, 2012 (unaudited)			
Balance as of March 31, 2012	**2,006**	**170**	**(76)**	**2,100**
Net profit for the period	-	-	-	-
Benefit from share-based payment transactions	-	4	-	4
Related tax effect	-	(9)	-	(9)
Realized share-based payment transactions [2]	9	(9)	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-
Balance as of June 30, 2012	**2,015**	**156**	**(76)**	**2,095**

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

(2) In the second quarter of 2013, the Bank issued 186,699 ordinary shares (in the second quarter of 2012 - 75,862 shares) of NIS 0.1 par value for exercise of options in conjunction with the Employee Stock Option Plan, and 489,076 ordinary NIS 0.1 par value shares (in the second quarter of 2010 - 413,036) were issued to the President for exercise of options.

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

(4) For details on various limitations on dividend distributions, see Note 5 below and Note 13 to the 2012 financial statements. Furthermore, After checking with the Supervisor of Banks, the Bank 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 resolved to distribute a dividend 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.

	Cumulative other comprehensive income (loss) [3]	Retained earnings [4]	Total	Non-controlling interest	Total equity
	13	**6,970**	**9,108**	**452**	**9,560**
	-	245	245	13	258
	-	-	7	-	7
	-	-	(7)	-	(7)
	-	-	-	-	-
	(12)	-	(12)	(1)	(13)
	1	**7,215**	**9,341**	**464**	**9,805**
	(32)	**5,865**	**7,933**	**401**	**8,334**
	-	295	295	14	309
	-	-	4	-	4
	-	-	(9)	-	(9)
	-	-	-	-	-
	8	-	8	(2)	6
	(24)	**6,160**	**8,231**	**413**	**8,644**

Condensed Statement of Changes in Shareholders' Equity - Continued

Reported amounts (NIS in millions)

	Share capital and share premium [1]	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves
	For the six months ended June 30, 2013 (unaudited)			
Balance as of January 1, 2013	**2,058**	**139**	**(76)**	**2,121**
Net profit for the period	-	-	-	-
Benefit from share-based payment transactions	-	9	-	9
Related tax effect	-	(5)	-	(5)
Realized share-based payment transactions [2]	16	(16)	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-
Balance as of June 30, 2013	**2,074**	**127**	**(76)**	**2,125**
	For the six months ended June 30, 2012 (unaudited)			
Balance as of January 1, 2012	**2,003**	**155**	**(76)**	**2,082**
Net profit for the period	-	-	-	-
Benefit from share-based payment transactions	-	13	-	13
Related tax effect	-	-	-	-
Realized share-based payment transactions [2]	12	(12)	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-
Balance as of June 30, 2012	**2,015**	**156**	**(76)**	**2,095**
	For the year ended December 31, 2012 (audited)			
Balance as of January 1, 2012	**2,003**	**155**	**(76)**	**2,082**
Net profit for the period	-	-	-	-
Benefit from share-based payment transactions	-	11	-	11
Related tax effect	-	28	-	28
Realized share-based payment transactions [2]	55	(55)	-	-
Other comprehensive income, net after tax	-	-	-	-
Balance as of December 31, 2012	**2,058**	**139**	**(76)**	**2,121**

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

(2) In the first half of 2013, the Bank issued 496,057 ordinary shares (in the first half of 2012 - 162,159 shares) of NIS 0.1 par value for exercise of options in conjunction with the Employee Stock Option Plan, and 489,076 ordinary NIS 0.1 par value shares (in the second half of 2012 - 413,036) were issued to the 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 President for exercise of options.

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

(4) For details on various limitations on dividend distributions, see Note 5 below and Note 13 to the 2012 financial statements. Furthermore, After checking with the Supervisor of Banks, the Bank 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 resolved to distribute a dividend 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.

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

Cumulative other comprehensive income (loss)[3]	Retained earnings[4]	Total	Non-controlling interest	Total equity
-	**6,690**	**8,811**	**441**	**9,252**
-	525	525	24	549
-	-	9	-	9
-	-	(5)	-	(5)
-	-	-	-	-
1	-	1	(1)	-
1	**7,215**	**9,341**	**464**	**9,805**
(30)	**5,614**	**7,666**	**388**	**8,054**
-	546	546	25	571
-	-	13	-	13
-	-	-	-	-
-	-	-	-	-
6	-	6	-	6
(24)	**6,160**	**8,231**	**413**	**8,644**
(30)	**5,614**	**7,666**	**388**	**8,054**
-	1,076	1,076	50	1,126
-	-	11	-	11
-	-	28	-	28
-	-	-	-	-
30	-	30	3	33
-	**6,690**	**8,811**	**441**	**9,252**

Statement of cash flows

Reported amounts (NIS in millions)

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31,
	2013	2012	2013	2013	2012
		(unaudited)		(unaudited)	(audited)
Cash flows provided by current operations					
Net profit for the period	258	309	549	571	1,126
Adjustments:					
Share of Company in undistributed earnings of associates	(1)	-	1	-	-
Depreciation of buildings and equipment	63	62	124	114	230
Expenses with respect to credit losses	181	45	215	112	276
Net profit (loss) from revaluation of securities held to maturity, from revaluation and sale of securities available for sale.	(36)	34	1	(10)	(244)
Impairment of securities held for sale	-	8	-	8	8
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	(18)	(28)	(20)	(18)	(44)
Net loss (gain) from sale of buildings and equipment	-	(1)	-	-	-
Benefit from share-based payment transactions	7	4	9	13	11
Deferred taxes, net	(48)	(74)	(61)	8	17
Severance pay - decrease in excess of amount funded over liability	(1)	4	(12)	-	(8)
Accrual differences included under investment and financing operations	37	109	54	25	73
Effect of change in exchange rate on cash balances	39	(186)	169	(117)	66
Net change in current assets					
Deposits with banks, net	2,117	(586)	1,504	(1,855)	(1,296)
Loans to the public, net	(2,491)	(1) (3,062)	(4,417)	(4,205)	(9,669)
Loans to the Governments, net	7	(19)	17	(13)	(121)
Securities loaned or sold in repurchase agreements, net	157	80	170	5	(71)
Assets with respect to derivatives, net	286	(1) (766)	103	139	(425)
Securities held for trading, net	1,008	426	718	(72)	(1,064)
Other assets, net	(239)	(1) (91)	167	(138)	(689)
Net change in current liabilities					
Deposits from banks, net	52	87	412	(220)	(313)
Deposits from the public, net	5,302	(1) 2,604	7,222	(1) 2,869	9,263
Deposits from the Government, net	(9)	(6)	(18)	(15)	(45)
Liabilities with respect to derivatives, net	(493)	715	(514)	(5)	(191)
Other liabilities, net	(30)	(1) (27)	(82)	(23)	(1) 197
Unearned revenues, net	7	(5)	21	(5)	11
Net cash provided by current operations	**6,155**	**(364)**	**6,332**	**(2,832)**	**(2,902)**

(1) Reclassified.

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

Statement of cash flows - continued

Reported amounts (NIS in millions)

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31,
	2013	2012	2013	2013	2012
	(unaudited)		(unaudited)		(audited)
Cash flows provided by investment operations					
Acquisition of debentures held to maturity	(80)	(356)	(80)	(356)	(420)
Proceeds on redemption of debentures held to maturity	5	12	10	12	25
Acquisition of securities available for sale	(92)	(1,812)	(697)	(5,774)	(7,479)
Proceeds on sale and redemption of securities available for sale	1,909	3,393	2,452	5,099	8,717
Acquisition of buildings and equipment	(50)	(1) (30)	(85)	(73)	(1) (228)
Proceeds from sale of buildings and equipment	-	1	-	2	-
Purchase of shares in associates	-	(1) 3	(4)	(1)	(8)
Net cash provided by investment operations	**1,692**	**1,211**	**1,596**	**(1,091)**	**607**
Cash flows provided by financing operations					
Issuance of debentures and subordinated notes	-	(1) 1,557	1,509	(1) 2,161	2,161
Redemption of debentures and subordinated notes	(75)	(336)	(795)	(336)	(397)
Net cash provided by financing operations	**(75)**	**1,221**	**714**	**1,825**	**1,764**
Increase (decrease) in cash	7,772	2,068	8,642	(2,098)	(531)
Cash balance at beginning of year	15,134	10,756	14,394	14,991	14,991
Effect of change in exchange rate on cash balances	(39)	186	(169)	117	(66)
Cash balance at end of period	**22,867**	**13,010**	**22,867**	**13,010**	**14,394**
Interest and taxes paid / received					
Interest received	1,753	(1) 1,901	3,183	(1) 3,403	6,602
Interest paid	962	(1) 985	1,339	(1) 1,740	3,270
Dividends received	-	-	-	-	24
Taxes on income received	4	-	5	-	-
Taxes on income paid	184	150	292	267	556
Appendix A - Non-cash Transactions					
Acquisition of buildings and equipment	12	21	12	21	44

(1) Reclassified.

Note 1 - Reporting Principles and Accounting Policies

A. General

The financial statements as of June 30, 2013 are prepared in accordance with Israeli GAAP and directives of the Supervisor of Banks, and do not include all information required in annual financial statements. These financial statements should be read in conjunction with the audited financial statements as of December 31, 2012.

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

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

The Bank's Board of Directors authorized publication of these financial statements on August 14, 2013.

B. 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 C.1 below, to requirements stated in US GAAP (ASU 2011-05 and ASU 2011-12) and to the accepted presentation of the statement of comprehensive income in financial statements of US banking corporations, items of other comprehensive income on the financial statements for the three-month and six-month periods ended June 30, 2012 and on the financial statements for the year ended December 31, 2012 were reclassified so as not to be separately presented in the statement of changes to equity, but rather are reported in a separate report named Condensed Consolidated Statement of Comprehensive Income which is presented following the Statement of Profit and Loss.

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

As from periods starting on January 1, 2013, the Bank applies the following new accounting standards and directives:

1. Directive with regard to Statement of Comprehensive Income.
2. Directive with regard to offset of assets and liabilities.
3. Directive with regard to disclosure concerning deposits.
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.
5. New system of IFRS with regard to consolidation of financial statements and related matters.
6. The Supervisor of Banks' letter concerning updated directives with regard to residential real estate.

Note 1 - Reporting Principles and Accounting Policies - Continued

Below is a description of the substance of changes made to accounting policies in the condensed consolidated 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 the accepted 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 13 "Cumulative Other Comprehensive Income".

The Bank retroactively applies the directives to 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 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:

a. The banking corporation has an enforceable legal right to offset assets against liabilities with regard to the liabilities

b. The banking corporation intends to repay the liabilities and realize the assets on a net basis or concurrently;

c. 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 said liabilities.

Note 1 - Reporting Principles and Accounting Policies - Continued

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 the deposits, when the banking corporation has no risk of credit loss.

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 offset 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 had no effect on the Bank's financial statements, other than the updated disclosure format in Note 8 with regard to financial derivatives activity – volume, credit risk and maturity, as stipulated by the directive.

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.

Note 1 - Reporting Principles and Accounting Policies - Continued

In the condensed consolidated financial statements, the Bank provided disclosure of the balance of deposits from institutional investors included under deposits from the public made in Israel, since the new directives stipulate that this disclosure requirement applies as from the financial statements as of March 31, 2013; all other new disclosure requirements stated in the circular would apply as from annual financial statements for 2013.

The Bank retroactively applies the rules stipulated in this directive. However, no disclosure was provided for comparative figures for the interim periods of 2012 which relate to the balance of deposits from institutional investors, since such disclosure is not required by provisions of the circular.

4. Effect of initial application of the Supervisor of Banks' directives with regard to updated disclosure of credit quality of debt and of provision for credit losses, 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 the provision for credit losses, to adopt accounting standard update ASU 2010-20, which stipulates wider disclosure of debt balances, movement in balance of the 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 comparative figures. The Bank applies part of the new disclosure requirements with regard to restructuring of troubled debt as from January 1, 2013. No disclosure is required for comparative figures for corresponding interim periods in 2012 for these new disclosures.

Initial application of the directives had no effect other than the updated disclosure format in Note 3 - credit risk, loans to the public and provision for credit loss.

Note 1 - Reporting Principles and Accounting Policies - Continued

5. New system of IFRS t with regard to consolidation of financial statements and related matters

The Bank applies the new system of IFRS with regard to consolidation of financial statements and related matters.

Below is a description of key provisions of the new system of IFRS 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 an 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. Disclosure requirements with regard to structured entities which are not consolidated are treated as stipulated by ASC 810 (FAS 167).

Application of the systemof 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 housing loans

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 a group-based provision for credit losses with respect to housing loans were updated as described below.
Guidelines with regard to capital adequacy were also updated. For details of the changes to calculation of capital adequacy, see Note 5 to the financial statements.

Note 1 - Reporting Principles and Accounting Policies - Continued

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 the 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 this quarter, the Bank updated its group-based provision for credit losses with respect to housing loans to 0.35%.

The adjustment to the provision included in these financial statements amounted to NIS 191 million before tax.

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

1. 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 measurement of interest revenues.

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

   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.

   The Bank retroactively applies the directives on the formatt of the statement of profit and loss as from January 1, 2012.

   The updates related to adoption of interest revenue measurement issues will be applied as from January 1, 2014.

   The Bank is reviewing the effect of adopting this directive on its financial statements.

2. Group provision for credit losses

   On April 10, 2013, the Supervisor of Banks issued draft directives on the group-based provision for credit losses (hereafter: "the draft"). The draft includes, *inter alia*, an interim directive "Group-based provision for credit losses", which supersedes the interim directive on "Group-based provision for credit losses in 2011-2012".

Note 1 - Reporting Principles and Accounting Policies - Continued

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. 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 following schedule was set in the draft filed with the Advisory Committee on Banking Business on July 18, 2013:

- Changes to the interim directive would apply as from January 1, 2013.
- The update with regard to adjustments for environmental factors would apply to financial statements as of December 31, 2013 and thereafter.
- The update to the Q&A file would apply as from July 1, 2013.

The changes to the 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, which would apply as from December 31, 2013, as noted above.

Note 2 - Securities

As of June 30, 2013 (unaudited)

Reported amounts (NIS in millions)

A. Composition:

	Carrying amount	Amortized cost (for shares - cost)	Unrealized profits from adjustments to fair value	Unrecognized loss from adjustments to fair value	Fair value (1)
(1) Government of Israel debentures held to maturity	**1,203**	**1,203**	**6**	**-**	**1,209**

	Carrying amount	Amortized cost (for shares - cost)	Cumulative other comprehensive income		Fair value (1)
			Gain	Loss	
(2) Securities available for sale					
Debentures and bonds -					
Of the Government of Israel (2)	3,078	3,080	38	(40)	3,078
Of foreign governments(2)(6)	85	82	3	-	85
Of banks and financial institutions in Israel	124	124	-	-	124
Of banks and financial institutions overseas	307	306	1	-	307
Of others in Israel	31	31	-	-	31
Of others overseas	128	126	2	-	128
Total debentures available for sale	**3,753**	**3,749**	**44**	**(40)**	**3,753**
Shares(3)	109	109	-	-	109
Total securities available for sale	**3,862**	**3,858**	**44**	**(40)**	**3,862**

	Carrying amount	Amortized cost (for shares - cost)	Unrealized gains from adjustments to fair value	Unrealized loss from adjustments to fair value	Fair value (1)
(3) Securities held for trade					
Debentures -					
Of the Government of Israel (7)	1,596	1,591	13	(8)	1,596
Total securities held for trade	**1,596**	**1,591**	(5) **13**	(5) **(8)**	**1,596**
Total securities	**6,661**	**6,652**	**63**	**(48)**	**6,667**

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) See Note 15.A-F to the 2012 financial statements for information on liens on securities held by the Bank.
(3) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 108 million.
(4) Included in Other Comprehensive Income under "Adjustments with respect to presentation of securities available for sale at fair value".
(5) Charged to statement of profit and loss but not yet realized.
(6) Mostly US government debentures.
(7) Of which, securities amounting to NIS 907 million classified as held for trade, because the Bank elected to present them in accordance with the fair value alternative in Section 20 of Public Reporting Regulations, even though they had not been acquired for trade.

Note: For details of results of trading in investments in debentures – see Notes 10.D, 11.A.2 and 11.B; for details on results of trading in shares - see Note 11.A.4.

B. In the first half of 2012, the Bank realized the remaining asset-backed securities available for sale.

Note 2 - Securities

As of June 30, 2012 (unaudited) - Continued

Reported amounts (NIS in millions)

A. Composition:

	Carrying amount	Amortized cost (for shares - cost)	Unrealized profits from adjustments to fair value	Unrecognized loss from adjustments to fair value	Fair value [(1)]
(1) Government of Israel debentures held to maturity	**1,059**	**1,059**	**-**	**(1)**	**1,058**

	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)]	6,175	6,230	29	(84)	6,175
Of foreign governments[(2)(6)]	100	100	-	-	100
Of banks and financial institutions in Israel	121	123	2	(4)	121
Of banks and financial institutions overseas	480	476	4	-	480
Asset-backed (ABS)	33	31	2	-	33
Of others in Israel	60	60	-	-	60
Of others overseas	181	180	1	-	181
Total debentures available for sale	**7,150**	**7,200**	**38**	**(88)**	**7,150**
Shares[(3)]	80	80	-	-	80
Total securities available for sale	**7,230**	**7,280**	**[(4)]38**	**[(4)] (88)**	**7,230**

	Carrying amount	Amortized cost (for shares - cost)	Unrealized gains 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)]	1,272	1,263	14	(5)	1,272
Of banks and financial institutions overseas	4	4	-	-	4
Total securities held for trade	**1,276**	**1,267**	**[(5)]14**	**[(5)] (5)**	**1,276**
Total securities	**9,565**	**9,606**	**52**	**(94)**	**9,564**

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) See Note 15.A-F to the 2012 financial statements for information on liens on securities held by the Bank.
(3) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 75 million.
(4) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".
(5) Charged to statement of profit and loss but not yet realized.
(6) US government debentures.
(7) Of which, securities amounting to NIS 347 million classified as held for trade, because the Bank elected to present them in accordance with the fair value alternative in Section 20 of Public Reporting Regulations, even though they had not been acquired for trade.

Note: For details of results of trading in investments in debentures – see Notes 10.D, 11.A.2 and 11.B; for details on results of trading in shares - see Note 11.A.4.

B. In the first half of 2012, the Bank realized the remaining asset-backed securities available for sale.

Note 2 - Securities

As of December 31, 2012 (audited) - Continued

Reported amounts (NIS in millions)

A. Composition:

	Carrying amount	Amortized cost (for shares - cost)	Unrealized profits from adjustments to fair value	Unrecognized loss from adjustments to fair value	Fair value [1]
(1) Government of Israel debentures held to maturity	**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 gains 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 to the 2012 financial statements for information on liens on securities held by the Bank.
(3) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 115 million.
(4) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".
(5) Charged to statement of profit and loss but not yet realized.
(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 alternative in Section 20 of Public Reporting Regulations, even though they had not been acquired for trade.

Note: For details of results of trading in investments in debentures – see Notes 10.D, 11.A.2 and 11.B; for details on results of trading in shares - see Note 11.A.4.

B. In the first half of 2012, the Bank realized the remaining asset-backed securities available for sale.

Note 3 - Credit risk, loans to the public and provision for credit losses

Reported amounts (NIS in millions)

A. Off balance sheet debt [1] and credit instruments

1. Change in balance of provision for credit losses

	For the three months ended June 30, 2013					
	Provision for credit loss					
	Loans to the public				Banks and governments	Total
	Commercial	Housing	Individual - other	Total		
Balance of provision for credit losses at start of period	709	811	149	1,669	11	1,680
Expenses with respect to credit losses	(12)	185	9	182	(1)	181
Accounting write-offs	(59)	[3] (322)	(43)	(424)	-	(424)
Recovery of debt written off in previous years	42	-	24	66	-	66
Net accounting write-offs	(17)	(322)	(19)	(358)	-	(358)
Balance of provision for credit losses at end of period	**680**	**674**	**139**	**1,493**	**10**	**1,503**
Includes: With respect to balance sheet credit instruments	93	-	11	104	-	104

	For the three months ended June 30, 2012 [2]					
	Provision for credit losses					
	Loans to the public				Banks and governments	Total
	Commercial	Housing	Individual - other	Total		
Balance of provision for credit losses at start of period	736	867	166	1,769	18	1,787
Expenses with respect to credit losses	32	-	9	41	4	45
Accounting write-offs	(44)	(15)	(38)	(97)	-	(97)
Recovery of debt written off in previous years	12	-	20	32	-	32
Net accounting write-offs	(32)	(15)	(18)	(65)	-	(65)
Balance of provision for credit losses at end of period	**736**	**852**	**157**	**1,745**	**22**	**1,767**
Includes: With respect to balance sheet credit instruments	90	-	16	106	-	106

(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. On the interim financial statements for 2013, the comparative figures for the corresponding interim periods in 2012 were reclassified to the extent possible in order to align them with the format required by the aforementioned directives. For details see Note 1.C.4.

3) Includes balance of provision for credit loss amounting to NIS 281 million with respect to housing loans which are fully provided for and found to be worthy of accounting write-off.

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

A. Off balance sheet debt (1) and credit instruments

1. Change in balance of provision for credit losses

	For the six months ended June 30, 2013					
	Provision for credit losses					
	Loans to the public				Banks and governments	Total
	Commercial	Housing	Individual - other	Total		
Balance of provision for credit losses at start of period	720	821	154	1,695	10	1,705
Expenses with respect to credit losses	(4)	198	21	215	-	215
Accounting write-offs	(88)	(3) (345)	(75)	(508)	-	(508)
Recovery of debt written off in previous years	52	-	39	91	-	91
Net accounting write-offs	(36)	(345)	(36)	(417)	-	(417)
Balance of provision for credit losses at end of period	**680**	**674**	**139**	**1,493**	**10**	**1,503**
Includes: With respect to balance sheet credit instruments	93	-	11	104	-	104

	For the six months ended June 30, 2012(2)					
	Provision for credit losses					
	Loans to the public				Banks and governments	Total
	Commercial	Housing	Individual - other	Total		
Balance of provision for credit losses at start of period	708	878	166	1,752	14	1,766
Expenses with respect to credit losses	78	4	22	104	8	112
Accounting write-offs	(89)	(30)	(70)	(189)	-	(189)
Recovery of debt written off in previous years	39	-	39	78	-	78
Net accounting write-offs	(50)	(30)	(31)	(111)	-	(111)
Balance of provision for credit losses at end of period	**736**	**852**	**157**	**1,745**	**22**	**1,767**
Includes: With respect to balance sheet credit instruments	90	-	16	106	-	106

(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. On the interim financial statements for 2013, the comparative figures for the corresponding interim periods in 2012 were reclassified to the extent possible in order to align them with the format required by the aforementioned directives. For details see Note 1.C.4.

(3) Includes balance of provision for credit loss amounting to NIS 281 million with respect to housing loans which are fully provided for and found to be worthy of accounting write-off.

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

A. Off balance sheet debt [(1)] and credit instruments

2. Additional information about calculation of the provision for credit losses with respect to debt, and debt for which the provision has been calculated

						June 30, 2013
	Loans to the public				Banks and	
	Commercial	Housing	Individual - other	Total	governments	Total
Recorded debt balance of debt [(1)]						
reviewed on individual basis	29,594	2	548	30,144	4,339	34,483
reviewed on individual basis	6,097	85,115	12,886	104,098	-	104,098
Total debt	**35,691**	**85,117**	**13,434**	**134,242**	**4,339**	**138,581**
Loans for which a provision for credit losses is assessed by extent of arrears	-	[(3)] 84,323	-	84,323	-	84,323
Provision for credit loss with respect to debt [(1)]						
reviewed on individual basis	536	2	32	570	10	580
reviewed on individual basis	51	[(5)(4)]672	96	819	-	819
Total provision for credit losses	**587**	**674**	**128**	**1,389**	**10**	**1,399**
Includes: Provision by extent of arrears	-	378	-	378	-	378
						June 30, 2012 [(2)]
Recorded debt balance of debt [(1)]						
reviewed on individual basis	31,205	17	639	31,861	3,955	35,816
reviewed on individual basis	4,973	76,220	11,971	93,164	-	93,164
Total debt	**36,178**	**76,237**	**12,610**	**125,025**	**3,955**	**128,980**
Loans for which a provision for credit losses is assessed by extent of arrears	-	[(3)] 75,325	-	75,325		75,325
Provision for credit losses with respect to debt [(1)]						
reviewed on individual basis	604	15	46	665	22	687
reviewed on individual basis	42	837	95	974	-	974
Total provision for credit losses	**646**	**852**	**141**	**1,639**	**22**	**1,661**
Includes: Provision by extent of arrears	-	744	-	744	-	744

(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. On the interim financial statements for 2013, the comparative figures for the corresponding interim periods in 2012 were reclassified to the extent possible in order to align them with the format required by the aforementioned directives. For details see Note 1.C.4.
(3) Includes general-purpose loans secured by liens on residential apartments, amounting to NIS 5,081 million (as of June 30, 2012 - NIS 4,726 million and as of December 31, 2012 - NIS 5,037 million).
(4) In this quarter, the Bank updated the balance of group-based provision for credit loss in conformity with the Supervisor of Banks' directives dated March 21, 2013. For details see Note 1.C.6.
(5) Includes balance of provision for credit loss amounting to NIS 281 million with respect to housing loans which are fully provided for and found to be worthy of accounting write-off.
(6) Reclassified.

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

A. Off balance sheet debt [(1)] and credit instruments – Cont.

2. Additional information about calculation of the provision for credit losses with respect to debt, and debt for which the provision has been calculated

						December 31, 2012
	Loans to the public				Banks	
			Individual -		and	
	Commercial	Housing	other	Total	governments	Total
Recorded debt balance of debt [(1)]						
reviewed on individual basis						
reviewed on individual basis	[(6)] 30,378	5	[(6)] 611	30,994	2,819	33,813
Total debt	[(6)] 5,980	80,864	[(6)] 12,406	99,250	-	99,250
Loans for which a provision for credit losses is						
assessed by extent of arrears	**36,358**	**80,869**	**13,017**	**130,244**	**2,819**	**133,063**
	-	[(3)] 79,970	-	79,970	-	79,970
Provision for credit losses with respect to debt [(1)]						
reviewed on individual basis						
reviewed on individual basis	[(6)] 583	2	[(6)] 35	620	10	630
Total provision for credit losses	52	819	102	973	-	973
Includes: Provision by extent of arrears	**635**	**821**	**137**	**1,593**	**10**	**1,603**

(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. On the interim financial statements for 2013, the comparative figures for the corresponding interim periods in 2012 were reclassified to the extent possible in order to align them with the format required by the aforementioned directives. For details see Note 1.C.4.

(3) Includes general-purpose loans secured by liens on residential apartments, amounting to NIS 5,081 million (as of June 30, 2012 - NIS 4,726 million and as of December 31, 2012 - NIS 5,037 million).

(4) In this quarter, the Bank updated the balance of group-based provision for credit loss in conformity with the Supervisor of Banks' directives dated March 21, 2013. For details see Note 1.C.6.

(5) Includes balance of provision for credit loss amounting to NIS 281 million with respect to housing loans which are fully provided for and found to be worthy of accounting write-off.

(6) Reclassified.

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debt [1]

1. A. Credit quality and arrears

					June 30, 2013	
		Troubled [2]			Non impaired debt - additional information	
	Non troubled	Non impaired	Impaired [3]	Total	In arrears 90 days or longer [4]	In arrears 30 to 89 days [5]
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	6,692	20	654	7,366	7	4
Construction and real estate - real estate operations	1,548	6	22	1,576	-	13
Financial services	3,151	12	280	3,443	3	9
Commercial – other	19,498	149	352	19,999	21	63
Total commercial	**30,889**	**187**	**1,308**	**32,384**	**31**	**89**
Private individuals - housing loans	83,732	[7] 1,194	2	84,928	[7][6] 1,194	870
Private individuals - other	12,914	124	81	13,119	21	58
Total public – activity in Israel	**127,535**	**1,505**	**1,391**	**130,431**	**1,246**	**1,017**
Banks in Israel	400	-	-	400	-	-
Government of Israel	307	-	-	307	-	-
Total activity in Israel	**128,242**	**1,505**	**1,391**	**131,138**	**1,246**	**1,017**
Borrower activity overseas						
Public - commercial						
Construction and real estate	1,531	-	34	1,565	-	-
Commercial – other	1,740	-	2	1,742	-	-
Total commercial	**3,271**	**-**	**36**	**3,307**	**-**	**-**
Private individuals	504	-	-	504	-	-
Total public – activity overseas	**3,775**	**-**	**36**	**3,811**	**-**	**-**
Overseas banks	1,070	-	5	1,075	-	-
Overseas governments	2,557	-	-	2,557	-	-
Total activity overseas	**7,402**	**-**	**41**	**7,443**	**-**	**-**
Total public	131,310	1,505	1,427	134,242	1,246	1,017
Total banks	1,470	-	5	1,475	-	-
Total governments	2,864	-	-	2,864	-	-
Total	**135,644**	**1,505**	**1,432**	**138,581**	**1,246**	**1,017**

(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 3.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 29 million was classified as troubled non-impaired debt.

(6) Includes balance of housing loans amounting to NIS 284 million (as of June 30, 2012 - NIS 315 million; as of December 31, 2012 - NIS 304 million) provided for by extent of arrears, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.

(7) Includes balance of provision for credit loss amounting to NIS 281 million with respect to housing loans which are fully provided for and found to be worthy of accounting write-off.

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debt (1)

1. A. Credit quality and arrears - continued

						December 31, 2012(6)
		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	1,599	5	80,655	1,599	869
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**	**1,199**
Banks in Israel	512	-	-	512	-	-
Government of Israel	1	-	-	1	-	-
Total activity in Israel	**123,014**	**2,088**	**1,615**	**126,717**	**1,659**	**1,199**
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	1,199
Total banks	1,661	-	5	1,666	-	-
Total governments	1,153	-	-	1,153	-	-
Total	**129,306**	**2,088**	**1,669**	**133,063**	**1,659**	**1,199**

(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 re-structuring, see Note 3.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) Reclassified.

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debt [(1)]

1. A. Credit quality and arrears - continued

				June 30, 2012	
	Non impaired	Impaired [(3)]	Total	Non impaired debt - additional information	
				In arrears 90 days or longer [(4)]	In arrears 30 to 89 days
Loans to the public					
Reviewed on individual basis	30,394	1,467	31,861	23	91
Housing loans by extent of arrears	75,325	-	75,325	1,667	856
Reviewed on group basis - other	17,839	-	17,839	47	76
Total public	123,558	1,467	125,025	1,737	1,023
Total banks	3,464	5	3,469	-	-
Total governments	486	-	486	-	-
Total	**127,508**	**1,472**	**128,980**	**1,737**	**1,023**

(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 re-structuring, see Note 3.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) Reclassified.

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

1. B. Credit quality

The state of debt arrears is monitored daily and automatically, providing one of the key indications of credit quality. The state of arrears, and consequently classification of the debt, is based on the actual number of days in arrears for each debt.

Debt is classified as non-performing debt, i.e. debt not accruing interest revenues, after 90 days in arrears for debt measured on an individual basis, and after 150 days in arrears for debt measured on a group basis.

Debt is classified as inferior debt after 60 days in arrears for debt measured on an individual basis, and after 90 days in arrears for debt measured on a group basis.

The state of arrears for housing loans is monitored by the extent of arrears for the loan.

Credit risk attributes, including specific risk for housing loans, are included on the Board of Directors' Report under Risk management, Basel II: Pillar 3.

Below is the recorded debt balance by credit quality and by credit segment of the Bank:

						As of June 30, 2013
						Credit segment
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Trouble-free debt, investment grade	31,770	83,921	13,229	2,864	1,459	133,243
Trouble-free debt, other than investment grade	2,390	-	-	-	11	2,401
Troubled non-impaired debt.	187	1,194	124	-	-	1,505
Impaired debt	1,344	2	81	-	5	1,432
Total	**35,691**	**85,117**	**13,434**	**2,864**	**1,475**	**138,581**

						As of December 31, 2012
						Credit segment
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Trouble-free debt, investment grade	(1) 31,034	79,265	(1) 12,769	1,153	1,650	125,871
Trouble-free debt, other than investment grade	(1) 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) Reclassified.

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debt [1]

2. Additional information about impaired debt

A. Impaired debt and individual provision

	June 30, 2013				
	Balance of impaired debt for which an individual provision has been made [2][3]	Balance of individual provision	Balance of impaired debt for which no individual provision has been made [2]	Total balance of impaired debt [2]	Contractual principal balance of impaired debt
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	220	22	434	654	1,067
Construction and real estate - real estate operations	19	3	3	22	42
Financial services	260	119	20	280	294
Commercial – other	240	78	112	352	559
Total commercial	**739**	**222**	**569**	**1,308**	**1,962**
Private individuals - housing loans	2	1	-	2	2
Private individuals - other	23	10	58	81	95
Total public – activity in Israel	**764**	**233**	**627**	**1,391**	**2,059**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	**764**	**233**	**627**	**1,391**	**2,059**
Borrower activity overseas					
Public - commercial					
Construction and real estate	34	-	-	34	100
Commercial – other	2	-	-	2	5
Total commercial	**36**	**-**	**-**	**36**	**105**
Private individuals	-	-	-	-	2
Total public – activity overseas	**36**	**-**	**-**	**36**	**107**
Overseas banks	5	-	-	5	5
Overseas governments	-	-	-	-	-
Total activity overseas	**41**	**-**	**-**	**41**	**112**
Total public	800	233	627	1,427	2,166
Total banks	5	-	-	5	5
Total governments	-	-	-	-	-
Total	**805**	**233**	**627**	**1,432**	**2,171**
Includes:					
Measured at present value of cash flows	676	231	621	1,297	
Debt under troubled debt restructuring	279	60	510	789	

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

(2) Recorded debt balance.

(3) Debt balance net of accounting write-off, if any.

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debt [1]
2. Additional information about impaired debt
A. Impaired debt and individual provision - continued

					December 31, 2012
	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	

				June 30, 2012
Total public	1,254	290	213	1,467
Total banks	5	-	-	5
Total governments	-	-	-	-
Total	**1,259**	**290**	**213**	**1,472**
Includes:				
Measured at present value of cash flows	1,205	290	146	1,351
Debt under troubled debt restructuring	707	32	137	844

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Recorded debt balance.
(3) Debt balance net of accounting write-off, if any.

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debt [(1)]

2. Additional information about impaired debt

B. Average balance and interest revenues

	For the three months ended June 30, 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	664	9	9
Construction and real estate - real estate operations	22	-	-
Financial services	279	-	-
Commercial – other	379	2	2
Total commercial	**1,344**	**11**	**11**
Private individuals - housing loans	2	-	-
Private individuals - other	92	3	2
Total public – activity in Israel	**1,438**	**14**	**13**
Banks in Israel	-	-	-
Government of Israel	-	-	-
Total activity in Israel	**1,438**	**14**	**13**
Borrower activity overseas			
Public - commercial			
Construction and real estate	34	-	-
Commercial – other	2	-	-
Total commercial	**36**	**-**	**-**
Private individuals	-	-	-
Total public – activity overseas	**36**	**-**	**-**
Overseas banks	5	-	-
Overseas governments	-	-	-
Total activity overseas	**41**	**-**	**-**
Total public	1,474	14	13
Total banks	5	-	-
Total governments	-	-	-
Total [(4)]	**1,479**	**14**	**13**

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

(2) Average recorded debt balance.

(3) Interest revenues recorded in the reported period with respect to average balance of debt in arrears, in the period in which the debt was classified as impaired.

(4) Had the impaired debt accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 23 million.

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debt [1]

2. Additional information about impaired debt

B. Average balance and interest revenues

	For the six months ended June 30, 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	695	9	9
Construction and real estate - real estate operations	22	-	-
Financial services	296	-	-
Commercial – other	403	6	6
Total commercial	**1,416**	**15**	**15**
Private individuals - housing loans	4	-	-
Private individuals - other	83	4	3
Total public – activity in Israel	**1,503**	**19**	**18**
Banks in Israel	-	-	-
Government of Israel	-	-	-
Total activity in Israel	**1,503**	**19**	**18**
Borrower activity overseas			
Public - commercial			
Construction and real estate	36	-	-
Commercial – other	4	-	-
Total commercial	**40**	**-**	**-**
Private individuals	3	-	-
Total public – activity overseas	**43**	-	-
Overseas banks	5	-	-
Overseas governments	-	-	-
Total activity overseas	**48**	**-**	**-**
Total public	1,546	19	18
Total banks	5	-	-
Total governments	-	-	-
Total [4]	**1,551**	**19**	**18**

B. Average balance and interest revenues

	For the three months ended June 30, 2013	For the six months ended June 30, 2013	For the year ended December 31,2012
Average recorded debt balance of impaired loans to the public during reported period	[5] 1,419	[5] 1,475	1,562
Total interest revenues recognized in the reported period with respect to such loans in the period in which it was classified as impaired [6]	33	72	126
Total interest revenues which would have been recognized in the reported period had this credit accrued interest at its original terms	19	36	78
[6] Includes: Interest revenues recognized in accordance with cash basis accounting policy	31	69	120

(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 43 million.
(5) Reclassified.

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debt [1]

2. Additional information about impaired debt

C. Troubled debt under restructuring

	June 30, 2013				
	Recorded debt balance				
	Not accruing interest revenues	Accruing [2] interest revenues, in arrears 90 days or longer	Accruing [2] interest revenues, in arrears 30-89 days	Accruing [2] not in arrears	Total [3]
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	517	-	-	48	565
Construction and real estate - real estate operations	14	-	-	1	15
Financial services	51	-	-	1	52
Commercial – other	66	-	-	26	92
Total commercial	**648**	**-**	**-**	**76**	**724**
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	25	-	2	36	63
Total public – activity in Israel	**673**	**-**	**2**	**112**	**787**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	**673**	**-**	**2**	**112**	**787**
Borrower activity overseas					
Public - commercial					
Construction and real estate	-	-	-	2	2
Commercial – other	-	-	-	-	-
Total commercial	**-**	**-**	**-**	**2**	**2**
Private individuals	-	-	-	-	-
Total public – activity overseas	**-**	**-**	**-**	**2**	**2**
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	**-**	**-**	**-**	**2**	**2**
Total public	673	-	2	114	789
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	**673**	**-**	**2**	**114**	**789**

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

(2) Accruing interest revenues.

(3) Included under impaired debt.

Note 3 - Credit risk, loans to the public and provision for credit losses - continued

Reported amounts (NIS in millions)

B. Debt [(1)]

2. Additional information about impaired debt

C. Troubled debt under restructuring - continued

	December 31, 2012				
	Recorded debt balance				
	Not accruing interest revenues	Accruing [(2)] interest revenues, in arrears 90 days or longer	Accruing [(2)] interest revenues, in arrears 30-89 days	Accruing [(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 governments	-	-	-	-	-
Total activity overseas	**-**	**-**	**-**	**2**	**2**
Total public	805	-	6	49	860
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	**805**	**-**	**6**	**49**	**860**
	June 30, 2012				
Total public	[(4)] 762	-	7	[(4)] 75	844
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	**762**	**-**	**7**	**75**	**844**

(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) Accruing interest revenues.
(3) Included under impaired debt.
(4) Reclassified.

As of June 30, 2013, the Bank had no commitments to provide additional credit to debtors subject to troubled debt restructuring, in which credit terms have been revised.

Note 3 - Credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debt [(1)]

2. Additional information about impaired debt

C. Troubled debt under restructuring - continued

	Restructurings made in the three months ended June 30, 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	1	3	3
Construction and real estate - real estate operations	-	-	-
Financial services	-	-	-
Commercial – other	3	5	5
Total commercial	**4**	**8**	**8**
Private individuals – housing loans	-	-	-
Private individuals - other	133	7	5
Total public – activity in Israel	**137**	**15**	**13**
Banks in Israel	-	-	-
Government of Israel	-	-	-
Total activity in Israel	**137**	**15**	**13**
Borrower activity overseas			
Public - commercial			
Construction and real estate	-	-	-
Commercial – other	-	-	-
Total commercial	**-**	**-**	**-**
Private individuals	1	-	-
Total public – overseas activity	**1**	**-**	**-**
Overseas banks	-	-	-
Overseas governments	-	-	-
Total activity overseas	**1**	**-**	**-**
Total public	138	15	13
Total banks	-	-	-
Total governments	-	-	-
Total	**138**	**15**	**13**

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

(2) 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.C.4.

(3) Accruing interest revenues.

(4) Included under impaired debt.

Note 3 - Credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debt [(1)]

2. Additional information about impaired debt

C. Troubled debt under restructuring - continued

	R-structurings made		
	in the three months ended June 30, 2013		
	Number of contracts	Recorded debt balance before re-structuring	Recorded debt balance after re-structuring
Borrower activity in Israel			
Public - commercial			
Construction and real estate – construction	2	3	3
Construction and real estate - real estate operations	-	-	-
Financial services	2	1	1
Commercial – other	43	43	43
Total commercial	**47**	**47**	**47**
Private individuals – housing loans	-	-	-
Private individuals - other	398	17	15
Total public – activity in Israel	**445**	**64**	**62**
Banks in Israel	-	-	-
Government of Israel	-	-	-
Total activity in Israel	**445**	**64**	**62**
Borrower activity overseas			
Public - commercial			
Construction and real estate	-	-	-
Commercial – other	-	-	-
Total commercial	**-**	**-**	**-**
Private individuals	1	-	-
Total public – overseas activity	**1**	**-**	**-**
Overseas banks	-	-	-
Overseas governments	-	-	-
Total activity overseas	**1**	**-**	**-**
Total public	446	64	62
Total banks	-	-	-
Total governments	-	-	-
Total	**446**	**64**	**62**

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

(2) 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 in financial statements as from March 31, 2013. The new disclosure requirements should be applied prospectively. See also Note 1.C.4.

(3) Accruing interest revenues.

(4) Included under impaired debt.

Note 3 - Credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debt [1]

2. Additional information about impaired debt

C. Troubled debt under restructuring - continued

	Restructurings made which are in default [3]	
	in the three months ended June 30, 2013	
		Recorded debt balance
	Number of contracts	Recorded debt balance
Borrower activity in Israel		
Public - commercial		
Construction and real estate – construction	-	-
Construction and real estate - real estate operations	-	-
Financial services	-	-
Commercial – other	5	8
Total commercial	**5**	**8**
Private individuals – housing loans	-	-
Private individuals - other	12	2
Total public – activity in Israel	**17**	**10**
Banks in Israel	-	-
Government of Israel	-	-
Total activity in Israel	**17**	**10**
Borrower activity overseas		
Public - commercial		
Construction and real estate	-	-
Commercial – other	-	-
Total commercial	**-**	**-**
Private individuals	-	-
Total public – overseas activity	**-**	**-**
Overseas banks	-	-
Overseas governments	-	-
Total activity overseas	**-**	**-**
Total public	17	10
Total banks	-	-
Total governments	-	-
Total	**17**	**10**

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

(2) 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.C.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 3 - Credit risk, loans to the public and provision for credit loss – continued

Reported amounts (NIS in millions)

B. Debt [(1)]

2. Additional information about impaired debt

C. Troubled debt under restructuring - continued

	Restructurings made which are in default [(3)] in the six months ended June 30, 2013	
		Recorded debt balance
	Number of contracts	Recorded debt balance
Borrower activity in Israel		
Public - commercial		
Construction and real estate – construction	-	-
Construction and real estate - real estate operations	-	-
Financial services	-	-
Commercial – other	7	8
Total commercial	**7**	**8**
Private individuals – housing loans	-	-
Private individuals - other	73	3
Total public – activity in Israel	**80**	**11**
Banks in Israel	-	-
Government of Israel	-	-
Total activity in Israel	**80**	**11**
Borrower activity overseas		
Public - commercial		
Construction and real estate	-	-
Commercial – other	-	-
Total commercial	**-**	**-**
Private individuals	-	-
Total public – overseas activity	**-**	**-**
Overseas banks	-	-
Overseas governments	-	-
Total activity overseas	**-**	**-**
Total public	80	11
Total banks	-	-
Total governments	-	-
Total	**80**	**11**

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

(2) 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.C.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 3 - Credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Debt

3. Additional information about housing loans

Balance at year end by loan-to-value ratio (LTV) [(1)], repayment type and interest type

		Housing loan balance			Off-balance sheet credit risk
		Total	Includes: Bullet / balloon	Includes: Variable interest	Total
June 30, 2013					
Senior lien: LTV ratio	Up to 60%	44,492	1,211	33,874	2,670
	Over 60%	40,541	518	31,755	1,687
Junior lien or no lien		84	2	64	1,417
Total		**85,117**	**1,731**	**65,693**	**5,774**
June 30, 2012[(2)]					
Senior lien: LTV ratio	Up to 60%	38,332	908	28,437	2,201
	Over 60%	37,822	463	28,714	1,812
Junior lien or no lien		83	1	49	1,217
Total		**76,237**	**1,372**	**57,200**	**5,230**
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

(2) On the 2012 financial statements, the Bank first applied the Supervisor of Banks' directives with regard to updated disclosure of credit quality of debt and of provision for credit losses. On the interim financial statements for 2013, the comparative figures for the corresponding interim periods in 2012 were reclassified to the extent possible in order to align them with the lformatrequired by the aforementioned directives. For details see Note 1.C.4.

Note 4 - Deposits from the Public

Reported amounts (NIS in millions)

		As of June 30,	As of December 31,
	2013	2012	2012
		(unaudited)	(audited)
On-call deposits	21,267	18,777	19,499
Term deposits and other deposits	112,317	100,865	106,731
Savings plan deposits	2,137	2,642	2,269
Total deposits from the public	(1) **135,721**	**122,284**	(1) **128,499**

(1) Includes deposits from institutional investors made in Israel amounting to NIS 40,869 million (as of December 31, 2012 - NIS 33,503 million).

Note 5 – Capital adequacy pursuant to directives of the Supervisor of Banks

Calculated in accordance with Proper Conduct of Banking Business Regulation No. 201-211 "Measurement and Capital Adequacy"

Reported amounts (NIS in millions)

A. Capital adequacy information

		As of June 30,	As of December 31,
	2013	2012	2012
		(unaudited)	(audited)
1. Consolidated data			
A. Capital for purpose of calculating minimum capital ratio			
Tier I capital, after deductions	(2) 9,625	8,521	9,145
Tier II capital, after deductions	4,577	5,191	5,129
Total capital	**14,202**	**13,712**	**14,274**
B. Weighted risk asset balances			
Credit risk	101,926	96,992	98,736
Market risk	1,031	884	1,119
Operating Risk (1)	7,183	8,177	7,093
Total weighted risk asset balances	**110,140**	**106,053**	**106,948**

		As of June 30,	As of December 31,
	2013	2012	2012
		In %	
C. Ratio of capital to risk elements			
Ratio of Tier I capital to risk elements	(2) 8.74	8.03	8.55
Ratio of total capital to risk elements	(2) 12.89	12.93	13.35
Total minimum capital ratio required by the Supervisor of Banks	9.00	9.00	9.00
2. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and subsidiaries there of			
Ratio of Tier I capital to risk elements	9.27	8.98	9.45
Total ratio of capital to risk elements	13.95	13.48	14.22
Total minimum capital ratio required by the Supervisor of Banks	9.00	9.00	9.00

(1) As from December 31, 2012, the calculation of capital requirements with respect to operating risk used the standard approach, in conformity with Proper Conduct of Banking Business Regulation 206 (Measurement and capital adequacy - operating risk). Through December 31, 2012, the Bank applied the basic indicator approach.

(2) After effect of declared NIS 75 million dividend distribution.

Note 5 - Capital adequacy in accordance with directives of the Supervisor of Banks - continued

Calculated in accordance with Proper Conduct of Banking Business Regulation

No. 201-211 "Measurement and Capital Adequacy"

Reported amounts (NIS in millions)

	As of June 30,		As of December 31,
	2013	2012	2012
	(unaudited)		(audited)
3. Capital components for calculation of capital ratio (on consolidated basis)			
A. Tier I capital			
Paid-up share capital and capital reserves	2,125	2,095	2,121
Total cumulative other loss(1)	-	(33)	(3)
Retained earnings	(2) 7,140	6,160	6,690
Non-controlling interest of external shareholders in equity of consolidated subsidiaries	464	413	441
Less:			
Goodwill	(87)	(87)	(87)
Tier I capital after Tier I deductions alone	**9,642**	**8,548**	**9,162**
Less:			
Investments in supervisory capital components of banking corporations	(17)	(17)	(17)
Other deductions from Tier I capital	-	(10)	-
Total Tier I capital	**9,625**	**8,521**	**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	-	-	-
General provision for doubtful debts (3)	110	110	110
Complex capital instruments	1,913	1,892	1,896
2. Lower Tier II capital			
Subordinated notes	2,571	3,216	3,140
3. Deductions from Tier II capital			
Investments in supervisory capital components of banking corporations	(17)	(17)	(17)
Other deductions from Tier II capital	-	(10)	-
Total Tier II capital	**4,577**	**5,191**	**5,129**

(1) Excludes net gain from cash flow hedges.

(2) After effect of declared NIS 75 million dividend distribution.

(3) The amount defined, through December 31, 2010, as a general provision for doubtful debts, is part of upper Tier II capital and is not deducted from loans to the public.

Note 5 - Capital adequacy in accordance with directives of the Supervisor of Banks - continued

B. On June 30, 2010, the Supervisor of Banks issued a letter to banking corporations, on capital policy for interim periods, in which they are required to adopt a target for Tier I capital ratio by December 31, 2010, to be no less than 7.5%. Concurrently, the banks are required to submit to the Supervisor a work plan for achieving this target. The letter further stipulates that in the 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. 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.

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

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%

Note 5 - Capital adequacy in accordance with directives of the Supervisor of Banks - continued

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.

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.

H. On May 30, 2013, the Supervisor of Banks issued an 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.
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.

Note 5 - Capital adequacy in accordance with directives of the Supervisor of Banks - continued

- **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.
  - 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 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 preparing to implement these directives and is reviewing their impact on the Bank's strategic plan.

Note 5 - Capital adequacy in accordance with directives of the Supervisor of Banks - continued

As directed by the Supervisor of Banks, the Bank was required to present the effect of anticipated application of Basel III directives upon the transition date; the Bank believes this would result in a 0.3% decrease in Tier I capital ratio.

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 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 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 resolved to distribute a dividend 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 policy - 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 6 – Consolidated statement of assets and liabilities by linkage basis

As of June 30, 2013 (unaudited)

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	19,579	141	3,450	204	266	-	23,640
Securities	3,295	284	2,170	774	29	109	6,661
Securities borrowed or bought in conjunction with repurchase agreements	37	-	-	-	-	-	37
Loans to the public, net	68,783	51,291	8,849	2,504	1,426	-	132,853
Loans to Governments	-	-	108	192	-	-	300
Investments in associates	34	-	-	-	-	28	62
Buildings and equipment	-	-	-	-	-	1,631	1,631
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	2,545	447	316	43	61	-	3,412
Other assets	1,397	422	36	1	20	44	1,920
Total assets	**95,670**	**52,585**	**14,929**	**3,718**	**1,802**	**1,899**	**170,603**
Liabilities							
Deposits from the public	84,335	22,380	22,384	4,172	2,450	-	135,721
Deposits from banks	490	344	1,126	143	3	-	2,106
Deposits from the Government	16	42	31	-	-	-	89
Debentures and subordinated notes	2,198	12,609	-	-	-	-	14,807
Liabilities with respect to derivatives	2,265	249	490	204	51	-	3,259
Other liabilities	3,762	668	52	1	27	306	4,816
Total liabilities	**93,066**	**36,292**	**24,083**	**4,520**	**2,531**	**306**	**160,798**
Difference	**2,604**	**16,293**	**(9,154)**	**(802)**	**(729)**	**1,593**	**9,805**
Impact of hedging derivatives:							
Derivatives (other than options)	375	(375)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (other than options)	(2,155)	(7,986)	8,774	620	747	-	-
Net in-the-money options (in terms of underlying asset)	(482)	-	319	172	(4)	(5)	-
Net out-of-the-money options (in terms of underlying asset)	(143)	-	177	(32)	(4)	2	-
Total	**199**	**7,932**	**116**	**(42)**	**10**	**1,590**	**9,805**
Net in-the-money options (capitalized par value)	433	-	(220)	(228)	(8)	23	-
Net out-of-the-money options (capitalized par value)	459	-	(660)	256	(68)	13	-

(1) Includes linked to foreign currency.

(2) Includes derivatives whose base relates to a non-monetary item.

Note 6 – Consolidated statement of assets and liabilities by linkage basis

As of June 30, 2012 (unaudited) - Continued

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency(1)				
	Non-linked	CPI-linked	US dollars	Euro	Other currencies	Non-monetary items(2)	Total
Assets							
Cash and deposits with banks	12,997	152	2,058	328	311	-	15,846
Securities	4,255	939	3,189	1,071	31	80	9,565
Securities borrowed or bought in conjunction with repurchase agreements	14	117	-	-	-	-	131
Loans to the public, net	62,441	47,235	(3) 9,542	2,096	2,072	-	123,386
Loans to Governments	-	-	-	206	3	-	209
Investments in investees	32	-	-	-	-	(3) 21	53
Buildings and equipment	-	-	-	-	-	1,594	1,594
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	1,472	91	1,085	62	254	-	2,964
Other assets	934	388	76	1	24	53	1,476
Total assets	**82,145**	**48,922**	**15,950**	**3,764**	**2,695**	**1,835**	**155,311**
Liabilities							
Deposits from the public	74,161	22,750	18,343	4,477	2,553	-	122,284
Deposits from banks	144	632	435	449	127	-	1,787
Deposits from the Government	13	89	35	-	-	-	137
Debentures and subordinated notes	2,124	11,749	-	-	-	-	13,873
Liabilities with respect to derivatives	1,542	58	1,948	222	189	-	3,959
Other liabilities	3,542	710	77	5	24	269	4,627
Total liabilities	**81,526**	**35,988**	**20,838**	**5,153**	**2,893**	**269**	**146,667**
Difference	619	12,934	(4,888)	(1,389)	(198)	1,566	8,644
Impact of hedging derivatives:							
Derivatives (other than options)	400	(400)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (other than options)	249	(4,207)	3,650	284	24	-	-
Net in-the-money options (in terms of underlying asset)	(1,404)	-	687	708	2	7	-
Net out-of-the-money options (in terms of underlying asset)	(856)	-	536	332	(4)	(8)	-
Total	**(992)**	**8,327**	**(15)**	**(65)**	**(176)**	**1,565**	**8,644**
Net in-the-money options (capitalized par value)	816	-	(242)	(408)	(171)	5	-
Net out-of-the-money options (capitalized par value)	1,133	-	(421)	(666)	(40)	(6)	-

(1) Includes linked to foreign currency.
(2) Includes derivatives whose base relates to a non-monetary item.
(3) Reclassified.

Note 6 – Consolidated statement of assets and liabilities by linkage basis

As of December 31, 2012 (audited) - Continued

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency [1]			Non-monetary items[2]	
	Non-linked	CPI-linked	US dollars	Euro	Other currencies		Total
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 borrowed or bought 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 associates	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	83,411	21,823	16,369	4,179	2,717	-	128,499
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	3,846	663	58	8	19	284	4,878
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.

Note 7 - Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

	As of June 30,				As of December 31,	
	2013		2012		2012	
			Unaudited		Audited	
	Balance(1)	Provision(2)	Balance(1)	Provision(2)	Balance(1)	Provision(2)
A. Off-balance sheet financial instruments						
Contractual balances or their denominated amounts at the end of the year						
Transactions in which the balance represents a credit risk:						
- Documentary credit	423	3	403	3	387	1
- Loan guarantees	2,668	27	3,142	24	2,705	21
- Guarantees to home buyers	9,063	8	7,976	6	8,096	7
- Guarantees and other liabilities (3)	3,408	13	3,121	15	3,281	23
- Unutilized revolving credit card facilities	7,057	5	6,830	7	6,718	6
- Unutilized debitory account and other credit facilities in accounts available on demand	17,851	24	16,453	33	16,313	21
- Irrevocable commitments for loans approved but not yet granted	9,534	18	9,788	14	9,724	17
- Commitments to issue guarantees	5,359	6	5,698	4	5,198	6

(1) Contract balances or their stated amounts at the end of the period, before effect of provision for credit losses.

(2) Balance of provision for credit losses at end of period.

(3) Includes the Bank's liabilities for its share in the risks fund of the MAOF Clearinghouse of NIS 92 million. (as of June 30, 2012 and December 31, 2012 - NIS 134 million and NIS 127 million, respectively).

Note 7 - Contingent Liabilities and Special Commitments - Continued

Reported amounts (NIS in millions)

	As of June 30,		As of December 31,
	2013	2012	2012
	(unaudited)		(audited)
B. Special commitments			
Obligations with respect to:			
Long-term leases	617	554	624
Computerization and software service contracts	178	109	178
Acquisition and renovation of buildings	15	10	18
Receipt of deposits on future dates [(1)]	400	400	400

	As of June 30,		As of December 31,
	2013	2012	2012
	(unaudited)		(audited)
C. Credit exposure arising from securitization structures by others			
Other credit risk with respect to securitization structures	-	33	-

(1) Transactions with institutional depositors to receive deposits at future dates at fixed interest rates set upon the contract date.

Note 7 - Contingent Liabilities and Special Commitments - Continued

D. Contingent liabilities and other special commitments

1) For details of other contingent liabilities and special commitments by the Bank group, see Note 19 to the financial statements for the year ended December 31, 2012. Below is a description of material changes relative to the description provided in the 2012 annual report.

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

   Below are details of material claims, where the claim amount (excluding interest and expenses) exceeds 1% of the Bank's shareholders' equity, in which developments and changes have occurred compared to the description included in the 2012 financial statements:

   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.

      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.

Note 7 - Contingent Liabilities and Special Commitments - Continued

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 action alleges that this commission should be deemed to be interest on the loan in arrears, such 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. 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.

Note 7 - Contingent Liabilities and Special Commitments - Continued

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 also argued that returns claimed by the plaintiffs – amounting to thousands of percent, at a growth rate of over NIS 30 million per year – are unreasonable, let alone for investors who have no relevant expertise and with the plaintiffs' initial equity at the Bank amounting to 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.

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.

Note 7 - Contingent Liabilities and Special Commitments - Continued

E. 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 revenues by way of tax withholding. The plaintiff claims that the banks named in the claim over charge their customers who own debentures or shares (the source of revenue) by not deducting the commission on said revenue prior to withholding tax. The Bank and the other banks have yet to file their response to the motion. 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.

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

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

In January 2010, the Court decision was handed down, whereby the lawsuit would be referred for resolution in the course of a regular claim for monetary remedy, and the Court fee with respect there to would be paid by the plaintiffs. Accordingly, the plaintiffs filed in February 2010 a statement of claim in the amount of NIS 829 million.

In March 2010,the plaintiffs, including the Bank, filed their statements of defense.

Evidence in this case has been heard by the Court between March 2011 and April 2012.

In July 2013, a partial verdict was handed down with regard to the defendant banks.

Note 7 - Contingent Liabilities and Special Commitments - Continued

G. 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.

H. 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.

In February 2012, a pre-trial hearing was conducted in this case.

In November 2012, the plaintiffs filed their evidence with the Court.

The Bank filed its evidence in April 2013.

In June 2013, the Court approved the settlement agreement negotiated by the parties, which was adopted as a verdict.

I. 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.

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding claims listed in section 3 below, there is additional, non-remote exposure for which no provision was made, amounting to NIS 114 million.

Note 7 - Contingent Liabilities and Special Commitments - Continued

3) Motions for recognition as class actions are pending against the Bank, where the amount claimed is material, as well as appeals to the High Court of Justice, as itemized below, which, in the opinion of the Bank's management, based on the opinion of the managements of its subsidiaries, and on the opinion of their legal counsel, the prospects for which cannot be estimated at this stage, hence no provision was made for these.

A. 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. Four 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 the right to appoint an observer to OBS Board of Directors meetings.
The Bank has yet to file a response to this motion.

B. 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.

C. 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 has yet to file a response to this motion.

D. In December 2012, an action and a motion for recognition as a class action were filed with the Tel Aviv District Court, with regard to setting rates of arrears interest charged by the Bank in Court Order Execution Service cases filed against debtors. According to the plaintiff, the Bank charges interest significantly higher than the maximum interest rate on checking accounts.

The plaintiff is currently unable to estimate the amount claimed.
The Bank has yet to file a response to this motion.

E. 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.

Note 7 - Contingent Liabilities and Special Commitments - Continued

4) On April 26, 2009, the Bank received a determination by the Anti-Trust Supervisor pursuant to Section 43(a)(1) of the Restrictive Trade Practices Act, 1988, whereby restrictive trade practices existed between the Bank and Bank Hapoalim Ltd., Bank Leumi Le-Israel Ltd., Bank Discount Le-Israel Ltd. and First International Bank of Israel Ltd., with regard to commission-related information sharing, since the early 1990s through commencement of the Supervisor inquiry into this matter, in November 2004. This is a civil determination which constitutes a-priori evidence of 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. On June 18, 2012, the Court ordered parts of the Supervisor's response to the appeal to be erased. A pre-trial hearing in this case is scheduled for September 2, 2013. For details of a claim filed against the Bank based on the determination by the Anti-Trust Supervisor, see Note 19.D.10)K. to the financial statements as of December 31, 2012.

Note 8 - Financial derivatives activity – volume, credit risk and maturity dates

Reported amounts (NIS in millions)

a) Activity on consolidated basis

	As of June 30, 2013 (unaudited)					
	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	335	-	-	-	-	335
Swaps	-	2,291	-	-	-	2,291
Total	**335**	**2,291**	**-**	**-**	**-**	**2,626**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	2,230	-	-	-	**2,230**
B. ALM derivatives (1)(2)						
Forward contracts	9,945	200	55,018	-	33	65,196
Option contracts traded on stock exchange:						
Options written	-	-	2,397	889	-	3,286
Options purchased	-	-	2,885	867	-	3,752
Other option contracts:						
Options written	-	-	9,771	12	-	9,783
Options purchased	-	-	8,482	47	-	8,529
Swaps	2,038	39,862	11,502	-		53,402
Total	**11,983**	**40,062**	**90,055**	**1,815**	**33**	**143,948**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,488	23,378	-	-	-	24,866
C. Other derivatives(1)						
Forward contracts	-	-	2,102	-	-	2,102
Option contracts traded on stock exchange:						
Options written	-	-	3,944	8,419	83	12,446
Options purchased	-	-	3,944	8,419	83	12,446
Other option contracts:						-
Options written	-	76	117	251	-	444
Options purchased	-	94	135	241	-	470
Swaps	**-**		**-**	5,588	-	5,588
Total	**-**	**170**	**10,242**	**22,918**	**166**	**33,496**

(1) Except for credit derivatives and spot contracts for foreign currency swaps.

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

Note 8 - Financial derivatives activity – volume, credit risk and maturity dates - continued

Reported amounts (NIS in millions)

a) **Activity on consolidated basis - continued**

	As of June 30, 2013 (unaudited)					
	Interest contracts		contractual Foreign currency	contracts with respect to shares	Commodity contracts and others	Total
	NIS - CPI	Other				
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	127	127
Foreign currency spot swap contracts	-	-	2,375	-	-	2,375
Total	**-**	**-**	**2,375**	**-**	**127**	**2,502**
Total stated amounts of derivatives	**12,318**	**42,523**	**102,672**	**24,733**	**326**	**182,572**
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives(1)						
Positive fair value, gross	1	3	-	-	-	4
Negative fair value, gross	-	224	-	-	-	224
B. ALM derivatives (1)(2)						
Positive fair value, gross	227	1,083	1,624	162	4	3,100
Negative fair value, gross	180	1,325	1,248	-	4	2,757
C. Other derivatives (1)						
Positive fair value, gross	-	6	106	196	-	308
Negative fair value, gross	-	-	101	179	-	280
E. Total						
Total positive fair value, gross	**228**	**1,092**	**1,730**	**358**	**4**	**3,412**
Includes: Carrying amount of assets with respect to derivatives not subject to a master netting agreement or to similar agreements	**81**	**115**	**830**	**357**	**3**	**1,386**
Total negative fair value, gross(3)	**180**	**1,549**	**1,349**	**179**	**4**	**3,261**
Includes: Carrying amount of liabilities with respect to derivatives not subject to a master netting agreement or to similar agreements	**8**	**134**	**850**	**178**	**2**	**1,172**

(1) Except for credit derivatives 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.

(3) Includes negative fair value, gross, of embedded financial derivatives amounting to NIS 2 million.

Note 8 - Financial derivatives activity – volume, credit risk and maturity dates - continued

Reported amounts (NIS in millions)

a) Activity on consolidated basis - Continued

	As of June 30, 2012 (unaudited)					
	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	400	-	-	-	-	400
Swaps	-	3,161	-	-	-	3,161
Total	**400**	**3,161**	**-**	**-**	**-**	**3,561**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	3,161	-	-	-	3,161
B. ALM derivatives (1)(2)						
Forward contracts	8,733	900	60,817	123	14	70,587
Option contracts traded on stock exchange:						
Options written	-	-	1,660	397	-	2,057
Options purchased	-	-	3,614	379	-	3,993
Other option contracts:						
Options written	-	-	10,474	224	-	10,698
Options purchased	-	-	8,393	223	-	8,616
Swaps	1,257	34,088	12,780	-	-	48,125
Total	**9,990**	**34,988**	**97,738**	**1,346**	**14**	**144,076**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	707	19,491	-	-	-	20,198
C. Other derivatives(1)						
Forward contracts	-	-	683	-	-	683
Option contracts traded on stock exchange:						
Options written	-	-	5,307	5,988	-	11,295
Options purchased	-	-	5,307	5,988	-	11,295
Other option contracts:						
Options written	-	670	335	302	-	1,307
Options purchased	-	674	351	275	-	1,300
Swaps	-	-	-	5,230	-	5,230
Total	**-**	**1,344**	**11,983**	**17,783**	**-**	**31,110**

(1) Except for credit derivatives and spot contracts for foreign currency swaps.

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

Note 8 - Financial derivatives activity – volume, credit risk and maturity dates - continued

Reported amounts (NIS in millions)

a) Activity on consolidated basis - Continued

	As of June 30, 2012 (unaudited)					
	Interest contracts					
	NIS - CPI	Other	contractual Foreign currency	contracts with respect to shares	Commodity contracts and others	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	373	373
Foreign currency spot swap contracts	-	-	2,011	-	-	2,011
Total	**-**	**-**	**2,011**	**-**	**373**	**2,384**
Total stated amounts of derivatives	**10,390**	**39,493**	**111,732**	**19,129**	**387**	**181,131**
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives(1)						
Negative fair value, gross	1	413	-	-	-	414
B. ALM derivatives (1)(2)						
Positive fair value, gross	79	1,176	1,380	158	-	2,793
Negative fair value, gross	19	1,321	1,932	103	-	3,375
C. Other derivatives (1)						
Positive fair value, gross	-	3	108	60	-	171
Negative fair value, gross	-	3	107	60	-	170
D. Credit derivatives						
Credit derivatives in which the Bank is guarantor						
Negative fair value, gross	-	-	-	-	4	4
Total positive fair value, gross	**79**	**1,179**	**1,488**	**218**	**-**	**2,964**
Total negative fair value, gross(3)	**20**	**1,737**	**2,039**	**163**	**4**	**3,963**

(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.
(3) Includes negative fair value, gross, of embedded financial derivatives amounting to NIS 4 million.

Note 8 - Financial derivatives activity – volume, credit risk and maturity dates - continued

Reported amounts (NIS in millions)

a) Activity on consolidated basis - Continued

	As of December 31, 2012 (unaudited)					
	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 8 - Financial derivatives activity – volume, credit risk and maturity dates - continued

Reported amounts (NIS in millions)

a) Activity on consolidated basis - continued

	As of December 31, 2012 (unaudited)					
	Interest contracts			contracts with respect to shares	Commodity contracts and others	
	NIS - CPI	Other	contractual Foreign currency			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						
Total positive fair value, gross	**246**	**1,282**	**1,530**	**459**	**1**	**3,518**
Includes: Carrying amount of assets with respect to derivatives not subject to a master offsetting agreement or to similar agreements	62	126	568	459	1	1,216
Total negative fair value, gross(3)	**215**	**1,807**	**1,456**	**297**	**2**	**3,777**
Includes: Carrying amount of liabilities with respect to derivatives not subject to a master offsetting agreement or to similar agreements	50	211	783	297	2	1,343

(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.

(3) Includes negative fair value, gross, of embedded financial derivatives amounting to NIS 4 million.

Note 8 - Financial derivatives activity – volume, credit risk and maturity dates - continued

Reported amounts (NIS in millions)

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

	As of June 30, 2013 (unaudited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivatives[1]	**383**	**2,118**	**16**	**-**	**895**	**3,412**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(1,644)	-	-	-	(1,644)
Mitigation of credit risk with respect to cash collateral received	-	(466)	-	-	-	(466)
Net amount of assets with respect to derivatives	**383**	**8**	**16**	**-**	**895**	**1,302**
Off-balance sheet credit risk on financial derivatives [2]	-	1,575	435	-	2,270	4,280
Mitigation of off-balance sheet credit risk	-	(488)	-	-	-	(488)
Net off-balance sheet credit risk with respect to derivatives	**-**	**1,087**	**435**	**-**	**2,270**	**3,792**
Total credit risk on financial derivatives	**383**	**1,095**	**451**	**-**	**3,165**	**5,094**
Carrying amount of liabilities with respect to derivatives[3]	**207**	**2,376**	**-**	**-**	**678**	**3,261**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(1,644)	-	-	-	(1,644)
Mitigation of credit risk with respect to cash collateral pledged	-	(349)	-	-	-	(349)
Net amount of liabilities with respect to derivatives	**207**	**383**	**-**	**-**	**678**	**1,268**

	As of June 30, 2012 (unaudited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amounts of assets arising from derivatives [1]	300	343	8	-	678	1,329
Off-balance sheet credit risk on financial derivatives [2]	23	1,575	204	-	2,490	4,292
Total credit risk on financial derivatives	**323**	**1,918**	**212**	**-**	**3,168**	**5,621**

(1) As of June 30, 2013 and as of June 30, 2012, there was no positive fair value balance of embedded derivatives.

(2) The difference, if positive, between total amount with respect to derivatives (including with respect to derivatives with a negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, before mitigation of credit risk, and the carrying amount of assets with respect to derivatives of the borrower.

(3) Includes negative fair value, gross, of embedded derivatives amounting to NIS 2 million.

Note 8 - Financial derivatives activity – volume, credit risk and maturity dates - continued

Reported amounts (NIS in millions)

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

	December 31, 2012 (audited)[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:						
Mitigation of credit risk with respect to financial instruments	-	(1,754)	-	-	-	(1,754)
Mitigation of credit risk with respect to cash collateral pledged	-	(553)	-	-	-	(553)
Net amount of liabilities with respect to derivatives	**337**	**384**	**-**	**-**	**749**	**1,470**

(1) Restated.

(2) As of December 31, 2012 there was no positive fair value balance of embedded derivatives.

(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 the six-month period ended June 30, 2013, the Bank recognized revenues from a decrease in the provision for credit losses with respect to derivatives, amounting to NIS 19 million (in the six-month period ended June 30, 2012 and in all of 2012, the Bank recognized credit losses amounting to NIS 18 million and NIS 42 million, respectively).

Note 8 - Financial derivatives activity – volume, credit risk and maturity dates - continued

Reported amounts (NIS in millions)

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

	As of June 30, 2013 (unaudited)				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS - CPI	1,856	5,968	2,414	2,080	12,318
Other	3,916	10,386	14,181	14,040	42,523
Currency contracts	60,009	31,139	4,491	7,033	102,672
Contracts for shares	21,158	3,512	63	-	24,733
Commodities and other contracts	20	179	91	36	326
Total	**86,959**	**51,184**	**21,240**	**23,189**	**182,572**

	As of June 30, 2012 (unaudited)				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS-CPI	1,626	3,921	3,539	1,304	10,390
Other	4,412	5,812	12,166	17,103	39,493
Currency contracts	64,501	35,288	5,228	6,715	111,732
Contracts for shares	15,520	2,796	813	-	19,129
Commodities and other contracts	9	161	-	217	387
Total	**86,068**	**47,978**	**21,746**	**25,339**	**181,131**

	As of December 31, 2012 (unaudited)				
	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 9 - Balances and Estimates of Fair Value of Financial Instruments

Reported amounts (NIS in millions)

A. Fair value balances

	As of June 30, 2013 (unaudited)				
	Carrying				Fair value
	amount	Level 1 (1)	Level 2 (1)	Level 3 (1)	Total
Financial assets					
Cash and deposits with banks	23,640	3,800	15,222	4,628	23,650
Securities (3)	6,661	3,577	2,840	250	6,667
Securities loaned or sold in repurchase agreements	37	37	-	-	37
Loans to the public, net	132,853	-	9,342	124,968	134,310
Loans to Governments	300	-	-	300	300
Investments in associates	34	-	-	34	34
Assets with respect to derivatives	3,412	388	2,261	(2) 763	3,412
Other financial assets	1,810	-	-	1,810	1,810
Total financial assets	(4) **168,747**	**7,802**	**29,665**	**132,753**	**170,220**
Financial liabilities					
Deposits from the public	135,721	-	30,779	107,430	138,209
Deposits from banks	2,106	-	32	2,132	2,164
Deposits from the Government	89	-	-	101	101
Debentures and subordinated notes	14,807	14,078	-	2,033	16,111
Liabilities with respect to derivatives	3,259	212	2,095	(2) 952	3,259
Other financial liabilities	3,550	-	3,018	533	3,551
Total financial liabilities	(4) **159,532**	**14,290**	**35,924**	**113,181**	**163,395**

(1) Level 1 - Fair value measurement using quoted prices on an active market. Level 2 - Fair value measurement using other significant observed data. Level 3 - Fair value measurement using significant non-observed data.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

(3) For more details of the carrying amount and fair value of securities, see Note 2.

(4) Includes assets and liabilities amounting to NIS 39,359 million and NIS 28,927 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

Note 9 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

A. Fair value balances - Continued

	As of June 30, 2012 (unaudited)				
	Carrying	Fair value			
	amount	Level 1 (1)	Level 2 (1)	Level 3 (1)	Total
Financial assets					
Cash and deposits with banks	15,846	3,832	8,724	3,331	15,887
Securities (3)	9,565	5,234	4,031	299	9,564
Securities loaned or sold in repurchase agreements	131	131	-	-	131
Loans to the public, net	123,386	-	9,487	115,332	124,819
Loans to Governments	209	-	-	213	213
Investments in associates	32	-	-	32	32
Assets with respect to derivatives	2,964	307	1,384	(2) 1,273	2,964
Other financial assets	1,355	-	-	1,355	1,355
Total financial assets	(4) **153,488**	**9,504**	**23,626**	**121,835**	**154,965**
Financial liabilities					
Deposits from the public	122,284	-	28,460	95,782	124,242
Deposits from banks	1,787	-	14	1,823	1,837
Deposits from the Government	137	-	-	152	152
Debentures and subordinated notes	13,873	12,745	-	2,275	15,020
Liabilities with respect to derivatives	3,959	179	2,573	(2) 1,207	3,959
Other financial liabilities	3,368	-	2,756	612	3,368
Total financial liabilities	(4) **145,408**	**12,924**	**33,803**	**101,851**	**148,578**

(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 more details of the carrying amount and fair value of securities, see Note 2.

(4) Includes assets and liabilities amounting to NIS 35,995 million and NIS 27,630 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

Note 9 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

A. Fair value balances - Continued

					As of December 31, 2012 (unaudited)
	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	3,001	260	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	-	-	1,926	1,926
Total financial assets	[(4)] **160,364**	**8,733**	**27,576**	**125,573**	**161,882**
Financial liabilities					
Deposits from the public	128,499	-	32,232	98,369	130,601
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	3,657	-	2,889	768	3,657
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 more details of the carrying amount and fair value of securities, see Note 2.

(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 recurring basis and on non-recurring basis, see B.-D. below.

Note 9 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

B. Items measured at fair value:

1. On recurring basis

	As of June 30, 2013 (unaudited)			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Securities available for sale				
Debentures and bonds				
Of Government of Israel	553	2,525	-	3,078
Of foreign governments	63	22	-	85
Of banks and financial institutions in Israel	124	-	-	124
Of banks and financial institutions overseas	-	87	220	307
Of others in Israel	31	-	-	31
Of others overseas	-	98	30	128
Shares	1	-	-	1
Securities held for trade				
Debentures of the Government of Israel	1,596	-	-	1,596
Credit with respect to loans between clients	342	-	-	342
Assets with respect to derivatives (1)				
Interest contracts:				
NIS / CPI	-	111	117	228
Other	-	961	131	1,092
Currency contracts	181	1,187	362	1,730
Contracts for shares	207	1	150	358
Commodities and other contracts	-	1	3	4
Total assets	**3,098**	**4,993**	**1,013**	**9,104**
Liabilities				
Deposits with respect to borrowing between clients	342	-	-	342
Liabilities with respect to derivatives (1)				
Interest contracts:				
NIS / CPI	-	175	5	180
Other	-	1,303	246	1,549
Currency contracts	167	614	568	1,349
Contracts for shares	45	1	131	177
Commodities and other contracts	-	2	2	4
Other	-	-	2	2
Total liabilities	**554**	**2,095**	**954**	**3,603**

(1) Fair value measurement of derivatives classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

Note 9 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

B. Items measured at fair value:

1. On recurring basis - continued

	As of June 30, 2012 (unaudited)			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Securities available for sale				
Debentures and bonds				
Of Government of Israel	2,604	3,571	-	6,175
Of foreign governments	100	-	-	100
Of banks and financial institutions in Israel	121	-	-	121
Of banks and financial institutions overseas	-	250	230	480
Asset-backed	-	-	33	33
Of others in Israel	60	-	-	60
Of others overseas	10	135	36	181
Shares	5	-	-	5
Securities held for trade				
Debentures of the Government of Israel	1,272	-	-	1,272
Of banks and financial institutions overseas	4	-	-	4
Securities loaned or sold in repurchase agreements	131	-	-	131
Credit with respect to loans between clients	242	-	-	242
Assets with respect to derivatives (1)				
Interest contracts:				
NIS / CPI	-	14	65	79
Other	-	998	181	1,179
Currency contracts	305	372	811	1,488
Contracts for shares	2	-	216	218
Commodities and other contracts	-	-	-	-
Total assets	**4,856**	**5,340**	**1,572**	**11,768**
Liabilities				
Deposits with respect to borrowing between clients	242	-	-	242
Liabilities with respect to derivatives (1)				
Interest contracts:				
NIS / CPI	-	2	18	20
Other	-	1,410	327	1,737
Currency contracts	179	1,157	703	2,039
Contracts for shares	-	4	155	159
Commodities and other contracts	-	-	4	4
Other	-	-	4	4
Total liabilities	**421**	**2,573**	**1,211**	**4,205**

(1) Fair value measurement of derivatives classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

Note 9 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

B. Items measured at fair value:

1. On recurring basis - continued

	As of December 31, 2012 (unaudited)			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Securities available for sale				
Debentures and bonds				
Of Government of Israel	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				
Debentures of the Government of Israel	2,291	-	-	2,291
Of banks and financial institutions overseas	3	-	-	3
Credit with respect to loans between clients	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	375	-	84	459
Commodities and other contracts	-	-	1	1
Total assets	**5,534**	**5,068**	**1,112**	**11,714**
Liabilities				
Deposits with respect to borrowing between clients	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	-	-	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.

Note 9 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

B. Items measured at fair value:

2. On non-recurring basis - Continued

	As of June 30, 2013 (unaudited)				For the three months ended June 30, 2013	For the six months ended June 30, 2013
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value	Gain (Loss)	Gain (Loss)
Impaired credit whose collection is contingen on collateral	-	-	135	135	1	2

	As of June 30, 2012 (unaudited)				For the three months ended June 30, 2012	For the six months ended June 30, 2012
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value	Gain (Loss)	Gain (Loss)
Impaired credit whose collection is contingen	-	-	131	131	(1)	4

	As of December 31, 2012 audited)				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	Gain (Loss)
Impaired credit whose collection is contingen	-	-	145	145	(72)

Note 9 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3:

	For the three months ended June 30, 2013 (unaudited)								
		Realized / unrealized gain (loss), net [(1)] included							
	Fair value as of March 31, 2013	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 June 30, 2013	Unrealized gain (loss) with respect to instruments held as of June 30, 2013
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	221	(1)	-	-	-	-	-	220	(1)
Of others overseas	30	-	-	-	-	-	-	30	-
Assets with respect to derivatives [(2)(3)]									
Interest contracts:									
NIS / CPI	92	15	-	1	-	(9)	18	117	133
Other	214	(10)	-	1	-	(74)	-	131	91
Currency contracts	610	129	-	73	-	(450)	-	362	181
Contracts for shares	134	42	-	21	-	(47)	-	150	-
Commodities and other contracts	1	2	-	1	-	(1)	-	3	2
Total assets	**1,302**	**177**	**-**	**97**	**-**	**(581)**	**18**	**1,013**	**406**
Liabilities									
Liabilities with respect to derivatives[(2)(3)]									
Interest contracts:									
NIS / CPI	6	(4)	-	4	-	(2)	1	5	(1)
Other	353	(26)	-	1	-	(82)	-	246	(52)
Currency contracts	870	(45)	-	158	-	(415)	-	568	(442)
Contracts for shares	121	19	-	21	-	(30)	-	131	-
Commodities and other contracts	1	1	-	1	-	(1)	-	2	(2)
Other [(3)]	5	(3)	-	-	-	-	-	2	-
Total liabilities	**1,356**	**(58)**	**-**	**185**	**-**	**(530)**	**1**	**954**	**(497)**

(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 9 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3 - continued:

	For the three months ended June 30, 2012 (unaudited)								
		Realized / unrealized gain (loss), net (1) included							
	Fair value as of March 31, 2012	On statement of profit and loss	On statement of other comprehensive income under Equity	Acquisi-tions	Sales	Disposi-tions	Transfer to level 3	Fair value as of June 30, 2012	Unrealized gain (loss) with respect to instruments held as of June 30, 2012
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	218	11	1	-	-	-	-	230	12
Asset-backed	61	(12)	(1)	-	(15)	-	-	33	(9)
Of others overseas	36	-	-	-	-	-	-	36	-
Assets with respect to derivatives (2)(3)									
Interest contracts:									
NIS / CPI	95	(97)	-	104	-	(58)	21	65	78
Other	663	(54)	-	177	-	(605)	-	181	80
Currency contracts	648	329	-	29	-	(195)		811	121
Contracts for shares	100	63	-	68	-	(15)	-	216	30
Commodities and other contracts	-	(3)	-	3	-	-	-	-	-
Total assets	**1,821**	**237**	**-**	**381**	**(15)**	**(873)**	**21**	**1,572**	**312**
Liabilities									
Liabilities with respect to derivatives(2)(3)									
Interest contracts:									
NIS / CPI	104	(38)	-	47	-	(96)	1	18	(5)
Other	988	(114)	-	61	-	(608)	-	327	(73)
Currency contracts	1,187	222	-	111	-	(817)	-	703	(220)
Contracts for shares	109	(28)	-	107	-	(33)	-	155	(5)
Commodities and other contracts	1	(4)	-	9	-	(2)	-	4	-
Other (3)	12	(1)	-	1	-	(8)	-	4	-
Total liabilities	**2,401**	**37**	**-**	**336**	**-**	**(1,564)**	**1**	**1,211**	**(303)**

(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 9 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3 - continued:

	For the six months ended June 30, 2013 (unaudited)								
		Realized / unrealized gain (loss), 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 June 30, 2013	Unrealized gain (loss) with respect to instruments held as of June 30, 2013
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	229	(9)	-	-	-	-	-	220	(9)
Of others overseas	31	(1)	-	-	-	-	-	30	(1)
Assets with respect to derivatives [2][3]									
Interest contracts:									
NIS / CPI	101	(8)	-	2	-	(26)	48	117	133
Other	173	32	-	5	-	(79)	-	131	91
Currency contracts	493	167	-	265	-	(563)	-	362	181
Contracts for shares	84	64	-	60	-	(58)	-	150	-
Commodities and other contracts	1	2	-	2	-	(2)	-	3	2
Total assets	**1,112**	**247**	**-**	**334**	**-**	**(728)**	**48**	**1,013**	**397**
Liabilities									
Liabilities with respect to derivatives [2][3]									
Interest contracts:									
NIS / CPI	48	(7)	-	5	-	(45)	4	5	(1)
Other	325	32	-	10	-	(121)	-	246	(52)
Currency contracts	709	133	-	489	-	(763)	-	568	(442)
Contracts for shares	68	47	-	60	-	(44)	-	131	-
Commodities and other contracts	2	1	-	2	-	(3)	-	2	(2)
Other [3]	4	(2)	-	-	-	-	-	2	-
Total liabilities	**1,156**	**204**	**-**	**566**	**-**	**(976)**	**4**	**954**	**(497)**

(1) Realized gain (loss) included 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 9 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3 - continued:

	For the six months ended June 30, 2012 (unaudited)								
		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	Acquisi-tions	Sales	Disposi-tions	Transfer to level 3	Fair value as of June 30, 2012	Unrealized gain (loss) with respect to instruments held as of June 30, 2012
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	220	8	2	-	-	-	-	230	9
Asset-backed	61	(12)	(1)	-	(15)	-	-	33	(9)
Of others overseas	37	-	-	-	(1)	-	-	36	-
Assets with respect to derivatives [(2)(3)]									
Interest contracts:									
NIS / CPI	128	(85)	-	155	-	(184)	51	65	78
Other	119	74	-	601	-	(613)	-	181	80
Currency contracts	682	345	-	149	-	(365)	-	811	121
Contracts for shares	108	55	-	85	-	(32)	-	216	30
Commodities and other contracts	1	(3)	-	4	-	(2)	-	-	-
Total assets	**1,356**	**382**	**1**	**994**	**(16)**	**(1,196)**	**51**	**1,572**	**309**
Liabilities									
Liabilities with respect to derivatives [(2)(3)]									
Interest contracts:									
NIS / CPI	28	(12)	-	150	-	(152)	4	18	(5)
Other	309	77	-	600	-	(659)	-	327	(73)
Currency contracts	793	244	-	935	-	(1,269)	-	703	(220)
Contracts for shares	125	(40)	-	121	-	(51)	-	155	(5)
Commodities and other contracts	10	(11)	-	10	-	(5)	-	4	-
Other [(3)]	6	(2)	-	9	-	(9)	-	4	-
Total liabilities	**1,271**	**256**	**-**	**1,825**	**-**	**(2,145)**	**4**	**1,211**	**(303)**

(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 9 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3 - continued:

	For the year ended December 31, 2012 (audited)								
		Realized / unrealized gain (loss), net (1) included							
	Fair value as of January 1, 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, 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	108	-	-	63	-	(87)	-	84	-
Commodities and other contracts	1	-	-	1	-	(1)	-	1	-
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 (3)	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".

Note 9 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts (NIS in millions)

D. Additional information about non-observed significant data and valuation techniques used in fair value measurement of items classified at Level 3:

	Fair value as of June 30, 2013	Valuation technique	Non-observed data	Range	Weighted average
			(unaudited)		
Securities available for sale:					
Debentures of foreign banks and financial institutions	5	Estimated recouperation rate	Recouperation rate	5.00%	5.00%
Debentures of foreign banks and financial institutions	40	Cash flow discounting	Discount rate	1.22%-0.47%	1.15%
CLN	175	Cash flow discounting	Probability of default	1.68%-0.44%	1.65%
Debentures of foreign others	30	Cash flow discounting	Discount rate	6.00%-4.40%	5.47%
Assets with respect to derivatives:					
Interest contracts - NIS CPI	40	Cash flow discounting	Inflationary expectations	1.78%-1.75%	1.76%
Contracts for shares	8	Option pricing model	Standard deviation of shares	58.43%-29.54%	31.20%
Other	715	Cash flow discounting	Counter-party credit quality	3.10%-1.20%	1.93%
Liabilities with respect to derivatives:					
Interest contracts - NIS CPI	4	Cash flow discounting	Inflationary expectations	1.78%-1.76%	1.77%
Other	950	Cash flow discounting	Counter-party credit quality	3.10%-1.20%	1.89%

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 alternative

Due to election of the fair value alternative, 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 alternative 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 alternative, 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 9 – 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 alternative:

	Fair value as of June 30, 2013	Gain (loss) with respect to change in fair value for the six months ended June 30, 2013
Securities available for sale	907	(2)

	Fair value as of December 31, 2012	Gain (loss) with respect to change in fair value for the year ended December 31, 2012
Securities available for sale	1,106	21

Note 10 - Interest revenues and expenses

Reported amounts (NIS in millions)

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31,
	2013	2012 [1]	2013	2012 [1]	2012
		(unaudited)		(unaudited)	(audited)
A. Interest revenues [2]					
From loans to the public	1,631	1,922	2,926	3,284	6,146
From loans to Governments	2	1	4	3	7
From deposits with the Bank of Israel and from cash	47	43	89	96	189
From deposits with banks	1	8	13	17	26
From securities loaned or sold in repurchase agreements	-	1	1	2	4
From debentures	23	25	84	118	219
Total interest revenues	**1,704**	**2,000**	**3,117**	**3,520**	**6,591**
B. Interest expenses					
On deposits from the public	596	803	1,061	1,386	2,594
On deposits from governments	1	2	2	3	5
On deposits from banks	13	19	24	34	68
On debentures and subordinated notes	221	292	355	426	710
Total interest expenses	**831**	**1,116**	**1,442**	**1,849**	**3,377**
Total interest revenues, net	**873**	**884**	**1,675**	**1,671**	**3,214**
C. Details of net effect of hedging financial derivatives on interest revenues	**28**	**(111)**	**31**	**(92)**	**(73)**
D. Details of interest revenues on accrual basis from debentures					
Held to maturity	6	13	12	13	26
Available for sale	14	10	61	92	176
Held for trade	3	2	11	13	17
Total included under interest revenues	**23**	**25**	**84**	**118**	**219**

(1) Reclassified.
(2) Includes the effective element in the hedging ratios.

Note 11 - Non-interest financing revenues

Reported amounts (NIS in millions)

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31,
	2013	2012	2013	2012	2012
		(unaudited)		(unaudited)	(audited)
A. Non-interest financing revenues with respect to non-trade operations					
1. **From activity in derivatives**					
Non-effective element of hedging ratios (1)	-	(1)	(1)	(1)	(2)
Net expenses with respect to ALM derivatives (2)	(100)	(3) 64	(132)	(3) (28)	(100)
Total from activity in derivatives	**(100)**	**63**	**(133)**	**(29)**	**(102)**
2. From investment in debentures					
Gain on sale of debentures available for sale	28	17	33	36	118
Loss on sale of debentures available for sale	-	(4)	-	(4)	(5)
Provision for impairment of debentures available for sale	-	(8)	-	(8)	(8)
Total from investment in debentures	**28**	**5**	**33**	**24**	**105**
3. Exchange rate differences, net	**55**	(3) **(236)**	**196**	(3) **(167)**	**(21)**
4. Gain from investment in shares					
Gains on sale of available-for-sale shares	2	-	5	3	5
Dividends from available-for-sale shares	-	-	-	-	24
Total from investment in shares	**2**	**-**	**5**	**3**	**29**
Total non-interest financing revenues (expenses) with respect to non-trade operations	**(15)**	**(168)**	**101**	**(169)**	**11**

(1) Excludes the effective element in the hedging ratios.
(2) Derivatives which constitute part of the Bank's asset and liability management system, which were not intended as hedges.
(3) Reclassified.

Note 11 - Non-interest financing revenues - Continued

Reported amounts (NIS in millions)

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31,
	2013	2012	2013	2012	2012
	(unaudited)		(unaudited)		(audited)
B. Non-interest financing revenues with respect to trading activities[1]					
Net revenues with respect to other derivatives	45	[3] 107	(41)	115	40
Realized gain from adjustment to fair value of debentures held for trade, net	18	16	3	11	32
Unrealized gain from adjustment to fair value of debentures held for trade, net	-	10	18	7	12
Total from trade operations[2]	**63**	**133**	**(20)**	**133**	**84**
Details of non-interest financing revenues with respect to trade operations, by risk exposure					
Risk exposure	2	-	3	(1)	-
Foreign currency exposure	44	[3] 91	(58)	85	22
Exposure to shares	(3)	14	14	22	(3)
Exposure to commodities and others	20	28	21	27	65
Total	**63**	**133**	**(20)**	**133**	**84**

(1) Includes exchange rate differentials resulting from trade operations.

(2) For interest revenues from investment in debentures held for trade, see Note 10.D.

(3) Reclassified.

Note 12 – Operating Segments

For the six months ended June 30, 2013 (unaudited)

Reported amounts (NIS in millions)

A. Information on operating segments

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	1,705	2	226	97	206	(561)	1,675
Inter-segment	(820)	33	6	(13)	131	663	-
Total interest revenues, net	**885**	**35**	**232**	**84**	**337**	**102**	**1,675**
Non-interest financing revenues	2	-	-	-	18	61	81
Commissions and other revenues	383	30	123	28	120	57	741
Total revenues	**1,270**	**65**	**355**	**112**	**475**	**220**	**2,497**
Expenses with respect to credit losses	219	(3)	24	(5)	(20)	-	215
Operating and other expenses							
From outside operating segments	868	36	239	31	101	148	1,423
Inter-segment	(56)	5	(25)	31	39	6	-
Other operating expenses - total	**812**	**41**	**214**	**62**	**140**	**154**	**1,423**
Pre-tax profit	239	27	117	55	355	66	859
Provision for taxes on profit	87	9	42	19	129	23	309
After-tax profit	**152**	**18**	**75**	**36**	**226**	**43**	**550**
Share in net profits of affiliates, after tax	-	-	-	-	-	(1)	(1)
Net profit:							
Before attribution to non-controlling interest	152	18	75	36	226	42	549
Attributable to non-controlling interest	(24)	-	-	-	-	-	(24)
Attributable to equity holders of the banking corporation	**128**	**18**	**75**	**36**	**226**	**42**	**525**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**5.7%**	**40.3%**	**34.9%**	**16.9%**	**15.1%**	**24.0%**	**11.9%**
Average asset balance	93,247	2,306	7,441	4,641	26,695	30,513	164,843
Includes: Investments in associates	-	-	-	-	-	62	62
Average balance of liabilities	60,473	6,847	8,738	3,517	35,965	39,776	155,316
Average balance of risk assets (1)	55,619	1,120	5,337	5,092	35,772	5,642	108,582
Average balance of provident and mutual fund assets	-	-	-	-	-	81,701	81,701
Average balance of securities	30,083	8,492	5,737	3,774	61,976	44,147	154,209
Loans to the public, net (end balance)	97,911	1,217	7,406	4,701	21,618	-	132,853
Deposits from the public (end balance)	59,377	6,447	8,670	3,537	39,778	17,912	135,721
Average balance of other assets managed	19,929	7	207	234	251	-	20,628

B. Information on profit from interest revenues before expenses with respect to credit losses

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	619	15	188	72	273	-	1,167
Margin from receiving deposits	237	19	34	9	50	-	349
Other	29	1	10	3	14	102	159
Total interest revenues, net	**885**	**35**	**232**	**84**	**337**	**102**	**1,675**

(1) Risk weighted assets - as calculated for capital adequacy (Proper Conduct of Banking Business Regulation No. 201).

Note 12 – Operating Segments - Continued

For the six months ended June 30, 2012 (unaudited) - continued

Reported amounts (NIS in millions)

A. Information regarding operating segments [2]

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	1,840	(8)	181	102	174	(618)	1,671
Inter-segment	(975)	46	44	(16)	140	761	-
Total interest revenues, net	**865**	**38**	**225**	**86**	**314**	**143**	**1,671**
Non-interest financing revenues	4	-	-	-	38	(78)	(36)
Commissions and other revenues	392	27	117	29	99	56	720
Total revenues	**1,261**	**65**	**342**	**115**	**451**	**121**	**2,355**
Expenses with respect to credit losses	37	(3)	15	2	53	8	112
Operating and other expenses							
From outside operating segments	834	38	224	34	111	129	1,370
Inter-segment	(58)	3	(25)	33	41	6	-
Other operating expenses - total	**776**	**41**	**199**	**67**	**152**	**135**	**1,370**
Pre-tax profit	448	27	128	46	246	(22)	873
Provision for taxes on profit	155	9	44	16	85	(7)	302
After-tax profit	**293**	**18**	**84**	**30**	**161**	**(15)**	**571**
Share in net profits of affiliates, after tax	-	-	-	-	-	-	-
Net profit:							
Before attribution to non-controlling interest	293	18	84	30	161	(15)	571
Attributable to non-controlling interest	(25)	-	-	-	-	-	(25)
Attributable to equity holders of the banking corporation	**268**	**18**	**84**	**30**	**161**	**(15)**	**546**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**14.5%**	**30.5%**	**44.3%**	**14.9%**	**11.6%**	**(10.0%)**	**14.3%**
Average asset balance	85,009	2,393	6,740	4,733	27,190	22,978	149,043
Includes: Investments in associates	-	-	-	-	-	53	53
Average balance of liabilities	43,878	5,550	5,326	2,354	22,166	61,379	140,653
Average balance of risk assets [1]	50,537	1,582	5,220	5,213	35,626	5,541	103,719
Average balance of provident and mutual fund assets	-	-	-	-	-	72,249	72,249
Average balance of securities	26,499	7,548	6,097	3,551	60,639	41,245	145,579
Loans to the public, net (end balance)	87,605	1,188	6,606	4,716	23,271	-	123,386
Deposits from the public (end balance)	56,825	6,671	8,021	3,683	32,574	14,510	122,284
Average balance of other assets managed	20,393	-	167	209	313	-	21,082

B. Information on profit from interest revenues before expenses with respect to credit losses

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	549	12	174	75	272	-	1,082
Margin from receiving deposits	281	26	39	10	52	-	408
Other	35	-	12	1	(10)	143	181
Total interest revenues, net	**865**	**38**	**225**	**86**	**314**	**143**	**1,671**

(1) Risk weighted assets - as calculated for capital adequacy (Proper Conduct of Banking Business Regulation No. 201).
(2) Reclassified.

Note 12 – Operating Segments

For the three months ended June 30, 2013 (unaudited) - continued

Reported amounts (NIS in millions)

A. Information on operating segments

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	1,003	3	77	48	93	(351)	873
Inter-segment	(545)	17	40	(5)	87	406	-
Total interest revenues, net	**458**	**20**	**117**	**43**	**180**	**55**	**873**
Non-interest financing revenues	3	-	-	-	8	37	48
Commissions and other revenues	189	15	62	13	58	31	368
Total revenues	**650**	**35**	**179**	**56**	**246**	**123**	**1,289**
Expenses with respect to credit losses	195	-	21	2	(36)	(1)	181
Operating and other expenses							
From outside operating segments	431	14	120	15	47	79	706
Inter-segment	(30)	5	(14)	17	20	2	-
Other operating expenses - total	**401**	**19**	**106**	**32**	**67**	**81**	**706**
Pre-tax profit	54	16	52	22	215	43	402
Provision for taxes on profit	20	5	19	7	79	15	145
After-tax profit	**34**	**11**	**33**	**15**	**136**	**28**	**257**
Share in net profits of affiliates, after tax	-	-	-	-	-	1	1
Net profit:							
Before attribution to non-controlling interest	34	11	33	15	136	29	258
Attributable to non-controlling interest	(13)	-	-	-	-	-	(13)
Attributable to equity holders of the banking corporation	**21**	**11**	**33**	**15**	**136**	**29**	**245**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**1.8%**	**52.3%**	**31.3%**	**14.2%**	**18.9%**	**34.5%**	**11.1%**

B. Information on profit from interest revenues before expenses with respect to credit losses

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	318	8	97	37	136	-	596
Margin from receiving deposits	121	12	17	5	28	-	183
Other	19	-	3	1	16	55	94
Total interest revenues, net	**458**	**20**	**117**	**43**	**180**	**55**	**873**

Note 12 – Operating Segments - Continued

For the three months ended June 30, 2012 (unaudited) - Continued

Reported amounts (NIS in millions)

A. Information regarding operating segments[(1)]

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	1,219	(9)	66	49	96	(537)	884
Inter-segment	(778)	28	44	(7)	80	633	-
Total interest revenues, net	**441**	**19**	**110**	**42**	**176**	**96**	**884**
Non-interest financing revenues	3	1	-	-	6	(45)	(35)
Commissions and other revenues	192	14	56	12	44	37	355
Total revenues	**636**	**34**	**166**	**54**	**226**	**88**	**1,204**
Expenses with respect to credit losses	25	1	22	3	(10)	4	45
Operating and other expenses							
From outside operating segments	406	20	110	16	55	69	676
Inter-segment	(28)	(1)	(12)	17	21	3	-
Other operating expenses - total	**378**	**19**	**98**	**33**	**76**	**72**	**676**
Pre-tax profit	233	14	46	18	160	12	483
Provision for taxes on profit	84	5	17	7	57	4	174
After-tax profit	**149**	**9**	**29**	**11**	**103**	**8**	**309**
Share in net profits of affiliates, after tax	-	-	-	-	-	-	-
Net profit:	-	-	-	-	-	-	-
Before attribution to non-controlling interest	149	9	29	11	103	8	309
Attributable to non-controlling interest	(14)	-	-	-	-	-	(14)
Attributable to equity holders of the banking corporation	**135**	**9**	**29**	**11**	**103**	**8**	**295**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**14.5%**	**32.9%**	**30.1%**	**11.1%**	**14.7%**	**12.2%**	**15.4%**

B. Information on profit from interest revenues before expenses with respect to credit losses

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	294	6	89	38	161	-	588
Margin from receiving deposits	119	13	19	5	32	-	188
Other	28	-	2	(1)	(17)	96	108
Total interest revenues, net	**441**	**19**	**110**	**42**	**176**	**96**	**884**

(1) Reclassified.

Note 12 – Operating Segments

For the year ended December 31, 2012 (audited) - continued

Reported amounts (NIS in millions)

A. Information regarding operating segments[2]

	Household	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	(1,543)	85	133	(27)	324	1,028	-
Total interest revenues, net	**1,731**	**73**	**449**	**171**	**655**	**135**	**3,214**
Non-interest financing revenues	7	1	1	1	76	9	95
Commissions and other revenues	778	55	238	60	216	131	1,478
Total revenues	**2,516**	**129**	**688**	**232**	**947**	**275**	**4,787**
Expenses with respect to credit losses	65	(12)	36	8	178	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	853	58	246	90	466	12	1,725
Provision for taxes on profit	297	20	86	31	161	4	599
After-tax profit	**556**	**38**	**160**	**59**	**305**	**8**	**1,126**
Share in net profits of affiliates, after tax	-	-	-	-	-	-	-
Net profit:							
Before attribution to non-controlling interest	556	38	160	59	305	8	1,126
Attributable to non-controlling interest	(50)	-	-	-	-	-	(50)
Attributable to equity holders of the banking corporation	**506**	**38**	**160**	**59**	**305**	**8**	**1,076**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**12.9%**	**39.9%**	**38.8%**	**14.3%**	**10.5%**	**1.7%**	**13.1%**
Average asset balance	85,857	2,274	7,179	4,704	26,919	28,110	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	17,326	128,499
Average balance of other assets managed	20,206	2	191	224	261	-	20,884

B. Information on profit from interest revenues before expenses with respect to credit losses

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	1,140	31	344	144	552	-	2,211
Margin from receiving deposits	524	41	80	24	70	-	739
Other	67	1	25	3	33	135	264
Total interest revenues, net	1,731	73	449	171	655	135	3,214

(1) Risk weighted assets - as calculated for capital adequacy (Proper Conduct of Banking Business Regulation No. 201).

(2) Reclassified.

Note 13 - Cumulative Other Comprehensive Income

A. Changes to cumulative other comprehensive income, after tax effect

	Other comprehensive income (loss), before attribution to non-controlling interest					
	Adjustments for presentation of securities available for sale at fair value	Translation adjustments	Net gain from cash flow hedges	Total	Other comprehensive income attributed to non-controlling interest	Other comprehensive income attributable to equity holders of the banking corporation
Balance as of March 31, 2013	**14**	**(1)**	**3**	**16**	**3**	**13**
Net change in the period	(11)	-	(2)	(13)	(1)	(12)
Balance as of June 30, 2013	**3**	**(1)**	**1**	**3**	**2**	**1**
Balance as of March 31, 2012	**(39)**	**-**	**9**	**(30)**	**2**	**(32)**
Net change in the period	6	-	-	6	(2)	8
Balance as of June 30, 2012	**(33)**	**-**	**9**	**(24)**	**-**	**(24)**
Balance as of January 1, 2013	**-**	**-**	**3**	**3**	**3**	**-**
Net change in the period	3	(1)	(2)	-	(1)	1
Balance as of June 30, 2013	**3**	**(1)**	**1**	**3**	**2**	**1**
Balance as of January 1, 2012	**(48)**	**-**	**18**	**(30)**	**-**	**(30)**
Net change in the period	15	-	(9)	6	-	6
Balance as of June 30, 2012	**(33)**	**-**	**9**	**(24)**	**-**	**(24)**
Balance as of January 1, 2012	**(48)**	**-**	**18**	**(30)**	**-**	**(30)**
Net change in the period	48	-	(15)	33	3	30
Balance as of December 31, 2012	**-**	**-**	**3**	**3**	**3**	**-**

Note 13 - Cumulative other comprehensive income - continued

B. Changes in items of cumulative other comprehensive income before and after tax effect

	For the three months ended June 30					
	2013			2012		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Change in items of other comprehensive income, before attribution to non-controlling interest:						
Adjustments for presentation of securities available for sale at fair value						
Net unrealized gain (loss) from adjustments to fair value	11	(5)	6	19	(7)	12
Net gain (loss) with respect to available-for-sale securities reclassified to the statement of profit and loss	(28)	11	(17)	(9)	3	(6)
Net change in the period	**(17)**	**6**	**(11)**	**10**	**(4)**	**6**
Adjustments from translation of financial statements						
Adjustments from translation of financial statements	-	-	-	-	-	-
Net change in the period with respect to adjustments from translation of financial statements	**-**	**-**	**-**	**-**	**-**	**-**
Cash flow hedges						
Net gain (loss) with respect to cash flow hedges	(3)	1	(2)	-	-	-
Net change in the period with respect to cash flow hedges	**(3)**	**1**	**(2)**	**-**	**-**	**-**
Total net change in the period	**(20)**	**7**	**(13)**	**10**	**(4)**	**6**
Total net change in the period attributable to non-controlling interest	2	(1)	1	2	-	2
Total net change in the period attributable to equity holders of the banking corporation	**(18)**	**6**	**(12)**	**12**	**(4)**	**8**

(1) Reclassified.

	For the six months ended June 30						For the year ended December 31,		
	2013			2012			2012		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
	37	(13)	24	51	(18)	33	[1] 183	[1] (64)	[1] 119
	(33)	12	(21)	(28)	10	(18)	[1] (110)	[1] 39	[1] (71)
	4	**(1)**	**3**	**23**	**(8)**	**15**	**73**	**(25)**	**48**
	(1)	-	(1)	-	-	-	-	-	-
	(1)	**-**	**(1)**	**-**	**-**	**-**	**-**	**-**	**-**
	(3)	1	(2)	(12)	3	(9)	(22)	7	(15)
	(3)	**1**	**(2)**	**(12)**	**3**	**(9)**	**(22)**	**7**	**(15)**
	-	**-**	**-**	**11**	**(5)**	**6**	**51**	**(18)**	**33**
	2	(1)	1	(1)	1	-	(4)	1	(3)
	2	**(1)**	**1**	**10**	**(4)**	**6**	**47**	**(17)**	**30**

Note 14 – Other matters

1. On January 21, 2013, Tefahot Issuance issued NIS 1,305 million par value debentures (Series 29 and 35, CPI-linked), pursuant to the shelf prospectus dated February 25, 2011, for consideration of NIS 1,509 million. The proceeds from these issuances were deposited at the Bank under similar terms.

2. 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 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.
The stock option plan is based on the format 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. to Financial Statements as of December 31, 2012.
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 35 million (NIS 41 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	34,889

Note 14 - Other matters - Continued

3. 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 Weidman:
Mr. Moshe Weidman 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 funds / 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.

4. On May 27, 2013, the Knesset Finance Committee decided to increase the VAT rate to 18%, effective as from June 2, 2013 (the rate of profit tax and payroll tax payable by financial institutions increased correspondingly). 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 is not expected to have any 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 05, 2013.
Consequently, the tax rate applicable to the Bank as from 2014 would be 37.71%.
The expected effect of the increased corporate tax rate on the Bank's deferred tax balance is a revenue of NIS 28 million. This revenue is expected to be recognized in the financial statements as of September 30, 2013.

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

International Mortgage Center
9 Helene Hamalka Street
Jerusalem 9422105, Israel
Tel. 02-6755944, Fax. 02-6755210

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.
105 Allenby Street,
Tel Aviv 6513444, Israel
Tel. 03-5649731
Fax. 03-5649733

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