Condensed Financial Statements as of March 31, 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 March 31, 2013

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Condensed Board of Directors' Report for Financial Statements as of March 31, 2013

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on May 27, 2013, it was resolved to approve and publish the Board of Directors' consolidated report and the financial statements of Mizrahi Tefahot Bank Ltd. and its investees as of March 31, 2013.

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

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

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

Real Developments

In the first quarter of 2013, Israel's economy continued to grow – albeit at a more moderate rate than in 2012. According to estimates by the Central Bureau of Statistics, GDP grew in this quarter by 2.8%, compared to 2.9% in the corresponding period last year and to 3.2% in all of 2012. Per capita GDP grew in the first quarter of 2013 by 1.0%, compared to 1.1% in the corresponding period last year and to 1.3% in all of 2012. Imports of goods and services grew by 2.5%, following three consecutive quarters of negative growth and compared to an increase of 35.4% in the corresponding period last year.

Total uses in this quarter grew by 3.3%, compared to 11.6% growth in the corresponding period last year. Exports of goods and services grew by 13.5%, after posting negative growth of 1.0% in the year-ago period. Private consumption grew by 5.6%, similar to growth in the year-ago period. Investment in fixed assets saw negative growth of 14.7%, compared to growth of 3.5% in the corresponding period last year. Furthermore, public consumption expenditure contracted by 7.3%, compared to 3.4% growth in the year-ago period.

Inflation and exchange rates

The Consumer Price Index was unchanged in the first quarter of 2013, compared to an increase of 0.4% 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, footwear and healthcare. In April, the CPI increased by 0.4%, the lowest increase for this month in the past decade. In this quarter, the USD was devalued by 2.3% against the NIS. At end of March 2013, the USD/NIS exchange rate was 3.648, compared to 3.733 at the end of 2012. The EUR was devalued against the NIS by 5.3% in this period. At end of March 2013, the EUR/NIS exchange rate was 4.661, compared to 4.921 at the end of 2012. On May 22, 2013, the USD/NIS exchange rate was 3.665 and the EUR/NIS exchange rate was 4.745.

In support of the exchange rate, the Bank of Israel purchased in April 2013 foreign currency valued at USD 200 million, after having avoided interfering in the foreign currency market throughout 2012. Furthermore, on May 13, 2013, the Bank of Israel announced that in 2013 and subsequently it would buy foreign currency in order to offset the effect of natural gas production on exchange rates.

Monetary and fiscal policy

In the first quarter of 2013, the Bank of Israel lowered its interest rate once, from 2.00% at the end of 2012 to 1.75% in January. On May 13, 2013, the interest rate was lowered once more to 1.50%. This was in view of continued strength of the NIS, start of natural gas production from Tamar reservoir, lowered interest rates by central banks around the world and downward update of global growth forecasts.

In the first quarter of 2013, the government budget recorded a NIS 4.6 billion cumulative deficit, compared to a NIS 1.6 billion cumulative deficit in the corresponding period last year. The cumulative deficit for the 12 months ended March 2013 amounted to NIS 42 billion, or 4.5% of GDP. Tax revenues decreased in the first quarter of 2013 by only 0.3% over the corresponding period last year. Government expenditure increased by 1.3% in this period.

Based on the proposed budget presented to the Government in early May 2013, multiple tax raising measures along with Government spending cuts are planned in order to achieve the target deficit of 4.65% of GDP in 2013 and 3.0% of GDP in 2014.

In late January 2013, the Governor of the Bank of Israel announced his intended retirement on June 30, 2013, after more than 8 years in office.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in the first quarter of 2013 demand for new apartments (apartments sold and apartments constructed not for sale) was 9,885 apartments, a decrease of 0.7% over the corresponding period last year and of 10.4% over the first quarter of 2011.

In 2012, the pace of housing construction starts slowed down, with construction started on an annualized 39,800 residential units, compared to 45,700 residential units in 2011. However, this is still a high pace compared to the annual average over the past decade, which was 34,500 housing construction starts. The slow-down in housing construction starts resulted in decreased inventory of new apartments for sale from private development, which at the end of March 2013 was at 15,200 apartments, compared to 16,000 in March 2012 and to 15,600 at the end of 2012. Based on the average pace of sales in the six months ended March 31, 2013, this inventory would account for 9.8 months' sales - compared to 13.4 months in March 2012 and to 11.8 months at the end of 2012.

According to data from the Central Bureau of Statistics, in early 2013 housing prices continued to rise, although more moderately. Apartment prices, on nation-wide average, were higher by 10.5% in January 2013 compared to January

2012. The increase in housing prices, along with stable demand for housing, was reflected in a 25.0% increase in housing loan origination int he first quarter of 2013 compared to the corresponding period last year; in the first quarter of 2013, housing loans to the public amounted to NIS 12.0 billion, compared to NIS 9.6 billion in the the corresponding period last year and similar to the quarterly average in 2012, which was NIS 11.8 billion.

Capital market

In the first quarter of 2013, prices continued to rally, concurrently with lower trading volumes. Concerns about an economic slow-down and a sharp increase in Government deficit caused the Israeli equuty market to lag behind overseas markets.

Equity market - The leading benchmarks, Tel Aviv 25 and Tel Aviv 100, were higher in the first quarter of 2013 by 4.4% and 4.9%, compared to increase of 3.6% and 5.5%, respectively, in the corresponding period last year. The Tel Aviv 75 Index was higher by 5.9%, compared to an increase of 11.7% in the corresponding period last year. The Real Estate 15 Index was higher by 8.4%, compared to an increase of 5.9% in the corresponding period last year. The YETER Stock Index rose by 12.2%, compared to an increase of 2.8% in the corresponding period last year. Financial sector shares were also higher: The Banking and Financials 15 indices were higher by 1.8% and 4.6%, compared to increase of 7.4% and 4.3%, respectively, in the corresponding period last year.

Average daily trading volume in equities and convertible securities in the first quarter of 2013 was NIS 1.125 billion, compared to NIS 1.134 billion in the corresponding period last year.

Share issuance (excluding shares issued overseas) increased slightly, amounting to NIS 1.5 billion, compared to NIS 1.3 billion in the corresponding period last year.

Debenture market - The General Debenture Index was higher by 0.6% in the first quarter of 2013, compared to 1.9% in the corresponding period last year. The CPI-Linked Government Debenture Index decreased by 0.9% in the first quarter of 2013, compared to an increase of 1.2% in the corresponding period last year. The Non-Linked Debenture Index was up by 0.4% in the quarter, following an increase of 0.6% in the corresponding period last year. The key Tel Bond benchmarks were also higher. In the first quarter of 2013, the Tel Bond 20 Index was higher by 1.2%, compared to an increase of 2.0% in the corresponding period last year, and the Tel Bond 40 Index increased in the first quarter of 2013 by 1.5%, compared to an increase of 1.9% in the corresponding period last year.

The low interest rate environment was reflected by corporate debentures, with further lower spreads of their yield to maturity compared to Government debentures: Debentures rated AA traded at the end of the first quarter of 2013 at a spread of 0.77 percentage point, compared to 0.83 percentage point at the end of 2012, and 1.27 percentage point at the end of the corresponding period last year. Debentures rated A traded at the end of the first quarter of 2013 at a spread of 2.47 percentage point, compared to 3.74 percentage point at the end of 2012, and 3.47 percentage point at the end of the corresponding period last year. In the past quarter, the only AAA rated debentures were those of Israeli Electric Company - guaranteed by the State of Israel.

In total, the business sector raised from the public and from institutional investors by debenture issuance some NIS 11 billion in the first quarter of 2013, compared to NIS 12 billion in the corresponding period last year. The average daily trading volume in corporate debentures in 2012 amounted to NIS 4.3 billion, compared to NIS 4 billion in 2011 - an increase of 7.0%.

Global economy

The IMF lowered its global growth forecast for 2013 from 3.5% to 3.3%. The growth forecasts for Europe, USA and China were also revised downwards (-0.3%, 1,9% and 8.0%, respectively).

Unemployment in the Euro Zone continued to rise in the first quarter of 2013, reaching 12.1% in March. Monthly inflation, in annualized terms, was lower at 1.7% in March 2013, compared to 2.7% in March 2012.
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.

In the USA, in the first quarter of 2013 GDP growth was at 2.5%, compared to 0.4% in the previous quarter. The labor market was mixed, with unemployment at the end of the first quarter of 2013 at 7.6%, compared to 7.8% at the end of 2012 and 8.2% at the end of the year-ago period. Conversely, 504 thousand new jobs created in the first quarter 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 quarter of 2013.

In the first quarter of 2013, the Central Bank of Japan adopted an expansive monetary policy to impact the monetary base. The Central Bank committed to purchase debentures (with short or very long duration) at JPY 65 trillion (USD 700 billion) annually - or 10% of Japan's GDP.

In the first quarter of 2013, GDP in China grew by 7.7%, compared to growth rate of 7.9% in the final quarter of 2012. Annual inflation in China, as of March 2013, was at 2.1%, compared to 2.5% at the end of 2012 and 3.6% in the corresponding period last year.

The Dow Jones Index rose by 11.3% in the first quarter of 2013, compared to 7.0% in the corresponding period last year. The S&P 500 and NASDAQ 100 benchmarks rose in the first quarter of 2013 by 10.0% and 5.5%, respectively, compared to increase of 11.1% and 20.9% in the corresponding period last year.
The FTSE 100 index in the UK rose in the first quarter of 2013 by 8.7%, compared to increase of 3.1% in the corresponding period last year. The German DAX and French CAC benchmarks increased in the first quarter of 2013 by a modest 2.4% and 2.5%, respectively, compared to increase of 17.5% and 8.1% in the corresponding period last year. Japan's Nikkei index rose by 20.2% in the first quarter of 2013, similar to its 20.9% increase in the corresponding period last year.

Key Data for Bank Group

Evolution of income and expenses

					For the quarter ended
	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
	NIS in millions				
Profit and Profitability					
Interest revenues, net	802	643	900	(3) 884	(3) 787
Non-interest financing revenues (expenses)	33	229	(98)	(3) (35)	(3) (1)
Commissions and other revenues	373	373	385	(3) 355	(3) 365
Total revenues	**1,208**	**1,245**	**1,187**	**1,204**	**1,151**
Expenses with respect to credit loss	34	48	116	45	67
Operating and other expenses	717	740	676	676	694
Profit before provision for taxes	457	457	395	483	390
Provision for taxes	164	176	121	174	128
Net profit(1)	**280**	**270**	**260**	**295**	**251**

	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
	NIS in millions				
Balance sheet - key items					
Balance sheet total	165,557	162,242	157,810	155,311	150,244
Loans to the public, net	130,543	128,651	(3) 126,566	(3) 123,386	(3) 120,369
Securities	9,374	9,041	7,966	9,565	11,230
Deposits from the public	130,419	128,499	124,322	122,284	119,501
Debentures and subordinated notes	14,845	14,039	14,186	13,873	12,722
Equity (1)	9,108	8,811	8,514	8,231	7,933

	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
Key financial ratios (in percent)					
Net profit return on equity(2)	13.1	13.1	13.0	15.4	13.6
Net loans to the public to deposits from the public	100.1	100.1	101.8	100.9	100.7
Capital to total assets	5.50	5.43	5.40	5.30	5.28
Ratio of Tier I capital to risk elements	8.71	8.55	8.23	8.03	7.94
Total ratio of capital to risk elements	13.25	13.35	13.11	12.93	13.24
Cost income ratio	59.4	59.4	57.0	56.1	60.3
Expenses with respect to credit loss for the period to loans to the public, net (2)	0.10	0.15	0.37	0.15	0.22
Basic net earnings per share	1.23	1.19	1.15	1.31	1.12
Diluted net earnings per share	1.22	1.17	1.14	1.29	1.11

(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.

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.

Profit and Profitability

Net profit in the first quarter of 2013 amounted to NIS 280 million, compared to NIS 251 million in the corresponding period last year – an increase of 11.6%.

In conformity with the Bank of Israel directive, the Bank continues on its planned trajectory to increase its core capital ratio to 9% and should achieve this target earlier than projected (January 1, 2015). This increase naturally impacts the rate of return on equity.

The Tier I capital adequacy ratio as of March 31, 2013 was 8.71%, with a 15% increase in capital to NIS 1.2 billion compared to the corresponding period last year.

Annualized return on equity for the first quarterly of 2013 was 13.1%, compared to 13.6% in the corresponding period last year and to 13.1% for all of 2012.

The target for return on equity in 2017, in the new five-year strategic plan for 2013-2017 (based on Tier I capital adequacy of 9%) is 14.5%.

The following major factors affected Group operating income in the first quarter of 2013 compared to the corresponding period last year:

- Financing revenues (including net interest revenues and non-interest financing revenues) from current business operations increased in the first quarter of 2013 by NIS 72 million, an increase of 9.8% over the corresponding period last year.
- Expenses with respect to credit loss in the first quarter of 2013 decreased by NIS 33 million compared to the corresponding period last year [(1)].
- Commissions and other revenues in the first quarter of 2013 amounted to NIS 373 million, compared to NIS 365 million in the corresponding period last year – an increase of 2.2%. This increase was achieved despite various regulatory effects which reduced commission revenues. For details, see the below chapter on Legislation and Supervisory Directives over Bank Group Operations.
- Operating and other expenses increased in the first quarter of 2013 by NIS 23 million, or 3.3%, over the corresponding period last year.
- The rate of provision for taxes on profit in the first quarter of 2013 was 35.9%, compared to 32.8% in the corresponding period last year, primarily due the effect of share-based payment transactions in the corresponding period last year.

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(1) For details of the Supervisor of Banks' directives with regard to housing loans and their anticipated effect on the Bank's financial statements for the second quarter of 2013, see Note 1.C.6 to the financial statements (page 130).

Evolution of income and expenses

Net interest revenues and non-interest financing revenues [(1)] for the Group in the first quarter of 2013 amounted to NIS 835 million, compared to NIS 786 million in the corresponding period last year, an increase of 6.2%.

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

	First Quarter		
	2013	2012	Change rate
Interest revenues, net	802	[(3)] 787	1.9%
Non-interest financing revenues (expenses) [(1)]	33	[(3)] (1)	
Total financing revenues	**835**	**786**	**6.2%**
Less:			
Income from collection of interest on troubled debt	16	44	
Exchange rate and linkage differentials with respect to impaired debt	(7)	(12)	
Gain from realized debentures available for sale and from debentures held for trade, net	3	11	
Effect of accounting treatment of derivatives at fair value and others [(2)]	19	11	
Total financing revenues from current operations	**804**	**732**	**9.8%**

(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.

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

	First Quarter			
Operating segment	2013	2012 [(1)]	Change amount	Change rate
Retail banking:				
Mortgages	173	149	24	16.1%
Household	262	276	(14)	(5.1%)
Small business	115	115	-	-
Total retail	**550**	**540**	**10**	1.9%
Private banking	15	18	(3)	(16.7%)
Commercial banking	41	44	(3)	(6.8%)
Business banking	167	170	(3)	(1.8%)
Financial management	62	14	48	-
Total	**835**	**786**	**49**	**6.2%**

(1) Reclassified.

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

	First Quarter		
Linkage segment	2013	2012	Rate of change
Israeli currency - non-linked	84,412	78,690	7.3%
Israeli currency - linked to the CPI	49,519	47,018	5.3%
Foreign currency	14,714	15,426	(4.6%)
Total	**148,645**	**141,134**	**5.3%**

The increase in 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 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:

	For the quarter ended March 31,	
Linkage segment	2013	2012
Israeli currency - non-linked	2.67	2.80
Israeli currency - linked to the CPI	0.20	0.34
Foreign currency	2.52	2.28
Total	**2.02**	**2.09**

(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 expenses with respect to credit loss.

The decrease in interest margin in the NIS-denominated non-linked segment is due to lower margin on deposit activities due to the low interest rate environment.
In the foreign currency segment and in the NIS-denominated CPI-linked segment, which also includes average balances and interest components for financial derivatives, there was no material change in interest margin compared to the corresponding period last year.

Expenses with respect to credit loss [(1)] for the Group amounted to NIS 34 million in the first quarter of 2013, or an annualized rate of 0.10% of total loans to the public, net, compared with NIS 67 million, or an annualized rate of 0.22% of total loans to the public, net in the corresponding period last year - a decrease of NIS 33 million in total.

(1) For details of the Supervisor of Banks' directives with regard to housing loans and their anticipated effect on the Bank's financial statements for the second quarter of 2013, see Note 1.C.6 to the financial statements (page 130).

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

	First Quarter	
	2013	2012
Provision for credit loss on individual basis (including accounting write-offs)	32	36
Provision for credit loss on Group basis:		
By extent of arrears	8	1
Other	(6)	30
Total	34	67
Expense with respect to credit loss as percentage of total loans to the public (annualized):	**0.10%**	**0.22%**
With respect to commercial loans other than housing loans	**0.17%**	**0.53%**
With respect to housing loans	**0.06%**	**0.02%**

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

Operating segment	First Quarter	
	2013	2012
Retail banking:		
Mortgages	13	4
Household	11	8
Small business	3	(7)
Total retail	**27**	**5**
Private banking	(3)	(4)
Commercial banking	(7)	(1)
Business banking	16	63
Financial management	1	4
Total	**34**	**67**

Net interest revenues after expenses with respect to credit loss in the first quarter of 2013 amounted to NIS 768 million, compared to NIS 720 million in the corresponding period last year - an increase of 6.7%. Including non-interest financing revenues – an increase of 11.4%. See also analysis of financing revenues from current operations above.

Non-interest revenues for the Group in the first quarter of 2013 amounted to NIS 406 million, compared to NIS 364 million in the corresponding period last year. An increase of 11.5%. See remarks below.

Non-interest financing revenues (expenses) for the Group in the first quarter of 2013 amounted to revenues of NIS 33 million, compared to expenses of NIS 1 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 for the Group in the first quarter of 2013 amounted to NIS 368 million, compared to NIS 359 million in the corresponding period last year - an increase of 2.5%. This rate of increase was achieved despite the effects of regulatory provisions with regard to securities. For details, see the chapter on Legislation and Supervision of Bank Group Operations below.

Other revenues for the Group in the first quarter of 2013 amounted to NIS 5 million, compared to NIS 6 million in the corresponding period last year.

Operating and other expenses amounted to NIS 717 million in the first quarter of 2013, compared with NIS 694 million in the corresponding period last year - a year-over-year increase of 3.3%.

Payroll and associated expenses amounted to NIS 445 million in the first quarter of 2013, compared with NIS 434 million in the corresponding period last year - a year-over-year increase of 2.5%.

Maintenance and depreciation expenses for buildings and equipment for the Group amounted to NIS 166 million in the first quarter of 2013, compared with NIS 158 million in the corresponding period last year – a year-over-year increase of 5.1%.

Other expenses for the Group amounted to NIS 106 million in the first quarter of 2013, compared with NIS 102 million in the corresponding period last year - a year-over-year increase of 3.9%.

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

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

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

Pre-tax profit for the Group amounted to NIS 457 million in the first quarter of 2013, compared with NIS 390 million in the corresponding period last year - an increase of 17.2%.

The provision for taxes amounted to NIS 164 million in the first quarter of 2013, compared with NIS 128 million in the corresponding period last year - an increase of 28.1%.

The rate of provision for taxes on pre-tax profit in the first quarter of 2013 was 35.9%, compared to 32.8% in the corresponding period last year, primarily due the effect of share-based payment transactions in the corresponding period last year.

The Bank's share of after-tax loss of associates in the first quarter of 2013 amounted to NIS 2 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			
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net return on equity	13.1	13.1	13.0	15.4	13.6
Ratio of Tier I capital to risk elements at end of quarter	8.71	8.55	8.23	8.03	7.94

(1) Annualized return.

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

Earnings per share

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

	First Quarter		All of
	2013	2012	2012
Basic earnings per share:	1.23	1.12	4.77
Diluted earnings per share:	1.22	1.11	4.74

Development of balance sheet items

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

				Change rate compared to	
	March 31,		December 31,	March 31,	December 31,
	2013	2012	2012	2012	2012
Balance sheet total	165,557	150,244	162,242	10.2%	2.0%
Loans to the public, net	130,543	(1) 120,369	128,651	8.5%	1.5%
Deposits from the public	130,419	119,501	128,499	9.1%	1.5%
Securities	9,374	11,230	9,041	(16.5%)	3.7%
Shareholders' equity	9,108	7,933	8,811	14.8%	3.4%

Loans to the public, net – loans to the public, net on the consolidated balance sheet as of March 31, 2013 accounted for 79% of total assets, similar to the end of 2012. Loans to the public, net for the Group increased in the first quarter of 2013 by NIS 1.9 billion, an increase of 1.5%.

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

				Change over:	
	March 31,		December 31,	March 31,	December 31,
	2013	2012 (1)	2012	2012	2012
Israeli currency					
Non-linked	67,273	61,015	66,160	10.3%	1.7%
CPI- linked	50,251	45,575	49,221	10.3%	2.1%
Foreign currency and foreign currency linked	13,019	(1) 13,779	13,270	(5.5%)	(1.9%)
Total	**130,543**	**120,369**	**128,651**	**8.5%**	**1.5%**

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

				Change over:	
	March 31,		December 31,	March 31,	December 31,
Operating segment	2013	2012 (1)	2012	2012	2012
Retail banking:					
Mortgages	76,877	67,867	75,011	13.3%	2.5%
Household	18,161	16,956	18,002	7.1%	0.9%
Small business	7,371	6,482	6,860	13.7%	7.4%
Total retail	**102,409**	**91,305**	**99,873**	**12.2%**	**2.5%**
Private banking	1,191	1,849	1,178	(35.6%)	1.1%
Commercial banking	4,631	4,644	4,679	(0.3%)	(1.0%)
Business banking	22,312	(1) 22,571	22,921	(1.1%)	(2.7%)
Total – business and others	**28,134**	**29,064**	**28,778**	(3.2%)	**(2.2%)**
Total	**130,543**	**120,369**	**128,651**	**8.5%**	**1.5%**

(1) Reclassified.

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

Reported amounts (NIS in millions)	As of March 31, 2013			As of March 31, 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	1,517	386	1,903	1,370	383	1,753	1,664	423	2,087
Inferior credit risk	122	1	123	107	1	108	161	2	163
Credit risk under special supervision [(2)]	1,857	79	1,936	2,476	176	2,652	1,927	181	2,108
Total troubled credit risk	**3,496**	**466**	**3,962**	**3,953**	**560**	**4,513**	**3,752**	**606**	**4,358**
Includes: Non-impaired debt in arrears 90 days or longer [(2)].	1,622			1,757			1,659		
2. Non-performing assets [(3)]	**1,411**			**1,277**			**1,609**		

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

(2) Including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer, amounting to NIS 1,566 million (as of March 31, 2012 - NIS 1,693 million; as of December 31, 2012 - NIS 1,599 million).

(3) Non-accruing assets.

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:

	March 31, 2013	March 31, 2012	December 31, 2012
Ratio of impaired loans to the public to total loans to the public	1.15%	1.12%	1.28%
Ratio of impaired loans to the public to total non-housing loans	3.07%	2.84%	3.37%
Ratio of housing loans in arrears 90 days or longer to total loans to the public [(1)(2)]	1.19%	1.39%	1.23%
Ratio of provision for credit loss to total loans to the public	1.26%	1.45%	1.30%
Ratio of provision for credit loss to total credit risk with respect to the public	0.92%	1.04%	0.95%
Ratio of troubled credit risk to total credit risk with respect to the public	2.19%	2.65%	2.44%
Ratio of expenses with respect to credit loss to average balance of loans to the public, net	0.10%	0.22%	0.22%
Ratio of net write-offs to average balance of loans to the public, net	0.18%	0.15%	0.27%
Ratio of net write-offs to provision for credit loss	14.91%	10.81%	19.88%

(1) Ratio of non-impaired non-housing loans to the public in arrears 90 days or more to total loans to the public is negligible.

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

Below is the sector composition of the top 6 borrowers for the Group as of March 31, 2013 (NIS in millions):

Borrower no.	Sector	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
1.	Construction and real estate	299	609	908
2.	Construction and real estate	10	856	866
3.	Power and water	506	181	687
4.	Communications and computer services	639	47	686
5.	Construction and real estate	179	458	637
6.	Construction and real estate	53	525	578

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

Securities - the balance of investment in securities in the first quarter of 2013 increased by NIS 0.3 billion, and decreased by NIS 1.9 billion compared to the year-ago period. 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 compared to	
		March 31,	December 31,	March 31,	December 31,
	2013	2012	2012	2012	2012
Israeli currency					
CPI- linked	219	1,040	251	(78.9%)	(12.7%)
Non-linked	5,643	6,235	5,487	(9.5%)	2.8%
Foreign currency and foreign currency linked	3,396	3,872	3,184	(12.3%)	6.7%
Non-monetary items	116	83	119	39.8%	(2.5%)
Total	**9,374**	**11,230**	**9,041**	**(16.5%)**	**3.7%**

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	
	March 31, 2013	December 31, 2012
Government debentures:		
Government of Israel	8,535	8,114
US Government	64	95
Total government debentures	**8,599**	**8,209**
Debentures of banks in developed nations:		
UK	100	137
Israel	124	123
Germany	105	109
South Korea	25	26
Holland	19	38
Other	5	5
	378	**438**
Debentures of (non-banking) financial institutions in developed nations: (1)		
USA	50	51
UK	19	20
Luxembourg	10	11
Total	**79**	**82**
Total debentures of banks and financial institutions in developed nations	**457**	**520**
Corporate debentures (composition by industry sector):		
Industry	90	75
Construction	30	31
Power and water	55	57
Communications and computer services	-	1
Financial services	27	29
Total corporate debentures	**202**	**193**
Shares	**116**	**119**
Total securities	**9,374**	**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 March 31, 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%	1	-	-	32	33
20%-40%	-	-	-	2	2
Over 40%	-	-	-	-	-
Total securities available for sale	**1**	**-**	**-**	**34**	**35**

	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**	**-**	**-**	**-**	**54**

See Note 2 to the financial statements for additional information.

Deposits from the public - these account for 79% of total consolidated balance sheet as of March 31, 2013, similar to their weight at the end of 2012. In the first quarter of 2013, deposits from the public with the Bank Group amounted to NIS 1.9 billion, an increase of 1.5%.

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

				Change rate compared to	
	March 31,		December 31,	March 31,	December 31,
	2013	2012	2012	2012	2012
Israeli currency					
Non-linked	82,431	71,569	83,411	15.2%	(1.2%)
CPI- linked	22,369	22,943	21,823	(2.5%)	2.5%
Foreign currency and foreign currency linked	25,619	24,989	23,265	2.5%	10.1%
Total	**130,419**	**119,501**	**128,499**	**9.1%**	**1.5%**

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

				Change rate compared to	
	March 31,		December 31,	March 31,	December 31,
	2013	2012	2012	2012	2012
Retail banking:					
Household	58,760	55,172	58,645	6.5%	0.2%
Small business	8,396	7,238	8,159	16.0%	2.9%
Total retail	**67,156**	**62,410**	**66,804**	**7.6%**	**0.5%**
Private banking	6,267	6,503	7,077	(3.6%)	(11.4%)
Commercial banking	3,485	3,325	3,358	4.8%	3.8%
Business banking	35,986	32,046	33,934	12.3%	6.0%
Financial management	17,525	15,217	17,326	15.2%	1.1%
Total	**130,419**	**119,501**	**128,499**	**9.1%**	**1.5%**

The ratio of shareholders' equity to balance sheet total for the Group as of March 31, 2013 was 5.50%, 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 said instructions set forth 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 December 31, 2012, the Advisory Committee on Banking Business received the draft revisions 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 draft directives and the anticipated effect on the Bank's capital adequacy, see below chapter "Legislation and Supervision of Bank Group Operations".

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

	March 31, 2013	December 31, 2012
Ratio of Tier I capital to risk elements	8.71	8.55
Ratio of total capital to risk elements	13.25	13.35
Minimum total capital ratio required by the directives of the Supervisor of Banks	9.00	9.00

Major Investees

The contribution of investees to net operating profit million in the first quarter of 2013 amounted to NIS 13 million, compared with NIS 32 million in the corresponding period last year.

Excluding the effect of exchange rates, contribution of investees amounted to NIS 30 million, compared to NIS 32 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 quarter of 2013 amounted to NIS 11.1 million, similar to the corresponding period last year. Bank Yahav's net profit return on equity in the first quarter of 2013 was 10.4% on annualized basis, compared to 11.8% in the corresponding period last year. Bank Yahav's balance sheet total as of March 31, 2013 amounted to NIS 18,551 million, compared to NIS 18,367 million as of December 31, 2012. The balance of loans to the public, net as of March 31, 2013 amounted to NIS 6,183 million, compared to NIS 6,124 million at end of 2012. The balance of deposits from the public as of March 31, 2013 amounted to NIS 15,878 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 quarter of 2013 amounted to NIS 15.9 million, compared to NIS 17.3 million in the corresponding period last year.

Net profit return on equity in the first quarter of 2013 was 10.8% on annualized basis, compared to 13.3% 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 quarter of 2013 amounted to CHF 0.3 million, similar to the corresponding period last year.

Mizrahi Bank Switzerland's balance sheet total as of March 31, 2013 amounted to CHF 155 million, compared to CHF 167 million at the end of 2012.

Loans to the public as of March 31, 2013 amounted to CHF 59 million, compared to CHF 53 million at end of 2012. The deposits with banks as of March 31, 2013 amounted to CHF 85 million, compared to CHF 103 million at end of 2012. Deposits from the public as of March 31, 2013 amounted to CHF 97 million, compared to CHF 110 million at end of 2012. Deposits from banks as of March 31, 2013 amounted to CHF 0.1 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 quarter of 2013, which includes the contribution of Mizrahi Bank Switzerland to net profit, amounted to a loss of NIS 15 million, compared with profit of NIS 1.4 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 quarter of the year amounted to a NIS 1.5 million profit, compared to NIS 1.1 million in the corresponding period last year.

In recent months, authorities in the USA and Switzerland are in negotiations with regard to an investigation by US authorities into Swiss banks, concerning 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. No personally identifiable information, such as client names, has been provided. Mizrahi Bank Switzerland cooperates with Swiss authorities and acts in adherence to applicable statutory provisions.

As of this date, based on information available to the Bank and the status of on-going negotiations, there is no material impact to current business and financial standing of Mizrahi Bank Switzerland. Currently, based on existing information, the Bank is unable to estimate the expected impact to the business and financial standing of Mizrahi Bank Switzerland.

Recently, authorities in the USA and in Switzerland have been negotiating an MOU with regard to this issue. As of the signing of these condensed financial statements, the Bank has no further information about the agreed understandings, if any, between authorities in the USA and in Switzerland. At this stage the Bank is unable to estimate the expected impact, if any, of these agreed understandings, if at all, on the business and financial standing of Mizrahi Bank Switzerland

Investment in non-banking corporations

The Bank manages nostro investments in non-banking corporations. Shares of non-banking corporations in which the Bank thus invested were acquired for the purpose of earning capital gains, and are listed at fair value on the available-for-sale security portfolio and under investment in associates, where the Bank has a material investment in such entity. About 3.4% 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 March 31, 2013 amounted to NIS 143 million, compared to NIS 146 million at end of 2012. Net profit from dividends and realized gain on investments in non-banking corporations, after provision for impairment, amounted in the first quarter of 2013 to NIS 3 million, similar to the corresponding period last year.

Financial Information Regarding Operating Segments

Bank Group operating segments

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

The Bank's operating segments are:

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

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

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

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

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

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

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

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

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

For further details, inter alia, with regard to division into operating segments and the principles used for attributing balances, income 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 quarter		Percentage of total net profit in the first quarter		Return on equity (in %) in the first quarter	
	2013	2012	2013	2012	2013	2012
Household:						
Mortgages	99	94	35	37	12.2	14.2
Other	14	39	5	16	5.3	17.3
Private banking	7	9	3	4	32.8	31.3
Small business	42	55	15	22	42.2	65.7
Commercial banking	22	19	8	8	21.7	19.6
Business banking	89	58	31	23	12.1	8.6
Financial management	7	(23)	3	(10)	7.2	-
Total	**280**	**251**	**100**	**100**	**13.1**	**13.6**

(1) Reclassified.

Below are Bank Group operating results by operating segment:

Results of Household Segment

	For the quarter ended March 31, 2013					For the quarter ended March 31, 2012				
	Banking and finance	Credit cards	Capital market	Mortga-ges	Total	Banking and finance	Credit cards	Capital market	Mortga-ges	Total
	NIS in millions									
Interest revenues, net:										
From outside operating segments	78	7	-	617	702	59	7	-	555	621
Inter-segment	180	(5)	-	(441)	(266)	214	(5)	-	(406)	(197)
Total interest revenues, net	**258**	**2**	**-**	**176**	**436**	**273**	**2**	**-**	**149**	**424**
Non-interest financing revenues	-	-	2	(3)	(1)	(1)	-	2	-	1
Commissions and other revenues	63	31	42	58	194	68	30	41	61	200
Total revenues	**321**	**33**	**44**	**231**	**629**	**340**	**32**	**43**	**210**	**625**
Expenses with respect to credit loss	11	-	-	13	24	8	-	-	4	12
Operating and other expenses										
From outside operating segments	352	6	15	64	437	341	7	14	66	428
Inter-segment	(26)	-	-	-	(26)	(29)	(1)	-	-	(30)
Total operating and other expenses	**326**	**6**	**15**	**64**	**411**	**312**	**6**	**14**	**66**	**398**
Pre-tax profit	(16)	27	29	154	194	20	26	29	140	215
Provision for taxes on profit	(5)	10	10	55	70	5	10	10	46	71
After-tax profit	**(11)**	**17**	**19**	**99**	**124**	**15**	**16**	**19**	**94**	**144**
Net profit (loss):										
Before attribution to non-controlling interest	(11)	17	19	99	124	15	16	19	94	144
Attributable to non-controlling interest	(11)	-	-	-	(11)	(11)	-	-	-	(11)
Attributable to equity holders of the banking corporation	**(22)**	**17**	**19**	**99**	**113**	**4**	**16**	**19**	**94**	**133**
Return on capital (net profit as % of average capital)					**10.5%**					**15.0%**
Average asset balance	14,950	2,219	-	75,240	92,409	14,814	2,378	-	70,834	88,026
Average balance of liabilities	54,193	2,219	-	97	56,509	53,588	2,378	-	514	56,480
Average balance of risk assets	15,324	-	-	39,440	54,764	14,767	-	-	35,276	50,043
Average balance of securities	-	-	29,475	-	29,475	-	-	24,100	-	24,100
Loans to the public, net (end balance)	15,282	2,879	-	76,877	95,038	14,353	2,603	-	67,867	84,823
Deposits from the public (end balance)	58,760	-	-	-	58,760	55,172	-	-	-	55,172
Average balance of other assets managed	9,353	-	-	10,556	19,909	8,393	-	-	12,078	20,471
Profit from interest revenues before expenses with respect to credit loss:										
Margin from credit granting operations	136	2	-	170	308	111	2	-	142	255
Margin from receiving deposits	116	-	-	-	116	162	-	-	-	162
Other	6	-	-	6	12	-	-	-	7	7
Total interest revenues, net	**258**	**2**	**-**	**176**	**436**	**273**	**2**	**-**	**149**	**424**

Contribution of the household segment to Group profit in the first quarter of 2013 amounted to NIS 113 million, compared to NIS 133 million in the corresponding period last year - a decrease of 15.0%. Below are key factors affecting the change in segment contribution:

Contribution of mortgages in the first quarter of 2013 amounted to NIS 99 million, compared to NIS 94 million in the corresponding period last year - an increase of 5.3%. The increase is primarily due to an increase of 18.1% in net interest revenues before expenses with respect to credit loss, which is primarily due to expanded operations, reflected in an increase of 6.2% in average assets. Conversely, expenses with respect to credit loss attributed to this sub-segment increased by NIS 9 million.

Contribution of the household segment (except for mortgages) in the first quarter of 2013 amounted to NIS 14 million, compared to NIS 39 million in the corresponding period last year - a decrease of NIS 25 million. Net interest revenues before expenses with respect to credit loss decreased by 5.5%, primarily due to a decrease in margin from receiving deposits, due to the low interest rate environment. Moreover, operating expenses increased by 4.5%.

Volume of mortgages granted by the segment is as follows:

	Loans granted (NIS in millions)		
	First Quarter		
	2013	2012	Rate of change
Mortgages originated (for housing and any purpose)			
From Bank funds	4,648	3,761	23.6%
From Treasury funds:			
Directed loans	42	35	20.0%
Standing loans and grants	41	55	(25.5%)
Total new loans	4,731	3,851	**22.9%**
Re-financed loans	577	396	45.7%
Total loans issued	**5,308**	**4,247**	**25.0%**
Number of borrowers (includes re-financed loans)	11,672	11,553	1.0%

Results of Private Banking Segment

	For the quarter ended March 31, 2013			For the quarter ended March 31, 2012		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Interest revenues, net:						
From outside operating segments	(1)	-	(1)	1	-	1
Inter-segment	16	-	16	18	-	18
Total interest revenues, net	**15**	**-**	**15**	**19**	**-**	**19**
Non-interest financing revenues	-	-	-	(1)	-	(1)
Commissions and other revenues	5	10	15	5	8	13
Total revenues	**20**	**10**	**30**	**23**	**8**	**31**
Expenses with respect to credit loss	(3)	-	(3)	(4)	-	(4)
Operating and other expenses						
From outside operating segments	22	-	22	18	-	18
Inter-segment	-	-	-	4	-	4
Total operating and other expenses	**22**	**-**	**22**	**22**	**-**	**22**
Pre-tax profit	1	10	11	5	8	13
Provision for taxes on profit	-	4	4	1	3	4
Net profit attributable to equity holders of the banking corporation	**1**	**6**	**7**	**4**	**5**	**9**
Return on capital (net profit as % of average capital)			**32.8%**			**31.3%**
Average asset balance	2,355	-	2,355	3,036	-	3,036
Average balance of liabilities	6,833	-	6,833	7,142	-	7,142
Average balance of risk assets	1,106	-	1,106	1,610	-	1,610
Average balance of securities	-	8,385	8,385	-	9,690	9,690
Loans to the public, net (end balance)	1,191	-	1,191	1,849	-	1,849
Deposits from the public (end balance)	6,267	-	6,267	6,503	-	6,503
Average balance of other assets managed	7	-	7	-	-	-
Profit from interest revenues before expenses with respect to credit loss:						
Margin from credit granting operations	7	-	7	6	-	6
Margin from receiving deposits	7	-	7	13	-	13
Other	1	-	1	-	-	-
Total interest revenues, net	**15**	**-**	**15**	19	**-**	19

Contribution of the private banking segment to Group profit in the first quarter of 2013 amounted to NIS 7 million, compared to NIS 9 million in the corresponding period last year - a decrease of NIS 2 million.

Below are key factors affecting the change in segment contribution:

Net interest revenues decreased by NIS 4 million, primarily due to a decrease in margin from receiving deposits, due to the low interest rate environment. There was no significant change in non-interest financing revenues, commissions and other revenues, expenses with respect to credit loss and total operating and other expenses, compared to the corresponding period last year.

Results of the Small Business Segment

	For the quarter ended March 31, 2013				For the quarter ended March 31, 2012			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
								NIS in millions
Interest revenues, net:								
From outside operating segments	147	2	-	149	113	2	-	115
Inter-segment	(33)	(1)	-	(34)	1	(1)	-	-
Total interest revenues, net	**114**	**1**	**-**	**115**	**114**	**1**	**-**	**115**
Non-interest financing revenues	-	-	-	-	-	-	-	-
Commissions and other revenues	51	4	6	61	52	3	6	61
Total revenues	**165**	**5**	**6**	**176**	**166**	**4**	**6**	**176**
Expenses with respect to credit loss	3	-	-	3	(7)	-	-	(7)
Operating and other expenses								
From outside operating segments	117	1	1	119	112	1	1	114
Inter-segment	(11)	-	-	(11)	(13)	-	-	(13)
Total operating and other expenses	**106**	**1**	**1**	**108**	**99**	**1**	**1**	**101**
Pre-tax profit	56	4	5	65	74	3	5	82
Provision for taxes on profit	20	1	2	23	24	1	2	27
Net profit attributable to equity holders of the banking corporation	**36**	**3**	**3**	**42**	**50**	**2**	**3**	**55**
Return on capital (net profit as % of average capital)				**42.2%**				**65.7%**
Average asset balance	7,293	328	-	7,621	6,377	293	-	6,670
Average balance of liabilities	8,760	-	-	8,760	8,107	-	-	8,107
Average balance of risk assets	5,311	-	-	5,311	5,160	-	-	5,160
Average balance of securities	-	-	5,572	5,572	-	-	6,980	6,980
Loans to the public, net (end balance)	7,029	342	-	7,371	6,187	295	-	6,482
Deposits from the public (end balance)	8,396	-	-	8,396	7,238	-	-	7,238
Average balance of other assets managed	200	-	-	200	231	-	-	231
Profit from interest revenues before expenses with respect to credit loss:								
Margin from credit granting operations	91	-	-	91	85	-	-	85
Margin from receiving deposits	17	-	-	17	20	-	-	20
Other	6	1	-	7	9	1	-	10
Total interest revenues, net	**114**	**1**	**-**	**115**	**114**	**1**	**-**	**115**

Contribution of the small business segment to Group profit in the first quarter of 2013 amounted to NIS 42 million, compared to NIS 55 million in the corresponding period last year - a decrease of 23.6%. Below are key factors affecting the change in segment contribution: Net interest revenues were impacted by interest margin erosion on deposits, due to the low interest rate environment. Conversely, the volume of credit operations increased. Total net interest revenues were unchanged compared to the corresponding period last year. Expenses with respect to credit loss amounted to NIS 3 million, compared to revenues amounting to NIS 7 million in the corresponding period last year. The revenues in the corresponding period last year were primarily due to a decrease in group-based provision attributed to this segment. Operating expenses increased by 6.9% year-over-year.

Results of the Commercial Banking Segment

	For the quarter ended March 31, 2013				For the quarter ended March 31, 2012			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
								NIS in millions
Interest revenues, net:								
From outside operating segments	49	-	-	49	53	-	-	53
Inter-segment	(8)	-	-	(8)	(9)	-	-	(9)
Total interest revenues, net	**41**	**-**	**-**	**41**	**44**	**-**	**-**	**44**
Non-interest financing revenues	-	-	-	-	-	-	-	-
Commissions and other revenues	11	1	3	15	14	1	2	17
Total revenues	**52**	**1**	**3**	**56**	**58**	**1**	**2**	**61**
Expenses with respect to credit loss	(7)	-	-	(7)	(1)	-	-	(1)
Operating and other expenses								
From outside operating segments	16	-	-	16	18	-	-	18
Inter-segment	14	-	-	14	16	-	-	16
Total operating and other expenses	**30**	**-**	**-**	**30**	**34**	**-**	**-**	**34**
Pre-tax profit	29	1	3	33	25	1	2	28
Provision for taxes on profit	10	-	1	11	8	-	1	9
Net profit attributable to equity holders of the banking corporation	**19**	**1**	**2**	**22**	**17**	**1**	**1**	**19**
Return on capital (net profit as % of average capital)				**21.7%**				**19.6%**
Average asset balance	4,617	50	-	4,667	4,888	55	-	4,943
Average balance of liabilities	3,319	-	-	3,319	3,747	-	-	3,747
Average balance of risk assets	5,084	-	-	5,084	5,230	-	-	5,230
Average balance of securities	-	-	3,731	3,731	-	-	3,212	3,212
Loans to the public, net (end balance)	4,580	51	-	4,631	4,593	51	-	4,644
Deposits from the public (end balance)	3,485	-	-	3,485	3,325	-	-	3,325
Average balance of other assets managed	198	-	-	198	262	-	-	262
Profit from interest revenues before expenses with respect to credit loss:								
Margin from credit granting operations	35	-	-	35	37	-	-	37
Margin from receiving deposits	4	-	-	4	5	-	-	5
Other	2	-	-	2	2	-	-	2
Total interest revenues, net	**41**	**-**	**-**	**41**	**44**	**-**	**-**	**44**

Contribution of the commercial banking segment to Group profit in the first quarter of 2013 amounted to NIS 22 million, compared to NIS 19 million in the corresponding period last year, an increase of 15.8%. Below are key factors affecting the change in segment contribution: Total net interest revenues decreased by NIS 3 million, due *inter alia* to erosion of interest margins on deposits due to the low interest rate environment. Expenses with respect to credit loss amounted to revenues amounting to NIS 7 million, compared to revenues amounting to NIS 1 million in the corresponding period last year.

The revenue recognized in this quarter was with respect to a single client. Total operating expenses decreased by NIS 4 million compared to the corresponding period last year.

Results of the Business Banking Segment

	For the quarter ended March 31, 2013				For the quarter ended March 31, 2012			
	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	26	-	87	113	4	-	74	78
Inter-segment	82	-	(38)	44	88	-	(28)	60
Total interest revenues, net	**108**	**-**	**49**	**157**	**92**	**-**	**46**	**138**
Non-interest financing revenues	8	2	-	10	30	2	-	32
Commissions and other revenues	18	10	34	62	23	6	26	55
Total revenues	**134**	**12**	**83**	**229**	**145**	**8**	**72**	**225**
Expenses with respect to credit loss	25	-	(9)	16	52	-	11	63
Operating and other expenses								
From outside operating segments	44	2	8	54	48	-	8	56
Inter-segment	16	-	3	19	17	-	3	20
Total operating and other expenses	**60**	**2**	**11**	**73**	**65**	**-**	**11**	**76**
Pre-tax profit	49	10	81	140	28	8	50	86
Provision for taxes on profit	18	4	29	51	9	3	16	28
Net profit (loss) attributable to equity holders of the banking corporation	**31**	**6**	**52**	**89**	**19**	**5**	**34**	**58**
Return on capital (net profit as % of average capital)				**12.1%**				**8.6%**
Average asset balance	17,077	-	8,134	25,211	20,580	-	7,405	27,985
Average balance of liabilities	32,006	-	2,253	34,259	32,565	-	2,364	34,929
Average balance of risk assets	18,934	-	16,890	35,824	20,204	-	15,056	35,260
Average balance of securities	-	61,328	-	61,328	-	60,712	-	60,712
Loans to the public, net (end balance)	15,084	-	7,228	22,312	16,319	-	6,252	22,571
Deposits from the public (end balance)	33,809	-	2,177	35,986	29,987	-	2,059	32,046
Average balance of other assets managed	202	-	66	268	36	-	125	161
Profit from interest revenues before expenses with respect to credit loss:								
Margin from credit granting operations	92	-	45	137	75	-	36	111
Margin from receiving deposits	18	-	4	22	16	-	4	20
Other	(2)	-	-	(2)	1	-	6	7
Total interest revenues, net	**108**	**-**	**49**	**157**	**92**	**-**	**46**	**138**

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

(2) Reclassified.

Contribution of the business banking segment to Group profit in the first quarter of 2013 amounted to NIS 89 million, compared to NIS 58 million in the corresponding period last year, an increase of 53.4%.

Below are key factors affecting the change in segment contribution:

Contribution of the construction and real estate sector increased by NIS 18 million, or 52.9%, compared to the corresponding period last year - primarily due to an increase of 15.3% in total revenues attributed to commissions from financing business, included under non-interest revenues. Expenses with respect to credit loss amounted to revenues of NIS 9 million attributed to a single client, compared to expenses amounting to NIS 11 million in the corresponding period last year.

The contribution of business banking excluding construction and real estate increased by 54.1% over the corresponding period last year. Total financing revneues (interest and non-interest) attributed to business banking, excluding construction and real estate, decreased by NIS 6 million year over year. Expenses with respect to credit loss attributable to business banking excluding construction and real estate, decreased by NIS 27 million.Total operating expenses attributed to business banking, excluding construction and real estate, were essentially unchanged.

Results of the Financial Management Segment

	For the quarter ended March 31, 2013			For the quarter ended March 31, 2012 [1]		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Interest revenues, net:						
From outside operating segments	(210)	-	(210)	(81)	-	(81)
Inter-segment	248	-	248	128	-	128
Total interest revenues, net	**38**	**-**	**38**	**47**	**-**	**47**
Non-interest financing revenues	23	1	24	(34)	1	(33)
Commissions and other revenues	19	7	26	6	13	19
Total revenues	**80**	**8**	**88**	**19**	**14**	**33**
Expenses with respect to credit loss	1	-	1	4	-	4
Operating and other expenses						
From outside operating segments	68	1	69	58	2	60
Inter-segment	4	-	4	3	-	3
Total operating and other expenses	**72**	**1**	**73**	**61**	**2**	**63**
Pre-tax profit (loss)	7	7	14	(46)	12	(34)
Provision for taxes on profit (loss)	3	2	5	(15)	4	(11)
After-tax profit (loss)	**4**	**5**	**9**	**(31)**	**8**	**(23)**
Share in net profits of affiliates, after tax	(2)	-	(2)	-	-	-
Net profit (loss):						
Before attribution to non-controlling interest	2	5	7	(31)	8	(23)
Attributable to non-controlling interest	-	-	-	-	-	-
Attributable to equity holders of the banking corporation	**2**	**5**	**7**	**(31)**	**8**	**(23)**
Return on capital (net profit as % of average capital)			**7.2%**			**-**
Average asset balance	25,973	-	25,973	19,153	-	19,153
Includes: Investments in associates	61	-	61	56	-	56
Average balance of liabilities	39,574	-	39,574	31,198	-	31,198
Average balance of risk assets	5,603	-	5,603	5,348	-	5,348
Average balance of provident and mutual fund assets	80,273	-	80,273	73,127	-	73,127
Average balance of securities	-	44,147	44,147	-	32,886	32,886
Loans to the public, net (end balance)	-	-	-	-	-	-
Deposits from the public (end balance)	17,525	-	17,525	15,217	-	15,217
Profit from interest revenues before expenses with respect to credit loss:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	38	-	38	47	-	47
Total interest revenues, net	**38**	**-**	**38**	**47**	**-**	**47**

(1) Reclassified.

Contribution of the financial management segment to Group profit in the first quarter of 2013 amounted to a profit of NIS 7 million, compared to a loss of NIS 23 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 48 million, primarily due to fair value and other effects. Commissions and other revenues increased by NIS 7 million, while operating and other expenses increased by NIS 10 million, or 15.9%.

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 quarter ended March 31, 2013			
	Household	Small business	Commercial banking	Total consolidated
Interest revenues, net	2	1	-	3
Non-interest financing revenues	-	-	-	-
Commissions and other revenues	31	4	1	36
Total revenues	**33**	**5**	**1**	**39**
Expenses with respect to credit loss	-	-	-	-
Operating and other expenses	6	1	-	7
Pre-tax profit	**27**	**4**	**1**	**32**
Provision for taxes on profit	10	1	-	11
Net profit	**17**	**3**	**1**	**21**

	For the quarter ended March 31, 2012			
	Household	Small business	Commercial banking	Total consolidated
Interest revenues, net	2	1	-	3
Non-interest financing revenues	-	-	-	-
Commissions and other revenues	30	3	1	34
Total revenues	**32**	**4**	**1**	**37**
Expenses with respect to credit loss	-	-	-	-
Operating and other expenses	6	1	-	7
Pre-tax profit	**26**	**3**	**1**	**30**
Provision for taxes on profit	10	1	-	11
Net profit	**16**	**2**	**1**	**19**

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

	For the quarter ended March 31, 2013						
	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net	-	-	-	-	-	-	-
Non-interest financing revenues	2	-	-	-	2	1	5
Commissions and other revenues	42	10	6	3	10	7	78
Total revenues	**44**	**10**	**6**	**3**	**12**	**8**	**83**
Expenses with respect to credit loss	-	-	-	-	-	-	-
Operating and other expenses	15	-	1	-	2	1	19
Pre-tax profit	**29**	**10**	**5**	**3**	**10**	**7**	**64**
Provision for taxes on profit	10	4	2	1	4	2	23
Net profit	**19**	**6**	**3**	**2**	**6**	**5**	**41**

	For the quarter ended March 31, 2012						
	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net	-	-	-	-	-	-	-
Non-interest financing revenues	2	-	-	-	2	1	5
Commissions and other revenues	41	8	6	2	6	13	76
Total revenues	**43**	**8**	**6**	**2**	**8**	**14**	**81**
Expenses with respect to credit loss	-	-	-	-	-	-	-
Operating and other expenses	14	-	1	-	-	2	17
Pre-tax profit	**29**	**8**	**5**	**2**	**8**	**12**	**64**
Provision for taxes on profit	10	3	2	1	3	4	23
Net profit	**19**	**5**	**3**	**1**	**5**	**8**	**41**

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 set forth 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. (hereinafter: ("the holding company"). The Swiss subsidiary is subject to the regulatory laws in Switzerland.

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

- **Los Angeles Branch:** The branch is primarily engaged in commercial banking, participating in syndicated loans and receiving deposits. Deposits with this branch are insured by the Federal Deposit Insurance Corporation(FDIC). The branch's clients are local, Israeli and international clients.
- **London Branch:** The branch is engaged mainly in business banking, including participation in loan syndicates, foreign trade, credit, receiving deposits, foreign currency trade and providing private banking services. The branch's clients are local, Israeli and international clients.
- **Cayman Islands Branch:** The 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 quarter ended March 31, 2013				
	Household	Private banking	Business banking	Financial management	Total
Interest revenues, net	1	11	11	7	30
Non-interest financing revenues	-	-	2	(3)	(1)
Commissions and other revenues	-	11	-	1	12
Total revenues	**1**	**22**	**13**	**5**	**41**
Expenses with respect to credit loss	-	(1)	-	-	(1)
Operating and other expenses	1	17	10	2	30
Pre-tax profit	**-**	**6**	**3**	**3**	**12**
Provision for taxes on profit	-	2	2	1	5
Net profit	**-**	**4**	**1**	**2**	**7**

	For the quarter ended March 31, 2012				
	Household	Private banking	Business banking	Financial management	Total
Interest revenues, net	1	16	3	8	28
Non-interest financing revenues	-	(1)	4	-	3
Commissions and other revenues	-	9	2	-	11
Total revenues	**1**	**24**	**9**	**8**	**42**
Expenses (reduced expenses) with respect to credit loss	-	(4)	-	-	(4)
Operating and other expenses	1	15	11	2	29
Pre-tax profit	**-**	**13**	**(2)**	**6**	**17**
Provision for taxes on profit	-	4	(1)	2	5
Net profit	**-**	**9**	**(1)**	**4**	**12**

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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 March 31, 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 172 billion as of March 31, 2013, compared with NIS 165 billion at the end of 2012. Revenues from securities transactions for the Group amounted to NIS 54 million in the first quarter of 2013, compared with NIS 55 million in the corresponding period last year - a decrease of 1.8%.

Activity by extent of collection – the Group has credit balances secured by deposits whose repayment to the depositor is contingent on collection of credit balance with respect to these deposits. The Bank receives margin- or collection-fee based revenue. The balance of credit from deposits based on extent of collection as of March 31, 2013 amounted to NIS 14.8 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 March 31, 2013 amounted to NIS 130.4 billion, compared to NIS 128.5 billion at end of 2012. Deposits from the public in the CPI-linked segment increased in the first quarter of 2013 by 2.5%; deposits from the public in the foreign currency and foreign-currency-linked segment increased by 10.1%; and deposits from the public in the NIS-denominated, non-CPI-linked segment decreased by 1.2%. 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, similar to the balance as of December 31, 2012.

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 March 31, 2013, issued and listed for trading amounted to NIS 1,702 million par value, issued for consideration amounting to NIS 1,644 million.

The revalued balance of the complex capital instruments as of March 31, 2013 was NIS 1.9 billion, similar to the end of 2012.

Rating of Bank obligations

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

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 rating 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
Capital adequacy	Quantitative disclosure	Risk Management chapter
	Capital adequacy ratios for the Group	Note 5 – Capital Adequacy
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 - Loans to the public and provision for credit loss
	Provision for credit loss 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 I rules, as set forth in Proper Conduct of Banking Business Directive Nos. 201-211. Key rules and approaches applied by the Bank are described above, under Description of Basel II Guidelines in the chapter on Legislation and Supervision of Bank Group Operations. The Bank applies the standard approach to assess exposure to credit risk, the standard approach to assess exposure to operating risk, and the standard approach to assess exposure to market risk.

In early 2012, the Bank started developing 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 March 31, 2013		As of March 31, 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	618	56	809	73	565	51
Public sector entity debt	434	39	364	33	374	34
Banking corporation debt	1,167	105	1,196	108	927	83
Corporate debt	39,627	3,566	39,568	3,561	39,572	3,561
Debt secured by commercial real estate	2,195	198	1,964	177	2,194	197
Retail exposure to individuals	11,631	1,047	11,355	1,022	11,585	1,043
Loans to small businesses	2,191	197	2,219	200	2,213	199
Residential mortgages	38,893	3,500	33,642	3,028	37,396	3,366
Securitization	-	-	44	4	-	-
Other assets	3,508	316	2,804	252	3,910	352
Total	**100,264**	**9,024**	**93,965**	**8,458**	**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 March 31, 2013		As of March 31, 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	1,017	92	1,370	123	1,119	101
Operating Risk(2)	7,158	644	7,996	720	7,093	638
Total	**8,175**	**736**	**9,366**	**843**	**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 March 31, 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 March 31, 2013	As of March 31, 2012	As of December 31, 2012
Ratio of Tier I capital to risk elements	8.71	7.94	8.55
Ratio of total capital to risk elements	13.25	13.24	13.35
Total minimum capital ratio required by the Supervisor of Banks	9.00	9.00	9.00

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 set forth in 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, hence 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 loss[(1)]:

	As of March 31, 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)]	15,614	255	1,793	29,157	2,437	15,231	3,938	81,311	-	-	149,736
Securities[(4)]	7,175	12	693	228	-	-	-	-	-	-	8,108
Derivatives[(5)]	-	515	1,423	1,914	-	26	7	-	-	-	3,885
Other off-balance-sheet exposures	73	243	49	35,823	439	10,558	1,653	3,811	-	-	52,649
Other assets[(6)]	-	-	-	-	-	-	-	-	-	4,650	4,650
Total	**22,862**	**1,025**	**3,958**	**67,122**	**2,876**	**25,815**	**5,598**	**85,122**	**-**	**4,650**	**219,028**

	As of March 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 loss 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 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 loss, by contractual term to maturity, by major gross credit exposure type, is as follows [(1)]:

	As of March 31, 2013				
	Up to 1 year	1-5 years	Over 5 years	Without maturity	Total [(2)]
Loans [(3)]	44,804	23,619	81,207	106	149,736
Securities[(4)]	449	5,491	2,168	-	8,108
Derivatives [(5)]	2,144	949	792	-	3,885
Other off-balance-sheet exposures	44,223	7,709	717	-	52,649
Other assets [(6)]	2,871	-	86	1,693	4,650
Total	**94,491**	**37,768**	**84,970**	**1,799**	**219,028**

	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 loss 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 March 31, 2013										
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	19,866	2,610	-	-	-	386	-	-	22,862	-	22,862
Public sector entity debt	-	-	-	1,012	-	-	-	-	1,012	-	1,012
Banking corporation debt	-	3,016	-	816	-	82	-	-	3,914	-	3,914
Corporate debt	-	50	-	230	-	-	-	-	280	-	280
Securitization	-	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	33	33
Total	**19,866**	**5,676**	**-**	**2,058**	**-**	**468**	**-**	**-**	**28,068**	**33**	**28,101**
Non-rated exposures:											
Public sector entity debt	-	-	-	12	-	-	-	-	12	-	12
Banking corporation debt	-	23	-	8	-	-	-	-	31	-	31
Corporate debt	-	-	-	-	-	66,100	215	-	66,315	-	66,315
Debt secured by commercial real estate	-	-	-	-	-	2,849	-	-	2,849	-	2,849
Retail exposure to individuals	-	-	-	-	25,524	54	97	-	25,675	-	25,675
Loans to small businesses	-	-	-	-	5,508	15	18	-	5,541	-	5,541
Residential mortgages	-	-	59,495	1,841	16,625	6,130	223	-	84,314	-	84,314
Other assets	1,153	-	-	-	-	3,397	100	-	4,650	87	4,737
Total	**1,153**	**23**	**59,495**	**1,861**	**47,657**	**78,545**	**653**	**-**	**189,387**	**87**	**189,474**
Total	**21,019**	**5,699**	**59,495**	**3,919**	**47,657**	**79,013**	**653**	**-**	**217,455**	**120**	**217,575**

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

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

After credit risk mitigation

	As of March 31, 2013										
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	19,873	2,822	-	-	-	89	-	-	22,784	-	22,784
Public sector entity debt	300	-	-	962	-	-	-	-	1,262	-	1,262
Banking corporation debt	-	3,009	-	816	-	80	-	-	3,905	-	3,905
Corporate debt	-	50	-	230	-	-	-	-	280	-	280
Securitization	-	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	33	33
Total	**20,173**	**5,881**	**-**	**2,008**	**-**	**169**	**-**	**-**	**28,231**	**33**	**28,264**
Non-rated exposures:											
Public sector entity debt	-	-	-	12	-	-	-	-	12	-	12
Banking corporation debt	-	218	-	90	-	-	-	-	308	-	308
Corporate debt	-	-	-	-	-	56,926	202	-	57,128	-	57,128
Debt secured by commercial real estate	-	-	-	-	-	2,430	-	-	2,430	-	2,430
Retail exposure to individuals	-	-	-	-	23,642	32	96	-	23,770	-	23,770
Loans to small businesses	-	-	-	-	3,823	10	16	-	3,849	-	3,849
Residential mortgages	-	-	59,495	1,841	16,558	6,129	201	-	84,224	-	84,224
Other assets	1,153	-	-	-	-	3,397	100	-	4,650	87	4,737
Total	**1,153**	**218**	**59,495**	**1,943**	**44,023**	**68,924**	**615**	**-**	**176,371**	**87**	**176,458**
Total exposure	**21,326**	**6,099**	**59,495**	**3,951**	**44,023**	**69,093**	**615**	**-**	**204,602**	**120**	**204,722**

Before credit risk mitigation

	As of March 31, 2012										
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	16,377	2,979	-	-	-	228	-	-	19,584	-	19,584
Public sector entity debt	-	-	-	1,148	-	-	-	-	1,148	-	1,148
Banking corporation debt	-	3,423	-	722	-	61	-	-	4,206	1	4,207
Corporate debt	-	121	-	324	-	-	-	-	445	-	445
Securitization	-	-	-	-	-	16	-	8	24	37	61
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	**16,377**	**6,523**	**-**	**2,194**	**-**	**305**	**-**	**8**	**25,407**	**75**	**25,482**
Non-rated exposures:											
Public sector entity debt	-	-	-	24	-	-	-	-	24	-	24
Banking corporation debt	-	38	-	36	-	-	-	-	74	-	74
Corporate debt	-	-	-	-	-	64,137	553	-	64,690	-	64,690
Debt secured by commercial real estate	-	-	-	-	-	2,344	-	-	2,344	-	2,344
Retail exposure to individuals	-	-	-	-	24,540	39	146	-	24,725	-	24,725
Loans to small businesses	-	-	-	-	5,273	13	16	-	5,302	-	5,302
Residential mortgages	-	-	57,340	-	13,221	4,674	216	-	75,451	-	75,451
Other assets	960	-	-	-	-	2,747	43	-	3,750	87	3,837
Total	**960**	**38**	**57,340**	**60**	**43,034**	**73,954**	**974**	**-**	**176,360**	**87**	**176,447**
Total exposure	**17,337**	**6,561**	**57,340**	**2,254**	**43,034**	**74,259**	**974**	**8**	**201,767**	**162**	**201,929**

After credit risk mitigation

	As of March 31, 2012										
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	16,386	3,000	-	-	-	228	-	-	19,614	-	19,614
Public sector entity debt	-	-	-	1,044	-	-	-	-	1,044	-	1,044
Banking corporation debt	-	3,414	-	722	-	59	-	-	4,195	1	4,196
Corporate debt	-	121	-	324	-	-	-	-	445	-	445
Securitization	-	-	-	-	-	16	-	8	24	37	61
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	**16,386**	**6,535**	**-**	**2,090**	**-**	**303**	**-**	**8**	**25,322**	**75**	**25,397**
Non-rated exposures:											
Public sector entity debt	-	-	-	24	-	-	-	-	24	-	24
Banking corporation debt	-	68	-	165	-	-	-	-	233	-	233
Corporate debt	-	-	-	-	-	56,279	534	-	56,813	-	56,813
Debt secured by commercial real estate	-	-	-	-	-	2,104	-	-	2,104	-	2,104
Retail exposure to individuals	-	-	-	-	22,843	18	142	-	23,003	-	23,003
Loans to small businesses	-	-	-	-	3,862	9	14	-	3,885	-	3,885
Residential mortgages	-	-	57,340	-	13,168	4,672	216	-	75,396	-	75,396
Other assets	960	-	-	-	-	2,747	43	-	3,750	87	3,837
Total	**960**	**68**	**57,340**	**189**	**39,873**	**65,829**	**949**	**-**	**165,208**	**87**	**165,295**
Total exposure	**17,346**	**6,603**	**57,340**	**2,279**	**39,873**	**66,132**	**949**	**8**	**190,530**	**162**	**190,692**

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
Securitization	-	-	-	-	-	-	-	-	-	-	-
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
Securitization	-	-	-	-	-	-	-	-	-	-	-
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 March 31, 2013.

Disclosure is provided with regard to each group of borrowers whose net indebtedness, on consolidated basis, after allowed deductions pursuant to Proper Conduct of Banking Business Regulation 313, exceeds 15% of the banking corporation's capital (as defined in Regulation 313), NIS in millions:

	On-balance sheet credit risk, net (1)	Off-balance sheet credit risk		Deductions	Total credit risk	Share of equity
		With respect to derivatives	Other			
Group 1	949	70	1,314	(34)	2,299	16.0%

(1) After deduction of accounting write-offs and provision for credit loss 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 it 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 stake, 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 March 31,		As of December 31,
	2013	2012	2012
Commerce	-	144	115
Communications and computer services	235	273	235
Construction and real estate	266	345	304
Total	**501**	**762**	**654**

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

	As of March 31, 2013		
External credit rating	On-balance sheet credit risk [3]	Off-balance sheet credit risk [4]	Current credit exposure
AAA to AA-	739	-	739
A+ to A-	1,466	14	1,480
BBB+ to BBB-	6	-	6
BB+ to B-	-	9	9
Lower than B-	-	-	-
Unrated	79	-	79
Total credit exposure to foreign financial institutions	**2,290**	**23**	**2,313**
Includes: Troubled commercial credit risk, net[5]	5	-	5

	As of March 31, 2012		
External credit rating	On-balance sheet credit risk [3]	Off-balance sheet credit risk [4]	Current credit exposure
AAA to AA-	1,519	88	1,607
A+ to A-	686	94	780
BBB+ to BBB-	4	-	4
BB+ to B-	2	5	7
Lower than B-	-	-	-
Unrated	7	-	7
Total credit exposure to foreign financial institutions	**2,218**	**187**	**2,405**
Includes: Troubled commercial credit risk, net[5]	4	-	4

	As of December 31, 2012		
External credit rating	On-balance sheet credit risk [3]	Off-balance sheet credit risk [4]	Current credit exposure
AAA to AA-	709	-	709
A+ to A-	2,183	21	2,204
BBB+ to BBB-	8	-	8
BB+ to B-	-	7	7
Lower than B-	-	-	-
Unrated	5	-	5
Total credit exposure to foreign financial institutions	**2,905**	**28**	**2,933**
Includes: Troubled commercial credit risk, net[5]	5	-	5

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

(2) After deduction of provision for credit loss.

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

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

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

The Bank takes into consideration the maturity dates of its credit exposure in conjunction with the Bank's liquidity requirements. Deposits are normally deposited for short terms, whereas exposure 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 set forth 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 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.

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 income of the borrower, 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 income of the borrower etc. In recent years, due to expansion of the housing market and relatively low interest environment, the Bank has enhanced measures taken to mitigate risk, as reflected by a significant decrease in loan risk factors, as detailed below (all data below as of March 31, 2013).

LTV ratio

One of the key parameters used by the Bank in minimizing risk in its housing loan portfolio is the LTV ratio (ratio of loan amount to value of the property pledged as collateral). The average loan-to-value ratio for the Bank's mortgage portfolio as of March 31, 2013 was 57.6%, 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 82 billion, some 85% 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 3.4 billion, or only 4.1% of the total housing loan portfolio.

Loans granted with a high LTV ratio are usually secured by credit insurance, which significantly reduced 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 5.1 billion is insured by credit insurance - 40.7%.

Over the past two years, due to measures taken by the Bank to reduce 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, 11.4% for loans granted 3-12 months ago and 8.3% for loans granted in the first 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 income of the borrower.

The average repayment ratio for the Bank's housing loan portfolio is 30.8%. 69% of the Bank's mortgage portfolio were granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is 23.5%). 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 only 9% were granted to borrowers with a repayment ratio over 50% (the average repayment ratio for these borrowers is 62.6%).

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 88% 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. Hence, the risk associated with loans bearing interest linked to the prime lending rate is primarily due to loans granted since 2009, assuming that the prime lending rate is expected to rise, reflecting a positive real interest in the economy.

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

The repayment capacity of clients who obtained loans in the period when the prime lending rate was high is reviewed using the high interest rate. Over the past two years, when interest rates were low, these clients benefited significantly from lower loan costs. Even in this period of low interest rates, the Bank has acted to reduce loans linked to the prime lending rate, down to 24.6% of loans awarded 1-2 years ago, 25.6% of loans awarded 3-12 months ago and only 25.5% of loans awarded in the first 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 8.0 billion, or only 9.7% 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 3.3 billion, or only 4.0% of the Bank's housing loan portfolio.

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

LTV ratio	Repayment as percentage of regular income	Loan age [1] (time elapsed since loan grant)						
		Up to 3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Up to 60%	Up to 35%	1,686	4,255	4,544	10,964	4,510	2,065	28,024
	35%-50%	598	1,657	1,863	3,143	1,147	365	8,773
	Over 50%	190	634	842	1,428	601	207	3,902
60%-75%	Up to 35%	1,068	3,316	3,650	9,030	2,000	748	19,812
	35%-50%	346	1,238	1,473	2,550	652	202	6,461
	Over 50%	93	415	555	973	330	109	2,475
Over 75%	Up to 35%	285	1,129	1,103	3,293	1,457	1,769	9,036
	35%-50%	63	317	353	829	456	611	2,629
	Over 50%	10	42	65	295	209	259	880
Total		**4,339**	**13,003**	**14,448**	**32,505**	**11,362**	6,335	**81,992**
Includes:								
Loans granted with original amount over NIS 2 million		146	527	749	1,600	222	22	3,266
Percentage of total housing loans		3.4%	4.1%	5.2%	4.9%	2.0%	0.3%	4.0%
Loans bearing variable interest:								
Non-linked, at prime lending rate		1,105	3,329	3,547	14,641	3,988	225	26,835
CPI-linked[2]		95	339	929	6,952	1,779	1,625	11,719
In foreign currency [2]		102	417	994	2,347	506	155	4,521
Total		**1,302**	**4,085**	**5,470**	**23,940**	**6,273**	**2,005**	**43,075**
Non-linked loans at prime lending rate, as percentage of total housing loans		25.5%	25.6%	24.6%	45.0%	35.1%	3.6%	32.7%
CPI-linked loans bearing variable interest as percentage of total housing loans		2.2%	2.6%	6.4%	21.4%	15.7%	25.7%	14.3%
Loans with LTV over 75% as percentage of total housing loans		8.3%	11.4%	10.5%	13.6%	18.7%	41.7%	15.3%

(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.

Credit risk mitigation

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

	As of March 31, 2013				
		Exposure covered by guarantees[2]		Exposure covered by qualified financial collateral	
	Gross credit exposure [1]	Amounts deducted	Amounts added		Net credit exposure
Sovereign debt	22,862	(281)	219	(16)	22,784
Public sector entity debt	1,024	-	300	(50)	1,274
Banking corporation debt	3,945	(7)	277	(2)	4,213
Corporate debt	66,595	(331)	22	(8,878)	57,408
Debt secured by commercial real estate	2,849	(24)	-	(395)	2,430
Retail exposure to individuals	25,675	(1)	-	(1,904)	23,770
Loans to small businesses	5,541	(152)	-	(1,540)	3,849
Residential mortgages	84,314	(22)	-	(68)	84,224
Other assets	4,650	-	-	-	4,650
Total	**217,455**	**(818)**	**818**	**(12,853)**	**204,602**

	As of March 31, 2012				
		Exposure covered by guarantees[2]		Exposure covered by qualified financial collateral	
	Gross credit exposure [1]	Amounts deducted	Amounts added		Net credit exposure
Sovereign debt	19,584	-	30	-	19,614
Public sector entity debt	1,172	-	-	(104)	1,068
Banking corporation debt	4,280	(9)	159	(2)	4,428
Corporate debt	65,135	(156)	-	(7,721)	57,258
Debt secured by commercial real estate	2,344	(8)	-	(232)	2,104
Retail exposure to individuals	24,725	(1)	-	(1,721)	23,003
Loans to small businesses	5,302	(15)	-	(1,402)	3,885
Residential mortgages	75,451	-	-	(55)	75,396
Securitization	24	-	-	-	24
Other assets	3,750	-	-	-	3,750
Total	**201,767**	**(189)**	**189**	**(11,237)**	**190,530**

(1) Balance of on- and off-balance sheet balances, after on- and off-balance-sheet offsets, after provision for credit loss, excluding impact of credit risk mitigation, credit conversion factors and risk weighting factors, as defined under Basel 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 December 31, 2012				
		Exposure covered by guarantees[(2)]			
	Gross credit exposure [(1)]	Amounts deducted	Amounts added	Exposure covered by qualified financial collateral	Net credit exposure
Sovereign debt	21,399	(291)	157	(11)	21,254
Public sector entity debt	933	-	312	(52)	1,193
Banking corporation debt	3,484	(9)	193	(2)	3,666
Corporate debt	66,448	(251)	23	(8,903)	57,317
Debt secured by commercial real estate	2,709	(7)	-	(305)	2,397
Retail exposure to individuals	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 loss, 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 March 31, 2013					
Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives[(2)]	Total
Par value of derivatives after impact of add-on factor	182	1,288	-	1	4	1,475
Positive fair value of financial derivatives [(1)]	395	1,264	740	-	11	2,410
Total exposure with respect to derivatives	**577**	**2,552**	**740**	**1**	**15**	**3,885**
Collateral with respect to derivatives (before safety factors)	(66)	(391)	(2,007)	-	-	(2,464)
Impact of safety factors on collateral	23	179	1,433	-	-	1,635
Total current credit exposure after credit risk mitigation	**534**	**2,340**	**166**	**1**	**15**	**3,056**

	As of March 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	244	1,248	11	1	4	1,508
Positive fair value of financial derivatives [(1)]	539	640	501	-	28	1,708
Total exposure with respect to derivatives	**783**	**1,888**	**512**	**1**	**32**	**3,216**
Collateral with respect to derivatives (before safety factors)	(81)	(391)	(1,204)	(1)	-	(1,677)
Impact of safety factors on collateral	61	225	842	-	-	1,128
Total current credit exposure after credit risk mitigation	**763**	**1,722**	**150**	**-**	**32**	**2,667**

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

Below are details of investments in collateralization exposures and capital requirements with respect there to:

	As of March 31, 2012		
	Risk weighting	Exposure amount	Capital requirements [(1)]
BBB+ to BBB-	100%	16	4
BB+ to BB-	350%	8	3
B+ or lower	Deducted from equity	37	37
Total		**61**	**44**

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

Interest risk in Bank portfolio

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

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

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):

	March 31, 2013					
	Change in fair value					
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	(2)	(236)	43	(22)	(5)	(222)
2% decrease	28	152	(9)	7	3	181

	March 31, 2012					
	Change in fair value					
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	191	(99)	75	(11)	(4)	152
2% decrease	(213)	(16)	(29)	7	-	(251)

	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 pre-payment 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 Quarter 2013	First Quarter 2012	All of 2012
At end of period	146	236	167
Maximum value during period	169 (FEB)	239 (FEB)	239 (FEB)
Minimum value during period	146 (MAR)	226 (JAN)	144 (APR)

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 March 31, 2013:

Capital increase (erosion), NIS in millions

	Scenarios				Extreme historical scenario (1)	
	10% increase	5% increase	5% decrease	10% decrease	Maximum increase	Maximum decrease
CPI	622.4	311.2	(311.2)	(622.4)	90.9	(53.5)
Dollar	(0.9)	2.6	2.0	17.0	2.3	(1.2)
Pound Sterling	0.2	0.1	(0.1)	0.0	0.1	(0.1)
Yen	0.1	(0.1)	0.3	0.7	(0.1)	0.2
Euro	(4.9)	0.4	(0.8)	(1.5)	0.4	(0.6)
Swiss Franc	0.2	0.1	(0.1)	(0.3)	0.1	(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
March 31, 2013						
Financial assets [(1)]	89,973	52,559	13,293	3,637	1,954	161,416
Amounts receivable with respect to financial derivatives[(3)]	70,677	4,495	46,488	12,006	5,210	138,876
Financial liabilities [(1)]	(89,257)	(38,202)	(20,672)	(4,168)	(2,372)	(154,671)
Amounts payable with respect to financial derivatives[(3)]	(70,724)	(12,957)	(38,985)	(11,485)	(4,774)	(138,925)
Total	**669**	**5,895**	**124**	**(10)**	**18**	**6,696**
December 31, 2012						
Financial assets [(1)]	87,361	51,348	13,960	3,707	2,304	158,680
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)	(2,584)	(151,896)
Amounts payable with respect to financial derivatives[(3)]	(66,079)	(12,555)	(44,211)	(7,254)	(4,893)	(134,992)
Total	**(611)**	**7,029**	**59**	**(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 %
March 31, 2013								
Change in interest rates:								
Concurrent immediate increase of 1%	999	5,705	103	(29)	12	6,790	94	1.4%
Concurrent immediate increase of 0.1%	705	5,880	121	(12)	17	6,711	15	0.2%
Concurrent immediate decrease of 1%	287	6,386	181	31	26	6,911	215	3.2%
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.

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

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

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

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

	As of March 31, 2013			As of December 31, 2012		
	Capital requirement			Capital requirement		
risk element[(1)]	Specific risk	General risk	Total	Specific risk	General risk	Total
Interest risk[(2)]	1	58	59	1	61	62
Equity risk	-	-	-	-	-	-
Foreign currency exchange rate risk	-	32	32	-	39	39
Total market risk	**1**	**90**	**91**	**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. 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. In addition, the Risk Control

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

The Bank regularly reviews global practices in this area, including Basel III directives and FSA guidance, and will complete in the first half of 2013, as required, its preparation for the updating and application of the Bank of Israel's updated Proper Conduct of Banking Business Regulation 342 "Management of liquidity risk", which is also based on this practice.

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 II 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 II 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 5 million, and investment in non-public shares amounting to NIS 172 million.

	As of March 31, 2013	
	Fair value	Capital requirement(1)
Shares	66	6
Venture capital / private equity funds	111	10
Total equity investment in bank portfolio	**177**	**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. This definition is wider than the definition in Proper Conduct of Banking Business Regulation 339 on "Risk management", where legal risk is defined as "risk of loss due to inability to legally enforce an agreement".

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

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

The Bank's Legal Division applies internal processes to ensure regular monitoring of developments in legislation, rulings and other regulatory provisions which could have implications for the day-to-day activities of the Bank Group. In this context, the Legal Division provides guidance to relevant Banl 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 re-organization 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 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 re-organization 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 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

(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:

Market risk

The effect of the risk was measured using VAR values for each risk, with respect to the VAR value limit determined by the Board of Directors.

The Bank's Board of Directors prescribed the v 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.

Other risk

The degree of influence of credit risk, liquidity risk, operational risk, legal risk and goodwill risk – were determined based on management's assessments, as performed from time to time, and in coordination with the ICAAP process conducted by the Bank, and outcome there of, under leadership of the Bank's risk managers. The ICAAP process accounts for both qualitative and quantitative aspects, including the Bank's risk profile, outcome of various scenarios at the Bank and the capital planning process. In the fourth quarter of 2011, in conjunction with 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 risk profiles and on the specified risk appetite.

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.

Mr. Yones would leave his office of Bank President once a new President is appointed.

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

Stock option plan for employees

On April 29, 2013, the Bank Board of Directors, after receiving approval of the Bank 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. See Note 14 to the financial statements for details.

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 loss with respect to housing loans were updated. For details of the updated directives and their anticipated effect on the Bank's financial statements for the second quarter of 2013, see Note 1.C.6 to the financial statements.

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

Corporate governance aspects

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

These references constitute inclusion by way of reference of all information included in the aforementioned immediate reports published by the Bank on February 4, 2013 and February 6, 2013 as mention above.

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 set forth 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 2013, 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 impact on the Bank's financial statements of application of the amendment is not material.

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 does not have a 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 re-pricing of commissions with respect to securities transactions.

Further to findings and recommendations included on the interim report by the team created to review increasing competition in the banking sector, with regard to commissions and benefits with respect to securities transactions, and further to the Amendment to Addendum I to Banking Rules (Customer Service) (Commissions), 2008 - as described above - the Bank is required to set the new rate of commissions charged for buying, selling and redeeming securities with respect to shares and debentures, taking into consideration the changes made to the commission structure in the aforementioned Amendment to Addendum I (setting a differential rate by transaction channel and setting a maximum commission), as well as the need to align these, in as much as possible, with the price actually charged.

The Bank is also required to inform the Supervisor of Banks of its new commission rates, as described above, by March 1, 2013 concurrently with issuing a public notice of this change, as mandated by Banking Rules (Customer Service) (Due Disclosure and Document Delivery), 1992. In addition, the Bank is required its contracting with clients with regard to discounts allowed on commissions with respect to securities transactions, to be based on the commission rate or amount - rather than on a discount percentage off the price list commission rate or amount – for new or renewed agreements as from March 1, 2013. The update to the commission price list is expected to reduce commissions charged to households and small businesses. Overall, application of the circular is not expected to have any material impact on the Bank's financial statements.

Proper Conduct of Banking Business Regulation 311 "Credit risk management"

On March 23, 2013, the Supervisor of Banks issued an update to Regulation 311 with regard to credit risk management. This regulation is primarily based on Basel guidelines dated September 2000. This regulation specifies the credit risk management structure required of banking corporations, and assignment of authorization levels with regard to credit risk management to various entities in banking corporations. These requirements adopt the approach whereby, in order to support appropriate credit decision making and to minimize the effects of any conflict of interest, a high degree of involvement by an independent party in required at business units. Such involvement is particularly required in formulating credit policy, classifying debt and determining provisions for credit loss. The regulation further stipulates that decisions with regard to approval of material credit exposures would be made in reference to the opinion of the risk management function. The effective start date of this regulation is January 1, 2014. The Bank is required to present to the Supervisor of Banks, no later than July 1, 2013, its plan for implementing this regulation. The bank is preparing to inplement this regulation.

Proper Conduct of Banking Business Regulation 350 "Operating risk management"

On December 23, 2013, the Supervisor of Banks issued an update to Regulation 350 with regard to operating risk management. This regulation is primarily based on Basel 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 guidelines for operating risk management and makes reference to the work framework for operating risk management; the guidelines specified primarily refer 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 regulation revises the reference to certain profit and loss of banking corporations which are recognized under Other Comprehensive Income rather than on the statement of profit and loss. The regulation adapts the current restrictions on dividend 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 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 loss. The directive further stipulates that the Bank should maintain sufficient provisions to cover estimated credit loss 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.

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 a 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 December 31, 2012, the Advisory Committee on Banking Business received draft 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). Proper Conduct of Banking Business Regulation 202 (Capital measurement and adequacy - supervisory capital) adopts the Basel III recommendations in Israel.

The draft amendment is primarily focused on improving capital quality and size and improving the coverage for Credit Valuation Adjustment (CVA) risk. Below are the key amendments included in these drafts:

- **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 principal loss, 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 at a subsidiary would not be recognized.

- **Group provision for credit loss**

  The amount of group provision would be recognized as Tier II capital up to 1.25% of weighted risk assets for credit risk. On the other hand, the provision amount would be added to the weighted risk assets for credit risk.

- **Adjustments to and deductions from supervisory capital**
  - Deferred taxes due to temporary differences would be accounted for as follows:
    Up to 10% of Tier I equity - weighted at 250% risk weighting.
    Over 10% of Tier I equity - would be deducted from capital.
  - Investments in equity components of financial institutions - banks, insurance companies and any company doing business in the capital market segment - would be accounted for as a deduction from capital or by risk weighting, subject to specified tests.
  - 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**

  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 25% deduction as from January 1, 2014.
- Capital instruments not qualified as supervisory capital - a 10% deduction from the balance of such instruments, from the effective start date through January 1, 2022.

The draft 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 for immediate application of the Supervisor of Banks' anticipated requirements, as included in the draft directives, and is reviewing the impact of the draft change on the Bank's strategic plan.
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.

The Bank's core capital ratio, calculated pursuant to Basel II directives, as of March 31, 2013 is 8.71%.

On April 30, 2013, the Supervisor of Banks issued a letter confirming that notes to be issued by the Bank could constitute Lower Tier II Capital with regard to maintaining a minimum capital ratio.

Changes to conditions for recognition as Lower Tier II Capital following application of Basel III directives would retroactively apply to these notes.

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".

Draft Supervisor of Banks' directive on interest risk management

On April 4, 2013, the Supervisor of Banks issued a draft 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 January 1, 2014. The Bank is reviewing the effect of adopting this draft directive on its financial statements.

Draft Supervisor of Banks' directive 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 directive, see Note 1.D.2.

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: “the 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 re-structuring 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.

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. This appointment is effective as from July 1, 2013.
Ms. Ayala Hakim would replace Mr. Zvi Agrovich, who has held this position for the past 5.5 years. Mr. Zvi Agrovich was appointed Deputy Chairman of the Technology Division.
Ms. Hakim would also serve as the Bank's CIO.

On February 5, 2013, Mr. Dov Fogel concluded his term as senior officer of the Bank.

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 Policy 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 policy are set forth 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 policy on critical issues for accounting treatment of the following: Provision for credit loss, 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 group-based provision for credit loss with respect to housing loans were updated and directives with regard to capital adequacy were revised. For details of the updated directives and their anticipated effect on the Bank's financial statements for the second quarter of 2013, see Note 1.C.6 to the financial statements.

For details of the Supervisor of Banks’ draft directive on group-based provision for credit loss, see Note 1.D.2 to the financial statements.

Other than the foregoing, during the reported period there were no changed to Bank accounting policy on critical issues, which are listed on 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 set forth in the Board of Directors' report on the financial statements as of December 31, 2012. The processes of preparing, auditing and approving the financial statements involve additional organs and officers as set forth below.

Bank financial statements are prepared by a professional department, headed by the Chief Accountant, 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 Loss Committee, headed by the Chief Accountant and attended by professional credit staff, as well as a Provision for Credit Loss 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 there for. 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 policy 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 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 quarter of 2013, the Bank Board of Directors held 4 plenary meetings and 24 Board committee meetings. 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 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 Corporate Act, 1999. Upon this appointment, the number of Board members having accounting and financial qualifications is 10. On said date, Mr. Gideon Sitterman informed 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 this meeting, the Board also approved the appointment of Mr. Avi Ziegelman as Chairman of the Remuneration Committee and the appointment of Mr. Yosef Shachak as member of the Remuneration Committee.

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

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. Amendment of the shortcomings identified by the audit would continue and would be completed by end of the second quarter of 2013.

During the quarter ended March 31, 2013, no change occurred in the Bank's internal controls over financial reporting that had a material effect, or can reasonably be expected to have a material effect on the Bank's internal control over financial reporting.

M. Vidmon

Moshe Weidman
Chairman of the Board of Directors

Eliezer Yones
President

Ramat Gan, May 27, 2013

Management Discussion of Group Business and Operating Results

Table of Contents

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

Reported amounts (NIS in millions)

A. Average balances and interest rates - assets

	For the three months ended March 31, 2013			For the three months ended March 31, 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	126,335	[7]1,270	4.14	118,345	[7]1,339	4.67
Outside of Israel	2,625	25	3.96	2,725	23	3.41
Total	**128,960**	**1,295**	**4.14**	**121,070**	**1,362**	**4.64**
Loans to the Government						
In Israel	318	2	2.83	193	2	4.28
Outside of Israel	-	-	-	-	-	-
Total	**318**	**2**	**2.83**	**193**	**2**	**4.28**
Deposits with banks						
In Israel	1,245	10	3.41	2,158	16	3.04
Outside of Israel	336	2	2.11	324	2	2.53
Total	**1,581**	**12**	**3.13**	**2,482**	**18**	**2.97**
Deposits with central banks						
In Israel	13,033	41	1.27	11,936	52	1.78
Outside of Israel	1,276	1	0.32	1,355	1	0.30
Total	**14,309**	**42**	**1.18**	**13,291**	**53**	**1.63**
Securities loaned or sold in repurchase agreements						
In Israel	158	1	1.42	167	1	2.45
Outside of Israel	-	-	-	-	-	-
Total	**158**	**1**	**1.42**	**167**	**1**	**2.45**
Debentures held to maturity and available for sale [4]						
In Israel	6,894	48	2.85	7,787	68	3.59
Outside of Israel	1,356	5	1.50	1,432	5	1.41
Total	**8,250**	**53**	**2.63**	**9,219**	**73**	**3.25**
Debentures held for trade [5]						
In Israel	662	8	4.99	548	11	8.39
Outside of Israel	3	-	-	3	-	-
Total	**665**	**8**	**4.97**	**551**	**11**	**8.35**
Total interest-bearing assets	**154,241**	**1,413**	**3.77**	**146,973**	**1,520**	**4.26**
Receivables for credit card operations	1,864			1,497		
Other non-interest bearing assets [6]	5,890			5,758		
Total assets	**161,995**			**154,228**		
Total interest-bearing assets attributable to operations outside of Israel	**5,596**	**33**	**2.41**	**5,839**	**31**	**2.14**

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 March 31, 2013			For the three months ended March 31, 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	118,056	453	1.55	112,560	567	2.03
Outside of Israel	4,534	12	1.07	5,296	16	1.22
Total	**122,590**	**465**	**1.53**	**117,856**	**583**	**1.99**
Deposits from the Government						
In Israel	106	1	3.77	133	1	3.01
Outside of Israel	-	-	-	-	-	-
Total	**106**	**1**	**3.77**	**133**	**1**	**3.01**
Deposits from banks						
In Israel	2,609	10	1.55	2,115	13	2.47
Outside of Israel	27	1	14.19	34	2	21.80
Total	**2,636**	**11**	**1.68**	**2,149**	**15**	**2.80**
Debentures and subordinated notes						
In Israel	14,608	134	3.67	14,726	134	3.64
Outside of Israel	-	-	-	-	-	-
Total	**14,608**	**134**	**3.67**	**14,726**	**134**	**3.64**
Total interest-bearing liabilities	**139,940**	**611**	**1.76**	**134,864**	**733**	**2.19**
Payables for credit card operations	1,864			1,496		
Other non-interest bearing liabilities (8)	10,812			9,657		
Total liabilities	**152,616**			**146,017**		
Total capital resources	**9,379**			**8,211**		
Total liabilities and equity	**161,995**			**154,228**		
Interest margin			**2.01**			**2.07**
Net return (9) on interest-bearing assets						
In Israel	148,645	782	2.15	141,134	774	2.24
Outside of Israel	5,596	20	1.46	5,839	13	0.88
Total	**154,241**	**802**	**2.13**	**146,973**	**787**	**2.19**
Total interest-bearing liabilities attributable to operations outside of Israel	**4,561**	**13**	**1.15**	**5,330**	**18**	**1.36**

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 March 31, 2013			For the three months ended March 31, 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	84,412	850	4.15	78,690	953	5.00
Total interest-bearing liabilities	79,636	(289)	1.48	75,536	(406)	2.20
Interest margin			**2.67**			**2.80**
Israeli currency - linked to the CPI						
Total interest-bearing assets	49,519	420	3.48	47,018	422	3.69
Total interest-bearing liabilities	35,153	(281)	3.28	33,096	(270)	3.35
Interest margin			**0.20**			**0.34**
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	14,714	110	3.07	15,426	114	3.04
Total interest-bearing liabilities	20,590	(28)	0.55	20,902	(39)	0.76
Interest margin			**2.52**			**2.28**
Total - operations in Israel						
Total interest-bearing assets	148,645	1,380	3.82	141,134	1,489	4.35
Total interest-bearing liabilities	135,379	(598)	1.80	129,534	(715)	2.26
Interest margin			**2.02**			**2.09**

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

	For the three months ended March 31, 2013 - compared to the three months ended March 31, 2012		
	Increase (decrease) due to change [10]		Net change
	Quantity	Price	
Interest-bearing assets			
Loans to the public			
In Israel	80	(149)	(69)
Outside of Israel	(2)	4	2
Total	**78**	**(145)**	**(67)**
Other interest-bearing assets			
In Israel	(8)	(32)	(40)
Outside of Israel	-	-	-
Total	**(8)**	**(32)**	**(40)**
Total interest revenues	**70**	**(177)**	**(107)**
Interest-bearing liabilities			
Deposits from the public			
In Israel	(21)	135	114
Outside of Israel	2	2	4
Total	**(19)**	**137**	**118**
Other interest-bearing liabilities			
In Israel	(1)	5	4
Outside of Israel	-	-	-
Total	**(1)**	**5**	**4**
Total interest expenses	**(20)**	**142**	**122**

(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 loss. Includes impaired debt not accruing interest revenues.
(5) From the average balance of debentures available for sale, the average balance of unrealized gain from adjustment to fair value of debentures available for sale was deducted, included under equity under cumulative other comprehensive income, under "Adjustments with respect to presentation of available-for-sale securities at fair value", for the three months ended March 31, 2013, and March 31, 2012 amounting to NIS 21 millionand NIS 13 million, respectively.
(4) From the average balance of debentures held for trade for the three months ended March 31, 2013, the average balance of unrealized gain from adjustment to fair value of debentures held for trade was deducted in the amount of NIS 18 million (to the average balance of debentures held for trade for the three months ended March 31, 2012, the average balance of unrealized loss from adjustment to fair value of debentures held for trade was added in the amount of NIS 3 million).
(6) Includes derivative instruments, other non-interest bearing assets, net of provision for credit loss.
(7) Commissions amounting to NIS 42 million and NIS 35 million included under interest revenues for the three-month periods ended March 31, 2013 and March 31, 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)

	March 31, 2013					
	On call to 1 month	1-3 months	3 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years
Israeli currency - non-linked						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets(1)(3)	75,493	3,188	2,430	2,414	3,676	2,106
Financial derivatives (other than options)	8,456	7,046	23,776	10,020	5,691	10,856
Options (in terms of underlying asset)	1,092	2,036	1,489	61	47	107
Total fair value	**85,041**	**12,270**	**27,695**	**12,495**	**9,414**	**13,069**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities (1)	66,257	5,136	8,240	6,548	2,138	603
Financial derivatives (other than options)	15,235	9,458	15,731	8,169	5,920	10,613
Options (in terms of underlying asset)	2,404	1,879	1,102	59	47	107
Total fair value	**83,896**	**16,473**	**25,073**	**14,776**	**8,105**	**11,323**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	1,145	(4,203)	2,622	(2,281)	1,309	1,746
Cumulative exposure in sector	1,145	(3,058)	(436)	(2,717)	(1,408)	338

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 gradual interest rates with withdrawal dates, credit and deposits with guaranteed minimum and deposits with optional linkage. The Bank reflects the interest rate risk with respect to these instruments in a reasonable manner, by spreading maturities of the cash flows in accordance with contract dates, and with various assumptions based on past experience. The instruments for which exposure to interest rate risk may not be reasonably reflected by spreading it over the appropriate contractual periods, are non-material in amount.

						As of March 31, 2012			As of December 31, 2012		
10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective (2) duration	Total fair value	Internal rate of return	Average effective (2) duration	Total fair value	Internal rate of return	Average effective (2) duration
				In %	In years		In %	In years		In %	In years
206	(2)	462	89,973	3.49	0.74	79,542	4.18	0.61	87,360	3.76	0.55
-	-	-	65,845		1.17	67,939		1.09	64,565		1.22
-	-	-	4,832		0.70	3,534		0.68	3,540		1.12
206	**(2)**	**462**	**160,650**		**0.92**	**151,015**		**0.83**	**155,465**		**0.84**
289	46	-	89,257	1.54	0.40	77,354	2.80	0.45	89,998	1.59	0.39
-	-	-	65,126		1.60	70,039		1.38	61,987		1.69
-	-	-	5,598		0.66	4,749		0.56	4,092		1.10
289	**46**	**-**	**159,981**		**0.90**	**152,142**		**0.88**	**156,077**		**0.92**
(83)	(48)	462	669			(1,127)			(612)		
255	207	669	669								

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

Reported amounts (NIS in millions)

	As of March 31, 2013					
	On call to 1 month	1-3 months	3 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years
Israeli currency - linked to the CPI						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets [(1)]	1,111	2,637	9,789	17,094	15,266	4,914
Financial derivatives (other than options)	2	355	503	1,361	560	1,714
Total fair value	**1,113**	**2,992**	**10,292**	**18,455**	**15,826**	**6,628**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities [(1)]	1,186	1,366	6,153	11,963	8,135	7,082
Financial derivatives (other than options)	750	513	7,336	1,894	789	1,675
Total fair value	**1,936**	**1,879**	**13,489**	**13,857**	**8,924**	**8,757**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	(823)	1,113	(3,197)	4,598	6,902	(2,129)
Cumulative exposure in sector	(823)	290	(2,907)	1,691	8,593	6,464

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

							As of March 31, 2012			As of December 31, 2012		
	10 to 20 years	Over 20 years	Without maturity	Tota l fair value	Internal rate of return	Average effective [(2)] duration	Total fair value	Internal rate of return	Average effective [(2)] duration	Total fair value	Internal rate of return	Average effective [(2)] duration
					In %	In years		In %	In years		In %	In years
	1,444	8	296	52,559	2.44	3.10	48,787	2.85	3.07	51,348	2.63	3.08
	-	-	-	4,495		3.57	5,206		4.13	5,316		4.15
	1,444	**8**	**296**	**57,054**		**3.14**	**53,993**		**3.17**	**56,664**		**3.18**
	2,129	186	2	38,202	1.98	4.11	36,819	2.45	4.12	37,080	1.99	4.12
	-	-	-	12,957		1.67	9,646		1.79	12,555		1.68
	2,129	**186**	**2**	**51,159**		**3.49**	**46,465**		**3.64**	**49,635**		**3.50**
	(685)	(178)	294	5,895			7,528			7,029		
	5,779	5,601	5,895	5,895			7,528			7,029		

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

Reported amounts (NIS in millions)

	As of March 31, 2013					
	On call to 1 month	1-3 months	3 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years
Foreign currency (1)						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets (2)	8,975	5,171	1,804	1,370	528	735
Financial derivatives (other than options)	20,184	10,257	12,743	3,501	3,638	7,391
Options (in terms of underlying asset)	1,505	2,403	1,792	72	48	110
Total fair value	**30,664**	**17,831**	**16,339**	**4,943**	**4,214**	**8,236**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities(2)	14,056	7,087	5,375	501	157	15
Financial derivatives (other than options)	12,916	7,733	14,086	4,711	3,270	7,646
Options (in terms of underlying asset)	868	2,150	1,574	72	48	110
Total fair value	**27,840**	**16,970**	**21,035**	**5,284**	**3,475**	**7,771**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	2,824	861	(4,696)	(341)	739	465
Cumulative exposure in sector	2,824	3,685	(1,011)	(1,352)	(613)	(148)

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.

General remarks:

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

						As of March 31, 2012			As of December 31, 2012		
10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective (3) duration	Total fair value	Internal rate of return	Average effective (3) duration	Total fair value	Internal rate of return	Average effective (3) duration
				In %	In years		In %	In years		In %	In years
32	-	269	18,884	2.05	0.64	19,470	3.24	0.90	19,656	2.58	0.89
60	-	-	57,774		1.73	63,481		1.70	56,845		1.71
-	-	-	5,930		0.31	5,890		0.66	4,473		0.37
92	**-**	**269**	**82,588**		**1.38**	**88,841**		**1.46**	**80,974**		**1.44**
13	-	8	27,212	0.48	0.29	26,112	1.09	0.24	24,502	0.48	0.29
60	-	-	50,422		1.37	58,026		1.39	52,625		1.46
-	-	-	4,822		0.28	4,639		0.83	3,733		0.49
73	**-**	**8**	**82,456**		**0.95**	**88,777**		**1.02**	**80,860**		**1.06**
19	-	261	132			64			114		
(129)	(129)	132	132			64			114		

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

Reported amounts (NIS in millions)

						As of March 31, 2013
	On call to 1 month	1-3 months	3 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years
Non-monetary segment						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Options (in terms of underlying asset)	-	-	-	(2)	-	-
Total fair value	**-**	**-**	**-**	**(2)**	**-**	**-**
Total exposure to interest rate fluctuations						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets (1)(2)	85,579	10,996	14,023	20,878	19,470	7,755
Financial derivatives (other than options)	28,642	17,658	37,022	14,882	9,889	19,961
Options (in terms of underlying asset)	2,597	4,439	3,281	133	95	217
Total fair value	**116,818**	**33,093**	**54,326**	**35,893**	**29,454**	**27,933**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities (1)	81,499	13,589	19,768	19,012	10,430	7,700
Financial derivatives (other than options)	28,901	17,704	37,153	14,774	9,979	19,934
Options (in terms of underlying asset)	3,272	4,029	2,676	133	95	217
Total fair value	**113,672**	**35,322**	**59,597**	**33,919**	**20,504**	**27,851**
Financial instruments, net						
Total exposure to interest rate fluctuations	3,146	(2,229)	(5,271)	1,974	8,950	82
Total cumulative exposure	3,146	917	(4,354)	(2,380)	6,570	6,652

Specific remarks:

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

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

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

General remarks:

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

						As of March 31, 2012			As of December 31, 2012		
10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective [3] duration	Total fair value	Internal rate of return	Average effective [3] duration	Total fair value	Internal rate of return	Average effective [3] duration
				In %	In years		In %	In years		In %	In years
-	-	-	(2)	-	-	**4**	-	-	(2)	-	-
-	**-**	**-**	**(2)**	**-**	**-**	**4**	**-**	**-**	**(2)**	**-**	**-**
1,682	6	1,027	161,416	2.98	1.50	147,799	3.61	1.46	158,364	3.24	1.41
60	-	-	128,114		1.51	136,626		1.49	126,726		1.56
-	-	-	10,762		0.48	9,428		0.66	8,013		0.70
1,742	**6**	**1,027**	**300,292**		**1.47**	**293,853**		**1.45**	**293,103**		**1.46**
2,431	232	10	154,671	1.46	1.30	140,285	2.39	1.37	151,580	1.51	1.28
60	-	-	128,505		1.52	137,711		1.41	127,167		1.59
-	-	-	10,422		0.48	9,388		0.69	7,827		0.81
2,491	**232**	**10**	**293,598**		**1.37**	**287,384**		**1.37**	**286,574**		**1.41**
(749)	(226)	1,017	6,694			6,469			6,529		
5,903	5,677	6,694	6,694			6,469			6,529		

Management Discussion - Addendum C
Credit Risk by Economic Sector - Consolidated

As of March 31, 2013

Reported amounts (NIS in millions)

	Off balance sheet debt [1] and credit risk (other than derivatives) [2]				Total credit risk
	Debt [1]	Guarantees and other commitments on account of clients	Total	Debentures [4]	Fair value of derivatives
Agriculture	642	208	850	-	1
Industry	6,669	3,759	10,428	74	68
Construction and real estate - construction	9,152	14,523	23,675	30	3
Construction and real estate - real estate operations	1,600	286	1,886	-	-
Power and water	454	370	824	55	376
Commerce	6,935	1,876	8,811	-	70
Hotel and food services	385	200	585	-	48
Transport and storage	729	416	1,145	-	4
Communications and computer services	1,646	830	2,476	1	17
Financial services	4,255	8,049	12,304	-	990
Other business services	2,217	628	2,845	-	3
Public and community services	962	311	1,273	-	53
Total commercial credit risk	**35,646**	**31,456**	**67,102**	**160**	**1,633**
Private individuals - housing loans	81,108	3,819	84,927	-	-
Private individuals - other	12,624	9,160	21,784	-	4
Total	**129,378**	**44,435**	**173,813**	**160**	**1,637**
For borrowers' activities overseas	2,740	260	3,000	42	4
Total credit risk to public	**132,118**	**44,695**	**176,813**	**202**	**1,641**
Banking corporations	1,634	138	1,772	457	789
Government	366	156	522	8,599	-
Total credit risk	**134,118**	**44,989**	**179,107**	**9,258**	**2,430**

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

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

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

(4) Includes borrowed securities amounting to NIS 194 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 with respect to total credit risk and with respect to off-balance sheet debt and credit risk (other than derivatives).

		Total troubled credit risk	Troubled off balance sheet debt[1] and credit risk (other than derivatives)			
				Credit loss [3]		
Future transactions	Total	Troubled [5]	Impaired	Expenses with respect to credit loss	Net accounting write-off	Balance of provision for credit loss
3	854	23	18	-	-	10
244	10,814	199	144	4	2	101
12	23,720	1,048	982	(2)	6	194
-	1,886	75	71	(1)	-	17
414	1,669	2	1	-	-	1
85	8,966	337	176	(9)	6	126
67	700	9	3	1	-	7
10	1,159	34	28	(1)	-	22
45	2,539	32	31	(1)	-	10
1,374	14,668	299	272	19	3	172
3	2,851	45	27	3	4	27
292	1,618	18	10	(1)	-	7
2,549	**71,444**	**2,121**	**1,763**	**12**	**21**	**694**
-	84,927	1,545	2	13	23	808
8	21,796	259	103	12	17	149
2,557	**178,167**	**3,925**	**1,868**	**37**	**61**	**1,651**
2	3,048	37	35	(4)	(2)	18
2,559	**181,215**	**3,962**	**1,903**	**33**	**59**	**1,669**
1,255	4,273	5	5	1	-	11
-	9,121	-	-	-	-	-
3,814	**194,609**	**3,967**	**1,908**	**34**	**59**	**1,680**

Management Discussion - Addendum C - Continued

Credit Risk by Economic Sector - Consolidated

As of March 31, 2012

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	660	213	873	-	1
Industry	6,606	3,646	10,252	89	111
Construction and real estate - construction	8,654	13,819	22,473	36	4
Construction and real estate - real estate operations	1,656	173	1,829	-	-
Power and water	426	933	1,359	61	82
Commerce	6,905	1,803	8,708	-	38
Hotel and food services	307	138	445	-	3
Transport and storage	849	411	1,260	-	4
Communications and computer services	1,639	1,156	2,795	15	7
Financial services	4,259	7,865	12,125	-	676
Other business services	2,209	404	2,613	-	11
Public and community services	939	324	1,263	-	2
Total commercial credit risk	**35,109**	**30,885**	**65,995**	**201**	**939**
Private individuals - housing loans	72,134	3,863	75,997	-	-
Private individuals - other	11,985	9,553	21,537	-	4
Total	**119,228**	**44,301**	**163,529**	**201**	**943**
For borrowers' activities overseas	2,805	282	3,087	42	6
Total credit risk to public	**122,033**	**44,583**	**166,616**	**243**	**949**
Banking corporations	1,515	244	1,759	575	771
Government	287	160	447	10,245	-
Total credit risk	**123,835**	**44,987**	**168,822**	**11,063**	**1,720**

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

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

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

(4) Includes borrowed securities amounting to NIS 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 with respect to total credit risk and with respect to off-balance sheet debt and credit risk (other than derivatives).

		Total troubled credit risk	Troubled off balance sheet debt[1] and credit risk (other than derivatives)			
				Credit loss [3]		
Future transactions	Total	Troubled [5]	Impaired	Expenses with respect to credit loss	Net accounting write-off	Balance of provision for credit loss
3	877	16	7	-	-	11
495	10,947	227	160	(11)	5	125
8	22,521	1,329	1,179	56	(11)	209
1	1,830	79	22	2	10	27
571	2,073	-	-	-	-	-
62	8,808	275	100	8	6	141
15	463	17	9	(2)	1	7
9	1,273	7	5	(1)	-	7
23	2,840	15	15	(2)	-	22
921	13,722	507	102	7	6	123
12	2,636	38	24	(6)	2	51
238	1,503	50	22	(2)	(1)	6
2,358	**69,493**	**2,560**	**1,645**	**49**	**18**	**729**
-	75,997	1,688	-	4	15	867
9	21,550	201	48	13	13	166
2,367	**167,040**	**4,449**	**1,693**	**66**	**46**	**1,762**
3	3,138	64	60	(3)	-	7
2,370	**170,178**	**4,513**	**1,753**	**63**	**46**	**1,769**
1,966	5,071	4	4	4	-	18
-	10,692	-	-	-	-	-
4,336	**185,941**	**4,517**	**1,757**	**67**	**46**	**1,787**

Management Discussion - Addendum C - Continued
Credit Risk by Economic Sector - Consolidated
As of December 31, 2012

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	636	200	836	-	-
Industry	6,940	4,102	11,042	60	92
Construction and real estate - construction	8,624	13,951	22,575	31	4
Construction and real estate - real estate operations	1,616	288	1,904	-	-
Power and water	362	507	869	57	204
Commerce	7,073	2,045	9,118	-	23
Hotel and food services	374	133	507	-	4
Transport and storage	758	390	1,148	-	3
Communications and computer services	1,645	839	2,484	1	12
Financial services	4,666	7,613	12,279	-	640
Other business services	2,165	846	3,011	-	1
Public and community services	920	386	1,306	-	33
Total commercial credit risk	**35,779**	**31,300**	**67,079**	**149**	**1,016**
Private individuals - housing loans	79,362	4,267	83,629	-	-
Private individuals - other	12,377	8,955	21,332	-	3
Total	**127,518**	**44,522**	**172,040**	**149**	**1,019**
For borrowers' activities overseas	2,726	293	3,019	44	4
Total credit risk to public	**130,244**	**44,815**	**175,059**	**193**	**1,023**
Banking corporations	1,666	96	1,762	520	350
Government	1,153	169	1,322	8,209	-
Total credit risk	**133,063**	**45,080**	**178,143**	**8,922**	**1,373**

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

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

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

(4) Includes borrowed securities amounting to NIS 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 with respect to total credit risk and with respect to off-balance sheet debt and credit risk (other than derivatives).

		Total troubled credit risk	Troubled off balance sheet debt[1] and credit risk (other than derivatives)			
				Credit loss [3]		
Future transactions	Total	Troubled [5]	Impaired	Expenses with respect to credit loss	Net accounting write-off	Balance of provision for credit loss
2	838	19	17	3	4	10
332	11,526	234	182	3	56	88
27	22,637	1,213	1,075	45	3	190
-	1,904	83	73	(8)	14	13
540	1,670	2	1	-	-	-
49	9,190	382	177	29	33	135
5	516	10	4	1	4	7
8	1,159	33	30	16	1	23
14	2,511	34	32	(11)	2	11
1,278	14,197	382	302	121	41	190
2	3,014	42	27	(5)	28	26
293	1,632	26	21	1	1	7
2,550	**70,794**	**2,460**	**1,941**	**195**	**187**	**700**
-	83,629	1,604	5	10	73	821
8	21,343	245	92	63	75	154
2,558	**175,766**	**4,309**	**2,038**	**268**	**335**	**1,675**
2	3,069	49	49	12	2	20
2,560	**178,835**	**4,358**	**2,087**	**280**	**337**	**1,695**
1,255	3,887	5	5	(4)	-	10
-	9,531	-	-	-	-	-
3,815	**192,253**	**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 [(5)]	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 March 31, 2013													
USA	-	988	1,211	357	357	-	2,199	31	19	1,823	-	1,201	998
UK	-	561	919	724	220	504	1,984	3	12	1,216	-	480	1,000
France	-	79	1,404	-	-	-	1,483	14	2	399	-	399	1,084
Other	1	1,047	2,025	-	-	-	3,073	8	2	2,424	-	1,648	1,425
Total exposure to foreign countries	**1**	**2,675**	**5,559**	**1,081**	**577**	**504**	**8,739**	**56**	**35**	**5,862**	**-**	**3,728**	**4,507**
Includes: Total exposure to LDC countries	-	80	526	-	-	-	606	1	2	655	-	225	381
Includes: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	3	32	-	-	-	35	-	-	3	-	4	31

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 loss, 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 govern-ments (4)	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction with respect to local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	balance sheet troubled comm-ercial credit risk	Impaired debt (5)	Total off-balance sheet exposure	Includes: Off-balance sheet troubled commerc-ial credit risk	Maturing in under 1 year	Maturing in over 1 year
As of March 31, 2012 (5)													
USA	-	868	1,451	490	490	-	2,319	40	31	1,969	-	1,242	1,077
UK	-	608	1,128	620	266	354	2,090	5	10	1,454	-	439	1,297
France	-	81	1,335	-	-	-	1,416	15	2	390	-	567	849
Other	-	1,137	2,496	-	-	-	3,633	9	6	2,064	-	2,137	1,496
Total exposure to foreign countries	**-**	**2,694**	**6,410**	**1,110**	**756**	**354**	**9,458**	**69**	**49**	**5,877**	**-**	**4,385**	**4,719**
Includes: Total exposure to LDC countries	-	58	353	-	-	-	411	1	4	179	-	167	244
Includes: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	3	33	-	-	-	36	-	-	16	-	11	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 loss, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.
(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits.
(4) Governments, official institutions and central banks.
(5) Reclassified.

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

Reported amounts (NIS in millions)

	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 [(5)]	Total off-balance sheet exposure	Includes: Off-balance sheet troubled commercial credit risk	Maturing in under 1 year	Maturing in over 1 year
As of December 31, 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	-	41	1,321	-	-	-	1,362	13	3	427	-	401	961
Other	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 loss, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.
(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits.
(4) Governments, official institutions and central banks.
(5) Reclassified.

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

Reported amounts (NIS in millions)

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

As of March 31, 2013 and as of December 31, 2012, there is no reportable exposure pursuant to the Supervisor of Banks' Public Reporting Regulations.

	As of March 31, 2012 [(2]	
	Balance sheet exposure	Off-balance sheet exposure
Germany	582	677

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

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 March 31, 2013			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	6	-	6
Net change in short-term exposure	-	1	-	1
Exposure at end of reported period	**-**	**7**	**-**	**7**

	For the three months ended March 31, 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) Reclassified.

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

Certification

I, ELIEZER YONES, certify that:

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended March 31, 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.

A. Yones
President

Ramat Gan, May 27, 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 March 31, 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, May 27, 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 March 31, 2013, the condensed consolidated statements of profit and loss, comprehensive income, change in equity and cash flows for the three-month period then ended. The Board of Directors and management are responsible for preparation and presentation of financial information for this interim period, 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 6.61% of total consolidated assets as of March 31, 2013, and whose net interest revenues before expenses with respect to credit loss included in the consolidated statements of profit and loss constitute 7.93% of total consolidated net interest revenues before expenses with respect to credit loss for the three-month period then ended. Furthermore, we did not review the condensed financial information for the interim period of affiliates, the investment in which amounted to NIS 17 million as of March 31, 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 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.

May 27, 2013

Condensed consolidated balance sheet

Reported amounts (NIS in millions)

	Note	As of March 31,		As of December 31,
		2013	2012	2012
		(unaudited)	(unaudited)	(audited)
Assets				
Cash and deposits with banks		18,024	13,006	16,671
Securities [1]	2	9,374	11,230	9,041
Securities loaned or sold in repurchase agreements		194	211	207
Loans to the public	3	132,118	[3]122,033	130,244
Provision for credit loss	3	(1,575)	(1,664)	(1,593)
Loans to the public, net		130,543	120,369	128,651
Loans to Governments		307	190	317
Investments in associates		61	[3] 56	60
Buildings and equipment		1,632	1,605	1,658
Intangible assets and goodwill		87	87	87
Assets with respect to derivatives	8	3,701	2,199	3,518
Other assets		1,634	1,291	2,032
Total assets		**165,557**	**150,244**	**162,242**
Liabilities and Shareholders' Equity				
Deposits from the public	4	130,419	119,501	128,499
Deposits from banks		2,054	1,700	1,694
Deposits from the Government		98	143	107
Debentures and subordinated notes		14,845	12,722	14,039
Liabilities with respect to derivatives	8	3,752	3,244	3,773
Other liabilities[2]		4,829	4,600	4,878
Total liabilities		**155,997**	**141,910**	**152,990**
Equity attributable to equity holders of the Bank		9,108	7,933	8,811
Non-controlling interest		452	401	441
Total equity		**9,560**	**8,334**	**9,252**
Total liabilities and shareholders' equity		**165,557**	**150,244**	**162,242**

(1) Includes: NIS 8,139 million at fair value (March 31, 2012 - NIS 10,188 million; December 31, 2012 - NIS 7,803 million).
(2) Includes: Provision for credit loss with respect to off balance sheet credit instruments amounting to NIS 94 million (on March 31, 2012 - NIS 105 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, May 27, 2013

Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	For the three months ended March 31,		For the year ended December 31,
	2013	2012	2012
	(unaudited)		(audited)
Interest revenues	1,413	(1)1,520	6,591
Interest expenses	611	(1) 733	3,377
Interest revenues, net	802	787	3,214
Expenses with respect to credit loss	34	67	276
Interest revenues, net after expenses with respect to credit loss	**768**	**720**	**2,938**
Non-interest revenues			
Non-interest financing revenues (expenses)	33	(1) (1)	95
Commissions	368	(1) 359	1,452
Other revenues	5	6	26
Total non-interest revenues	**406**	**364**	**1,573**
Operating and other expenses			
Payroll and associated expenses	445	434	1,701
Maintenance and depreciation of buildings and equipment	166	158	652
Other expenses	106	102	433
Total operating and other expenses	**717**	**694**	**2,786**
Pre-tax profit	457	390	1,725
Provision for taxes on profit	164	128	599
After-tax profit	293	262	1,126
Share in loss of associates, after tax	(2)	-	-
Net profit:			
Before attribution to non-controlling interest	291	262	1,126
Attributable to non-controlling interest	(11)	(11)	(50)
Attributable to equity holders of the Bank	**280**	**251**	**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	March 31,	For the year ended December 31,
	2013	2012	2012
	(unaudited)		(audited)
Earnings per share[1]			
Basic earnings per share (in NIS)			
Net profit attributable to equity holders of the Bank	1.23	1.12	4.77
Diluted earnings per share (in NIS)			
Net profit attributable to equity holders of the Bank	1.22	1.11	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	March 31,	For the year ended December 31,
	2013	2012	2012
		(unaudited)	(audited)
Net profit:			
Before attribution to non-controlling interest	291	262	1,126
Attributable to non-controlling interest	(11)	(11)	(50)
Net profit attributable to equity holders of the Bank	**280**	**251**	**1,076**
Other comprehensive income (loss) before taxes:			
Adjustments for presentation of available-for-sale securities at fair value, net	21	13	73
Adjustments from translation of financial statements	(1)	-	-
Net gain (loss) with respect to cash flow hedges	-	(12)	(22)
Total other comprehensive income, before tax	**20**	**1**	**51**
Related tax effect	**(7)**	**(1)**	**(18)**
Cumulative Other Comprehensive income (loss):			
Before attribution to non-controlling interest, after tax	13	-	33
Attributable to non-controlling interest, after tax	-	(2)	(3)
Attributable to equity holders of the Bank, after tax	**13**	**(2)**	**30**
Comprehensive income:			
Before attribution to non-controlling interest	304	262	1,159
Attributable to non-controlling interest	(11)	(13)	(53)
Attributable to equity holders of the Bank	**293**	**249**	**1,106**

Condensed Statement of Changes in Shareholders' Equity

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 three months ended March 31, 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	-	2	-	2
Related tax effect	-	2	-	2
Realized share-based payment transactions [2]	5	(5)	-	-
Other comprehensive income, net after tax	-	-	-	-
Balance as of March 31, 2013	**2,063**	**138**	**(76)**	**2,125**
	For the three months ended March 31, 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	-	9	-	9
Related tax effect	-	9	-	9
Realized share-based payment transactions [2]	3	(3)	-	-
Other comprehensive (loss), net after tax	-	-	-	-
Balance as of March 31, 2012	**2,006**	**170**	**(76)**	**2,100**
	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 quarter of 2013, the Bank issued 309,358 ordinary shares (in the first quarter of 2012 - 86,297 shares) of NIS 0.1 par value each, for exercise of options pursuant to the Employee Stock Option Plan. 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.

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

	Cumulative other comprehensive income (loss) [3]	Retained earnings	Total	Non-controlling interest	Total equity
	-	**6,690**	**8,811**	**441**	**9,252**
	-	280	280	11	291
	-	-	2	-	2
	-	-	2	-	2
	-	-	-	-	-
	13	-	13	-	13
	13	**6,970**	**9,108**	**452**	**9,560**
	(30)	**5,614**	**7,666**	**388**	**8,054**
	-	251	251	11	262
	-	-	9	-	9
	-	-	9	-	9
	-	-	-	-	-
	(2)	-	(2)	2	-
	(32)	**5,865**	**7,933**	**401**	**8,334**
	(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 March 31,		For the year ended December 31,
	2013	2012	2012
	(unaudited)		(audited)
Cash flows provided by current operations			
Net profit for the period	291	262	1,126
Adjustments:			
Share of corporation in un-distributed earnings of associates	2	-	-
Depreciation of buildings and equipment	61	52	230
Expenses with respect to credit loss	34	67	276
Net profit (loss) from revaluation of securities held to maturity, from revaluation and sale of securities available for sale.	37	(44)	(244)
Impairment of securities held for sale	-	-	8
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	(2)	10	(44)
Net loss (gain) from sale of buildings and equipment	-	1	-
Benefit from share-based payment transactions	2	9	11
Deferred taxes, net	(13)	82	17
Severance pay - decrease in excess of amount funded over liability	(11)	(4)	(8)
Accrual differences included under investment and financing operations	17	(84)	73
Effect of change in exchange rate on cash balances	130	(1) 69	66
Net change in current assets			
Deposits with banks, net	(613)	(1,269)	(1,296)
Loans to the public, net	(1,926)	(1) (1,143)	(9,669)
Loans to the Governments, net	10	6	(121)
Securities loaned or sold in repurchase agreements, net	13	(75)	(71)
Assets with respect to derivatives, net	(183)	(1) 905	(425)
Securities held for trading, net	(290)	(498)	(1,064)
Other assets, net	406	(1) (47)	(689)
Net change in current liabilities			
Deposits from banks, net	360	(307)	(313)
Deposits from the public, net	1,920	265	9,263
Deposits from the Government, net	(9)	(9)	(45)
Liabilities with respect to derivatives, net	(21)	(720)	(191)
Other liabilities, net	(85)	(29)	(1) 197
Deferred income, net	14	-	11
Net cash provided by current operations	**144**	**(2,501)**	**(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	March 31,	For the year ended December 31,
	2013	2012	2012
		(unaudited)	(audited)
Cash flows provided by investment operations			
Acquisition of debentures held to maturity	-	-	(420)
Proceeds on redemption of debentures held to maturity	5	-	25
Acquisition of securities available for sale	(605)	(3,962)	(7,479)
Proceeds on sale and redemption of securities available for sale	543	1,706	8,717
Acquisition of buildings and equipment	(2)	(1) (10)	(1) (228)
Proceeds from sale of buildings and equipment	-	(1) 1	-
Purchase of shares in associates	(4)	(1) (4)	(8)
Net cash provided by investment operations	**(63)**	**(2,269)**	**607**
Cash flows provided by financing operations			
Issuance of debentures and subordinated notes	1,509	604	2,161
Redemption of debentures and subordinated notes	(720)	-	(397)
Dividends paid to shareholders	-	-	-
Net cash provided by financing operations	**789**	**604**	**1,764**
Increase (decrease) in cash	870	(4,166)	(531)
Cash balance at beginning of year	14,394	14,991	14,991
Effect of change in exchange rate on cash balances	(130)	(1) (69)	(66)
Cash balance at end of period	**15,134**	**10,756**	**14,394**
Interest and taxes paid / received			
Interest received	1,430	(1) 1,502	6,602
Interest paid	377	(1) 755	3,270
Dividends received	-	-	24
Taxes on income received	1	-	-
Taxes on income paid	108	117	556
Appendix A - Non-cash Transactions			
Acquisition of buildings and equipment	33	33	44

(1) Reclassified.

Note 1 - Reporting Principles and Accounting Policies

A. General

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

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

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

The Bank Board of Directors authorized publication of these financial statements on May 27, 2013.

B. Re-classification

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 set forth in US GAAP (ASU 2011-05 and ASU 2011-12) and to common 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 period ended March 31, 2012 and on the financial statements for the year ended December 31, 2012 were reclassified so as not to be separately presented on the statement of changes to equity, but rather are reported on a separate report named 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 loss, to adopt accounting standard update ASU 2010-20 which is required to be initially applied as from January 1, 2013.
5. New IFRS set 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 essence of changes made to accounting policy 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 customary 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 has retroactively applied the directives on the statement of comprehensive income as from January 1, 2013. Initial application of the directive did not impact the Bank's financial statements, other than the change in presentation.

2. Directive with regard to offset of assets and liabilities

The Bank applies the rules set forth 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 said liabilities

B. The banking corporation intends to repay the liabilities and realize the assets on 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.

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

Note 1 - Reporting Principles and Accounting Policies - Continued

A banking corporation should not offset assets with respect to derivatives against liabilities with respect to derivatives, unless all of the aforementioned conditions are fulfilled. However, the directives stipulate that under certain conditions, a banking corporation may offset fair value amounts recognized with respect to derivative instruments and fair value amounts recognized with respect to the right to call cash collateral (receivables) or the commitment to reimburse cash collateral (payables) arising from derivative instruments transacted with the same counter-party in accordance with a master netting arrangement – even if there is no intention to repay on net basis or concurrently.

The banking corporation is required to set accounting policies to be consistently applied with respect to offset of such fair value amounts.

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.

The Bank has also updated the disclosure in Note 8 with regard to financial derivatives activity – volume, credit risk and maturity, in conformity with the new disclosure requirements set forth in the directive.

Currently, the Bank continues to present exposures with transactions on 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.

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 set forth in the circular would apply as from annual financial statements for 2013.

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

Note 1 - Reporting Principles and Accounting Policies - Continued

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 loss, to adopt accounting standard update ASU-2010-20.

The Bank applies the Supervisor of Banks' directive with regard to update of disclosure of credit quality of debt and of provision for credit loss, to adopt accounting standard update ASU 2010-20, which stipulates wider disclosure of debt balances, movement in balance of provision for credit loss, 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 re-structured debt, with regard to the number of contracts and balance before and after such re-structuring. In addition, disclosure of the contractual balance and recorded balance is required for debt re-structuring 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 re-structuring 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.

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

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

Below is a description of key provisions of the new IFRS set with regard to consolidation of financial statements and related matters, as applied by the Supervisor of Banks and their effect on the Bank:

A. IFRS 10 "Consolidated financial statements"

The standard presents a new control model used to determine whether an investee should be consolidated, to be applied for all investees. According to the standard, *de facto* circumstances would be taken into consideration when assessing control, such 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.

Note 1 - Reporting Principles and Accounting Policies - Continued

B. Revised IAS 28 "Investments in Associates and in Joint Ventures"

In conformity with the revision, revaluation of existing or remaining interest in the investment at fair value upon transition from material influence to joint control and vice versa was discontinued; it was further stipulated that IFRS 5 "Non-current assets held for sale and discontinued operations" applies to any investment or part there of which meets the criteria for classification as held for sale.

C. IFRS 12 "Disclosure of interests in other entities"

The standard provides extensive disclosure requirements with regard to interests in subsidiaries, joint arrangements, associates and structured entities not consolidated.

Application of the set of standards s from January 1, 2013 had no impact on the Bank's financial statements.

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

The Bank applies the Supervisor's directives in the letter dated March 21, 2013, which updated directives with regard to "Updated directives with regard to residential real estate".

In conformity with the directives, guidelines with regard to group-based provision for credit loss with respect to housing loans were updated as described below.

In addition, guidelines with regard to capital adequacy were revised. For details of the changes to calculation of capital adequacy, see Note 5 to the financial statements.

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 loss 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 loss with respect to housing loans shall not be less than 0.35% (excluding housing loans provided for by extent of arrears or on individual basis).

According to the current situation, the balance of group-based provision with respect to housing loans is derived from the increase in current loans awarded, compared to the past. The Bank is reviewing the current model for calculation of group-based provision with respect to housing loans.

In conformity with the Supervisor of Banks' directives, The Bank would update the provision balance on its financial statements as of June 30, 2013.

Bank management estimates that application of the Supervisor's directives would require an additional group-based provision amounting to NIS 180 million (NIS 115 million after tax effect). This estimate by management is based on housing loan balances as of March 31, 2013.

Note 1 - Reporting Principles and Accounting Policies - Continued

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

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

   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 re-structuring 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 layout 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 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". The interim directive clarifies the range of year for which the Bank would calculate the loss rate, 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 loss is to be calculated. The updated questions and answers would apply as from July 1, 2013. According to these directives, the Bank is required to develop and document a consistent method to determine expenses and the balance of provision with respect to credit loss in each reported period. Such method would include indicators specific to the Bank and to its loan portfolio, as well as reference to current environment factors. Data and tests carried out would be reported to Bank management and Board of Directors for making a final decision as to the amount of provision for credit lossto be reported on the financial statements. The directive also includes provisions with regard to reviewing the appropriateness of the provision for credit loss, which would apply as from December 31, 2013.

Note 2 - Securities

As of March 31, 2013 (unaudited)

Reported amounts (NIS in millions)

A. Composition:

	Carrying amount	Amortized cost (for shares - cost)	Unrealized profit from adjustments to fair value	Unrealized loss from adjustments to fair value	Fair value [1]
(1) Government of Israel debentures held to maturity	**1,124**	**1,124**	**7**	**-**	**1,131**

	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]	4,828	4,812	51	(35)	4,828
Of foreign governments[2][6]	64	64	-	-	64
Of banks and financial institutions in Israel	124	124	-	-	124
Of banks and financial institutions overseas	330	329	1	-	330
Of others in Israel	37	37	-	-	37
Of others overseas	165	162	3	-	165
Total debentures available for sale	**5,548**	**5,528**	**55**	**(35)**	**5,548**
Shares[3]	116	115	1	-	116
Total securities available for sale	**5,664**	**5,643**	[4] **56**	[4] **(35)**	**5,664**

	Carrying amount	Amortized cost (for shares - cost)	Unrealized profit from adjustments to fair value	Unrealized loss from adjustments to fair value	Fair value [1]
(3) Securities held for trade					
Debentures -					
Of the Government of Israel [7]	2,583	2,546	37	-	2,583
Of banks and financial institutions overseas	3	3	-	-	3
Total securities held for trade	**2,586**	**2,549**	[5] **37**	**-**	**2,586**
Total securities	**9,374**	**9,316**	**100**	**(35)**	**9,381**

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) See Note 15.A-F to the 2012 financial statements for information on liens on securities held by the Bank.
(3) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 111 million.
(4) Included in Other Comprehensive Income under "Adjustments 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 1,454 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.

Note 2 - Securities

As of March 31, 2012 (unaudited) - Continued

Reported amounts (NIS in millions)

A. Composition:

	Carrying amount	Amortized cost (for shares - cost)	Unrealized profit from adjustments to fair value	Unrealized loss from adjustments to fair value	Fair value (1)
1) Government of Israel debentures held to maturity	**964**	**964**	**1**	**-**	**965**

	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)	7,521	7,582	23	(84)	7,521
Of foreign governments(2)(6)	89	89	-	-	89
Of banks and financial institutions in Israel	152	154	-	(2)	152
Of banks and financial institutions overseas	442	439	4	(1)	442
Asset-backed (ABS)	61	68	5	(12)	61
Of others in Israel	77	76	1	-	77
Of others overseas	167	166	2	(1)	167
Total debentures available for sale	**8,509**	**8,574**	**35**	**(100)**	**8,509**
Shares(3)	83	83	-	-	83
Total securities available for sale	**8,592**	**8,657**	(4) **35**	(4) **(100)**	**8,592**

	Carrying amount	Amortized cost (for shares - cost)	Unrealized profit from adjustments to fair value	Unrealized loss from adjustments to fair value	Fair value (1)
(3) Securities held for trade					
Debentures -					
Of the Government of Israel (7)	1,671	1,675	3	(7)	1,671
Of banks and financial institutions overseas	3	3	-	-	3
Total securities held for trade	**1,674**	**1,678**	(5) **3**	(5) **(7)**	**1,674**
Total securities	**11,230**	**11,299**	**39**	**(107)**	**11,231**

(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 78 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 661 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.

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 profit from adjustments to fair value	Unrealized 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 profit from adjustments to fair value	Unrealized loss from adjustments to fair value	Fair value (1)
(3) Securities held for trade					
Debentures -					
Of the Government of Israel (7)	2,291	2,272	39	(20)	2,291
Of banks and financial institutions overseas	3	3	-	-	3
Total securities held for trade	**2,294**	**2,275**	(5) **39**	(5) **(20)**	**2,294**
Total securities	**9,041**	**9,023**	**95**	**(74)**	**9,044**

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) See Note 15.A-F 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.

Note 2 – Securities- continued
Further details with regard to asset-backed securities available for sale

Reported amounts (NIS in millions)

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

In 2012, the Bank realized the remaining asset-backed securities available for sale.

	As of March 31, 2012			
	Less than 12 months		12 months or more	
	Fair value	Unrealized loss	Fair value	Unrealized loss
Asset-backed securities (ABS):				
CLO	-	-	36	(12)
Total	**-**	**-**	**36**	**(12)**

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

Reported amounts (NIS in millions)

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

1. Change in balance of provision for credit loss

	For the three months ended March 31, 2013					
	Provision for credit loss					
	Loans to the public				Banks and govern-ments	Total
	Commer-cial	Housing	Individual - other	Total		
Balance of provision for credit loss at start of period	720	821	154	1,695	10	1,705
Expenses with respect to credit loss	8	13	12	33	1	34
Accounting write-offs	(29)	(23)	(32)	(84)	-	(84)
Recovery of debt written off in previous years	10	-	15	25	-	25
Net accounting write-offs	(19)	(23)	(17)	(59)	-	(59)
Balance of provision for credit loss at end of period	**709**	**811**	**149**	**1,669**	**11**	**1,680**
Includes: With respect to balance sheet credit instruments	82	-	12	94	-	94

	For the three months ended March 31, 2012 [(2)]					
	Provision for credit loss					
	Loans to the public				Banks and govern-ments	Total
	Commer-cial	Housing	Individual - other	Total		
Balance of provision for credit loss at start of period	708	878	166	1,752	14	1,766
Expenses with respect to credit loss	46	4	13	63	4	67
Accounting write-offs	(28)	(15)	(29)	(72)	-	(72)
Recovery of debt written off in previous years	10	-	16	26	-	26
Net accounting write-offs	(18)	(15)	(13)	(46)	-	(46)
Balance of provision for credit loss at end of period	**736**	**867**	**166**	**1,769**	**18**	**1,787**
Includes: With respect to balance sheet credit instruments	88	-	17	105	-	105

(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) 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 loss. 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 layout required by the aforementioned directives. For details see Note 1.C.4).

Note 3 - Credit risk, loans to the public and provision for credit loss - 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 loss with respect to debt, and debt for which the provision has been calculated:

	March 31, 2013					
	Loans to the public				Banks and governments	Total
	Commercial	Housing	Individual - other	Total		
Recorded debt balance of debt [1]						
reviewed on individual basis	30,123	2	434	30,559	2,000	32,559
reviewed on individual basis	6,361	82,698	12,500	101,559	-	101,559
Total debt	**36,484**	**82,700**	**12,934**	**132,118**	**2,000**	**134,118**
Loans for which a provision for credit loss is assessed by extent of arrears	-	[3] 81,872	-	81,872	-	81,872
Provision for credit loss with respect to debt [1]						
reviewed on individual basis	575	2	40	617	11	628
reviewed on individual basis	52	809	97	958	-	958
Total provision for credit loss	**627**	**811**	**137**	**1,575**	**11**	**1,586**
Includes: Provision by extent of arrears	-	706	-	706	-	706
	March 31, 2012 [2]					
Recorded debt balance of debt [1]						
reviewed on individual basis	30,848	21	661	31,530	1,802	33,332
reviewed on individual basis	5,063	73,782	11,658	90,503	-	90,503
Total debt	**35,911**	**73,803**	**12,319**	**122,033**	**1,802**	**123,835**
Loans for which a provision for credit loss is assessed by extent of arrears	-	[3] 72,939	-	72,939	-	72,939
Provision for credit loss with respect to debt [1]						
reviewed on individual basis	598	15	51	664	18	682
reviewed on individual basis	50	852	98	1,000	-	1,000
Total provision for credit loss	**648**	**867**	**149**	**1,664**	**18**	**1,682**
Includes: Provision by extent of arrears	-	758	-	758	-	758

(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) 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 loss. 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 layout required by the aforementioned directives. For details see Note 1.C.4).

(3) Includes general-purpose loans secured by lien on residential apartment, amounting to NIS 5,012 million (as of March 31, 2012 - NIS 4,548 million and as of December 31, 2012 - NIS 5,037 million).

(4) Reclassified.

Note 3 - Credit risk, loans to the public and provision for credit loss - 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 loss with respect to debt, and debt for which the provision has been calculated - – cont.

	December 31, 2012					
	Loans to the public					
	Commer-cial	Housing	Individual - other	Total	Banks and governments	Total
Recorded debt balance of debt [1]						
reviewed on individual basis	[4]30,378	5	[4]611	30,994	2,819	33,813
reviewed on individual basis	[4]6,303	80,864	[4]12,083	99,250	-	99,250
Total debt	36,681	80,869	12,694	130,244	2,819	133,063
Loans for which a provision for credit loss is assessed by extent of arrears	-	[3] 79,970	-	79,970	-	79,970
Provision for credit loss with respect to debt [1]						
reviewed on individual basis	[4] 583	2	[4] 35	620	10	630
reviewed on individual basis	52	819	102	973	-	973
Total provision for credit loss	**635**	**821**	**137**	**1,593**	**10**	**1,603**
Includes: Provision by extent of arrears	-	721	-	721	-	721

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with re-sale 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 loss. 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 layout required by the aforementioned directives. For details see Note 1.C.4).
(3) Includes general-purpose loans secured by lien on residential apartment, amounting to NIS 5,012 million (as of March 31, 2012 - NIS 4,548 million and as of December 31, 2012 - NIS 5,037 million).
(4) Reclassified.

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

Reported amounts (NIS in millions)

B. Debt [1]

1. A. Credit quality and arrears

	March 31, 2013					
		Troubled [2]			Non impaired debt - additional information	
	Non troubled	Non impaired	Impaired [3]	Total	In arrears 90 days or longer [4]	In arrears 30 to 89 days [5]
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	7,064	12	673	7,749	3	9
Construction and real estate - real estate operations	1,577	2	21	1,600	-	4
Financial services	3,973	14	268	4,255	4	12
Commercial – other	19,987	236	416	20,639	23	110
Total commercial	**32,601**	**264**	**1,378**	**34,243**	**30**	**135**
Private individuals - housing loans	80,943	1,566	2	82,511	[6]1,566	904
Private individuals - other	12,375	147	102	12,624	26	128
Total public – activity in Israel	**125,919**	**1,977**	**1,482**	**129,378**	**1,622**	**1,167**
Banks in Israel	694	-	-	694	-	-
Government of Israel	2	-	-	2	-	-
Total activity in Israel	**126,615**	**1,977**	**1,482**	**130,074**	**1,622**	**1,167**
Borrower activity overseas						
Public - commercial						
Construction and real estate	1,312	2	33	1,347	-	-
Commercial – other	892	-	2	894	-	-
Total commercial	**2,204**	**2**	**35**	**2,241**	**-**	**-**
Private individuals	499	-	-	499	-	-
Total public – activity overseas	**2,703**	**2**	**35**	**2,740**	**-**	**-**
Overseas banks	935	-	5	940	-	-
Overseas governments	364	-	-	364	-	-
Total activity overseas	**4,002**	**2**	**40**	**4,044**	**-**	**-**
Total public	128,622	1,979	1,517	132,118	1,622	1,167
Total banks	1,629	-	5	1,634	-	-
Total governments	366	-	-	366	-	-
Total	**130,617**	**1,979**	**1,522**	**134,118**	**1,622**	**1,167**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with re-sale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debt does not accrue interest revenues. For information about certain impaired debt restructured using 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 44 million was classified as troubled non-impaired debt.
(6) Includes balance of housing loans amounting to NIS 297 million (as of March 31, 2012 - NIS 318 million; as of December 31, 2012 - NIS 311 million) provided for by extent of arrears, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.

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

Reported amounts (NIS in millions)

B. Debt [(1)]

1. A. Credit quality and arrears - continued

	December 31, 2012					
		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	6,561	32	737	7,330	7	5
Construction and real estate - real estate operations	1,585	8	23	1,616	1	2
Financial services	4,340	24	302	4,666	2	13
Commercial – other	20,146	264	464	20,874	22	201
Total commercial	**32,632**	**328**	**1,526**	**34,486**	**32**	**221**
Private individuals - housing loans	79,051	1,599	5	80,655	1,599	869
Private individuals - other	12,132	161	84	12,377	28	109
Total public – activity in Israel	**123,815**	**2,088**	**1,615**	**127,518**	**1,659**	**1,199**
Banks in Israel	512	-	-	512	-	-
Government of Israel	1	-	-	1	-	-
Total activity in Israel	**124,328**	**2,088**	**1,615**	**128,031**	**1,659**	**1,199**
Borrower activity overseas						
Public - commercial						
Construction and real estate	1,262	-	38	1,300	-	-
Commercial – other	890	-	5	895	-	-
Total commercial	**2,152**	**-**	**43**	**2,195**	**-**	**-**
Private individuals	525	-	6	531	-	-
Total public – activity overseas	**2,677**	**-**	**49**	**2,726**	**-**	**-**
Overseas banks	1,149	-	5	1,154	-	-
Overseas governments	1,152	-	-	1,152	-	-
Total activity overseas	**4,978**	**-**	**54**	**5,032**	**-**	**-**
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**

	March 31, 2012				
				Non impaired debt - additional information	
	Non impaired	Impaired [(3)]	Total	In arrears 90 days or longer [(4)]	In arrears 30 to 89 days
Loans to the public					
Reviewed on individual basis	30,160	1,370	31,530	19	191
Housing loans by extent of arrears	72,939	-	72,939	1,693	844
Reviewed on group basis - other	17,564	-	17,564	45	82
Total public	120,663	1,370	122,033	1,757	1,117
Total banks	1,511	4	1,515	-	-
Total governments	287	-	287	-	-
Total	**122,461**	**1,374**	**123,835**	**1,757**	**1,117**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with re-sale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debt does not accrue interest revenues. For information about certain impaired debt restructured using 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 70 million was classified as troubled non-impaired debt.
(6) Reclassified.

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

Reported amounts (NIS in millions)

1. B. Credit quality

The state of debt arrears is monitored daily and automatically, providing one of the key indications of credit quality. The state of arrears, and consequently classification of the debt, are based 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 individual basis, and after 150 days in arrears for debt measured on group basis.

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

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 March 31, 2013					
	Credit segment					
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Trouble-free debt, investment grade	31,557	81,132	12,685	366	1,618	127,358
Trouble-free debt, other than investment grade	3,248	-	-	-	11	3,259
Troubled non-impaired debt.	266	1,566	147	-	-	1,979
Impaired debt	1,413	2	102	-	5	1,522
Total	**36,484**	**82,700**	**12,934**	**366**	**1,634**	**134,118**

	As of December 31, 2012					
	Credit segment					
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Trouble-free debt, investment grade	(1) 31,360	79,265	(1) 12,443	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	1,569	5	90	-	5	1,669
Total	**36,681**	**80,869**	**12,694**	**1,153**	**1,666**	**133,063**

(1) Reclassified.

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

A. Impaired debt and individual provision

	March 31, 2013				
	Balance of impaired debt for which an individual provision has been made [2][3]	Balance of individual provision	Balance of impaired debt for which no individual provision has been made [2]	Total balance of impaired debt [2]	Contractual principal balance of impaired debt
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	249	17	424	673	1,520
Construction and real estate - real estate operations	19	3	2	21	62
Financial services	242	111	26	268	307
Commercial – other	311	99	105	416	693
Total commercial	**821**	**230**	**557**	**1,378**	**2,582**
Private individuals - housing loans	2	1	-	2	2
Private individuals - other	34	11	68	102	113
Total public – activity in Israel	**857**	**242**	**625**	**1,482**	**2,697**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	**857**	**242**	**625**	**1,482**	**2,697**
Borrower activity overseas					
Public - commercial					
Construction and real estate	33	-	-	33	101
Commercial – other	2	-	-	2	5
Total commercial	**35**	**-**	**-**	**35**	**106**
Private individuals	-	-	-	-	2
Total public – activity overseas	**35**	**-**	**-**	**35**	**108**
Overseas banks	5	-	-	5	4
Overseas governments	-	-	-	-	-
Total activity overseas	**40**	**-**	**-**	**40**	**112**
Total public	892	242	625	1,517	2,805
Total banks	5	-	-	5	4
Total governments	-	-	-	-	-
Total	**897**	**242**	**625**	**1,522**	**2,809**
Includes:					
Measured at present value of cash flows	788	241	549	1,337	
Debt under troubled debt restructuring	353	85	502	855	

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

(2) Recorded debt balance.

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

Note 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

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	682	31	55	737	1,494
Construction and real estate - real estate operations	22	1	1	23	46
Financial services	274	91	28	302	371
Commercial – other	359	107	105	464	909
Total commercial	**1,337**	**230**	**189**	**1,526**	**2,820**
Private individuals - housing loans	5	2	-	5	5
Private individuals - other	21	11	63	84	129
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	

	March 31, 2012			
Total public	1,098	228	272	1,370
Total banks	4	-	-	4
Total governments	-	-	-	-
Total	**1,102**	**228**	**272**	**1,374**
Includes:				
Measured at present value of cash flows	1,007	226	242	1,249
Debt under troubled debt restructuring	793	32	31	824

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

(2) Recorded debt balance.

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

Note 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

B. Average balance and interest revenues

			March 31, 2013
	Average balance of impaired debt [2]	Interest revenues recorded [3]	Includes: Recorded on cash bais
Borrower activity in Israel			
Public - commercial			
Construction and real estate - construction	705	-	-
Construction and real estate - real estate operations	22	-	-
Financial services	285	-	-
Commercial – other	440	4	4
Total commercial	**1,452**	**4**	**4**
Private individuals - housing loans	4	-	-
Private individuals - other	93	1	1
Total public – activity in Israel	**1,549**	**5**	**5**
Banks in Israel	-	-	-
Government of Israel	-	-	-
Total activity in Israel	**1,549**	**5**	**5**
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	1,592	5	5
Total banks	5	-	-
Total governments	-	-	-
Total [4]	**1,597**	**5**	**5**

B. Average balance and interest revenues

	March 31, 2012	December 31, 2012
Average recorded debt balance of impaired loans to the public during reported period	[5] 1,477	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]	39	126
Total interest revenues which would have been recognized in the reported period had this credit accrued interest at its original terms	[5] 17	78
[6] Includes: Interest revenues recognized in accordance with cash basis accounting policy	38	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 re-sale 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 20 million.
(5) Reclassified.

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

	March 31, 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	562	-	-	53	615
Construction and real estate - real estate operations	14	-	-	1	15
Financial services	55	-	-	-	55
Commercial – other	89	-	-	12	101
Total commercial	**720**	**-**	**-**	**66**	**786**
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	29	-	3	35	67
Total public – activity in Israel	**749**	**-**	**3**	**101**	**853**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	**749**	**-**	**3**	**101**	**853**
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	749	-	3	103	855
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	**749**	**-**	**3**	**103**	**855**

(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.

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

	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	704	-	-	-	704
Construction and real estate - real estate operations	14	-	3	-	17
Financial services	11	-	-	1	12
Commercial – other	47	-	-	10	57
Total commercial	**776**	**-**	**3**	**11**	**790**
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	29	-	3	36	68
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**

					March 31, 2012
Total public	[4] 731	-	6	[4] 87	824
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	**731**	**-**	**6**	**87**	**824**

(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 March 31, 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 loss - continued

Reported amounts (NIS in millions)

B. Debt [(1)]

2. Additional information about impaired debt

C. Troubled debt under restructuring - continued

	Re-structurings made in the three months ended March 31, 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	-	-	-
Construction and real estate - real estate operations	1	-	-
Financial services	3	2	2
Commercial – other	39	37	37
Total commercial	**43**	**39**	**39**
Private individuals – housing loans	-	-	-
Private individuals - other	265	10	10
Total public – activity in Israel	**308**	**49**	**49**
Banks in Israel	-	-	-
Government of Israel	-	-	-
Total activity in Israel	**308**	**49**	**49**
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	308	49	49
Total banks	-	-	-
Total governments	-	-	-
Total	**308**	**49**	**49**

(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) In conformity with the Supervisor of Banks' directives with regard to updated disclosure of credit quality of debt and of provision for credit loss, new disclosures are required with regard to, *inter alia*, re-structuring 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 loss - continued

Reported amounts (NIS in millions)

B. Debt [(1)]

2. Additional information about impaired debt

C. Troubled debt under restructuring - continued

	Re-structurings made which are in default [(3)]	
	in the three months ended March 31, 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	2	-
Total commercial	**2**	**-**
Private individuals – housing loans	-	-
Private individuals - other	61	1
Total public – activity in Israel	**63**	**1**
Banks in Israel	-	-
Government of Israel	-	-
Total activity in Israel	**63**	**1**
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	63	1
Total banks	-	-
Total governments	-	-
Total	**63**	**1**

(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) In conformity with the Supervisor of Banks' directives with regard to updated disclosure of credit quality of debt and of provision for credit loss, new disclosures are required with regard to, *inter alia*, re-structuring 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 re-structured under troubled debt re-structuring 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

3. Additional information about housing loans

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

		March 31, 2013			
		Housing loan balance			Off-balance sheet credit risk
		Total	Includes: Bullet / balloon	Includes: Variable interest	Total
Senior lien: LTV ratio	Up to 60%	41,826	1,111	31,508	2,691
	Over 60%	40,776	508	31,768	1,848
Junior lien or no lien		98	2	62	850
Total		**82,700**	**1,621**	**63,338**	**5,389**
		March 31, 2012 [(2)]			
Senior lien: LTV ratio	Up to 60%	36,272	798	26,625	2,252
	Over 60%	37,449	464	28,434	1,872
Junior lien or no lien		82	1	47	1,141
Total		**73,803**	**1,263**	**55,106**	**5,265**
		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 its 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 loss. 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 layout required by the aforementioned directives. For details see Note 1.C.4.

Note 4 - Deposits from the Public

Reported amounts (NIS in millions)

	As of March 31,		As of December 31,
	2013	2012	2012
	(unaudited)		(audited)
On-call deposits	19,967	17,619	19,499
Term deposits and other deposits	108,272	99,081	106,731
Savings plan deposits	2,180	2,801	2,269
Total deposits from the public	(1) **130,419**	**119,501**	(1) **128,499**

(1) Includes deposits from institutional investors in Israel as of March 31, 2013 amounting to NIS 36,554 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 March 31,		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	9,443	8,200	9,145
Tier II capital, after deductions	4,923	5,476	5,129
Total capital	**14,366**	**13,676**	**14,274**
B. Weighted risk asset balances			
Credit risk	100,264	93,965	98,736
Market risk	1,017	1,370	1,119
Operating Risk (1)	7,158	7,996	7,093
Total weighted risk asset balances	**108,439**	**103,331**	**106,948**

	As of March 31,		As of December 31,
	2013	2012	2012
	In %		
C. Ratio of capital to risk elements			
Ratio of Tier I capital to risk elements	8.71	7.94	8.55
Ratio of total capital to risk elements	13.25	13.24	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	9.22	8.87	9.45
Total ratio of capital to risk elements	13.90	13.34	14.22
Total minimum capital ratio required by the Supervisor of Banks	9.00	9.00	9.00

(1) As from December 31, 2012, capital requirement with respect to operating risk was calculated using 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.

Note 5 - Capital adequacy pursuant to directives of the Supervisor of Banks - continued

Calculated in accordance with Proper Conduct of Banking

Business Regulation No. 201-211 "Measurement and Capital Adequacy"

Reported amounts (NIS in millions)

	As of March 31,		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	2,100	2,121
Total cumulative other loss (1)	-	(41)	(3)
Retained earnings	6,970	5,865	6,690
Non-controlling interest of external shareholders in equity of consolidated subsidiaries	452	401	441
Less:			
Goodwill	(87)	(87)	(87)
Tier I capital after Tier I deductions alone	**9,460**	**8,238**	**9,162**
Less:			
Investments in supervisory capital components of banking corporations	(17)	(19)	(17)
Other deductions from Tier I capital	-	(19)	-
Total Tier I capital	**9,443**	**8,200**	**9,145**
B. Tier II capital			
1. Upper Tier II capital			
45% of net profit before related tax effect, with respect to adjustment to fair value of available-for-sale securities	9	-	-
General provision for doubtful debts (2)	110	110	110
Complex capital instruments	1,899	1,869	1,896
2. Lower Tier II capital			
Subordinated notes	2,922	3,535	3,140
3. Deductions from Tier II capital			
Investments in supervisory capital components of banking corporations	(17)	(19)	(17)
Other deductions from Tier II capital	-	(19)-	
Total Tier II capital	**4,923**	**5,476**	**5,129**

(1) Excludes net gain from cash flow hedges.

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

Note 5 - Capital adequacy pursuant to 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 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 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 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.
The core capital ratio should be calculated based on Basel III directives with adjustments to be specified by the Supervisor of Banks.
The Bank is preparing for compliance with the stipulated requirements.

E. 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.

F. On December 31, 2012, the Advisory Committee on Banking Business received draft 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). Proper Conduct of Banking Business Regulation 202 (Capital measurement and adequacy - supervisory capital) adopts the Basel III recommendations in Israel. The Bank is preparing for immediate application of the Supervisor of Banks' anticipated requirements, as included in the draft directives, and is reviewing the impact of the draft change on the Bank's strategic plan.

Note 5 - Capital adequacy pursuant to directives of the Supervisor of Banks - continued

G. On March 21, 2013, the Supervisor of Banks issued directives with regard to residential real estate. In conformity with the directives, capital allocation for loans originated as from January 1, 2013 is calculated using the following weighting:

- For housing loans with loan-to-value ratio up to 45% - risk weighting is 35%.
- For housing loans with loan-to-value ratio between 45% and 60% - risk weighting is 50%.
- For housing loans with loan-to-value ratio higher than 60% - risk weighting is 75%.
- For leveraged housing loans with loan-to-value ratio higher than 60% with an adjustable interest component of 25% or higher - risk weighting is 75%.

This compares with the previous weightings:

- For housing loans with loan-to-value ratio lower than 75% - risk weighting was 35%.
- For housing loans with loan-to-value ratio higher than 75% - risk weighting was 75%.
- For leveraged housing loans with loan-to-value ratio higher than 60% with an adjustable interest component of 25% or higher - risk weighting was 100%.

In addition, the credit conversion factor for guarantees to secure investments of apartment buyers was reduced from 20% to 10% if the apartment has been delivered to the resident.

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

As of March 31, 2013 (unaudited)

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	16,193	84	1,300	202	245	-	18,024
Securities	5,643	219	2,581	786	29	116	9,374
Securities borrowed or bought in conjunction with repurchase agreements	158	36	-	-	-	-	194
Loans to the public, net	67,273	50,251	8,906	2,450	1,663	-	130,543
Loans to Governments	-	-	110	197	-	-	307
Investments in associates	34	-	-	-	-	27	61
Buildings and equipment	-	-	-	-	-	1,632	1,632
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	2,839	450	299	42	71	-	3,701
Other assets	1,172	380	21	2	17	42	1,634
Total assets	**93,312**	**51,420**	**13,217**	**3,679**	**2,025**	**1,904**	**165,557**
Liabilities							
Deposits from the public	82,431	22,369	19,323	3,936	2,360	-	130,419
Deposits from banks	430	503	882	221	18	-	2,054
Deposits from the Government	15	51	32	-	-	-	98
Debentures and subordinated notes	2,171	12,674	-	-	-	-	14,845
Liabilities with respect to derivatives	2,653	241	602	210	46	-	3,752
Other liabilities	3,778	665	70	10	20	286	4,829
Total liabilities	**91,478**	**36,503**	**20,909**	**4,377**	**2,444**	**286**	**155,997**
Difference	**1,834**	**14,917**	**(7,692)**	**(698)**	**(419)**	**1,618**	**9,560**
Impact of hedging derivatives:							
Derivatives (other than options)	400	(400)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (other than options)	251	(8,108)	7,588	(170)	439	-	-
Net in-the-money options (in terms of underlying asset)	(1,072)	-	331	743	(2)	-	-
Net out-of-the-money options (in terms of underlying asset)	24	-	(133)	117	(7)	(1)	-
Total	**1,437**	**6,409**	**94**	**(8)**	**11**	**1,617**	**9,560**
Net in-the-money options (capitalized par value)	153	-	549	(695)	(7)	-	-
Net out-of-the-money options (capitalized par value)	437	-	(858)	479	(58)	-	-

(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 March 31, 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	11,174	344	1,211	78	199	-	13,006
Securities	6,235	1,040	2,770	1,071	31	83	11,230
Securities borrowed or bought in conjunction with repurchase agreements	65	146	-	-	-	-	211
Loans to the public, net	61,015	45,575	[3] 9,734	2,019	2,026	-	120,369
Loans to Governments	-	-	-	188	2	-	190
Investments in associates	32	-	-	-	-	[3] 24	56
Buildings and equipment	-	-	-	-	-	1,605	1,605
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	1,407	174	364	78	176	-	2,199
Other assets	891	221	93	2	15	69	1,291
Total assets	**80,819**	**47,500**	**14,172**	**3,436**	**2,449**	**1,868**	**150,244**
Liabilities							
Deposits from the public	71,569	22,943	18,624	4,272	2,093	-	119,501
Deposits from banks	36	647	846	128	43	-	1,700
Deposits from the Government	12	97	34	-	-	-	143
Debentures and subordinated notes	2,101	10,621	-	-	-	-	12,722
Liabilities with respect to derivatives	1,720	165	1,068	215	76	-	3,244
Other liabilities	3,529	716	66	9	16	264	4,600
Total liabilities	**78,967**	**35,189**	**20,638**	**4,624**	**2,228**	**264**	**141,910**
Difference	**1,852**	**12,311**	**(6,466)**	**(1,188)**	**221**	**1,604**	**8,334**
Impact of hedging derivatives:							
Derivatives (other than options)	420	(420)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (other than options)	(2,170)	(4,029)	5,595	706	(102)	-	-
Net in-the-money options (in terms of underlying asset)	(1,250)	-	578	771	(91)	(8)	-
Net out-of-the-money options (in terms of underlying asset)	(2)	-	396	(298)	(108)	12	-
Total	**(1,150)**	**7,862**	**103**	**(9)**	**(80)**	**1,608**	**8,334**
Net in-the-money options (capitalized par value)	659	-	205	(671)	(166)	(27)	-
Net out-of-the-money options (capitalized par value)	26	-	(282)	175	131	(50)	-

(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 March 31,				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	349	2	377	4	387	1
- Loan guarantees	2,691	20	3,130	30	2,705	21
- Guarantees to home buyers	8,376	7	7,195	6	8,096	7
- Guarantees and other liabilities [(3)]	3,417	17	2,968	11	3,281	23
- Unutilized revolving credit card facilities	6,809	6	6,784	7	6,718	6
- Unutilized debitory account and other credit facilities in accounts available on demand	16,290	21	16,056	30	16,313	21
- Irrevocable commitments for loans approved but not yet granted	9,735	16	10,004	14	9,724	17
- Commitments to issue guarantees	4,818	5	5,404	3	5,198	6

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

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

(3) Includes the Bank's liabilities for its share in the risks fund of the MAOF Clearinghouse of NIS 98 million. (as of March 31, 2012 and December 31, 2012 - NIS 166 million and NIS 127 million, respectively).

Note 7 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

		As of March 31,	As of December 31,
	2013	2012	2012
		(unaudited)	(audited)
B. Special commitments			
Obligations with respect to:			
Long-term leases	587	555	624
Computerization and software service contracts	151	106	178
Acquisition and renovation of buildings	12	8	18
Receipt of deposits on future dates (1)	400	405	400

		As of March 31,	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	-	61	-

(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 shareholder 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.
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.

Note 7 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

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.

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.

Note 7 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

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.
Preliminary proceedings in this case have been concluded and the parties have filed primary testimonial affidavits and expert opinions. The case is scheduled for evidentiary hearing at the Court in June 2013.

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 07, 2011 the Haifa District Court dismissed the plaintiffs' motion for class action status. The plaintiffs have appealed the decision by the District Court to the Supreme Court.
In February 2013, the Supreme Court denied the plaintiffs' appeal.

E. 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.

Note 7 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

F. 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. The parties started a reconciliation process designed to try and resolve their differences outside the Court.

G. 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 117 million.

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

A. 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.

Note 7 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

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 with the Court its response to this motion.

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, 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.
The Bank has yet to file a response to this motion.

E. 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.

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. In accordance with the Court's proposal, all parties have consented to transfer discussion of the appeal to arbitration. 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 March 31, 2013 (unaudited)
	Interest contracts				Commodit	
			Currency	Contracts	y contracts	
	NIS - CPI	Other	contracts	for shares	and others	Total
1. Stated amounts of financial derivatives						
A. Hedging derivatives (1)						
Forward contracts	435	-	-	-	-	435
Swaps	-	2,568	-	-	-	2,568
Total	**435**	**2,568**	**-**	**-**	**-**	**3,003**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	**-**	**2,560**	**-**	**-**	**-**	**2,560**
B. ALM derivatives (1)(2)						
Forward contracts	10,558	-	54,168	-	38	64,764
Option contracts traded on stock exchange:						
Options written	-	-	1,891	735	-	2,626
Options purchased	-	-	2,330	755	-	3,085
Other option contracts:						
Options written	-	-	11,598	-	-	11,598
Options purchased	-	-	10,848	-	-	10,848
Swaps	2,043	40,904	12,129	-		55,076
Total	**12,601**	**40,904**	**92,964**	**1,490**	**38**	**147,997**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,493	24,833	-	-	-	26,326
C. Other derivatives (1)						
Forward contracts	-	-	473	-	-	473
Option contracts traded on stock exchange:						
Options written	-	-	5,305	6,423	26	11,754
Options purchased	-	-	5,305	6,423	26	11,754
Other option contracts:						-
Options written	-	205	117	369	-	691
Options purchased	-	114	136	360	-	610
Swaps	-		-	4,823	-	4,823
Total	**-**	**319**	**11,336**	**18,398**	**52**	**30,105**

(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 March 31, 2013 (unaudited)					
	Interest contracts		Contractual	contracts with respect to	Commodity contracts	Total
	NIS - CPI	Other	Foreign currency	shares	and others	
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	164	164
Foreign currency spot swap contracts	-	-	1,750	-	-	1,750
Total	**-**	**-**	**1,750**	**-**	**164**	**1,914**
Total stated amounts of derivatives	**13,036**	**43,791**	**106,050**	**19,888**	**254**	**183,019**
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives (1)						
Positive fair value, gross	1	-	-	-	-	1
Negative fair value, gross	-	308	-	-	-	308
B. ALM derivatives (1)(2)						
Positive fair value, gross	237	1,113	1,912	144	-	3,406
Negative fair value, gross	180	1,398	1,594	-	-	3,172
C. Other derivatives (1)						
Positive fair value, gross	-	5	112	177	-	294
Negative fair value, gross	-	2	111	163	-	276
D. Credit derivatives						
Credit derivatives in which the Bank is guarantor						
Negative fair value, gross	-	-	-	-	1	1
E. Total						
Total positive fair value, gross	**238**	**1,118**	**2,024**	**321**	**-**	**3,701**
Includes: carrying amount of assets with respect to derivatives not subjet to net settlement or similar arrangements	86	172	891	321	-	1,470
Total negative fair value, gross (3)	**180**	**1,708**	**1,705**	**163**	**1**	**3,757**
Includes: carrying amount of assets with respect to derivatives not subjet to net settlement or similar arrangements	8	250	960	163	1	1,382

(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 5 million.

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

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	As of March 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	420	-	-	-	-	420
Swaps	-	2,835	-	-	-	2,835
Total	**420**	**2,835**	**-**	**-**	**-**	**3,255**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	2,835	-	-	-	2,835
B. ALM derivatives [(1)(2)]						
Forward contracts	8,725	2,942	62,362	116	32	74,177
Option contracts traded on stock exchange:						
Options written	-	-	2,267	199	-	2,466
Options purchased	-	-	3,250	304	-	3,554
Other option contracts:						
Options written	-	-	10,053	238	-	10,291
Options purchased	-	-	9,198	198	-	9,396
Swaps	1,326	39,717	11,884	-	-	52,927
Total	**10,051**	**42,659**	**99,014**	**1,055**	**32**	**152,811**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	776	23,987	-	-	-	24,763
C. Other derivatives [(1)]						
Forward contracts	-	-	631	-	-	631
Option contracts traded on stock exchange:						
Options written	-	-	5,539	6,335	2	11,876
Options purchased	-	-	5,539	6,335	2	11,876
Other option contracts:						
Options written	-	672	442	258	1	1,373
Options purchased	-	675	464	211	1	1,351
Swaps	-	-	-	4,276	-	4,276
Total	**-**	**1,347**	**12,615**	**17,415**	**6**	**31,383**

(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

	As of March 31, 2012 (Unaudited)					
	Interest contracts		contractual contracts		Commodity contracts	Total
				with		
			Foreign	respect to		
	NIS - CPI	Other	currency	shares	and others	
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	353	353
Credit derivatives in which the Bank is beneficiary	-	-	-	-	27	27
Foreign currency spot swap contracts	-	-	2,630	-	-	2,630
Total	**-**	**-**	**2,630**	**-**	**380**	**3,010**
Total stated amounts of derivatives	**10,471**	**46,841**	**114,259**	**18,470**	**418**	**190,459**
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives (1)						
Positive fair value, gross	1	6	-	-	-	7
Negative fair value, gross	-	321	-	-	-	321
B. ALM derivatives (1)(2)						
Positive fair value, gross	164	852	887	156	-	2,059
Negative fair value, gross	116	1,032	1,496	137	-	2,781
C. Other derivatives (1)						
Positive fair value, gross	-	6	78	49	-	133
Negative fair value, gross	-	6	83	61	-	150
D. Credit derivatives						
Credit derivatives in which the Bank is guarantor						
Positive fair value, gross	-	-	-	-	-	-
Negative fair value, gross	-	-	-	-	4	4
Total positive fair value, gross	**165**	**864**	**965**	**205**	**-**	**2,199**
Total negative fair value, gross (3)	**116**	**1,359**	**1,579**	**198**	**4**	**3,256**

(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 12 million.

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

Reported amounts (NIS in millions)

a) Activity on consolidated basis

	As of December 31, 2012 (Audited)					
	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 (Audited)					
	Interest contracts		Foreign currency contractual	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	-	-	-	-	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 subjet to net settlement or similar arrangements	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 assets with respect to derivatives not subjet to net settlement or similar arrangements	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 March 31, 2013 (unaudited)					
	Stock exchanges	Banks	Dealers / Brokers	Governments and central banks	Others	Total
Carrying amounts of assets with respect to derivatives (1)	**355**	**2,414**	**15**	**-**	**917**	**3,701**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(1,622)	-	-	-	(1,622)
Mitigation of credit risk with respect to cash collateral received	-	(531)	-	-	-	(531)
Net amount of assets with respect to derivatives	**355**	**261**	**15**	**-**	**917**	**1,548**
Off-balance sheet credit risk with respect to derivatives (2)	-	1,897	467	-	2,439	4,803
Mitigation of off-balance sheet credit risk	-	(495)	-	-	-	(495)
Off-balance sheet credit risk, net with respect to derivatives (2)	**-**	**1,402**	**467**	**-**	**2,439**	**4,308**
Total credit risk with respect to derivatives	**355**	**1,663**	**482**	**-**	**3,356**	**5,856**
Carrying amount of liabilities with respect to derivatives (3)	**223**	**2,804**	**-**	**-**	**725**	**3,752**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(1,622)	-	-	-	(1,622)
Mitigation of credit risk with respect to cash collateral pledged	-	(361)	-	-	-	(361)
Net amount of liabilities with respect to derivatives	**223**	**821**	**-**	**-**	**725**	**1,769**

	As of March 31, 2012 (unaudited)					
	Stock exchanges	Banks	Dealers / Brokers	Governments and central banks	Others	Total
Carrying amounts of assets with respect to derivatives (1)	223	1,534	3	-	439	2,199
Off-balance sheet credit risk with respect to derivatives (2)	-	1,204	188	-	2,466	3,858
Total credit risk with respect to derivatives	**223**	**2,738**	**191**	**-**	**2,905**	**6,057**

(1) Includes positive gross fair value of embedded derivatives, amounting to NIS 0 million. (Fair value of embedded derivatives as of March 31, 2012 amounting to NIS 0 million).

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

(3) Includes negative gross fair value of embedded derivatives, amounting to NIS 5 million.

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

Reported amounts (NIS in millions)

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

	As of December 31, 2012 (Audited) [1]					
	Stock exchanges	Banks	Dealers / Brokers	Governments and central banks	Others	Total
Carrying amounts 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 with respect to derivatives [3]	-	1,255	433	-	2,214	3,902
Mitigation of off-balance sheet credit risk	-	(540)	-	-	-	(540)
Off-balance sheet credit risk, net with respect to derivatives [2]	**-**	**715**	**433**	**-**	**2,214**	**3,362**
Total credit risk with respect to 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) Reclassified.
(2) Includes positive fair value, gross, of embedded derivatives amounting to NIS 0 million.
(3) The difference, if positive, between total amounts with respect to derivatives (including with respect to derivatives with negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, before credit risk mitigation, and the carrying amount of assets with respect to derivatives of the borrower.
(4) Includes negative gross fair value of embedded derivatives, amounting to NIS 4 million.

In the three-month period ended March 31, 2013, the Bank recognized revenues from decrease in provision for credit loss with respect to derivatives, amounting to NIS 9 million (in the three-month period ended March 31, 2012 and in all of 2012 the Bank recognized credit loss amounting to NIS 0 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 March 31, 2013 (Unaudited)				
	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Interest contracts:					
NIS - CPI	1,013	7,253	2,688	2,082	13,036
Other	4,485	11,811	13,217	14,278	43,791
Currency contracts	70,491	23,354	5,371	6,834	106,050
Contracts for shares	16,103	3,379	406	-	19,888
Commodities and other contracts	20	70	91	73	254
Total	**92,112**	**45,867**	**21,773**	**23,267**	**183,019**

	As of March 31, 2012 (Unaudited)				
	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Interest contracts:					
NIS-CPI	890	4,797	3,497	1,287	10,471
Other	7,044	10,032	13,167	16,598	46,841
Currency contracts	73,239	30,274	4,568	6,178	114,259
Contracts for shares	13,321	2,213	2,936	-	18,470
Commodities and other contracts	31	155	194	38	418
Total	**94,525**	**47,471**	**24,362**	**24,101**	**190,459**

	As of December 31, 2012 (Audited)				
	Up to 3 months	3-12 months	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 March 31, 2013 (Unaudited)				
	Carrying amount	Level 1 [1]	Level 2 [1]	Level 3 [1]	Fair value Total
Financial assets					
Cash and deposits with banks	18,024	4,774	11,501	1,754	18,029
Securities [3]	9,374	5,880	3,250	251	9,381
Securities loaned or sold in repurchase agreements	194	194	-	-	194
Loans to the public, net	130,543	-	10,463	121,482	131,945
Loans to Governments	307	-	-	307	307
Investments in associates	34	-	-	34	34
Assets with respect to derivatives	3,701	360	2,290	[2] 1,051	3,701
Other financial assets	1,526	-	-	1,526	1,526
Total financial assets	[4]**163,703**	**11,208**	**27,504**	**126,405**	**165,117**
Financial liabilities					
Deposits from the public	130,419	-	35,696	97,022	132,718
Deposits from banks	2,054	-	25	2,075	2,100
Deposits from the Government	98	-	-	110	110
Debentures and subordinated notes	14,845	14,006	-	2,203	16,209
Liabilities with respect to derivatives	3,752	228	2,173	[2]1,351	3,752
Other financial liabilities	3,533	-	2,967	566	3,533
Total financial liabilities	[4]**154,701**	**14,234**	**40,861**	**103,327**	**158,422**

(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 37,830 million and NIS 29,745 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 March 31, 2012 (Unaudited)				
	Carrying amount	Level 1 (1)	Level 2 (1)	Level 3 (1)	Fair value Total
Financial assets					
Cash and deposits with banks	13,006	4,081	6,888	2,049	13,018
Securities (3)	11,230	7,311	3,610	315	11,236
Securities loaned or sold in repurchase agreements	211	211	-	-	211
Loans to the public, net	(5)120,369	-	9,463	(5)112,452	121,915
Loans to Governments	190	-	-	193	193
Investments in associates	32	-	-	32	32
Assets with respect to derivatives	2,199	196	497	(2) 1,506	2,199
Other financial assets	1,156	-	-	1,156	1,156
Total financial assets	(4) **148,393**	**11,799**	**20,458**	**117,703**	**149,960**
Financial liabilities					
Deposits from the public	119,501	-	29,755	91,701	121,456
Deposits from banks	1,700	-	14	1,740	1,754
Deposits from the Government	143	-	-	158	158
Debentures and subordinated notes	12,722	11,383	-	2,281	13,664
Liabilities with respect to derivatives	3,244	155	700	(2) 2,389	3,244
Other financial liabilities	3,253	-	2,684	569	3,253
Total financial liabilities	(4) **140,563**	**11,538**	**33,153**	**98,838**	**143,529**

(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 35,456 million and NIS 26,572 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

(5) Reclassified.

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 (Audited)				
	Carrying amount	Level 1 (1)	Level 2 (1)	Level 3 (1)	Fair value 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 March 31, 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	1,923	2,905	-	4,828
Of foreign governments	64	-	-	64
Of banks and financial institutions in Israel	124	-	-	124
Of banks and financial institutions overseas	-	109	221	330
Asset-backed	-	-	-	-
Of others in Israel	37	-	-	37
Of others overseas	10	125	30	165
Shares	5	-	-	5
Securities held for trade				
Debentures of the Government of Israel	2,583	-	-	2,583
Of banks and financial institutions overseas	3	-	-	3
Securities loaned or sold in repurchase agreements		-	-	-
Credit with respect to loans to clients	393	-	-	393
Assets with respect to derivatives (1)				
Interest contracts:				
NIS / CPI	-	146	92	238
Other	-	904	214	1,118
Currency contracts	173	1,240	610	2,023
Contracts for shares	187	-	134	321
Commodities and other contracts	-	-	1	1
Total assets	**5,502**	**5,429**	**1,302**	**12,233**
Liabilities				
Deposits with respect to borrowing from clients	393	-	-	393
Liabilities with respect to derivatives (1)				-
Interest contracts:				-
NIS / CPI	-	174	6	180
Other	-	1,354	353	1,707
Currency contracts	185	645	870	1,700
Contracts for shares	43	-	121	164
Commodities and other contracts	-	-	1	1
Other	-	-	5	5
Total liabilities	**621**	**2,173**	**1,356**	**4,150**

(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 March 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	4,334	3,187	-	7,521
Of foreign governments	89	-	-	89
Of banks and financial institutions in Israel	152	-	-	152
Of banks and financial institutions overseas	-	224	218	442
Asset-backed	-	-	61	61
Of others in Israel	77	-	-	77
Of others overseas	10	121	36	167
Shares	5	-	-	5
Securities held for trade				
Debentures of the Government of Israel	1,671	-	-	1,671
Of banks and financial institutions overseas	3	-	-	3
Securities loaned or sold in repurchase agreements	136	-	-	136
Credit with respect to loans to clients	231	-	-	231
Assets with respect to derivatives (1)				-
Interest contracts:				-
NIS / CPI	-	70	95	165
Other	-	201	663	864
Currency contracts	125	192	648	965
Contracts for shares	71	34	100	205
Commodities and other contracts	-	-	-	-
Total assets	**6,904**	**4,029**	**1,821**	**12,754**
Liabilities				
Deposits with respect to borrowing from clients	231	-	-	231
Liabilities with respect to derivatives (1)				-
Interest contracts:				-
NIS / CPI	-	12	104	116
Other	-	371	988	1,359
Currency contracts	105	275	1,187	1,567
Contracts for shares	50	39	109	198
Commodities and other contracts	-	3	1	4
Other	-	-	12	12
Total liabilities	**386**	**700**	**2,401**	**3,487**

(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 (Audited)			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Securities available for sale				
Debentures and bonds				
Of Government of Israel	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 to 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 from 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 March 31, 2013 (Unaudited)				For the three months ended March 31, 2013
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value	Gain
Impaired credit whose collection is contingent on collateral	-	-	120	120	1

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

	For the three months ended March 31, 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 March 31, 2013	Unrealized gain (loss) with respect to instruments held as of March 31, 2013
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	229	(8)	-	-	-	-	-	221	(8)
Of others overseas	31	(1)	-	-	-	-	-	30	-
Assets with respect to derivatives (2)(3)									(1)
Interest contracts:									
NIS / CPI	101	(23)	-	1	-	(17)	30	92	154
Other	173	42	-	4	-	(5)	-	214	149
Currency contracts	493	38	-	192	-	(113)	-	610	368
Contracts for shares	84	22	-	39	-	(11)	-	134	4
Commodities and other contracts	1	-	-	1	-	(1)	-	1	-
Total assets	**1,112**	**70**	**-**	**237**	**-**	**(147)**	**30**	**1,302**	**666**
Liabilities									
Liabilities with respect to derivatives (2)(3)									
Interest contracts:									
NIS / CPI	48	(3)	-	1	-	(43)	3	6	(7)
Other	325	58	-	9	-	(39)	-	353	(75)
Currency contracts	709	178	-	331	-	(348)	-	870	(443)
Contracts for shares	68	28	-	39	-	(14)	-	121	(3)
Commodities and other contracts	2	-	-	1	-	(2)	-	1	-
Other (3)	4	1	-	-	-	-	-	5	-
Total liabilities	**1,156**	**262**	**-**	**381**	**-**	**(446)**	**3**	**1,356**	**(528)**

(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 March 31, 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	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of March 31, 2012	Unrealized gain (loss) with respect to instruments held as of March 31, 2012
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	220	(3)	1	-	-	-	-	218	(3)
Asset-backed	61	-	-	-	-	-	-	61	-
Of others overseas	37	-	-	-	(1)	-	-	36	-
Assets with respect to derivatives [(2)(3)]									
Interest contracts:									
NIS / CPI	128	12	-	51	-	(126)	30	95	8
Other	119	128	-	424	-	(8)	-	663	140
Currency contracts	682	16	-	120	-	(170)	-	648	20
Contracts for shares	108	(8)	-	17	-	(17)	-	100	(4)
Commodities and other contracts	1	-	-	1	-	(2)	-	-	-
Total assets	**1,356**	**145**	**1**	**613**	**(1)**	**(323)**	**30**	**1,821**	**161**
Liabilities									
Liabilities with respect to derivatives [(2)(3)]									
Interest contracts:									
NIS / CPI	28	26	-	103	-	(56)	3	104	(15)
Other	309	191	-	539	-	(51)	-	988	(234)
Currency contracts	793	22	-	824	-	(452)	-	1,187	(8)
Contracts for shares	125	(12)	-	14	-	(18)	-	109	(4)
Commodities and other contracts	10	(7)	-	1	-	(3)	-	1	-
Other [(3)]	6	(1)	-	8	-	(1)	-	12	(1)
Total liabilities	**1,271**	**219**	**-**	**1,489**	**-**	**(581)**	**3**	**2,401**	**(262)**

(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 March 31, 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	41	Cash flow discounting	Discount rate	2.10%-(0.40%)	1.90%
CLN	175	Cash flow discounting	Probability of default	2.10%-1.00%	2.00%
Debentures of foreign others	30	Cash flow discounting	Discount rate	5.93%-4.15%	5.40%
Assets with respect to derivatives:					
Interest contracts - NIS CPI	31	Cash flow discounting	Inflationary expectations	1.90%-1.80%	1.80%
Contracts for shares	6	Option pricing model	Standard deviation of shares	58.2%-30.90%	31.10%
Other	1,014	Cash flow discounting	Counter-party credit quality	3.60%- 1.20%	1.91%
Liabilities with respect to derivatives:					
Interest contracts - NIS CPI	4	Cash flow discounting	Inflationary expectations	1.90%-1.80%	1.90%
Other	1,347	Cash flow discounting	Counter-party credit quality	3.10%- 1.20%	1.92%

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 March 31, 2013	Profit with respect to change in fair value for the three months ended March 31, 2013
Securities available for sale	1,454	-

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

Note 10 - Interest revenues and expenses

Reported amounts (NIS in millions)

	For the three months ended March 31,		For the year ended December 31,
	2013	2012 [(1)]	2012
		(unaudited)	(audited)
A. Interest revenues [(2)]			
From loans to the public	1,295	1,362	6,146
From loans to Governments	2	2	7
From deposits with the Bank of Israel and from cash	42	53	189
From deposits with banks	12	18	26
From securities loaned or sold in repurchase agreements	1	1	4
From debentures	61	84	219
Total interest revenues	**1,413**	**1,520**	**6,591**
B. Interest expenses			
On deposits from the public	465	583	2,594
On deposits from governments	1	1	5
On deposits from banks	11	15	68
On debentures and subordinated notes	134	134	710
Total interest expenses	**611**	**733**	**3,377**
Total interest revenues, net	**802**	**787**	**3,214**
C. Details of net effect of hedging financial derivatives on interest revenues	**3**	**19**	**(73)**
D. Details of interest revenues on accrual basis from debentures			
Held to maturity	6	0	26
Available for sale	47	73	176
Held for trade	8	11	17
Total included under interest revenues	**61**	**84**	**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	March 31,	For the year ended December 31,
	2013	2012	2012
		(unaudited)	(audited)
A. Non-interest financing revenues with respect to non-trade operations			
1. **From activity in derivatives**			
Non-effective element of hedging ratios [2]	(1)	-	(2)
Net expenses with respect to ALM derivatives [3]	(32)	[1] (92)	(100)
Total from activity in derivatives	**(33)**	**(92)**	**(102)**
2. From investment in debentures			
Gain on sale of debentures available for sale	5	19	118
Loss on sale of debentures available for sale	-	-	(5)
Provision for impairment of debentures available for sale	-	-	(8)
Total from investment in debentures	**5**	**19**	**105**
3. Exchange rate differences, net	**141**	[1] **69**	**(21)**
4. **Gain from investment in shares**			
Gains on sale of available-for-sale shares	3	3	5
Dividends from available-for-sale shares	-	-	24
Total from investment in shares	**3**	**3**	**29**
Total non-interest financing revenues (expenses) with respect to non-trade operations	**116**	**(1)**	**11**

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

Note 11 - Non-interest financing revenues - Continued

Reported amounts (NIS in millions)

	For the three months ended		For the year ended
		March 31,	December 31,
	2013	2012	2012
		(unaudited)	(audited)
B. Non-interest financing revenues with respect to trade operations [2]			
Net revenues with respect to other derivatives	(86)	[1] 8	40
Realized gain (loss) from adjustment to fair value of debentures held for trade, net	(15)	(5)	32
Unrealized gain (loss) from adjustment to fair value of debentures held for trade, net	18	(3)	12
Total from trade operations[3]	**(83)**	**-**	**84**
Details of non-interest financing revenues with respect to trade operations, by risk exposure			
Risk exposure	1	(1)	-
Foreign currency exposure	(102)	[1] (6)	22
Exposure to shares	17	[1] 8	(3)
Exposure to commodities and others	1	(1)	65
Total	**(83)**	**-**	**84**

(1) Reclassified.
(2) Includes exchange rate differentials resulting from trade operations.
(3) For interest revenues from investment in debentures held for trade, see Note 10.D.

Note 12 – Operating Segments

For the three months ended March 31, 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	702	(1)	149	49	113	(210)	802
Inter-segment	(266)	16	(34)	(8)	44	248	-
Total interest revenues, net	**436**	**15**	**115**	**41**	**157**	**38**	**802**
Non-interest financing revenues	(1)	-	-	-	10	24	33
Commissions and other revenues	194	15	61	15	62	26	373
Total income	**629**	**30**	**176**	**56**	**229**	**88**	**1,208**
Expenses with respect to credit loss	24	(3)	3	(7)	16	1	34
Operating and other expenses							
From outside operating segments	437	22	119	16	54	69	717
Inter-segment	(26)	-	(11)	14	19	4	-
Other operating expenses - total	**411**	**22**	**108**	**30**	**73**	**73**	**717**
Pre-tax profit	194	11	65	33	140	14	457
Provision for taxes on profit	70	4	23	11	51	5	164
After-tax profit	**124**	**7**	**42**	**22**	**89**	**9**	**293**
Share in net profits of affiliates, after tax	-	-	-	-	-	(2)	(2)
Net profit:							
Before attribution to non-controlling interest	124	7	42	22	89	7	291
Attributable to non-controlling interest	(11)	-	-	-	-	-	(11)
Attributable to equity holders of the banking corporation	**113**	**7**	**42**	**22**	**89**	**7**	**280**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**10.5%**	**32.8%**	**42.2%**	**21.7%**	**12.1%**	**7.2%**	**13.1%**
Average asset balance	92,409	2,355	7,621	4,667	25,211	25,973	158,236
Includes: Investments in associates	-	-	-	-	-	61	61
Average balance of liabilities	56,509	6,833	8,760	3,319	34,259	39,574	149,254
Average balance of risk assets (1)	54,764	1,106	5,311	5,084	35,824	5,603	107,692
Average balance of provident and mutual fund assets	-	-	-	-	-	80,273	80,273
Average balance of securities	29,475	8,385	5,572	3,731	61,328	44,147	152,638
Loans to the public, net (end balance)	95,038	1,191	7,371	4,631	22,312	-	130,543
Deposits from the public (end balance)	58,760	6,267	8,396	3,485	35,986	17,525	130,419
Average balance of other assets managed	19,909	7	200	198	268	-	20,582

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

	Household	Private banking	Small business	Commercia l banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	308	7	91	35	137	-	578
Margin from receiving deposits	116	7	17	4	22	-	166
Other	12	1	7	2	(2)	38	58
Total interest revenues, net	**436**	**15**	**115**	**41**	**157**	**38**	**802**

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

Note 12 – Operating Segments - Continued

For the three months ended March 31, 2012 (unaudited) - Continued

Reported amounts (NIS in millions)

A. Information on operating segments [2]

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	621	1	115	53	78	(81)	787
Inter-segment	(197)	18	-	(9)	60	128	-
Total interest revenues, net	**424**	**19**	**115**	**44**	**138**	**47**	**787**
Non-interest financing revenues	1	(1)	-	-	32	(33)	(1)
Commissions and other revenues	200	13	61	17	55	19	365
Total income	**625**	**31**	**176**	**61**	**225**	**33**	**1,151**
Expenses with respect to credit loss	12	(4)	(7)	(1)	63	4	67
Operating and other expenses							
From outside operating segments	428	18	114	18	56	60	694
Inter-segment	(30)	4	(13)	16	20	3	-
Other operating expenses - total	**398**	**22**	**101**	**34**	**76**	**63**	**694**
Pre-tax profit	215	13	82	28	86	(34)	390
Provision for taxes on profit	71	4	27	9	28	(11)	128
After-tax profit	**144**	**9**	**55**	**19**	**58**	**(23)**	**262**
Share in net profits of affiliates, after tax	-	-	-	-	-	-	-
Net profit:							
Before attribution to non-controlling interest	144	9	55	19	58	(23)	262
Attributable to non-controlling interest	(11)	-	-	-	-	-	(11)
Attributable to equity holders of the banking corporation	**133**	**9**	**55**	**19**	**58**	**(23)**	**251**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**15.0%**	**31.3%**	**65.7%**	**19.6%**	**8.6%**	**-**	**13.6%**
Average asset balance	88,026	3,036	6,670	4,943	27,985	19,153	149,813
Includes: Investments in associates	-	-	-	-	-	18	18
Average balance of liabilities	56,480	7,142	8,107	3,747	34,929	31,198	141,603
Average balance of risk assets[1]	50,043	1,610	5,160	5,230	35,260	5,348	102,651
Average balance of provident and mutual fund assets	-	-	-	-	-	73,127	73,127
Average balance of securities	24,100	9,690	6,980	3,212	60,712	32,886	137,580
Loans to the public, net (end balance)	84,823	1,849	6,482	4,644	22,571	-	120,369
Deposits from the public (end balance)	55,172	6,503	7,238	3,325	32,046	15,217	119,501
Average balance of other assets managed	20,471	-	231	262	161	-	21,125

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

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	255	6	85	37	111	-	494
Margin from receiving deposits	162	13	20	5	20	-	220
Other	7	-	10	2	7	47	73
Total interest revenues, net	**424**	**19**	**115**	**44**	**138**	**47**	**787**

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

Note 12 – Operating Segments - Continued

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

Reported amounts (NIS in millions)

A. Information on 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 income	**2,516**	**129**	**688**	**232**	**947**	**275**	**4,787**
Expenses with respect to credit loss	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 loss

	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 attributable to non-controlling interest	Other comprehensive income attributable to equity holders of the banking corporation
Balance as of January 1, 2013	**-**	**-**	**3**	**3**	**3**	**-**
Net change in the period	14	(1)	-	13	-	13
Balance as of March 31, 2013	**14**	**(1)**	**3**	**16**	**3**	**13**
Balance as of January 1, 2012	**(48)**	**-**	**18**	**(30)**	**-**	**(30)**
Net change in the period	9	-	(9)	-	2	(2)
Balance as of March 31, 2012	**(39)**	**-**	**9**	**(30)**	**2**	**(32)**
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 March 31,		
	2013		
	Before tax	Tax effect	After tax
Change in items of other comprehensive income, before attribution to non-controlling interest:			
Adjustments for presentation of securities available for sale at fair value			
Net unrealized gain (loss) from adjustments to fair value	24	(7)	17
Net gain (loss) with respect to available-for-sale securities reclassified to the statement of profit and loss	(3)	-	(3)
Net change in the period	**21**	**(7)**	**14**
Translation adjustments			
Adjustments from translation of financial statements	(1)	-	(1)
Net change in the period	**(1)**	**-**	**(1)**
Cash flow hedges			
Net gain (loss) with respect to cash flow hedges	-	-	-
Net change in the period	**-**	**-**	**-**
Total net change in the period	20	(7)	13
Total net change in the period attributable to non-controlling interest	-	-	-
Total net change in the period attributable to equity holders of the banking corporation	**20**	**(7)**	**13**

	For the year ended December 31,					
	2012			2012		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
	13	(4)	9	67	(25)	42
	-	-	-	6	-	6
	13	**(4)**	**9**	**73**	**(25)**	**48**
	-	**-**	**-**	**-**	**-**	**-**
	-	**-**	**-**	**-**	**-**	**-**
	(12)	3	(9)	(22)	7	(15)
	(12)	**3**	**(9)**	**(22)**	**7**	**(15)**
	1	(1)	-	51	(18)	33
	(3)	**1**	**(2)**	**(4)**	**1**	**(3)**
	(2)	**-**	**(2)**	**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 Board of Directors, after receiving approval of the Bank 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 layout and principles of the employee stock option plans approved by the Bank in 2008 through 2011, whereby the Bank allocated options on July 8, 2008, on September 24, 2009, on December 5, 2010 and on November 17, 2011. Terms of the aforementioned options were listed in detail in outlines made public by the Bank, as amended. The stock option plan pursuant to this outline is intended for Bank employees other than officers and to employees of Bank subsidiaries. For further information, see Note 16.A.3.A-B. 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 warrant allotted to offerees pursuant to the plan is NIS 36.6, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank. The exercise price was based on the closing price of Bank shares on the stock exchange on April 28, 2013, the most recent trading day prior to the date of plan approval by the Board of Directors. The fair value (theoretical benefit value) of a single option in any lot of the additional options approved was calculated in accordance with IFRS 2, using the Black & Scholes model. The theoretical benefit value of the option warrants in this allotment, calculated in accordance with accounting rules of IFRS 2, amounts to NIS 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 set forth above, as well as based on Bank management assessment with regard to the average churn rate of plan offerees, meaning that some of the option warrants 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.

Note 14 – Other matters - continued

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

	Lot 1	Total
Allotment approved on 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

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