Condensed Financial Statements as of June 30, 2012

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Condensed Board of Directors' Report for Financial Statements as of June 30, 2012

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Condensed Board of Directors' Report
For Financial Statements as of June 30, 2012

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on August 15, 2012, 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 June 30, 2012.

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 the Effect of External Factors on the Bank Group

Developments in Israel's economy in the first half of 2012

Real Developments

In the first half of 2012, the growth rate of the Israeli economy further decreased, following the decrease in 2011.
The Bank of Israel Composite Index increased in the second quarter of 2012 by an annualized 2.4%, compared to an increase of 2.2% in the first quarter and an average quarterly increase of 4.0% in 2011.

The slow-down was primarily due to a 19.0% decline in exports of goods in the second quarter (in annualized USD terms) over the first quarter of 2012, following an 11.3% decline in the first quarter of 2012 over the fourth quarter of 2011. A more moderate decline in import of goods resulted in a sharp increase in trade deficit, which in the first half of 2012 amounted to USD 10.0 billion, compared to USD 6.5 billion in the corresponding period last year - an increase of 55%. Despite the decline in exports, industrial production grew in March-May at an annualized rate of 4.5%, compared to 1.8% growth in previous months.

Different indicators of domestic demand show mixed trends: On the one hand, in the second quarter of 2012 sales at retail chains decreased, as did sales by credit card. On the other hand, the turnover of trade and services increased in March-May by the rate of 7.1%, compared to 3.2% in previous months.

The economic slow-down has yet to be reflected in the labor market. Earlier this year, the Central Bureau of Statistics modified the method used to measure unemployment in Israel, in line with the method commonly used in OECD countries. The change in method resulted in a technical increase in reported unemployment. In the second quarter of 2012, the rate of unemployment was at 7.0%, compared to 6.9% in the first quarter. The increase in unemployment was primarily due to higher participation in the labor force, which in the second quarter was at 63.6%, compared to 62.8% in the first quarter.

The number of available jobs, indicating demand for labor, was 72.5 thousand jobs in June, an increase of 5.6% compared to end of 2011. Note that this is the highest level in number of jobs since measurement began.

Inflation and exchange rates

In the first half of 2012, the Consumer Price Index rose by the rate of 1.0%, compared to a 2.2% rise in the corresponding period last year. The CPI was primarily impacted by higher prices of housing and power, and by lower prices of furniture and clothing. In the second quarter of 2012, the CPI rose by a relatively low rate of 0.6%; in 2010 and 2011, the CPI rose in the second quarter by the rate of 1.5%.

The USD was higher by the rate of 2.7% against the NIS in the first half of 2012, reaching NIS 3.923 per USD 1 at the end of June, compared to NIS 3.821 at the end of 2011. The EUR was lower against the NIS in this period by the rate of 0.1%, reaching NIS 4.932 per EUR 1, compared to NIS 4.938 at the end of 2011.

In the second quarter of 2012, the NIS was lower by the rate of 5.6% against the USD, and higher by the rate of 0.4% against the EUR. On August 7, 2012, the USD/NIS exchange rate was at 3.998.

Monetary and fiscal policy

In the first half of 2012 there were no significant changes in the Bank of Israel monetary policy. After the Bank of Israel lowered its interest rate in February from the rate of 2.75% to the rate of 2.50%, the interest rate remained unchanged through the second quarter against the backdrop of relatively stable inflationary expectations for the coming year, which ranged, during this period, between 2.0%-2.5% – close to the center of the inflation target range set at 1%-3%. In July, the Bank of Israel once again lowered its interest rate to the rate of 2.25%.

In the first half of 2012, the government budget recorded a NIS 9.7 billion deficit, compared to a NIS 5.3 billion deficit in the corresponding period last year. The expected deficit for 2012, according to current forecast by the Ministry of Finance, is NIS 30 billion. Against the backdrop of the economic slow-down, tax revenues in the first half of 2012 increased by only the rate of 0.7% in real terms, compared to the corresponding period last year and amounted to Nis 109.3 billion. This data reflects actual under-collection amounting to NIS 2.8 billion, compared to what was planned. Expenditures by Government ministries increased in this period by the rate of 7.5%, compared to a planned increase of 4.9%.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in the first half of 2012 demand for new apartments (apartments sold and apartments constructed not for sale) was 18,880 apartments, a decrease of 10.0% over the corresponding period last year. The downward trend started as early as February 2011.

The pace of housing construction starts also slowed down, with construction started on an annualized 40,300 residential units in January-April 2012, compared to 44,200 residential units in the corresponding period last year. However, this is a high pace compared to the annual average over the past decade, which was 33,000 housing construction starts. The slow-down in housing construction starts resulted in stable inventory of new apartments for sale from private development, which at the end of the first half was at 15,170 apartments, similar to the end of 2011 - following constant growth since mid-2010. Based on the average pace of sales in the six months ended June 2012, this inventory would account for 12.3 months' sales - compared to 13.1 months at the end of 2011.

According to data from the Central Bureau of Statistics, in early 2012 housing prices continued to rise, although more moderately. Housing prices, on nation-wide average basis, were higher of 2% in April 2012 compared to the end of 2011, following approximate 4% growth for all of 2011.

Capital market

In the second quarter of 2012, the upward trend in equity markets from the first quarter of this year was reversed, and all major equity indices were lower.

Equity market – the major indexes, Tel Aviv 25 and Tel Aviv 100, declined in the second quarter of 2012 by the rates of 6.0% and 6.1%, respectively, and for the first half of the year declines were the rates of 2.6% and 0.9%, respectively. The Real Estate 15 index declined in the second quarter by 9.8% and by 4.4% year to date. The Yeter 50 index declined in the second quarter by the rate of 2.6% and by the rate of 0.2% for the year to date. The Financial 15 index and Tel Aviv Banks index declined in the second quarter by the rates of 15.3% and 15.9%, respectively, and by the rates of 11.6% and 9.7%, respectively, for the year to date.

The average daily trading volume in shares and convertible securities in the first half of this year was NIS 1.1 billion, similar to the average volume in the first quarter, and compared to NIS 1.9 billion in the corresponding period last year. Share issuance (excluding shares issued overseas) decreased slightly, amounting to NIS 1.2 billion, compared to NIS 1.3 billion in the first quarter of 2012.

Debenture market – the debenture market was mixed, with the General Debenture Index rising in the second quarter by 0.3%, for a total increase of 2.2% in the first half; the CPI-linked Debenture Index was lower by 0.6%, after being higher by 2.5% in the first quarter; and the Non-linked Debenture Index was higher by 2.3% in the second quarter, after being lower by 0.6% in the first quarter. The Tel Bond 20 Index declined by 0.9%, following a 2.0% increase in the first quarter. The Tel Bond 40 Index, which contains holding companies as well, declined by 1.2% following a 1.9% rise in the first quarter.

Yield spreads for corporate debentures over government debentures were slightly higher in the second quarter, on concerns about solvency: Debentures rated AA were trading at the end of the first half at a 1.1 percentage point spread, compared to 1.3 percentage points at the end of the first quarter and to 1.4 percentage points at the end of 2011.Debentures rated A traded at the end of the quarter at a 4.9 percentage point spread, compared to 3.5 percentage points at the end of the first quarter and 4.9 percentage points at the end of 2011.

In total, the business sector raised NIS 10.6 billion worth of debentures in the second quarter of 2012 from the public and from institutional investors, following NIS 11.9 billion raised in the first quarter of 2012. Average daily trading volume in debentures in the first half of the year was NIS 4.4 billion - similar to the average trading volume in the first quarter.

Global economy

In the first half of 2012, the global economy showed signs of slowing down, in both developed and emerging markets.

The key issue remained the Euro-zone crisis. During the first half, elections were held in Greece - successfully for parties supporting Greece remaining in the Euro zone. Moreover, the EU reached some understandings on support for troubled countries, including a more flexible approach to providing monetary assistance and intervention in the debenture market, direct capital infusion to troubled banks by assistance funds and unified supervision over banks in Europe.

Against the backdrop of these developments, volatility in prices of debentures of Italy and Spain remained high in the first half of 2012, with yields to maturity remaining high as well. Economic indicators remained negative, indicating that the Euro zone was sliding into a recession. In the first quarter of 2012, Euro zone GDP remained unchanged, but only due to economic growth in Germany, at an annualized rate of 2.0% - without which the Euro zone GDP would have decreased. In the second half of the year, unemployment continued to rise in the Euro zone, particularly in Spain.

Signs of a slow-down were evident in the USA as well. The growth rate in the second quarter slowed to an annualized 1.5%, compared to 2.0% growth in the first quarter and 4.1% growth in the fourth quarter of 2011. The slow down was also reflected in employment data, with new jobs created in the second quarter of 2012 at only 225 thousand, compared to 677 thousand in the first quarter and a quarterly average of 460 thousand in 2011. Other indicators, including industrial outlook surveys, also indicated slower growth in this quarter.

The global slow down was also reflected in emerging markets. Economic growth in China in the first half was at 7.8%, compared to 9.2% growth in 2011. This slow down was also reflected in a more modest inflation in this country, at an annualized rate of 2.2% in June 2012, compared to 6.4% in June 2011. In response to the slow down, the Central Bank of China took some monetary stimulus steps: lower interest rate and reduced capital adequacy ratio required of banks. Note that the central banks of Brazil and India also lowered interest rates in response to signs of a slow down.

Leading equity indexes were negative around the world in the second quarter of 2012, primarily impacted by developments in Europe's debt crisis.

The Dow Jones index declined by the rate of 4.1% in the second quarter, rising by the rate of 2.6% for the year to date. The NASDAQ 100 and S&P 500 benchmarks declined in the second quarter by the rates of 8.2% and 5.3%, respectively, rising by the rates of 11.0% and 5.2%, respectively, for the year to date. The German DAX benchmark declined by the rate of 10.5% in the second quarter, for a total rise of 5.1% year to date. The FTSE100 and NIKKEI 225 benchmarks declined by the rates of 4.3% and 14.3%, respectively, after being higher in the first quarter of this year. For the first half of 2011, the FTSE100 was 1.3% lower and the NIKKEI225 was 3.6% higher.

Key data for Bank group

Evolution of income and expenses

					For the three months ended
	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011
					NIS in millions
Interest revenues, net	882	768	654	741	793
Non-interest revenues	322	383	498	471	342
Total profit	**1,204**	**1,151**	**1,152**	**1,212**	**1,135**
Expenses with respect to credit loss	45	67	62	142	80
Operating and other expenses	676	694	689	650	655
Profit before provision for taxes	483	390	401	420	400
Provision for taxes	174	128	93	154	138
Net profit[(1)]	**295**	**251**	**299**	**255**	**252**

	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011
					NIS in millions
Balance sheet - key items					
Balance sheet total	155,311	150,244	150,246	146,877	139,232
Loans to the public, net	123,421	120,407	119,328	117,620	112,391
Securities	9,565	11,230	8,432	5,879	5,431
Deposits from the public	122,284	119,501	119,236	116,497	111,496
Debentures and subordinated notes	13,873	12,722	12,202	12,501	11,301
Equity[(1)]	8,231	7,933	7,666	7,359	7,139

	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011
Key financial ratios (in percent)					
Net profit return on equity[(2)]	15.4	13.6	16.9	14.9	15.2
Net loans to the public to deposits from the public	100.9	100.8	100.1	101.0	100.8
Capital to total assets	5.30	5.28	5.10	5.01	5.13
Ratio of Tier I capital to risk elements	8.03	7.94	7.77	7.7	7.71
Total ratio of capital to risk elements	12.93	13.24	13.40	13.55	13.61
Cost income ratio	56.1	60.3	59.8	53.6	57.7
Expenses with respect to credit loss to loans to the public, net for the period[(2)]	0.15	0.22	0.21	0.48	0.29
Basic net earnings per share	1.29	1.10	1.32	1.12	1.11
Diluted net earnings per share	1.28	1.09	1.30	1.11	1.09

(1) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to shareholders of the Bank.
(2) Calculated on annualized basis.

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 Act, 1968 (hereinafter: "the Act").

The actual results of the Bank could be significantly different from those included in the forward-looking information, or all that it implies. 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". This forward-looking/prospective information and expressions involves risk and lack of certainty, because it is based on management's assessment of future events which include, inter alia: forecasted economic developments in Israel and worldwide, especially the state of the economy, including the effect of macroeconomic and geopolitical conditions; changes and developments in the inter-currency markets and the capital markets, and other factors affecting the exposure to financial risk, changes in the financial strength of borrowers, the public's preferences, legislation, supervisory regulations, the behavior of competitors, aspects related to the Bank's image, technological developments and human resources issues.

The information presented here relies, inter alia, on publications of the Central Bureau of Statistics and the Ministry of Finance, on Bank of Israel data and on various forecasts as described below.

Profit and Profitability

Net profit in the second quarter of 2012 amounted to NIS 295 million, compared to NIS 252 million in the corresponding period last year – an increase of 17.1%. This reflects a 15.4% annualized rate of return on equity, compared to 15.2% in the corresponding period last year.

Net profit for the Group in the first half of 2012 amounted to NIS 546 million, compared to NIS 490 million in the corresponding period last year – an increase of 11.4%. This profit reflects a 14.3% return on equity.
The return on equity for the second quarter and for the second half of 2012 was achieved along with an increase in Tier I capital ratio to 8.03% as of June 30, 2012, compared to 7.71% in the corresponding period last year (a 15% increase in capital base).
Return on equity for the first half of 2011 and for all of 2011 was 14.6%.

The following major factors affected Group operating income in the first half of 2012 over the corresponding period last year:

- Financing revenues (including net interest revenues and non-interest financing revenues) from current business operations increased in the first half of 2012 by NIS 153 million, an increase of 11.0% over the corresponding period last year.
- Expenses with respect to credit loss decreased in the first half of 2012 by NIS 22 million, or 16.4%, over the corresponding period last year.
- Commissions and other revenues in the first half of 2012 amounted to NIS 720 million, compared to NIS 756 million in the corresponding period last year - a decrease of 4.8%, due to lower revenues from clients' capital market activity: Average daily trading volume in equities and convertible securities on the Tel Aviv Stock Exchange in the first half of 2012 was NIS 1.1 billion, compared to NIS 1.9 billion in the corresponding period last year.
- Operating and other expenses increased in the first half of 2012 by NIS 42 million, or 3.2%, over the corresponding period last year.

Change in format of statement of profit and loss

Starting with financial statements for the first quarter of 2012, the profit & loss statement has been compiled in conformity with the new format specified in the Supervisor of Banks' Public Reporting Regulations. Accordingly, data for previous periods was restated to allow for comparison to data for the current period. The major change in format of the statement of profit and loss relates to presentation of profit from financing operations, previously listed on a single line, which as from these financial statements is included under the following items:

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31,
	2012	2011	2012	2011	2011
Profit from financing operations before expenses with respect to credit loss - as previously presented	883	795	1,703	1,547	3,242
Less:					
Non-interest financing revenues (presented as a separate item under "Total non-interest revenues")	(35)	(26)	(15)	14	248
Less:					
Profit from investment in shares (now included under "Non-interest financing revenues")	-	(3)	(3)	(3)	(6)
Financing commissions (included under "Commissions")	36	31	71	62	131
Interest revenues, net	**882**	**793**	**1,650**	**1,474**	**2,869**
Interest income	1,919	2,046	3,513	3,712	6,846
Interest expenses	(1,037)	(1,253)	(1,863)	(2,238)	(3,977)
Total	**882**	**793**	**1,650**	**1,474**	**2,869**

Commissions now include amounts previously included under "Operating commissions", as well as financing commissions, previously included under "Profit from financing operations":

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31,
	2012	2011	2012	2011	2011
Operating commissions - as previously presented	314	336	636	687	1,343
Financing commissions (previously included under "Profit from financing operations", now under "Commissions")	36	31	71	62	131
Commissions	**350**	**367**	**707**	**749**	**1,474**

Evolution of income and expenses

Net interest revenues for the Group in the first half of 2012 amounted to NIS 1,650 million, compared to NIS 1,474 million in the corresponding period last year, an increase of 11.9%. Financing revenues also include **non-interest financing revenues**, which in the first half of 2012 amounted to expenses of NIS 15 million, compared to revenues of NIS 14 million in the corresponding period last year.

In the second quarter of 2012, net interest revenues for the Group amounted to NIS 882 million, compared to NIS 793 million in the corresponding period last year, an increase of 11.2%.

Non-interest financing expenses in the second quarter of 2012 amounted to an expense of NIS 35 million, compared to an expense of NIS 26 million in the corresponding period last year.

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

			Second Quarter			First half of
	2012	2011	Change rate	2012	2011	Change rate
Interest revenues, net	882	793	11.2%	1,650	1,474	11.9%
Non-interest financing revenues (expenses)	(35)	(26)		(15)	14	
Total financing revenues	**847**	**767**	**10.4%**	**1,635**	**1,488**	**9.9%**
Less:						
Income from collection of interest on troubled debt	43	15		87	41	
Linkage differentials (in 2011 only) and exchange rate differentials with respect to impaired debt	15	10		3	13	
Gain from realized debentures available for sale and from debentures held for trade, net	31	4		42	5	
Effect of accounting treatment of derivatives at fair value and others[(1)]	(57)	23		(46)	33	
Total financing revenues from current operations	**815**	**715**	**14.0%**	**1,549**	**1,396**	**11.0%**

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

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

				First half of
Operating segment	2012	2011	Change amount	Change rate
Retail banking:				
Mortgages	311	268	43	16.0%
Household	558	524	34	6.5%
Small business	225	209	16	7.7%
Total	**1,094**	**1,001**	**93**	**9.3%**
Private banking	40	45	(5)	(11.1%)
Commercial banking	86	82	4	4.9%
Business banking	366	248	118	47.6%
Financial management	[(2)] 49	[(2)] 112	(63)	(56.3%)
Total	**1,635**	**1,488**	**147**	**9.9%**

(1) Data on the statement of profit and loss for previous periods were reclassified to adjust them for the new format adopted by the Supervisor of Banks. For details see Note 1.C.

(2) Excluding the effect of accounting treatment of derivatives at fair value, financing revenues increased by NIS 12 million - or 15.2%.

The average balances of financial assets in the different linkage segments (including impact of derivatives) are as follows (NIS in millions):

			Second quarter			First half of
	2012	2011	Change rate	2012	2011	Change rate
Israeli currency - non-linked	132,266	136,452	(3.1%)	139,073	139,370	(0.2%)
Israeli currency - linked to the CPI	49,186	48,909	0.6%	50,574	47,915	5.5%
Foreign currency (including Israeli currency linked to foreign currency)[(1)]	75,452	73,211	3.1%	76,518	74,447	2.8%
Total	**256,904**	**258,572**	**(0.6%)**	**266,165**	**261,732**	**1.7%**

(1) Local operations and overseas affiliates.

The increase in mortgage volume resulted in higher average balances of NIS-denominated financial assets - both CPI-linked and non-linked. In the NIS-denominated segment, the effect of mortgages was offset by a decrease in volume of derivative transactions.

The increase in average balance of financial assets denominated in foreign currency is primarily due to the effect of the USD devaluation.

Interest spreads of various linkage segments (in %, based on average balances)[(1)] (including impact of derivatives) are as follows:

	First half of	
Linkage segments	2012	2011
Israeli currency - non-linked	1.23%	1.57%
Israeli currency - linked to the CPI	0.38%	0.55%
Foreign currency (including Israeli currency linked to foreign currency)[(2)]	0.55%	0.56%
Total including impact of derivatives	**0.85%**	**1.12%**

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

(2) Local operations and overseas affiliates.

Data with regard to income and expense rates of group operations as well as the financial margin represented by the interest differentials are presented under Appendix A of the Management Review.

Expenses with respect to credit loss for the Group amounted to NIS 112 million in the first half of 2012, or an annualized rate of 0.18% of total loans to the public, net, compared with NIS 134 million, or an annualized rate of 0.24% of total loans to the public, net in the corresponding period last year - a total decrease of 16.4%.

Expenses with respect to credit loss for the Group amounted to NIS 45 million in the second quarter of 2012, or an annualized rate of 0.15% of total loans to the public, net, compared with NIS 80 million, or an annualized rate of 0.29% of total loans to the public, net in the corresponding period last year - a total decrease of 43.8%.

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

	Second Quarter		First half of	
	2012	2011	2012	2011
Provision for credit loss on individual basis (including accounting write-offs)	106	86	142	137
Provision for credit loss on Group basis:				
By extent of arrears	2	2	3	-
Other	(63)	(8)	(33)	(3)
Total expenses with respect to credit loss	45	80	112	134
Expenses with respect to credit loss as percentage of total loans to the public, net (annualized)	**0.15%**	**0.29%**	**0.18%**	**0.24%**

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

Operating segment	First half of	
	2012	2011
Retail banking:		
Mortgages	4	10
Household	23	26
Small business	7	37
Total	**34**	**73**
Private banking	-	(1)
Commercial banking	(3)	21
Business banking	73	34
Financial management	8	7
Total	**112**	**134**

Net interest revenues after expenses with respect to credit loss in the first half of 2012 amounted to NIS 1,538 million, compared to NIS 1,340 million in the corresponding period last year - an increase of 14.8%.
Net interest revenues after expenses with respect to credit loss in the second quarter of 2012 amounted to NIS 837 million, compared to NIS 713 million in the corresponding period last year - an increase of 17.4%.

Non-interest revenues for the Group in the first half of 2012 amounted to NIS 705 million, compared to NIS 770 million in the corresponding period last year. The causes for the decline in these revenues are listed below.
Non-interest revenues for the Group in the second quarter of 2012 amounted to NIS 322 million, compared to NIS 342 million in the corresponding period last year.

Non-interest financing revenues (expenses) in the first half of 2012 amounted to an expense of NIS 15 million, compared to revenues of NIS 14 million in the corresponding period last year.
Non-interest financing expenses in the second quarter of 2012 amounted to NIS 35 million, compared to NIS 26 million in the corresponding period last year.

Commission revenues for the Group in the first half of 2012 amounted to NIS 707 million, compared to NIS 749 million in the corresponding period last year - a decrease of 5.6%. Commission revenues for the Group in the second quarter of 2012 amounted to NIS 350 million, compared to NIS 367 million in the corresponding period last year - a decrease of 4.6%. The decrease in the first half and in the second quarter is due to lower revenues from customer activity in the capital market: Average daily trading volume in equities and convertible securities on the Tel Aviv Stock Exchange in the first half of 2012 was NIS 1.1 billion, compared to NIS 1.9 billion in the corresponding period last year.

Other revenues for the Group amounted to NIS 13 million in the first half of 2012, compared with NIS 7 million in the corresponding period last year.
Other revenues for the Group amounted to NIS 7 million in the second quarter of 2012, compared with NIS 1 million in the corresponding period last year.

Operating and other expenses amounted to NIS 1,370 million in the first half of 2012, compared with NIS 1,328 million in the corresponding period last year - an increase of 3.2%.
Operating and other expenses amounted to NIS 676 million in the second quarter of 2012, compared with NIS 655 million in the corresponding period last year - an increase of 3.2%.

Payroll and associated expenses amounted to NIS 842 million in the first half of 2012, compared with NIS 815 million in the corresponding period last year - an increase of 3.3%.
Payroll and associated expenses amounted to NIS 408 million in the second quarter of 2012, compared with NIS 394 million in the corresponding period last year - an increase of 3.6%.

Maintenance and depreciation expenses for buildings and equipment for the Group amounted to NIS 318 million in the first half of 2012, compared with NIS 300 million in the corresponding period last year – an increase of 6.0%, primarily with respect to computer depreciation and higher maintenance expenses due to new branches opened by the Group.
Maintenance and depreciation expenses for buildings and equipment for the Group amounted to NIS 160 million in the second quarter of 2012, compared with NIS 152 million in the corresponding period last year – an increase of 5.3%.

Other expenses for the Group amounted to NIS 210 million in the first half of 2012, compared with NIS 213 million in the corresponding period last year, a decrease of 1.4%.
Other expenses for the Group amounted to NIS 108 million in the second quarter of 2012, compared with NIS 109 million in the corresponding period last year, a decrease of 0.9%.

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

	2012	2011				
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Cost-Income Ratio(1)	56.1%	60.3%	59.8%	53.6%	57.7%	60.6%

(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 873 million in the first half of 2012, compared with NIS 782 million in the corresponding period last year - an increase of 11.6%.
Pre-tax profit for the Group amounted to NIS 483 million in the second quarter of 2012, compared with NIS 400 million in the corresponding period last year - an increase of 20.8%.

The provision for taxes amounted to NIS 302 million in the first half of 2012, compared with NIS 275 million in the corresponding period last year - an increase of 9.8%.

The provision for taxes amounted to NIS 174 million in the second quarter of 2012, compared with NIS 138 million in the corresponding period last year - an increase of 26.1%.

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

	First half of		All of 2011
	2012	2011	
Net profit	14.3	14.6	14.6

	2012		2011			
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net profit	15.4	13.6	16.9	14.9	15.2	14.5

(1) Annualized return.

(2) Return on average shareholders' equity, including "total capital resources", as presented in reporting of income and expense rates, less average balance of non-controlling interests 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):

	Second Quarter		First half of		All of
	2012	2011	2012	2011	2011
Basic earnings per share:	1.29	1.11	2.40	2.16	4.65
Diluted earnings per share:					
Net profit attributable to shareholders of the banking corporation	1.28	1.09	2.39	2.11	4.57

Development of balance sheet items

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

				Change compared t	
	June 30		December 31	June 30	December 31
	2012	2011	2011	2011	2011
Balance sheet total	155,311	139,232	150,246	11.5%	3.4%
Loans to the public, net	123,421	112,391	119,328	9.8%	3.4%
Deposits from the public	122,284	111,496	119,236	9.7%	2.6%
Securities	9,565	5,431	8,432	76.1%	13.4%
Shareholders' equity	8,231	7,139	7,666	15.3%	7.4%

Loans to the public, net – loans to the public, net on the consolidated balance sheet as of June 30, 2012 accounted for 79% of total assets, similar to the end of 2011. Loans to the public, net for the Group increased in the first half of 2012 by NIS 4.1 billion, an increase of 3.4%.

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

				Change over:	
	June 30		December 31	June 30	December 31
	2012	2011	2011	2011	2011
Israeli currency					
Non-linked	62,441	57,900	60,559	7.8%	3.1%
CPI- linked	47,235	42,179	44,651	12.0%	5.8%
Foreign currency and foreign currency linked	13,745	12,312	14,118	11.6%	(2.6%)
Total	**123,421**	**112,391**	**119,328**	**9.8%**	**3.4%**

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

				Change over:	
	June 30		December 31	June 30	December 31
Operating segment	2012	2011 (1)	2011 (1)	2011	2011
Retail banking:					
Mortgages	70,060	63,507	66,796	10.3%	4.9%
Household	16,998	15,974	16,500	6.4%	3.0%
Small business	6,606	6,151	6,428	7.4%	2.8%
Total	**93,664**	**85,632**	**89,724**	**9.4%**	**4.4%**
Private banking	1,737	1,553	1,698	11.8%	2.3%
Commercial banking	4,716	4,941	4,778	(4.6%)	(1.3%)
Business banking	23,304	20,265	23,128	15.0%	0.8%
Total – business and others	**29,757**	**26,759**	**29,604**	**11.2%**	**0.5%**
Total	**123,421**	**112,391**	**119,328**	**9.8%**	**3.4%**

(1) Reclassified.

Below are details of non-performing assets, impaired debt accruing interest, commercial troubled credit risk and non-impaired debt in arrears 90 days or longer, in accordance with new directives for measurement and disclosure of impaired debt, credit risk and provision for credit loss:

Reported amounts (NIS in millions)	As of June 30, 2012			As of June 30, 2011			As of December 31, 2011		
	Credit risk	Provision for credit loss	Net credit risk	Credit risk	Provision for credit loss	Net credit risk	Credit risk	Provision for credit loss	Net credit risk
A. Troubled credit risk .									
Troubled commercial credit risk	2,293	361	1,932	(5)2,081	(5)399	1,682	2,153	251	1,902
Troubled credit risk with respect to individuals	1,963	788	1,175	2,145	884	1,261	2,050	805	1,245
Total troubled credit risk	**4,256**	**1,149**	**3,107**	**4,226**	**1,283**	**2,943**	**4,203**	**1,056**	**3,147**
B. Troubled indebtedness . composition(5)									
Impaired credit risk	1,929	307	1,622	(5)1,699	(5)374	1,325	1,919	227	1,692
Inferior credit risk	73	13	60	122	14	108	111	10	101
Credit risk under special supervision	569	73	496	631	55	576	444	37	407
Credit risk for housing loans in arrears over 90 days	1,685	756	929	1,774	840	934	1,729	782	947
Total troubled credit risk	**4,256**	**1,149**	**3,107**	**4,226**	**1,283**	**2,943**	**4,203**	**1,056**	**3,147**
C. performing assets-Total non .									
Non-accrual impaired loans to the public:									
Reviewed on individual basis	884	237	647	(5)1,089	(5)255	834	1,053	196	857
Non-accrual impaired debentures	4	-	4	14	-	14	4	-	4
Other non-accrual impaired debt	-	-	-	28	17	11	-	-	-
Total non-performing assets	**888**	**237**	**651**	**1,131**	**272**	**859**	**1,057**	**196**	**861**
D. Impaired debt in restructuring . of accrual troubled debt(4)	618	53	565	217	103	114	569	19	550
E. credit risk Troubled commercia . (1)									
On balance sheet credit risk with respect to loans to the public	1,743	339	1,404	(5)1,567	(5)383	1,184	1,762	235	1,527
Off-balance sheet credit risk with respect to the public (2)	546	22	524	500	16	484	387	16	371
Total commercial troubled credit risk with respect to the public	**2,289**	**361**	**1,928**	**2,067**	**399**	**1,668**	**2,149**	**251**	**1,898**
Other on balance sheet credit risk	4	-	4	14	-	14	4	-	4
Total commercial troubled credit risk	**2,293**	**361**	**1,932**	**2,081**	**399**	**1,682**	**2,153**	**251**	**1,902**
F. Non-impaired debt in arrears 90 days or longer	1,737	763	974	1,879	854	1,025	1,814	786	1,028
Includes: Housing loans provided for by extent of arrears	1,247	741	506	1,375	826	549	1,302	767	535
Housing loans not provided for by extent of arrears(3)	437	15	422	399	14	385	427	15	412

Note: 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.

(1) On- and off-balance sheet credit risk which is impaired, inferior or under special supervision, except for on- and off-balance sheet credit risk with respect to individuals.
(2) As calculated for restrictions on indebtedness of a borrower or group of borrowers, except with respect to guarantees provided by borrower to secure indebtedness of a third party, before impact of deductible collateral.
(3) Housing loans with respect to which the minimum provision is calculated by extent of arrears, in arrears between 3 and 6 months, and other housing loans which are not impaired and in arrears 90 days or longer, with respect to which the minimum provision is not calculated by extent of arrears.
(4) Includes impaired debt accruing interest which was restructured in previous years.
(5) Reclassified.

Below is the sector composition of the top 6 borrowers for the group as of June 30, 2012 (NIS in millions):

Borrower no.	Sector	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
1.	Construction and real estate	599	264	863
2.	Construction and real estate	516	305	821
3.	Construction and real estate	352	432	784
4.	Electricity and water	423	318	741
5.	Construction and real estate	454	93	547
6.	Communications and computer services	493	33	526

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 increased in the first half of 2012 by NIS 1.1 billion, and by NIS 4.1 billion compared to June 30, 2011.The change in total investment in securities is within asset and liability management.

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

				Change compared to	
	June 30		December 31	June 30,	December 31
Operating segment	2012	2011	2011	2011	2011
Israeli currency					
Non-linked	4,255	2,417	5,128	76.0%	(17.0%)
CPI-linked	939	416	302	125.7%	210.9%
Foreign currency and foreign currency linked	4,291	2,516	2,917	70.5%	47.1%
Non-monetary items	80	82	85	(2.4%)	(5.9%)
Total	9,565	5,431	8,432	76.1%	13.4%

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

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

	Carrying amount as of	
	June 30, 2012	December 31, 2011
Government debentures:		
Government of Israel	8,506	7,410
Government of USA	100	86
Total government debentures	**8,606**	**7,496**
Debentures of banks in developing nations:		
UK	140	159
Israel	121	135
Germany	109	104
South Korea	38	26
Holland	39	-
Other	5	5
	452	**429**
Debentures of (non-banking) financial institutions in developed nations: (1)		
USA	122	115
UK	20	19
Luxembourg	11	11
	153	**145**
Total debentures of banks and financial institutions in developed nations	**605**	**574**
Corporate debentures (composition by industry sector):		
Industry	104	108
Construction	36	37
Electricity and water	68	48
Communications and computer services	3	23
Financial services	30	-
Total corporate debentures	**241**	**216**
Asset-backed debentures (CLO)	**33**	**61**
Shares	**80**	**85**
Total securities	**9,565**	**8,432**

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

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

	As of June 30, 2012				
Share of impairment out of amortized cost	Duration in which fair value is lower than the amortized cost				
	Up to 6 months	9-6 months	12-9 months	Over 12 months	Total
Asset-backed debentures available for sale					
Up to 20%	-	-	-	-	-
20%-40%	-	-	-	-	-
Over 40%	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**
Other debentures available for sale					
Up to 20%	12	-	4	44	60
20%-40%		-	-	24	24
Over 40%		-	-	4	4
Total	**12**	**-**	**4**	**72**	**88**
Total securities available for sale	**12**	**-**	**4**	**72**	**88**

	As of December 31, 2011				
	Duration in which fair value is lower than the amortized cost				
Share of impairment out of amortized cost	Up to 6 months	9-6 months	12-9 months	Over 12 months	Total
Asset-backed debentures available for sale					
20%	-	-	-	3	3
20%-40%	-	-	-	9	9
Over 40%	-	-	-	-	-
Total	**-**	**-**	**-**	**12**	**12**
Other debentures available for sale					
20%	22	11	-	36	69
20%-40%	-	-	-	18	18
Over 40%	-	-	-	4	4
Total	**22**	**11**	**-**	**58**	**91**
Total securities available for sale	**22**	**11**	**-**	**70**	**103**

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 June 30, 2012, similar to their weight at the end of 2011. In the first half of 2012, deposits from the public with the Bank Group increased by NIS 3 billion, or 2.6%.

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

				Change compared to	
	June 30		December 31	June 30	December 31
	2012	2011	2011	2011	2011
Israeli currency					
Non-linked	74,161	66,506	72,554	11.5%	2.2%
CPI- linked	22,750	22,588	23,046	0.7%	(1.3%)
Foreign currency and foreign currency linked	25,373	22,402	23,636	15.1%	7.3%
Total	**122,284**	**111,496**	**119,236**	**9.7%**	**2.6%**

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

				Change compared to	
		June 30	December 31	June 30	December 31
	2012	2011	2011	2011	2011
Retail banking:					
Household	56,825	49,736	54,091	14.3%	5.1%
Small business	8,021	6,845	8,268	17.2%	(3.0%)
Total	**64,846**	**56,581**	**62,359**	**14.6%**	**4.0%**
Private banking	6,671	6,099	5,831	9.4%	14.4%
Commercial banking	3,683	2,994	3,471	23.0%	6.1%
Business banking	32,574	28,936	32,524	12.6%	0.2%
Financial management	14,510	16,886	15,051	(14.1%)	(3.6%)
Total	**122,284**	**111,496**	**119,236**	**9.7%**	**2.6%**

The ratio of shareholders' equity to balance sheet total for the Group as of June 30, 2012 was 5.30%, compared to 5.10% as of the end of 2011.

Ratio of capital to risk elements

As per the 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 components of its balance sheet assets and off-balance-sheet items, and these instructions describe the manner of calculation of total capital and total risk components. Starting on December 31, 2009, the ratio of capital to risk elements is calculated in accordance with Basel II rules.

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

	June 30, 2012	December 31, 2011
Ratio of Tier I capital to risk elements	8.03	7.77
Ratio of total capital to risk elements	12.93	13.40
Minimum total capital ratio required by the directives of the Supervisor of Banks	9.00	9.00

Major Investees

Contribution by investees to net profit (excluding goodwill amortization) in the first half of 2012 amounted to NIS 84.5 million, compared to NIS 76.0 million in the corresponding period last year.

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

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

Bank Yahav's contribution to Group net profit in the first half of 2012 amounted to NIS 24.6 million, compared to NIS 17.8 million in the corresponding period last year. Bank Yahav's net profit return on equity in the first half of 2012 was 12.7% on an annualized basis, compared to 10.1% in the corresponding period last year. Bank Yahav's balance sheet total as of June 30, 2012 amounted to NIS 17,553 million, compared to NIS 16,755 million as of December 31, 2011. The balance of loans to the public, net as of June 30, 2012 amounted to NIS 5,977 million, compared to NIS 5,793 million at end of 2011. The balance of deposits from the public as of June 30, 2012 amounted to NIS 15,032 million, compared to NIS 14,309 million at end of 2011.

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

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

Tefahot Insurance's contribution to Group net profit in the first half of 2012 amounted to NIS 33.8 million, compared to NIS 33.3 million in the corresponding period last year.

Net profit return on equity in the first half of 2012 was 12.4% on annualized basis, compared to 14.5% in the corresponding period last year.

United Mizrahi Bank (Switzerland) Ltd.

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

Net profit of Mizrahi Bank Switzerland in the first half of 2012 amounted to CHF 0.6 million, compared to CHF 0.7 million in the corresponding period last year.

Mizrahi Bank Switzerland's balance sheet total as of June 30, 2012 amounted to CHF 163 million, compared to CHF 150 million at the end of 2011.

Loans to the public as of June 30, 2012 amounted to CHF 44 million, compared to CHF 44 million at end of 2011. The deposits with banks as of June 30, 2012 amounted to CHF 107 million, compared to CHF 95 million at the end of 2011. Deposits from the public as of June 30, 2012 amounted to CHF 102 million, compared to CHF 80 million at the end of 2011. Deposits from banks as of June 30, 2012 amounted to CHF 2 million, compared to CHF 12 million at the end of 2011.

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

The contribution of Mizrahi International Holdings Ltd. (B.V. Holland) to Group net profit in the first half of 2012, which includes the contribution of Mizrahi Bank Switzerland to net profit, amounted to NIS 8.2 million, compared with NIS 17.8 million in the corresponding period last year. These data include impact of changes in exchange rates on the investment balance, covered by the Bank's own sources. Therefore, the impact of exchange rates on the consolidated statement is not meaningful.

Excluding the impact of changes in exchange rates, the company's contribution to group net profit in the first half of the year amounted to a NIS 2.5 million profit, compared to a NIS 4.8 million profit in the corresponding period last year.

In recent months, tax authorities in the USA and Switzerland have been negotiating in conjunction with the double taxation avoidance treaty between these two countries. As requested by Swiss authorities, several Swiss banks, including Mizrahi Bank Switzerland, have provided statistical information about their business with US clients, to be provided to US authorities. 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.

Investment in non-banking corporations

The Bank manages nostro investments in non-banking corporations. About 7.8% of these investments are negotiable and presented at their market value. The remainder of these investments is presented at cost or at their carrying amount. In case of impairment of a non-temporary nature, a provision for impairment is made by the Bank.

Bank investments in non-banking corporations as of June 30, 2012 amounted to NIS 65 million, compared to NIS 66 million at the end of 2011. Net profit from dividends and realized gain on investments in non-banking corporations, after provision for impairment, amounted in the first half of 2012 to NIS 3 million for the Bank, 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 described below. The operations in the six operating segments include all areas of banking operations including classic banking activity (loans and deposits), securities activity for clients and activity in derivative instruments. Operations of the various segments are conducted via Bank branches, trading room, Business Centers, Bank HQ departments and subsidiaries in Israel and overseas.

The Bank's operating segments are:

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

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

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

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

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

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

In order to analyze the results of the Bank's operations by relevant subdivisions, clients have been assigned to the organizational units in charge of servicing them. Information presented below by operating segments 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 31 to the financial statements as of December 31, 2011.
Note 11 to the financial statements includes reporting of Bank Group business results by operating segment.

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

	Net profit in the first half		Share of total net profit (in %) for the first six months		Return on equity (in %) in the first half	
	2012	2011 (1)	2012	2011 (1)	2012	2011 (1)
Household:						
Mortgages	197	168	36	34	14.3	14.6
Other	77	85	14	17	16.5	20.5
Private banking	17	26	3	5	28.7	79.1
Small business	88	61	16	12	46.6	34.3
Commercial banking	34	15	6	3	17.0	7.7
Business banking	157	103	29	22	11.3	8.3
Financial management	(24)	32	(4)	7	-	19.4
Total	**546**	**490**	**100**	**100**	**14.3**	**14.6**

(1) Reclassified.

Below are Bank Group operating results by operating segment

Results of Household Segment

	For the six months ended June 30, 2012					For the six months ended June 30, 2011[1]				
	Banking and finance	Credit cards	Capital market	Mortgages	Total	Banking and finance	Credit cards	Capital market	Mortgages	Total
										NIS in millions
Interest revenues, net:										
From outside operating segments	67	14	-	1,759	1,840	69	12	-	1,757	1,838
Inter-segment	483	(10)	-	(1,448)	(975)	446	(9)	-	(1,489)	(1,052)
Total interest revenues, net	**550**	**4**	**-**	**311**	**865**	**515**	**3**	**-**	**268**	**786**
Non-interest financing revenues	-	-	4	-	4	-	-	6	-	6
Commissions and other revenues	122	70	81	119	392	115	61	116	123	415
Total profit	**672**	**74**	**85**	**430**	**1,261**	**630**	**64**	**122**	**391**	**1,207**
Expenses with respect to credit loss	23	-	-	4	27	26	-	-	10	36
Operating and other expenses										
From outside operating segments	669	14	27	124	834	643	14	31	123	811
Inter-segment	(56)	(2)	-	-	(58)	(56)	(2)	-	-	(58)
Total operating and other expenses	**613**	**12**	**27**	**124**	**776**	**587**	**12**	**31**	**123**	**753**
Pre-tax profit	36	62	58	302	458	17	52	91	258	418
Provision for taxes on profit	12	22	20	105	159	6	19	32	90	147
After-tax profit	**24**	**40**	**38**	**197**	**299**	**11**	**33**	**59**	**168**	**271**
Net profit (loss):										
Before attribution to non-controlling interest	24	40	38	197	299	11	33	59	168	271
Attributable to non-controlling interest	(25)	-	-	-	(25)	(18)	-	-	-	(18)
Attributable to shareholders of the banking corporation	**(1)**	**40**	**38**	**197**	**274**	**(7)**	**33**	**59**	**168**	**253**
Return on capital (net profit as % of average capital)					**14.8%**					**16.2%**
Average balance of assets	14,657	2,493	-	67,859	85,009	[2]13,643	2,388	-	57,856	73,887
Average balance of liabilities	41,288	2,493	-	97	43,878	46,752	2,388	-	247	49,387
Average balance of risk assets	14,852	-	-	35,685	50,537	13,853	-	-	30,830	44,683
Average balance of securities	-	-	26,499	-	26,499	-	-	28,130	-	28,130
Loans to the public, net (end balance)	14,320	2,678	-	70,060	87,058	[2]13,428	2,546	-	63,507	79,481
Deposits from the public (end balance)	56,825	-	-	-	56,825	49,736	-	-	-	49,736
Average balance of other assets managed	8,508	-	-	11,885	20,393	8,709	-	-	13,213	21,922
Profit from interest revenues before expenses with respect to credit loss:										
Margin from credit granting operations	249	4	-	296	549	230	3	-	254	487
Margin from receiving deposits	281	-	-	-	281	264	-	-	-	264
Other	20	-	-	15	35	21	-	-	14	35
Total interest revenues, net	**550**	**4**	**-**	**311**	**865**	**515**	**3**	**-**	**268**	**786**

(1) Data on the statement of profit and loss for previous periods were reclassified to adjust them for the new format adopted by the Supervisor of Banks. For details see Note 1.C. to the financial statements.
(2) Reclassified.

Contribution of the household segment to Group profit in the first half of 2012 amounted to NIS 274 million, compared to NIS 253 million in the corresponding period last year - an increase of 8.3%.

Contribution of mortgages in the first half of 2012 amounted to NIS 197 million, compared to NIS 168 million in the corresponding period last year - an increase of 17.3%. The increase is primarily due to an increase of 16.0% in net interest revenues before expenses with respect to credit loss, which is due to expanded operations, reflected in an increase of 17.3% in average assets. Conversely, the provision for credit loss with respect to these operations decreased by NIS 6 million: Total expenses with respect to credit loss attributed to mortgages in the first half of 2012 amounted to NIS 4 million, compared to NIS 10 million in the corresponding period last year.

Contribution of the household segment (except for mortgages) in the first half of 2012 amounted to NIS 73 million, compared to NIS 85 million in the corresponding period last year - a decrease of 14.1%. Net interest revenues before expenses with respect to credit loss increased by 6.9% due to higher volume. Conversely, commissions and other revenues decreased by 6.5%, due to a decrease in revenues from commissions on securities, while operating expenses increased by 3.4%.

Results of Household Segment

	For the three months ended June 30, 2012					For the three months ended June 30, 2011(1)				
	Banking and finance	Credit cards	Capital market	Mortgages	Total	Banking and finance	Credit cards	Capital market	Mortgages	Total
										NIS in millions
Interest revenues, net:										
From outside operating segments	8	7	-	1,204	1,219	19	6	-	975	1,000
Inter-segment	269	(5)	-	(1,042)	(778)	253	(5)	-	(836)	(588)
Total interest revenues, net	**277**	**2**	**-**	**162**	**441**	**272**	**1**	**-**	**139**	**412**
Non-interest financing revenues	1	-	2	-	3	-	-	3	-	3
Commissions and other revenues	54	40	40	58	192	56	30	52	58	196
Total profit	**332**	**42**	**42**	**220**	**636**	**328**	**31**	**55**	**197**	**611**
Expenses with respect to credit loss	14	-	-	-	14	17	-	-	-	17
Operating and other expenses										
From outside operating segments	328	7	13	58	406	313	7	17	63	400
Inter-segment	(27)	(1)	-	-	(28)	(28)	(1)	-	-	(29)
Total operating and other expenses	**301**	**6**	**13**	**58**	**378**	**285**	**6**	**17**	**63**	**371**
Pre-tax profit (loss)	17	36	29	162	244	26	25	38	134	223
Provision for taxes on profit (loss)	6	12	10	59	87	9	8	13	47	77
After-tax profit (loss)	**11**	**24**	**19**	**103**	**157**	**17**	**17**	**25**	**87**	**146**
Net profit (loss):										
Before attribution to non-controlling interest	11	24	19	103	157	17	17	25	87	146
Attributable to non-controlling interest	(14)	-	-	-	(14)	(10)	-	-	-	(10)
Attributable to shareholders of the banking corporation	**(3)**	**24**	**19**	**103**	**143**	**7**	**17**	**25**	**87**	**136**
Return on capital (net profit as % of average capital)					**15.4%**					**17.1%**
Profit from interest revenues before expenses with respect to credit loss:										
Margin from credit granting operations	138	2	-	154	294	121	1	-	131	253
Margin from receiving deposits	119	-	-	-	119	141	-	-	-	141
Other	20	-	-	8	28	10	-	-	8	18
Total interest revenues, net	**277**	**2**	**-**	**162**	**441**	**272**	**1**	**-**	**139**	**412**

(1) Data on the statement of profit and loss for previous periods were reclassified to adjust them for the new format adopted by the Supervisor of Banks. For details see Note 1.C. to the financial statements.

Volume of mortgages granted by the segment is as follows:

	Loans granted (NIS in millions)		
	First half of		
	2012	2011	Rate of change
Mortgages issued (for housing and any purpose)			
From the Bank's funds	7,714	9,068	(14.9%)
From the Treasury's funds			
Directed loans	87	38	128.9%
Standing loans and grants	106	43	146.5%
Total new loans	**7,907**	**9,149**	**(13.6%)**
Recycled loans	830	710	16.9%
Total loans issued	**8,737**	**9,859**	**(11.4%)**
Number of borrowers (includes recycled loans)	22,795	25,287	(9.9%)

Results of Private Banking Segment

	For the six months ended June 30, 2012			For the six months ended June 30, 2011[2]		
	Banking and finance	Capital market	Total	Banking and finance [1]	Capital market	Total
						NIS in millions
Interest revenues, net:						
From outside operating segments	(6)	-	(6)	7	-	7
Inter-segment	46	-	46	38	-	38
Total interest revenues, net	**40**	**-**	**40**	**45**	**-**	**45**
Non-interest financing revenues	-	-	-	-	-	-
Commissions and other revenues	11	16	27	13	15	28
Total profit	**51**	**16**	**67**	**58**	**15**	**73**
Expenses with respect to credit loss	-	-	-	(1)	-	(1)
Operating and other expenses						
From outside operating segments	38	-	38	34	-	34
Inter-segment	3	-	3	(1)	-	(1)
Total operating and other expenses	**41**	**-**	**41**	**33**	**-**	**33**
Pre-tax profit	10	16	26	26	15	41
Provision for taxes on profit (loss)	3	6	9	10	5	15
Net profit attributable to shareholders of the banking corporation	**7**	**10**	**17**	**16**	**10**	**26**
Return on capital (net profit as % of average capital)			**28.7%**			**79.1%**
Average balance of assets	2,393	-	2,393	2,557	-	2,557
Average balance of liabilities	5,550	-	5,550	6,041	-	6,041
Average balance of risk assets	1,582	-	1,582	754	-	754
Average balance of securities	-	7,548	7,548	-	7,270	7,270
Loans to the public, net (end balance)	1,737	-	1,737	1,553	-	1,553
Deposits from the public (end balance)	6,671	-	6,671	6,099	-	6,099
Average balance of other assets managed	-	-	-	-	-	-
Profit from interest revenues before expenses with respect to credit loss:						
Margin from credit granting operations	15	-	15	18	-	18
Margin from receiving deposits	25	-	25	27	-	27
Other	-	-	-	-	-	-
Total interest revenues, net	**40**	**-**	**40**	**45**	**-**	**45**

(1) Reclassified.
(2) Data on the statement of profit and loss for previous periods were reclassified to adjust them for the new fprmat adopted by the Supervisor of Banks. For details see Note 1.C. to the financial statements.

Contribution of the private banking segment to Group profit in the first half of 2012 amounted to NIS 17 million, compared to NIS 26 million in the corresponding period last year. Interest revenues decreased by NIS 5 million, and operating and other expenses attributed to this segment increased by 24.3%.

Results of Private Banking Segment

	For the three months ended June 30, 2012			For the three months ended June 30, 2011[2]		
	Banking and finance	Capital market	Total	Banking and finance [1]	Capital market	Total
						NIS in millions
Interest revenues, net:						
From outside operating segments	(7)	-	(7)	15	-	15
Inter-segment	28	-	28	17	-	17
Total interest revenues, net	**21**	**-**	**21**	**32**	**-**	**32**
Non-interest financing revenues	1	-	1	-	-	-
Commissions and other revenues	6	8	14	6	7	13
Total profit	**28**	**8**	**36**	**38**	**7**	**45**
Expenses with respect to credit loss	4	-	4	2	-	2
Operating and other expenses						
From outside operating segments	20	-	20	16	-	16
Inter-segment	(1)	-	(1)	(1)	-	(1)
Total operating and other expenses	**19**	**-**	**19**	**15**	**-**	**15**
Pre-tax profit	5	8	13	21	7	28
Provision for taxes on profit (loss)	1	3	4	8	2	10
Net profit attributable to shareholders of the banking corporation	**4**	**5**	**9**	**13**	**5**	**18**
Return on capital (net profit as % of average capital)			**32.9%**			**75.0%**
Profit from interest revenues before expenses with respect to credit loss:						
Margin from credit granting operations	8	-	8	14	-	14
Margin from receiving deposits	13	-	13	17	-	17
Other	-	-	-	1	-	1
Total interest revenues, net	**21**	**-**	**21**	**32**	**-**	**32**

(1) Reclassified.

(2) Data on the statement of profit and loss for previous periods were reclassified to adjust them for the new format adopted by the Supervisor of Banks. For details see Note 1.C. to the financial statements.

Results of the Small Business Segment

	For the six months ended June 30, 2012				For the six months ended June 30, 2011[1]			
	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	177	4	-	181	207	-	-	207
Inter-segment	47	(3)	-	44	1	-	-	1
Total interest revenues, net	**224**	**1**	**-**	**225**	**208**	**-**	**-**	**208**
Non-interest financing revenues	-	-	-	-			1	1
Commissions and other revenues	100	7	10	117	102	7	10	119
Total profit	**324**	**8**	**10**	**342**	**310**	**7**	**11**	**328**
Expenses with respect to credit loss	7	-	-	7	37	-	-	37
Operating and other expenses								
From outside operating segments	220	2	2	224	217	2	2	221
Inter-segment	(25)	-	-	(25)	(24)	-	-	(24)
Total operating and other expenses	**195**	**2**	**2**	**199**	**193**	**2**	**2**	**197**
Pre-tax profit	122	6	8	136	80	5	9	94
Provision for taxes on profit (loss)	43	2	3	48	28	2	3	33
Net profit attributable to shareholders of the banking corporation	**79**	**4**	**5**	**88**	**52**	**3**	**6**	**61**
Return on capital (net profit as % of average capital)				**46.6%**				**34.3%**
Average balance of assets	6,442	298	-	6,740	[2] 5,838	192	-	6,030
Average balance of liabilities	5,326	-	-	5,326	6,689	-	-	6,689
Average balance of risk assets	5,220	-	-	5,220	4,984	-	-	4,984
Average balance of securities	-	-	6,097	6,097	-	-	8,515	8,515
Loans to the public, net (end balance)	6,304	302	-	6,606	[2] 5,884	267	-	6,151
Deposits from the public (end balance)	8,021	-	-	8,021	6,845	-	-	6,845
Average balance of other assets managed	167	-	-	167	135	-	-	135
Profit from interest revenues before expenses with respect to credit loss:								
Margin from credit granting operations	174	-	-	174	156	-	-	156
Margin from receiving deposits	39	-	-	39	41	-	-	41
Other	11	1	-	12	11	-	-	11
Total interest revenues, net	**224**	**1**	**-**	**225**	**208**	**-**	**-**	**208**

(1) Data on the statement of profit and loss for previous periods were reclassified to adjust them for the new format adopted by the Supervisor of Banks. For details see Note 1.C. to the financial statements.
(2) Reclassified.

Contribution of the small business segment to Group profit in the first half of 2012 amounted to NIS 88 million, compared to NIS 61 million in the corresponding period last year. The increase in segment contribution is primarily due to an increase of 8.2% in net interest revenues before expenses with respect to credit loss - primarily due to increase in volume of business and a decrease of NIS 30 million in expenses with respect to credit loss. Non-interest revenues and operating expenses remained essentially unchanged.

Results of the Small Business Segment

	For the three months ended June 30, 2012				For the three months ended June 30, 2011[1]			
	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	64	2	-	66	114	-	-	114
Inter-segment	46	(2)	-	44	1	-	-	1
Total interest revenues, net	**110**	**-**	**-**	**110**	**115**	**-**	**-**	**115**
Non-interest financing revenues	-	-	-	-	-	-	-	-
Commissions and other revenues	48	4	4	56	51	4	4	59
Total profit	**158**	**4**	**4**	**166**	**166**	**4**	**4**	**174**
Expenses with respect to credit loss	14	-	-	14	11	-	-	11
Operating and other expenses								
From outside operating segments	108	1	1	110	106	1	1	108
Inter-segment	(12)	-	-	(12)	(11)	-	-	(11)
Total operating and other expenses	**96**	**1**	**1**	**98**	**95**	**1**	**1**	**97**
Pre-tax profit	48	3	3	54	60	3	3	66
Provision for taxes on profit (loss)	19	1	1	21	20	1	1	22
Net profit attributable to shareholders of the banking corporation	**29**	**2**	**2**	**33**	**40**	**2**	**2**	**44**
Return on capital (net profit as % of average capital)				**34.7%**				**51.7%**
Profit from interest revenues before expenses with respect to credit loss:								
Margin from credit granting operations	89	-	-	89	82	-	-	82
Margin from receiving deposits	19	-	-	19	22	-	-	22
Other	2	-	-	2	11	-	-	11
Total interest revenues, net	**110**	**-**	**-**	**110**	**115**	**-**	**-**	**115**

(1) Data on the statement of profit and loss for previous periods were reclassified to adjust them for the new format adopted by the Supervisor of Banks. For details see Note 1.C. to the financial statements.

Results of the Commercial Banking Segment

	For the six months ended June 30, 2012				For the six months ended June 30, 2011[1]			
	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	102	-	-	102	125	-	-	125
Inter-segment	(16)	-	-	(16)	(44)	-	-	(44)
Total interest revenues, net	**86**	**-**	**-**	**86**	**81**	**-**	**-**	**81**
Non-interest financing revenues	-	-	-	-			1	1
Commissions and other revenues	25	1	3	29	26	2	7	35
Total profit	**111**	**1**	**3**	**115**	**107**	**2**	**8**	**117**
Expenses with respect to credit loss	(3)	-	-	(3)	21	-	-	21
Operating and other expenses								
From outside operating segments	34	-	-	34	34	-	3	37
Inter-segment	33	-	-	33	35	-	-	35
Total operating and other expenses	**67**	**-**	**-**	**67**	**69**	**-**	**3**	**72**
Pre-tax profit	47	1	3	51	17	2	5	24
Provision for taxes on profit (loss)	16	-	1	17	6	1	2	9
Net profit attributable to shareholders of the banking corporation	**31**	**1**	**2**	**34**	**11**	**1**	**3**	**15**
Return on capital (net profit as % of average capital)				**17.0%**				**7.7%**
Average balance of assets	4,680	53	-	4,733	4,658	36	-	4,694
Average balance of liabilities	2,354	-	-	2,354	3,076	-	-	3,076
Average balance of risk assets	5,213	-	-	5,213	5,166	-	-	5,166
Average balance of securities	-	-	3,551	3,551	-	-	3,920	3,920
Loans to the public, net (end balance)	4,669	47	-	4,716	4,888	53	-	4,941
Deposits from the public (end balance)	3,683	-	-	3,683	2,994	-	-	2,994
Average balance of other assets managed	209	-	-	209	39	-	-	39
Profit from interest revenues before expenses with respect to credit loss:								
Margin from credit granting operations	75	-	-	75	68	-	-	68
Margin from receiving deposits	10	-	-	10	11	-	-	11
Other	1	-	-	1	2	-	-	2
Total interest revenues, net	**86**	**-**	**-**	**86**	**81**	**-**	**-**	**81**

(1) Data on the statement of profit and loss for previous periods were reclassified to adjust them for the new formast adopted by the Supervisor of Banks. For details see Note 1.C. to the financial statements.

Contribution of the commercial banking segment to Group profit in the first half of 2012 amounted to NIS 34 million, compared to NIS 15 million in the corresponding period last year. The increase in segment contribution is primarily due to an increase of 6.2% in net interest revenues before expenses with respect to credit loss and a decrease of NIS 24 million in expenses with respect to credit loss. Conversely, commissions and other revenues decreased by NIS 6 million, due to lower revenues from commissions on securities. Operating expenses decreased by NIS 5 million.

Results of the Commercial Banking Segment

	For the three months ended June 30, 2012				For the three months ended June 30, 2011[1]			
	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	57	-	-	57
Inter-segment	(7)	-	-	(7)	(18)	-	-	(18)
Total interest revenues, net	**42**	**-**	**-**	**42**	**39**	**-**	**-**	**39**
Non-interest financing revenues	-	-	-	-	-	-	-	-
Commissions and other revenues	11	-	1	12	12	1	4	17
Total profit	**53**	**-**	**1**	**54**	**51**	**1**	**4**	**56**
Expenses with respect to credit loss	(2)	-	-	(2)	20	-	-	20
Operating and other expenses								
From outside operating segments	16	-	-	16	17	-	3	20
Inter-segment	17	-	-	17	17	-	-	17
Total operating and other expenses	**33**	**-**	**-**	**33**	**34**	**-**	**3**	**37**
Pre-tax profit	22	-	1	23	(3)	1	1	(1)
Provision for taxes on profit (loss)	8	-	-	8	(1)	1	1	1
Net profit attributable to shareholders of the banking corporation	**14**	**-**	**1**	**15**	**(2)**	**-**	**-**	**(2)**
Return on capital (net profit as % of average capital)				**15.3%**				**-**
Profit from interest revenues before expenses with respect to credit loss:								
Margin from credit granting operations	38	-	-	38	34	-	-	34
Margin from receiving deposits	5	-	-	5	7	-	-	7
Other	(1)	-	-	(1)	(2)	-	-	(2)
Total interest revenues, net	**42**	**-**	**-**	**42**	**39**	**-**	**-**	**39**

(1) Data on the statement of profit and loss for previous periods were reclassified to adjust them for the new format adopted by the Supervisor of Banks. For details see Note 1.C. to the financial statements.

Results of the Business Banking Segment

	For the six months ended June 30, 2012				For the six months ended June 30, 2011[3]			
	Banking and finance [1]	Capital market	Construction and real estate	Total	Banking and finance [1][2]	Capital market	Construction and real estate	Total
								NIS in millions
Interest revenues, net:								
From outside operating segments	8	-	164	172	(47)	-	150	103
Inter-segment	228	-	(64)	164	214	-	(76)	138
Total interest revenues, net	**236**	**-**	**100**	**336**	**167**	**-**	**74**	**241**
Non-interest financing revenues	26	4	-	30	2	5		7
Commissions and other revenues	37	12	50	99	45	12	39	96
Total profit	**299**	**16**	**150**	**465**	**214**	**17**	**113**	**344**
Expenses with respect to credit loss	64	-	9	73	19	-	15	34
Operating and other expenses								
From outside operating segments	92	3	16	111	91	1	19	111
Inter-segment	34	-	7	41	35	-	6	41
Total operating and other expenses	**126**	**3**	**23**	**152**	**126**	**1**	**25**	**152**
Pre-tax profit	109	13	118	240	69	16	73	158
Provision for taxes on profit (loss)	38	4	41	83	23	6	26	55
Net profit (loss) attributable to shareholders of the banking corporation	**71**	**9**	**77**	**157**	**46**	**10**	**47**	**103**
Return on capital (net profit as % of average capital)				**11.3%**				**8.3%**
Average balance of assets	19,822	-	7,368	27,190	19,259	-	5,831	25,090
Average balance of liabilities	20,658	-	1,508	22,166	26,175	-	2,259	28,434
Average balance of risk assets	20,102	-	15,524	35,626	19,427	-	13,684	33,111
Average balance of securities	-	60,639	-	60,639	-	72,268	-	72,268
Loans to the public, net (end balance)	16,472	-	6,832	23,304	14,589	-	5,676	20,265
Deposits from the public (end balance)	30,416	-	2,158	32,574	26,875	-	2,061	28,936
Average balance of other assets managed	229	-	84	313	21	-	103	124
Profit from interest revenues before expenses with respect to credit loss:								
Margin from credit granting operations	191	-	79	270	126	-	46	172
Margin from receiving deposits	44	-	8	52	32	-	8	40
Other	1	-	13	14	9	-	20	29
Total interest revenues, net	**236**	**-**	**100**	**336**	**167**	**-**	**74**	**241**

(1) Includes operating results with respect to credit cards, whose amount is not material.
(2) Reclassified.
(3) Data on the statement of profit and loss for previous periods were reclassified to adjust them for the new formatadopted by the Supervisor of Banks. For details see Note 1.C. to the financial statements.

Contribution of the business banking segment to Group profit in the first half of 2012 amounted to NIS 157 million, compared to NIS 103 million in the corresponding period last year, an increase of 52.4%.

Contribution of the construction and real estate sector increased by NIS 30 million, or 63.8%, compared to the corresponding period last year - primarily due to an increase of 32.7% in total revenues along with unchanged expenses. Moreover, expenses with respect to credit loss amounted to NIS 9 million, compared to expenses amounting to NIS 15 million in the corresponding period last year. Contribution of the business banking segment, excluding construction and real estate, to Group profit in the first half of 2012 amounted to NIS 81 million, compared to NIS 80 million in the corresponding period last year - an increase of 42.9%. This change was due to a NIS 92 million increase in total financing revenues, due inter alia to higher volume and to interest collected on troubled debt. Conversely, expenses with respect to credit loss increased by NIS 45 million - primarily due to group provision for credit loss. Commissions and other revenues decreased by NIS 8 million. Operating and other expenses were essentially unchanged.

Results of the Business Banking Segment

	For the three months ended June 30, 2012				For the three months ended June 30, 2011[3]			
	Banking and finance[1]	Capital market	Construction and real estate	Total	Banking and finance[1][2]	Capital market	Construction and real estate	Total
								NIS in millions
Interest revenues, net:								
From outside operating segments	4	-	90	94	(62)	-	93	31
Inter-segment	116	-	(36)	80	139	-	(59)	80
Total interest revenues, net	**120**	**-**	**54**	**174**	**77**	**-**	**34**	**111**
Non-interest financing revenues	4	2	-	6	2	2	-	4
Commissions and other revenues	14	6	24	44	23	5	21	49
Total profit	**138**	**8**	**78**	**224**	**102**	**7**	**55**	**164**
Expenses with respect to credit loss	41	-	2	43	16	-	19	35
Operating and other expenses								
From outside operating segments	44	3	8	55	44	1	10	55
Inter-segment	17	-	4	21	18	-	3	21
Total operating and other expenses	**61**	**3**	**12**	**76**	**62**	**1**	**13**	**76**
Pre-tax profit	36	5	64	105	24	6	23	53
Provision for taxes on profit (loss)	15	1	23	39	8	2	8	18
Net profit (loss) attributable to sharerholders of the banking corporation	**21**	**4**	**41**	**66**	**16**	**4**	**15**	**35**
Return on capital (net profit as % of average capital)				**9.3%**				**5.8%**
Profit from interest revenues before expenses with respect to credit loss:								
Margin from credit granting operations	96	-	43	139	59	-	13	72
Margin from receiving deposits	24	-	4	28	18	-	4	22
Other	-	-	7	7	-	-	17	17
Total interest revenues, net	**120**	**-**	**54**	**174**	**77**	**0**	**34**	**111**

(1) Includes operating results with respect to credit cards, whose amount is not material.
(2) Reclassified.
(3) Data on the statement of profit and loss for previous periods were reclassified to adjust them for the newformat adopted by the Supervisor of Banks. For details see Note 1.C. to the financial statements.

Financial Management Segment results

	For the six months ended June 30, 2012			For the six months ended June 30, 2011[(1)]		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Interest revenues, net:						
From outside operating segments	(639)	-	(639)	(806)	-	(806)
Inter-segment	737	-	737	919	-	919
Total interest revenues, net	**98**	**-**	**98**	**113**	**-**	**113**
Non-interest financing revenues	(54)	5	(49)	(4)	3	(1)
Commissions and other revenues	32	24	56	38	25	63
Total profit	**76**	**29**	**105**	**147**	**28**	**175**
Expenses with respect to credit loss	8	-	8	7	-	7
Operating and other expenses						
From outside operating segments	127	2	129	109	5	114
Inter-segment	6	-	6	7	-	7
Total operating and other expenses	**133**	**2**	**135**	**116**	**5**	**121**
Pre-tax profit (loss)	(65)	27	(38)	24	23	47
Provision for taxes on profit (loss)	(23)	9	(14)	8	8	16
After-tax profit (loss)	**(42)**	**18**	**(24)**	**16**	**15**	**31**
Share in net profits of affiliates, after tax	-	-	-	1	-	1
Net profit (loss):						
Before attribution to non-controlling interests	(42)	18	(24)	17	15	32
Attributable to non-controlling interest	-	-	-	-	-	-
Attributable to shareholders of the banking corporation	**(42)**	**18**	**(24)**	**17**	**15**	**32**
Return on capital (net profit as % of average capital)			**-**			**19.4%**
Average balance of assets	22,978	-	22,978	24,767	-	24,767
Includes: Investments in affiliates	18	-	18	17	-	17
Average balance of liabilities	61,379	-	61,379	36,042	-	36,042
Average balance of risk assets	5,541	-	5,541	4,608	-	4,608
Average balance of provident and mutual fund assets	72,249	-	72,249	81,014	-	81,014
Average balance of securities	-	41,245	41,245	-	39,813	39,813
Loans to the public, net (end balance)	-	-	-	-	-	-
Deposits from the public (end balance)	14,510	-	14,510	16,886	-	16,886
Profit from interest revenues before expenses with respect to credit loss:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	98	-	98	113	-	113
Total interest revenues, net	**98**	**-**	**98**	**113**	**-**	**113**

(1) Data on the statement of profit and loss for previous periods were reclassified to adjust them for the new format adopted by the Supervisor of Banks. For details see Note 1.C. to the financial statements.

Contribution of the financial management segment to Group profit in the first half of 2012 amounted to a loss of NIS 24 million, compared to a profit of NIS 32 million in the corresponding period last year. The loss is primarily due to the effect of accounting treatment of derivatives at fair value, included under non-interest financing revenues (expenses of NIS 46 million in the second half of 2012, compared to revenues of NIS 33 million in the corresponding period last year). Moreover, commissions and other revenues decreased by NIS 7 million, while operating expenses increased by NIS 14 million.

Financial Management Segment results

	For the three months ended June 30, 2012			For the three months ended June 30, 2011[(1)]		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Interest revenues, net:						
From outside operating segments	(539)	-	(539)	(424)	-	(424)
Inter-segment	633	-	633	508	-	508
Total interest revenues, net	**94**	**-**	**94**	**84**	**-**	**84**
Non-interest financing revenues	(49)	4	(45)	(35)	2	(33)
Commissions and other revenues	28	11	39	23	11	34
Total profit	**73**	**15**	**88**	**72**	**13**	**85**
Expenses with respect to credit loss	(28)	-	(28)	(5)	-	(5)
Operating and other expenses						
From outside operating segments	69	-	69	53	3	56
Inter-segment	3	-	3	3	-	3
Total operating and other expenses	**72**	**-**	**72**	**56**	**3**	**59**
Pre-tax profit (loss)	29	15	44	21	10	31
Provision for taxes on profit (loss)	10	5	15	6	4	10
After-tax profit (loss)	**19**	**10**	**29**	**15**	**6**	**21**
Share in net profits of affiliates, after tax	-	-	-	-	-	-
Net profit (loss):	-	-	-	-	-	-
Before attribution to non-controlling interests	19	10	29	15	6	21
Attributable to non-controlling interest	-	-	-	-	-	-
Attributable to shareholders of the banking corporation	**19**	**10**	**29**	**15**	**6**	**21**
Return on capital (net profit as % of average capital)			**49.5%**			**38.8%**
Profit from interest revenues before expenses with respect to credit loss:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	94	-	94	84	-	84
Total interest revenues, net	**94**	**-**	**94**	**84**	**-**	**84**

(1) Data on the statement of profit and loss for previous periods were reclassified to adjust them for the new format adopted by the Supervisor of Banks. For details see Note 1.C. to the financial statements.

Product operations

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

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

	For the six months ended June 30, 2011(1)			
	Household	Small business	Commercial banking	Total consolidated
Interest revenues, net	3	-	-	3
Non-interest financing revenues				
Commissions and other revenues	61	7	2	70
Total profit	**64**	**7**	**2**	**73**
Expenses with respect to credit loss	-	-	-	-
Operating and other expenses	12	2	-	14
Pre-tax profit	**52**	**5**	**2**	**59**
Provision for taxes on profit (loss)	19	2	1	22
Net profit	**33**	**3**	**1**	**37**

(1) Data on the statement of profit and loss for previous periods were reclassified to adjust them for the new format adopted by the Supervisor of Banks. For details see Note 1.C. to the financial statements.

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

	For the six months ended June 30, 2012						
	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net	-	-	-	-	-	-	-
Non-interest financing revenues	4	-	-	-	4	5	13
Commissions and other revenues	81	16	10	3	12	24	146
Total profit	**85**	**16**	**10**	**3**	**16**	**29**	**159**
Expenses with respect to credit loss	-	-	-	-	-	--	
Operating and other expenses	27	-	2	-	3	2	34
Pre-tax profit	**58**	**16**	**8**	**3**	**13**	**27**	**125**
Provision for taxes on profit (loss)	20	6	3	1	4	9	43
Net profit	**38**	**10**	**5**	**2**	**9**	**18**	**82**

	For the six months ended June 30, 2011(1)						
	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net	-	-	-	-	-	-	-
Non-interest financing revenues	6		1	1	5	3	16
Commissions and other revenues	116	15	10	7	12	25	185
Total profit	**122**	**15**	**11**	**8**	**17**	**28**	**201**
Expenses with respect to credit loss	-	-	-	-	-	-	-
Operating and other expenses	31	-	2	3	1	5	42
Pre-tax profit	**91**	**15**	**9**	**5**	**16**	**23**	**159**
Provision for taxes on profit (loss)	32	5	3	2	6	8	56
Net profit	**59**	**10**	**6**	**3**	**10**	**15**	**103**

(1) Data on the statement of profit and loss for previous periods were reclassified to adjust them for the new format adopted by the Supervisor of Banks. For details see Note 1.C. to the financial statements.

International operations

The international operations segment of the Bank Group includes business operations and private banking services via subsidiaries and branches in Israel and overseas. Bank Group international operations are primarily focused on private banking, providing financial services to Israeli customers who have activities outside of Israel, foreign trade finance, local credit and participation in syndicated loans. The Bank has affiliates in several countries, as described below. All international operations, in Israel and overseas, report to the Private Banking and International Operations sector in the Bank's Financial Division. In addition, control of affiliate operations is conducted by the Risk Control 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 customers banking services, in accordance with the local laws and regulations. The branches are subject to 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 a center in Jerusalem, specializing in marketing, approval and operation of foreign-currency 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, 2011.

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

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

	For the six months ended June 30, 2011(1)				
	Household	Private banking	Business banking	Financial management	Total
Interest revenues, net	1	33	15	8	57
Non-interest financing revenues	-	-	9	12	21
Commissions and other revenues	-	20	2	2	24
Total profit	**1**	**53**	**26**	**22**	**102**
Expenses with respect to credit loss	-	(1)	-	-	(1)
Operating and other expenses	1	29	20	3	53
Pre-tax profit	**-**	**25**	**6**	**19**	**50**
Provision for taxes on profit (loss)	-	9	2	7	18
Net profit	**-**	**16**	**4**	**12**	**32**

(1) Data on the statement of profit and loss for previous periods were reclassified to adjust them for the new format adopted by the Supervisor of Banks. For details see Note 1.C. to the financial statements.

Off balance sheet activity

Provident funds – the Group provides operating services to provident funds. The value of assets in funds to which the Group provides operating services, amounted as of June 30, 2012 to NIS 59.6 billion, compared to NIS 58.1 billion as of December 31, 2011.

Client activity in securities – The value of the securities portfolios in the custody of the Bank, held by clients, amounted to NIS 153.9 billion as of June 30, 2012, compared with NIS 152.9 billion at the end of 2011.Revenues from securities transactions for the Group amounted to NIS 107 million in the first half of 2012, compared with NIS 138 million in the corresponding period last year - a decrease of 22.5%.

Activity by extent of collection – the Group has credit and deposits from deposits whose repayment to the depositor is contingent on collection of credit (or deposits) for which the Bank receives margin- or collection-fee based revenue. The balance of credit from deposits based on extent of collection as of June 30, 2012 amounted to NIS 12.2 billion, compared to NIS 13.7 billion at the end of 2011. These amounts exclude standing loans and government deposits extended for them.

Sources and financing

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

Total deposits from the public for the Group as of June 30, 2012 amounted to NIS 122.3 billion, compared to NIS 119.2 billion at the end of 2011.Deposits from the public in the CPI-linked segment decreased in the first half of 2012 by 1.3%; deposits from the public in the foreign currency and foreign-currency-linked segment increased by 7.3%; and deposits from the public in the NIS-denominated, non-CPI-linked segment increased by 2.3%. 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 8,928 million in total par value (as of December 31, 2011 - NIS 6,871 million), of which NIS 2,131 million in subordinated notes, similar to the balance as of December 31, 2011.

On January 19, 2012, Tefahot Issuance issued debentures (Series 33 and Series 35), with total par value of NIS 877 million, for consideration of NIS 912 million, pursuant to a shelf prospectus dated February 25, 2011.

On April 29, 2012, Tefahot Issuance issued debentures (Series 33 and Series 35), with total par value of NIS 1,001 million, for consideration of NIS 1,056 million, pursuant to the same prospectus.

On June 11, 2012, Tefahot Issuance issued debentures (Series 33), with total par value of NIS 180 million, for consideration of NIS 193 million.

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

Complex capital instruments

All of the Bank's complex capital instruments (Series A) (considered upper Tier 2 capital for maintaining minimum capital ratio) as of June 30, 2012, issued and listed for trading amounted to NIS 1,702 million par value, issued for consideration amounting to NIS 1,644 million.

The revalued balance of the complex capital instruments as of June 30, 2012 was NIS 1.9 billion, similar to the end of 2011.

Rating of Bank obligations

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

On December 6, 2011, Maalot reconfirmed the Bank's issuer rating. The rating outlook is Stable (modified from "Negative" in November 2010) under the current methodology for rating banks. According to Maalot: "The rating by Maalot Standard&Poor's of Mizrahi is based on the Bank's appropriate business standing, its capital and medium profitability, its appropriate risk factor, sources in line with the local banking system and appropriate liquidity of the Bank. The rating also reflects our estimate that Bank Mizrahi is of critical importance in Israel, and we believe the State of Israel would support the financial system if needed. The Stable rating outlook for Mizrahi reflects our view that the Bank would maintain its strong business position in the Israeli market, while negative pressures on Israel's economy, such as a potential slowdown in the residential real estate sector, should have limited impact on the Bank's risk profile, and the Bank should maintain a stable Risk-Adjusted Capital ratio (RAC)".

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

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

On June 11, 2012, Moody's rating agency maintained the Bank's deposit rating at A2 with "Negative" outlook.

Risk Management

Basel II: Pillar 3 - Market Discipline

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

As of the balance sheet date, there were no material changes in risk management at the Group and in qualitative information, as included in the Board of Directors' report as of December 31, 2011, other than as described below.

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 4 – Capital Adequacy
Capital adequacy	Quantitative disclosure	Risk Management chapter
	Capital adequacy ratios for the Group	Note 4 – 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. For details of Bank Group companies to which these regulations apply, see Note 6 to the financial statements as of December 31, 2011. 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 stipulated in Proper Conduct of Banking Business Directive Nos. 201-211. Key rules and approaches applied by the Bank are described below, under Description of Basle 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 basic indicator approach to assess exposure to operating risk, and the standard approach to assess exposure to market risk. The Supervisor of Banks has stipulated that within 3 years from the start date of applying the basic indicator approach to assessment of exposure to operating risk, banks must transition to using the standard approach. 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 & monitoring forum has been created, attended by the Manager, Finance Division - CFO (chair), Manager, Risk control Division - CRO, Manager, Planning, Operations and Control Division and the Manager, Accounting and Financial Reporting Division - the Chief Accountant.

On October 25, 2010, the Bank Board of Directors resolved to set the target for core capital ratio (i.e. original Tier I capital adequacy ratio) at 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%.

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.

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.

For more information about the Bank's business strategy, see chapter "Significant events in the Bank Group's business" below.

The Bank's core capital ratio as of June 30, 2012 is presented in Note 4 to the financial statements.

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

	As of June 30, 2012		As of June 30, 2011		As of December 31, 2011	
Exposure group	Weighted risk asset balances	Capital requirement (1)	Weighted risk asset balances	Capital requirement (1)	Weighted risk asset balances	Capital requirement (1)
Sovereign debt	865	78	413	37	924	83
Public sector entity debt	345	31	472	42	350	32
Banking corporation debt	1,472	132	1,595	144	1,824	164
Corporate debt	40,859	3,677	36,480	3,283	39,107	3,520
Debt secured by commercial real estate	1,785	161	1,499	135	1,718	155
Retail exposure to individuals	11,416	1,027	10,793	971	11,265	1014
Loans to small businesses	2,321	209	2,150	194	2,172	195
Residential mortgages	34,866	3,138	30,471	2,742	32,865	2,958
Securitization	46	4	26	2	88	8
Other assets	3,017	272	2,644	238	2,660	239
Total	**96,992**	**8,729**	**86,543**	**7,788**	**92,973**	**8,368**

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

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

	As of June 30, 2012		As of June 30, 2011		As of December 31, 2011	
Exposure group	Weighted risk asset balances	Capital requirement (1)	Weighted risk asset balances	Capital requirement (1)	Weighted risk asset balances	Capital requirement (1)
Market risk	884	80	1,030	93	947	85
Operating Risk(2)	8,177	736	7,645	688	7,851	707
Total	**9,061**	**816**	**8,675**	**781**	**8,798**	**792**

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

(2) Calculated based on the basic indicator approach.

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

			Ratio of capital to risk elements
	As of June 30, 2012	As of June 30, 2011	As of December 31, 2011
Ratio of Tier I capital to risk elements	8.03%	7.71%	7.77%
Ratio of total capital to risk elements	12.93%	13.61%	13.40%
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 Nos. 339 and 342 of the Bank of Israel, and in accordance with the framework stipulated in Basel II, Pillar 2. To this end, the Group appointed Risk Managers and a CRO, who is in executive management, responsible for operations of the Risk Control Division and the Compliance and Business Risk Control Division. Bank management regards the Bank's risk control and management system as one of its core competencies, so 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.

As part of this approach, the Bank manages risk using a system that enables management and control under a single platform of the market risk and interest risk of the Bank, and in the future, also the various credit risk components, including implementation of Basel II regulations for calculating regulatory capital.

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 its 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 reorganization of the Risk Control Division, the Risk Control 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 June 30, 2012	Sove-reigns	Public sector	Banking Corpora-tions	Corpora-tions	Secured by commercial real estate	Retail for individuals	Small business	Housing loans	Securitiza-tion	Others	Total [(2)]
Loans[(3)]	12,304	285	3,224	29,832	1,917	14,701	3,670	74,655	-	-	140,588
Securities [(4)]	7,429	22	809	265	-	-	-	-	33	-	8,558
Derivatives[(5)]	-	256	886	1,834	-	23	5	-	-	-	3,004
Other off-balance-sheet exposures	20	511	30	35,995	306	10,379	1,955	3,934	-	-	53,130
Other assets[(6)]	-	-	-	-	-	-	-	-	-	4,007	4,007
Total	**19,753**	**1,074**	**4,949**	**67,926**	**2,223**	**25,103**	**5,630**	**78,589**	**33**	**4,007**	**209,287**

As of December 31, 2011	Sove-reigns	Public sector	Banking Corpora-tions	Corpora-tions	Secured by commercial real estate	Retail for individuals	Small business	Housing loans	Securitiza-tion	Others	Total [(2)]
Loans[(3)]	12,895	290	2,804	29,416	1,771	14,462	3,569	71,207	-	-	136,414
Securities [(4)]	6,585	17	644	386	-	-	-	-	25	-	7,657
Derivatives[(5)]	-	264	2,352	1,719	-	27	7	-	-	-	4,369
Other off-balance-sheet exposures	-	401	160	34,810	317	10,037	1,492	3,611	-	-	50,828
Other assets[(6)]	-	-	-	-	-	-	-	-	-	3,561	3,561
Total	**19,480**	**972**	**5,960**	**66,331**	**2,088**	**24,526**	**5,068**	**74,818**	**25**	**3,561**	**202,829**

(1) After deduction of accounting write-offs and before provision for credit losses on an individual and group basis.
(2) Balance of on- and off-balance sheet balances after on- and off-balance-sheet offsets, excluding impact of credit risk mitigation, credit conversion factors and risk weighting factors, as defined under Basel II rules.
(3) Includes credit to the public, credit to the Government, deposits with banks and borrowed securities.
(4) Excludes balances deducted from the capital base 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 capital base, 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 June 30, 2012
	Up to 1 year	1-5 years	Over 5 years	Without maturity	Total [2]
Loans[3]	43,017	22,771	74,702	98	140,588
Securities [4]	452	4,263	3,843	-	8,558
Derivatives[5]	1,549	611	844	-	3,004
Other off-balance-sheet exposures	43,410	8,584	1,136	-	53,130
Other assets[6]	2,349	-	46	1,612	4,007
Total	**90,777**	**36,229**	**80,571**	**1,710**	**209,287**

					As of December 31, 2011
	Up to 1 year	1-5 years	Over 5 years	Without maturity	Total [2]
Loans[3]	42,013	22,523	71,807	71	136,414
Securities [4]	1,488	4,903	1,266	-	7,657
Derivatives[5]	1,935	1,011	1,423	-	4,369
Other off-balance-sheet exposures	41,128	8,644	1,056	-	50,828
Other assets[6]	1,818	62	48	1,633	3,561
Total	**88,382**	**37,143**	**75,600**	**1,704**	**202,829**

(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.
(4) Excludes balances deducted from the capital base 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 capital base, including cash, investment in shares, fixed assets and investment in investees.

Credit risk - standard approach

Below is composition of credit exposure amounts(1) by exposure group and weighting, before and after credit risk mitigation(2):

Before credit risk mitigation

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

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

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

After credit risk mitigation

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

Before credit risk mitigation

											As of June 30, 2011
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	15,469	2,033	-	-	-	5	-	-	17,507	-	17,507
Public sector entity debt	-	-	-	1,494	-	-	-	-	1,494	-	1,494
Banking corporation debt	-	2,907	-	1,112	-	101	-	-	4,120	1	4,121
Corporate debt	-	108	-	299	-	443	-	-	850	-	850
Securitization	-	-	-	-	-	-	-	8	8	57	65
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	**15,469**	**5,048**	**-**	**2,905**	**-**	**549**	**-**	**8**	**23,979**	**95**	**24,074**
Non-rated exposures:											
Public sector entity debt	-	-	-	24	-	-	-	-	24	-	24
Banking corporation debt	-	98	-	495	-	-	-	-	593	-	593
Corporate debt	-	-	-	-	-	60,469	541	-	61,010	-	61,010
Debt secured by commercial real estate	-	-	-	-	-	1,845	-	-	1,845	-	1,845
Retail exposure to individuals	-	-	-	-	23,156	58	170	-	23,384	-	23,384
Loans to small businesses	-	-	-	-	4,907	12	26	-	4,945	-	4,945
Residential mortgages	-	-	55,456	-	12,062	3,091	171	-	70,780	-	70,780
Other assets	920	-	-	-	-	2,580	52	-	3,552	87	3,639
Total	**920**	**98**	**55,456**	**519**	**40,125**	**68,055**	**960**	**-**	**166,133**	**87**	**166,220**
Total exposure	**16,389**	**5,146**	**55,456**	**3,424**	**40,125**	**68,604**	**960**	**8**	**190,112**	**182**	**190,294**

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

After credit risk mitigation

											As of June 30, 2011
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	15,486	2,053	-	-	-	5	-	-	17,544	-	17,544
Public sector entity debt	48	-	-	1,507	-	-	-	-	1,555	-	1,555
Banking corporation debt	-	2,892	-	1,351	-	100	-	-	4,343	1	4,344
Corporate debt	-	108	-	299	-	45	-	-	452	-	452
Securitization	-	-	-	-	-	-	-	8	8	57	65
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	**15,534**	**5,053**	**-**	**3,157**	**-**	**150**	**-**	**8**	**23,902**	**95**	**23,997**
Non-rated exposures:											
Public sector entity debt	-	-	-	4	-	-	-	-	4	-	4
Banking corporation debt	-	97	-	504	-	-	-	-	601	-	601
Corporate debt	-	-	-	-	-	52,575	527	-	53,102	-	53,102
Debt secured by commercial real estate	-	-	-	-	-	1,553	-	-	1,553	-	1,553
Retail exposure to individuals	-	-	-	-	21,600	26	166	-	21,792	-	21,792
Loans to small businesses	-	-	-	-	3,637	8	22	-	3,667	-	3,667
Residential mortgages	-	-	55,451	-	12,025	3,090	171	-	70,737	-	70,737
Other assets	920	-	-	-	-	2,580	52	-	3,552	87	3,639
Total	**920**	**97**	**55,451**	**508**	**37,262**	**59,832**	**938**	**-**	**155,008**	**87**	**155,095**
Total exposure	**16,454**	**5,150**	**55,451**	**3,665**	**37,262**	**59,982**	**938**	**8**	**178,910**	**182**	**179,092**

Before credit risk mitigation

	As of December 31, 2011										
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	16,255	2,880	-	-	-	345	-	-	19,480	-	19,480
Public sector entity debt	-	-	-	723	-	-	-	-	723	-	723
Banking corporation debt	-	4,112	-	1,188	-	61	-	-	5,361	1	5,362
Corporate debt	-	117	-	295	-	177	-	-	589	-	589
Securitization	-	-	-	-	-	-	-	25	25	36	61
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	**16,255**	**7,109**	**-**	**2,206**	**-**	**583**	**-**	**25**	**26,178**	**74**	**26,252**
Non-rated exposures:											
Public sector entity debt	-	-	-	249	-	-	-	-	249	-	249
Banking corporation debt	-	49	-	537	-	-	-	-	586	-	586
Corporate debt	-	-	-	-	-	64,927	245	-	65,172	-	65,172
Debt secured by commercial real estate	-	-	-	-	-	1,985	-	-	1,985	-	1,985
Retail exposure to individuals	-	-	-	-	24,179	37	157	-	24,373	-	24,373
Loans to small businesses	-	-	-	-	4,989	12	28	-	5,029	-	5,029
Residential mortgages	-	-	56,625	-	12,932	4,281	208	-	74,046	-	74,046
Other assets	926	-	-	-	-	2,600	46	-	3,572	87	3,659
Total	**926**	**49**	**56,625**	**786**	**42,100**	**73,842**	**684**	**-**	**175,012**	**87**	**175,099**
Total exposure	**17,181**	**7,158**	**56,625**	**2,992**	**42,100**	**74,425**	**684**	**25**	**201,190**	**161**	**201,351**

(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 December 31, 2011
	0%	20%	35%	50%	75%	100%	150%	350%	Net credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	16,264	2,893	-	-	-	346	-	-	19,503	-	19,503
Public sector entity debt	-	-	-	718	-	-	-	-	718	-	718
Banking corporation debt	-	4,103	-	1,232	-	59	-	-	5,394	1	5,395
Corporate debt	-	117	-	295	-	-	-	-	412	-	412
Securitization	-	-	-	-	-	-	-	25	25	36	61
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	**16,264**	**7,113**	**-**	**2,245**	**-**	**405**	**-**	**25**	**26,052**	**74**	**26,126**
Non-rated exposures:											
Public sector entity debt	-	-	-	250	-	-	-	-	250	-	250
Banking corporation debt	-	55	-	712	-	-	-	-	767	-	767
Corporate debt	-	-	-	-	-	56,260	220	-	56,480	-	56,480
Debt secured by commercial real estate	-	-	-	-	-	1,823	-	-	1,823	-	1,823
Retail exposure to individuals	-	-	-	-	22,545	13	153	-	22,711	-	22,711
Loans to small businesses	-	-	-	-	3,673	7	25	-	3,705	-	3,705
Residential mortgages	-	-	56,625	-	12,886	4,279	208	-	73,998	-	73,998
Other assets	926	-	-	-	-	2,600	46	-	3,572	87	3,659
Total	**926**	**55**	**56,625**	**962**	**39,104**	**64,982**	**652**	**-**	**163,306**	**87**	**163,393**
Total exposure	**17,190**	**7,168**	**56,625**	**3,207**	**39,104**	**65,387**	**652**	**25**	**189,358**	**161**	**189,519**

Significant exposure to groups of borrowers

Below is credit risk with respect to significant exposure to borrower groups as of June 30, 2012.

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 capital
		With respect to derivatives	Other			
Group 1	1,575	132	763	40	2,431	17.7%

(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 is mostly provided for the 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 sole 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 the Bank's exposure to credit constituting leveraged financing are as follows:

Economic sector of acquired company			Credit risk
	As of June 30		As of December 31
	2012	2011	2011
Commerce	141	142	146
Communications and computer services	241	302	270
Construction and real estate	342	-	354
Financial services	-	95	-
Total	**724**	**539**	**770**

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

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

			As of June 30, 2011
External credit rating	On-balance sheet credit risk [(3)]	Off-balance sheet credit risk [(4)]	Current credit exposure
AAA to AA-	1,830	189	2,019
A+ to A-	544	51	595
BBB+ to BBB-	3	-	3
+BB to B-	-	-	-
Lower than B-	2	6	8
Unrated	39	-	39
Total credit exposure to foreign financial institutions	**2,418**	**246**	**2,664**
Includes: Troubled commercial credit risk, net [(5)]	43	-	43
Provision for credit loss	(17)	-	(17)
Troubled debt balance, net	26	-	26

			As of December 31, 2011
External credit rating	On-balance sheet credit risk [(3)]	Off-balance sheet credit risk [(4)]	Current credit exposure
AAA to AA-	1,929	124	2,053
A+ to A-	859	134	993
BBB+ to BBB-	5	-	5
+BB to B-	2	6	8
Lower than B-	-	-	-
Unrated	7	-	7
Total credit exposure to foreign financial institutions	**2,802**	**264**	**3,066**
Includes: Troubled commercial credit risk, net [(5)]	4	-	4

(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the above. The Bank's exposure is almost entirely to banks and investment banks primarily incorporated in the UK, USA, Germany, Spain 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 Directive no. 313.

(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 excludes 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 the composition of credit exposure with respect to derivative instruments vis-à-vis banks and dealers/brokers (domestic and foreign), see Note 7 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 stipulated in Proper Conduct of Banking Business regulation 313, are included under the Management Review as part of off-balance sheet credit risk, and are excluded from the above table.

In conjunction with its policy regarding management of exposure to foreign financial institutions, the Bank's Board of Directors sets, inter alia, the maximum exposure limit for states and foreign financial institutions, while adjusting the exposure limit to the risk assessment for each state and financial institution. Exposure limits are set based, inter alia, on rating of the various states and financial institutions and on the Bank's assessment of the risk level in a manner which diversifies exposure. The Bank determines the exposure limit for each financial institution based on the most recent rating available for that institution, provided by one of the leading international rating agencies and based on financial information for the institution under review. Exposure limits per institution include maximum exposure amount and maximum time to maturity for different types of activities and transactions. To this end, the existence (or absence) of an offset agreement for derivative operations with the financial institution is also taken into consideration. The policy also determines a hierarchy of authority for approval of specific transactions within the exposure limits.

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

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

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

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

Environmental risk - 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 the periodic assessment of the quality of credit extended. On April 15, 2010, the Bank Board of Directors approved a policy on environmental risk management. The Bank is preparing to implement the policy and to include it in procedures and work processes, based on the agreed schedule.

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 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, 2011.

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 June 30, 2012).

LTV ratio

One of the key parameters used by the Bank in minimizing risk in its housing loan portfolio is the LTV ratio (ratio of loan amount to value of the property pledged as collateral). The average loan-to-value ratio for the Bank's mortgage portfolio as of June 30, 2012 was 58.2%, compared to 58.6% on December 31, 2011 and to 60.1% on December 31, 2010. Out of the total loan portfolio of the Bank, amounting to NIS 75.5 billion, some 83% 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 4.5% 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 5.0 billion is insured by credit insurance - 39.4%.

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 11.5% for loans granted 1-2 years ago, 10% for loans granted 3-12 months ago and 11.3% for loans granted in the second quarter of 2012.

Early in the second quarter of 2012, the Bank started monitoring its mortgage portfolio using advanced Basel models (IRB II). This development is part of the Bank project for development, validation and application of advanced models for various segments of the mortgage portfolio.

Analysis of the mortgage portfolio using the new models is in addition to current analysis conducted by the Bank using "traditional" tools.

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 30.6%. 69% of the Bank's mortgage portfolio was granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is 23.4%). 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 40.6%), and only 9% were granted to borrowers with a repayment ratio over 50% (the average repayment ratio for these borrowers is 62.2%).

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 87% 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 linked to 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.Accordingly, the risk associated with loans bearing interest linked to the prime lending rate is primarily due to loans granted since 2009, assuming that the prime lending rate is expected to rise, reflecting positive real interest in the economy.

The Bank provides clients with the knowledge and expertise of its staff in order for clients to understand the risk involved with a loan bearing interest linked to the prime lending rate and how this risk may be mitigated or avoided. The Bank advises clients to attach an appropriate weighting to this risk, and to act judiciously when deciding the loan composition, inter alia by taking a loan with multiple components having different interest and linkage attributes ("integrated loan").
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. In this low interest environment, the Bank nevertheless took measures to reduce loans provided bearing interest linked to the prime lending rate: from 34.2% of loans granted 1-2 years ago, the Bank reduced the percentage of loans linked to the prime lending rate to 21.5% for loans granted 3-12 months ago and down to 23.2% for loans granted in the second quarter of 2012.

Total loans linked to the prime lending rate granted over the past two years, which constitute the major portion of risk associated with such mortgages, is NIS 9.0 billion, or only 11.9% 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 3.1 billion, or only 4.1% of the Bank's housing loan portfolio.

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

LTV ratio	Repayment as percentage of regular income	Loan age[1] (time elapsed since loan grant)						
		Up to 3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Up to 60%	Up to 35%	1,189	3,402	5,561	9,310	3,760	2,406	**25,628**
	35%-50%	473	1,471	1,940	2,323	889	387	**7,483**
	Over 50%	215	663	898	1,120	429	218	**3,543**
60%-75%	Up to 35%	855	2,458	4,545	7,746	1,607	853	**18,064**
	35%-50%	326	1,075	1,618	1,983	532	213	**5,747**
	Over 50%	120	386	626	828	248	115	**2,323**
Over 75%	Up to 35%	296	759	1,440	3,048	1,435	2,057	**9,035**
	35%-50%	97	239	417	783	475	670	**2,681**
	Over 50%	12	52	122	250	246	296	**978**
Total		**3,583**	**10,505**	**17,167**	**27,391**	**9,621**	**7,215**	**75,482**
Includes:								
Loans granted with original amount over NIS 2 million		165	441	835	1,364	255	53	**3,113**
Percentage of total housing loans		4.6%	4.2%	4.9%	5.0%	2.7%	0.7%	**4.1%**
Loans bearing variable interest:								
Non-linked, at prime lending rate		833	2,256	5,876	13,536	2,642	316	**25,459**
CPI-linked[2]		103	353	3,239	5,908	1,442	1,713	**12,758**
In foreign currency [2]		102	509	1,286	1,940	657	121	**4,615**
Total		**1,038**	**3,118**	**10,401**	**21,384**	**4,741**	**2,150**	**42,832**
Non-linked loans at prime lending rate, as percentage of total housing loans		23.2%	21.5%	34.2%	49.4%	27.5%	4.4%	**33.7%**
CPI-linked loans bearing variable interest as percentage of total housing loans		2.9%	3.4%	18.9%	21.6%	15.0%	23.7%	**16.9%**
Loans with LTV over 75% as percentage of total housing loans		11.3%	10.0%	11.5%	14.9%	22.4%	41.7%	**16.8%**

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

					As of June 30, 2011
		Exposure covered by guarantees[2]		Exposure covered by	
	Gross credit exposure[1]	Amounts de-recognized	Amounts added	qualified financial collateral	Net credit exposure
Sovereign debt	17,507	-	37	-	17,544
Public sector entity debt	1,518	-	48	(7)	1,559
Banking corporation debt	4,713	(16)	283	(36)	4,944
Corporate debt	61,860	(328)	-	(7,978)	53,554
Debt secured by commercial real estate	1,845	(1)	-	(291)	1,553
Retail exposure to individuals	23,384	(3)	-	(1,589)	21,792
Loans to small businesses	4,945	(20)	-	(1,258)	3,667
Residential mortgages	70,780	-	-	(43)	70,737
Securitization	8	-	-	-	8
Other assets	3,552	-	-	-	3,552
Total	**190,112**	**(368)**	**368**	**(11,202)**	**178,910**

(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, 2011
		Exposure covered by guarantees(2)		Exposure covered by qualified financial collateral	
	Gross credit exposure(1)	Amounts de-recognized	Amounts added		Net credit exposure
Sovereign debt	19,480	-	23	-	19,503
Public sector entity debt	972	-	-	(4)	968
Banking corporation debt	5,947	(9)	226	(3)	6,161
Corporate debt	65,684	(218)	-	(8,574)	56,892
Debt secured by commercial real estate	2,062	(2)	-	(237)	1,823
Retail exposure to individuals	24,373	(1)	-	(1,661)	22,711
Loans to small businesses	5,029	(19)	-	(1,305)	3,705
Residential mortgages	74,046	-	-	(48)	73,998
Securitization	25	-	-	-	25
Other assets	3,572	-	-	-	3,572
Total	**201,190**	**(249)**	**249**	**(11,832)**	**189,358**

(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 even operates in credit derivatives in its nostro portfolio. These investments are individually reviewed by the Risk Management Committee, and are submitted for approval by the Asset and Liability Management Committee headed by the President.

Below is the current credit exposure with respect to derivatives:

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

						As of June 30, 2011
Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives[2]	Total
Face value of derivatives after impact of add-on factor	288	1,470	56	1	40	1,855
Positive fair value, gross, of financial derivatives[1]	478	1,449	878	-	-	2,805
Total exposure with respect to derivatives	**766**	**2,919**	**934**	**1**	**40**	**4,660**
Collateral with respect to derivatives (before safety factors)	(13)	(297)	(940)	-	-	(1,250)
Impact of safety factors on collateral	7	131	416	-	-	554
Total current credit exposure after credit risk mitigation	**760**	**2,753**	**410**	**1**	**40**	**3,964**

						As of December 31, 2011
Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives[2]	Total
Face value of derivatives after impact of add-on factor	307	1,297	22	-	49	1,675
Positive fair value, gross, of financial derivatives[1]	1,097	1,075	522	-	-	2,694
Total exposure with respect to derivatives	**1,404**	**2,372**	**544**	**-**	**49**	**4,369**
Collateral with respect to derivatives (before safety factors)	(81)	(496)	(524)	-	-	(1,101)
Impact of safety factors on collateral	59	260	201	-	-	520
Total current credit exposure after credit risk mitigation	**1,382**	**2,136**	**221**	**-**	**49**	**3,788**

(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 7A 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. The Bank has invested in the past in a limited number of complex securitization instruments, such as CDO and CLO, and these comprise the current portfolio.

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

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

			As of June 30, 2011
	Risk weighting	Exposure amount	Capital requirements(1)
BB+ to BB-	350%	8	3
B+ or lower	Deducted from equity	57	57
Total		**65**	**60**

			As of December 31, 2011
	Risk weighting	Exposure amount	Capital requirements(1)
BB+ to BB-	350%	25	8
B+ or lower	Deducted from equity	36	36
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, so that changes in market conditions may lead to changes in the fair value of the different financial instruments. Market risk management is intended to maximize the Bank's profit at the prescribed risk level. Exposure to market risk is managed in accordance with the limitations prescribed by the Board of Directors, within the frameworks of and subject to which, the Bank's Executive Management acts, according to the market conditions at any given time.

The Bank focuses on two major market risk factors:

– Interest risk - the risk of erosion of capital as a result of future interest rate changes. The exposure to interest risk results, inter alia, from a lack of correlation between the period to maturity of the Bank's assets and liabilities.
– 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 (including, as described above, all transactions not included in the negotiable portfolio, including financial derivatives used for hedging the bank portfolio) as a result of future changes in interest rates. The exposure to interest risk results from a lack of correlation between the period to maturity of the Bank's assets and liabilities.

Interest risk in the Bank's 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.

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

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

						June 30, 2011
						Change in fair value
	Israeli currency					Foreign currency
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	293	171	33	(6)	(8)	483
2% decrease	(332)	(316)	(1)	5	5	(639)

						December 31, 2011
						Change in fair value
	Israeli currency					Foreign currency
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	115	(33)	92	(12)	(3)	159
2% decrease	(131)	(85)	(42)	12	1	(245)

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 monthly 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 maximum VaR for the Bank Group (NIS in millions):

	First half of 2012	First half of 2011	All of 2011
At end of period	183	234	223
Maximum value during period	239 (Feb.)	257 (May)	286 (Aug.)
Minimum value during period	144 (April)	212 (March)	212 (March)

Basis risk

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

Below is an analysis of the sensitivity of Bank Group capital to changes in major exchange rates and in the CPI (before tax effect) as of June 30, 2012:

Capital increase (erosion), NIS in millions

	Scenarios				Extreme historical scenario(1)	
	10% increase	5% increase	5% decrease	10% decrease	Maximum increase	Maximum decrease
CPI	782.7	391.4	(391.4)	(782.7)	114.3	(67.3)
Dollar	5.0	4.2	(7.6)	(19.3)	3.4	(2.6)
Pound Sterling	(1.1)	(0.6)	0.6	(0.9)	(0.5)	0.5
Yen	1.6	0.9	(0.1)	(0.4)	0.9	(0.1)
Euro	(3.5)	(1.0)	2.7	11.3	(0.6)	0.9
Swiss Franc	0.5	0.2	(0.2)	(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.

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

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

	Israeli currency		Foreign currency[2]			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
June 30, 2012						
Financial assets[1]	80,582	50,058	15,257	3,702	2,437	152,036
Amounts receivable with respect to financial derivatives[3]	68,715	5,570	52,840	8,939	6,008	142,072
Financial liabilities[1]	(80,323)	(37,469)	(19,232)	(4,936)	(2,659)	(144,619)
Amounts payable with respect to financial derivatives[3]	(70,396)	(10,144)	(48,825)	(7,775)	(5,922)	(143,062)
Total	**(1,422)**	**8,015**	**40**	**(70)**	**(136)**	**6,427**
December 31, 2011						
Financial assets[1]	[5] 79,294	46,950	14,884	3,402	2,358	[5]146,888
Amounts receivable with respect to financial derivatives[3]	[5] 71,695	4,963	44,939	9,745	7,870	[5]139,212
Financial liabilities[1]	(78,478)	(36,180)	(17,770)	(4,490)	(2,504)	(139,422)
Amounts payable with respect to financial derivatives[3]	(70,985)	(10,742)	(41,730)	(8,698)	(7,799)	(139,954)
Total	**1,526**	**4,991**	**323**	**(41)**	**(75)**	**6,724**

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

	Israeli currency		Foreign currency[2]				Change in fair value	
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total	NIS in millions	In %
June 30, 2012								
Change in interest rates:								
Concurrent immediate increase of 1%	(1,134)	7,817	(2)	(85)	(144)	6,452	25	0.4%
Concurrent immediate increase of 0.1%	(1,390)	7,962	34	(72)	(137)	6,397	(30)	(0.5%)
Concurrent immediate decrease of 1%	(1,779)	8,224	94	(41)	(127)	6,371	(56)	(0.9%)
December 31, 2011								
Change in interest rates:								
Concurrent immediate increase of 1%	1,674	4,882	265	(43)	(85)	6,693	(31)	(0.5%)
Concurrent immediate increase of 0.1%	1,544	4,984	316	(42)	(76)	6,726	2	-
Concurrent immediate decrease of 1%	1,352	5,238	380	(37)	(64)	6,869	145	2.2%

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

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

In accordance with Basel I 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. The capital requirement with respect to specific risk 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 component (NIS in millions):

		As of June 30, 2012			As of December 31, 2011	
		Capital requirement			Capital requirement	
Risk component[1]	Specific risk	General risk	Total	Specific risk	General risk	Total
Interest risk[2]	2	53	55	3	40	43
Equity risk	-	-	-	-	-	-
Foreign currency exchange rate risk	-	24	24	-	42	42
Total market risk	**2**	**77**	**79**	**3**	**82**	**85**

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

The Bank has developed an internal model to estimate the liquidity needs and the 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 the Bank of Israel directives.

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 93 million.

	As of June 30, 2012	
	Fair value	Capital requirement[(1)]
Shares	64	6
Venture capital / private equity funds	34	3
Total equity investment in bank portfolio	**98**	**9**

	As of December 31, 2011	
	Fair value	Capital requirement[(1)]
Shares	68	6
Venture capital / private equity funds	35	3
Total equity investment in bank portfolio	**103**	**9**

(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 339 (Risk Management) prescribes, inter alia, that banking corporations must take action to reduce the legal risk resulting from their various operations. Legal risk is defined in this regulation as "the risk of a loss resulting from not having the possibility of legally enforcing an agreement". Proper Conduct of Banking Business Regulation 206 (Measurement and Capital Adequacy - Operating Risk) defines legal risk in conjunction with operating risk to include, inter alia, exposure to fines or penalties arising from supervisory action, as well as from individual arrangements.
The Bank regards legal risk in its wider definition, with regard to the Bank's conduct in its relationships with various stakeholders (clients, suppliers, other third parties etc.) The Chief Legal Counsel has been appointed Manager of Legal Risk. The Bank constantly strives to minimize as much as possible the legal risk associated with its current operations, and acts to disseminate culture leading in practice to mitigation of legal risk in all its different aspects.

The Bank regularly analyzes the legal risk component 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 of different lines of business, while reviewing risk level and exposure. Further, the Bank has created procedures to assist in mitigating legal risk, as reflected in activities of the different Bank units.

The Bank's Legal Division regularly monitors developments in legislation, rulings and other regulatory provisions which could have implications for the day-to-day activities of the Bank's units. As needed, the Bank amends the different contracts used and ensures availability of legal opinions which serve as basis for Bank contracting. The Legal Division is also involved with training courses at branches, at the Bank's Training Center and in authoring professional e-learning kits.

Similar reference is made for Bank branches and affiliates overseas, with assistance from local external attorneys approved by the Bank's Legal Division.

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 Department; the Board of Directors has put in place a Compliance Plan. 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. The Compliance Department 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, and so as 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 various topics, delivers training at the Bank and the Compliance Officer is member of different Bank forums in order to ensure a broad, system-wide view of various compliance aspects.

Prohibition of money laundering

In June 2012, as part of reorganization of the Risk Control Division, a Chief Compliance Officer was appointed in the Risk Control Division, who is also in charge of implementation of the Prohibition of Money Laundering Act, and of the Prohibition of Financing Terrorism Act for the Bank Group, including Bank affiliates overseas. The Compliance Officer, who is also in charge of implementation of the Prohibition of Money Laundering Act, and of the Prohibition of Financing Terrorism Act for the Bank, is no longer part of the Legal Division, and now reports to the Chief Compliance Officer in the Risk Control Division. The Compliance and Prevention of Money Laundering Department implements statutory requirements on this issue. The Department handles subjective reports of unusual activity, which are submitted to the Authority for Prohibition of Money Laundering, as well as implementation of various controls over activity in different accounts, based on their risk profile.

The Bank also emphasized training in this field to different sectors of Bank employees.

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

The Bank applies its policy on this matter, as approved by the Bank Board of Directors in May 2010, and statutory provisions on group basis, with mandated changes, at its subsidiaries and affiliates 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	Intermediate
Inflation risk	Low
Exchange rate risk	Low
Share price risk	Low
Liquidity risk	Intermediate
Operating 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 VaR limit in order to prevent the creation of high market risk. Therefore, it was prescribed that risk with VaR value equal to or higher than the Board of Directors' limitation has strong effect. Risk with VaR value equal to or higher than 70% of the Board of Directors' limitation has intermediate effect and the risk with VaR value below this is considered having a low effect.

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 its outcome, under leadership of the Bank's risk managers, and took into account both qualitative and quantitative aspects, including the Bank's risk profile, outcome of various scenarios at the Bank and the capital planning process.

Significant events in the Bank Group's business

Business Strategy

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

- The target set in the plan is to present, in 2017, an average net operating profit return on equity of 17%, based on the target core capital ratio of 7.5%.
- The Bank Board of Directors instructed the Bank to bring forward implementation of the Supervisor of Banks' directive dated March 28, 2012, whereby the Bank should adopt by December 31, 2014 a target core capital ratio of no less than 9%, to be applied, if possible, as from January 1, 2014. Moreover, the Board of Directors has resolved to instruct the Bank's management to maintain, in as much as possible, appropriate safety margins to this end. The core capital ratio will be calculated based on Basel III directives with adjustments to be specified by the Supervisor of Banks. Consequently, the average equity basis used for Bank operations would be increased, leading to an arithmetic result according to which any given profit would yield a lower return. Accordingly, the target average net operating profit return on equity, adjusted for the regulatory requirement for core capital ratio of 9% or higher, would be 14.5% in 2017. For comparison, this return on equity is equivalent to 17% based on regulatory capital requirements during the term of the current strategic plan.
- During this strategic plan, the dividend distribution policy adopted by the Bank would be maintained, whereby, subject to the Bank’s core capital ratio being no less than the target set by the Board of Directors, the Bank would distribute annually dividends equal to 40% of net operating profit and 80% of profit from extraordinary items.

Forecasts and Assessments with Regard to Bank Group Business

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

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

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

- Maintain the operating efficiency ratio (total expenses to total revenues), and take steps to improve it to less than 55%.
- Reinforce capital management capacity and prepare for issuing complex, innovative capital instruments.
- Reinforcing risk management capacity, by applying advanced risk pricing models (application of these advanced models was not taken into consideration for compliance with objectives of the new strategic plan).

- Foster a service-oriented organizational culture.
- Take further steps to continue organizational growth of the Bank's core operations, at a higher rate than for all of the banking system, similar to the Bank's achievements over the past 8 years.

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

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

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

The Board of Directors would monitor execution of the strategic plan and may amend it, from time to time, as required, including due to changes in the aforementioned factors which may affect the plan.

Options to employees

On April 30, 2012, the Bank Board of Directors resolved, after approval by the Bank Audit Committee, to approve a plan for award of 238,333 options to an officer who was hired by the Bank in March 2012. The option plan is based on the principles of the stock option plan for VPs at the Bank. See Note 12. 2) to the financial statements for details.

Legislation and Supervision of Bank Group Operations

Banking Act (Legislation amendments), 2012

The Act, enacted by the Knesset in March 2012, includes legislative amendments designed to extend supervision of and control over banking corporations, inter alia, by supervision of those holding means of control or who have control over such corporations.

The key change in the legislative amendment stipulates that a shareholder holding 2.5% or more of Bank shares, may nominate 1.75 Board members to the Board Member Election Committee.

The legislative amendment also includes changes to composition of the Board Member Appointment Committee in banking corporations, which is authorized to appoint Board members in certain cases, and, therefore, the stipulation that the Committee shall also include members capable of presenting the needs of the banking corporation to the Committee. Section 36 of the Act, requiring the banking corporation to report ownership of means of control, was also amended so that the reporting requirement would apply to those holding 1% or more of any type of means of control, compared to 2.5% prior to this amendment. In addition to these amendments, the Act includes other amendments to the Banking Ordinance and to the Banking Act (Licensing), 1981 - arising from the Bank of Israel Act, 2010, which replaced the Bank of Israel Act, 1954.

Court Order Execution Act (Amendment 36), 2012

The Act, enacted in January 2012, replaces a previous arrangement with regard to court order execution with regard to evacuation of a leasehold not subject to the Tenant Protection Act. The Act stipulates that a court order execution file may be opened, in order to execute a court order for evacuation of a leasehold, only 15 days after the verdict has been handed down or delivered to the debtor.

Moreover, in lieu of separate warning and evacuation notices, these will be merged into a single notice, requiring only 21 days' wait before the date which the Registrar may specify as the evacuation date.

It was further stipulated that evacuation may be carried out within 14 days from the date specified as the evacuation date, rather than on a single, specific date; the Court Order Execution Service Registrar was also authorized to extend this deadline by 14 days at a time, and the notice of this new date is to be delivered in a less strict manner than required for delivery of the original evacuation notice.

The Act became effective 30 days after its publication date, and the Bank's management believes that its implementation would have no material impact on the Bank's operations.

Increase in VAT rate

On May 15, 2012, the Knesset Finance Committee decided that the VAT rate, which was to decrease to 15.5% as from 2013, would remain unchanged at 16%.

On August 2, 2012, an ordinance that increases the VAT rate to 17% as from September 1, 2012 was published. The tax rates applicable to the Bank in 2012 and 2013 will be 35.53% and 35.90%, respectively

The effect of this change on the financial statements is not material.

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, 2011.

In conjunction with application of Basel II, Pillar 2 (Proper Conduct of Banking Business Regulation 211 - ICAAP Process), all risk types material to Bank operations have been mapped, and ways to manage, measure and mitigate risk have been specified for the various risk factors. ICAAP is a comprehensive process in which senior Bank executives are involved. The Bank has specified its risk appetite for all material risk types to its operations, authored policy documents for new risk types and extended existing policy documents, in conjunction with the ICAAP process. The risk appetite, risk mapping and determination of their materiality are submitted for approval by the Board of Directors' Risk Management Committee and the Board of Directors' plenum, on annual basis.

On April 30, 2012, the Bank submitted to the Bank of Israel its ICAAP document (as of December 31, 2010), 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, received on September 27, 2011 in reference to the previous ICAAP document submitted by the Bank, as of December 31, 2010.

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 the 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 work teams on issues concerning process usability, operation of qualitative assessment processes for review of the Bank's risk management quality, and improvement of the Bank's risk management and capital management policy documents in line with Pillar 2 directives.

Legal Proceedings

For material changes in legal proceedings to which the Bank is party, see Notes 6.D. 2) and 3) to the financial statements.

Motion to impose monetary sanction on the Bank

For details of the Supervisor of Banks' letter dated May 9, 2012, which announces the filing of a motion to impose a monetary sanction on the Bank for an alleged breach of provisions of the Prohibition on Money Laundering Act, 2000 - see Note 6.D.5) to the financial statements.

Monetary sanction imposed on subsidiary

On March 29, 2012, the Bank subsidiary "Etgar Investment Portfolio Management Company of the Mizrahi Tefahot Group Ltd." (hereinafter: "Etgar") received demand for payment of a civil law fine amounting to NIS 335 thousand, pursuant to section 38e of the Arrangement of Engagement in Investment Consultancy, Investment Marketing and Management of Portfolios Act, 1995 (hereinafter: "the Act"), following an audit conducted in 2010 at Etgar, which revealed several cases where client portfolios contained securities with low trading volumes, for which no appropriate disclosure was made on the quarterly financial statements. Furthermore, the aforementioned audit revealed several cases where Etgar received commission rebates from a stock exchange member, without obtaining positive consent of the clients in advance to the exact rate of rebate. Note that the ISA has reduced the original fine amount from NIS 970 thousand to NIS 335 thousand, inter alia due to the fact that these errors were corrected, and clients received management fee credit with respect to the aforementioned securities.

Other Matters

The Independent Auditor has drawn, in their review, attention to Note 6.D.3) to the financial statements with regard to claims filed against the Bank, including claims accompanied by motions for class action status.

Executive Management

On April 1, 2012, Ms. Dina Navot started in her position as Manager, Marketing, Promotion and Business Development Division - replacing Ms. Na'ama Gat, who resigned from the Bank.

On July 16, 2012, Mr. Sammy Keinan announced his retirement from the position of Manager, IT Division, effective as from July 30, 2012.

On July 19, 2012, Mr. Tzvi Agrovich was appointed Manager, IT Division effective from the Supervisior of Banks' approval.

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 2011 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 policies are described in Note 1 to these condensed financial statements and in Note 1 to the financial statements as of December 31, 2011.
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 2011 include details of accounting policies on critical issues for accounting treatment of the following: Provision for credit losses, derivative instruments, securities, liabilities with respect to employee rights, provisions for legal claims, provision for impairment of non-financial assets and deferred taxes. During the reported period there were no changes to the Bank's accounting policies on critical issues, which are listed in the Board of Directors' report on the financial statements as of December 31, 2011.

Fair value

Instruments measured at fair value on a recurring basis in the financial statements are treated and presented based on codification in US accounting standards ASC 815 and ASC 820. According to the Public Reporting Regulations, securities in the available-for-sale portfolio and in the held-for-trade portfolio, as well as derivatives, are presented at fair value on the balance sheet. ASC 820 (FAS 157) defines fair value, and determines a consistent work framework for fair value measurement, by defining valuation techniques and a fair value ranking. The ranking divides instruments measured at fair value into three levels:
Level 1 - fair value measured using prices quoted for identical instruments on an active market accessible by the bank upon the measurement date.
Level 2 - fair value measured using observed data, either direct or indirect, which are not quoted prices as set forth under Level 1. Level 2 data include quoted market data on active markets, or on non active markets, if they exist, or data derived from or based upon such observed market data.
Level 3 - fair value measured by using non-observed data.
The Bank evaluates whether markets on which financial instruments are traded are active, based on the following

parameters: Volume and value of transactions conducted on the market, current bid/ask spread and alignment of prices for similar transactions on the same market.

According to the standard, the non-performance risk should be reflected in estimating the fair value of debt, including derivatives, measured at fair value. The Bank estimates credit risk for derivatives using a model based on indications of credit quality of the counter-party, derived from prices of debt instruments of the counter-party traded on an active market, and from prices of credit derivatives based on the counter-party's credit quality. In the absence of such indications, the Bank calculates the adjustments based on internal ratings. The Bank reviews the materiality of the credit risk component compared to fair value as a whole, in conjunction with the review of instrument classification under fair value ranking levels.

The Bank has specified a validation procedure for fair value of instruments measured at fair value on a recurring basis on the financial statements, for which the Risk Control Division is responsible. The validation process includes review of the process for determining fair value, of the assumptions included in this process and the models used for calculation. The validation process refers to both the pure fair value, calculated at relevant market conditions according to standards, and to the credit risk component included in fair value.

Note 8 to the financial statements includes details of the fair value of instruments measured at fair value on recurring basis on the financial statements, by the 3 ranking levels.

Liabilities for employee rights are calculated according to actuarial models, based on the discount rates prescribed by the Supervisor of Banks. The actuarial models include assumptions related to the mortality tables, disability rates, departure rates and wage hike rates. A change in any of the parameters could lead to a change in the amount of the Bank's liabilities for employee rights. Pursuant to the Supervisor of Banks’ directive, the discount rate used in actuarial calculation for retired employees choosing a pension is 4%. Bank liabilities for employee rights calculated based on an actuarial model as of June 30, 2012 amount to NIS 677 million.

Ahead of publication of financial statements for the second quarter of 2012, the Bank of Israel instructed banks to update the actuarial provisions based on a draft update of mortality tables, issued by the Capital Market Division on July 11, 2012 - reasoning that this draft is the best estimate available to banking corporations. The total impact of the Bank of Israel directive on financial statements for the second quarter of 2012 amounted to NIS 3 million.

Certification process of the financial statements

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

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

Concurrently with preparing the financial statements, and based on the draft financial statements forwarded to them, all executive management members confirm by their signature that they are not aware of any detail which may indicate that data and descriptions in the Board of Directors' Report and financial statements with regard to their areas of responsibility include any false representation or lack of material facts, that they instituted effective controls in order to ensure that any material information in their area of responsibility is brought to their attention, and that any significant fault or material weakness of the internal controls over financial reporting which is likely to impact the Bank's ability to record, process, summarize and report financial information in their areas of responsibility have been brought to the attention of the appropriate parties. For details of names and positions of Bank executives, see the chapter on Bank management in the Board of Directors' report as of December 31, 2011. 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 relevant provisions required. In addition, the Chief Legal Counsel and the Chief Accountant review the provisions required with respect to claims filed against the bank.

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

In order to improve efficiency of supervision and control of disclosure in financial statements, the Bank's Board of Directors has established the Financial Statements Review Committee, a restricted committee with 6 Board members, which is tasked with discussion and deliberation of proper disclosure in financial statements and with review of the financial statements in their entirety before they are submitted for discussion and approval by the Board of Directors' plenum.

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

Meetings of the Financial Statements Review Committee are also attended by 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 Financial Statements Review Committee receives a report on any significant fault discovered in the disclosure processes or in internal controls over financial statements. Any such faults as well as any findings by the independent auditors are also presented to the Board's Audit Committee. These discussions are also attended by the Internal Auditor and the independent auditors. Any report of significant faults is also presented to the Board of Directors.

The Financial Statements Review 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 Board's Financial Statements Review Committee, its recommendations along with the draft financial statements are submitted to the Board of Directors, so that Board members receive the documents at least three days prior to 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 their analysis. The Chairman of the Financial Statements Review Committee brings the Financial Statements Review Committee's recommendations on matters discussed there to the Board of Directors for approval of the financial statements. The Board of Directors' meeting to discuss approval of the financial statements is attended, other than by members of the Board, by the President, Chief Accountant, Chief Legal Counsel, Chief Internal Auditor and independent auditors, as well as other participants invited to attend on per-case basis. The independent auditors present their comments.

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

Board of Directors

During the first half of 2012, the Bank Board of Directors held 7 plenary meetings and 47 Board committee meetings.

On February 27, 2012, Ms. Sabina Biran was appointed external Board member of the Bank, as this term is defined in Proper Conduct of Banking Business Regulation no. 301, and member of the Audit Committee and of the Credit Committee. In addition, Mr. Yoav Nahshon was appointed Board member of the Bank.

the Board of Directors, at its meeting on March 25, 2012, resolved that Ms. Sabina Biran would conclude her term in office as member of the Audit Committee and of the Credit Committee, and would be appointed member of the Claims against the Bank Committee, Risk Management Committee, Payroll and Remuneration Committee and the Financial

Statements Review Committee. In addition, Mr. Yoav Nachshon was appointed member of the Credit Committee and of the Claims against the Bank Committee. At the same meeting. Mr. Yossi Shachak was appointed member of the Credit Committee, while Messrs. Avi Ziegelman, Jonathan Kaplan and Ron Gazit were appointed members of the Risk Management Committee. Mr. Ron Gazit concluded his term member of the Credit Committee. Mr. Abraham (Beigah) Shochat concluded his term as member of the Financial Statements Review Committee. Messrs. Mordechai Meir, Dov Mishor and Yosef Shachak concluded their terms as members of the Risk Management 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, 2011.

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

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

During the quarter ended June 30, 2012, 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.

Jacob Perry	**Eliezer Yones**
Chairman of the Board of Directors	President

Ramat Gan, August 15, 2012

Management Review of Group Business and Operating Results

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

Reported amounts (NIS in millions)

	For the three months ended June 30, 2012				For the three months ended June 30, 2011			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance[2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance[2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives
				in %				in %
Israeli currency - non-linked								
Assets [3]	77,618	990	5.20		74,108	882	4.85	
Effect of embedded and ALM derivatives [4]	54,648	267			62,344	485		
Total assets	**132,266**	**1,257**		**3.86**	**136,452**	**1,367**		**4.07**
Liabilities [3]	74,338	(484)	(2.63)		68,544	(392)	(2.31)	
Effect of embedded and ALM derivatives [4]	56,185	(353)			62,855	(409)		
Total liabilities	**130,523**	**(837)**		**(2.59)**	**131,399**	**(801)**		**(2.46)**
Interest margin			**2.57**	**1.27**			**2.54**	**1.61**
Israeli currency - linked to the CPI								
Assets [3]	44,218	871	8.12		43,755	904	8.52	
Effect of embedded and ALM derivatives [4]	4,968	1			5,154	95		
Total assets	**49,186**	**872**		**7.28**	**48,909**	**999**		**8.42**
Liabilities [3]	32,586	(604)	(7.62)		35,080	(695)	(8.16)	
Effect of embedded and ALM derivatives [4]	8,835	(89)			12,722	(211)		
Total liabilities	**41,421**	**(693)**		**(6.86)**	**47,802**	**(906)**		**(7.80)**
Interest margin			**0.49**	**0.42**			**0.36**	**0.62**

See remarks below.

Management Review - Addendum A

Revenue and Expense Rates – Consolidated[1] - Continued

Reported amounts (NIS in millions)

	For the three months ended June 30, 2012				For the three months ended June 30, 2011			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance[2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance[2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives
				in %				in %
Foreign currency [5]								
Assets [3]	21,217	1,019	6,420		17,946	(70)	(1.55)	
Effect of derivatives [4]								
Hedging derivatives	2,344	(8)			2,356	(22)		
Embedded and ALM derivatives	51,891	3,320			52,909	[9] (75)		
Total assets	**75,452**	**4,331**		**25.01**	**73,211**	**(167)**		**(0.91)**
Liabilities [3]	26,677	(1,142)	(18.25)		23,324	200	3.39	
Effect of derivatives [4]								
Hedging derivatives	2,344	(86)			2,356	17		
Embedded and ALM derivatives	48,677	(3,056)			45,262	120		
Total liabilities	**77,698**	**(4,284)**		**(23.95)**	**70,942**	**337**		**1.89**
Interest margin			**2.39**	**1.07**			**1.84**	**0.98**

See remarks below.

Management Review - Addendum A

Revenue and Expense Rates – Consolidated(1) - Continued

Reported amounts (NIS in millions)

	For the three months ended June 30, 2012				For the three months ended June 30, 2011			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance(2)	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance (2)	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives
				in %				in %
Total								
Monetary assets generating financing profit (3)	143,053	2,880	8.30		135,809	1,716	5.15	
Effect of derivatives (4)								
Hedging derivatives	2,344	(8)			2,356	(22)		
Embedded and ALM derivatives	111,507	3,588			120,407	505		
Total assets	**256,904**	**6,460**		**10.44**	**258,572**	**2,199**		**3.45**
Monetary liabilities generating financing expenses (3)	133,601	(2,230)	(6.85)		126,948	(887)	(2.82)	
Effect of derivatives (4)								
Hedging derivatives	2,344	(86)			2,356	17		
Embedded and ALM derivatives	113,697	(3,498)			120,839	(500)		
Total liabilities	**249,642**	**(5,814)**		**(9.65)**	**250,143**	**(1,370)**		**(2.21)**
Interest margin			**1.45**	**0.79**			**2.33**	**1.24**
On options		81				(120)		
On other derivative instruments (excludes options, hedging and ALM derivatives and embedded derivatives that were detached) (5)		18				(4)		
Commissions from financing transactions and other financing revenues(6)		142				100		
Other financing expenses		(4)				(10)		
Profit from financing operations before expenses with respect to credit loss		883				795		
Expenses with respect to credit loss		(45)				(80)		
Profit from financing operations after expenses with respect to credit loss		838				715		

See remarks below.

Management Review - Addendum A

Revenue and Expense Rates – Consolidated[1] - Continued

Reported amounts (NIS in millions)

	For the three months ended June 30, 2012	For the three months ended June 30, 2011
	Average balance [2]	Average balance [2]
Total		
Monetary assets generating financing revenues [3]	143,053	135,809
Assets derived from derivative instruments [7]	4,342	[8] 2,832
Other monetary assets [3]	661	[8] 1,338
Provision for credit loss on Group basis	(1,682)	(2,394)
Total monetary assets	**146,374**	**137,585**
Total		
Monetary liabilities generating financing expenses [3]	133,601	126,948
Liabilities deriving from derivatives [7]	4,590	2,429
Other monetary liabilities[3]	1,215	2,027
Total monetary liabilities	**139,406**	**131,404**
Total excess monetary assets over monetary liabilities	6,968	6,181
Non-monetary assets	1,898	1,488
Non-monetary liabilities	296	313
Total capital resources	**8,570**	**7,356**

(1) The data in this table is provided before and after effect of derivatives (including off-balance sheet effects of financial derivatives).
(2) Based on monthly opening balances, except for non-linked Israeli currency, where average balance is calculated based on daily data net of average balance sheet balance of specific provisions for doubtful debts
(3) Excludes financial derivatives.
(4) Hedging financial derivatives, embedded derivatives that were detached and derivatives (ALM) which comprise part of the Bank's asset and liability management system.
(5) Includes Israeli currency linked to foreign currency.
(6) Includes gain from sale of investments in debentures and from adjustments to fair value of debentures held for trading.
(7) Average balance sheet balances of financial derivatives (excludes average off-balance sheet balances of financial derivatives).
(8) Reclassified.

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

Nominal – in USD (USD in millions)

	For the three months ended June 30, 2012				For the three months ended June 30, 2011			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance[2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance [2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives
				in %				in %
Foreign currency [5]								
Financial assets in foreign currency generating financing revenues[3]	5,131	38	3.00		5,088	32	2.54	
Effect of derivatives [4]								
Hedging derivatives	1,342	35			683	4		
Embedded and ALM derivatives	13,570	194			15,368	40		
Total assets	**20,043**	**267**		**5.44**	**21,139**	**76**		**1.45**
Monetary liabilities in foreign currency generating financing expenses[3]	7,287	(26)	(1.43)		6,818	(13)	(0.76)	
Effect of derivatives [4]								
Hedging derivatives	1,342	(42)			683	(6)		
Embedded and ALM derivatives	12,733	(182)			13,172	(34)		
Total liabilities	**21,362**	**(250)**		**(4.76)**	**20,673**	**(53)**		**(1.03)**
Interest margin			**1.57**	**0.68**			**1.78**	**0.42**

(1) The data in this table is provided before and after effect of derivatives (including off-balance sheet effects of financial derivatives).
(2) Based on monthly opening balances and excluding the average balance sheet balance of specific provisions for doubtful debts.
(3) Excludes financial derivatives.
(4) Hedging financial derivatives, embedded derivatives that were detached and derivatives (ALM) which comprise part of the Bank's asset and liability management system.
(5) Includes Israeli currency linked to foreign currency.

Management Review - Addendum A

Revenue and Expense Rates – Consolidated[1] - Continued

Reported amounts (NIS in millions)

	For the six months ended June 30, 2012				For the six months ended June 30, 2011			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance[2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance[2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives
				in %				in %
Israeli currency - non-linked								
Assets [3]	78,190	1,878	4.86		71,543	1,577	4.46	
Effect of embedded and ALM derivatives [4]	60,883	534			67,827	900		
Total assets	**139,073**	**2,412**		**3.50**	**139,370**	**2,477**		**3.59**
Liabilities [3]	75,686	(886)	(2.35)		67,638	(669)	(1.99)	
Effect of embedded and ALM derivatives [4]	61,076	(656)			66,987	(681)		
Total liabilities	**136,762**	**(1,542)**		**(2.27)**	**134,625**	**(1,350)**		**(2.02)**
Interest margin			**2.51**	**1.23**			**2.47**	**1.57**
Israeli currency - linked to the CPI								
Assets [3]	45,570	1,288	5.73		43,605	1,647	7.70	
Effect of embedded and ALM derivatives [4]	5,004	2			4,310	132		
Total assets	**50,574**	**1,290**		**5.17**	**47,915**	**1,779**		**7.57**
Liabilities [3]	32,841	(873)	(5.39)		34,408	(1,248)	(7.39)	
Effect of embedded and ALM derivatives [4]	9,421	(127)			11,119	(322)		
Total liabilities	**42,262**	**(1,000)**		**(4.79)**	**45,527**	**(1,570)**		**(7.02)**
Interest margin			**0.34**	**0.38**			**0.31**	**0.55**

See remarks below.

Management Review - Addendum A

Revenue and Expense Rates – Consolidated[1] - Continued

Reported amounts (NIS in millions)

	For the six months ended June 30, 2012				For the six months ended June 30, 2011			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance[2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance[2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives
				in %				in %
Foreign currency [5]								
Assets [3]	21,165	773	7.44		18,775	(14)	(0.15)	
Effect of derivatives [4]								
Hedging derivatives	2,548	(5)			2,397	5		
Embedded and ALM derivatives	52,805	2,395			53,275	(28)		
Total assets	**76,518**	**3,163**		**8.44**	**74,447**	**(37)**		**(0.10)**
Liabilities [3]	26,460	(727)	(5.57)		23,094	201	1.73	
Effect of derivatives [4]								
Hedging derivatives	2,548	(87)			2,397	(14)		
Embedded and ALM derivatives	48,642	(2,177)			47,520	53		
Total liabilities	**77,650**	**(2,991)**		**(7.85)**	**73,011**	**240**		**0.66**
Interest margin			**1.87**	**0.59**			**1.58**	**0.56**

See remarks below.

Management Review - Addendum A

Revenue and Expense Rates – Consolidated[1] - Continued

Reported amounts (NIS in millions)

	For the six months ended June 30, 2012				For the six months ended June 30, 2011			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance[2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance [2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives
				in %				in %
Total								
Monetary assets generating financing profit [3]	144,925	3,939	5.51		133,923	3,210	4.85	
Effect of derivatives [4]								
Hedging derivatives	2,548	(5)			2,397	5		
Embedded and ALM derivatives	118,692	2,931			125,412	1,004		
Total assets	**266,165**	**6,865**		**5.21**	**261,732**	**4,219**		**3.25**
Monetary liabilities generating financing expenses [3]	134,987	(2,486)	(3.72)		125,140	(1,716)	(2.76)	
Effect of derivatives [4]								
Hedging derivatives	2,548	(87)			2,397	(14)		
Embedded and ALM derivatives	119,139	(2,960)			125,626	(950)		
Total liabilities	**256,674**	**(5,533)**		**(4.36)**	**253,163**	**(2,680)**		**(2.13)**
Interest margin			**1.77**	**0.85**			**2.09**	**1.12**
On options		88				(191)		
On other derivative instruments (excludes options, hedging and ALM derivatives and embedded derivatives that were detached) [5]		27				25		
Commissions from financing transactions and other financing revenues[6]		266				192		
Other financing expenses		(10)				(18)		
Profit from financing operations before expenses with respect to credit loss		1,703				1,547		
Expenses with respect to credit loss		(112)				(134)		
Profit from financing operations after expenses with respect to credit loss		1,591				1,413		

See remarks below.

Management Review - Addendum A

Revenue and Expense Rates – Consolidated[1] - Continued

Reported amounts (NIS in millions)

	For the six months ended June 30, 2012	For the six months ended June 30, 2011
	Average balance [2]	Average balance [2]
Total		
Monetary assets generating financing revenues [3]	144,925	133,923
Assets derived from derivative instruments [7]	3,386	[8]2,740
Other monetary assets [3]	710	[8]1,273
Provision for credit loss on Group basis	(1,675)	(2,378)
Total monetary assets	**147,346**	**135,558**
Total		
Monetary liabilities generating financing expenses [3]	134,987	125,140
Liabilities deriving from derivatives [7]	3,906	2,301
Other monetary liabilities[3]	1,479	1,912
Total monetary liabilities	**140,372**	**129,353**
Total excess monetary assets over monetary liabilities	6,974	6,205
Non-monetary assets	1,697	1,467
Non-monetary liabilities	281	316
Total capital resources	**8,390**	**7,356**

(1) The data in this table is provided before and after effect of derivatives (including off-balance sheet effects of financial derivatives).
(2) Based on monthly opening balances, except for non-linked Israeli currency, where average balance is calculated based on daily data net of average balance sheet balance of specific provisions for doubtful debts
(3) Excludes financial derivatives.
(4) Hedging financial derivatives, embedded derivatives that were detached and derivatives (ALM) which comprise part of the Bank's asset and liability management system.
(5) Includes Israeli currency linked to foreign currency.
(6) Includes gain from sale of investments in debentures and from adjustments to fair value of debentures held for trading.
(7) Average balance sheet balances of financial derivatives (excludes average off-balance sheet balances of financial derivatives).
(8) Reclassified.

Management Review - Addendum A
Revenue and Expense Rates – Consolidated(1) - Continued

Nominal – in USD (USD in millions)

	For the six months ended June 30, 2012				For the six months ended June 30, 2011			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance(2)	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance (2)	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives
				in %				in %
Foreign currency (5)								
Monetary assets in foreign currency generating financing revenues (3)	5,622	87	3.12		5,138	64	12.5	
Effect of derivatives (4)								
Hedging derivatives	671	35			680	9		
Embedded and ALM derivatives	13,906	241			15,127	65		
Total assets	**20,199**	**363**		**3.63**	**20,945**	**138**		**1.32**
Monetary liabilities in foreign currency generating financing expenses (3)	7,201	(52)	(1.45)		6,543	(23)	(0.70)	
Effect of derivatives (4)								
Hedging derivatives	671	(42)			680	(11)		
Embedded and ALM derivatives	12,809	(215)			13,493	(53)		
Total liabilities	**20,681**	**(309)**		**(3.01)**	**20,716**	**(87)**		**(0.84)**
Interest margin			**1.67**	**0.62**			**1.81**	**0.48**

(1) The data in this table is provided before and after effect of derivatives (including off-balance sheet effects of financial derivatives).
(2) Based on monthly opening balances and excluding the average balance sheet balance of specific provisions for doubtful debts.
(3) Excludes financial derivatives.
(4) Hedging financial derivatives, embedded derivatives that were detached and derivatives (ALM) which comprise part of the Bank's asset and liability management system.
(5) Includes Israeli currency linked to foreign currency.

Management Review - Addendum B
Exposure of the Bank and its Subsidiaries
To changes in interest rates

Reported amounts (NIS in millions)

	June 30, 2012					
	On Call to 1 month	1-3 months	3 months to 1 year	1-3 years	3-5 years	5-10 years
Israeli currency - non-linked						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets(1)	69,465	3,163	2,590	2,325	1,346	1,174
Financial derivatives (except for options)	13,900	19,343	17,765	6,631	2,074	5,098
Options (in terms of underlying asset)	588	1,548	1,720	48	-	-
Total fair value	**83,953**	**24,054**	**22,075**	**9,004**	**3,420**	**6,272**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities(1)	58,352	4,649	8,186	5,635	2,898	448
Financial derivatives (except for options)	19,100	19,676	11,184	5,378	2,620	6,149
Options (in terms of underlying asset)	492	2,952	2,544	62	-	-
Total fair value	**77,944**	**27,277**	**21,914**	**11,075**	**5,518**	**6,597**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	6,009	(3,223)	161	(2,071)	(2,098)	(325)
Cumulative exposure in sector	6,009	2,786	2,947	876	(1,222)	(1,547)

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 note:

- 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 8a 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 8a 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 dates, are non-material in amount.

						As of June 30, 2011			As of December 31, 2011		
10-20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective term to maturity (2)	Total fair value	Internal rate of return	Average effective term to maturity (2)	Total fair value	Internal rate of return	Average effective term to maturity (2)
				In %	in years		In %				
175	-	344	80,582	4.18	0.34	74,287	4.65	0.37	79,376	4.37	0.46
-	-	-	64,811		1.20	69,359		1.08	67,346		1.10
-	-	-	3,904		0.13	(728)		0.18	4,267		0.68
175	**-**	**344**	**149,297**		**0.71**	**142,918**		**0.72**	**150,989**		**0.75**
198	(43)	-	80,323	2.47	0.45	71,688	3.80	0.36	78,478	2.75	0.41
239	-	-	64,346		1.58	67,398		1.37	65,125		1.42
-	-	-	6,050		0.11	1,218		0.49	5,860		0.56
437	**(43)**	**-**	**150,719**		**0.92**	**140,304**		**0.85**	**149,463**		**0.86**
(262)	43	344	(1,422)			2,614			1,526		
(1,809)	(1,766)	(1,422)	(1,422)			2,614					

Management Review - Addendum B (continued)
Exposure of the Bank and its Subsidiaries
To changes in interest rates

Reported amounts (NIS in millions)

As of June 30, 2012

	On Call to 1 month	1-3 months	3 months to 1 year	1-3 years	3-5 years	5-10 years
Israeli currency - linked to the CPI						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets(1)	883	2,499	11,320	15,111	12,810	5,605
Financial derivatives (except for options)	467	214	984	1,684	466	1,755
Total fair value	**1,350**	**2,713**	**12,304**	**16,795**	**13,276**	**7,360**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities(1)	934	1,914	6,429	10,195	8,644	7,213
Financial derivatives (except for options)	336	942	3,813	3,080	527	1,446
Total fair value	**1,270**	**2,856**	**10,242**	**13,275**	**9,171**	**8,659**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	80	(143)	2,062	3,520	4,105	(1,299)
Cumulative exposure in sector	80	(63)	1,999	5,519	9,624	8,325

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 note:
- 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 8a 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 8a 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 dates, are non-material in amount.

								As of June 30, 2011				As of December 31, 2011
10-20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective term to maturity (2)	Tota l fair value	Internal rate of return	Average effective term to maturity (2)	Total fair value	Internal rate of return	Average effective term to maturity (2)
				In %	in years		In %	in years		In %	in years
1,573	9	248	50,058	2.79	3.10	44,290	3.23	3.14	46,950	3.10	3.11
-	-	-	5,570		3.62	4,535		4.54	4,963		4.17
1,573	**9**	**248**	**55,628**		**3.15**	**48,825**		**3.27**	**51,913**		**3.21**
1,795	343	2	37,469	2.22	4.24	35,186	2.84	4.34	36,180	2.44	4.19
-	-	-	10,144		1.64	9,808		1.58	10,742		1.63
1,795	**343**	**2**	**47,613**		**3.69**	**44,993**		**3.74**	**46,922**		**3.60**
(222)	(334)	246	8,015			3,831			4,991		
8,103	7,769	8,015	8,015			3,831					

Management Review - Addendum B (continued)
Exposure of the Bank and its Subsidiaries
To changes in interest rates

Reported amounts (NIS in millions)

As of June 30, 2012

	On Call to 1 month	1-3 months	3 months to 1 year	1-3 years	3-5 years	5-10 years
Foreign currency[1]						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets [2]	9,836	5,980	2,141	739	1,202	1,258
Financial derivatives (except for options)	26,297	16,617	9,942	1,881	1,290	4,795
Options (in terms of underlying asset)	796	3,030	2,672	133	-	-
Total fair value	**36,929**	**25,627**	**14,755**	**2,753**	**2,492**	**6,053**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities[2]	14,367	6,975	5,060	240	58	95
Financial derivatives (except for options)	17,506	14,539	15,021	2,249	2,416	5,908
Options (in terms of underlying asset)	750	1,664	1,840	115	-	-
Total fair value	**32,623**	**23,178**	**21,921**	**2,604**	**2,474**	**6,003**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	4,306	2,449	(7,166)	149	18	50
Cumulative exposure in sector	4,306	6,755	(411)	(262)	(244)	(194)

Specific remarks:

(1) Includes Israeli currency linked to foreign currency.

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

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

General note:

- 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 8a 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 8a 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 dates, are non-material in amount.

							As of June 30, 2011			As of December 31, 2011		
	10-20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective term to maturity (3)	Total fair value	Internal rate of return	Average effective term to maturity (3)	Total fair value	Internal rate of return	Average effective term to maturity (3)
					In %	in years		In %	in years		In %	in years
	38	12	190	21,396	2.40	1.12	17,250	2.69	1.19	20,644	3.20	0.71
	334	-	-	61,156		1.73	58,729		1.35	55,682		1.68
	-	-	-	6,631		0.57	1,360		0.24	6,872		0.72
	372	**12**	**190**	**89,183**		**1.50**	**77,339**		**1.29**	**83,198**		**1.36**
	14	-	18	26,827	0.59	0.27	23,206	1.69	0.29	24,764	1.67	0.22
	514	-	-	58,153		1.47	54,808		1.45	53,368		1.39
	-	-	-	4,369		0.60	(637)		0.32	4,859		0.88
	528	**-**	**18**	**89,349**		**1.07**	**77,377**		**1.11**	**82,991**		**1.01**
	(156)	12	172	(166)			(38)			207		
	(350)	(338)	(166)	(166)			(38)					

Management Review - Addendum B (continued)
Exposure of the Bank and its Subsidiaries
To changes in interest rates

Reported amounts (NIS in millions)

As of June 30, 2012

	On Call to 1 month	1-3 months	3 months to 1 year	1-3 years	3-5 years	5-10 years
Non monetary segment						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Options (in terms of underlying asset)	6	(5)	(1)	(1)	-	-
Total fair value	**6**	**(5)**	**(1)**	**(1)**	**-**	**-**
Total exposure to interest rate fluctuations						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets (1)(2)	80,184	11,642	16,051	18,175	15,358	8,037
Financial derivatives (except for options)	40,664	36,174	28,691	10,196	3,830	11,648
Options (in terms of underlying asset)	1,384	4,578	4,392	181	-	-
Total fair value	**122,232**	**52,394**	**49,134**	**28,552**	**19,188**	**19,685**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities(1)	73,653	13,538	19,675	16,070	11,600	7,756
Financial derivatives (except for options)	36,942	35,157	30,018	10,707	5,563	13,503
Options (in terms of underlying asset)	1,236	4,621	4,385	178	-	-
Total fair value	**111,831**	**53,316**	**54,078**	**26,955**	**17,163**	**21,259**
Financial instruments, net						
Total exposure to interest rate fluctuations	10,401	(922)	(4,944)	1,597	2,025	(1,574)
Total cumulative exposure	10,401	9,479	4,535	6,132	8,157	6,583

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 note:

- 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 8a 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 8a 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 dates, are non-material in amount.

							As of June 30, 2011			As of December 31, 2011		
	10-20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective term to maturity (3)	Total fair value	Internal rate of return	Average effective term to maturity (3)	Total fair value	Internal rate of return	Average effective term to maturity (3)
					In %	in years		In %	in years		In %	in years
	-	-	-	(1)	-		(10)			(25)	-	-
	-	**-**	**-**	**(1)**	**-**	**-**	**(10)**			**(25)**	**-**	**-**
	1,786	21	782	152,036	3.47	1.36	135,827	3.94	1.38	146,970	3.80	1.34
	334	-	-	131,537		1.55	132,623		1.32	127,991		1.47
	-	-	-	10,535		0.41	622		0.30	11,114		0.70
	2,120	**21**	**782**	**294,108**		**1.41**	**269,072**		**1.35**	**286,075**		**1.38**
	2,007	300	20	144,619	2.06	1.40	130,080	3.16	1.42	139,422	2.48	1.35
	753	-	-	132,643		1.54	132,014		1.42	129,235		1.43
	-	-	-	10,420		0.32	581		0.68	10,719		0.70
	2,760	**300**	**20**	**287,682**		**1.43**	**262,675**		**1.42**	**279,376**		**1.36**
	(640)	(279)	762	6,426			6,397			6,699		
	5,943	5,664	6,426	6,426			6,397					

Management Review - Addendum C
Credit Risk by Economic Sector - Consolidated
As of June 30, 2012

Reported amounts (NIS in millions)

	Credit risk to the public						
	Balance sheet credit risk				Off-balance sheet credit risk [1]		
	Credit	Debentures [6]	Fair value of derivatives	Total	Guarantees and other commitments on account of clients	Future transactions	Total
Agriculture	567	-	1	568	225	3	228
Industry	6,501	89	139	6,729	4,226	322	4,548
Construction and real estate [7]	8,489	36	6	8,531	13,887	11	13,898
Electricity and water	487	68	69	624	665	562	1,227
Commerce	7,171	-	32	7,203	1,884	57	1,941
Hotel and food services	305	-	2	307	103	4	107
Transport and storage	888	-	4	892	436	7	443
Communications and computer services	1,493	3	9	1,505	729	22	751
Financial services	4,865	-	931	5,796	8,136	1,053	9,189
Other business services	3,563	-	10	3,573	1,081	7	1,088
Public and community services	914	-	2	916	362	309	671
Private individuals - housing loans	74,662	-	-	74,662	3,934	-	3,934
Private individuals - other	12,600	-	4	12,604	9,604	8	9,612
Total	**122,505**	**196**	**1,209**	**123,910**	**45,272**	**2,365**	**47,637**
For borrowers' activities overseas	2,555	45	6	2,606	385	3	388
Total credit risk to public	**125,060**	**241**	**1,215**	**126,516**	**45,657**	**2,368**	**48,025**
Credit risk exposures other than with respect to the public:							
Banking Corporations	3,469	582	342	4,393	267	1,636	1,903
Governments	11,896	8,606	-	20,502	148	-	148
Total credit risk	**140,425**	**9,429**	**1,557**	**151,411**	**46,072**	**4,004**	**50,076**
Credit risk to public included under various economic sectors:							
Settlement movements [4]	1,098	-	17	1,115	484	16	500
Local authorities [5]	182	-	-	182	23	-	23

(1) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits. Data is in accordance with definition of indebtedness in Regulation 313, as amended in 2011. Comparative figures are presented in accordance with Regulation 313 prior to the amendment.
(2) On- and off-balance sheet credit risk with respect to the public 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) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).
(4) Kibbutzim and Moshavim, regional and national organizations, and corporations controlled by the settlement movements.
(5) Includes corporations under their control.
(6) Includes borrowed securities amounting to NIS 131 million.
(7) Includes housing loans extended to certain purchase groups which are in the process of construction, amounting to NIS 2,757 million (1,392 on-balance sheet risk, 1,365 off-balance sheet risk).

Credit risk to the public					Credit loss [3]
Credit risk to the public includes:					
Total credit risk of the public	Troubled credit risk [2]	Impaired loans to the public	Expenses with respect to credit loss for the six months ended June 30, 2012	Net accounting write-off	Balance of provision for credit loss
796	14	10	(1)	1	9
11,277	214	226	13	38	102
22,429	823	293	1	28	139
1,851	1	-	-	-	1
9,144	277	95	6	10	131
414	9	4	-	1	7
1,335	10	5	1	-	6
2,256	9	8	(4)	-	15
14,985	464	280	33	(25)	191
4,661	527	505	29	-	114
1,587	33	20	-	-	8
78,596	1,663	-	4	30	841
22,216	191	40	22	28	170
171,547	**4,235**	**1,486**	**104**	**111**	**1,734**
2,994	16	16	-	-	11
174,541	**4,251**	**1,502**	**104**	**111**	**1,745**
6,296	5	5	8	-	22
20,650	-	-	-	-	-
201,487	**4,256**	**1,507**	**112**	**111**	**1,767**
1,615	1,088	949	-	-	16
205	-	-	-	-	-

Management Review - Addendum C (continued)
Credit Risk by Economic Sector - Consolidated
As of June 30, 2011

Reported amounts (NIS in millions)

	Credit risk to the public						
	Balance sheet credit risk				Off-balance sheet credit risk (1)		
	Credit (8)	Debentures (6)	Fair value of derivatives	Total	Guarantees and other commitments on account of clients	Future transactions	Total
Agriculture	612	-	-	612	202	4	206
Industry	5,765	55	40	5,860	4,390	440	4,830
Construction and real estate (7)	7,273	43	2	7,318	13,279	18	13,297
Electricity and water	308	4	167	479	1,021	262	1,283
Commerce	5,585	-	20	5,605	2,507	172	2,679
Hotel and food services	259	1	-	260	100	-	100
Transport and storage	886	-	17	903	509	101	610
Communications and computer services	1,453	13	18	1,484	301	80	381
Financial services	6,266	21	697	6,984	7,678	2,580	10,258
Other business services	3,238	-	2	3,240	769	83	852
Public and community services	885	-	27	912	261	112	373
Private individuals - housing loans	67,155	-	-	67,155	4,203	-	4,203
Private individuals - other	11,976	-	16	11,992	8,997	37	9,034
Total	**111,661**	**137**	**1,006**	**112,804**	**44,217**	**3,889**	**48,106**
For borrowers' activities overseas	2,484	-	6	2,490	301	51	352
Total credit risk to public	**114,145**	**137**	**1,012**	**115,294**	**44,518**	**3,940**	**48,458**
Credit risk exposures other than with respect to the public:							
Banking Corporations	2,087	698	1,806	4,591	183	10,966	11,149
Governments	13,187	4,548	-	17,735	169	-	169
Total credit risk	**129,419**	**5,383**	**2,818**	**137,620**	**44,870**	**14,906**	**59,776**
Credit risk to public included under various economic sectors:							
Settlement movements (4)	1,164	-	1	1,165	481	16	497
Local authorities (5)	182	-	-	182	47	-	47

(1) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits.
(2) On- and off-balance sheet credit risk with respect to the public 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) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).
(4) Kibbutzim and Moshavim, regional and national organizations, and corporations controlled by the settlement movements.
(5) Includes corporations under their control.
(6) Includes borrowed securities amounting to NIS 99 million.
(7) Including housing loans extended to certain purchase groups which are in the process of construction, amounting to NIS 2,416 million. (1,013 - on-balance sheet credit risk and 1,403 - off-balance sheet credit risk)
(8) Reclassitied

Credit risk to the public			Credit loss [3]		
	Credit risk to the public includes:				
Total credit risk of the public	Troubled credit risk [2] [8]	Impaired loans to the public [8]	Expenses with respect to credit loss for the six months ended June 30, 2011	Net accounting write-off	Balance of provision for credit loss [8]
818	6	5	2	(1)	4
10,690	185	128	(9)	(5)	51
20,615	774	223	19	204	26
1,762	2	-	-	-	-
8,284	65	1	17	23	80
360	16	8	1	-	4
1,513	22	8	(2)	(1)	9
1,865	20	17	-	3	20
17,242	835	678	33	7	412
4,092	132	98	18	3	57
1,285	74	26	(3)	4	8
71,358	1,767	-	17	29	932
21,026	265	68	39	36	161
160,910	**4,163**	**1,260**	**132**	**302**	**1,764**
2,842	48	46	-	-	23
163,752	**4,211**	**1,306**	**132**	**302**	**1,787**
15,740	15	15	2	-	10
17,904	-	-	-	-	-
197,396	**4,226**	**1,321**	**134**	**302**	**1,797**
1,662	44	23	(4)	156	10
229	21	-	-	-	-

Management Review - Addendum C (continued)
Credit Risk by Economic Sector - Consolidated
As of December 31, 2011

Reported amounts (NIS in millions)

	Credit risk to the public						
	Balance sheet credit risk				Off-balance sheet credit risk [1]		
	Credit	Debentures [6]	Fair value of derivatives	Total	Guarantees and other commitments on account of clients	Future transactions	Total
Agriculture	609	-	2	611	204	3	207
Industry	6,146	93	191	6,430	3,483	322	3,805
Construction and real estate [7]	8,199	37	6	8,242	13,507	9	13,516
Electricity and water	379	48	76	503	613	554	1,167
Commerce	6,747	-	38	6,785	1,820	48	1,868
Hotel and food services	293	-	1	294	133	1	134
Transport and storage	890	-	11	901	352	11	363
Communications and computer services	1,489	23	7	1,519	973	22	995
Financial services	5,821	-	951	6,772	8,670	918	9,588
Other business services	3,681	-	14	3,695	571	11	582
Public and community services	908	-	5	913	352	246	598
Private individuals - housing loans	70,744	-	-	70,744	3,606	-	3,606
Private individuals - other	12,244	-	9	12,253	9,296	15	9,311
Total	**118,150**	**201**	**1,311**	**119,662**	**43,580**	**2,160**	**45,740**
For borrowers' activities overseas	2,816	15	7	2,838	329	4	333
Total credit risk to public	**120,966**	**216**	**1,318**	**122,500**	**43,909**	**2,164**	**46,073**
Credit risk exposures other than with respect to the public:							
Banking Corporations	2,545	574	1,420	4,539	292	2,688	2,980
Governments	12,842	7,496	-	20,338	190	-	190
Total credit risk	**136,353**	**8,286**	**2,738**	**147,377**	**44,391**	**4,852**	**49,243**
Credit risk to public included under various economic sectors:							
Settlement movements [4]	1,076	-	187	1,263	472	650	1,122
Local authorities [5]	183	-	-	183	30	-	30

(1) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits. Data is in accordance with definition of indebtedness in Regulation 313, as amended in 2011. Comparative figures are presented in accordance with Regulation 313 prior to the amendment.
(2) On- and off-balance sheet credit risk with respect to the public 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) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).
(4) Kibbutzim and Moshavim, regional and national organizations, and corporations controlled by the settlement movements.
(5) Includes corporations under their control.
(6) Includes borrowed securities amounting to NIS 136 million.
(7) Includes housing loans extended to certain purchase groups which are in the process of construction, amounting to NIS 2,870 million (1,342 on-balance sheet risk, 1,528 off-balance sheet risk).

Credit risk to the public					Credit loss [3]
Credit risk to the public includes:					
Total credit risk of the public	Troubled credit risk [2]	Impaired loans to the public	Annual expense with respect to credit loss for 2011.	Net accounting write-off	Balance of provision for credit loss
818	10	5	7	12	4
10,235	219	159	59	93	101
21,758	840	458	40	39	150
1,670	1	-	-	-	6
8,653	169	101	89	60	83
428	18	5	8	5	3
1,264	10	5	1	5	6
2,514	18	15	5	5	23
16,360	345	713	(77)	113	259
4,277	532	67	114	24	60
1,511	69	22	(7)	18	7
74,350	1,712	-	2	57	873
21,564	233	51	88	84	167
165,402	**4,176**	**1,601**	**329**	**515**	**1,742**
3,171	23	21	4	22	10
168,573	**4,199**	**1,622**	**333**	**537**	**1,752**
7,519	4	4	6	-	14
20,528	-	-	(1)	-	-
196,620	**4,203**	**1,626**	**338**	**537**	**1,766**
2,385	26	19	(8)	24	7
213	16	-	-	-	-

Management Review - Addendum C (continued)
Credit Risk by Economic Sector - Average balances - Consolidated
For the six months ended June 30, 2012

Reported amounts (NIS in millions)

	Balance sheet credit risk				Off-balance sheet credit risk [1]			
	Credit	Debentures [4]	Fair value of derivatives	Total	Guarantees and other commitments on account of clients	Future transactions	Total	Total credit risk of the public
Agriculture	594	-	1	595	216	3	219	814
Industry	6,313	91	138	6,542	3,911	437	4,348	10,890
Construction and real estate	8,372	36	5	8,413	14,622	9	14,631	23,044
Electricity and water	432	59	80	571	739	565	1,304	1,875
Commerce	6,879	-	38	6,917	1,827	57	1,884	8,801
Hotel and food services	301	-	2	303	124	10	134	437
Transport and storage	895	-	6	901	399	10	409	1,310
Communications and computer services	1,486	13	7	1,506	841	23	864	2,370
Financial services	5,333	7	768	6,108	8,171	920	9,091	15,199
Other business services	3,588	-	12	3,600	801	12	813	4,413
Public and community services	910	-	3	913	361	241	602	1,515
Private individuals - housing loans	72,513	-	-	72,513	3,801	-	3,801	76,314
Private individuals - other	12,372	-	6	12,378	9,488	11	9,499	21,877
Total	**119,988**	**207**	**1,066**	**121,260**	**45,301**	**2,298**	**47,599**	**168,859**
For borrowers' activities overseas	2,710	34	6	2,750	332	3	335	3,085
Total credit risk to public	**122,698**	**241**	**1,072**	**124,010**	**45,633**	**2,301**	**47,934**	**171,944**
Credit risk exposures other than								-
with respect to the public:								-
Banking Corporations	3,184	569	987	4,740	268	2,207	2,475	7,215
Governments	12,199	8,782	-	20,981	166	-	166	21,147
Total credit risk	**138,081**	**9,592**	**2,059**	**149,731**	**46,067**	**4,508**	**50,575**	**200,306**
Credit risk to the public included under various economic sectors:								
Settlement movements [2]	1,078	-	66	1,144	511	229	740	1,884
Local authorities [3]	181	-	-	181	26	-	26	207

(1) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits.
(2) Kibbutzim and Moshavim, regional and national organizations, and corporations controlled by the settlement movements.
(3) Includes corporations under their control.
(4) Includes borrowed securities amounting to NIS 136 million.

Note: Balance of troubled debt net of loans covered by collateral that may be deducted for the purpose of calculating the per-borrower credit limits of an individual borrower and a group of borrowers, including elements of off-balance sheet risk.

Management Review - Addendum C (continued)
Credit Risk by Economic Sector - Average balances - Consolidated
For the six months ended June 30, 2011

Reported amounts (NIS in millions)

	Balance sheet credit risk				Off-balance sheet credit risk [1]			
	Credit	Debenures [4]	Fair value of derivatives	Total	Guarantees and other commit-ments on account of clients	Future transactions	Total	Total credit risk of the public
Agriculture	621	-	-	621	205	4	209	830
Industry	5,662	30	37	5,729	4,446	425	4,871	10,600
Construction and real estate	7,234	43	3	7,280	12,730	28	12,758	20,038
Electricity and water	262	17	200	479	1,070	255	1,325	1,804
Commerce	5,723	-	19	5,742	2,307	162	2,469	8,211
Hotel and food services	262	-	-	262	93	-	93	355
Transport and storage	836	-	24	860	518	97	615	1,475
Communications and computer services	1,511	20	17	1,548	302	81	383	1,931
Financial services	6,519	30	937	7,486	7,789	2,332	10,121	17,607
Other business services	3,150	-	3	3,153	832	71	903	4,056
Public and community services	883	-	12	895	286	75	361	1,256
Private individuals - housing loans	64,358	-	-	64,358	4,005	-	4,005	68,363
Private individuals - other	11,672	-	21	11,693	9,119	50	9,169	20,862
Total	**108,693**	**140**	**1,273**	**110,106**	**43,702**	**3,580**	**47,282**	**157,388**
For borrowers' activities overseas	2,899	-	8	2,907	431	67	498	3,405
Total credit risk to public	**111,592**	**140**	**1,281**	**113,013**	**44,133**	**3,647**	**47,780**	**160,793**
Credit risk exposures other than								-
with respect to the public:								-
Banking Corporations	2,066	743	1,858	4,667	323	10,824	11,147	15,814
Governments	11,710	5,601	-	17,311	242	-	242	17,553
Total credit risk	**125,368**	**6,484**	**3,139**	**134,991**	**44,698**	**14,471**	**59,169**	**194,160**
Credit risk to the public included under various economic sectors:								-
Settlement movements [2]	1,148	-	1	1,149	491	13	504	1,653
Local authorities [3]	173	-	-	173	33	-	33	206

(1) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits.
(2) Kibbutzim and Moshavim, regional and national organizations, and corporations controlled by the settlement movements.
(3) Includes corporations under their control.
(4) Includes borrowed securities amounting to NIS 173 million.

Note: Balance of troubled debt net of loans covered by collateral that may be deducted for the purpose of calculating the per-borrower credit limits of an individual borrower and a group of borrowers, including elements of off-balance sheet risk.

Management Review - Addendum C (continued)
Credit Risk by Economic Sector - Average balances - Consolidated
For the year ended December 31, 2011

Reported amounts (NIS in millions)

	Balance sheet credit risk				Off-balance sheet credit risk [1]			
	Credit	Debentures [4]	Fair value of derivatives	Total	Guarantees and other commit-ments on account of clients	Future transactions	Total	Total credit risk of the public
Agriculture	615	-	1	616	204	4	208	824
Industry	6,009	52	85	6,146	4,040	392	4,432	10,578
Construction and real estate	7,587	41	4	7,632	13,062	21	13,083	20,715
Electricity and water	302	21	152	475	986	321	1,307	1,782
Commerce	5,980	-	27	6,007	2,195	176	2,371	8,378
Hotel and food services	266	-	6	272	104	6	110	382
Transport and storage	857	-	17	874	479	67	546	1,420
Communications and computer services	1,515	20	13	1,548	551	74	625	2,173
Financial services	6,386	27	980	7,393	8,106	2,146	10,252	17,645
Other business services	3,299	-	6	3,305	739	57	796	4,101
Public and community services	879	-	9	888	271	127	398	1,286
Private individuals - housing loans	66,666	-	-	66,666	3,806	-	3,806	70,472
Private individuals - other	11,864	-	18	11,882	9,188	36	9,224	21,106
Total	**112,225**	**161**	**1,318**	**113,704**	**43,731**	**3,427**	**47,158**	**160,862**
For borrowers' activities overseas	2,899	6	9	2,914	391	58	449	3,363
Total credit risk to public	**115,124**	**167**	**1,327**	**116,618**	**44,122**	**3,485**	**47,607**	**164,225**
Credit risk exposures other than								-
with respect to the public:								-
Banking Corporations	2,204	670	1,789	4,663	310	9,178	9,488	14,151
Governments	12,319	5,859	-	18,178	221	-	221	18,398
Total credit risk	**129,647**	**6,696**	**3,116**	**139,459**	**44,653**	**12,663**	**57,316**	**196,774**
Credit risk to the public included under various economic sectors:								-
Settlement movements [2]	1,137	-	40	1,177	475	143	618	1,795
Local authorities [3]	175	-	-	175	31	-	31	206

(1) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits.
(2) Kibbutzim and Moshavim, regional and national organizations, and corporations controlled by the settlement movements.
(3) Includes corporations under their control.
(4) Includes borrowed securities amounting to NIS 136 million.

Note: Balance of troubled debt net of loans covered by collateral that may be deducted for the purpose of calculating the per-borrower credit limits of an individual borrower and a group of borrowers, including elements of off-balance sheet risk.

Management Review - 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 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 [(2)]	Impaired debt [(2)]	Total off-balance sheet exposure	Includes: Off-balance sheet troubled commercial credit risk	Maturing in under 1 year	Maturing in over 1 year
As of June 30, 2012												
USA	1,288	720	618	618	-	2,008	35	35	2,253	-	1,574	434
UK	677	717	707	248	459	1,853	2	13	1,184	-	497	897
Other	1,530	1,846	-	-	-	3,376	4	7	2,211	-	2,115	1,261
Total exposure to foreign countries	**3,495**	**3,283**	**1,325**	**866**	**459**	**7,237**	**41**	**55**	**5,648**	**-**	**4,186**	**2,592**
Includes: Total exposure to LDC countries	83	239	-	-	-	322	1	4	154	-	159	163
Includes: Total exposure to Greece, Portugal, Spain, Italy and Ireland	4	11	-	-	-	15	-	-	1	-	12	3

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 lending limits.

Management Review - 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 commercial credit risk [(4)]	Impaired debt	Total off-balance sheet exposure	Includes: Off-balance sheet troubled commercial credit risk	Maturing in under 1 year	Maturing in over 1 year
As of June 30, 2011													
USA	-	768	955	1,326	936	390	2,113	89	89	2,459	-	1,081	642
UK	-	551	860	537	308	229	1,640	2	24	1,512	1	368	1,043
Germany	-	717	13	-	-	-	730	-	1	1,175	-	631	99
Other	3	819	1,833	-	-	-	2,655	5	16	2,028	5	1,830	825
Total exposure to foreign countries	**3**	**2,855**	**3,661**	**1,863**	**1,244**	**619**	**7,138**	**96**	**130**	**7,174**	**6**	**3,910**	**2,609**
Includes: Total exposure to LDC countries	3	54	171	-	-	-	228	1	7	269	3	121	107
Includes: Total exposure to Greece, Portugal, Spain and Ireland	-	35	5	-	-	-	40	-	-	77	2	37	3

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 lending limits.
(4) Governments, official institutions and central banks.

Management Review - 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 [(4)]	Impaired debt	Total off-balance sheet exposure	Includes: Off-balance sheet troubled commercial credit risk	Maturing in under 1 year	Maturing in over 1 year
As of December 31, 2011													
USA	-	1,006	969	1,116	1,116	-	1,975	34	34	2,434	-	1,397	578
UK	-	670	919	652	320	332	1,921	-	28	1,521	-	577	1,012
Other	-	1,428	1,808	-	-	-	3,236	5	15	2,746	-	2,190	1,046
Total exposure to foreign countries	**-**	**3,104**	**3,696**	**1,768**	**1,436**	**332**	**7,132**	**39**	**77**	**6,701**	**-**	**4,164**	**2,636**
Includes: Total exposure to LDC countries	-	61	247	-	-	-	308	1	8	270	-	216	92
Includes: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	3	11	-	-	-	14	-	-	77	-	11	3

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 lending limits.
(4) Governments, official institutions and central banks.

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

Reported amounts (NIS in millions)

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

As of June 30, 2012

	Balance sheet exposure	Off-balance sheet exposure
Germany	856	634
Total	**856**	**634**

As of June 30, 2011

	Balance sheet exposure	Off-balance sheet exposure
Switzerland	410	769
France	636	421
Total	**1,046**	**1,190**

As of December 31, 2011

	Balance sheet exposure	Off-balance sheet exposure
Switzerland	393	892
Germany	585	793
Total	**978**	**1,685**

Management Review - 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:

In the six-month period ended June 30, 2012 there was no exposure to foreign countries facing liquidity issues.

	For the three months ended June 30, 2011			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	15	63	78
Net change in short-term exposure	1	(5)	-	(4)
Exposure at end of reported period	**1**	**10**	**63**	**74**

	For the six months ended June 30, 2011			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	18	60	78
Net change in short-term exposure	1	(8)	3	(4)
Exposure at end of reported period	**1**	**10**	**63**	**74**

	For the year ended December 31, 2011			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	18	60	78
Net change in short-term exposure	-	(18)	(60)	(78)
Exposure at end of reported period	**-**	**-**	**-**	**-**

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

Certification

I, ELIEZER YONES, declare that:

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended June 30, 2012 ("the Report").
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, will not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of the dates and for the periods presented in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure and to the Bank's internal control of financial reporting. Furthermore:

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

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

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

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

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

   A. All significant deficiencies and material weaknesses in the determination or operation of internal control over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and

   B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal controls over financial reporting.

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

E. Yones
President

Ramat Gan, August 15, 2012

Certification

I, MENAHEM AVIV, declare that

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended June 30, 2012 (“the Report”).
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, will not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders’ equity and cash flows of the Bank as of the dates and for the periods presented in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure and to the Bank's internal control of financial reporting. Furthermore:
   - A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;
   - B. We have set such internal control of financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;
   - C. We have evaluated the effectiveness of the Bank’s disclosure controls and procedures and presented our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and
   - D. We have disclosed in this Report any change in the Bank’s internal controls over financial reporting that occurred during this quarter, that has materially affected, or is reasonably likely to materially affect, the Bank’s internal controls over financial reporting; and
5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank’s independent auditors, the Board of Directors and the Audit and Balance Sheet Committees of the Board of Directors of the Bank:
   - A. All significant deficiencies and material weaknesses in the determination or operation of internal control over financial reporting which are reasonably likely to impair the Bank’s ability to record, process, summarize and report financial information; and
   - B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank’s internal controls over financial reporting.

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

M. AVIV
Vice-president, Chief Accountant

Ramat Gan, August 15, 2012

Condensed financial statements

Table of Contents

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

Introduction

We have reviewed the enclosed financial information of Bank Mizrahi Tefahot Ltd. ("the Bank"), consisting of the condensed consolidated balance sheet as of June 30, 2012, the condensed consolidated statement of profit and loss, statements of change in equity and cash flow statements for the six-month and three-month periods then ended. The Board of Directors and management are responsible for preparation and presentation of financial information for those interim periods, in accordance with generally accepted accounting practice in Israel (Israeli GAAP) for interim financial reporting and in accordance with directives and guidance of the Supervisor of Banks. We are responsible for expressing our conclusion as to the financial information for this interim period based on our review.

We did not review the condensed financial information of certain consolidated subsidiaries, whose assets included in consolidation constitute 7.20% of total consolidated assets as of June 30, 2012, and whose net interest revenues before expenses with respect to credit loss included in the consolidated statements of profit and loss constitute 5.49% and 2.93%, respectively, of total consolidated net interest revenues before expenses with respect to credit loss for the six-month and 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 16 million as of June 30, 2012.The condensed financial information for the interim periods of the aforementioned companies was reviewed by other independent auditors, whose review reports have been provided to us and our conclusion, in as much as it relates to the financial information with respect to those companies, is based on the review reports of 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 6.D.3)A.-F. with regard to lawsuits filed against the Bank and motions for class action status.

Brightman Almagor Zohar & Co.
Certified Public Accountants

August 15, 2012

Condensed consolidated balance sheet

Reported amounts (NIS in millions)

		As of June 30,		As of December 31,
		2012	2011	2011
	Note	(unaudited)	(unaudited)	(audited)
Assets				
Cash and deposits with banks		15,846	15,477	15,972
Securities (2)	2	9,565	5,431	8,432
Securities loaned or sold in repurchase agreements		131	99	136
Loans to the public	3	125,060	(3) 114,145	120,966
Provision for credit loss	3	(1,639)	(3) (1,754)	(1,638)
Loans to the public, net		123,421	112,391	119,328
Loans to Governments		209	106	196
Investments in affiliates		18	16	17
Buildings and equipment		1,594	1,551	1,616
Intangible assets and goodwill		87	87	87
Assets with respect to derivatives	7	2,964	(3) 2,553	(3) 3,115
Other assets		1,476	(3) 1,521	(3) 1,347
Total assets		**155,311**	**139,232**	**150,246**
Liabilities and Shareholders' Equity				
Deposits from the public		122,284	111,496	119,236
Deposits from banks		1,787	1,903	2,007
Deposits from the Government		137	157	152
Debentures and subordinated notes		13,873	11,301	12,202
Liabilities with respect to derivatives	7	3,959	2,261	3,964
Other liabilities(1)		4,627	4,610	4,631
Total liabilities		**146,667**	**131,728**	**142,192**
Equity attributable to shareholders of the banking corporation		8,231	7,139	7,666
Non-controlling interest		413	365	388
Total equity		**8,644**	**7,504**	**8,054**
Total liabilities and shareholders' equity		**155,311**	**139,232**	**150,246**

(1) Includes: Provision for credit loss with respect to off balance sheet credit instruments amounting to NIS 106 million (on June 30, 2011 - NIS 154 million, on December 31, 2011 - NIS 114 million).
(2) Includes: NIS 8,506 million at fair value (June 30, 2011 - NIS 5,431 million; December 31, 2011 - NIS 7,729 million).
(3) Reclassified.

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

Jacob Perry
Chairman of the Board of Directors

Eliezer Yones
President

Menahem Aviv
Vice-president, Chief Accountant

Approval date:
Ramat Gan,, August 15, 2012

Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31,
	2012	2011 [(1)]	2012	2011 [(1)]	2011 [(1)]
				(unaudited)	(audited)
Interest income	1,919	2,046	3,513	3,712	6,846
Interest expenses	1,037	1,253	1,863	2,238	3,977
Interest revenues, net	882	793	1,650	1,474	2,869
Expenses with respect to credit loss	45	80	112	134	338
Interest revenues, net after expenses with respect to credit loss	**837**	**713**	**1,538**	**1,340**	**2,531**
Non-interest revenues					
Non-interest financing revenues (expenses)	(35)	(26)	(15)	14	248
Commissions	350	367	707	749	1,474
Other revenues	7	1	13	7	17
Total non-interest revenues	**322**	**342**	**705**	**770**	**1,739**
Operating and other expenses					
Payroll and associated expenses	408	394	842	815	1,615
Maintenance and depreciation of buildings and equipment	160	152	318	300	608
Other expenses	108	109	210	213	444
Total operating and other expenses	**676**	**655**	**1,370**	**1,328**	**2,667**
Pre-tax profit	483	400	873	782	1,603
Provision for taxes on	174	138	302	275	522
After-tax profit	309	262	571	507	1,081
Share in profits of affiliates, after tax	-	-	-	1	1
Net profit:					
Before attribution to non-controlling interest	309	262	571	508	1,082
Attributable to non-controlling interest	(14)	(10)	(25)	(18)	(38)
Attributable to shareholders of the banking corporation	**295**	**252**	**546**	**490**	**1,044**

(1) Data on the statement of profit and loss for previous periods were reclassified to adjust them for the new layout adopted by the Supervisor of Banks. For details see Note 1.C.

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

Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31,
	2012	2011 [1]	2012	2011 [1]	2011 [1]
				(unaudited)	(audited)
Earnings per share [2]					
Basic earnings per share (in NIS)					
Net profit attributable to shareholders of the banking corporation	1.29	1.11	2.40	2.16	4.65
Diluted earnings per share (in NIS)					
Net profit attributable to shareholders of the banking corporation	1.28	1.09	2.39	2.11	4.57

(1) Data on the statement of profit and loss for previous periods were reclassified to adjust them for the new layout adopted by the Supervisor of Banks. For details see Note 1.C.

(2) Share of NIS 0.1 par value each.

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

Condensed Statement of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

	For the three months ended June 30, 2012 (unaudited)			
	Share capital and premium[1]	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves
Balance as of March 31, 2012	**2,006**	**170**	**(76)**	**2,100**
Net profit for the period	-	-	-	-
Benefit from share-based payment transactions	-	4	-	4
Related tax effect	-	(9)	-	(9)
Realized share-based payment transactions [3]	9	(9)	-	-
Adjustments for presentation of securities available for sale at fair value		-	-	-
Adjustments for presentation of securities available for sale reclassified to statement of profit and loss	-	-	-	
Related tax effect	-	-	-	-
Net gain from cash flow hedges reclassified to the statement of profit and loss	-	-	-	-
Related tax effect	-	-	-	-
Balance as of June 30, 2012	**2,015**	**156**	**(76)**	**2,095**

(1) Share premium generated prior to March 31, 1986.
(2) For details on various limitations on dividend distributions, see Note 13 to the financial statements for the year ended December 31, 2011.
(3) In the second quarter of 2012, 75,862 ordinary NIS 0.1 par value shares were issued for exercise of options in conjunction with the Employee Stock Option Plan, and 413,036 ordinary NIS 0.1 par value shares were issued to the President for exercise of options.

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

Cumulative other comprehensive income (loss)						
Adjustments for presentation of securities available for sale at fair value	Net gain from cash flow hedges	Retained earnings[(2)]	Dividends declared after balance sheet date	Total	Non-controlling interest	Total shareholders' equity
(41)	**9**	**5,865**	-	**7,933**	**401**	**8,334**
-	-	295	-	295	14	309
-	-	-	-	4	-	4
-	-	-	-	(9)	-	(9)
-	-	-	-	-	-	-
4	-	-	-	4	(2)	2
8	-	-	-	8	-	8
(4)	-	-	-	(4)	-	(4)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
(33)	**9**	**6,160**	**-**	**8,231**	**413**	**8,644**

Condensed Statement of Changes in Shareholders' Equity (continued)

Reported amounts (NIS in millions)

	For the three months ended June 30, 2011 (unaudited)			
	Share capital and premium[(1)]	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves
Balance as of March 31, 2011	**1,986**	**172**	**(76)**	**2,082**
Net profit for the year	-	-	-	-
Benefit from share-based payment transactions	-	10	-	10
Related tax effect	-	(15)	-	(15)
Realized share-based payment transactions [(3)]	12	(12)	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	-
Adjustments for presentation of securities available for sale reclassified to statement of profit and loss	-	-	-	-
Related tax effect	-	-	-	-
Net gain from cash flow hedges	-	-	-	-
Related tax effect	-	-	-	-
Balance as of June 30, 2011	**1,998**	**155**	**(76)**	**2,077**

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

(2) For details on various limitations on dividend distributions, see Note 13 to the financial statements for the year ended December 31, 2011.

(3) In the second quarter of 2011, 248,118 ordinary NIS 0.1 par value shares were issued for exercise of options in conjunction with the Employee Stock Option Plan, and 513,627 ordinary NIS 0.1 par value shares were issued to the President for exercise of options.

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

Cumulative other comprehensive income (loss): Adjustments for presentation of securities available for sale at fair value	Net gain from cash flow hedges	Retained earnings[2]	Total	Non-controlling interest	Total shareholders' equity
(26)	**22**	**4,808**	**6,886**	**356**	**7,242**
-	-	252	252	10	262
-	-	-	10	-	10
-	-	-	(15)	-	(15)
-	-	-	-	-	-
1	-	-	1	(1)	-
-	-	-	-	-	-
(1)	-	-	(1)	-	(1)
-	11	-	11	-	11
-	(5)	-	(5)	-	(5)
(26)	**28**	**5,060**	**7,139**	**365**	**7,504**

Condensed Statement of Changes in Shareholders' Equity (continued)

Reported amounts (NIS in millions)

	For the six months ended June 30, 2012 (unaudited)			
	Share capital and premium(1)	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves
Balance as of January 1, 2012	**2,003**	**155**	**(76)**	**2,082**
Net profit for the period	-	-	-	-
Benefit from share-based payment transactions	-	13		13
Related tax effect	-	-	-	-
Realized share-based payment transactions (3)	12	(12)		-
Adjustments for presentation of securities available for sale at fair value	-	-	-	-
Adjustments for presentation of securities available for sale reclassified to statement of profit and loss	-	-	-	-
Related tax effect	-	-	-	-
Net gain from cash flow hedges reclassified to the statement of profit and loss	-	-	-	-
Related tax effect	-	-	-	-
Balance as of June 30, 2012	**2,015**	**156**	**(76)**	**2,095**

(1) Share premium generated prior to March 31, 1986.
(2) For details on various limitations on dividend distributions, see Note 13 to the financial statements for the year ended December 31, 2011.
(3) In the first half of 2012, 162,159 ordinary NIS 0.1 par value shares were issued for exercise of options in conjunction with the Employee Stock Option Plan, and 413,036 ordinary NIS 0.1 par value shares were issued to the President for exercise of options.

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

Cumulative other comprehensive income (loss)						
Adjustments for presentation of securities available for sale at fair value	Net gain from cash flow hedges	Retained earnings[(2)]	Dividends declared after balance sheet date	Total	Non-controlling interest	Total shareholders' equity
(48)	**18**	**5,614**	**-**	**7,666**	**388**	**8,054**
	-	546	-	546	25	571
-	-	-	-	13	-	13
-	-	-	-	-	-	-
-	-	-	-	-	-	-
14	-	-	-	14	1	15
8	-	-	-	8	-	8
(7)	-	-	-	(7)	(1)	(8)
-	(12)	-	-	(12)	-	(12)
-	3	-	-	3	-	3
(33)	**9**	**6,160**	**-**	**8,231**	**413**	**8,644**

Condensed Statement of Changes in Shareholders' Equity (continued)

Reported amounts (NIS in millions)

	For the six months ended June 30, 2011 (unaudited)			
	Share capital and premium[(1)]	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves
Balance as of January 1, 2011	**1,986**	**156**	**(76)**	**2,066**
Cumulative effect, net of tax, of initial application on January 1, 2011 of the directive concerning measurement of impaired debt and provision for credit loss	-	-	-	-
Cumulative effect, net of tax, of initial application on January 1, 2011 of certain IFRS standards	-	-	-	-
Balance as of January 1, 2011, after reconciliation from application of new standards and directives	**1,986**	**156**	**(76)**	**2,066**
Net profit for the year	-	-	-	-
Dividends paid	-	-	-	-
Benefit from share-based payment transactions	-	20	-	20
Related tax effect	-	(9)	-	(9)
Realized share-based payment transactions [(4)]	12	(12)	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	-
Related tax effect	-	-	-	-
Net gain from cash flow hedges	-	-	-	-
Related tax effect	-	-	-	-
Balance as of June 30, 2011	**1,998**	**155**	**(76)**	**2,077**

(1) Share premium generated prior to March 31, 1986.
(2) Foreign currency translation adjustment of autonomous overseas units.
(3) For details on various limitations on dividend distributions, see Note 13 to the financial statements for the year ended December 31, 2011.
(4) In the first half of 2011, 275,239 ordinary NIS 0.1 par value shares were issued for exercise of options in conjunction with the Employee Stock Option Plan, and 513,627 ordinary NIS 0.1 par value shares were issued to the President for exercise of options.

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

Cumulative other comprehensive income (loss)							
Adjustments for presentation of securities available for sale at fair value	Translation adjustments[2]	Net gain from cash flow hedges	Retained earnings[3]	Dividends declared after balance sheet date	Total	Non-controlling interest	Total shareholders' equity
(11)	**(51)**	**26**	**4,980**	**120**	**7,130**	**366**	**7,496**
-	-	-	(359)	-	(359)	(16)	(375)
-	51	-	(51)	-	-		-
(11)	**-**	**26**	**4,570**	**120**	**6,771**	**350**	**7,121**
-	-	-	490	-	490	18	508
-	-	-	-	(120)	(120)	-	(120)
-	-	-	-	-	20	-	20
-	-	-	-	-	(9)	-	(9)
-	-	-	-	-	-	-	-
(21)	-	-	-	-	(21)	(5)	(26)
6	-	-	-	-	6	2	8
-	-	3	-	-	3		3
-	-	(1)	-	-	(1)	-	(1)
(26)	**-**	**28**	**5,060**	**-**	**7,139**	**365**	**7,504**

Condensed Statement of Changes in Shareholders' Equity (continued)

Reported amounts (NIS in millions)

	For the year ended December 31, 2011 (audited)			
	Share capital and premium[1]	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves
Balance as of January 1, 2011	**1,986**	**156**	**(76)**	**2,066**
Cumulative effect, net of tax, of initial application on January 1, 2011 of the directive concerning measurement of impaired debt and provision for credit loss	-	-	-	-
Cumulative effect, net of tax, of initial application on January 1, 2011 of certain IFRS standards	-	-	-	-
Balance as of January 1, 2011, after reconciliation from application of new standards and directives	**1,986**	**156**	**(76)**	**2,066**
Net profit for the year	-	-	-	-
Dividends paid	-	-	-	-
Dividends declared after balance sheet date	-	-	-	-
Benefit from share-based payment transactions	-	43	-	43
Related tax effect	-	(27)	-	(27)
Realized share-based payment transactions [4]	17	(17)	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	-
Adjustments for presentation of securities available for sale reclassified to statement of profit and loss	-	-	-	-
Related tax effect	-	-	-	-
Net loss from cash flow hedges	-	-	-	-
Related tax effect	-	-	-	-
Balance as of December 31, 2011	**2,003**	**155**	**(76)**	**2,082**

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

(2) Foreign currency translation adjustment of autonomous overseas units.

(3) For details on various limitations on dividend distributions, see Note 13 to the financial statements for the year ended December 31, 2011.

(4) In 2011, 575,122 ordinary NIS 0.1 par value shares were issued (2010 - 564,642) for exercise of options in conjunction with the Employee Stock Option Plan, and 513,627 ordinary NIS 0.1 par value shares (2010 - 445,048) were issued to the President for exercise of options.

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

Cumulative other comprehensive income (loss)							
Adjustments for presentation of securities available for sale at fair value	Translation adjustments[(2)]	Net gain from cash flow hedges	Retained earnings[(3)]	Dividends declared after balance sheet date	Total	Non-controlling interest	Total shareholders' equity
(11)	**(51)**	**26**	**4,980**	**120**	**7,130**	**366**	**7,496**
-	-	-	(359)	-	(359)	(16)	(375)
-	51	-	69	(120)	-	-	-
(11)	**-**	**26**	**4,690**	**-**	**6,771**	**350**	**7,121**
-	-	-	1,044	-	1,044	39	1,083
-	-	-	(120)	-	(120)	-	(120)
-	-	-	-	-	-	-	-
-	-	-	-	-	43	-	43
-	-	-	-	-	(27)	-	(27)
-	-	-	-	-	-	-	-
(65)	-	-	-	-	(65)	(2)	(67)
10	-	-	-	-	10	-	10
18	-	-	-	-	18	1	19
-	-	(12)	-	-	(12)		(12)
-	-	4	-	-	4	-	4
(48)	**-**	**18**	**5,614**	**-**	**7,666**	**388**	**8,054**

Statement of cash flows

Reported amounts (NIS in millions)

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31,
	2012	2011 [(1)]	2012	2011 [(1)]	2011 [(1)]
		(unaudited)		(unaudited)	(audited)
Cash flows provided by current operations					
Net profit for the period	309	262	571	508	1,082
Adjustments:					
Share of corporation in undistributed earnings of affiliates	-	-	-	(1)	(1)
Depreciation of buildings and equipment	62	55	114	112	220
Amortization	-	-	-	-	(1)
Expenses with respect to credit loss	45	80	112	134	338
Net gain on sale of available-for-sale and held-to-maturity securities	34	(17)	(10)	(35)	(76)
Impairment of securities held for sale	8	-	8	-	10
Realized and unrealized gain from adjustment to fair value of securities held for trading	(28)	(3)	(18)	(5)	(19)
Net loss (gain) from sale of buildings and equipment	(1)	-	-	1	(5)
Benefit from share-based payment transactions	4	10	13	20	43
Deferred taxes, net	(74)	(4)	8	(72)	(105)
Severance pay - decrease in excess of amount funded over liability	4	72	-	71	135
Accrual differences included under investment and financing operations	109	112	25	148	213
Effect of changes in exchange rate on cash balances	(186)	50	(117)	96	(234)
Net change in current assets					
Deposits with banks, net	(586)	(266)	(1,855)	(670)	1,798
Loans to the public, net	(3,059)	(3,072)	(4,205)	(6,103)	(13,318)
Loans to the Governments, net	(19)	(10)	(13)	(14)	(104)
Securities loaned or sold in repurchase agreements, net	80	74	5	148	111
Assets with respect to derivatives, net	(1,088)	324	139	541	-
Securities held for trading, net	426	40	(72)	26	(878)
Other assets, net	231	96	(138)	(60)	191
Net change in current liabilities					
Deposits from banks, net	87	(403)	(220)	(529)	(425)
Deposits from the public, net	2,783	2,467	3,048	5,505	13,245
Deposits from the Government, net	(6)	(9)	(15)	(15)	(20)
Liabilities with respect to derivatives, net	715	(239)	(5)	(631)	1,072
Other liabilities, net	6	(101)	(23)	(73)	(47)
Deferred income, net	(5)	(19)	(5)	(18)	(45)
Net cash provided by current operations	**(149)**	**(501)**	**(2,653)**	**(916)**	**3,180**

(1) Reclassified.

Statement of cash flows (continued)

Reported amounts (NIS in millions)

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31,
	2012	2011 (1)	2012	2011 (1)	2011 (1)
		(unaudited)		(unaudited)	(audited)
Cash flows provided by investment operations					
Acquisition of debentures held to maturity	(356)	-	(356)	-	(703)
Proceeds on redemption of debentures held to maturity	12	-	12	-	8
Acquisition of securities available for sale	(1,812)	(1,231)	(5,774)	(1,956)	(8,265)
Proceeds on sale and redemption of securities available for sale	3,393	1,503	5,099	3,957	8,816
Acquisition of buildings and equipment	(63)	(76)	(73)	(130)	(252)
Proceeds from sale of buildings and equipment	1	-	2	2	14
Purchase of shares in affiliates	-	-	(1)	-	(1)
Net cash provided by investment operations	**1,175**	**196**	**(1,091)**	**1,873**	**(383)**
Cash flows provided by financing operations					
Issuance of debentures and subordinated notes	1,378	944	1,982	1,464	2,620
Redemption of debentures and subordinated notes	(336)	(39)	(336)	(124)	(375)
Dividends paid to shareholders	-	-	-	-	(120)
Net cash provided by financing operations	**1,042**	**905**	**1,646**	**1,340**	**2,125**
Increase (decrease) in cash	2,068	600	(2,098)	2,297	4,922
Balance of cash at beginning of year	10,756	11,486	14,991	9,835	9,835
Effect of changes in exchange rate on cash balances	186	(50)	117	(96)	234
Cash balance at end of period	**13,010**	**12,036**	**13,010**	**12,036**	**14,991**
Interest and taxes paid / received					
Interest received	1,880	2,007	3,396	3,595	6,924
Interest paid	975	1,191	1,711	2,086	4,066
Taxes on income paid	150	107	267	272	512
Taxes on income received	-	58	-	58	59
Appendix A - Non-cash Transactions					
Acquisition of buildings and equipment	21	-	21	2	67

(1) Reclassified.

Data for prior periods was restated due to initial adoption of IAS 7 "Statement of cash flows", For details see Note 1.D. 1.

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

Note 1 - Reporting Principles and Accounting Policies

A. Overview

The financial statements as of June 30, 2012 are prepared in accordance with Israeli GAAP and directives of the Supervisor of Banks, and do not include all information required in annual financial statements. These financial statements should be read in conjunction with the audited financial statements as of December 31, 2011.

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

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

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

As from periods starting on January 1, 2012, the Bank applies accounting standards and directives as follows:

1. Directives included in the Supervisor of Banks' circular on format of statement of profit and loss for banking corporations and adoption of generally acceptable accounting practices by US banks for measurement of interest revenues.
2. Certain International Financial Reporting Standards (IFRS) and interpretations by the International Financial Reporting Interpretations Committee (IFRIC) concerning application of these standards, as listed below:
   - IAS 7, Statement of Cash Flows;
   - IAS 12, Income taxes;
   - IAS 23, Borrowing costs;
   - IAS 24, Related party disclosures.
3. Supervisor of Banks' directives with regard to transactions between a banking corporation and their controlling shareholder and a company controlled by the banking corporation.
4. Accounting standard update, ASU 2011-03, on reconsideration of effective control for repurchase agreements, which is an update to rules set forth in FAS 166 (ASC 860).
5. Accounting standard update ASU 2011-04 on fair-value measurement (ASC 820). Amendments to achieve uniform fair value measurement and disclosure requirements in US GAAP and in IFRS.

Below is a description of the essence of changes to accounting policies in these consolidated interim financial statements, and a description of their initial implementation and effect there of, if any.

Note 1 - Reporting Principles and Accounting Policies (continued)

C. Directives included in the Supervisor of Banks' circular on 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.

In accordance with the Supervisor of Banks' circular dated December 29, 2011 concerning 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, the Bank applies the provisions related to presentation of the statement of profit and loss. According to these directives, the Bank has adjusted the presentation of financing profit items on the statement of profit and loss and associated Notes as follows:

- The item "Profit from financing operations before expenses with respect to credit loss" was split into three separate items: "Interest revenues", "Interest expenses" and "Non-interest financing revenues", presented on separate lines.
- Items of financing profit other than interest and gain from investment in shares were classified under "Non-interest financing revenues", with a distinction between trade operations and non-trade operations.
- The definition of "Interest" was amended to include CPI linkage differentials on interest, exchange rate differentials on interest and CPI linkage differentials on principal (this component was previously not considered part of interest).
- The distinction between commissions from financing business, previously included under financing profit, and operating commissions, was eliminated. Consequently, all commission revenues are included under "Commissions" on the statement of profit and loss (previously - under "Operating commissions").
- The item "Profit from extraordinary operations" was eliminated, and the approach commonly used in the USA, whereby extraordinary items are classified as "Non-ordinary" and "Non-recurring" items, was adopted. Consequently, any event would only be classified as a special (extraordinary) item on the statement of profit and loss by prior approval of the Supervisor of Banks.

The Bank retroactively applies the directives on layout of the statement of profit and loss as from January 1, 2012. Initial application of this directive had no effect, other than the change in presentation.

As a result of these classification changes:

Revenues included under "Profit from financing operations", amounting to NIS 11 million, and expenses amounting to NIS 29 million for the six-month and three-month periods ended June 30, 2011, respectively, and revenues amounting to NIS 242 million in 2011 were reclassified under "Non-interest financing revenues".

Net gain from investment in shares, amounting to NIS 3 million in the six-month and three-month periods ended June 30, 2011, and amounting to NIS 6 million in the year ended December 31, 2011, were classified under "Non-interest financing revenues".

Note 1 - Reporting Principles and Accounting Policies (continued)

Commissions from financing operations amounting to NIS 62 million and NIS 31 million in the six-month and three-month periods ended June 30, 2011, and amounting to NIS 131 million in the year ended December 31, 2011 were reclassified under "Commissions".

After-tax losses from extraordinary items, resulting from sale of buildings and equipment, amounting to NIS 2 million and NIS 1 million in the six-month and three-month periods ended June 30, 2011 and amounting to NIS 2 million in 2011, were reclassified under "Other revenues".

D. Certain International Financial Reporting Standards (IFRS) and IFRIC interpretations with regard to application of these standards.

According to the Supervisor of Banks' circular dated November 30, 2011 on adoption of certain IFRS standards, the Bank applies the following IFRS standards:

1. IAS 7, Statement of Cash Flows;

The statement of cash flows is presented classified under cash flows from current operations, from investment operations (previously - activities in assets) and from financing operations (previously - activities in liabilities and equity). Cash flows from major Bank operations are classified under current operations. Cash and cash equivalents includes cash, deposits with banks, negotiable deposit notes and deposits with central banks with an original term of up to three months.

The Bank retroactively applies the rules set forth in this standard as from January 1, 2012. Initial application of this standard had no effect, other than the change in presentation. Due to initial application, the following re-classification was made:

Net changes in cash flow with respect to current assets (such as: deposits with banks, loans to the public, securities loaned or sold in conjunction with repurchase agreements, assets with respect to derivative instruments, securities held for trade and other assets), previously included under investment operations (previously - activities in assets), amounting to NIS (6,132) million

and NIS 2,814 million for the six-month and three-month periods ended June 30, 2011, respectively, and amounting to NIS (12,200) million for 2011 were reclassified under "Current operations".

Net changes in cash flow with respect to current liabilities (such as: deposits from banks, deposits from the public, deposits from the Government, securities loaned or sold in conjunction with repurchase agreements, liabilities with respect to derivative instruments and other liabilities), previously included under financing operations (previously - activities in liabilities and equity), amounting to NIS 4,257 million and NIS 1,715 million for the six-month and three-month periods ended June 30, 2011, respectively and amounting to NIS 13,825 million for 2011, were reclassified under "Current operations".

Note 1 - Reporting Principles and Accounting Policies (continued)

2. IAS 12, Income taxes

The standard, as adopted by the Supervisor of Banks, contains similar provisions to those of Israeli Accounting Standard 19 "Income Taxes", applied by the banking system to date. However, along with adoption of the international standard, specific provisions issued by the Supervisor of Banks have been modified. In general, deferred taxes are recognized with respect to carry-forward loss, tax credits and deductible temporary differences, when taxable revenue is expected in future which may be used to utilize them. According to the Supervisor of Bank's directive, definition of the term "probable" is "more likely than not", as in generally accepted accounting principles for US banks for handling income taxes, rather than the translation of the term "probable" in Public Reporting Regulations with regard to deferred tax assets, which is "beyond any reasonable doubt".

Moreover, in cases of uncertainty about income taxes, banking corporations are required to apply the rules in clarification FIN 48 with regard to uncertainty about income taxes, provided these do not contradict the international financial reporting standards, by way of setting policy, procedures and implementing documentation requirements with respect to tax positions of varying degrees of uncertainty.

In this context, the Bank only recognizes the effect of tax positions if it is more likely than not that those positions would be accepted by the Tax Authority or by the Court. Tax positions recognized are measured at the maximum amount whose likelihood of realization exceeds 50%. Changes in recognition or measurement are reflected in the period in which a change in circumstances resulted in a change in judgment.

Initial application of the standard had no material impact on the Bank's financial statements.

3. IAS 23, Borrowing costs

The standard stipulates that an entity should capitalize borrowing costs related directly to acquisition and setup or production of a qualified asset. A qualified asset is one which requires a significant time period to prepare for designated use or sale, including fixed assets, software assets and other assets which require a prolonged time period to be brought to a state ready for use or sale. However, directives by the Supervisor of Banks have clarified that a banking corporation shall not capitalize borrowing costs prior to setting clear policy, procedures and controls with regard to criteria for recognizing qualified assets and for the borrowing costs capitalized.

Initial application of the standard had no impact on the Bank's financial statements.

Note 1 - Reporting Principles and Accounting Policies (continued)

4. IAS 24, Related party disclosures

The standard stipulates the required disclosure by an entity of its relations with any related party, as well as of transactions and outstanding balances with any related party. Further disclosure is required of remuneration of key executives. Key executives are defined as persons having the authority and responsibility for planning, directing and controlling entity operations, either directly or indirectly, including any (active or inactive) Board member of such entity.

In conjunction with adoption of this standard by the Supervisor of Banks, the required disclosure layout in the financial statements has been adapted to comply with both IAS 24 disclosure requirements and the additional disclosure required pursuant to Securities Regulations, 2010.

The Bank would apply the standard retroactively starting with financial statements as of December 31, 2012.

Initial application of the standard is not expected to materially impact the Bank's financial statements, other than the change in presentation.

E. Supervisor of Banks' directives with regard to transactions between a banking corporation and their controlling shareholder and a company controlled by the banking corporation

According to the Supervisor of Banks' circular dated November 30, 2011 on adoption of certain IFRS standards, the Bank applies, as from January 1, 2012, US GAAP for accounting treatment of transactions between a banking corporation and their controlling shareholder and a company controlled by the banking corporation. In cases where the aforementioned rules do not refer to the accounting treatment, the Bank applies the rules set forth in Standard 23 of the Israel Accounting Standards Board concerning accounting treatment of transactions between an entity and the controlling shareholder there of, consistently with the principles of adopting IFRS standards for non core banking issues.

Assets and liabilities subject to a transaction with a controlling shareholder are measured at fair value as of the transaction date. Since this is an equity transaction, the Group recognizes the difference between fair value and transaction proceeds to equity.

The amount of liability, indemnification or waiver assumed by the Bank is charged to a capital reserve.

The loan granted to the controlling shareholder, or deposit received from the controlling shareholder, are stated on the Bank's financial statements upon initial recognition at their fair value, as an asset or liability - as the case may be. The difference between the amount of the loan granted or deposit received, and their fair value upon initial recognition, is charged to equity. In reporting periods subsequent to initial recognition, the loan or deposit are stated on the Bank's financial statements at their amortized cost, applying the effective interest method - except for cases where, in accordance with generally accepted accounting practices, they are stated at fair value.

Note 1 - Reporting Principles and Accounting Policies (continued)

The Bank applies the provisions of these directives prospectively to transactions between the Bank and a controlling shareholder there of made after January 1, 2012, as well as to loans extended to or deposits received from the controlling shareholder prior to the start date of applying these directives - as from their start date.
Since transactions between the Bank and controlling shareholders are made at similar terms and conditions to those extended to similar clients who are not controlling shareholders - initial application of these directives has no impact on the financial statements.

F. Accounting standard update, ASU 2011-03, on reconsideration of effective control for repurchase agreements

As from January 1, 2012, the Bank applies Accounting Standard Update ASU 2011-03, on reconsideration of effective control for repurchase agreements, which is an update to rules set forth in FAS 166 (ASC 860).
Evaluation of existence of effective control is focused on contractual rights and contractual obligations of the transferor, and therefore does not take into consideration the criterion requiring that transferor would be capable of acquiring transferred securities even in case of failure of the transferee, and does not take into consideration directives with regard to required collateral with respect to said criterion.

In transactions involving transfer of financial assets, the Bank determines that the transferor maintains effective control over transferred assets (and therefore the asset transfer shall be accounted for as secured debt) if all of the following conditions are fulfilled:

- The assets repurchased or redeemed are identical or essentially identical to the transferred assets;
- The agreement is to repurchase or redeem them prior to maturity, at a fixed or fixable price; and
- The agreement is made simultaneously with the transfer.

The Bank applies the rules set forth in ASU 2011-03 prospectively, as from January 1, 2012. Upon the transition date, there was no impact to the Bank's financial statements.

G. Accounting standard update ASU 2011-04 on fair-value measurement (ASC 820): Amendments to achieve uniform fair value measurement and disclosure requirements in US GAAP and in IFRS

In May 2011, FASB issued an update to ASC 820 - "fair value measurement and disclosure". This is part of a FASB-IASB joint project designed to achieve compatibility in this regard. For entities applying the American standard, the new disclosure does not significantly alter prior requirements, but mostly clarifies prior requirements and provides new guidance.

Note 1 - Reporting Principles and Accounting Policies (continued)

The update clarifies that the main market used for measurement will be the market where most of the volume and transactions for this asset or liability take place, rather than the market which the entity considers to be such. The update also stipulates that the prohibition to apply a holding size factor shall apply not only to negotiable instruments classified under Level 1 of the fair value ranking, as is the case currently, but shall also apply to all other instruments under Levels 2 and 3. However, the update stipulates that a quantity or premium assumption may be used for measurements not classified under Level 1, if they are consistent with attributes of the measured asset or liability, and provided that market

participants would account for such assumptions when measuring fair value.

Additional guidance relates to measuring fair value of financial instrument portfolios. The update allows for measurement of fair value based on net exposure for a group of financial instruments. Such measurement is contingent on the exposure to market risk or to credit risk being managed on net basis, items being measured at fair value, and information based on net exposure being presented to management. Note that additional guidance relates only to measurement of fair value, and not to net presentation on the balance sheet.

The update applies new disclosure requirements whereby, inter alia, disclosure is required for all transfers between Level 1 and Level 2, rather than for significant transfers only, as well as expanded disclosure requirements for instruments classified under Level 3, and disclosure is required of classification by level on the fair value hierarchy of items not measured at fair value on the balance sheet, but which require disclosure of their fair value.

The Bank applies the amendments set forth in ASU 2011-04 prospectively, as from January 1, 2012. There is no mandatory application of the new disclosure requirements for financial statements for periods prior to initial application. Therefore, these financial statements include no comparison figures for these new disclosures. Initial application of ASU 2011-04 had no material impact on the Bank's financial statements, other than the change in presentation due to the new disclosure requirements.

Note 2 - Securities

As of June 30, 2012 (unaudited)

Reported amounts (NIS in millions)

	Balance sheet balance	Amortized cost (for shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (1)
(1) Government of Israel debentures held to maturity	**1,059**	**1,059**	**-**	**(1)**	**1,058**

	Balance sheet balance	Amortized cost (for shares - cost)	Cumulative other comprehensive income		Fair value (1)
			Gains	Losses	
(2) Securities available for sale					
Debentures and notes					
Of the Government of Israel (2)	6,175	6,230	29	(84)	6,175
Of foreign governments(2)(6)	100	100	-	-	100
Of banks and financial institutions in Israel	121	123	2	(4)	121
Of banks and financial institutions overseas	480	476	4	-	480
Asset-backed (ABS)	33	31	2	-	33
Of others in Israel	60	60	-	-	60
Of others overseas	181	180	1	-	181
Total debentures available for sale	**7,150**	**7,200**	**38**	**(88)**	**7,150**
Shares(3)	80	80	-	-	80
Total securities available for sale	**7,230**	**7,280**	(4)**38**	(4) **(88)**	**7,230**

	Balance sheet balance	Amortized cost (for shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (1)
(3) Securities held for trading - Debentures					
Of the Government of Israel (7)	1,272	1,263	14	(5)	1,272
Of banks and financial institutions overseas	4	4	-	-	4
Total securities held for trading	**1,276**	**1,267**	(5)**14**	(5) **(5)**	**1,276**

Total securities	**9,565**	**9,606**	**52**	**(94)**	**9,564**

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) See Note 15.A-E to the 2011 financial statements for information on liens on securities held by the Bank.
(3) Includes shares for which fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 75 million.
(4) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".
(5) Charged to statement of profit and loss but not yet realized.
(6) US government debentures.
(7) Of which, securities amounting to NIS 347 million classified as held for trade, because the Bank elected to present them in accordance with the fair value alternative in Section 20 of Public Reporting Regulations, even though they had not been acquired for trade.

Note: Details of results of investment in debentures – see Note 10(a)(2) and 10(b). Details of results of investment in shares – see Note 10(a)(4).

Note 2 - Securities

As of June 30, 2011 (unaudited) (continued)

Reported amounts (NIS in millions)

	Balance sheet balance	Amortized cost (for shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value [(1)]
(1) Securities available for sale					
Debentures and notes					
Of the Government of Israel [(2)]	4,105	4,151	10	(56)	4,105
Of foreign governments[(2)(6)]	82	82	-	-	82
Of banks and financial institutions in Israel	127	129	-	(2)	127
Of banks and financial institutions overseas	565	559	6	-	565
Asset-backed (ABS)	65	68	7	(10)	65
Of others in Israel	56	56	-	-	56
Of others overseas	81	81	1	(1)	81
Total debentures available for sale	**5,081**	**5,126**	**24**	**(69)**	**5,081**
Shares[(3)]	82	82	-	-	82
Total securities available for sale	**5,163**	**5,208**	[(4)] **24**	[(4)] **(69)**	**5,163**

	Balance sheet balance	Amortized cost (for shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value [(1)]
(2) Securities held for trading					
- Debentures					
Of Government of Israel	263	263	-	-	263
Of banks and financial institutions overseas	5	5	-	-	5
Total securities held for trading	**268**	**268**	**-**	**-**	**268**
Total securities	**5,431**	**5,476**	[(5)] **24**	[(5)] **(69)**	**5,431**

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) See Note 15.A-E to the 2011 financial statements for information on liens on securities held by the Bank.
(3) Includes shares for which 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 79 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.

Note: Details of results of investment in debentures – see Note 10(a)(2) and 10(b). Details of results of investment in shares – see Note 10(a)(4).

Note 2 - Securities

As of December 31, 2011 (audited) (continued)

Reported amounts (NIS in millions)

	Balance sheet balance	Amortized cost (for shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (1)
(1) Government of Israel debentures held to maturity	**703**	**703**	**-**	**(5)**	**698**

	Balance sheet balance	Amortized cost (for shares - cost)	Cumulative other comprehensive income		Fair value (1)
			Gains	Losses	
(2) Securities available for sale					
Debentures and notes					
Of the Government of Israel (2)	5,524	5,586	19	(81)	5,524
Of foreign governments(2)(6)	86	86	-	-	86
Of banks and financial institutions in Israel	159	164	1	(6)	159
Of banks and financial institutions overseas	412	413	2	(3)	412
Asset-backed (ABS)	61	68	5	(12)	61
Of others in Israel	81	81	-	-	81
Of others overseas	135	135	1	(1)	135
Total debentures available for sale	**6,458**	**6,533**	**28**	**(103)**	**6,458**
Shares(3)	85	85	-	-	85
Total securities available for sale	**6,543**	**6,618**	(4) **28**	(4) **(103)**	**6,543**

	Balance sheet balance	Amortized cost (for shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (1)
(3) Securities held for trading					
- Debentures					
Of the Government of Israel (7)	1,183	1,177	7	(1)	1,183
Of banks and financial institutions overseas	3	3	-	-	3
Total securities held for trading	**1,186**	**1,180**	(5) **7**	(5) **(1)**	**1,186**

Total securities	**8,432**	**8,501**	**35**	**(109)**	**8,427**

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) See Note 15.A-E to the 2011 financial statements for information on liens on securities held by the Bank.
(3) Includes shares for which 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 79 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 531 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: Details of results of investment in debentures – see Note 10(a)(2) and 10(b). Details of results of investment in shares – see Note 10(a)(4).

Note 2 - Securities (continued)

Further details with regard to asset-backed securities available for sale

Reported amounts (NIS in millions)

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

				As of June 30, 2012
		Less than 12 months		12 months or more
	Fair value	Unrealized loss	Fair value	Unrealized loss
Asset-backed securities (ABS):				
CLO	-	-	-	-
Total	**-**	**-**	**-**	**-**

				As of June 30, 2011
		Less than 12 months		12 months or more
	Fair value	Unrealized loss	Fair value	Unrealized loss
Asset-backed securities (ABS):				
CLO	-	-	39	(10)
Total	**-**	**-**	**39**	**(10)**

				As of December 31, 2011
		Less than 12 months		12 months or more
	Fair value	Unrealized loss	Fair value	Unrealized loss
Asset-backed securities (ABS):				
CLO	-	-	37	(12)
Total	**-**	**-**	**37**	**(12)**

Note 3 - Loans to the public and provision for credit loss

Reported amounts (NIS in millions)

A. Loans to the public

Consolidated

	June 30, 2012			June 30, 2011			December 31, 2011		
	Recorded debt balance	Provision for credit loss	Debt balance, net	Recorded debt balance	Provision for credit loss	Debt balance, net	Recorded debt balance	Provision for credit loss	Debt balance, net
						unaudited			audited
Loans to the public reviewed individually[1]	31,896	665	31,231	[5]30,213	[5]688	29,525	32,230	605	31,625
Loans to the public reviewed on group basis[2]	93,164	974	92,190	83,932	1,066	82,866	88,736	1,033	87,703
Total loans to the public	**125,060**	**1,639**	**123,421**	**114,145**	**1,754**	**112,391**	**120,966**	**1,638**	**119,328**
Includes: Customers' liabilities for acceptances	416	-	416	216	-	216	348	-	348

B. Loans to the public reviewed individually

1. Loans to the public reviewed individually includes:

	June 30, 2012			June 30, 2011			December 31, 2011		
	Recorded debt balance	Provision for credit loss	Debt balance, net	Recorded debt balance	Provision for credit loss	Debt balance, net	Recorded debt balance	Provision for credit loss	Debt balance, net
						unaudited			audited
Impaired loans to the public[3]	1,502	290	1,212	[5]1,306	[5]358	948	1,622	215	1,407
Non-impaired loans to the public, in arrears 90 days or more[4]	26	15	11	74	15	59	56	15	41
Non-impaired loans to the public, in arrears 30-89 days[4]	91	3	88	56	2	54	53	3	50
Other non-impaired loans to the public[4]	30,277	357	29,920	28,777	313	28,464	30,499	372	30,127
Total non-impaired loans to the public[4]	**30,394**	**375**	**30,019**	**28,907**	**330**	**28,577**	**30,608**	**390**	**30,218**
Total loans to the public reviewed individually	**31,896**	**665**	**31,231**	**30,213**	**688**	**29,525**	**32,230**	**605**	**31,625**

(1) Includes loans reviewed individually and found not to be impaired. The provision for credit loss with respect to these loans was calculated on group basis. For further details of loans reviewed individually, see below section B.
(2) Loans for which a provision for credit loss is assessed on group basis by extent of arrears, in accordance with appendix to Proper Conduct of Banking Business Regulation No. 314, and other loans not reviewed individually for which the provision for credit loss is calculated on group basis. For further details see section C.
(3) Non-accruing impaired loans, except for certain loans under restructuring, as stated in sub-section 4 below.
(4) Loans reviewed individually and found not to be impaired. The provision for credit loss with respect to these loans was calculated on group basis.
(5) Reclassified.

Note 3 - Loans to the public and provision for credit loss - (continued)

Reported amounts (NIS in millions)

B. Loans to the public reviewed individually (continued)

2. Supplementary information about loans to the public reviewed individually

	June 30, 2012	June 30, 2011	December 31, 2011
		unaudited	Audited [(1)]
Impaired loans to the public for which a provision for credit loss was made on individual basis	1,289	(1)997	1,386
Impaired loans to the public for which a provision for credit loss was not made on individual basis	213	309	236
Total impaired loans to the public	**1,502**	**1,306**	**1,622**
Impaired loans to the public measured at present value of cash flows	1,386	(1)984	1,499
Impaired loans to the public measured at collateral value	116	322	123
Total impaired loans to the public	**1,502**	**1,306**	**1,622**

3. Troubled debt in restructuring where changes were made to credit terms and conditions

	June 30, 2012			June 30, 2011			December 31, 2011		
	Recorded debt balance	Provision for credit loss	Debt balance, net	Recorded debt balance	Provision for credit loss	Debt balance, net	Recorded debt balance	Provision for credit loss	Debt balance, net
						unaudited			audited
Not accruing interest revenues	285	14	271	130	57	73	(1)72	2	70
Accruing interest revenues, in arrears 90 days or more	-	-	-	-	-	-	2	-	2
Accruing interest revenues, in arrears 30-89 days	7	-	7	10	-	10	7	1	6
Accruing interest revenues	574	49	525	170	101	69	(1)527	(1) 14	513
Total (included under impaired loans to the public)	**866**	**63**	**803**	**310**	**158**	**152**	**608**	**17**	**591**
Impaired debt accruing interest revenues which was re-structured in previous years.	37	4	33	37	2	35	33	4	29

4. Interest with respect to impaired loans to the public

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2012	2011	2012	2011	2011
				unaudited	audited
Average recorded debt balance of impaired loans to the public during reported period	1,455	(1)1,488	1,511	(1)1,555	(1) 1,452
Total interest revenues recognized in the reported period with respect to such loans in the period when it was classified as impaired*	33	13	72	35	73
Total interest revenues which would have been recognized in the reported period had this credit accrued interest at its original terms	19	28	38	46	75
* Includes: Interest revenues recognized in accordance with accounting policy on cash basis	31	12	69	32	62

(1) Reclassified.

Note 3 - Loans to the public and provision for credit loss - (continued)

Reported amounts (NIS in millions)

C. Loans to the public reviewed on group basis

1. Housing loans for which a minimum provision for credit loss was made by extent of arrears, in accordance with appendix to Proper Conduct of Banking Business Regulation 314:

								Extent of arrears
	In arrears 30-90 days	In arrears over 90 days					Balance with respect to refinanced loans in arrears[3]	
	2-3 months	3-6 months	6-15 months	15-33 months	Over 33 months	Total over 3 months		Total
								June 30, 2012
								unaudited
Amount in arrears	10	14	21	33	473	541	93	644
Includes: Balance of provision for interest[1]	-	-	1	5	187	193	6	199
Recorded debt balance	782	420	272	130	530	1,352	315	2,449
Balance of provision for credit loss[2]	-	-	51	72	479	602	138	740
Debt balance, net	**782**	**420**	**221**	**58**	**51**	**750**	**177**	**1,709**
								June 30, 2011
								unaudited
Amount in arrears	10	10	26	36	463	535	87	632
Includes: Balance of provision for interest[1]	-	-	1	5	176	182	4	186
Recorded debt balance	426	361	310	144	594	1,409	327	2,162
Balance of provision for credit loss[2]	-	-	67	81	520	668	158	826
Debt balance, net	**426**	**361**	**243**	**63**	**74**	**741**	**169**	**1,336**
								December 31, 2011
								audited
Amount in arrears	10	14	23	33	468	538	88	636
Includes: Balance of provision for interest[1]	-	-	1	5	181	187	6	193
Recorded debt balance	805	410	287	129	562	1,388	324	2,517
Balance of provision for credit loss[2]	-	-	56	70	497	623	144	767
Debt balance, net	**805**	**410**	**231**	**59**	**65**	**765**	**180**	**1,750**

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

Note 3 - Loans to the public and provision for credit loss - (continued)

Reported amounts (NIS in millions)

C. Loans to the public reviewed on group basis (continued)

2. Other loans not reviewed on individual basis, for which the provision for credit loss was calculated on group basis:

	June 30, 2012			June 30, 2011			December 31, 2011		
	Recorded debt balance	Provision for credit loss	Debt balance, net	Recorded debt balance	Provision for credit loss	Debt balance, net	Recorded debt balance	Provision for credit loss	Debt balance, net
Non-impaired loans to the public, in arrears 90 days or more	44	11	33	69	8	61	47	5	42
Non-impaired loans to the public, in arrears 30-89 days	109	4	105	102	4	98	121	4	117
Other non-impaired loans to the public	16,807	126	16,681	15,468	136	15,332	16,316	166	16,150
Total	**16,960**	**141**	**16,819**	**15,639**	**148**	**15,491**	**16,484**	**175**	**16,309**

D. Provision for credit loss with respect to debts and to off-balance sheet credit instruments

	Provision for credit loss			
	On individual basis	On group basis[1]		
		By extent of arrears	Other	Total
Balance of provision for credit loss as of December 31, 2011	253	767	746	1,766
Six months ended June 30, 2012:				
Expenses with respect to credit loss	97	3	12	112
Accounting write-offs	(27)	(30)	(104)	(161)
Recovery of debt written off in previous years	3	-	47	50
Net accounting write-off	(24)	(30)	(57)	(111)
Balance of provision for credit loss as of June 30, 2012	**326**	**740**	**701**	**1,767**

	Provision for credit loss			
	On individual basis	On group basis[1]		
		By extent of arrears	Other	Total
Balance of provision for credit loss as of March 31, 2012	263	753	771	1,787
Three months ended June 30, 2012:				
Expenses with respect to credit loss	82	2	(39)	45
Accounting write-offs	(19)	(15)	(55)	(89)
Recovery of debt written off in previous years	-	-	24	24
Net accounting write-off	(19)	(15)	(31)	(65)
Balance of provision for credit loss as of June 30, 2012	**326**	**740**	**701**	**1,767**

(1) Includes provision on group basis with respect to debt reviewed individually and found not to be impaired.

Note 3 - Loans to the public and provision for credit loss - (continued)

Reported amounts (NIS in millions)

	Provision for credit loss			
		On group basis[1]		
	On individual basis	By extent of arrears	Other	Total
Balance of provision for credit loss as of December 31, 2010[3]	2,580	811	215	3,606
Six months ended June 30, 2011:				
Net accounting write-offs recognized as of January 1, 2011[2][3]	(2,016)	-	(544)	(2,560)
Other changes to provision for credit loss as of January 1, 2011 (charged to shareholders' equity)[2][3]	(127)	18	1,028	919
Expenses with respect to credit loss	109	-	25	134
Accounting write-offs	(160)	(3)	(92)	(255)
Recovery of debt written off in previous years	5	-	63	68
Net accounting write-off	(155)	(3)	(29)	(187)
Balance of provision for credit loss as of June 30, 2011	**391**	**826**	**695**	**(1,912)**

	Provision for credit loss			
		On group basis[1]		
	On individual basis	By extent of arrears	Other	Total
Balance of provision for credit loss as of March 31, 2011[3]	346	831	712	1,889
Three months ended June 30, 2011:				
Expenses with respect to credit loss	85	(2)	(3)	80
Accounting write-offs	(43)	(3)	(73)	(119)
Recovery of debt written off in previous years	3	-	59	62
Net accounting write-off	(40)	(3)	(14)	(57)
Balance of provision for credit loss as of June 30, 2011	**391**	**826**	**695**	**1,912**

(1) Includes provision on group basis with respect to debt reviewed individually and found not to be impaired.

(2) Due to initial application of new directives with regard to measurement of impaired debt and provision for credit loss, as from January 1, 2011 banking corporations are not required to maintain general, supplementary and special provisions for doubtful debts.

(3) Reclassified.

Note 3 - Loans to the public and provision for credit loss - (continued)

Reported amounts (NIS in millions)

	Provision for credit loss			
		On group basis		
	On individual basis	By extent of arrears	Other	Total
Composition of provision balance as of June 30, 2012				
With respect to loans to the public	305	740	594	1,639
With respect to debt other than loans to the public	-	-	22	22
With respect to off-balance-sheet credit instruments (2)	21	-	85	106
Total	**326**	**740**	**701**	**1,767**
Composition of provision balance as of June 30, 2011				
With respect to loans to the public(1)	373	826	555	1,754
With respect to debt other than loans to the public	-	-	10	10
With respect to off-balance-sheet credit instruments (2)	18	-	130	148
Total	**391**	**826**	**695**	**1,912**
Composition of provision balance as of December 31, 2011				
With respect to loans to the public	230	767	641	1,638
With respect to debt other than loans to the public	-	-	14	14
With respect to off-balance-sheet credit instruments (2)	23	-	91	114
Total	**253**	**767**	**746**	**1,766**

(1) Reclassified.
(2) Included under "Other liabilities".

Note 3 - Loans to the public and provision for credit loss - (continued)

Reported amounts (NIS in millions)

E. Additional information on housing loans and calculation of provision for credit loss

							June 30, 2012
	Housing loans		Housing loans - impaired or in arrears over 90 days(1)	Balance of provision for credit loss			
					Other		
	Recorded debt balance	Amount in arrears(2)	Recorded debt balance	By extent of arrears	On group basis	On individual basis	Total
Housing loans for which provision for credit loss by extent of arrears must be calculated(3)	75,325	634	1,667	740	93	-	833
Other housing loans	912	17	17	-	-	15	15
Total	**(4)76,237**	**651**	**1,684**	**740**	**93**	**15**	**848**
Includes: With respect to housing loans granted to certain buyer groups which are in the process of construction	1,392	-	14	-	-	-	-

							June 30, 2011
	Housing loans		Housing loans - impaired or in arrears over 90 days(1)	Balance of provision for credit loss			
					Other		
	Recorded debt balance	Amount in arrears(2)	Recorded debt balance	By extent of arrears	On group basis	On individual basis	Total
Housing loans for which provision for credit loss by extent of arrears must be calculated (3)	67,706	622	1,736	826	92	-	918
Other housing loans	623	6	38	-	-	14	14
Total	**68,329(4)**	**628**	**1,774**	**826**	**92**	**14**	**932**
Includes: With respect to housing loans granted to certain buyer groups which are in the process of construction	1,013	-	7	-	-	-	-

							December 31, 2011
	Housing loans		Housing loans - impaired or in arrears over 90 days(1)	Balance of provision for credit loss			
					Other		
	Recorded debt balance	Amount in arrears(2)	Recorded debt balance	By extent of arrears	On group basis	On individual basis	Total
Housing loans for which provision for credit loss by extent of arrears must be calculated(3)	71,486	626	1,712	767	91	-	858
Other housing loans	783	16	17	-	-	15	15
Total	**(4) 72,269**	**642**	**1,729**	**767**	**91**	**15**	**873**
Includes: With respect to housing loans granted to certain buyer groups which are in the process of construction	1,342	-	6	-	-	-	-

(1) Impaired housing loans and housing loans in arrears over 3 months.
(2) Includes delinquency interest.
(3) Includes: General-purpose loans secured by lien on residential apartment, amounting to NIS 4,726 million (as of June 30, 2011 - NIS 3,971 million and as of December 31, 2011 - NIS 4,388 million).
(4) Includes: Housing loans bearing variable interest, amounting to NIS 42,382 million (as of June 30, 2011 - NIS 45,669 million and as of December 31, 2011 - NIS 42,744 million).

Note 4 – Capital adequacy pursuant to directives of the Supervisor of Banks

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

Reported amounts (NIS in millions)

A. Capital adequacy information

	As of June 30		As of December 31
	2012	2011	2011
		(Unaudited)	(Audited)
1. Consolidated data			
A. Capital for purpose of calculating minimum capital ratio			
Tier I capital, after deductions	8,521	7,342	7,912
Tier II capital, after deductions	5,191	5,617	5,722
Total capital	**13,712**	**12,959**	**13,634**
B. Weighted risk asset balances			
Credit risk	96,992	86,543	92,973
Market risk	884	1,030	947
Operating risk	8,177	7,645	7,851
Total weighted risk asset balances	**106,053**	**95,218**	**101,771**

	June 30 2012	June 30 2011	December 31 2011
			In %
C. Ratio of capital to risk elements			
Ratio of Tier I capital to risk elements	8.03	7.71	7.77
Ratio of total capital to risk elements	12.93	13.61	13.40
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	8.98	8.79	9.04
Total ratio of capital to risk elements	13.48	13.18	13.55
Total minimum capital ratio required by the Supervisor of Banks	9.00	9.00	9.00

Note 4 – Capital adequacy in accordance with directives of the Supervisor of Banks (continued)

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

Reported amounts (NIS in millions)

	As of June 30		As of December 31
	2012	2011	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	2,095	2,077	2,082
Total cumulative other loss [(1)]	(33)	(26)	(48)
Retained earnings	6,160	5,060	5,614
Minority interest of external shareholders in equity of consolidated subsidiaries	413	365	388
Less:			
Goodwill	(87)	(87)	(87)
Tier I capital after Tier I deductions alone	**8,548**	**7,389**	**7,949**
Less:			
Investments in supervisory capital components of banking corporations	(17)	(19)	(19)
Other deductions from Tier I capital	(10)	(28)	(18)
Total Tier I capital	**8,521**	**7,342**	**7,912**
B. Tier II capital			
1. Upper Tier II capital			
General provision for doubtful debts [(2)]	110	110	110
Complex capital instruments	1,892	1,860	1,869
2. Lower Tier II capital			
Subordinated notes	3,216	3,694	3,780
3. Deductions from Tier II capital			
Investments in supervisory capital components of banking corporations	(17)	(19)	(19)
Other deductions from Tier II capital	(10)	(28)	(18)
Total Tier II capital	**5,191**	**5,617**	**5,722**

(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 4 – Capital adequacy in accordance with directives of the Supervisor of Banks (continued)

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

Reported amounts (NIS in millions)

B. 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%.

C. 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.

D. 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.

Note 5 – Consolidated statement of assets and liabilities by linkage basis

As of June 30, 2012 (unaudited)

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency (1)			Non-	
	Non-linked	CPI-linked	US dollars	Euro	Other currencies	monetary items(2)	Total
Assets							
Cash and deposits with banks	12,997	152	2,058	328	311	-	15,846
Securities	4,255	939	3,189	1,071	31	80	9,565
Securities loaned or sold in conjunction with repurchase agreements	14	117	-	-	-	-	131
Loans to the public, net	62,441	47,235	9,577	2,096	2,072	-	123,421
Loans to Governments	-	-	-	206	3	-	209
Investments in investees	32	-	-	-	-	(14)	18
Buildings and equipment	-	-	-	-	-	1,594	1,594
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	1,472	91	1,085	62	254	-	2,964
Other assets	934	388	76	1	24	53	1,476
Total assets	**82,145**	**48,922**	**15,985**	**3,764**	**2,695**	**1,800**	**155,311**
Liabilities							
Deposits from the public	74,161	22,750	18,343	4,477	2,553	-	122,284
Deposits from banks	144	632	435	449	127	-	1,787
Deposits from the Government	13	89	35	-	-	-	137
Debentures and subordinated notes	2,124	11,749	-	-	-	-	13,873
Liabilities with respect to derivatives	1,542	58	1,948	222	189	-	3,959
Other liabilities	3,542	710	77	5	24	269	4,627
Total liabilities	**81,526**	**35,988**	**20,838**	**5,153**	**2,893**	**269**	**146,667**
Difference	**619**	**12,934**	**(4,853)**	**(1,389)**	**(198)**	**1,531**	**8,644**
Impact of hedging derivatives:							
Derivatives (except for options)	400	(400)	-	-	-		-
Non-hedging financial derivatives:							
Derivatives (except for options)	249	(4,207)	3,650	284	24	-	-
Net in-the-money options (in terms of underlying asset)	(1,404)	-	687	708	2	7	-
Net out-of-the-money options (in terms of underlying asset)	(856)	-	536	332	(4)	(8)	-
Total	**(992)**	**8,327**	**20**	**(65)**	**(176)**	**1,530**	**8,644**
Net in-the-money options (capitalized par value)	816	-	(242)	(408)	(171)	5	-
Net out-of-the-money options (capitalized par value)	1,133	-	(421)	(666)	(40)	(6)	-

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

Note 5 – Consolidated statement of assets and liabilities by linkage basis

As of June 30, 2011 (unaudited) (continued)

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency (1)			Non-	
	Non-linked	CPI-linked	US dollars	Euro	Other currencies	monetary items(2)	Total
Assets							
Cash and deposits with banks	12,755	503	1,753	171	295	-	15,477
Securities	2,417	416	1,633	838	45	82	5,431
Securities loaned or sold in conjunction with repurchase agreements	90	9	-	-	-	-	99
Loans to the public, net	57,900	42,179	8,387	2,217	1,708	-	112,391
Loans to Governments	-	-	1	105	-	-	106
Investments in investees	30	-	-	-	-	(14)	16
Buildings and equipment	-	-	-	-	-	1,551	1,551
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	(3) 1,975	252	124	52	150	-	2,553
Other assets	(3) 1,303	71	85	1	7	54	1,521
Total assets	**76,470**	**43,430**	**11,983**	**3,384**	**2,205**	**1,760**	**139,232**
Liabilities							
Deposits from the public	66,506	22,588	15,621	4,358	2,423	-	111,496
Deposits from banks	400	740	582	178	3	-	1,903
Deposits from the Government	7	119	31	-	-	-	157
Debentures and subordinated notes	1,458	9,843	-	-	-	-	11,301
Liabilities with respect to derivatives	1,586	266	222	135	52	-	2,261
Other liabilities	3,610	677	38	3	10	272	4,610
Total liabilities	**73,567**	**34,233**	**16,494**	**4,674**	**2,488**	**272**	**131,728**
Difference	**2,903**	**9,197**	**(4,511)**	**(1,290)**	**(283)**	**1,488**	**7,504**
Impact of hedging derivatives:							
Derivatives (except for options)	1,020	(1,020)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (except for options)	834	(4,239)	3,118	603	(316)	-	-
Net in-the-money options (in terms of underlying asset)	(2,134)	-	1,220	559	374	(19)	-
Net out-of-the-money options (in terms of underlying asset)	(452)	-	333	55	55	9	-
Total	**2,171**	**3,938**	**160**	**(73)**	**(170)**	**1,478**	**7,504**
Net in-the-money options (capitalized par value)	315	-	(406)	(261)	337	15	-
Net out-of-the-money options (capitalized par value)	(431)	-	1,079	(341)	(413)	106	-

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

Note 5 – Consolidated statement of assets and liabilities by linkage basis

As of December 31, 2011 (audited) (continued)

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency [1]			Non-	
	Non-linked	CPI-linked	US dollars	Euro	Other currencies	monetary items[2]	Total
Assets							
Cash and deposits with banks	12,273	418	2,816	158	307	-	15,972
Securities	5,128	302	1,835	1,051	31	85	8,432
Securities loaned or sold in conjunction with repurchase agreements	12	124	-	-	-	-	136
Loans to the public, net	60,559	44,651	10,099	2,004	2,015	-	119,328
Loans to Governments	-	-	-	196	-	-	196
Investments in investees	31	-	-	-	-	(14)	17
Buildings and equipment	-	-	-	-	-	1,616	1,616
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	1,591	162	1,117	23	222	-	3,115
Other assets	1,018	199	97	-	5	28	1,347
Total assets	**80,612**	**45,856**	**15,964**	**3,432**	**2,580**	**1,802**	**150,246**
Liabilities							
Deposits from the public	72,554	23,046	16,832	4,272	2,532	-	119,236
Deposits from banks	283	681	844	212	(13)	-	2,007
Deposits from the Government	11	107	34	-	-	-	152
Debentures and subordinated notes	2,075	10,127	-	-	-	-	12,202
Liabilities with respect to derivatives	[3] 1,772	187	1,710	172	123	-	3,964
Other liabilities	[3] 3,521	711	50	2	25	322	4,631
Total liabilities	**80,216**	**34,859**	**19,470**	**4,658**	**2,667**	**322**	**142,192**
Difference	396	10,997	(3,506)	(1,226)	(87)	1,480	8,054
Impact of hedging derivatives:							
Derivatives (except for options)	670	(670)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (except for options)	2,125	(5,084)	2,416	511	32	-	-
Net in-the-money options (in terms of underlying asset)	(1,712)	-	1,018	724	(7)	(23)	-
Net out-of-the-money options (in terms of underlying asset)	(274)	-	371	(39)	(56)	(2)	-
Total	**1,205**	**5,243**	**299**	**(30)**	**(118)**	**1,455**	**8,054**
Net in-the-money options (capitalized par value)	6	-	103	(118)	(67)	76	-
Net out-of-the-money options (capitalized par value)	(92)	-	(337)	448	32	(51)	-

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

Note 6 - Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

		As of June 30,			As of December 31,	
		2012		2011		2011
			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	403	3	330	3	340	3
- Loan guarantees	3,142	24	2,676	32	3,195	27
- Guarantees to purchasers of homes	7,976	6	6,454	9	6,810	9
- Other guarantees and liabilities [3]	3,121	15	2,491	11	2,923	17
- Unutilized revolving credit card facilities	6,830	7	6,445	8	6,628	7
- Unutilized debitory account and other credit facilities in accounts available on demand	16,453	33	17,333	69	16,994	34
- Irrevocable commitments for loans approved but not yet granted	9,788	14	9,457	19	9,449	14
- Commitments to issue guarantees	5,698	4	5,107	3	5,127	3

(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 134 million. (as of June 30, 2011 and December 31, 2011 - NIS 156 million and NIS 176 million, respectively).

Note 6 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

		As of June 30,	As of December 31,
	2012	2011	2011
		(unaudited)	(audited)
B. Special commitments			
Obligations with respect to:			
Long-term rental contracts	554	545	532
Computerization and software service contracts	109	54	148
Acquisition and renovation of buildings	10	25	5
Receipt of deposits on future dates[(1)]	400	400	405

		As of June 30,	As of December 31,
	2012	2011	2011
		(unaudited)	(audited)
C. Credit exposure arising from securitization structures by others			
Other credit risk with respect to securitization structures	33	65	61

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

Note 6 - Contingent Liabilities and Special Commitments (continued)

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, 2011.Below is a description of material changes relative to the description provided in the 2011 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 2011 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.

B. In June 2006, an action and a motion for recognition as a class action in the amount of NIS 233 million were lodged in Tel Aviv District Court against the State of Israel – Execution Department, the entire banking system and insurance companies and provident funds.

Note 6 - Contingent Liabilities and Special Commitments (continued)

The plaintiffs allege that since they were awarded judgments, they opened files against various debtors in the Execution Office, within the framework of which, through the Execution Office, they attached various assets held by third parties (banks, insurance companies and provident funds). However, they claim, that these provided them with partial, misleading and incomplete information, as they were apparently unprepared to provide answers through electronic media, even though they collected from the awardees (the plaintiffs) payment for each answer, which they allege is unlawful.

The defendants, including the Bank, have filed a motion to dismiss out of hand the motion for class action status. The Court rejected the Bank motion to reject the claim out of hand, but accepted the motion by the insurance companies and rejected out of hand the motion against them. The Bank has filed a motion for the right to appeal to the Supreme Court. The Supreme Court refused the right to appeal.

In April 2012, District Court dismissed the plaintiffs' claim and motion for class action status.

C. In July 2006, an action and motion for recognition as a class action were lodged in Tel Aviv District Court against the Bank in an amount exceeding NIS 2.5 million, for management fees commissions charged to customers on securities deposits, as defined in the Bank's commissions price list, at amounts above those to which the Bank is entitled according to its own price list and allegedly in violation of the law.

In January 2007, the Bank filed its response to the motion for class action status. In its response the Bank claims that plaintiff's claims are not only in contradiction of the Bank price list, but also in contradiction of logic and common sense. The Bank further argues that the plaintiff has no cause and therefore no foundation for a personal claim against the Bank. The Bank also argues that, prima facie, the claim is not appropriate for class action status, and that the plaintiff has failed to meet even a single criterion required by the Class Action Act for his motion for class action status to be accepted.

On November 10, 2010, the Tel Aviv District Court granted class action status to this lawsuit, and determined that the class on behalf of which this class action suit would be heard includes all clients who had owned a securities deposit in the seven-year period preceding the filing of the motion (July 2006), and who were over-charged by the Bank with respect to minimum client commission. The remedy sought by the class in the class action suit is refund of the over-charged amounts.

In accordance with the decision by the court, the cause for the class action suit is breach of contract, and the legal issue common to class members is the issue of interpretation of price list provisions with regard to charging of minimum quarterly commission. The Court has instructed the plaintiff to file a statutory notice with the Court, which is to be published, after being approved by the Court, in newspapers as determined by the Court.

The Bank has filed a motion to appeal the Court's decision, and the Supreme Court has ordered a stay of the decision to approve the lawsuit pending a decision on the motion to appeal.

Concurrently, a motion was filed for approval of a settlement agreement in this case. The settlement agreement is subject to approval by the Court and to accepting the position of the Government's Legal Counsel.

In June 2012, the District Court approved the settlement agreement, which was adopted as a verdict.

D. In January 2008, a claim against the Bank was filed with the Central District Court at Petah-Tikva, along with a motion for class action status, amounting to NIS 237 million.

Note 6 - Contingent Liabilities and Special Commitments (continued)

The plaintiff claims that the Bank lowers interest rates paid on renewable short-term deposits based on a non-binding outlook for reduction of the Bank of Israel interest rate. By contrast, when a similar outlook existed for raising the Bank of Israel interest rate, interest rates on deposits were only raised by the Bank after the date on which the Bank of Israel actually raised its interest rate.

The plaintiff further claims that the Bank acted arbitrarily and misled its customers in the pre-contract stage – by not disclosing to customers that it used different criteria for raising the Bank of Israel interest rate compared to those for lowering the Bank of Israel interest rate, as well as during the contract stage - by not informing its customers that it had lowered interest rates for such deposits based on the outlook for a reduction in Bank of Israel interest rates rather than on actual reduction thereof.

The plaintiff claims that the Bank was also in breach of its duty to disclose, imposed by the Banking Act (Customer Service). The plaintiff further claims that should it be determined that under terms of the contract between the Bank and the customer, the Bank may lower interest rates at will, according to the plaintiff, this is a discriminatory condition in a uniform contract.

In May 2008, the Bank filed its response to the motion, in which it rejected the claims made by the customer, and stated that the claim whereby the Bank had to modify interest rates on fixed-rate deposits exclusively in accordance with Bank of Israel interest rates was fallacious, counter to agreements between the customer and the Bank and contrary to reason. The Bank further claimed that the plaintiff's claim with regard to expectations was also unfounded, since interest on deposits was based on a range of economic and macro-economic considerations, commercial considerations by the Bank and considerations with regard to particular customers. Evidence in this case was heard in 2010.

In May 2011, the parties filed a motion with the Court, seeking approval of a settlement whereby the fixed interest deposit form would be amended to include clarification of the circumstances of change in interest rate for renewed deposits as stated above. The Court has yet to decide on this motion.

In February 2012, the District Court approved the settlement agreement between the parties to this case, which was adopted as a verdict.

E. In February 2010, a claim and motion for class action status was filed with the Central District Court, in the non-specific amount of tens of millions of NIS. The plaintiff asks the Court to determine that the lawsuit is to be filed in the name of all Bank clients who have repaid a loan granted by the Bank, to buy a residential apartment or secured by a residential apartment (housing loan) before its scheduled maturity, by means of another loan granted by the Bank (refinancing loan), and whose account was charged a fee for lack of advance notice, in the period started 7 years prior to filing the motion. The plaintiff claims that the Bank is in breach of provisions of the Banking Ordinance (Early Repayment Commission), 2002 and charges its clients a commission for lack of advance notice, even when the early repayment is made by means of another loan granted by the Bank. The plaintiff further claims that the Bank does not provide clients with commission details after such repayment, and therefore the clients are allegedly unaware of the components included in the commission amount charged by the Bank.

Note 6 - Contingent Liabilities and Special Commitments (continued)

In May 2010, the Bank filed its response with the Court, claiming that the Bank acts in compliance with provisions of the Banking Ordinance, and that this was a specific error and not a method of action, so that the claim should not be granted class action status. The parties have filed a motion with the Court to approve a settlement agreement, which was published in two daily newspapers. The settlement amount is small and is not material.

In February 2012, the District Court approved the settlement agreement, which was adopted as a verdict.

F. In May 2011, the Bank received a claim and motion for approval of class action status. The lawsuit concerns two alleged claims against the Bank - first, late reporting to the Court Order Execution Service of payments made to reduce debt which is subject to proceedings at the Court Order Execution Service; and second, failure to indicate on the reporting forms the number of the principal to which the reported payment should be credited, and the number of interest calculation rule which applies to the reported payment amount.

The lawsuit and motion allege that, by late reporting to the Court Order Execution Service and by failure to provide the aforementioned indications on the reporting forms, the Bank misleads clients, causes clients not to be credited with interest in line with the date of their payment and in accordance with the correct interest rate, creates a situation in which the debt on Court Order Execution Service files is higher than the real debt, and over-charges in payments. The lawsuit and motion further allege that the Enforcement and Collection Authority and the Court Order Execution Service admit that under crediting occurs in case of late reporting and failure to provide the required indications on the reporting form.

The plaintiff claims he is unable to estimate the damage incurred by the entire class of plaintiffs, but believes (on a basis which is not clear to the Bank) that it amounts to hundreds of millions of NIS.

On January 9, 2012, the Bank filed its response to the motion, describing in detail the factual and legal defense claims made by the Bank. On May 20, 2012, the plaintiff filed their response to the Bank's response to the motion. In view of new claims made by the plaintiff in their response to the Bank's response, the Bank was requested, as approved by the Court, to file a response to these new claims, no later than August 14, 2012.

G. In May 2011, the Bank received a claim and motion for approval of class action in the adjusted amount of NIS 181 million. The claim involves alleged unlawful charging of early repayment commission for additional housing loans. The plaintiff claims that the Bank allegedly unlawfully charges an early repayment commission for additional loans, without the reduction required by law. In March 2012, the Bank filed its response to the motion with the Court.

H. In July 2011, a claim was filed with the Central District Court in the amount of NIS 81.8 million for alleged forward transactions made in the plaintiffs' account, which allegedly caused the plaintiffs to incur a loss. The plaintiffs claim that the Bank acted unilaterally in the account and without prior notification about collateral calculation, causing the plaintiffs to incur losses by taking risky positions. The plaintiffs claim that the Bank, by deed or omission, caused the account and the investment portfolio to collapse. In January 2012, the Bank filed a statement of defense. The Bank claims that the plaintiff is skilled and familiar with the capital market, and the Bank acted professionally, thoroughly and skillfully at all times. In February 2012, a pre-trial hearing was conducted in this case.

Note 6 - Contingent Liabilities and Special Commitments (continued)

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding class action lawsuits whose outcome may not be assessed at this time, there is additional, non-minimal exposure for which no provision was made, amounting to NIS 110 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, so that no provision was made for them.

A. In August 2011, a claim and motion for class action status was filed with the Central District Court amounting to hundreds of millions of NIS (as per the claim statement); no specific amount was claimed. The plaintiff seeks a verdict, pursuant to the Class Action Lawsuit Act, whereby the claim would be made on behalf of all Bank clients whose account was charged legal fees not approved by any legal jurisdiction, or whose account was charged unlawful interest with respect to approved legal fees.
This proceeding is in early stages.

B. In August 2011, a claim and motion for class action status was filed with the Tel Aviv District Court amounting to hundreds of millions of NIS (as per the claim statement); no specific amount was claimed. The plaintiff seeks a verdict, pursuant to the Class Action Lawsuit Act, whereby the claim would be made on behalf of all Bank clients whose account was charged legal fees not approved by any legal jurisdiction, or whose account was charged with unlawful interest with respect to approved legal fees. This proceeding is in early stages.

C. In September 2011, a claim and motion for class action status was filed with the Central District Court amounting to NIS 927 million on adjusted basis, for alleged unlawful charging of compound interest, in contravention of statutes and agreements, on housing loans - including targeted loans, eligibility loans and additional loans, excluding standing loans.
The motion was also filed against Bank Leumi LeMashkantaot and Bank HaPoalim.
In May 2012, the Bank filed its response to the motion with the Court.

D. In November 2011, Bank Yahav received a claim filed with the Haifa District Court, against Bank Yahav and Bank Benleumi. The claim alleges that the banks over-charged cash handling fees. The plaintiff also filed a motion for class action status, for a total amount of NIS 200 million. Bank Yahav is reviewing this claim. At this stage, its impact on the Bank Group cannot be assessed.

E. In December 2011, a claim was filed with the Tel Aviv District Court, along with a motion for class action status, in the amount of NIS 26 million, for commission charged for the service "cash handling by teller". The plaintiff claims that the Bank may only charge a commission for withdrawals in excess of NIS 10,000.
The Bank has yet to file a response to this motion.

Note 6 - Contingent Liabilities and Special Commitments (continued)

F. 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 defendants by virtue of being shareholders of ABS, whereas the Bank is defendant, even though its ABS shares were sold to others back in 1980, however the Bank retains the right to appoint an observer at meetings of the ABS Board of Directors.
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 from the early 1990s through commencement of the Supervisor's inquiry into this matter, in November 2004.This is a civil determination which constitutes a-priori evidence of its content 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)P. to the financial statements as of December 31, 2011.

5) On May 9, 2012, the Bank received a letter from the Supervisor of Banks, which announces the filing of a motion to impose a monetary sanction on the Bank for an alleged breach of provisions of the Prohibition on Money Laundering Act, 2000. The motion to impose a monetary sanction is based on findings in an audit report by the Supervisor of Banks with regard to AML, which refers to the period from 2007 through mid-2010.

   The Bank has reviewed the findings listed in the audit report. The Bank has accepted some of these, with regard to the period under review. Moreover, in early 2010 the Bank replaced the person in charge of implementing the Bank's obligations pursuant to the Act, and since then the Bank has

   expanded its activity, including with regard to training and deployment of the relevant directives, and has taken extensive measures to amend the shortcomings listed in the audit report, which were mostly relevant only for the period under review.

   The Bank filed its response to this motion on June 9, 2012.
   On July 24, 2012, the committee held a meeting at which the Bank concluded its oral arguments, in conformity with committee procedures.

   The Bank has yet to receive the committee's decision.

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

Reported amounts (NIS in millions)

A. Activity on consolidated basis

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

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

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

Note 7 - Financial derivatives activity volume, credit risk and maturity dates (continued)

Reported amounts (NIS in millions)

A. Activity on consolidated basis

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

(1) Except for credit derivatives and spot contracts for foreign currency swaps.
(2) Derivatives that 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 7 - Financial derivatives activity volume, credit risk and maturity dates (continued)

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	As of June 30, 2011 (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	1,020	-	-	-	-	1,020
Swaps	-	1,737	-	-	-	1,737
Total	**1,020**	**1,737**	**-**	**-**	**-**	**2,757**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	1,737	-	-	-	1,737
B. ALM derivatives (1)(2)						
Forward contracts	8,711	5,928	60,916	153	64	75,772
Option contracts traded on stock exchange:						
Options written	-	-	2,222	895	-	3,117
Options purchased	-	-	(3) 2,192	981	-	3,173
Other option contracts:						
Options written	-	-	9,923	481	-	10,404
Options purchased	-	-	9,817	603	-	10,420
Swaps	1,183	45,282	9,054	-	-	55,519
Total	**9,894**	**51,210**	**94,124**	**3,113**	**64**	**158,405**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	683	25,919	-	-	-	26,602
C. Other derivatives (1)						
Forward contracts	-	-	946	-	-	946
Option contracts traded on stock exchange:						
Options written	-	-	5,326	15,083	-	20,409
Options purchased	-	-	5,326	15,083	-	20,409
Other option contracts:						
Options written	-	722	221	173	1	1,117
Options purchased	-	725	245	121	1	1,092
Total	**-**	**1,447**	**12,064**	**30,460**	**2**	**43,973**

(1) Except for credit derivatives and spot contracts for foreign currency swaps.
(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.
(3) Reclassified.

Note 7 - Financial derivatives activity volume, credit risk and maturity dates (continued)

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	As of June 30, 2011 (unaudited)					
	Interest contracts				Commodity	
			Currency	Contracts	contracts	
	NIS - CPI	Other	contracts	for shares	and others	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	1,444	1,444
Credit derivatives in which the Bank is beneficiary	-	-	-	-	25	25
Foreign currency spot swap contracts	-	-	3,720	-	-	3,720
Total	**-**	**-**	**3,720**	**-**	**1,469**	**5,189**
Total stated amounts of derivatives	**10,914**	**54,394**	**109,908**	**33,573**	**1,535**	**210,324**
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives (1)						
Positive fair value, gross	-	-	-	-	-	-
Negative fair value, gross	18	191	-	-	-	209
B. ALM derivatives (1)(2)						
Positive fair value, gross	93	449	(4) 1,784	18	-	2,344
Negative fair value, gross	154	470	1,205	20	-	1,849
C. Other derivatives (1)						
Positive fair value, gross	-	9	96	105	-	210
Negative fair value, gross	-	9	94	113	-	216
D. Credit derivatives						
Credit derivatives in which the Bank is guarantor						
Positive fair value, gross	-	-	-	-	-	-
Negative fair value, gross	-	-	-	-	10	10
Total positive fair value, gross (3)	**93**	**458**	**1,880**	**123**	**-**	**2,554**
Total negative fair value, gross (3)	**172**	**670**	**1,299**	**133**	**10**	**2,284**

(1) Except for credit derivatives.

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

(3) Of which positive fair value, gross of embedded derivatives amounting to NIS 1 million and negative fair value, gross of embedded derivatives amounting to NIS 23 million.

(4) Reclassified.

Note 7 - Financial derivatives activity volume, credit risk and maturity dates (continued)

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	As of December 31, 2011 (audited)					
	Interest contracts				Commodity contracts	
	NIS - CPI	Other	Currency contracts	Contracts for shares	and others	Total
1. Stated amounts of financial derivatives						
A. Hedging derivatives [(1)]						
Forward contracts	670	-	-	-	-	670
Swaps	-	2,211	-	-	-	2,211
Total	**670**	**2,211**	**-**	**-**	**-**	**2,881**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	2,211	-	-	-	2,211
B. ALM derivatives [(1)(2)]						
Forward contracts	9,721	3,509	58,780	119	15	72,144
Option contracts traded on stock exchange:						
Options written	-	-	2,436	338	-	2,774
Options purchased	-	-	[(3)] 3,317	763	-	4,080
Other option contracts:						
Options written	-	-	11,396	803	12	12,211
Options purchased	-	-	10,559	366	12	10,937
Swaps	1,279	40,068	10,541	-	-	51,888
Total	**11,000**	**43,577**	**97,029**	**2,389**	**39**	**154,034**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	779	24,983	-	-	-	25,762
C. Other derivatives [(1)]						
Forward contracts	-	-	427	-	-	427
Option contracts traded on stock exchange:						
Options written	-	-	5,096	9,120	2	14,218
Options purchased	-	-	5,096	9,120	2	14,218
Other option contracts:						
Options written	-	1,016	7	649	-	1,672
Options purchased	-	1,019	26	591	-	1,636
Swaps	-	-	-	3,863	-	3,863
Total	**-**	**2,035**	**10,652**	**23,343**	**4**	**36,034**

(1) Except for credit derivatives and spot contracts for foreign currency swaps.
(2) Drivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.
(3) Reclassified.

Note 7 - Financial derivatives activity volume, credit risk and maturity dates (continued)

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	As of December 31, 2011					
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodity contracts and others	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	535	535
Credit derivatives in which the Bank is beneficiary	-	-	-	-	28	28
Foreign currency spot swap contracts	-	-	2,364	-	-	2,364
Total	**-**	**-**	**2,364**	**-**	**563**	**2,927**
Total stated amounts of derivatives	**11,670**	**47,823**	**110,045**	**25,732**	**606**	**195,876**
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives (1)						
Positive fair value, gross	5	-	-	-	-	5
Negative fair value, gross	-	292	-	-	-	292
B. ALM derivatives(1)(2)						
Positive fair value, gross	209	995	(3) 1,541	(3) 140	1	2,886
Negative fair value, gross	144	1,287	1,918	113	1	3,463
C. Other derivatives (1)						
Positive fair value, gross	-	3	81	140	-	224
Negative fair value, gross	-	3	78	136	-	217
D. Credit derivatives						
Credit derivatives in which the Bank is guarantor	-	-	-	-	-	-
Negative fair value, gross	-	-	-	-	9	9
Total positive fair value, gross	**214**	**998**	**1,622**	**280**	**1**	**3,115**
Total negative fair value, gross (4)	**144**	**1,582**	**1,996**	**249**	**10**	**3,981**

(1) Except for credit derivatives and spot contracts for foreign currency swaps.
(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.
(3) Reclassified.
(4) Includes negative fair value, gross, of embedded derivatives amounting to NIS 17 million.

Note 7 - Financial derivatives activity volume, credit risk and maturity dates (continued)

Reported amounts (NIS in millions)

B. Credit risk on financial derivatives according to counter-party to the contract - Consolidated

	As of June 30, 2012 (unaudited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Balance sheet balances of underlying assets(1)	300	1,978	8	-	678	2,964
Less offset agreements	-	1,635	-	-	-	1,635
Balance sheet balances of derivative instruments, after offset	**300**	**343**	**8**	**-**	**678**	**1,329**
Off-balance sheet credit risk on financial derivatives (2)	23	1,575	204	-	2,490	4,292
Total credit risk on financial derivatives	**323**	**1,918**	**212**	**-**	**3,168**	**5,621**

In the six-month period ended June 30, 2012, the Bank recognized credit loss with respect to derivatives amounting to NIS 14 million.

	As of June 30, 2011 (unaudited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Balance sheet balances of underlying assets(1)	(3) 218	1,899	12	-	425	2,554
Less offset agreements	-	93	-	-	14	107
Balance sheet balances of derivative instruments, after offset	**218**	**1,806**	**12**	**-**	**411**	**2,447**
Off-balance sheet credit risk on financial derivatives (2)	632	10,966	9	-	3,299	14,906
Total credit risk on financial derivatives	**850**	**12,772**	**21**	**-**	**3,710**	**17,353**

	As of December 31, 2011 (audited)					
	Stock exchanges(3)	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Balance sheet balances of underlying assets(1)	291	2,002	21	-	801	3,115
Less offset agreements	-	581	-	-	-	581
Balance sheet balances of derivative instruments, after offset	**291**	**1,421**	**21**	**-**	**801**	**2,534**
Off-balance sheet credit risk on financial derivatives (2)	71	2,681	126	-	2,130	5,008
Total credit risk on financial derivatives	**362**	**4,102**	**147**	**-**	**2,931**	**7,542**

(1) Includes positive gross fair value of embedded derivatives amounting to NIS zero (as of December 31, 2011 - NIS zero and as of June 30, 2011 - NIS 1 million), and carrying amount of stand-alone derivatives amounting to NIS 2,964 million (as of December 31, 2011 - NIS 3,115 million and as of June 30, 2011 - NIS 2,553 million).

(2) Off-balance sheet credit risk for financial derivatives (including those with negative fair value) as calculated for the purposes of the per-borrower limitation in Regulation 313.
On May 8, 2011, the Supervisor of Banks issued a circular revising the definition of off-balance sheet credit risk in Proper Conduct of Banking Business Regulation 313 "Limitations on Indebtedness of a Borrower and a Group of Borrowers". Therefore, data presented as from December 31, 2011 is not comparable to data for prior periods.

(3) Reclassified.

Note 7 - Financial derivatives activity volume, credit risk and maturity dates (continued)

Reported amounts (NIS in millions)

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

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

	As of June 30, 2011 (unaudited)				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	**Total**
Interest contracts:					
NIS-CPI	939	4,606	4,152	1,217	10,914
Other	9,169	18,829	11,967	14,429	54,394
Currency contracts	(1) 70,975	30,326	3,270	5,337	109,908
Contracts for shares	32,464	963	146	-	33,573
Commodities and other contracts	67	1,085	315	68	1,535
Total	**113,614**	**55,809**	**19,850**	**21,051**	**210,324**

	As of December 31, 2011 (audited)				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	**Total**
Interest contracts:					
NIS-CPI	3,135	4,159	3,125	1,251	11,670
Other	6,155	13,896	12,706	15,066	47,823
Currency contracts	(1) 67,072	32,756	4,630	5,587	110,045
Contracts for shares	22,158	3,304	270	-	25,732
Commodities and other contracts	35	332	200	39	606
Total	**98,555**	**54,447**	**20,931**	**21,943**	**195,876**

(1) Reclassified.

Note 8 – Balances and Estimates of Fair Value of Financial Instruments

Reported amounts, in NIS millions

A. Fair value balances

	June 30, 2012 (unaudited)			
	Book balance			
	(1)	(2)	Total	Fair value
Financial assets				
Cash and deposits with banks	11,875	3,971	15,846	15,887
Securities	8,429	1,136	9,565	9,564
Securities loaned or sold in repurchase agreements	131	-	131	131
Loans to the public, net	11,209	112,212	123,421	124,854
Loans to Governments	-	209	209	213
Investments in investees	32	-	32	32
Assets with respect to derivatives	2,964	-	2,964	2,964
Other financial assets	1,355	-	1,355	1,355
Total financial assets	**35,995**	**117,528**	**153,523**	**155,000**
Financial liabilities				
Deposits from the public	19,424	102,860	122,284	124,242
Deposits from banks	863	924	1,787	1,837
Deposits from the Government	16	121	137	152
Debentures and subordinated notes	-	13,873	13,873	15,020
Liabilities with respect to derivatives	3,959	-	3,959	3,959
Other financial liabilities	3,368	-	3,368	3,368
Total financial liabilities	**27,630**	**117,778**	**145,408**	**148,578**

(1) Financial instruments where the carrying amount equals the fair value (instruments stated at fair value on the balance sheet), or closely approximates the fair value (instruments with original term of up to 3 months, for which the carrying amount is used as approximation of their fair value).

(2) Other financial instruments.

Note 8 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts, in NIS millions

A. Fair value balances

	June 30, 2011 (Unaudited)			
	Book balance			
	(1)	(2)	Total	Fair value
Financial assets				
Cash and deposits with banks	11,765	3,712	15,477	15,491
Securities	5,129	302	5,431	(3) 5,431
Securities loaned or sold in repurchase agreements	99	-	99	99
Loans to the public, net	11,616	100,775	112,391	113,695
Loans to Governments	-	106	106	104
Investments in investees	30	-	30	30
Assets with respect to derivatives	(3) 2,553	-	(3) 2,553	2,553
Other financial assets	(3) 1,416	-	(3) 1,416	1,416
Total financial assets	**32,608**	**104,895**	**137,503**	**138,819**
Financial liabilities				
Deposits from the public	20,306	91,190	111,496	112,595
Deposits from banks	516	1,387	1,903	1,951
Deposits from the Government	9	148	157	173
Debentures and subordinated notes	-	11,301	11,301	11,882
Liabilities with respect to derivatives	2,261	-	2,261	2,261
Other financial liabilities	3,478	1	3,479	3,479
Total financial liabilities	**26,570**	**104,027**	**130,597**	**132,341**

(1) Financial instruments where the carrying amount equals the fair value (instruments stated at fair value on the balance sheet), or closely approximates the fair value (instruments with original term of up to 3 months, for which the carrying amount is used as approximation of their fair value).
(2) Other financial instruments.
(3) Reclassified.

Note 8 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts, in NIS millions

A. Fair value balances - Continued

	December 31, 2011 (Audited)			
	Book balance			
	(1)	(2)	Total	Fair value
Financial assets				
Cash and deposits with banks	12,274	3,698	15,972	15,983
Securities	7,729	703	8,432	8,427
Securities loaned or sold in repurchase agreements	136	-	136	136
Loans to the public, net	11,141	108,187	119,328	120,948
Loans to Governments	-	196	196	196
Investments in investees	31	-	31	31
Assets with respect to derivatives	(3) 3,115	-	(3) 3,115	(3) 3,115
Other financial assets	(3) 1,249	-	(3) 1,249	(3) 1,249
Total financial assets	**35,675**	**112,784**	**148,459**	**150,085**
Financial liabilities				
Deposits from the public	19,936	99,300	119,236	120,845
Deposits from banks	1,053	954	2,007	2,054
Deposits from the Government	12	140	152	166
Debentures and subordinated notes	-	12,202	12,202	13,116
Liabilities with respect to derivatives	3,964		3,964	3,964
Other financial liabilities	3,240	1	3,241	3,241
Total financial liabilities	**28,205**	**112,597**	**140,802**	**143,386**

(1) Financial instruments where the carrying amount equals the fair value (instruments stated at fair value on the balance sheet), or closely approximates the fair value (instruments with original term of up to 3 months, for which the carrying amount is used as approximation of their fair value).
(2) Other financial instruments.
(3) Reclassified.

Note 8 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts, in NIS millions

B. Items measured at fair value on recurrent basis

	June 30, 2012 (unaudited)			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Balance sheet balance
Assets				
Securities available for sale				
Debentures and bonds				
Of Government of Israel	2,604	3,571		6,175
Of foreign governments	100	-	-	100
Of banks and financial institutions in Israel	121	-	-	121
Of banks and financial institutions overseas	-	250	230	480
Asset-backed	-	-	33	33
Of others in Israel	60	-		60
Of others overseas	10	135	36	181
Shares	5	-	-	5
Securities held for trading:				
Debentures of the Government of Israel	1,272	-	-	1,272
Of banks and financial institutions overseas	4	-	-	4
Securities loaned or sold in repurchase agreements	131	-	-	131
Credit with respect to loans to clients	242	-	-	242
Assets with respect to derivatives				
Interest contracts:				
Shekel/ CPI	-	20	59	79
Other	-	1,173	6	1,179
Currency contracts	193	1,295	-	1,488
Contracts for shares	114	91	13	218
Commodities and other contracts	-	-	-	-
Total assets	**4,856**	**6,535**	**377**	**11,768**
Liabilities				
Deposits with respect to borrowing from clients	242	-	-	242
Liabilities with respect to derivatives				
Interest contracts:				
Shekel/ CPI	-	16	4	20
Other	-	1,731	6	1,737
Currency contracts	117	1,922	-	2,039
Contracts for shares	58	95	6	159
Commodities and other contracts	-	4	-	4
Other	-	-	4	4
Total liabilities	**417**	**3,768**	**20**	**4,205**

Note 8 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts, in NIS millions

B. Items measured at fair value on recurrent basis

				June 30, 2011 (unaudited)
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Balance sheet balance
Assets				
Securities available for sale				
Debentures and bonds				
Of Government of Israel	2,312	1,793	-	4,105
Of foreign governments	82	-	-	82
Of banks and financial institutions in Israel	127	-	-	127
Of banks and financial institutions overseas	-	(1) 278	(1) 287	565
Asset-backed	-	-	65	65
Of others in Israel	56	-	-	56
Of others overseas	-	38	43	81
Shares	3	-	-	3
Securities held for trading:				
Debentures of the Government of Israel	263	-	-	263
Of banks and financial institutions overseas	5	-	-	5
Securities loaned or sold in repurchase agreements	99	-	-	99
Credit with respect to loans to clients	302	-	-	302
Assets with respect to derivatives				-
Interest contracts:				-
Shekel/ CPI	-	80	13	93
Other	-	449	9	458
Currency contracts	(1) 126	1,754	-	(1) 1,180
Contracts for shares	98	8	16	122
Commodities and other contracts	-	-	-	-
Total assets	**3,473**	**4,400**	**433**	**8,306**
Liabilities				
Deposits with respect to borrowing from clients	302	-	-	302
Liabilities with respect to derivatives				-
Interest contracts:				-
Shekel/ CPI	-	102	70	172
Other	-	661	9	670
Currency contracts	126	1,172	-	1,298
Contracts for shares	98	11	2	111
Commodities and other contracts	-	10	-	10
Other	-	17	7	24
Total liabilities	**526**	**1,973**	**88**	**2,587**

(1) Reclassified.

Note 8 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts, in NIS millions

B. Items measured at fair value on recurrent basis

				December 31, 2011
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Balance sheet balance
Assets				
Securities available for sale				
Debentures and bonds				
Of Government of Israel	3,227	2,297	-	5,524
Of foreign governments	86	-	-	86
Of banks and financial institutions in Israel	159	-	-	159
Of banks and financial institutions overseas	-	192	220	412
Asset-backed	-	-	61	61
Of others in Israel	81	-	-	81
Of others overseas	9	89	37	135
Shares	6	-	-	6
Securities held for trading:				
Debentures of the Government of Israel	1,183	-	-	1,183
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				-
Interest contracts:				-
Shekel/ CPI	-	116	98	214
Other	-	995	3	998
Currency contracts	(1) 76	1,464	-	(1) 1,540
Contracts for shares	230	102	30	362
Commodities and other contracts	-	1	-	1
Total assets	**5,427**	**5,256**	**449**	**11,132**
Liabilities				
Deposits with respect to borrowing from clients	231	-	-	231
Liabilities with respect to derivatives				
Interest contracts:				
Shekel/ CPI	-	117	27	144
Other	-	1,579	3	1,582
Currency contracts	122	1,874	-	1,996
Contracts for shares	124	100	8	232
Commodities and other contracts	-	10	-	10
Other	-	11	6	17
Total liabilities	**477**	**3,691**	**44**	**4,212**

(1) Reclassified.

Note 8 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts, in NIS millions

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

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

	Fair value as of March 31, 2012	Realized / unrealized gain (loss), net [(1)] included: On statement of profit and loss	Realized / unrealized gain (loss), net [(1)] included: On statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of June 30, 2012	Unrealized gain (loss) with respect to instruments held as of June 30, 2012
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	218	11	1	-	-	-	-	230	12
Asset-backed	61	(12)	(1)	-	(15)	-	-	33	(9)
Of others overseas	36	-	-	-	-	-	-	36	-
Assets with respect to derivatives [(2)]									
Interest contracts:									
Shekel/ CPI	64	(25)	-	-	16	-	4	59	(25)
Other	6	-	-	-	-	-	-	6	-
Contracts for shares	22	(9)	-	-	-	-	-	13	(9)
Total assets	**407**	**(35)**	**-**	**-**	**1**	**-**	**4**	**377**	**(31)**
Liabilities									
Liabilities with respect to derivatives [(2)]									
Interest contracts:									
Shekel/ CPI	14	(28)	-	-	20	-	(2)	4	(28)
Other	6	-	-	-	-	-	-	6	-
Contracts for shares	13	(7)	-	-	-	-	-	6	(7)
Other [(2)]	5	(1)	-	-	-	-	-	4	(1)
Total liabilities	**38**	**(36)**	**-**	**-**	**20**	**-**	**(2)**	**20**	**(36)**

(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) Included on statement of profit and loss under "Non-interest financing revenues".

Note 8 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts, in NIS millions

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

For the three months ended June 30, 2011 (unaudited)

		Realized / unrealized gain (loss), net (1) included							
	Fair value as of March 31, 2011	On statement of profit and loss	On statement of other comprehen-sive income under Equity	Acquis-itions	Sales	Dispo-sitions	Transfer to level 3	Fair value as of June 30, 2011	Unrealized gain (loss) with respect to instruments held as of June 30, 2011
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	359	(2)	1	-	-	(71)	-	(3) 287	(1)
Asset-backed	65	-	-	-	-	-	-	65	-
Of others overseas	43	-	-	-	-	-	-	43	-
Assets with respect to derivatives (2)									
Interest contracts:									
Shekel/ CPI	3	1	-	-	-	-	9	13	1
Other	7	(2)	-	4	-	-	-	9	(2)
Contracts for shares	21	(5)	-	-	-	-	-	6	(5)
Total assets	**498**	**(8)**	**1**	**4**	**-**	**(71)**	**9**	**433**	**(7)**
Liabilities									
Liabilities with respect to derivatives (2)									
Interest contracts:									
Shekel/ CPI	64	8	-	(4)	-	-	2	70	8
Other	7	(2)	-	4	-	-	-	9	(2)
Contracts for shares	5	(3)	-	-	-	-	-	2	(3)
Other (2)	8	(1)	-	-	-	-	-	7	(1)
Total liabilities	**84**	**2**	**-**	**-**	**-**	**-**	**2**	**88**	**2**

(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) Included on statement of profit and loss under "Non-interest financing revenues".

(3) Reclassified.

Note 8 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts, in NIS millions

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

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

		Realized / unrealized gain (loss), net [1] included							
	Fair value as of December 31, 2011	On statement of profit and loss	On statement of other comprehensive income under Equity	Acquis-itions	Sales	Dispo-sitions	Transfer to level 3	Fair value as of June 30, 2012	Unrealized gain (loss) with respect to instruments held as of June 30, 2012
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	220	8	2	-	-	-	-	230	9
Asset-backed	61	(12)	(1)	-	(15)	-	-	33	(9)
Of others overseas	37	-	-	-	(1)	-	-	36	-
Assets with respect to derivatives [2]									
Interest contracts:									
Shekel/ CPI	98	(35)	-	-	(13)	-	9	59	(35)
Other	3	3	-	-	-	-	-	6	3
Contracts for shares	30	(17)	-	-	-	-	-	13	(17)
Total assets	**449**	**(53)**	**1**	**-**	**(29)**	**-**	**9**	**377**	**(49)**
Liabilities									
Liabilities with respect to derivatives [2]									
Interest contracts:									
Shekel/ CPI	27	(23)	-	-	(2)	-	2	4	(23)
Other	3	3	-	-	-	-	-	6	3
Contracts for shares	8	(2)	-	-	-	-	-	6	(2)
Other [2]	6	(1)	-	-	(1)	-	-	4	(1)
Total liabilities	**44**	**(23)**	**-**	**-**	**(3)**	**-**	**2**	**20**	**(23)**

(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) Included on statement of profit and loss under "Non-interest financing revenues".
(3) Reclassified.

Note 8 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts, in NIS millions

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

For the six months ended June 30, 2011 (unaudited)

	Fair value as of December 31, 2011	Realized / unrealized gain (loss), net [1] included: On statement of profit and loss	Realized / unrealized gain (loss), net [1] included: On statement of other comprehen-sive income under Equity	Acquis-itions	Sales	Dispo-sitions	Transfer to level 3	Fair value as of June 30, 2011	Unrealized gain (loss) with respect to instruments held as of June 30, 2011
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	221	(4)	2	139	-	(71)	-	[3] 287	(2)
Asset-backed	60	-	5	-	-	-	-	65	5
Of others overseas	45	(2)	-	-	-	-	-	43	-
Assets with respect to derivatives [2]									
Interest contracts:									
Shekel/ CPI	8	(3)	-	(3)	-	-	11	13	(3)
Other	4	(1)	-	6	-	-	-	9	(1)
Contracts for shares	17	(3)	-	2	-	-	-	16	(3)
Total assets	**355**	**(13)**	**7**	**144**	**-**	**(71)**	**11**	**433**	**(4)**
Liabilities									
Liabilities with respect to derivatives [2]									
Interest contracts:									
Shekel/ CPI	62	17	-	(54)	-	-	45	70	17
Other	4	(1)	-	6	-	-	-	9	(1)
Contracts for shares	-	2	-	-	-	-	-	2	2
Other [2]	3	2	-	2	-	-	-	7	2
Total liabilities	**69**	**20**	**-**	**(46)**	**-**	**-**	**45**	**88**	**20**

(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) Included on statement of profit and loss under "Non-interest financing revenues".

(3) Reclassified.

Note 8 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts, in NIS millions

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

For the year ended December 31, 2011 (audited)

	Fair value as of January 1, 2011	Realized / unrealized gain (loss), net [1] included: On statement of profit and loss	Realized / unrealized gain (loss), net [1] included: On statement of other comprehensive income under Equity	Acquis-itions	Sales	Dispo-sitions	Transfer to level 3	Fair value as of December 31, 2011	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	221	-	(1)	-	-	-	-	220	(1)
Asset-backed	60	-	1	-	-	-	-	61	1
Of others overseas	45	2	(3)	-	-	(7)	-	37	(1)
Assets with respect to derivatives [2]									
Interest contracts:									
Shekel/ CPI	8	2	-	-	(10)	-	98	98	2
Other	4	(1)	-	-	-	-	-	3	(1)
Contracts for shares	17	11	-	2	-	-	-	30	3
Total assets	**355**	**14**	**(3)**	**2**	**(10)**	**(7)**	**98**	**449**	**3**
Liabilities									
Liabilities with respect to derivatives [2]									
Interest contracts:									
Shekel/ CPI	62	(1)	-	-	(61)	-	27	27	(1)
Other	4	(1)	-	-	-	-	-	3	(1)
Contracts for shares	-	8	-	-	-	-	-	8	8
Other [2]	3	-	-	3	-	-	-	6	-
Total liabilities	**69**	**6**	**-**	**3**	**(61)**	**-**	**27**	**44**	**6**

(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) Included on statement of profit and loss under "Non-interest financing revenues".

Note 8 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts, in NIS millions

D. Items measures at fair value on non-recurring basis and other items - consolidated

Certain items are measured at fair value on non-recurring basis. These items include assets written down to their fair value due to impairment other than of temporary nature, or measured at fair value due to requirements in certain accounting standards. Moreover, according to the public reporting directives, fair value disclosure is required for financial instruments not measured at fair value on the balance sheet. Therefore, disclosure of such items is not included in Note 8B.

The following table shows the fair value disclosure hierarchy for such items:

.

	June 30, 2012 (unaudited)			
	Fair value measurement using			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Balance sheet balance
Other assets and liabilities				
Cash and deposits with banks	3,832	8,724	3,331	15,846
Debentures held to maturity	1,058	-	-	1,059
Loans to the public, net	-	9,210	115,402	123,179
Loans to Governments	-	-	213	209
Other	-	-	1,387	1,387
Total assets	**4,890**	**17,934**	**120,333**	**141,680**
Liabilities:				
Deposits from the public	-	28,217	95,779	122,038
Deposits from banks	-	14	1,823	1,787
Deposits from the Government	-	-	152	137
Debentures and subordinated notes	-	-	15,020	13,873
Other	-	2,755	613	3,368
Total liabilities	**-**	**30,986**	**113,387**	**141,203**

Note 8 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts, in NIS millions

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

	Fair value as of June 30, 2012	Valuation technique	Non-observed data
		(unaudited)	
Securities available for sale:			
Debentures of foreign banks and financial institutions	47	Cash flow discounting	Discount rate
CLN	183	Cash flow discounting	Probability of failure
Asset-backed debentures	33	Pricing model	Probability of failure, discount rate
Debentures of foreign others	36	Cash flow discounting	Discount rate
Assets with respect to derivatives:			
Interest contracts - NIS CPI	59	Cash flow discounting	Inflation expectations
Contracts for shares	3	Option pricing model	Standard deviation of share
Liabilities with respect to derivatives:			
Interest contracts - NIS CPI	4	Cash flow discounting	Inflation expectations

F. 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.

G. 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 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. Reduced 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 8 – Balances and Estimates of Fair Value of Financial Instruments - continued

Reported amounts, in NIS millions

The following table lists the fair value of items measured at fair value due to election of the fair value alternative:

	Fair value as of June 30, 2012	Profit with respect to changes in fair value for the six months ended June 30, 2012
Securities available for sale	347	9

	Fair value as of December 31, 2011	Profit with respect to change in fair value for the year ended December 31, 2011
Securities available for sale	531	5

Note 9 - Interest revenues and expenses

Reported amounts (NIS in millions)

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2012	2011 [(1)]	2012	2011 [(1)]	2011 [(1)]
		(unaudited)		(unaudited)	(audited)
A. Interest revenues[(2)]					
From loans to the public	1,893	1,864	3,256	3,391	6,340
From loans to Governments	2	-	3	1	4
From deposits with the Bank of Israel and from cash	14	55	64	112	246
From deposits with banks	6	116	64	136	136
From securities loaned or sold in repurchase agreements	1	2	2	3	4
From debentures	3	9	124	69	116
Total interest revenues	**1,919**	**2,046**	**3,513**	**3,712**	**6,846**
B. Interest expenses					
On deposits from the public	681	964	1,386	1,709	3,062
On deposits from governments	1	4	2	7	11
On deposits from banks	78	43	64	93	203
For debentures	277	242	411	429	701
Total interest expenses	**1,037**	**1,253**	**1,863**	**2,238**	**3,977**
Total interest revenues, net	**882**	**793**	**1,650**	**1,474**	**2,869**
C. Details of net effect of hedging financial derivatives on interest revenues					
Interest income	**(113)**	**(5)**	**(92)**	**(9)**	**80**
D. Details of interest revenues on accrual basis from debentures					
Held to maturity	13	(3)	13	-	5
Available for sale	(12)	18	98	82	120
Held for trading	2	(6)	13	(13)	(9)
Total included under interest revenues	**3**	**9**	**124**	**69**	**116**

(1) Reclassified upon initial application of the Supervisor of Banks' directives concerning layout of statement of profit and loss for banking corporations. For details see Note 1.C.

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

Note 10 - Non-interest financing revenues

Reported amounts (NIS in millions)

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2012	2011 [(1)]	2012	2011 [(1)]	2011 [(1)]
		(unaudited)		(unaudited)	(audited)
A. Non-interest financing revenues with respect to non-trade operations					
A.1. From activity in derivatives					
Non-effective element of hedging ratios [(2)]	(1)	-	(1)	(1)	(2)
Net revenues (expenses) with respect to ALM derivatives (3)	90	5	(29)	54	381
Total from activity in derivatives	**89**	**5**	**(30)**	**53**	**379**
A.2. From investment in debentures					
Gain on sale of debentures available for sale	17	-	36	-	11
Loss on sale of debentures available for sale	(4)	-	(4)	(1)	(2)
Provision for impairment of debentures available for sale	(8)	-	(8)	-	(10)
Total from investment in debentures	**5**	**-**	**24**	**(1)**	**(1)**
A.3. exchange rate differences, net	**(254)**	**81**	**(145)**	**113**	**(237)**
A.4. Gain (loss) from investment in shares					
Gains on sale of available-for-sale shares	-	2	3	2	5
Dividends from available-for-sale shares	-	1	-	1	1
Total from investment in shares	**-**	**3**	**3**	**3**	**6**
A.5. Net gain with respect to loans sold	**-**	**6**	**-**	**6**	**6**
Total non-interest financing revenues (expenses) with respect to non-trade operations	**(160)**	**95**	**(148)**	**174**	**153**

(1) Reclassified upon initial application of the Supervisor of Banks' directives concerning format of the statement of profit and loss for banking corporations. For details see Note 1.C.

(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 10 - Non-interest financing revenues (continued)

Reported amounts (NIS in millions)

	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2012	2011 [(1)]	2012	2011 [(1)]	2011 [(1)]
	(unaudited)		(unaudited)		(audited)
B. Non-interest financing revenues with respect to trade operations[(2)]					
Net income (expenses) with respect to other derivatives	99	(124)	115	(165)	76
Realized gain from adjustment to fair value of debentures held for trade, net	16	5	11	5	11
Unrealized gain (loss) from adjustment to fair value of debentures held for trade, net	10	(2)	7	-	8
Total from trade operations[(3)]	**125**	**(121)**	**133**	**(160)**	**95**
Details of non-interest financing revenues with respect to trade operations, by risk exposure					
Risk exposure	-	1	(1)	1	3
Foreign currency exposure	82	(136)	85	(187)	29
Exposure to shares	15	10	22	11	46
Exposure to commodities and others	28	4	27	15	17
Total	**125**	**(121)**	**133**	**(160)**	**95**

(1) Reclassified upon initial application of the Supervisor of Banks' directives concerning format of the statement of profit and loss for banking corporations. For details see Note 1.C.

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

(3) For interest revenues from investment in debentures held for trade, see Note 9.

Note 11 – Operating Segments

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

Reported amounts (NIS in millions)

A. Information on operating segments

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	1,840	(6)	181	102	172	(639)	1,650
Inter-segment	(975)	46	44	(16)	164	737	-
Total interest revenues, net	**865**	**40**	**225**	**86**	**336**	**98**	**1,650**
Non-interest financing revenues	4	-	-	-	30	(49)	(15)
Commissions and other revenues	392	27	117	29	99	56	720
Total income	**1,261**	**67**	**342**	**115**	**465**	**105**	**2,355**
Expenses with respect to credit loss	27	-	7	(3)	73	8	112
Operating and other expenses							
From outside operating segments	834	38	224	34	111	129	1,370
Inter-segment	(58)	3	(25)	33	41	6	-
Other operating expenses - total	**776**	**41**	**199**	**67**	**152**	**135**	**1,370**
Pre-tax profit	458	26	136	51	240	(38)	873
Provision for taxes on	159	9	48	17	83	(14)	302
After-tax profit	**299**	**17**	**88**	**34**	**157**	**(24)**	**571**
Share in net profits of affiliates, after tax	-	-	-	-	-	-	-
Net profit:							
Before attribution to non-controlling interest	299	17	88	34	157	(24)	571
Attributable to non-controlling interest	(25)	-	-	-	-	-	(25)
Attributable to shareholders of the banking corporation	**274**	**17**	**88**	**34**	**157**	**(24)**	**546**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)	**14.8%**	**28.7%**	**46.6%**	**17.0%**	**11.3%**	**-**	**14.3%**
Average balance of assets	85,009	2,393	6,740	4,733	27,190	22,978	149,043
Includes: Investments in affiliates	-	-	-	-	-	18	18
Average balance of liabilities	43,878	5,550	5,326	2,354	22,166	61,379	140,653
Average balance of risk assets(1)	50,537	1,582	5,220	5,213	35,626	5,541	103,719
Average balance of provident and mutual fund assets	-	-	-	-	-	72,249	72,249
Average balance of securities	26,499	7,548	6,097	3,551	60,639	41,245	145,579
Loans to the public, net (end balance)	87,058	1,737	6,606	4,716	23,304	-	123,421
Deposits from the public (end balance)	56,825	6,671	8,021	3,683	32,574	14,510	122,284
Average balance of other assets managed	20,393	-	167	209	313	-	21,082

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

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	549	15	174	75	270	-	1,083
Margin from receiving deposits	281	25	39	10	52	-	407
Other	35	-	12	1	14	98	160
Total interest revenues, net	**865**	**40**	**225**	**86**	**336**	**98**	**1,650**

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

Note 11 – Operating Segments (continued)

For the six months ended June 30, 2011 (unaudited) - continued

Reported amounts (NIS in millions)

A. Information regarding operating segments [3]

	Household	Private banking[2]	Small business	Commercial banking	Business banking [2]	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	1,838	7	207	125	103	(806)	1,474
Inter-segment	(1,052)	38	1	(44)	138	919	-
Total interest revenues, net	**786**	**45**	**208**	**81**	**241**	**113**	**1,474**
Non-interest financing	6	-	1	1	7	(1)	14
Commissions and other revenues	415	28	119	35	96	63	756
Total income	**1,207**	**73**	**328**	**117**	**344**	**175**	**2,244**
Expenses with respect to credit loss	36	(1)	37	21	34	7	134
Operating and other expenses							
From outside operating segments	811	34	221	37	111	114	1,328
Inter-segment	(58)	(1)	(24)	35	41	7	-
Other operating expenses - total	**753**	**33**	**197**	**72**	**152**	**121**	**1,328**
Pre-tax profit	418	41	94	24	158	47	782
Provision for taxes on	147	15	33	9	55	16	275
After-tax profit	**271**	**26**	**61**	**15**	**103**	**31**	**507**
Share in net profits of affiliates, after tax	-	-	-	-	-	1	1
Net profit:							
Before attribution to non-controlling interest	271	26	61	15	103	32	508
Attributable to non-controlling interest	(18)	-	-	-	-	-	(18)
Attributable to shareholders of the banking corporation	**253**	**26**	**61**	**15**	**103**	**32**	**490**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)	**16.2%**	**79.1%**	**34.3%**	**7.7%**	**8.3%**	**19.4%**	**14.6%**
Average balance of assets	[2] 73,887	2,557	[2] 6,030	4,694	25,090	24,767	137,025
Includes: Investments in affiliates	-	-	-	-	-	17	17
Average balance of liabilities	49,387	6,041	6,689	3,076	28,434	36,042	129,669
Average balance of risk assets[1]	44,683	754	4,984	5,166	33,111	4,608	93,306
Average balance of provident and mutual fund assets	-	-	-	-	-	81,014	81,014
Average balance of securities	28,130	7,270	8,515	3,920	72,268	39,813	159,916
Loans to the public, net (end balance)	79,481	1,553	6,151	4,941	20,265	-	112,391
Deposits from the public (end balance)	49,736	6,099	6,845	2,994	28,936	16,886	111,496
Average balance of other assets managed	21,922	-	135	39	124	-	22,220

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

	Household	Private banking[2]	Small business	Commercial banking	Business banking [2]	Financial management	Total consolidated
Margin from credit granting operations	487	18	156	68	172	-	906
Margin from receiving deposits	264	27	41	11	40	-	378
Other	35	-	11	2	29	113	190
Total interest revenues, net	**786**	**45**	**208**	**81**	**241**	**113**	**1,474**

(1) Risk weighted assets - as calculated for capital adequacy (Proper Conduct of Banking Business Regulation No. 201).
(2) Reclassified.
(3) Data on the statement of profit and loss for previous periods were reclassified to adjust them for the new lformat adopted by the Supervisor of Banks. For details see Note 1.C.

Note 11 – Operating Segments (continued)

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

Reported amounts (NIS in millions)

A. Information on operating segments

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	1,219	(7)	66	49	94	(539)	882
Inter-segment	(778)	28	44	(7)	80	633	-
Total interest revenues, net	**441**	**21**	**110**	**42**	**174**	**94**	**882**
Non-interest financing revenues	3	1	-	-	6	(45)	(35)
Commissions and other revenues	192	14	56	12	44	39	357
Total income	**636**	**36**	**166**	**54**	**224**	**88**	**1,204**
Expenses with respect to credit loss	14	4	14	(2)	43	(28)	45
Operating and other expenses							
From outside operating segments	406	20	110	16	55	69	676
Inter-segment	(28)	(1)	(12)	17	21	3	-
Other operating expenses - total	**378**	**19**	**98**	**33**	**76**	**72**	**676**
Pre-tax profit	244	13	54	23	105	44	483
Provision for taxes on	87	4	21	8	39	15	174
After-tax profit	**157**	**9**	**33**	**15**	**66**	**29**	**309**
Share in net profits of affiliates, after tax	-	-	-	-	-	-	-
Net profit:							
Before attribution to non-controlling interest	157	9	33	15	66	29	309
Attributable to non-controlling interest	(14)	-	-	-	-	-	(14)
Attributable to shareholders of the banking corporation	**143**	**9**	**33**	**15**	**66**	**29**	**295**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)	**15.4%**	**32.9%**	**34.7%**	**15.3%**	**9.3%**	**49.5%**	**15.4%**

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	294	8	89	38	139	-	568
Margin from receiving deposits	119	13	19	5	28	-	184
Other	28	-	2	(1)	7	94	130
Total interest revenues, net	**441**	**21**	**110**	**42**	**174**	**94**	**882**

Note 11 – Operating Segments (continued)

For the three months ended June 30, 2011 (unaudited) - continued

Reported amounts (NIS in millions)

A. Information regarding operating segments [2]

	Household	Private banking[1]	Small business	Commercial banking	Business banking [1]	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	1,000	15	114	57	31	(424)	793
Inter-segment	(588)	17	1	(18)	80	508	-
Total interest revenues, net	**412**	**32**	**115**	**39**	**111**	**84**	**793**
Non-interest financing	3	-	-	-	4	(33)	(26)
Commissions and other revenues	196	13	59	17	49	34	368
Total income	**611**	**45**	**174**	**56**	**164**	**85**	**1,135**
Expenses with respect to credit loss	17	2	11	20	35	(5)	80
Operating and other expenses							
From outside operating segments	400	16	108	20	55	56	655
Inter-segment	(29)	(1)	(11)	17	21	3	-
Other operating expenses - total	**371**	**15**	**97**	**37**	**76**	**59**	**655**
Pre-tax profit	223	28	66	(1)	53	31	400
Provision for taxes on	77	10	22	1	18	10	138
After-tax profit	**146**	**18**	**44**	**(2)**	**35**	**21**	**262**
Share in net profits of affiliates, after tax	-	-	-	-	-	-	-
Net profit:	-	-	-	-	-	-	-
Before attribution to non-controlling interest	146	18	44	(2)	35	21	262
Attributable to non-controlling interest	(10)	-	-	-	-	-	(10)
Attributable to shareholders of the banking corporation	**136**	**18**	**44**	**(2)**	**35**	**21**	**252**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)	**17.1%**	**75.0%**	**51.7%**	**-**	**5.8%**	**38.8%**	**15.2%**

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

	Household	Private banking[1]	Small business	Commercial banking	Business banking [1]	Financial management	Total consolidated
Margin from credit granting operations	253	14	82	34	72	-	455
Margin from receiving deposits	141	17	22	7	22	-	209
Other	18	1	11	(2)	17	84	129
Total interest revenues, net	**412**	**32**	**115**	**39**	**111**	**84**	**793**

(1) Reclassified.

(2) Data on the statement of profit and loss for previous periods were reclassified to adjust them for the new format adopted by the Supervisor of Banks. For details see Note 1.C.

Note 11 – Operating Segments (continued)

For the year ended December 31, 2011 (audited)

Reported amounts (NIS in millions)

A. Information regarding operating segments [3]

	Household	Private banking[2]	Small business	Commercial banking	Business banking [2]	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	3,634	11	415	240	247	(1,678)	2,869
Inter-segment	(2,000)	79	26	(67)	304	1,658	-
Total interest revenues, net	**1,634**	**90**	**441**	**173**	**551**	**(20)**	**2,869**
Non-interest financing revenues	12		3	2	13	218	248
Commissions and other revenues	808	56	237	65	196	129	1,491
Total income	**2,454**	**146**	**681**	**240**	**760**	**327**	**4,608**
Expenses with respect to credit loss	68	(5)	84	6	164	21	338
Operating and other expenses							
From outside operating segments	1,635	74	441	65	223	229	2,667
Inter-segment	(116)	5	(50)	66	84	11	-
Other operating expenses - total	**1,519**	**79**	**391**	**131**	**307**	**240**	**2,667**
Pre-tax profit	867	72	206	103	289	66	1,603
Provision for taxes on	283	26	66	34	91	22	522
After-tax profit	**584**	**46**	**140**	**69**	**198**	**44**	**1,081**
Share in net profits of affiliates, after tax	-	-	-	-	-	1	1
Net profit:							
Before attribution to non-controlling interest	584	46	140	69	198	45	1,082
Attributable to non-controlling interest	(38)	-	-	-	-	-	(38)
Attributable to shareholders of the banking corporation	**546**	**46**	**140**	**69**	**198**	**45**	**1,044**
Return on equity (percentage of net profit attributed to shreholders of the banking corporation out of average equity)	**16.1%**	**41.0%**	**35.7%**	**17.2%**	**7.7%**	**15.7%**	**14.6%**
Average balance of assets	[2] 77,528	2,533	[2] 6,545	4,888	25,222	24,802	141,518
Includes: Investments in affiliates	-	-	-	-	-	14	14
Average balance of liabilities	51,460	6,352	7,164	3,189	30,213	35,562	133,940
Average balance of risk assets[1]	46,260	1,201	5,046	5,176	33,362	4,960	96,005
Average balance of provident and mutual fund assets	-	-	-	-	-	77,626	77,626
Average balance of securities	23,927	9,672	6,980	3,212	60,730	32,886	137,407
Loans to the public, net (end balance)	83,296	1,698	6,428	4,778	23,128	-	119,328
Deposits from the public (end balance)	54,091	5,831	8,268	3,471	32,524	15,051	119,236
Average balance of other assets managed	21,150	-	223	154	86	-	21,613

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	1,001	40	323	144	389	-	1,897
Margin from receiving deposits	562	47	86	22	84	-	801
Other	71	3	32	7	78	(20)	171
Total interest revenues, net	**1,634**	**90**	**441**	**173**	**551**	**(20)**	**2,869**

(1) Risk weighted assets - as calculated for capital adequacy (Proper Conduct of Banking Business Regulation No. 201).
(2) Reclassified.
(3) Data on the statement of profit and loss for previous periods were reclassified to adjust them for the new format adopted by the Supervisor of Banks. For details see Note 1.C.

Note 12 – Other matters

1. On February 25, 2011, Tefahot Issuance issued a shelf prospectus for issuance of up to 10 series of subordinated notes, 10 series of debentures, extension of subordinate notes (Series 31), extension of debentures (Series 29 and Series 32) as well as issuance of two series of commercial paper.

   On January 19, 2012, Tefahot Issuance issued NIS 877 million par value of debentures (Series 33 and 35, CPI-linked), pursuant to the shelf prospectus dated February 25, 2011, for consideration of NIS 912 million.

   On April 29, 2012, Tefahot Issuance issued NIS 1,001 million par value of debentures (Series 33 and 35, CPI-linked), pursuant to the shelf prospectus dated February 25, 2011, for consideration of NIS 1,056 million.

   On June 11, 2012, Tefahot Issuance issued NIS 180 million par value debentures (Series 33, CPI-linked), pursuant to the shelf prospectus dated February 25, 2011, for consideration of NIS 193 million.

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

2. On March 29, 2009, after approval by the Bank's Audit Committee and Board of Directors, options were awarded to Bank officers who are VPs and members of Bank Management. For further information, see Note 16.A.2. to Financial Statements as of December 31, 2011

   On April 30, 2012, the Bank Board of Directors resolved, after approval by the Bank Audit Committee, to approve a plan for award of 238,333 options to an officer who was hired by the Bank in March 2012. The option plan is based on the principles of the stock option plan for VPs at the Bank, as described above.

   Options would be awarded in 2 lots vesting on three dates ("vesting dates") starting on the first anniversary (lot 1) and second anniversary (lot 2) of the award date, subject to net profit rate of return on average equity for each year preceding each vesting date, as stated above. The exercise price for each option pursuant to the plan is NIS 33.79, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank. The exercise price was based on the closing price of Bank shares on the stock exchange on April 29, 2012, the most recent trading day prior to the date of plan approval by the Board of Directors. The fair value (theoretical benefit value) of a single option in any lot of the additional options approved was calculated in accordance with IFRS 2, using the Black & Scholes model. The theoretical benefit value of the options in this allotment, calculated in accordance with accounting rules of IFRS 2, amounts to NIS 1.7 million (NIS 1.9 million including Payroll Tax).

   Calculation of the total theoretical benefit value for the allotment is based on assumptions regarding the number of options that the offeree would be eligible to exercise based on management's estimate of the range of annual rates of return, as stated above, as well as based on the assessment of the Bank's management with regard to the average churn rate of plan offerees, meaning that some of the options to be granted would expire due to the offerees retirement. The theoretical benefit value of each lot is recognized in the Bank's accounts over the vesting period.

Note 12 - 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	Lot 2	Total
Allotment approved April 30, 2012			
Number of options	108,333	130,000	238,333
Annualized standard deviation	30.23%	32.27%	
Exercise price (in NIS)	33.79	33.79	
Risk-free interest rate	0.2%	0.3%	
Term to exercise (in years)	2.7	3.2	
Fair value per single option	6.63	7.75	
Total fair value of award (NIS in thousands)	-	-	1,726

3. On July 30, 2012, the Minister of Finance decided to increase the VAT rate by 1%, to 17% as from September 1, 2012. The law requires an increase in VAT rate to be made in consultation with the Knesset Finance Committee, after which the Minister of Finance signs an ordinance, which is made public and brought for approval by the Knesset plenum. No such ordinance has been published yet. Upon publication of such ordinance, the tax rates applicable to the Bank in 2012 and 2013 will be 35.53% and 35.90%, respectively.

   The effect of this change on the financial statements is not material.

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