Condensed Financial Statements as of September 30, 2012

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

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

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

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on November 25, 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 September 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 Effect of External Factors on the Bank Group

Developments in Israel's economy in the first nine months of 2012

Real Developments

The Bank of Israel Composite Index increased in the third quarter of 2012 by an annualized 2.6%, following an increase of 2.3% in the second quarter and an average quarterly increase of 3.3% in 2011.

Based on preliminary data for the third quarter of 2012, GDP rose by 2.9%, following an increase of 3.4% in the previous quarter. Exports of goods and services (excluding diamonds and start-up companies) rose by 4.6%, compared to an increase of 19.1% in the second quarter of 2012. Investment in economic sectors decreased by 14.7%, further to a decrease of 4.7% in the previous quarter. Investment in residential housing increased by 5.8%, compared to a decrease of 2.1% in the previous quarter. Imports of goods and services (excluding defense-sector imports, ships, airplanes and diamonds) decreased by 12.0%, further to a decrease of 9.9% in the previous quarter. Total uses decreased by 1.3%, further to a decrease of 2.4% in the previous quarter.

The trade deficit in the first three quarters of 2012 amounted to USD 14 billion, compared to USD 10 billion in the corresponding period last year - an increase of 40%.

Overall economic turnover increased in June-August 2012 by 12.4%, following an increase of 7.3% in March-May. Industrial turnover increased by 13.0%, following an increase of 4.7% in March-May. Industrial output increased by 14.8% in June-August, following an increase of 6.1%. The most improved sector was the high-tech industry. Turnover at retail chains increased by 5.1% in July-September, following an increase of 6.5% in the previous three months. Turnover at food retailers decreased by 2.1%, following an increase of 0.8% in the previous three months. Credit card purchases increased by 0.3% in July-September, following an increase of 4.3% in the previous three months.

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. This change in method resulted in a technical increase in reported unemployment. Unemployment in August 2012 was at 6.9%, compared to 7.0% in the second quarter of 2012 and to 6.9% in the first quarter.

The number of available jobs, indicating demand for labor, was 67.4 thousand jobs in September, a decrease of 3% compared to end of 2011.

In October, the Central Bureau of Statistics issued its initial estimated highlights for national accounts for 2012. According to these estimates, GDP in Israel would grow by 3.5% in 2012, compared to 4.6% in 2011 (actual data); business output will grow by 3.4%, compared to 5.1% in 2011; individual consumption expenditure would grow by 2.8%, compared to 3.8% in 2011; exports of goods would grow by 2.0%, compared to 5.5% in 2011; and investments in fixed assets would grow by 2.6%, compared to 16.0% in 2011.

Shortly prior to publication of these financial statements, the military confrontation between Israel and terrorist organizations in the Gaza Strip deteriorated, and economic activity in the South of Israel was partially paralyzed during this confrontation. The implications of this conflict on Israel's economy are as yet unclear.

Inflation and exchange rates

In the first nine months of 2012, the Consumer Price Index rose by 2.1%, compared to a 2.2% rise in the corresponding period last year. The CPI was mostly impacted by higher prices of housing, house maintenance, fruits and vegetables, as well as by lower prices of clothing, foowear and education. In the third quarter of 2012, the Consumer Price Index rose by 1.1%, slightly higher than the average for corresponding periods between 2005-2011, in which the CPI rose by an average 0.9%.

The CPI for October decreased by 0.2%, primarily due to lower prices of fruits and vegetables, housing, transportation and communication.

The USD was higher by 2.4% against the NIS in the first three quarters of 2012, reaching NIS 3.912 per USD 1 at the end of September, compared to NIS 3.821 at the end of 2011. The EUR was higher against the NIS in this period by 2.6%, reaching NIS 5.065 per EUR 1, compared to NIS 4.938 at the end of 2011.

In the third quarter of 2012, the NIS was 0.3% higher against the USD, and 2.7% lower against the EUR. On November 21, 2012, the USD/NIS exchange rate was NIS 3.916 per USD 1.

Monetary and fiscal policy

In the first three quarters of 2012 there were no significant changes in the Bank of Israel monetary policy. After the Bank of Israel lowered its interest rate for February, from 2.75% to 2.50%, this interest rate remained unchanged until July 2012, when it was once again lowered to 2.25%. This was in view of relatively modest inflationary expectations for the coming 12 months, which ranged between 2.0%-2.5% in this period – close to the center point of the inflation target range (1%-3%). On October 29, 2012, the Bank of Israel once again lowered its interest rate for November, to 2.0%, in view of the need to further support economic activity and the lack of inflationary pressure. Concurrently, the Bank of Israel imposed restrictions on mortgage borrowers, primarily for financing of residential investments (for details see chapter on "Legislation and Supervision of Bank Group Operations").

In the first three quarters of 2012, the government budget recorded a NIS 19.0 billion deficit, compared to a NIS 10.2 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. Tax revenues increased in the first three quarters of 2012 by only 3.1% over the corresponding period last year. This data reflects actual under-collection amounting to NIS 2.5 billion, compared to planned. Expenditures by Government ministries increased in this period by 8.1%, compared to planned increase of 4.9%.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in the first three quarters of 2012 demand for new apartments (apartments sold and apartments constructed not for sale) was 28,100 apartments, a decrease of 5.6% over the corresponding period last year.

The pace of housing construction starts also slowed down, with construction starts of an annualized 38,300 residential units in January-July 2012, compared to 47,000 residential units in the corresponding period last year. However, this is still a high pace compared to the annual average over the past decade, which was 34,500 housing construction starts. The slow-down in housing construction starts resulted in stable inventory of new apartments for sale from private development, which at the end of August was at 14,730 apartments, slightly lower than 15,170 apartments at the end of the previous year. Based on the average pace of sales in the six months ended August 2012, this inventory would account for 11.6 months' sales - compared to 13.1 months' inventory 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 3% higher in July 2012 compared to the end of 2011, following 4% growth for all of 2011.

On November 1, 2012, the Supervisor of Banks issued a letter instructing banking corporations to limit the loan-to-value ratios approved for housing loans. For details, see the chapter on Legislation and Supervision of Bank Group Operations.

Capital market

In the third quarter of 2012, the downward trend in Israel's equity market from the second quarter of this year was reversed, and all major equity indices were resumed their upward movement.

The rally in these indices was due, inter alia, to current conditions on global equity markets, excessive declines recorded previously and the relative calm with regard to Iran.

Equity market – the Israeli equity market trended higher in the third quarter of this year. Blue-chip shares (Tel Aviv 25 index) and banking shares rose by 12.4% and 17.1%, respectively.

The Tel Aviv 100 and Tel Aviv Real Estate 15 indices recorded more moderate increases, of 8.7% and 5.1%, respectively.

Concurrently, many shares re-traced large portions of the declines which had followed the extensive debt re-structuring wave in the market.

Share prices continued to rise after the end of the quarter through November 19, 2012. The Tel Aviv 25 index rose by a further 1.4%, the Tel Aviv 100 index rose by another 0.8% and the Tel Aviv Banking index rose by 11.8%.

In the third quarter of this year, the average daily trading volume in equities and convertible securities amounted to NIS 948 million – lower than the NIS 1.1 billion average in the first and second quarters of this year. Share issuance (excluding capital raised overseas) was significantly lower: from NIS 1.2 billion in the second quarter, to NIS 0.13 billion in the third quarter. Year to date, share issuance amouted to NIS 2.63 billion.

Debenture market - the low Bank of Israel interest rates, a certain economic slow-down and low yields on US Government debentures (1.7% for 10-year debentures) - all supported the State of Israel debentures, while the rapid increase in budget deficit (up to 4% of 2012 GDP, as estimated by the Bank of Israel) had the opposed effect. The CPI, which recorded surprises in both directions, resulted in high price volatility.
The General Debenture Index rose in the third quarter by 2.8%, the CPI-linked Government Debenture Index rose by 3.3%, and the Non-linked Government Debenture Index rose by 1.3%.

The strong rally in the equity market, public sentiment and several specific developments resulted in corporate debentures out-performing government debentures – primarily late in the current period. The Tel Bond 20 Index rose by 4.1%, while the NIS Tel Bond Index rose by 3.1%. Consequently, yield gaps were lower: For debentures rated A, for example, the yield gap was 4.45%, compared to 4.9% at the end of the second quarter this year and at the end of 2011.

After the reported period, debenture benchmarks continued to rise, with the General Debenture Index rising by a further 1.1%. These increases were primarily in non-linked debentures, due to the September CPI which remained unchanged.

All together, the business sector raised NIS 7.7 billion from the public and from institutional investors by issuing debentures in the third quarter of 2012 – lower than NIS 10.6 billion and NIS 11.9 billion raised in the first and second quarters of this year, respectively.

The average daily trading volume in debentures in the third quarter of this year amounted to NIS 4.2 billion - slightly lower than the NIS 4.4 billion average in the first and second quarters of this year.

Equity indices around the world were also higher in the third quarter of this year. The indices were supported by plans to purchase securities by central banks in the USA, Euro Zone and Japan, as well as significant incentives provided by world governments, including the Chinese government. Equity markets were also buoyed by improved economic data in the USA and by the assumption that the Euro Zone would remain stable.

Global economy

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

The key issue remained the Euro-zone crisis. Economic indicators in the Euro Zone remained negative, indicating that the Euro zone was sliding into a recession. In the second quarter of 2012, GDP in the Euro Zone declined by 0.2%. In the third quarter of the year, unemployment continued to rise in the Euro zone, particularly in Spain and Greece.

During the first three quarters of 2012, elections were held in Greece - successfully for parties supporting Greece remaining in the Euro zone. Therefore, at this stage Greece's departure from the Euro Zone has been averted. 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.

In view of these developments, prices of Italy's and Spain's debentures rose - resulting in significantly lower yields.

Signs of recovery were evident in the USA. The growth rate in the third quarter accelerated to an annualized 2.0%, compared to 1.3% growth in the second quarter and 4.1% growth in the fourth quarter of 2011. The labor market also improved, with 437 thousand new jobs created in the third quarter of 2012, compared to 200 thousand in the second quarter. However, the new job creation rate was lower than 677 thousand in the first quarter and the 460 thousand quarterly average in 2011. Other indicators, including various real estate benchmarks, also indicated improvement in the US economy in this quarter.

The global slow down was also reflected in emerging markets. The growth rate in China in the third quarter reached 7.6%, compared to 7.8% growth in the second quarter and 9.2% growth in 2011. This slow-down was also reflected in a more modest inflation in this country, at an annualized 1.9% in September 2012, similar to its level in August. In response to the slow-down, the Central Bank of China took some monetary stimulus steps in the second quarter: lowered interest rate and reduced the capital adequacy ratio required of banks. The Central Bank of China recently indicated it was considering further monetary measures to stimulate the economy.

Leading benchmarks in global capital markets were positive in the third quarter of 2012, primarily influenced by the serious attempts by Euro Zone countries to resolve their internal issues, and by positive data published in the USA.

The Dow Jones index rose by 7.0% in the third quarter, rising by 9.8% year to date. The NASDAQ 100 and S&P 500 indices rose by 11.2% and 8.9%, respectively, in the third quarter and by 23.5% and 14.6%, respectively, in the first nine months of 2012. The German DAX index rose by 18.5%, and by 24.6% year-to-date. The FTSE 100 and Nikkei 225 indices rose by 5.2% and 2%, respectively – and by 3.8% and 5.7%, respectively, year-to-date.

After the reported period and through November 19, 2012, trends were un-clear and European equity indexes were mixed. The French CAC added 2.53%, while the German DAX declined by 1.28%. In the USA, various indices declined by 3.73% (S&P 500) to 7.27% (NASDAQ 100).

Key data for Bank group

Evolution of income and expenses

	For the three months ended				
	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011
	NIS in millions				
Interest revenues, net	900	871	800	734	891
Non-interest revenues	287	333	351	418	321
Total revenues	**1,187**	**1,204**	**1,151**	**1,152**	**1,212**
Expenses with respect to credit loss	116	45	67	62	142
Operating and other expenses	676	676	694	689	650
Profit before provision for taxes	395	483	390	401	420
Provision for taxes	121	174	128	93	154
Net profit(1)	**260**	**295**	**251**	**299**	**255**

	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011
	NIS in millions				
Balance sheet - key items					
Balance sheet total	157,810	155,311	150,244	150,246	146,877
Loans to the public, net	126,602	123,421	120,407	119,328	117,620
Securities	7,966	9,565	11,230	8,432	5,879
Deposits from the public	124,322	122,284	119,501	119,236	116,497
Debentures and subordinated notes	14,186	13,873	12,722	12,202	12,501
Equity(1)	8,514	8,231	7,933	7,666	7,359

	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011
Key financial ratios (in percent)					
Net profit return on equity(2)	13.0	15.4	13.6	16.9	14.9
Net loans to the public to deposits from the public	101.8	100.9	100.8	100.1	101.0
Capital to total assets	5.40	5.30	5.28	5.10	5.01
Ratio of Tier I capital to risk elements	8.23	8.03	7.94	7.77	7.70
Total ratio of capital to risk elements	13.11	12.93	13.24	13.40	13.55
Cost income ratio	57.0	56.1	60.3	59.8	53.6
Expenses with respect to credit loss to loans to the public, net for the period (2)	0.37	0.15	0.22	0.21	0.48
Basic net earnings per share	1.14	1.29	1.10	1.32	1.12
Diluted net earnings per share	1.13	1.28	1.09	1.30	1.11

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

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 is implied there from. Forward-looking information is characterized by the use of certain words or phrases, such as: "we believe", "expected", "forecasted", "estimating", "intending", "planning", "readying", "could change" and similar expressions, in addition to nouns, such as: "plan", "goals", "desire", "need", "could", "will be". These forward-looking/prospective information and expressions involve risk and lack of certainty, because they are based on management's assessment of future events which includes, inter alia: forecast economic developments in Israel and worldwide, especially the state of the economy, including the effect of macroeconomic and geopolitical conditions; changes and developments in the inter-currency markets and the capital markets, and other factors affecting the exposure to financial risk, changes in the financial strength of borrowers, the public’s preferences, legislation, supervisory regulations, the behavior of competitors, aspects related to the Bank’s image, technological developments and human resources issues.

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

Profit and Profitability

Net profit in the third quarter of 2012 amounted to NIS 260 million, compared to NIS 255 million in the corresponding period last year – an increase of 2.0%.

Net profit for the Group in the first nine months of 2012 amounted to NIS 806 million, compared to NIS 745 million in the corresponding period last year – an increase of 8.2%.

The previous strategic plan (2008-2013) stipulated that the target for return on equity in 2013 (based on Tier I capital adequacy of 7.5%) would be 15%.

In view of the actual increase in capital base (an increase of 16% over the corresponding period last year), to a capital adequacy ratio of 8.23% and for the sake of comparison, comparison figures adjusted for the capital targets of the previous strategic plan (hereinafter: "adjusted ratio"), should be presented.

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The annualized return on equity for the third quarter of 2012 was 13.0% (or 13.7%- adjusted ratio). In the corresponsing period last year, the return on equity was 14.9%.

The annualized return on equity for the first nine months of 2012 was 13.5% (or 14.0% - adjusted ratio). In the corresponding period last year, return on equity was 14.3% - and 14.6% for all of 2011.

The target for return on equity in 2017, in the new five-year strategic plan for 2013-2017 (based on Tier I capital adequacy of 9%) is 14.5% (or 17% - adjusted ratio).

The following major factors affected Group operating income in the first nine months 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 nine months of 2012 by NIS 189 million, an increase of 8.7% over the corresponding period last year.
- Expenses with respect to credit loss decreased in the first nine months of 2012 by NIS 48 million, a decrease of 17.4% over the corresponding period last year, due inter alia to effect of linkage differentials and exchange rate differentials amounting to NIS 34 million, recognized as expenses with respect to credit loss in the first nine months of 2011. See remarks below.
- Commissions and other revenues in the first nine months of 2012 amounted to NIS 1,105 million, compared to NIS 1,125 million in the corresponding period last year - a decrease of 1.8%, 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 none months of 2012 was NIS 1.1 billion, compared to NIS 1.8 billion in the corresponding period last year – a decrease of 39%.
- Operating and other expenses increased in the first nine months of 2012 by NIS 68 million, or 3.4%, over the corresponding period last year.
- The rate of provision for taxes on income in the first nine months of 2012 was 33.4%, compared to 35.7% in the corresponding period last year – primarily due to an update to deferred tax balances, attributed to an increase in the tax rate applicable to the Group due to the increase in VAT rate to 17%, and also due to tax benefits with respect to expenses resulting from share-based payment transactions, offsetting an increase in payroll and associated expenses.

Change in layout 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 layout 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 layout 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 September 30		For the nine months ended September 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	844	877	2,547	2,424	3,242
Less:					
Non-interest financing revenues (expenses) - (presented as a separate item under "Total non-interest revenues")	(98)	(48)	(134)	(34)	18
Less:					
Profit from investment in shares (now included under "Non-interest financing revenues")	(2)	(1)	(5)	(4)	(6)
Financing commissions (included under "Commissions")	44	35	115	97	131
Interest revenues, net	**900**	**891**	**2,571**	**2,365**	**3,099**
Interest revenues	1,892	1,675	5,412	5,387	6,840
Interest expenses	(992)	(784)	(2,841)	(3,022)	(3,741)
Total	**900**	**891**	**2,571**	**2,365**	**3,099**

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 September 30		For the nine months ended September 30		For the year ended December 31
	2012	2011	2012	2011	2011
Operating commissions - as previously presented	334	331	970	1,018	1,343
Financing commissions (previously included under "Profit from financing operations", now under "Commissions")	44	35	115	97	131
Commissions	**378**	**366**	**1,085**	**1,115**	**1,474**

Evolution of income and expenses

Interest revenues, net for the Group in the first nine months of 2012 amounted to NIS 2,571 million, compared to NIS 2,365 million in the corresponding period last year, an increase of 8.7%. Financing revenues also include **non-interest financing revenues**[(2)], which in the first nine months of 2012 amounted to expenses of NIS 134 million, compared to expenses of NIS 34 million in the corresponding period last year.

In the third quarter of 2012, net interest revenues for the Group amounted to NIS 900 million, compared to NIS 891 million in the corresponding period last year, an increase of 1.0%.

Non-interest financing expenses in the third quarter of 2012 amounted to NIS 98 million, compared to NIS 48 million in the corresponding period last year.

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

	Third Quarter			First nine months		
	2012	2011	Change rate	2012	2011	Change rate
Interest revenues, net	900	891	1.0%	2,571	2,365	8.7%
Non-interest financing revenues (expenses)	[(2)] (98)	(48)		(134)	(34)	
Total financing revenues	**802**	**843**	**(4.9%)**	**2,437**	**2,331**	**4.5%**
Less:						
Income from collection of interest on troubled debt	33	35		120	76	
Linkage differentials (in 2011 only) and exchange rate differentials with respect to impaired debt	(1)	21		2	34	
Gain from realized debentures available for sale and from debentures held for trade, net	22	1		64	6	
Effect of accounting treatment of derivatives at fair value and others[(1)]	(65)	9		(111)	42	
Total financing revenues from current operations	**813**	**777**	**4.6%**	**2,362**	**2,173**	**8.7%**

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

(2) Includes effect of fair value and others (see below) and expense with respect to linkage differentials on CPI derivatives, where the corresponding revenue is recognized as interest revenues, in conformity with accounting rules.

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

				First nine months
Operating segment	2012	2011[3]	Change amount	Change rate
Retail banking:				
Mortgages	482	415	67	16.1%
Household	827	780	47	6.0%
Small business	335	333	2	0.6%
Total	**1,644**	**1,528**	**116**	**7.6%**
Private banking	60	67	(7)	(10.4%)
Commercial banking	129	133	(4)	(3.0%)
Business banking	556	415	141	34.0%
Financial management[2]	48	188	(140)	(74.5%)
Total	**2,437**	**2,331**	**106**	**4.5%**

(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.B.1. to the financial statements.
(2) Excluding the effect of accounting treatment of derivatives at fair value, financing revenues increased by NIS 17 million - or 11.6%.
(3) Reclassified.

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

	Third Quarter			First nine months		
	2012	2011	Change rate	2012	2011	Change rate
Israeli currency - non-linked	141,881	132,025	7.5%	140,009	136,921	2.3%
Israeli currency - linked to the CPI	57,738	52,124	10.8%	52,962	49,318	7.4%
Foreign currency (including Israeli currency linked to foreign currency)[1]	76,332	83,016	(8.1%)	76,456	77,303	(1.1%)
Total	**275,951**	**267,165**	**3.3%**	**269,427**	**263,542**	**2.2%**

(1) Local operations and overseas affiliates.

The increase in mortgage volume, along with higher activity in derivatives, resulted in higher average balances of NIS-denominated financial assets - both CPI-linked and non-linked.

The decrease in average balances of financial assets in foreign currency was primarily due to a decrease in activity in derivatives.

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

	First nine months	
Linkage segments	2012	2011
Israeli currency - non-linked	1.28%	1.49%
Israeli currency - linked to the CPI	0.42%	0.44%
Foreign currency (including Israeli currency linked to foreign currency)[(2)]	0.59%	0.43%
Total including impact of derivatives	**0.93%**	**1.01%**

(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 Management Review.

Expenses with respect to credit loss for the Group amounted to NIS 228 million in the first nine months of 2012, or an annualized rate of 0.24% of total loans to the public, net, compared with NIS 276 million, or an annualized rate of 0.31% of total loans to the public, net in the corresponding period last year - a decrease of 17.4%.
Expenses with respect to credit loss for the Group amounted to NIS 116 million in the third quarter of 2012, or an annualized rate of 0.37% of total loans to the public, net, compared with NIS 142 million, or an annualized rate of 0.48% of total loans to the public, net in the corresponding period last year - a decrease of 18.3%.
As part of a change in layout of profit & loss as from January 1, 2012, the definition of "interest" has been updated to include CPI-linkage differentials for principal and interest.

Total exchange rate differentials in the first nine months of 2012 amounted to revenues of NIS 2 million, and in the third quarter of 2012 - to expenses fo NIS 1 million.
Expenses with respect to credit loss in previous periods include linkage differentials and exchange rate differentials, against corresponding revenues under financing revenues, amounting to NIS 34 million and NIS 21 million for the nine-month and three-month periods ended September 30, 2011, respectively.
Development of expenses with respect to credit loss (NIS in millions) is as follows:

	Third Quarter		First nine months	
	2012	2011	2012	2011
Provision for credit loss on individual basis (including accounting write-offs)	145	88	287	225
Provision for credit loss on Group basis:				
By extent of arrears	-	(11)	3	(11)
Other	(29)	65	(62)	62
Total expenses with respect to credit loss	116	142	228	276
Expense with respect to credit loss as percentage of total loans to the public, net (annualized)	**0.37%**	**0.48%**	**0.24%**	**0.31%**

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

Operating segment	First nine months	
	2012	2011
Retail banking:		
Mortgages	4	14
Household	45	51
Small business	23	58
Total	**72**	**123**
Private banking	3	(6)
Commercial banking	11	11
Business banking	138	130
Financial management	4	18
Total	**228**	**276**

Net interest revenues after expenses with respect to credit loss in the first nine months of 2012 amounted to NIS 2,343 million, compared to NIS 2,089 million in the corresponding period last year - an increase of 12.2%.
Net interest revenues after expenses with respect to credit loss in the thitd quarter of 2012 amounted to NIS 784 million, compared to NIS 749 million in the corresponding period last year - an increase of 4.7%.

Non-interest revenues for the Group in the first nine months of 2012 amounted to NIS 971 million, compared to NIS 1,091 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 third quarter of 2012 amounted to NIS 287 million, compared to NIS 321 million in the corresponding period last year.

Non-interest financing revenues (expenses) in the first nine months of 2012 amounted to an expense of NIS 134 million, compared to expenses of NIS 34 million in the corresponding period last year.
Non-interest financing expenses in the third quarter of 2012 amounted to NIS 98 million, compared to NIS 48 million in the corresponding period last year. This item includes, inter alia, the effect of fair value and others and expenses with respect to linkage differentials on CPI derivatives, where the corresponding revenue is recognized as interest revenues, in conformity with accounting rules. See analysis of Financing revenues from current operations above.

Commission revenues for the Group in the first nine months of 2012 amounted to NIS 1,085 million, compared to NIS 1,115 million in the corresponding period last year - a decrease of 2.7%. Commission revenues for the Group in the third quarter of 2012 amounted to NIS 378 million, compared to NIS 366 million in the corresponding period last year - an increase of 3.3%. The decrease in the first nine months 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 nine months of 2012 was NIS 1.1 billion, compared to NIS 1.8 billion in the corresponding period last year, A decrease of 39%. In the third quarter, the effect of lower trading volumes was offset by higher commission revenues other than from clients' capital market activity.

Other revenues for the Group amounted to NIS 20 million in the first nine months of 2012, compared with NIS 10 million in the corresponding period last year.

Other revenues for the Group amounted to NIS 7 million in the third quarter of 2012, compared with NIS 3 million in the corresponding period last year.

Operating and other expenses amounted to NIS 2,046 million in the first nine months of 2012, compared with NIS 1,978 million in the corresponding period last year - an increase of 3.4%.

Operating and other expenses amounted to NIS 676 million in the third quarter of 2012, compared with NIS 650 million in the corresponding period last year - an increase of 4.0%.

Payroll and associated expenses amounted to NIS 1,247 million in the first nine months of 2012, compared with NIS 1,204 million in the corresponding period last year - an increase of 3.6%.

Payroll and associated expenses amounted to NIS 405 million in the third quarter of 2012, compared with NIS 389 million in the corresponding period last year - an increase of 4.1%.

Maintenance and depreciation expenses for buildings and equipment for the Group amounted to NIS 481 million in the first nine months of 2012, compared with NIS 455 million in the corresponding period last year – an increase of 5.7%, primarily with respect to higher maintenance and depreciation expenses in Bank Yahav, amounting to NIS 9 million, due to opening of new branches and in addition to a non-recurring increase due to the operating of the new building (technology center) in Lod.

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Maintenance and depreciation expenses for buildings and equipment for the Group amounted to NIS 163 million in the third quarter of 2012, compared with NIS 155 million in the corresponding period last year – an increase of 5.2% (of which: NIS 3 million - increase in maintenance and depreciation expenses at Bank Yahav, as described above).

Other expenses for the Group amounted to NIS 318 million in the first nine months of 2012, compared with NIS 319 million in the corresponding period last year.

Other expenses for the Group amounted to NIS 108 million in the third quarter of 2012, compared with NIS 106 million in the corresponding period last year.

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

			2012				2011
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Cost-Income Ratio(1)	57.0%	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 1,268 million in the first nine months of 2012, compared with NIS 1,202 million in the corresponding period last year - an increase of 5.5%.

Pre-tax profit for the Group amounted to NIS 395 million in the third quarter of 2012, compared with NIS 420 million in the corresponding period last year - a decrease of 6.0%.

Provision for taxes amounted to NIS 423 million in the first nine months of 2012, compared with NIS 429 million in the corresponding period last year - a decrease of 1.4%.

The provision for taxes amounted to NIS 121 million in the third quarter of 2012, compared with NIS 154 million in the corresponding period last year - a decrease of 21.4%.

The rate of provision for taxes on income in the first nine months of 2012 was 33.4%, compared to 35.7% in the corresponding period last year – primarily due to an update to deferred tax balances, attributed to an increase in the tax rate applicable to the Group due to the increase in VAT rate to 17%.

The rate of provision for taxes on profit in the third quarter of 2012 was 30.6% - compared to 36.7% in the corresponding period last year.

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

	First nine months		All of 2011
	2012	2011	
Net profit	13.5	14.3	14.6

	2012			2011			
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net profit	13.0	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 interest and less/plus the average balance of unrealized gain/loss from adjustment to fair value of debentures held for trading as well as gain/loss from debentures available for sale.

Earnings per share

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

	Third Quarter		First nine months		All of
	2012	2011	2012	2011	2011
Basic earnings per share:	1.14	1.12	3.54	3.29	4.65
Diluted earnings per share:					
Net profit attributable to equity holders of the banking corporation	1.13	1.11	3.52	3.22	4.57

Development of balance sheet items

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

				Change compared to	
	September 30		December 31	September 30	December 31
	2012	2011	2011	2011	2011
Balance sheet total	157,810	146,877	150,246	7.4%	5.0%
Loans to the public, net	126,602	117,620	119,328	7.6%	6.1%
Deposits from the public	124,322	116,497	119,236	6.7%	4.3%
Securities	7,966	5,879	8,432	35.5%	(5.5%)
Shareholders' equity	8,514	7,359	7,666	15.7%	11.1%

Loans to the public, net – loans to the public, net on the consolidated balance sheet as of September 30, 2012 accounted for 80% of total assets, compared to 79% at the end of 2011. Loans to the public, net for the Group increased in the first nine months of 2012 by NIS 7.3 billion, an increase of 6.1%.

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

				Change compared to	
	September 30		December 31	September 30	December 31
	2012	2011	2011	2012	2011
Israeli currency					
Non-linked	64,043	59,916	60,559	6.9%	5.8%
CPI- linked	48,733	43,272	44,651	12.6%	9.1%
Foreign currency and foreign currency linked	13,826	14,432	14,118	(4.2%)	(2.1%)
Total	**126,602**	**117,620**	**119,328**	**7.6%**	**6.1%**

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

				Change compared to	
	September 30		December 31	September 30	December 31
Operating segment	2012	2011[(1)]	2011 [(1)]	2011	2011
Retail banking:					
Mortgages	73,346	66,037	66,796	11.1%	9.8%
Household	17,212	16,009	16,500	7.5%	4.3%
Small business	6,751	6,469	6,428	4.4%	5.0%
Total	**97,309**	**88,515**	**89,724**	**9.9%**	**8.5%**
Private banking	1,141	1,262	1,698	(9.6%)	(32.8%)
Commercial banking	4,662	4,831	4,778	(3.5%)	(2.4%)
Business banking	23,490	23,012	23,128	2.1%	1.6%
Total – business and others	**29,293**	**29,105**	**29,604**	**0.6%**	**(1.1%)**
Total	**126,602**	**117,620**	**119,328**	**7.6%**	**6.1%**

(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 September 30, 2012			As of September 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	2,610	403	2,207	2,011	307	1,704	2,153	251	1,902
Troubled credit risk with respect to individuals	1,936	764	1,172	2,053	847	1,206	2,050	805	1,245
Total troubled credit risk	**4,546**	**1,167**	**3,379**	**4,064**	**1,154**	**2,910**	**4,203**	**1,056**	**3,147**
B. Composition of troubled indebtedness									
Impaired credit risk	2,274	364	1,910	1,661	286	1,375	(5) 1,919	(5) 227	1,692
Inferior credit risk	146	30	116	116	12	104	111	10	101
Credit risk under special supervision	462	48	414	562	34	528	444	37	407
Credit risk for housing loans in arrears over 90 days	1,664	725	939	1,725	822	903	(5) 1,729	(5) 782	947
Total troubled credit risk	**4,546**	**1,167**	**3,379**	**4,064**	**1,154**	**2,910**	**4,203**	**1,056**	**3,147**
C. Total non-performing assets:									
Non-accrual impaired loans to the public:									
Reviewed on individual basis:	1,787	346	1,441	1,209	266	943	(5) 1,520	(5) 209	1,311
Non-accrual impaired debentures	4	-	4	16	-	16	4	-	4
Total non-performing assets	**1,791**	**346**	**1,445**	**1,225**	**266**	**959**	**1,524**	**209**	**1,315**
D. Impaired debt in restructuring of accrual troubled debt(4)	63	4	59	133	17	116	(5) 102	(5) 6	96
E. Troubled commercial credit risk(1)									
On balance sheet credit risk with respect to loans to the public	2,037	383	1,654	1,528	297	1,231	1,762	235	1,527
Off-balance sheet credit risk with respect to the public (2)	569	20	549	467	10	457	387	16	371
Total commercial troubled credit risk with respect to the public	**2,606**	**403**	**2,203**	**1,995**	**307**	**1,688**	**2,149**	**251**	**1,898**
Other on balance sheet credit risk	4	-	4	16	-	16	4	-	4
Total commercial troubled credit risk	**2,610**	**403**	**2,207**	**2,011**	**307**	**1,704**	**2,153**	**251**	**1,902**
F. Non-impaired debt in arrears 90 days or longer	1,716	736	980	1,812	828	984	1,814	786	1,028
Includes: Housing loans provided for by extent of arrears	1,218	724	494	1,322	809	513	1,302	767	535
Housing loans not provided for by extent of arrears(3)	446	2	444	403	13	390	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 re-structured in previous years.
(5) Reclassified.

Below is the sector composition of the top 6 borrowers for the group as of September 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	275	647	922
2.	Construction and real estate	24	877	901
3.	Construction and real estate	187	534	721
4.	Power and water	416	282	698
5.	Construction and real estate	111	442	553
6.	Communications and computer services	485	37	522

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 decreased in the first nine months of 2012 by NIS 0.5 billion, and increased by NIS 2.1 billion compared to September 30, 2011. The change in total investment in securities is within assets and liabilities management.

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

				Change compared to	
	September 30		December 31	September 30	December 31
	2012	2011	2011	2011	2011
Israeli currency					
Non-linked	3,534	2,920	5,128	21.0%	(31.1%)
CPI- linked	128	262	302	(51.1%)	(57.6%)
Foreign currency and foreign currency linked	4,222	2,614	2,917	61.5%	44.7%
Non-monetary items	82	83	85	(1.2%)	(3.5%)
Total	**7,966**	**5,879**	**8,432**	**35.5%**	**(5.5%)**

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	
	September 30, 2012	December 31, 2011
Government debentures:		
Government of Israel	6,963	7,410
US Government	100	86
Total government debentures	**7,063**	**7,496**
Debentures of banks in developing nations:		
UK	141	159
Israel	122	135
Germany	109	104
South Korea	26	26
Holland	40	-
Other	5	5
	443	**429**
Debentures of (non-banking) financial institutions in developed nations: (1)		
USA		115
	123	
UK	20	19
Luxembourg	11	11
	154	**145**
Total debentures of banks and financial institutions in developed nations	**597**	**574**
Corporate debentures (composition by industry sector):		
Industry	82	108
Construction	31	37
Power and water	72	48
Communications and computer services	2	23
Financial services	30	-
Total corporate debentures	**217**	**216**
Asset-banked debentures (CLO)(2)	**7**	**61**
Shares	**82**	**85**
Total securities	**7,966**	**8,432**

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

(2) As of the publication date of these financial statements, the balance is zero.

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 September 30, 2012				
	Duration in which fair value is lower than the amortized cost				
Share of impairment out of amortized cost	Up to 6 months	6-9 months	9-12 months	Over 12 months	Total
Asset-backed debentures available for sale					
Up to 20%	1	-	-	-	1
20%-40%	-	-	-	-	-
Over 40%	-	-	-	-	-
Total	**1**	**-**	**-**	**-**	**1**
Other debentures available for sale					
Up to 20%	3	-	-	41	44
20%-40%	-	-	-	21	21
Over 40%	-	-	-	4	4
Total	**3**	**-**	**-**	**66**	**69**
Total securities available for sale	**4**	**-**	**-**	**66**	**70**

	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	6-9 months	9-12 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 79.0% of total consolidated balance sheet as of September 30, 2012, similar to the end of 2011. In the first nine months of 2012, deposits from the public with the Bank Group increased by NIS 5.1 billion, or 4.3%.

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

				Change compared to	
	September 30		December 31	September 30	December 31
	2012	2011	2011	2011	2011
Israeli currency					
Non-linked	77,832	70,214	72,554	10.8%	7.3%
CPI- linked	22,938	22,691	23,046	1.1%	(0.5%)
Foreign currency and foreign currency linked	23,552	23,592	23,636	(0.2%)	(0.4%)
Total	**124,322**	**116,497**	**119,236**	**6.7%**	**4.3%**

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

				Change compared to	
	September 30		December 31	September 30	December 31
	2012	2011	2011(1)	2011	2011
Retail banking:					
Household	58,614	52,325	54,091	12.0%	8.4%
Small business	7,851	7,221	7,773	8.7%	1.0%
Total	**66,465**	**59,546**	**61,864**	**11.6%**	**7.4%**
Private banking	6,156	6,290	5,831	(2.1%)	5.6%
Commercial banking	3,763	3,060	3,471	23.0%	8.4%
Business banking	33,083	33,419	32,524	(1.0%)	1.7%
Financial management	14,855	14,182	15,546	4.7%	(4.4%)
Total	**124,322**	**116,497**	**119,236**	**6.7%**	**4.3%**

(1) Reclassified

The ratio of shareholders' equity to balance sheet total for the Group as of September 30, 2012 was 5.40%, compared to 5.10% as of the end of 2011.

Ratio of capital to risk elements

As per instructions of the Supervisor of Banks, every banking corporation is required to maintain a total minimum capital ratio of no less than 9% of weighted total of risk components of its balance sheet assets and off-balance-sheet items, and said instructions set forth the manner of calculation of total capital and total risk 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 %):

	September 30, 2012	December 31, 2011
Ratio of Tier I capital to risk elements	8.23	7.77
Ratio of total capital to risk elements	13.11	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 nine months of 2012 amounted to NIS 124.7 million, compared to NIS 116.8 million in the corresponding period last year.
Excluding the effect of exchange rates, contribution of investees amounted to NIS 114.5 million, compared to NIS 93.9 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 nine months of 2012 amounted to NIS 39.2 million, compared to NIS 28.8 million in the corresponding period last year. Bank Yahav's net profit return on equity in the first nine months of 2012 was 13.1% on annualized basis, compared to 10.7% in the corresponding period last year. Bank Yahav's balance sheet total as of September 30, 2012 amounted to NIS 18,159 million, compared to NIS 16,755 million as of December 31, 2011. The balance of loans to the public, net as of September 30, 2012 amounted to NIS 5,960 million, compared to NIS 5,793 million at end of 2011. The balance of deposits from the public as of September 30, 2012 amounted to NIS 15,565 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 nine months of 2012 amounted to NIS 50.8 million, compared to NIS 51.2 million in the corresponding period last year.
Bank Yahav's net profit return on equity in the first nine months of 2012 was 11.8% on annualized basis, compared to 13.6% 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 nine months of 2012 amounted to CHF 1.4 million, compared to CHF 1.1 million in the corresponding period last year.
Mizrahi Bank Switzerland's balance sheet total as of September 30, 2012 amounted to CHF 170 million, compared to CHF 150 million at the end of 2011.
Loans to the public as of September 30, 2012 amounted to CHF 43 million, compared to CHF 44 million at end of 2011. The deposits with banks as of September 30, 2012 amounted to CHF 118 million, compared to CHF 95 million at end of 2011. Deposits from the public as of September 30, 2012 amounted to CHF 111 million, compared to CHF 80 million at end of 2011. Deposits from banks as of September 30, 2012 amounted to CHF 2 million, compared to CHF 12 million at 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 nine months of 2012, which includes the contribution of Mizrahi Bank Switzerland to net profit, amounted to NIS 14.3 million, compared with NIS 27.8 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 nine months of the year amounted to a NIS 4.1 million profit, compared to a NIS 4.9 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 7.4% of these investments are negotiable and presented at their market value. The remainder of these investments are presented at cost or at their carrying amount. In case of impairment of a non-temporary nature, a provision for impairment is made by the Bank.
Bank investments in non-banking corporations as of September 30, 2012 amounted to NIS 67 million, compared to NIS 66 million at end of 2011. Net profit from dividends and realized gain on investments in non-banking corporations, after provision for impairment, amounted in the first nine months of 2012 to NIS 5 million for the Bank, compared to NIS 4 million in the corresponding period last year.

Financial Information Regarding Operating Segments

Bank Group operating segments

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

The Bank's operating segments are:

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

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

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

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

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

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

For further details, inter alia, with regard to division into operating segments and the principles used for attributing balances, income and expenses to customers in the system – see Note 31 to the financial statements as of December 31, 2011.
Note 11 to the financial statements includes a reporting of Bank Group business results by operating segment.

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

	Net profit for the first nine months		Share of total net profit (in %) for the first nine months		Return on equity (in %) for the first nine months	
	2012	2011 (1)	2012	2011 (1)	2012	2011 (1)
Household:						
Mortgages	303	257	38	34	13.8	14.4
Other	103	112	13	15	13.9	17.4
Private banking	25	36	3	5	26.6	96.2
Small business	125	105	16	14	41.2	38.0
Commercial banking	43	43	5	6	13.7	14.5
Business banking	242	134	29	18	11.1	7.0
Financial management	(35)	58	(4)	8	-	24.0
Total	**806**	**745**	**100**	**100**	**13.5**	**14.3**

(1) Reclassified.

Below are Bank Group operating results by operating segment

Results of Household Segment

	For the nine months ended September 30, 2012					For the nine months ended September 30, 2011 [(1)(2)]				
	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	90	21	-	2,755	2,866	74	19	-	2,841	2,934
Inter-segment	726	(15)	-	(2,273)	(1,562)	692	(14)	-	(2,426)	(1,748)
Total interest revenues, net	**816**	**6**	**-**	**482**	**1,304**	**766**	**5**	**-**	**415**	**1,186**
Non-interest financing revenues	-	-	5	-	5	-	-	9	-	9
Commissions and other revenues	185	100	119	180	584	166	101	161	182	610
Total revenues	**1,001**	**106**	**124**	**662**	**1,893**	**932**	**106**	**170**	**597**	**1,805**
Expenses with respect to credit loss	45	-	-	4	49	51	-	-	14	65
Operating and other expenses										
From outside operating segments	994	21	40	203	1,258	959	21	48	183	1,211
Inter-segment	(81)	(2)	-	-	(83)	(88)	(3)	-	-	(91)
Total operating and other expenses	**913**	**19**	**40**	**203**	**1,175**	**871**	**18**	**48**	**183**	**1,120**
Pre-tax profit	43	87	84	455	669	10	88	122	400	620
Provision for taxes on profit	14	30	28	152	224	4	32	43	143	222
After-tax profit	**29**	**57**	**56**	**303**	**445**	**6**	**56**	**79**	**257**	**398**
Net profit (loss):										
Before attribution to non-controlling interest	29	57	56	303	445	6	56	79	257	398
Attributable to non-controlling interest	(39)	-	-	-	(39)	(29)	-	-	-	(29)
Attributable to equity holders of the banking corporation	**(10)**	**57**	**56**	**303**	**406**	**(23)**	**56**	**79**	**257**	**369**
Return on capital (net profit as % of average capital)					**13.8%**					**15.2%**
Average balance of assets	14,754	2,552	-	68,906	86,212	13,581	2,412	-	59,863	75,856
Average balance of liabilities	55,307	2,552	-	97	57,956	47,844	2,412	-	252	50,508
Average balance of risk assets	14,957	-	-	36,275	51,232	13,955	-	-	31,529	45,484
Average balance of securities	-	-	26,551	-	26,551	-	-	27,431	-	27,431
Loans to the public, net (end balance)	14,491	2,721	-	73,346	90,558	13,453	2,556	-	66,037	82,046
Deposits from the public (end balance)	58,614	-	-	-	58,614	52,325	-	-	-	52,325
Average balance of other assets managed	8,568	-	-	11,720	20,288	8,350	-	-	13,057	21,407
Profit from interest revenues before expenses with respect to credit loss:										
Margin from credit granting operations	385	6	-	458	849	350	5	-	393	748
Margin from receiving deposits	407	-	-	-	407	377	-	-	-	377
Other	24	-	-	24	48	39	-	-	22	61
Total interest revenues, net	**816**	**6**	**-**	**482**	**1,304**	**766**	**5**	**-**	**415**	**1,186**

(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.B.1 to the financial statements.
(2) Reclassified.

Contribution of the household segment to Group profit in the first nine months of 2012 amounted to NIS 406 million, compared to NIS 369 million in the corresponding period last year - an increase of 10.0%.

Contribution of mortgages in the first nine months of 2012 amounted to NIS 303 million, compared to NIS 257 million in the corresponding period last year - an increase of 17.9%. The increase is primarily due to an increase of 15.9% in net interest revenues before expenses with respect to credit loss, which is due to expanded operations, reflected in an increase of 16.1% in average assets. Moreover, the provision for credit loss with respect to these operations decreased by NIS 10 million: Total expenses with respect to credit loss attributed to mortgages in the first nine months of 2012 amounted to NIS 4 million, compared to NIS 14 million in the corresponding period last year.

Contribution of the household segment (except for mortgages) in the first nine months of 2012 amounted to NIS 103 million, compared to NIS 112 million in the corresponding period last year - a decrease of 8.0%. Net interest revenues before expenses with respect to credit loss increased by 6.6% due to higher volume. Conversely, commissions and other revenues decreased by 5.6%, due to a decrease in revenues from commissions on securities, while operating expenses increased by 3.7%.

Results of Household Segment

	For the three months ended September 30, 2012					For the three months ended September 30, 2011 (1)(2)				
	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	23	7	-	996	1,026	5	7	-	1,084	1,096
Inter-segment	243	(5)	-	(825)	(587)	246	(5)	-	(937)	(696)
Total interest revenues, net	**266**	**2**	**-**	**171**	**439**	**251**	**2**	**-**	**147**	**400**
Non-interest financing revenues	-	-	1	-	1	-	-	3	-	3
Commissions and other revenues	63	30	38	61	192	51	40	45	59	195
Total revenues	**329**	**32**	**39**	**232**	**632**	**302**	**42**	**48**	**206**	**598**
Expenses with respect to credit loss	12	-	-	-	12	25	-	-	4	29
Operating and other expenses										
From outside operating segments	325	7	13	79	424	316	7	17	60	400
Inter-segment	(25)	-	-	-	(25)	(32)	(1)	-	-	(33)
Total operating and other expenses	**300**	**7**	**13**	**79**	**399**	**284**	**6**	**17**	**60**	**367**
Pre-tax profit (loss)	17	25	26	153	221	(7)	36	31	142	202
Provision for taxes on profit (loss)	5	8	8	47	68	(2)	13	11	53	75
After-tax profit (loss)	**12**	**17**	**18**	**106**	**153**	**(5)**	**23**	**20**	**89**	**127**
Net profit (loss):										
Before attribution to non-controlling interest	12	17	18	106	153	(5)	23	20	89	127
Attributable to non-controlling interest	(14)	-	-	-	(14)	(11)	-	-	-	(11)
Attributable to equity holders of the banking corporation	**(2)**	**17**	**18**	**106**	**139**	**(16)**	**23**	**20**	**89**	**116**
Return on capital (net profit as % of average capital)					**14.6%**					**13.2%**
Profit from interest revenues before expenses with respect to credit loss:										
Margin from credit granting operations	136	2	-	162	300	120	2	-	139	261
Margin from receiving deposits	126	-	-	-	126	113	-	-	-	113
Other	4	-	-	9	13	18	-	-	8	26
Total interest revenues, net	**266**	**2**	**-**	**171**	**439**	**251**	**2**	**-**	**147**	**400**

(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.B.1 to the financial statements.

(2) Reclassified.

Volume of mortgages granted by the segment is as follows:

	Loans granted (NIS in millions)		
	First nine months		
	2012	2011	Rate of change
Mortgages originated (for housing and any purpose)			
From Bank funds	12,615	13,175	(4.2%)
From Treasury funds:			
Directed loans	136	61	123.0%
Standing loans and grants	152	59	157.6%
Total new loans	**12,903**	**13,295**	**(2.9%)**
Re-financed loans	1,277	1,076	18.7%
Total loans issued	**14,180**	**14,371**	**(1.3%)**
Number of borrowers (includes re-financed loans)	35,579	36,516	(2.6%)

Results of Private Banking Segment

	For the nine months ended September 30, 2012			For the nine months ended September 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	(8)	-	(8)	8	-	8
Inter-segment	68	-	68	59	-	59
Total interest revenues, net	**60**	**-**	**60**	**67**	**-**	**67**
Non-interest financing revenues	-	-	-	-	-	-
Commissions and other revenues	18	23	41	18	24	42
Total revenues	**78**	**23**	**101**	**85**	**24**	**109**
Expenses with respect to credit loss	3	-	3	(6)	-	(6)
Operating and other expenses						
From outside operating segments	56	5	61	51	5	56
Inter-segment	4	(4)	-	8	(4)	4
Total operating and other expenses	**60**	**1**	**61**	**59**	**1**	**60**
Pre-tax profit	15	22	37	32	23	55
Provision for taxes on profit	5	7	12	11	8	19
Net profit attributable to equity holders of the banking corporation	**10**	**15**	**25**	**21**	**15**	**36**
Return on capital (net profit as % of average capital)			**26.6%**			**96.2%**
Average balance of assets	2,366	-	2,366	2,537	-	2,537
Average balance of liabilities	7,160	-	7,160	6,215	-	6,215
Average balance of risk assets	1,573	-	1,573	711	-	711
Average balance of securities	-	7,548	7,548	-	11,626	11,626
Loans to the public, net (end balance)	1,141	-	1,141	1,262	-	1,262
Deposits from the public (end balance)	6,156	-	6,156	6,290	-	6,290
Average balance of other assets managed	-	-	-	-	-	-
Profit from interest revenues before expenses with respect to credit loss:						
Margin from credit granting operations	24	-	24	32	-	32
Margin from receiving deposits	35	-	35	33	-	33
Other	1	-	1	2	-	2
Total interest revenues, net	**60**	**-**	**60**	**67**	**-**	**67**

(1) Reclassified.

(2) 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.B.1 to the financial statements.

Contribution of the private banking segment to Group profit in the first nine months of 2012 amounted to NIS 25 million, compared to NIS 36 million in the corresponding period last year. Interest revenues decreased by NIS 7 million, and operating and other expenses attributed to this segment increased by 1.7%. Moreover, the provision for credit loss increased by NIS 9 million.

Results of Private Banking Segment

	For the three months ended September 30, 2012			For the three months ended September 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	(2)	-	(2)	1	-	1
Inter-segment	22	-	22	21	-	21
Total interest revenues, net	**20**	**-**	**20**	**22**	**-**	**22**
Non-interest financing revenues	-	-	-	-	-	-
Commissions and other revenues	7	7	14	5	9	14
Total revenues	**27**	**7**	**34**	**27**	**9**	**36**
Expenses with respect to credit loss	6	-	6	(5)	-	(5)
Operating and other expenses						
From outside operating segments	18	5	23	17	5	22
Inter-segment	1	(4)	(3)	9	(4)	5
Total operating and other expenses	**19**	**1**	**20**	**26**	**1**	**27**
Pre-tax profit	2	6	8	6	8	14
Provision for taxes on profit	1	1	2	1	3	4
Net profit attributable to equity holders of the banking corporation	**1**	**5**	**6**	**5**	**5**	**10**
Return on capital (net profit as % of average capital)			**20.4%**			**91.0%**
Profit from interest revenues before expenses with respect to credit loss:						
Margin from credit granting operations	10	-	10	14	-	14
Margin from receiving deposits	9	-	9	6	-	6
Other	1	-	1	2	-	2
Total interest revenues, net	**20**	**-**	**20**	**22**	**-**	**22**

(1) Reclassified.

(2) 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.B.1 to the financial statements.

Results of the Small Business Segment

	For the nine months ended September 30, 2012				For the nine months ended September 30, 2011 [(1)(2)]			
	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	256	5	-	261	323	4	-	327
Inter-segment	78	(4)	-	74	9	(3)	-	6
Total interest revenues, net	**334**	**1**	**-**	**335**	**332**	**1**	**-**	**333**
Non-interest financing revenues	-	-	-	-	(2)	-	2	-
Commissions and other revenues	152	10	15	177	148	10	17	175
Total revenues	**486**	**11**	**15**	**512**	**478**	**11**	**19**	**508**
Expenses with respect to credit loss	23	-	-	23	58	-	-	58
Operating and other expenses								
From outside operating segments	334	3	3	340	320	2	3	325
Inter-segment	(38)	-	-	(38)	(38)	-	-	(38)
Total operating and other expenses	**296**	**3**	**3**	**302**	**282**	**2**	**3**	**287**
Pre-tax profit	167	8	12	187	138	9	16	163
Provision for taxes on profit	55	3	4	62	49	3	6	58
Net profit attributable to equity holders of the banking corporation	**112**	**5**	**8**	**125**	**89**	**6**	**10**	**105**
Return on capital (net profit as % of average capital)				**41.2%**				**38.4%**
Average balance of assets	6,717	303	-	7,020	6,252	218	-	6,470
Average balance of liabilities	8,050	-	-	8,050	6,896	-	-	6,896
Average balance of risk assets	5,164	-	-	5,164	5,030	-	-	5,030
Average balance of securities	-	-	6,097	6,097	-	-	8,361	8,361
Loans to the public, net (end balance)	6,438	313	-	6,751	6,189	280	-	6,469
Deposits from the public (end balance)	7,851	-	-	7,851	7,221	-	-	7,221
Average balance of other assets managed	185	-	-	185	251	-	-	251
Profit from interest revenues before expenses with respect to credit loss:								
Margin from credit granting operations	260	-	-	260	248	-	-	248
Margin from receiving deposits	59	-	-	59	61	-	-	61
Other	15	1	-	16	23	1	-	24
Total interest revenues, net	**334**	**1**	**-**	**335**	**332**	**1**	**-**	**333**

(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.B.1 to the financial statements.

(2) Reclassified.

Contribution of the small business segment to Group profit in the first nine months of 2012 amounted to NIS 125 million, compared to NIS 105 million in the corresponding period last year. Expenses with respect to credit loss decreased by NIS 35 million, while operating expenses attributed to this segment increased by 5.2%

Results of the Small Business Segment

	For the three months ended September 30, 2012				For the three months ended September 30, 2011 [(1)(2)]			
	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	79	1	-	80	116	4	-	120
Inter-segment	31	(1)	-	30	8	(3)	-	5
Total interest revenues, net	**110**	**-**	**-**	**110**	**124**	**1**	**-**	**125**
Non-interest financing revenues	-	-	-	-	(2)	-	1	(1)
Commissions and other revenues	52	3	5	60	46	3	7	56
Total revenues	**162**	**3**	**5**	**170**	**168**	**4**	**8**	**180**
Expenses with respect to credit loss	8	-	-	8	21	-	-	21
Operating and other expenses								
From outside operating segments	114	1	1	116	103	-	1	104
Inter-segment	(13)	-	-	(13)	(14)	-	-	(14)
Total operating and other expenses	**101**	**1**	**1**	**103**	**89**	**-**	**1**	**90**
Pre-tax profit	53	2	4	59	58	4	7	69
Provision for taxes on profit	15	1	1	17	21	1	3	25
Net profit attributable to equity holders of the banking corporation	**38**	**1**	**3**	**42**	**37**	**3**	**4**	**44**
Return on capital (net profit as % of average capital)				**45.9%**				**52.1%**
Profit from interest revenues before expenses with respect to credit loss:								
Margin from credit granting operations	86	-	-	86	92	-	-	92
Margin from receiving deposits	20	-	-	20	20	-	-	20
Other	4	-	-	4	12	1	-	13
Total interest revenues, net	**110**	**-**	**-**	**110**	**124**	**1**	**-**	**125**

(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.B.1 to the financial statements.

(2) Reclassified.

Results of the Commercial Banking Segment

	For the nine months ended September 30, 2012				For the nine months ended September 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	150	-	-	150	187	-	-	187
Inter-segment	(22)	-	-	(22)	(56)	-	-	(56)
Total interest revenues, net	**128**	**-**	**-**	**128**	**131**	**-**	**-**	**131**
Non-interest financing revenues	-	-	1	1	-	-	2	2
Commissions and other revenues	36	2	8	46	37	2	10	49
Total revenues	**164**	**2**	**9**	**175**	**168**	**2**	**12**	**182**
Expenses with respect to credit loss	11	-	-	11	11	-	-	11
Operating and other expenses								
From outside operating segments	46	-	1	47	52	-	-	52
Inter-segment	52	-	-	52	53	-	-	53
Total operating and other expenses	**98**	**-**	**1**	**99**	**105**	**-**	**-**	**105**
Pre-tax profit	55	2	8	65	52	2	12	66
Provision for taxes on profit	18	1	3	22	18	1	4	23
Net profit attributable to equity holders of the banking corporation	**37**	**1**	**5**	**43**	**34**	**1**	**8**	**43**
Return on capital (net profit as % of average capital)				**13.7%**				**14.5%**
Average balance of assets	4,669	51	-	4,720	4,811	41	-	4,852
Average balance of liabilities	3,549	-	-	3,549	3,123	-	-	3,123
Average balance of risk assets	5,180	-	-	5,180	5,219	-	-	5,219
Average balance of securities	-	-	3,551	3,551	-	-	3,894	3,894
Loans to the public, net (end balance)	4,617	45	-	4,662	4,782	49	-	4,831
Deposits from the public (end balance)	3,763	-	-	3,763	3,060	-	-	3,060
Average balance of other assets managed	224	-	-	224	164	-	-	164
Profit from interest revenues before expenses with respect to credit loss:								
Margin from credit granting operations	111	-	-	111	107	-	-	107
Margin from receiving deposits	15	-	-	15	16	-	-	16
Other	2	-	-	2	8	-	-	8
Total interest revenues, net	**128**	**-**	**-**	**128**	**131**	**-**	**-**	**131**

(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.B.1 to the financial statements.

Contribution of the commercial banking segment to Group profit in the first nine months of 2012 amounted to NIS 43 million, similar to the corresponding period last year. Interest revenues, net of expenses with respect to credit loss decreased by NIS 3 million; in addition, commissions and other revenues decreased by NIS 3 million due to lower commission revenues on securities. Conversely, operating expenses decreased by 5.7%. Expenses with respect to credit loss, attributed to this segment, remained unchanged.

Results of the Commercial Banking Segment

	For the three months ended September 30, 2012				For the three months ended September 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	48	-	-	48	62	-	-	62
Inter-segment	(6)	-	-	(6)	(12)	-	-	(12)
Total interest revenues, net	**42**	**-**	**-**	**42**	**50**	**-**	**-**	**50**
Non-interest financing revenues	-	-	1	1	-	-	1	1
Commissions and other revenues	11	1	5	17	11	-	3	14
Total revenues	**53**	**1**	**6**	**60**	**61**	**-**	**4**	**65**
Expenses with respect to credit loss	9	-	-	9	(10)	-	-	(10)
Operating and other expenses								
From outside operating segments	12	-	1	13	18	-	(3)	15
Inter-segment	19	-	-	19	18	-	-	18
Total operating and other expenses	**31**	**-**	**1**	**32**	**36**	**-**	**(3)**	**33**
Pre-tax profit	13	1	5	19	35	-	7	42
Provision for taxes on profit	4	1	2	7	12	-	2	14
Net profit attributable to equity holders of the banking corporation	**9**	**-**	**3**	**12**	**23**	**-**	**5**	**28**
Return on capital (net profit as % of average capital)				**11.9%**				**30.2%**
Profit from interest revenues before expenses with respect to credit loss:								
Margin from credit granting operations	36	-	-	36	39	-	-	39
Margin from receiving deposits	5	-	-	5	5	-	-	5
Other	1	-	-	1	6	-	-	6
Total interest revenues, net	**42**	**-**	**-**	**42**	**50**	**-**	**-**	**50**

(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.B.1 to the financial statements.

Results of the Business Banking Segment

	For the nine months ended September 30, 2012				For the nine months ended September 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	-	238	246	(63)	-	242	179
Inter-segment	344	-	(93)	251	326	-	(114)	212
Total interest revenues, net	**352**	**-**	**145**	**497**	**263**	**-**	**128**	**391**
Non-interest financing revenues	53	6	-	59	16	8	-	24
Commissions and other revenues	67	18	83	168	64	21	64	149
Total revenues	**472**	**24**	**228**	**724**	**343**	**29**	**192**	**564**
Expenses with respect to credit loss	138	-	-	138	114	-	16	130
Operating and other expenses								
From outside operating segments	129	5	24	158	135	1	28	164
Inter-segment	55	-	11	66	52	-	10	62
Total operating and other expenses	**184**	**5**	**35**	**224**	**187**	**1**	**38**	**226**
Pre-tax profit	150	19	193	362	42	28	138	208
Provision for taxes on profit	50	6	64	120	15	10	49	74
Net profit (loss) attributable to equity holders of the banking corporation	**100**	**13**	**129**	**242**	**27**	**18**	**89**	**134**
Return on capital (net profit as % of average capital)				**11.1%**				**7.0%**
Average balance of assets	20,061	-	7,353	27,414	19,062	-	5,927	24,989
Average balance of liabilities	29,651	-	2,310	31,961	27,157	-	2,279	29,436
Average balance of risk assets	20,456	-	15,592	36,048	19,537	-	13,755	33,292
Average balance of securities	-	60,639	-	60,639	-	72,550	-	72,550
Loans to the public, net (end balance)	16,871	-	6,619	23,490	17,054	-	5,958	23,012
Deposits from the public (end balance)	30,682	-	2,401	33,083	31,146	-	2,273	33,419
Average balance of other assets managed	175	-	92	267	18	-	69	87
Profit from interest revenues before expenses with respect to credit loss:								
Margin from credit granting operations	305	-	119	424	214	-	89	303
Margin from receiving deposits	42	-	12	54	36	-	13	49
Other	5	-	14	19	13	-	26	39
Total interest revenues, net	**352**	**-**	**145**	**497**	**263**	**-**	**128**	**391**

(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 layout adopted by the Supervisor of Banks. For details, see Note 1.B.1 to the financial statements.

Contribution of the business banking segment to Group profit in the first nine months of 2012 amounted to NIS 242 million, compared to NIS 134 million in the corresponding period last year, an increase of 80.6%.

Contribution of the construction and real estate sector increased by NIS 40 million, or 44.9%, compared to the corresponding period last year - primarily due to an increase of 18.8% in total revenues along with unchanged expenses. Moreover, in the first nine months of 2012 there were no expenses with respect to credit loss attributed to the sub-segment, compared to expenses amounting to NIS 16 million in the corresponding period last year. Contribution of the business banking segment, excluding construction and real estate, to Group profit in the first nine months of 2012 amounted to NIS 113 million, compared to NIS 45 million in the corresponding period last year - an increase of NIS 68 million. This change was due to an increase of NIS 124 million in total financing revenues (net interest revenues and non-interest financing revenues), primarily due to higher credit spreads. Expenses with respect to credit loss increased by NIS 24 million - primarily due to group provision for credit loss. Operating and other expenses were essentially unchanged.

Results of the Business Banking Segment

	For the three months ended September 30, 2012				For the three months ended September 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	-	-	74	74	(16)	-	92	76
Inter-segment	116	-	(29)	87	112	-	(38)	74
Total interest revenues, net	**116**	**-**	**45**	**161**	**96**	**-**	**54**	**150**
Non-interest financing revenues	27	2	-	29	14	3	-	17
Commissions and other revenues	30	6	33	69	19	9	25	53
Total revenues	**173**	**8**	**78**	**259**	**129**	**12**	**79**	**220**
Expenses with respect to credit loss	105	-	(20)	85	95	-	1	96
Operating and other expenses								
From outside operating segments	37	2	8	47	44	-	9	53
Inter-segment	21	-	4	25	17	-	4	21
Total operating and other expenses	**58**	**2**	**12**	**72**	**61**	**-**	**13**	**74**
Pre-tax profit	10	6	86	102	(27)	12	65	50
Provision for taxes on profit	2	2	27	31	(8)	4	23	19
Net profit (loss) attributable to equity holders of the banking corporation	**8**	**4**	**59**	**71**	**(19)**	**8**	**42**	**31**
Return on capital (net profit as % of average capital)				**9.7%**				**4.9%**
Profit from interest revenues before expenses with respect to credit loss:								
Margin from credit granting operations	101	-	40	141	88	-	43	131
Margin from receiving deposits	11	-	4	15	4	-	5	9
Other	4	-	1	5	4	-	6	10
Total interest revenues, net	**116**	**-**	**45**	**161**	**96**	**-**	**54**	**150**

(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 layout adopted by the Supervisor of Banks. For details, see Note 1.B.1 to the financial statements.

Results of the Financial Management Segment

	For the nine months ended September 30, 2012			For the nine months ended September 30, 2011[1][2]		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Interest revenues, net:						
From outside operating segments	(944)	-	(944)	(1,270)	-	(1,270)
Inter-segment	1,191	-	1,191	1,527	-	1,527
Total interest revenues, net	**247**	**-**	**247**	**257**	**-**	**257**
Non-interest financing revenues	(205)	6	(199)	(73)	4	(69)
Commissions and other revenues	55	34	89	64	36	100
Total revenues	**97**	**40**	**137**	**248**	**40**	**288**
Expenses with respect to credit loss	4	-	4	18	-	18
Operating and other expenses						
From outside operating segments	179	3	182	162	8	170
Inter-segment	3	-	3	10	-	10
Total operating and other expenses	**182**	**3**	**185**	**172**	**8**	**180**
Pre-tax profit (loss)	(89)	37	(52)	58	32	90
Provision for taxes on profit (loss)	(30)	13	(17)	21	12	33
After-tax profit (loss)	**(59)**	**24**	**(35)**	**37**	**20**	**57**
Share in net profits of affiliates, after tax	-	-	-	1	-	1
Net profit (loss):						
Before attribution to non-controlling interest	(59)	24	(35)	38	20	58
Attributable to non-controlling interest	-	-	-	-	-	-
Attributable to equity holders of the banking corporation	**(59)**	**24**	**(35)**	**38**	**20**	**58**
Return on capital (net profit as % of average capital)			**-**			**24.0%**
Average balance of assets	26,244	-	26,244	25,282	-	25,282
Includes: Investments in affiliates	18	-	18	17	-	17
Average balance of liabilities	35,185	-	35,185	36,351	-	36,351
Average balance of risk assets	5,421	-	5,421	4,829	-	4,829
Average balance of provident and mutual fund assets	97,819	-	97,819	78,981	-	78,981
Average balance of securities	-	41,245	41,245	-	39,506	39,506
Loans to the public, net (end balance)	-	-	-	-	-	-
Deposits from the public (end balance)	14,855	-	14,855	14,182	-	14,182
Profit from interest revenues before expenses with respect to credit loss:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	247	-	247	257	-	257
Total interest revenues, net	**247**	**-**	**247**	**257**	**-**	**257**

(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.B.1 to the financial statements.

(2) Reclassified.

Contribution of the financial management segment to Group profit in the first nine months of 2012 amounted to a loss of NIS 35 million, compared to a profit of NIS 58 million in the corresponding period last year. Total financing revenues (net interest revenues and non-interest financing revenues) decreased by NIS 140 million, primarily due to fair value and other effects - an expense amounting to NIS 111 million for the nine months ended September 30, 2012, compared to revenues amounting to NIS 42 million in the corresponding period last year. Commissions and other revenues decreased by NIS 11 million. Operating expenses increased by 2.8%, while expenses with respect to credit loss, attributed to this segment, decreased by NIS 14 million.

Results of the Financial Management Segment

	For the three months ended September 30, 2012			For the three months ended September 30, 2011[1][2]		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Interest revenues, net:						
From outside operating segments	(326)	-	(326)	(464)	-	(464)
Inter-segment	454	-	454	608	-	608
Total interest revenues, net	**128**	**-**	**128**	**144**	**-**	**144**
Non-interest financing revenues	(130)	1	(129)	(69)	1	(68)
Commissions and other revenues	23	10	33	26	11	37
Total revenues	**21**	**11**	**32**	**101**	**12**	**113**
Expenses with respect to credit loss	(4)	-	(4)	11	-	11
Operating and other expenses						
From outside operating segments	52	1	53	53	3	56
Inter-segment	(3)	-	(3)	3	-	3
Total operating and other expenses	**49**	**1**	**50**	**56**	**3**	**59**
Pre-tax profit (loss)	(24)	10	(14)	34	9	43
Provision for taxes on profit (loss)	(8)	4	(4)	13	4	17
After-tax profit (loss)	**(16)**	**6**	**(10)**	**21**	**5**	**26**
Share in net profits of affiliates, after tax	-	-	-	-	-	-
Net profit (loss):	-	-	-	-	-	-
Before attribution to non-controlling interest	(16)	6	(10)	21	5	26
Attributable to non-controlling interest	-	-	-	-	-	-
Attributable to equity holders of the banking corporation	**(16)**	**6**	**(10)**	**21**	**5**	**26**
Return on capital (net profit as % of average capital)			**-**			**281.0%**
Profit from interest revenues before expenses with respect to credit loss:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	128	-	128	144	-	144
Total interest revenues, net	**128**	**-**	**128**	**144**	**-**	**144**

(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.B.1 to the financial statements.

(2) Reclassified.

Product operations

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

	For the nine months ended September 30, 2012			
	Household	Small business	Commercial banking	Total consolidated
Interest revenues, net	6	1	-	7
Non-interest financing revenues	-	-	-	-
Commissions and other revenues	100	10	2	112
Total revenues	**106**	**11**	**2**	**119**
Expenses with respect to credit loss	-	-	-	-
Operating and other expenses	19	3	-	22
Pre-tax profit	**87**	**8**	**2**	**97**
Provision for taxes on profit	30	3	1	34
Net profit	**57**	**5**	**1**	**63**

	For the nine months ended September 30, 2011 (1)			
	Household	Small business	Commercial banking	Total consolidated
Interest revenues, net	5	1	-	6
Non-interest financing revenues	-	-	-	-
Commissions and other revenues	101	10	2	113
Total revenues	**106**	**11**	**2**	**119**
Expenses with respect to credit loss	-	-	-	-
Operating and other expenses	18	2	-	20
Pre-tax profit	**88**	**9**	**2**	**99**
Provision for taxes on profit	32	3	1	36
Net profit	**56**	**6**	**1**	**63**

(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.B.1 to the financial statements.

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

	For the nine months ended September 30, 2012						
	Household	Private banking	Small business	Commercial banking	Business banking	Financial mana-gement	Total conso-lidated
Interest revenues, net	-	-	-	-	-	-	-
Non-interest financing revenues	5	-	-	1	6	6	18
Commissions and other revenues	119	23	15	8	18	34	217
Total revenues	**124**	**23**	**15**	**9**	**24**	**40**	**235**
Expenses with respect to credit loss	-	-	-	-	-	-	-
Operating and other expenses	40	1	3	1	5	3	53
Pre-tax profit	**84**	**22**	**12**	**8**	**19**	**37**	**182**
Provision for taxes on profit	28	7	4	3	6	13	61
Net profit	**56**	**15**	**8**	**5**	**13**	**24**	**121**

	For the nine months ended September 30, 2011 (1)						
	Household	Private banking	Small business	Commercial banking	Business banking	Financial mana-gement	Total conso-lidated
Interest revenues, net	-	-	-	-	-	-	-
Non-interest financing revenues	9	-	2	2	8	4	25
Commissions and other revenues	161	24	17	10	21	36	269
Total revenues	**170**	**24**	**19**	**12**	**29**	**40**	**294**
Expenses with respect to credit loss	-	-	-	-	-	-	-
Operating and other expenses	48	1	3	-	1	8	61
Pre-tax profit	**122**	**23**	**16**	**12**	**28**	**32**	**233**
Provision for taxes on profit	43	8	6	4	10	12	83
Net profit	**79**	**15**	**10**	**8**	**18**	**20**	**150**

(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.B.1 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 set forth 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 the local and Israeli regulation.

- **Los Angeles Branch:** The branch is primarily engaged in commercial banking, participating in syndicated loans and receiving deposits. Deposits with this branch are insured by the Federal Deposit Insurance Corporation(FDIC). The branch's clients are local, Israeli and international clients.
- **London Branch:** The branch is engaged mainly in business banking, including participation in loan syndicates, foreign trade, credit, receiving deposits, foreign currency trade and providing private banking services. The branch's clients are local, Israeli and international clients.
- **Cayman Islands Branch:** The branch provides private banking services and is operated through the representation of the Bank by the Butterfield Bank in the Cayman Islands, pursuant to the management agreement between it and the Bank.

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

Mortgage center for foreign residents: The Bank operates 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 nine months ended September 30, 2012				
	Household	Private banking	Business banking	Financial management	Total
Interest revenues, net	3	44	48	6	101
Non-interest financing revenues	-	-	2	11	13
Commissions and other revenues	-	30	3	1	34
Total revenues	**3**	**74**	**53**	**18**	**148**
Expenses with respect to credit loss	-	-	-	-	-
Operating and other expenses	2	46	35	5	88
Pre-tax profit	**1**	**28**	**18**	**13**	**60**
Provision for taxes on profit	-	9	6	4	19
Net profit	**1**	**19**	**12**	**9**	**41**

	For the nine months ended September 30, 2011 (1)				
	Household	Private banking	Business banking	Financial management	Total
Interest revenues, net	2	48	17	5	72
Non-interest financing revenues	-	-	2	35	37
Commissions and other revenues	-	31	4	2	37
Total revenues	**2**	**79**	**23**	**42**	**146**
Expenses (reduced expenses) with respect to credit loss	-	(7)	2	-	(5)
Operating and other expenses	2	43	31	4	80
Pre-tax profit	**-**	**43**	**(10)**	**38**	**71**
Provision for taxes on profit	-	15	(4)	14	25
Net profit	**-**	**28**	**(6)**	**24**	**46**

(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.B.1 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 September 30, 2012 to NIS 62.3 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 157.8 billion as of September 30, 2012, compared with NIS 152.9 billion at the end of 2011. Revenues from securities transactions for the Group amounted to NIS 156 million in the first nine months of 2012, compared with NIS 197 million in the corresponding period last year - a decrease of 18.2%.

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 September 30, 2012 amounted to NIS 12.7 billion, compared to NIS 13.7 billion at 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 September 30, 2012 amounted to NIS 124.3 billion, compared to NIS 119.3 billion at end of 2011. Deposits from the public in the CPI-linked segment decreased in the first nine months of 2012 by 0.5%; deposits from the public in the foreign currency and foreign-currency-linked segment decreased by 0.4%; and deposits from the public in the NIS-denominated, non-CPI-linked segment increased by 7.3%. 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 said shelf 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 September 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 September 30, 2012 was NIS 2 billion, compared to NIS 1.9 billion at the end of 2011.

Rating of Bank obligations

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

On 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 (RAC) ratio.

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

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

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

Risk Management

Basel II: Pillar 3 - Market Discipline

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

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 Review, 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 Review, 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 Review, 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 II rules, as set forth 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 in conformity with Basel III provisions.

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 September 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 September 30, 2012		As of September 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	927	83	544	49	924	83
Public sector entity debt	377	34	390	35	350	32
Banking corporation debt	1,091	98	1,689	152	1,824	164
Corporate debt	40,639	3,658	38,023	3,422	39,107	3,520
Debt secured by commercial real estate	1,875	169	1,640	147	1,718	155
Retail exposure to individuals	11,481	1,033	10,850	976	11,265	1,014
Loans to small businesses	2,178	196	2,150	194	2,172	195
Residential mortgages	36,401	3,276	31,742	2,857	32,865	2,958
Securitization	-	-	85	8	88	8
Other assets	3,085	278	2,632	237	2,660	239
Total	**98,054**	**8,825**	**89,745**	**8,077**	**92,973**	**8,368**

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

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

	As of September 30, 2012		As of September 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	944	85	813	73	947	85
Operating Risk(2)	8,327	749	7,775	700	7,851	707
Total	**9,271**	**834**	**8,588**	**773**	**8,798**	**792**

(1) Capital requirement calculated at 9% of risk asset balance, in accordance with 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 September 30, 2012	As of September 30, 2011	As of December 31, 2011
Ratio of Tier I capital to risk elements	8.23%	7.70%	7.77%
Ratio of total capital to risk elements	13.11%	13.55%	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 set forth in Basel II, Pillar 3. 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, hence it is Bank policy to constantly strive to improve the risk control and management system,

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

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 their commitments. This risk may arise from multiple factors which may impact the entire loan portfolio, a specific sector or an individual client. These risk factors include, inter alia, macro-economic changes, business risk arising from client operations, credit concentration risk etc.

In June 2012, as part of re-organization of the Risk Control Division, it 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 September 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)]	14,199	313	1,927	29,692	1,985	14,819	3,742	77,726	-	-	144,403
Securities [(4)]	6,542	25	760	292	-	-	-	-	7	-	7,626
Derivatives[(5)]	-	288	812	1,768	-	31	6	-	-	-	2,905
Other off-balance-sheet exposures	113	517	35	36,695	302	10,353	1,548	3,531	-	-	53,094
Other assets[(6)]	-	-	-	-	-	-	-	-	-	4,273	4,273
Total	**20,854**	**1,143**	**3,534**	**68,447**	**2,287**	**25,203**	**5,296**	**81,257**	**7**	**4,273**	**212,301**

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

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 September 30, 2012				
	Up to 1 year	1-5 years	Over 5 years	Without maturity	Total[2]
Loans [3]	44,063	22,637	77,600	103	144,403
Securities[4]	484	4,073	3,069	-	7,626
Derivatives [5]	1,504	495	906	-	2,905
Other off-balance-sheet exposures	44,361	7,533	1,200	-	53,094
Other assets [6]	2,606	-	48	1,619	4,273
Total	**93,018**	**34,738**	**82,823**	**1,722**	**212,301**

	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 loans to the public, loans to governments, deposits with banks and borrowed securities.
(4) Excludes balances deducted from the equity basis and investment in securities in the negotiable portfolio.
(5) Includes face value of derivatives (including credit derivatives), after effect of add-on factors and positive fair value of derivatives.
(6) Excludes derivatives and balances deducted from the equity basis, including cash, investment in shares, fixed assets and investment in investees.

Credit risk - standard approach

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

Before credit risk mitigation

	As of September 30, 2012										
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	17,228	3,297	-	-	-	329	-	-	20,854	-	20,854
Public sector entity debt	-	-	-	1,118	-	-	-	-	1,118	-	1,118
Banking corporation debt	-	2,592	-	783	-	86	-	-	3,461	-	3,461
Corporate debt	-	53	-	224	-	-	-	-	277	-	277
Securitization	-	-	-	-	-	-	-	-	-	7	7
Other assets	-	-	-	-	-	-	-	-	-	33	33
Total	**17,228**	**5,942**	**-**	**2,125**	**-**	**415**	**-**	**-**	**25,710**	**40**	**25,750**
Non-rated exposures:											
Public sector entity debt	-	-	-	25	-	-	-	-	25	-	25
Banking corporation debt	-	5	-	28	-	-	-	-	33	-	33
Corporate debt	-	-	-	-	-	67,242	242	-	67,484	-	67,484
Debt secured by commercial real estate	-	-	-	-	-	2,265	-	-	2,265	-	2,265
Retail exposure to individuals	-	-	-	-	24,903	59	98	-	25,060	-	25,060
Loans to small businesses	-	-	-	-	5,207	18	16	-	5,241	-	5,241
Residential mortgages	-	-	60,761	-	13,820	5,729	210	-	80,520	-	80,520
Other assets	1,233	-	-	-	-	3,005	71	-	4,309	87	4,396
Total	**1,233**	**5**	**60,761**	**53**	**43,930**	**78,318**	**637**	**-**	**184,937**	**87**	**185,024**
Total	**18,461**	**5,947**	**60,761**	**2,178**	**43,930**	**78,733**	**637**	**-**	**210,647**	**127**	**210,774**

(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 September 30, 2012										
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	17,234	3,385	-	-	-	307	-	-	20,926	-	20,926
Public sector entity debt	21	-	-	997	-	-	-	-	1,018	-	1,018
Banking corporation debt	-	2,584	-	783	-	81	-	-	3,448	-	3,448
Corporate debt	-	53	-	224	-	-	-	-	277	-	277
Securitization	-	-	-	-	-	-	-	-	-	7	7
Other assets	-	-	-	-	-	-	-	-	-	33	33
Total	**17,255**	**6,022**	**-**	**2,004**	**-**	**388**	**-**	**-**	**25,669**	**40**	**25,709**
Non-rated exposures:											
Public sector entity debt	-	-	-	25	-	-	-	-	25	-	25
Banking corporation debt	-	121	-	170	-	-	-	-	291	-	291
Corporate debt	-	-	-	-	-	59,222	233	-	59,455	-	59,455
Debt secured by commercial real estate	-	-	-	-	-	1,974	-	-	1,974	-	1,974
Retail exposure to individuals	-	-	-	-	23,170	35	98	-	23,303	-	23,303
Loans to small businesses	-	-	-	-	3,748	12	15	-	3,775	-	3,775
Residential mortgages	-	-	60,759	-	13,755	5,729	185	-	80,428	-	80,428
Other assets	1,233	-	-	-	-	3,005	71	-	4,309	87	4,396
Total	**1,233**	**121**	**60,759**	**195**	**40,673**	**69,977**	**602**	**-**	**173,560**	**87**	**173,647**
Total exposure	**18,488**	**6,143**	**60,759**	**2,199**	**40,673**	**70,365**	**602**	**-**	**199,229**	**127**	**199,356**

Before credit risk mitigation

	As of September 30, 2011										
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	15,327	2,682	-	-	-	11	-	-	18,020	-	18,020
Public sector entity debt	-	-	-	1,417	-	-	-	-	1,417	-	1,417
Banking corporation debt	-	3,914	-	1,167	-	81	-	-	5,162	1	5,163
Corporate debt	-	92	-	284	-	266	-	-	642	-	642
Securitization	-	-	-	-	-	-	-	24	24	39	63
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	**15,327**	**6,688**	**-**	**2,868**	**-**	**358**	**-**	**24**	**25,265**	**77**	**25,342**
Non-rated exposures:											
Public sector entity debt	-	-	-	4	-	-	-	-	4	-	4
Banking corporation debt	-	6	-	386	-	-	-	-	392	-	392
Corporate debt	-	-	-	-	-	63,583	314	-	63,897	-	63,897
Debt secured by commercial real estate	-	-	-	-	-	2,018	-	-	2,018	-	2,018
Retail exposure to individuals	-	-	-	-	23,605	41	149	-	23,795	-	23,795
Loans to small businesses	-	-	-	-	4,906	12	25	-	4,943	-	4,943
Residential mortgages	-	-	56,241	-	12,237	3,794	179	-	72,451	-	72,451
Other assets	949	-	-	-	-	2,568	52	-	3,569	87	3,656
Total	**949**	**6**	**56,241**	**390**	**40,748**	**72,016**	**719**	**-**	**171,069**	**87**	**171,156**
Total exposure	**16,276**	**6,694**	**56,241**	**3,258**	**40,748**	**72,374**	**719**	**24**	**196,334**	**164**	**196,498**

(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 September 30, 2011										
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	15,340	2,693	-	-	-	11	-	-	18,044	-	18,044
Public sector entity debt	17	-	-	1,412	-	-	-	-	1,429	-	1,429
Banking corporation debt	-	3,935	-	1,333	-	81	-	-	5,349	1	5,350
Corporate debt	-	92	-	284	-	62	-	-	438	-	438
Securitization	-	-	-	-	-	-	-	24	24	39	63
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	**15,357**	**6,720**	**-**	**3,029**	**-**	**154**	**-**	**24**	**25,284**	**77**	**25,361**
Non-rated exposures:											
Public sector entity debt	-	-	-	5	-	-	-	-	5	-	5
Banking corporation debt	-	6	-	394	-	-	-	-	400	-	400
Corporate debt	-	-	-	-	-	54,343	308	-	54,651	-	54,651
Debt secured by commercial real estate	-	-	-	-	-	1,727	-	-	1,727	-	1,727
Retail exposure to individuals	-	-	-	-	22,007	12	146	-	22,165	-	22,165
Loans to small businesses	-	-	-	-	3,627	8	22	-	3,657	-	3,657
Residential mortgages	-	-	56,240	-	12,194	3,793	179	-	72,406	-	72,406
Other assets	949	-	-	-	-	2,568	52	-	3,569	87	3,656
Total	**949**	**6**	**56,240**	**399**	**37,828**	**62,451**	**707**	**-**	**158,580**	**87**	**158,667**
Total exposure	**16,306**	**6,726**	**56,240**	**3,428**	**37,828**	**62,605**	**707**	**24**	**183,864**	**164**	**184,028**

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 September 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				
		With respect to derivatives	Other	Deductions	Total credit risk	Share of capital
Group 1	1,259	77	1,252	42	2,546	18.1%

(1) After deduction of accounting write-offs and provision for credit loss on individual basis.

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

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

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

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

Leveraged financing

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

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

Economic sector of acquired company	Credit risk		
	As of September 30		As of December 31
	2012	2011	2011
Commerce	137	144	146
Communications and computer services	245	308	270
Construction and real estate	339	49	354
Total	**721**	**501**	**770**

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

			As of September 30, 2012
External credit rating	On-balance sheet credit risk [(3)]	Off-balance sheet credit risk[(4)]	Current credit exposure
AAA to AA-	734	-	734
A+ to A-	1,704	20	1,724
BBB+ to BBB-	4	-	4
BB+ to B-	-	8	8
Lower than B-	-	-	-
Unrated	20	-	20
Total credit exposure to foreign financial institutions	**2,462**	**28**	**2,490**
Includes: Troubled commercial credit risk, net[(5)]	5	-	5

			As of September 30, 2011
External credit rating	On-balance sheet credit risk [(3)]	Off-balance sheet credit risk[(4)]	Current credit exposure
AAA to AA-	2,490	155	2,645
A+ to A-	797	94	891
BBB+ to BBB-	3	-	3
BB+ to B-	2	6	8
Lower than B-	16	-	16
Unrated	23	-	23
Total credit exposure to foreign financial institutions	**3,331**	**255**	**3,586**
Includes: Troubled commercial credit risk, net[(5)]	-	-	-
Provision for credit loss	-	-	-
Troubled debt balance, net	-	-	-

			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 former. Bank 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 exclude investments in asset-backed securities. For details of investments in asset-backed securities, see Note 2 to the financial statements. For further information with regard to credit exposure composition with respect to derivative instruments vis-à-vis banks and dealers/brokers (domestic and foreign), see Note 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 set forth in Proper Conduct of Banking Business regulation 313, are included under Management Review as part of off-balance sheet credit risk, and are excluded from the above table.

In conjunction with its policy regarding management of exposure to foreign financial institutions, the Bank Board of Directors sets, inter alia, the maximum exposure limit for states and foreign financial institutions, while adjusting the exposure limit to the risk assessment for each state and financial institution. Exposure limits are set based, inter alia, on rating of the various states and financial institutions and on Bank assessment of the risk level in a manner which diversifies exposure. The Bank determines the exposure limit to each financial institution based on the most recent rating available for said institution, provided by one of the leading international rating agencies are used – based on financial information for the institution under review. Exposure limits per institution include maximum exposure amount and maximum time to maturity for different types of activities and transactions. To this end, the existence (or absence) of an offset agreement for derivative operations with said financial institution is also taken into consideration. The policy also sets forth a hierarchy of authority for approval of specific transactions within the exposure limits. The Bank monitors current ratings published for financial institutions to which it has exposure, and adjusts the exposure limits and actual exposure, as required, to the current rating. The Bank also reviews on a regular basis any additional information available with regard to said institutions in order to monitor exposure even where the credit rating may not reflect the complete picture.

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

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

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

Environmental risk - environmental risk to the Bank is the risk of loss which may be incurred due to the Bank being directly liable for an environmental hazard caused by a project financed by the Bank, to impairment of collateral exposed to environmental risk or to deterioration in the financial standing of a borrower due to high expenses arising from environmental protection regulation. Environmental risk also includes other risk factors derived from this risk (goodwill, third party liability etc.) Therefore, it is of prime importance that the Bank set its policy for management of environmental risk, including the capacity to identify, assess and monitor the risk over time.

On June 11, 2009, the Bank received a letter from the Supervisor of Banks, demanding that banks act to incorporate management of exposure to environmental risk within all risk factors at the Bank, including specification of procedures for identification of significant risk when granting credit and inclusion of risk assessment within periodic assessment of quality of credit extended. On April 15, 2010, the Bank Board of Directors first approved a policy on environmental risk management. The Bank Board of Directors discusses annually the environmental risk management policy, modifying it as needed.

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 September 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 September 30, 2012 was 58.0%, 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 78.3 billion, some 84% 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 4.4% of the total housing loan portfolio.

Loans granted with a high LTV ratio are usually secured by credit insurance, which significantly reduced risk for the Bank, although it does not affect the LTV or repayment percentage calculation. Out of the balance of loans granted with an original LTV ratio higher than 75%, a total of NIS 5.1 billion is insured by credit insurance - 40.0%.

Over the past two years, due to measures taken by the Bank to reduce risk in the mortgage portfolio, the percentage of loans granted with a high LTV ratio out of total housing loan portfolio of the Bank decreased to 10.9% for loans granted 1-2 years ago, 10.6% for loans granted 3-12 months ago and 10.9% for loans granted in the third quarter of 2012.

On November 1, 2012, the Supervisor of Banks issued a letter instructing all banking corportions not to approve housing loans with an LTV ratio in excess of 75% for purchase of a real estate interest constituting a single apartment, 70% - for an alternative apartment and 50% - for any other apartment, including for investment purposes. For details, see the chapter on Legislation and Supervision of Bank Group Operations.

Early in the second quarter of 2012, the Bank started monitoring its mortgage portfolio using advanced Basel II models (IRB). This monitoring is part of the Bank project for development, validation and application of advanced models for various segments of the mortgage portfolio. Analysis of the mortgage portfolio using the new models is in addition to current analysis conducted by the Bank using "traditional" tools.

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 30.7%. 69% of the Bank's mortgage portfolio were granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is 23.5%). Some 22% of the mortgage portfolio were granted to borrowers with a repayment ratio of 35% to 50% (the average repayment ratio for these borrowers is 40.6%), and only 9% were granted to borrowers with a repayment ratio over 50% (the average repayment ratio for these borrowers is 62.1%).

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 over 10% in 2002-2003, through 5%-6% in 2004-2008 to 2%-4% in 2009-2012. Hence, the risk associated with loans bearing interest linked to the prime lending rate is primarily due to loans granted since 2009, assuming that the prime lending rate is expected to rise, reflecting a positive real interest in the economy.

The Bank provides clients with the knowledge and expertise of its staff in order for clients to understand the risk involved with a loan bearing interest linked to the prime lending rate and how this risk may be mitigated or avoided. The Bank advises clients to 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 30.1% of loans granted 1-2 years ago, the Bank reduced the percentage of loans linked to the prime lending rate to 22.8% for loans granted 3-12 months ago and down to 24.6% for loans granted in the third 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 8.5 billion, or only 10.9% 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 3.2 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%	1,487	3,511	5,350	9,827	4,087	2,361	26,623
	35%-50%	543	1,493	1,986	2,568	959	389	7,938
	Over 50%	204	600	901	1,276	457	223	3,661
60%-75%	Up to 35%	1,067	2,559	4,339	8,301	1,738	833	18,837
	35%-50%	456	1,042	1,627	2,200	556	216	6,097
	Over 50%	142	382	591	930	261	117	2,423
Over 75%	Up to 35%	366	829	1,302	3,148	1,469	2,003	9,117
	35%-50%	96	263	400	787	460	659	2,665
	Over 50%	16	49	103	250	244	293	955
Total		**4,377**	**10,728**	**16,599**	**29,287**	**10,231**	**7,094**	**78,316**
Includes:								
Loans granted with original amount over NIS 2 million		151	456	849	1,440	270	52	3,218
Percentage of total housing loans		3.4%	4.3%	5.1%	4.9%	2.6%	0.7%	4.1%
Loans bearing variable interest:								
Non-linked, at prime lending rate		1,078	2,443	4,998	14,147	2,995	332	25,993
CPI-linked(2)		132	310	2,452	6,397	1,537	1,710	12,538
In foreign currency (2)		141	385	1,294	2,122	628	133	4,703
Total		**1,351**	**3,138**	**8,744**	**22,666**	**5,160**	**2,175**	**43,234**
Non-linked loans at prime lending rate, as percentage of total housing loans		24.6%	22.8%	30.1%	48.3%	29.3%	4.7%	33.2%
CPI-linked loans bearing variable interest as percentage of total housing loans		3.0%	2.9%	14.8%	21.8%	15.0%	24.1%	16.0%
Loans with LTV over 75% as percentage of total housing loans		10.9%	10.6%	10.9%	14.3%	21.2%	41.7%	16.3%

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

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

Credit risk mitigation

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

	As of September 30, 2012				
	Gross credit exposure[1]	Exposure covered by guarantees[2]		Exposure covered by qualified financial collateral	Net credit exposure
		Amounts de-recognized	Amounts added		
Sovereign debt	20,854	-	94	(22)	20,926
Public sector entity debt	1,143	-	21	(121)	1,043
Banking corporation debt	3,494	(11)	258	(2)	3,739
Corporate debt	67,761	(292)	26	(7,763)	59,732
Debt secured by commercial real estate	2,265	(7)	-	(284)	1,974
Retail exposure to individuals	25,060	(2)	-	(1,755)	23,303
Loans to small businesses	5,241	(61)	-	(1,405)	3,775
Residential mortgages	80,520	(26)	-	(66)	80,428
Securitization	-	-	-	-	-
Other assets	4,309	-	-	-	4,309
Total	**210,647**	**(399)**	**399**	**(11,418)**	**199,229**

	As of September 30, 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	18,020	-	24	-	18,044
Public sector entity debt	1,421	-	17	(4)	1,434
Banking corporation debt	5,554	(13)	210	(2)	5,749
Corporate debt	64,539	(217)	-	(9,233)	55,089
Debt secured by commercial real estate	2,018	(1)	-	(290)	1,727
Retail exposure to individuals	23,795	(2)	-	(1,628)	22,165
Loans to small businesses	4,943	(18)	-	(1,268)	3,657
Residential mortgages	72,451	-	-	(45)	72,406
Securitization	24	-	-	-	24
Other assets	3,569	-	-	-	3,569
Total	**196,334**	**(251)**	**251**	**(12,470)**	**183,864**

(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	
	Gross credit exposure(1)	Amounts de-recognized	Amounts added	qualified financial collateral	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 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 September 30, 2012						
Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives[(2)]	Total
Par value of derivatives after impact of add-on factor	185	1,119	15	-	4	1,323
Positive fair value, gross, of financial derivatives[(1)]	293	624	655	-	14	1,586
Total exposure with respect to derivatives	**478**	**1,743**	**670**	**-**	**18**	**2,909**
Collateral with respect to derivatives (before safety factors)	(114)	(558)	(1,244)	-	-	(1,916)
Impact of safety factors on collateral	87	267	762	-	-	1,116
Total current credit exposure after credit risk mitigation	**451**	**1,452**	**188**	**-**	**18**	**2,109**

As of September 30, 2011						
Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives[(2)]	Total
Par value of derivatives after impact of add-on factor	296	1,403	70	1	53	1,823
Positive fair value, gross, of financial derivatives[(1)]	738	1,156	835	1	1	2,731
Total exposure with respect to derivatives	**1,034**	**2,559**	**905**	**2**	**54**	**4,554**
Collateral with respect to derivatives (before safety factors)	(33)	(527)	(1,209)	(2)	-	(1,771)
Impact of safety factors on collateral	14	223	547	1	-	785
Total current credit exposure after credit risk mitigation	**1,015**	**2,255**	**243**	**1**	**54**	**3,568**

As of December 31, 2011						
Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives[(2)]	Total
Par value of derivatives after impact of add-on factor	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.
Over the past nine months, the Bank has reduced these investments to a minimum.

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

			As of September 30, 2012
	Risk weighting	Exposure amount	Capital requirements[(1)]
BB+ to BB-	350%	-	-
B+ or lower	Deducted from equity	7	7
Total		**7**	**7**

			As of September 30, 2011
	Risk weighting	Exposure amount	Capital requirements[(1)]
BB+ to BB-	350%	24	8
B+ or lower	Deducted from equity	39	39
Total		**63**	**47**

			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 Bank profit at the prescribed risk level. Exposure to market risk is managed in accordance with the limitations prescribed by the Board of Directors, within the frameworks of and subject to which, the Bank's Executive Management acts, according to the market conditions at any given time.

The Bank focuses on two major market risk factors:

– Interest risk - the risk of erosion of capital as a result of future interest rate changes. The exposure to interest risk results, 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 set forth 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):

	September 30, 2012					
	Change in fair value					
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	256	(229)	81	(13)	-	95
2% decrease	(285)	145	(31)	3	(2)	(170)

	September 30, 2011					
	Change in fair value					
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	350	62	79	(8)	3	486
2% decrease	(393)	(200)	(15)	6	(2)	(604)

	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 VaR for the Bank Group (NIS in millions):

	First nine months 2012	First nine months 2011	All of 2011
At end of period	227	265	223
Maximum value during period	239 (FEB)	286 (AUG)	286 (AUG)
Minimum value during period	144 (APR)	212 (MAR)	212 (MAR)

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 September 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	802.9	401.4	(401.4)	(802.9)	117.2	(69.0)
Dollar	24.4	10.4	(7.7)	(24.5)	5.7	(3.2)
Pound Sterling	0.3	0.1	0.2	0.3	0.1	0.1
Yen	1.1	0.4	0.4	1.2	0.4	0.3
Euro	(6.2)	(1.2)	1.8	7.5	(0.6)	1.5
Swiss Franc	0.0	0.0	0.1	0.1	0.0	0.1

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

Interest risk

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
September 30, 2012						
Financial assets[1]	82,742	51,255	14,776	3,972	2,445	155,190
Amounts receivable with respect to financial derivatives[3]	64,706	5,305	48,408	10,771	6,101	135,291
Financial liabilities[1]	(84,196)	(38,165)	(17,755)	(4,728)	(2,600)	(147,444)
Amounts payable with respect to financial derivatives[3]	(63,680)	(10,545)	(45,401)	(10,135)	(6,303)	(136,064)
Total	**(428)**	**7,850**	**28**	**(120)**	**(357)**	**6,973**
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 %
September 30, 2012								
Change in interest rates:								
Concurrent immediate increase of 1%	(106)	7,654	(17)	(138)	(364)	7,029	56	0.8%
Concurrent immediate increase of 0.1%	(390)	7,831	22	(123)	(358)	6,982	9	0.1%
Concurrent immediate decrease of 1%	(872)	8,271	87	(78)	(349)	7,059	86	1.2%
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.
(2) 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 II rules, the Bank is also required to calculate specific risk in the negotiable portfolio. Capital requirements with respect to specific risk are intended to provide protection against negative change in the price of a single security due to factors related to the individual issuer. 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 September 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	58	60	3	40	43
Equity risk	-	-	-	-	-	-
Foreign currency exchange rate risk	-	24	24	-	42	42
Total market risk	**2**	**82**	**84**	**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 result from uncertainty as to the availability of sources and the ability to realize assets within a specified period of time and at a reasonable price. Liquidity risk is managed subject to the limitations of the Board of Directors and Executive Management in an effort to minimize the losses deriving from an investment of surplus liquidity in assets that are highly liquid, but have a low yield.

The Bank has developed an internal model to estimate the liquidity needs and liquid resources, as required by Proper Conduct of Bank Businesses regulation 342 “Management of Liquidity Risk" and in accordance with Basel provisions. The Bank’s internal model is based on statistical findings on the public’s behavior. An information system was built for daily measurement, control and reporting of the liquidity status. The Bank has a Liquidity Forum, which convenes daily, under the responsibility of the Finance Division, which meets monthly to discuss the liquidity situation and to align the liquidity needs of different Bank units with the liquidity "providers" and liquidity managers. In addition, the Risk Control Division performs back testing of model adequacy, as required by Bank of Israel directives.

The Bank frequently reviews global practices in this area, including provisions of Basel III and FSA directives, and is preparing to update and implement these as applicable for the Israeli banking system.

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 pillar 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 95 million.

	As of September 30, 2012	
	Fair value	Capital requirement(1)
Shares	65	6
Venture capital / private equity funds	35	3
Total equity investment in bank portfolio	**100**	**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 350 (Operating Risk Management) 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 Bank conduct in its relationships with various stake holders (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 a practical culture leading 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 re-organization of the Risk Control Division, a Chief Compliance Officer was appointed in the Risk Control Division, who is also in charge of implementation of the Prohibition of Money Laundering Act, and of the Prohibition of Financing Terrorism Act for the Bank Group, including Bank affiliates overseas. The Compliance Officer, who is also in charge of implementation of the Prohibition of Money Laundering Act, and of the Prohibition of Financing

Terrorism Act for the Bank, is no longer part of the Legal Division, and now reports to the Chief Compliance Officer in the Risk Control Division. The Compliance and Prevention of Money Laundering Department implements statutory requirements on this issue. The Department handles subjective reports of unusual activity, 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.

On September 19, 2012, the Supervisor of Banks informed the Bank of a committee decision to impose on the Bank a monetary sanction amounting to NIS 3.8 million. For details see Note 6.D.5 to the financial statements.

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 reputation risk – were determined based on management's assessments, as performed from time to time, and in coordination with the ICAAP process conducted by the Bank, and outcome there of, under leadership of the Bank's risk managers, 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 Bank management to maintain, in as much as possible, appropriate safety margins to this end. The core capital ratio will be calculated based on Basel III directives with adjustments to be specified by the Supervisor of Banks. Consequently, the average equity basis used for Bank operations would be increased, therefore, arithmetically, any given profit would result in a lower return figure. Accordingly, the target average net operating profit return on equity, adjusted for the regulatory requirement for core capital ratio of 9% or higher, would be 14.5% in 2017. For comparison, this return on equity is equivalent to 17% based on regulatory capital requirements during the term of the 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 Bank position as a leader in the mortgage market.
- Further increase in Bank market share of the household segment, reinforcing the service concept derived from Hybrid Banking and operation of the Bank's LIVE branches.
- Position the Bank as a key service provider to small and medium businesses.
- Expand the business client base and form unique value propositions, in line with needs of such clients.
- Increase the Bank's market share of deposits from the public.
- Continue establishing the Bank's leadership position in currency markets and expand Bank market share in this segment.

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

- Maintain the operating efficiency ratio (total expenses to total revenues), and take steps to improve it to less than 55%.
- Reinforce capital management capacity and prepare for issuing complex, innovative capital instruments.
- Reinforcing risk management capacity, by applying advanced risk pricing models (application of these advanced models was not taken into consideration for compliance with objectives of the new strategic plan).
- Foster a service-oriented organizational culture.
- Take further steps to continue organizational growth of Bank core operations, at a higher rate than for all of the banking system, similar to Bank achievements over the past 8 years.

The growth engines are aimed to grow Bank revenues at an average annual rate of over 8% (though not in linear fashion), while maintaining expenses at a moderate average 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 will monitor execution of the strategic plan, and may make changes to this plan from time to time, as required, including due to changes in factors which may affect the plan, as described above.

Employee stock options

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 option warrants 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, hence 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 comes into effect 30 days after its publication. Bank management believes that implementation of the Act should not materially impact Bank 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 was issued which raised the VAT rate to 17% as from September 1, 2012. The tax rates applicable to the Bank in 2012 and 2013 are 35.53% and 35.90%, respectively.

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

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

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

The amendment to the act will become effective on January 1, 2013. Application of the amendment is not expected to have any material impact on the Bank's financial statements.

The Uniform Contract Act (Amendment no. 4), 2012

According to the amendment to the Act, enacted in July 2012, the list of presumptions in Section 4 of the Act was expanded to include a presumption whereby any term in a uniform contract which stipulates that linkage of price or other payment pursuant to the contract to any index, such that a decrease or increase in the index would not be credited to the customer, would be presumed to be an unfair condition.

The amendment further stipulates that the Minister of Justice, with approval by the Knesset Finance Committee, may specify regulations with regard to circumstances or types of contracts to which the aforementioned presumption would not apply.

The amendment to the act became effective on November 9, 2012. Application of the amendment is not expected to have any material impact on the Bank's financial statements.

The Corporate Act (Amendment no. 20), 2012

This amendment, enacted in November 2012, regulates remuneration of corporate officers and stipulates more stringent processes for approval of terms in office and employment terms of officers in public companies and in private companies which have issued debentures to the public.

In accordance with this amendment, a Board of Directors should appoint members there of to a designated Officer Remuneration Committee, as set forth in the amendment, tasked with the following: make recommendations to the Board of Directors with regard to policy on terms in office and employment terms of company officers; make recommendations to the Board of Directors with regard to extending validity of the remuneration policy once every three years; make recommendations to the Board of Directors with regard to updates to the remuneration policy from time to time and review the implementation there of; decide whether to approve transactions with regard to terms in office and employment terms of officers, which require approval by the Remuneration Committee; and exempt any transactions with regard to terms in office and employment terms of the CEO from approval by the General Meeting of shareholders, if such requirement would jeopardize the agreement with the CEO.

The company Board of Directors would set its remuneration policy after considering the recommendations made by the Remuneration Committee, and this policy would be approved by the General Meeting of shareholders, as set forth in this amendment.

The amendment further specifies considerations to be made when setting remuneration policy, and issues which must be addressed in such policy.

The amendment is effective as from December 12, 2012.

Provisions of this amendment shall apply to terms in office and employment terms of officers to be approved as from the effective start date, and to any extension of terms in office and employment terms of officers set prior to the effective start date and approved there after. Each company should set its remuneration policy within nine months from the effective start date.

The Bank is acting to implement provisions of this amendment.

Restriction on Loan-to-Value ratio for housing loans

On November 1, 2012, the Supervisor of Banks issued a letter instructing all banking corportions not to approve housing loans with an LTV ratio in excess of 75% for purchase of a real estate interest constituting a single apartment, 70% - for an alternative apartment and 50% - for any other apartment, including for investment purposes.

The Supervisor of Banks further instructed the banks to obtain, inter alia, an affidavit from the loan applicant, certified by an attorney, with regard to the borrower's compliance with the required conditions for the apartment to qualify as an only apartment or alternate apartment, and to makethe loan contingent on, inter alia, obtaining a copy of the statement provided by the applicant to the Tax Authority pursuant to Section 73(c) of the Real Estate Taxation Act, and to store any such documentation.

The Supervisor of Banks directed the banks not to approve any housing loan such that the total LTV ratio for such loan, together with the balance of previous loans provided and secured by the same apartment, would exceed the aforementioned maximum LTV ratios.

The Supervisor of Banks excluded from the scope of this directive any housing loans granted for repayment of an existing housing loan, including re-financing, whose amount does not exceed the balance of the repaid loan, as well as any housing loans where 50% or more of the loan is granted out of State funds and guaranteed by the State.

The aforementioned directive shall apply to housing loans approved in principle as from November 1, 2012.

According to data available at the Bank about composition of LTV ratio for buyers of new apartments and buyers of a second apartment, this new restriction approximately reflects the upper limit of LTV ratios for mortgages actually granted to this population. As for investment properties, there may be some effect on the scope of business.

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 the materiality there of are submitted for approval by the Board of Directors' Risk Management Committee and the Board of Directors plenum, on annual basis.

On April 30, 2012, the Bank submitted to the Bank of Israel its ICAAP document (as of December 31, 2011), which reflects the Bank's assessment of the capital required to cover all risk to which the Bank is exposed in conjunction with its business operations, as per guidance from the Bank of Israel, and in coordination with Bank of Israel comments on the SREP process conducted at the Bank, 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 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.

Monetary sanction imposed on the Bank

On September 19, 2012, the Bank received a letter from the Supervisor of Banks, informing the Bank of a monetary sanction imposed on the Bank, amounting to NIS 3.8 milion, for breach of provisions of the Prohibition on Money Laundering Act, 2000. See Note 6.D.5) to the financial statements for additional information.

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 ISA has reduced the original fine amount from NIS 709 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.

Identification and restitution of assets of Holocaust victims

On November 4, 2012, the Bank and the Holocaust Restitution Company of Israel Ltd. signed a settlement agreement, whereby the Bank paid the company NIS 9.5 million. See Note 6.D.6) to the financial statements for additional information.

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. The appointment became effective on September 30, 2012, upon its approval by the Supervisor of Banks.

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 policy are set forth 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 policy on critical issues for accounting treatment of the following: Provision for credit loss, derivative instruments, securities, liabilities with respect to employee rights, provisions for legal claims, provision for impairment of non-financial assets and deferred taxes. During the reported period there were no changes to the Bank's accounting policy on critical issues, as described in the Board of Directors' report for the financial statements as of December 31, 2011 - other than with regard to fair value measurement, due to adoption of new accounting rules in the reported period, as described in Note 1.B.5. and due to updates to actuarial assumptions (mortality tables), used to measure liabilities for employee rights.

Fair value
ASC 820 (FAS 157) defines fair value, and sets forth a consistent work framework for fair value measurement, by defining valuation techniques and a fair value ranking. The ranking divides instruments measured at fair value into three levels:

Level 1 - fair value measured using prices quoted for identical instruments on an active market accessible by the bank upon the measurement date.

Level 2 - fair value measured using observed data, either direct or indirect, which are not quoted prices as 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 review of instrument classification under fair value ranking levels.

In June 2012, the Bank of Israel directed the Bank (in conjunction with a review of the banking system), that fair value measurement of a derivative instrument, when no quoted prices, liquid collateral or offset agreements exist which adequately secure the derivative's credit quality, and when no market information exists as to the credit quality of the counter-party (such as CDS or negotiable debentures of the counter-party) – shall be classified as a Level 3 fair value measurement. According to the Supervisor of Banks' directive, the aforementioned classification requirement shall apply to financial statements as from September 30, 2012, including an update of comparison figures.
For details of the effect of re-classification of derivatives to the different levels, see Note 8 to the financial statements.

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

Liabilities for employee rights are calculated according to actuarial models, based on the discount rates prescribed by the Supervisor of Banks. The actuarial models include assumptions related to the mortality tables, disability rates, departure rates and wage hike rates. A change in any of the parameters could lead to a change in the amount of the Bank's liabilities for employee rights. Pursuant to the Supervisor of Banks' directive, the discount rate used in actuarial calculation for retired employees choosing a pension is 4%. Bank liabilities for employee rights calculated based on an actuarial model as of September 30, 2012 amount to NIS 654 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 included 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. Board members' names, accounting and financial skills and professional qualifications are set forth in the Board of Directors' report below. The processes of preparing, auditing and approving the financial statements involve additional organs and officers as set forth below.

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

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

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

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 policy adopted and accounting treatment applied to material issues of the corporation; valuations, including underlying assumptions and estimates, on which data on the financial statements relies.

Meetings of the 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 auditor are also presented to the Board 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 Financial Statements Review Committee, its recommendations along with the draft financial statements are submitted to the Board of Directors, such that Board members receive the documents at least three days prior to the discussion there of by the Board of Directors. In conjunction with discussion by the Board of Directors, the Chief Accountant presents the financial results and analysis thereof. The Chairman of the Financial Statements Review Committee brings the Financial Statements Review Committee's recommendations on matters discussed there by 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

In the first nine months of 2012, the Bank Board of Directors held 14 plenary meetings and 62 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 as 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.

At the Board of Directors meeting held on August 27, 2012, Ms. Sabina Biran was appointed Member of the Audit Committee.

On September 20, 2012, Mr. Abraham (Beigah) Shochat concluded his term in office as Board Member of the Bank, as well as Member of the Audit Committee and of the Payroll and Remuneration Committee. Upon his departure, the number of Board members having accounting and financial qualifications is 10.

On October 16, 2012, the Bank was informed in writing by the Chairman of the Board of Directors, Mr. Jacob Perry, of his intended resignation from his office. On October 31, 2012, Mr. Jacob Perry concluded his term in office as Bank Chairman.

At the Board of Directors meeting held on October 29, 2012, Mr. Moshe Weidman was appointed Member of the Payroll and Remuneration Committee.

On October 31, 2012, Mr. Moshe (Mozie) Wertheim was appointed Chairman of the Bank Board of Directors, effective as from November 1, 2012 until November 30, 2012.

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

During the quarter ended September 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.

Moshe (Mozie) Wertheim
Chairman of the Board of Directors

Eliezer Yones
President

Ramat Gan, November 25, 2012

Management Review of Group Business and Operating Results

Table of Contents

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

Reported amounts (NIS in millions)

	For the three months ended September 30, 2012				For the three months ended September 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)]	80,401	831	4.20		75,707	906	4.87	
Effect of embedded and ALM derivatives [(4)]	61,480	(84)			56,318	277		
Total assets	**141,881**	**747**		**2.12**	**132,025**	**1,183**		**3.63**
Liabilities [(3)]	79,403	(348)	(1.76)		72,921	(452)	(2.50)	
Effect of embedded and ALM derivatives [(4)]	58,394	101			57,567	(278)		
Total liabilities	**137,797**	**(247)**		**(0.72)**	**130,488**	**(730)**		**(2.26)**
Interest margin			**2.43**	**1.40**			**2.37**	**1.37**
Israeli currency - linked to the CPI								
Assets [(3)]	52,815	863	6.70		47,796	680	5.81	
Effect of embedded and ALM derivatives [(4)]	4,923	48			4,328	35		
Total assets	**57,738**	**911**		**6.46**	**52,124**	**715**		**5.60**
Liabilities [(3)]	38,154	(584)	(6.26)		36,475	(486)	(5.44)	
Effect of embedded and ALM derivatives [(4)]	10,609	(125)			6,373	(56)		
Total liabilities	**48,763**	**(709)**		**(5.94)**	**42,848**	**(542)**		**(5.16)**
Interest margin			**0.44**	**0.52**			**0.37**	**0.44**

See remarks below.

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

Reported amounts (NIS in millions)

	For the three months ended September 30, 2012				For the three months ended September 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)]	21,612	289	5.46		19,162	1,484	34.77	
Effect of derivatives [(4)]								
Hedging derivatives	4,165	(69)			2,634	253		
Embedded and ALM derivatives	50,555	106			61,220	2,092		
Total assets	**76,332**	**326**		**1.72**	**83,016**	**3,829**		**19.77**
Liabilities [(3)]	27,573	(228)	(3.35%)		24,078	(1,700)	(31.38)	
Effect of derivatives [(4)]								
Hedging derivatives	4,165	42			2,634	(295)		
Embedded and ALM derivatives	48,237	(61)			56,471	(1,748)		
Total liabilities	**79,975**	**(247)**		**(1.24)**	**83,183**	**(3,743)**		**(19.25)**
Interest margin			**2.11**	**0.48**			**3.39**	**0.52**

See remarks below.

Management Review - Addendum A

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

Reported amounts (NIS in millions)

	For the three months ended September 30, 2012				For the three months ended September 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)]	154,828	1,983	5.22		142,665	3,070	8.89	
Effect of derivatives [(4)]								
Hedging derivatives	4,165	(69)			2,634	253		
Embedded and ALM derivatives	116,958	70			121,866	2,404		
Total assets	**275,951**	**1,984**		**2.91**	**267,165**	**5,727**		**8.85**
Monetary liabilities generating financing expenses [(3)]	145,130	(1,160)	(3.24)		133,474	(2,638)	(8.14)	
Effect of derivatives [(4)]								
Hedging derivatives	4,165	42			2,634	(295)		
Embedded and ALM derivatives	117,240	(85)			120,411	(2,082)		
Total liabilities	**266,535**	**(1,203)**		**(1.82)**	**256,519**	**(5,015)**		**(8.05)**
Interest margin			**1.98**	**1.09**			**0.75**	**0.80**
On options		(61)				82		
On other derivative instruments (excludes options, hedging and ALM derivatives and embedded derivatives that were detached) [(5)]		9				(14)		
Commissions from financing transactions and other financing revenues[(6)]		130				102		
Other financing expenses		(15)				(5)		
Profit from financing operations before expenses with respect to credit loss		844				877		
Expenses with respect to credit loss		(116)				(142)		
Profit from financing operations after expenses with respect to credit loss		728				735		

See remarks below.

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

Reported amounts (NIS in millions)

	For the three months ended September 30, 2012	For the three months ended September 30, 2011
	Average balance [2]	Average balance [2]
Total		
Monetary assets generating financing revenues [3]	154,828	142,665
Assets derived from derivative instruments [7]	2,714	2,860[8]
Other monetary assets [3]	1,504	1,327[8]
Provision for credit loss on Group basis	(1,479)	(2,250)
Total monetary assets	**157,567**	**144,602**
Total		
Monetary liabilities generating financing expenses [3]	145,130	133,474
Liabilities deriving from derivatives [7]	3,002	2,795
Other monetary liabilities[3]	2,041	1,664
Total monetary liabilities	**150,173**	**137,933**
Total excess monetary assets over monetary liabilities	7,394	6,669
Non-monetary assets	1,493	1,269
Non-monetary liabilities	277	269
Total capital resources	**8,610**	**7,669**

(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 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 September 30, 2012				For the three months ended September 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]	5,106	47	3.73		4,994	39	3.16	
Effect of derivatives [4]								
Hedging derivatives	1,055	(73)			743	5		
Embedded and ALM derivatives	12,637	83			16,132	63		
Total assets	**18,798**	**57**		**1.22**	**21,869**	**107**		**1.97**
Monetary liabilities in foreign currency generating financing expenses[3]	6,640	(30)	(1.82)		6,759	(16)	(0.95)	
Effect of derivatives [4]								
Hedging derivatives	1,055	50			743	(17)		
Embedded and ALM derivatives	11,995	(63)			15,929	(72)		
Total liabilities	**19,690**	**(43)**		**(0.88)**	**23,431**	**(105)**		**(1.80)**
Interest margin			**1.91**	**0.34**			**2.21**	**0.17**

(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 provision 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 nine months ended September 30, 2012				For the nine months ended September 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]	78,927	2,709	4.60		72,931	2,483	4.57	
Effect of embedded and ALM derivatives [4]	61,082	449			63,990	1,177		
Total assets	**140,009**	**3,158**		**3.02**	**136,921**	**3,660**		**3.58**
Liabilities [3]	76,925	(1,234)	(2.14)		69,399	(1,121)	(2.16)	
Effect of embedded and ALM derivatives [4]	60,182	(555)			63,847	(959)		
Total liabilities	**137,107**	**(1,789)**		**(1.74)**	**133,246**	**(2,080)**		**(2.09)**
Interest margin			**2.46**	**1.28**			**2.41**	**1.49**
Israeli currency - linked to the CPI								
Assets [3]	47,985	2,151	6.02		45,002	2,327	6.95	
Effect of embedded and ALM derivatives [4]	4,977	50			4,316	167		
Total assets	**52,962**	**2,201**		**5.58**	**49,318**	**2,494**		**6.80**
Liabilities [3]	34,612	(1,457)	(5.65)		35,097	(1,734)	(6.64)	
Effect of embedded and ALM derivatives [4]	9,817	(252)			9,537	(378)		
Total liabilities	**44,429**	**(1,709)**		**(5.16)**	**44,634**	**(2,112)**		**(6.36)**
Interest margin			**0.37**	**0.42**			**0.31**	**0.44**

See remarks below.

Management Review - Addendum A

Revenue and Expense Rates – Consolidated[1] - Continued

Reported amounts (NIS in millions)

	For the nine months ended September 30, 2012				For the nine months ended September 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]	21,314	1,062	6.70		18,904	1,470	10.50	
Effect of derivatives [4]								
Hedging derivatives	3,087	(74)			2,476	258		
Embedded and ALM derivatives	52,055	2,502			55,923	2,064		
Total assets	**76,456**	**3,490**		**6.13**	**77,303**	**3,792**		**6.59**
Liabilities [3]	26,831	(955)	(4.77)		23,422	(1,499)	(8.62)	
Effect of derivatives [4]								
Hedging derivatives	3,087	(45)			2,476	(309)		
Embedded and ALM derivatives	48,507	(2,236)			50,504	(1,695)		
Total liabilities	**78,425**	**(3,236)**		**(5.54)**	**76,402**	**(3,503)**		**(6.16)**
Interest margin			**1.93**	**0.59**			**1.88**	**0.43**

See remarks below.

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

Reported amounts (NIS in millions)

	For the nine months ended September 30, 2012				For the nine months ended September 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]	148,226	5,922	5.36		136,837	6,280	6.17	
Effect of derivatives [4]								
Hedging derivatives	3,087	(74)			2,476	258		
Embedded and ALM derivatives	118,114	3,001			124,229	3,408		
Total assets	**269,427**	**8,849**		**4.40**	**263,542**	**9,946**		**5.06**
Monetary liabilities generating financing expenses [3]	138,368	(3,646)	(3.53)		127,918	(4,354)	(4.56)	
Effect of derivatives [4]								
Hedging derivatives	3,087	(45)			2,476	(309)		
Embedded and ALM derivatives	118,506	(3,043)			123,888	(3,032)		
Total liabilities	**259,961**	**(6,734)**		**(3.47)**	**254,282**	**(7,695)**		**(4.06)**
Interest margin			**1.83**	**0.93**			**1.60**	**1.01**
On options		32				(120)		
On other derivative instruments (excludes options, hedging and ALM derivatives and embedded derivatives that were detached) [5]		10				23		
Commissions from financing transactions and other financing revenues[6]		415				293		
Other financing expenses		(25)				(23)		
Profit from financing operations before expenses with respect to credit loss		2,547				2,424		
Expenses with respect to credit loss		(228)				(276)		
Profit from financing operations after expenses with respect to credit loss		2,319				2,148		

See remarks below.

Management Review - Addendum A

Revenue and Expense Rates – Consolidated[1] - Continued

Reported amounts (NIS in millions)

	For the nine months ended September 30, 2012	For the nine months ended September 30, 2011
	Average balance [2]	Average balance [2]
Total		
Monetary assets generating financing revenues [3]	148,226	136,837
Assets derived from derivative instruments [7]	3,050	2,846 [8]
Other monetary assets [3]	1,107	1,254 [8]
Provision for credit loss on Group basis	(1,577)	(2,314)
Total monetary assets	**150,806**	**138,623**
Total		
Monetary liabilities generating financing expenses [3]	138,368	127,918
Liabilities deriving from derivatives [7]	3,454	2,548
Other monetary liabilities[3]	1,760	1,788
Total monetary liabilities	**143,582**	**132,254**
Total excess monetary assets over monetary liabilities	7,224	6,369
Non-monetary assets	1,595	1,363
Non-monetary liabilities	279	275
Total capital resources	**8,540**	**7,457**

(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 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 nine months ended September 30, 2012				For the nine months ended September 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]	5,450	134	3.29		5090	102	2.68	
Effect of derivatives [4]								
Hedging derivatives	799	(38)			701	14		
Embedded and ALM derivatives	13,483	324			15,462	130		
Total assets	**19,732**	**420**		**2.85**	**21,253**	**246**		**1.55**
Monetary liabilities in foreign currency generating financing expenses [3]	7,014	(82)	(1.56)		6,615	(39)	(0.79)	
Effect of derivatives [4]								
Hedging derivatives	799	8			701	(28)		
Embedded and ALM derivatives	12,538	(278)			14,305	(125)		
Total liabilities	**20,351**	**(352)**		**(2.31)**	**21,621**	**(192)**		**(1.19)**
Interest margin			**1.73**	**0.54**			**1.89**	**0.36**

(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 provision 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)

	September 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)(3)	70,732	3,259	2,848	2,060	1,537	1,289
Financial derivatives (other than options)	12,208	15,521	19,049	6,373	2,109	5,071
Options (in terms of underlying asset)	1,082	2,074	1,175	44	-	-
Total fair value	**84,022**	**20,854**	**23,072**	**8,477**	**3,646**	**6,360**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities(1)	61,519	5,375	8,311	5,408	2,874	504
Financial derivatives (other than options)	12,082	20,305	9,842	5,468	2,733	6,310
Options (in terms of underlying asset)	1,271	4,186	1,425	58	-	-
Total fair value	**74,872**	**29,866**	**19,578**	**10,934**	**5,607**	**6,814**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	9,150	(9,012)	3,494	(2,457)	(1,961)	(454)
Cumulative exposure in sector	9,150	138	3,632	1,175	(786)	(1,240)

Specific remarks:

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

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

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

General remarks:

- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value recognized for the financial instruments in Note 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 periods, are non-material in amount.

						As of September 30, 2011			As of December 31, 2011		
10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective[2] duration	Total fair value	Internal rate of return	Average effective [2] duration	Total fair value	Internal rate of return	Average effective [2] duration
				In %	In years		In %	In years		In %	In years
281	-	736	82,742	3.66	0.55	77,369	4.76	0.34	79,294	4.37	0.46
-	-	-	60,331		1.26	73,340		1.07	67,428		1.10
-	-	-	4,375		0.36	1,131		0.83	4,267		0.68
281	**-**	**736**	**147,448**		**0.83**	**151,840**		**0.70**	**150,989**		**0.75**
231	(26)	-	84,196	2.03	0.42	76,454	3.10	0.45	78,478	2.75	0.41
-	-	-	56,740		1.72	70,173		1.43	65,125		1.42
-	-	-	6,940		0.38	2,766		0.80	5,860		0.56
231	**(26)**	**-**	**147,876**		**0.92**	**149,393**		**0.92**	**149,463**		**0.86**
50	26	736	(428)			2,447			1,526		
(1,190)	(1,164)	(428)	(428)			2,447					

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

Reported amounts (NIS in millions)

	As of September 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)	1,275	2,616	11,213	15,170	13,732	5,449
Financial derivatives (other than options)	351	126	754	1,491	505	2,078
Total fair value	**1,626**	**2,742**	**11,967**	**16,661**	**14,237**	**7,527**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities (1)	860	2,071	6,504	10,421	8,741	7,377
Financial derivatives (other than options)	357	975	4,272	2,786	591	1,564
Total fair value	**1,217**	**3,046**	**10,776**	**13,207**	**9,332**	**8,941**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	409	(304)	1,191	3,454	4,905	(1,414)
Cumulative exposure in sector	409	105	1,296	4,750	9,655	8,241

Specific remarks:

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

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

General remarks:

- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value recognized for the financial instruments in Note 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 periods, are non-material in amount.

						As of September 30, 2011			As of December 31, 2011		
10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective (2) duration	Total fair value	Internal rate of return	Average effective (2) duration	Total fair value	Internal rate of return	Average effective (2) duration
				In %	In years		In %	In years		In %	In years
1,541	8	251	51,255	2.72	3.08	45,246	3.16	3.23	46,950	3.10	3.11
-	-	-	5,305		4.02	4,864		4.34	4,963		4.17
1,541	**8**	**251**	**56,560**		**3.17**	**50,110**		**3.34**	**51,913**		**3.21**
1,814	375	2	38,165	1.94	4.08	35,908	2.72	4.14	36,180	2.44	4.19
-	- **-**		10,545		1.61	10,302		1.61	10,742		1.63
1,814	**375**	**2**	**48,710**		**3.55**	**46,210**		**3.58**	**46,922**		**3.60**
(273)	(367)	249	7,850			3,900			4,991		
7,968	7,601	7,850	7,850			3,900					

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

Reported amounts (NIS in millions)

	As of September 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)]	9,827	5,805	2,079	865	1,173	1,201
Financial derivatives (other than options)	17,549	20,697	10,256	2,496	1,634	4,971
Options (in terms of underlying asset)	1,479	4,451	1,645	102	-	-
Total fair value	**28,855**	**30,953**	**13,980**	**3,463**	**2,807**	**6,172**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities[(2)]	12,961	6,530	5,162	274	33	94
Financial derivatives (other than options)	15,127	13,301	16,630	2,812	2,791	6,156
Options (in terms of underlying asset)	1,177	2,372	1,388	85	-	-
Total fair value	**29,265**	**22,203**	**23,180**	**3,171**	**2,824**	**6,250**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	(410)	8,750	(9,200)	292	(17)	(78)
Cumulative exposure in sector	(410)	8,340	(860)	(568)	(585)	(663)

Specific remarks:

(1) Includes Israeli currency linked to foreign currency.

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

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

General remarks:

- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value recognized for the financial instruments in Note 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 periods, are non-material in amount.

						As of September 30, 2011			As of December 31, 2011		
10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective (3) duration	Total fair value	Internal rate of return	Average effective (3) duration	Total fair value	Internal rate of return	Average effective (3) duration
				In %	In years		In %	In years		In %	In years
35	14	194	21,193	2.74	1.05	20,224	2.05	0.50	20,644	3.20	0.71
-	-	-	57,603		1.78	62,731		1.37	55,682		1.68
-	-	-	7,677		0.41	2,727		0.72	6,872		0.72
35	**14**	**194**	**86,473**		**1.48**	**85,682**		**1.14**	**83,198**		**1.36**
14	-	15	25,083	0.44	0.34	24,079	1.53	0.18	24,764	1.67	0.22
-	-	-	56,817		1.53	60,674		1.45	53,368		1.39
-	-	-	5,022		0.42	1,017		0.25	4,859		0.88
14	**-**	**15**	**86,922**		**1.12**	**85,770**		**1.08**	**82,991**		**1.01**
21	14	179	(449)			(88)			207		
(642)	(628)	(449)	(449)			(88)					

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

Reported amounts (NIS in millions)

As of September 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)	-	-	(1)	(1)	-	-
Total fair value	**-**	**-**	**(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)	81,834	11,680	16,140	18,095	16,442	7,939
Financial derivatives (other than options)	30,108	36,344	30,059	10,360	4,248	12,120
Options (in terms of underlying asset)	2,561	6,525	2,820	146	-	-
Total fair value	**114,503**	**54,549**	**49,019**	**28,601**	**20,690**	**20,059**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities(1)	75,340	13,976	19,977	16,103	11,648	7,975
Financial derivatives (other than options)	27,566	34,581	30,744	11,066	6,115	14,030
Options (in terms of underlying asset)	2,448	6,558	2,814	144	-	-
Total fair value	**105,354**	**55,115**	**53,535**	**27,313**	**17,763**	**22,005**
Financial instruments, net						
Total exposure to interest rate fluctuations	9,149	(566)	(4,516)	1,288	2,927	(1,946)
Total cumulative exposure	9,149	8,583	4,067	5,355	8,282	6,336

Specific remarks:

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

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

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

General remarks:

- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value recognized for the financial instruments in Note 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.
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						As of September 30, 2011			As of December 31, 2011		
10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective duration (3)	Total fair value	Internal rate of return	Average effective duration (3)	Total fair value	Internal rate of return	Average effective duration (3)
				In %	In years		In %	In years		In %	In years
-	-	-	(2)			(21)			(25)	-	-
-	**-**	**-**	**(2)**			**(21)**			**(25)**	**-**	**-**
1,857	22	1,181	155,190	3.22	1.46	142,839	3.87	1.28	146,888	3.80	1.34
-	-	-	123,239		1.62	140,935		1.32	128,073		1.47
-	-	-	12,052		0.39	3,837		0.75	11,114		0.70
1,857	**22**	**1,181**	**290,481**		**1.48**	**287,611**		**1.29**	**286,075**		**1.38**
2,059	349	17	147,444	1.74	1.35	136,441	2.72	1.37	139,422	2.48	1.35
-	-	-	124,102		1.62	141,149		1.45	129,235		1.43
-	-	-	11,964		0.40	3,783		0.65	10,719		0.70
2,059	**349**	**17**	**283,510**		**1.43**	**281,373**		**1.40**	**279,376**		**1.36**
(202)	(327)	1,164	6,971			6,238			6,699		
6,134	5,807	6,971	6,971			6,238					

Management Review - Addendum C
Credit Risk by Economic Sector - Consolidated
As of September 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	589	-	1	590	216	3	219
Industry	6,494	67	97	6,658	4,611	292	4,903
Construction and real estate (7)	8,473	31	5	8,509	13,886	24	13,910
Power and water	536	72	83	691	604	606	1,210
Commerce	6,995	-	37	7,032	1,973	62	2,035
Hotel and food services	321	-	29	350	172	71	243
Transport and storage	862	-	3	865	414	14	428
Communications and computer services	1,485	2	2	1,489	728	15	743
Financial services	5,324	-	1,025	6,349	6,810	981	7,791
Other business services	3,551	-	1	3,552	741	4	745
Public and community services	957	-	2	959	330	293	623
Private individuals - housing loans	77,534	-	-	77,534	3,531	-	3,531
Private individuals - other	12,615	-	4	12,619	9,670	9	9,679
Total	**125,736**	**172**	**1,289**	**127,197**	**43,686**	**2,374**	**46,060**
For borrowers' activities overseas	2,520	45	2	2,567	296	3	299
Total credit risk to public	**128,256**	**217**	**1,291**	**129,764**	**43,982**	**2,377**	**46,359**
Credit risk exposures other than with respect to the public:							
Banking Corporations	2,450	597	342	3,389	110	1,551	1,661
Governments	13,086	7,063	-	20,149	240	-	240
Total credit risk	**143,792**	**7,877**	**1,633**	**153,302**	**44,332**	**3,928**	**48,260**
Credit risk to public included under various economic sectors:							
Settlement movements(4)	1,091	-	7	1,098	618	13	631
Local authorities (5)	179	-	-	179	25	-	25

(1) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness 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 251 million.
(7) Includes housing loans extended to certain purchase groups which are in the process of construction, amounting to NIS 2,542 million (1,316 on-balance sheet risk, 1,226 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 nine months ended September 30, 2012	Net accounting write-off	Balance of provision for credit loss
809	13	8	2	1	10
11,561	198	128	6	41	85
22,419	939	378	14	19	140
1,901	2	1	1	-	1
9,067	267	136	1	21	113
593	11	5	(2)	2	6
1,293	33	30	3	1	11
2,232	8	6	(6)	2	13
14,140	652	555	88	(1)	224
4,297	549	524	59	25	122
1,582	29	17	1	1	9
81,065	1,649	-	2	59	809
22,298	179	45	54	52	195
173,257	**4,529**	**1,833**	**223**	**223**	**1,738**
2,866	17	17	1	-	11
176,123	**4,546**	**1,850**	**224**	**223**	**1,749**
5,050	-	4	4	-	22
20,389	-	-	-	-	-
201,562	**4,546**	**1,854**	**228**	**223**	**1,771**
1,729	1,082	972	-	-	15
204	-	-	-	-	-

Management Review - Addendum C - Continued
Credit Risk by Economic Sector - Consolidated
As of September 30, 2011

Reported amounts (NIS in millions)

	Credit risk to the public						
	Balance sheet credit risk				Off-balance sheet credit risk [1]		
	Credit	Deben-tures[6]	Fair value of derivatives	Total	Guarantees and other commitments on account of clients	Future transactions	Total
Agriculture	604	-	1	605	201	4	205
Industry	6,858	75	125	7,058	3,379	362	3,741
Construction and real estate [7]	7,835	38	5	7,878	13,612	15	13,627
Power and water	346	4	87	437	1,108	288	1,396
Commerce	5,883	-	37	5,920	2,233	346	2,579
Hotel and food services	254	-	30	284	108	24	132
Transport and storage	887	-	4	891	491	34	525
Communications and computer services	1,554	17	9	1,580	875	107	982
Financial services	6,353	22	1,137	7,512	8,492	2,815	11,307
Other business services	3,364	-	8	3,372	627	59	686
Public and community services	836	-	2	838	145	164	309
Private individuals - housing loans	69,512	-	-	69,512	3,410	-	3,410
Private individuals - other	12,060	-	17	12,077	9,284	14	9,298
Total	**116,346**	**156**	**1,462**	**117,964**	**43,965**	**4,232**	**48,197**
For borrowers' activities overseas	2,982	14	12	3,008	334	86	420
Total credit risk to public	**119,328**	**170**	**1,474**	**120,972**	**44,299**	**4,318**	**48,617**
Credit risk exposures other than with respect to the public:							
Banking Corporations	2,024	570	1,952	4,546	291	10,729	11,020
Governments	13,621	4,993	-	18,614	188	-	188
Total credit risk	**134,973**	**5,733**	**3,426**	**144,132**	**44,778**	**15,047**	**59,825**
Credit risk to public included under various economic sectors:							
Settlement movements[4]	1,163	-	10	1,173	433	25	458
Local authorities [5]	173	-	-	173	25	-	25

(1) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness 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 34 million.

(7) Including housing loans extended to certain purchase groups which are in the process of construction, amounting to NIS 2,876 million. (1,238 - on-balance sheet credit risk and 1,638 - off-balance sheet credit 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 nine months ended September 30, 2011	Net accounting write-off	Balance of provision for credit loss[8]
810	8	6	2	12	4
10,799	230	173	2	69	101
21,505	1,020	514	28	39	145
1,833	2	-	-	-	-
8,499	182	108	31	51	79
416	14	6	2	4	3
1,416	11	6	(2)	3	6
2,562	20	17	-	4	23
18,819	401	326	66	92	325
4,058	98	75	55	22	58
1,147	69	23	(4)	20	7
72,922	1,719	-	24	9	922
21,375	232	49	66	39	168
166,161	**4,006**	**1,303**	**270**	**364**	**1,841**
3,428	42	39	2	-	24
169,589	**4,048**	**1,342**	**272**	**364**	**1,865**
15,566	16	16	4	-	12
18,802	-	-		-	-
203,957	**4,064**	**1,358**	**276**	**364**	**1,877**
1,631	44	23	(2)	156	10
198	16	-	-	-	-

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
Power 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 indebtedness 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 nine months ended September 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	593	-	1	594	216	3	219	813
Industry	6,359	85	135	6,579	4,086	358	4,444	11,023
Construction and real estate	8,397	35	5	8,437	14,438	13	14,451	22,888
Power and water	458	62	78	598	706	573	1,279	1,877
Commerce	6,908	-	36	6,944	1,864	57	1,921	8,865
Hotel and food services	306	-	9	315	136	23	159	474
Transport and storage	887	-	6	893	403	10	413	1,306
Communications and computer services	1,486	11	6	1,503	813	21	834	2,337
Financial services	5,331	-	896	6,227	7,831	968	8,799	15,026
Other business services	3,579	-	9	3,588	786	9	795	4,383
Public and community services	922	-	3	925	354	272	626	1,551
Private individuals - housing loans	73,769	-	-	73,769	3,734	-	3,734	77,503
Private individuals - other	12,433	-	5	12,438	9,533	10	9,543	21,981
Total	**121,428**	**193**	**1,189**	**122,810**	**44,900**	**2,317**	**47,217**	**170,027**
For borrowers' activities overseas	2,662	37	5	2,704	323	3	326	3,030
Total credit risk to public	**124,090**	**230**	**1,194**	**125,514**	**45,223**	**2,320**	**47,543**	**173,057**
Credit risk exposures other than with respect to the public:								
Banking Corporations	3,000	582	719	4,301	228	1,960	2,188	6,489
Governments	12,421	8,353	-	20,774	185	-	185	20,959
Total credit risk	**139,511**	**9,165**	**1,913**	**150,589**	**45,636**	**4,280**	**49,916**	**200,505**
Credit risk to public included under various economic sectors:								
Settlement movements(2)	1,081	-	54	1,135	538	175	713	1,848
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 indebtedness 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 251 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 nine months ended September 30, 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 commitments on account of clients	Future transactions	Total	Total credit risk of the public
Agriculture	616	-	-	616	204	4	208	824
Industry	5,974	41	59	6,074	4,180	409	4,589	10,663
Construction and real estate	7,434	42	3	7,479	12,950	25	12,975	20,454
Power and water	283	14	171	468	1,080	263	1,343	1,811
Commerce	5,788	-	24	5,812	2,289	208	2,497	8,309
Hotel and food services	260	-	8	268	97	8	105	373
Transport and storage	848	-	19	867	511	81	592	1,459
Communications and computer services	1,522	19	15	1,556	445	87	532	2,088
Financial services	6,527	28	987	7,542	7,965	2,453	10,418	17,960
Other business services	3,204	-	5	3,209	781	68	849	4,058
Public and community services	871	-	10	881	251	98	349	1,230
Private individuals - housing loans	65,646	-	-	65,646	3,856	-	3,856	69,502
Private individuals - other	11,769	-	20	11,789	9,161	41	9,202	20,991
Total	**110,742**	**144**	**1,321**	**112,207**	**43,770**	**3,745**	**47,515**	**159,722**
For borrowers' activities overseas	2,920	4	9	2,933	407	72	479	3,412
Total credit risk to public	**113,662**	**148**	**1,330**	**115,140**	**44,177**	**3,817**	**47,994**	**163,134**
Credit risk exposures other than with respect to the public:								
Banking Corporations	2,056	700	1,882	4,637	315	10,800	11,115	15,752
Governments	12,188	5,449	-	17,637	228	-	228	17,865
Total credit risk	**127,906**	**6,297**	**3,212**	**137,414**	**44,720**	**14,617**	**59,337**	**196,751**
Credit risk to the public included under various economic sectors:								-
Settlement movements[2]	1,152	-	3	1,155	476	16	492	1,647
Local authorities [3]	173	-	-	173	31	-	31	204

(1) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness 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 commitments 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
Power 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 indebtedness 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 governments (4)	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction with respect to local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	Off-balance sheet troubled commercial credit risk	Impaired debt	Total off-balance sheet exposure	Includes: Off-balance sheet troubled commercial credit risk	Maturing in under 1 year	Maturing in over 1 year
As of September 30, 2012													
USA	-	1,160	699	1,334	1,334	-	1,859	35	35	2,028	-	1,364	495
UK	-	705	713	720	299	421	1,839	2	14	1,091	-	555	863
Other	1	1,098	1,897	-	-	-	2,996	16	7	2,730	-	1,942	1,054
Total exposure to foreign countries	**1**	**2,963**	**3,309**	**2,054**	**1,633**	**421**	**6,694**	**53**	**56**	**5,849**	**-**	**3,861**	**2,412**
Includes: Total exposure to LDC countries	-	82	263	-	-	-	345	1	4	144	-	145	200
Includes: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	3	4	-	-	-	7	-	-	1	-	4	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 indebtedness 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 September 30, 2011													
USA	-	1,187	1,020	781	781	-	2,207	87	87	2,636	-	1,588	619
UK	-	688	908	577	316	261	1,857	-	35	1,640	1	428	1,168
Germany	-	668	17	-	-	-	685	-	1	895	-	358	327
Other	1	724	2,011	-	-	-	2,736	5	13	2,086	5	1,933	803
Total exposure to foreign countries	**1**	**3,267**	**3,956**	**1,358**	**1,097**	**261**	**7,485**	**92**	**136**	**7,257**	**6**	**4,307**	**2,917**
Includes: Total exposure to LDC countries	-	58	256	-	-	-	314	1	8	218	3	219	95
Includes: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	2	3	-	-	-	5	-	-	112	2	3	2
Total exposure to Greece, Portugal, Spain, Italy and Ireland as of the publication date of the financial statements	-	2	3	-	-	-	5	-	-	75	2	3	2

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

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

Management 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

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 September 30, 2012

	Balance sheet exposure	Off-balance sheet exposure
Germany	587	675

As of September 30, 2011

	Balance sheet exposure	Off-balance sheet exposure
Switzerland	382	781

As of December 31, 2011

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

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

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 nine-month period ended September 30, 2012 there was no exposure to foreign countries facing liquidity issues.

	For the three months ended September 30, 2011			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	2	10	22	34
Net change in short-term exposure	(2)	(10)	(22)	(34)
Exposure at end of reported period	**-**	**-**	**-**	**-**

	For the nine months ended September 30, 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	**-**	**-**	**-**	**-**

	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.

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

Certification

I, ELIEZER YONES, declare that:

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended September 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, November 25, 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 September 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, November 25, 2012

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 September 30, 2012, the condensed consolidated statements of profit and loss, changes in equity and cash flow statements for the nine-month and three-month periods then ended. The Board of Directors and management are responsible for preparation and presentation of financial information for these interim periods, in accordance with generally accepted accounting principles 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 7.16% of total consolidated assets as of September 30, 2012, and whose net interest revenues before expenses with respect to credit loss included in the consolidated statements of profit and loss constitute 5.95% and 5.08% of total consolidated net interest revenues before expenses with respect to credit loss, respectively, for the nine-month and three-month periods then ended. Furthermore, we did not review the condensed financial information for the interim period of an affiliate, the investment in which amounted to NIS 16 million as of September 30, 2012. The condensed financial information for the interim periods of the aforementioned companies was reviewed by other independent auditors, we have been provided with their review reports and our conclusions, in as much as it relates to the financial information with respect to those companies, is based on the review reports by those other independent auditors.

Review scope

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

Conclusion

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

Without qualifying our conclusion, we draw your attention to Note 6.D.3)A.-D. with regard to lawsuits filed against the Bank and motions for class action status.

Brightman Almagor Zohar & Co.
Certified Public Accountants

November 25, 2012

Condensed consolidated balance sheet

Reported amounts (NIS in millions)

		As of September 30		As of December 31
		2012	2011	2011
	Note	(unaudited)	(unaudited)	(audited)
Assets				
Cash and deposits with banks		16,658	16,987	15,972
Securities (1)	2	7,966	5,879	8,432
Securities loaned or sold in repurchase agreements		251	34	136
Loans to the public	3	128,256	119,328	120,966
Provision for credit loss	3	(1,654)	(1,708)	(1,638)
Loans to the public, net		126,602	117,620	119,328
Loans to Governments		313	146	196
Investments in affiliates		18	17	17
Buildings and equipment		1,601	1,588	1,616
Intangible assets and goodwill		87	87	87
Assets with respect to derivatives	7	2,780	(3) 3,160	(3) 3,115
Other assets		1,534	(3) 1,359	(3) 1,347
Total assets		**157,810**	**146,877**	**150,246**
Liabilities and Shareholders' Equity				
Deposits from the public		124,322	116,497	119,236
Deposits from banks		2,031	1,874	2,007
Deposits from the Government		119	162	152
Debentures and subordinated notes		14,186	12,501	12,202
Liabilities with respect to derivatives	7	3,553	3,586	3,964
Other liabilities(2)		4,655	4,521	4,631
Total liabilities		**148,866**	**139,141**	**142,192**
Equity attributable to equity holders of the banking corporation		8,514	7,359	7,666
Non-controlling interest		430	377	388
Total capital		**8,944**	**7,736**	**8,054**
Total liabilities and shareholders' equity		**157,810**	**146,877**	**150,246**

(1) Includes: NIS 6,847 million at fair value (September 30, 2011 - NIS 5,432 million; December 31, 2011 - NIS 7,729 million).
(2) Includes: Provision for credit loss with respect to off balance sheet credit instruments amounting to NIS 99 million (on September 30, 2011 - NIS 157 million, on December 31, 2011 - NIS 114 million).
(3) Reclassified.

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

Moshe (Mozie) Wertheim	**Eliezer Yones**	**Menahem Aviv**
Chairman of the Board of Directors	President	Vice-president, Chief Accountant

Approval date:

Ramat Gan, November 25, 2012

Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31,
	2012	2011 [(1)]	2012	2011 [(1)]	2011 [(1)]
			(unaudited)		(audited)
Interest revenues	1,892	1,675	5,412	5,387	6,840
Interest expenses	992	784	2,841	3,022	3,741
Interest revenues, net	900	891	2,571	2,365	3,099
Expenses with respect to credit loss	116	142	228	276	338
Interest revenues, net after expenses with respect to credit loss	**784**	**749**	**2,343**	**2,089**	**2,761**
Non-interest revenues					
Non-interest financing revenues (expenses)	(98)	(48)	(134)	(34)	18
Commissions	378	366	1,085	1,115	1,474
Other revenues	7	3	20	10	17
Total non-interest revenues	**287**	**321**	**971**	**1,091**	**1,509**
Operating and other expenses					
Payroll and associated expenses	405	389	1,247	1,204	1,615
Maintenance and depreciation of buildings and equipment	163	155	481	455	608
Other expenses	108	106	318	319	444
Total operating and other expenses	**676**	**650**	**2,046**	**1,978**	**2,667**
Pre-tax profit	395	420	1,268	1,202	1,603
Provision for taxes on profit	121	154	423	429	522
After-tax profit	274	266	845	773	1,081
Share in profits of affiliates, after tax	-	-	-	1	1
Net profit:					
Before attribution to non-controlling interest	274	266	845	774	1,082
Attributable to non-controlling interest	(14)	(11)	(39)	(29)	(38)
Attributable to equity holders of the banking corporation	**260**	**255**	**806**	**745**	**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.B.1

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 September 30		For the nine months ended September 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 equity holders of the banking corporation	1.14	1.12	3.54	3.29	4.65
Diluted earnings per share (in NIS)					
Net profit attributable to equity holders of the banking corporation	1.13	1.11	3.52	3.22	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.B.1

(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 Equity

Reported amounts (NIS in millions)

	For the three months ended September 30, 2012 (unaudited)			
	Shares 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 June 30, 2012	**2,015**	**156**	**(76)**	**2,095**
Net profit for the period	-	-	-	-
Benefit from share-based payment transactions	-	1	-	1
Related tax effect	-	11	-	11
Realized share-based payment transactions[3]	13	(13)	-	-
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 September 30, 2012	**2,028**	**155**	**(76)**	**2,107**

(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 third quarter of 2012, 476,750 ordinary NIS 0.1 par value shares were issued for exercise of options in conjunction with the Employee Stock Option Plan.

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 capital
(33)	**9**	**6,160**	**8,231**	**413**	**8,644**
-	-	260	260	14	274
-	-	-	1	-	1
-	-	-	11	-	11
-	-	-	-	-	-
30	-	-	30	4	34
-	-	-	-	-	-
(11)	-	-	(11)	(1)	(12)
-	(12)	-	(12)	-	(12)
-	4	-	4	-	4
(14)	**1**	**6,420**	**8,514**	**430**	**8,944**

Condensed Statement of Changes in Equity - Continued

Reported amounts (NIS in millions)

	For the three months ended September 30, 2011 (unaudited)			
	Shares 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 June 30, 2011	**1,998**	**155**	**(76)**	**2,077**
Net profit for the period	-	-	-	-
Benefit from share-based payment transactions	-	8	-	8
Related tax effect	-	(16)	-	(16)
Realized share-based payment transactions[3]	4	(4)	-	-
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 September 30, 2011	**2,002**	**143**	**(76)**	**2,069**

(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, 2010.

(3) In the third quarter of 2011, the Bank issued 265,109 ordinary shares of NIS 0.1 par value each, fir exercise of options under the Employee Stock Option Plan.

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 capital
(26)	**28**	**5,060**	**7,139**	**365**	**7,504**
-	-	255	255	11	266
-	-	-	8	-	8
-	-	-	(16)	-	(16)
-	-	-	-	-	-
(59)	-	-	(59)	1	(58)
7	-	-	7	-	7
18	-	-	18	-	18
-	11	-	11	-	11
-	(4)	-	(4)	-	(4)
(60)	**35**	**5,315**	**7,359**	**377**	**7,736**

Condensed Statement of Changes in Equity - Continued

Reported amounts (NIS in millions)

	For the nine months ended September 30, 2012 (unaudited)			
	Shares 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 01, 2012	**2,003**	**155**	**(76)**	**2,082**
Net profit for the period	-		-	-
Benefit from share-based payment transactions	-	14	-	14
Related tax effect	-	11	-	11
Realized share-based payment transactions[3]	25	(25)	-	-
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 September 30, 2012	**2,028**	**155**	**(76)**	**2,107**

(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 nine months of 2012, 638,909 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)	Total	Non-controlling interest	Total capital
(48)	**18**	**5,614**	**7,666**	**388**	**8,054**
-	-	806	806	39	845
-	-	-	14	-	14
-	-	-	11	-	11
-	-	-	-	-	-
44	-	-	44	5	49
8	-	-	8	-	8
(18)	-	-	(18)	(2)	(20)
-	(24)	-	(24)	-	(24)
-	7	-	7	-	7
(14)	**1**	**6,420**	**8,514**	**430**	**8,944**

Condensed Statement of Changes in Equity - Continued

Reported amounts (NIS in millions)

	For the nine months ended September 30, 2011 (unaudited)			
	Shares 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 01, 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[4]	-	-	-	-
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 period	-	-	-	-
Dividends paid	-	-	-	-
Benefit from share-based payment transactions	-	28	-	28
Related tax effect	-	(25)	-	(25)
Realized share-based payment transactions[5]	16	(16)	-	-
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 statement of profit and loss	-	-	-	-
Related tax effect	-	-	-	-
Balance as of September 30, 2011	**2,002**	**143**	**(76)**	**2,069**

(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, 2010.

(4) For details see Note 1.E.1 to the financial statements for the period ended September 30, 2011.

(5) In the first nine months of 2011, the Bank issued 540,348 ordinary NIS 0.1 par value shares for exercise of options in conjunction with the Employee Stock Option Plan, and issued 513,627 ordinary NIS 0.1 par value shares 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 capital
(11)	**(51)**	**26**	[4] **4,980**	**120**	**7,130**	**366**	**7,496**
-	-	-	(359)	-	(359)	(16)	(375)
-	51	-	69	(120)	-		-
(11)	**-**	**26**	**4,690**	**-**	**6,771**	**350**	**7,121**
-	-	-	745	-	745	29	774
-	-	-	(120)	-	(120)	-	(120)
-	-	-	-	-	28	-	28
-	-	-	-	-	(25)	-	(25)
-	-	-	-	-	-	-	-
(80)	-	-	-	-	(80)	(4)	(84)
7	-	-	-	-	7	-	7
24	-	-	-	-	24	2	26
-	-	14	-	-	14	-	14
-	-	(5)	-	-	(5)	-	(5)
(60)	**-**	**35**	**5,315**	**-**	**7,359**	**377**	**7,736**

Condensed Statement of Changes in Equity - Continued

Reported amounts (NIS in millions)

	For the year ended December 31, 2011 (audited)			
	Shares 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 01, 2011	**1,986**	**156**	**(76)**	**2,066**
Cumulative effect, net of tax, of initial application on January 1,(4) 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(5)	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 gain from cash flow hedges reclassified to statement of profit and loss	-	-	-	-
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) For details see note 1.E.1 to the financial statements for the period ended September 30, 2011.

(5) 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 capital
(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 September 30		For the nine months ended September 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	274	266	845	774	1,082
Adjustments:					
Share of corporation in un-distributed earnings of affiliates	-	-	-	(1)	(1)
Depreciation of buildings and equipment	54	55	168	167	220
Amortization	-	-	-	-	(1)
Expenses with respect to credit loss	116	142	228	276	338
Net profit from revaluation of securities held to maturity, from revaluation and sale of securities available for sale	(309)	(25)	(319)	(266)	(419)
Impairment of securities held for sale	-	7	8	7	10
Realized and unrealized gain from adjustment to fair value of securities held for trading	6	(7)	(12)	(12)	(19)
Net loss (gain) from sale of buildings and equipment	-	-	-	1	(5)
Benefit from share-based payment transactions	1	8	14	28	43
Deferred taxes, net	(19)	22	(11)	(50)	(105)
Severance pay - decrease in excess of amount funded over liability	(6)	34	(6)	105	135
Accrual differences included under investment and financing operations	140	54	165	166	213
Effect of change in exchange rate on cash balances	17	(226)	(100)	(129)	(234)
Net change in current assets					
Deposits with banks, net	(582)	(1,365)	(2,437)	(2,035)	1,798
Loans to the public, net	(3,297)	(5,379)	(7,502)	(11,482)	(13,318)
Loans to the Governments, net	(104)	(40)	(117)	(54)	(104)
Securities loaned or sold in repurchase agreements, net	(120)	65	(115)	213	111
Assets with respect to derivatives, net	172	(238)	311	303	-
Securities held for trading, net	561	(158)	489	(132)	(878)
Other assets, net	(32)	(208)	(170)	(268)	191
Net change in current liabilities					
Deposits from banks, net	244	(29)	24	(558)	(425)
Deposits from the public, net	2,217	5,001	5,086	10,506	13,245
Deposits from the Government, net	(18)	5	(33)	(10)	(20)
Liabilities with respect to derivatives, net	(406)	1,325	(411)	694	1,072
Other liabilities, net	43	(195)	20	(267)	(47)
Deferred income, net	(1)	39	(6)	21	(45)
Net cash provided by current operations	**(1,049)**	**(847)**	**(3,881)**	**(2,003)**	**2,837**

(1) Reclassified.

Statement of cash flows - Continued

Reported amounts (NIS in millions)

	For the three months ended September 30		For the nine months ended September 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	(59)	(447)	(415)	(447)	(703)
Proceeds on redemption of debentures held to maturity	7	-	19	-	8
Acquisition of securities available for sale	(522)	(899)	(6,296)	(2,614)	(7,922)
Proceeds on sale and redemption of securities available for sale	1,944	1,041	7,043	4,998	8,816
Acquisition of buildings and equipment	(70)	(65)	(143)	(195)	(252)
Proceeds from sale of buildings and equipment	2	-	4	2	14
Purchase of shares in affiliates	-	(1)	(1)	(1)	(1)
Net cash provided by investment operations	**1,302**	**(371)**	**211**	**1,743**	**(40)**
Cash flows provided by financing operations					
Issuance of debentures and subordinated notes	-	1,156	2,161	2,620	2,620
Redemption of debentures and subordinated notes	(6)	(27)	(342)	(151)	(375)
Dividends paid to shareholders	-	-	-	-	(120)
Net cash provided by financing operations	**(6)**	**1,129**	**1,819**	**2,469**	**2,125**
Increase (decrease) in cash	247	(89)	(1,851)	2,209	4,922
Cash balance at beginning of year	13,010	12,036	14,991	9,835	9,835
Effect of change in exchange rate on cash balances	(17)	226	100	129	234
Cash balance at end of period	**13,240**	**12,173**	**13,240**	**12,173**	**14,991**
Interest and taxes paid / received					
Interest received	1,864	1,673	5,260	5,268	6,924
Interest paid	886	874	2,597	2,960	4,066
Taxes on income paid	217	201	484	473	512
Taxes on income received	-	-	-	58	59
Appendix A - Non-cash Transactions					
Acquisition of buildings and equipment	14	15	14	17	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.B. 2.A

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

The Group accounting policy in these condensed consolidated quarterly financial statements is consistent with the policy applied to the annual financial statements, except as noted below in section 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 layout of statement of profit and loss for banking corporations and adoption of generally acceptable accounting principles 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

1. **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 principles 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:

- Profit from financing operations before expenses with respect to credit loss - was divided into three individual items: interest revenues, interest expenses and non-interest financing revenues - which are 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:

Expenses included under "Profit from financing operations", amounting to NIS 34 million and NIS 48 million for the nine-month and three-month periods ended September 30, 2011, respectively, and revenues amounting to NIS 18 million in the year 2011 were reclassified under "Non-interest financing revenues".

Net gain from investment in shares, amounting to NIS 4 million and NIS 1 million in the nine-month and three-month periods ended September 30, 2011,respectively, 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 97 million and NIS 35 million in the nine-month and three-month periods ended September 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 in the nine-month period ended September 30, 2011 and in all of 2011, were reclassified under "Other revenues".

2. 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:

A. 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 (-13,455) million and NIS (-7,323) million for the nine-month and three-month periods ended September 30, 2011, respectively, and amounting to NIS (-12,200) million for all of 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 10,365 million and NIS 6,107 million for the nine-month and three-month periods ended September 30, 2011, respectively and amounting to NIS 13,825 million for all of 2011, were reclassified under "Current operations".

Note 1 - Reporting Principles and Accounting Policies - Continued

B. 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 income 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.

C. 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.

D. 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.

Note 1 - Reporting Principles and Accounting Policies - Continued

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.

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**

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.

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.

Note 1 - Reporting Principles and Accounting Policies - Continued

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

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.

In May 2011, FASB issued an amendment 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.

The amendment 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 amendment 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 amendment 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 amendment 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.

Note 1 - Reporting Principles and Accounting Policies - Continued

The amendment 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 prospectively applies the amendments described in ASU 2011-04, 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 comparative 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.

In June 2012, the Bank of Israel directed the Bank (in conjunction with a review of the banking system), that fair value measurement of a derivative instrument, when no quoted prices, liquid collateral or offset agreements exist which adequately secure the derivative's credit quality, and when no market information exists as to the credit quality of the counter-party (such as CDS or negotiable debentures of the counter-party) – shall be classified as a Level 3 fair value measurement. According to this directive, the aforementioned classification requirement shall apply to financial statements as from September 30, 2012, including an update of comparison figures.

For details of the effect of reclassification of derivatives to the different levels, see Note 8.

C. Adoption of US banking GAAP with regard to measurement of interest revenues

On December 29, 2011, the Supervisor of Banks issued a circular which includes a requirement re adoption of US standards with regard to measurement of interest revenues. The directive is designed to align the measurement and reporting rules for banking corporations in Israel to those of banks around the world. According to the circular, when calculating the effective interest rate for a loan, the banking corporation shall account for the net amount of commissions or costs incurred. These costs shall include direct loan origination costs incurred vis-a-vis any third party, as well as certain costs incurred by the banking corporation as lender for said loan (currently, costs incurred by the banking corporation as lender are regularly recognized in profit & loss). Commissions from loan generation include commissions charged to the borrower with respect to loan origination activities (currently, some of these commissions are included under "Operating commissions" and some – under "Commissions from financing transactions").

On July 25, 2012, a circular was issued with regard to the adoption date of ASC 310-20, concerning non-refundable commissions and other costs, which indicated that the start date would be postponed to January 1, 2014 and thereafter.

The Bank has started preparations for application of this standard. The effect of implementation on the financial statements cannot be estimated at this stage.

Note 2 - Securities

As of September 30, 2012 (unaudited)

Reported amounts (NIS in millions)

	Balance sheet balance	Amortized cost (for shares - cost)	Unrealized profits from adjustments to fair value	Unrealized loss from adjustments to fair value	Fair value[1]
(1) Government of Israel debentures held to maturity	**1,118**	**1,118**	**4**	**-**	**1,122**

	Balance sheet balance	Amortized cost (for shares - cost)	Cumulative other comprehensive income: Gains	Cumulative other comprehensive income: Loss	Fair value[1]
(2) Securities available for sale					
Debentures and notes					
Of the Government of Israel[2]	5,140	5,163	43	(66)	5,140
Of foreign governments[2)(6]	100	100	-	-	100
Of banks and financial institutions in Israel	122	122	-	-	122
Of banks and financial institutions overseas	471	467	7	(3)	471
Asset-backed (ABS)	7	8	-	(1)	7
Of others in Israel	40	39	1	-	40
Of others overseas	177	175	2	-	177
Total debentures available for sale	**6,057**	**6,074**	**53**	**(70)**	**6,057**
Shares[3]	82	81	1	-	82
Total securities available for sale	**6,139**	**6,155**	**[4]54**	**[4] (70)**	**6,139**

	Balance sheet balance	Amortized cost (for shares - cost)	Unrealized gains from adjustments to fair value	Unrealized loss from adjustments to fair value	Fair value[1]
(3) Securities held for trading					
- Debentures					
Of the Government of Israel[7]	705	703	12	(10)	705
Of banks and financial institutions overseas	4	4	-	-	4
Total securities held for trading	**709**	**707**	**[5]12**	**[5](10)**	**709**
Total securities	**7,966**	**7,980**	**70**	**(80)**	**7,970**

(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 a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 77 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 453 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 September 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 loss from adjustments to fair value	Fair value[1]
(1) Debentures held to maturity					
Of Government of Israel	447	447	-	(5)	442
Total - debentures held to maturity	**447**	**447**	**-**	**(5)**	**442**

	Balance sheet balance	Amortized cost (for shares - cost)	Cumulative other comprehensive income		Fair value[1] (Carrying amount)
			Gains	Loss	
(2) Securities available for sale					
Debentures and notes					
Of the Government of Israel[2]	4,052	4,134	18	(100)	4,052
Of foreign governments [2][6]	65	65	-	-	65
Of banks and financial institutions in Israel	121	127	-	(6)	121
Of banks and financial institutions overseas	445	445	2	(2)	445
Asset-backed (ABS)	63	69	5	(11)	63
Of others overseas	170	171	1	(2)	170
Total debentures available for sale	**4,916**	**5,011**	**26**	**(121)**	**4,916**
Shares[3]	83	82	1	-	83
Total securities available for sale	**4,999**	**5,093**	[4] **27**	[4] **(121)**	**4,999**

	Balance sheet balance	Amortized cost (for shares - cost)	Unrealized gains from adjustments to fair value	Unrealized loss from adjustments to fair value	Fair value[1] (Carrying amount)
(3) Securities held for trading					
- Debentures					
Of Government of Israel	429	428	1	-	429
Of banks and financial institutions overseas	4	4	-	-	4
Total securities held for trading	**433**	**432**	[5] **1**	[5] **-**	**433**
Total securities	**5,879**	**5,972**	**28**	**(126)**	**5,874**

(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-D to the 2010 financial statements for information on liens on securities held by the Bank.
(3) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 78 million.
(4) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".
(5) Charged to statement of profit and loss but not yet realized.
(6) US government debentures.

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 loss 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	Loss	
(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 loss 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 a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 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 September 30, 2012
	Less than 12 months		12 months or more	
	Fair value	Unrealized loss	Fair value	Unrealized loss
Asset-backed securities (ABS):				
CLO	7	(1)	-	-
Total	**7**	**(1)**	**-**	**-**

				As of September 30, 2011
	Less than 12 months		12 months or more	
	Fair value	Unrealized loss	Fair value	Unrealized loss
Asset-backed securities (ABS):				
CLO	-	-	39	(11)
Total	**-**	**-**	**39**	**(11)**

				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

	September 30, 2012			September 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)	31,651	694	30,957	32,349	615	31,734	32,230	605	31,625
Loans to the public reviewed on group basis(2)	96,605	960	95,645	86,979	1,093	85,886	88,736	1,033	87,703
Total loans to the public	**128,256**	**1,654**	**126,602**	**119,328**	**1,708**	**117,620**	**120,966**	**1,638**	**119,328**
Includes: Customers' liabilities for acceptances	323	-	323	278	-	278	348	-	348

B. Loans to the public reviewed individually

1. Loans to the public reviewed individually includes:

	September 30, 2012			September 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)	1,850	350	1,500	1,342	283	1,059	1,622	215	1,407
Non-impaired loans to the public, in arrears 90 days or more(4)	11	2	9	72	15	57	56	15	41
Non-impaired loans to the public, in arrears 30-89 days(4)	74	4	70	83	4	79	53	3	50
Other non-impaired loans to the public(4)	29,716	338	29,378	30,852	313	30,539	30,499	372	30,127
Total non-impaired loans to the public (4)	**29,801**	**344**	**29,457**	**31,007**	**332**	**30,675**	**30,608**	**390**	**30,218**
Total loans to the public reviewed individually	**31,651**	**694**	**30,957**	**32,349**	**615**	**31,734**	**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 set forth 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.

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

	September 30, 2012	September 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	1,602	1,139	1,386
Impaired loans to the public for which a provision for credit loss was not made on individual basis	248	203	236
Total impaired loans to the public	**1,850**	**1,342**	**1,622**
Impaired loans to the public measured at present value of cash flows	1,661	1,123	1,499
Impaired loans to the public measured at collateral value	189	219	123
Total impaired loans to the public	**1,850**	**1,342**	**1,622**

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

	September 30, 2012			September 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[1]	840	67	773	763	20	743	728	23	705
Accruing interest revenues, in arrears 90 days or more	-	-	-	-	-	-	2	-	2
Accruing interest revenues, in arrears 30-89 days	4	-	4	9	1	8	7	1	6
Accruing interest revenues[1]	55	4	51	70	6	64	60	1	59
Total (included under impaired loans to the public)	**899**	**71**	**828**	**842**	**27**	**815**	**797**	**25**	**772**
Impaired debt accruing interest revenues which was re-structured in previous years.	4	-	4	54	10	44	33	4	29

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

Reported amounts (NIS in millions)

4. Interest with respect to impaired loans to the public

	For the three months ended September 30		For the nine months ended September 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)	1,676	1,324	1,596	1,502	1,452
Total interest revenues recognized in the reported period with respect to such loans in the period when it was classified as impaired(2)	27	19	99	54	73
Total interest revenues which would have been recognized in the reported period had this credit accrued interest at its original terms	22	19	60	65	75
(2) Includes: Interest revenues recognized in accordance with accounting policy on cash basis	25	15	94	47	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)	
	1-3 months	3-6 months	6-15 months	15-33 months	Over 33 months	Total over 3 months		Total
	September 30, 2012							
	unaudited							
Amount in arrears	10	14	21	32	473	540	86	636
Includes: Balance of provision for interest(1)	-	-	-	5	191	196	6	202
Recorded debt balance	854	442	256	128	517	1,343	317	2,514
Balance of provision for credit loss(2)	-	-	48	69	468	585	139	724
Debt balance, net	**854**	**442**	**208**	**59**	**49**	**758**	**178**	**1,790**
	September 30, 2011							
	unaudited							
Amount in arrears	10	14	23	35	470	542	90	642
Includes: Balance of provision for interest(1)	-	-	1	5	180	186	6	192
Recorded debt balance	768	367	280	131	576	1,354	335	2,457
Balance of provision for credit loss(2)	-	-	59	76	525	660	149	809
Debt balance, net	**768**	**367**	**221**	**55**	**51**	**694**	**186**	**1,648**
	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:

	September 30, 2012			September 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	45	15	30	51	5	46	47	5	42
Non-impaired loans to the public, in arrears 30-89 days	135	6	129	132	4	128	121	4	117
Other non-impaired loans to the public	17,387	123	17,264	15,914	176	15,738	16,316	166	16,150
Total	**17,567**	**144**	**17,423**	**16,097**	**185**	**15,912**	**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(1)			
		On group basis		
	On individual basis	By extent of arrears	Other	Total
Balance of provision for credit loss as of December 31, 2011	253	767	746	1,766
Nine months ended September 30, 2012:				
Expenses with respect to credit loss	222	3	3	228
Accounting write-offs	(108)	(46)	(140)	(294)
Recovery of debt written off in previous years	4	-	67	71
Net accounting write-off	(104)	(46)	(73)	(223)
Balance of provision for credit loss as of September 30, 2012	**371**	**724**	**676**	**1,771**

	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 June 30, 2012	326	740	701	1,767
Three months ended September 30, 2012:				
Expenses with respect to credit loss	125	-	(9)	116
Accounting write-offs	(81)	(16)	(36)	(133)
Recovery of debt written off in previous years	1	-	20	21
Net accounting write-off	(80)	(16)	(16)	(112)
Balance of provision for credit loss as of September 30, 2012	**371**	**724**	**676**	**1,771**

(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	2,580	811	215	3,606
Nine months ended September 30, 2011:				
Net accounting write-offs recognized as of January 1, 2011[2]	(2,016)	-	(544)	(2,560)
Other changes to provision for credit loss as of January 1, 2011 (charged to shareholders' equity)[2]	(127)	18	1,028	919
Expenses with respect to credit loss	177	(11)	110	276
Accounting write-offs	(304)	(9)	(148)	(461)
Recovery of debt written off in previous years	9	-	88	97
Net accounting write-off	(295)	(9)	(60)	(364)
Balance of provision for credit loss as of September 30, 2011	**319**	**809**	**749**	**1,877**

	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 June 30, 2011 [3]	391	826	695	1,912
Three months ended September 30, 2011:				
Expenses with respect to credit loss[3]	68	(11)	85	142
Net accounting write-off[3]	(144)	(6)	(56)	(206)
Recovery of debt written off in previous years[3]	4	-	25	29
Net accounting write-off	(140)	(6)	(31)	(177)
Balance of provision for credit loss as of September 30, 2011	**319**	**809**	**749**	**1,877**

(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 September 30, 2012				
With respect to loans to the public	352	724	578	1,654
With respect to debt other than loans to the public	-	-	18	18
With respect to off-balance-sheet credit instruments(1)	19	-	80	99
Total	**371**	**724**	**676**	**1,771**
Composition of provision balance as of September 30, 2011				
With respect to loans to the public	303	809	596	1,708
With respect to debt other than loans to the public	-	-	12	12
With respect to off-balance-sheet credit instruments(1)	16	-	141	157
Total	**319**	**809**	**749**	**1,877**
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(1)	23	-	91	114
Total	**253**	**767**	**746**	**1,766**

(1) 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

	September 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)	78,134	626	1,660	724	92	-	816
Other housing loans	908	4	4	-	-	2	2
Total	(4) **79,042**	**630**	**1,664**	**724**	**92**	**2**	**818**
Includes: With respect to housing loans granted to certain buyer groups which are in the process of construction	1,316	-	14	-	-	-	-
	September 30, 2011						
Housing loans for which provision for credit loss by extent of arrears must be calculated(3)	70,212	632	1,689	809	99	-	908
Other housing loans	708	6	36	-	-	14	14
Total	(4) **70,920**	**638**	**1,725**	**809**	**99**	**14**	**922**
Includes: With respect to housing loans granted to certain buyer groups which are in the process of construction	1,238	-	6	-	-	-	-
	December 31, 2011						
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, less balance of provisions for credit loss, amounting to NIS 4,878 million (as of September 30, 2011 - NIS 4,173 million and as of December 31, 2011 - NIS 4,388 million).
(4) Includes: Housing loans bearing variable interest, amounting to NIS 43,234 million (as of September 30, 2011 - NIS 47,786 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 September 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	8,836	7,575	7,912
Tier II capital, after deductions	5,239	5,749	5,722
Total capital	**14,075**	**13,324**	**13,634**
B. Weighted risk asset balances			
Credit risk	98,054	89,745	92,973
Market risk	944	813	947
Operating risk	8,327	7,775	7,851
Total weighted risk asset balances	**107,325**	**98,333**	**101,771**

	As of September 30		As of December 31
	2012	2011	2011
		In %	
C. Ratio of capital to risk elements			
Ratio of Tier I capital to risk elements	8.23	7.70	7.77
Ratio of total capital to risk elements	13.11	13.55	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	9.14	9.21	9.04
Total ratio of capital to risk elements	13.75	13.82	13.55
Total minimum capital ratio required by the Supervisor of Banks	9.00	9.00	9.00

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

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

Reported amounts (NIS in millions)

	As of September 30		As of December 31
	2012	2011	2011
	(unaudited)		(audited)
3. Capital components for calculation of capital ratio (on consolidated basis)			
A. Tier I capital			
Paid-up share capital and capital reserves	2,107	2,069	2,082
Total cumulative other loss [(1)]	(14)	(60)	(48)
Retained earnings	6,420	5,315	5,614
Minority interest of external shareholders in equity of consolidated subsidiaries	430	377	388
Less:			
Goodwill	(87)	(87)	(87)
Tier I capital after Tier I deductions alone	**8,856**	**7,614**	**7,949**
Less:			
Investments in supervisory capital components of banking corporations	(17)	(19)	(19)
Other deductions from Tier I capital	(3)	(20)	(18)
Total Tier I capital	**8,836**	**7,575**	**7,912**
B. Tier II capital			
1. Upper Tier II capital			
General provision for doubtful debts [(2)]	110	110	110
Complex capital instruments	1,908	1,871	1,869
2. Lower Tier II capital			
Subordinated notes	3,241	3,807	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	(3)	(20)	(18)
Total Tier II capital	**5,239**	**5,749**	**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 pursuant to directives of the Supervisor of Banks- Continued

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

Reported amounts (NIS in millions)

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 September 30, 2012 (unaudited)

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]			Non-monetary items[2]	Total
	Non-linked	CPI-linked	US Dollars	Euro	Other currencies		
Assets							
Cash and deposits with banks	13,812	274	1,964	300	308	-	16,658
Securities	3,534	128	3,161	1,029	32	82	7,966
Securities loaned or sold in conjunction with repurchase agreements	114	137	-	-	-	-	251
Loans to the public, net	64,043	48,733	9,317	2,420	2,089	-	126,602
Loans to Governments	-	-	96	217	-	-	313
Investments in investees	32	-	-	-	-	(14)	18
Buildings and equipment	-	-	-	-	-	1,601	1,601
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	1,504	191	646	149	290	-	2,780
Other assets	1,033	387	67	3	16	28	1,534
Total assets	**84,072**	**49,850**	**15,251**	**4,118**	**2,735**	**1,784**	**157,810**
Liabilities							
Deposits from the public	77,832	22,938	17,021	4,139	2,392	-	124,322
Deposits from banks	341	571	314	571	234	-	2,031
Deposits from the Government	13	71	35	-	-	-	119
Debentures and subordinated notes	2,110	12,076	-	-	-	-	14,186
Liabilities with respect to derivatives	1,684	258	1,124	315	172	-	3,553
Other liabilities	3,529	745	74	16	15	276	4,655
Total liabilities	**85,509**	**36,659**	**18,568**	**5,041**	**2,813**	**276**	**148,866**
Difference	(1,437)	13,191	(3,317)	(923)	(78)	1,508	8,944
Impact of hedging derivatives:							
Derivatives (except for options)	400	(400)					-
Non-hedging financial derivatives:							
Derivatives (except for options)	3,465	(4,774)	2,173	(600)	(264)	-	-
Net in-the-money options (in terms of underlying asset)	(2,115)	-	561	1,486	68	-	-
Net out-of-the-money options (in terms of underlying asset)	(539)	-	627	(84)	(2)	(2)	-
Total	**(226)**	**8,017**	**44**	**(121)**	**(276)**	**1,506**	**8,944**
Net in-the-money options (capitalized par value)	(447)	-	368	172	(115)	22	-
Net out-of-the-money options (capitalized par value)	2,424	-	(1,256)	(1,160)	(67)	59	-

(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 September 30, 2011 (unaudited) - Continued

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]			Non-monetary items[2]	
	Non-linked	CPI-linked	US Dollars	Euro	Other currencies		Total
Assets							
Cash and deposits with banks	13,614	491	2,336	269	277	-	16,987
Securities	2,920	262	1,729	843	42	83	5,879
Securities loaned or sold in conjunction with repurchase agreements	34	-	-	-	-	-	34
Loans to the public, net	59,916	43,272	10,256	2,262	1,914	-	117,620
Loans to Governments	-	-	1	145	-	-	146
Investments in investees	31	-	-	-	-	(14)	17
Buildings and equipment	-	-	-	-	-	1,588	1,588
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	[3]1,462	181	1,161	90	266	-	3,160
Other assets	[3]1,056	174	91	1	5	32	1,359
Total assets	**79,033**	**44,380**	**15,574**	**3,610**	**2,504**	**1,776**	**146,877**
Liabilities							
Deposits from the public	70,214	22,691	17,019	4,166	2,407	-	116,497
Deposits from banks	726	709	218	208	13	-	1,874
Deposits from the Government	10	118	34	-	-	-	162
Debentures and subordinated notes	2,136	10,365	-	-	-	-	12,501
Liabilities with respect to derivatives	1,579	202	1,464	202	139	-	3,586
Other liabilities	3,511	700	48	1	3	258	4,521
Total liabilities	**78,176**	**34,785**	**18,783**	**4,577**	**2,562**	**258**	**139,141**
Difference	**857**	**9,595**	**(3,209)**	**(967)**	**(58)**	**1,518**	**7,736**
Impact of hedging derivatives:							
Derivatives (except for options)	945	(945)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (except for options)	2,428	(4,472)	1,412	749	(117)	-	-
Net in-the-money options (in terms of underlying asset)	(1,964)	-	1,350	513	122	(21)	-
Net out-of-the-money options (in terms of underlying asset)	(25)	-	306	(315)	34	-	-
Total	**2,241**	**4,178**	**(141)**	**(20)**	**(19)**	**1,497**	**7,736**
Net in-the-money options (capitalized par value)	(618)	-	290	122	132	74	-
Net out-of-the-money options (capitalized par value)	295	-	140	(454)	60	(41)	-

(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	[3]1,591	162	1,117	23	222	-	3,115
Other assets	[3]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	1,772	187	1,710	172	123	-	3,964
Other liabilities	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 September 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	377	2	481	3	340	3
- Loan guarantees	2,902	21	3,024	33	3,195	27
- Guarantees to purchasers of homes	8,596	5	6,598	7	6,810	9
- Other guarantees and liabilities(3)	3,298	16	2,928	20	2,923	17
- Revolving credit card facilities not utilized	6,772	6	6,565	8	6,628	7
- Unutilized debitory account and other credit facilities in accounts available on demand	17,621	32	16,558	64	16,994	34
- Irrevocable commitments for loans approved but not yet granted	8,795	14	8,916	19	9,449	14
- Commitments to issue guarantees	4,618	3	5,344	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 113 million (as of September 30, 2011 and December 31, 2011 - NIS 168 million and NIS 176 million, respectively).

Note 6 - Contingent Liabilities and Special Commitments - Continued

Reported amounts (NIS in millions)

	As of September 30		As of December 31
	2012	2011	2011
		(unaudited)	(audited)
B. Special commitments			
Obligations with respect to:			
Long-term leases	547	542	532
Computerization and software service contracts	144	68	148
Acquisition and renovation of buildings	20	10	5
Receipt of deposits on future dates[(1)]	400	405	405

	As of September 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	7	63	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.

Note 6 - Contingent Liabilities and Special Commitments - Continued

In May 2008, the plaintiff filed an amended statement of claim in the amount of NIS 102 million, and consequently the Bank has filed an amended statement of defense. The evidentiary hearings and parties' summations were concluded in July 2010.

In February 2012, a verdict was given which recognizes some of the causes for claim, and instructs recalculation of the corresponding financial values.

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.

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, it claims, that they 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 on securities deposits charged to customers, 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 claimed 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.

Note 6 - Contingent Liabilities and Special Commitments - Continued

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.

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.

Note 6 - Contingent Liabilities and Special Commitments - Continued

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 actual 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 (re-financing 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.

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, hence 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.

Note 6 - Contingent Liabilities and Special Commitments - Continued

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

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

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

On January 9, 2012, the Bank filed its response to the motion, describing in detail the factual and legal defense claims made by the Bank. On May 20, 2012, the plaintiff filed 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 filed a further, more detailed response on August 15, 2012. On October 17, 2012 and on October 29, 2012, the Court held preliminary hearings in this case.

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.

Note 6 - Contingent Liabilities and Special Commitments - Continued

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.

I. 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

J. 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 unlawful interest with respect to approved legal fees. This proceeding is in early stages.
In October 2012, the plaintiff filed a motion to withdraw this claim with the Court.

K. 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 compounded 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 with the Court its response to the motion.
In October 2012, the Court held the first pre-trial hearing in this case.

Note 6 - Contingent Liabilities and Special Commitments - Continued

L. 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. The banks have filed their responses in this case, the Court held a preliminary hearing and the case is scheduled for summation in March 2013.

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-remote exposure for which no provision was made, amounting to NIS 109 million.

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

A. In 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.

B. In August 2012, a claim against the Bank was filed with the Tel Aviv District Court, including an application for class action status, amounting to NIS 2.3 billion against Automated Bank Services Ltd. (hereinafter: "ABS"), major banks including the Bank and others, with regard to alleged unlawful charging of commissions upon cash withdrawal from ATMs operated by ABS and located on premises of the defendant banks. Four banks are named as defendants for being shareholders of ABS, while the Bank is named as defendant, even though its ABS shares were sold to others in 1980, but the Bank retained the right to appoint an observer to OBS Board of Directors meetings.
The Bank has yet to file a response to this motion.

C. In September 2012, a claim with motion for class action status was filed with the Tel Aviv District Court, alleging charging of VAT in Court Order Execution Service cases filed against debtors, even though banking corporations are apparently exempt of VAT payment by law. The plaintiff has not stated a specific amount claimed.
The Bank has yet to file a response to this motion.

Note 6 - Contingent Liabilities and Special Commitments - Continued

D. In October 2012, a claim with motion for class action status was filed with the Tel Aviv District Court, against the five large banks - including the Bank - alleging failure to match the client debt amount on Bank accounts and the debt amount indicated in Court Order Execution Service files. The plaintiffs indicate that the claim amount cannot be estimated at this stage. The Bank has yet to file a response to this motion.

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

On March 24, 2010, the Bank appealed this ruling to the Anti-Trust Court. The Restrictive Trade Practices Authority filed its response to the appeal on February 22, 2011. In accordance with the Court's proposal, all parties have consented to transfer discussion of the appeal to arbitration. For details of a claim filed against the Bank based on the determination by the Anti-Trust Supervisor, see Note 19.D.10)N. 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 for Imposing Monetary Sanctions on Banking Corporations (hereinafter: "the committee") held a meeting at which the Bank concluded its verbal claims, in conformity with the committee's operating procedure.

On September 19, 2012, the Bank received a letter from the Supervisor of Banks, informing the Bank of a monetary sanction imposed on the Bank, amounting to NIS 3.8 million - paid on October 9, 2012.

Note 6 - Contingent Liabilities and Special Commitments - Continued

6) In January 2005, the Parliamentary Enquiry Committee on Identification and Restitution of Assets of Holocaust Victims (hereinafter: "the Enquiry Committee") published its report, whereupon the Knesset enacted the Holocaust Victims' Assets Act (Restitution to heirs and dedication for assistance and memorial purposes), 2006 (hereinafter: "the Act"), based on which the Holocaust Restitution Company of Israel Ltd. was founded in 2006 (hereinafter: "the Company").

The Company applied to the Bank, citing monetary claims pursuant to provisions of the Act, with regard to accounts managed by the Bank and with regard to general Bank accounts and to Bank shares - which the Bank rejected. However, due to the importance and sensitivity of this issue, and due to its sincere desire to help Holocaust survivors, the Bank has conducted, since August 2009, detailed and comprehensive discussions with the Company, designed to resolve their disagreements.

In view of the important public role of the Company and its objectives, and mutually desiring to resolve the disagreement, the Bank signed a settlement agreement on November 4, 2012 whereby the Bank, with no admission of any liability or any claim of any kind made against the Bank, paid to the Company on November 5, 2012 the final amount of NIS 9.5 million - for full and complete settlement of claims and demands made by the Company or by any other person, whether known upon signing this agreement or unknown and to become known in future - all pursuant to the agreement.

In exchange for this payment to the Company, the Bank and any Bank Group entity are no longer liable, and replaced by the Company which assumed complete liability for this matter for all intents and purposes. The Company also committed to indemnify the Bank Group for any payment which the Group may have to make to any third party, for any reason, with respect to assets of Holocaust victims.

The Bank sees great importance in any activity involving assistance to Holocaust survivors, and is fully confident that funds paid to the Company would be used for worthwhile purposes and for providing assistance to Holocaust survivors in need, to secure their respectable livelihood in future.

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

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	As of September 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	100	-	-	-	-	100
Swaps	-	3,260	-	-	-	3,260
Total	**100**	**3,260**	**-**	**-**	**-**	**3,360**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	3,260	-	-	-	3,260
B. ALM derivatives [1][2]						
Forward contracts	9,237	1,800	55,069	-	24	66,130
Option contracts traded on stock exchange:						
Options written	-	-	1,969	164	-	2,133
Options purchased	-	-	4,073	201	-	4,274
Other option contracts:						
Options written	-	-	11,298	200	-	11,498
Options purchased	-	-	9,372	280	-	9,652
Swaps	1,257	33,575	13,108	-	-	47,940
Total	**10,494**	**35,375**	**94,889**	**845**	**24**	**141,627**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	707	18,676	-	-	-	19,383
C. Other derivatives[1]						
Forward contracts	-	-	718	-	-	718
Option contracts traded on stock exchange:						
Options written	-	-	5,260	6,953	-	12,213
Options purchased	-	-	5,260	6,953	-	12,213
Other option contracts:						
Options written	-	367	1,764	595	1	2,727
Options purchased	-	357	1,778	579	1	2,715
Swaps	-	-	-	3,437	-	3,437
Total	**-**	**724**	**14,780**	**18,517**	**2**	**34,023**

(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 September 30, 2012					
	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	-	-	-	-	219	219
Foreign currency spot swap contracts	-	-	2,275	-	-	2,275
Total	**-**	**-**	**2,275**	**-**	**219**	**2,494**
Total stated amounts of derivatives	**10,594**	**39,359**	**111,944**	**19,362**	**245**	**181,504**
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives[1]						
Positive fair value, gross	-	-	-	-	-	-
Negative fair value, gross	-	437	-	-	-	437
B. ALM derivatives [1][2]						
Positive fair value, gross	134	1,127	1,202	132	1	2,596
Negative fair value, gross	209	1,225	1,400	107	1	2,942
C. Other derivatives[1]						
Positive fair value, gross	-	4	113	67	-	184
Negative fair value, gross	-	4	108	64	-	176
Credit derivatives in which the Bank is guarantor						
Positive fair value, gross	-	-	-	-	-	-
Negative fair value, gross	-	-	-	-	2	2
Total positive fair value, gross	**134**	**1,131**	**1,315**	**199**	**1**	**2,780**
Total negative fair value, gross[3]	209	1,666	1,508	171	3	3,557

(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 September 30, 2011 (unaudited)					
	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	945	-	-	-	-	945
Swaps	-	1,881	-	-	-	1,881
Total	**945**	**1,881**	**-**	**-**	**-**	**2,826**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	1,881	-	-	-	1,881
B. ALM derivatives [1][2]						
Forward contracts	9,008	6,041	59,778	115	50	74,992
Option contracts traded on stock exchange:						
Options written	-	-	2,460	208	-	2,668
Options purchased	-	-	[3] 2,545	183	-	2,728
Other option contracts:						
Options written	-	-	10,470	663	-	11,133
Options purchased	-	-	10,654	697	-	11,351
Swaps	1,154	47,470	10,597	-	-	59,221
Total	**10,162**	**53,511**	**96,504**	**1,866**	**50**	**162,093**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	654	27,114	-	-	-	27,768
C. Other derivatives[1]						
Forward contracts	-	-	592	-	-	592
Option contracts traded on stock exchange:						
Options written	-	-	4,794	9,421	-	14,215
Options purchased	-	-	4,794	9,421	-	14,215
Other option contracts:						
Options written	-	895	115	307	12	1,329
Options purchased	-	845	129	254	14	1,242
Total	**-**	**1,740**	**10,424**	**19,403**	**26**	**31,593**

(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 September 30, 2011 (unaudited)					
	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	-	-	-	-	1,575	1,575
Credit derivatives in which the Bank is beneficiary	-	-	-	-	27	27
Foreign currency spot swap contracts	-	-	2,951	-	-	2,951
Total	**-**	**-**	**2,951**	**-**	**1,602**	**4,553**
Total stated amounts of derivatives	**11,107**	**57,132**	**109,879**	**21,269**	**1,678**	**201,065**
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives[1]						
Positive fair value, gross	1	-	-	-	-	1
Negative fair value, gross	5	293	-	-	-	298
B. ALM derivatives [1][2]						
Positive fair value, gross	155	872	[4] 1,810	47	2	2,886
Negative fair value, gross	139	1,101	1,721	45	2	3,008
C. Other derivatives[1]						
Positive fair value, gross	-	5	112	152	-	269
Negative fair value, gross	-	7	112	158	-	277
D. Credit derivatives						
Credit derivatives in which the Bank is guarantor						
Positive fair value, gross	-	-	-	-	-	-
Negative fair value, gross	-	-	-	-	20	20
Credit derivatives in which the Bank is beneficiary						-
Positive fair value, gross	-	-	-	-	4	4
Negative fair value, gross	-	-	-	-	-	-
Total positive fair value, gross	**156**	**877**	**1,922**	**199**	**6**	**3,160**
Total negative fair value, gross[3]	**144**	**1,401**	**1,833**	**203**	**22**	**3,603**

(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) Includes negative fair value, gross, of embedded derivatives amounting to NIS 17 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					
	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	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) 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 December 31, 2011					
	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	-	-	-	-	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	(4) 1,541	(4) 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(3)	**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) Includes negative fair value, gross, of embedded derivatives amounting to NIS 17 million.

(4) Reclassified.

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 September 30, 2012 (unaudited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Balance sheet balances of underlying assets(1)	243	1,900	9	-	628	2,780
Off-balance sheet credit risk on financial derivatives (2)	126	1,455	372	-	2,607	4,560
Total credit risk on financial derivatives	**369**	**3,355**	**381**	**-**	**3,235**	**7,340**

In the nine-month period ended September 30, 2012, the Bank recognized credit loss with respect to derivatives amounting to NIS 17 million.

	As of September 30, 2011 (unaudited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Balance sheet balances of underlying assets(1)	353	1,952	13	-	842	3,160
Off-balance sheet credit risk on financial derivatives (2)	508	10,729	11	-	3,800	15,048
Total credit risk on financial derivatives	**861**	**12,681**	**24**	**-**	**4,642**	**18,208**

	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
Off-balance sheet credit risk on financial derivatives (2)	71	2,681	126	-	2,130	5,008
Total credit risk on financial derivatives	**362**	**4,683**	**147**	**-**	**2,931**	**8,123**

(1) Includes negative gross fair value of embedded derivatives amounting to NIS zero (as of December 31, 2011 - NIS zero and as of September 30, 2011 - NIS 17 million), and carrying amount of stand-alone derivatives amounting to NIS 2,780 million (as of December 31, 2011 - NIS 3,115 million and as of September 30, 2011 - NIS 3,160 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 September 30, 2012 (unaudited)				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS-CPI	1,705	4,147	3,286	1,456	10,594
Other	2,197	7,905	13,306	15,951	39,359
Currency contracts	72,331	27,594	5,042	6,977	111,944
Contracts for shares	15,696	3,054	612	-	19,362
Commodities and other contracts	15	11	100	119	245
Total	**91,944**	**42,711**	**22,346**	**24,503**	**181,504**

	As of September 30, 2011 (unaudited)				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS-CPI	820	5,585	3,463	1,239	11,107
Other	13,056	16,859	12,225	14,992	57,132
Currency contracts	(1) 72,847	27,287	4,063	5,682	109,879
Contracts for shares	19,344	1,653	272	-	21,269
Commodities and other contracts	1,046	346	212	74	1,678
Total	**107,113**	**51,730**	**20,235**	**21,987**	**201,065**

	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 (NIS in millions)

A. Fair value balances

	As of September 30, 2012 (unaudited)				
		Fair value			
	Carrying amount	Level 1(1)	Level 2(1)	Level 3(1)	Total
Financial assets					
Cash and deposits with banks	16,658	3,391	10,422	2,856	16,669
Securities (3)	7,966	3,790	3,914	266	7,970
Securities loaned or sold in repurchase agreements	251	251	-	-	251
Loans to the public, net	126,602	-	10,122	118,394	128,515
Loans to Governments	313	-	-	313	313
Investments in affiliates	32	-	-	32	32
Assets with respect to derivatives	2,780	226	1,474	(2)1,080	2,780
Other financial assets	1,438	-	-	1,438	1,438
Total financial assets	**(4)156,040**	**7,658**	**25,932**	**124,379**	**157,968**
Financial liabilities					
Deposits from the public	124,322	-	395	125,985	126,380
Deposits from banks	2,031	-	29	2,050	2,079
Deposits from the Government	119	-	-	133	133
Debentures and subordinated notes	14,186	-	-	15,460	15,460
Liabilities with respect to derivatives	3,553	104	2,127	(2)1,322	3,553
Other financial liabilities	3,391	-	2,813	579	3,392
Total financial liabilities	**(4)147,602**	**104**	**5,364**	**145,529**	**150,997**

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

(2) Fair value measurement is primarily based on observed data (market-interest rates curves), except for counter-party credit quality.

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

(4) Includes: Assets and liabilities amounting to NIS 36,390 million and NIS 27,314 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet), For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see Notes 8B-8D.

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

Reported amounts (NIS in millions)

A. Fair value balances - Continued

	As of September 30, 2011 (unaudited)				
		Fair value			
	Carrying amount	Level 1[1]	Level 2[1]	Level 3[1]	Total
Financial assets					
Cash and deposits with banks	16,987	3,266	10,499	3,239	17,004
Securities [3]	5,879	3,258	2,300	316	5,874
Securities loaned or sold in repurchase agreements	34	34	-	-	34
Loans to the public, net	117,620	-	10,908	107,926	118,834
Loans to Governments	146	-	-	145	145
Investments in affiliates	31	-	-	31	31
Assets with respect to derivatives	[5]3,160	[5]216	1,751	[2] 1,193	3,160
Other financial assets	[5]1,266	-	-	1,266	1,266
Total financial assets	[4]**145,123**	**6,774**	**25,458**	**114,116**	**146,348**
Financial liabilities					
Deposits from the public	116,497	-	7,305	110,682	117,987
Deposits from banks	1,874	-	14	1,902	1,916
Deposits from the Government	162	-	-	178	178
Debentures and subordinated notes	12,501	-	-	13,226	13,226
Liabilities with respect to derivatives	3,586	148	2,177	[2]1,261	3,586
Other financial liabilities	3,134	-	2,634	500	3,134
Total financial liabilities	[4]**137,754**	**148**	**12,130**	**127,749**	**140,027**

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

(2) Fair value measurement is primarily based on observed data (market-interest rates curves), except for counter-party credit quality.

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

(4) Includes: Assets and liabilities amounting to NIS 34,948 million and NIS 27,286 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see Notes 8B-8D.

(5) Reclassified.

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

Reported amounts (NIS in millions)

A. Fair value balances - Continued

	As of December 31, 2011 (audited)				
		Fair value			
	Carrying amount	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total
Financial assets					
Cash and deposits with banks	15,972	4,259	8,360	3,364	15,983
Securities [(3)]	8,432	5,531	2,578	318	8,427
Securities loaned or sold in repurchase agreements	136	136	-	-	136
Loans to the public, net	119,328	-	9,304	111,644	120,948
Loans to Governments	196	-	-	196	196
Investments in affiliates	31	-	-	31	31
Assets with respect to derivatives	[(5)] 3,115	[(5)] 76	1,747	[(2)]1,292	3,115
Other financial assets	[(5)] 1,249	-	-	1,249	1,249
Total financial assets	[(4)]**148,459**	**10,002**	**21,989**	**118,094**	**150,085**
Financial liabilities					
Deposits from the public	119,236	-	10,336	110,509	120,845
Deposits from banks	2,007	-	47	2,007	2,054
Deposits from the Government	152	-	-	166	166
Debentures and subordinate notes	12,202	-	-	13,116	13,116
Liabilities with respect to derivatives	3,964	122	2,471	[(2)] 1,371	3,964
Other financial liabilities	3,241	-	2,736	505	3,241
Total financial liabilities	[(4)]**140,802**	**122**	**15,590**	**127,674**	**143,386**

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

(2) Fair value measurement is primarily based on observed data (market-interest rates curves), except for counter-party credit quality.

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

(4) Includes: Assets and liabilities amounting to NIS 35,675 million and NIS 28,205 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see Notes 8B-8D.

(5) Reclassified.

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

Reported amounts (NIS in millions)

B. Items measured at fair value:

1. On recurring basis

	As of September 30, 2012 (unaudited)				
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value	Balance sheet balance
Assets					
Securities available for sale					
Debentures and bonds					
Of Government of Israel	1,605	3,535	-	5,140	5,140
Of foreign governments	100	-	-	100	100
Of banks and financial institutions in Israel	122	-	-	122	122
Of banks and financial institutions overseas	-	243	228	471	471
Asset-backed	-	-	7	7	7
Of others in Israel	40	-	-	40	40
Of others overseas	10	136	31	177	177
Shares	5	-	-	5	5
Securities held for trading:					
Debentures of the Government of Israel	705	-	-	705	705
Of banks and financial institutions overseas	4	-	-	4	4
Credit with respect to loans to clients	373	-	-	373	373
Assets with respect to derivatives (1)					
Interest contracts:					
Shekel/ CPI	-	92	42	134	134
Other	-	972	159	1,131	1,131
Currency contracts	226	410	679	1,315	1,315
Contracts for shares	-	-	199	199	199
Commodities and other contracts	-	-	1	1	1
Total assets	**3,190**	**5,388**	**1,346**	**9,924**	**9,924**
Liabilities					
Deposits with respect to borrowing from clients	373	-	-	373	373
Liabilities with respect to derivatives (1)					
Interest contracts:					
Shekel/ CPI	-	169	40	209	209
Other	-	1,310	352	1,662	1,662
Currency contracts	104	646	758	1,508	1,508
Contracts for shares	-	2	169	171	171
Commodities and other contracts	-	-	3	3	3
Other	-	-	4	4	4
Total liabilities	**477**	**2,127**	**1,326**	**3,930**	**3,930**

(1) Fair value measurement is primarily based on observed data (market-interest rates curves), except for counter-party credit quality.

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

Reported amounts (NIS in millions)

B. Items measured at fair value:

1. On recurring basis - Continued

	As of September 30, 2011 (unaudited)				
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value	Balance sheet balance
Assets					
Securities available for sale					
Debentures and bonds					
Of Government of Israel	2,038	(2) 2,014	-	4,052	4,052
Of foreign governments	65	-	-	65	65
Of banks and financial institutions in Israel	121	-	-	121	121
Of banks and financial institutions overseas	-	(2) 230	215	445	445
Asset-backed	-	-	63	63	63
Of others overseas	76	56	38	170	170
Shares	5	-	-	5	5
Securities held for trading:					
Debentures of the Government of Israel	429	-	-	429	429
Of banks and financial institutions overseas	4	-	-	4	4
Assets with respect to derivatives (1)					
Interest contracts:					
Shekel/ CPI	-	67	89	156	156
Other	-	722	155	877	877
Currency contracts	216	957	749	1,922	(2) 1,922
Contracts for shares	-	-	199	199	199
Commodities and other contracts	-	5	1	6	6
Total assets	**2,954**	**4,051**	**1,509**	**8,514**	**8,514**
Liabilities					
Liabilities with respect to derivatives (1)					
Interest contracts:					
Shekel/ CPI	-	112	32	144	144
Other	-	1,090	311	1,401	1,401
Currency contracts	148	943	725	1,816	1,816
Contracts for shares	-	16	187	203	203
Commodities and other contracts	-	16	6	22	22
Other	-	12	5	17	17
Total liabilities	**148**	**2,189**	**1,266**	**3,603**	**3,603**

(1) Fair value measurement is primarily based on observed data (market-interest rates curves), except for counter-party credit quality.
(2) Reclassified.

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

Reported amounts (NIS in millions)

B. Items measured at fair value:

1. On recurring basis - Continued

	As of December 31, 2011 (audited)				
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value	Balance sheet balance
Assets					
Securities available for sale					
Debentures and bonds					
Of Government of Israel	3,227	2,297	-	5,524	5,524
Of foreign governments	86	-	-	86	86
Of banks and financial institutions in Israel	159	-	-	159	159
Of banks and financial institutions overseas	-	192	220	412	412
Asset-backed	-	-	61	61	61
Of others in Israel	81	-	-	81	81
Of others overseas	9	89	37	135	135
Shares	6	-	-	6	6
Securities held for trading:					
Debentures of the Government of Israel	1,183	-	-	1,183	1,183
Of banks and financial institutions overseas	3	-	-	3	3
Securities loaned or sold in repurchase agreements	136	-	-	136	136
Credit with respect to loans to clients	231	-	-	231	231
Assets with respect to derivatives (1)					
Interest contracts:					
Shekel/ CPI	-	86	128	214	214
Other	-	879	119	998	998
Currency contracts	(2)76	782	682	(2) 1,540	1,540
Contracts for shares	-	-	362	362	362
Commodities and other contracts	-	-	1	1	1
Total assets	**5,197**	**4,325**	**1,610**	**11,132**	**11,132**
Liabilities					
Deposits with respect to borrowing from clients	231	-	-	231	231
Liabilities with respect to derivatives (1)					
Interest contracts:					
Shekel/ CPI	-	116	28	144	144
Other	-	1,273	309	1,582	1,582
Currency contracts	122	1,081	793	1,996	1,996
Contracts for shares	-	1	231	232	232
Commodities and other contracts	-	-	10	10	10
Other	-	11	6	17	17
Total liabilities	**353**	**2,482**	**1,377**	**4,212**	**4,212**

(1) Fair value measurement is primarily based on observed data (market-interest rates curves), except for counter-party credit quality.
(2) Reclassified.

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

Reported amounts (NIS in millions)

B. Items measured at fair value:
2. On non-recurring basis - Continued

	September 30, 2012 (unaudited)				For the three months ended September 30,2012	For the nine months ended September 30,2012
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value	Loss	Loss
Impaired credit whose collection is contingent on collateral	-	-	189	189	-	33

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

	For the three months ended September 30, 2012 (unaudited)								
		Realized / unrealized gain (loss), net [1] included							
	Fair value as of June 30, 2012	On statement of profit and loss	On statement of other comprehensive income under Equity	Acqui-sitions	Sales	Dispo-sitions	Transfer to level 3	Fair value as of September 30, 2012	Unrealized gain (loss) with respect to instruments held as of September 30, 2012
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	230	-	(2)	-	-	-	-	228	(2)
Asset-backed	33	1	-	-	(27)	-	-	7	1
Of others overseas	36	1	-	-	-	(6)	-	31	1
Assets with respect to derivatives [2][3]									
Interest contracts:									
Shekel/ CPI	65	32	-	-	(55)	-	-	42	-
Other	181	(22)	-	-	-	-	-	159	-
Currency contracts	811	(132)	-	-	-	-	-	679	-
Contracts for shares	216	(17)	-	-	-	-	-	199	-
Commodities and other contracts	-	-	-	-	-	-	1	1	-
Total assets	**1,572**	**(137)**	**(2)**	**-**	**(82)**	**(6)**	**1**	**1,346**	**-**
Liabilities									
Liabilities with respect to derivatives [2][3]									
Interest contracts:									
Shekel/ CPI	18	31	-	-	(23)	-	14	40	-
Other	327	(2)	-	-	-	-	27	352	-
Currency contracts	703	-	-	-	-	-	55	758	-
Contracts for shares	163	(2)	-	-	-	-	8	169	-
Commodities and other contracts	4	-	-	-	-	-	(1)	3	-
Other [3]	4	-	-	-	-	-	-	4	-
Total liabilities	**1,219**	**27**	**-**	**-**	**(23)**	**-**	**103**	**1,326**	**-**

(1) Realized gain (loss) included on the statement of profit and loss under "Non-interest financing revenues". Unrealized gain and loss included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value.

(2) Fair value measurement is primarily based on observed data (market-interest rates curves), except for counter-party credit quality.

(3) 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 (NIS in millions)

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

	For the three months ended September 30, 2011 (unaudited)								
		Realized / unrealized gain (loss), net (1) included							
	Fair value as of June 30, 2011	On statement of profit and loss	On statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of September 30, 2011	Unrealized gain (loss) with respect to instruments held as of September 30, 2011
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	287	(6)	(2)	-	-	(64)	-	215	(8)
Asset-backed	65	-	(2)	-	-	-	-	63	(2)
Of others overseas	43	-	-	-	-	(5)	-	38	-
Assets with respect to derivatives (2)(3)									
Interest contracts:									
Shekel/ CPI	47	2	-	11	-	-	29	89	2
Other	81	1	-	-	(5)	-	78	155	1
Currency contracts	391	-	-	-	-	-	358	749	-
Contracts for shares	157	-	-	-	-	-	42	199	-
Commodities and other contracts	-	-	-	-	-	-	1	1	-
Total assets	**1,071**	**(3)**	**(4)**	**11**	**(5)**	**(69)**	**508**	**1,509**	**(7)**
Liabilities									
Liabilities with respect to derivative (2)(3)									
Interest contracts:									
Shekel/ CPI	27	(32)	-	-	(2)	-	39	32	(32)
Other	267	(1)	-	-	(1)	-	46	311	(1)
Currency contracts	622	-	-	-	-	-	103	725	-
Contracts for shares	160	2	-	-	-	-	25	187	2
Commodities and other contracts	5	-	-	-	-	-	1	6	-
Other (3)	4	(3)	-	-	-	-	4	5	(3)
Total liabilities	**1,085**	**(34)**	**-**	**-**	**(3)**	**-**	**218**	**1,266**	**(34)**

(1) Realized gain (loss) included on the statement of profit and loss under "Non-interest financing revenues". Unrealized gain and loss included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value.
(2) Fair value measurement is primarily based on observed data (market-interest rates curves), except for counter-party credit quality.
(3) 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 (NIS in millions)

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

	For the nine months ended September 30, 2012 (unaudited)								
		Realized / unrealized gain (loss), net [1] included							
	Fair value as of January 1, 2011	On statement of profit and loss	On statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of September 30, 2012	Unrealized gain (loss) with respect to instruments held as of September 30, 2012
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	220	8	-	-	-	-	-	228	8
Asset-backed	61	(11)	(1)	-	(42)	-	-	7	(11)
Of others overseas	37	1	-	-	-	(7)	-	31	1
Assets with respect to derivatives [2][3]									
Interest contracts:									
Shekel/ CPI	128	(3)	-	-	(68)	-	(15)	42	-
Other	119	1	-	-	-	-	39	159	-
Currency contracts	682	-	-	-	-	-	(3)	679	-
Contracts for shares	362	(17)	-	-	-	-	(146)	199	-
Commodities and other contracts	1	-	-	-	-	-	-	1	-
Total assets	**1,610**	**(21)**	**(1)**	**-**	**(110)**	**(7)**	**(125)**	**1,346**	**(2)**
Liabilities									
Liabilities with respect to derivatives [2][3]									
Interest contracts:									
Shekel/ CPI	28	8	-	-	(25)	-	29	40	8
Other	309	1	-	-	-	-	42	352	1
Currency contracts	793	-	-	-	-	-	(35)	758	-
Contracts for shares	231	(4)	-	-	-	-	(58)	169	(4)
Commodities and other contracts	10	-	-	-	-	-	(7)	3	-
Other [3]	6	(1)	-	-	(1)	-	-	4	(1)
Total liabilities	**1,377**	**4**	**-**	**-**	**(26)**	**-**	**(29)**	**1,326**	**4**

(1) Realized gain (loss) included on the statement of profit and loss under "Non-interest financing revenues". Unrealized gain and loss included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value.

(2) Fair value measurement is primarily based on observed data (market-interest rates curves), except for counter-party credit quality.

(3) 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 (NIS in millions)

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

	For the nine months ended September 30, 2011 (unaudited)								
		Realized / unrealized gain (loss), net [(1)] included							
	Fair value as of January 1, 2011	On statement of profit and loss	On statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of September 30, 2011	Unrealized gain (loss) with respect to instruments held as of September 30, 2011
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	221	(5)	(1)	-	-	-	-	215	(6)
Asset-backed	60	-	3	-	-	-	-	63	3
Of others overseas	45	(2)	-	-	-	(5)		38	(2)
Assets with respect to derivatives[(2)(3)]									
Interest contracts:									
Shekel/ CPI	8	(15)	-	8	-	-	88	89	(15)
Other	4	7	-	-	(6)	-	150	155	7
Currency contracts	-	-	-	-	-	-	749	749	-
Contracts for shares	17	(3)	-	2	-	-	183	199	(3)
Commodities and other contracts	-	-	-	-	-	-	1	1	-
Total assets	**355**	**(18)**	**2**	**10**	**(6)**	(5)	**1,171**	**1,509**	**(16)**
Liabilities									
Liabilities with respect to derivatives [(2)(3)]									
Interest contracts:									
Shekel/ CPI	62	-	-	-	(56)	-	26	32	-
Other	4	5	-	-	(2)	-	304	311	5
Currency contracts	-	-	-	-	-	-	725	725	-
Contracts for shares	-	4	-	-	-	-	183	187	4
Commodities and other contracts	-	-	-	-	-	-	6	6	-
Other [(3)]	3	(1)	-	2	-	-	1	5	(1)
Total liabilities	**69**	**8**	**-**	**2**	**(58)**	**-**	**1,245**	**1,266**	**8**

(1) Realized gain (loss) included on the statement of profit and loss under "Non-interest financing revenues". Unrealized gain and loss included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value.

(2) Fair value measurement is primarily based on observed data (market-interest rates curves), except for counter-party credit quality. Starting on January 1, 2011, FAS 157 is applied. Classification to level 3 due to credit risk is included in "Transfers to level 3" column.

(3) 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 (NIS in millions)

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

	For the year ended December 31, 2011 (audited)								
		Realized / unrealized gain (loss), net [(1)] included							
	Fair value as of January 1, 2011	On statement of profit and loss	On statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of December 31, 2011	Unrealized gain (loss) with respect to instruments held as of December 31, 2011
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)(3)]									
Interest contracts:									
Shekel/ CPI	8	2	-	-	(10)	-	128	128	2
Other	4	(1)	-	-	-	-	116	119	(1)
Currency contracts	-	-	-	-	-	-	682	682	-
Contracts for shares	17	11	-	2	-	-	332	362	3
Commodities and other contracts	-	-	-	-	-	-	1	1	-
Total assets	**355**	**14**	**(3)**	**2**	**(10)**	**(7)**	**1,258**	**1,609**	**3**
Liabilities									
Liabilities with respect to derivatives[(2)(3)]									
Interest contracts:									
Shekel/ CPI	62	(1)	-	-	(61)	-	28	28	(1)
Other	4	(1)	-	-	-	-	306	309	(1)
Currency contracts	-	-	-	-	-	-	793	793	-
Contracts for shares	-	8	-	-	-	-	223	231	8
Commodities and other contracts	-	-	-	-	-	-	10	10	-
Other [(3)]	3	-	-	3	-	-	-	6	-
Total liabilities	**69**	**6**	**-**	**3**	**(61)**	**-**	**1,360**	**1,377**	**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) Fair value measurement is primarily based on observed data (market-interest rates curves), except for counter-party credit quality. Starting on January 1, 2011, FAS 157 is applied. Classification to level 3 due to credit risk is included in "Transfers to level 3" column.

(3) 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 (NIS in millions)

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

	Fair value as of September 30, 2012	Valuation technique	Non-observed data	Range	Weighted average
	(unaudited)				
Securities available for sale:					
Debentures of foreign banks and financial institutions	5	Estimated recuperation rate	Recuperation rate	5.0%	5.0%
Debentures of foreign banks and financial institutions	40	Cash flow discounting	Discount rate	(0.4%)-2.1%	1.9%
CLN	183	Cash flow discounting	Probability of default	1.0%-2.1%	2.0%
Asset-backed debentures	7	Pricing model	Probability of default, discount rate	9.3%-11.3%	10.8%
Debentures of foreign others	31	Cash flow discounting	Discount rate	5.6%-6.3%	6.1%
Assets with respect to derivatives:					
Interest contracts - NIS CPI	34	Cash flow discounting	Inflationary expectations	1.3%-5.8%	4.8%
Contracts for shares	3	Option pricing model	Standard deviation of shares	36.7%-44%	33.4%
Other	1,043	Cash flow discounting	Counter - party credit quality	-	-
Liabilities with respect to derivatives:					
Interest contracts - NIS CPI	35	Cash flow discounting	Inflationary expectations	1.3%-5.8%	2.4%
Other	1,287	Cash flow discounting	Counter - party credit quality	-	-

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

Reported amounts (NIS in millions)

E. Transfers between Levels 1 and 2 of the fair value hierarchy

There were no transfers from Level 2 to Level 1 during the reported period.

F. Election of fair value 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 classifying them under the portfolio held for trading - even though they had not been purchased for this purpose.

Election of the fair value alternative was made for under the following circumstances:

1. Reduce volatility in profit and loss resulting from changes between the original measurement basis of financial instruments designated at the fair value alternative, and the measurement basis of financial derivatives used to manage risk with respect to such investments.
2. Complexity of implementing hedge accounting.
3. More accurate economic presentation of assets managed on fair value basis.

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 September 30, 2012	Profit with respect to change in fair value for the nine months ended September 30, 2012
Securities available for sale	453	2

	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 September 30		For the nine months ended September 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	1,768	1,557	5,115	4,948	6,364
From loans to Governments	2	2	5	3	4
From deposits with the Bank of Israel and from cash	52	70	128	182	276
From deposits with banks	16	9	6	145	68
From securities loaned or sold in repurchase agreements	1	1	3	4	4
From debentures(3)	53	36	155	105	124
Total interest revenues	**1,892**	**1,675**	**5,412**	**5,387**	**6,840**
B. Interest expenses					
On deposits from the public	742	526	2,183	2,235	3,004
On deposits from governments	2	4	4	11	11
On deposits from banks	6	61	1	154	15
For debentures	242	193	653	622	711
Total interest expenses	**992**	**784**	**2,841**	**3,022**	**3,741**
Total interest revenues (expenses), net	**900**	**891**	**2,571**	**2,365**	**3,099**
C. Details of net effect of hedging financial derivatives on interest revenues	**(27)**	**(42)**	**(119)**	**(51)**	**80**
D. **Details of interest revenues on accrual basis from debentures**					
Held to maturity	8	3	21	3	5
Available for sale	46	29	122	111	120
Held for trade	(1)	4	12	(9)	(1)
Total included under interest revenues	**53**	**36**	**155**	**105**	**124**

(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.B.1

(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 September 30		For the nine months ended September 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					
1. From activity in derivatives					
Non-effective element of hedging ratios [2]	(1)	-	(2)	(1)	(2)
Net revenues (expenses) with respect to ALM derivatives [3]	(15)	322	(42)	376	369
Total from activity in derivatives	**(16)**	**322**	**(44)**	**375**	**367**
2. From investment in debentures					
Gain on sale of debentures available for sale	29	1	65	1	11
Loss on sale of debentures available for sale	-	1	(4)	-	(2)
Provision for impairment of debentures available for sale	-	(7)	(8)	(7)	(10)
Total from investment in debentures	**29**	**(5)**	**53**	**(6)**	**(1)**
3. Exchange rate differences, net	**(56)**	**(441)**	**(204)**	**(329)**	**(409)**
4. Gain (loss) from investment in shares					
Gains on sale of available-for-sale shares	1	1	4	3	5
Dividends from available-for-sale shares	1	-	1	1	1
Total from investment in shares	**2**	**1**	**5**	**4**	**6**
5. Net gain with respect to loans sold	**-**	**-**	**-**	**6**	**6**
Total non-interest financing revenues (expenses) with respect to non-trade operations	**(41)**	**(123)**	**(190)**	**50**	**(31)**

(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.B.1

(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 September 30		For the nine months ended September 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 revenues (expenses) with respect to other derivatives	(51)	68	44	(96)	30
Realized gain from adjustment to fair value of debentures held for trade, net	7	5	18	10	11
Unrealized gain (loss) from adjustment to fair value of debentures held for trade, net	(13)	2	(6)	2	8
Total from trade operations(3)	**(57)**	**75**	**56**	**(84)**	**49**
Details of non-interest financing revenues with respect to trade operations, by risk exposure					
Risk exposure	(1)	-	(2)	1	3
Foreign currency exposure	(16)	65	51	(121)	21
Exposure to shares	(39)	17	(18)	28	6
Exposure to commodities and others	(1)	(7)	25	8	19
Total	**(57)**	**75**	**56**	**(84)**	**49**

(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.B.1.

(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 nine months ended September 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	2,866	(8)	261	150	246	(944)	2,571
Inter-segment	(1,562)	68	74	(22)	251	1,191	-
Total interest revenues, net	**1,304**	**60**	**335**	**128**	**497**	**247**	**2,571**
Non-interest financing revenues	5	-	-	1	59	(199)	(134)
Commissions and other revenues	584	41	177	46	168	89	1,105
Total income	**1,893**	**101**	**512**	**175**	**724**	**137**	**3,542**
Expenses with respect to credit loss	49	3	23	11	138	4	228
Operating and other expenses							
From outside operating segments	1,258	61	340	47	158	182	2,046
Inter-segment	(83)	-	(38)	52	66	3	-
Other operating expenses - total	**1,175**	**61**	**302**	**99**	**224**	**185**	**2,046**
Pre-tax profit	669	37	187	65	362	(52)	1,268
Provision for taxes on profit	224	12	62	22	120	(17)	423
After-tax profit	**445**	**25**	**125**	**43**	**242**	**(35)**	**845**
Share in net profits of affiliates, after tax	-	-	-	-	-	-	-
Net profit:							
Before attribution to non-controlling interest	445	25	125	43	242	(35)	845
Attributable to non-controlling interest	(39)	-	-	-	-	-	(39)
Attributable to equity holders of the banking corporation	**406**	**25**	**125**	**43**	**242**	**(35)**	**806**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**13.8%**	**26.6%**	**41.2%**	**13.7%**	**11.1%**	**-**	**13.5%**
Average balance of assets	86,212	2,366	7,020	4,720	27,414	26,244	153,976
Includes: Investments in affiliates	-	-	-	-	-	18	18
Average balance of liabilities	57,956	7,160	8,050	3,549	31,961	35,185	143,861
Average balance of risk assets[(1)]	51,232	1,573	5,164	5,180	36,048	5,421	104,618
Average balance of provident and mutual fund assets	-	-	-	-	-	97,819	97,819
Average balance of securities	26,551	7,548	6,097	3,551	60,639	41,245	145,631
Loans to the public, net (end balance)	90,558	1,141	6,751	4,662	23,490	-	126,602
Deposits from the public (end balance)	58,614	6,156	7,851	3,763	33,083	14,855	124,322
Average balance of other assets managed	20,288	-	185	224	267	-	20,964

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	849	24	260	111	424	-	1,668
Margin from receiving deposits	407	35	59	15	54	-	570
Other	48	1	16	2	19	247	333
Total interest revenues, net	**1,304**	**60**	**335**	**128**	**497**	**247**	**2,571**

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

Note 11 – Operating Segments - Continued
For the nine months ended September 30, 2011 (unaudited)

Reported amounts (NIS in millions)

A. Information regarding operating segments (2)(3)

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	2,934	8	327	187	179	(1,270)	2,365
Inter-segment	(1,748)	59	6	(56)	212	1,527	-
Total interest revenues, net	**1,186**	**67**	**333**	**131**	**391**	**257**	**2,365**
Non-interest financing	9	-	-	2	24	(69)	(34)
Commissions and other revenues	610	42	175	49	149	100	1,125
Total income	**1,805**	**109**	**508**	**182**	**564**	**288**	**3,456**
Expenses with respect to credit loss	65	(6)	58	11	130	18	276
Operating and other expenses							
From outside operating segments	1,211	56	325	52	164	170	1,978
Inter-segment	(91)	4	(38)	53	62	10	-
Other operating expenses - total	**1,120**	**60**	**287**	**105**	**226**	**180**	**1,978**
Pre-tax profit	620	55	163	66	208	90	1,202
Provision for taxes on profit	222	19	58	23	74	33	429
After-tax profit	**398**	**36**	**105**	**43**	**134**	**57**	**773**
Share in net profits of affiliates, after tax	-	-	-	-	-	1	1
Net profit:							
Before attribution to non-controlling interest	398	36	105	43	134	58	774
Attributable to non-controlling interest	(29)	-	-	-	-	-	(29)
Attributable to equity holders of the banking corporation	**369**	**36**	**105**	**43**	**134**	**58**	**745**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**15.2%**	**96.2%**	**38.0%**	**14.5%**	**7.0%**	**24.0%**	**14.3%**
Average balance of assets	(2) 75,856	2,537	(2) 6,470	4,852	24,989	25,282	139,986
Includes: Investments in affiliates	-	-	-	-	-	17	17
Average balance of liabilities	50,508	6,215	6,896	3,123	29,436	36,351	132,529
Average balance of risk assets(1)	45,484	711	5,030	5,219	33,292	4,829	94,565
Average balance of provident and mutual fund assets	-	--		-	-	78,981	78,981
Average balance of securities	27,431	11,626	8,361	3,894	72,550	39,506	163,368
Loans to the public, net (end balance)	82,046	1,262	6,469	4,831	23,012	-	117,620
Deposits from the public (end balance)	52,325	6,290	7,221	3,060	33,419	14,182	116,497
Average balance of other assets managed	21,407	-	251	164	87	-	21,909

B. Information on profit from interest revenues before expenses with respect to credit loss (2)

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	748	32	248	107	303	-	1,438
Margin from receiving deposits	377	33	61	16	49	-	536
Other	61	2	24	8	39	257	391
Total interest revenues, net	**1,186**	**67**	**333**	**131**	**391**	**257**	**2,365**

(1) Risk weighted assets - as calculated for capital adequacy (Proper Conduct of Banking Business Regulation No. 201).
(2) Reclassified.
(3) Reclassified upon initial application of the Supervisor of Banks' directives concerning layout of statement of profit and loss for banking corporations. For details see Note 1.B.1.

Note 11 – Operating Segments - Continued
For the three months ended September 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	1,026	(2)	80	48	74	(326)	900
Inter-segment	(587)	22	30	(6)	87	454	-
Total interest revenues, net	**439**	**20**	**110**	**42**	**161**	**128**	**900**
Non-interest financing revenues	1	-	-	1	29	(129)	(98)
Commissions and other revenues	192	14	60	17	69	33	385
Total income	**632**	**34**	**170**	**60**	**259**	**32**	**1,187**
Expenses with respect to credit loss	12	6	8	9	85	(4)	116
Operating and other expenses							
From outside operating segments	424	23	116	13	47	53	676
Inter-segment	(25)	(3)	(13)	19	25	(3)	-
Other operating expenses - total	**399**	**20**	**103**	**32**	**72**	**50**	**676**
Pre-tax profit	221	8	59	19	102	(14)	395
Provision for taxes on profit	68	2	17	7	31	(4)	121
After-tax profit	**153**	**6**	**42**	**12**	**71**	**(10)**	**274**
Share in net profits of affiliates, after tax	-	-	-	-	-	-	-
Net profit:							
Before attribution to non-controlling interest	153	6	42	12	71	(10)	274
Attributable to non-controlling interest	(14)	-	-	-	-	-	(14)
Attributable to equity holders of the banking corporation	**139**	**6**	**42**	**12**	**71**	**(10)**	**260**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**14.6%**	**20.4%**	**45.9%**	**11.9%**	**9.7%**	**-**	**13.0%**

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	300	10	86	36	141	-	573
Margin from receiving deposits	126	9	20	5	15	-	175
Other	13	1	4	1	5	128	152
Total interest revenues, net	**439**	**20**	**110**	**42**	**161**	**128**	**900**

Note 11 – Operating Segments - Continued
For the three months ended September 30, 2011 (unaudited)

Reported amounts (NIS in millions)

A. Information regarding operating segments [(1)(2)]

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	1,096	1	120	62	76	(464)	891
Inter-segment	(696)	21	5	(12)	74	608	-
Total interest revenues, net	**400**	**22**	**125**	**50**	**150**	**144**	**891**
Non-interest financing	3	-	(1)	1	17	(68)	(48)
Commissions and other revenues	195	14	56	14	53	37	369
Total income	**598**	**36**	**180**	**65**	**220**	**113**	**1,212**
Expenses with respect to credit loss	29	(5)	21	(10)	96	11	142
Operating and other expenses							
From outside operating segments	400	22	104	15	53	56	650
Inter-segment	(33)	5	(14)	18	21	3	-
Other operating expenses - total	**367**	**27**	**90**	**33**	**74**	**59**	**650**
Pre-tax profit	202	14	69	42	50	43	420
Provision for taxes on profit	75	4	25	14	19	17	154
After-tax profit	**127**	**10**	**44**	**28**	**31**	**26**	**266**
Share in net profits of affiliates, after tax	-	-	-	-	-	-	-
Net profit:	-	-	-	-	-	-	-
Before attribution to non-controlling interest	127	10	44	28	31	26	266
Attributable to non-controlling interest	(11)	-	-	-	-	-	(11)
Attributable to equity holders of the banking corporation	**116**	**10**	**44**	**28**	**31**	**26**	**255**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**13.2%**	**91.0%**	**52.1%**	**30.2%**	**4.9%**	**281.0%**	**14.9%**

B. Information on profit from interest revenues before expenses with respect to credit loss [(1)]

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	261	14	92	39	131	-	537
Margin from receiving deposits	113	6	20	5	9	-	153
Other	26	2	13	6	10	144	201
Total interest revenues, net	**400**	**22**	**125**	**50**	**150**	**144**	**891**

(1) Reclassified.
(2) 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.B.1.

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Note 11 – Operating Segments - Continued

For the year ended December 31, 2011 (audited)

Reported amounts (NIS in millions)

A. Information regarding operating segments[(2) (3)]

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	3,634	11	415	240	247	(1,448)	3,099
Inter-segment	(2,000)	79	26	(67)	304	1,658	-
Total interest revenues, net	**1,634**	**90**	**441**	**173**	**551**	**210**	**3,099**
Non-interest financing revenues	12		3	2	13	(12)	18
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 profit	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 equity holders of the banking corporation	**546**	**46**	**140**	**69**	**198**	**45**	**1,044**
Return on equity (percentage of net profit attributed to equity holders 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	7,773	3,471	32,524	15,546	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	41	323	144	402	-	1,911
Margin from receiving deposits	562	46	86	22	71	-	787
Other	71	3	32	7	78	210	401
Total interest revenues, net	**1,634**	**90**	**441**	**173**	**551**	**210**	**3,099**

(1) Risk weighted assets - as calculated for capital adequacy (Proper Conduct of Banking Business Regulation No. 201).
(2) Reclassified.
(3) Reclassified upon initial application of the Supervisor of Banks' directives concerning layout of statement of profit and loss for banking corporations. For details see Note 1.B.1.

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 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 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, option warrants 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 option warrants 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 two 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 set forth above. The exercise price for each option warrant 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 option warrants 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 estimate of the range of annual rates of return, as set forth above, as well as based on Bank management assessment with regard to the average churn rate of plan offerees, meaning that some of the option warrants to be granted would expire due to the offerees retirement. The theoretical benefit value of 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 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 was issued which raised the VAT rate to 17% as from September 1, 2012. The tax rates applicable to the Bank in 2012 and 2013 are 35.53% and 35.90%, respectively.
The effect of this change on the financial statements is not material.

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