Condensed Financial Statements as of March 31, 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 March 31, 2012

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Condensed Board of Directors' Report
For Financial Statements as of March 31, 2012

The Board of Directors of Bank Mizrahi Tefahot Bank Ltd. at its meeting held on May 28, 2012, resolved to approve and publish the Board of Directors' report and the consolidated financial statements of Bank Mizrahi Tefahot Ltd. and its investees as of March 31, 2012.

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

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

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

Real Developments

In the first quarter of 2012, the Israeli economy continued to grow - although at a moderate pace, similar to the previous two quarters. By estimates of the Central Bureau of Statistics, GDP grew in this quarter by 3.0%, after 3.2% growth in the fourth quarter of 2011. Per capita GDP grew by 1.1%, similar to the fourth quarter of 2011. Imports of goods and services rose by 27.2%, following a decline of 4.4% in the fourth quarter of 2011.

Total uses grew in this quarter by 8.9%, after two quarters where growth was only by 0.9%. Exports of goods and services grew by 14.2%, primarily due to 45% growth in export of services, after remaining unchanged in the previous quarter. Private consumption expanded by 4.2%, after remaining unchanged in the previous quarter. Investment in fixed assets rose by 6.2%, following 6.7% growth in the fourth quarter of 2011. Investment in residential construction saw 11.2% growth. Public consumption expenditure grew by 1.0%, after 8.0% growth in the fourth quarter of 2011.

Unemployment in the first quarter of 2012 was at 6.7%, compared to 6.8% in the previous quarter and to 7.5% in the corresponding period last year (note that in early 2012, the Central Bureau of Statistics changed the measurement methodology, and data for 2011 was adjusted for the new series).

Inflation and exchange rates

In the first quarter of 2012, the Consumer Price Index rose by 0.4%, compared to a 0.7% decline in the corresponding period last year. The CPI increase was primarily due to higher prices of gasoline, housing and food. The USD was devalued by 2.8% against the NIS in the current quarter, reaching NIS 3.715 per USD 1 at the end of March, compared to NIS 3.821 at the end of 2011. The Euro was revalued against the NIS in this period by 0.3%, reaching NIS 4.953 per Euro at the end of March, compared to NIS 4.938 per Euro at the end of 2011. On May 15, 2012, the USD/NIS exchange rate was 3.827 and the EUR/NIS exchange rate was 4.916.

Monetary and fiscal policy

In the first quarter of 2012, the Bank of Israel adopted an expansive monetary policy - continuing the trend it had started in the second half of 2011. The Bank of Israel interest rate, which was at 2.75% at the end of 2011, was lowered in February to 2.50% and remained unchanged since then. In this quarter, anticipated inflation for the coming year rose to 2.5%. Consequently, the real interest rate declined more sharply, to nearly zero at the end of the quarter, compared to real interest rate of 0.8% at the end of 2011.

In the first quarter of 2012, the government budget recorded a NIS 1.0 billion deficit, compared to a NIS 1.1 billion surplus in the corresponding period last year. The increase in deficit was due to an increase of 12% in expenditure by Government ministries, while tax revenues increased only moderately. The cumulative deficit for the twelve months ended in March 2012 amounted to NIS 31 billion, compared to an anticipated deficit of NIS 30 billion.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, the downward trend in demand for housing continued in the first quarter of 2012. Demand for new apartments (apartments sold and apartments constructed not for sale) was 9 thousand new apartments, a decrease of 15% over the year-ago period.

In January 2012, construction started on 4,100 residential units, compared to a monthly average of 3,700 in 2011. This reflects the continued strong pace of housing starts. The inventory of new apartments for sale from private development at the end of the first quarter was 15.0 thousand, compared to 11.1 thousand at the end of the corresponding period last year, and to 14.7 thousand at the end of 2011. Based on the average pace of sales in the six months ended March 2012, this inventory would account for 12 months' sales - compared to 7 months in the year-ago period.

According to the Central Bureau of Statistics, the increase in apartment prices in Israel slowed down. Apartment prices, on a nation-wide average, increased in 2011 by 4.1%, compared to an increase of 14.1% in 2010.

Total housing loan origination in the first quarter of 2012 amounted to NIS 9.5 billion, compared to NIS 12.8 billion in the corresponding period last year, a decrease of 25%, which reflected, inter alia, the lower demand for housing.

Capital market

In the first quarter of 2012, the upward trend on the Israeli stock exchange - which had started at the end of 2011 - continued, inter alia, due to improvement in global stock markets.

In the stock market, the key benchmarks - Tel Aviv 25 and Tel Aviv 100 - rose by 3.6% and 5.5%, respectively, in the first quarter of 2012. The Tel Aviv 75 index and the Banking index rose even higher - by 11.7% and 7.4%, respectively. The Real Estate 15 index rose by 5.9%. The Financials index and the Yeter 50 index rose more moderately, by 4.3% and 2.8%, respectively. After the balance sheet date, stock markets dropped, with the Tel Aviv 25 index declining by 4.6% as of May 21, 2012.

.Average daily trading volume in shares and convertible securities was only NIS 1.1 billion in the first quarter of this year - about half of the average trading volume in the corresponding period last year. Issuance of shares and convertible securities (excluding issuance overseas) remained low in the first quarter, amounting to NIS 1.2 billion, compared to NIS 1.1 billion in the corresponding period last year.

The debenture market was positive in the first quarter of 2012. The General Debenture index rose by 1.9% in the first quarter of 2012. The CPI-linked Debenture index rose by 2.6%, while the Non-linked Debenture index rose by 0.6%. The Tel-Bond 20 index and the Tel-Bond 40 index, which also includes real estate companies, rose by 0.6% and 1.9%, respectively.

The spread between the yield to maturity of corporate debentures and that of government debentures decreased, as concern about a credit crisis seemed more distant and in view of the low interest rates in the Israeli market: The yield to maturity for debentures rated AA and A at the end of the first quarter of 2012 were higher by 1.3 and 3.5 percentage points, respectively, than the yield to maturity for similar government debentures - compared to spreads of 1.4 and 4.5 percentage points at the end of 2011.

In the first quarter of 2012, the business sector issued debentures valued at NIS 12 billion to the public and to institutional investors, similar to the corresponding period last year.

The average daily trading volume in debentures in the first quarter of 2012 was NIS 4.0 billion, compared to NIS 3.8 billion in the corresponding period last year.

Global economy

In the first quarter, the global economic slow-down deteriorated, impacted by renewed recession in the Euro zone and by further improvement of the US economy.

In recent months, attention has been focused on economic and political developments in the Euro zone, which continues to be weighed down by the severe debt crisis in several member countries. The quarter started with a certain optimism as special credit facilities were launched by the Central Bank, as a new fiscal treaty was agreed upon and as an additional assistance program for Greece was approved. This optimism dissolved towards the end of the quarter, as reflected in renewed increase in the cost of issuing debt by the governments of Italy and Spain. Results of elections in Greece and in France, in early May, further exacerbated concerns about Euro zone stability, reflecting the voters' reluctance to accept the austerity measures taken to date. Concurrently with these developments, negative economic indicators pointed to a renewed recession in the Euro zone. In the first quarter of 2012, GDP in the Euro zone remained unchanged, after an annualized 1.2% decrease in the fourth quarter of 2011.Whereas Germany, which accounts for 30% of Euro zone GDP, grew by 2.0% - many countries, including Italy, Spain and Portugal, recorded lower GDP. Unemployment continued to rise rapidly, reaching 10.9% at the end of the first quarter, compared to 10.6% at the end of 2011.

In the USA, recovery continued in the first quarter of 2012, although at a slower pace than in the final quarter of 2011. GDP in the USA grew in the first quarter of 2012 at an annualized 2.2%, compared to a 3.0% growth in the final quarter of 2011. Improvement continued in the labor market as well, with stronger hiring and an average unemployment rate of 8.3%, compared to 9.0% in 2011.

Major developing markets see slowing growth. In China, GDP grew by an annualized 7.4% in the first quarter, compared to 9.2% growth in 2011, with signs of slowing down also evident in Brazil and India. This slow-down resulted in expansive monetary policy applied in these economies. This policy saw sharp interest rate declines in India and Brazil, and a lower capital adequacy ratio required of banks in China.

Major stock markets around the world recorded positive returns in the first quarter of 2012, supported by the expansive monetary policy of central banks in developed nations, and by satisfactory financial results of many companies - overcoming the negative implications of concerns about global economic recovery. The Dow Jones, NASDAQ and S&P 500 indices rose in the first quarter of 2012 by 7.6%, 18.8% and 11.9%, respectively. The German DAX and French CAC indices rose by 17.8% and 8.4%, respectively. The FTSE 100 rose by 3.5%, while the Nikkei benchmark rose by an impressive 19.3%. Global equity markets were lower after the balance sheet date, with the S&P 500 and DAX benchmarks dropping by 8.0% and 9.7%, respectively, as of May 21, 2012.

Key data for Bank group

Evolution of income and expenses

	For the three months ended				
	31.3.2012	31.12.2011	30.9.2011	30.6.2011	31.3.2011
	NIS in millions				
Interest revenues, net	768	654	741	798	681
Non-interest revenues	383	498	471	337	428
Total profit	**1,151**	**1,152**	**1,212**	**1,135**	**1,109**
Expenses with respect to credit loss	67	62	142	80	54
Operating and other expenses	694	689	650	655	673
Profit before provision for taxes	390	401	420	400	382
Provision for taxes	128	93	154	138	137
Net profit[(1)]	**251**	**299**	**255**	**252**	**238**

	31.3.2012	31.12.2011	30.9.2011	30.6.2011	31.3.2011
	NIS in millions				
Balance sheet - key items					
Balance sheet total	150,244	150,246	146,877	139,232	136,185
Loans to the public, net	120,407	119,328	117,620	112,391	109,391
Securities	11,230	8,432	5,879	5,431	5,726
Deposits from the public	119,501	119,236	116,497	111,496	109,029
Debentures and subordinated notes	12,722	12,202	12,501	11,301	10,284
Equity[(1)]	7,933	7,666	7,359	7,139	6,886

	31.3.2012	31.12.2011	30.9.2011	30.6.2011	31.3.2011
Key financial ratios (in percent)					
Net profit return on equity[(2)]	13.6	16.9	14.9	15.2	14.3
Net loans to the public to deposits from the public	100.8	100.1	101.0	100.8	100.3
Capital to total assets	5.28	5.10	5.01	5.13	5.06
Ratio of Tier I capital to risk elements	7.94	7.77	7.70	7.71	7.61
Total ratio of capital to risk elements	13.24	13.40	13.55	13.61	13.48
Cost income ratio	60.3	59.8	53.6	57.7	60.6
Expenses with respect to credit loss to loans to the public, net for the period [(2)]	0.22	0.21	0.48	0.29	0.20
Basic net earnings per share	1.10	1.32	1.12	1.11	1.05
Diluted net earnings per share	1.09	1.30	1.11	1.09	1.03

(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 first quarter of 2012 amounted to NIS 251 million, compared to NIS 238 million in the corresponding period last year – an increase of 5.5%. This profit reflects an annualized 13.6% return on equity.

To adjust Tier I capital to the new regulatory threshold, the Bank increased its capital base by 15% compared to last year. The ratio of Tier I capital to risk components as of March 31, 2012 was 7.94%. Consequently, return on equity for the corresponding period last year was at 14.3%.

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

- Growth in Bank profit was achieved along with continued growth in various operating segments of the Bank, inter alia due to improved client recruitment in the retail segment and to expansion of the Bank's market share - which reached 36.7% of mortgage originations in the first quarter of 2012. Double-digit growth spanned retail operating segments, private banking as well as business banking - as can be seen in the table describing financing revenues under "Analysis of revenues and expenses" below. The growth effect was mitigated by a 50% decrease in average trading volumes on the stock exchange, which resulted in a decrease in Bank revenues from commissions on securities transactions, as well as due to short-term accounting impact on total financing revenues.

- Financing revenues (including net interest revenues and non-interest financing revenues) from current operations increased in the first quarter of 2012 by NIS 53 million, an increase of 7.8% over the corresponding period last year.

- Expenses with respect to credit loss increased in the first quarter of 2012 by NIS 13 million, or 24.1%, over the corresponding period last year. The ratio of expenses with respect to credit loss to net balance of loans to the public in the first quarter of 2012 was 0.22% (Annualized), compared to 0.20% (Annualized) in the corresponding period last year.

- Commissions and other revenues in the first quarter of 2012 amounted to NIS 363 million, compared to NIS 388 million in the corresponding period last year - a decrease of 6.4%, 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 quarter of 2012 was NIS 1.1 billion, compared to NIS 2.2 billion in the corresponding period last year.

- Operating and other expenses increased in the first quarter of 2012 by NIS 21 million, or 3.1%, over the corresponding period last year.

Change in format of statement of profit and loss

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

			Q1 of	All
		2012	2011	of 2011
Profit from financing operations before expenses with respect to credit loss - as previously presented		820	752	3,242
Less:	Non-interest financing revenues (presented as a separate item under "Total non-interest revenues")	20	40	248
	Less profit from investment in shares (now included under "Non-interest financing revenues")	(3)	-	(6)
	Financing commissions (included under "Commissions")	35	31	131
Interest revenues, net		**768**	**681**	**2,869**
Includes:	Interest income	1,594	1,666	6,846
	Interest expenses	(826)	(985)	(3,977)
Total		**768**	**681**	**2,869**

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

		Q1 of	All
	2012	2011	of 2011
Operating commissions - as previously presented	322	351	1,343
Financing commissions (previously included under "Profit from financing operations", now under "Commissions")	35	31	131
Commissions	**357**	**382**	**1,474**

Evolution of income and expenses

Net interest revenues for the Group in the first quarter of 2012 amounted to NIS 768 million, compared to NIS 681 million in the corresponding period last year, an increase of 12.8%.

Financing revenues also include **non-interest financing revenues**, which in the first quarter of 2012 amounted to NIS 20 million, compared to NIS 40 million in the corresponding period last year.

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

			First Quarter
	2012	2011	Change rate
Interest revenues, net	768	681	12.8%
Non-interest financing revenues	20	40	
Total financing revenues	788	721	9.3%
Less:			
Income from collection of interest on troubled debt	44	26	
Linkage differentials (in 2011 only) and exchange rate differentials with respect to impaired debt	(12)	3	
Gain from realized debentures available for sale and from debentures held for trade, net	11	1	
Effect of accounting treatment of derivatives at fair value and others	11	10	
Total financing revenues from current operations	**734**	**681**	**7.8%**

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

				First Quarter
Operating segment	2012	2011	Change amount	Change rate
Retail banking:				
Mortgages	149	129	20	15.5%
Household	276	248	28	11.3%
Small business	115	94	21	22.3%
Total	**540**	**471**	**69**	**14.6%**
Private banking	20	15	5	33.3%
Commercial banking	44	43	1	2.3%
Business banking	184	131	53	40.5%
Financial management	-	61	(61)	-
Total	**788**	**721**	**67**	**9.3%**

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

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

			First Quarter
Linkage segments	2012	2011	Change rate
Israeli currency - non-linked	145,880	142,516	2.4%
Israeli currency - linked to the CPI	51,962	46,922	10.7%
Foreign currency (including Israeli currency linked to foreign currency) (1)	77,584	75,683	2.5%
Total	**275,426**	**265,121**	**3.9%**

(1) Local operations and overseas affiliates.

The increase in mortgage volume resulted in higher average balances of NIS- denominated financial assets – both CPI linked and non-linked.

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

		First Quarter
Linkage segments	2012	2011
Israeli currency - non-linked	1.22	1.55
Israeli currency - linked to the CPI	0.38	0.53
Foreign currency (including Israeli currency linked to foreign currency)[(2)]	0.61	0.17
Total including impact of derivatives	1.02	1.02

(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 Discussion.

Expenses with respect to credit loss for the Group amounted to NIS 67 million in the first quarter of 2012, or 0.22% (Annualized) of total loans to the public, net, compared with NIS 54 million, or 0.20% (Annualized) of total loans to the public, net in the corresponding period last year - an increase of 24.1%.

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

	First Quarter	
	2012	2011
Provision for credit loss on individual basis (including accounting write-offs)	36	39
Provision for credit loss on Group basis:		
By extent of arrears	1	2
Other	30	13
Total expenses with respect to credit loss	67	54
Expense with respect to credit loss as percentage of total loans to the public (annualized)	**0.22%**	**0.20%**

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

Operating segment	First Quarter	
	2012	2011
Retail banking:		
Mortgages	4	10
Household	(9)	9
Small business	3	26
Total	**(2)**	**45**
Private banking	(4)	(3)
Commercial banking	1	1
Business banking	68	(1)
Financial management	4	12
Total	**67**	**54**

Net interest revenues after expenses with respect to credit loss in the first quarter of 2012 amounted to NIS 701 million, compared to NIS 627 million in the corresponding period last year - an increase of 11.8%.

Non-interest revenues for the Group in the first quarter of 2012 amounted to NIS 383 million, compared to NIS 428 million in the corresponding period last year. The causes for the decline in these revenues are listed below.

Non-interest financing revenues in the first quarter of 2012 amounted to NIS 20 million, compared to NIS 40 million in the corresponding period last year.

Commission revenues for the Group in the first quarter of 2012 amounted to NIS 357 million, compared to NIS 382 million in the corresponding period last year - a decrease of 6.5%. The decrease 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 quarter of 2012 was NIS 1.1 billion, compared to NIS 2.2 billion in the corresponding period last year.

Other revenues for the Group in the first quarter of 2012 amounted to NIS 6 million, similar to the corresponding period last year.

Operating and other expenses amounted to NIS 694 million in the first quarter of 2012, compared with NIS 673 million in the corresponding period last year - an increase of 3.1%.

Payroll and associated expenses amounted to NIS 434 million in the first quarter of 2012, compared with NIS 421 million in the corresponding period last year - an increase of 3.1%.

Maintenance and depreciation expenses for buildings and equipment for the Group amounted to NIS 158 million in the first quarter of 2012, compared with NIS 148 million in the corresponding period last year – an increase of 6.8%.

Other expenses for the Group in the first quarter of 2012 amounted to NIS 102 million, compared with NIS 104 million in the corresponding period last year.

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

	2012				2011
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Cost-Income Ratio(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.

The increase in cost-income ratio is due to impact to revenues from capital market activity, as described above.

Pre-tax profit for the Group amounted to NIS 390 million in the first quarter of 2012, compared with NIS 382 million in the corresponding period last year - an increase of 2.1%.

Provision for taxes in the first quarter of 2012 amounted to NIS 128 million, compared to NIS 137 million in the corresponding period last year - a decrease of 6.6% - due, inter alia, to the impact of deferred taxes with respect to stock options awarded to employees.

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

	2012				2011
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net profit	13.6	16.9	14.9	15.2	14.3

(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):

	First quarter		All of 2011
	2012	2011	
Basic earnings per share:			
Net profit attributable to equity holders of the banking corporation	1.10	1.05	4.65
Diluted earnings per share:			
Net profit attributable to equity holders of the banking corporation	1.09	1.03	4.57

Development of balance sheet items

Development in the main balance sheet items of the Bank group (NIS in millions):

				Change compared to	
		March 31	December 31	March 31	December 31
	2012	2011	2011	2011	2011
Total assets	150,244	136,185	150,246	10.3%	-
Loans to the public, net	120,407	109,391	119,328	10.1%	0.9%
Deposits from the public	119,501	109,029	119,236	9.6%	0.2%
Securities	11,230	5,726	8,432	96.1%	33.2%
Shareholders' equity	7,933	6,886	7,666	15.2%	3.5%

Loans to the public, net - loans to the public, net on the consolidated balance sheet as of March 31, 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 quarter of 2012 by NIS 1.1 billion, an increase of 0.9%.

Loans to the public by linkage segments (NIS in millions) is as follows:

	March 31		December 31	Change over: March 31	Change over: December 31
	2012	2011	2011	2011	2011
Israeli currency					
Non-linked	61,015	56,390	60,559	8.2%	0.8%
CPI- linked	45,575	40,973	44,651	11.2%	2.1%
Foreign currency and foreign currency linked	13,817	12,028	14,118	14.9%	(2.1%)
Total	**120,407**	**109,391**	**119,328**	**10.1%**	**0.9%**

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

	March 31		December 31	Change over: March 31	Change over: December 31
Operating segment	2012	2011[(1)]	2011[(1)]	2011	2011
Retail banking:					
Mortgages	67,867	60,429	66,496	12.3%	2.1%
Household	16,956	15,562	16,800	9.0%	0.9%
Small business	6,482	6,287	6,428	3.1%	0.8%
Total	**91,305**	**82,278**	**89,724**	**11.0%**	**1.8%**
Private banking	1,849	854	1,942	116.5%	(4.8%)
Commercial banking	4,644	4,655	4,778	(0.2%)	(2.8%)
Business banking	22,609	21,604	22,884	4.7%	(1.2%)
Total – business and others	**29,102**	**27,113**	**29,604**	**7.3%**	**(1.7%)**
Total	**120,407**	**109,391**	**119,328**	**10.1%**	**0.9%**

(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 March 31, 2012			As of March 31, 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	2,564	333	2,231	2,634	278	2,356	2,153	251	1,902
Troubled credit risk with respect to individuals	1,987	800	1,187	1,882	873	1,009	2,050	805	1,245
Total troubled credit risk	**4,551**	**1,133**	**3,418**	**4,516**	**1,151**	**3,365**	**4,203**	**1,056**	**3,147**
B. Composition of troubled indebtedness									
Impaired credit risk	1,791	242	1,549	2,061	257	1,804	1,919	227	1,692
Inferior credit risk	108	21	87	24	2	22	111	10	101
Credit risk under special supervision	949	102	847	693	47	646	444	37	407
Credit risk for housing loans in arrears over 90 days	1,703	768	935	1,738	845	893	1,729	782	947
Total troubled credit risk	**4,551**	**1,133**	**3,418**	**4,516**	**1,151**	**3,365**	**4,203**	**1,056**	**3,147**
C. Total non-performing assets: Non-accrual impaired loans to the public:									
Reviewed on individual basis[5]	811	210	601	1,296	254	1,042	1,053	196	857
Non-accruingimpaired debentures	4	-	4	14	-	14	4	-	4
Other non-accruing impaired debt	-	-	-	28	17	11	-	-	-
Total non-performing assets	**815**	**210**	**605**	**1,338**	**271**	**1,067**	**1,057**	**196**	**861**
D. Impaired debt in restructuring of accruing troubled debt[4]	597	18	579	346	46	300	569	19	550
E. Troubled commercial credit risk:[1]									
On balance sheet credit risk with respect to loans to the public[5]	2,007	314	1,693	2,041	264	1,777	1,762	235	1,527
Off-balance sheet credit risk with respect to the public [2]	553	19	534	579	14	565	387	16	371
Total commercial troubled credit risk with respect to the public	**2,560**	**333**	**2,227**	**2,620**	**278**	**2,342**	**2,149**	**251**	**1,898**
Other on balance sheet credit risk	4	-	4	14	-	14	4	-	4
Total commercial troubled credit risk	**2,564**	**333**	**2,231**	**2,634**	**278**	**2,356**	**2,153**	**251**	**1,902**
F. Non-impaired debt in arrears 90 days or longer	1,757	777	980	1,840	859	981	1,814	786	1,028
Includes: Housing loans provided for by extent of arrears[5]	1,280	753	527	1,337	831	506	1,302	767	535
Housing loans not provided for by extent of arrears[3]	423	15	408	421	14	407	427	15	412

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

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

Below is the sector composition of the top 6 borrowers for the group as of March 31, 2012 (Nis in millions):

Borrower no.	Sector	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
1.	Construction and real estate	573	359	932
2.	Construction and real estate	588	301	889
3.	Construction and real estate	353	429	782
4.	Electricity and water	375	381	756
5.	Construction and real estate	309	228	537
6.	Communications and computer services	497	35	532

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 quarter of 2012 by NIS 2.8 billion, and by NIS 5.5 billion compared to March 31, 2011.The change in total investment in securities is within asset and liability management.

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

				Change compared to	
	March 31	December 31	March 31	December 31	March 31
Operating segment	2012	2011	2011	2011	2011
Israeli currency					
CPI- linked	1,040	302	410	-	-
Non-linked	6,235	5,128	2,653	21.6%	-
Foreign currency and foreign currency linked	3,872	2,917	2,581	32.7%	50.0%
Non-monetary items	83	85	82	(2.4%)	1.2%
Total	**11,230**	**8,432**	**5,726**	**33.2%**	**96.1%**

Investments in securities in the held-to-maturity portfolio, the available-for-sale portfolio and the held-for-trade portfolio.Below are further details of Bank Group investments in securities (NIS in millions):

	Carrying amount as of	
	March 31, 2012	December 31, 2011
Government debentures:		
Government of Israel	10,156	7,410
Government of USA	89	86
Total government debentures	**10,245**	**7,496**
Debentures of banks in developed nations:		
UK	133	159
Israel	152	135
Germany	103	104
South Korea	38	26
Holland	19	-
Iceland	5	5
	450	**429**
Debentures of financial institutions (other than banks) in developed nations[1]:		
USA	117	115
UK	19	19
Luxembourg	11	11
	147	**145**
Total debentures of banks and financial institutions in developed nations	**597**	**574**
Corporate debentures (composition by sector):		
Industry	104	108
Construction	36	37
Electricity and water	61	48
Communications and computer services	15	23
Financial services	28	-
Total corporate debentures	**244**	**216**
Asset-backed debentures (CLO)	**61**	**61**
Shares	**83**	**85**
Total securities	**11,230**	**8,432**

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

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

					As of March 31, 2012
Share of impairment out	Duration in which fair value is lower than the amortized cost				
of amortized cost	Up to 6 months	9-6 months	12-9 months	Over 12 months	Total
Asset-backed debentures available for sale					
Up to 20%	-	-	-	-	-
20%-40%	-	-	-	12	12
Over 40%	-	-	-	-	-
Total	**-**	**-**	**-**	**12**	**12**
Other debentures available for sale					
Up to 20%	18	5	6	39	68
20%-40%	-	-	-	20	20
Over 40%	-	-	-	-	-
Total	**18**	**5**	**6**	**59**	**88**
Total securities available for sale	**18**	**5**	**6**	**71**	**100**

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

See Note 2 to the financial statements for additional information.

Deposits from the public – these account for about 80% of total consolidated balance sheet as of March 31,2012, compared to 79% at the end of 2011. In the first quarter of 2012, deposits from the public with the Bank Group increased by NIS 0.3 billion, or 0.2%.

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

				Change compared to	
		March 31	December 31	March 31	December 31
	2012	2011	2011	2011	2011
Israeli currency					
Non-linked	71,569	65,342	72,554	9.5%	(1.4%)
CPI- linked	22,943	22,276	23,046	-	(0.5%)
Foreign currency and foreign currency linked	24,989	21,411	23,636	16.7%	5.7%
Total	**119,501**	**109,029**	**119,236**	**9.6%**	**0.2%**

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

				Change compared to	
		March 31	December 31	March 31	December 31
	2012	2011	2011	2011	2011
Retail banking:					
Household	55,172	48,095	54,091	14.7%	2.0%
Small business	7,238	6,655	8,268	8.8%	(12.5%)
Total	**62,410**	**54,750**	**62,359**	**14.0%**	**0.1%**
Private banking	6,503	5,269	5,831	23.4%	11.5%
Commercial banking	3,325	2,777	3,471	19.7%	(4.2%)
Business banking	32,046	26,855	32,524	19.3%	(1.5%)
Financial management	15,217	19,378	15,051	(21.5%)	1.1%
Total	**119,501**	**109,029**	**119,236**	**9.6%**	**0.2%**

The ratio of shareholders' equity to balance sheet total for the Group as of March 31, 2012 was 5.28%, 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 these instructions itemize 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 %):

	March 31, 2012	December 31, 2011
Ratio of Tier I capital to risk elements	7.94	7.77
Ratio of total capital to risk elements	13.24	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 quarter of 2012 amounted to NIS 32 million, compared to NIS 31 million in the corresponding period last year.

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

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

Bank Yahav's contribution to Group net profit in the first quarter of 2012 amounted to NIS 11.1 million, compared to NIS 7.8 million in the corresponding period last year. Bank Yahav's net profit return on equity in the first quarter of 2012 was 11.8% on annualized basis, compared to 8.5% in the corresponding period last year. Bank Yahav's balance sheet total as of March 31, 2012 amounted to NIS 17,058 million, compared to NIS 16,755 million as of December 31, 2011. The balance of loans to the public, net as of March 31, 2012 amounted to NIS 5,855 million, compared to NIS 5,793 million at end of 2011. The balance of deposits from the public as of March 31, 2012 amounted to NIS 14,598 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 quarter of 2012 amounted to NIS 17.3 million, compared to NIS 16.8 Million in the corresponding period last year.

Net profit return on equity in the first quarter of 2012 was 13.3% on annualized basis, compared to 15.5% in the corresponding period last year.

United Mizrahi Bank (Switzerland) Ltd.

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

Net profit of Mizrahi Bank Switzerland in thew first quarter of 2012 amounted to CHF 0.3 million, compared to CHF 0.6 million in the same period last year.

Mizrahi Bank Switzerland's balance sheet total as of March 31, 2012 amounted to CHF 139 million, compared to CHF 150 million at the end of 2011.

Loans to the public as of March 31, 2012 amounted to CHF 42 million, compared to CHF 44 million at end of 2011. The deposits with banks as of March 31, 2012 amounted to CHF 85 million, compared to CHF 95 million at end of 2011. Deposits from the public as of March 31, 2012 amounted to CHF 75 million, compared to CHF 80 million at end of 2011. Deposits from banks as of March 31, 2012 amounted to CHF 7 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 quarter of 2012, which includes the contribution of Mizrahi Bank Switzerland to net profit, amounted to NIS 1.4 million, compared with NIS 1.2 million in the same period last year. These data include impact of changes in exchange rates on the investment balance, covered by the Bank's own sources. Therefore, the impact of exchange rates on the consolidated statement is not meaningful.

Excluding the impact of changes in exchange rates, the company's contribution to group net profit in the first quarter of the year amounted to a NIS 1.1 million profit, compared to a NIS 1.7 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. At the request of Swiss authorities, several Swiss banks including United Mizrahi (Switzerland) Ltd. (a wholly owned and controlled subsidiary of the Bank), 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. United Mizrahi (Switzerland) Ltd. 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 on the current business and financial standing of United Mizrahi (Switzerland) Ltd. Currently, based on existing information, the Bank is unable to estimate the expected impact on the business and financial standing of United Mizrahi (Switzerland) Ltd.

Investment in non-banking corporations

The Bank manages nostro investments in non-banking corporations. About 8.7% 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 March 31, 2012 amounted to NIS 64 million, compared to NIS 66 million at end of 2011. Net profit from dividends and realized gains on investments in non-banking corporations, after provision for impairment, amounted in the first quarter of 2012 to NIS 3 million for the Bank, compared to zero in the corresponding period last year.

Financial Information Regarding Operating Segments

Bank Group operating segments

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

The Bank's operating segments are:

Household segment - under responsibility of the Retail Division, This segment includes 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, and the Bank offers them 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 625 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 11 to the financial statements as of March 31, 2012.

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 three months		Share of total net profit (in percent) for the first three months		Return on equity (in percent) for the first three months	
	2012	2011	2012	2011	2012	2011
Household:						
Mortgages	94	81	37	34	14.2	14.8
Other	49	36	20	15	22.1	17.7
Private banking	10	10	4	4	35.2	94.3
Small business	48	17	19	7	55.9	20.6
Commercial banking	18	17	7	7	18.5	18.3
Business banking	64	66	26	28	9.5	10.7
Financial management	(32)	11	(13)	5	-	10.9
Total	**251**	**238**	**100**	**100**	**13.6**	**14.3**

Below are Bank Group operating results by operating segment

Results of Household Segment

	For the three months ended March 31, 2012					For the three months ended March 31, 2011[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	59	7	-	555	621	50	6	-	782	838
Inter-segment	214	(5)	-	(406)	(197)	193	(4)	-	(653)	(464)
Total interest revenues, net	**273**	**2**	**-**	**149**	**424**	**243**	**2**	**-**	**129**	**374**
Non-interest financing revenues	(1)	-	2	-	1	-	-	3	-	3
Commissions and other revenues	68	30	41	61	200	59	31	64	65	219
Total profit	**340**	**32**	**43**	**210**	**625**	**302**	**33**	**67**	**194**	**596**
Expenses with respect to credit loss	(9)	-	-	4	(5)	9	-	-	10	19
Operating and other expenses										
From outside operating segments	341	7	14	66	428	330	7	14	60	411
Inter-segment	(29)	(1)	-	-	(30)	(28)	(1)	-	-	(29)
Total operating and other expenses	**312**	**6**	**14**	**66**	**398**	**302**	**6**	**14**	**60**	**382**
Pre-tax profit (loss)	37	26	29	140	232	(9)	27	53	124	195
Provision for taxes on profit (loss)	12	10	10	46	78	(3)	11	19	43	70
After-tax profit (loss)	**25**	**16**	**19**	**94**	**154**	**(6)**	**16**	**34**	**81**	**125**
Net profit (loss):										
Before attribution to non-controlling interest	25	16	19	94	154	(6)	16	34	81	125
Attributable to non-controlling interest	(11)	-	-	-	(11)	(8)	-	-	-	(8)
attributable to equity holders of the banking corporation	**14**	**16**	**19**	**94**	**143**	**(14)**	**16**	**34**	**81**	**117**
Return on capital (net profit as % of average capital)					**16.2%**					**15.7%**
Average balance of assets	14,815	2,378	-	70,834	88,027	[1]13,382	2,366	-	[1]58,928	74,676
Average balance of liabilities	53,589	2,378	-	514	56,481	42,941	2,366	-	220	45,527
Average balance of risk assets	14,767	-	-	35,276	50,043	13,777	-	-	30,035	43,812
Average balance of securities	-	-	24,100	-	24,100	-	-	28,655	-	28,655
Loans to the public, net (end balance)	14,353	2,603	-	67,867	84,823	[1]12,877	2,485	-	[1]60,429	75,991
Deposits from the public (end balance)	55,172	-	-	-	55,172	48,095	-	-	-	48,095
Average balance of other assets managed	8,393	-	-	12,078	20,471	8,834	-	-	13,359	22,193
Profit from interest revenues before expenses with respect to credit loss:										
Margin from credit granting operations	111	2	-	142	255	109	2	-	123	234
Margin from receiving deposits	162	-	-	-	162	123	-	-	-	123
Other	-	-	-	7	7	11	-	-	6	17
Total interest revenues, net	**273**	**2**	**-**	**149**	**424**	**243**	**2**	**-**	**129**	**374**

(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.C.

Contribution of the household segment to Group profit in the first quarter of 2012 amounted to NIS 143 million, compared to NIS 117 million in the corresponding period last year - an increase of 22.2%.

Contribution of mortgages in the first quarter of 2012 amounted to NIS 94 million, compared to NIS 81 million in the corresponding period last year - an increase of 16.0%. The increase is primarily due to an increase of 15.5% in net interest revenues before expenses with respect to credit loss, which is due to expanded operations, reflected in an increase of 21.2% in average assets. Conversely, the provision for credit loss with respect to these operations decreased by NIS 6 million: Total expenses with respect to credit loss attributed to mortgages in the first quarter of 2012 amounted to NIS 4 million, compared to NIS 10 million in the corresponding period last year.

Contribution of the household segment (except for mortgages) in the first quarter of 2012 amounted to NIS 49 million, compared to NIS 36 million in the corresponding period last year - an increase of 36.1%. The increase in contribution of the household segment is primarily due to a 12.2% increase in net interest revenues before expenses with respect to credit loss, due to higher business volume. The Bank also recognized revenues with respect to credit loss in this quarter, amounting to NIS 9 million, compared to expenses of NIS 9 million in the corresponding period last year. The 8.7% decrease in commissions and other revenues is due to a decrease in income from commissions on securities. Conversely, operating expenses grew by only 4.2%.

Volume of mortgages granted by the segment is as follows:

			Loans granted (NIS in millions)
	First three months		
	2012	2011	Rate of change
Mortgages issued (for housing and any purpose)			
From the Bank's funds	3,761	4,326	(13.1%)
From the Treasury's funds			
Directed loans	35	19	84.2%
Standing loans and grants	55	32	71.9%
Total new loans	3,851	4,377	(12.0%)
Recycled loans	396	380	4.2%
Total loans issued	4,247	4,757	(10.7%)
Number of borrowers (includes recycled loans)	11,553	12,650	(8.7%)

Results of Private Banking Segment

	For the three months ended March 31, 2012			For the three months ended March 31, 2011[1]		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Interest revenues, net:						
From outside operating segments	3	-	3	(6)	-	(6)
Inter-segment	18	-	18	21	-	21
Total interest revenues, net	**21**	**-**	**21**	**15**	**-**	**15**
Non-interest financing revenues	(1)	-	(1)	-	-	-
Commissions and other revenues	5	8	13	7	8	15
Total profit	**25**	**8**	**33**	**22**	**8**	**30**
Expenses with respect to credit loss	(4)	-	(4)	(3)	-	(3)
Operating and other expenses						
From outside operating segments	18	-	18	18	-	18
Inter-segment	4	-	4	-	-	-
Total operating and other expenses	22	-	22	18	-	18
Pre-tax profit	7	8	15	7	8	15
Provision for taxes on profit	2	3	5	2	3	5
Net profit attributable to equity holders of the banking corporation	**5**	**5**	**10**	**5**	**5**	**10**
Return on capital (net profit as % of average capital)			**35.2%**			**94.3%**
Average balance of assets	3,036	-	3,036	1,996	-	1,996
Average balance of liabilities	7,142	-	7,142	5,582	-	5,582
Average balance of risk assets	1,610	-	1,610	719	-	719
Average balance of securities	-	9,690	9,690	-	7,364	7,364
Loans to the public, net (end balance)	1,849	-	1,849	854	-	854
Deposits from the public (end balance)	6,503	-	6,503	5,269	-	5,269
Average balance of other assets managed	-	-	-	-	-	-
Profit from interest revenues before expenses with respect to credit loss:						
Margin from credit granting operations	9	-	9	6	-	6
Margin from receiving deposits	12	-	12	10	-	10
Other	-	-	-	(1)	-	(1)
Total interest revenues, net	**21**	**-**	**21**	**15**	**-**	**15**

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

Contribution of the private banking segment to Group profit in the first quarter of 2012 amounted to NIS 10 million, similar to the corresponding period last year. Operating expenses attributed to this segment increased by NIS 4 million, and non-interest revenues decreased by NIS 2 million, or 13.3% - primarily due to a decrease in revenues from securities-related commissions. Conversely, total financing revenues increased by 33.3%, while revenues with respect to credit loss increased by NIS 1 million.

Results of the Small Business Segment

	For the three months ended March 31, 2012				For the three months ended March 31, 2011[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	113	2	-	115	93	-	-	93
Inter-segment	1	(1)	-	-	-	-	-	-
Total interest revenues, net	**114**	**1**	**-**	**115**	**93**	**-**	**-**	**93**
Non-interest financing revenues	-	-	-	-	-	-	1	1
Commissions and other revenues	52	3	6	61	51	3	6	60
Total profit	**166**	**4**	**6**	**176**	**144**	**3**	**7**	**154**
Expenses with respect to credit loss	3	-	-	3	26	-	-	26
Operating and other expenses								
From outside operating segments	112	1	1	114	111	1	1	113
Inter-segment	(13)	-	-	(13)	(13)	-	-	(13)
Total operating and other expenses	**99**	**1**	**1**	**101**	**98**	**1**	**1**	**100**
Pre-tax profit	64	3	5	72	20	2	6	28
Provision for taxes on profit	21	1	2	24	8	1	2	11
Net profit attributable to equity holders of the banking corporation	**43**	**2**	**3**	**48**	**12**	**1**	**4**	**17**
Return on capital (net profit as % of average capital)				**55.9%**				**20.6%**
Average balance of assets	6,377	293	-	6,670	(1) 5,867	192	-	6,059
Average balance of liabilities	8,107	-	-	8,107	6,582	-	-	6,582
Average balance of risk assets	5,160	-	-	5,160	4,876	-	-	4,876
Average balance of securities	-	-	6,980	6,980	-	-	8,758	8,758
Loans to the public, net (end balance)	6,187	295	-	6,482	(1) 5,970	317	-	6,287
Deposits from the public (end balance)	7,238	-	-	7,238	6,655	-	-	6,655
Average balance of other assets managed	231	-	-	231	129	-	-	129
Profit from interest revenues before expenses with respect to credit loss:								
Margin from credit granting operations	85	-	-	85	74	-	-	74
Margin from receiving deposits	20	-	-	20	19	-	-	19
Other	9	1	-	10	-	-	-	-
Total interest revenues, net	**114**	**1**	**-**	**115**	**93**	**-**	**-**	**93**

(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.C.

Contribution of the small business segment to Group profit in the first quarter of 2012 amounted to NIS 48 million, compared to NIS 17 million in the corresponding period last year. The increase in segment contribution is primarily due to an increase of 23.7% in net interest revenues before expenses with respect to credit loss - primarily due to increase in volume of business and a decrease of NIS 23 million in expenses with respect to credit loss. Non-interest revenues and operating expenses remained essentially unchanged.

Results of the Commercial Banking Segment

	For the three months ended March 31, 2012				For the three months ended March 31, 2011(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	53	-	-	53	68	-	-	68
Inter-segment	(9)	-	-	(9)	(26)	-	-	(26)
Total interest revenues, net	**44**	**-**	**-**	**44**	**42**	**-**	**-**	**42**
Non-interest financing revenues	-	-	-	-	-	-	1	1
Commissions and other revenues	14	1	2	17	14	1	3	18
Total interest revenues, net	**58**	**1**	**2**	**61**	**56**	**1**	**4**	**61**
Expenses with respect to credit loss	1	-	-	1	1	-	-	1
Operating and other expenses								
From outside operating segments	18	-	-	18	17	-	-	17
Inter-segment	16	-	-	16	18	-	-	18
Total operating and other expenses	**34**	**-**	**-**	**34**	**35**	**-**	**-**	**35**
Pre-tax profit	23	1	2	26	20	1	4	25
Provision for taxes on profit	7	-	1	8	7	-	1	8
Net profit attributable to equity holders of the banking corporation	**16**	**1**	**1**	**18**	**13**	**1**	**3**	**17**
Return on capital (net profit as % of average capital)				**18.5%**				**18.3%**
Average balance of assets	4,888	55	-	4,943	4,636	39	-	4,675
Average balance of liabilities	3,747	-	-	3,747	3,082	-	-	3,082
Average balance of risk assets	5,230	-	-	5,230	5,135	-	-	5,135
Average balance of securities	-	-	3,212	3,212	-	-	3,972	3,972
Loans to the public, net (end balance)	4,593	51	-	4,644	4,653	2	-	4,655
Deposits from the public (end balance)	3,325	-	-	3,325	2,777	-	-	2,777
Average balance of other assets managed	262	-	-	262	34	-	-	34
Profit from interest revenues before expenses with respect to credit loss:								
Margin from credit granting operations	37	-	-	37	34	-	-	34
Margin from receiving deposits	5	-	-	5	4	-	-	4
Other	2	-	-	2	4	-	-	4
Total interest revenues, net	**44**	**-**	**-**	**44**	**42**	**-**	**-**	**42**

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

Contribution of the commercial banking segment to Group profit in the first quarter of 2012 amounted to NIS 18 million, compared to NIS 17 million in the corresponding period last year, an increase of 5.9%. Total revenues for this segment, as well as expenses with respect to credit loss, remained unchanged over the year-ago period. The increase in segment contribution is due to a NIS 1 million decrease in operating expenses attributed to this segment.

Results of the Business Banking Segment

	For the three months ended March 31, 2012				For the three months ended March 31, 2011[2]			
	Banking and finance[1]	Capital market	Construction and real estate	Total	Banking and finance[1]	Capital market	Construction and real estate	Total
								NIS in millions
Interest revenues, net:								
From outside operating segments	2	-	74	76	13	-	57	70
Inter-segment	112	-	(28)	84	75	-	(17)	58
Total interest revenues, net	**114**	**-**	**46**	**160**	**88**	**-**	**40**	**128**
Non-interest financing revenues	22	2	-	24	-	3	-	3
Commissions and other revenues	23	6	26	55	22	7	18	47
Total interest revenues, net	**159**	**8**	**72**	**239**	**110**	**10**	**58**	**178**
Expenses with respect to credit loss	57	-	11	68	3	-	(4)	(1)
Operating and other expenses								
From outside operating segments	48	-	8	56	47	-	9	56
Inter-segment	17	-	3	20	17	-	3	20
Total operating and other expenses	**65**	**-**	**11**	**76**	**64**	**-**	**12**	**76**
Pre-tax profit	37	8	50	95	43	10	50	103
Provision for taxes on profit	12	3	16	31	15	4	18	37
Net profit (loss) attributable to equity holders of the banking corporation	**25**	**5**	**34**	**64**	**28**	**6**	**32**	**66**
Return on capital (net profit as % of average capital)				**9.5%**				**10.7%**
Average balance of assets	20,580	-	7,405	27,985	19,978	-	5,728	25,706
Average balance of liabilities	32,565	-	2,364	34,929	25,081	-	2,422	27,503
Average balance of risk assets	20,204	-	15,056	35,260	19,825	-	13,475	33,300
Average balance of securities	-	60,712	-	60,712	-	73,289	-	73,289
Loans to the public, net (end balance)	16,357	-	6,252	22,609	16,142	-	5,462	21,604
Deposits from the public (end balance)	29,987	-	2,059	32,046	24,887	-	1,968	26,855
Average balance of other assets managed	36	-	125	161	1	-	129	130
Profit from interest revenues before expenses with respect to credit loss:								
Margin from credit granting operations	73	-	36	109	63	-	33	96
Margin from receiving deposits	16	-	4	20	14	-	4	18
Other	25	-	6	31	11	-	3	14
Total interest revenues, net	**114**	**-**	**46**	**160**	**88**	**-**	**40**	**128**

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

Contribution of the business banking segment to Group profit in the first quarter of 2012 amounted to NIS 64 million, compared to NIS 66 million in the corresponding period last year, a decrease of 3.0%.
Contribution of the construction and real estate sector increased by NIS 2 million, or 6.3%, compared to the corresponding period last year - primarily due to an increase of 24.1% in total revenues along with unchanged expenses. Expenses with respect to credit loss offset the increase in revenues, amounting to NIS 11 million, compared to revenues of NIS 4 million in the corresponding period last year.
Contribution of the business banking segment, excluding construction and real estate, to Group profit in the first quarter of 2012 amounted to NIS 30 million, compared to NIS 34 million in the corresponding period last year - a decrease of 11.8%. This change was due to a NIS 47 million increase in total financing revenues, due inter alia to interest collected on troubled debt. Conversely, expenses with respect to credit loss increased by NIS 54 million - primarily due to group provision for credit loss. Other revenues and expenses remained essentially unchanged.

Financial Management Segment results

	For the three months ended March 31, 2012			For the three months ended March 31, 2011[1]		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Interest revenues, net:						
From outside operating segments	(100)	-	(100)	(382)	-	(382)
Inter-segment	104	-	104	411	-	411
Total interest revenues, net	**4**	**-**	**4**	**29**	**-**	**29**
Non-interest financing revenues	(5)	1	(4)	31	1	32
Commissions and other revenues	4	13	17	(2) 15	(2) 14	29
Total profit	**3**	**14**	**17**	**75**	**15**	**90**
Expenses with respect to credit loss	4	-	4	12	-	12
Operating and other expenses						
From outside operating segments	58	2	60	56	2	58
Inter-segment	3	-	3	4	-	4
Total operating and other expenses	**61**	**2**	**63**	**60**	**2**	**62**
Pre-tax profit (loss)	(62)	12	(50)	3	13	16
Provision for taxes on profit (loss)	(22)	4	(18)	2	4	6
After-tax profit (loss)	(40)	8	(32)	1	9	10
Share in net profits of affiliates, after tax	-	-	-	1	-	1
Net profit (loss):						
Before attribution to non-controlling interest	(40)	8	(32)	2	9	11
Attributable to non-controlling interest	-	-	-	-	-	-
attributable to equity holders of the banking corporation	**(40)**	**8**	**(32)**	**2**	**9**	**11**
Return on capital (net profit as % of average capital)			**-**			**10.9%**
Average balance of assets	19,153	-	19,153	21,856	-	21,856
Includes: Investments in affiliates	18	-	18	16	-	16
Average balance of liabilities	31,198	-	31,198	39,310	-	39,310
Average balance of risk assets	5,348	-	5,348	4,325	-	4,325
Average balance of provident and mutual fund assets	73,127	-	73,127	82,406	-	82,406
Average balance of securities	-	32,886	32,886	-	39,813	39,813
Loans to the public, net (end balance)	-	-	-	-	-	-
Deposits from the public (end balance)	15,217	-	15,217	19,378	-	19,378
Profit from interest revenues before expenses with respect to credit loss:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	4	-	4	29	-	29
Total interest revenues, net	**4**	**-**	**4**	**29**	**-**	**29**

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

(2) Reclassified.

Contribution of the financial management segment to Group profit in the first quarter of 2012 amounted to a loss of NIS 32 million, compared to a profit of NIS 11 million in the corresponding period last year. The loss is primarily due to break-even financing operations due to short-term accounting effects, compared to NIS 61 million profit in the corresponding period last year, and to a NIS 12 million decrease in other non-interest revenues. Conversely, expenses with respect to credit loss decreased by NIS 8 million compared to the corresponding period last year.

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

	For the three months ended March 31, 2011[1]			
	Household	Small business	Commercial banking	Total consolidated
Interest revenues, net	2	-	-	2
Non-interest financing revenues	-	-	-	-
Commissions and other revenues	31	3	1	35
Total income	**33**	**3**	**1**	**37**
Expenses with respect to credit loss	-	-	-	-
Operating and other expenses	6	1	-	7
Pre-tax profit	**27**	**2**	**1**	**30**
Provision for taxes on	11	1	-	12
Net profit	**16**	**1**	**1**	**18**

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

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

	For the three months ended March 31, 2011(1)						
	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net							
Non-interest financing revenues	3	-	1	1	3	1	9
Commissions and other revenues	64	8	6	3	7	(2) 14	99
Total income	**67**	**8**	**7**	**4**	**10**	**15**	**108**
Expenses with respect to credit loss	-	-	-	-	-	-	-
Operating and other expenses	14	-	1	-	-	2	17
Pre-tax profit	**53**	**8**	**6**	**4**	**10**	**13**	**91**
Provision for taxes on	19	3	2	1	4	4	32
Net profit	**34**	**5**	**4**	**3**	**6**	**9**	**59**

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

International operations

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

Details of the affiliates and their business are as follows:

Swiss subsidiary - UMB (Switzerland) Ltd. – specializes in private banking services, has one branch, owned by a wholly-owned subsidiary of the Bank registered in Holland – UMOHC B.V. (hereinafter: ("the holding company"). The Swiss subsidiary is subject to the regulatory laws in Switzerland.

Bank's overseas branches - Overseas branches offer their customers banking services, in accordance with the local laws and regulations. The branches are subject to 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 three months ended March 31, 2012				
	Household	Private banking	Business banking	Financial management	Total
Interest revenues, net	1	16	3	8	28
Non-interest financing revenues	-	(1)	4	-	3
Commissions and other revenues	-	9	2	-	11
Total income	**1**	**24**	**9**	**8**	**42**
Expenses with respect to credit loss	-	(4)	-	-	(4)
Operating and other expenses	1	15	11	2	29
Pre-tax profit	**-**	**13**	**(2)**	**6**	**17**
Provision for taxes on profit	-	4	(1)	2	5
Net profit	**-**	**9**	**(1)**	**4**	**12**

	For the three months ended March 31, 2011(1)				
	Household	Private banking	Business banking	Financial management	Total
Interest revenues, net	1	16	8	9	34
Non-interest financing revenues	-	(2)	2		-
Commissions and other revenues	-	11	1	1	13
Total income	**1**	**25**	**11**	**10**	**47**
Expenses with respect to credit loss	-	(3)		-	(3)
Operating and other expenses	1	14	10	2	27
Pre-tax profit	**-**	**14**	**1**	**8**	**23**
Provision for taxes on profit	-	5	-	3	8
Net profit	**-**	**9**	**1**	**5**	**15**

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

Off balance sheet activity

Provident funds – the Group provides operating services to provident funds. The value of assets in funds to which the Group provides operating services, amounted as of March 31, 2012 to NIS 60.3 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 156.0 million as of March 31, 2012, compared with NIS 152.9 million at the end of 2011. Revenues from securities transactions for the Group amounted to NIS 55 million in the first quarter of 2012, compared with NIS 77 million in the corresponding period last year - a decrease of 28.6%.

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 March 31, 2012 amounted to NIS 12.4 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 its developmen.

Total deposits from the public for the Group as of March 31, 2012 amounted to NIS 119,501 million, compared to NIS 119,236 million at end of 2011.

Deposits from the public in the CPI-linked segment decreased in the first quarter of 2012 by 0.5%; deposits from the public in the foreign currency and foreign-currency-linked segment increased by 5.7%; and deposits from the public in the NIS-denominated, non-CPI-linked segment decreased by 1.4%. 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 7,748 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 a shelf prospectus dated February 25, 2011.

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

Complex capital instruments

All of the Bank's complex capital instruments (Series A) (considered upper Tier 2 capital for maintaining minimum capital ratio) as of March 31, 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 March 31, 2012 was NIS 1.9 billion, similar to the end of 2011.

Rating of Bank obligations

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

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

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

Risk Management

Basel II: Pillar 3 - Market Discipline

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

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

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

Subject	Disclosure	Chapter in Board of Directors' Report / Note to financial statements
Application scope	Group entities, consolidation basis, limits on supervisory capital	Risk Management chapter
Capital structure	Details of capital components	Note 4 – Capital Adequacy
Capital adequacy	Quantitative disclosure	Risk Management chapter
	Capital adequacy ratios for the Group	Note 4 – Capital Adequacy
Credit risk	Quantitative disclosure	Risk Management chapter
	Credit risk exposure by economic sector	Management Discussion, Addendum C - Credit Risk by Economic Sector
	Credit risk exposure by contractual term to maturity	Risk Management chapter
	Credit risk exposure by major geographic regions	Management Discussion, Addendum D - Exposure to Foreign Countries
	Information about troubled debt	Note 3 – Provision for doubtful debts
	Provision for credit loss by economic sector	Management Discussion, Addendum C - Credit Risk by Economic Sector
	Credit loss with respect to housing loans	Risk Management chapter
Credit risk mitigation	Quantitative disclosure	Risk Management chapter
Counter-party credit risk	Quantitative disclosure	Risk Management chapter
Securitization	Quantitative disclosure	Risk Management chapter
Market risk, liquidity risk, interest risk in bank portfolio	Quantitative disclosure	Risk Management chapter
Operating risk	Qualitative disclosure	Risk Management chapter
Equity positions in bank portfolio	Quantitative disclosure	Risk Management chapter
Legal risk	Qualitative disclosure	Risk Management chapter
Risk factors	Qualitative and quantitative disclosure	Risk Management chapter

Application scope

Provisions of Proper Conduct of Banking Business Regulations nos. 201-211 "Measurement and Capital Adequacy" apply to the Bank Group and in particular to the Bank - Bank Mizrahi-Tefahot Ltd. - the parent company of the Group. For details of Bank Group companies to which these regulations apply, see Note 6 to the financial statements as of December 31, 2011. To the best knowledge of Bank management, and relying on legal counsel, there are no prohibitions or significant restrictions on transfer of funds or supervisory capital between Bank Group companies.

Capital adequacy

The Bank assesses its capital adequacy in accordance with Basel I rules, as stipulated in Proper Conduct of Banking Business Directive Nos. 201-211. Key rules and approaches applied by the Bank are described below, under Description of Basle II Guidelines in the chapter on Legislation and Supervision of Bank Group Operations. The Bank applies the standard approach to assess exposure to credit risk, the basic indicator approach to assess exposure to operating risk, and the standard approach to assess exposure to market risk. The Supervisor of Banks has stipulated that within 3 years from the starting date forapplying 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 monitoring forum has been created, attended by the Manager, Finance Division - CFO (chair), Manager, Risk control Division - CRO, Manager, Planning, Operations and Control Division and the Manager, Accounting and Financial Reporting Division - the Chief Accountant.

On October 25, 2010, the Bank Board of Directors resolved to set the target for core capital ratio (i.e. original Tier I capital adequacy ratio) at no less than 7.5%. Further, the Board of Directors resolved to direct Bank management to act so as to maintain appropriate safety margins, in order to ensure that the core capital ration shall be no less than the foregoing. The Bank Board of Directors further resolved that the overall capital adequacy ratio shall be no less than 12.5%.

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

The Bank is preparing for compliance with the stipulated requirements.The Bank's core capital ratio as of March 31, 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 March 31, 2012		As of March 31, 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	809	73	404	36	924	83
Public sector entity debt	364	33	456	41	350	32
Banking corporation debt	1,196	108	1,759	158	1,824	164
Corporate debt	39,568	3,561	36,240	3,262	39,107	3,520
Debt secured by commercial real estate	1,964	177	1,803	162	1,718	155
Retail exposure to individuals	11,355	1,022	10,730	966	11,265	1014
Loans to small businesses	2,219	200	2,115	190	2,172	195
Residential mortgages	33,642	3,028	28,705	2,583	32,865	2,958
Securitization	44	4	27	2	88	8
Other assets	2,804	252	2,579	232	2,660	239
Total	**93,965**	**8,458**	**84,818**	**7,632**	**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 March 31, 2012		As of March 31, 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	1,370	123	624	56	947	85
Operating Risk(2)	7,996	720	7,038	634	7,851	707
Total	**9,366**	**843**	**7,662**	**690**	**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 March 31, 2012	As of March 31, 2011	As of December 31, 2011
Ratio of Tier I capital to risk elements	7.94%	7.61%	7.77%
Ratio of total capital to risk elements	13.24%	13.48%	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 specified in Basel II, Pillar 2. To this end, the Group appointed Risk Managers and a CRO, who is in executive management, responsible for operations of the Risk Control Division. Bank management regards the Bank's risk control and management system as one of its core competencies, so that it is Bank policy to constantly strive to improve the risk control and management system,

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

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 I regulations for calculating regulatory capital.

Credit risk

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

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

											As of March 31, 2012
	Sove-reigns	Public sector	Banking Corpora-tions	Corpora-tions	Secured by commer-cial real estate	Retail for indivi-duals	Small business	Housing loans	Secu-ritization	Others	Total[)2)]
Loans[(3)]	10,561	283	2,184	29,372	2,007	14,602	3,665	72,367	-	-	135,041
Securities[(4)]	8,985	24	659	432	-	-	-	-	61	-	10,161
Derivatives[(5)]	-	273	1,440	1,470	-	26	4	-	-	-	3,213
Other off-balance-sheet exposures	39	593	15	34,500	360	10,241	1,692	3,863	-	-	51,303
Other assets[(6)]	-	-	-	-	-	-	-	-	-	3,750	3,750
Total	**19,585**	**1,173**	**4,298**	**65,774**	**2,367**	**24,869**	**5,361**	**76,230**	**61**	**3,750**	**203,468**

											As of December 31, 2011
	Sove-reigns	Public sector	Banking Corpora-tions	Corpora-tions	Secured by commer-cial real estate	Retail for indivi-duals	Small business	Housing loans	Secu-ritization	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, after provision for doubtful debts, excluding impact of credit risk mitigation, credit conversion factors and risk weighting factors, as defined under Basel II rules.
(3) Includes credit to the public, credit to the Government, deposits with banks and borrowed securities, and excluding general provision for doubtful debts, which is part of the equity basis.
(4) Excludes balances deducted from the equity basis and investment in securities in the negotiable portfolio.
(5) Includes face value of derivatives (including credit derivatives), after effect of add-on factors and positive fair value of derivatives.
(6) Excludes derivatives and balances deducted from the equity basis, including cash, investment in shares, fixed assets and investment in investees.

Composition of credit exposure before provision for credit loss, by contractual term to maturity, by major gross credit exposure type, is as follows[(1)]:

					As of March 31, 2012
	Up to 1 year	1-5 years	Over 5 years	Without maturity	Total[(2)]
Loans[(2)]	40,224	21,732	72,992	93	135,041
Securities[(3)]	809	5,631	3,721	-	10,161
Derivatives[(4)]	1,462	745	1,006	-	3,213
Other off-balance-sheet exposures	42,107	8,100	1,096	-	51,303
Other assets[(5)]	2,081	-	46	1,623	3,750
Total	**86,683**	**36,208**	**78,861**	**1,716**	**203,468**

					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, after provision for doubtful debts, excluding impact of credit risk mitigation, credit conversion factors and risk weighting factors, as defined under Basel II rules.
(3) Includes credit to the public, credit to the Government, deposits with banks and borrowed securities, and excluding general provision for doubtful debts, which is part of the equity basis.
(4) Excludes balances deducted from the equity basis and investment in securities in the negotiable portfolio.
(5) Includes face value of derivatives (including credit derivatives), after effect of add-on factors and positive fair value of derivatives.
(6) Excludes derivatives and balances deducted from the equity basis, including cash, investment in shares, fixed assets and investment in investees.

Credit risk - standard approach

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

Before credit risk mitigation

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

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

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

After credit risk mitigation

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

Before credit risk mitigation

											As of March 31, 2011
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	13,993	1,955	-	-	-	15	-	-	15,963	-	15,963
Public sector entity debt	-	-	-	1,476	-	-	-	-	1,476	-	1,476
Banking corporation debt	-	3,259	-	1,399	-	120	-	-	4,778	1	4,779
Corporate debt	-	71	-	155	-	636	168	-	1,030	-	1,030
Securitization	-	-	-	-	-	-	-	8	8	58	66
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	**13,993**	**5,285**	**-**	**3,030**	**-**	**771**	**168**	**8**	**23,255**	**96**	**23,351**
Non-rated exposures:											
Public sector entity debt	-	-	-	24	-	-	-	-	24	-	24
Banking corporation debt	-	38	-	365	-	-	-	-	403	-	403
Corporate debt	-	-	-	-	-	61,676	-	-	61,676	-	61,676
Debt secured by commercial real estate	-	-	-	-	-	2,012	-	-	2,012	-	2,012
Retail exposure to individuals	-	-	-	-	22,788	70	243	-	23,101	-	23,101
Loans to small businesses	-	-	-	-	4,826	22	16	-	4,864	-	4,864
Residential mortgages	-	-	52,989	-	12,579	1,875	73	-	67,516	-	67,516
Other assets	1,090	-	-	-	-	2,481	54	-	3,625	87	3,712
Total	**1,090**	**38**	**52,989**	**389**	**40,193**	**68,136**	**386**	**-**	**163,221**	**87**	**163,308**
Total	**15,083**	**5,323**	**52,989**	**3,419**	**40,193**	**68,907**	**554**	**8**	**186,476**	**183**	**186,659**

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

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

After credit risk mitigation

											As of March 31, 2011
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	14,011	1,982	-	-	-	15	-	-	16,008	-	16,008
Public sector entity debt	76	-	-	1,470	-	-	-	-	1,546	-	1,546
Banking corporation debt	-	3,241	-	1,639	-	118	-	-	4,998	1	4,999
Corporate debt	-	71	-	155	-	57	151	-	434	-	434
Securitization	-	-	-	-	-	-	-	8	8	58	66
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	**14,087**	**5,294**	**-**	**3,264**	**-**	**190**	**151**	**8**	**22,994**	**96**	**23,090**
Non-rated exposures:											
Public sector entity debt	-	-	-	24	-	-	-	-	24	-	24
Banking corporation debt	-	34	-	372	-	-	-	-	406	-	406
Corporate debt	-	-	-	-	-	52,898	-	-	52,898	-	52,898
Debt secured by commercial real estate	-	-	-	-	-	1,826	-	-	1,826	-	1,826
Retail exposure to individuals	-	-	-	-	21,250	31	241	-	21,522	-	21,522
Loans to small businesses	-	-	-	-	3,575	16	14	-	3,605	-	3,605
Residential mortgages	-	-	52,988	-	12,543	1,874	73	-	67,478	-	67,478
Other assets	1,090	-	-	-	-	2,481	54	-	3,625	87	3,712
Total	**1,090**	**34**	**52,988**	**396**	**37,368**	**59,126**	**382**	**-**	**151,384**	**87**	**151,471**
Total exposure	**15,177**	**5,328**	**52,988**	**3,660**	**37,368**	**59,316**	**533**	**8**	**174,378**	**183**	**174,561**

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 the credit risk with respect to significant exposure to borrower groups as of March 31, 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	1,593	179	1,116	63	2,825	20.6%
Group 2	2,212	36	1,086	1,275	2,060	15.0%

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

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

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

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

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

Leveraged financing

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

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

Economic sector of acquired company			Credit risk
	As of March 31		As of December 31,
	2012	2011	2011
Commerce	144	147	146
Communications and computer services	273	343	270
Construction and real estate	345	-	354
Financial services	-	90	-
Total	**762**	**580**	**770**

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

			As of March 31, 2012
External credit rating	On-balance sheet credit risk [(3)]	Off-balance sheet credit risk [(4)]	Current credit exposure
AAA to AA-	1,519	88	1,607
A+ to A-	686	94	780
BBB+ to BBB-	4	-	4
+BB to B-	2	5	7
Lower than B-	-	-	-
Unrated	7	-	7
Total credit exposure to foreign financial institutions	**2,218**	**187**	**2,405**
Includes: Troubled commercial credit risk, net[(6)]	4	-	4

			As of March 31, 2011
External credit rating	On-balance sheet credit risk [(3)]	Off-balance sheet credit risk [(4)]	Current credit exposure
AAA to AA-	2,241	310	2,551
A+ to A-	522	52	574
BBB+ to BBB-	2	-	2
+BB to B-	2	6	8
Lower than B-	-	-	-
Unrated	59	-	59
Total credit exposure to foreign financial institutions	**2,826**	**368**	**3,194**
Includes: Troubled commercial credit risk,net[(5)]	44	-	44
Provision for credit loss	(17)	-	(17)
Balance of troubled debt, net	27	-	27

			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[(6)]	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) Net of deduction of specific provisions for doubtful debts.

(3) Bank deposits, credit to the public, investment in debentures, securities borrowed or acquired in conjunction with resale 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) Balance of troubled loans excluding 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 the off-balance sheet component.

(6) 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 prescribed by Proper Conduct of Banking Business regulation 313, are included under Management Review as part of off-balance sheet credit risk, and are excluded from the above table.

In conjunction with its policy regarding management of exposure to foreign financial institutions, the Bank's Board of Directors sets, inter alia, the maximum exposure limit for states and foreign financial institutions, while adjusting the exposure limit to the risk assessment for each state and financial institution. Exposure limits are set based, inter alia, on 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 that 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 determines a hierarchy of authority for approval of specific transactions within the exposure limits.

The Bank monitors current ratings published for financial institutions to which it has exposure, and adjusts the exposure limits and actual exposure, as required, to the current rating. The Bank also reviews on a regular basis any additional information available with regard to these 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 desacribed 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 approved a policy on environmental risk management. The Bank is preparing to implement the policy and to include it in procedures and work processes, based on the agreed schedule.

Credit loss with respect to housing loans

In conjunction with credit risk management, the Bank takes various actions to mitigate risk associated with provision of housing loans. The means and tools for mitigating risk with respect to housing loans, and the parties to management of this risk factor, are listed in the Board of Directors' report as of December 31, 2011.

Attributes of the Bank's housing loan portfolio

The Bank's policy with regard to mortgages is based on a conservative approach, limiting specific risk for each loan by reviewing various attributes. These attributes include: LTV ratio, ratio of repayment to regular income of the borrower, and borrower capacity to make current repayments even under scenarios involving a change in interest rates. Whenever loans are granted with attributes which do not meet one or more of the standards set by the Bank for these attributes, the Bank requires additional bolstering for the loan, such as credit insurance, additional guarantors for the loan, proven repayment capacity not based on regular income of the borrower etc. In recent years, due to expansion of the housing market and relatively low interest environment, the Bank has enhanced measures taken to mitigate risk, as reflected by a significant decrease in loan risk factors, as detailed below (all data below as of March 31, 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 LTV ratio of the Bank's mortgage portfolio as of March 31, 2012 was 58.4%, compared to 58.6% as of December 31, 2011 and to 60.1% as of December 31, 2010. Out of the total loan portfolio of the Bank, amounting to NIS 73 million, some 83% were granted with an original LTV ratio under 75%, which secures the loan even in case of an extreme 25% decrease in value of the property pledged as collateral.

The LTV ratio in this report is the historical LTV ratio calculated upon loan approval, and does not account for any current repayments which reduce the loan balance nor any changes in value of properties pledged as collateral. The significant increase in housing prices since late 2008, along with reduced loan balances with respect to current repayment, result in a lower current LTV ratio for loans granted through 2008, so that most all of the loans currently have LTV ratios under 75%. Total loans granted at LTV ratios over 75% in the past two years amounted to NIS 3.6 billion, or only 4.9% 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 4.8 billion is insured by credit insurance - 38.0%.

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 12.3% for loans granted 1-2 years ago, 0.3% for loans granted 3-12 months ago and 10.8% for loans granted in the first quarter of 2012.

Repayment as percentage of regular income

The LTV ratio of a housing loan is a benchmark of loan security, regardless of borrower attributes. When a mortgage is approved, the Bank requires borrowers to show their capacity to make current loan repayments on schedule, primarily by calculating the ratio of monthly repayment to regular income of the borrower.

The average repayment ratio for the Bank's housing loan portfolio is 30.6%. 70% of the Bank's mortgage portfolio were granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is 23.3%). 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 62.3%).

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 86% of these are granted with a LTV ratio under 75%.

Loans bearing variable interest

The Bank allows its clients to obtain housing loans which include a portion bearing NIS-denominated interest linked to the prime lending rate.

Over the past decade, the prime lending rate decreased from 10% in 2002-2003, through 5%-6% in 2004-2008 to 2%-4% in 2009-2012. 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 37% of loans granted 1-2 years ago, the Bank reduced the percentage of loans linked to the prime lending rate to 24.9% for loans granted 3-12 months ago and down to 22.4% for loans granted in the first quarter of 2012.

Total loans linked to the prime lending rate granted over the past two years, which constitute the major portion of risk associated with such mortgages, is NIS 9.7 billion, or only 13.2% 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 2.9 billion, or only 4.0% of the Bank's housing loan portfolio.

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

LTV ratio	Repayment as percentage of regular income	Loan age[1] (time elapsed since loan grant)						
		Up to 3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Up to 60%	Up to 35%	1,140	3,653	5,335	8,716	3,543	2,391	24,778
	35%-50%	512	1,457	1,748	2,113	844	375	7,049
	Over 50%	179	702	834	1,006	408	217	3,346
60%-75%	Up to 35%	801	2,736	4,416	7,146	1,495	845	17,439
	35%-50%	327	1,186	1,472	1,809	506	207	5,507
	Over 50%	110	481	553	783	234	114	2,275
Over 75%	Up to 35%	271	848	1,482	2,901	1,413	2,058	8,973
	35%-50%	83	274	397	755	485	671	2,665
	Over 50%	16	56	126	265	251	289	1,003
Total		**3,439**	**11,393**	**16,363**	**25,494**	**9,179**	**7,167**	**73,035**
Includes:								
Loans granted with original amount over NIS 2 million		115	524	829	1,184	234	48	2,934
Percentage of total housing loans		3.3%	4.6%	5.1%	4.6%	2.5%	0.7%	4.0%
Loans bearing variable interest:								
Non-linked, at prime lending rate		770	2,836	6,058	12,865	2,383	258	25,170
CPI-linked[2]		90	939	3,445	5,326	1,445	1,706	12,951
In foreign currency [2]		95	743	1,174	1,645	651	98	4,406
Total		**955**	**4,518**	**10,677**	**19,836**	**4,479**	**2,062**	**42,527**
Non-linked loans at prime lending rate, as percentage of total housing loans		22.4%	24.9%	37.0%	50.5%	26.0%	3.6%	34.5%
CPI-linked loans bearing variable interest as percentage of total housing loans		2.6%	8.2%	21.1%	20.9%	15.7%	23.8%	17.7%
Loans with LTV over 75% as percentage of total housing loans		10.8%	10.3%	12.3%	15.4%	23.4%	42.1%	17.3%

(1) The loan balances presented above are aged based on the date of loan origination, and include under the same age group any loan balances actually provided at a later date.
(2) Pursuant to directives by the Supervisor of Banks, these include loans for which the interest rate is adjusted up to once every 5 years.

Credit risk mitigation

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

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

					As of March 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	15,963	-	45	-	16,008
Public sector entity debt	1,500	-	76	(6)	1,570
Banking corporation debt	5,181	(17)	275	(35)	5,404
Corporate debt	62,706	(354)	-	(9,020)	53,332
Debt secured by commercial real estate	2,012	(2)	-	(184)	1,826
Retail exposure to individuals	23,101	(3)	-	(1,576)	21,522
Loans to small businesses	4,864	(20)	-	(1,239)	3,605
Residential mortgages	67,516	-	-	(38)	67,478
Securitization	8	-	-	-	8
Other assets	3,625	-	-	-	3,625
Total	**186,476**	**(396)**	**396**	**(12,098)**	**174,378**

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

(2) Mitigating credit risk by using guarantees results in exposures moving from their original exposure group to exposure groups with a lower risk weighting factor. Consequently, sometimes the extent of exposure in a given exposure group, after credit risk mitigation, is higher than the extent of exposure in this group before risk mitigation.

Counter-party credit risk

Counter-party credit risk (CCR) is the risk that the counter-party to a transaction will be in default before final clearance of the transaction cash flows. Economic loss would be incurred only when the transaction with the counter-party would have a positive economic value upon such default. The market value of the transaction, which may be positive or negative for either party, actually depends on volatility of market factors. Should the counter-party be in default, and the transaction have a positive fair value, this may cause the Bank to incur a loss, liquidity issues and difficulties in carrying out further transactions. Risk factors which impact counter-party credit risk are: Credit risk, market risk and liquidity risk.

The trading in financial derivatives is part of the Bank's management of assets and liabilities, and is subject to limitations prescribed by the Board of Directors. The Bank trades in these financial derivatives, both for its clients and for its own account, as part of the management of basis and interest exposure in the various linkage segments. The Bank operates in credit derivatives in its nostro portfolio. These investments are individually reviewed by the Risk Management Committee, and are submitted for approval by the Asset and Liability Management Committee headed by the President.

Below is the current credit exposure with respect to derivatives:

						As of March 31, 2012
Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives[(2)]	Total
Face value of derivatives after impact of add-on factor	244	1,248	11	1	4	1.508
Positive fair value, gross, of financial derivatives[(1)]	539	640	501	-	28	1,708
Total exposure with respect to derivatives	**783**	**1,888**	**512**	**1**	**32**	**3.216**
Collateral with respect to derivatives (before safety factors)	(81)	(391)	(1,204)	(1)	-	(1,677)
Impact of safety factors on collateral	61	225	842	-	-	1,128
Total current credit exposure after credit risk mitigation	**763**	**1,722**	**150**	-	**32**	**2,667**

						As of March 31, 2011
Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives[(2)]	Total
Face value of derivatives after impact of add-on factor	256	1,392	46	1	67	1.762
Positive fair value, gross, of financial derivatives[(1)]	437	1,627	979	2	1	3.046
Total exposure with respect to derivatives	**693**	**3,019**	**1.025**	3	**68**	**4.808**
Collateral with respect to derivatives (before safety factors)	(13)	(466)	(1,543)	(4)	-	(2,026)
Impact of safety factors on collateral	8	221	785	1	-	1.015
Total current credit exposure after credit risk mitigation	**688**	**2,774**	**267**	-	**68**	**3.797**

						As of March 31, 2011
Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives[(2)]	Total
Face value of derivatives after impact of add-on factor	307	1,297	22	-	49	1.675
Positive fair value, gross, of financial derivatives[(1)]	1,097	1,075	522	-	-	2.694
Total exposure with respect to derivatives	**1,404**	**2,372**	**544**	**-**	**49**	**4,369**
Collateral with respect to derivatives (before safety factors)	(81)	(496)	(524)	-	-	(1,101)
Impact of safety factors on collateral	59	260	201	-	-	520
Total current credit exposure after credit risk mitigation	**1,382**	**2,136**	**221**	-	49	**3,788**

(1) Includes exposure arising from counter-party credit risk with respect to client activity on the stock exchange, calculated based on stock exchange rules.
(2) The Bank's credit derivatives operations are not classified as brokerage operations. For information about transactions to buy and sell credit protection, see Note 7A to the financial statements.

Securitization

The Bank does not operate in the field of asset securitization. It is Bank policy to avoid, in principle, investment in complex securitization instruments. The Bank has invested in the past in a limited number of complex securitization instruments, such as CDO and CLO, and these comprise the current portfolio.

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

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

			As of March 31, 2011
	Risk weighting	Exposure amount	Capital requirements(1)
BB+ to BB-	350%	8	3
B+ or lower	Deducted from equity	58	58
Total		**66**	**61**

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

The Bank focuses on two major market risk factors:

- Interest risk - the risk of erosion of capital as a result of future interest rate changes. The exposure to interest risk 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 descrined 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):

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

						March 31, 2011
						Change in fair value
		Israeli currency				Foreign currency
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	98	341	47	(12)	(5)	469
2% decrease	(113)	(511)	(32)	10	6	(640)

	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 its activity.

he 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. The VaR is calculated by calculation methods commonly used around the world, including: the Monte Carlo simulation method and the historical simulation method. Furthermore, in order to improve the responsiveness of the VaR to the degree of volatility in financial markets, the Bank has developed a new VaR calculation method which implements a combination of multiple, generally accepted calculation methods. This method allows the Bank to handle situations where market volatility increases.

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

	First three months of 2012	First three months of 2011	All of 2011
At end of period	236	212	223
Maximum value during period	239 (Feb.)	252 (Feb.)	286 (Aug.)
Minimum value during period	226 (Jan.)	212 (March)	212 (March)

Basis risk

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

Below is an analysis of the sensitivity of Bank Group capital to changes in major exchange rates and in the CPI (before tax effect) as of March 31, 2012:

Capital increase (erosion), NIS in millions

			Scenarios		Extreme scenario(1)	historical
	10% increase	5% increase	5% decrease	10% decrease	Maximum increase	Maximum decrease
CPI	668.7	334.3	(334.3)	(668.7)	103.0	(57.5)
Dollar	124.0	62.6	(66.9)	(137.1)	41.8	(36.2)
Pound Sterling	(4.1)	(2.2)	1.7	2.7	(1.6)	1.4
Yen	(1.2)	(1.0)	1.3	2.7	(1.0)	1.0
Euro	47.0	23.5	(18.9)	(32.2)	17.7	(12.7)
Swiss Franc	1.8	0.9	(0.9)	(0.4)	0.7	(1.1)

(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]			
		Linked to				
	Non-linked	CPI	Dollar	Euro	Other	Total
March 31, 2012						
Financial assets[1]	79,542	48,787	13,863	3,336	2,271	147,799
Amounts receivable with respect to financial derivatives[3]	71,473	5,206	51,897	10,329	7,145	146,050
Financial liabilities[1]	(77,354)	(36,819)	(19,589)	(4,415)	(2,108)	(140,285)
Amounts payable with respect to financial derivatives[3]	(74,788)	(9,646)	(46,071)	(9,430)	(7,164)	(147,099)
Total	**(1,127)**	**7,528**	**100**	**(180)**	**144**	**6,465**
December 31, 2011						
Financial assets[1]	79,376	46,950	14,884	3,402	2,358	146,970
Amounts receivable with respect to financial derivatives[3]	71,613	4,963	44,939	9,745	7,870	139,130
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	
		Linked to					NIS in	
	Non-linked	CPI	Dollar	Euro	Other	Total	millions	In %
March 31, 2012								
Change in interest rates:								
Concurrent immediate increase of 1%	(960)	7,375	31	(198)	133	6,381	(84)	(1.3%)
Concurrent immediate increase of 0.1%	(1,107)	7,509	119	(175)	146	6,492	27	0.4%
Concurrent immediate decrease of 1%	(1,331)	7,821	160	(161)	153	6,642	177	2.7%
December 31, 2011								
Change in interest rates:								
Concurrent immediate increase of 1%	1,674	4,882	265	(43)	(85)	6,693	(31)	(0.5%)
Concurrent immediate increase of 0.1%	1,544	4,984	316	(42)	(76)	6,726	2	-
Concurrent immediate decrease of 1%	1,352	5,238	380	(37)	(64)	6,869	145	2.2%

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

(2) Includes Israeli currency linked to foreign currency.

(3) Amounts receivable (and payable) with respect to financial derivatives, discounted using interest rates used for calculation of the fair value.

(4) Net fair value of financial instruments presented in each linkage segment is the net fair value for this segment, assuming the indicated change in all interest rates in the linkage segment. Total net fair value of financial instruments is the net fair value of all financial instruments (excluding non-monetary items), assuming the indicated change in all interest rates in all linkage segments.

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

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

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

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

	As of March 31, 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]	3	56	59	3	40	43
Equity risk	-	-	-	-	-	-
Foreign currency exchange rate risk	-	65	65	-	42	42
Total market risk	**3**	**121**	**124**	**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.

Operating risk

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

Equity positions in bank portfolio

For details of equity investments in the Bank's portfolio, see Note 2 to the financial statements. The investment balance includes investments in negotiable and public shares amounting to NIS 6 million, and investment in non-public shares amounting to NIS 95 million.

		As of March 31, 2012
	Fair value	Capital requirement(1)
Shares	68	6
Venture capital / private equity funds	33	3
Total equity investment in bank portfolio	**101**	**9**

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

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

Legal risk

Proper Conduct of Banking Business regulation 339 (Risk Management) prescribes, inter alia, that banking corporations must take action to reduce the legal risk resulting from their various operations. Legal risk is defined in this regulation as "the risk of a loss resulting from not having the possibility of legally enforcing an agreement". Proper Conduct of Banking Business Regulation 206 (Measurement and Capital Adequacy - Operating Risk) defines legal risk in conjunction with operating risk to include, inter alia, exposure to fines or penalties arising from supervisory action, as well as from individual arrangements.

The Bank regards legal risk in its wider definition, with regard to 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, reporting to the Chief Legal Counsel; the Board of Directors has put in place a Compliance Plan. 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

The Compliance Officer is also responsible for application of the Prohibition of Money Laundering Act, and of the Prohibition of Financing Terrorism Act. 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's Board of Directors in May 2010, and statutory provisions on a group basis, with mandated changes, at its subsidiaries and affiliates in Israel and overseas.

Risk factors

For a discussion of the risk factors that impact the Bank and its activities, see the discussion in the chapter on risk management above. A mapping of the risk factors and their impact on the Bank Group are presented below:

Risk factor	Risk factor impact
Overall effect of credit risk	Intermediate
Risk from quality of borrowers and collateral	Intermediate
Risk from industry concentration	Intermediate
Risk from concentration of borrowers/ borrower groups	Intermediate
Overall effect of market risk	Low
Interest risk	Intermediate
Inflation risk	Low
Exchange rate risk	Low
Share price risk	Low
Liquidity risk	Intermediate
Operating risk	Low
Legal risk	Low
Reputation risk (1)	Low

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

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

Market risk

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

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

Other risk

The degree of influence of credit risk, liquidity risk, operational risk, legal risk and goodwill risk – were determined based on management's assessments, as performed from time to time, and in coordination with the ICAAP process conducted by the Bank, and its outcome under leadership of the Bank's risk managers, and took into account both qualitative and quantitative aspects, including the Bank's risk profile, outcome of various scenarios at the Bank and the capital planning process.

Significant events in the Bank Group's business

Options to employees

On April 30, 2012, the Bank Board of Directors resolved, after approval by the Bank's 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. For details see Note 12.2. to the financial statements.

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, necessitating 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 is effective 30 days after its publication. The Bank is preparing to implement the Act, and Bank management believes its implementation would have no material effect on Bank operations.

Value Added Tax Order (Tax Rate on Transactions and on Import of Goods) (Interim Directive), 2010

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%. Consequently, the overall tax rate applicable to the Bank as from 2013 would be 35.34%, instead of 35.06% as it has been previously. The effect of this change on the financial statements is not material.

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

For details of highlights of recommendations of the Basel Committee and their application to banks in Israel and their implementation by the Bank, see the Board of Directors' Report as of December 31, 2011.
In conjunction with application of Basel II, Pillar 2 (Proper Conduct of Banking Business Regulation 211 - ICAAP Process), all risk types material to Bank operations have been mapped, and ways to manage, measure and mitigate risk have been specified for the various risk factors. ICAAP is a comprehensive process in which senior Bank executives are involved. The Bank has specified its risk appetite for all material risk types to its operations, authored policy documents for new risk types and extended existing policy documents, in conjunction with the ICAAP process. The risk appetite, risk mapping and determination of their materiality are submitted for approval by the Board of Directors' Risk Management Committee and the Board of Directors plenum, on annual basis.
On April 30, 2012, the Bank submitted to the Bank of Israel its ICAAP document (as of December 31, 2010), which reflects the Bank's assessment of the capital required to cover all risk to which the Bank is exposed in conjunction with its business operations, as per guidance from the Bank of Israel, and in coordination with Bank of Israel comments on the SREP process conducted at the Bank, received on September 27, 2011 in reference to the previous ICAAP document submitted by the Bank, as of December 31, 2010.
Results of the capital assessments conducted within this document, indicate that the Bank has sufficient capital to cover all risk factors to which it is exposed, both under normal and stress conditions.
In conjunction with application of Pillar 2, the Bank continues in accordance with the work plan to regularly eliminate gaps identified vis-à-vis requirements of the Basel Committee in various risk areas, to deliver appropriate training to work teams on issues concerning process usability, operation of qualitative assessment processes for review of the Bank's risk management quality, and improvement of the Bank's risk management and capital management policy documents in line with Pillar 2 directives.

Legal Proceedings

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

Motion to impose monetary sanction on the Bank

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

Monetary sanction imposed on subsidiary

On March 29, 2012, the Bank's 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 335,000, 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, withuot 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 709,000 to NIS 335,000, inter alia due to the fact that these errors were corrected, and clients received management fee credit with respect to the aforementioned securities.

Other Matters

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

Executive Management

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

Internal Auditor

Details of the internal audit within the Group, including the professional standards applied by the 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 changed to Bank accounting policy on critical issues, which are listed on the Board of Directors' report on the financial statements as of December 31, 2011.

Fair value

Instruments measured at fair value on recurring basis on the financial statements are treated and presented based on codification in US accounting standards ASC 815 and ASC 820. According to the Public Reporting Regulations, securities in the available-for-sale portfolio and in the held-for-trade portfolio, as well as derivatives, are presented at fair value on the balance sheet. ASC 820 (FAS 157) defines fair value, and 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.

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.

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

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 itemized in the Board of Directors' report below. The processes of preparing, auditing and approving the financial statements involve additional organs and officers as described below.

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

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 the Bank's 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 their discussion by the Board of Directors. In conjunction with discussion by the Board of Directors, the Chief Accountant presents the financial results with an analysis. 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

During the first quarter of 2012, the Bank Board of Directors held 3 plenary meetings and 24 Board committee meetings.

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 March 31, 2012, no change occurred in the Bank's internal controls over financial reporting that had a material effect, or can reasonably be expected to have a material effect on the Bank's internal control over financial reporting.

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

Ramat Gan, May 28, 2012

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

Reported amounts (NIS in millions)

	For the three months ended March 31, 2012				For the three months ended March 31, 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]	78,762	888	4.59		69,206	695	4.08	
Effect of embedded and ALM derivatives [4]	67,118	267			73,310	415		
Total assets	**145,880**	**1,155**		**3.20**	**142,516**	**1,110**		**3.15**
Liabilities [3]	77,034	(402)	(2.10)		66,732	(277)	(1.67)	
Effect of embedded and ALM derivatives [4]	65,967	(303)			71,119	(272)		
Total liabilities	**143,001**	**(705)**		**(1.99)**	**137,851**	**(549)**		**(1.60)**
Interest margin			**2.48**	**1.22**			**2.41**	**1.55**
Israeli currency - linked to the CPI								
Assets [3]	46,922	417	3.60		43,456	743	7.02	
Effect of embedded and ALM derivatives [4]	5,040	1			3,466	37		
Total assets	**51,962**	**418**		**3.26**	**46,922**	**780**		**6.82**
Liabilities [3]	33,096	(269)	(3.29)		33,736	(553)	(6.72)	
Effect of embedded and ALM derivatives [4]	10,007	(38)			9,516	(111)		
Total liabilities	**43,103**	**(307)**		**(2.88)**	**43,252**	**(664)**		**(6.28)**
Interest margin			**0.31**	**0.38**			**0.30**	**0.53**

See remarks below.

Management Review - Addendum A

Revenue and Expense Rates – Consolidated[1] - Continued

Reported amounts (NIS in millions)

	For the three months ended March 31, 2012				For the three months ended March 31, 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]	21,113	(246)	(4.58)		19,604	56	1.15	
Effect of derivatives [4]								
Hedging derivatives	2,752	3			2,438	27		
Embedded and ALM derivatives	53,719	(925)			53,641	47		
Total assets	**77,584**	**(1,168)**		**(5.89)**	**75,683**	**130**		**0.69**
Liabilities[3]	26,243	415	6.18		22,864	1	0.02	
Effect of derivatives [4]								
Hedging derivatives	2,752	(1)			2,438	(31)		
Embedded and ALM derivatives	48,607	879			49,779	(67)		
Total liabilities	**77,602**	**1,293**		**6.50**	**75,081**	**(97)**		**(0.52)**
Interest margin			**1.60**	**0.61**			**1.17**	**0.17**

See remarks below.

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

Reported amounts (NIS in millions)

	For the three months ended March 31, 2012				For the three months ended March 31, 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]	146,797	1,059	2.92		132,266	1,494	4.60	
Effect of derivatives[4]								
Hedging derivatives	2,752	3			2,438	27		
Embedded and ALM derivatives	125,877	(657)			130,417	499		
Total assets	**275,426**	**405**		**0.59**	**265,121**	**2,020**		**3.08**
Monetary liabilities generating financing expenses [3]	136,373	(256)	(0.75)		123,332	(829)	(2.72)	
Effect of derivatives [4]								
Hedging derivatives	2,752	(1)			2,438	(31)		
Embedded and ALM derivatives	124,581	538			130,414	(450)		
Total liabilities	**263,706**	**281**		**0.43**	**256,184**	**(1,310)**		**(2.06)**
Interest margin			**2.16**	**1.02**			**1.88**	**1.02**
On options			7				[9] (71)	
With respect to other derivative instruments (excludes options, hedging and ALM derivatives and embedded derivatives that were detached)[5]			9				29	
Commissions from financing transactions and other financing revenues[6]			124				92	
Other financing expenses			(6)				(8)	
Profit from financing operations before expenses with respect to credit loss			820				752	
Expenses with respect to credit loss			(67)				(54)	
Profit from financing operations after expenses with respect to credit loss			**753**				**698**	

See remarks below.

Management Review - Addendum A

Revenue and Expense Rates – Consolidated[1] - Continued

Reported amounts (NIS in millions)

	For the three months ended March 31, 2012	For the three months ended March 31, 2011
	Average balance [2]	**Average balance [2]**
Total		
Monetary assets generating financing revenues[3]	146,797	132,266
Assets derived from derivative instruments [7]	2,430	3,006
Other monetary assets [3]	759	850
Provision for credit loss on Group basis[8]	(1,668)	(2,590)
Total monetary assets	**148,318**	**133,532**
Total		
Monetary liabilities generating financing expenses[3]	136,373	123,332
Liabilities deriving from derivatives [7]	3,222	2,173
Other monetary liabilities[3]	1,743	1,797
Total monetary liabilities	**141,338**	**127,302**
Total excess monetary assets over monetary liabilities	6,980	6,230
Non-monetary assets	1,496	1,436
Non-monetary liabilities	266	284
Total capital resources	**8,210**	**7,382**

(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) For the three months ended March 31, 2011, the average balance of the general and supplementary provision for doubtful debts is presented.

(9) Reclassified.

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

Nominal – in USD (USD in millions)

	For the three months ended March 31, 2012				For the three months ended March 31, 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)]	6,113	49	3.25		5,122	32	2.52	
Effect of derivatives[(4)]								
Hedging derivatives	730	1			677	5		
Embedded and ALM derivatives	14,242	47			14,886	25		
Total assets	**21,085**	**97**		**1.85**	**20,685**	**62**		**1.20**
Monetary liabilities in foreign currency generating financing expenses[(3)]	7,115	(26)	(1.47)		6,268	(10)	(0.64)	
Effect of derivatives [(4)]								
Hedging derivatives	730	-			677	(5)		
Embedded and ALM derivatives	12,886	(33)			13,814	(19)		
Total liabilities	**20,731**	**(59)**		**(1.14)**	**20,759**	**(34)**		**(0.66)**
Interest margin			**1.78**	**0.71**			**1.88**	**0.55**

(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)

	March 31, 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]	66,922	3,443	2,453	3,166	1,816	1,309
Financial derivatives (except for options)	15,015	20,673	19,131	6,229	1,977	4,914
Options (in terms of underlying asset)	850	987	1,673	24	-	-
Total fair value	**82,787**	**25,103**	**23,257**	**9,419**	**3,793**	**6,223**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities[1]	55,738	4,816	8,227	5,344	2,688	429
Financial derivatives (except for options)	20,130	20,280	15,493	5,604	2,561	5,744
Options (in terms of underlying asset)	756	2,458	1,511	24	-	-
Total fair value	**76,624**	**27,554**	**25,231**	**10,972**	**5,249**	**6,173**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	6,163	(2,451)	(1,974)	(1,553)	(1,456)	50
Cumulative exposure in sector	6,163	3,712	1,738	185	(1,271)	(1,221)

Specific remarks:

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

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

General note:

- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value recognized for the financial instruments in Note 8a to the financial statements.
- Internal rate of return is the interest rate which discounts the expected cash flows from a financial instrument to its fair value recognized under Note 8a to the financial statements.
- Average effective duration of a group of financial instruments is an approximation of the change, in percent, in fair value of the group of financial instruments which would be caused by a minor change (0.1% increase) in the internal rate of return of each of the financial instruments.
- Certain transactions conducted by the Bank constitute complex financial instruments, which include embedded derivatives not detached, in accordance with public reporting directives. These transactions include, inter alia, loans with exit points, deposits bearing gradual interest rates with withdrawal dates, credit and deposits with guaranteed minimum and deposits with optional linkage. The Bank reflects the interest rate risk with respect to these instruments in a reasonable manner, by spreading maturities of the cash flows in accordance with contract dates, and with various assumptions based on past experience. The instruments for which exposure to interest rate risk may not be reasonably reflected by spreading it over the appropriate contractual dates, are non-material in amount.

						As of March 31, 2011			As of December 31, 2011			
10-20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective term to maturity	Total fair value	Internal rate of return	Average effective term to maturity	Total fair value	Internal rate of return	Average effective term to maturity
				In %	in years		In %	in years		In %	in years
146	-	287	79,542	4.18	0.61	72,303	4.45	0.45	79,376	4.37	0.46
-	-	-	67,939		1.09	70,956		0.94	67,346		1.10
-	-	-	3,534		0.68	(1,096)		0.18	4,267		0.68
146	**-**	**287**	**151,015**		**0.83**	**142,163**		**0.70**	**150,989**		**0.75**
159	(47)	-	77,354	2.80	0.45	70,091	3.82	0.32	78,478	2.75	0.41
227	-	-	70,039		1.38	67,310		1.16	65,125		1.42
-	-	-	4,749		0.56	517		0.49	5,860		0.56
386	**(47)**	**-**	**152,142**		**0.88**	**137,918**		**0.73**	**149,463**		**0.86**
(240)	47	287	(1,127)			4,245			1,526		
(1,461)	(1,414)	(1,127)	(1,127)								

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

Reported amounts (NIS in millions)

	As of March 31, 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)	847	2,789	11,139	14,493	12,020	5,693
Financial derivatives (except for options)	5	301	994	1,521	677	1,708
Total fair value	**852**	**3,090**	**12,133**	**16,014**	**12,697**	**7,401**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities(1)	795	1,989	7,112	10,140	6,330	8,402
Financial derivatives (except for options)	327	291	4,217	2,972	516	1,323
Total fair value	**1,122**	**2,280**	**11,329**	**13,112**	**6,846**	**9,725**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	(270)	810	804	2,902	5,851	(2,324)
Cumulative exposure in sector	(270)	540	1,344	4,246	10,097	7,773

Specific remarks:

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

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

General note:

- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value recognized for the financial instruments in Note 8a to the financial statements.
- Internal rate of return is the interest rate which discounts the expected cash flows from a financial instrument to its fair value recognized under Note 8a to the financial statements.
- Average effective duration of a group of financial instruments is an approximation of the change, in percent, in fair value of the group of financial instruments which would be caused by a minor change (0.1% increase) in the internal rate of return of each of the financial instruments.
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						As of March 31, 2011			As of December 31, 2011		
10-20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective term to maturity	Total fair value	Internal rate of return	Average effective term to maturity	Total fair value	Internal rate of return	Average effective term to maturity
				In %	in years		In %	in years		In %	in years
1,544	9	253	48,787	2.85	3.07	43,632	2.90	2.75	46,950	3.10	3.11
-	-	-	5,206		4.13	3,508		3.25	4,963		4.17
1,544	**9**	**253**	**53,993**		**3.17**	**47,140**		**2.79**	**51,913**		**3.21**
1,714	335	2	36,819	2.45	4.12	34,256	3.12	4.51	36,180	2.44	4.19
-	-	-	9,646		1.79	10,016		1.48	10,742		1.63
1,714	**335**	**2**	**46,465**		**3.64**	**44,272**		**3.82**	**46,922**		**3.60**
(170)	(326)	251	7,528			2,868			4,991		
7,603	7,277	7,528	7,528								

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

Reported amounts (NIS in millions)

	As of March 31, 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)	8,699	5,674	2,100	511	1,468	833
Financial derivatives (except for options)	29,232	16,030	10,148	2,145	1,451	4,179
Options (in terms of underlying asset)	1,194	2,835	1,740	121	-	-
Total fair value	**39,125**	**24,539**	**13,988**	**2,777**	**2,919**	**5,012**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities(2)	13,828	8,147	3,801	182	45	90
Financial derivatives (except for options)	19,874	13,033	14,667	2,428	2,522	5,047
Options (in terms of underlying asset)	1,274	1,348	1,902	115	-	-
Total fair value	**34,976**	**22,528**	**20,370**	**2,725**	**2,567**	**5,137**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	4,149	2,011	(6,382)	52	352	(125)
Cumulative exposure in sector	4,149	6,160	(222)	(170)	182	57

Specific remarks:

(1) Includes Israeli currency linked to foreign currency.

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

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

General note:

- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value recognized for the financial instruments in Note 8a to the financial statements.
- Internal rate of return is the interest rate which discounts the expected cash flows from a financial instrument to its fair value recognized under Note 8a to the financial statements.
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- Certain transactions conducted by the Bank constitute complex financial instruments, which include embedded derivatives not detached, in accordance with public reporting directives. These transactions include, inter alia, loans with exit points, deposits bearing gradual interest rates with withdrawal dates, credit and deposits with guaranteed minimum and deposits with optional linkage. The Bank reflects the interest rate risk with respect to these instruments in a reasonable manner, by spreading maturities of the cash flows in accordance with contract dates, and with various assumptions based on past experience. The instruments for which exposure to interest rate risk may not be reasonably reflected by spreading it over the appropriate contractual dates, are non-material in amount.

						As of March 31, 2011			As of December 31, 2011		
10-20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective term to maturity	Total fair value	Internal rate of return	Average effective term to maturity	Total fair value	Internal rate of return	Average effective term to maturity
				In %	in years		In %	in years		In %	in years
271	11	(97)	19,470	3.24	0.90	17,365	2.64	0.83	20,644	3.20	0.71
296	-	-	63,481		1.70	56,603		1.21	55,682		1.68
-	-	-	5,890		0.66	2,558		0.47	6,872		0.72
567	**11**	**(97)**	**88,841**		**1.46**	**76,526**		**1.10**	**83,198**		**1.36**
15	-	4	26,112	1.09	0.24	22,562	1.57	0.28	24,764	1.67	0.22
455	-	-	58,026		1.39	55,137		1.24	53,368		1.39
-	-	-	4,639		0.83	(720)		0.46	4,859		0.88
470	**-**	**4**	**88,777**		**1.02**	**76,979**		**0.97**	**82,991**		**1.01**
97	11	(101)	64			(453)			207		
154	165	64	64								

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

Reported amounts (NIS in millions)

	As of March 31, 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)	21	(12)	(3)	(2)	-	-
Total fair value	**21**	**(12)**	**(3)**	**(2)**	**-**	**-**
Total exposure to interest rate fluctuations						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets (1)(2)	76,468	11,906	15,692	18,170	15,304	7,835
Financial derivatives (except for options)	44,252	37,004	30,273	9,895	4,105	10,801
Options (in terms of underlying asset)	2,065	3,810	3,410	143	-	-
Total fair value	**122,785**	**52,720**	**49,375**	**28,208**	**19,409**	**18,636**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities(1)	70,361	14,952	19,140	15,666	9,063	8,921
Financial derivatives (except for options)	40,331	33,604	34,377	11,004	5,599	12,114
Options (in terms of underlying asset)	2,030	3,806	3,413	139	-	-
Total fair value	**112,722**	**52,362**	**56,930**	**26,809**	**14,662**	**21,035**
Financial instruments, net						
Total exposure to interest rate fluctuations	10,063	358	(7,555)	1,399	4,747	(2,399)
Total cumulative exposure	10,063	10,421	2,866	4,265	9,012	6,613

Specific remarks:

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

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

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

General note:

- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value recognized for the financial instruments in Note 8a to the financial statements.
- Internal rate of return is the interest rate which discounts the expected cash flows from a financial instrument to its fair value recognized under Note 8a to the financial statements.
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						As of March 31, 2011			As of December 31, 2011		
10-20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective term to maturity	Total fair value	Internal rate of return	Average effective term to maturity	Total fair value	Internal rate of return	Average effective term to maturity
				In %	in years		In %	in years		In %	in years
-	-	-	4	-	-	(8)	-	-	(25)	-	-
-	**-**	**-**	**4**	**-**	**-**	**(8)**	**-**	**-**	**(25)**	**-**	**-**
1,961	20	443	147,799	3.61	1.46	133,300	3.71	1.25	146,970	3.80	1.34
296	-	-	136,626		1.49	131,067		1.12	127,991		1.47
-	-	-	9,428		0.66	1,454		0.68	11,114		0.70
2,257	**20**	**443**	**293,853**		**1.45**	**265,821**		**1.18**	**286,075**		**1.38**
1,888	288	6	140,285	2.39	1.37	126,909	3.23	1.45	139,422	2.48	1.35
682	-	-	137,711		1.41	132,463		1.22	129,235		1.43
-	-	-	9,388		0.69	(203)		0.39	10,719		0.70
2,570	**288**	**6**	**287,384**		**1.37**	**259,169**		**1.33**	**279,376**		**1.36**
(313)	(268)	437	6,469			6,652			6,699		
6,300	6,032	6,469	6,469								

Management Review - Addendum C

Credit Risk by Economic Sector - Consolidated

As of March 31, 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	607	-	1	608	218	3	221
Industry	6,293	89	111	6,493	4,024	495	4,519
Construction and real estate [7]	8,427	36	4	8,467	16,473	9	16,482
Electricity and water	431	61	82	574	940	571	1,511
Commerce	6,718	-	38	6,756	1,777	62	1,839
Hotel and food services	305	-	3	308	135	15	150
Transport and storage	907	-	4	911	408	9	417
Communications and computer services	1,477	15	7	1,499	821	23	844
Financial services	5,312	-	676	5,988	7,707	921	8,628
Other business services	3,521	-	11	3,532	752	12	764
Public and community services	909	-	2	911	370	238	608
Private individuals - housing loans	72,134	-	-	72,134	3,863	-	3,863
Private individuals - other	12,272	-	4	12,276	9,563	9	9,572
Total	**119,313**	**201**	**943**	**120,457**	**47,051**	**2,367**	**49,418**
For borrowers' activities overseas	2,758	42	6	2,806	282	3	285
Total credit risk to public	**122,071**	**243**	**949**	**123,263**	**47,333**	**2,370**	**49,703**
Credit risk exposures other than with respect to the public:							
Banking Corporations	3,537	575	771	4,883	244	1,966	2,210
Government	11,858	10,245	-	22,103	160	-	160
Total credit risk	**137,466**	**11,063**	**1,720**	**150,249**	**47,737**	**4,336**	**52,073**
Credit risk to public included under various economic sectors:							
Settlement movements [4]	1,059	-	6	1,065	577	19	596
Local authorities [5]	179	-	-	179	24	-	24

(1) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits. Data is in accordance with definition of indebtedness in Regulation 313, as amended in 2011. Comparative figures are presented in accordance with Regulation 313 prior to the amendment.
(2) On- and off-balance sheet credit risk with respect to the public which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).
(4) Kibbutzim and Moshavim, regional and national organizations, and corporations controlled by the settlement movements.
(5) Includes corporations under their control.
(6) Includes borrowed securities amounting to NIS 211 million.
(7) Includes housing loans extended to certain purchase groups which are in the process of construction, amounting to NIS 2,890 million (1,453 on-balance sheet risk, 1,437 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
829	16	6	-	-	11
11,012	205	145	(11)	6	102
24,949	831	279	12	13	149
2,085	1	-	-	-	1
8,595	281	99	8	6	135
458	17	9	(2)	1	7
1,328	7	5	(1)	-	7
2,343	15	15	(2)	-	19
14,616	707	287	45	(9)	199
4,296	513	484	(1)	2	84
1,519	51	20	(2)	(1)	8
75,997	1,688	-	4	15	853
21,848	198	46	13	13	184
169,875	**4,530**	**1,395**	**63**	**46**	**1,759**
3,091	17	13	-	-	10
172,966	**4,547**	**1,408**	**63**	**46**	**1,769**
7,093	4	4	4	-	18
22,263	-	-	-	-	-
202,322	**4,551**	**1,412**	**67**	**46**	**1,787**
1,661	37	20	3	(1)	19
203	18	-	-	-	-

Management Review - Addendum C (continued)
Credit Risk by Economic Sector - Consolidated
As of March 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	Total credit risk of the public
Agriculture	618	-	-	618	207	5	212	830
Industry	5,866	18	39	5,923	4,460	478	4,938	10,861
Construction and real estate [7]	7,056	43	2	7,101	12,456	43	12,499	19,600
Electricity and water	157	24	188	369	1,234	241	1,475	1,844
Commerce	5,898	-	22	5,920	2,262	153	2,415	8,335
Hotel and food services	284	-	-	284	99	-	99	383
Transport and storage	848	-	26	874	526	107	633	1,507
Communications and computer services	1,525	23	16	1,564	295	74	369	1,933
Financial services	5,851	25	962	6,838	8,180	2,309	10,489	17,327
Other business services	3,178	-	4	3,182	764	80	844	4,026
Public and community services	877	-	10	887	245	111	356	1,243
Private individuals - housing loans	63,978	-	-	63,978	3,126	-	3,126	67,104
Private individuals - other	12,020	-	20	12,040	9,662	47	9,709	21,749
Total	**108,156**	**133**	**1,289**	**109,578**	**43,516**	**3,648**	**47,164**	**156,742**
For borrowers' activities overseas	2,953	-	9	2,962	560	81	641	3,603
Total credit risk to public	**111,109**	**133**	**1,298**	**112,540**	**44,076**	**3,729**	**47,805**	**160,345**
Credit risk exposures other than with respect to the public:								
Banking Corporations	2,597	777	1,926	5,300	389	10,237	10,626	15,926
Government	11,553	4,842	-	16,395	276	-	276	16,671
Total credit risk	**125,259**	**5,752**	**3,224**	**134,235**	**44,741**	**13,966**	**58,707**	**192,942**
Credit risk to public included under various economic sectors:								
Settlement movements [4]	1,118	-	1	1,119	443	14	457	1,576
Local authorities [5]	171	-	-	171	26	-	26	197

(1) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits.
(2) On- and off-balance sheet credit risk with respect to the public which is impaired, inferior or under special supervision, except for on- and off-balance sheet credit risk with respect to individuals.
(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 173 million.
(7) Including housing loans extended to certain purchase groups which are in the process of construction, amounting to NIS 2,405 million.
Note: Credit risk and problem debt are stated net of the specific provisions for doubtful debts.

Credit risk to the public				Credit loss [3]
	Credit risk to the public includes:			
Troubled commercial credit risk [2]	Impaired loans to the public	Expenses with respect to credit loss	Net accounting write-off	Balance of provision for credit loss
13	11	(4)	13	3
302	201	(3)	32	117
1,086	361	8	(62)	136
1	-	-	-	-
170	102	4	24	80
14	8	1	3	5
22	10	(2)	-	9
20	17	-	2	20
720	572	(19)	(5)	283
121	102	23	17	64
117	74	-	17	10
-	-	10	14	932
-	158	29	(6)	180
2,586	**1,616**	**47**	**49**	**1,839**
34	54	-	-	34
2,620	**1,670**	**47**	**49**	**1,873**
14	14	7	-	16
-	-	-	-	-
2,634	**1,684**	**54**	**49**	**1,889**
153	82	6	19	16
20	-	-	-	3

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	94	191	6,431	3,483	322	3,805
Construction and real estate [7]	8,199	37	6	8,242	13,507	9	13,516
Electricity and water	379	48	76	503	613	554	1,167
Commerce	6,747	-	38	6,785	1,820	48	1,868
Hotel and food services	293	-	1	294	133	1	134
Transport and storage	890	-	11	901	352	11	363
Communications and computer services	1,489	23	7	1,519	973	22	995
Financial services	5,821	22	951	6,794	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**	**224**	**1,311**	**119,685**	**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**	**239**	**1,318**	**122,523**	**43,909**	**2,164**	**46,073**
Credit risk exposures other than with respect to the public:							
Banking Corporations	2,545	551	1,420	4,516	292	2,688	2,980
Government	12,842	7,496	-	20,338	190	-	190
Total credit risk	**136,353**	**8,286**	**2,738**	**147,377**	**44,391**	**4,852**	**49,243**
Credit risk to public included under various economic sectors:							
Settlement movements [4]	1,076	-	187	1,263	472	650	1,122
Local authorities [5]	183	-	-	183	30	-	30

(1) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits. Data is in accordance with definition of indebtedness in Regulation 313, as amended in 2011. Comparative figures are presented in accordance with Regulation 313 prior to the amendment.
(2) On- and off-balance sheet credit risk with respect to the public which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).
(4) Kibbutzim and Moshavim, regional and national organizations, and corporations controlled by the settlement movements.
(5) Includes corporations under their control.
(6) Includes borrowed securities amounting to NIS 136 million.
(7) Includes housing loans extended to certain purchase groups which are in the process of construction, amounting to NIS 2,870 million (1,342 on-balance sheet risk, 1,528 off-balance sheet risk).

Credit risk to the public					Credit loss [3]
Credit risk to the public includes:					
Total credit risk of the public	Troubled credit risk [2]	Impaired loans to the public	Annual expense with respect to credit loss for 2011.	Net accounting write-off	Balance of provision for credit loss
818	10	5	7	12	4
10,236	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
16,382	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
165,425	**4,176**	**1,601**	**329**	**515**	**1,742**
3,171	23	21	4	22	10
168,596	**4,199**	**1,622**	**333**	**537**	**1,752**
7,746	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 three months ended March 31, 2012

Reported amounts (NIS in millions)

	Balance sheet credit risk				Off-balance sheet credit risk [1]			
	Credit	Debentures [5]	Fair value of derivatives	Total	Guarantees and other commitments on account of clients	Future transactions	Total	Total credit risk of the public
Agriculture	611	0	2	613	210	4	214	827
Industry	6,102	67	114	6,283	3,989	432	4,421	10,704
Construction and real estate	7,894	39	4	7,937	14,145	20	14,165	22,102
Electricity and water	322	44	115	481	929	455	1,384	1,865
Commerce	6,454	-	33	6,487	1,953	88	2,041	8,528
Hotel and food services	294	-	2	296	122	8	130	426
Transport and storage	882	-	14	896	429	42	471	1,367
Communications and computer services	1,497	20	10	1,527	696	40	736	2,263
Financial services	5,661	16	863	6,540	8,186	1,383	9,569	16,109
Other business services	3,460	-	10	3,470	696	34	730	4,200
Public and community services	898	-	6	904	322	198	520	1,424
Private individuals - housing loans	68,952	-	-	68,952	3,532	-	3,532	72,484
Private individuals - other	12,179	-	11	12,190	9,507	24	9,531	21,721
Total	**115,206**	**186**	**1,184**	**116,576**	**44,716**	**2,728**	**47,444**	**164,020**
For borrowers' activities overseas	2,842	29	7	2,878	390	29	419	3,297
Total credit risk to public	**118,048**	**205**	**1,191**	**119,454**	**45,106**	**2,757**	**47,863**	**167,317**
Credit risk exposures other than with respect to the public:								
Banking Corporations	2,893	634	1,372	4,899	308	4,964	5,272	10,171
Government	12,084	7,528	-	19,612	209	-	209	19,821
Total credit risk	**133,025**	**8,367**	**2,563**	**143,965**	**45,623**	**7,721**	**53,344**	**197,309**
Credit risk to the public included under various economic sectors:								
Settlement movements [3]	1,084	-	65	1,149	497	228	725	1,874
Local authorities [4]	178	-	-	178	27	-	27	205

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

Management Review - Addendum C (continued)

Credit Risk by Economic Sector - Average balances - Consolidated

For the three months ended March 31, 2011

Reported amounts (NIS in millions)

	Balance sheet credit risk				Off-balance sheet credit risk [1]			
	Credit	Debentures [5]	Fair value of derivatives	Total	Guarantees and other commitments on account of clients	Future transactions	Total	Total credit risk of the public
Agriculture	625	-	0	625	206	3	210	835
Industry	5,606	18	36	5,659	4,475	417	4,892	10,551
Construction and real estate	7,171	44	3	7,217	12,455	32	12,488	19,705
Electricity and water	238	24	216	478	1,094	251	1,346	1,824
Commerce	5,791	-	19	5,810	2,207	157	2,364	8,175
Hotel and food services	263	-	-	263	89	-	89	352
Transport and storage	810	-	28	838	522	94	616	1,454
Communications and computer services	1,539	23	16	1,579	302	81	383	1,962
Financial services	6,553	35	1,057	7,645	7,844	2,208	10,053	17,698
Other business services	3,106	-	4	3,110	864	65	929	4,039
Public and community services	875	-	5	881	298	57	355	1,236
Private individuals - housing loans	62,829	-	-	62,829	3,906	-	3,906	66,735
Private individuals - other	11,481	-	24	11,505	9,181	57	9,238	20,743
Total	**106,889**	**144**	**1,408**	**108,441**	**43,444**	**3,424**	**46,868**	**155,308**
For borrowers' activities overseas	3,107	-	9	3,116	495	76	571	3,687
Total credit risk to public	**109,996**	**144**	**1,417**	**111,557**	**43,939**	**3,500**	**47,439**	**158,996**
Credit risk exposures other than with respect to the public:								
Banking Corporations	2,055	765	1,884	4,705	393	10,753	11,145	15,850
Government	10,971	6,128	-	17,099	278	-	278	17,378
Total credit risk	**123,023**	**7,037**	**3,301**	**133,361**	**44,610**	**14,253**	**58,862**	**192,223**
Credit risk to the public included under various economic sectors:								
Settlement movements [3]	1,141	-	1	1,141	496	12	508	1,649
Local authorities [4]	169	-	-	169	26	-	26	195

(1) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits.
(2) Balance of problem loans 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.
(3) Kibbutzim and Moshavim, regional and national organizations, and corporations controlled by the settlement movements.
(4) Includes corporations under their control.
(5) Includes borrowed securities amounting to NIS 210 million.
Note: Credit risk and problem debt are stated net of the specific provisions for doubtful debts.

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 [5]	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
Electricity and water	302	21	152	475	986	321	1,307	1,782
Commerce	5,980	-	27	6,007	2,195	176	2,371	8,378
Hotel and food services	266	-	6	272	104	6	110	382
Transport and storage	857	-	17	874	479	67	546	1,420
Communications and computer services	1,515	20	13	1,548	551	74	625	2,173
Financial services	6,386	27	980	7,393	8,106	2,146	10,252	17,645
Other business services	3,299	-	6	3,305	739	57	796	4,101
Public and community services	879	-	9	888	271	127	398	1,286
Private individuals - housing loans	66,666	-	-	66,666	3,806	-	3,806	70,472
Private individuals - other	11,864	-	18	11,882	9,188	36	9,224	21,106
Total	**112,225**	**161**	**1,318**	**113,704**	**43,731**	**3,427**	**47,158**	**160,862**
For borrowers' activities overseas	2,899	6	9	2,914	391	58	449	3,363
Total credit risk to public	**115,124**	**167**	**1,327**	**116,618**	**44,122**	**3,485**	**47,607**	**164,225**
Credit risk exposures other than								-
with respect to the public:								-
Banking Corporations	2,204	670	1,789	4,663	310	9,178	9,488	14,151
Government	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 [3]	1,137	-	40	1,177	475	143	618	1,795
Local authorities [4]	175	-	-	175	31	-	31	206

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

(2) Balance of problem loans 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.

(3) Kibbutzim and Moshavim, regional and national organizations, and corporations controlled by the settlement movements.

(4) Includes corporations under their control.

(5) Includes borrowed securities amounting to NIS 136 million.

Management Review - Addendum D

Exposure to Foreign Countries - Consolidated [(1)]

Reported amounts (NIS in millions)

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

	Balance sheet exposure (2)								Off-balance sheet exposure (2)(3)			
Country	Cross-border balance sheet exposure		Balance sheet exposure of affiliates of the banking corporation in foreign country to local residents								Cross-border balance sheet exposure	
	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction with respect to local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	Balance sheet troubled commercial credit risk (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 March 31, 2012												
USA	868	937	490	490	-	1,805	31	31	1,946	-	1,242	563
UK	608	913	620	266	354	1,875	2	10	1,447	-	439	1,082
Other	1,136	2,082	-	-	-	3,218	4	6	2,009	-	2,136	1,082
Total exposure to foreign countries	**2,612**	**3,932**	**1,110**	**756**	**354**	**6,898**	**37**	**47**	**5,402**	**-**	**3,817**	**2,727**
Includes: Total exposure to LDC countries	58	240	-	-	-	298	1	4	170	-	167	131
Includes: Total exposure to Greece, Portugal, Spain, Italy and Ireland	3	10	-	-	-	13	-	-	2	-	11	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 lending limits.

Management Review - Addendum D (continued)

Exposure to Foreign Countries - Consolidated [1]

Reported amounts (NIS in millions)

Balance sheet exposure [2]										Off-balance sheet exposure [2][3]			
Country	Cross-border balance sheet exposure			Balance sheet exposure of affiliates of the banking corporation in foreign country to local residents								Cross-border balance sheet exposure	
	To govern-ments [4]	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction with respect to local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	Balance sheet troubled commercial credit risk [4]	Impaired debt	Total off-balance sheet exposure	Includes: Off-balance sheet troubled commercial credit risk	Maturing in under 1 year	Maturing in over 1 year
As of March 31, 2011													
USA	-	1,132	903	1,448	934	514	2,549	61	32	2,182	-	1,376	659
UK	-	522	1,068	558	440	118	1,708	3	36	1,704	1	524	1,066
Germany	-	779	15	-	-	-	794	-	1	1,569	-	758	36
Switzerland	-	247	140	-	-	-	387	-	-	1,002	-	316	71
Other	1	559	1,685	-	-	-	2,245	19	18	1,372	5	1,578	667
Total exposure to foreign countries	**1**	**3,239**	**3,811**	**2,006**	**1,374**	**632**	**7,683**	**83**	**87**	**7,829**	**6**	**4,552**	**2,499**
Includes: Total exposure to LDC countries	-	20	232	-	-	-	252	1	7	354	4	130	122
Includes: Total exposure to Greece, Portugal, Spain and Ireland	-	78	9	-	-	-	87	-	-	75	2	87	-
As of December 31, 2011													
USA	-	1,006	969	1,116	1,116	-	1,975	34	34	2,434	-	1,397	578
UK	-	670	919	652	320	332	1,921	-	28	1,521	-	577	1,012
Other	-	1,428	1,808	-	-	-	3,236	5	15	2,746	-	2,190	1,046
Total exposure to foreign countries	**-**	**3,104**	**3,696**	**1,768**	**1,436**	**332**	**7,132**	**39**	**77**	**6,701**	**-**	**4,164**	**2,636**
Includes: Total exposure to LDC countries	-	61	247	-	-	-	308	1	8	270	-	216	92
Includes: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	3	11	-	-	-	14	-	-	77	-	11	3

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

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

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

Reported amounts (NIS in millions)

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

As of March 31, 2012

	Balance sheet exposure	Off-balance sheet exposure
Germany	567	672
France	813	329
Total	**1,380**	**1,001**

As of March 31, 2011

	Balance sheet exposure	Off-balance sheet exposure
France	659	375

As of December 31, 2011

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

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 three-month period ended March 31, 2012 there was no exposure to foreign countries facing liquidity issues.

	For the three months ended March 31, 2011			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	18	60	78
Net change in short-term exposure	-	(3)	3	-
Exposure at end of reported period	**-**	**15**	**63**	**78**

	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 restructured.

Certification

I, ELIEZER YONES, declare that:

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

A. Yones
President

Ramat Gan, May 28, 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 March 31, 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, May 28, 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 March 31, 2012, the condensed consolidated statement of profit and loss, statements of change in equity and cash flow statements for the three month period then ended. The Board of Directors and management are responsible for preparation and presentation of financial information for this interim period, in accordance with generally accepted accounting practice in Israel (Israeli GAAP) for interim financial reporting and in accordance with directives and guidance of the Supervisor of Banks. We are responsible for expressing our conclusion as to the financial information for this interim period based on our review.

We did not review the condensed financial information of certain consolidated subsidiaries, whose assets included in consolidation constitute 7.36% of total consolidated assets as of March 31, 2012, and whose net interest revenues before expenses with respect to credit loss included in the consolidated statements of profit and loss constitute 8.44% of total consolidated net interest revenues before expenses with respect to credit loss for the three-month period then ended. Furthermore, we did not review the condensed financial information for the interim period of affiliates, the investment in which amounted to NIS 16 million as of March 31, 2012.The condensed financial information for the interim periods of the aforementioned companies was reviewed by other independent auditors, whose review reports have been provided to us and our 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 Performed 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 Notes 6.D.3 and with regard to lawsuits filed against the Bank and motions for class action status.

Brightman Almagor Zohar & Co.

Certified Public Accountants

May 28, 2012

Condensed consolidated balance sheet

Reported amounts (NIS in millions)

		As of March 31		As of December 31,
		2012	2011	2011
	Note	(unaudited)	(unaudited)	(audited)
Assets				
Cash and deposits with banks		13,006	14,669	15,972
Securities [(2)]	2	11,230	5,726	8,432
Securities loaned or sold in repurchase agreements		211	173	136
Loans to the public	3	122,071	111,109	120,966
Provision for credit loss	3	(1,664)	(1,718)	(1,638)
Loans to the public, net		120,407	109,391	119,328
Loans to the Government		190	96	196
Investments in affiliates		18	16	17
Buildings and equipment		1,605	1,550	1,616
Intangible assets and goodwill		87	87	87
Assets with respect to derivatives	7	2,199	[(3)] 2,760	[(3)] 3,115
Other assets		1,291	[(3)] 1,717	[(3)] 1,347
Total assets		**150,244**	**136,185**	**150,246**
Liabilities and Shareholders' Equity				
Deposits from the public		119,501	109,029	119,236
Deposits from banks		1,700	2,306	2,007
Deposits from the Government		143	166	152
Debentures and subordinated notes		12,722	10,284	12,202
Liabilities with respect to derivatives	7	3,244	2,500	3,964
Other liabilities[(1)]		4,600	4,658	4,631
Total liabilities		**141,910**	**128,943**	**142,192**
Equity attributable to equity holders of the banking corporation		7,933	6,886	7,666
Non-controlling interest		401	356	388
Total capital		**8,334**	**7,242**	**8,054**
Total liabilities and shareholders' equity		**150,244**	**136,185**	**150,246**

(1) Includes: Provision for credit loss with respect to off balance sheet credit instruments amounting to NIS 105 million (on March 31, 2011 - NIS 155 million, on December 31, 2011 - NIS 114 million).
(2) Includes: NIS 10,266 million in fair value (March 31, 2011 - NIS 5,726 million; December 31, 2011 - NIS 7,729 million).
(3) Reclassified

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

Jacob Perry
Chairman of the Board of Directors

Eliezer Yones
President

Menahem Aviv
Vice-president, Chief Accountant

Approval date:
Ramat Gan,May 28, 2012

Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	For the three months ended March 31		For the year ended December 31,
	2012	2011 (1)	2011 (1)
		(unaudited)	(audited)
Interest revenues	1,594	1,666	6,846
Interest expenses	(826)	(985)	(3,977)
Interest revenues, net	768	681	2,869
Expenses with respect to credit loss	67	54	338
Interest revenues, net after expenses with respect to credit loss	**701**	**627**	**2,531**
Non-interest revenues			
Non-interest financing revenues	20	40	248
Commissions	357	382	1,474
Other revenues	6	6	17
Total non-interest revenues	**383**	**428**	**1,739**
Operating and other expenses			
Payroll and associated expenses	434	421	1,615
Maintenance and depreciation of buildings and equipment	158	148	608
Other expenses	102	104	444
Total operating and other expenses	**694**	**673**	**2,667**
Pre-tax profit	390	382	1,603
Provision for taxes on profit	128	137	522
After-tax profit	262	245	1,081
Share in profits of affiliates, after tax	-	1	1
Net profit:			
Before attribution to non-controlling interest	262	246	1,082
Attributable to non-controlling interest	(11)	(8)	(38)
Attributable to equity holders of the banking corporation	**251**	**238**	**1,044**

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

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

Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	For the three months ended March 31		For the year ended December 31,
	2012	2011	2011
		(unaudited)	(audited)
Earnings per share [1]			
Basic earnings per share (in NIS)			
Net profit attributable to equity holders of the banking corporation	1.10	1.05	4.65
Total	**1.10**	**1.05**	**4.65**
Diluted earnings per share (in NIS)			
Net profit attributable to equity holders of the banking corporation	1.09	1.03	4.57
Total	**1.09**	**1.03**	**4.57**

(1) Share of NIS 0.1 par value each.

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

Statement of Changes in Equity

Reported amounts (NIS in millions)

	For the three months ended March 31, 2012 (unaudited)			
	Share capital and premium[1]	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves
Balance as of January 1, 2012	**2,003**	**155**	**(76)**	**2,082**
Net profit for the period	-	-	-	-
Benefit from share-based payment transactions	-	9	-	9
Related tax effect	-	9	-	9
Realized share-based payment transactions [3]	3	(3)	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	-
Related tax effect	-	-	-	-
Net gain from cash flow hedges reclassified to the statement of profit and loss	-	-	-	-
Related tax effect	-	-	-	-
Balance as of March 31, 2012	**2,006**	**170**	**(76)**	**2,100**

(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 quarter of 2012, 86,297 ordinary NIS 0.1 par value shares were issued against 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)]	Declared after balance sheet date	Total	Non-controlling interest	Total capital
(48)	**18**	**5,614**	**-**	**7,666**	**388**	**8,054**
-	-	251	-	251	11	262
-	-	-	-	9	-	9
-	-	-	-	9	-	9
-	-	-	-	-	-	-
10	-	-	-	10	3	13
(3)	-	-	-	(3)	(1)	(4)
-	(12)	-	-	(12)	-	(12)
-	3	-	-	3	-	3
(41)	**9**	**5,865**	**-**	**7,933**	**401**	**8,334**

Statement of Changes in Equity (continued)

Reported amounts (NIS in millions)

	For the three months ended March 31, 2011 (unaudited)			
	Share capital and premium[(1)]	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves
Balance as of January 1, 2011	**1,986**	**156**	**(76)**	**2,066**
Cumulative effect, net of tax, of initial application on January 1, 2011 of the directive concerning measurement of impaired debt and provision for credit loss	-	-	-	-
Cumulative effect, net of tax, of initial application on January 1, 2011 of certain IFRS standards	-	-	-	-
Balance as of January 1, 2011, after reconciliation from application of new standards and directives	**1,986**	**156**	**(76)**	**2,066**
Net profit for the period	-	-	-	-
Dividends declared after balance sheet date	-	-	-	-
Benefit from share-based payment transactions	-	10	-	10
Related tax effect	-	6	-	6
Adjustments for presentation of securities available for sale at fair value	-	-	-	-
Related tax effect	-	-	-	-
Net gain from cash flow hedges	-	-	-	-
Related tax effect	-	-	-	-
Balance as of March 31, 2011	**1,986**	**172**	**(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 below.
(4) In the first quarter of 2011, 27,310 ordinary shares, NIS 0.1 par value each have been issued against option exercise 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	Translation adjustments (2)	Net gain from cash flow hedges	Retained earnings[3]	Dividends declared after balance sheet date	Total	Non-controlling interest	Total shareholders' equity
(11)	**(51)**	**26**	**[4] 4,980**	**120**	**7,130**	**366**	**7,496**
-	-	-	(359)	-	(359)	(16)	(375)
-	51	-	(51)	--	-	-	
(11)	**-**	**26**	**4,570**	**120**	**6,771**	**350**	**7,121**
-	-	-	238	-	238	8	246
-	-	-	-	(120)	(120)	-	(120)
-	-	-	-	-	10	-	10
-	-	-	-	-	6	-	6
(22)	-	-	-	-	(22)	(4)	(26)
7	-	-	-	-	7	2	9
-	-	(8)	-	-	(8)	-	(8)
-	-	4	-	-	4	-	4
(26)	**-**	**22**	**4,808**	**-**	**6,886**	**356**	**7,242**

Statement of Changes in Equity (continued)

Reported amounts (NIS in millions)

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

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

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

(3) For details on various limitations on dividend distributions, see Note 13 below.

(4) In 2011, some 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**	[4] **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 March 31		For the year ended December 31,
	2012	2011	2011
		(unaudited)	(audited)
Cash flows provided by current operations			
Net profit for the period	262	246	1,082
Adjustments:			
Share of corporation in undistributed (earnings) losses of affiliates	-	(1)	(1)
Depreciation of buildings and equipment	52	57	220
Amortization	-	-	(1)
Expenses with respect to credit loss	67	54	338
Net gain on sale of available-for-sale and held-to-maturity securities	(44)	(18)	(76)
Impairment of securities held for sale	-	-	10
Realized and unrealized gain from adjustment to fair value of securities held for trading	10	(2)	(19)
Net loss (gain) from sale of buildings and equipment	1	1	(5)
Benefit from share-based payment transactions	9	10	43
Deferred taxes, net	82	(68)	(105)
Severance pay - decrease (increase) in excess of amount funded over liability	(4)	(1)	135
Accrual differences included under investment and financing operations	(84)	36	213
Impact of changes in exchange rates on cash balance	(104)	(202)	(1,083)
Net change in current assets			
Deposits with banks, net	(1,269)	(404)	1,798
Loans to the public, net	(1,146)	(3,031)	(13,318)
Loans to the Governments, net	6	(4)	(104)
Securities loaned or sold in repurchase agreements, net	(75)	74	111
Assets with respect to derivatives, net	1,227	217	-
Securities held for trading, net	(498)	(14)	(878)
Other assets, net	(369)	(156)	191
Net change in current liabilities			
Deposits from banks, net	(307)	(126)	(425)
Deposits from the public, net	265	3,038	13,245
Deposits from the Government, net	(9)	(6)	(20)
Liabilities with respect to derivatives, net	(720)	(392)	1,072
Other liabilities, net	(29)	28	(47)
Deferred income, net	-	1	(45)
Net cash provided by current operations	**(2,677)**	**(663)**	**2,331**

Statement of cash flows (continued)

Reported amounts (NIS in millions)

	For the three months ended March 31		For the year ended December 31,
	2012	2011	2011
		(unaudited)	(audited)
Cash flows provided by investment activities			
Acquisition of debentures held to maturity	-	-	(703)
Proceeds on redemption of debentures held to maturity	-	-	8
Acquisition of securities available for sale	(3,962)	(725)	(8,265)
Proceeds on sale and redemption of securities available for sale	1,706	2,454	8,816
Acquisition of buildings and equipment	(31)	(54)	(252)
Proceeds from sale of buildings and equipment	22	2	14
Purchase of shares in affiliates	(1)	-	(1)
Net cash provided by investment activities	**(2,266)**	**1,677**	**(383)**
Cash flows provided by financing activities			
Issuance of debentures and subordinated notes	604	520	2,620
Redemption of debentures and subordinated notes	-	(85)	(375)
Dividends paid to shareholders	-	-	(120)
Net cash provided by financing activities	**604**	**435**	**2,125**
Increase (decrease) in cash	**(4,339)**	**1,449**	**4,073**
Balance of cash at beginning of year	**14,991**	**9,835**	**9,835**
Impact of changes in exchange rates on cash balance	**104**	**202**	**1,083**
Cash balance at end of period	**10,756**	**11,486**	**14,991**
Interest and taxes paid / received			
Interest received	1,594	1,668	6,847
Interest paid	826	986	3,977
Taxes on income paid	117	107	522
Taxes on income received	-	58	59

Appendix A - Non-cash Transactions			
Acquisition of buildings and equipment	33	12	67

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

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

Note 1 - Reporting Principles and Accounting Policies

A. Overview

The financial statements as of March 31, 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 policies in these condensed consolidated quarterly financial statements is consistent with the policirs applied to the annual financial statements, except as noted below in section E.

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

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

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

1. Directives included in the Supervisor of Banks' circular on format of statement of profit and loss for banking corporations and adoption of generally acceptable accounting practices by US banks for measurement of interest revenues.
2. Certain International Financial Reporting Standards (IFRS) and interpretations by the International Financial Reporting Interpretations Committee (IFRIC) concerning application of these standards, as listed below:
   - IAS 7, Statement of Cash Flows;
   - IAS 12, Income taxes;
   - IAS 23, Borrowing costs;
   - IAS 24, Related party disclosures.
3. Supervisor of Banks' directives with regard to transactions between a banking corporation and its 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 prescribed by FAS 166 (ASC 860).
5. Accounting standard update ASU 2011-04 on fair-value measurement (ASU 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, if any.

Note 1 - Reporting Principles and Accounting Policies (continued)

C. Directives included in the Supervisor of Banks' circular on format of the 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 format of the statement of profit and loss for banking corporations and adoption of generally acceptable accounting practices by US banks for measurement of interest revenues, the Bank applies the provisions related to presentation of the statement of profit and loss. According to these directives, the Bank has adjusted the presentation of financing profit items on the statement of profit and loss and associated Notes as follows:

- The item "Profit from financing operations before expenses with respect to credit loss" was split into three separate items: "Interest revenues", "Interest expenses" and "Non-interest financing revenues", presented on separate lines.
- Items of financing profit other than interest and gain (loss) from investment in shares were classified under "Non-interest financing revenues", with a distinction between trading operations and non-trading 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 as 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 format 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 40 million and NIS 242 million, for the three-month period ended March 31, 2011 and for 2011, respectively, were re-classified under "Non-interest financing revenues".

Net gain from investment in shares, amounting to NIS 6 million for the year ended December 31, 2011, was re-classified under "Non-interest financing revenues".

Commissions from financing operations amounting to NIS 31 million and NIS 131 million, for the three-month period ended March 31, 2011 and for 2011, respectively, were re-classified under "Commissions".

After-tax loss from extraordinary items, resulting from sale of buildings and equipment, amounting to NIS 1 million and NIS 2 million for the three-month period ended March 31, 2011 and for 2011, respectively, were re-classified under "Other revenues".

Note 1 - Reporting Principles and Accounting Policies (continued)

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

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

1. IAS 7, Statement of Cash Flows;

The statement of cash flows is presented classified under cash flows from current operations, from investment activities (previously - activities in assets) and from financing activities (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 stipulated in this standard as from January 1, 2012. The initial application of this standard had no effect, other than the change in presentation. Due to the initial application, the following reclassification 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 trading and other assets), previously included under investment activities (previously - activities in assets), amounting to NIS (-12) million and NIS (-3) million for the three-month period ended March 31, 2011 and for 2011, respectively, were classified 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 activities (previously - activities in liabilities and equity), amounting to NIS 14 million and NIS 3 million for the three-month period ended March 31, 2011 and for 2011, respectively, were classified under current operations.

2. IAS 12, Income taxes

The standard, as adopted by the Supervisor of Banks, contains similar provisions to those of Israeli Accounting Standard 19 "Income Taxes", applied by the banking system to date. However, along with adoption of the international standard, specific provisions issued by the Supervisor of Banks have been modified. In general, deferred taxes are recognized with respect to carry-forward losses, tax credits and deductible temporary differences, when taxable income is expected in the 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".

Note 1 - Reporting Principles and Accounting Policies (continued)

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 policies, procedures and implementing documentation requirements with respect to tax positions of varying degrees of uncertainty.

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

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

3. IAS 23, Borrowing costs

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

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

4. IAS 24, Related party disclosures

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

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

Note 1 - Reporting Principles and Accounting Policies (continued)

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

According to the Supervisor of Banks' circular dated November 30, 2011 on adoption of certain IFRS standards, the Bank applies, as from January 1, 2012, US GAAP for accounting treatment of transactions between a banking corporation and its 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 stated in Standard 23 of the Israel Accounting Standards Board concerning the accounting treatment of transactions between an entity and its controlling shareholder, 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 recorded 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 its controlling shareholder made after January 1, 2012, as well as to loans extended to or deposits received from the controlling shareholder prior to the starting date of applying these directives - as from their starting 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.

G. 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 stipulated in FAS 166 (ASC 860).

Evaluation of existence of effective control is focused on contractual rights and contractual obligations of the transferor, and therefore does not take into consideration the criterion requiring that transferor would be capable of acquiring transferred securities even in case of failure of the transferee, and does not take into consideration directives with regard to required collateral with respect to that criterion.

Note 1 - Reporting Principles and Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

Note 2 - Securities

As of March 31, 2012 (unaudited)

Reported amounts (NIS in millions)

A. Composition:

	Balance sheet balance	Amortized cost (for shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (1)
(1) Government of Israel debentures held to maturity	**964**	**964**	**1**	**-**	**965**

	Balance sheet balance	Amortized cost (for shares - cost)	Cumulative other comprehensive income Gains	Cumulative other comprehensive income Losses	Fair value (1)
(2) Securities available for sale					
Debentures and notes					
Of the Government of Israel(2)	7,521	7,582	23	(84)	7,521
Of foreign governments(2)(6)	89	89	-	-	89
Of banks and financial institutions in Israel	152	154	-	(2)	152
Of banks and financial institutions overseas	442	439	4	(1)	442
Asset-backed (ABS)	61	68	5	(12)	61
Of others in Israel	77	76	1	-	77
Of others overseas	167	166	2	(1)	167
Total debentures available for sale	**8,509**	**8,574**	**35**	**(100)**	**8,509**
Shares(3)	83	83	-	-	83
Total securities available for sale	**8,592**	**8,657**	(4) **35**	(4) **(100)**	**8,592**

	Balance sheet balance	Amortized cost (for shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (1)
(3) Securities held for trading					
- Debentures					
Of the Government of Israel (7)	1,671	1,675	3	(7)	1,671
Of banks and financial institutions overseas	3	3	-	-	3
Total securities held for trading	**1,674**	**1,678**	(5) **3**	(5) **(7)**	**1,674**

Total securities	**11,230**	**11,299**	**39**	**(107)**	**11,231**

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) See Note 15.A-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 78 million.
(4) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".
(5) Charged to statement of profit and loss but not yet realized.
(6) US government debentures.
(7) Of which, securities amounting to NIS 661 million classified as held for trade, because the Bank elected to present them in accordance with the fair value alternative in Section 20 of Public Reporting Regulations, even though they had not been acquired for trade.

Note: Details of results of trading in investments in debentures – see Note 10(a)(2); details on results of trading in shares - see Note 10(a)(4).

Note 2 - Securities

As of March 31, 2011 (unaudited) (continued)

Reported amounts (NIS in millions)

	Balance sheet balance	Amortized cost (for shares - cost)	Cumulative other comprehensive income: Gains	Cumulative other comprehensive income: Losses	Fair value (1)
(1) Securities available for sale					
Debentures and notes					
Of the Government of Israel (2)	4,269	4,320	13	(64)	4,269
Of foreign governments(2)(6)	101	101	-	-	101
Of banks and financial institutions in Israel	128	128	-	-	128
Of banks and financial institutions overseas	643	635	8	-	643
Asset-backed (ABS)	65	68	7	(10)	65
Of others in Israel	80	80	-	-	80
Of others overseas	53	51	3	(1)	53
Total debentures available for sale	**5,339**	**5,383**	**31**	**(75)**	**5,339**
Shares of others (3)	82	82	-	-	82
Total securities available for sale	**5,421**	**5,465**	**(4) 31**	**(4)(75)**	**5,421**

	Balance sheet balance	Amortized cost (for shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (1)
(2) Securities held for trading					
- Debentures					
Of the Government of Israel	299	297	2	-	299
Of banks and financial institutions overseas	6	6	-	-	6
Total securities held for trading	**305**	**303**	**(5)2**	**-**	**305**
Total securities	**5,726**	**5,768**	**33**	**(75)**	**5,726**

(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 80 million.
(4) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".
(5) Charged to statement of profit and loss but not yet realized.
(6) US government debentures.

Note: Details of results of trading in investments in debentures – see Note 10(a)(2); details on results of trading in shares - see Note 10(a)(4).

Note 2 - Securities

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

Reported amounts (NIS in millions)

B. Composition:

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

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

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

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

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) See Note 15.A-E to the 2011 financial statements for information on liens on securities held by the Bank.
(3) Includes shares for which 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 trading in investments in debentures – see Note 10(a)(2); details on results of trading 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 March 31, 2012			
	Less than 12 months		12 months or more	
	Fair value	Unrealized loss	Fair value	Unrealized loss
Asset-backed securities (ABS):				
CLO	-	-	36	(12)
Total	**-**	**-**	**36**	**(12)**

	As of March 31, 2011			
		Cumulative other comprehensive income (loss)		Fair value (Balance sheet balance)
	Amortized cost	Gains	Losses	
	(unaudited)			
Asset-backed securities (ABS):				
CLO	-	-	40	(10)
Total asset-backed securities available for sale	**-**	**-**	**40**	**(10)**

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

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

Reported amounts (NIS in millions)

A. Loans to the public

Consolidated

	March 31, 2012			March 31, 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)	31,564	664	30,900	(5) 30,528	642(5)	29,886	32,230	605	31,625
Loans to the public reviewed on group basis(2)	90,507	1,000	89,507	80,581	1,076	79,505	88,736	1,033	87,703
Total loans to the public	**122,071**	**1,664**	**120,407**	**111,109**	**1,718**	**109,391**	**120,966**	**1,638**	**119,328**
Includes: Customers' liabilities for acceptances	294	-	294	344	-	344	348	-	348

B. Loans to the public reviewed individually

1. Loans to the public reviewed individually include:

	March 31, 2012			March 31, 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)	1,408	228	1,180	(5) 1,670	317(5)	1,353	1,622	215	1,407
Non-impaired loans to the public, in arrears 90 days or more(4)	22	15	7	39	7	32	56	15	41
Non-impaired loans to the public, in arrears 30-89 days(4)	191	9	182	112	2	110	53	3	50
Other non-impaired loans to the public(4)	29,943	412	29,531	28,707	316	28,391	30,499	372	30,127
Total non-impaired loans to the public(4)	**30,156**	**436**	**29,720**	**28,858**	**325**	**28,533**	**30,608**	**390**	**30,218**
Total loans to the public reviewed individually	**31,564**	**664**	**30,900**	**30,528**	**642**	**29,886**	**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 a group basis. For further details of loans reviewed individually, see below in 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 ona group basis. For further details see section C.
(3) Non-accruing impaired loans, except for certain loans under restructuring, as descriobed in sub-section 4 below.
(4) Loans reviewed individually and found not to be impaired. The provision for credit loss with respect to these loans was calculated on group basis.
(5) Reclassified.

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

Reported amounts (NIS in millions)

B. Loans to the public reviewed individually (continued)

2. Supplementary information about loans to the public reviewed individually

	March 31, 2012	March 31, 2011	December 31, 2011
	unaudited		audited
Impaired loans to the public for which a provision for credit loss was made on individual basis	1,136	(1) 1,344	1,386
Impaired loans to the public for which a provision for credit loss was not made on individual basis	272	326	236
Total impaired loans to the public	**1,408**	**1,670**	**1,622**
Impaired loans to the public measured at present value of cash flows	1,287	(1) 1,520	1,499
Impaired loans to the public measured at collateral value	121	(1) 150	(1) 123
Total impaired loans to the public	**1,408**	**1,670**	**1,622**

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

	March 31, 2012			March 31, 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	70	14	56	124	44	80	(1) 72	2	70
Accruing interest revenues, in arrears 90 days or more	-	-	-	21	6	15	2	-	2
Accruing interest revenues, in arrears 30-89 days	6	1	5	15	2	13	7	1	6
Accruing interest revenues	550	13	537	63	5	58	527(1)	14	513
Total (included under impaired loans to the public)	**626**	**28**	**598**	**223**	**57**	**166**	**608**	**17**	**591**
Impaired debt accruing interest revenues which was restructured in previous years.	41	4	37	247	33	214	33	4	29

4. Interest with respect to impaired loans to the public

	March 31, 2012	March 31, 2011	December 31, 2011
	unaudited		audited
Average recorded debt balance of impaired loans to the public during reported period	1,515	1,432(1)	1,452
Total interest revenues recognized in the reported period with respect to such loans in the period when it was classified as impaired(2)	39	22	73
Total interest revenues which would have been recognized in the reported period had this credit accrued interest at its original terms	**19**	**18**	**75**
(2) Includes: Interest revenues recognized in accordance with accounting policy on cash basis	38	20	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 a group basis

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

	Extent of arrears							
	In arrears 30-90 days	In arrears over 90 days					Balance with respect to refinanced loans in arrears(3)	
	2-3 months	3-6 months	6-15 months	15-33 months	Over 33 months	Total over 3 months		Total
	March 31, 2012							
	unaudited							
Amount in arrears	11	13	22	34	471	540	88	639
Includes: Balance of provision for interest(1)	-	-	1	5	194	200	6	206
Recorded debt balance	775	406	281	134	547	1,368	318	2,461
Balance of provision for credit loss(2)	-	-	52	72	488	612	141	753
Debt balance, net	**775**	**406**	**229**	**62**	**59**	**756**	**177**	**1,708**
	March 31, 2011							
	unaudited							
Amount in arrears	7	14	21	22	478	535	87	629
Includes: Balance of provision for interest(1)	-	-	-	1	176	177	7	184
Recorded debt balance	683	371	241	138	638	1,388	320	2,391
Balance of provision for credit loss(2)	-	-	32	55	586	673	158	831(4)
Debt balance, net	**683**	**371**	**209**	**83**	**52**	**715**	**162**	**1,560**
	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.
(4) 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 a group basis (continued)

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

	March 31, 2012			March 31, 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	49	12	37	63	8	55	47	5	42
Non-impaired loans to the public, in arrears 30-89 days	120	5	115	109	4	105	121	4	117
Other non-impaired loans to the public	16,553	136	16,417	15,037	150	14,887	16,316	166	16,150
Total	**16,722**	**153**	**16,569**	**15,209**	**162**	**15,047**	**16,484**	**175**	**16,309**

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

	Provision for credit loss			
	On individual basis	On group basis(1)		
		By extent of arrears	Other	Total
Balance of provision for credit loss as of December 31, 2011	253	767	746	1,766
Three months ended March 31, 2012:				
Expenses with respect to credit loss	15	1	51	67
Accounting write-offs	(8)	(15)	(49)	(72)
Recovery of debt written off in previous years	3	-	23	26
Net accounting write-off	(5)	(15)	(26)	(46)
Balance of provision for credit loss as of March 31, 2012	**263**	**753**	**771**	**1,787**

	Provision for credit loss			
		On group basis(1)		
	On individual basis	By extent of arrears	Other	Total
Balance of provision for credit loss as of December 31, 2010(3)	2,580	811	215	3,606
Three months ended March 31, 2011:	-	-	-	-
Net accounting write-offs recognized as of January 1, 2011(2)(3)	(2,016)	-	(544)	(2,560)
Other changes to provision for credit loss as of January 1, 2011 (charged to shareholders' equity)(2)	(127)	18	1,028	919
Expenses with respect to credit loss	24	2	28	54
Accounting write-offs	(117)	-	(19)	(136)
Recovery of debt written off in previous years	2	-	4	6
Net accounting write-off	(115)	-	(15)	(130)
Balance of provision for credit loss as of March 31, 2011	**346**	**831**	**712**	**1,889**

(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[1]		
	On individual basis	By extent of arrears	Other	Total
Composition of provision balance as of March 31, 2012				
With respect to loans to the public	244	753	667	1,664
With respect to debt other than loans to the public	-	-	18	18
With respect to off-balance sheet credit instruments [2]	19	-	86	105
Total	**263**	**753**	**771**	**1,787**
Composition of provision balance as of March 31, 2011				
With respect to loans to the public[1]	321	831	566	1,718
With respect to debt other than loans to the public	-	-	16	16
With respect to off-balance sheet credit instruments [2]	25	-	130	155
Total	**346**	**831**	**712**	**1,889**
Composition of provision balance as of December 31, 2011				
With respect to loans to the public	230	767	641	1,638
With respect to debt other than loans to the public	-	-	14	14
With respect to off-balance sheet credit instruments [2]	23	-	91	114
Total	**253**	**767**	**746**	**1,766**

(1) Reclassified.
(2) Included under Other Liabilities

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

Reported amounts (NIS in millions)

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

	Housing loans	Housing loans - impaired or in arrears over 90 days[1]		Balance of provision for credit loss			
March 31, 2012						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 a provision for credit loss by extent of arrears must be calculated[3]	72,923	628	1,686	753	94	-	847
Other housing loans	880	17	17	-	-	15	15
Total	**73,803**	**645**	**1,703**	**753**	**94**	**15**	**862**
Includes: With respect to housing loans granted to certain buyer groups which are in the process of construction	1,453	-	9	-	-	-	-

	Housing loans	Housing loans - impaired or in arrears over 90 days[1]		Balance of provision for credit loss			
March 31, 2011						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 a provision for credit loss by extent of arrears must be calculated [3]	64,817	623	1,708	[5] 831	83	-	914
Other housing loans	569	6	30	-	-	14	14
Total	[4] **65,386**	**629**	**1,738**	**831**	**83**	**14**	**928**
Includes: With respect to housing loans granted to certain buyer groups which are in the process of construction	991	-	4	-	-	-	-

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

(1) Impaired housing loans and housing loans in arrears over 3 months.
(2) Includes delinquency interest.
(3) Includes: General-purpose loans secured by lien on residential apartment, amounting to NIS 4,548 million (on March 31 - NIS 3,925 million and on December 31, 2011 - NIS 4,388 million).
(4) Includes: Housing loans bearing variable interest, amounting to NIS 42,382 million (on March 31, 2011 - NIS 39,698 million and on December 31, 2011 - NIS 42,744 million).
(5) Reclassified.

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

	March 31, 2012	March 31, 2011	December 31, 2011
1. Consolidated data			
A. Capital for purpose of calculating minimum capital ratio			
Tier I capital, after deductions	8,200	7,085	7,912
Tier II capital, after deductions	5,476	5,464	5,722
Total capital	**13,676**	**12,549**	**13,634**
B. Weighted risk asset balances			
Credit risk	93,965	84,818	92,973
Market risk	1,370	789	947
Operating risk	7,996	7,504	7,851
Total weighted risk asset balances	**103,331**	**93,111**	**101,771**

	March 31, 2012	March 31, 2011	December 31, 2011
			In %
C. Ratio of capital to risk elements			
Ratio of Tier I capital to risk elements	7.94	7.61	7.77
Ratio of total capital to risk elements	13.24	13.48	13.40
Total minimum capital ratio required by the Supervisor of Banks	9.00	9.00	9.00
2. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and subsidiaries there of			
Ratio of Tier I capital to risk elements	8.87	8.77	9.04
Total ratio of capital to risk elements	13.34	13.15	13.55
Total minimum capital ratio required by the Supervisor of Banks	9.00	9.00	9.00

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

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

Reported amounts (NIS in millions)

	March 31, 2012	March 31, 2011	December 31, 2011
3. Capital components for calculation of capital ratio (on consolidated basis)			
A. Tier I capital			
Paid-up share capital and capital reserves	2,100	2,082	2,082
Total cumulative other loss [(1)]	(41)	(26)	(48)
Retained earnings	5,865	4,808	5,614
Minority interest of external shareholders in equity of consolidated subsidiaries	401	356	388
Less:			
Goodwill	(87)	(87)	(87)
Tier I capital after Tier I deductions alone	**8,238**	**7,133**	**7,949**
Less:			
Investments in supervisory capital components of banking corporations	(19)	(19)	(19)
Other deductions from Tier I capital	(19)	(29)	(18)
Total Tier I capital	**8,200**	**7,085**	**7,912**
B. Tier II capital			
1. Upper Tier II capital			
General provision for doubtful debts [(2)]	110	110	110
Complex capital instruments	1,869	1,836	1,869
2. Lower Tier II capital			
Subordinated notes	3,535	3,566	3,780
3. Deductions from Tier II capital			
Investments in supervisory capital components of banking corporations	(19)	(19)	(19)
Other deductions from Tier II capital	(19)	(29)	(18)
Total Tier II capital	**5,476**	**5,464**	**5,722**

(1) Excludes net gain from cash flow hedges.

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

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

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

Reported amounts (NIS in millions)

B. On October 25, 2010, the Bank Board of Directors decided that the target core capital ratio would be no less than 7.5%. Further, the Board of Directors resolved to direct Bank management to act so as to maintain appropriate safety margins, in order to ensure that the core capital ration shall be no less than the foregoing. The Bank Board of Directors further resolved that the overall capital adequacy ratio shall be no less than 12.5%.

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

The Bank is preparing for compliance with the stipulated requirements.

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

As of March 31, 2012 (unaudited)

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency [1]				
	Non-linked	CPI-linked	US dollars	Euro	Other currencies	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	11,174	344	1,211	78	199	-	13,006
Securities	6,235	1,040	2,770	1,071	31	83	11,230
Securities loaned or sold in conjunction with repurchase agreements	65	146	-	-	-	-	211
Loans to the public, net	61,015	45,575	9,772	2,019	2,026	-	120,407
Loans to Governments	-	-	-	188	2	-	190
Investments in investees	32	-	-	-	-	(14)	18
Buildings and equipment	-	-	-	-	-	1,605	1,605
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	1,407	174	364	78	176	-	2,199
Other assets	891	221	93	2	15	69	1,291
Total assets	**80,819**	**47,500**	**14,210**	**3,436**	**2,449**	**1,830**	**150,244**
Liabilities							
Deposits from the public	71,569	22,943	18,624	4,272	2,093	-	119,501
Deposits from banks	36	647	846	128	43	-	1,700
Deposits from the Government	12	97	34	-	-	-	143
Debentures and subordinated notes	2,101	10,621	-	-	-	-	12,722
Liabilities with respect to derivatives	1,720	165	1,068	215	76	-	3,244
Other liabilities	3,529	716	66	9	16	264	4,600
Total liabilities	**78,967**	**35,189**	**20,638**	**4,624**	**2,228**	**264**	**141,910**
Difference	1,852	12,311	(6,428)	(1,188)	221	1,566	8,334
Impact of hedging derivatives:							
Derivatives (except for options)	420	(420)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (except for options)	(2,170)	(4,029)	5,595	706	(102)	-	-
Net in-the-money options (in terms of underlying asset)	(1,250)	-	578	771	(91)	(8)	-
Net out-of-the-money options (in terms of underlying asset)	(2)	-	396	(298)	(108)	12	-
Total	**(1,150)**	**7,862**	**141**	**(9)**	**(80)**	**1,570**	**8,334**
Net in-the-money options (capitalized par value)	659	-	205	(671)	(166)	(27)	-
Net out-of-the-money options (capitalized par value)	26	-	(282)	175	131	(50)	-

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

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

As of March 31, 2011 (unaudited) (continued)

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency (1)				
	Non-linked	CPI-linked	US dollars	Euro	Other currencies	Non-monetary items(2)	Total
Assets							
Cash and deposits with banks	11,459	596	2,102	217	295	-	14,669
Securities	2,653	410	1,711	827	43	82	5,726
Securities loaned or sold in conjunction with repurchase agreements	133	40	-	-	-	-	173
Loans to the public, net	56,390	40,973	8,092	2,153	1,783	-	109,391
Loans to Governments	-	-	1	95	-	-	96
Investments in investees	30	-	-	-	-	(14)	16
Buildings and equipment	-	-	-	-	-	1,550	1,550
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	(3) 2,279	222	32	131	96	-	2,760
Other assets	(3) 1,520	99	52	-	-	46	1,717
Total assets	**74,464**	**42,340**	**11,990**	**3,423**	**2,217**	**1,751**	**136,185**
Liabilities							
Deposits from the public	65,342	22,276	14,998	4,173	2,240	-	109,029
Deposits from banks	487	744	871	156	48	-	2,306
Deposits from the Government	6	127	33	-	-	-	166
Debentures and subordinated notes	1,040	9,244	-	-	-	-	10,284
Liabilities with respect to derivatives	1,952	196	202	111	39	-	2,500
Other liabilities	3,614	685	26	7	42	284	4,658
Total liabilities	**72,441**	**33,272**	**16,130**	**4,447**	**2,369**	**284**	**128,943**
Difference	**2,023**	**9,068**	**(4,140)**	**(1,024)**	**(152)**	**1,467**	**7,242**
Impact of hedging derivatives:							
Derivatives (except for options)	1,020	(1,020)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (except for options)	2,767	(5,511)	1,870	1,210	(336)	-	-
Net in-the-money options (in terms of underlying asset)	(1,653)	-	1,708	(127)	80	(8)	-
Net out-of-the-money options (in terms of underlying asset)	(427)	-	261	(70)	238	(2)	-
Total	**3,730**	**2,537**	**(301)**	**(11)**	**(170)**	**1,457**	**7,242**
Net in-the-money options (capitalized par value)	567	-	(162)	(168)	(279)	42	-
Net out-of-the-money options (capitalized par value)	(955)	-	710	54	250	(59)	-

(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-monetary items(2)	Total
	Non-linked	CPI-linked	US dollars	Euro	Other currencies		
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 March 31		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	4	601	10	340	3
- Loan guarantees	3,130	30	3,133	35	3,195	27
- Guarantees to purchasers of homes	7,195	6	5,940	4	6,810	9
- Other guarantees and liabilities (3)	2,968	11	1,952	9	2,923	17
- Unutilized revolving credit card facilities	6,784	7	6,246	5	6,628	7
- Unutilized debitory account and other credit facilities in accounts available on demand	16,056	30	17,366	30	16,994	34
- Irrevocable commitments for loans approved but not yet granted	10,004	14	9,614	42	9,449	14
- Commitments to issue guarantees	5,404	3	5,146	20	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 166 million. (On March 31, 2011 and December 31, 2011 - NIS 132 million and NIS 176 million, respectively).

Note 6 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

		As of March 31	As of December 31,
	2012	2011	2011
		(unaudited)	(audited)
B. Special commitments			
Obligations with respect to:			
Long-term rental contracts [(1)]	555	538	532
Computerization and software service contracts	106	57	148
Acquisition and renovation of buildings	8	26	5
Receipt of deposits on future dates[(2)]	405	405	405

		As of March 31	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	61	65	61

(1) Includes the Bank's liabilities for its share in the risks fund of the MAOF Clearinghouse of NIS 168 million. (as of September 30, 2010 and December 31, 2010 - NIS 136 million and NIS 138 million, respectively).

(2) 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 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.

Note 6 - Contingent Liabilities and Special Commitments - continued

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

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

D. 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

E. 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.

F. 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.

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 207 million.

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

A. In May 2011, the Bank received a claim and motion for approval of class action status. The claim concerns 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.

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.

The claim alleges that the Bank is late in reporting to the Court Order Execution Service of payments made to reduce debt, and misleads clients. It is further claimed that clients are not credited with interest in accordance with their date of payment. The claim further stipulates that the Enforcement and Collection Authority and the Court Order Execution Service admit the shortfall in credits made in case of late reporting.

In January 2012, the Bank filed its response to the motion with the Court.

Note 6 - Contingent Liabilities and Special Commitments - continued

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

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

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

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

F. 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.

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.

Note 6 - Contingent Liabilities and Special Commitments - continued

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 must file its response to this motion by June 9, 2012.

   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 is studying the motion by the Supervisor of Banks, and is preparing to file its claims in good time.

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

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	As of March 31, 2012					
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodity contracts and others	Total
1. Stated amounts of financial derivatives						
A. Hedging derivatives [(1)]						
Forward contracts	420	-	-	-	-	420
Swaps	-	2,835	-	-	-	2,835
Total	420	2,835	-	-	-	3,255
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	2,835	-	-	-	2,835
B. ALM derivatives [(1)(2)]						
Forward contracts	8,725	2,942	62,362	116	32	74,177
Option contracts traded on stock exchange:						
Options written	-	-	2,267	199	-	2,466
Options purchased	-	-	3,250	304	-	3,554
Other option contracts:						
Options written	-	-	10,053	238	-	10,291
Options purchased	-	-	9,198	198	-	9,396
Swaps	1,326	39,717	11,884	-	-	52,927
Total	10,051	42,659	99,014	1,055	32	152,811
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	776	23,987	-	-	-	24,763
C. Other derivatives [(1)]						
Forward contracts	-	-	631	-	-	631
Option contracts traded on stock exchange:						
Options written	-	-	5,539	6,335	2	11,876
Options purchased	-	-	5,539	6,335	2	11,876
Other option contracts:						
Options written	-	672	442	258	1	1,373
Options purchased	-	675	464	211	1	1,351
Swaps	-	-	-	4,276	-	4,276
Total	-	1,347	12,615	17,415	6	31,383

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

(2) Derivatives 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 12 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 March 31, 2012					
	Interest contracts				Commodity contracts and others	Total
	NIS - CPI	Other	Currency contracts	Contracts for shares		
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	353	353
Credit derivatives in which the Bank is beneficiary	-	-	-	-	27	27
Foreign currency spot swap contracts	-	-	2,630	-	-	2,630
Total	**-**	**-**	**2,630**	**-**	**380**	**3,010**
Total stated amounts of derivatives	**10,471**	**46,841**	**114,259**	**18,470**	**418**	**190,459**
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives [1]						
Positive fair value, gross	1	6	-	-	-	7
Negative fair value, gross	-	321	-	-	-	321
B. ALM derivatives[1][2]						
Positive fair value, gross	164	852	887	156	-	2,059
Negative fair value, gross	116	1,032	1,496	137	-	2,781
C. Other derivatives [1]						
Positive fair value, gross	-	6	78	49	-	133
Negative fair value, gross	-	6	83	61	-	150
D. Credit derivatives						
Credit derivatives in which the Bank is guarantor						
Positive fair value, gross	-	-	-	-	-	-
Negative fair value, gross	-	-	-	-	4	4
Total positive fair value, gross	**165**	**864**	**965**	**205**	**-**	**2,199**
Total negative fair value, gross [3]	**116**	**1,359**	**1,579**	**198**	**4**	**3,256**

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

(2) Derivatives 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 12 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 March 31, 2011 (unaudited)					
	Interest contracts				Commodity contracts	
	NIS - CPI	Other	Currency contracts	Contracts for shares	and others	Total
1. Stated amounts of financial derivatives						
A. Hedging derivatives [(1)]						
Forward contracts	1,020	-	-	-	-	1,020
Swaps	-	1,795	-	-	-	1,795
Total	**1,020**	**1,795**	**-**	**-**	**-**	**2,815**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	1,795	-	-	-	1,795
B. ALM derivatives [(1)(2)]						
Forward contracts	8,013	4,737	63,697	156	229	76,832
Option contracts traded on stock exchange:						
Options written	-	-	2,734	386	-	3,120
Options purchased	-	-	[(3)] 2,204	417	-	2,621
Other option contracts:						
Options written	-	-	7,539	478	-	8,017
Options purchased	-	-	7,895	381	-	8,276
Swaps	1,683	43,282	7,630	-	-	52,595
Total	**9,696**	**48,019**	**91,699**	**1,818**	**229**	**151,461**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,183	23,867	-	-	-	25,050
C. Other derivatives [(1)]						
Forward contracts	-	-	882	-	-	882
Option contracts traded on stock exchange:						
Options written	-	-	4,549	15,901	-	20,450
Options purchased	-	-	4,549	15,901	-	20,450
Other option contracts:						
Options written	-	808	217	292	-	1,317
Options purchased	-	808	240	241	-	1,289
Total	**-**	**1,616**	**10,437**	**32,335**	**-**	**44,388**

(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 March 31, 2011 (unaudited)					
	Interest contracts				Commodity	
			Currency	Contracts	contracts	
	NIS - CPI	Other	contracts	for shares	and others	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	1,818	1,818
Credit derivatives in which the Bank is beneficiary	-	-	-	-	25	25
Foreign currency spot swap contracts	-	-	4,095	-	-	4,095
Total	**-**	**-**	**4,095**	**-**	**1,843**	**5,938**
Total stated amounts of derivatives	**10,716**	**51,430**	**106,231**	**34,153**	**2,072**	**204,602**
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives (1)						
Positive fair value, gross	-	-	-	-	-	-
Negative fair value, gross	16	171	-	-	-	187
B. ALM derivatives (1)(2)						
Positive fair value, gross	78	413	(4) 1,947	16	4	2,458
Negative fair value, gross	143	457	1,399	14	4	2,017
C. Other derivatives (1)						
Positive fair value, gross	-	8	89	205	-	302
Negative fair value, gross	-	8	85	216	-	309
D. Credit derivatives						
Credit derivatives in which the Bank is guarantor						
Positive fair value, gross	-	-	-	-	1	1
Negative fair value, gross	-	-	-	-	13	13
Total positive fair value, gross (3)	**78**	**421**	**2,036**	**221**	**5**	**2,761**
Total negative fair value, gross (3)	**159**	**636**	**1,484**	**230**	**17**	**2,526**

(1) Except for credit derivatives.

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

(3) Of which positive fair value, gross of embedded derivatives amounting to NIS 1 million and negative fair value, gross of embedded derivatives amounting to NIS 26 million.

(4) Reclassified.

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

Reported amounts (NIS in millions)

A. Activity on consolidated basis

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

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

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

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

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

(3) Reclassified.

(4) Includes negative fair value, gross, of embedded financial derivatives amounting to NIS 17 million.

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

Reported amounts (NIS in millions)

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

	As of March 31, 2012 (unaudited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Balance sheet balances of underlying assets[1]	223	1,534	3	-	439	2,199
Off-balance sheet credit risk on financial derivatives [2]	-	1,204	188	-	2,466	3,858
Total credit risk on financial derivatives	**223**	**2,738**	**191**	**-**	**2,905**	**6,057**

In the three-month period ended March 31, 2012, the Bank recognized credit loss with respect to derivatives amounting to NIS 11 million.

	As of March 31, 2011 (unaudited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Balance sheet balances of underlying assets[1]	[4] 300	1,926	16	-	519	2,761
Off-balance sheet credit risk on financial derivatives [2]	488	10,232	21	-	3,137	13,878
Total credit risk on financial derivatives	**788**	**12,158**	**37**	**-**	**3,656**	**16,639**

	As of December 31, 2011 (audited)					
	Stock[4] exchanges	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]	[3] -	2,107	132	-	2,166	4,405
Total credit risk on financial derivatives	**291**	**4,109**	**153**	**-**	**2,967**	**7,520**

(1) Of which positive gross fair value of embedded derivatives amounting to NIS 0 million (On December 31,2011 – NIS 0 and on March 31, 2011 – about NIS 1 million) and a balance-sheet balance of stand-alone derivatives amounting to NIS 2,167 million (On December 31,2011 – NIS 3,115 million and on March 31, 2011 – NIS 2,672 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 starting December 31, 2011 is not comparable to data of preceding periods.

(3) Includes fair value adjustments with respect to transactions with a major counter-party where, pursuant to Proper Conduct of Banking Business Regulation 213, the exposure value is zero.

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

	As of March 31, 2011 (unaudited)				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS-CPI	888	4,748	3,946	1,134	10,716
Other	6,279	21,831	10,706	12,614	51,430
Currency contracts	(1) 69,642	29,311	2,862	4,416	106,231
Contracts for shares	33,171	841	141	-	34,153
Commodities and other contracts	385	1,001	617	69	2,072
Total	**110,365**	**57,732**	**18,272**	**18,233**	**204,602**

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

(1) Reclassified.

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

Reported amounts, in NIS millions

A. Fair value balances

	March 31, 2012			
	Book balance			
	(1)	(2)	Total	Fair value
Financial assets				
Cash and deposits with banks	10,587	2,419	13,006	13,018
Securities	10,189	1,041	11,230	11,236
Securities loaned or sold in repurchase agreements	211	-	211	211
Loans to the public, net	11,082	109,325	120,407	121,953
Loans to Governments	-	190	190	193
Investments in investees	32	-	32	32
Assets with respect to derivatives	2,199	-	2,199	2,199
Other financial assets	1,156	-	1,156	1,156
Total financial assets	**35,456**	**112,975**	**148,431**	**149,998**
Financial liabilities				
Deposits from the public	19,219	100,282	119,501	121,456
Deposits from banks	842	858	1,700	1,754
Deposits from the Government	14	129	143	158
Debentures and subordinated notes	-	12,722	12,722	13,664
Liabilities with respect to derivatives	3,244	-	3,244	3,244
Other financial liabilities	3,253	-	3,253	3,253
Total financial liabilities	**26,572**	**113,991**	**140,563**	**143,529**

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

(2) Other financial instruments.

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

Reported amounts, in NIS millions

	March 31, 2011			
	Book balance			
	(1)	(2)	Total	Fair value
Financial assets				
Cash and deposits with banks	11,848	2,821	14,669	14,689
Securities	5,078	566	5,644	5,644
Securities loaned or sold in repurchase agreements	173	-	173	173
Loans to the public, net	11,168	98,223	109,391	111,031
Loans to Governments	1	95	96	95
Investments in investees	30	-	30	30
Assets with respect to derivatives	2,760	-	2,760	2,760
Other financial assets	1,552	-	1,552	1,552
Total financial assets	**32,610**	**101,705**	**134,315**	**135,974**
Financial liabilities				
Deposits from the public	22,278	86,751	109,029	109,853
Deposits from banks	184	2,122	2,306	2,354
Deposits from the Government	7	159	166	183
Debentures and subordinated notes	-	10,284	10,284	10,964
Liabilities with respect to derivatives	2,500	-	2,500	2,500
Other financial liabilities	3,554	1	3,555	3,555
Total financial liabilities	**28,523**	**99,317**	**127,840**	**129,409**

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

(2) Other financial instruments

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

Reported amounts, in NIS millions

A. Fair value balances - Continued

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

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

(2) Other financial instruments.

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

Reported amounts, in NIS millions

B. Items measured at fair value on recurrent basis

	March 31, 2012 (unaudited)			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Balance sheet balance
Assets				
Securities available for sale				
Debentures and notes				
Of Government of Israel	4,334	3,187	-	7,521
Of foreign governments	89	-	-	89
Of banks and financial institutions in Israel	152	-	-	152
Of banks and financial institutions overseas	-	224	218	442
Asset-backed	-	-	61	61
Of others in Israel	77	-	-	77
Of others overseas	10	121	36	167
Shares	5	-	-	5
Securities held for trading:				
Debentures of the Government of Israel	1,671	-	-	1,671
Of banks and financial institutions overseas	3	-	-	3
Securities loaned or sold in repurchase agreements	136	-	-	136
Credit with respect to loans to clients	231	-	-	231
Assets with respect to derivatives				
Interest contracts:				
Shekel/ CPI	-	101	64	165
Other	-	858	6	864
Currency contracts	125	840	-	965
Contracts for shares	71	112	22	205
Commodities and other contracts	-	-	-	-
Total assets	**6,904**	**5,443**	**407**	**12,754**
Liabilities				
Deposits with respect to borrowing from clients	231	-	-	231
Liabilities with respect to derivatives				
Interest contracts:				
Shekel/ CPI	-	102	14	116
Other	-	1,353	6	1,359
Currency contracts	105	1,474	-	1,579
Contracts for shares	50	123	13	186
Commodities and other contracts	-	4	-	4
Other	-	7	5	12
Total liabilities	**386**	**3,063**	**38**	**3,487**

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

Reported amounts, in NIS millions

B. Items measured at fair value on recurrent basis

				March 31, 2011 (unaudited)
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Balance sheet balance
Assets				
Securities available for sale				
Debentures and notes				
Of Government of Israel	2,474	1,795	-	4,269
Of foreign governments	101	-	-	101
Of banks and financial institutions in Israel	128	-	-	128
Of banks and financial institutions overseas	-	284	359	643
Asset-backed	-	-	65	65
Of others in Israel	80	-	-	80
Of others overseas	-	10	43	53
Shares	2	-	-	2
Securities held for trading:				
Debentures of the Government of Israel	299	-	-	299
Of banks and financial institutions overseas	6	-	-	6
Securities loaned or sold in repurchase agreements	173	-	-	173
Credit with respect to loans to clients	446	-	-	446
Assets with respect to derivatives				
Interest contracts:				
Shekel/ CPI	-	75	3	78
Other	-	413	8	421
Currency contracts	577	1,922	-	2,499
Contracts for shares	195	5	21	221
Commodities and other contracts	-	5	-	5
Total assets	**4,481**	**4,509**	**499**	**9,489**
Liabilities				
Deposits with respect to borrowing from clients	446	-	-	446
Liabilities with respect to derivatives				
Interest contracts:				
Shekel/ CPI	-	97	62	159
Other	-	628	8	636
Currency contracts	131	1,353	-	1,484
Contracts for shares	194	5	5	204
Commodities and other contracts	-	17	-	17
Other	-	18	8	26
Total liabilities	**771**	**2,118**	**83**	**2,972**

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

Reported amounts, in NIS millions

B. Items measured at fair value on recurrent basis

				December 31, 2011
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Balance sheet balance
Assets				
Securities available for sale				
Debentures and notes				
Of Government of Israel	3,227	2,297	-	5,524
Of foreign governments	86	-	-	86
Of banks and financial institutions in Israel	159	-	-	159
Of banks and financial institutions overseas	-	192	220	412
Asset-backed	-	-	61	61
Of others in Israel	81	-	-	81
Of others overseas	9	89	37	135
Shares	6	-	-	6
Securities held for trading:				
Debentures of the Government of Israel	1,183	-	-	1,183
Of banks and financial institutions overseas	3	-	-	3
Securities loaned or sold in repurchase agreements	136	-	-	136
Credit with respect to loans to clients	231	-	-	231
Assets with respect to derivatives				
Interest contracts:				
Shekel/ CPI	-	116	98	214
Other	-	995	3	998
Currency contracts	398	1,464	-	1,862
Contracts for shares	230	102	30	362
Commodities and other contracts	-	1	-	1
Total assets	**5,749**	**5,256**	**449**	**11,454**
Liabilities				
Deposits with respect to borrowing from clients	231	-	-	231
Liabilities with respect to derivatives				
Interest contracts:				
Shekel/ CPI	-	117	27	144
Other	-	1,579	3	1,582
Currency contracts	122	1,874	-	1,996
Contracts for shares	124	100	8	232
Commodities and other contracts	-	10	-	10
Other	-	11	6	17
Total liabilities	**477**	**3,691**	**44**	**4,212**

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

Reported amounts, in NIS millions

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

As of March 31, 2012 (Unaudited)

	Fair value as of January 01, 2012	Realized / unrealized [1] profit (loss), net included: In statement of profit and loss	Under Other Comprehensive Income under Equity	Sales	Transfer to level 3	Fair value as of March 31, 2012	Unrealized gain (loss) with respect to instruments held as of March 31, 2012
Assets							
Securities available for sale							
Debentures and notes:							
Of banks and financial institutions overseas	220	(3)	1	-	-	218	(3)
Asset-backed	61	-	-	-	-	61	-
Of others overseas	37	-	-	(1)	-	36	-
Assets with respect to derivatives [2]							
Interest contracts:							
Shekel/ CPI	98	(10)	-	(29)	5	64	(10)
Other	3	3	-	-	-	6	3
Contracts for shares	30	(8)	-	-	-	22	(8)
Total assets	**449**	**(18)**	**1**	**(30)**	**5**	**407**	**(18)**
Liabilities							
Liabilities with respect to derivatives [2]							
Interest contracts:							
Shekel/ CPI	27	5	-	(22)	4	14	5
Other	3	3	-	-	-	6	3
Contracts for shares	8	5	-	-	-	13	5
Other [2]	6	-	-	(1)	-	5	-
Total liabilities	**44**	**13**	**-**	**(23)**	**4**	**38**	**13**

(1) Realized gain (loss) included on statement of profit and loss under Profit from Financing Operations (before expenses with respect to credit loss). Unrealized gain and loss included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value.

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

.

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

Reported amounts, in NIS millions

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

As of March 31, 2012 (Unaudited)

		Realized / unrealized [1] profit (loss), net included						
	Fair value as of December 31, 2010	In statement of profit and loss	Under Other Comprehensive Income under Equity	Acquisitions	Sales	Transfer to level 3	Fair value as of March 31, 2011	Unrealized gain (loss) with respect to instruments held as of March 31, 2011
Assets								
Securities available for sale								
Debentures and notes:								
Of banks and financial institutions overseas	221	(1)	-	139	-	-	359	(1)
Asset-backed	60	5	-	-	-	-	65	5
Of others overseas	45	(2)	-	-	-	-	43	(2)
Assets with respect to derivatives								
Interest contracts:								
Shekel/ CPI	8	(3)	-	-	(3)	1	3	(3)
Other	4	2	-	2	-	-	8	2
Contracts for shares	17	2	-	2	-	-	21	2
Total assets	**355**	**3**	**-**	**143**	**(3)**	**1**	**499**	**3**
Liabilities								
Liabilities with respect to derivatives [2]								
Interest contracts:								
Shekel/ CPI	62	16	-	-	(50)	34	62	16
Other	4	2	-	2	-	-	8	2
Contracts for shares	-	5	-	-	-	-	5	5
Other [2]	3	3	-	2	-	-	8	3
Total liabilities	**69**	**26**	**-**	**4**	**(50)**	**34**	**83**	**26**

(1) Realized gain (loss) included on statement of profit and loss under Profit from Financing Operations (before expenses with respect to credit loss). Unrealized gain and loss included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value.

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

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

Reported amounts, in NIS millions

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

As of December 31, 2011

		Realized / unrealized [1] profit (loss), net included							
	Fair value as of January 1, 2011	In statement of profit and loss	Under Other Comprehensive Income under Equity	Acquisi-tions	Sales	Disposi-tions	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 notes:									
Of banks and financial institutions overseas	221	-	(1)	-	-	-	-	220	(1)
Asset-backed	60	-	1	-	-	-	-	61	1
Of others overseas	45	2	(3)	-	-	(7)	-	37	(1)
Assets with respect to derivatives [2]									
Interest contracts:									
Shekel/ CPI	8	2	-	-	(10)	-	98	98	2
Other	4	(1)	-	-	-	-	-	3	(1)
Contracts for shares	17	11	-	2	-	-	-	30	3
Total assets	**355**	**14**	**(3)**	**2**	**(10)**	**(7)**	**98**	**449**	**3**
Liabilities									
Liabilities with respect to derivatives [2]									
Interest contracts:									
Shekel/ CPI	62	(1)	-	-	(61)	-	27	27	(1)
Other	4	(1)	-	-	-	-	-	3	(1)
Contracts for shares	-	8	-	-	-	-	-	8	8
Other [2]	3	-	-	3	-	-	-	6	-
Total liabilities	**69**	**6**	**-**	**3**	**(61)**	**-**	**27**	**44**	**6**

(1) Realized gain (loss) included on statement of profit and loss under Profit from Financing Operations (before expenses with respect to credit loss). Unrealized gain and loss included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value.

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

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

Reported amounts, in NIS millions

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

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

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

				March 31, 2012 (un-audited)
	Fair value measurement using			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Balance sheet balance
Other assets and liabilities				
Cash and deposits with banks	4,629	6,887	1,502	13,006
Debentures held to maturity	965	-	-	964
Securities loaned or sold in repurchase agreements	211	-	-	211
Loans to the public, net	-	9,444	112,509	120,407
Loans to the Government	-	-	193	190
Other	-	-	1,188	1,188
Total assets	**211**	**9,444**	**113,890**	**121,996**
Liabilities:				
Deposits from the public	-	24,494	96,962	119,501
Deposits from banks	-	14	1,740	1,700
Deposits from the Government	-	-	158	143
Debentures and subordinated notes	-	-	13,664	12,722
Other	-	2,685	568	3,253
Total liabilities	**-**	**27,193**	**113,092**	**137,319**

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

Reported amounts, in NIS millions

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

	Fair value as of March 31, 2012 (unaudited)	Valuation technique	Non-observed data
Securities available for sale:			
Debentures of foreign banks and financial institutions	46	Cash flow discounting	Discount rate
CLN	172	Cash flow discounting	Probability of failure
Asset-backed debentures	61	Pricing model	Probability of failure, discount rate
Debentures of foreign others	36	Cash flow discounting	Discount rate
Assets with respect to derivatives:			
Interest contracts - NIS CPI	64	Cash flow discounting	Inflation expectations
Contracts for shares	4	Option pricing model	Standard deviation of share
Liabilities with respect to derivatives:			
Interest contracts - NIS CPI	14	Cash flow discounting	Inflation expectations

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

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

G. Election of fair value alternative

Due to election of the fair value alternative, the Bank treats investments in certain debentures at fair value, rcording the changes to profit and loss and classified the under the portfolio held for trading - even though they had not been purchased for this purpose.

Election of the fair value alternative was made for the following reasons:

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

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

Reported amounts, in NIS millions

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

	Fair value as of March 31, 2012	Loss with respect to change in fair value for the three months ended March 31, 2012
Securities available for sale	661	(3)

	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 March 31		For the year ended December 31,
	2012	2011 (1)	2011 (1)
		(unaudited)	(audited)
A. Interest revenues(2)			
From loans to the public	1,363	1,527	6,340
From loans to the Government	1	1	4
From deposits with the Bank of Israel and from cash	50	57	246
From deposits with banks	58	20	136
From securities loaned or sold in repurchase agreements	1	1	4
From debentures	121	60	116
Total interest revenues	**1,594**	**1,666**	**6,846**
B. Interest expenses			
On deposits from the public	(705)	(745)	(3,062)
On deposits from governments	(1)	(3)	(11)
On deposits from banks	14	(50)	(203)
For debentures	(134)	(187)	(701)
Total interest expenses	**(826)**	**(985)**	**(3,977)**
Total interest revenues (expenses), net	**768**	**681**	**2,869**
C. Details of net effect of hedging financial derivatives on interest revenues			
Interest revenues	**2**	**(4)**	**80**
D. Details of interest revenues on accrual basis from debentures			
Held to maturity	-	3	5
Available for sale	110	64	120
Held for trading	11	(7)	(9)
Total included under interest revenues	**121**	**60**	**116**

(1) Reclassified upon initial application of the Supervisor of Banks' directives concerning formatt of statement of profit and loss for banking corporations. For details, see Note 1.E.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 March 31		For the year ended December 31,
	2012	2011 [1]	2011 [1]
		(unaudited)	(audited)
A. Non-interest financing revenues with respect to non-trade operations			
A.1. From activity in derivatives			
Non-effective element of hedging ratios (see C. below) [2]	-	(1)	(2)
Net revenues (expenses) with respect to ALM derivatives (3)	(119)	49	381
Total from activity in derivatives	**(119)**	**48**	**379**
A.2. From investment in debentures			
Gains from sale of available-for-sale debentures	19	-	11
Loss on sale of available-for-sale debentures	-	(1)	(2)
Provision for impairment of available-for-sale debentures	-	-	(10)
Total from investment in debentures	**19**	**(1)**	**(1)**
A.3. Exchange rate differences, net	**109**	**33**	**(237)**
A.4. Gain (loss) from investment in shares			
Gains on sale of available-for-sale shares	3	-	5
Dividends from available-for-sale shares	-	-	1
Total from investment in shares	**3**	**-**	**6**
A.5. Net gain with respect to loans sold	**-**	**-**	**6**
Total non-interest financing revenues with respect to non-trade operations	**12**	**80**	**153**

(1) Restated upon initial application of the Supervisor of Banks' directives concerning format of statement of profit and loss for banking corporations. For details, see Note 1.E.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		For the year ended
		March 31	December 31,
	2012	2011 (1)	2011 (1)
		(unaudited)	(audited)
B. Non-interest financing revenues with respect to trade operations(2)			
Net income (expenses) with respect to other derivatives	16	(42)	76
Realized goins (losses) from adjustment to fair value of debentures held for trading, net	(5)	-	11
Unrealized gains (losses) from adjustment to fair value of debentures held for trading, net	(3)	2	8
Total from trade operations(3)	**8**	**(40)**	**95**
Details of non-interest financing revenues with respect to trading operations, by risk exposure			
Risk exposure	(1)	-	3
Foreign currency exposure	3	(52)	29
Exposure to shares	7	1	46
Exposure to commodities and others	(1)	11	17
Total	**8**	**(40)**	**95**

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

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

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

Note 11 – Operating Segments

For the three months ended March 31, 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	621	3	115	53	76	(100)	768
Inter-segment	(197)	18	-	(9)	84	104	-
Total interest revenues, net	**424**	**21**	**115**	**44**	**160**	**4**	**768**
Non-interest financing revenues	1	(1)	-	-	24	(4)	20
Commissions and other revenues	200	13	61	17	55	17	363
Total income	**625**	**33**	**176**	**61**	**239**	**17**	**1,151**
Expenses with respect to credit loss	(5)	(4)	3	1	68	4	67
Operating and other expenses							
From outside operating segments	428	18	114	18	56	60	694
Inter-segment	(30)	4	(13)	16	20	3	-
Other operating expenses - total	**398**	**22**	**101**	**34**	**76**	**63**	**694**
Pre-tax profit	232	15	72	26	95	(50)	390
Provision for taxes on	78	5	24	8	31	(18)	128
After-tax profit	**154**	**10**	**48**	**18**	**64**	**(32)**	**262**
Share in net profits of affiliates, after tax	-	-	-	-	-	-	-
Net profit:							
Before attribution to non-controlling interest	154	10	48	18	64	(32)	262
Attributable to non-controlling interest	(11)	-	-	-	-	-	(11)
attributable to equity holders of the banking corporation	**143**	**10**	**48**	**18**	**64**	**(32)**	**251**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**16.2%**	**35.2%**	**55.9%**	**18.5%**	**9.5%**	**-**	**13.6%**
Average balance of assets	88,027	3,036	6,670	4,943	27,985	19,153	149,814
Includes: Investments in affiliates	-	-	-	-	-	18	18
Average balance of liabilities	56,481	7,142	8,107	3,747	34,929	31,198	141,604
Average balance of risk assets(1)	50,043	1,610	5,160	5,230	35,260	5,348	102,651
Average balance of provident and mutual fund assets	-	-	-	-	-	73,127	73,127
Average balance of securities	24,100	9,690	6,980	3,212	60,712	32,886	137,580
Loans to the public, net (end balance)	84,823	1,849	6,482	4,644	22,609	-	120,407
Deposits from the public (end balance)	55,172	6,503	7,238	3,325	32,046	15,217	119,501
Average balance of other assets managed	20,471	-	231	262	161	-	21,125

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

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	255	9	85	37	109	-	495
Margin from receiving deposits	162	12	20	5	20	-	219
Other	7	-	10	2	31	4	54
Total interest revenues, net	**424**	**21**	**115**	**44**	**160**	**4**	**768**

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

Note 11 – Operating Segments (continued)

For the three months ended March 31, 2011 (unaudited) - continued

Reported amounts (NIS in millions)

A. Information on operating segments [3]

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	838	(6)	93	68	70	(382)	681
Inter-segment	(464)	21	-	(26)	58	411	-
Total interest revenues, net	**374**	**15**	**93**	**42**	**128**	**29**	**681**
Non-interest financing	3		1	1	3	32	40
Commissions and other revenues	219	15	60	18	47	29	388
Total income	**596**	**30**	**154**	**61**	**178**	**90**	**1,109**
Expenses with respect to credit loss	19	(3)	26	1	(1)	12	54
Operating and other expenses							
From outside operating segments	411	18	113	17	56	58	673
Inter-segment	(29)	-	(13)	18	20	4	-
Other operating expenses - total	**382**	**18**	**100**	**35**	**76**	**62**	**673**
Pre-tax profit	195	15	28	25	103	16	382
Provision for taxes on	70	5	11	8	37	6	137
After-tax profit	**125**	**10**	**17**	**17**	**66**	**10**	**245**
Share in net profits of affiliates, after tax	-	-	-	-	-	1	1
Net profit:							
Before attribution to non-controlling interest	125	10	17	17	66	11	246
Attributable to non-controlling interest	(8)	-	-	-	-	-	(8)
attributable to equity holders of the banking corporation	**117**	**10**	**17**	**17**	**66**	**11**	**238**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**15.7%**	**94.3%**	**20.6%**	**18.3%**	**10.7%**	**10.9%**	**14.3%**
Average balance of assets	[2] 74,676	1,996	[2] 6,059	4,675	25,706	22,116	134,968
Includes: Investments in affiliates	-	-	-	-	-	16	16
Average balance of liabilities	45,527	5,582	6,582	3,082	27,503	39,310	127,586
Average balance of risk assets[1]	43,812	719	4,876	5,135	33,300	4,325	92,167
Average balance of provident and mutual fund assets	-	-	-	-	-	82,406	82,406
Average balance of securities	28,655	7,364	8,758	3,972	73,289	39,813	161,851
Loans to the public, net (end balance)	[2] 75,991	854	[2] 6,287	4,655	21,604	-	109,391
Deposits from the public (end balance)	48,095	5,269	6,655	2,777	26,855	19,378	109,029
Average balance of other assets managed	22,193	-	129	34	130	-	22,486

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	234	6	74	34	96	-	444
Margin from receiving deposits	123	10	19	4	18	-	174
Other	17	(1)	-	4	14	29	63
Total interest revenues, net	**374**	**15**	**93**	**42**	**128**	**29**	**681**

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

(2) Reclassified

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

Note 11 – Operating Segments (continued)

For the year ended December 31, 2011 (audited)

Reported amounts (NIS in millions)

A. Information on operating segments [3]

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	3,634	18	415	240	240	(1,678)	2,869
Inter-segment	(2,000)	79	26	(67)	304	1,658	-
Total interest revenues, net	**1,634**	**97**	**441**	**173**	**544**	**(20)**	**2,869**
Non-interest financing revenues	12		3	2	13	218	248
Commissions and other revenues	808	56	237	65	196	129	1,491
Total income	**2,454**	**153**	**681**	**240**	**753**	**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	79	206	103	282	66	1,603
Provision for taxes on	283	26	66	34	91	22	522
After-tax profit	**584**	**53**	**140**	**69**	**191**	**44**	**1,081**
Share in net profits of affiliates, after tax	-	-	-	-	-	1	1
Net profit:							
Before attribution to non-controlling interest	584	53	140	69	191	45	1,082
Attributable to non-controlling interest	(38)	-	-	-	-	-	(38)
attributable to equity holders of the banking corporation	**546**	**53**	**140**	**69**	**191**	**45**	**1,044**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**16.1%**	**47.3%**	**35.7%**	**17.2%**	**7.4%**	**15.7%**	**14.6%**
Average balance of assets	[2] 77,528	2,776	[2] 6,545	4,888	24,989	24,802	141,518
Includes: Investments in affiliates	-	-	-	-	-	14	14
Average balance of liabilities	51,460	6,368	7,164	3,189	30,197	35,562	133,940
Average balance of risk assets[1]	46,260	1,444	5,046	5,176	33,119	4,960	96,005
Average balance of provident and mutual fund assets	-	-	-	-	-	77,626	77,626
Average balance of securities	23,927	9,690	6,980	3,212	60,712	32,886	137,407
Loans to the public, net (end balance)	[2] 83,296	1,942	[2] 6,428	4,778	22,884	-	119,328
Deposits from the public (end balance)	54,091	5,831	8,268	3,471	32,524	15,051	119,236
Average balance of other assets managed	21,150	-	223	154	86	-	21,613

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

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	1,001	47	323	144	382	-	1,897
Margin from receiving deposits	562	47	86	22	84	-	801
Other	71	3	32	7	78	(20)	171
Total interest revenues, net	**1,634**	**97**	**441**	**173**	**544**	**(20)**	**2,869**

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

(2) Reclassified

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

Note 12 – Other matters

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

   On January 19, 2012, Tefahot Issuance issued NIS 877 million par value 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.

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

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

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

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

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