Condensed Financial Statements as of March 31, 2014

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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

Additional disclosures with regard to composition of capital under Basel III, Pillar 3 are provided on the Bank website: www.mizrahi-tefahot.co.il/en >> Financial reports

Condensed Board of Directors' Report for Financial Statements as of March 31, 2014

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Condensed Board of Directors' Report for Financial Statements as of March 31, 2014

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on May 14, 2014, it was resolved to approve and publish the Board of Directors' report and the consolidated financial statements of Mizrahi Tefahot Bank Ltd. and its investees as of March 31, 2014.

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

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

Developments in Israel's economy in the first quarter of 2014

Real Developments

Macro-economic data for the first quarter of 2014 give mixed indications showing continued moderate growth in economic activity;

The Bank of Israel Composite Index increased in the first quarter of this year at an annualized rate of 2.6%, compared to an annualized increase of 3.0% in the final quarter of 2013 and an increase of 3.1% in all of 2013.

Export of goods (annualized trend in USD, excluding ships, airplanes and diamonds) decreased in the first quarter of 2014 by 0.5% compared to the previous quarter, after increasing by 13.1% in the final quarter of 2013. Import of goods (annualized trend in USD, excluding ships, airplanes, diamonds and energy) increased in the first quarter of 2014 by 3.2%, slower growth compared to an increase by 12.2% in the final quarter of 2013. The trade deficit in the first quarter of 2014 amounted to USD 3.0 billion, compared to USD 2.8 billion in the corresponding period last year - an increase of 7.7%.

The economic sector turnover index continued to rise in recent months, indicating increased demand. The recovery also continues in the industrial production index, primarily due to the positive impact of the sharp increase in production in high-tech. Conversely, the retail chain turnover index declined in the first quarter of 2014. The purchasing manager index recovered slightly in the first quarter, with the index rising from 46.8 points at the end of 2013 to 48.9 points at the end of the first quarter of 2014. However, this level still indicates a shrinking activity.

Unemployment in the first quarter of 2014 was at 5.8%, similar to the previous quarter and compared to 6.6% in the year-ago period. The employment rate in the first quarter of this year was at 64.1%, compared to 63.7% in the year-ago period.

Inflation and exchange rates

In the first quarter of 2014, the Consumer Price Index declined by 0.5%; in the corresponding period last year the CPI was unchanged. The lower CPI resulted primarily from lower prices of clothing and footwear as well as food. These lower prices were offset by higher prices for housing services.

Official exchange rates and change there to:

	March 31, 2014	December 31, 2013	Change (in %)
Exchange rate of:			
USD / NIS	3.487	3.471	0.5
EUR / NIS	4.812	4.782	0.6

On May 12, 2014, the USD / NIS exchange rate was 3.456 and the EUR / NIS exchange rate was 4.754.

In support of the exchange rate, the Bank of Israel purchased in the first quarter of 2014 foreign currency valued at USD 3.0 billion (including: purchase of foreign currency valued at USD 0.9 billion to offset the impact of natural gas production from the Tamar reservoir on exchange rates), further to purchases valued at USD 5.3 billion in all of 2013 (including: USD 2.1 billion to offset the impact of natural gas production from the Tamar reservoir on exchange rates).

Monetary and fiscal policies

In the first quarter of 2014, the Bank of Israel lowered its interest rate once, from 1.00% at the end of 2013 to 0.75% in March 2014 - given the inflation rate which is below the center of the stability target band, the strong NIS and continuing expansive monetary policy in major economies.

In the first three months of 2014, the government budget recorded a NIS 0.1 billion cumulative surplus, compared to a NIS 4.7 billion cumulative deficit in the corresponding period last year. The cumulative deficit for the 12 months ended March 2014 amounted to NIS 28.2 billion, or 2.7% of GDP, compared to a deficit of 3.2% in all of 2013. Tax revenues increased in the first three months of 2014 by 15.4% over the year-ago period, while Government expenditure increased by 8.2% in the same period.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in the first two months of 2014 demand for new apartments (apartments sold and apartments constructed not for sale, net of seasonal effects) was 6,530 apartments, a decrease of 13.5% over the corresponding period last year and a decrease of 4.7% over the corresponding period in 2012. In the Haifa district the decrease was 35.2%, while the Central district posted an increase of 18.0%. Based on the average pace of sales in the six months ended February 2014, this inventory would account for 11.2 months' sales. In the first quarter of 2014, housing loans originated to the public amounted to NIS 12.5 billion, compared to NIS 11.9 billion in the corresponding period last year - an increase of 5.4%, primarily due to higher prices along with a stable number of housing loans. Housing loans originated was 3.2% lower compared to the quarterly average in 2013.

The rising housing prices appeared to moderate as from July 2013. Apartment prices, on nation-wide average, increased by 6.4% in the 12 months ended January 2014, compared to 10.2% in the 12 months ended June 2013.

Capital market

In the first quarter of 2014, equity markets continued to be positive, after most benchmarks were higher in the third and fourth quarters of 2013.

Below is information about equity market returns (in %):

Index	Return in first quarter of 2014	Return in 2013
Tel Aviv 25	5.5	12.1
Tel Aviv 100	6.2	15.1
Real Estate 15	2.9	26.0
Yeter 50	3.8	35.6
Finance 15	1.0	18.8
Tel Aviv Banking	(1.0)	16.3

Average daily trading volume in equities and convertible securities increased in the first quarter of 2014 to NIS 1.296 billion, compared to NIS 1.125 billion in the corresponding period last year. Over the last four quarters, the quarterly average trading volume was NIS 1.230 billion. Total equity issuance (excluding equity issued overseas) in the first quarter of 2014 amounted to NIS 4 billion, compared to NIS 1.6 billion in the corresponding period last year. Over the last four quarters, the quarterly average equity issuance was NIS 2.6 billion.

Debenture market – the debenture market was positive in the first quarter of 2014. This was in continuation of the positive trend over the previous three quarters.

Below is information about returns in the debenture market (in %):

Index	Return in first quarter of 2014	Return in 2013
General debentures	2.1	5.4
CPI-linked debentures	2.0	3.0
Non-linked debentures	1.9	4.0
Tel Bond 20	2.0	5.9
Tel Bond 40	1.7	6.9

The yield to maturity spread on corporate debentures over Government debentures continued to decrease in the first quarter of 2014. Debentures rated AA traded at the end of the first quarter of 2014 at an average spread of 0.75 percentage points, compared to 0.8 percentage points at the end of 2013. The average yield to maturity spread on debentures rated A over Government debentures also contracted to 1.57 percentage points, compared to 1.96 percentage points at the end of 2013.

Overall, in the first quarter of 2014 the business sector issued debentures valued at NIS 9.3 billion to the public and to institutional investors, following issues valued at NIS 10.8 billion in the corresponding period last year. Over the last four quarters, the quarterly average issuance was NIS 8.8 billion.

The average daily trading volume in debentures for the second quarter of 2014 was lower at NIS 3.9 billion, compared to NIS 4.3 billion in the year-ago period. Over the last four quarters, the quarterly average trading volume was NIS 4.2 billion.

Global economy

Economic indicators in the USA were weak in the first quarter of 2014, primarily due to severe weather which impacted economic activity. However, improving trends were posted in industrial output, private consumption, the labor market and in expectation surveys. The recovery in the housing market was curtailed, primarily due to higher mortgage costs. The US Federal Reserve continued to scale down its purchase program; the Federal Reserve Chair noted that interest rates in the USA are expected to start rising in the first quarter of 2015.

Unemployment in the Euro Zone continued to be stable in the first quarter of 2014, at 12%. The annualized inflation rate in the Euro Zone for the twelve months ended March 2014 was lower at 0.5%, compared to 1.7% in the year-ago period. In 2014 year-to-date, retail commerce, industrial output and consumer trust benchmarks, as well as industry expectation surveys, all improved slightly. Given the slow recovery of the Euro Zone economy, the high unemployment rate and the low inflation rate - some estimate that further expansive monetary steps would be taken in the Euro Zone.

In the first quarter of 2014, growth in China slowed down with GDP growing in the first quarter at 7.4%, compared to 7.7% in the previous quarter and in the year-ago period. The annualized inflation rate in China for the twelve months ended March 2014 was lower at 2.4%. In the first quarter of 2014, the foreign trade, industrial output and private consumption benchmarks were all lower. Expectation surveys also indicate weakness, resulting in lower readings in the business confidence and consumer confidence benchmarks.

In April 2014, the IMF revised its global growth forecast for 2014 downward, from 3.7% to 3.6%. This follows the downward revision to the growth rate in emerging markets by 0.2%, to 4.9%. However, the growth forecast for the USA remained unchanged at 2.8%; the growth forecast for the Euro Zone was slightly revised upward, by 0.1%, to 1.2%.

Leading benchmarks in global capital markets were affected by positive macro-economic indicators and excess liquidity, which continued to somewhat buoy investor confidence, especially given the low interest rate environment around the world - especially in developed markets.

The Dow Jones Index declined in the first quarter of 2014 by 0.7%. The NASDAQ 100 and S&P 500 benchmarks rose in the first quarter of 2014 by 0.5% and 1.4%, respectively. The German DAX Index was unchanged in the first quarter of 2014. The FTSE 100 and Nikkei 225 indices were down by 2.2% and 9.8%, respectively.

Key Data for Bank Group

Evolution of revenues and expenses

					For the quarter ended
	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
					NIS in millions
Profit and profitability - major items					
Interest revenues, net	(1)713	784	1,005	873	802
Non-interest financing revenues (expenses)	81	23	(90)	48	33
Commissions and other revenues	(1)357	380	364	368	373
Total revenues	**1,151**	**1,187**	**1,279**	**1,289**	**1,208**
Expenses with respect to credit losses	(5)	5	68	181	34
Operating and other expenses	727	779	755	706	717
Profit before provision for taxes	429	403	456	402	457
Provision for taxes	158	140	143	145	164
Net profit(2)	**264**	**252**	**301**	**245**	**280**

	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
					NIS in millions
Balance sheet - key items					
Balance sheet total	184,754	179,613	173,332	170,603	165,557
Loans to the public, net	141,061	138,565	136,747	132,853	130,543
Securities	6,519	7,000	7,431	6,661	9,374
Deposits from the public	145,701	141,244	135,863	135,699	130,117
Debentures and subordinated notes	17,887	16,443	16,542	14,807	14,845
Equity(2)	10,130	9,852	9,574	9,341	9,108

	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
Key financial ratios (in percent)					
Net profit return on equity(3)	11.0	10.8	13.3	11.1	13.1
Deposits from the public to net loans to the public	103.3	101.9	99.4	102.1	99.7
Capital to total assets	5.48	5.49	5.52	5.48	5.50
Ratio of Tier I capital to risk elements	8.87	9.01	8.84	8.74	8.71
Total ratio of capital to risk elements	12.97	13.04	12.96	12.89	13.25
Cost income ratio(4)	63.2	65.6	59.0	54.8	59.4
Expenses with respect to credit losses for the period to loans to the public, net(3)	(0.01)	0.01	0.20	0.55	0.10
Basic net earnings per share	1.15	1.10	1.32	1.07	1.23
Diluted net earnings per share	1.14	1.09	1.31	1.06	1.22

(1) For information about application of US standard FAS 91 (ASC 310-20) with regard to measurement of interest revenues, see Note 1.c.1 to the financial statements.

(2) 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.

(3) Calculated on annualized basis.

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

Forward-Looking Information

Some of the information in the Report of the Board of Directors, which does not relate to historical facts, constitutes “forward-looking information”, as defined in the Securities Law, 1968 (hereinafter: “the Law”).

Actual Bank results may materially differ from those provided in the forward-looking information due to multiple factors including, inter alia, changes in local and global capital markets, macro-economic changes, geo-political changes, changes in legislation and regulation and other changes outside the Bank's control, which may result in non-materialization of estimates and/or in changes to business plans.

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

The information presented here in relies, inter alia, on publications of the Central Bureau of Statistics and the Ministry of Finance, on Bank of Israel data and on various forecasts and assessments on various topics with regard to the future.

Profit and Profitability

Group net profit in the first quarter of 2014 amounted to NIS 264 million, compared to NIS 280 million in the corresponding period last year – a decrease of 5.7%.

The growth trend in the Bank's capital base continued, in line with capital adequacy directives of the Bank of Israel; net profit therefore reflects annualized return on equity of 11.0%, compared to 13.1% in the corresponding period last year and 11.5% for all of 2013.

The following major factors affected Group operating income in the first quarter of 2014 compared to the corresponding period last year:

- Group operating results in financing items in the current quarter were influenced by a 0.7% decrease in CPI, compared to no change in CPI in the corresponding period last year.
- The effect of the lower CPI on financing income amounted to a decrease of NIS 59 million (NIS 37 million after tax effect).
- Operating results were also influenced by further lowering of Bank of Israel interest rate, to 0.75% compared to 1.75% at the end of the corresponding period last year.
- Financing revenues from current operations (net interest revenues and non-interest financing revenues), net of the increase due to application of FAS 91(1) in the first quarter of 2014, increased by NIS 32 million, or 4.2%, compared to the corresponding period last year. See also the analysis of evolution of financing revenues, below.
- Expenses with respect to credit losses in the first quarter of 2014 decreased by NIS 39 million compared to the corresponding period last year, due to significant collection of debt previously written-off.
- Commissions and other revenues, net of the decrease due to application of FAS 91(1) in the first quarter of 2014 increased by NIS 6 million compared to the corresponding period last year – an increase of 1.6%. The increase in commissions and other revenues was achieved with continued growth in business volume, despite the negative impact of various regulatory directives. For details, see the chapter on Legislation and Supervision of Bank Group Operations below.
- Operating and other expenses increased in the first quarter of 2014 by NIS 10 million, or 1.4%, over the corresponding period last year.

(1) For information about application of US standard FAS 91 (ASC 310-20) with regard to measurement of interest revenues, see Note 1.C.1 to the financial statements.

Evolution of revenues and expenses

Net interest revenues and non-interest financing revenues[1] for the Group in the first quarter of 2014 amounted to NIS 794 million, compared to NIS 835 million in the corresponding period last year, a decrease of 4.9%.

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

	First Quarter		
	2014	2013	Change (in %)
Interest revenues, net	713	802	
Non-interest financing revenues[1]	81	33	
Total financing revenues	**794**	**835**	**(4.9)**
Less:			
Effect of application of FAS 91[2]	40	-	
Linkage differentials with respect to CPI position	(59)	4	
Revenues from collection of interest on troubled debt	24	16	
Gain from realized debentures available for sale and from debentures held for trade, net	28	3	
Effect of accounting treatment of derivatives at fair value and others[3]	(31)	52	
Total financing revenues from current operations	**792**	**760**	**4.2**

(1) Non-interest financing expenses include effect of fair value and others and expense with respect to linkage differentials on CPI derivatives, where the corresponding revenue is recognized as interest revenues, in conformity with accounting rules.
(2) For information about application of US standard FAS 91 (ASC 310-20) with regard to measurement of interest revenues, see Note 1C.1 to the financial statements.
(3) The effect of the accounting treatment of derivatives at fair value is due to the difference between the accounting treatment of balance sheet instruments, charged to the profit and loss statement on an accrual basis (interest, linkage differentials and exchange rate differentials only), vs. derivatives measured at fair value. Other effects include the effect of Bank covers against tax exposure with respect to overseas investments, by allocating excess financing sources against such investments.

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

				First Quarter
Operating segment	2014	2013	Change amount	Change rate (In %)
Retail banking:				
Mortgages	171	145	26	17.9
Households[1]	280	289	(9)	(3.1)
Small business	123	115	8	7.0
Total	**574**	**549**	**25**	**4.6**
Private banking[1]	14	15	(1)	-
Commercial banking	41	41	-	-
Business banking	191	181	10	5.5
Financial management	(26)	49	(75)	-
Total	**794**	**835**	**(41)**	**(4.9)**

(1) The household and private banking segments were impacted by margin erosion on deposits due to lower interest rates.

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

			First Quarter
	2014	2013	Change (in %)
Israeli currency - non-linked	100,187	82,950	20.8
Israeli currency - linked to the CPI	53,347	49,788	7.1
Foreign currency (including Israeli currency linked to foreign currency)	13,269	14,790	(10.3)
Total	**166,803**	**147,528**	**13.1**

The increase in the average balance of interest-bearing assets in the NIS-denominated segment is primarily due to higher excess liquidity and higher mortgage volume attributed to this segment. The increase in mortgage volume is also the reason for the increase in the average balance of assets in the CPI-linked segment. The decrease in the average balances of interest-bearing assets in the foreign currency segment is primarily due to lower exchange rates and to realized securities in conjunction with management of the Bank's assets and liabilities.

Below are interest spreads (difference between interest income on assets and interest expenses on liabilities) based on average balances(1), attributable to operations in Israel in the various linkage segments (in percent):

	For the quarter ended March 31	
Linkage segments	2014	2013
Israeli currency - non-linked	2.23	2.54
Israeli currency - linked to the CPI	0.63	0.80
Foreign currency	1.56	1.95
Total	**1.60**	**2.01**

(1) Average balances before deduction of provision with respect to credit losses.

The decrease in interest spread in the non-linked NIS segment and in CPI-linked NIS segment is primarily due to the lower interest rate environment.

The decrease in interest spread in the foreign currency segment is primarily due to temporary differences in the effect of lower interest rates on sources and uses.

The overall decrease in interest spread is due to effect of the negative CPI, offset by CPI derivatives the income from which is recognized under Non-interest Financing Revenues. See also the analysis of developments in financing revenues from current operations, above.

See Management Discussion - Addendum A for interest rate differences by various criteria (type of operations, linkage segment and volume / price analysis).

Expenses with respect to credit losses for the Group in the first quarter of 2014 amounted to reduced expenses by NIS 5 million, compared to expenses with respect to credit losses amounting to NIS 34 million in the corresponding period last year, an annualized rate of 0.10% of total loans to the public, net, for a total decrease of NIS 39 million, due to significant increased collection in this quarter of debt previously written off.

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

	First Quarter	
	2014	2013
Provision for credit losses on individual basis (including accounting write-offs)	(15)	32
Provision for credit losses on Group basis:		
By extent of arrears	(6)	8
Other	16	(6)
Total expenses with respect to credit losses	**(5)**	**34**
Expense with respect to credit losses as percentage of total loans to the public, net (annualized)	**(0.01%)**	**0.10%**
Includes: With respect to commercial loans other than housing loans	**(0.04%)**	**0.17%**
Includes: With respect to housing loans	**0.00%**	**0.06%**

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

Operating segment			First Quarter
	2014	2013	Change (in %)
Retail banking:			
Mortgages	-	13	-
Households	4	11	-
Small business	15	3	-
Total	**19**	**27**	**(29.6)**
Private banking	-	(3)	-
Commercial banking	1	(7)	-
Business banking	[1](27)	16	-
Financial management	2	1	-
Total	**(5)**	**34**	**-**

(1) The decrease is due to significant collection of previously written-off debt.

Net interest revenues after expenses with respect to credit losses in the first quarter of 2014 amounted to NIS 718 million, compared to NIS 768 million in the corresponding period last year and including non-interest financing revenues - a decrease of 0.2%. See above the analysis of evolution of financing revenues from current operations and analysis of expenses with respect to credit losses.

Non-interest expenses for the Group amounted to NIS 438 million in the first quarter of 2014, compared with NIS 406 million in the corresponding period last year - a year-over-year increase of 7.9%. See remarks below.

Non-interest financing revenues in the first quarter of 2014 amounted to NIS 81 million, compared to NIS 33 million in the corresponding period last year. This item includes, inter alia, the effect of fair value and others and revenues with respect to linkage differentials on CPI derivatives, where the corresponding expense is recognized as interest revenues, in conformity with accounting rules. See analysis of Financing revenues from current operations above.

Commission revenues net of the decrease due to application of FAS 91[(1)] in the first quarter of 2014 amounted to NIS 370 million, compared to NIS 368 million in the corresponding period last year, an increase of NIS 2 million.

The increase in commissions is achieved along with continued growth in business, despite the negative impact of various regulatory directives. For details, see the chapter on Legislation and Supervision of Bank Group Operations below.

Commissions in the first quarter of 2014, as stated on these financial statements, after the effect of application of FAS 91, amounted to NIS 348 million.

Other revenues in the fourth quarter of 2014 amounted to NIS 9 million, compared to NIS 5 million in the corresponding period last year, an increase of NIS 4 million. The increase is due, *inter alia*, to increase in revenues from trust services and to capital gain from realization of assets.

Operating and other expenses amounted to NIS 727 million in the first quarter of 2014, compared with NIS 717 million in the corresponding period last year - an increase of 1.4%. See remarks below.

Payroll and associated expenses amounted to NIS 456 million in the first quarter of 2014, compared with NIS 445 million in the corresponding period last year - an increase of 2.5%.

Maintenance and depreciation expenses for buildings and equipment amounted to NIS 171 million in the first quarter of 2014, compared with NIS 166 million in the corresponding period last year - an increase of 3.0%.

Other expenses in the first quarter of 2014, amounted to NIS 100 million compared with NIS 106 million in the corresponding period last year - a decrease of NIS 6 million.

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

	2014				2013
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Cost-Income Ratio[(1)]	63.2	65.6	59.0	54.8	59.4

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

Pre-tax profit for the Group in the first quarter of 2014 amounted to NIS 429 million, compared to NIS 457 million in the corresponding period last year – a decrease of 6.1%.

The provision for taxes in the first quarter of 2014 amounted to NIS 158 million, compared to NIS 164 million in the corresponding period last year – a decrease of 3.7%.

The Bank's share of after-tax profit of associates in the first quarter of 2014 amounted to NIS 1 million, compared to a loss amounting to NIS 2 million in the corresponding period last year.

(1) For information about application of US standard FAS 91 (ASC 310-20) with regard to measurement of interest revenues, see Note 1.C.1 to the financial statements

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

	2014	2013			
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net return on equity	11.0	10.8	13.3	11.1	13.1
Ratio of Tier I capital to risk elements at end of quarter	[3]8.87	9.01	8.84	8.74	8.71

(1) Annualized return.
(2) Return on average shareholders' equity, including "total capital resources", as presented in reporting of revenue and expense rates, less average balance of minority interest and less/plus the average balance of unrealized gain/loss from adjustment to fair value of debentures held for trading as well as gain/loss from debentures available for sale.
(3) Includes the effect of application of Basel III directives (a decrease of 0.28% as of January 1, 2014).

Earnings per share

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

	First Quarter		All of
	2014	2013	2013
Basic earnings per share:	1.15	1.23	4.72
Diluted earnings per share:	1.14	1.22	4.69

Development of balance sheet items

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

				Change (in %) over	
	March 31		December 31	March 31	December 31
	2014	2013	2013	2013	2013
Balance sheet total	184,754	165,557	179,613	11.6	2.9
Loans to the public, net	141,061	130,543	138,565	8.1	1.8
Deposits from the public	145,701	130,117	141,244	12.0	3.2
Securities	6,519	9,374	7,000	(30.5)	(6.9)
Shareholders' equity	10,130	9,108	9,852	11.2	2.8

Loans to the public, net - loans to the public, net on the consolidated balance sheet as of March 31, 2014 accounted for 76% of total assets, compared to 77% at the end of 2013. Loans to the public, net for the Group increased in the first quarter of 2014 by NIS 2.5 billion, an increase of 1.8%.

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

				Change (in %) over	
	March 31		December 31	March 31	December 31
	2014	2013	2013	2013	2013
Israeli currency					
Non-linked	76,050	67,273	73,715	13.0	3.2
CPI- linked	52,712	50,251	52,740	4.9	(0.1)
Foreign currency and foreign currency linked	12,299	13,019	12,110	(5.5)	1.6
Total	**141,061**	**130,543**	**138,565**	**8.1**	**1.8**

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

				Change (in %) over	
	March 31		December 31	March 31	December 31
Operating segment	2014	2013	2013	2013	2013
Retail banking:					
Mortgages	85,915	76,877	84,246	11.8	2.0
Households	19,225	18,161	19,022	5.9	1.1
Small business	8,052	7,371	7,667	9.2	5.0
Total – business and others	**113,192**	**102,409**	**110,935**	**10.5**	**2.0**
Private banking	975	1,191	956	(18.1)	2.0
Commercial banking	4,499	4,631	4,517	(2.9)	(0.4)
Business banking	22,395	22,312	22,157	0.4	1.1
Total – business and others	**27,869**	**28,134**	**27,630**	**(0.9)**	**0.9**
Total	**141,061**	**130,543**	**138,565**	**8.1**	**1.8**

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

Reported amounts (NIS in millions)	As of March 31, 2014			As of March 31, 2013			As of December 31, 2013		
	Credit risk[1]			Credit risk[1]			Credit risk[1]		
	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total
1. Troubled credit risk									
Impaired credit risk	1,118	227	1,345	1,517	247	1,764	1,241	233	1,474
Inferior credit risk	105	-	105	122	1	123	152	-	152
Credit risk under special supervision[2]	1,453	100	1,553	1,857	79	1,936	1,385	103	1,488
Total troubled credit risk	**2,676**	**327**	**3,003**	**3,496**	**327**	**3,823**	**2,778**	**336**	**3,114**
Includes: Non-impaired debt in arrears 90 days or longer[2]	1,137			1,622			1,134		
2. Non-performing assets[3]	**1,026**			**1,411**			**1,136**		

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

(2) Including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer, amounting to NIS 1,096 million (as of March 31, 2013 - NIS 1,566 million; as of December 31, 2013 - NIS 1,081 million).

(3) Non-accruing assets.

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

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

	March 31, 2014	March 31, 2013	December 31, 2013
Ratio of impaired loans to the public to total loans to the public	0.8	1.1	0.9
Ratio of impaired loans to the public to total non-housing loans	2.2	3.1	2.5
Ratio of troubled loans to the public to total non-housing loans	3.1	3.9	3.4
Ratio of housing loans in arrears 90 days or longer to total loans to the public[1][2]	0.8	1.2	0.8
Ratio of provision for credit losses to total loans to the public	1.0	1.3	1.0
Ratio of troubled credit risk to total credit risk with respect to the public	1.6	2.2	1.6
Ratio of expenses with respect to credit losses to average balance of loans to the public, net	(0.01)	0.10	0.22
Ratio of net write-offs to average balance of loans to the public, net	0.05	0.18	0.42
Ratio of net write-offs to provision for credit losses	4.7	14.9	39.8

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

(1) This non-housing rate is negligible.

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

Below is the sector composition of the top 6 borrowers for the Group as of March 31, 2014 (NIS in millions):

Borrower no.	Sector	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
1.	Power and water	796	151	947
2.	Construction and real estate	428	297	725
3.	Construction and real estate	42	598	640
4.	Construction and real estate	122	504	626
5.	Communications and computer services	38	553	591
6.	Construction and real estate	10	521	531

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

Securities - the balance of investment in securities increased in the first quarter of 2014 by NIS 0.5 billion, and by NIS 2.9 billion compared to the corresponding period last year. The change in total investment in securities is within asset and liability management of the Bank.

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

				Change (in %) over	
	March 31		December 31	March 31	December 31
	2014	2013	2013	2013	2013
Israeli currency					
Non-linked	2,504	5,643	4,015	(55.6)	(37.6)
CPI- linked	960	219	138	-	-
Foreign currency and foreign currency linked	2,956	3,396	2,749	(13.0)	7.5
Non-monetary items	99	116	98	(14.7)	1.0
Total	**6,519**	**9,374**	**7,000**	**(30.5)**	**(6.9)**

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, 2014	December 31, 2013
Government debentures:		
Government of Israel	5,891	6,340
US Government	51	61
Other	-	21
Total government debentures	**5,942**	**6,422**
Debentures of banks in developed nations:		
UK	96	96
Israel	124	124
Germany	103	103
Other	5	5
	328	**328**
Debentures of (non-banking) financial institutions in developed nations:(1)		
USA	10	10
Luxembourg	10	10
Total	**20**	**20**
Total debentures of banks and financial institutions in developed nations	**348**	**348**
Corporate debentures (composition by sector):		
Industry	66	65
Construction	23	24
Power and water	15	17
Financial services	26	26
Total corporate debentures	**130**	**132**
Shares	**99**	**98**
Total securities	**6,519**	**7,000**

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

For more 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, see Note 2 to the financial statements.

Deposits from the public - these account for 79% of total consolidated balance sheet as of March 31, 2014, similar to their weight at the end of 2013. In the first quarter of 2014, deposits from the public with the Bank Group amounted to NIS 4.5 billion, an increase of 3.2%.

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

				Change (in %) over	
	March 31,		December 31,	March 31,	December 31,
	2014	2013	2013	2013	2013
Israeli currency					
Non-linked	95,653	82,557	92,888	15.9	3.0
CPI- linked	21,889	21,941	21,439	(0.2)	2.1
Foreign currency and foreign currency linked	28,159	25,619	26,917	9.9	4.6
Total	**145,701**	**130,117**	**141,244**	**12.0**	**3.2**

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

				Change (in %) over	
	March 31,		December 31,	March 31,	December 31,
	2014	2013	2013	2013	2013
Retail banking:					
Households	61,043	58,760	60,793	3.9	0.4
Small business	9,818	8,396	9,517	16.9	3.2
Total retail	**70,861**	**67,156**	**70,310**	**5.5**	**0.8**
Private banking	7,603	6,267	7,027	21.3	8.2
Commercial banking	3,877	3,485	3,408	11.2	13.8
Business banking	44,794	35,986	43,467	24.5	3.1
Financial management	18,566	17,223	17,032	7.8	9.0
Total	**145,701**	**130,117**	**141,244**	**12.0**	**3.2**

As of March 31, 2014, the balance of the three top depositors at the Bank amounted to NIS 17.9 billion.

Below is the development of deposits from the public with the Group by depositor size (NIS in millions):

	March 31,		December 31,
	2014	2013	2013
Maximum deposit – NIS in millions			
Up to 1	51,985	50,369	48,678
1 to 10	25,106	23,032	25,226
10 to 100	13,783	13,034	14,810
100 to 500	12,522	10,992	13,507
Over 500	42,305	32,690	39,023
Total	**145,701**	**130,117**	**141,244**

For more information about deposits from the public, see Note 4 to the financial statements.

The ratio of shareholders' equity to balance sheet total for the Group as of March 31, 2014 was 5.48%, compared to 5.49% at the end of 2013.

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%[(1)] of weighted total of risk elements of its balance sheet assets and off-balance-sheet items, and these instructions specify the manner of calculation of total capital and total risk elements. Starting on December 31, 2009, the ratio of capital to risk elements is calculated in accordance with Basel II rules.

On May 30, 2013, the Supervisor of Banks issued an amendment to Proper Conduct of Banking Business Regulations 201-211 concerning adoption of Basel III directives with regard to supervisory capital and with regard to risk assets. The directives are effective as from January 1, 2014, subject to transitional provisions.

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

	March 31, 2014	January 1, 2014	December 31, 2013	March 31, 2014
	Basel III	Basel III	Basel II	Basel II
Ratio of Tier I capital to risk elements	8.87	8.73	9.01	8.71
Ratio of total capital to risk elements	12.97	12.88	13.04	13.25
Minimum Tier I (core) capital adequacy ratio required by directives of the Supervisor of Banks	[(1)]9.00	[(1)]9.00	7.50	7.50
Total minimum capital ratio required by the directives of the Supervisor of Banks	[(1)]12.50	[(1)]12.50	9.00	9.00

(1) As from January 1, 2015.

Off Balance Sheet Activity

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

				Change in % over	
	March 31,		December 31,	March 31,	December 31,
	2014	2013	2013	2013	2013
Off balance sheet financial instruments other than derivatives(1):					
Documentary credit	324	349	296	(7.2)	9.5
Loan guarantees	2,385	2,691	2,413	(11.4)	(1.2)
Guarantees to home buyers	10,000	8,376	9,935	19.4	0.7
Guarantees and other liabilities	3,620	3,417	3,519	5.9	2.9
Unutilized revolving credit card facilities	7,231	6,809	7,135	6.2	1.3
Unutilized debitory account and other credit facilities in accounts available on demand	16,338	16,290	17,460	0.3	(6.4)
Irrevocable commitments for loans approved but not yet granted	9,161	9,735	9,009	(5.9)	1.7
Commitments to issue guarantees	6,374	4,818	6,265	32.3	1.7
Financial derivatives(2):					
Total par value of financial derivatives	204,406	183,019	202,950	11.7	0.7

(1) Contract balances or their stated amounts at the end of the period, before effect of provision for credit losses. See Note 7 to the financial statements for additional information.

(2) Includes forward transactions, swaps, options and credit derivatives.

Below is the development in off balance sheet monetary assets held on behalf of Bank Group clients, for which the Bank Group provides management, operating and/or custodial services (NIS in millions):

				Change in % ove	
	March 31,		December 31,	March 31,	December 31,
	2014	2013	2013	2013	2013
Client activities involving securities(1)(2)	189,148	171,549	178,222	10.3	6.1
Assets of provident funds for which the Group provides operating services(3)	57,438	64,203	67,121	(10.5)	(14.4)
Activity by extent of collection(4)	13,089	14,781	13,539	(11.4)	(3.3)

(1) Including balance of securities of provident funds and mutual funds to which the Bank provides operating services, but excluding mutual funds held by Bank clients

(2) Value of securities portfolios in Bank custody, held by clients. Revenues from securities transactions for the Group amounted to NIS 58 million in the first quarter of 2014, compared with NIS 54 million in the corresponding period last year - an increase of 7.4%.

(3) For information about the impact of market reform on the Bank's provident fund operations, see chapter on Other Matters below.

(4) Loan balances secured by deposits whose repayment to the depositor is contingent upon collection of the loans. With respect to these balances, the Bank receives margin revenues or a collection commission. These amounts exclude standing loans and government deposits extended for them.

Major Investees

The contribution of investees to net operating profit million in the first quarter of 2014 amounted to NIS 34 million, compared with NIS 13 million in the corresponding period last year. These data include the impact of changes in exchange rates on the balance of investment in overseas investees, covered by the Bank's own sources. Therefore, exchange rates have no impact on the Groups net profit.

Excluding the aforementioned effect of exchange rate differences, the contribution of investees amounted to NIS 31 million, compared to NIS 30 million in the corresponding period last year - see explanation below.

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 2014 amounted to NIS 8.0 million, compared to NIS 11.1 million in the corresponding period last year. Bank Yahav's net profit return on equity in the first quarter of 2014 was 6.4% on annualized basis, compared to 10.4% in the corresponding period last year. Bank Yahav's balance sheet total as of March 31, 2014 amounted to NIS 19,445 million, compared to NIS 19,327 million as of December 31, 2013, an increase of NIS 118 million (0.6%). Net loans to the public as of March 31, 2014 amounted to NIS 6,805 million, compared to NIS 6,657 million as of December 31, 2013 – an increase of NIS 148 million, or 2.2%. Net deposits from the public as of March 31, 2014 amounted to NIS 16,595 million, compared to NIS 16,455 million as of December 31, 2013 – an increase of NIS 140 million, or 0.9%.

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 2014 amounted to NIS 16.7 million, compared to NIS 15.9 million in the corresponding period last year.

Net profit return on equity in the first quarter of 2014 was 10.0% on annualized basis, compared to 10.8% in the corresponding period last year.

United Mizrahi Bank (Switzerland) Ltd.

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

Net profit of Mizrahi Bank Switzerland in the first quarter of 2014 amounted to CHF 0.3 million, similar to the corresponding period last year.

Mizrahi Bank Switzerland's balance sheet total as of March 31, 2014 amounted to CHF 174 million, compared to CHF 180 million at the end of 2013 – a decrease of 3.3%.

The balance of loans to the public as of March 31, 2014 amounted to CHF 96 million, compared to CHF 77 million at end of 2013 – an increase of 24.7%. Deposits with banks as of March 31, 2014 amounted to CHF 67 million, compared to CHF 92 million at end of 2013 – a decrease of 27.2%. Deposits from the public as of March 31, 2014 amounted to CHF 115 million, compared to CHF 121 million at end of 2013.
These data exclude off-balance-sheet items, such as fiduciary deposits which are major components of the Bank's business operations in Switzerland.

Contribution of Mizrahi International Holdings Ltd. (B.V. Holland) to Group net profit in the first three months of 2014, which includes the contribution of Mizrahi Bank Switzerland to net profit, amounted to profit of NIS 4.4 million, compared with loss of NIS 14.9 million in the corresponding period last year. These data include impact of changes in exchange rates on the investment balance, covered by the Bank's own sources. Therefore, exchange rates have no impact on Group net profit.

Excluding the impact of changes in exchange rates, the company's contribution to group net profit in the first quarter of 2014 amounted to a NIS 1.3 million profit, compared to a NIS 1.5 million profit in the corresponding period last year.

In recent years, authorities in the USA and in Switzerland have been negotiating the tax treaty between these countries. As requested by Swiss authorities, several Swiss banks, including Mizrahi Bank Switzerland, have provided statistical information about their business with US clients, to be provided to US authorities.
In August 2013, Mizrahi Bank Switzerland was informed by US authorities that an investigation of its business has been launched. Mizrahi Bank Switzerland expressed its willingness to assist and cooperate with US authorities, in conformity with statutory provisions and the treaty signed by the USA and Switzerland - and even provided to US authorities statistical data as required. Mizrahi Bank Switzerland reports these events from time to time to the Swiss supervisory authorities and the Bank reports these events from time to time to the Supervisor of Banks.
Mizrahi Bank Switzerland and the Bank are in constant contact with US authorities in order to reach an appropriate outline for the Bank Group.
See Note 7.C.5 to the financial statements for additional information.

Investment in non-banking corporations

The Bank manages nostro investments in non-banking corporations. Shares of non-banking corporations in which the Bank thus invested were acquired for the purpose of earning capital gains, and are listed at fair value on the available-for-sale security portfolio and under investment in associates, where the Bank has a material investment in such entity. About 0.8% of these investments are negotiable and presented at their market value. The remainder of these investments are presented at cost or at their carrying amount. In case of impairment of a non-temporary nature, in accordance with management assessment, a provision for impairment is made by the Bank.

Bank investments in non-banking corporations as of March 31, 2014 amounted to NIS 126 million, compared to NIS 125 million at end of 2013.Net profit from dividends and realized gain on investments in non-banking corporations, after provision for impairment, amounted in the first quarter of 2014 to NIS 1.5 million for the Bank, compared to NIS 3 million in the corresponding period last year.

Financial Information Regarding Operating Segments

Bank Group operating segments

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

The Bank's operating segments are:

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

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

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

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

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

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

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

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

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

For further details, inter alia, with regard to division into operating segments and the principles used for attributing balances, revenues and expenses to customers in the system – see Note 30 to the financial statements as of December 31, 2013.
Note 12 to the financial statements includes a reporting of Bank Group business results by operating segment.

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

	Net profit in the first quarter		Percentage of total net profit in the first quarter		Return on equity (in %) in the first quarter	
	2014	2013	2014	2013	2014	2013
Households:						
Mortgages	93	81	30	29	9.3	9.9
Other	32	32	10	11	11.7	12.5
Private banking	4	7	1	2	17.5	32.8
Small business	31	42	10	15	27.9	42.2
Commercial banking	14	21	5	8	13.9	20.6
Business banking	134	99	44	35	18.0	13.5
Financial management	(44)	(2)	-	-	-	-
Total	**264**	**280**	**100**	**100**	**11.0**	**13.1**

Below are Bank Group operating results by operating segment

Results of Household Segment

	For the quarter ended March 31, 2014					For the quarter ended March 31, 2013				
	Banking and finance	Credit cards	Capital market	Mort-gages	Total	Banking and finance	Credit cards	Capital market	Mort-gages	Total
										NIS in millions
Interest revenues, net:										
From outside operating segments	169	6	-	291	466	78	7	-	617	702
Inter-segment	104	(1)	-	(120)	(17)	207	(5)	-	(469)	(267)
Total interest revenues, net	**273**	**5**	**-**	**171**	**449**	**285**	**2**	**-**	**148**	**435**
Non-interest financing revenues	-	-	2	-	2	-	-	2	(3)	(1)
Commissions and other revenues	62	25	46	44	177	63	31	42	58	194
Total revenues	**335**	**30**	**48**	**215**	**628**	**348**	**33**	**44**	**203**	**628**
Expenses with respect to credit losses	4	-	-	-	4	11	-	-	13	24
Operating and other expenses										
From outside operating segments	346	6	17	67	436	352	6	15	64	437
Inter-segment	(23)	(1)	-	-	(24)	(26)	-	-	-	(26)
Total operating and other expenses	**323**	**5**	**17**	**67**	**412**	**326**	**6**	**15**	**64**	**411**
Pre-tax profit	8	25	31	148	212	11	27	29	126	193
Provision for taxes on profit	3	10	11	55	79	4	10	10	45	69
After-tax profit	**5**	**15**	**20**	**93**	**133**	**7**	**17**	**19**	**81**	**124**
Net profit (loss):										
Before attribution to non-controlling interest	5	15	20	93	133	7	17	19	81	124
Attributable to non-controlling interest	(8)	-	-	-	(8)	(11)	-	-	-	(11)
Attributable to equity holders of the banking corporation	**(3)**	**15**	**20**	**93**	**125**	**(4)**	**17**	**19**	**81**	**113**
Return on capital (net profit as % of average capital)					**9.8%**					**10.5%**
Average asset balance	16,242	2,841	-	84,960	104,043	15,383	2,872	-	75,260	93,515
Average balance of liabilities	60,933	2,841	-	121	63,895	54,193	2,872	-	97	57,162
Average balance of risk assets	15,775	-	-	46,690	62,465	15,324	-	-	39,440	54,764
Average balance of securities(1)	-	-	35,228	-	35,228	-	-	29,475	-	29,475
Average balance of loans to the public	16,232	2,841	-	84,948	104,021	15,173	2,872	-	73,135	91,180
Average balance of deposits from the public	60,931	-	-	-	60,931	54,183	-	-	-	54,183
Credit to the public (end balance)	16,302	2,923	-	85,915	105,140	15,282	2,879	-	76,877	95,038
Deposits from the public (end balance)	61,043	-	-	-	61,043	58,760	-	-	-	58,760
Average balance of other assets managed	11,247	-	-	9,060	20,307	9,353	-	-	10,556	19,909
Profit from interest revenues before expenses with respect to credit losses:										
Margin from credit granting operations	187	5	-	157	349	165	2	-	133	300
Margin from receiving deposits	86	-	-	-	86	119	-	-	-	119
Other	-	-	-	14	14	1	-	-	15	16
Total interest revenues, net	**273**	**5**	**-**	**171**	**449**	**285**	**2**	**-**	**148**	**435**

(1) Including balance of securities of provident funds and mutual funds to which the Bank provides operating services, but excluding mutual funds held by Bank clients

Contribution of the household segment to Group profit in the first quarter of 2014 amounted to NIS 125 million, compared to NIS 113 million in the corresponding period last year – an increase of 10.6%. Below are key factors affecting the change in segment contribution:

Contribution of mortgages in the first quarter of 2014 amounted to NIS 93 million, compared to NIS 81 million in the corresponding period last year - an increase of 14.8%. Net return on equity from mortgages was 9.3%, compared to 9.9% in the corresponding period last year; the decrease is primarily due to increase in the Bank's capital base in conformity with regulatory requirements. Net interest revenues before expenses with respect to credit losses amounted to NIS 171 million, compared to NIS 148 million in the corresponding period last year, an increase of NIS 23 million - primarily due to an increase in business volume, by an average of 16.1%. Expenses with respect to credit losses decreased by NIS 13 million compared to the corresponding period last year. This was primarily due to lower client arrears and to the effect of the negative CPI in this quarter on the balance of provision for credit losses. Commissions and other revenues decreased by NIS 14 million - primarily due to application of FAS 91 (ASC 310-20) with regard to measurement of interest revenues. See Note 1.C.1 to the financial statements for further information. Operating and other expenses increased by 4.7% year-over-year.

Contribution of the household segment (excluding mortgages) was unchanged. Net interest revenues decreased by NIS 9 million, primarily due to a decrease in margin from receiving deposits, due to the low interest rate environment. Commissions and other revenues decreased by NIS 3 million, due to application of FAS 91, as described above. Expenses with respect to credit losses in the first quarter of 2014 amounted to NIS 4 million, a decrease of NIS 7 million over the corresponding period last year. Operating expenses were essentially unchanged.

Volume of mortgages granted by the segment is as follows:

	Loans granted (NIS in millions)		
	First Quarter		
	2014	2013	Change in %
Mortgages originated (for housing and for any purpose)			
From Bank funds	4,711	4,648	1.4
From Treasury funds:			
Directed loans	40	42	(4.8)
Standing loans and grants	52	41	26.8
Total new loans	**4,803**	**4,731**	**1.5**
Refinanced loans	694	577	20.3
Total loans originated	**5,497**	**5,308**	**3.6**
Number of borrowers (includes refinanced loans)	11,601	11,672	(0.6)

Results of Private Banking Segment

	For the quarter ended March 31, 2014			For the quarter ended March 31, 2013		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Interest revenues, net:						
From outside operating segments	10	-	10	(1)	-	(1)
Inter-segment	4	-	4	16	-	16
Total interest revenues, net	**14**	**-**	**14**	**15**	**-**	**15**
Non-interest financing revenues	-	-	-	-	-	-
Commissions and other revenues	9	5	14	5	10	15
Total revenues	**23**	**5**	**28**	**20**	**10**	**30**
Expenses with respect to credit losses	-	-	-	(3)	-	(3)
Operating and other expenses						
From outside operating segments	19	-	19	22	-	22
Inter-segment	2	-	2	-	-	-
Total operating and other expenses	**21**	**-**	**21**	**22**	**-**	**22**
Pre-tax profit	2	5	7	1	10	11
Provision for taxes on profit	1	2	3	-	4	4
Net profit attributable to equity holders of the banking corporation	**1**	**3**	**4**	**1**	**6**	**7**
Return on capital (net profit as % of average capital)			**17.5%**			**32.8%**
Average asset balance	1,989	-	1,989	1,955	-	1,955
Average balance of liabilities	7,581	-	7,581	6,833	-	6,833
Average balance of risk assets	779	-	779	1,106	-	1,106
Average balance of securities(1)	-	9,244	9,244	-	8,385	8,385
Average balance of loans to the public	926	-	926	1,287	-	1,287
Average balance of deposits from the public	7,516	-	7,516	6,247	-	6,247
Loans to the public, net (end balance)	975	-	975	1,191	-	1,191
Deposits from the public (end balance)	7,603	-	7,603	6,267	-	6,267
Average balance of other assets managed	7	-	7	7	-	7
Profit from interest revenues before expenses with respect to credit losses:						
Margin from credit granting operations	6	-	6	7	-	7
Margin from receiving deposits	8	-	8	7	-	7
Other	-	-	-	1	-	1
Total interest revenues, net	**14**	**-**	**14**	**15**	**-**	**15**

(1) Including balance of securities of provident funds and mutual funds to which the Bank provides operating services, but excluding mutual funds held by Bank clients.

Contribution of the private banking segment to Group profit in the first quarter of 2014 amounted to NIS 4 million, compared to NIS 7 million in the corresponding period last year - a decrease of NIS 3 million.

Below are key factors affecting the change in segment contribution:

Interest revenues, net in the first quarter of 2014 amounted to NIS 14 million, compared to NIS 15 million in the corresponding period last year. Expenses with respect to credit losses were zero in this quarter, compared to reduced expenses amounting to NIS 3 million in the corresponding period last year, due to a decrease in group provision in this segment. Commissions and other revenues and total operating and other expenses, compared to the corresponding period last year.

Results of the Small Business Segment

	For the quarter ended March 31, 2014				For the quarter ended March 31, 2013			
	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	122	2	-	124	147	2	-	149
Inter-segment	(1)	-	-	(1)	(33)	(1)	-	(34)
Total interest revenues, net	**121**	**2**	**-**	**123**	**114**	**1**	**-**	**115**
Non-interest financing revenues	-	-	-	-	-	-	-	-
Commissions and other revenues	47	4	4	55	51	4	6	61
Total revenues	**168**	**6**	**4**	**178**	**165**	**5**	**6**	**176**
Expenses with respect to credit losses	15	-	-	15	3	-	-	3
Operating and other expenses								
From outside operating segments	124	1	1	126	117	1	1	119
Inter-segment	(11)	-	-	(11)	(11)	-	-	(11)
Total operating and other expenses	**113**	**1**	**1**	**115**	**106**	**1**	**1**	**108**
Pre-tax profit	40	5	3	48	56	4	5	65
Provision for taxes on profit	14	2	1	17	20	1	2	23
Net profit attributable to equity holders of the banking corporation	**26**	**3**	**2**	**31**	**36**	**3**	**3**	**42**
Return on capital (net profit as % of average capital)				**27.9%**				**42.2%**
Average asset balance	7,423	314	-	7,737	7,293	328	-	7,621
Average balance of liabilities	9,668	-	-	9,668	8,760	-	-	8,760
Average balance of risk assets	5,505	-	-	5,505	5,311	-	-	5,311
Average balance of securities(1)	-	-	6,567	6,567	-	-	5,572	5,572
Average balance of loans to the public	7,189	314	-	7,503	6,809	328	-	7,137
Average balance of deposits from the public	9,648	-	-	9,648	8,439	-	-	8,439
Loans to the public, net (end balance)	7,712	340	-	8,052	7,029	342	-	7,371
Deposits from the public (end balance)	9,818	-	-	9,818	8,396	-	-	8,396
Average balance of other assets managed	181	-	-	181	200	-	-	200
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	102	-	-	102	90	-	-	90
Margin from receiving deposits	14	-	-	14	17	-	-	17
Other	5	2	-	7	7	1	-	8
Total interest revenues, net	**121**	**2**	**-**	**123**	**114**	**1**	**-**	**115**

(1) Including balance of securities of provident funds and mutual funds to which the Bank provides operating services, but excluding mutual funds held by Bank clients.

Contribution of the small business segment to Group profit in the first quarter of 2014 amounted to NIS 31 million, compared to NIS 42 million in the corresponding period last year - a decrease of 26.2%. Below are key factors affecting the change in segment contribution: Interest revenues, net, amounted to NIS 123 million, compared to NIS 115 million in the corresponding period last year, an increase of 7.0% due to an increase in credit and deposit business volume, along with a decrease in interest margin from deposit operations, due to the prevailing low interest environment. Expenses with respect to credit losses amounted to NIS 15 million, compared to NIS 3 million in the corresponding period last year – an increase of NIS 12 million, due to natural growth arising from significant growth in credit volume in this segment. Commissions and other revenues decreased by NIS 6 million, primarily due to application of FAS 91 (ASC 310-20) with regard to measurement of interest revenues (for more information see Note 1.C.1 to the financial statements). Operating expenses increased by 6.5% year-over-year, due to higher business volume in this segment.

Results of the Commercial Banking Segment

	For the quarter ended March 31, 2014				For the quarter ended March 31, 2013			
	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	47	-	-	47	49	-	-	49
Inter-segment	(6)	-	-	(6)	(8)	-	-	(8)
Total interest revenues, net	**41**	**-**	**-**	**41**	**41**	**-**	**-**	**41**
Non-interest financing revenues	-	-	-	-	-	-	-	-
Commissions and other revenues	10	1	2	13	11	1	3	15
Total revenues	**51**	**1**	**2**	**54**	**52**	**1**	**3**	**56**
Expenses with respect to credit losses	1	-	-	1	(7)	-	-	(7)
Operating and other expenses								
From outside operating segments	16	-	-	16	16	-	-	16
Inter-segment	16	-	-	16	14	-	-	14
Total operating and other expenses	**32**	**-**	**-**	**32**	**30**	**-**	**-**	**30**
Pre-tax profit	18	1	2	21	29	1	3	33
Provision for taxes on profit	6	-	1	7	10	-	2	12
Net profit attributable to equity holders of the banking corporation	**12**	**1**	**1**	**14**	**19**	**1**	**1**	**21**
Return on capital (net profit as % of average capital)				**13.9%**				**21.7%**
Average asset balance	4,429	45	-	4,474	4,617	50	-	4,667
Average balance of liabilities	3,820	-	-	3,820	3,319	-	-	3,319
Average balance of risk assets	4,768	-	-	4,768	5,084	-	-	5,084
Average balance of securities(1)	-	-	3,793	3,793	-	-	3,731	3,731
Average balance of loans to the public	4,423	45	-	4,468	4,499	50	-	4,549
Average balance of deposits from the public	3,804	-	-	3,804	3,300	-	-	3,300
Loans to the public, net (end balance)	4,399	100	-	4,499	4,580	51	-	4,631
Deposits from the public (end balance)	3,877	-	-	3,877	3,485	-	-	3,485
Average balance of other assets managed	378	-	-	378	198	-	-	198
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	36	-	-	36	34	-	-	34
Margin from receiving deposits	3	-	-	3	4	-	-	4
Other	2	-	-	2	3	-	-	3
Total interest revenues, net	**41**	**-**	**-**	**41**	**41**	**-**	**-**	**41**

(1) Including balance of securities of provident funds and mutual funds to which the Bank provides operating services, but excluding mutual funds held by Bank clients

Contribution of the commercial banking segment to Group profit in the first quarter of 2014 amounted to NIS 14 million, compared to NIS 21 million in the corresponding period last year, a decrease of NIS 7 million. Below are key factors affecting the change in segment contribution: Commissions and other revenues decreased by NIS 2 million, primarily due to application of FAS 91 (ASC 310-20) with regard to measurement of interest revenues (for more information see Note 1.C.1 to the financial statements). Expenses with respect to credit losses in the current quarter amounted to an expense of NIS 1 million, compared to revenues of NIS 7 million in the corresponding period last year, attributed to collection from several clients. Total operating expenses increased by NIS 2 million over the corresponding period last year.

Results of the Business Banking Segment

	For the quarter ended March 31, 2014				For the quarter ended March 31, 2013			
	Banking and finance[1]	Capital market	Construc-tion and real estate	Total	Banking and finance[1]	Capital market	Construc-tion and real estate	Total
	NIS in millions							
Interest revenues, net:								
From outside operating segments	53	-	91	144	26	-	87	113
Inter-segment	69	-	(27)	42	96	-	(38)	58
Total interest revenues, net	**122**	**-**	**64**	**186**	**122**	**-**	**49**	**171**
Non-interest financing revenues	2	3	-	5	8	2	-	10
Commissions and other revenues	20	4	41	65	18	10	34	62
Total revenues	**144**	**7**	**105**	**256**	**148**	**12**	**83**	**243**
Expenses with respect to credit losses	(18)	-	(9)	(27)	25	-	(9)	16
Operating and other expenses								
From outside operating segments	41	2	7	50	44	2	8	54
Inter-segment	17	-	4	21	16	-	3	19
Total operating and other expenses	**58**	**2**	**11**	**71**	**60**	**2**	**11**	**73**
Pre-tax profit	104	5	103	212	63	10	81	154
Provision for taxes on profit	38	2	38	78	22	4	29	55
Net profit (loss) attributable to equity holders of the banking corporation	**66**	**3**	**65**	**134**	**41**	**6**	**52**	**99**
Return on capital (net profit as % of average capital)				**18.0%**				**13.3%**
Average asset balance	17,017	-	8,000	25,017	17,077	-	8,134	25,211
Average balance of liabilities	41,147	-	2,595	43,742	32,006	-	2,253	34,259
Average balance of risk assets	18,173	-	19,197	37,370	18,934	-	16,890	35,824
Average balance of securities[2]	-	64,063	-	64,063	-	61,328	-	61,328
Average balance of loans to the public	14,487	-	7,930	22,417	14,258	-	7,281	21,539
Average balance of deposits from the public	40,344	-	2,503	42,847	32,001	-	2,177	34,178
Loans to the public, net (end balance)	14,450	-	7,945	22,395	15,084	-	7,228	22,312
Deposits from the public (end balance)	42,316	-	2,478	44,794	33,809	-	2,177	35,986
Average balance of other assets managed	185	-	28	213	202	-	66	268
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	100	-	55	155	100	-	45	145
Margin from receiving deposits	21	-	3	24	18	-	4	22
Other	1	-	6	7	4	-	-	4
Total interest revenues, net	**122**	**-**	**64**	**186**	**122**	**-**	**49**	**171**

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

(2) Including balance of securities of provident funds and mutual funds to which the Bank provides operating services, but excluding mutual funds held by Bank clients

Contribution of the business banking segment to Group profit in the first quarter of 2014 amounted to NIS 134 million, compared to NIS 89 million in the corresponding period last year, an increase of 50.6%.

Below are key factors affecting the change in segment contribution:

Contribution of the construction and real estate sub-segment increased by NIS 13 million, or 25.0%, compared to the corresponding period last year. Interest revenues, net amounted to NIS 64 million, compared to NIS 49 million in the corresponding period last year - an increase of 30.6%, attributed to a significant increase in business volume. Expenses with respect to credit losses resulted in a decrease in expenses by NIS 9 million, similar to the corresponding period last year. The decrease in expenses for both periods is due to collection of previously written-off debt. Commissions and other revenues increased by NIS 7 million. The increase in commissions and other revenues is due to an increase in commissions from closed projects. Operating and other expenses were unchanged.

Contribution of business banking excluding construction and real estate in the first quarter of 2014 increased by NIS 32 million compared to the corresponding period last year. Total financing revenues (interest and non-interest) attributed to business banking excluding construction and real estate decreased by NIS 5 million over the year-ago period. The decrease is primarily due to non-recurring non-interest revenues amounting to NIS 4 million in the corresponding period last year. Expenses with respect to credit losses attributed to business banking, excluding construction and real estate, decreased by NIS 18 million, compared to an expense amounting to NIS 25 million in the corresponding period last year – a decrease of NIS 43 million. The decrease in expenses in the current quarter is due to significant collection of previously written-off debt. Commissions and other revenues decreased by NIS 4 million compared to the corresponding period last year, primarily due to application of FAS 91 (ASC 310-20) with regard to measurement of interest revenues (for more information see Note 1.C.1 to the financial statements).

Total operating and other expenses attributed to business banking, excluding construction and real estate, were essentially unchanged compared to the corresponding period last year.

Results of the Financial Management Segment

	For the quarter ended March 31, 2014			For the quarter ended March 31, 2013		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Interest revenues, net:						
From outside operating segments	(78)	-	(78)	(210)	-	(210)
Inter-segment	(22)	-	(22)	235	-	235
Total interest revenues, net	**(100)**	**-**	**(100)**	**25**	**-**	**25**
Non-interest financing revenues	72	2	74	23	1	24
Commissions and other revenues	23	10	33	19	7	26
Total revenues	**(5)**	**12**	**7**	**67**	**8**	**75**
Expenses with respect to credit losses	2	-	2	1	-	1
Operating and other expenses						
From outside operating segments	79	1	80	68	1	69
Inter-segment	(4)	-	(4)	4	-	4
Total operating and other expenses	**75**	**1**	**76**	**72**	**1**	**73**
Pre-tax profit	(82)	11	(71)	(6)	7	1
Provision for taxes on profit	(30)	4	(26)	(2)	3	1
After-tax profit (loss)	**(52)**	**7**	**(45)**	**(4)**	**4**	**-**
Share in net profits of associates, after tax	1	-	1	(2)	-	(2)
Net profit (loss)						
Before attribution to non-controlling interest	(51)	7	(44)	(6)	4	(2)
Attributable to non-controlling interest	-	-	-	-	-	-
Attributable to equity holders of the Bank	**(51)**	**7**	**(44)**	**(6)**	**4**	**(2)**
Return on capital (net profit as % of average capital)			**-**			**-**
Average asset balance	36,629	-	36,629	25,267	-	25,267
Average balance of liabilities	60	-	60	61	-	61
Average balance of risk assets	43,112	-	43,112	40,227	-	40,227
Average balance of securities(1)	5,015	-	5,015	5,603	-	5,603
Average balance of loans to the public	72,647	-	72,647	80,273	-	80,273
Average balance of deposits from the public	-	67,780	67,780	-	44,147	44,147
Loans to the public, net (end balance)	16,899	-	16,899	18,100	-	18,100
Deposits from the public (end balance)	18,566	-	18,566	17,223	-	17,223
Profit from interest revenues before expenses with respect to credit losses:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	(100)	-	(100)	25	-	25
Total interest revenues, net	**(100)**	**-**	**(100)**	**25**	**-**	**25**

(1) Including balance of securities of provident funds and mutual funds to which the Bank provides operating services, but excluding mutual funds held by Bank clients

Contribution of the financial management segment to Group profit in the first quarter of 2014 amounted to a loss of NIS 44 million, compared to a loss of NIS 2 million in the corresponding period last year. Below are key factors affecting the change in segment contribution: Total financing revenues (net interest revenues and non-interest financing revenues) decreased by NIS 75 million, primarily due to differences in fair value and other effects and to linkage differentials on CPI position in this quarter compared to the year-ago period. For more information see analysis of development of financing revenues from current operations under “Profit and profitability”. Commissions and other revenues increased by NIS 7 million. Expenses with respect to credit losses increased by NIS 1 million, due to change in group provision for banks. Operating and other expenses increased by NIS 3 million year-over-year.

Product operations

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

	For the quarter ended March 31, 2014						
	House-holds	Private banking	Small business	Commercial banking	Business banking	Financial manage-ment	Total consolidated
Interest revenues, net	5	-	2	-	-	-	7
Non-interest financing revenues	-	-	-	-	-	-	-
Commissions and other revenues	25	-	4	1	-	-	30
Total revenues	**30**	**-**	**6**	**1**	**-**	**-**	**37**
Reduced expenses with respect to credit losses	-	-	-	-	-	-	-
Operating and other expenses	5	-	1	-	-	-	6
Pre-tax profit	**25**	**-**	**5**	**1**	**-**	**-**	**31**
Provision for taxes on profit	10	-	2	-	-	-	12
Net profit	**15**	**-**	**3**	**1**	**-**	**-**	**19**

	For the quarter ended March 31, 2013						
	House-holds	Private banking	Small business	Commercial banking	Business banking	Financial manage-ment	Total consolidated
Interest revenues, net	2	-	1	-	-	-	3
Non-interest financing revenues	-	-	-	-	-	-	-
Commissions and other revenues	**31**	**-**	**4**	**1**	**-**	**-**	**36**
Total revenues	33	-	5	1	-	-	39
Reduced expenses with respect to credit losses	-	-	-	-	-	-	-
Operating and other expenses	6	-	1	-	-	-	7
Pre-tax profit	**27**	**-**	**4**	**1**	**-**	**-**	**32**
Provision for taxes on profit	10	-	1	-	-	-	11
Net profit	**17**	**-**	**3**	**1**	**-**	**-**	**21**

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

	For the quarter ended March 31, 2014						
	House-holds	Private banking	Small business	Commercial banking	Business banking	Financial manage-ment	Total consolidated
Interest revenues, net	-	-	-	-	-	-	-
Non-interest financing revenues	2	-	-	-	3	2	7
Commissions and other revenues	46	5	4	2	4	10	71
Total revenues	**48**	**5**	**4**	**2**	**7**	**12**	**78**
Reduced expenses with respect to credit losses	-	-	-	-	-	-	-
Operating and other expenses	17	-	1	-	2	1	21
Pre-tax profit	**31**	**5**	**3**	**2**	**5**	**11**	**57**
Provision for taxes on profit	11	2	1	1	2	4	21
Net profit	**20**	**3**	**2**	**1**	**3**	**7**	**36**

	For the quarter ended March 31, 2013						
	House-holds	Private banking	Small business	Commercial banking	Business banking	Financial manage-ment	Total consoli-dated
Interest revenues, net	-	-	-	-	-	-	-
Non-interest financing revenues	2	-	-	-	2	1	5
Commissions and other revenues	42	10	6	3	10	7	78
Total revenues	**44**	**10**	**6**	**3**	**12**	**8**	**83**
Reduced expenses with respect to credit losses	-	-	-	-	-	-	-
Operating and other expenses	15	-	1	-	2	1	19
Pre-tax profit	**29**	**10**	**5**	**3**	**10**	**7**	**64**
Provision for taxes on profit	10	4	2	2	4	3	25
Net profit	**19**	**6**	**3**	**1**	**6**	**4**	**39**

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 foreign residents and to Israeli clients who have activities outside of Israel, foreign trade finance, local credit and participation in syndicated loans. The Bank has affiliates in several countries, as described below.

International operations, in Israel and overseas, report to the Private Banking and International Operations sector in the Bank's Financial Division. In addition, control of affiliate operations is conducted by the Risk Control Department in the Risk Control Division.

Details of the affiliates and their business are as follows:

Swiss subsidiary - UMB (Switzerland) Ltd. - specialized in private banking services and more recently, in extending loans for purchase of real estate in Israel. The subsidiary operates through one branch and is owned by the wholly-owned Bank holding company incorporated in Holland - UMOHC B.V. (hereinafter: ("the holding company")). The Swiss subsidiary is subject to the regulatory laws in Switzerland.

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

- **Los Angeles Branch:** The branch is primarily engaged in commercial banking, participating in syndicated loans and receiving deposits. Deposits with this branch are insured by the Federal Deposit Insurance Corporation (FDIC). The branch's clients are local, Israeli and international clients.

- **London Branch:** The branch is engaged mainly in business banking, including participation in loan syndicates, foreign trade, credit, receiving deposits, foreign currency trade and providing private banking services. The branch's clients are local, Israeli and international clients.

- **Cayman Islands Branch:** The Cayman Islands branch provides private banking services and is operated through the representation of the Bank by the Butterfield Bank in the Cayman Islands, pursuant to the management agreement between it and the Bank.

International private banking branches in Israel - The Bank operates four special branches, located in Jerusalem, Tel Aviv, Netanya and Ashdod, serving foreign resident and new immigrant 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.

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 in the Board of Directors' Report included with the financial statements as of December 31, 2013.

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

	For the quarter ended March 31, 2014				
	Households	Private banking	Business banking	Financial management	Total
	Unaudited amounts (NIS in millions)				
Interest revenues, net	1	12	12	6	31
Non-interest financing revenues	-	-	-	-	-
Commissions and other revenues	-	11	2	1	14
Total revenues	**1**	**23**	**14**	**7**	**45**
Reduced expenses with respect to credit losses	-	1	-	-	1
Operating and other expenses	1	16	10	2	29
Pre-tax profit	**-**	**6**	**4**	**5**	**15**
Provision for taxes on profit	-	2	2	4	8
Net profit	**-**	**4**	**2**	**1**	**7**

	For the quarter ended March 31, 2013				
	Households	Private banking	Business banking	Financial management	Total
	Unaudited amounts (NIS in millions)				
Interest revenues, net	1	11	11	7	30
Non-interest financing revenues	-	-	2	(3)	(1)
Commissions and other revenues	-	11	-	1	12
Total revenues	**1**	**22**	**13**	**5**	**41**
Reduced expenses with respect to credit losses	-	(1)	-	-	(1)
Operating and other expenses	1	17	10	2	30
Pre-tax profit	**-**	**6**	**3**	**3**	**12**
Provision for taxes on profit	-	2	2	1	5
Net profit	**-**	**4**	**1**	**2**	**7**

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 their development.

Total deposits from the public for the Group as of March 31, 2014 amounted to NIS 145.7 billion, compared to NIS 141.2 billion at end of 2013. Deposits from the public in the CPI-linked segment increased in the first quarter of 2014 by 2.1%; deposits from the public in the foreign currency and foreign-currency-linked segment increased by 4.6%, while deposits in the NIS-denominated, non-CPI-linked segment increased by 3.0%. 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 26-36), including subordinated notes, issued to the public by Tefahot Issuance, amounted to NIS 12,778 million in total par value (as of December 31, 2013 - NIS 11,128 million), of which NIS 2,131 million in subordinated notes.

On January 26, 2014, Tefahot Issuance issued debentures (Series 35 and Series 36), with total par value of NIS 1,650 million, for consideration of NIS 1,690 million, pursuant to a shelf prospectus dated July 30, 2013.

The proceeds from 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) issued and listed for trading (considered, as from January 1, 2014, Tier 2 capital for maintaining minimum capital ratio) amounted to NIS 1,702 million par value as of March 31, 2014, issued for consideration amounting to NIS 1,644 million.

The revalued balance of the complex capital instruments as of March 31, 2014 was NIS 1.9 billion, similar to the end of 2013.

Rating of Bank obligations

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

On January 7, 2014, Maalot confirmed the Bank's issuer rating and its Stable rating outlook, effective as from December 19, 2013.

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

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

On December 17, 2013, Moody's rating agency maintained the Bank's long-term deposit rating at A2 with Negative outlook.

Risk Management

Basel II: Pillar 3 - Market Discipline

Below is qualitative information and quantitative data related to all risk factors to which the Bank is exposed, which are managed in line with the policies set by the Board of Directors. The information has been compiled in accordance with disclosure requirements of Basel 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, 2013.

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

Subject	Disclosure	Chapter in Board of Directors' Report / Note to financial statements / Bank website(1)
Application scope	Group entities, consolidation basis, limits on supervisory capital	Risk Management chapter
Capital structure	Details of capital components	Note 5 – Capital adequacy pursuant to directives of the Supervisor of Banks
	Quantitative disclosure	Bank website(1)
	Qualitative disclosure	Bank website(1)
Capital adequacy	Quantitative disclosure Capital adequacy ratios for the Group	Risk Management chapter Note 5 – Capital adequacy pursuant to directives of the Supervisor of Banks
Credit risk	Quantitative disclosure Credit risk exposure by economic sector Credit risk exposure by contractual term to maturity Credit risk exposure by major geographic regions Information about troubled debt Provision for credit losses by economic sector Credit losses with respect to housing loans	Risk Management chapter Management Discussion, Addendum C - Credit Risk by Economic Sector Risk Management chapter Management Discussion, Addendum D - Exposure to Foreign Countries Note 3 - Credit risk, loans to the public and provision for credit loss Management Discussion, Addendum C - Credit Risk by Economic Sector 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
Equity positions in bank portfolio	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
Legal risk	Qualitative disclosure	Risk Management chapter
Risk factors	Qualitative and quantitative disclosure	Risk Management chapter

(1) www.mizrahi-tefahot.co.il/en >> Financial reports

Application scope

Provisions of Proper Conduct of Banking Business Regulations nos. 201-211 "Measurement and Capital Adequacy" apply to the Bank Group and in particular to the Bank - Bank Mizrahi-Tefahot Ltd. - the parent company of the Group. Group companies to which the framework applies, in accordance with the supervisory consolidation basis, are the companies consolidated with the Bank's consolidated financial statements. For details of Bank Group companies, see Note 6 to the financial statements as of December 31, 2013. 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 rules, as stated in Proper Conduct of Banking Business regulation 201-211. The Bank applies the standard approach in assessing exposure to credit risk, operating risk and market risk.

The Bank started in early 2012 to develop a use test process for advanced credit risk management models (IRB). In early 2013, the Bank decided to discontinue further development related to the advanced models and to transition the project to maintenance mode, so as to preserve developments made during the year, primarily with regard to mortgages - which are a major component of the Bank's loan portfolio.

The Bank regularly monitors its capital adequacy ratio, in order to ensure compliance with requirements of the Supervisor of Banks and with limitations set by the Board of Directors, as well as to prepare in advance to respond to evolution of risk assets and capital requirements at the Bank. For this purpose, the Board of Directors has created a policy document which specifies the measurement frequency of capital adequacy, the required reporting and actions to be taken if the capital ratio drops below the minimum levels specified; a capital planning and management forum has been in operation for several years, attended by the Manager, Finance Division - CFO (chair), Risk Control Division - CRO, and the Manager, Accounting and Financial Reporting Division - the Chief Accountant, the Manager, Planning, Operations and Client Assets Division, the Manager of the Bank’s Business Division and the Manager of the Bank's Retail Division.

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

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

Exposure group	As of March 31, 2014		As of March 31, 2013		As of December 31, 2013	
	Weighted risk asset balances	Capital requirement(2)	Weighted risk asset balances	Capital requirement(1)	Weighted risk asset balances	Capital requirement(1)
Sovereign debt	569	71	618	56	521	47
Public sector entity debt	451	56	434	39	455	41
Banking corporation debt	1,219	152	1,167	105	1,390	125
Corporate debt	40,004	5,001	39,627	3,566	39,688	3,572
Debt secured by commercial real estate	2,199	275	2,195	198	2,209	199
Retail exposure to individuals	10,667	1,333	10,194	917	10,445	940
Loans to small businesses	3,928	491	3,628	327	3,754	338
Residential mortgages	45,950	5,744	38,893	3,500	43,889	3,950
Other assets	4,227	528	3,508	316	3,060	275
Total	(3)**109,214**	**13,651**	**100,264**	**9,024**	**105,411**	**9,487**

(1) Capital requirement calculated at 9% of risk asset balance, in accordance with interim directive on application of Basel Pillar 3.
(2) Capital requirement calculated at 12.5% of total risk assets.
(3) Includes application of Basel III rules as from January 1, 2014. For information about the effect of application of the new rules on weighted balances, see below the chapter Legislation and Supervision of Bank Group Operations.

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

Exposure group	As of March 31, 2014		As of March 31, 2013		As of December 31, 2013	
	Weighted risk asset balances	Capital requirement[2]	Weighted risk asset balances	Capital requirement[1]	Weighted risk asset balances	Capital requirement[1]
Market Risk	894	112	1,017	92	842	76
CVA Risk	848	106	-	-	-	-
Operating Risk	7,262	908	7,158	644	7,154	644
Total	**9,004**	**1,126**	**8,175**	**736**	**7,996**	**720**

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

(2) Capital requirement calculated at 12.5% of total risk assets.

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

	Ratio of capital to risk elements		
	As of March 31, 2014	As of March 31, 2013	As of December 31, 2013
Ratio of Tier I capital to risk elements	8.87	8.71	9.01
Ratio of total capital to risk elements	12.97	13.25	13.04
Total minimum capital ratio required by the Supervisor of Banks	[1]9.00	7.50	7.50
Minimum Tier I (core) capital adequacy ratio required by directives of the Supervisor of Banks	[1]12.50	9.00	9.00

(1) As from January 1, 2015.

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 policies, in various aspects, is designed to support achievement of the Group's business goals while limiting exposure to such risk. The Bank has in place a well-organized process for mapping and identification of risk associated with Bank operations, as well as policy documents governing risk treatment by the Bank, including measurement, management and mitigation of each risk factor. In these policy documents, the Board of Directors sets the risk appetite. The Bank has a master policy document on risk management and control.

Risk management at the Group is conducted regularly in accordance with Proper Conduct of Banking Business Regulation 310 of the Bank of Israel (risk management), and in accordance with the framework determined in Basel II, Pillar 2, including changes due to application of Basel III in conformity with Bank of Israel directives. In December 2012, the Bank of Israel issued Proper Conduct of Banking Business Regulations 310, 333, 311, 350 and 314 with regard to risk management, as well as an update to Regulation 339. The Bank has completed preparations for application of these regulations as from January 2014 (Regulation 333 will be effective as from July 2014), which stipulate new standards for risk management and control at the Bank. For further details, see the chapter on Legislation and Supervision of Bank Group Operations. Bank management believes that risk control and management must be an integrative process. The management of risk from a total viewpoint, for all of the Bank's financial activity, on and off-balance sheet, enables the Bank to maximize the utilization of the correlation between the different risk factors (basis and interest) in the various linkage segments, and the best possible diversification of the risk. In addition to measuring the total risk value, the Bank measures and manages the mix of risk elements.

Credit risk

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

In June 2012, as part of reorganization of the Risk Control Division, the Division assumed responsibility for the Analysis Department, which provides independent review of major credit applications, presenting its recommendations as part of the credit approval process to senior forums at the Bank. In early 2014, the Bank made a further reorganization whereby the credit departments of the division, the analysis department and the credit control department now report to the Risk Control Division Manager, who is the Bank's CRO.

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

	As of March 31, 2014									
	Sovereigns	Public sector	Banking corpora-tions	Corpora-tions	Secured by comer-cial real estate	Retail for i ndividuals	Small business	Housing loans	Others	Total [2]
Loans[3]	26,729	484	2,549	28,301	2,336	14,320	6,433	90,501	-	171,653
Securities[4]	5,102	6	571	161	-	-	-	-	-	5,840
Derivatives[5]	154	591	936	1,327	-	34	6	-	-	3,048
Other off-balance-sheet exposures	8	187	25	38,297	364	10,265	2,550	4,258	-	55,954
Other assets[6]	-	-	-	-	-	-	-	-	4,235	4,235
Total	**31,993**	**1,268**	**4,081**	**68,086**	**2,700**	**24,619**	**8,989**	**94,759**	**4,235**	**240,730**

	As of December 31, 2013									
	Sovereigns	Public sector	Banking corpora-tions	Corpora-tions	Secured by comer-cial real estate	Retail for i ndividuals	Small business	Housing loans	Others	Total [2]
Loans[3]	22,729	486	2,684	28,210	2,367	14,108	6,115	88,594	-	165,293
Securities[4]	5,466	7	566	161	-	-	-	-	-	6,200
Derivatives[5]	174	592	879	1,269	-	33	7	-	-	2,954
Other off-balance-sheet exposures	7	216	72	38,856	533	10,146	2,512	4,164	-	56,506
Other assets[6]	-	-	-	-	-	-	-	-	4,198	4,198
Total	**28,376**	**1,301**	**4,201**	**68,496**	**2,900**	**24,287**	**8,634**	**92,758**	**4,198**	**235,151**

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

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

(3) Includes loans to the public, loans to governments, deposits with banks and borrowed securities.

(4) Excludes balances deducted from the equity basis and investment in securities in the negotiable portfolio.

(5) Includes face value of derivatives (including credit derivatives), after effect of add-on factors and positive fair value of derivatives.

(6) Excludes derivatives and balances deducted from the equity basis, including cash, investment in shares, fixed assets and investment in investees.

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

					As of March 31, 2014
	Up to 1 year	1-5 years	Over 5 years	Without maturity	Total[(2)]
Loans[(3)]	56,576	24,216	90,748	113	171,653
Securities[(4)]	239	3,895	1,706	-	5,840
Derivatives[(5)]	1,558	1,058	432	-	3,048
Other off-balance-sheet exposures	46,373	8,581	1,000	-	55,954
Other assets[(6)]	1,614	820	86	1,715	4,235
Total	**106,360**	**38,570**	**93,972**	**1,828**	**240,730**

	As of December 31, 2013				
	Up to 1 year	1-5 years	Over 5 years	Without maturity	Total[(2)]
Loans[(3)]	52,322	24,404	88,454	113	165,293
Securities[(4)]	323	4,600	1,277	-	6,200
Derivatives[(5)]	1,528	590	836	-	2,954
Other off-balance-sheet exposures	46,327	9,147	1,032	-	56,506
Other assets[(6)]	2,397	-	86	1,715	4,198
Total	**102,897**	**38,741**	**91,685**	**1,828**	**235,151**

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

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

(3) Includes loans to the public, loans to governments, deposits with banks and borrowed securities.

(4) Excludes balances deducted from the equity basis and investment in securities in the negotiable portfolio.

(5) Includes face value of derivatives (including credit derivatives), after effect of add-on factors and positive fair value of derivatives.

(6) Excludes derivatives and balances deducted from the equity basis, including cash, investment in shares, fixed assets and investment in investees.

Credit risk - standard approach

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

Before credit risk mitigation

											As of March 31, 2014
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	29,198	2,755	-	-	-	41	-	-	-	31,994	-
Public sector entity debt	-	-	-	1,263	-	-	-	-	-	1,263	-
Banking corporation debt	-	3,175	-	783	-	77	-	-	-	4,035	-
Corporate debt	-	31	-	217	-	-	-	-	-	248	-
Other assets	-	-	-	-	-	-	-	-	-	-	-
Total	**29,198**	**5,961**	**-**	**2,263**	**-**	**118**	**-**	**-**	**-**	**37,540**	**-**
Non-rated exposures:											
Public sector entity debt	-	-	-	6	-	-	-	-	-	6	-
Banking corporation debt	-	35	-	11	-	-	-	-	-	46	-
Corporate debt	-	-	-	-	-	67,620	127	-	-	67,747	-
Debt secured by commercial real estate	-	-	-	-	-	2,700	-	-	-	2,700	-
Retail exposure to individuals	-	-	-	-	24,491	45	66	-	-	24,602	-
Loans to small businesses	-	-	-	-	8,901	21	42	-	-	8,964	-
Residential mortgages	-	-	55,841	8,626	24,304	5,744	223	-	-	94,738	-
Other assets	1,239	-	-	-	-	2,125	55	816	-	4,235	87
Total	**1,239**	**35**	**55,841**	**8,643**	**57,696**	**78,255**	**513**	**816**	**-**	**203,038**	**87**
Total	**30,437**	**5,996**	**55,841**	**10,906**	**57,696**	**78,373**	**513**	**816**	**-**	**240,578**	**87**

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

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

After credit risk mitigation

	As of March 31, 2014										
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	29,791	2,755	-	-	-	22	-	-	-	32,568	-
Public sector entity debt	270	-	-	962	-	-	-	-	-	1,232	-
Banking corporation debt	-	3,168	-	783	-	74	-	-	-	4,025	-
Corporate debt	-	31	-	217	-	-	-	-	-	248	-
Other assets	-	-	-	-	-	-	-	-	-	-	-
Total	**30,061**	**5,954**	**-**	**1,962**	**-**	**96**	**-**	**-**	**-**	**38,073**	**-**
Non-rated exposures:											
Public sector entity debt	-	-	-	6	-	-	-	-	-	6	-
Banking corporation debt	-	223	-	162	-	-	-	-	-	385	-
Corporate debt	-	-	-	-	-	59,286	117	-	-	59,403	-
Debt secured by commercial real estate	-	-	-	-	-	2,382	-	-	-	2,382	-
Retail exposure to individuals	-	-	-	-	22,499	16	66	-	-	22,581	-
Loans to small businesses	-	-	-	-	6,753	17	38	-	-	6,808	-
Residential mortgages	-	-	55,841	8,624	24,210	5,740	223	-	-	94,638	-
Other assets	1,239	-	-	-	-	2,125	55	816	-	4,235	87
Total	**1,239**	**223**	**55,841**	**8,792**	**53,462**	**69,566**	**499**	**816**	**-**	**190,438**	**87**
Total exposure	**31,300**	**6,177**	**55,841**	**10,754**	**53,462**	**69,662**	**499**	**816**	**-**	**228,511**	**87**

Before credit risk mitigation

											As of December 31, 2013
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	25,820	2,517	-	-	-	38	-	-	28,375	-	28,375
Public sector entity debt	-	-	-	1,295	-	-	-	-	1,295	-	1,295
Banking corporation debt	-	2,707	-	1,401	-	56	-	-	4,164	-	4,164
Corporate debt	-	31	-	195	-	-	-	-	226	-	226
Other assets	-	-	-	-	-	-	-	-	-	33	33
Total	**25,820**	**5,255**	**-**	**2,891**	**-**	**94**	**-**	**-**	**34,060**	**33**	**34,093**
Non-rated exposures:											
Public sector entity debt	-	-	-	7	-	-	-	-	7	-	7
Banking corporation debt	-	14	-	12	-	-	-	-	26	-	26
Corporate debt	-	-	-	-	-	67,638	172	-	67,810	-	67,810
Debt secured by commercial real estate	-	-	-	-	-	2,881	-	-	2,881	-	2,881
Retail exposure to individuals	-	-	-	-	24,086	46	57	-	24,189	-	24,189
Loans to small businesses	-	-	-	-	8,486	21	42	-	8,549	-	8,549
Residential mortgages	-	-	56,868	7,077	22,612	5,342	217	-	92,116	-	92,116
Other assets	1,145	-	-	-	-	2,998	55	-	4,198	87	4,285
Total	**1,145**	**14**	**56,868**	**7,096**	**55,184**	**78,926**	**543**	**-**	**199,776**	**87**	**199,863**
Total exposure	**26,965**	**5,269**	**56,868**	**9,987**	**55,184**	**79,020**	**543**	**-**	**233,836**	**120**	**233,956**

After credit risk mitigation

	As of December 31, 2013										
	0%	20%	35%	50%	75%	100%	150%	350%	Net credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	26,285	2,517	-	-	-	21	-	-	28,823	-	28,823
Public sector entity debt	289	-	-	992	-	-	-	-	1,281	-	1,281
Banking corporation debt	-	2,700	-	1,401	-	53	-	-	4,154	-	4,154
Corporate debt	-	31	-	195	-	-	-	-	226	-	226
Other assets	-	-	-	-	-	-	-	-	-	33	33
Total	**26,574**	**5,248**	**-**	**2,588**	**-**	**74**	**-**	**-**	**34,484**	**33**	**34,517**
Non-rated exposures:											
Public sector entity debt	-	-	-	7	-	-	-	-	7	-	7
Banking corporation debt	-	184	-	139	-	-	-	-	323	-	323
Corporate debt	-	-	-	-	-	58,540	156	-	58,696	-	58,696
Debt secured by commercial real estate	-	-	-	-	-	2,461	-	-	2,461	-	2,461
Retail exposure to individuals	-	-	-	-	22,119	19	56	-	22,194	-	22,194
Loans to small businesses	-	-	-	-	6,511	17	38	-	6,566	-	6,566
Residential mortgages	-	-	56,867	7,074	22,512	5,340	217	-	92,010	-	92,010
Other assets	1,145	-	-	-	-	2,998	55	-	4,198	87	4,285
Total	**1,145**	**184**	**56,867**	**7,220**	**51,142**	**69,375**	**522**	**-**	**186,455**	**87**	**186,542**
Total exposure	**27,719**	**5,432**	**56,867**	**9,808**	**51,142**	**69,449**	**522**	**-**	**220,939**	**120**	**221,059**

Significant exposure to groups of borrowers

Disclosure of credit risk with respect to significant exposure to borrower groups 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:

As of March 31, 2014, the Bank has no borrower groups which meet the aforementioned condition.

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

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

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

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

Leveraged financing

Leveraged financing is credit financing provided to customers which fulfills one of the following criteria:

- Credit for financing the acquisition of means of control, which typically has a high LTV ratio relative to the value of shares, and relying on the acquired shares as a source for credit repayment, as well as other credit extended to the borrower after the financing for acquisition of means of control, with repayment primarily based on the cash flow from the means of control whose acquisition was financed previously. 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. Such credit is reported periodically.

- Financing for leveraged companies, which is credit extended to companies with attributes which indicate that an adverse change in the global economic environment or in the specific environment of the sector in which they do business, may significantly impact their capacity to repay the bank. The Bank has specified criteria which classify credit included in this category, based primarily on the credit rating of the business client, as reflected in the Criteria model and then individual review of each borrower who meets the threshold criteria. Such borrowers are reviewed by a forum which includes representatives from the Business Division, the Risk Control Division and the Accounting and Financial Reporting Division, which reviews changes to financial parameters of the company and the economic environment in which it operates.

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

Credit for acquisition of means of control:

	On-balance sheet credit risk as of:		
Economic sector of acquired company	March 31, 2014	March 31, 2013	December 31, 2013
Construction and real estate	181	266	179
Communications and computer services	-	235	204
Total	**181**	**501**	**383**

Credit to leveraged companies:

	On-balance sheet credit risk[(1)]	
Economic sector of borrower	March 31, 2014	December 31, 2013
Construction and real estate	426	470
Commerce	182	224
Industry	189	212
Financial services	178	136
Total	**975**	**1,042**

(1) Note that the definition of leveraged financing above was made in December 2013 - so that no comparative figures as of March 31, 2013 are presented.

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

	As of March 31, 2014		
External credit rating	On balance sheet credit risk [3]	Off balance sheet credit risk[4]	Current credit exposure
AAA to AA-	834	-	834
A+ to A-	1,487	2	1,489
BBB+ to BBB-	2	-	2
BB+ to B-	-	10	10
Lower than B-	-	-	-
Unrated	4	-	4
Total credit exposure to foreign financial institutions	**2,327**	**12**	**2,339**
Includes: Troubled commercial credit risk, net[5]	-	-	-

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

			As of December 31, 2013
External credit rating	On-balance sheet credit risk[3]	Off balance sheet credit risk[4]	Current credit exposure
AAA to AA-	768	-	768
A+ to A-		2	1,464
BBB+ to BBB-	3	-	3
BB+ to B-	-	10	10
Lower than B-	-	-	-
Unrated	4	-	4
Total credit exposure to foreign financial institutions	**2,237**	**12**	**2,249**
Includes: Troubled commercial credit risk, net[5]	-	-	-

(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the former. Bank exposure is almost entirely to banks and investment banks primarily incorporated in the UK, USA, Germany, Switzerland and Canada.
(2) After deduction of provision for credit losses.
(3) Bank deposits, credit to the public, investment in debentures, securities borrowed or acquired in conjunction with re-sale agreements and other assets with respect to derivative instruments.
(4) Primarily guarantees and commitments to grant credit, including guarantees to secure liabilities of third parties, which have been weighted at 50% of their amount – in accordance with Proper Conduct of Banking Business Regulation 313 (excluding off-balance sheet derivatives).
(5) Credit risk for impaired, inferior credit or credit under special supervision, excluding credit risk with respect to individuals.

The aforementioned credit exposure excludes exposure to financial institutions for which complete, explicit government guarantees are in place, and exclude investments in asset-backed securities. For further information with regard to credit exposure composition with respect to derivative instruments vis-à-vis banks and dealers/brokers (domestic and foreign), see Note 8 to the financial statements.

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

In conjunction with its policies 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 that financial institution is also taken into consideration. The policies also determine a hierarchy of authority for approval of specific transactions within the exposure limits.

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

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

Ratings - Bank activity with overseas entities generates exposure to sovereigns and to financial institutions. The Bank has set a policies with regard to review and routing of risk arising from this exposure. For credit risk exposure management, as stated 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 various investments.

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

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

According to the Supervisor of Banks' directives, banks are required to act to incorporate management of exposure to environmental risk within all risk factors at the Bank, including specification of procedures for identification of significant risk when granting credit and inclusion of risk assessment within periodic assessment of quality of credit extended. The Bank's policy documents include a dedicated environmental risk policies, including a methodology for identification, assessment and handling of environmental risk. The environmental risk policies are approved annually by the Bank Board of Directors.

Credit losses with respect to housing loans

In conjunction with credit risk management, the Bank takes various actions to mitigate risk associated with provision of housing loans. The Bank estimates the risk associated with provision of housing loans as low, relative to the inherent risk in the Bank's overall loan portfolio, due to the high level of client diversification, geographic diversification of borrowers, relatively low leverage, intensive review procedures of borrower quality and their repayment capacity, and securing credit with property as collateral. The Bank acts regularly to control and manage the risk associated with housing loans, for which the Retail Division, the Risk Control Division and other Bank entities are responsible. The means and tools for mitigating risk with respect to housing loans, and the parties to management of this risk factor, are listed in the Board of Directors' report as of December 31, 2013.

The key parameters used for specifying risk appetite in the mortgage segment are: results of the differential risk premium model, LTV ratio of the loan, property location (geographical risk) and credit quality benchmark. Over the past two years, the risk appetite has been extended within the Bank's policy document and additional restrictions were imposed on various parameters: loan repayment to income ratio, loan purpose, loan term, loan track mix, property type, credit insurance and cross restrictions on combinations of multiple parameters.

The Bank constantly monitors the risk profile of the mortgage portfolio, in view of the specified risk appetite.

The Bank monitors the current portfolio, including performance analysis by various criteria and by risk focal points. In addition, the Bank regularly conducts stress testing of its mortgage portfolio - challenging multiple risk factors in this portfolio, as presented below. Some stress testing is conducted using advanced methods and using current data from advanced models developed by the Bank. The Bank's stress testing has been upgraded recently, further to directives from the Bank of Israel (the Bank of Israel uniform scenario – a uniform macro-economic scenario for the entire banking system). The various stress tests conducted by the Bank challenge, *inter alia*, the current macro-economic situation and account for a very high level of unemployment compared to the current situation, an interest rate which is significantly higher than current interest rates as well as lower housing prices. This stress testing indicates that the Bank has sufficient capital to withstand the risk level derived from such strict stress testing.

Attributes of the Bank's housing loan portfolio

The Bank's policies with regard to mortgages are based on a conservative approach, limiting specific risk for each loan by reviewing various attributes. These attributes include: LTV ratio, ratio of repayment to regular borrower income, and borrower capacity to make current repayments even under scenarios involving a change in interest rates. Whenever loans are granted with attributes which do not meet one or more of the standards set by the Bank for these attributes, the Bank requires additional bolstering for the loan, such as additional guarantors for the loan, proven repayment capacity not based on regular borrower income etc. In recent years, due to expansion of the housing market and relatively low interest environment, the Bank has enhanced measures taken to monitor and mitigate risk, as reflected by a significant decrease in loan risk factors, as detailed below (all data below as of March 31, 2014).

LTV ratio

One of the key parameters used by the Bank in minimizing risk in its housing loan portfolio is the LTV ratio (ratio of loan amount to value of the property pledged as collateral). The average loan-to-value ratio for the Bank's mortgage portfolio as of March 31, 2014 was 55.8%, compared to 56.3% on December 31, 2013 and to 57.8% on December 31, 2012. Out of the Bank's total housing loan portfolio, amounting to NIS 91.4 million, some 88% 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 3.1 billion, or only 3.4% of the total housing loan portfolio.

On November 1, 2012, the Supervisor of Banks issued directives which restrict the LTV ratio for housing loans. These directives stipulate that the LTV ratio may not exceed:

Up to 75% – for borrowers buying a single apartment (as defined in Section 9(c) of the Real Estate Taxation Act)

Up to 70% – for second home buyers buying an alternative apartment (an apartment bought by an Israeli citizen who owns a residential apartment which would be a single apartmment if not for the apartment being purchased, where the borrower commits to sell their existing apartment as stated in Section 9(c1a)(2)(a)(2) of the Real Estate Taxation Act)

Up to 50% – for buyers of a rental property, for general-purpose loans and for loans to foreign residents.

Loans previosuly granted with a high LTV ratio are usually secured by credit insurance, which significantly reduces risk for the Bank, although it does not affect the LTV or repayment percentage calculation. Out of the balance of loans granted with an original LTV ratio higher than 75%, a total of NIS 4.3 billion, or 37.8%, is insured by credit insurance.

In recent years, due to measures taken by the Bank to mitigate risk in the mortgage portfolio and the aforementioned restrictions imposed by the Bank of Israel, the percentage of loans granted with a high LTV ratio out of total housing loan portfolio of the Bank decreased to 10.6% for loans granted 1-2 years ago, 7.0% for loans granted 3-12 months ago and 6.1% for loans granted in the first quarter of 2014.

Repayment as percentage of regular income

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

The average repayment ratio for the Bank's housing loan portfolio is 30.3%. Some 70% of the Bank's mortgage portfolio were granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is 23.7%); 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 40.3%). Some 7% of the mortgage portfolio were granted to borrowers with a repayment ratio of 50% to 80% (the average repayment ratio for these borrowers is 59.2%), and only 1% were granted to borrowers with a repayment ratio over 80% (the average repayment ratio for these borrowers is 91.9%).

The loans with a high repayment ratio are loans granted to borrowers with significant other assets, whose repayment capacity is not necessarily based on current income, to borrowers with very high income where the repayment ratio is less significant, or where additional bolstering of the loan is in place, in addition to the pledged property and repayment capacity of the borrower, such as financially robust guarantors.

On August 29, 2013, the Supervisor of Banks issued directives with regard to restrictions on provision of housing loans, which stipulated restrictions on the ratio of monthly loan repayment to income. For details, see the chapter on Legislation and Supervision of Bank Group Operations on the financial statements as of December 31, 2013.

On April 24, 2014, the Supervisor of Banks issued a draft interim directive with regard to housing loans, in which the term “repayment ratio” was redefined. For information about this dratft, see chapter "Legislation and Supervision of Bank Group Operations" in these financial statements.

Loans bearing variable interest

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

Over the past decade, the prime lending rate decreased from 10% in 2002-2003, through 5%-6% in 2004-2008 to 2%-5% since 2009. Accordingly, the risk associated with loans bearing interest linked to the prime lending rate is primarily due to loans granted since 2009, assuming that the prime lending rate is expected to rise, reflecting positive real interest in the economy.

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

The repayment capacity of clients who obtained loans in the period when the prime lending rate was high is reviewed using the high interest rate. In recent years, when interest rates were low, these clients benefited significantly from lower loan costs.

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 10.0 billion, or only 10.9% of the housing loan portfolio.

Note however that before approving a loan linked to the prime lending rate, the Bank reviews the repayment capacity of the borrower under scenarios where the prime lending rate would increase by 2 percentage points.

The directive of the Supervisor of Banks dated May 3, 2011, which restricts the portion of loans extended bearing interest which may vary within a 5-year term to 33% of total loan amount, has also contributed to further reduction in variable interest loans extended, and to mitigation of risk in this area.

According to the Supervisor's letter dated August 29, 2013, a banking corporation may not approve a housing loan where the ratio of the loan portion bearing variable interest to total loan amount exceeds 67%.

For details, see the chapter on Legislation and Supervision of Bank Group Operations in the financial statements as of Decmeber 31, 2013.

Loan amount

Loans granted by the Bank with an original amount over NIS 2 million amounted in total to NIS 3.7 billion as of March 31, 2014, 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%	2,238	6,281	5,825	12,160	6,130	2,056	34,690
	35%-50%	526	1,989	2,184	3,972	1,615	412	10,698
	50%-80%	3	447	740	1,562	710	187	3,649
	Over 80%	-	48	61	180	149	45	483
60%-75%	Up to 35%	1,339	3,713	4,351	8,747	2,779	641	21,570
	35%-50%	207	1,079	1,524	2,898	894	193	6,795
	50%-80%	-	159	460	948	340	84	1,991
	Over 80%	-	4	24	58	61	17	164
Over 75%	Up to 35%	250	864	1,391	2,914	1,578	1,378	8,375
	35%-50%	30	151	358	771	502	507	2,319
	50%-80%	-	25	48	185	168	176	602
	Over 80%	-	-	1	16	40	34	91
Total		**4,593**	**14,760**	**16,967**	**34,411**	**14,966**	**5,730**	**91,427**
Includes:								
Loans granted with original amount over NIS 2 million		108	533	774	1,810	403	23	3,651
Percentage of total housing loans		2.4%	3.6%	4.6%	5.3%	2.7%	0.4%	4.0%
Loans bearing variable interest:								
Non-linked, at prime lending rate		1,340	4,210	4,415	11,961	7,265	222	29,413
CPI-linked[2]		65	278	359	5,344	2,857	1,503	10,406
In foreign currency[2]		107	325	710	2,673	324	267	4,406
Total		**1,512**	**4,813**	**5,484**	**19,978**	**10,446**	**1,992**	**44,225**
Non-linked loans at prime lending rate, as percentage of total housing loans		29.2%	28.5%	26.0%	34.8%	48.5%	3.9%	32.2%
CPI-linked loans bearing variable interest as percentage of total housing loans		1.4%	1.9%	2.1%	15.5%	19.1%	26.2%	11.4%
Loans with LTV over 75% as percentage of total housing loans		6.1%	7.0%	10.6%	11.3%	15.3%	36.6%	12.5%

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

Provision by extent of arrears

Below are details of the provision for credit losses with respect to housing loans for which a minimum provision for credit losses was made by extent of arrears, in accordance with appendix to Proper Conduct of Banking Business Regulation 314, as of March 31, 2014:

		Extent of arrears						
		In arrears 90 days or longer					Balance with respect to re-financed loans in arrears[4]	Total
	In arrears 30 to 89 days[3]	90 days to 6 months	6-15 months	15-33 months	Over 33 months	Total over 90 days		
Amount in arrears	6	12	13	13	209	247	84	337
Includes: Balance of provision for interest[1]	-	-	-	1	100	101	6	107
Recorded debt balance	368	404	187	74	192	857	239	1,464
Balance of provision for credit losses[2]	-	-	25	36	149	210	110	320
Debt balance, net	**368**	**404**	**162**	**38**	**43**	**647**	**129**	**1,144**

(1) With respect to interest on amounts in arrears.

(2) Excludes balance of provision for interest.

(3) In conformity with Public Reporting Regulations, excludes the balance of housing loans in arrears up to 2 months.

(4) Loans for which an agreement was signed for repayment of arrears by borrower, where a change was made in the repayment schedule for the loan balance not yet due.

Credit risk mitigation

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

	As of March 31, 2014				
		Exposure covered by guarantees[2]			
	Gross credit exposure[1]	Amounts deducted	Amounts added	Exposure covered by qualified financial collateral	Net credit exposure
Sovereign debt	31,994	(269)	862	(19)	32,568
Public sector entity debt	1,269	(251)	270	(50)	1,238
Banking corporation debt	4,081	(7)	339	(3)	4,410
Corporate debt	67,995	(461)	-	(7,883)	59,651
Debt secured by commercial real estate	2,700	(25)	-	(293)	2,382
Retail exposure to individuals	24,602	(3)	-	(2,018)	22,581
Loans to small businesses	8,964	(455)	-	(1,701)	6,808
Residential mortgages	94,738	-	-	(100)	94,638
Other assets	4,235	-	-	-	4,235
Total	**240,578**	**(1,471)**	**1,471**	**(12,067)**	**228,511**

(1) Balance of on- and off-balance sheet balances, after on- and off-balance-sheet offsets, after provision for credit losses, excluding impact of credit risk mitigation, credit conversion factors and risk weighting factors, as defined under Basel 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, 2013				
		Exposure covered by guarantees[2]		Exposure covered	
	Gross credit exposure[1]	Amounts deducted	Amounts added	by qualified financial collateral	Net credit exposure
Sovereign debt	28,375	(281)	747	(18)	28,823
Public sector entity debt	1,302	(252)	289	(51)	1,288
Banking corporation debt	4,190	(7)	297	(3)	4,477
Corporate debt	68,036	(428)	-	(8,686)	58,922
Debt secured by commercial real estate	2,881	(6)	-	(414)	2,461
Retail exposure to individuals	24,189	(4)	-	(1,991)	22,194
Loans to small businesses	8,549	(355)	-	(1,628)	6,566
Residential mortgages	92,116	-	-	(106)	92,010
Other assets	4,198	-	-	-	4,198
Total	**233,836**	**(1,333)**	**1,333**	**(12,897)**	**220,939**

(1) Balance of on- and off-balance sheet balances, after on- and off-balance-sheet offsets, after provision for credit losss, excluding impact of credit risk mitigation, credit conversion factors and risk weighting factors, as defined under Basel 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 (CDS) in its negotiable 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, 2014					
Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives(2)	Total
Par value of derivatives after impact of add-on factor	160	1,055	-	2	-	1,217
Positive fair value of financial derivatives(1)	414	856	561	-	-	1,831
Total exposure with respect to derivatives	**574**	**1,911**	**561**	**2**	**-**	**3,048**
Collateral with respect to derivatives (before safety factors)	(55)	(163)	(569)	(1)	-	(788)
Impact of safety factors on collateral	-	17	328	-	-	345
Total current credit exposure after credit risk mitigation	**519**	**1,765**	**320**	**1**	**-**	**2,605**

	As of December 31, 2013					
Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives(2)	Total
Par value of derivatives after impact of add-on factor	164	1,030	-	1	2	1,197
Positive fair value of financial derivatives(1)	307	935	514	1	-	1,757
Total exposure with respect to derivatives	**471**	**1,965**	**514**	**2**	**2**	**2,954**
Collateral with respect to derivatives (before safety factors)	(178)	(301)	(780)	(1)	-	(1,260)
Impact of safety factors on collateral	2	21	447	-	-	470
Total current credit exposure after credit risk mitigation	**295**	**1,685**	**181**	**1**	**2**	**2,164**

(1) Includes exposure arising from counter-party credit risk with respect to client activity on the stock exchange, calculated based on stock exchange rules.

(2) The Bank's credit derivatives operations are not classified as brokerage operations. For information about transactions to buy and sell credit protection, see Note 8.A to the financial statements.

Securitization

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

As of March 31, 2014 and as of December 31, 2013, the Bank had no investments with securitization exposure.

Equity positions in bank portfolio

For details of equity investments in the Bank's portfolio, see Note 2 to the financial statements. The investment balance includes investments in negotiable and public shares amounting to NIS 1 million, and investment in non-public shares amounting to NIS 159 million.

		As of March 31, 2014
	Fair value	Capital requirement(1)
Shares	64	6
Venture capital / private equity funds	96	9
Total equity investment in bank portfolio	**160**	**15**

		As of December 31, 2013
	Fair value	Capital requirement(1)
Shares	62	6
Venture capital / private equity funds	96	9
Total equity investment in bank portfolio	**158**	**15**

(1) Capital requirement calculated at 12.5%.
(2) Capital requirement calculated at 9% in accordance with interim directive on application of Basel Pillar 3.

Market risk

The market risk to which the Bank is exposed by various financial instruments is due to their sensitivity to unexpected changes in risk factors, including: interest rate, inflation and exchange rates - such that changes in market conditions may result in changes in the fair value of various 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 from a lack of correlation between the period to maturity of the Bank's assets and liabilities, or from incomplete correlation of the effect of change in interest rates on the different financial instruments. The Bank is preparing to apply the Bank of Israel directive concerning management of interest risk, which would become effective in mid-2014, a specific directive with regard to interest risk management, emphasizing interest risk in the Bank portfolio. The directive stipulated qualitative and quantitative requirements and governs the supervisory requirements and expectations in this area.
- Linkage-basis risk - the risk of erosion in capital due to changes in the value of the linkage basis – changes in prices, exchange rates and inflation rates. The exposure to basis risk exists when the Bank's assets and liabilities are denominated in different currency or linkage segments.

Interest risk in Bank portfolio

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

Interest risk in the Bank's bank portfolio is monitored on a regular basis, both in managing interest risk for the overall portfolio in VaR terms, and in EVE (Economic Value of Equity) terms - a model which reviews changes in the economic value of the portfolio under different assumptions regarding changes to the interest rate curve, including corresponding 2% shifts upwards/downwards of the interest rate curve and historical change for various time horizons, including one year.
In addition, the Bank has multiple scenarios designed to review its risk profile under stress conditions, in view of the risk appetite determined by the Board of Directors. In this context, the Bank applied innovative methods to review interest risk upon occurrence of stress events, including under stress scenarios of an economic outline.

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, 2014					
	Change in fair value					
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	(303)	(291)	138	(11)	(5)	(472)
2% decrease	358	220	(23)	6	7	568

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

	December 31, 2013					
	Change in fair value					
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	(351)	(312)	99	(8)	1	(571)
2% decrease	410	240	(12)	4	3	645

In preparing the mortgage repayment forecast for the Bank, assumptions with regard to pre-payment are taken into account. Market risk in the Bank's negotiable portfolio, primarily composed of portfolios managed in the trading room, is managed by means of quantitative limitations specified for each portfolio based on activity there in.

The VaR (Value at Risk) model

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

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

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

	First Quarter 2014	First Quarter 2013	All of 2013
At end of period	184	146	197
Maximum value during period	184 (MAR)	169 (FEB)	229 (JUL)
Minimum value during period	161 (JAN)	146 (MAR)	146 (MAR)

Back-testing of the historical-analytic VaR model shows that in the year ended March 31, 2014 there was one case in which the daily loss exceeded the forecasted VaR value. This number of cases is within the criteria specified by the Basel Committee. Therefore, the Bank's VaR model is valid.

Below are exceptions during the past year (NIS in millions):

Exception date	Exception value
July 17, 2013	5.5

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, 2014:

Capital increase (erosion), NIS in millions

	Scenarios				Extreme historical scenario[1]	
	10% increase	5% increase	5% decrease	10% decrease	Maximum increase	Maximum decrease
CPI	738.9	369.5	(369.5)	(738.9)	107.9	(63.5)
Dollar	27.1	6.9	7.0	24.9	2.5	1.7
Pound Sterling	2.7	0.9	0.0	(0.3)	0.6	0.0
Yen	0.5	0.2	0.1	0.3	0.2	0.0
Euro	8.7	3.8	(1.5)	(2.4)	2.5	(0.8)
Swiss Franc	0.9	0.5	(0.4)	(0.6)	0.4	(0.5)

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

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Interest risk

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

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

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

	Israeli currency		Foreign currency[2]			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
March 31, 2014						
Financial assets[1]	107,549	56,054	12,396	3,638	2,132	181,769
Amounts receivable with respect to financial derivatives[3]	63,347	3,955	47,373	10,335	5,081	130,091
Financial liabilities[1]	(103,457)	(41,130)	(22,425)	(4,295)	(2,714)	(174,021)
Amounts payable with respect to financial derivatives[3]	(67,067)	(11,295)	(37,219)	(9,710)	(4,521)	(129,812)
Total	**372**	**7,584**	**125**	**(32)**	**(22)**	**8,027**
December 31, 2013						
Financial assets[1]	103,110	54,401	12,880	3,484	1,778	175,653
Amounts receivable with respect to financial derivatives[3]	65,800	3,829	44,409	10,692	4,285	129,015
Financial liabilities [1]	(100,957)	(38,996)	(21,144)	(4,473)	(2,515)	(168,085)
Amounts payable with respect to financial derivatives[3]	(66,863)	(12,787)	(36,001)	(9,730)	(3,565)	(128,946)
Total	**1,090**	**6,447**	**144**	**(27)**	**(17)**	**7,637**

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

	Israeli currency		Foreign currency[2]				Change in fair value	
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total	NIS in millions	In %
March 31, 2014								
Change in interest rates:								
Concurrent immediate increase of 1%	658	7,473	88	(40)	(27)	8,152	125	1.6%
Concurrent immediate increase of 0.1%	406	7,569	120	(33)	(22)	8,040	13	0.2%
Concurrent immediate decrease of 1%	(29)	7,667	165	(20)	(17)	7,766	(261)	(3.3%)
December 31, 2013								
Change in interest rates:								
Concurrent immediate increase of 1%	1,310	6,296	106	(51)	(22)	7,639	2	-
Concurrent immediate increase of 0.1%	1,116	6,433	139	(30)	(17)	7,641	4	0.1%
Concurrent immediate decrease of 1%	743	6,586	183	(1)	(12)	7,499	(138)	(1.8%)

(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. This requirement relates to instruments in the negotiable portfolio, and replaces the capital requirement with respect to credit risk associated with these instruments, had they been held in the Bank's portfolio.

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

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

	As of March 31, 2014			As of December 31, 2013		
	Capital requirement(1)			Capital requirement(2)		
risk element(3)	Specific risk	General risk	Total	Specific risk	General risk	Total
Interest risk(4)	-	89	89	-	51	51
Equity risk	-	-	-	-	-	-
Foreign currency exchange rate risk	-	23	23	-	25	25
Total market risk	**-**	**112**	**112**	**-**	**76**	**76**

(1) Capital requirement calculated at 12.5%.
(2) Capital requirement calculated at 9% in conformity with interim directive for application of Basel Pillar 3.
(3) 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.
(4) 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. A revised directive was issued in January 2013 and became effective in July 2013. The revised directive is the first step in aligning liquidity management with Basel III publications. The Bank has applied the new directives as required. In conjunction with this application, the Bank specified internal system-wide integrated extreme scenarios in Israeli currency and in foreign currency for a one-month term. This is based on behavioral attributes of depositors and on risk focal points, in line with the various scenarios. The Board of Directors specified restrictions on the Liquidity Coverage Ratio (LCR) under these scenarios and for the survival horizon in the normal course of business, as well as restrictions and guidelines on concentration and other stress scenarios. The Bank maintains liquid means, including cash and current accounts with the Bank of Israel and a high-quality, liquid debenture portfolio which may be immediately realized; the emergency plan includes additional liquid means which may be activated under each scenario. The liquidity ratios are calculated daily based on the current composition of liabilities and liquid means. There is also daily monitoring of internal and external indicators which may point to a liquidity crunch.

The Bank has a Liquidity Forum, under the responsibility of the Finance Division, which convenes daily, 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.

Liquidity risk management is governed by a policies document submitted annually or more frequently for approval by the Board of Directors. The policy document, which includes how risk is managed, including roles and responsibilities of the various organs, the regular management of liquidity risk, all parameters used for risk measurement in the normal course of business and under various stress scenarios, restrictions specified by the Board of Directors and by management, internal and external key risk indicators which indicate potential liquidity issues for the Bank or for the banking system and a detailed emergency plan for handling a liquidity crisis, including potential means under each scenario type and the estimated time for execution.

The Bank's liquidity management is proactive and tight, both in using detailed models at different world situations, in strict maintenance of liquid means with minimal credit risk which may be immediately realized, and in active management of sources for diversification and extension of the effective duration of sources. Note that the Bank's debenture portfolio, used as liquid means, has very high levels of liquidity and credit quality.
There were no deviations from the Board of Directors’ limitations recorded in the first quarter of 2014.

Operating risk

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

Legal risk

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

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

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

The Bank's Legal Division applies internal processes to ensure regular monitoring of developments in legislation, rulings and other regulatory provisions which could have implications for the day-to-day activities of the Bank Group. In this context, the Legal Division provides guidance to relevant Bank entities with regard to implementation of the implications arising from these updates. The Legal Division provides regular counsel to different Bank units, including to some subsidiaries. This is done, *inter alia*, by providing opinion, editing and updating legal documents, support for updates to procedures etc.

The Bank has specified procedures to help in minimizing legal risk, including regulating the interface between the Legal Division and different Bank departments. The Legal Division is also involved in training delivered to branches, at the Bank's Training Center and in compiling professional eLearning kits for imparting the legal knowledge required for regular Bank operations.

Similar reference is made for Bank affiliates overseas (branches and subsidiaries), with these affiliates receiving assistance from local external attorneys approved by the Bank's Legal Division. The Bank's overseas subsidiaries and affiliates have adopted similar procedures with regard to management of legal risk, and provide immediate and quarterly reports to the Legal Risk Manager of the Bank with regard to any legal risk identified in these entities.

Information security

On April 7, 2014, activist hacker groups around the world joined forces in their OpIsrael 2014 campaign, which included design and execution of cyber attacks against targets in Israel so as to disrupt Internet service and websites in Israel.

The Bank has made advance preparations, including advance drills and reiteration of operating procedures; the SOC center was prepared and over-staffed, conducting testing and evaluation of monitoring tools in this area.

This area resulted in no damage to assets of the Bank and its clients.

Compliance

Bank business operations are subject to regulation. Compliance risk is present in almost all business processes at the Bank, as implemented by various units throughout the organizational structure. Compliance risk is the risk of financial loss (including due to sanctions imposed by supervisory authorities) and of impact to reputation, due to Bank failure to comply with various statutory provisions applicable to the Bank. These provisions may originate in primary and secondary legislation as well as in directives from authorities which, by law, supervise the Bank.

The Manager, Risk Control Division and CRO of the Bank serves as the person in charge of enforcement of securities law and anti-trust law. As required by Proper Conduct of Banking Business regulation 308 ("Compliance Officer"), the Bank appointer a Chief Compliance Officer (reporting to the Manager, Risk Control Division) whose role is to assist Bank management and the Board of Directors in effective management of compliance risk.

The Risk Control Division, through the Division Manager (who serves as Chief Enforcement Officer for the Bank) and the Chief Compliance Officer act to instill a compliance culture throughout the Bank, including with regard to consumer regulations applicable to Bank relations with its clients, securities and anti-trust legislation, as well as requirements pursuant to US tax laws applicable to operations of the Bank Group outside the USA (FATCA - Foreign Account Tax Compliance Act).

Prohibition of money laundering

The Chief Compliance Officer for the Bank Group, appointed in the Risk Control Division, is also in charge of implementation of the Prohibition of Money Laundering Act, and of the Prohibition of Financing Terrorism Act for the Bank Group, including Bank affiliates overseas.

The Compliance and Prevention of Money Laundering Department implements statutory requirements on this issue. The Department handles subjective reports of unusual activity reported to the AML Authority, and conducts various controls over activity in different accounts based on their risk profile, providing regular advice to branches on this matter and delivers training customized for Bank staff in different roles. Moreover, in line with Bank policies set by the Board of Directors in May 2010, a knowledge test is administered once every two years to all Bank employees. Such a test was conducted in 2012.

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

The Bank applies on a Group basis, with required changes, its policies in this area as well as statutory provisions, at its subsidiaries and branches in Israel and overseas.

Risk factors

For a discussion of the risk factors that impact the Bank and its activities, see the discussion in the chapter on risk management above. Below is a mapping of risk factors, their potential impact on the Bank Group and executives appointed Risk Owners for each risk factor:

Risk factor	Risk factor impact	Risk Owner
Overall effect of credit risk	Low-medium	**Manager, Business Division**
Risk from quality of borrowers and collateral	Low-medium	
Risk from industry concentration	Low-medium	
Risk from concentration of borrowers/ borrower groups	Intermediate	
Overall effect of market risk	Low	**Manager, Financial Division**
Interest risk	Low	
Inflation risk	Intermediate	
Exchange rate risk	Low	
Share price risk	Low	
Liquidity risk	Intermediate	**Manager, Financial Division**
Operating risk	Low	**Manager, Risk Control Division**
Compliance risk	Intermediate	**Manager, Risk Control Division**
Anti-money laundering risk	Low	**Manager, Risk Control Division**
Legal risk	Low	**Chief Legal Counsel**
Reputation risk(1)	Low	**Manager, Marketing, Promotion and Business Development Division**
Regulatory risk	Low	**Management, each in their own domain**
Strategic-business risk	Low	**President**

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

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

The degree of influence of the various risk factors in the above table were determined based on management's assessments, as performed from time to time, and in coordination with the ICAAP process conducted by the Bank, and its outcome, under leadership of the Bank's risk managers.

The ICAAP process accounts for both qualitative and quantitative aspects, including the Bank's risk profile, outcome of various scenarios at the Bank and the capital planning process. In the fourth quarter of 2013, as an integral part of the ICAAP process and ahead of approval of the ICAAP document in May 2014, the Bank conducted self-assessment of the quality of risk management for risk mapped by the Bank. This process was based on rating the risk level and management quality, conducted independently by teams on behalf of risk managers and teams on behalf of risk control. This process added another dimension to the Bank's ability to evaluate the impact of different risk levels and their management quality on evolution of the Bank's risk profile given the specified risk appetite. When setting the risk level, Bank teams used, *inter alia*, the risk level scale approved by the Bank in the fourth quarter of 2013.

This scale specifies the potential loss due to each risk under normal market conditions and under turbulent market conditions (using stress testing) in terms of the Bank's capital and expected annual profit, as follows: Low risk is defined as potential for loss not to exceed 1% of the Bank's capital (monthly profit); medium risk is defined as potential for loss not to exceed 6% of the Bank's capital (semi-annual profit); and high risk is defined as potential for loss exceeding this amount.

As from the start of 2013, the Bank presents quarterly in its risk document the development of the Bank's risk profile in view of the specified risk appetite over the four quarters preceding the filing date of the risk document. This allows the Bank to monitor the level of its various risk exposures as well as the direction and volatility of the development there of.

Legislation and Supervision of Bank Group Operations

Laws and regulations

FATCA (Foreign Account Tax Compliance Act)

In accordance with the Act, which became effective in the USA in March 2010, foreign financial institutions, including banks around the world, are required to provide to the IRS (US Tax Authority) information about US tax payers.
According to the Act, foreign financial institutions are required to identify all accounts of individual and entities directly or indirectly owned by Americans, and to report some of them (based on criteria specified in the Act) to the IRS.
Any foreign financial institution which would not sign an agreement with the IRS, shall be required to withhold tax at 30% on relevant payments from a US Source. The withholding shall apply to financial assets of the foreign financial institution as well as to assets of its clients.

The Act is designed to:

- Reduce tax avoidance by US persons using accounts outside the USA.
- Increase tax revenues paid by US persons to the USA, and increase transparency and reporting of assets and balances of clients identified as American to the IRS.

In January 2013, the IRS published rules for implementation of the Act, and the Bank has prepared to implement these, as part of continuing preparations for implementation of the Act as from mid-2014.
The Bank avoids providing consulting or any assistance with regard to how accounts are to be identified as American or with respect to US taxation, including any advice with regard to FATCA.
On April 6, 2014, the Bank received the Supervisor of Banks' letter with regard to preparations for application of FATCA provisions. According to this letter, banking corporations should continue preparations for application of FATCA provisions, whether or not an inter-government agreement would be signed with the US Government by July 1, 2014, including review of the need to be registered in the dedicated online portal (FATCA Registration Portal).
Banking corporations are also required to set policy and procedures as to the manner of application, to be approved by the Board of Directors; to appoint a responsible person and to establish a dedicated team to coordinate application of these provisions, reporting directly to management and providing updates to management and to the Board of Directors on the progress made, at a frequency to be determined.
The steps to be taken with regard to clients of the banking corporation in the course of such preparations would be taken with due consideration to the bank's obligations to its clients and after diligent review of the circumstances.
However, the letter stipulates the cases in which a refusal to provide bank services would be considered a reasonable refusal with regard to the Banking Act (Customer Service), 1981.
On May 1, 2014, the Ministry of Finance issued a press release with regard to formulating an "essential agreement" with the US Ministry of Finance, for application of FATCA directives – which clarified, *inter alia*, that this agreement foverns the transfer of information to US tax authorities, through the Israeli Tax Authority, which would receive information from financial institutions in Israel. The signing of this agreement provides for additional reliefs, including exemption from reporting to various entities of accounts with attributes which indicate a very low risk of tax evasion using these accounts.
The Bank is preparing to apply the legislative provisions, the Supervisor of Banks' directives and their adaptation for provisions of the agreement to be signed, on the required schedule.

The Dodd Frank Wall Street Reform and Consumer Protection Act and the European Market Infrastructure Regulation (EMIR)

In 2012, rules were published governing application of the Dodd Frank Wall Street Reform and Consumer Protection Act, enacted in the USA in 2010 (hereinafter: "the reform").

The reform is designed, inter alia, to mitigate credit risk in trading on the OTC derivatives market, systemic risk arising there from and increase transparency of this market.

The reform stipulates, inter alia, that transactions are to be settled by a central clearing house to consist of large, major banks which would guarantee each party's compliance with their obligations, binding procedures concerning collateral are to be specified, and all swap transactions made are to be reported to central information repositories, which would store this information and make it accessible to all market players.

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

The rules stated in the reform apply to US entities and to non-US entities which conduct transactions of significant volume (as defined in the reform) with US entities. In view of the reform, such entities would not be able to conduct transactions involving the types of derivatives included in the Act with other financial entities (even those not subject to the Act, such as the Bank) - unless they comply with provisions of the Act.

Provisions of the Act gradually became effective, and today many transactions in OTC derivatives with US banks and with banks which are Swap Dealers or MSPs, require compliance with provisions of the Act, including with regard to settlement.

The Bank is preparing fo apply the relevant provisions of the reform so as to be able to conduct transactions involving OTC derivatives with entities subject to the Act.

Concurrently with the Dodd Frank reform launched in the USA, a similar reform was launched in Europe -
European Market Infrastructure Regulation. (hereinafter - "EMIR").

The EMIR reform, similar to the Dodd Frank reform, calls for mandatory central settlement, increased collateral requirements and reporting of executed transactions to designated data repositories.

The EMIR reform applies to all financial entities in the EU and therefore should impact Bank operations involving derivatives - since the Bank has significant business with European banks. Some provisions of this reform are already in effect (such as: reporting requirements) and the settlement requirement is expected to be phased in in early 2015. Legislation of this reform is incomplete and its impact on foreign financial institutions or on their European branches has yet to be clarified.

The Bank is preparing to apply the applicable provisions of this reform..

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

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

The amendment to the Act became effective on January 1, 2013. The expected effect of the amendment to the Act on the Bank's financial statements is not material.

Equal Rights to Handicapped Persons Regulations (Service accessibility adaptations), 2013

On February 18, 2013, the Equal Rights to Handicapped Persons Regulations (Service accessibility adaptations), 2013 were made public. The regulations include provisions governing the adaptations to be made in order to ensure accessibility for handicapped persons. "Accessibility" is defined in the Act as "possibility of reaching a location, moving and finding your way around it, beneficial use of a service, obtaining information provided or produced in conjunction with or in relation with a location or service, use of facilities and participation in programs and activities taking place there - all in a manner promoting equality, dignity, independence and safety". The required adaptations cover multiple areas, such as: installation of assistive facilities and provision of assistive services to ensure accessibility of the offered service for handicapped persons and making information accessible in various manners determined in the regulations. Services provided online should also be made accessible.

The regulations further stipulate that the security screening process at the location where service is provided must not prevent handicapped persons from reaching the public location, entering it and receiving the service in a manner that is equal, dignified and discrete, independent and safe.

Wherever the Bank holds an event open to the general public, the Bank is also liable for such accessibility adaptations.

The regulations come into effect six months after they are made public, but in fact they would gradually come into effect through 2018. Application of the regulations is not expected to have any material impact on the Bank's financial statements.

Banking Rules (Customer Service) (Commissions) (Amendment), 2013

On November 28, 2013, the amendment to the rules was published. Banking corporations maintain - by law - two price lists: a price list for individuals and small businesses and a price list for large businesses. The amendment creates a distinction between large businesses and small ones - even for individuals who manage a business, unlike the previous situation where this distinction only applied to Corporations. In view of this amendment, individuals who manage a business may also be charged for banking services rendered to them according to the price list for large businesses.

The amendment also added to the price list for individuals and small businesses commission bundles, which clients may choose to sign up for. A commission bundle is a bundle of basic banking services at a fixed price, which should be lower than the sum total of all commissions - had they been individually charged for each service in the bundle. Once a client has signed up for a bundle (an action which they may reverse at any time), they pay the fee for the bundle monthly - even if they have not used the bundled services in full.

The amendment became effective on April 1, 2014. Application of this revision has no material impact on the Bank's financial statements.

Consequently, on March 26, 2014, the Banking Ordinance (Customer service) (Supervision of basic bundle service), 2014 was made public. The ordinance became effective as from April 1, 2014, along with Banking Regulations (Customer service) (Commissions) (Revision), 2013 – with regard to commission bundles which banks are required to offer to their clients (individuals and small businesses) as from said date. According to the Ordinance, the maximum commission amount charged for the basic bundle (one teller transaction and 10 direct channel transactions) may not exceed NIS 10 per month. Application of the Ordinance is not expected to materially impact the Bank's financial statements.

Sale Act (Apartments) (Securing Investments of Home Buyers) (Amendment no. 7), 2013

On December 2, 2013, the amendment to this Act was made public, imposing an obligation on the seller of an apartment, as defined in the Act, to ask the financing entity holding the lien on the land, to issue a contingent exception letter to the buyer, which includes the conditions which, when fulfilled, the lien in favor of the financing entity would not be realized against the apartment sold, as well as the obligation of the banking corporation to issue such letter.
The seller is required to apply to the bank for such a letter to be issued, within 30 days from the date of the first payment by the buyer using a payment voucher (for a project with financial assistance), or within 30 days from the date of first issue of a guarantee pursuant to the Sale Act to the buyer (for a project with no financial assistance - where only guarantees pursuant to the Sale Act are issued).
The banking corporation is required to issue the contingent exception letter, worded as stated in an addendum to the amendment, within 30 days from the seller's request, whether it is a bank providing financial assistance to the project or whether it merely issues guarantees to buyers pursuant to the Sale Act. This amendment became effective as from January 1, 2014.
The Bank has completed the required preparations and made required amendments to Bank procedures and legal documents.

Capital Market Relief and Promotion Act (Legislation Amendments), 2014

On January 20, 2014, the Knesset enacted the Act designed to reduce the massive regulation of the capital market. The Act combines various reliefs from different Acts which would reduce the regulatory burden in various areas. These reliefs include: Optional extension of validity of a shelf prospectus from 24 to 36 months, subject to filing an application with ISA and to compliance with certain conditions; relief with regard to double-listed corporations with regard to transition from Israeli reporting to foreign reporting; change in calculation of the statute of limitations with regard to a breach which is subject to punishment by administrative proceeding; setting a maximum for accumulated fines for an on-going administrative violation; option to allow for marketing of a deposit and bond fund without requiring an investment advisor license, thereby making such funds more accessible for the public; reduced frequency of updating of customer needs by investment advisors; option allowing analysts, under certain conditions, to be compensated by companies which they analyze.
Further to the prospectus reliefs, on February 3, 2014 the following legislation was enacted: amendments to Securities Regulations (Shelf offering of securities), 2005; Securities Regulations (Period for submitting bids for securities offered by prospectus), 2005; and Securities Regulations (Conditions for offering pursuant to a shelf prospectus), 2005.

Application of the Act has no material impact on the Bank's financial statements.

AML Ordinance (Mandatory identification, reporting and records maintenance by banking corporations to avoid money laundering and terrorism financing) (Amendment), 2013

The AML Ordinance (Mandatory identification, reporting and records maintenance by banking corporations to avoid money laundering and terrorism financing) (Amendment), 2013 was made public on February 2, 2014. The Ordinance is effective as from August 2, 2014 - except for specific sections marked "effective immediately" (reliefs for banking corporations which issue credit cards). Some of the obligations included in this amendment to the Ordinance are not new ones, but rather constitute "escalation" of regulatory provisions already applied by the Bank (their inclusion in the ordinance would allow monetary sanctions to be imposed on banks for any breach).

The following are major new obligations imposed - which the Bank is currently preparing to apply and deploy:

Obligation to conduct a brief "Getting to know the client" process with ad-hoc clients (who conduct a transaction not posted to any account), based on the degree of risk of money laundering and terrorism financing; obligation to maintain a computer-based registry of ad-hoc clients, to be kept for 7 years after the transaction date; obligation to review the reasonability of beneficiary and controlling shareholder statements, considering information available to the bank; and an obligation to verify the identity of ultimate beneficiaries and controlling shareholders (e.g. through a query to an appropriate registry or through "use of relevant information or data provided by a reliable source to the bank's satisfaction"); extension of the obligation to maintain documents (the current requirement is to maintain major documents used for "Getting to know the client" for 7 years after the account has been closed); extension of detailed information to be provided for international SWIFT wire transfers; keeping of written or signed client instructions in original format rather than in scanned format.

The Bank is preparing to implement provisions of the Ordinance.

Sale Announcement (Apartments) (Securing Investments of Home Buyers), 2013

On March 6, 2014, the Sale Announcement (Apartments) (Securing Investments of Home Buyers), 2014 was made public; it includes an update, due to inflation, of monetary sanctions specified in the Sale Act (Apartments) (Securing Investments of Home Buyers), 1973.

Note that the Act imposes, *inter alia*, obligations on a banking corporation providing financial assistance - as defined in the Act - and stipulates monetary sanctions which may be imposed for breach there of.

Applicaton of this update has no material impact on the Bank’s financial statements.

The Sales Act (Apartments) (Amendment no. 7), 2014

On March 10, 2014, the Amendment to the Act was made public; it is designed to limit the amount of legal expenses which a seller, as defined in the Act, may charge to apartment buyers and to specify how these are to be paid. It is further stipulates that such legal expenses would be paid by the buyer directly to the attorney in exchange for an invoice. The Amendment would become effective subject to regulations to be enacted by the Minister of Construction and Housing.

Consequently, the project master contract is being reviewed to ensure that it is free of any contingencies which may impact the Bank's rights and to verify, in general, that these are not in contravention of cogent statutory provisions.

Applicaton of this act has no material impact on the Bank’s financial statements.

Supervisor of Banks

Report on corporate accountability

On October 3, 2011, the Supervisor of Banks issued a circular re Report on Corporate Accountability. According to this circular, banking corporations should make public a report for a period of up to two years about their corporate accountability, as stipulated in the directive. The report would be published for the period starting on January 1, 2012. The Bank is preparing to publish the financial statements within seven months from the end of the reported period, as required by the Supervisor of Banks' directives.

Earlier publication date of financial statements

On September 29, 2013, the Supervisor of Banks issued a circular with regard to bringing forward the publication date of financial statements. According to the circular, in order to align the publication dates of financial statements of banking corporations in Israel with those in the USA, and in order to allow users of the financial statements to obtain information about the bank's financial standing and operating results sooner, the annual reports of a banking corporation which heads a banking group would be published no later than two months after the balance sheet date, and quarterly financial statements would be published no later than 45 days after the balance sheet date.

This directive would become effective gradually:

The 2013 annual report would be made public by March 20, 2014 (schedule shortened by 10 days).

The 2014 annual report would be made public by March 10, 2015.

The 2015 annual report and annual reports thereinafter would be made public no later than two months after the balance sheet date.

Quarterly financial statements - in 2014 would be published no later than 55 days after the balance sheet date; in 2015, no later than 50 days after the balance sheet date; and as from 2016, no later than 45 days after the balance sheet date.

The Bank is preparing to publish the financial statements on the dates prescribed.

Proper Conduct of Banking Business Regulation 310 concerning "Risk Management"

On December 23, 2012, the Supervisor of Banks issued Proper Conduct of Banking Business regulation 310 concerning risk management. The regulation is primarily based on Basel guidelines for risk management, as reflected in recommendations made by the Basel Committee. The regulation includes a corporate-wide risk management concept, listing five principles for risk management. The regulation also clarifies the processes required of the Board of Directors in order to duly discharge its duties pursuant to Proper Conduct of Banking Business Regulation 301, including a requirement to appoint a Risk Management Committee of the Board of Directors. According to the regulation, senior management is responsible for regular risk management, and is required to create a Risk Management function, and to appoint a Chief Risk Officer to head this function. The regulation lists the responsibilities and position of the Risk Management function. The effective start date of this regulation is January 1, 2014.

Application of this regulation has no material impact on the Bank's financial statements.

Proper Conduct of Banking Business Regulation 311 concerning "Management of credit risk"

On December 23, 2012, the Supervisor of Banks issued Proper Conduct of Banking Business Regulation 311 concerning management of credit risk. The regulation is primarily based on Basel principles dated September 2000. This regulation specifies the credit risk management structure required of a banking corporation, and the authority of different entities at the banking corporation with regard to credit risk management. These requirements adopt the approach whereby, in order to support appropriate decision making with regard to credit and to minimze the effect of any conflict of interest, strong involvement is required of an entity independent of the business units. Such involvement is particularly required in forming credit policies, classifying debt and determining provisions for credit losses. The regulation further stipulates that decisions with regard to approval of material credit exposure would be made with reference to the opinion of the Risk Management function. The effective start date of this regulation is January 1, 2014. The Bank has formulated a plan to apply the directive, which was presented in a letter sent to the Supervisor of Banks on July 31, 2013.

On April 27, 2014, the Supervisor of Banks issued draft amendments to Regulation 311 with regard to the credit control function and its location within the banking corporation. The amendments, if passed, should become effective as from January 1, 2015.

Proper Conduct of Banking Business Regulation 350 concerning "Management of operating risk"

On December 23, 2012, the Supervisor of Banks issued an update to Regulation 350 concerning management of operating risk, based on Basel Committee guidelines dated June 2011. This Regulation is an update to the previous Regulation 350 (dated February 14, 2012), with regard to application of Regulation 310. This regulation stipulates 10 guiding principles for management of operating risk, with reference to the framework for management of operating risk. The guiding principles stated in the regulation primarily relate to issues of corporate governance and to the operating risk management environment. The effective start date of this regulation is January 1, 2014. Application of this regulation has no material impact on the Bank's financial statements.

Proper Conduct of Banking Business Regulation 314 "Proper assessment of credit risk and proper measurement of debt"

On April 30, 2013, the Supervisor of Banks issued an update to Regulation 314 with regard to proper assessment of credit risk and proper measurement of debt. This is an update to Regulation 314 of the Basel Supervisory Committee directives (June 2006), which does not change provisions of the Public Reporting Regulations.

The revised directive adopts 7 criteria for proper assessment of credit risk and proper measurement of debt, and lists the appropriate way to apply these. The criteria listed in the directive include responsibility of the Board of Directors and management to maintain risk assessment processes. The Bank is also required to maintain a system for reliable classification of debt, to set policies including a comprehensive process for validation of internal models and to adopt and document methodology for handling credit losses. The directive further stipulates that the Bank should maintain sufficient provisions to cover estimated credit losses in the loan portfolio, to use judgment of staff experienced with credit and to maintain a uniform risk assessment process so as to provide the Bank with uniform tools and data.

The effective start date of this regulation is January 1, 2014. Application of this regulation has no material impact on the Bank's financial statements.

Proper Conduct of Banking Business Regulation 333 concerning "Management of interest risk"

On May 30, 2013, the Supervisor of Banks issued a directive on interest risk management, in conjunction with aligning the Proper Conduct of Banking Business Regulations with recommendations of the Basel Committee and with commonly applied standards in leading countries around the world. The directive covers all types of interest risk for all financial instruments at the Bank. The directive governs the existing requirements and expectations of the Supervisor of Banks of banking corporations, and is primarily based on principles published in 2004 by the Basel Committee for interest risk management and supervision. Following this directive, amendments were made to Proper Conduct of Banking Business Regulation 339 "Market risk management".
The effective start date of this regulation is July 01, 2014. Application of the directive is not expected to have any material impact on the Bank's financial statements.

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

On May 30, 2013, the Supervisor of Banks issued an amendment to Regulation 313 "Restrictions on indebtedness of borrowers and groups of borrowers". Key changes in the amended regulation include: reduced weighting for guarantees pursuant to the Apartment Sale Act, when the apartment has been delivered to the buyer and reduced indebtedness amount with respect to add-on factor in OTC derivative transactions, which reflects the future potential exposure over the remaining term of the contract. The regulation would apply retroactively with regard to reduced weighting for guarantees pursuant to the Apartment Sale Act; as for OTC derivative transactions, the regulation would become effective as from January 1, 2014. Consequently to this regulation, amendments were made to Regulation 315 "Provision for doubtful debts". Application of these amendments has no material impact on the Bank's financial statements.

Proper Banking Conduct Regulation 421 "Interest Rate Decrease or Increase"

On September 9, 2013, the Supervisor of Banks issued a directive with regard to interest rate decrease or increase. According to this directive, the Bank is required to apply, upon the date of change in interest rate on loans (for loans where the interest rate is not known or fixed throughout the loan term, or for loans originated in multiple parts), the same decrease or increase to the base interest rates applicable upon loan origination, except where the base interest is LIBOR, where in extreme cases, the Bank may specify a mechanism for changing the increase / decrease from base interest. The directive also applies, *mutatis mutandis*, to deposits where the interest rate is not known or fixed throughout the deposit term and to renewable deposits, unless the client withdraws part of the deposit amount during the deposit term or upon its renewal. The effective start date of this directive with regard to loans is January 1, 2014. The effective start date of this directive with regard to deposits is July 1, 2014. For new deposits, and as from the first renewal date later than 6 months after the effective start date of this directive (January 1, 2015), for renewable deposits where the contract end date is unknown and is not agreed. Application of the directive is not expected to have any material impact on the Bank's financial statements.

Proper Conduct of Banking Business regulations 301 and 301A concerning "Remuneration policies at banking corporations".

On November 19, 2013, the Supervisor of Banks issued a directive concerning remuneration policies at banking corporations. This directive stipulates rules, designed to ensure that remuneration at banking corporations would be consistent with the risk management framework and with the long-term objectives of the banking corporation. The directive includes requirements applicable to all remuneration at banking corporations, including roles of the Board of Directors and of the Remuneration Committee, remuneration policies, controls and documentation; the directive also includes requirements applicable to key staff, including setting a maximum ratio of variable remuneration to fixed remuneration, deferred payment of variable remuneration and award of shares and equity-based instruments which vest over multiple years. According to the directive, risk management, control and audit functions should be involved in development of the remuneration mechanism by reviewing the appropriateness of risk and compliance benchmarks it includes. The directive further stipulates that remuneration of staff engaged in risk management, control and audit would be independent of the business results of the units which they monitor.

The directive includes questions and answers with regard to calculation of the maximum ratio required for measurement of variable remuneration awarded or paid with respect to a calendar year.

According to the directive, the maximum variable remuneration may not exceed 100% of each employee's fixed remuneration. Under extraordinary conditions and subject to requirements prescribed in this directive, the maximum variable remuneration may be set at up to 200%.

The requirements of this directive shall apply to remuneration policies set as from the directive effective start date through June 30, 2014.

The effective start date of this directive is its publication date.

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

Amendments to Proper Conduct of Banking Business Regulation 301 concerning "Board of Directors"

On December 31, 2012, the Supervisor of Banks issued an amendment of Regulation 301 with regard to the Board of Directors, due to updates made to the Banking Act. The regulation was adapted to changes made upon publication of Proper Conduct of Banking Business Regulation 310 with regard to risk management, and Regulation 311 with regard to credit risk management, as described above, as well as Public Reporting Regulations with regard to making provisions for credit losses. The amendment is effective as from January 1, 2014.

On December 25, 2013, after legislative amendments and experience accumulated from application of the directive, the Supervisor of Banks issued a revision to the directive.

In this revision, the Supervisor's authority to modify or exempt a banking corporation or Board member from certain provisions of the directive was expanded, and the definition of "banking corporation" was expanded to also cover clearing service providers and banking corporations which are joint service corporations. Other sections of the directive were updated, concerning *inter alia* the appointment and termination of external Board members; the composition and operation of Board committees, including the Audit Committee; and the office of the Chairman of the Board of Directors. The effective start date of the updated directive is the date of its publication. Application of these amendments has no material impact on the Bank's financial statements.

Proper Conduct of Banking Business Regulation 414 "Disclosure of cost of services involving securities".

On April 2, 2014, the Supervisor of Banks issued a circular with regard to disclosure of cost of services involving securities (Proper Conduct of Banking Business Regulation 414). According to these circular, banking corporations should present to clients charged a commission for purchase, sale or redemption of Israeli and/or foreign securities, a management fee for a securities deposit - comparative information about commission rates paid by clients who have deposits of similar value. The comparative information to be provided to clients would also be made public on the bank's website. The effective start date of this regulation is January 1, 2015. The Bank is preparing to implement this regulation.
Application of the directive is not expected to have any material impact on the Bank's financial statements.

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

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

Draft disclosure of number of positions and expenses by annual salary level

On March 5, 2014, the Supervisor of Banks issued a draft circular with regard to disclosure of number of positions and expenses by annual salary level. According to provisions of this circular, an additional disclosure is required of the number of positions at the banking group, for offices based in Israel and overseas, by annual salary expense level on full-time position basis.

According to this draft, the disclosure is required upon publication of the annual report, on the banking corporation’s website.

Draft interim directive with regard to housing loans

On April 24, 2014, the Supervisor of Banks issued a draft interim directive with regard to housing loans. The draft directive incorporates the guidelines and limits set by the Supervisor of Banks in recent years on various matters - in a single, binding document. The draft directive also redefines the term "repayment ratio" and limits the loan amount qualifying for a lower risk weighting, pursuant to Proper Conduct of Banking Business Regulation 203, to NIS 5 million. Any loan exceeding this amount would be assigned a 100% weighting. Application of the draft directive is not expected to materially impact the Bank's financial statements, beyond the impact of the original guidelines and limits grouped there, which impact was reflected by previous financial statements - as required.

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

For details of major recommendations by the Basel Committee, their application to banks in Israel and their application by the Bank – see the Board of Directors’ report as of December 31, 2013.

Under Basel II, Pillar 2 (Proper Conduct of Banking Business Regulation 211 - ICAAP Process), all risk types material to Bank operations have been mapped. ICAAP is a comprehensive process in which senior Bank executives are involved. In this process, the Bank has specified its risk appetite for all material risk types to its operations, authored policies documents for risk types added during mapping and extended existing policies documents. The risk appetite, risk mapping and determination of their materiality, as well as the current policies documents are submitted for approval by the Board of Directors' Risk Management Committee and the Board of Directors plenum, on annual basis.

In May 2014, the Bank submitted to the Bank of Israel its ICAAR document (as of December 31, 2013), 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. The capital assessment includes qualitative and quantitative processes, including a self-review by the Bank of the quality of its risk management and control. The capital assessment was conducted by applying a range of stress testing methods, in line with Bank of Israel requirements.

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 implementation of Pillar 2, the Bank continues to follow its work plan for eliminating the gaps identified vs. the Basel Committee requirements in various risk areas, to upgrade the activity of various forums established to handle issues of risk management and control and capital management at the Bank and to improve its policies documents with regard to risk management and capital management in conformity with Pillar 2 directives, other directives by the Bank of Israel with regard to risk management and control and evolving best practice in this field - primarily with the launch of Basel III.

On November 26, 2013, the Supervisor of Banks issued an interim directive with regard to applicaton of disclosure requirements pursuant to Basel II, Pillar 3 – Disclosure with regard to remuneration. The new disclosure requirements were designed to support and to allow market users to assess the quality of remuneration methods and how they support the strategies and risk position of banking corporations. The effective start date of this regulation is January 1, 2014.

Basel III

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

On March 28, 2012, the Supervisor of Banks issued a directive to all banking corporations, citing a higher minimum core capital ratio than the one currently required. According to the directive, all banking corporations would be required to achieve a minimum core capital ratio of 9% by January 1, 2015. In addition, large banking corporations, whose total consolidated balance sheet assets exceed 20% of total balance sheet assets for the Israeli banking sector, would be required to achieve a minimum core capital ratio of 10% by January 1, 2017.

The directive with regard to a minimum core capital ratio of 10% does not apply to the Bank. The core capital ratio should be calculated based on Basel III directives with adjustments to be specified by the Supervisor of Banks.

On July 23, 2012, the Bank's Board of Director instructed Bank management to bring forward implementation of the Supervisor of Banks' directive dated March 28, 2012 - so as to implement it, if possible, as from January 1, 2014.

Moreover, the Board of Directors has resolved to instruct Bank management to maintain, in as much as possible, appropriate safety margins to this end.

On May 30, 2013, the Supervisor of Banks issued an amendment to Proper Conduct of Banking Business Regulations 201-211 concerning adoption of Basel III directives with regard to supervisory capital and with regard to risk assets (hereinafter: “the regulations”).

The amendments to the regulations are primarily focused on improving capital quality and size and improving the coverage for Credit Valuation Adjustment (CVA) risk.

Effect of implementation of Basel III directives

In total , the effect of implementation of the Basel III directives on January 1, 2014 amounted to a decrease of 0.28% in the Tier I capital ratio.

Below are the major effects of implementation of these directives:

Deferred taxes due to temporary differences - Deferred taxes due to temporary differences (and up to 10% of Tier I capital) - weighted at 250% risk weighting.

The addition to risk assets as of January 1, 2014 amounted to NIS 1,230 million.

Group-based provision for credit losses - The group-based provision would be recognized as Tier II capital up to 1.25% of weighted risk assets for credit risk. Conversely, the provision amount was added to weighted risk assets for credit risk.

The addition to risk assets and to Tier II capital as of January 1, 2014 amounted to NIS 1,277 million.

Capital instruments not qualified as supervisory capital - recognition of 80% of the balance of such instruments as of December 31, 2013 and a 10% deduction annually through January 1, 2022.

The deduction from Tier II capital as of January 1, 2014 amounted to NIS 893 million.

Minority interest - The amount of minority interest recognized as capital was limited, and excess equity of a subsidiary may not be recognized.

The deduction from Tier I capital as of January 1, 2014 amounted to NIS 31 million.

Capital allocation with respect to CVA losses (Credit Value Adjustments) - losses due to revaluation at market value with respect to counter-party credit risk – In addition to capital requirement with respect to default risk arising from counter-party credit risk under the standard approach, an additional capital allocation is required to cover the risk of potential loss which may arise from marking to market value of OTC derivatives.

The addition to risk assets as of January 1, 2014 amounted to NIS 965 million.

For more information about major amendments included in these directives, the impact of application of rules on the Bank's capital adequacy ratio and the impact of transitional provisions on Tier 1 capital ratio, see Note 5 to the financial statements.

For further information about the Bank's capital adequacy ratio see reference under section "Capital adequacy" in the chapter "Risk Management" – "Basel II: Pillar 3 - Market Discipline".

Following the publication of these directives, the Bank has revisited its compliance with the schedule for achieving the target core capital ratio of no less than 9%

Following this review and based on assumptions, as of the review date, with regard to expected profit in 2013-2014 and to the growth rate of risk assets, the Bank presented to the Supervisor of Banks an outline of expected evolution of its core capital ratio, including dividend distribution, while maintaining appropriate safety margins.

After checking with the Supervisor of Banks, the Bank's Board of Directors resolved, on August 14, 2013, to adopt a core capital ratio target as of December 31, 2014 of 9% or higher. Furthermore, the Board of Directors then resolved to distribute dividends amounting to NIS 75 million and to adopt a guideline whereby, through December 31, 2014, the Bank would distribute dividends equal to up to 30% of annual operating net profit and 80% of annual profit from extraordinary items.

These resolutions supersede the Board of Directors' resolutions with regard to bringing forward the implementation of the Supervisor of Banks' directives, dated March 28, 2013, with the intention of implementing these, in as much as possible, as from January 1, 2014, and with regard to the dividend distribution policies - as described in section 1 of the Immediate Report issued by the Bank, dated July 23, 2012 (reference 2012-01-191649). This mention constitutes inclusion by way of reference of all information provided in section 1 of the aforementioned report.

Legal Proceedings

For material changes in legal proceedings to which the Bank is party, see Notes 7.C.(2-5).

Requirement for provision of documents and indictment against a former employee in Los Angeles

On April 14, 2014, the Bank branch in Los Angeles received a subpoena, demanding provision of documents with regard to the Bank's employee and an employee who retired five years ago, as well as with regard to banking services provided at the Los Angeles branch – in as much as these documents are available at the Los Angeles branch. The Los Angeles branch is acting to provide these documents.

On April 30, 2014, an indictment was filed with the Los Angeles Court against a Bank employee in Los Angeles who has retired. The employee is alleged to have assisted American clients of the Bank to avoid tax payments. The Bank is not include don the indictment, and is referred to as Bank "A" of Tel Aviv, with no wrongdoing attributed to the Bank.

Determination by the Anti-Trust Authority

For details of an arrangement between the banks and the Anti-Trust Supervisor, see Note 7.C.4.

Other Matters

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

Bonus to the Bank's former Chairman

Terms of the non-recurring bonus to the Bank's former Chairman with respect to 2012 were discussed and approved by the Remuneration Committee at its meeting on December 30, 2013; these were discussed and approved by the Bank Board of Directors at its meeting on February 17, 2014 - subject to approval by the General Meeting of Bank Shareholders.
On March 25, 2014, the General Meeting of Bank Shareholders approved the non-recurring bonus amounting to NIS 615 thousand. For more information, see Immediate report dated March 25, 2014, reference 2014-01-023394.
This mention constitutes inclusion by way of reference of all information provided in the aforementioned immediate report.

Officer remuneration policy

On May 4, 2014, the Bank Board of Directors approved, based on recommendation by the Remuneration Committee dated April 29, 2014, the current officer remuneration policy of the Bank - following the publication of Proper Conduct of Banking Business Regulation 301A with regard to remuneration policy at banking corporations, in November 2013. This policy is subject to approval by the General Meeting of Bank shareholders. For more information, see immediate report by the Bank dated May 4, 2014, reference 2014-01-056838. This mention constitutes inclusion by way of reference of all information provided in section 1 of the aforementioned report.

Terms of office and employment of the Bank President

The terms of office and employment of the Bank President, who is serving in this position since August 16, 2013, were approved by the Remuneration Committee on April 29, 2014 and were further approved by the Bank Board of Directors on May 4, 2014. The President's terms of office and employment are subject to approval by the General Meeting of Bank shareholders and to approval of the officer remuneration policy. For more information, see immediate report by the Bank dated May 4, 2014, reference 2014-01-056838. This mention constitutes inclusion by way of reference of all information provided in section 2 of the aforementioned report.

Stock option plan for employees

On April 29, 2013, the Bank Board of Directors, after receiving approval of the Bank Remuneration Committee, resolved to approve a plan for allotment of a further 5,921,340 options to 330 offerees who are not officers and who are employees of the Bank and its subsidiaries. The option plan is based on the principles of the stock option plan for employees at the Bank.

The options were awarded in one lot, exercisable as from the first anniversary through 90 days after the second anniversary of the award date, subject to the average rate of net operating profit return on equity for the Bank, as set forth in Note 16.A. to the financial statements as of December 31, 2013. The exercise price for each option warrant allotted to offerees pursuant to the plan is NIS 36.6, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank. The exercise price was based on the closing price of Bank shares on the stock exchange on April 28, 2013, the most recent trading day prior to the date of plan approval by the Board of Directors. The fair value (theoretical benefit value) of a single option in any lot of the additional options approved was calculated in accordance with IFRS 2, using the Black & Scholes model. The theoretical benefit value of the option warrants in this allotment, calculated in accordance with accounting rules of IFRS 2, amounted to NIS 17 million (NIS 20 million including Payroll Tax). The benefit value will be recognized by the Bank over the vesting term of the options. See Note 16.A to the financial statements as of December 31, 2013 for additional information.

The outline proposal to employees dated April 29, 2013 stipulated that calculation of “net operating profit return on average shareholder equity for the Bank” would be based on the following:

- A provision recorded on the Bank’s 2009 financial statements with respect to employee retirement would be recognized in linear fashion between 2010 and 2015 and would be deducted from net operating profit;
- Net operating profit would be increased by the (after-tax) provision amount to be recognized on the Bank’s financial statements for the first half of 2013 (ending on June 30, 2013) with respect to the balance of group provision for credit losses due to housing loans, up to 0.35% of the aforementioned loan balance as of the reporting date on these financial statements – all in conformity with the updated directives with regard to residential real estate issued by the Supervisor of Banks on March 21, 2013.

Accordingly, the annual rate of return for the option plan in 2013 would be 12.6% - instead of 11.5% as published on the Bank’s 2013 financial statements.

Provident fund operations

Following the reform in the provident fund market in recent years, and upon termination of the relief period allowed by Financial Services Supervision Regulations (Provident Funds) (Permission to manage multiple provident funds), 2012 - as from January 1, 2014, company which manage provident funds must elect a single operating entity for each type of provident funds which they manage.

Given the reform in provident funds, in recent months there were changes in total provident fund assets operated by the Bank.

In the first quarter of 2014, two companies which had the Bank operate some of their provident funds, decided to transfer all of their provident fund assets under management to be operated by the Bank.

The funds were transferred from one company on January 1, 2014 and from the other - on April 1, 2014; in conformity with the agreement, another part would be transferred on July 1, 2014.

Concurrently with changes in total assets of provident funds operated by the Bank, as from January 2014, Bank Yahav discontinued its provident fund and study fund operations.

At the end of the first quarter of 2014, the Bank operated provident funds with total assets amounting to NIS 57 billion, compared to NIS 67 billion at the end of 2013 (excluding assets operated by Bank Yahav - NIS 49 billion). The decrease in total provident fund assets operated by the Bank Group is due to discontinuation of provident fund operations at Bank Yahav.

Computer services for Bank Yahav

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

As of the signing date of the financial statements, Bank Yahav receives computer and operating services from Bank HaPoalim Ltd. These services are provided to Bank Yahav in conformity with approval by the Supervisor of Banks and by the Anti-Trust Supervisor. After extensive review of options for disconnection from Bank HaPoalim's systems, in which the Bank reviewed local and international proposals, in February 2014, the Bank Yahav Board of Directors approved contracting with an international company for creating a core banking system and receiving outsourced services for such system. The Company selected has an advanced solution for core banking services (BANCS), including provision of outsourced services to many banks and financial institutions throughout the world. On April 7, 2014, Bank Yahav signed an MOU with this company and the project was launched.

Senior Officers

On January 1, 2014, the following appointments became effective:

- Mr. Doron Klauzner started his term in office as Manager, Risk Control Division and CRO with the Bank. Previously, Mr. Doron Klauzner had served as Manager, Business Banking Division.
- Mr. Ophir Murad started his term in office as Manager, Business Banking Division.

On February 2, Mr. Nissan Levi started his term in office as Manager, Planning, Operations and Customer Asset Division.

Internal Auditor

Details of internal audit within the Group, including the professional standards applied by internal audit, the annual and multi-annual work plan and considerations in its determination, extent of employment of the Internal Auditor and his team and the manner in which reports are submitted with regard to findings of the Internal Auditor have been included in the Board of Directors' Report attached to the 2013 financial statements. No material changes occurred in these details during the reported period.

Accounting policies on Critical Matters

The Group's consolidated financial statements are prepared in conformity with generally accepted accounting principles in Israel (Israeli GAAP) for interim periods, and in accordance with the directives and guidelines of the Supervisor of Banks on the preparation of the financial statements of a banking entity. Highlights of accounting policies are described in Note 1 to these condensed financial statements and in Note 1 to the financial statements as of December 31, 2013.
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 Bank's financial statements for 2013 include details of accounting policies on critical issues for accounting treatment of the following: Provision for credit losses, derivative instruments, securities, liabilities with respect to employee rights, share-based payment transactions, provisions for legal claims, provision for impairment of non-financial assets and deferred taxes.

As from January 1, 2014, the Bank applies US GAAP with regard to measurement of interest revenues. These were adopted in conformity with the Supervisor of Banks' circular dated December 29, 2011, which stipulated rules for treatment of commissions from loan origination and of direct costs of loan origination. The commissions and the qualifying commissions, based on criteria set forth in the directive, would not be immediately recognized on the statement of profit and loss, but would be accounted for in calculating the effective interest rate for the loan.

For more information about application of US standard FAS 91 (ASC 310-20) with regard to measurement of interest revenues, see Note 1.C.1 to the financial statements.

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

Other than the foregoing, during the reported period there were no changes to the Bank's accounting policies on critical issues, which are listed on the Board of Directors' report on the financial statements as of December 31, 2013.

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 stipulated in the Board of Directors' report as of December 31, 2013. The processes of preparing, auditing and approving the financial statements involve additional organs and officers as stated below.

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

Concurrently with preparing the financial statements, and based on the draft financial statements forwarded to them, all executive management members confirm by their signature that they are not aware of any detail which may indicate that data and descriptions in the Board of Directors' Report and financial statements with regard to their areas of responsibility include any false representation or lack of material facts, that they instituted effective controls in order to ensure that any material information in their area of responsibility is brought to their attention, and that any significant fault or material weakness of the internal controls over financial reporting which is likely to impact the Bank's ability to record, process, summarize and report financial information in their areas of responsibility have been brought to the attention of the appropriate parties. For details of names and positions of Bank executives, see the chapter on Bank management on the financial statements as of December 31, 2013. (For changes in 2014, see chapter Senior Officer).

The Bank operates two committees for the provision for credit losses, headed by the Chief Accountant and with members including: Manager, Business Division; Manager, Retail Division; Manager, Risk Control Division (CRO); relevant sector managers and other professional staff involved with credit. The first committee discusses classified clients individually. The outcome of this discussion determines the classification and appropriate provision for these clients. The second committee discusses the group-based provision for various economic sectors. The outcome of this discussion determines the required adjustments to historical group provision rates reported to the committee and the actual rates. Both committees receive, *inter alia*, reports of the outcome of discussions by other sub-committees which handle the Bank's debt and credit exposure. The Bank also operates a Provision for Credit Losses Committee headed by the President. This committee further discusses individual classification and provisions for major clients and determines the appropriateness of the total provision for credit losses, including group-based provisions. The committee headed by the President includes the Manager, Business Division; Manager, Retail Division; Manager, Finance Division; Chief Accountant; Manager, Risk Control Division (CRO); Chief Legal Counsel; and professional credit staff. In addition, the Chief Legal Counsel and the Chief Accountant review the provisions required with respect to claims filed against the bank.

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

The Board of Directors' Audit Committee discusses and recommends the approval of the Bank's annual and quarterly financial statements (for names and qualifications of Audit Committee members, see Board of Directors chapter on the December 31, 2013 financial statements.

The Audit Committee discusses the appropriateness of disclosure on the financial statements and the review of the financial statements, including all of their components, including classification of and provision for credit losses for troubled debt, prior to having these discussed and approved by the Board plenum.

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

Meetings of the Audit Committee are also attended by the Chairman of the Board of Directors, the President, the Chief Accountant, the Chief Legal Counsel and the independent auditors. The CRO and Chief Internal Auditor are invited to attend Committee meetings.

Pursuant to directives of the Supervisor of Banks on implementation of provisions of Sections 302 and 404 of the US Sarbanes-Oxley Act, the Audit Committee receives a report on any significant fault discovered in the disclosure processes or in internal controls over financial statements. These discussions are also attended by the Internal Auditor, the CRO and the independent auditors. Any report of significant faults is also presented to the Board of Directors.

The Audit Committee convenes twice to discuss the quarterly financial statements and three times to discuss the annual financial statements, with the final meeting usually held, if possible, at least one week prior to the Board of Directors plenary meeting to approve the financial statements.

After discussions are concluded by the Audit Committee, its recommendations along with the draft financial statements are submitted to the Board of Directors, so 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 and analysis. The Chairman of the Audit Committee presents the Audit Committee's recommendations to the Board of Directors - with regard to issues discussed by the Committee and to approval of the financial statements. The Board of Directors' meeting to discuss approval of the financial statements is attended, other than by members of the Board, by the President, Chief Accountant, Chief Legal Counsel, Chief Internal Auditor and independent auditors, as well as other participants invited to attend on per-case basis. The independent auditors present their comments.

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

Board of Directors

During the first three months of 2014, the Bank Board of Directors held 3 plenary meetings. During this period there were also 19 meetings of Board committees and 2 Board member workshops.

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 overall policies regarding the adoption of the provisions of Section 404 of the Sarbanes Oxley Act, which includes, inter alia, certification by the Chairman of the Board of Directors, the President and the Chief Accountant on "the effectiveness of internal controls over the financial reporting", which was attached to the financial statements as of December 31, 2013.

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

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

During the quarter ended March 31, 2014, no change occurred in the Bank's internal controls over financial reporting that had a material effect, or can reasonably be expected to have a material effect on the Bank's internal control over financial reporting.

Moshe Vidman	**Eldad Fresher**
Chairman of the Board of Directors	President

Ramat Gan, May 14, 2014

Management Discussion of Group Business and Operating Results

Table of Contents

Management Discussion - Addendum A

Revenue and Expense Rates – Consolidated[1]

Reported amounts (NIS in millions)

A. Average balances and interest rates - assets

	For the three months ended March 31, 2014			For the three months ended March 31, 2013		
	Average balance[2]	Interest revenues	Revenue rate	Average balance[2][11]	Interest revenues	Revenue rate
			In %			In %
Loans to the public[3]						
In Israel	136,644	[7]902	2.67	[11]125,218	[7]1,270	4.12
Outside of Israel	2,434	24	4.00	2,625	25	3.86
Total	**139,078**	**926**	**2.69**	**127,843**	**1,295**	**4.11**
Loans to the Government						
In Israel	304	3	4.01	318	2	2.54
Outside of Israel	-	-	-	-	-	-
Total	**304**	**3**	**4.01**	**318**	**2**	**2.54**
Deposits with banks						
In Israel	1,714	6	1.41	1,245	10	3.25
Outside of Israel	311	2	2.60	336	2	2.40
Total	**2,025**	**8**	**1.59**	**1,581**	**12**	**3.07**
Deposits with central banks and cash						
In Israel	22,985	35	0.61	13,033	41	1.26
Outside of Israel	1,244	1	0.32	1,276	1	0.31
Total	**24,229**	**36**	**0.60**	**14,309**	**42**	**1.18**
Securities loaned or sold in repurchase agreements						
In Israel	342	1	1.17	158	1	2.56
Outside of Israel	-	-	-	-	-	-
Total	**342**	**1**	**1.17**	**158**	**1**	**2.56**
Debentures held to maturity and available for sale[4]						
In Israel	4,303	9	0.84	6,894	48	2.81
Outside of Israel	1,113	4	1.45	1,356	5	1.48
Total	**5,416**	**13**	**0.96**	**8,250**	**53**	**2.59**
Debentures held for trading[5]						
In Israel	511	4	3.17	662	8	4.92
Outside of Israel	-	-	-	3	-	-
Total	**511**	**4**	**3.17**	**665**	**8**	**4.90**
Total interest-bearing assets	**171,905**	**991**	**2.33**	**153,124**	**1,413**	**3.74**
Receivables for credit card operations	2,876			[11]2,981		
Other non-interest bearing assets[6]	4,708			5,890		
Total assets	**179,489**			**161,995**		
Total interest-bearing assets attributable to operations outside of Israel	**5,102**	**31**	**2.45**	**5,596**	**33**	**2.38**

See remarks below.

Management Discussion - Addendum A - continued

Revenue and Expense Rates – Consolidated[1]

Reported amounts (NIS in millions)

B. Average balances and interest rates - liabilities and equity

	For the three months ended March 31, 2014			For the three months ended March 31, 2013		
	Average balance[2]	Interest expenses	Expense rate	Average balance[2][11]	Interest expenses	Expense rate
			In %			In %
Interest-bearing liabilities						
Deposits from the public						
In Israel						
On-call	9,499	3	0.13	7,452	5	0.27
Term deposits	122,556	224	0.73	110,604	448	1.63
Outside of Israel						
On-call	654	-	-	366	-	-
Term deposits	3,194	8	1.01	4,168	12	1.16
Total	**135,903**	**235**	**0.69**	**122,590**	**465**	**1.53**
Deposits from the Government						
In Israel	61	1	6.72	106	1	3.83
Outside of Israel	-	-	-	-	-	-
Total	**61**	**1**	**6.72**	**106**	**1**	**3.83**
Deposits from banks						
In Israel	2,112	6	1.14	2,609	11	1.70
Outside of Israel	92	-	-	27	-	-
Total	**2,204**	**6**	**1.09**	**2,636**	**11**	**1.68**
Debentures and subordinated notes						
In Israel	16,918	36	0.85	14,608	134	3.72
Outside of Israel	-	-	-	-	-	-
Total	**16,918**	**36**	**0.85**	**14,608**	**134**	**3.72**
Total interest-bearing liabilities	**155,086**	**278**	**0.72**	**139,940**	**611**	**1.76**
Non-interest bearing deposits from the public	6,056			[11]4,817		
Payables for credit card transactions	2,876			[11]2,981		
Other non-interest bearing liabilities[8]	4,993			[11]4,878		
Total liabilities	**169,011**			**152,616**		
Total equity	**10,478**			**9,379**		
Total liabilities and equity	**179,489**			**161,995**		
Interest margin			**1.63**			**1.96**
Net return[9] on interest-bearing assets						
In Israel	166,803	690	1.66	147,528	781	2.13
Outside of Israel	5,102	23	1.82	5,596	21	1.51
Total	**171,905**	**713**	**1.67**	**153,124**	**802**	**2.11**
Total interest-bearing liabilities attributable to operations outside of Israel	**3,940**	**8**	**0.81**	**4,561**	**12**	**1.06**

See remarks below.

Management Discussion - Addendum A - continued

Revenue and Expense Rates – Consolidated[(1)]

Reported amounts (NIS in millions)

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

	For the three months ended March 31, 2014			For the three months ended March 31, 2013		
	Average balance[(2)]	Interest revenues (expenses)	Revenue (expense) rate	Average balance [(2)(11)]	Interest revenues (expenses)	Revenue (expense) rate
			In %			In %
Israeli currency - non-linked						
Total interest-bearing assets	100,187	868	3.51	82,950	897	4.40
Total interest-bearing liabilities	90,164	(287)	1.28	79,473	(367)	1.86
Interest margin			**2.23**			**2.54**
Israeli currency - linked to the CPI						
Total interest-bearing assets	53,347	29	0.22	49,788	396	3.22
Total interest-bearing liabilities	36,885	38	(0.41)	35,035	(210)	2.42
Interest margin			**0.63**			**0.80**
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	13,269	63	1.91	14,790	87	2.37
Total interest-bearing liabilities	24,097	(21)	0.35	20,871	(22)	0.42
Interest margin			**1.56**			**1.95**
Total - operations in Israel						
Total interest-bearing assets	166,803	960	2.32	147,528	1,380	3.79
Total interest-bearing liabilities	151,146	(270)	0.72	135,379	(599)	1.78
Interest margin			**1.60**			**2.01**

See remarks below.

Management Discussion - Addendum A - continued

Revenue and Expense Rates – Consolidated[1]

Reported amounts (NIS in millions)

D. Analysis of change in interest revenues and expenses

	For the three months ended March 31, 2014		
	Increase (decrease) due to change[10]		
	Quantity	Price	Net change
Interest-bearing assets			
Loans to the public			
In Israel	75	(443)	(368)
Outside of Israel	(2)	1	(1)
Total	**73**	**(442)**	**(369)**
Other interest-bearing assets			
In Israel	15	(67)	(52)
Outside of Israel	(1)	-	(1)
Total	**14**	**(67)**	**(53)**
Total interest revenues	**87**	**(509)**	**(422)**
Interest-bearing liabilities			
Deposits from the public			
In Israel	24	(250)	(226)
Outside of Israel	(1)	(3)	(4)
Total	**23**	**(253)**	**(230)**
Other interest-bearing liabilities			
In Israel	4	(107)	(103)
Outside of Israel	-	-	-
Total	**4**	**(107)**	**(103)**
Total interest expenses	**27**	**(360)**	**(333)**

(1) Information in these tables is after effect of hedging financial derivatives
(2) Based on balances at start of month (in Israeli currency, non-linked segment - based on daily balances).
(3) Before deduction of average balance sheet balance of provisions for credit losses. Includes impaired debt not accruing interest revenues.
(4) From the average balance of debentures available for sale, for the three-month periods ended March 31, 2013 and March 31, 2013, we deducted the average balance of unrealized gain from adjustment to fair value of debentures available for sale, included in equity under Other Comprehensive Income, under "Adjustments with respect to statement of securities available for sale at fair value", amounting to NIS (3) million and NIS 21 million, respectively.
(5) From the average balance of debentures held for trading, for the three-month periods ended March 31, 2014 and March 31, 2013, we added the average balance of unrealized loss from adjustment to fair value of debentures held for trading, amounting to NIS (9) million and NIS 18 million.
(6) Includes derivative instruments, other non-interest bearing assets, net of provision for credit losses.
(7) Commissions amounting to NIS 46 million and NIS 42 million included under interest revenues for the three-month periods ended March 31, 2014 and March 31, 2013, respectively.
(8) Includes financial derivatives.
(9) Net return - net interest revenues divided into total interest-bearing assets.
(10) The change attributed to change in quantity was calculated by multiplying the new price and the change in quantity. The change attributed to change in price was calculated by multiplying the old quantity and the change in price.
(11) Reclassified.

Management Discussion - Addendum B

Exposure of the Bank and its Subsidiaries to Changes in Interest Rates

Reported amounts (NIS in millions)

	March 31, 2014					
	On call to 1 month	1-3 months	3 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years
Israeli currency - non-linked						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets[(1)(3)]	91,408	3,117	2,969	3,700	2,995	2,498
Financial derivatives (other than options)	3,686	6,442	20,801	9,388	8,177	9,851
Options (in terms of underlying asset)	886	2,196	1,543	157	143	-
Total fair value	**95,980**	**11,755**	**25,313**	**13,245**	**11,315**	**12,349**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities[(1)]	81,311	5,239	7,642	5,729	1,936	1,043
Financial derivatives (other than options)	10,804	12,833	11,078	8,420	6,696	10,401
Options (in terms of underlying asset)	2,714	1,634	2,170	96	143	-
Total fair value	**94,829**	**19,706**	**20,890**	**14,245**	**8,775**	**11,444**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	1,151	(7,951)	4,423	(1,000)	2,540	905
Cumulative exposure in sector	1,151	(6,800)	(2,377)	(3,377)	(837)	68

Specific remarks:

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

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

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

						As of March 31, 2013			As of December 31, 2013		
10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective duration(2)	Total fair value	Internal rate of return	Average effective duration(2)	Total fair value	Internal rate of return	Average effective duration(2)
				In %	In years		In %	In years		In %	In years
490	76	296	107,549	3.58	0.67	89,973	3.49	0.74	103,110	3.85	0.59
77	-	-	58,422		1.25	65,845		1.17	60,204		1.25
-	-	-	4,925		0.73	4,832		0.70	5,596		0.73
567	**76**	**296**	**170,896**		**0.87**	**160,650**		**0.92**	**168,910**		**0.83**
401	156	-	103,457	0.99	0.38	88,954	1.54	0.40	100,957	1.31	0.39
78	-	-	60,310		1.54	65,126		1.60	60,545		1.55
-	-	-	6,757		0.85	5,598		0.66	6,318		0.85
479	**156**	**-**	**170,524**		**0.81**	**159,678**		**0.90**	**167,820**		**0.83**
88	(80)	296	372			972			1,090		
156	76	372	372								

Management Discussion - Addendum B - continued

Exposure of the Bank and its Subsidiaries to Changes in Interest Rates

Reported amounts (NIS in millions)

	As of March 31, 2014					
	On call to 1 month	1-3 months	3 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years
Israeli currency - linked to the CPI						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets[(1)]	877	2,471	10,488	19,812	15,333	5,215
Financial derivatives (other than options)	126	272	721	856	490	1,490
Total fair value	**1,003**	**2,743**	**11,209**	**20,668**	**15,823**	**6,705**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities[(1)]	1,182	1,696	7,185	8,525	8,240	11,950
Financial derivatives (other than options)	223	557	5,240	1,922	1,896	1,457
Total fair value	**1,405**	**2,253**	**12,425**	**10,447**	**10,136**	**13,407**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	(402)	490	(1,216)	10,221	5,687	(6,702)
Cumulative exposure in sector	(402)	88	(1,128)	9,093	14,780	8,078

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.

						As of March 31, 2013			As of December 31, 2013		
10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective duration(2)	Total fair value	Internal rate of return	Average effective duration(2)	Total fair value	Internal rate of return	Average effective duration(2)
				In %	In years		In %	In years		In %	In years
1,538	12	308	56,054	1.93	3.04	52,559	2.44	3.10	54,401	2.36	3.01
-	-	-	3,955		3.44	4,495		3.57	3,829		3.54
1,538	**12**	**308**	**60,009**		**3.07**	**57,054**		**3.14**	**58,230**		**3.04**
2,350	-	2	41,130	1.38	3.82	38,202	1.98	4.11	38,996	1.65	3.74
-	-	-	11,295		1.64	12,957		1.67	12,787		1.54
2,350	**-**	**2**	**52,425**		**3.35**	**51,159**		**3.49**	**51,783**		**3.20**
(812)	12	306	7,584			5,895			6,447		
7,266	7,278	7,584	7,584								

Management Discussion - Addendum B - continued

Exposure of the Bank and its Subsidiaries to Changes in Interest Rates

Reported amounts (NIS in millions)

	As of March 31, 2014					
	On call to 1 month	1-3 months	3 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years
Foreign currency(1)						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets(2)	8,555	5,641	1,181	1,448	371	679
Financial derivatives (other than options)	18,731	14,011	8,785	4,454	2,866	6,622
Options (in terms of underlying asset)	860	3,768	2,467	91	134	-
Total fair value	**28,146**	**23,420**	**12,433**	**5,993**	**3,371**	**7,301**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities(2)	14,084	6,207	8,050	907	49	123
Financial derivatives (other than options)	11,638	7,216	13,840	4,468	3,077	5,972
Options (in terms of underlying asset)	811	2,292	1,851	151	134	-
Total fair value	**26,533**	**15,715**	**23,741**	**5,526**	**3,260**	**6,095**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	1,613	7,705	(11,308)	467	111	1,206
Cumulative exposure in sector	1,613	9,318	(1,990)	(1,523)	(1,412)	(206)

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.

	10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective duration(3)	As of March 31, 2013 Total fair value	Internal rate of return	Average effective duration (3)	As of December 31, 2013 Total fair value	Internal rate of return	Average effective duration(3)
	25	11	255	18,166	2.35	0.81	18,884	2.05	0.64	18,142	2.32	0.55
	-	-	-	55,469		1.62	57,774		1.73	53,124		1.62
	-	-	-	7,320		0.42	5,930		0.31	6,262		0.42
	25	**11**	**255**	**80,955**		**1.33**	**82,588**		**1.38**	**77,528**		**1.27**
	10	-	4	29,434	0.23	0.26	27,212	0.48	0.29	28,132	0.25	0.27
	-	-	-	46,211		1.21	50,422		1.37	44,137		1.25
	-	-	-	5,239		0.44	4,822		0.28	5,159		0.44
	10	**-**	**4**	**80,884**		**0.81**	**82,456**		**0.95**	**77,428**		**0.84**
	15	11	251	71			132			100		
	(191)	(180)	71	71								

Management Discussion - Addendum B - continued

Exposure of the Bank and its Subsidiaries to Changes in Interest Rates

Reported amounts (NIS in millions)

	As of March 31, 2014					
	On call to 1 month	1-3 months	3 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years
Non-monetary segment						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Options (in terms of underlying asset)	-	(1)	-	-	-	-
Total fair value	**-**	**(1)**	**-**	**-**	**-**	**-**
Total exposure to interest rate fluctuations						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets (1)(2)	100,840	11,229	14,638	24,960	18,699	8,392
Financial derivatives (other than options)	22,543	20,725	30,307	14,698	11,533	17,963
Options (in terms of underlying asset)	1,746	5,964	4,010	248	277	-
Total fair value	**125,129**	**37,918**	**48,955**	**39,906**	**30,509**	**26,355**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities(1)	96,577	13,142	22,877	15,161	10,225	13,116
Financial derivatives (other than options)	22,665	20,606	30,158	14,810	11,669	17,830
Options (in terms of underlying asset)	3,525	3,927	4,021	247	277	-
Total fair value	**122,767**	**37,675**	**57,056**	**30,218**	**22,171**	**30,946**
Financial instruments, net						
Total exposure to interest rate fluctuations	2,362	243	(8,101)	9,688	8,338	(4,591)
Total cumulative exposure	2,362	2,605	(5,496)	4,192	12,530	7,939

Specific remarks:

(1) Excludes balance sheet balances of financial derivatives, fair value of off-balance sheet financial instruments and fair value of complex financial instruments.
(2) Includes shares presented in the column "without maturity".
(3) Weighted average by fair value of average effective duration.

General remarks:

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

10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective duration(3)	As of March 31, 2013 Total fair value	Internal rate of return	Average effective duration(3)	As of December 31, 2013 Total fair value	Internal rate of return	Average effective duration(3)
				In %	In years		In %	In years		In %	In years
-	**-**	**-**	(1)	**-**	**-**	(2)	**-**	**-**	(1)	-	-
-	**-**	**-**	**(1)**	**-**	**-**	**(2)**	**-**	**-**	**(1)**	**-**	**-**
2,053	99	859	181,769	2.95	1.42	161,416	2.98	1.50	175,653	3.23	1.33
77	-	-	117,846		1.50	128,114		1.51	117,157		1.49
-	-	-	12,245		0.54	10,762		0.48	11,858		0.57
2,130	**99**	**859**	**311,860**		**1.41**	**300,292**		**1.47**	**304,668**		**1.37**
2,761	156	6	174,021	0.95	1.18	154,368	1.46	1.30	168,085	1.21	1.15
78	-	-	117,816		1.42	128,505		1.52	117,469		1.44
-	-	-	11,997		0.67	10,422		0.48	11,478		0.67
2,839	**156**	**6**	**303,834**		**1.25**	**293,295**		**1.37**	**297,032**		**1.24**
(709)	(57)	853	8,026			6,997			7,636		
7,230	7,173	8,026	8,026								

Management Discussion - Addendum C

Credit Risk by Economic Sector - Consolidated As of March 31, 2014

Reported amounts (NIS in millions)

	Off balance sheet debt[(1)] and credit risk (other than derivatives)[(2)]			Total credit risk	
	Debt[(1)]	Guarantees and other commitments on account of clients	Total	Debentures[(4)]	Fair value of derivatives
Agriculture	604	193	797	-	-
Industry	6,074	3,722	9,796	52	68
Construction and real estate – construction	9,252	14,788	24,040	23	3
Construction and real estate – real estate operations	1,585	293	1,878	-	3
Power and water	653	349	1,002	15	472
Commerce	6,988	2,003	8,991	-	22
Hotel and food services	520	123	643	-	-
Transport and storage	1,010	497	1,507	-	2
Communications and computer services	1,036	413	1,449	-	17
Financial services	2,804	7,473	10,277	-	736
Other business services	2,480	794	3,274	-	3
Public and community services	911	311	1,222	-	110
Total commercial credit risk	**33,917**	**30,959**	**64,876**	**90**	**1,436**
Private individuals – housing loans	90,294	4,258	94,552	-	-
Private individuals – other	13,935	10,406	24,341	-	4
Total	**138,146**	**45,623**	**183,769**	**90**	**1,440**
For borrowers' activities overseas	4,213	698	4,911	40	31
Total credit risk to public	**142,359**	**46,321**	**188,680**	**130**	**1,471**
Banking corporations	2,257	20	2,277	348	405
Government	486	10	496	6,264	-
Total credit risk	**145,102**	**46,351**	**191,453**	**6,742**	**1,876**

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

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

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

(4) Includes borrowed securities amounting to NIS 297 million.

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

	Total troubled credit risk					Troubled off balance sheet debt[1] and credit risk (other than derivatives)
				Credit losses[3]		
Future transactions	Total	Troubled[5]	Impaired	Expenses with respect to credit losses	Net accounting write-off	Balance of provision for credit losses
-	797	15	10	1	-	7
73	9,989	263	80	-	2	107
-	24,066	742	701	(24)	(9)	174
-	1,881	70	69	(2)	1	12
118	1,607	1	1	-	-	2
30	9,043	239	129	15	8	110
-	643	11	4	1	1	10
5	1,514	31	24	-	-	20
12	1,478	46	43	(1)	-	6
356	11,369	212	133	(2)	(8)	107
2	3,279	32	17	2	3	29
61	1,393	19	17	1	1	6
657	**67,059**	**1,681**	**1,228**	**(9)**	**(1)**	**590**
-	94,552	1,090	2	-	5	635
5	24,350	199	82	7	12	143
662	**185,961**	**2,970**	**1,312**	**(2)**	**16**	**1,368**
26	5,008	33	33	(5)	-	27
688	**190,969**	**3,003**	**1,345**	**(7)**	**16**	**1,395**
527	3,557	-	-	2	-	12
-	6,760	-	-	-	-	-
1,215	**201,286**	**3,003**	**1,345**	**(5)**	**16**	**1,407**

Management Discussion - Addendum C - continued

Credit Risk by Economic Sector - Consolidated As of March 31, 2013

Reported amounts (NIS in millions)

	Off balance sheet debt[1] and credit risk (other than derivatives)[2]			Total credit risk	
	Debt[1]	Guarantees and other commitments on account of clients	Total	Debentures[4]	Fair value of derivatives
Agriculture	642	208	850	-	1
Industry	5,963	3,283	9,246	74	64
Construction and real estate – construction	8,797	14,369	23,166	30	2
Construction and real estate – real estate operations	1,553	285	1,838	-	-
Power and water	311	335	646	55	376
Commerce	6,892	1,853	8,745	-	70
Hotel and food services	385	200	585	-	48
Transport and storage	729	416	1,145	-	4
Communications and computer services	1,646	830	2,476	1	17
Financial services	4,210	8,048	12,258	-	990
Other business services	2,217	628	2,845	-	3
Public and community services	962	311	1,273	-	53
Total commercial credit risk[6]	**34,307**	**30,766**	**65,073**	**160**	**1,628**
Private individuals – housing loans	81,108	3,819	84,927	-	-
Private individuals – other[6]	12,363	9,158	21,521	-	4
Total	**127,778**	**43,743**	**171,521**	**160**	**1,632**
For borrowers' activities overseas[6]	4,340	952	5,292	42	9
Total credit risk to public	**132,118**	**44,695**	**176,813**	**202**	**1,641**
Banking corporations[6]	1,740	138	1,878	457	789
Government	366	156	522	8,599	-
Total credit risk	**134,224**	**44,989**	**179,213**	**9,258**	**2,430**

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

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

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

(4) Includes borrowed securities amounting to NIS 194 million.

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

(6) Reclassified.

		Total troubled credit risk			Troubled off balance sheet debt(1) and credit risk (other than derivatives)		
				Credit losses(3)			
Future transactions	Total	Troubled(5)	Impaired	Expenses with respect to credit losses	Net accounting write-off	Balance of provision for credit losses	
3	854	23	18	-	-	10	
198	9,582	199	144	4	2	97	
8	23,206	909	843	(1)	6	188	
-	1,838	75	71	(1)	-	17	
414	1,491	2	1	-	-	1	
85	8,900	337	176	(9)	6	126	
67	700	9	3	1	-	7	
10	1,159	34	28	(1)	-	22	
45	2,539	32	31	(1)	-	10	
1,374	14,622	299	272	19	3	172	
3	2,851	45	27	3	4	27	
292	1,618	18	10	(1)	-	7	
2,499	**69,360**	**1,982**	**1,624**	**13**	**21**	**684**	
-	84,927	1,545	2	13	23	808	
8	21,533	257	101	13	17	149	
2,507	**175,820**	**3,784**	**1,727**	**39**	**61**	**1,641**	
52	5,395	39	37	(6)	(2)	28	
2,559	**181,215**	**3,823**	**1,764**	**33**	**59**	**1,669**	
1,255	4,379	5	5	1	-	11	
-	9,121	-	-	-	-	-	
3,814	**194,715**	**3,828**	**1,769**	**34**	**59**	**1,680**	

Management Discussion - Addendum C

Credit Risk by Economic Sector - Consolidated As of December 31, 2013

Reported amounts (NIS in millions)

	Off balance sheet debt[1] and credit risk (other than derivatives)[2]			Total credit risk	
	Debt[1]	Guarantees and other commitments on account of clients	Total	Debentures[4]	Fair value of derivatives
Agriculture	563	190	753	-	-
Industry	5,832	3,773	9,605	51	61
Construction and real estate - construction	9,374	16,005	25,379	24	3
Construction and real estate – real estate operations	1,648	274	1,922	-	1
Power and water	631	290	921	17	472
Commerce	6,625	1,938	8,563	-	30
Hotel and food services	488	151	639	-	-
Transport and storage	1,014	396	1,410	-	5
Communications and computer services	1,221	667	1,888	-	16
Financial services	3,181	7,037	10,218	-	691
Other business services	2,411	826	3,237	-	2
Public and community services	867	307	1,174	-	112
Total commercial credit risk	**33,855**	**31,854**	**65,709**	**92**	**1,393**
Private individuals - housing loans	88,450	4,164	92,614	-	-
Private individuals - other	13,413	10,282	23,695	-	4
Total	**135,718**	**46,300**	**182,018**	**92**	**1,397**
For borrowers' activities overseas	4,162	950	5,112	40	30
Total credit risk to public	**139,880**	**47,250**	**187,130**	**132**	**1,427**
Banking corporations[6]	2,403	20	2,423	348	373
Government	1,045	10	1,055	6,502	-
Total credit risk	**143,328**	**47,280**	**190,608**	**6,982**	**1,800**

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

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

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

(4) Includes borrowed securities amounting to NIS 70 million.

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

(6) Reclassified.

		Total troubled credit risk				Troubled off balance sheet debt[1] and credit risk (other than derivatives)
				Credit losses[3]		
Future transactions	Total	Troubled[5]	Impaired	Expenses with respect to credit losses	Net accounting write-off	Balance of provision fo r credit losses
-	753	6	5	(1)	1	6
240	9,957	279	95	59	12	103
5	25,411	[6]818	[6]762	(19)	3	181
-	1,923	68	59	(3)	-	15
356	1,766	2	2	-	-	1
63	8,656	246	151	8	44	110
-	639	14	5	5	3	10
18	1,433	30	26	(3)	-	20
39	1,943	46	42	(2)	1	7
1,037	11,946	174	171	(6)	56	109
4	3,243	35	21	15	19	30
189	1,475	24	15	(1)	(1)	6
1,951	**69,145**	**1,742**	**1,354**	**52**	**138**	**598**
-	92,614	1,078	2	185	365	640
9	23,708	206	83	57	63	148
1,960	**185,467**	**3,026**	**1,439**	**294**	**566**	**1,386**
119	5,301	88	35	(6)	(1)	32
2,079	**190,768**	**3,114**	**1,474**	**288**	**565**	**1,418**
1,505	4,649	-	-	-	-	10
-	7,557	-	-	-	-	-
3,584	**202,974**	**3,114**	**1,474**	**288**	**565**	**1,428**

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

Reported amounts (NIS in millions)

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

	Balance sheet exposure [2]									Off-balance sheet exposure [2][3]			
Country	Cross-border balance sheet exposure			Balance sheet exposure of affiliates of the banking corporation in foreign country to local residents								Cross-border balance sheet exposure	
	To governments [4]	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction with respect to local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	balance sheet troubled commercial credit risk	Impaired debt	Total off-balance sheet exposure	Includes: Off-balance sheet troubled commercial credit risk	Maturing in under 1 year	Maturing in over 1 year
As of March 31, 2014													
USA	-	1,152	1,213	381	381	-	2,365	25	17	2,197	-	1,418	947
France	-	412	737	924	280	644	1,793	6	9	1,022	-	362	787
UK	-	164	1,525	-	-	-	1,689	26	-	522	-	518	1,171
Other	2	748	1,637	-	-	-	2,387	7	-	2,042	-	1,289	1,098
Total exposure to foreign countries	**2**	**2,476**	**5,112**	**1,305**	**661**	**644**	**8,234**	**64**	**26**	**5,783**	**-**	**3,587**	**4,003**
Includes: Total exposure to LDC countries	-	-	511	-	-	-	511	1	-	123	-	155	356
Includes: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	2	31	-	-	-	33	-	-	8	-	5	28

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

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

Management Discussion - Addendum D - Continued

Exposure to Foreign Countries - Consolidated[(1)]

Reported amounts (NIS in millions)

	Balance sheet exposure [(2)]									Off-balance sheet exposure [(2)(3)]			
Country	Cross-border balance sheet exposure			Balance sheet exposure of affiliates of the banking corporation in foreign country to local residents								Cross-border balance sheet exposure	
	To governments [(4)]	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction with respect to local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	balance sheet troubled commercial credit risk	Impaired debt	Total off-balance sheet exposure	Includes: Off-balance sheet troubled commercial credit risk	Maturing in under 1 year	Maturing in over 1 year
As of March 31, 2013													
USA	-	988	1,211	357	357	-	2,199	31	19	1,823	-	1,201	998
UK	-	561	919	724	220	504	1,984	3	12	1,216	-	480	1,000
France	-	79	1,404	-	-	-	1,483	14	2	399	-	399	1,084
Other	1	1,047	2,025	-	-	-	3,073	8	2	2,424	-	1,648	1,425
Total exposure to foreign countries	**1**	**2,675**	**5,559**	**1,081**	**577**	**504**	**8,739**	**56**	**35**	**5,862**	**-**	**3,728**	**4,507**
Includes: Total exposure to LDC countries	-	80	526	-	-	-	606	1	2	655	-	225	381
Includes: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	3	32	-	-	-	35	-	-	3	-	4	31
As of December 31, 2013													
USA	-	898	1,259	993	993	-	2,157	27	16	1,750	-	1,213	944
France	-	159	1,504	-	-	-	1,663	16	-	510	-	486	1,177
UK	-	402	726	845	274	571	1,699	6	9	1,048	-	350	778
Other	-	970	1,704	-	-	-	2,674	61	2	1,860	-	1,596	1,078
Total exposure to foreign countries	**-**	**2,429**	**5,193**	**1,838**	**1,267**	**571**	**8,193**	**110**	**27**	**5,168**	**-**	**3,645**	**3,977**
Includes: Total exposure to LDC countries	-	37	486	-	-	-	523	4	-	249	-	180	343
Includes: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	2	61	-	-	-	63	-	-	4	-	20	43

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

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

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

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

(4) Governments, official institutions and central banks.

Management Discussion - Addendum D - Continued

Exposure to Foreign Countries - Consolidated[(1)]

Reported amounts (NIS in millions)

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

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

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

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

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

	For the three months ended March 31, 2014			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	5	-	5
Net change in short-term exposure	1	1	-	2
Exposure at end of reported period	**1**	**6**	**-**	**7**

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

	For the year ended December 31, 2013			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	6	-	6
Net change in short-term exposure	-	(1)	-	(1)
Exposure at end of reported period	**-**	**5**	**-**	**5**

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

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

Certification

I, ELDAD FRESHER, certify that:

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended March 31, 2014 ("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 controls over 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 controls over financial reporting, or had them 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 controls 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.

Ramat Gan, May 14, 2014

E. Fresher

President

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, 2014 ("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 controls over 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 controls over financial reporting, or had them 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 controls 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.

Ramat Gan, May 14, 2014

M. Aviv
Vice-president, Chief Accountant

Condensed Financial Statements

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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, 2014, the condensed consolidated statements of profit and loss, comprehensive income, change in equity and cash flows for the three-month period then ended. The Board of Directors and management are responsible for preparation and presentation of financial information for this interim period, in accordance with generally accepted accounting practice in Israel (Israeli GAAP) for interim financial reporting and in accordance with directives and guidance of the Supervisor of Banks. We are responsible for expressing our conclusion as to the financial information for this interim period based on our review.

We have not reviewed the condensed financial information of certain consolidated subsidiaries, whose assets included in consolidation constitute 6.97% of total consolidated assets as of March 31, 2014, and whose net interest revenues before expenses with respect to credit losses included in the consolidated statements of profit and loss constitute 12.01% of total consolidated net interest revenues before expenses with respect to credit losses, for the three-month period then ended. Furthermore, we did not review the condensed financial information for the interim period of an associate, the investment in which amounted to NIS 19 million as of March 31, 2014. The condensed financial information for the interim periods of the aforementioned companies was reviewed by other independent auditors, we have been provided with their review reports and our conclusions, in as much as it relates to the financial information with respect to those companies, is based on the review reports by those other independent auditors.

Review scope

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

Conclusion

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

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

Brightman Almagor Zohar & Co.

Certified Public Accountants

Brightman Almagor Zohar & Co.

May 14, 2014

Condensed consolidated balance sheet

Reported amounts (NIS in millions)

	Note	As of March 31, 2014 (unaudited)	As of March 31, 2013 (unaudited)	As of December 31, 2013 (audited)
Assets				
Cash and deposits with banks		29,684	18,024	26,060
Securities(1)	2	6,519	9,374	7,000
Securities loaned or sold in repurchase agreements		297	194	70
Loans to the public	3	142,359	132,118	139,880
Provision for credit losses	3	(1,298)	(1,575)	(1,315)
Loans to the public, net		141,061	130,543	138,565
Loans to Governments		302	307	305
Investments in associates		60	61	60
Buildings and equipment		1,655	1,632	1,656
Intangible assets and goodwill		87	87	87
Assets with respect to derivatives	8	3,280	3,701	3,606
Other assets		1,809	1,634	2,204
Total assets		**184,754**	**165,557**	**179,613**
Liabilities and Shareholders' Equity				
Deposits from the public	4	145,701	(3)130,117	141,244
Deposits from banks		2,106	2,054	2,041
Deposits from the Government		61	98	62
Debentures and subordinated notes		17,887	14,845	16,443
Liabilities with respect to derivatives	8	3,002	3,752	3,538
Other liabilities(2)		5,376	(3)5,131	5,950
Total liabilities		**174,133**	**155,997**	**169,278**
Equity attributable to equity holders of the banking corporation		10,130	9,108	9,852
Non-controlling interest		491	452	483
Total equity		**10,621**	**9,560**	**10,335**
Total liabilities and shareholders' equity		**184,754**	**165,557**	**179,613**

(1) Includes: NIS 4,578 million at fair value (March 31, 2013 - NIS 8,139 million; December 31, 2013 - NIS 5,131 million).

(2) Includes: Provision for credit losses with respect to off balance sheet credit instruments amounting to NIS 97 million (on March 31, 2013 - NIS 94 million, on December 31, 2013 - NIS 103 million).

(3) Reclassified. For details see Note 1.B.

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

Moshe Vidman
Chairman of the Board of Directors

Eldad Fresher
President

Menahem Aviv
Vice-president, Chief Accountant

Approval date:
Ramat Gan, May 14, 2014

Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	Note	For the three months ended		For the year ended
		2014	2013	2013
		(unaudited)		(audited)
Interest revenues	10	(1)991	1,413	6,442
Interest expenses	10	278	611	2,978
Interest revenues, net		713	802	3,464
Expenses with respect to credit losses	3	(5)	34	288
Interest revenues, net after expenses with respect to credit losses		**718**	**768**	**3,176**
Non-interest revenues				
Non-interest financing revenues	11	81	33	14
Commissions		(1)348	368	1,458
Other revenues		9	5	27
Total non-interest revenues		**438**	**406**	**1,499**
Operating and other expenses				
Payroll and associated expenses		456	445	1,836
Maintenance and depreciation of buildings and equipment		171	166	683
Other expenses		100	106	438
Total operating and other expenses		**727**	**717**	**2,957**
Pre-tax profit		429	457	1,718
Provision for taxes on profit		158	164	592
After-tax profit		271	293	1,126
Share in profit (loss) of associates, after tax		1	(2)	(4)
Net profit:				
Before attribution to non-controlling interest		272	291	1,122
Attributable to non-controlling interest		(8)	(11)	(44)
Attributable to equity holders of the Bank		**264**	**280**	**1,078**

(1) For information about application of US standard FAS 91 (ASC 310-20) with regard to measurement of interest income, see Note 1.C.1 to the financial statements.

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

Condensed consolidated statement of profit and loss - Continued

Reported amounts (NIS in millions)

	For the three months ended	March 31,	For the year ended December 31,
	2014	2013	2013
	(unaudited)		(audited)
Earnings per share[1]			
Basic earnings per share (in NIS)			
Net profit attributable to equity holders of the Bank	1.15	1.23	4.72
Diluted earnings per share (in NIS)			
Net profit attributable to equity holders of the Bank	1.14	1.22	4.69

(1) Shares of NIS 0.1 par value each.

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

Condensed consolidated statement of comprehensive income

Reported amounts (NIS in millions)

	For the three months ended	March 31,	For the year ended December 31,
	2014	2013	2013
		(unaudited)	(audited)
Net profit:			
Before attribution to non-controlling interest	272	291	1,122
Attributable to non-controlling interest	(8)	(11)	(44)
Net profit attributable to equity holders of the Bank	**264**	**280**	**1,078**
Other comprehensive income (loss) before taxes:			
Adjustments for presentation of available-for-sale securities at fair value, net	(6)	21	22
Adjustments from translation of financial statements	-	(1)	(3)
Net gain with respect to cash flow hedges	8	-	-
Total other comprehensive income (loss), before tax	**2**	**20**	**19**
Related tax effect	(1)	(7)	(10)
Cumulative Other Comprehensive income (loss):			
Before attribution to non-controlling interest, after tax	1	13	9
Attributable to non-controlling interest, after tax	-	-	2
Attributable to equity holders of the Bank, after tax	**1**	**13**	**11**
Comprehensive income:			
Before attribution to non-controlling interest	273	304	1,131
Attributable to non-controlling interest	(8)	(11)	(42)
Attributable to equity holders of the Bank	**265**	**293**	**1,089**

Condensed Statement of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

	For the three months ended March 31, 2014 (unaudited)		
	Share capital and premium[1]	Capital reserve from benefit from share-based payment transactions	Treasury shares
Balance as of January 01, 2014	**2,108**	**116**	**(76)**
Net profit for the period	-	-	-
Benefit from share-based payment transactions	-	6	-
Related tax effect	-	7	-
Realized share-based payment transactions[2]	4	(4)	-
Other comprehensive income, net after tax	-	-	-
Balance as of March 31, 2014	**2,112**	**125**	**(76)**
	For the three months ended March 31, 2013 (unaudited)		
Balance as of January 1, 2013	**2,058**	**139**	**(76)**
Net profit for the period	-	-	-
Benefit from share-based payment transactions	-	2	-
Related tax effect	-	2	-
Realized share-based payment transactions[2]	5	(5)	-
Other comprehensive net after tax	-	-	-
Balance as of March 31, 2013	**2,063**	**138**	**(76)**
	For the year ended December 31, 2013 (audited)		
Balance as of January 1, 2013	**2,058**	**139**	**(76)**
Net profit for the period	-	-	-
Dividends paid	-	-	-
Benefit from share-based payment transactions	-	14	-
Related tax effect	-	13	-
Realized share-based payment transactions[2]	50	(50)	-
Other comprehensive income (loss), net, after tax	-	-	-
Balance as of December 31, 2013	**2,108**	**116**	**(76)**

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

(2) In the first quarter of 2014, the Bank issued 185,160 ordinary shares (in the first quarter of 2013 - 309,358 shares) of NIS 0.1 par value for exercise of options in conjunction with the Employee Stock Option Plan. In 2013, the Bank issued 1,889,904 ordinary shares of NIS 0.1 par value each, for exercise of options in conjunction with the Employee Stock Option Plan.

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

(4) For details on various limitations on dividend distributions, see Note 13 to the 2013 financial statements.

Total paid-up share capital and capital reserves	Cumulative other comprehensive income (loss)[3]	Retained earnings[4]	Total	Non-controlling interest	Total equity
2,148	**11**	**7,693**	**9,852**	**483**	**10,335**
-	-	264	264	8	272
6	-	-	6	-	6
7	-	-	7	-	7
-	-	-	-	-	-
-	1	-	1	-	1
2,161	**12**	**7,957**	**10,130**	**491**	**10,621**
2,121	**-**	**6,690**	**8,811**	**441**	**9,252**
-	-	280	280	11	291
2	-	-	2	-	2
2	-	-	2	-	2
-	-	-	-	-	-
-	13	-	13	-	13
2,125	**13**	**6,970**	**9,108**	**452**	**9,560**
2,121	**-**	**6,690**	**8,811**	**441**	**9,252**
-	-	1,078	1,078	44	1,122
-	-	(75)	(75)	-	(75)
14	-	-	14	-	14
13	-	-	13	-	13
-	-	-	-	-	-
-	11	-	11	(2)	9
2,148	**11**	**7,693**	**9,852**	**483**	**10,335**

Statement of cash flows

Reported amounts (NIS in millions)

	For the three months ended		For the year ended
		March 31,	December 31,
	2014	2013	2013
		(unaudited)	(audited)
Cash flows provided by current operations			
Net profit for the period	272	291	1,122
Adjustments:			
Share of Company in undistributed earnings (loss) of associates	(1)	2	4
Depreciation of buildings and equipment	58	61	243
Expenses with respect to credit losses	(5)	34	288
Profit (loss) from revaluation of securities held to maturity, from revaluation and sale of securities available for sale.	(32)	(1)42	32
Impairment of securities held for sale	-	-	3
Realized and unrealized gain from adjustment to fair value of securities held for trading	(9)	(1)(3)	(38)
Benefit from share-based payment transactions	6	2	14
Deferred taxes, net	13	(13)	(80)
Severance pay - decrease (increase) in excess of amount funded over liability	(10)	(11)	5
Accrual differences included under investment and financing operations	35	17	454
Effect of change in exchange rate on cash balances	(42)	130	332
Net change in current assets			
Deposits with banks	1,478	(613)	102
Loans to the public	(2,491)	(1,926)	(10,202)
Loans to Governments	3	10	12
Securities loaned or sold in repurchase agreements	(227)	13	137
Assets with respect to derivatives	334	(183)	(88)
Securities held for trade	472	(1)(289)	780
Other assets	395	406	(87)
Net change in current liabilities			
Deposits from banks	65	360	347
Deposits from the public	4,457	1,920	13,163
Deposits from the Government	(1)	(9)	(45)
Liabilities with respect to derivatives	(536)	(21)	(235)
Other liabilities	(566)	(85)	607
Unearned revenues	(10)	14	37
Net cash provided by current operations	**3,658**	**149**	**6,907**

(1) Reclassified

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

Statement of cash flows - Continued

Reported amounts (NIS in millions)

	For the three months ended March 31, 2014	For the three months ended March 31, 2013	For the year ended December 31, 2013
		(unaudited)	(audited)
Cash flows provided by investment operations			
Acquisition of debentures held to maturity	(77)	-	(646)
Acquisition of securities available for sale	(970)	(605)	(2,942)
Proceeds on sale and redemption of securities available for sale	1,091	543	4,871
Acquisition of buildings and equipment	(52)	(2)	(236)
Purchase of shares in associates	1	(4)	(6)
Net cash provided by investment operations	**(7)**	**(68)**	**1,041**
Cash flows provided by financing operations			
Issuance of debentures and subordinated notes	1,690	1,509	3,007
Redemption of debentures and subordinated notes	(281)	(720)	(1,057)
Dividends paid to shareholders	-	-	(75)
Net cash provided by financing operations	**1,409**	**789**	**1,875**
Increase in cash	5,060	870	9,823
Cash balance at beginning of year	23,885	14,394	14,394
Effect of change in exchange rate on cash balances	42	(130)	(332)
Cash balance at end of period	**28,987**	**15,134**	**23,885**
Interest, taxes paid			
Interest received	1,013	1,430	6,596
Interest paid	161	377	3,032
Dividends received	-	-	1
Income taxes received	75	1	5
Income taxes paid	209	108	654
Non-cash Operations			
Acquisition of buildings and equipment	5	33	5

Note 1 - Reporting Principles and Accounting Policies

A. General

The financial statements as of March 31, 2014 are prepared in accordance with Israeli GAAP for financial reporting of interim periods and in accordance with 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, 2013.

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

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

The Bank's Board of Directors authorized publication of these financial statements on May 14, 2014.

B. Reclassification.

On the balance sheet as of March 31, 2013, NIS 302 million was reclassified from “Deposits from the public” to “Other liabilities with respect to short selling of securities”.

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

As from reporting periods starting on January 1, 2014, the Bank applies the following new accounting standards and directives:

1. Directive with regard to 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. Amounts reclassified out of other comprehensive income.

Below is a description of the substance of changes made to accounting policies and reporting regulations in the condensed consolidated financial statements and description of the effect of their initial application, if any.

1. Directive with regard to format of statement of profit and loss for banking corporations and adoption of generally acceptable accounting practices by US banks for measurement of interest revenues

On December 29, 2011, the Supervisor of Banks published a circular designed to adapt the Public Reporting Regulations to US GAAP with regard to non-refundable fees and other costs (ASC 310-20, FAS91) (hereinafter: “the directive”).

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

Note 1 - Reporting Principles and Accounting Policies - Continued

The directive changes the treatment of commissions and costs associated with a commitment to extend credit and also stipulates rules for treatment of changes in terms of debt which do not constitute restructuring of troubled debt, treatment of early repayment of debt and treatment of other transactions to extend credit, such as syndication transactions.

Changes to terms and conditions of debt

In case of refinancing or restructuring of non-troubled debt, the Bank reviews whether a material change was made to terms and conditions of the loan. Accordingly, the Bank reviews whether the present value of cash flows under the new terms and conditions of the loan differs by at least 10% from the present value of remaining cash flows under the current terms and conditions, or whether this involves a change in loan currency. In such cases, all unamortized commissions and early repayment commissions collected from the client with respect to changes to the terms and conditions of the loan are recognized in profit & loss. Otherwise, these commissions are included as part of net investment in the new loan and are recognized as adjustments to returns, as described above.

Early repayment commissions

According to transition provisions for implementation of the directive, dated October 17, 2013, early repayment commissions charged with respect to early repayment made prior to January 1, 2014 and yet to be amortized, will continue to be recognized over a three-year period.

Commissions charged with respect to early repayment made after January 1, 2014, are immediately recognized under Interest Revenues in conformity with the rules stipulated.

On October 31, 2013, the Supervisor of Banks issued a Q&A file with regard to non-refundable fees and other costs, which stipulates the initial implementation of the FAS 91 standard. *Inter alia*, the file stipulates that banking corporations may not defer internal costs upon loan generation, without prior approval from the Financial Reporting Department 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.

As from January 1, 2014, the Bank prospectively applies the revisions related to adoption of interest revenue measurement (ASC 310-20) (excluding deferral of direct cost incurred upon loan origination) to transactions created or renewed as from January 1, 2014.

Impact of initial application of the directive

As noted, the directive is applied prospectively; therefore, the Bank changed revenue recognition and classification of the indicated commissions under interest revenues or commission revenues.

Note 1 - Reporting Principles and Accounting Policies - Continued

Below is information about the impact of application of the directive on net interest revenues, non-interest revenues (from commissions) and net profit for the Bank in the three-month period ended March 31, 2014:

	For the three months ended March 31, 2014
	(unaudited)
	Effect of application of the directive
Interest revenues, net	40
Non-interest revenues (from commissions)	(22)
Net profit	11

The impact of application is primarily due to deferral of commission revenues with respect to credit extended and discontinuation of scheduling of early repayment commissions and treatment of change in terms of debt. Furthermore, application of the directive resulted in some reclassification from interest revenues to commission revenues.

2. Amounts reclassified out of Other Comprehensive Income

As from January 1, 2014, the Bank applies the directives stipulated in the Supervisor of Banks' circular with regard to reporting or amounts reclassified out of Other Comprehensive Income. The circular is designed to align the disclosure requirements with regard to reclassification of items out of cumulative other comprehensive income, with an update to American accounting standard ASU 2013-02.

According to provisions of the circular, disclosure is to be provided for any items in the statement of profit and loss which include amounts reclassified from cumulative other comprehensive income to the statement of profit and loss. These provisions will be retroactively applied as from January 1, 2014. Application of provisions of this circular had no impact the financial statements, other than the change in presentation of the Note on cumulative other comprehensive income (loss).

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

1) Group provision for credit loss

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

Note 1 - Reporting Principles and Accounting Policies - Continued

The interim directive clarified the range of year for which the Bank would calculate the loss rate, based on credit exposure composition by sector, and extended calculation of the general and supplementary provision pursuant to Proper Conduct of Banking Business Regulation as the minimum provision amount, through December 31, 2014. The draft also added questions and answers to explain how the group-based provision for credit losses is to be calculated. The draft also included detailed directives with regard to including adjustments with respect to environmental factors in calculation of the provision rate. According to these directives, the Bank is required to develop and to document a consistent method to determine the provision rate for each sector and to determine the appropriateness of the total balance of provision for credit losses in each reporting period. The data and the tests carried out would be reported to Bank management and to its Board of Directors, for making a decision as to the appropriateness of the overall provision for credit losses on the financial statements.

The schedules itemized in the draft submitted to the Advisory Committee on Banking Business on July 18, 2013 have expired and do not apply to financial statements as of March 31, 2014.

The changes to the draft interim directive and the update to the Q&A file are not expected to materially impact the Bank's financial statements.

The expected impact due to application of the directives on calculation of past loss rates would be accounted for as a change in estimates and would be charged to the statement of profit and loss.

The Bank is reviewing the effect of application of the directives with regard to adjustments for environmental factors.

2) Adoption of US GAAP with regard to employee rights

On April 9, 2014, the Supervisor of Banks issued a circular concerning adoption of US GAAP with regard to employee rights. These principles were codified in the following sections:

- ASC 710 – Compensation – General
- ASC 712 – Compensation – Non-retirement post-employment benefits
- ASC 715 – Compensation – Retirement benefits
- ASC 718 – Compensation – Stock Compensation
- ASC 420 – Exit or Disposal Cost Obligations

Note 1 - Reporting Principles and Accounting Policies - Continued

In addition to application of these principles, the circular includes specific directives for implementation in Israel, as follows:

- The discount rate used to calculate reserves and to cover employee rights would be based on market yield of government debentures in Israel.
- According to the circular, the principle previously set by the Supervisor of Banks whereby a liability should be included with respect to an implied liability - should be maintained. It is expected that in cases where a banking corporation expects payment of benefits beyond contractual terms, it would adjust these to situations where a material obligation exists. According to the circular, there was no change to rules currently applied to the financial statements on this matter.
- Banking corporations should classify employee benefits according to groups listed in US GAAP, including setting of clear policy and procedure as to how different types of benefits may be distinguished. Employee benefits fall into the following categories:

  - Benefits prior to termination
  - Benefits post termination and prior to retirement
  - Post-retirement benefits

Bank management estimates that the expected effect on Bank capital as of March 31, 2014 due to use of discount rates based on market yield on Government debentures in Israel, amounts to a decrease in capital of NIS 81 million, net of tax.

In conformity with transitional provisions concerning Measurement and Capital Adequacy (Proper Conduct of Banking Business regulation 299) – remeasurement of net liabilities with respect to defined benefit plans for employees, to be included under Other Comprehensive Income, would be gradually deducted from Tier 1 capital and at a 20% rate as from January 1, 2014.

The provisions in the circular would become effective as from January 1, 2015.

Upon initial application of the proposed new directives, the Bank would be required to retrospectively revise the comparative figures for periods starting on or after January 1, 2013.

In conformity with provisions of the aforementioned standards, there is an option whereby actuarial gain and loss would be charged to Other Comprehensive Income and would be reposted to profit and loss over the remaining service term - as well as an alternative whereby such gain / loss would be immediately recognized in profit and loss. As of this date, the Supervisor of Banks has yet to make public their position on the potential application of these alternatives.

The Bank is currently reviewing the impact of other changes listed in this circular, as required by the Supervisor of Banks in the circular.

Note 1 - Reporting Principles and Accounting Policies - Continued

3) Reporting by banking corporations and credit card issuers in Israel, in conformity with generally accepted accounting principles in the USA with regard to distinction between liabilities and equity

On April 24, 2014, the Supervisor of Banks issued a draft circular concerning reporting by banking corporations and credit card issuers in Israel, in conformity with generally accepted accounting principles in the USA with regard to distinction between liabilities and equity.

According to this draft, a banking corporation is required to adopt generally accepted accounting principles in the USA with regard to classification as liability or equity of financial instruments, including hybrid instruments, including the presentation, measurement and disclosure rules specified in provisions of accounting standard codification 480 with regard to "distinguishing between liabilities and equity", provisions of accounting standard codification 470-20 with regard to "debt with conversion and other options" and provisions of accounting standard codification 505-30 with regard to "treasury shares". Furthermore, in distinguishing between liabilities and equity, reference should be made to Public Reporting Regulations with regard to embedded instruments.

The provisions listed in the circular shall become effective as from January 1, 2015. Upon initial application, the transitional provisions for these matters, set forth in the aforementioned codification, shall apply – including revision of comparison figures as required.

The Bank is reviewing the effect of adopting these rules on its financial statements.

Note 2 - Securities

As of March 31, 2014 (unaudited)

Reported amounts (NIS in millions)

A. Composition:

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized profit from adjustments to fair value	Unrecognized loss from adjustments to fair value	Fair value [1]
(1) Government of Israel debentures held to maturity	**1,842**	**1,842**	**25**	**-**	**1,867**

	Carrying amount	Amortized cost (for shares - cost)	Cumulative other comprehensive income Gain	Cumulative other comprehensive income Loss	Fair value [1]
(2) Securities available for sale					
Debentures and bonds -					
Of the Government of Israel[2]	2,960	2,952	37	(29)	2,960
Of foreign governments[2][6]	51	51	-	-	51
Of banks and financial institutions in Israel	124	123	1	-	124
Of banks and financial institutions overseas	224	224	-	-	224
Of others in Israel	21	21	-	-	21
Of others overseas	109	107	2	-	109
Total debentures available for sale	**3,489**	**3,478**	**40**	**(29)**	**3,489**
Shares[3]	99	99	-	-	99
Total securities available for sale	**3,588**	**3,577**	[4] **40**	[4] **(29)**	**3,588**

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized profit from adjustments to fair value	Unrecognized loss from adjustments to fair value	Fair value [1]
(3) Securities held for trade					
Debentures -					
Of the Government of Israel [7]	1,089	1,089	1	(1)	1,089
Total securities held for trade	**1,089**	**1,089**	[5] **1**	[5] **(1)**	**1,089**
Total securities	**6,519**	**6,508**	**66**	**(30)**	**6,544**

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) See Note 15.A-F to the 2013 financial statements for information on liens on securities held by the Bank.
(3) Includes shares for which fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 99 million.
(4) Included in Other Comprehensive Income under "Adjustments with respect to presentation of securities available for sale at fair value, net".
(5) Charged to statement of profit and loss but not yet realized.
(6) US government debentures.
(7) Of which, securities amounting to NIS 510 million are classified as held for trade, because the Bank elected to present them in accordance with the fair value option in Section 20 of the Public Reporting Regulations, even though they had not been acquired for trade.

Note: For details of results of investment in debentures – see Note 10.D., 11.A.2 and 11.B.
For details of results of investment in shares – see Note 11.A.4.

Note 2 – Securities - Continued

As of March 31, 2013 (unaudited)

Reported amounts (NIS in millions)

A. Composition:

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

	Carrying amount	Amortized cost (for shares - cost)	Cumulative other comprehensive income		Fair value (1)
			Gain	Loss	
(2) Securities available for sale					
Debentures and bonds -					
Of the Government of Israel(2)	4,828	4,812	51	(35)	4,828
Of foreign governments(2)(6)	64	64	-	-	64
Of banks and financial institutions in Israel	124	124	-	-	124
Of banks and financial institutions overseas	330	329	1	-	330
Of others in Israel	37	37	-	-	37
Of others overseas	165	162	3	-	165
Total debentures available for sale	**5,548**	**5,528**	**55**	**(35)**	**5,548**
Shares(3)	116	115	1	-	116
Total securities available for sale	**5,664**	**5,643**	**(4) 56**	**(4) (35)**	**5,664**

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

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) See Note 15.A-F to the 2012 financial statements for information on liens on securities held by the Bank.
(3) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 111 million.
(4) Included in Other Comprehensive Income under "Adjustments with respect to presentation of securities available for sale at fair value".
(5) Charged to statement of profit and loss but not yet realized.
(6) US government debentures.
(7) Of which, securities amounting to NIS 1,454 million are classified as held for trade, because the Bank elected to present them in accordance with the fair value option in Section 20 of Public Reporting Regulations, even though they had not been acquired for trade.

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

Note 2 - Securities - Continued

As of December 31, 2013 (audited)

Reported amounts (NIS in millions)

A. Composition:

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized profit from adjustments to fair value	Unrecognized loss from adjustments to fair value	Fair value (1)
(1) Government of Israel debentures held to maturity	**1,771**	**1,771**	**11**	**-**	**1,782**

	Carrying amount	Amortized cost (for shares - cost)	Cumulative other comprehensive income		Fair value (1)
			Gain	Loss	
(2) Securities available for sale					
Debentures and bonds -					
Of the Government of Israel(2)	3,017	3,000	47	(30)	3,017
Of foreign governments(2)(6)	82	81	1	-	82
Of banks and financial institutions in Israel	124	124	-	-	124
Of banks and financial institutions overseas	224	223	1	-	224
Of others in Israel	23	22	1	-	23
Of others overseas	109	108	2	(1)	109
Total debentures available for sale	**3,579**	**3,558**	**52**	**(31)**	**3,579**
Shares(3)	98	98	-	-	98
Total securities available for sale	**3,677**	**3,656**	(4)**52**	(4)**(31)**	**3,677**

	Carrying amount	Amortized cost (for shares - cost)	Unrecognized profit from adjustments to fair value	Unrecognized loss from adjustments to fair value	Fair value (1)
(3) Securities held for trade					
Debentures -					
Of the Government of Israel(7)	1,552	1,541	11	-	1,552
Total securities held for trade	**1,552**	**1,541**	(5)**11**	**-**	**1,552**
Total securities	**7,000**	**6,968**	**74**	**(31)**	**7,011**

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) See Note 15.A-F to the 2013 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 98 million.
(4) Included in Other Comprehensive Income under "Adjustments with respect to presentation of securities available for sale at fair value, net".
(5) Charged to statement of profit and loss but not yet realized.
(6) Primarily US government debentures.
(7) Of which, securities amounting to NIS 850 million are classified as held for trade, because the Bank elected to present them in accordance with the fair value option in Section 20 of Public Reporting Regulations, even though they had not been acquired for trade.

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

Note 2 - Securities - Continued

Reported amounts (NIS in millions)

B. Additional details of the fair value and the duration in which available-for-sale securities included unrealized loss:

	As of March 31, 2014 (unaudited)							
	Less than 12 months				12 months or more			
	Fair value (1)	Unrealized loss 0%-20%	Unrealized loss 20%-40%	Total	Fair value (1)	Unrealized loss 0%-20%	Unrealized loss 20%-40%	Total
Securities available for sale								
Debentures and bonds -								
Of the Government of Israel(2)	382	4	2	6	215	23	-	23
Total debentures available for sale	**382**	**4**	**2**	**6**	**215**	**23**	**-**	**23**
Shares	-	-	-	-	-	-	-	-
Total securities available f or sale	**382**	**4**	**2**	**6**	**215**	**23**	**-**	**23**

	As of March 31, 2013 (unaudited)							
	Less than 12 months				12 months or more			
	Fair value (1)	Unrealized loss 0%-20%	Unrealized loss 20%-40%	Total	Fair value (1)	Unrealized loss 0%-20%	Unrealized loss 20%-40%	Total
Securities available for sale								
Debentures and bonds -								
Of the Government of Israel(2)	163	1	-	1	961	32	2	34
Total debentures available for sale	**163**	**1**	**-**	**1**	**961**	**32**	**2**	**34**
Shares	-	-	-	-	-	-	-	-
Total securities available f or sale	**163**	**1**	**-**	**1**	**961**	**32**	**2**	**34**

	As of December 31, 2013							
	Less than 12 months				12 months or more			
	Fair value (1)	Unrealized loss 0%-20%	Unrealized loss 20%-40%	Total	Fair value (1)	Unrealized loss 0%-20%	Unrealized loss 20%-40%	Total
Securities available for sale								
Debentures and bonds -								
Of the Government of Israel(2)	-	-	-	-	567	30	-	30
Of others overseas	9	1	-	1	-	-	-	-
Total debentures available for sale	**9**	**1**	**-**	**1**	**567**	**30**	**-**	**30**
Shares	-	-	-	-	-	-	-	-
Total securities available f or sale	**9**	**1**	**-**	**1**	**567**	**30**	**-**	**30**

(1) Fair value information is typically based on stock exchange prices, which may not reflect the prices achieved upon large-scale sale of securities.
(2) For information about liens on securities held by the Bank, see Note 15.A-F to the 2013 financial statements.

C. Asset-backed securities -

As of March 31, 2014, March 31, 2013 and December 31, 2013, there was no balance of asset-backed securities.

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

Reported amounts (NIS in millions)

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

1. Change in balance of provision for credit losses

	For the three months ended March 31, 2014					
	Provision for credit losses					
	Loans to the public				Banks and govern-ments	Total
	Commercial	Housing	Individual - other	Total		
Balance of provision for credit losses at year start	624	646	148	1,418	10	1,428
Expenses with respect to credit losses	(14)	-	7	(7)	2	(5)
Accounting write-offs	(39)	(5)	(32)	(76)	-	(76)
Recovery of debt written off in previous years	40	-	20	60	-	60
Net accounting write-offs	1	(5)	(12)	(16)	-	(16)
Balance of provision for credit losses at year end	**611**	**641**	**143**	**1,395**	**12**	**1,407**
Includes: With respect to balance sheet credit instruments	86	-	11	97	-	97

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

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

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

Reported amounts (NIS in millions)

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

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

	March 31, 2014					
	Loans to the public				Banks and govern-ments	Total
	Commercial	Housing	Individual - other	Total		
Recorded debt balance of debt(1)						
reviewed on individual basis	29,739	2	784	30,525	2,743	33,268
reviewed on group basis	6,384	91,747	13,703	111,834	-	111,834
Total debt	**36,123**	**91,749**(2)	**14,487**	**142,359**	**2,743**	**145,102**
Loans for which a provision for credit losses is assessed by extent of arrears	-	91,042	-	91,042	-	91,042
Provision for credit losses with respect to debt(1)						
reviewed on individual basis	467	2	39	508	12	520
reviewed on group basis	58	639	93	790	-	790
Total provision for credit losses	**525**	**641**	**132**	**1,298**	**12**	**1,310**
Includes: Provision by extent of arrears	-	320	-	320	-	320

	March 31, 2013					
	Loans to the public				Banks and governments	Total
	Commercial	Housing	Individual - other	Total		
Recorded debt balance of debt(1)						
reviewed on individual basis	30,123	2	434	30,559	(4)2,106	32,665
reviewed on group basis	6,361	82,698	12,500	101,559	-	101,559
Total debt	**36,484**	(2)**82,700**	**12,934**	**132,118**	**2,106**	**134,224**
Loans for which a provision for credit losses is assessed by extent of arrears	-	81,872	-	81,872	-	81,872
Provision for credit losses with respect to debt(1)						
reviewed on individual basis	575	2	40	617	11	628
reviewed on group basis	52	809	97	958	-	958
Total provision for credit losses	**627**	**811**	**137**	**1,575**	**11**	**1,586**
Includes: Provision by extent of arrears	-	706	-	706	-	706

	March 31, 2013					
	Loans to the public				Banks and governments	Total
	Commercial	Housing	Individual - other	Total		
Recorded debt balance of debt(1)						
reviewed on individual basis	29,582	2	645	30,229	(4)3,448	33,677
reviewed on group basis	6,326	90,070	13,255	109,651	-	109,651
Total debt	**35,908**	(2)**90,072**	**13,900**	**139,880**	**3,448**	**143,328**
Loans for which a provision for credit losses is assessed by extent of arrears	-	89,359	-	89,359	-	89,359
Provision for credit losses with respect to debt(1)						
reviewed on individual basis	476	2	42	520	10	530
reviewed on group basis	56	(3)644	95	795	-	795
Total provision for credit losses	**532**	**646**	**137**	**1,315**	**10**	**1,325**
Includes: Provision by extent of arrears	-	331	-	331	-	331

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Includes balance of general-purpose loans secured by a lien on a residential apartment, amounting to NIS 5,175 million (as of March 31, 2013 - NIS 5,012 million and as of December 31, 2013 - NIS 5,180 million).
(3) Includes balance of provision for credit losses, amounting to NIS 281 million, with respect to housing loans fully provided for and written off.
(4) Reclassified.

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

Reported amounts (NIS in millions)

B. Debt [(1)]

1. A. Credit quality and arrears

	As of March 31, 2014					
		Troubled[(2)]			Non impaired debt - additional information	
	Non troubled	Non impaired	Impaired[(3)]	Total	In arrears 90 days or longer[(4)]	In arrears 30 to 89 days[(5)]
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	7,480	17	538	8,035	3	14
Construction and real estate - real estate operations	1,565	1	19	1,585	-	1
Financial services	2,594	77	133	2,804	1	2
Commercial – other	19,708	256	312	20,276	17	114
Total commercial	**31,347**	**351**	**1,002**	**32,700**	**21**	**131**
Private individuals - housing loans	90,413	1,096[(7)]	2	91,511	1,096[(7)]	368[(6)]
Private individuals - other	13,743	111	81	13,935	20	62
Total public – activity in Israel	**135,503**	**1,558**	**1,085**	**138,146**	**1,137**	**561**
Banks in Israel	773	-	-	773	-	-
Government of Israel	2	-	-	2	-	-
Total activity in Israel	**136,278**	**1,558**	**1,085**	**138,921**	**1,137**	**561**
Borrower activity overseas						
Public - commercial						
Construction and real estate	1,464	-	30	1,494	-	-
Commercial – other	1,927	-	2	1,929	-	-
Total commercial	**3,391**	**-**	**32**	**3,423**	**-**	**-**
Private individuals	789	-	1	790	-	-
Total public – activity overseas	**4,180**	**-**	**33**	**4,213**	**-**	**-**
Overseas banks	1,484	-	-	1,484	-	-
Overseas governments	484	-	-	484	-	-
Total activity overseas	**6,148**	**-**	**33**	**6,181**	**-**	**-**
Total public	139,683	1,558	1,118	142,359	1,137	561
Total banks	2,257	-	-	2,257	-	-
Total governments	486	-	-	486	-	-
Total	**142,426**	**1,558**	**1,118**	**145,102**	**1,137**	**561**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debt does not accrue interest revenues. For information about certain impaired debt restructured using troubled debt restructuring, see Note 3.B.2.c. below.
(4) Classified as troubled non-impaired debt. Accruing interest revenues.
(5) Accruing interest revenues. Debt in arrears 30 to 89 days amounting to NIS 39 million was classified as troubled non-impaired debt.
(6) In conformity with Public Reporting Regulations, excludes the balance of housing loans in arrears up to 2 months.
(7) Includes balance of housing loans amounting to NIS 239 million provided for by extent of arrears, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.

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

Reported amounts (NIS in millions)

B. Debt [(1)]

1. A. Credit quality and arrears

	As of March 31, 2013					
		Troubled(2)			Non impaired debt - additional information	
	Non troubled	Non impaired	Impaired(3)	Total	In arrears 90 days or longer(4)	In arrears 30 to 89 days(5)
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	6,709	12	673	7,394	3	9
Construction and real estate - real estate operations	1,530	2	21	1,553	-	4
Financial services	3,928	14	268	4,210	4	12
Commercial – other	19,095	236	416	19,747	23	110
Total commercial	**31,262**	**264**	**1,378**	**32,904**	**30**	**135**
Private individuals - housing loans	80,943	1,566	2	82,511	(7)1,566	(6)356
Private individuals - other	12,116	147	100	12,363	26	128
Total public – activity in Israel	**124,321**	**1,977**	**1,480**	**127,778**	**1,622**	**619**
Banks in Israel	800	-	-	800	-	-
Government of Israel	2	-	-	2	-	-
Total activity in Israel	**125,123**	**1,977**	**1,480**	**128,580**	**1,622**	**619**
Borrower activity overseas						
Public - commercial						
Construction and real estate	1,714	2	33	1,749	-	-
Commercial – other	1,829	-	2	1,831	-	-
Total commercial	**3,543**	**2**	**35**	**3,580**	**-**	**-**
Private individuals	758	-	2	760	-	-
Total public – activity overseas	**4,301**	**2**	**37**	**4,340**	**-**	**-**
Overseas banks	935	-	5	940	-	-
Overseas governments	364	-	-	364	-	-
Total activity overseas	**5,600**	**2**	**42**	**5,644**	**-**	**-**
Total public	128,622	1,979	1,517	132,118	1,622	619
Total banks	1,735	-	5	1,740	-	-
Total governments	366	-	-	366	-	-
Total	**130,723**	**1,979**	**1,522**	**134,224**	**1,622**	**619**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debt does not accrue interest revenues. For information about certain impaired debt restructured using troubled debt restructuring, see Note 3.B.2.c. below.
(4) Classified as troubled non-impaired debt. Accruing interest revenues.
(5) Accruing interest revenues. Debt in arrears 30 to 89 days amounting to NIS 44 million was classified as troubled non-impaired debt.
(6) In conformity with Public Reporting Regulations, excludes the balance of housing loans in arrears up to 2 months.
(7) Includes balance of housing loans amounting to NIS 297 million provided for by extent of arrears, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.
(8) Reclassified.

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

Reported amounts (NIS in millions)

B. Debt [(1)]

1. A. Credit quality and arrears - continued

	As of December 31, 2013					
		Troubled[(2)]			Non impaired debt - additional information	
	Non troubled	Non impaired	Impaired[(3)]	Total	In arrears 90 days or longer[(4)]	In arrears 30 to 89 days[(5)]
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	7,351	16	598	7,965	2	6
Construction and real estate - real estate operations	1,630	9	9	1,648	-	6
Financial services	3,011	5	165	3,181	2	11
Commercial – other	19,044	258	350	19,652	32	86
Total commercial	**31,036**	**288**	**1,122**	**32,446**	**36**	**109**
Private individuals - housing loans	88,776	[(7)]1,081	2	89,859	1,081[(7)]	349[(6)]
Private individuals - other	13,216	115	82	13,413	17	72
Total public – activity in Israel	**133,028**	**1,484**	**1,206**	**135,718**	**1,134**	**530**
Banks in Israel	1,034	-	-	[(9)]1,034	-	-
Government of Israel	1	-	-	1	-	-
Total activity in Israel	**134,063**	**1,484**	**1,206**	**136,753**	**1,134**	**530**
Borrower activity overseas						
Public - commercial						
Construction and real estate	1,398	-	32	1,430	-	-
Commercial – other	1,977	53	2	2,032	-	53
Total commercial	**3,375**	**53**	**34**	**3,462**	**-**	**53**
Private individuals	699	-	1	700	-	-
Total public – activity overseas	**4,074**	**53**	**35**	**4,162**	**-**	**53**
Overseas banks	1,369	-	-	1,369	-	-
Overseas governments	1,044	-	-	1,044	-	-
Total activity overseas	**6,487**	**53**	**35**	**6,575**	**-**	**53**
Total public	137,102	1,537	1,241	139,880	1,134	583
Total banks	2,403	-	-	2,403	-	-
Total governments	1,045	-	-	1,045	-	-
Total	**140,550**	**1,537**	**1,241**	**143,328**	**1,134**	**583**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debt does not accrue interest revenues. For information about certain impaired debt restructured using troubled debt restructuring, see Note 3.B.2.c. below.
(4) Classified as troubled non-impaired debt. Accruing interest revenues.
(5) Accruing interest revenues. Debt in arrears 30 to 89 days amounting to NIS 27 million was classified as troubled non-impaired debt.
(6) In conformity with Public Reporting Regulations, excludes the balance of housing loans in arrears up to 2 months.
(7) Includes balance of housing loans amounting to NIS 255 million provided for by extent of arrears, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.
(8) Includes write-off of housing loans fully provided for, amounting to NIS 281 million.
(9) Reclassified.

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

Reported amounts (NIS in millions)

1. B. Credit quality

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

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

Furthermore, debt is classified as inferior debt after 60 days in arrears for debt measured on individual basis, and after 90 days in arrears for debt measured on group basis. At this stage, i.e. within the 60 and 90 days for debt measured on individual basis and for debt measured on group basis, respectively, the debt would be classified as performing debt, i.e. accruing interest revenues.

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

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

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

Reported amounts (NIS in millions)

1. B. Credit quality - continued

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

	March 31, 2014					
	Credit segment					
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Trouble-free debt, investment grade	31,930	90,651	14,294	486	2,249	139,610
Trouble-free debt, other than investment grade	2,808	-	-	-	8	2,816
Troubled non-impaired debt	351	1,096	111	-	-	1,558
Impaired debt	1,034	2	82	-	-	1,118
Total	**36,123**	**91,749**	**14,487**	**486**	**2,257**	**145,102**

	March 31, 2013					
	Credit segment					
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Trouble-free debt, investment grade	31,557	81,132	12,685	366	(2)1,724	127,464
Trouble-free debt, other than investment grade	3,248	-	-	-	11	3,259
Troubled non-impaired debt	266	1,566	147	-	-	1,979
Impaired debt	1,413	2	102	-	5	1,522
Total	**36,484**	**82,700**	**12,934**	**366**	**1,740**	**134,224**

	December 31, 2013					
	Credit segment					
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Trouble-free debt, investment grade	31,375	88,989	13,702	1,045	(2)2,395	137,506
Trouble-free debt, other than investment grade	3,036	-	-	-	8	3,044
Troubled non-impaired debt	341	1,081	115	-	-	1,537
Impaired debt	1,156	2	83	-	-	1,241
Total	**35,908**	**90,072**	**13,900**	**1,045**	**2,403**	**143,328**

(1) Balance sheet credit risk which is 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.

(2) Reclassified.

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

Reported amounts (NIS in millions)

B. Debt (1)

2. Additional information about impaired debt

A. Impaired debt and individual provision

	March 31, 2014				
	Balance of impaired debt for which an individual provision has been made(2)(3)	Balance of individual provision	Balance of impaired debt for which no individual provision has been made(2)	Total balance of impaired debt (2)	Contractual principal balance of impaired debt
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	162	17	376	538	846
Construction and real estate - real estate operations	7	-	12	19	20
Financial services	125	30	8	133	178
Commercial – other	182	64	130	312	607
Total commercial	**476**	**111**	**526**	**1,002**	**1,651**
Private individuals - housing loans	2	2	-	2	2
Private individuals - other	21	11	60	81	91
Total public – activity in Israel	**499**	**124**	**586**	**1,085**	**1,744**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	**499**	**124**	**586**	**1,085**	**1,744**
Borrower activity overseas					
Public - commercial					
Construction and real estate	30	-	-	30	103
Commercial – other	2	-	-	2	5
Total commercial	**32**	**-**	**-**	**32**	**108**
Private individuals	1	-	-	1	3
Total public – activity overseas	**33**	**-**	**-**	**33**	**111**
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	**33**	**-**	**-**	**33**	**111**
Total public	532	124	586	1,118	1,855
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	**532**	**124**	**586**	**1,118**	**1,855**
Includes:					
Measured at present value of cash flows	462	124	164	626	
Debt under troubled debt restructuring	195	18	445	640	

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

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

Reported amounts (NIS in millions)

B. Debt [(1)]

2. Additional information about impaired debt

A. Impaired debt and individual provision - continued

	March 31, 2013				
	Balance of impaired debt for which an individual provision has been made [(2)(3)]	Balance of individual provision	Balance of impaired debt for which no individual provision has been made [(2)]	Total balance of impaired debt [(2)]	Contractual principal balance of impaired debt
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	249	17	424	673	1,520
Construction and real estate - real estate operations	19	3	2	21	62
Financial services	242	111	26	268	307
Commercial – other	311	99	105	416	693
Total commercial	**821**	**230**	**557**	**1,378**	**2,582**
Private individuals - housing loans	2	1	-	2	2
Private individuals - other	32	11	68	100	113
Total public – activity in Israel	**855**	**242**	**625**	**1,480**	**2,697**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	**855**	**242**	**625**	**1,480**	**2,697**
Borrower activity overseas					
Public - commercial					
Construction and real estate	33	-	-	33	101
Commercial – other	2	-	-	2	5
Total commercial	**35**	**-**	**-**	**35**	**106**
Private individuals	2	-	-	2	2
Total public – activity overseas	**37**	**-**	**-**	**37**	**108**
Overseas banks	5	-	-	5	5
Overseas governments	-	-	-	-	-
Total activity overseas	**42**	**-**	**-**	**42**	**113**
Total public	892	242	625	1,517	2,805
Total banks	5	-	-	5	5
Total governments	-	-	-	-	-
Total	**897**	**242**	**625**	**1,522**	**2,810**
Includes:					
Measured at present value of cash flows	788	241	549	1,337	
Debt under troubled debt restructuring	353	85	502	855	

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

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

Reported amounts (NIS in millions)

B. Debt [1]

2. Additional information about impaired debt

A. Impaired debt and individual provision - continued

	December 31, 2013				
	Balance of impaired debt for which an individual provision has been made [2][3]	Balance of individual provision	Balance of impaired debt for which no individual provision has been made [2]	Total balance of impaired debt [2]	Contractual principal balance of impaired debt
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	214	25	384	598	1,048
Construction and real estate - real estate operations	2	1	7	9	9
Financial services	153	36	12	165	211
Commercial – other	198	69	152	350	646
Total commercial	**567**	**131**	**555**	**1,122**	**1,914**
Private individuals - housing loans	2	2	-	2	2
Private individuals - other	23	11	59	82	96
Total public – activity in Israel	**592**	**144**	**614**	**1,206**	**2,012**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	**592**	**144**	**614**	**1,206**	**2,012**
Borrower activity overseas					
Public - commercial					
Construction and real estate	32	-	-	32	100
Commercial – other	2	-	-	2	5
Total commercial	**34**	**-**	**-**	**34**	**105**
Private individuals	1	-	-	1	3
Total public – activity overseas	**35**	**-**	**-**	**35**	**108**
Overseas banks	-	-	-	-	4
Overseas governments	-	-	-	-	-
Total activity overseas	**35**	**-**	**-**	**35**	**112**
Total public	627	144	614	1,241	2,120
Total banks	-	-	-	-	4
Total governments	-	-	-	-	-
Total	**627**	**144**	**614**	**1,241**	**2,124**
Includes:					
Measured at present value of cash flows	512	138	186	698	
Debt under troubled debt restructuring	232	19	486	718	

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

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

Reported amounts (NIS in millions)

B. Debt [(1)]

2. Additional information about impaired debt

B. Average balance and interest revenues

	March 31, 2014		
	Average impaired debt balance [(2)]	Interest revenues recorded [(3)]	Includes: Recorded on cash bais
Borrower activity in Israel			
Public - commercial			
Construction and real estate - construction	567	13	12
Construction and real estate - real estate operations	14	-	-
Financial services	149	-	-
Commercial – other	331	2	2
Total commercial	**1,061**	**15**	**14**
Private individuals - housing loans	2	-	-
Private individuals - other	81	1	1
Total public – activity in Israel	**1,144**	**16**	**15**
Banks in Israel	-	-	-
Government of Israel	-	-	-
Total activity in Israel	**1,144**	**16**	**15**
Borrower activity overseas			
Public - commercial			
Construction and real estate	30	-	-
Commercial – other	3	-	-
Total commercial	**33**	**-**	**-**
Private individuals	2	-	-
Total public – activity overseas	**35**	**-**	**-**
Overseas banks	-	-	-
Overseas governments	-	-	-
Total activity overseas	**35**	**-**	**-**
Total public	1,179	16	15
Total banks	-	-	-
Total governments	-	-	-
Total[(4)]	**1,179**	**16**	**15**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Average recorded debt balance.
(3) Interest revenues recorded in the reported period with respect to average balance of debt in arrears, in the period in which the debt was classified as impaired.
(4) Had the impaired debt accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 27 million.

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

Reported amounts (NIS in millions)

B. Debt [(1)]

2. Additional information about impaired debt

B. Average balance and interest revenues - continued

	March 31, 2013		
	Average impaired debt balance [(2)]	Interest revenues recorded [(3)]	Includes: Recorded on cash bais
Borrower activity in Israel			
Public - commercial			
Construction and real estate - construction	705	-	-
Construction and real estate - real estate operations	22	-	-
Financial services	285	-	-
Commercial – other	440	4	4
Total commercial	**1,452**	**4**	**4**
Private individuals - housing loans	4	-	-
Private individuals - other	93	1	1
Total public – activity in Israel	**1,549**	**5**	**5**
Banks in Israel	-	-	-
Government of Israel	-	-	-
Total activity in Israel	**1,549**	**5**	**5**
Borrower activity overseas			
Public - commercial			
Construction and real estate	36	-	-
Commercial – other	4	-	-
Total commercial	**40**	**-**	**-**
Private individuals	3	-	-
Total public – activity overseas	**43**	**-**	**-**
Overseas banks	5	-	-
Overseas governments	-	-	-
Total activity overseas	**48**	**-**	**-**
Total public	1,592	5	5
Total banks	5	-	-
Total governments	-	-	-
Total[(4)]	**1,597**	**5**	**5**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Average recorded debt balance.
(3) Interest revenues recorded in the reported period with respect to average balance of debt in arrears, in the period in which the debt was classified as impaired.
(4) Had the impaired debt accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 29 million.

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

Reported amounts (NIS in millions)

B. Debt [(1)]

2. Additional information about impaired debt

C. Troubled debt under restructuring

	March 31, 2014				
	Recorded debt balance				
	Revenues not accruing interest	Accruing interest revenues[(2)] in arrears 90 days or longer	Accruing interest revenues[(2)] in arrears 30-89 days	Accruing interest revenues[(2)] not in arrears	Total [(3)]
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	446	-	-	35	481
Construction and real estate - real estate operations	-	-	1	-	1
Financial services	8	-	-	1	9
Commercial – other	63	-	-	17	80
Total commercial	**517**	**-**	**1**	**53**	**571**
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	26	-	2	34	62
Total public – activity in Israel	**543**	**-**	**3**	**87**	**633**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	**543**	**-**	**3**	**87**	**633**
Borrower activity overseas					
Public - commercial					
Construction and real estate	4	-	-	2	6
Commercial – other	-	-	-	-	-
Total commercial	**4**	**-**	**-**	**2**	**6**
Private individuals	1	-	-	-	1
Total public – activity overseas	**5**	**-**	**-**	**2**	**7**
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	**5**	**-**	**-**	**2**	**7**
Total public	548	-	3	89	640
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	**548**	**-**	**3**	**89**	**640**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Accruing interest revenues.
(3) Included under impaired debt.

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

Reported amounts (NIS in millions)

B. Debt [(1)]

2. Additional information about impaired debt

C. Troubled debt under restructuring - continued

	March 31, 2013				
	Recorded debt balance				
	Revenues not accruing interest	Accruing interest revenues [(2)] in arrears 90 days or longer	Accruing interest revenues[(2)] in arrears 30-89 days	Accruing interest revenues [(2)] not in arrears	Total [(3)]
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	562	-	-	53	615
Construction and real estate - real estate operations	14	-	-	1	15
Financial services	55	-	-	-	55
Commercial – other	89	-	-	12	101
Total commercial	**720**	**-**	**-**	**66**	**786**
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	29	-	3	35	67
Total public – activity in Israel	**749**	**-**	**3**	**101**	**853**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	**749**	**-**	**3**	**101**	**853**
Borrower activity overseas					
Public - commercial					
Construction and real estate	-	-	-	2	2
Commercial – other	-	-	-	-	-
Total commercial	**-**	**-**	**-**	**2**	**2**
Private individuals	-	-	-	-	-
Total public – activity overseas	**-**	**-**	**-**	**2**	**2**
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	**-**	**-**	**-**	**2**	**2**
Total public	749	-	3	103	855
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	**749**	**-**	**3**	**103**	**855**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Accruing interest revenues.
(3) Included under impaired debt.

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

Reported amounts (NIS in millions)

B. Debt [(1)]

2. Additional information about impaired debt

C. Troubled debt under restructuring - continued

	December 31, 2013				
	Recorded debt balance				
	Revenues not accruing interest	Accruing interest revenues[(2)] in arrears 90 days or longer	Accruing interest revenues[(2)] in arrears 30-89 days	Accruing interest revenues [(2)] not in arrears	Total [(3)]
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	517	-	-	39	556
Construction and real estate - real estate operations	-	-	1	-	1
Financial services	8	-	-	1	9
Commercial – other	57	-	-	26	83
Total commercial	**582**	**-**	**1**	**66**	**649**
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	27	-	1	35	63
Total public – activity in Israel	**609**	**-**	**2**	**101**	**712**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	**609**	**-**	**2**	**101**	**712**
Borrower activity overseas					
Public - commercial					
Construction and real estate	3	-	-	2	5
Commercial – other	-	-	-	-	-
Total commercial	**3**	**-**	**-**	**2**	**5**
Private individuals	1	-	-	-	1
Total public – activity overseas	**4**	**-**	**-**	**2**	**6**
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	**4**	**-**	**-**	**2**	**6**
Total public	613	-	2	103	718
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	**613**	**-**	**2**	**103**	**718**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Accruing interest revenues.
(3) Included under impaired debt.

As of March 31, 2014, the Bank had no commitments to provide additional credit to debtors subject to troubled debt restructuring, in which credit terms have been revised.

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

Reported amounts (NIS in millions)

B. Debt [(1)]

2. Additional information about impaired debt

C. Troubled debt under restructuring - continued

	Restructurings made in the three months ended March 31, 2014		
	Number of contracts	Recorded debt balance before re-structuring	Recorded debt balance after re-structuring
Borrower activity in Israel			
Public - commercial			
Construction and real estate - construction	1	-	-
Construction and real estate - real estate operations	-	-	-
Financial services	3	1	1
Commercial – other	26	21	21
Total commercial	**30**	**22**	**22**
Private individuals - housing loans	-	-	-
Private individuals - other	217	10	9
Total public – activity in Israel	**247**	**32**	**31**
Banks in Israel	-	-	-
Government of Israel	-	-	-
Total activity in Israel	**247**	**32**	**31**
Borrower activity overseas			
Public - commercial			
Construction and real estate	-	-	-
Commercial – other	-	-	-
Total commercial	**-**	**-**	**-**
Private individuals	-	-	-
Total public – activity overseas	**-**	**-**	**-**
Overseas banks	-	-	-
Overseas governments	-	-	-
Total activity overseas	**-**	**-**	**-**
Total public	247	32	31
Total banks	-	-	-
Total governments	-	-	-
Total	**247**	**32**	**31**

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

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

Reported amounts (NIS in millions)

B. Debt [(1)]

2. Additional information about impaired debt

C. Troubled debt under restructuring - continued

	Restructurings made		
	in the three months ended March 31, 2013		
	Number of contracts	Recorded debt balance before re-structuring	Recorded debt balance after re-structuring
Borrower activity in Israel			
Public - commercial			
Construction and real estate - construction	-	-	-
Construction and real estate - real estate operations	1	-	-
Financial services	3	2	2
Commercial – other	39	37	37
Total commercial	**43**	**39**	**39**
Private individuals - housing loans	-	-	-
Private individuals - other	265	10	10
Total public – activity in Israel	**308**	**49**	**49**
Banks in Israel	-	-	-
Government of Israel	-	-	-
Total activity in Israel	**308**	**49**	**49**
Borrower activity overseas			
Public - commercial			
Construction and real estate	-	-	-
Commercial – other	-	-	-
Total commercial	**-**	**-**	**-**
Private individuals	-	-	-
Total public – activity overseas	**-**	**-**	**-**
Overseas banks	-	-	-
Overseas governments	-	-	-
Total activity overseas	**-**	**-**	**-**
Total public	308	49	49
Total banks	-	-	-
Total governments	-	-	-
Total	**308**	**49**	**49**

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

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

Reported amounts (NIS in millions)

B. Debt [(1)]

2. Additional information about impaired debt

C. Troubled debt under restructuring - continued

	Restructurings made which are in default [(2)]	
	in the three months ended March 31, 2014	
	Recorded debt balance	
	Number of contracts	Recorded debt balance
Borrower activity in Israel		
Public - commercial		
Construction and real estate - construction	1	-
Construction and real estate - real estate operations	-	-
Financial services	-	-
Commercial – other	8	1
Total commercial	**9**	**1**
Private individuals - housing loans	-	-
Private individuals - other	43	1
Total public – activity in Israel	**52**	**2**
Banks in Israel	-	-
Government of Israel	-	-
Total activity in Israel	**52**	**2**
Borrower activity overseas		
Public - commercial		
Construction and real estate	-	-
Commercial – other	-	-
Total commercial	**-**	**-**
Private individuals	-	-
Total public – activity overseas	**-**	**-**
Overseas banks	-	-
Overseas governments	-	-
Total activity overseas	**-**	**-**
Total public	52	2
Total banks	-	-
Total governments	-	-
Total	**52**	**2**

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

(2) Debt which became, in the reported period, debt in arrears of 30 days or longer, which was restructured under troubled debt restructuring in the 12 months prior to the date on which it became debt in arrears

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

Reported amounts (NIS in millions)

B. Debt [(1)]

2. Additional information about impaired debt

C. Troubled debt under restructuring - continued

	Restructurings made which are in default [(2)]	
	in the three months ended March 31, 2013	
	Recorded debt balance	
	Number of contracts	Recorded debt balance
Borrower activity in Israel		
Public - commercial		
Construction and real estate - construction	-	-
Construction and real estate - real estate operations	-	-
Financial services	-	-
Commercial – other	2	-
Total commercial	**2**	**-**
Private individuals - housing loans	-	-
Private individuals - other	61	1
Total public – activity in Israel	**63**	**1**
Banks in Israel	-	-
Government of Israel	-	-
Total activity in Israel	**63**	**1**
Borrower activity overseas		
Public - commercial		
Construction and real estate	-	-
Commercial – other	-	-
Total commercial	**-**	**-**
Private individuals	-	-
Total public – activity overseas	**-**	**-**
Overseas banks	-	-
Overseas governments	-	-
Total activity overseas	**-**	**-**
Total public	63	1
Total banks	-	-
Total governments	-	-
Total	**63**	**1**

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

(2) Debt which became, in the reported period, debt in arrears of 30 days or longer, which was restructured under troubled debt restructuring in the 12 months prior to the date on which it became debt in arrears

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

Reported amounts (NIS in millions)

B. Debt

3. Additional information about housing loans

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

		March 31, 2014			
				Housing loan balance	Off-balance sheet credit risk
		Total	Includes: Bullet / balloon	Includes: Variable interest	Total
Senior lien: LTV	Up to 60%	49,895	1,447	37,623	2,822
	Over 60%	41,752	505	32,338	1,413
Secondary lien or no lien		102	2	82	1,479
Total		**91,749**	**1,954**	**70,043**	**5,714**

		March 31, 2013			
Senior lien: LTV	Up to 60%	41,826	1,111	31,508	2,691
	Over 60%	40,776	508	31,768	1,848
Secondary lien or no lien		98	2	62	850
Total		**82,700**	**1,621**	**63,338**	**5,389**

		December 31, 2013			
Senior lien: LTV	Up to 60%	48,070	1,362	36,502	2,664
	Over 60%	41,907	504	32,723	1,396
Secondary lien or no lien		95	3	75	1,511
Total		**90,072**	**1,869**	**69,300**	**5,571**

(1) Ratio of approved facility upon extending the facility to the property value, as approved by the Bank upon extending the facility

Note 4 - Deposits from the Public

Reported amounts (NIS in millions)

A. Deposit types by location and depositor type

	March 31,		December 31,
	2014	2013	2013
In Israel			
On-call			
Non interest-bearing	15,556	12,627	(1)15,411
Interest-bearing	5,411	4,071	(1)4,804
Total on-call	20,967	16,698	20,215
Term deposits	120,988	108,830	117,140
Total deposits in Israel(2)	**141,955**	**125,528**	**137,355**
Outside of Israel			
On-call			
Non interest-bearing	622	370	654
Interest-bearing	9	10	-
Total on-call	631	380	654
Term deposits	3,115	4,209	3,235
Total deposits overseas	**3,746**	**4,589**	**3,889**
Total deposits from the public	**145,701**	**130,117**	**141,244**
(2) Includes:			
Deposits from individuals	**66,887**	**63,804**	**65,819**
Deposits from institutional investors	**44,513**	**35,322**	**41,918**
Deposits from corporations and others	**30,555**	**26,402**	**29,618**

B. Deposits from the public by size on consolidated basis

	March 31,		December 31,
	2014	2013	2013(1)
Maximum deposit - NIS in millions			
Up to 1	51,985	50,369	48,678
1 to 10	25,106	23,032	25,226
10 to 100	13,783	13,034	14,810
100 to 500	12,522	10,992	13,507
Above 500	42,305	32,690	39,023
Total	**145,701**	**130,117**	**141,244**

(1) Reclassified.

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

Calculated in accordance with Proper Conduct of Banking Business Regulation

No. 201-211 "Measurement and Capital Adequacy"

Reported amounts (NIS in millions)

A. Capital adequacy information

	As of March 31, 2014	As of January 1, 2014	As of December 31, 2013	As of March 31, 2013
	Basel III(1)		Basel II(2)	
	(unaudited)	(audited)	(audited)	(unaudited)
1. Consolidated data				
A. Capital for purpose of calculating minimum capital ratio				
Tier 1 capital	10,485	10,206	-	-
Tier 1 capital	10,485	10,206	10,217	9,443
Tier 2 capital	4,852	4,850	4,569	4,923
Total capital	**15,337**	**15,056**	**14,786**	**14,366**
B. Weighted risk asset balances				
Credit risk	110,062	108,917	105,411	100,264
Market risk	894	842	842	1,017
Operating risk	7,262	7,154	7,154	7,158
Total weighted risk asset balances	**118,218**	**116,913**	**113,407**	**108,439**

	As of March 31, 2014	As of January 1, 2014	As of December 31, 2013	As of March 31, 2013
	Basel III(1)		Basel II(2)	
		In %		
C. Ratio of capital to risk elements				
Bank data:				
Ratio of Tier I capital to risk elements	8.87	8.73	-	-
Ratio of Tier I capital to risk elements	8.87	8.73	9.01	8.71
Ratio of total capital to risk elements	12.97	12.88	13.04	13.25
Minimum Tier I capital ratio required by Supervisor of Banks	9.00(3)	9.00(3)	7.50	7.50
Total minimum capital ratio required by the Supervisor of Banks	12.50(3)	12.50(3)	9.00	9.00
2. Significant subsidiaries				
Bank Yahav for Government Employees Ltd. and subsidiaries there of				
Ratio of Tier I capital to risk elements	9.70	9.90	10.00	9.22
Ratio of Tier I capital to risk elements	9.70	9.90	10.00	9.22
Ratio of total capital to risk elements	13.80	14.19	15.03	13.90
Minimum Tier I capital ratio required by Supervisor of Banks	9.00(3)	9.00(3)	7.50	7.50
Total minimum capital ratio required by the Supervisor of Banks	12.50(3)	12.50(3)	9.00	9.00

(1) Calculated in accordance with Proper Conduct of Banking Business Regulation No. 201-211, 299 concerning "Measurement and Capital Adequacy", in effect as from January 1, 2014.
(2) Calculated in accordance with Proper Conduct of Banking Business Regulation 201-211 concerning "Measurement and Capital Adequacy", in effect through December 31, 2013.
(3) As from January 1, 2015.

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

Calculated in accordance with Proper Conduct of Banking Business

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

Reported amounts (NIS in millions)

	As of March 31, 2014	As of January 1, 2014	As of December 31, 2013	As of March 31, 2013
		Basel III[(1)]		Basel II[(2)]
	(unaudited)	(audited)	(audited)	(unaudited)
3. Capital components for calculation of capital ratio (on consolidated basis)				
A. Tier 1 capital				
Shareholder equity	10,621	10,335	10,335	9,560
Differences between shareholder equity and Tier 1 capital	(46)	(35)	(14)	(13)
Total Tier 1 equity before regulatory adjustments and deductions	**10,575**	**10,300**	**10,321**	**9,547**
Regulatory adjustments and deductions:				
Goodwill	(87)	(87)	(87)	(87)
Regulatory adjustments and other deductions - Tier 1 capital	(3)	(7)	(17)	(17)
Total regulatory adjustments and other deductions - Tier 1 capital	**(90)**	**(94)**	**(104)**	**(104)**
Total Tier 1 capital after regulatory adjustments and deductions	**10,485**	**10,206**	**10,217**	**9,443**
B. Tier 2 capital				
Tier 2 capital: Instruments, before deductions	3,573	3,573	4,467	4,821
Tier 2 capital: Provisions, before deductions	1,279	1,277	110	110
Total Tier 2 capital, before deductions	**4,852**	**4,850**	**4,577**	**4,931**
Deductions:				
Total deductions - Tier 2 capital	**-**	**-**	**(8)**	**(8)**
Total Tier II capital	**4,852**	**4,850**	**4,569**	**4,923**

(1) Calculated in accordance with Proper Conduct of Banking Business Regulation No. 201-211, 299 concerning "Measurement and Capital Adequacy", in effect as from January 1, 2014.

(2) Calculated in accordance with Proper Conduct of Banking Business Regulation 201-211 concerning "Measurement and Capital Adequacy", in effect through December 31, 2013.

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

B. Effect of transitional provisions on Tier 1 capital (for details see section I. below):

	As of March 31, 2014	As of January 1, 2014
		Basel III
	(unaudited)	(audited)
	In %	
Ratio of capital to risk elements		
Ratio of Tier I capital to risk elements before application of transitional provisions	8.74	8.60
Effect of transitional provisions	0.13	0.13
Ratio of Tier I capital to risk elements after application of transitional provisions	8.87	8.73

C. On June 30, 2010, the Supervisor of Banks issued a letter to banking corporations, on capital policies for interim periods, in which they are required to adopt a target for Tier I capital ratio by December 31, 2010, to be no less than 7.5%. Concurrently, the banks are required to submit to the Supervisor a work plan for achieving this target. The letter further stipulates that in absence of prior approval by the Supervisor of Banks, the bank shall not distribute dividends if the target has not been achieved, or if such dividend distribution would cause the bank not to achieve the target. This directive is intended to clarify the expectations of the Supervisor of Banks from banking corporations in the interim period, pending adaptation of the Supervisor's directives to emerging changes in recommendations of the Basel Committee.

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

E. 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.

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

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

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

For loans with LTV ratio up to 45%	– risk weighting of 35%
For loans with LTV ratio over 45% and up to 60%	– risk weighting of 50%
For loans with LTV ratio over 60%	– risk weighting of 75%
For leveraged loans with LTV ratio over 60% with an adjustable interest component of 25% or higher	– risk weighting of 75%
This compares with the former weighting:	
For loans with LTV ratio up to 75%	– risk weighting of 35%
For loans with LTV ratio over 75%	– risk weighting of 75%
For leveraged loans with LTV ratio over 60% with an adjustable interest component of 25% or higher	– risk weighting of 100%

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

H. On April 30, 2013, the Supervisor of Banks issued a letter confirming that notes to be issued by the Bank would count as lower Tier II capital with regard to maintaining a minimum capital ratio.
Changes to conditions for recognition as lower Tier II capital, following implementation of Basel III directives, would retroactively apply to these notes.

I. On May 30, 2013, the Supervisor of Banks issued an amendment to Proper Conduct of Banking Business Regulations 201-211 concerning adoption of Basel III directives with regard to supervisory capital and with regard to risk assets (hereinafter: “the regulations”).
The amendments to the regulations are primarily focused on improving capital quality and size and improving the coverage for Credit Valuation Adjustment (CVA) risk.
The directives are effective as from January 1, 2014, subject to transition provisions.

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

Below are the key amendments included in these directives:

- **Capital structure**

  Supervisory capital would be composed of only two tiers: Tier I capital (including Tier I equity and Tier I additional capital) and Tier II capital.

  The requirement for Tier III capital to cover market risk was eliminated.

- **Qualified capital instruments for Tier I additional capital and Tier II capital**

  Qualification criteria were specified for capital instruments classified as Tier I additional capital and as Tier II capital. These instruments are to include a mechanism for absorbing loss of principal, whereby conversion into shares or principal reduction would take place when the Tier I equity ratio drops below 7% for Tier I additional capital instruments, or below 5% for Tier II capital instruments.

- **Non-controlling interest**

  The amount of non-controlling interest recognized as capital would be limited, and excess equity of a subsidiary would not be recognized.

- **Group provision for credit losses**

  The amount of group provision would be recognized as Tier II capital up to 1.25% of weighted risk assets for credit risk.

  On the other hand, the provision amount would be added to the weighted risk assets for credit risk.

- **Adjustments to and deductions from supervisory capital**

  - Deferred taxes due to temporary differences would be accounted for as follows:

    Up to 10% of Tier I equity - weighted at 250% risk weighting.

    Over 10% of Tier I equity - would be deducted from capital.

  - Investments in equity components of financial institutions - banks, insurance companies and any company doing business in the capital market segment - would be accounted for as a deduction from capital or by risk weighting, subject to specified tests.

  - The accumulated gain with respect to cash flows hedging of items not listed at fair value on the balance sheet would be deducted from capital. This means that positive amounts would be deducted from capital and negative amounts would be added to capital.

  - Accounting adjustments with respect to liabilities of derivatives arising from a change in the Bank's credit risk (Debit Valuation Adjustment - DVA) would be deducted from capital.

- **Capital allocation with respect to CVA loss (Credit Value Adjustments) - loss due to revaluation at market value with respect to counter-party credit risk.**

  In addition to capital requirement with respect to default risk arising from counter-party credit risk under the standard approach, an additional capital allocation is required to cover the risk of potential loss which may arise from marking to market value of OTC derivatives.

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

In order to comply with the new requirements in conjunction with application of the Basel III directives, a graduated transition period of several years was specified, until these directives are completely applied.

- Supervisory adjustments and deductions from capital and non-controlling interest not qualified for inclusion under supervisory capital - an annual 20% deduction as from January 1, 2014.
- Capital instruments not qualified as supervisory capital - recognition of 80% of the balance of such instruments as from the effective start date and a 10% deduction annually through January 1, 2022.

The amendment to Regulation 202 stipulates that the target date for compliance with the minimum 9% Tier I capital ratio for a non-large banking corporation is January 1, 2015 - in line with the Supervisor of Banks' letter dated March 28, 2012.

J. Following the publication of these directives, the Bank has revisited its compliance with the schedule for achieving the target core capital ratio of no less than 9%

Following this review and based on assumptions with regard to expected profit in 2013-2014 and to growth rate of risk assets, the Bank presented to the Supervisor of Banks an outline of expected evolution of its core capital ratio, including dividend distribution, while maintaining appropriate safety margins.

After checking with the Supervisor of Banks, the Bank's Board of Directors resolved, on August 14, 2013, to adopt a core capital ratio target as of December 31, 2014 of 9% or higher. Furthermore, the Board of Directors then resolved to distribute dividends amounting to NIS 75 million and to adopt a guideline whereby, through December 31, 2014, the Bank would distribute dividends equal to up to 30% of annual operating net profit and 80% of annual profit from extraordinary items.

These resolutions supersede the Board of Directors' resolutions with regard to bringing forward the implementation of the Supervisor of Banks' directives, dated March 28, 2013, with the intention of implementing these, in as much as possible, as from January 1, 2014, and with regard to the dividend distribution policies - as described in section 1 of the Immediate Report issued by the Bank, dated July 23, 2012 (reference 2012-01-191649). This mention constitutes inclusion by way of reference of all information provided in section 1 of the aforementioned report.

K. On August 29, 2013, the Supervisor of Banks issued directives with regard to "Restrictions on provision of housing loans". According to the directives, as from September 1, 2013 a bank may not approve nor originate housing loans where the ratio of monthly repayment to borrower income exceeds 50%.

Furthermore, loans with a ratio of monthly repayment to borrower income in excess of 40% will have a 100% risk weighting in calculation of capital allocation.

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

As of March 31, 2014 (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	27,327	101	1,744	25	487	-	29,684
Securities	2,504	960	1,915	1,011	30	99	6,519
Securities loaned or sold in conjunction with repurchase agreements	243	54	-	-	-	-	297
Loans to the public, net	76,050	52,712	8,309	2,398	1,592	-	141,061
Loans to Governments	-	-	124	178	-	-	302
Investments in investees	35	-	-	-	-	25	60
Buildings and equipment	-	-	-	-	-	1,655	1,655
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	2,427	546	196	76	35	-	3,280
Other assets	1,410	298	31	1	26	43	1,809
Total assets	**109,996**	**54,671**	**12,319**	**3,689**	**2,170**	**1,909**	**184,754**
Liabilities							
Deposits from the public	95,653	21,889	21,262	4,208	2,689	-	145,701
Deposits from banks	757	406	854	74	15	-	2,106
Deposits from the Government	11	20	30	-	-	-	61
Debentures and subordinated notes	2,170	15,717	-	-	-	-	17,887
Liabilities with respect to derivatives	1,970	277	473	259	23	-	3,002
Other liabilities	4,197	805	34	11	28	301	5,376
Total liabilities	**104,758**	**39,114**	**22,653**	**4,552**	**2,755**	**301**	**174,133**
Difference	**5,238**	**15,557**	**(10,334)**	**(863)**	**(585)**	**1,608**	**10,621**
Impact of hedging derivatives:							
Derivatives (other than options)	2,003	(2,003)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (other than options)	(4,046)	(5,605)	8,581	464	606	-	-
Net in-the-money options (in terms of underlying asset)	(764)	-	614	220	(70)	-	-
Net out-of-the-money options (in terms of underlying asset)	(1,319)	-	1,186	125	9	(1)	-
Total	**1,112**	**7,949**	**47**	**(54)**	**(40)**	**1,607**	**10,621**
Net in-the-money options (capitalized par value)	858	-	(150)	(613)	(95)	-	-
Net out-of-the-money options (capitalized par value)	39	-	96	(376)	241	-	-

(1) Includes linked to foreign currency.

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

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

As of March 31, 2013 (unaudited) - Continued

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]			Non-	
		CPI-			Other	monetary	
	Non-linked	linked	US dollars	Euro	currencies	items[2]	Total
Assets							
Cash and deposits with banks	16,193	84	1,300	202	245	-	18,024
Securities	5,643	219	2,581	786	29	116	9,374
Securities loaned or sold in conjunction with repurchase agreements	158	36	-	-	-	-	194
Loans to the public, net	67,273	50,251	8,906	2,450	1,663	-	130,543
Loans to Governments	-	-	110	197	-	-	307
Investments in investees	34	-	-	-	-	27	61
Buildings and equipment	-	-	-	-	-	1,632	1,632
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	2,839	450	299	42	71	-	3,701
Other assets	1,172	380	21	2	17	42	1,634
Total assets	**93,312**	**51,420**	**13,217**	**3,679**	**2,025**	**1,904**	**165,557**
Liabilities							
Deposits from the public	[3]82,557	[3]21,941	19,323	3,936	2,360	-	[3]130,117
Deposits from banks	430	503	882	221	18	-	2,054
Deposits from the Government	15	51	32	-	-	-	98
Debentures and subordinated notes	2,171	12,674	-	-	-	-	14,845
Liabilities with respect to derivatives	2,653	241	602	210	46	-	3,752
Other liabilities	[3]3,900	[3]845	70	10	20	286	[3]5,131
Total liabilities	**91,726**	**36,255**	**20,909**	**4,377**	**2,444**	**286**	**155,997**
Difference	**1,586**	**15,165**	**(7,692)**	**(698)**	**(419)**	**1,618**	**9,560**
Impact of hedging derivatives:							
Derivatives (other than options)	400	(400)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (other than options)	251	(8,108)	7,588	(170)	439	-	-
Net in-the-money options (in terms of underlying asset)	(1,072)	-	331	743	(2)	-	-
Net out-of-the-money options (in terms of underlying asset)	24	-	(133)	117	(7)	(1)	-
Total	**1,189**	**6,657**	**94**	**(8)**	**11**	**1,617**	**9,560**
Net in-the-money options (capitalized par value)	153	-	549	(695)	(7)	-	-
Net out-of-the-money options (capitalized par value)	437	-	(858)	479	(58)	-	-

(1) Includes linked to foreign currency.

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

(3) Reclassified. For details, see Note 1.B.

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

As of December 31, 2013 (audited) - Continued

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]			Non-monetary items[2]	
	Non-linked	CPI- linked	US dollars	Euro	Other currencies		Total
Assets							
Cash and deposits with banks	23,064	114	2,346	88	448	-	26,060
Securities	4,015	138	1,972	747	30	98	7,000
Securities loaned or sold in conjunction with repurchase agreements	13	57	-	-	-	-	70
Loans to the public, net	73,715	52,740	8,352	2,317	1,441	-	138,565
Loans to Governments	-	-	122	183	-	-	305
Investments in investees	35	-	-	-	-	25	60
Buildings and equipment	-	-	-	-	-	1,656	1,656
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	2,726	552	219	78	31	-	3,606
Other assets	1,842	280	26	1	12	43	2,204
Total assets	**105,410**	**53,881**	**13,037**	**3,414**	**1,962**	**1,909**	**179,613**
Liabilities							
Deposits from the public	92,888	21,439	20,064	4,221	2,632	-	141,244
Deposits from banks	434	439	1,050	102	16	-	2,041
Deposits from the Government	11	22	29	-	-	-	62
Debentures and subordinated notes	2,146	14,297	-	-	-	-	16,443
Liabilities with respect to derivatives	2,443	294	494	291	16	-	3,538
Other liabilities	4,523	1,022	43	1	35	326	5,950
Total liabilities	**102,445**	**37,513**	**21,680**	**4,615**	**2,699**	**326**	**169,278**
Difference	**2,965**	**16,368**	**(8,643)**	**(1,201)**	**(737)**	**1,583**	**10,335**
Impact of hedging derivatives:							
Derivatives (other than options)	1,083	(1,083)					-
Non-hedging financial derivatives:							
Derivatives (other than options)	(1,437)	(8,042)	8,238	524	717	-	-
Net in-the-money options (in terms of underlying asset)	(343)	-	(11)	380	(35)	9	-
Net out-of-the-money options (in terms of underlying asset)	(756)	-	474	271	20	(9)	-
Total	**1,512**	**7,243**	**58**	**(26)**	**(35)**	**1,583**	**10,335**
Net in-the-money options (capitalized par value)	(725)	-	948	(160)	(63)	-	-
Net out-of-the-money options (capitalized par value)	6	-	77	(233)	150	-	-

(1) Includes linked to foreign currency.

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

Note 7 - Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

	As of March 31,				As of December 31,	
	2014		2013		2013	
	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	324	2	349	2	296	2
- Loan guarantees	2,385	23	2,691	20	2,413	27
- Guarantees to home buyers	10,000	8	8,376	7	9,935	8
- Other guarantees and liabilities(3)	3,620	13	3,417	17	3,519	13
- Unutilized revolving credit card facilities	7,231	6	6,809	6	7,135	5
- Unutilized debitory account and other credit facilities in accounts available on demand	16,338	26	16,290	21	17,460	28
- Irrevocable commitments for loans approved but not yet granted	9,161	14	9,735	16	9,009	15
- Commitments to issue guarantees	6,374	5	4,818	5	6,265	5

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

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

(3) Includes the Bank's liabilities for its share in the risks fund of the MAOF Clearinghouse of NIS 155 million. (as of March 31, 2013, and December 31, 2013 - NIS 98 million and NIS 133 million, respectively). For details see Note 19.D.2 and Note 15.B to the 2013 financial statements.

Note 7 - Contingent Liabilities and Special Commitments - continued

Reported amounts (NIS in millions)

	As of March 31,		As of December 31,
	2014	2013	2013
		(unaudited)	(audited)
B. Special commitments			
Obligations with respect to:			
Long-term leases	593	587	603
Computerization and software service contracts	214	151	174
Acquisition and renovation of buildings	13	12	10
Receipt of deposits on future dates [(1)]	400	400	400

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

Note 7 - Contingent Liabilities and Special Commitments - continued

C. 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, 2013. Below is a description of material changes relative to the description provided in the 2013 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, including motions for class action status and 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 2013 financial statements:

A. 1) In March 2008, a claim against the Bank was filed with the Tel Aviv District Court, including an application for class action status, amounting to over NIS 2.5 million (as stated in the claim). The plaintiffs claim that banks are in breach of restrictive trade practices statutes, with restrictive practices leading to reduced competition among banks with regard to various commissions. The banks, according to the claim, have shared information with regard to the various commissions they charge. The plaintiffs claim that this impacted competition in the banking sector, and customers, such as the plaintiffs, have been charged higher commissions than they would have paid had the banks acted lawfully.

2) In May 2009, a claim and application for class action status was filed with the Tel Aviv District Court against the Bank and against Bank Leumi Le-Israel Ltd., Bank Discount Le-Israel Ltd. and First International Bank of Israel Ltd. (hereinafter: "the defendant banks").The claim is based on the determination by the Anti-Trust Supervisor dated April 26, 2009 headed "Re: restrictive trade practices existed between the Bank and Bank HA-POALIM 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" (see section 4 below). The claim alleges, based on the determination by the Supervisor, that the defendant banks were party to a restrictive trade practice, which affected competition and caused coordination of commissions, such that the plaintiffs paid excessive prices for services rendered to them.

Note 7 - Contingent Liabilities and Special Commitments - continued

The plaintiffs have set the amount of their claim against all defendant banks at NIS 1 billion based, according to the plaintiffs, only on an estimation so as to place the issue under the material jurisdiction of the District Court.

In November 2009, at the Bank's request, the Court handed down its decision, whereby legal proceedings with regard to the two aforementioned lawsuits would currently be put on hold for at least two years.

In February 2012, the Court decided that hearing of these two claims would be delayed pending a resolution by the Anti-Trust Court of an appeal filed by the Bank of the decision by the Anti-Trust Supervisor, whereby the Bank was

party to a restrictive trade practice concerning transfer of information with regard to commissions applicable to households and small businesses. A hearing of the motion to resume proceedings is scheduled for May 18, 2014. For more information about these lawsuits, see also section 4 below in this Note.

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

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

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

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

Note 7 - Contingent Liabilities and Special Commitments - continued

Evidence in this case was heard between March 2011 and April 2012, and the parties have filed their summations.

After hearing the evidence, a partial verdict was handed down in July 2013 against the defendant banks and in November 2013, the Court handed down a complementary verdict, requiring the defendants to pay to the plaintiffs the amount of NIS 48.5 million plus interest and linkage differentials since November 9, 2009, reimbursement of fees amounting to NIS 0.5 million and legal fees amounting to NIS 4.2 million. According to the opinion of Legal Counsel, the Bank's share is the same as its share of financing, i.e. 10%.

The banks have appealed the verdict to the Supreme Court and also filed a motion for a stay of execution of this verdict. The plaintiffs also appealed the verdict. The parties have reached agreement with regard to a stay of execution.

Following a motion filed by the plaintiffs, the hearing of the appeals was brought forward from January 2015 to October 27, 2014.

Accordingly, the date for filing of the Banks' summations is set for July 7, 2014.

C. In June 2010, the Bank received a claim and motion for approval of class action in the amount of NIS 26 million. According to the plaintiffs, the Bank is in breach of its obligations pursuant to section 9a(a) of the Banking Act (Customer Service), 1981 - by failing to remove and/or to issue notification of removal of recorded liens and lien warnings on land and other rights recorded in various registries (Lien Registry, Land Registration Bureau, Israel Land Authority and housing companies) as collateral for loans extended to Bank clients - once the loan has been repaid by these clients.

The Court, in a decision dated November 24, 2013, requested the Supervisor of Banks' position on several issues related to the requested approval and with regard to how liens are removed. The parties pursued a reconciliation process designed to try and resolve their differences outside the Court.

The parties have reached a settlement agreement, brought before the Court for approval in March 2014.

In March 2014, the Court ruled that, in conformity with the Class Action Lawsuit Act, a notice with regard to filing of the motion for approval of the settlement agreement would be published in daily newspapers and a hearing by the Court of the motion for approval of the settlement agreement is scheduled for July 2014.

Note 7 - Contingent Liabilities and Special Commitments - continued

D. 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 November 2012, the plaintiffs filed their evidence with the Court and the Bank did so in April 2013.

The parties conducted an arbitration proceeding and reached a settlement agreement. On February 18, 2014, the Court approved the settlement agreement, which was adopted as a verdict.

E. In August 2012, a claim against the Bank was filed with the Tel Aviv District Court, including an application for class action status, amounting to NIS 2.3 billion against Automated Bank Services Ltd. (hereinafter: "ABS"), major banks including the Bank and others, with regard to alleged unlawful charging of commissions upon cash withdrawal from ATMs operated by ABS and located on premises of the defendant banks. The main claim is that by restricting the maximum withdrawal amount per transaction in these ATMs, the number of withdrawal commissions paid to ABS increased, as did the number of direct channel transaction commissions charged for each withdrawal by the bank where the account is managed. According to the claim, the four other banks are named as defendants for being shareholders of ABS, while the Bank is named as defendant, even though its ABS shares were transferred to other shareholders in 1980, but the Bank retained, according to the plaintiff, rights associated with shareholding.

In January 2014, the plaintiff asked in writing for consent by all defendants to withdrawal of this claim with no payment of expenses. The Bank has consented, subject to consent by all defendants and subject to impact of the withdrawal.

On January 29, 2014, the Court approved the agreed motion for withdrawal and the claim was rejected.

F. In October 2012, a claim with motion for class action status was filed with the Tel Aviv District Court, against the five large banks - including the Bank - alleging failure to match the client debt amount on Bank accounts and the debt amount indicated in Court Order Execution Service files. The plaintiffs indicate that the claim amount cannot be estimated at this stage. The Bank filed its response to the motion in January 2014.

Note 7 - Contingent Liabilities and Special Commitments - continued

G. In December 2012, a claim and motion for class action status were filed with the Tel Aviv District Court, in the amount of NIS 6 billion, alleging that no notice was given to mortgage borrowers that provisions of a HEYTER ISKA ("transaction permit") apply to their loans and therefore, the Bank over-charged arrears interest on these loans.
The plaintiffs claim that the Bank has failed to fulfill its obligations pursuant to the HEYTER ISKA, and charged the plaintiffs arrears interest which was 10% higher than regular interest.
In July 2013, the Bank filed its response to the motion with the Court.
In January 2014, the plaintiffs requested to withdraw the motion with no award of expenses. The Court agreed to this request and adopted it as a verdict. This concluded legal proceedings in this case.

H. In December 2012, an action and a motion for recognition as a class action were filed with the Tel Aviv District Court, with regard to setting rates of arrears interest charged by the Bank in Court Order Execution Service cases filed against debtors. According to the plaintiff, the Bank charges interest significantly higher than the maximum interest rate on checking accounts.
The plaintiff is currently unable to estimate the amount claimed.
The Bank has yet to file a response to this motion.

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding claims listed in section 3 below, there is additional, non-remote exposure for which no provision was made, amounting to NIS 49 million.

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

A. 1) In August 2013, a claim and motion for class action status in the amount of NIS 10.5 billion were filed with the Tel Aviv District Court against the 5 major banks, including the Bank, and against bank Presidents, including the Bank President, in person - with respect to unlawful charging of commissions by the banks with regard to foreign currency conversion and transfer.
In September 2013, the defendants filed a motion with the Court, seeking dismissal of the personal claim against bank Presidents, and the individual claim against them was dismissed.
The Bank has yet to file a response to this motion.

Note 7 - Contingent Liabilities and Special Commitments - continued

2) In March 2014, a claim and motion for class action status in the amount of NIS 2.07 billion were filed with the Tel Aviv District Court against the Bank and 4 other banks Bank Otzar HaChayal Ltd., Mercantile Discount Bank Ltd., Bank Igud LeIsrael Ltd. and Bank Yahav for Government Employees Ltd. alleging unlawful commissions charged by the banks with regard to conversion and transfer of foreign currency.

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

B. In October 2013, a claim was filed with the Tel Aviv District Court, along with a motion for class action status, in the amount of NIS 622 million, alleging services unlawfully made contingent on other services and excessive interest charged with respect to loans guaranteed by the State. The plaintiffs claim that, as a pre-condition for providing loans guaranteed by the State, in which the State guarantees repayment to the Bank up to 70% of the loan amount, the Bank makes this contingent on the client depositing at least 25% of the loan amount. The plaintiffs claim that, in so doing, the Bank is in fact only lending 75% of the loan amount to the borrower, while charging interest on the full loan amount.

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

C. In October 2013, a claim and motion for class action status were filed with the Tel Aviv District Court against the Bank and against Bank Leumi, whose amount exceeds NIS 112.5 million, with regard to placement of monitoring cameras at ATM locations without proper signage informing clients of the presence of such cameras, which allegedly constitutes an invasion of their privacy.

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

D. In March 2014, a claim and motion for class action status were filed with the Central District Court against the Bank, alleging unlawful charging of warning letter commission and excessive interest charged for exceeding the authorized limit on accounts, allegedly in breach of Proper Conduct of Banking Business Regulation 325 concerning "management of credit facility in checking account". The plaintiffs claim that this regulation is breached, *inter alia*, by the Bank allowing charges to clients which the Bank could have rejected, since the Bank may not allow clients to exceed their credit facility - thereby causing them to exceed their credit facility.

The plaintiff claimed to be unable to estimate the damage caused to potential class members, but believes this amounts to hundreds of millions of NIS.

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

Note 7 - Contingent Liabilities and Special Commitments - continued

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

   On March 24, 2010, the Bank appealed the ruling to the Anti-Trust Court. On June 18, 2012, the Court ordered parts of the Supervisor's response to the appeal to be erased.

   The Bank and the other banks mentioned in the reached an agrement with the Anti-trust Supervisor based, *inter alia*, on cancellation of the ruling and payment by the Bank (and the other banks, respectively) of the amount initially designated for settlement of class action lawsuits concerning alleged breach of anti-trust statutes with regard to the aforementioned collection of commissions.

   On May 1, 2014, the Anti-trust Supervisor filed a motion with the Court for approval of said agreement.

   For details of a claim filed based on the determination by the Anti-Trust Supervisor, see section 2.A in this Note.

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

   In August 2013, Mizrahi Bank Switzerland was informed by US authorities that an investigation of its business has been launched. Mizrahi Bank Switzerland expressed its willingness to assist and cooperate with US authorities, in conformity with statutory provisions and the treaty signed by the USA and Switzerland - and even provided to US authorities statistical data as required. Mizrahi Bank Switzerland reports these events from time to time to the Swiss supervisory authorities and the Bank reports these events from time to time to the Supervisor of Banks.

   Mizrahi Bank Switzerland and the Bank are in constant contact with US authorities in order to reach an appropriate outline for the Bank Group. Currently, it is not possible to assess the likelihood of the Bank realizing a loss due to developments via-a-vis-à-vis authorities in its subsidiary in Switzerland nor the related exposure amounts or the extent of such exposure.

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

Reported amounts (NIS in millions)

a) Activity on consolidated basis

	As of March 31, 2014					
	Interest contracts				Commodities	
			Currency	Contracts	and other	
	NIS - CPI	Other	contracts	for shares	contracts	Total
1. Stated amounts of financial derivatives						
A. Hedging derivatives[1]						
Forward contracts	2,053	-	-	-	-	2,053
Swaps	-	2,177	-	-	-	2,177
Total	**2,053**	**2,177**	**-**	**-**	**-**	**4,230**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	2,177	-	-	-	2,177
B. ALM derivatives [(1)(2)]						
Forward contracts	7,818	2,200	51,703	-	46	61,767
Option contracts traded on stock exchange:						
Options written	-	-	4,624	1,495	-	6,119
Options purchased	-	-	5,142	1,510	-	6,652
Other option contracts:						
Options written	-	-	15,339	-	14	15,353
Options purchased	-	-	13,815	-	13	13,828
Swaps	2,148	33,141	10,999	-	-	46,288
Total	**9,966**	**35,341**	**101,622**	**3,005**	**73**	**150,007**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,552	18,596	-	-	-	20,148
C. Other derivatives[(1)]						
Forward contracts	-	-	1,252	-	-	1,252
Option contracts traded on stock exchange:						
Options written	-	-	9,045	10,827	-	19,872
Options purchased	-	-	9,045	10,827	-	19,872
Other option contracts:						
Options written	-	299	-	2	-	301
Options purchased	-	134	-	49	-	183
Swaps	-	231	224	3,471	-	3,926
Total	**-**	**664**	**19,566**	**25,176**	**-**	**45,406**

(1) Except for credit derivatives and foreign currency spot swaps.
(2) Derivatives which are part of the Bank’s asset and liability management not designated for hedging.

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

Reported amounts (NIS in millions)

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

	As of March 31, 2014					
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	17	17
Foreign currency spot swap contracts	-	-	4,746	-	-	4,746
Total	**-**	**-**	**4,746**	**-**	**17**	**4,763**
Total stated amounts of derivatives	**12,019**	**38,182**	**125,934**	**28,181**	**90**	**204,406**
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives[(1)]						
Positive fair value, gross	20	2	-	-	-	22
Negative fair value, gross	-	146	-	-	-	146
B. ALM derivatives [(1)(2)]						
Positive fair value, gross	246	1,157	1,390	225	1	3,019
Negative fair value, gross	191	1,390	1,011	7	1	2,600
C. Other derivatives [(1)]						
Positive fair value, gross	-	5	84	162	-	251
Negative fair value, gross	-	42	68	151	-	261
E. Total						
Carrying amount of assets with respect to derivatives [(3)]	**266**	**1,164**	**1,474**	**387**	**1**	**3,292**
Includes: Carrying amount of assets with respect to derivatives not subject to a master netting agreement or to similar agreements	71	117	913	387	-	1,488
Carrying amount of liabilities with respect to derivatives[(3)]	**191**	**1,578**	**1,079**	**158**	**1**	**3,007**
Includes: Carrying amount of liabilities with respect to derivatives not subject to a master netting agreement or to similar agreements	7	145	682	158	1	993

(1) Except for credit derivatives.

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

(3) Includes: Of which positive fair value, gross of assets with respect to embedded derivatives amounting to NIS 12 million and negative fair value, gross of liabilities with respect to embedded derivatives amounting to NIS 5 million.

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

Reported amounts (NIS in millions)

a) Activity on consolidated basis - continued

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

(1) Except for credit derivatives.

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

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

Reported amounts (NIS in millions)

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

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

(1) Except for credit derivatives and spot contracts for foreign currency swaps.
(2) Derivatives which constitute part of the Bank's asset and liability management system, which were not intended as hedges.
(3) Includes negative fair value, gross, of embedded financial derivatives amounting to NIS 5 million.

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

Reported amounts (NIS in millions)

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

	As of December 31, 2013 (audited)					
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
1. Stated amounts of financial derivatives						
A. Hedging derivatives(1)						
Forward contracts	1,803	-	-	-	-	1,803
Swaps	-	1,900	-	-	-	1,900
Total	**1,803**	**1,900**	**-**	**-**	**-**	**3,703**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	1,900	-	-	-	1,900
B. ALM derivatives (1)(2)						
Forward contracts	9,066	900	52,204	-	47	62,217
Option contracts traded on stock exchange:						
Options written	-	-	4,540	2,317	-	6,857
Options purchased	-	-	3,536	2,318	-	5,854
Other option contracts:						
Options written	-	-	12,362	-	-	12,362
Options purchased	-	-	12,542	-	-	12,542
Swaps	2,042	34,703	11,027	-	-	47,772
Total	**11,108**	**35,603**	**96,211**	**4,635**	**47**	**147,604**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,492	20,082	-	-	-	21,574
C. Other derivatives(1)						
Forward contracts	-	-	931	-	-	931
Option contracts traded on stock exchange:						
Options written	-	-	7,180	15,305	-	22,485
Options purchased	-	-	7,180	15,305	-	22,485
Other option contracts:						
Options written	-	75	-	514	-	589
Options purchased	-	65	-	560	-	625
Swaps	-	230	-	3,291	-	3,521
Total	**-**	**370**	**15,291**	**34,975**	**-**	**50,636**

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

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

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

Reported amounts (NIS in millions)

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

	As of December 31, 2013 (audited)					
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	17	17
Foreign currency spot swap contracts	-	-	990	-	-	990
Total	**-**	**-**	**990**	**-**	**17**	**1,007**
Total stated amounts of derivatives	**12,911**	**37,873**	**112,492**	**39,610**	**64**	**202,950**
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives(1)						
Positive fair value, gross	3	7	-	-	-	10
Negative fair value, gross	-	140	-	-	-	140
B. ALM derivatives (1)(2)						
Positive fair value, gross	169	1,082	1,595	335	2	3,183
Negative fair value, gross	191	1,320	1,450	17	2	2,980
C. Other derivatives (1)						
Positive fair value, gross	-	12	159	253	-	424
Negative fair value, gross	-	41	143	248	-	432
D. Total						
Carrying amount of assets with respect to derivatives (3)	**172**	**1,101**	**1,754**	**588**	**2**	**3,617**
Includes: Carrying amount of assets with respect to derivatives not subject to a master netting agreement or to similar agreements	48	153	1,049	588	1	1,839
Carrying amount of liabilities with respect to derivatives (3)	**191**	**1,501**	**1,593**	**265**	**2**	**3,552**
Includes: Carrying amount of liabilities with respect to derivatives not subject to a master netting agreement or to similar agreements	8	167	970	265	1	1,411

(1) Except for credit derivatives.

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

(3) Includes: Of which positive fair value, gross of assets with respect to embedded derivatives amounting to NIS 11 million and negative fair value, gross of liabilities with respect to embedded derivatives amounting to NIS 14 million.

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

Reported amounts (NIS in millions)

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

	As of March 31, 2014 (unaudited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivatives[1]	**424**	**1,958**	**14**	**-**	**896**	**3,292**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(1,528)	-	-	(16)	(1,544)
Mitigation of credit risk with respect to cash collateral received	-	(254)	-	-	-	(254)
Net amount of assets with respect to derivatives	**424**	**176**	**14**	**-**	**880**	**1,494**
Off-balance sheet credit risk on financial derivatives[2]	94	1,401	29	-	-	1,524
Mitigation of off-balance sheet credit risk	-	(528)	-	-	-	(528)
Net off-balance sheet credit risk with respect to derivatives	**94**	**873**	**29**	**-**	**-**	**996**
Total credit risk on financial derivatives	**518**	**1,049**	**43**	**-**	**880**	**2,490**
Carrying amount of liabilities with respect to derivatives[3]	**181**	**2,205**	**-**	**-**	**621**	**3,007**
Gross amounts not offset on the balance sheet:						
Financial instruments	-	(1,528)	-	-	(16)	**(1,544)**
Pledged cash collateral	-	(530)	-	-	-	(530)
Net amount of liabilities with respect to derivatives	**181**	**147**	**-**	**-**	**605**	**933**

(1) Includes positive fair value, gross, of embedded derivatives amounting to NIS 12 million.

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

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

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

Reported amounts (NIS in millions)

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

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

(1) The difference, if positive, between total amount with respect to derivatives (including with respect to derivatives with a negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, before mitigation of credit risk, and the carrying amount of assets with respect to derivatives of the borrower.
(2) Includes negative fair value, gross, of embedded derivatives amounting to NIS 5 million.

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

Reported amounts (NIS in millions)

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

	As of December 31, 2013 (audited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivatives[1]	**681**	**2,003**	**29**	**-**	**904**	**3,617**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(1,627)	-	-	-	(1,627)
Mitigation of credit risk with respect to cash collateral received	-	(95)	-	(72)	(17)	(184)
Net amount of assets with respect to derivatives	**681**	**281**	**29**	**(72)**	**887**	**1,806**
Off-balance sheet credit risk on financial derivatives[2]	-	1,501	76	-	2,038	3,615
Mitigation of off-balance sheet credit risk	-	(502)	-	-	-	(502)
Net off-balance sheet credit risk with respect to derivatives	**-**	**999**	**76**	**-**	**2,038**	**3,113**
Total credit risk on financial derivatives	**681**	**1,280**	**105**	**(72)**	**2,925**	**4,919**
Carrying amount of liabilities with respect to derivatives[3]	**388**	**2,341**	**-**	**-**	**823**	**3,552**
Gross amounts not offset on the balance sheet:						
Financial instruments	-	(1,627)	-	-	-	(1,627)
Pledged cash collateral	-	(597)	-	-	-	(597)
Net amount of liabilities with respect to derivatives	**388**	**117**	**-**	**-**	**823**	**1,328**

(1) Includes positive fair value, gross, of embedded derivatives amounting to NIS 11 million.

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

(3) Includes negative fair value, gross, of embedded derivatives amounting to NIS 14 million.

In the three-month period ended March 31, 2014, the Bank recognized credit losses with respect to derivatives, amounting to NIS 5 million (in the three-month period ended March 31, 2013, the Bank recognized credit losses amounting to NIS 9 million).

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

Reported amounts (NIS in millions)

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

	March 31, 2014 (unaudited)				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	**Total**
Interest contracts:					
NIS - CPI	658	5,668	3,925	1,768	12,019
Other	1,766	7,692	15,686	13,038	38,182
Currency contracts	67,558	46,757	5,923	5,696	125,934
Contracts for shares	24,093	4,025	63	-	28,181
Commodities and other contracts	61	29	-	-	90
Total	**94,136**	**64,171**	**25,597**	**20,502**	**204,406**

	March 31, 2013 (unaudited)				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	**Total**
Interest contracts:					
NIS - CPI	1,013	7,253	2,688	2,082	13,036
Other	4,485	11,811	13,217	14,278	43,791
Currency contracts	70,491	23,354	5,371	6,834	106,050
Contracts for shares	16,103	3,379	406	-	19,888
Commodities and other contracts	20	70	91	73	254
Total	**92,112**	**45,867**	**21,773**	**23,267**	**183,019**

	As of December 31, 2013 (audited)				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	**Total**
Interest contracts:					
NIS - CPI	2,406	4,949	3,501	2,055	12,911
Other	4,062	6,794	13,466	13,551	37,873
Currency contracts	59,784	41,447	4,360	6,901	112,492
Contracts for shares	37,083	2,413	114	-	39,610
Commodities and other contracts	31	33	-	-	64
Total	**103,366**	**55,636**	**21,441**	**22,507**	**202,950**

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

Reported amounts (NIS in millions)

A. Fair value balances

	As of March 31, 2014 (unaudited)				
	Carrying	Fair value			
	amount	Level 1(1)	Level 2(1)	Level 3(1)	Total
Financial assets					
Cash and deposits with banks	29,684	3,055	23,946	2,681	29,682
Securities (3)	6,519	3,520	2,726	298	6,544
Securities loaned or sold in repurchase agreements	297	297	-	-	297
Loans to the public, net	141,061	-	9,631	133,601	143,232
Loans to Governments	302	-	-	302	302
Investments in associates	35	-	-	35	35
Assets with respect to derivatives	3,280	437	2,304	(2)539	3,280
Other financial assets	1,677	492	-	1,185	1,677
Total financial assets	**(4)182,855**	**7,801**	**38,607**	**138,641**	**185,049**
Financial liabilities					
Deposits from the public	145,701	-	31,008	117,462	148,470
Deposits from banks	2,106	-	19	2,125	2,144
Deposits from the Government	61	-	-	72	72
Debentures and subordinated notes	17,887	17,442	-	1,906	19,348
Liabilities with respect to derivatives	3,002	181	2,086	(2)735	3,002
Other financial liabilities	3,987	1	3,133	853	3,987
Total financial liabilities	**(4)172,744**	**17,624**	**36,246**	**123,153**	**177,023**

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

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

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

(4) Includes assets and liabilities amounting to NIS 43,291 million and NIS 31,864 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

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

Reported amounts (NIS in millions)

A. Fair value balances - Continued

	As of March 31, 2013 (unaudited)				
	Carrying	Fair value			
	amount	Level 1 [(1)]	Level 2 [(1)]	Level 3 [(1)]	Total
Financial assets					
Cash and deposits with banks	18,024	4,774	11,501	1,754	18,029
Securities [(3)]	9,374	5,880	[(5)]3,139	[(5)]362	9,381
Securities loaned or sold in repurchase agreements	194	194	-	-	194
Loans to the public, net	130,543	-	10,463	121,482	131,945
Loans to Governments	307	-	-	307	307
Investments in associates	34	-	-	34	34
Assets with respect to derivatives	3,701	360	2,290	[(2)]1,051	3,701
Other financial assets	1,526	[(5)]527	-	[(5)]999	1,526
Total financial assets	**[(4)]163,703**	**11,735**	**27,393**	**125,989**	**165,117**
Financial liabilities					
Deposits from the public	[(5)]130,117	-	35,696	[(5)]96,720	132,416
Deposits from banks	2,054	-	25	2,075	2,100
Deposits from the Government	98	-	-	110	110
Debentures and subordinated notes	14,845	14,006	-	2,203	16,209
Liabilities with respect to derivatives	3,752	228	2,173	[(2)]1,351	3,752
Other financial liabilities	3,533	-	2,967	566	3,533
Total financial liabilities	**[(4)]154,399**	**14,234**	**40,861**	**103,025**	**158,120**

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

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

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

(4) Includes assets and liabilities amounting to NIS 37,830 million and NIS 29,745 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

(5) Reclassified.

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

Reported amounts (NIS in millions)

A. Fair value balances - Continued

	As of December 31, 2013 (unaudited)				
	Carrying	Fair value			
	amount	Level 1[(1)]	Level 2[(1)]	Level 3[(1)]	Total
Financial assets					
Cash and deposits with banks	26,060	3,067	19,878	3,118	26,063
Securities [(3)]	7,000	4,222	2,491	298	7,011
Securities loaned or sold in repurchase agreements	70	70	-	-	70
Loans to the public, net	138,565	-	9,775	130,354	140,129
Loans to Governments	305	-	-	305	305
Investments in associates	35	-	-	35	35
Assets with respect to derivatives	3,606	708	2,362	[(2)]536	3,606
Other financial assets	2,040	908	-	1,132	2,040
Total financial assets	[(4)]**177,681**	**8,975**	**34,506**	**135,778**	**179,259**
Financial liabilities					
Deposits from the public	141,244	-	31,700	111,891	143,591
Deposits from banks	2,041	-	42	2,035	2,077
Deposits from the Government	62	-	-	74	74
Debentures and subordinated notes	16,443	15,684	-	2,024	17,708
Liabilities with respect to derivatives	3,538	389	2,417	[(2)]732	3,538
Other financial liabilities	4,634	21	3,185	1,429	4,635
Total financial liabilities	[(4)]**167,962**	**16,094**	**37,344**	**118,185**	**171,623**

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

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

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

(4) Includes assets and liabilities amounting to NIS 41,640 million and NIS 32,478 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

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

Reported amounts (NIS in millions)

B. Items measured at fair value:

1. On recurring basis

	As of March 31, 2014 (unaudited)			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Securities available for sale				
Debentures and bonds				
Of Government of Israel	368	2,592	-	2,960
Of foreign governments	51	-	-	51
Of banks and financial institutions in Israel	124	-	-	124
Of banks and financial institutions overseas	-	48	176	224
Of others in Israel	21	-	-	21
Of others overseas	-	86	23	109
Securities held for trade				
Debentures of the Government of Israel	1,089	-	-	1,089
Securities loaned or sold in repurchase agreements	297	-	-	297
Credit with respect to inter-client loaning	287	-	-	287
Assets with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	-	120	146	266
Other	-	1,096	68	1,164
Currency contracts	149	1,007	318	1,474
Contracts for shares	288	80	7	375
Commodities and other contracts	-	1	-	1
Other financial assets	492	-	-	492
Other	-	-	12	12
Total assets	**3,166**	**5,030**	**750**	**8,946**
Liabilities				
Deposits with respect to inter-client loaning	287	-	-	287
Liabilities with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	-	180	11	191
Other	-	1,400	178	1,578
Currency contracts	110	502	467	1,079
Contracts for shares	71	4	78	153
Commodities and other contracts	-	-	1	1
Other financial liabilities	1	-	-	1
Other	-	-	5	5
Total liabilities	**469**	**2,086**	**740**	**3,295**

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

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

Reported amounts (NIS in millions)

B. Items measured at fair value:

1. On recurring basis - continued

	As of March 31, 2013 (unaudited)			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Securities available for sale				
Debentures and bonds				
Of Government of Israel	1,923	2,905	-	4,828
Of foreign governments	64	-	-	64
Of banks and financial institutions in Israel	124	-	-	124
Of banks and financial institutions overseas	-	109	221	330
Of others in Israel	37	-	-	37
Of others overseas	10	125	30	165
Shares	5	-	-	5
Securities held for trade				
Debentures of the Government of Israel	2,583	-	-	2,583
Of banks and financial institutions overseas	3	-	-	3
Securities loaned or sold in repurchase agreements	(2)194	-	-	194
Credit with respect to loans to clients	393	-	-	393
Assets with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	-	146	92	238
Other	-	904	214	1,118
Currency contracts	173	1,240	610	2,023
Contracts for shares	187	-	134	321
Commodities and other contracts	-	-	1	1
Other financial assets	(2)527	-	-	527
Total assets	**6,223**	**5,429**	**1,302**	**12,954**
Liabilities				
Deposits with respect to borrowing from clients	393	-	-	393
Liabilities with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	-	174	6	180
Other	-	1,354	353	1,707
Currency contracts	185	645	870	1,700
Contracts for shares	43	-	121	164
Commodities and other contracts	-	-	1	1
Other	-	-	5	5
Total liabilities	**621**	**2,173**	**1,356**	**4,150**

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

(2) Reclassified.

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

Reported amounts (NIS in millions)

B. Items measured at fair value:

1. On recurring basis - Continued

	As of December 31, 2013 (unaudited)			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Securities available for sale				
Debentures and bonds				
Of Government of Israel	659	2,358	-	3,017
Of foreign governments	82	-	-	82
Of banks and financial institutions in Israel	124	-	-	124
Of banks and financial institutions overseas	-	48	176	224
Of others in Israel	23	-	-	23
Of others overseas	-	85	24	109
Securities held for trade				
Debentures of the Government of Israel	1,552	-	-	1,552
Securities loaned or sold in repurchase agreements	70	-	-	70
Credit with respect to inter-client loaning	278	-	-	278
Assets with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	-	116	56	172
Other	-	1,034	67	1,101
Currency contracts	222	1,211	321	1,754
Contracts for shares	486	-	91	577
Commodities and other contracts	-	1	1	2
Other financial assets	908	-	-	908
Other	-	-	11	11
Total assets	**4,404**	**4,853**	**747**	**10,004**
Liabilities				
Deposits with respect to inter-client loaning	278	-	-	278
Liabilities with respect to derivatives(1)				
Interest contracts:				
NIS / CPI	-	180	11	191
Other	-	1,367	134	1,501
Currency contracts	221	869	503	1,593
Contracts for shares	168	-	83	251
Commodities and other contracts	-	1	1	2
Other financial liabilities	21	-	-	21
Other	-	-	14	14
Total liabilities	**688**	**2,417**	**746**	**3,851**

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

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

Reported amounts (NIS in millions)

B. Items measured at fair value:

2. On non-recurring basis – Continued

	As of March 31, 2014 (unaudited)				For the three months ended March 31, 2014
	Fair value				
	Level 1	Level 2	Level 3	Total	Gain
Impaired credit whose collection is contingent on collateral	-	-	143	143	29

	As of March 31, 2013 (unaudited)				For the three months ended March 31, 2013
	Fair value				
	Level 1	Level 2	Level 3	Total	Gain
Impaired credit whose collection is contingent on collateral	-	-	120	120	1

	As of March 31, 2013 (audited)				For the year ended December 31, 2013
	Fair value				
	Level 1	Level 2	Level 3	Total	Loss
Impaired credit whose collection is contingent on collateral	-	-	188	188	(21)

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

Reported amounts (NIS in millions)

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

	For the three months ended March 31, 2014 (unaudited)								
		Realized / unrealized gain (loss) net included (1)							
	Fair value as of December 31, 2013	In statement of profit and loss	In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of March 31, 2014	Unrealized gain (loss) with respect to instruments held as of March 31, 2014
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	176	-	-	-	-	-	-	176	-
Of others overseas	24	(1)	-	-	-	-	-	23	(1)
Assets with respect to derivatives(2)(3)									
Interest contracts:									
NIS / CPI	56	60	-	5	-	(11)	36	146	68
Other	67	2	-	1	-	(2)	-	68	36
Currency contracts	321	(69)	-	94	-	(28)	-	318	147
Contracts for shares	91	(12)	-	16	-	(88)	-	7	-
Commodities and other contracts	1	-	-	-	-	(1)	-	-	-
Other	11	1	-	-	-	-	-	12	-
Total assets	**747**	**(19)**	**-**	**116**	**-**	**(130)**	**36**	**750**	**250**
Liabilities									
Liabilities with respect to derivatives(2)(3)									
Interest contracts:									
NIS / CPI	11	1	-	-	-	(2)	1	11	(1)
Other	134	42	-	10	-	(8)	-	178	9
Currency contracts	503	21	-	89	-	(146)	-	467	(235)
Contracts for shares	83	4	-	12	-	(21)	-	78	-
Commodities and other contracts	1	1	-	-	-	(1)	-	1	-
Other	14	(2)	-	-	-	(7)	-	5	-
Total liabilities	**746**	**67**	**-**	**111**	**-**	**(185)**	**1**	**740**	**(227)**

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

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties. Standard 157 applies as from January 1, 2011. Level 3 classifications with respect to credit risk are included under column "Transfer to level 3".

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

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

Reported amounts (NIS in millions)

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

	For the three months ended March 31, 2013 (unaudited)								
		Realized / unrealized gain (loss) net included [(1)]							
	Fair value as of December 31, 2012	In statement of profit and loss	In statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of March 31, 2013	Unrealized gain (loss) with respect to instruments held as of March 31, 2013
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	229	(8)	-	-	-	-	-	221	(8)
Of others overseas	31	(1)	-	-	-	-	-	30	-
Assets with respect to derivatives[(2)(3)]									(1)
Interest contracts:									
NIS / CPI	101	(23)	-	1	-	(17)	30	92	154
Other	173	42	-	4	-	(5)	-	214	149
Currency contracts	493	38	-	192	-	(113)	-	610	368
Contracts for shares	84	22	-	39	-	(11)	-	134	4
Commodities and other contracts	1	-	-	1	-	(1)	-	1	-
Total assets	**1,112**	**70**	**-**	**237**	**-**	**(147)**	**30**	**1,302**	**666**
Liabilities									
Liabilities with respect to derivatives[(2)(3)]									
Interest contracts:									
NIS / CPI	48	(3)	-	1	-	(43)	3	6	(7)
Other	325	58	-	9	-	(39)	-	353	(75)
Currency contracts	709	178	-	331	-	(348)	-	870	(443)
Contracts for shares	68	28	-	39	-	(14)	-	121	(3)
Commodities and other contracts	2	-	-	1	-	(2)	-	1	-
Other[(3)]	4	1	-	-	-	-	-	5	-
Total liabilities	**1,156**	**262**	**-**	**381**	**-**	**(446)**	**3**	**1,356**	**(528)**

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

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties. Standard 157 applies as from January 1, 2011. Level 3 classifications with respect to credit risk are included under column "Transfer to level 3".

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

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

Reported amounts (NIS in millions)

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

	For the year ended December 31, 2013 (audited)								
		Realized / unrealized gain (loss) net included[1]							
	Fair value as of December 31, 2012	in statement of profit and loss	in statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of December 31, 2013	Unrealized gain (loss) with respect to instruments held as of December 31, 2013
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	229	(13)	-	-	-	(40)	-	176	(12)
Of others overseas	31	(2)	-	-	(5)	-	-	24	(2)
Assets with respect to derivatives[(2)(3)]									
Interest contracts:									
NIS / CPI	101	(64)	-	4	-	(65)	80	56	65
Other	173	43	-	5	-	(154)	-	67	38
Currency contracts	493	326	-	466	-	(964)	-	321	189
Contracts for shares	78	122	-	76	-	(185)	-	91	-
Commodities and other contracts	1	2	-	2	-	(4)	-	1	1
Other	6	5	-	-	-	-	-	11	-
Total assets	**1,112**	**419**	**-**	**553**	**(5)**	**(1,412)**	**80**	**747**	**279**
Liabilities									
Liabilities with respect to derivatives[(2)(3)]									
Interest contracts:									
NIS / CPI	48	(6)	-	7	-	(51)	13	11	(1)
Other	325	95	-	11	-	(297)	-	134	3
Currency contracts	709	236	-	791	-	(1,233)	-	503	(422)
Contracts for shares	68	108	-	76	-	(169)	-	83	-
Commodities and other contracts	2	-	-	3	-	(4)	-	1	(1)
Other	4	10	-	4	-	(4)	-	14	-
Total liabilities	**1,156**	**443**	**-**	**892**	**-**	**(1,758)**	**13**	**746**	**(421)**

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

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties. Standard 157 applies as from January 1, 2011. Level 3 classifications with respect to credit risk are included under column "Transfer to level 3".

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

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

Reported amounts (NIS in millions)

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

					Consolidated
	Fair value as of March 31, 2014	Valuation technique	Non-observed data	Range	Weighted average
Securities available for sale:					
Debentures of foreign banks and financial institutions	5	Estimated recouperation rate	Recouperation rate	5.00%	5.00%
CLN	171	Cash flow discounting	Probability of default	0.37%-1.39%	1.17%
Debentures of foreign others	23	Cash flow discounting	Discount rate	3.84%-5.31%	5.01%
Assets with respect to derivatives:					
Interest contracts - NIS CPI	119	Cash flow discounting	Inflationary expectations	1.53%-1.56%	1.54%
Contracts for shares	12	Option pricing model	Standard deviation of shares	8.49%-33.54%	22.09%
Other	420	Cash flow discounting	Counter-party credit quality	1.20%-3.10%	1.84%
Liabilities with respect to derivatives:					
Interest contracts - NIS CPI	10	Cash flow discounting	Inflationary expectations	1.53%-1.56%	1.53%
Other	730	Cash flow discounting	Counter-party credit quality	1.20%-3.10%	1.95%

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

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

F. Election of fair value option

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

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

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

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

Reported amounts (NIS in millions)

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

	Fair value as of March 31, 2014	Profit with respect to change in fair value for the three months ended March 31, 2014
Securities available for sale	510	9

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

	Fair value as of December 31, 2013	Profit with respect to change in fair value for the year ended December 31, 2013
Securities available for sale	850	21

Note 10 - Interest revenues and expenses

Reported amounts (NIS in millions)

	For the three months ended March 31,		For the year ended December 31,
	2014	2013	2013
	(unaudited)		(audited)
A. Interest revenues[1]			
From loans to the public	926	1,295	6,066
From loans to Governments	3	2	9
From deposits with the Bank of Israel and from cash	36	42	172
From deposits with banks	8	12	42
From securities loaned or sold in repurchase agreements	1	1	1
From debentures	17	61	152
Total interest revenues	**991**	**1,413**	**6,442**
B. Interest expenses			
On deposits from the public	235	465	2,153
On deposits from government	1	1	4
On deposits from banks	6	11	35
On debentures and subordinated notes	36	134	786
Total interest expenses	**278**	**611**	**2,978**
Total interest revenues, net	**713**	**802**	**3,464**
C. Details of net effect of hedging financial derivatives on interest revenues	**(26)**	**3**	**25**
D. Details of interest revenues on accrual basis from debentures			
Held to maturity	7	6	23
Available for sale	6	47	112
Held for trade	4	8	17
Total included under interest revenues	**17**	**61**	**152**

(1) Includes effective hedge component.

Note 11 - Non-interest financing revenues

Reported amounts (NIS in millions)

	For the three months ended March 31,		For the year ended December 31,
	2014	2013	2013
		(unaudited)	(audited)
A. Non-interest financing revenues (expenses) with respect to non-trade operations			
1. From activity in derivatives			
Non-effective element of hedging ratios(1)	-	(1)	-
Net expenses with respect to ALM derivatives(2)	83	(32)	(548)
Total from activity in derivatives	**83**	**(33)**	**(548)**
2. From investment in debentures(3)			
Gain on sale of debentures available for sale	19	5	52
Loss on sale of debentures available for sale	-	-	(1)
Total from investment in debentures	**19**	**5**	**51**
3. Exchange rate differences, net	**(52)**	**141**	**525**
4. Gain (loss) from investment in shares			
Gains on sale of available-for-sale shares(3)	-	3	1
Provision for impairment of available-for-sale shares(3)	-	-	(3)
Dividends from available-for-sale shares	2	-	1
Total from investment in shares	**2**	**3**	**(1)**
Total non-interest financing revenues with respect to non-trade operations	**52**	**116**	**27**

(1) Excludes the effective element in the hedging ratios.

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

(3) Reclassified from cumulative other comprehensive income.

Note 11 - Non-interest financing revenues - continued

Reported amounts (NIS in millions)

	For the three months ended March 31,		For the year ended December 31,
	2014	2013	2013
	(unaudited)		(audited)
B. Non-interest financing revenues (expenses) with respect to trading activities[1]			
Net revenues (expenses) with respect to other derivatives	20	(86)	(51)
Realized gain from adjustment to fair value of debentures held for trade, net	19	(15)	20
Unrealized gain from adjustment to fair value of debentures held for trade, net	(10)	18	18
Total from trade operations[2]	**29**	**(83)**	**(13)**
Details of non-interest financing revenues (expenses) with respect to trade operations, by risk exposure			
Risk exposure	10	4	45
Foreign currency exposure	4	(102)	(80)
Exposure to shares	19	17	13
Exposure to commodities and others	(4)	(2)	9
Total	**29**	**(83)**	**(13)**

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

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

Note 12 - Operating Segments

For the three months ended March 31, 2014 (unaudited)

Reported amounts (NIS in millions)

A. Information on operating segments

	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	466	10	124	47	144	(78)	713
Inter-segment	(17)	4	(1)	(6)	42	(22)	-
Total interest revenues, net	**449**	**14**	**123**	**41**	**186**	**(100)**	**713**
Non-interest financing revenues	2	-	-	-	5	74	81
Commissions and other revenues	177	14	55	13	65	33	357
Total revenues	**628**	**28**	**178**	**54**	**256**	**7**	**1,151**
Expenses with respect to credit losses	4	-	15	1	(27)	2	(5)
Operating and other expenses							
From outside operating segments	436	19	126	16	50	80	727
Inter-segment	(24)	2	(11)	16	21	(4)	-
Other operating expenses - total	**412**	**21**	**115**	**32**	**71**	**76**	**727**
Pre-tax profit	212	7	48	21	212	(71)	429
Provision for taxes on profit	79	3	17	7	78	(26)	158
After-tax profit	**133**	**4**	**31**	**14**	**134**	**(45)**	**271**
Share in net profits of associates, after tax	-	-	-	-	-	1	1
Net profit:							
Before attribution to non-controlling interest	133	4	31	14	134	(44)	272
Attributable to non-controlling interest	(8)	-	-	-	-	-	(8)
Attributable to equity holders of the banking corporation	**125**	**4**	**31**	**14**	**134**	**(44)**	**264**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**9.8%**	**17.5%**	**27.9%**	**13.9%**	**18.0%**	**-**	**11.0%**
Average asset balance	104,013	1,989	7,737	4,474	25,017	36,629	179,890
Includes: Investments in associates	-	-	-	-	-	60	60
Average balance of liabilities	63,895	7,581	9,668	3,820	43,742	43,112	171,818
Average balance of risk assets(1)	62,465	779	5,505	4,768	37,370	5,015	115,902
Average balance of provident and mutual fund assets	-	-	-	-	-	72,647	72,647
Average balance of securities(2)	35,228	9,244	6,567	3,793	64,063	67,780	186,675
Loans to the public, net (end balance)	105,140	975	8,052	4,499	22,395	-	141,061
Deposits from the public (end balance)	61,043	7,603	9,818	3,877	44,794	18,566	145,701
Average balance of other assets managed	20,307	7	181	378	213	-	21,086

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

	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	349	6	102	36	155	-	648
Margin from receiving deposits	86	8	14	3	24	-	135
Other	14	-	7	2	7	(100)	(70)
Total interest revenues, net	**449**	**14**	**123**	**41**	**186**	**(100)**	**713**

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

(2) Including balance of securities of provident funds and mutual funds to which the Bank provides operating services, but excluding mutual funds held by Bank clients.

Note 12 - Operating Segments - continued

For the three months ended March 31, 2013 (unaudited)

Reported amounts (NIS in millions)

A. Information on operating segments

	House-holds(3)	Private banking	Small business	Commercial banking(3)	Business banking	Financial mana-gement (3)	Total consolidated
Interest revenues, net:							
From outside operating segments	702	(1)	149	49	113	(210)	802
Inter-segment	(267)	16	(34)	(8)	58	235	-
Total interest revenues, net	**435**	**15**	**115**	**41**	**171**	**25**	**802**
Non-interest financing revenues	(1)	-	-	-	10	24	33
Commissions and other revenues	194	15	61	15	62	26	373
Total revenues	**628**	**30**	**176**	**56**	**243**	**75**	**1,208**
Expenses with respect to credit losses	24	(3)	3	(7)	16	1	34
Operating and other expenses							
From outside operating segments	437	22	119	16	54	69	717
Inter-segment	(26)	-	(11)	14	19	4	-
Other operating expenses - total	**411**	**22**	**108**	**30**	**73**	**73**	**717**
Pre-tax profit	193	11	65	33	154	1	457
Provision for taxes on profit	69	4	23	12	55	1	164
After-tax profit	**124**	**7**	**42**	**21**	**99**	**-**	**293**
Share in net profits of associates, after tax	-	-	-	-	-	(2)	(2)
Net profit:							
Before attribution to non-controlling interest	124	7	42	21	99	(2)	291
Attributable to non-controlling interest	(11)	-	-	-	-	-	(11)
Attributable to equity holders of the banking corporation	**113**	**7**	**42**	**21**	**99**	**(2)**	**280**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**10.5%**	**32.8%**	**42.2%**	**20.6%**	**13.5%**	**-**	**13.1%**
Average asset balance	93,515	1,955	7,621	4,667	25,211	25,267	158,236
Includes: Investments in associates	-	-	-	-	-	61	61
Average balance of liabilities	57,162	6,833	8,760	3,319	34,259	38,921	149,254
Average balance of risk assets(1)	54,764	1,106	5,311	5,084	35,824	5,603	107,692
Average balance of provident and mutual fund assets	-	-	-	-	-	80,273	80,273
Average balance of securities(2)	29,475	8,385	5,572	3,731	61,328	67,131	175,622
Loans to the public, net (end balance)	95,038	1,191	7,371	4,631	22,312	-	130,543
Deposits from the public (end balance)	58,760	6,267	8,396	3,485	35,986	17,223	130,117
Average balance of other assets managed	19,909	7	200	198	268	-	20,582

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

	House-holds	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	300	7	91	35	145	-	578
Margin from receiving deposits	119	7	17	4	22	-	169
Other	16	1	7	2	4	25	55
Total interest revenues, net	**435**	**15**	**115**	**41**	**171**	**25**	**802**

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

(2) Including balance of securities of provident funds and mutual funds to which the Bank provides operating services, but excluding mutual funds held by Bank clients.

(3) Reclassified.

Note 12 - Operating Segments - continued

For the year ended December 31, 2013 (audited)

Reported amounts (NIS in millions)

A. Information regarding operating segments

	House-holds[2]	Private banking	Small business	Commercial banking	Business banking[2]	Financial mana-gement[2]	Total consolidated
Interest revenues, net:							
From outside operating segments	3,689	(15)	444	190	419	(1,263)	3,464
Inter-segment	(1,855)	70	22	(24)	299	1,488	-
Total interest revenues, net	**1,834**	**55**	**466**	**166**	**718**	**225**	**3,464**
Non-interest financing revenues	7	2	-	1	32	(28)	14
Commissions and other revenues	771	54	248	59	223	130	1,485
Total revenues	**2,612**	**111**	**714**	**226**	**973**	**327**	**4,963**
Expenses with respect to credit losses	239	-	72	(5)	(17)	(1)	288
Operating and other expenses							
From outside operating segments	1,802	76	501	68	211	299	2,957
Inter-segment	(115)	10	(52)	65	81	11	-
Other operating expenses - total	**1,687**	**86**	**449**	**133**	**292**	**310**	**2,957**
Pre-tax profit	686	25	193	98	698	18	1,718
Provision for taxes on profit	236	8	66	35	241	6	592
After-tax profit	**450**	**17**	**127**	**63**	**457**	**12**	**1,126**
Share in net profits of associates, after tax	-	-	-	-	-	(4)	(4)
Net profit:							
Before attribution to non-controlling interest	450	17	127	63	457	8	1,122
Attributable to non-controlling interest	(44)	-	-	-	-	-	(44)
Attributable to equity holders of the banking corporation	**406**	**17**	**127**	**63**	**457**	**8**	**1,078**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**8.3%**	**18.8%**	**26.3%**	**13.9%**	**14.1%**	**5.4%**	**11.5%**
Average asset balance	97,399	1,814	7,511	4,689	26,686	30,559	168,758
Includes: Investments in associates	-	-	-	-	-	60	60
Average balance of liabilities	62,681	7,002	8,862	3,505	38,412	38,490	158,952
Average balance of risk assets[1]	57,431	1,007	5,363	5,028	36,110	5,366	110,305
Average balance of provident and mutual fund assets	-	-	-	-	-	82,642	82,642
Average balance of securities[3]	31,406	8,604	6,420	3,806	62,203	61,525	173,964
Loans to the public, net (end balance)	103,268	956	7,667	4,517	22,157	-	138,565
Deposits from the public (end balance)	60,793	7,027	9,517	3,408	43,467	17,032	141,244
Average balance of other assets managed	20,008	7	198	284	230	-	20,727

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

	House-holds	Private banking	Small business	Commercial banking	Business banking	Financial mana-gement	Total consolidated
Margin from credit granting operations	1,310	23	377	143	582	-	2,435
Margin from receiving deposits	455	30	63	16	96	-	660
Other	69	2	26	7	40	225	369
Total interest revenues, net	**1,834**	**55**	**466**	**166**	**718**	**225**	**3,464**

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

(2) Reclassified.

(3) Including balance of securities of provident funds and mutual funds to which the Bank provides operating services, but excluding mutual funds held by Bank clients.

Note 13 - Cumulative Other Comprehensive Income

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

	For the three months ended March 31,2014					
	Other comprehensive income (loss), before attribution to non-controlling interest					
	Adjustments for presentation of securities available for sale at fair value	Translation adjustments	Net gain from cash flow hedges	Total	Other comprehensive income attributed to non-controlling interest	Other comprehensive income attributable to equity holders of the banking corporation
	(unaudited)					
Balance as of December 31, 2013	**12**	**(3)**	**3**	**12**	**1**	**11**
Net change in the period	(4)	-	5	1	-	1
Balance as of March 31, 2014	**8**	**(3)**	**8**	**13**	**1**	**12**
	For the three months ended March 31,2013					
	(unaudited)					
Balance as of December 31, 2012	**-**	**-**	**3**	**3**	**3**	**-**
Net change in the period	14	(1)	-	13	-	13
Balance as of March 31, 2013	**14**	**(1)**	**3**	**16**	**3**	**13**
	For the year ended December 31, 2013,					
	(audited)					
Balance as of December 31, 2012	**-**	**-**	**3**	**3**	**3**	**-**
Net change in the period	12	(3)	-	9	(2)	11
Balance as of December 31, 2013	**12**	**(3)**	**3**	**12**	**1**	**11**

Note 13 - Cumulative other comprehensive income - continued

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

	For the three months ended March 31, 2014 (unaudited)		
	Before tax	Tax effect	After tax
Change in items of other comprehensive income, before attribution to non-controlling interest:			
Adjustments for presentation of securities available for sale at fair value			
Net unrealized gain (loss) from adjustments to fair value	13	(5)	8
Net (gain) loss with respect to available-for-sale securities reclassified to the statement of profit and loss(1)	(19)	7	(12)
Net change in the period	**(6)**	**2**	**(4)**
Translation adjustments			
Adjustments from translation of financial statements	-	-	-
Net change in the period	**-**	**-**	**-**
Cash flow hedges			
Net gain (loss) with respect to cash flow hedges	10	(4)	6
Net (gain) loss reclassified to the statement of profit and loss(2)	(2)	1	(1)
Net change in the period	**8**	**(3)**	**5**
Total net change in the period	2	(1)	1
Total net change in the period attributable to non-controlling interest	**-**	**-**	**-**
Total net change in the period attributable to equity holders of the banking corporation	**2**	**(1)**	**1**

(1) Pre-tax amount included in the statement of profit and loss under "Non-interest financing revenues". For more details, see Note 11.A.2.
(2) Pre-tax amount included in the statement of profit and loss under "Interest revenues". For details see Note 10.A.

					For the year ended December 31,	
		2013			2013	
		(unaudited)			(audited)	
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
	26	(9)	17	73	(29)	44
	(5)	2	(3)	(51)	19	(32)
	21	**(7)**	**14**	**22**	**(10)**	**12**
	(1)	-	(1)	(3)	-	(3)
	(1)	**-**	**(1)**	**(3)**	**-**	**(3)**
	-	-	-	5	(2)	3
	-	-	-	(5)	2	(3)
	-	**-**	**-**	**-**	**-**	**-**
	20	(7)	13	19	(10)	9
	-	-	-	3	(1)	2
	20	**(7)**	**13**	**22**	**(11)**	**11**

Note 14 - Other matters

A. On January 26, 2014, Tefahot Issuance issued NIS 1,650 million par value debentures (Series 35 and 36, CPI-linked), pursuant to the shelf prospectus dated July 30, 2013, for consideration of NIS 1,690 million.
The proceeds from all of these issuances were deposited at the Bank under terms similar to those of issuances.

B. On December 30, 2013, the Remuneration Committee discussed and approved terms of the non-recurring bonus to the former Chairman of the Board of Directors with respect to 2012. Furthermore, on February 17, 2014, the Bank Board of Directors discussed and approved terms of this bonus, subject to approval by the General Meeting of Bank shareholders.
On March 25, 2014, the General Meeting of Bank Shareholders approved the non-recurring bonus amounting to NIS 615 thousand. For more information, see immediate report dated March 25, 2014, reference 2014-01-023394.
This mention constitutes inclusion by way of reference of all information provided in the aforementioned immediate report.

C. On May 4, 2014, the Bank Board of Directors approved, based on recommendation by the Remuneration Committee dated April 29, 2014, the current officer remuneration policy of the Bank - following the publication of Proper Conduct of Banking Business Regulation 301A with regard to remuneration policy at banking corporations, in November 2013. This policy is subject to approval by the General Meeting of Bank shareholders. For more information, see immediate report by the Bank dated May 4, 2014, (reference 2014-01-056838). This mention constitutes inclusion by way of reference of all information provided in section 1 of the aforementioned report.

D. The terms of office and employment of the Bank President, who is serving in this position since August 16, 2013, were approved by the Remuneration Committee on April 29, 2014 and were further approved by the Bank Board of Directors on May 4, 2014. The President's terms of office and employment are subject to approval by the General Meeting of Bank shareholders and to approval of the officer remuneration policy. For more information, see immediate report by the Bank dated May 4, 2014, reference (2014-01-056838). This mention constitutes inclusion by way of reference of all information provided in section 2 of the aforementioned report.

Note 14 - Other matters - continued

E. On April 29, 2013, the Bank's Board of Directors, after receiving approval of the Bank's Remuneration Committee, resolved to approve a plan for allotment of a further 5,921,340 options to 330 offerees who are not officers and who are employees of the Bank and its subsidiaries. The option plan is based on the principles of the stock option plan for employees at the Bank.

The options were awarded in one lot, exercisable as from the first anniversary through 90 days after the second anniversary of the award date. Subject to the average rate of net operating profit return on equity for the Bank, as described in Note 16.A to the financial statements as of December 31, 2013. The exercise price for each option allotted to offerees pursuant to the plan is NIS 36.6, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank. The exercise price was based on the closing price of Bank shares on the stock exchange on April 28, 2013, the most recent trading day prior to the date of plan approval by the Board of Directors. The fair value (theoretical benefit value) of a single option in any lot of the additional options approved was calculated in accordance with IFRS 2, using the Black & Scholes model. The theoretical benefit value of the options in this allotment, calculated in accordance with accounting rules of IFRS 2, amounts to NIS 17 million (NIS 20 million including Payroll Tax). This amount was recognized on Bank accounts over the vesting term of the options. For more information see Note 16.A to the financial statements as of December 31, 2013.

The outline proposal to employees dated April 29, 2013 stipulated that calculation of “net operating profit return on average shareholder equity for the Bank” would be based on the following:

- provision recorded on the Bank’s 2009 financial statements with respect to employee retirement would be recognized in linear fashion between 2010 and 2015 and would be deducted from net operating profit;
- Net operating profit would be increased by the (after-tax) provision amount to be recognized on the Bank’s financial statements for the first half of 2013 (ending on June 30, 2013) with respect to the balance of group provision for credit losses due to housing loans, up to 0.35% of the aforementioned loan balance as of the reporting date on these financial statements – all in conformity with the updated directives with regard to residential real estate issued by the Supervisor of Banks on March 21, 2013.

Accordingly, the annual rate of return for the option plan in 2013 would be 12.6% - instead of 11.5% as published on the Bank’s 2013 financial statements.

MIZRAHI TEFAHOT

http://www.mizrahi-tefahot.co.il E-Mail:bank@umtb.co.il

HEAD OFFICE

7 Jabotinsky Street,
P.O.Box 3450, Ramat Gan 5252007, Israel
Tel. 03-7559000, Fax. 03-7559210
BIC: MIZBILIT

International Activities & Private Banking Sector
7 Jabotinsky Street,
P.O.Box 3450, Ramat Gan 5252007, Israel
Tel. 03-7559200, Fax. 03-7559210

Trading in Financial Markets Sector
7 Jabotinsky Street,
P.O.Box 3450, Ramat Gan 5252007, Israel
Tel. 03-7559178, Fax. 03-7559029

Marketing & Business Development Division
7 Jabotinsky Street,
P.O.Box 3450, Ramat Gan 5252007, Israel
Tel. 03-7559260 Fax. 03-7559270

International Finance & Trade Sector
105 Allenby Street,
Tel Aviv 6513444, Israel
Tel. 03-5649530 , Fax. 03-5649533

Tel -Aviv Principal Business Center
105 Allenby Street,Tel Aviv 6513444
Tel. 03-5649300 Fax. 03-5642034
BIC: MIZBILITTLV

INTERNATIONAL PRIVATE BANKING CENTERS

Jerusalem:
9 Helene Hamalka Street
Jerusalem 9422105, Israel
Tel. 02-6755208, Fax. 02-6222146

Tel-Aviv:
32 Ben Yehuda Street
Tel-Aviv, 6380501, Israel
Tel. 03-6213222, Fax. 03-6213223

Ashdod:
12 Sderot Yerushalayim Street
Ashdod, 7752305, Israel
Tel. 08-8628226, Fax. 08-8654671

Netanya:
2 Benny Berman Street
Ir Yamim Mall, Netanya, 4249330, Israel
Tel. 076-8011420, Fax. 09-8358800

BRANCHES ABROAD

London Branch:
Mizrahi Tefahot Bank Ltd.
30 Old Broad Street
London EC2N 1HQ, England
Tel. +44 (0) 20-7448-0600
Fax. +44 (0) 20-7448-0610
BIC: MIZBGB2L
www.umtb.co.uk

Los Angeles Branch:
Mizrahi Tefahot Bank Ltd.
800 Wilshire Blvd.
Los Angeles, CA. 90017, U.S.A.
Tel. +1-213-362-2999, Fax. +1-213-362-2987
BIC: MIZBUS6L
info@umtbusa.com
www.umtbusa.com

Cayman Islands Branch:
Mizrahi Tefahot Bank Ltd.
P.O.B. 705
Grand Cayman, Cayman Islands
British West Indies
Tel. +345- 949-9639, Fax.+345-949-7004

SUBSIDIARIES ABROAD

United Mizrahi Bank (Switzerland) Ltd.
Nuschelerstrasse 31 CH-8021
Zurich, Switzerland
Tel. +41 (0) 44-226-8686
Fax. +41 (0) 44-226-8687
BIC: UMBLCHZZ
info@umbzh.ch
www.umbzh.ch

United Mizrahi Overseas Holding Company B.V.
Paasheuvelweg 16,
1105 BH Amsterdam
The Netherlands

German Representative Office
Woehlerstr. 5
60323 Frankfurt am Main, Germany
Tel. +49 (0) 69-710423270
Fax. +49 (0) 69-710423425

Mexico Representative Office
Sierra Candela 111 Desp 312
Col, Lomas De Chapultepec
Mexico, D.F., C.P. 11000 Mexico
Tel. +52 (0) 55-5202-5607
Fax. +52 (0) 55-5202-5531
contacto@umtb-mex.com

Uruguay Representative Office
Plaza Independencia 831 of. 309
Edificio Plaza Mayor, Montevideo 11.100 Uruguay
Tel. +59 (0) 82-909-0036
Fax. +59 (0) 82-908-3879
umtb@umtb.com.uy

Panama Representative Office
Torre C Piso 15 No 1503
Torres de las Americas
Punta Pacifica, Panama
Tel. +507 2168080
Fax. +507 2168081
info@umtb-pa.com

SUBSIDIARY COMPANIES IN ISRAEL

ETGAR Portfolio Management of Mizrahi Tefahot Bank Ltd.
123 Hashmonaim Street,
Tel Aviv 6713329, Israel
Tel. 03-5631520
Fax. 03-5631531

Technology Division of Mizrahi Tefahot Ltd.
15 Lincoln St.
Tel Aviv 6713407, Israel
Tel. 03-5634333
Fax. 03-5611342

Mizrahi Tefahot Trust Company Ltd.
123 Hashmonaim Street
Tel Aviv 6713329, Israel
Tel. 03-5630733
Fax. 03-5630752