Condensed Financial Statements as of September 30, 2013

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

Condensed Board of Directors' Report for Financial Statements as of September 30, 2013

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Condensed Board of Directors' Report
for Financial Statements as of September 30, 2013

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on November 18, 2013, it was resolved to approve and publish the Board of Directors' consolidated report and the financial statements of Mizrahi Tefahot Bank Ltd. and its investees as of September 30, 2013.

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

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

Developments in Israel's economy in the first nine months of 2013

Real Developments

Macro-economic data for the first nine months of 2013 indicate continued moderate growth in economic activity. The Bank of Israel Composite Index increased in the first nine months of this year at an annualized 3.4%, compared to an increase of 2.8% in 2012.

Various economic indicators point to more moderate economic growth in the third quarter:

The Bank of Israel Composite Index rose in the third quarter of 2013 by an annualized 3.3%, further to 3.8% increase in the second quarter of this year.

Export of goods (annualized trend in USD, excluding ships, airplanes and diamonds) decreased in the third quarter of 2013 by 11.5% compared to the second quarter of this year, after decreasing by 9.7% in the second quarter of this year. Conversely, imports of goods (trend data) increased by 16.6% in the third quarter of 2013 compared to the second quarter of this year, following a 9.7% increase in the second quarter of this year. The trade deficit in the first three quarters of 2013 amounted to USD 11 billion, compared to USD 14 billion in the corresponding period last year - a decrease of 21.0%.

The economic sector turnover index decreased in June-August 2013 (based on trend data) by an annualized 1.5%, following an increase of 0.8% in the previous three months. Moreover, the industrial production index decreased in June-August 2013 by an annualized 7.9%, further to a 6.7% decrease in the previous three months. Following an annualized 17.0% decrease in high-tech production in this period, further to a 21.7% decrease in the previous three months. The purchasing manager index decreased in recent months by 8.7 points, from 53.6 in February 2013 to 44.9 in September 2013 - indicating a decline in activity. The retail chain turnover index increased in the third quarter of 2013 by an annualized 1.3%, further to a 3.1% increase in the previous quarter.

Unemployment in the third quarter of 2013 was at 6.1%, compared to 6.8% in the previous quarter and in the year-ago period. The employment rate in the third quarter was at 63.7%, compared to 64.1% in the year-ago period.

In October, the Central Bureau of Statistics issued its initial estimated highlights for national accounts for 2013. According to these estimates, GDP growth in Israel in 2013 would be 3.4%, similar to 2012 and compared to 4.6% in 2011. Business output is expected to grow by 3.6% in 2013, compared to 3.4% in 2012 and to 4.7% in 2011. GDP growth in 2013 is impacted by higher domestic demand, with private consumption expenditure expected to increase by 4.0%, compared to 3.2% in 2012. Conversely, growth is affected by slower global demand; exports of goods and services are expected to decrease by 0.7% in 2013, compared to 0.9% increase in 2012. Investment in fixed assets is expected to decrease in 2013 by 0.6%, compared to 3.5% growth in 2012.

Inflation and exchange rates

In the first nine months of 2013, the Consumer Price Index rose by 1.8%, compared to a 2.1% increase in the corresponding period last year. The CPI was impacted by higher food prices, home maintenance, housing and miscellaneous items (primarily due to the raising of prices of cigarettes and tobacco). On the other hand, the impact of these price increases was offset by lower prices of fruits and vegetables, transportation and communication, as well as household furniture and equipment.

In the first nine months of 2013, the USD was devalued by 5.3% against the NIS. At end of September 2013, the USD/NIS exchange rate was 3.537, compared to 3.733 at the end of 2012. The EUR was devalued against the NIS by 3.0% in this period. At end of September 2013, the EUR/NIS exchange rate was 4.773, compared to 4.921 at the end of 2012. On November 13, 2013, the USD/NIS exchange rate was 3.531 and the EUR/NIS exchange rate was 4.740.

In support of the exchange rate, the Bank of Israel purchased in the third quarter of 2013 foreign currency valued at USD 1.5 billion (including: purchase of foreign currency valued at USD 0.8 billion to offset the impact of natural gas production from the Tamar reservoir on exchange rates), further to purchases valued at USD 2.5 billion in the second quarter (including: USD 0.5 billion to offset the impact of natural gas production from the Tamar reservoir on exchange rates). In 2012, the Bank of Israel avoided any intervention in the foreign currency market.

Monetary and fiscal policy

In the first nine months of 2013, the Bank of Israel lowered interest rates multiple times, from 2.00% at end of 2012 to 1.25% in May 2013 - due to continued appreciation of the NIS, interest rates lowered by central banks around the world and downward-revised global growth forecasts. The Bank of Israel lowered its interest rate for October yet again, to 1.0%.

In the first nine months of 2013, the government budget recorded a NIS 14.1 billion cumulative deficit, compared to a NIS 20.2 billion cumulative deficit in the corresponding period last year. The cumulative deficit for the 12 months ended September 2013 amounted to NIS 32.9 billion, or 3.2% of GDP. Tax revenues increased in the first nine months of 2013 by 9.3% over the year-ago period, while Government expenditure increased by 5.1% in the same period.

On October 27, 2013, the Government of Israel confirmed the appointment of Dr. Karnit Flug to the position of Governor of the Bank of Israel.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in the first nine months of 2013 demand for new apartments (apartments sold and apartments constructed not for sale, net of seasonal effects) was 32,810 apartments, an increase of 6.6% over the corresponding period last year and an increase of 8.2% over the corresponding period in 2011. In the Haifa district the increase was 27.0%, while the Central district posted a 2.7% decrease. Based on the average pace of sales in the six months ended September 2013, this inventory would account for 10.8 months' sales - compared to 12.4 months at the end of September 2012. The increased demand for housing was reflected by a 12.8% increase in housing loan origination; in the first nine months of 2013, housing loans to the public amounted to NIS 38.9 billion, compared to NIS 34.5 billion in the year-ago period.

On August 29, 2013, the Supervisor of Banks issued directives with regard to restrictions on extending housing loans.

For details, see the chapter on Legislation and Supervision of Bank Group Operations.

In the first seven months of 2013, housing prices continued to trend higher - but in July 2013 the rate of price increase declined in TTM (trailing 12 months) terms. Apartment prices, on nation-wide average, increase by 9.3% in the 12 months ended July 2013, compared to 9.8% in the 12 months ended in June and 9.5% in the 12 months ended in May.

Capital market

In the third quarter of 2013, equity markets turned positive again, after most benchmarks were lower in the second quarter and higher - in the first quarter.

Equity market – the major indices, Tel Aviv 25 and Tel Aviv 100, increased in the third quarter of 2013 by 6.3% and 6.6%, respectively, and year to date, these benchmarks increased by 3.7% and 6.9%, respectively. The Real Estate 15 index rose in the third quarter of 2013 by 5.5% and by 19.8% year to date. The Yeter 50 index rose in the third quarter of 2013 by 12.4% and by 37.0% year to date. The Financials 15 index and the Tel Aviv Banking index increased in the third quarter by 8.6% and 8.3%, respectively. Year to date, the Financials index was up 10.8% and the Banking index was up by only 6.7%.

Average daily trading volume in equities and convertible securities increased in the third quarter of 2013 to NIS 1.2 billion, compared to NIS 1.1 billion in the first half of this year. Total equity issuance (excluding equity issued overseas) in the third quarter of 2013 amounted to NIS 1.4 billion, compared to NIS 1.6 billion and NIS 2.4 billion in the first and second quarters of this year, respectively.

Debenture market – further to previous quarters, the debenture market sustained its positive trend in the third quarter of 2013. The General Debenture Index was higher by 1.5% in the third quarter of 2013, following an increase of 2.1% in the first half of this year. The CPI-Linked Debenture Index was higher by 1.4% in the third quarter of 2013, after being unchanged in the first half of this year.

The Non-linked Debenture Index was higher by 0.8% in the third quarter of 2013, following an increase of 1.9% in the first half of this year. The Tel Bond 20 Index was higher by 2.4% in the third quarter of 2013, following an increase of 2.2% in the first quarter of this year. The Tel Bond 40 Index, which includes more real estate issues, was higher by 2.5% in the third quarter of 2013, following an increase of 3.2% in the first half of this year.

The yield to maturity spread on high-rated corporate debentures over Government debentures was lower in the third quarter. Debentures rated AA traded at the end of the third quarter of 2013 at a spread of 0.7 percentage points, compared to 1.2 percentage points at the end of the second quarter and 0.8 percentage points at the end of 2012. The yield to maturity spread on debentures rated A over Government debentures also contracted to 1.7 percentage points, compared to 2.4 percentage points at the end of the second quarter of this year, and to 2.8 percentage points at the end of 2012.

Overall, in the third quarter of 2013 the business sector issued debentures valued at NIS 7.9 billion to the public and to institutional investors, following issues valued at NIS 10.8 billion and NIS 8.8 billion in the first and second quarters of this year, respectively.

The average daily trading volume in debentures for the second quarter of 2013 was lower at NIS 3.7 billion, compared to NIS 4.3 billion and NIS 5.4 billion in the first and second quarters of this year, respectively.

Global economy

In October 2013, the IMF revised its global growth forecast for 2013 downward, from 3.2% to 2.9%. The growth forecasts for USA and China were also revised downwards (1.6% and 7.6%, respectively). Conversely, the growth forecast for the Euro Zone was revised upwards (to negative 0.4% growth).

Economic indicators in the USA over the first nine months of 2013 were mostly positive; improving trends continued in private consumption, the housing market and in expectation surveys. However, the intention of the US Federal Reserve Bank to cut-back its quantitative expansion program raised concerns in financial and real markets world-wide as to whether the US economy (and the global economy) are ready for this expected gradual cut-back. Furthermore, political disagreements continued to impact the US economy in the third quarter of 2013; failure to pass the budget by October resulted in a shut-down of non-essential public services and 800 thousand public sector employees were forced to go on un-paid leave. The US administration was also about to reach its new debt ceiling (set in the first quarter of this year) in mid-October, but eventually the Congress reached temporary agreements on the debt ceiling and budget issues. These fiscal disagreements were a major consideration in the decision not to launch the cut-back in the QE program, as the Federal Reserve did not wish to further rattle the markets.

Unemployment in the Euro Zone continued to be stable in the third quarter of 2013, at 12.0%. The annualized inflation rate was lower at 1.1% in September 2013, compared to 2.6% in the year-ago period. In 2013 year-to-date, retail commerce, industrial output and consumer trust benchmarks, as well as industry expectation surveys, all improved.

In the first nine months of 2013, economic growth improved in China, with China's GDP growth in the third quarter of 2013 reaching 7.8% in the third quarter, compared to 7.5% in the second quarter and to 7.4% in the year-ago period. Inflation in China, for the 12 months ended September 2013, was at 3.1%, compared to 2.5% in 2012 and 1.9% in the corresponding period last year. Further improvement was posted by the industrial production, new orders and private consumption benchmarks. Improvement was also seen in the business confidence and consumer confidence benchmarks.

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

The Dow Jones index continued to rise by 1.5% in the third quarter of 2013, rising by 15.5% year to date. The NASDAQ 100 and S&P 500 benchmarks rose in the third quarter of 2013 by 10.6% and 4.7%, respectively, rising by 20.9% and 17.9%, respectively, year to date. The German DAX benchmark rose by 8.0% in the third quarter of 2013, for a total increase of 12.9% year to date. The FTSE 100 benchmark rose by 4.0% in the third quarter of 2013, for a total increase of 9.6% year to date. The Nikkei 225 benchmark rose by 7.9% in the third quarter of 2013, and was up by 42.0% year to date against the back-drop of the newly appointed government.

Key Data for Bank Group

Evolution of revenues and expenses

	For the quarter ended				
	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012
					NIS in millions
Profit and profitability, major items					
Interest revenues, net	1,005	873	802	643	900
Non-interest financing revenues (expenses)	(90)	48	33	229	(98)
Commissions and other revenues	364	368	373	373	385
Total revenues	**1,279**	**1,289**	**1,208**	**1,245**	**1,187**
Expenses with respect to credit losses	68	181	34	48	116
Operating and other expenses	755	706	717	740	676
Profit before provision for taxes	456	402	457	457	395
Provision for taxes	143	145	164	176	121
Net profit [(1)]	**301**	**245**	**280**	**270**	**260**

	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012
					NIS in millions
Balance sheet - key items					
Balance sheet total	173,332	170,603	165,557	162,242	157,810
Loans to the public, net	136,747	132,853	130,543	128,651	[(3)]126,566
Securities	7,431	6,661	9,374	9,041	7,966
Deposits from the public	136,011	135,721	130,419	128,499	124,322
Debentures and subordinated notes	16,542	14,807	14,845	14,039	14,186
Equity [(1)]	9,574	9,341	9,108	8,811	8,514

	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012
Key financial ratios (in percent)					
Net profit return on equity[(2)]	13.3	11.1	13.1	13.1	13.0
Net loans to the public to deposits from the public	100.5	97.9	100.1	100.1	101.8
Capital to total assets	5.52	5.48	5.50	5.43	5.40
Ratio of Tier I capital to risk elements	8.84	8.74	8.71	8.55	8.23
Total ratio of capital to risk elements	12.96	12.89	13.25	13.35	13.11
Cost income ratio	59.0	54.8	59.4	59.4	57.0
Expenses with respect to credit losses for the period to loans to the public, net [(2)]	0.20	0.55	0.10	0.15	0.37
Basic net earnings per share	1.32	1.07	1.23	1.19	1.14
Diluted net earnings per share	1.31	1.06	1.22	1.17	1.13

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

Forward-Looking Information

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

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

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

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

Dividends

Dividend distribution policy

Following publication of the Supervisor of Bank's directives dated May 30, 2013, with regard to adoption of Basel III recommendations in Israel, including Supervisory adjustments, deductions from capital and directives on measurement and capital adequacy – the Bank reviewed once again its compliance with schedules to achieve the core capital ratio target of 9% or higher.

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 policy - 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.

Below are details of dividends distributed by the Bank since 2011 through the publication date of these financial statements (in reported amounts):

Payment date	Dividends per share	Total dividends paid
	(Agorot)	(NIS in millions)
April 17, 2011	53.65	120
September 10, 2013	32.77	75

Profit and Profitability

Group net profit in the third quarter of 2013 amounted to NIS 301 million, compared to NIS 260 million in the corresponding period last year – an increase of 15.8%.

This reflects a 13.3% annualized return on equity, compared to 13.0% in the corresponding period last year.

The first nine months of 2013 include the effect of a non-recurring provision for credit losses with respect to housing loans amounting to NIS 191 million - due to implementation of the Supervisor of Banks' directives with regard to housing loans[(1)] (effect on net profit amounting to NIS 122 million). This provision was made on the financial statements for the second quarter.

Therefore, net profit in the first nine months of 2013 amounted to NIS 826 million, compared to NIS 806 million in the corresponding period last year, an increase of 2.5%. This reflects a 12.1% annualized return on equity, compared to 13.5% in the corresponding period last year.

The financial results presented by the Bank in these financial statements reflect further acceleration in expansion of the Bank's capital to NIS 9.6 billion (an increase of 12.5% over the year-ago period). The Tier I capital adequacy ratio as of September 30, 2013 was 8.84%.

The following major factors affecting Group profit in the first nine months of 2013 over the corresponding period last year:

- Financing revenues (net interest revenues and non-interest financing revenues) increased in the first nine months of 2013 by NIS 234 million, an increase of 9.6% over the corresponding period last year - see explanation below.
- Expenses with respect to credit losses in the first nine months of 2013 increased by NIS 55 million compared to the corresponding period last year. See above for the effect of a non-recurring provision[(1)].
- Commissions and other revenues in the first nine months of 2013 amounted to NIS 1,105 million, similar to the corresponding period last year. Current growth in commissions was offset by regulatory effects reducing the commissions charged to Bank clients. For details, see the chapter on Legislation and Supervision of Bank Group Operations below.
- Operating and other expenses increased in the first nine months of 2013 by NIS 132 million, or 6.5%, over the corresponding period last year - see explanation below.
- The provision for taxes in the first nine months of 2013 increased by 6.9%, following a reduction in tax expenses amounting to NIS 28 million with respect to deferred taxes, due to the 1.5% increase in corporate tax rate as from January 1, 2014.

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(1) For more information about the Supervisor of Banks' directives with regard to housing loans, see Note 1.C.6 to the financial statements (page 146).

Evolution of revenues and expenses

Net interest revenues and non-interest financing revenues[1] for the Group in the first nine months of 2013 amounted to NIS 2,671 million, compared to NIS 2,437 million in the corresponding period last year, an increase of 9.6%.

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

		Third Quarter			First nine months	
	2013	2012	Change rate	2013	2012	Change rate
Interest revenues, net	1,005	900		2,680	2,571	
Non-interest financing expenses [1]	(90)	(98)		(9)	(134)	
Total financing revenues	**915**	**802**	**14.1%**	**2,671**	**2,437**	**9.6%**
Less:						
Revenues from collection of interest on troubled debt	20	33		56	120	
Exchange rate and linkage differentials with respect to impaired debt	(7)	(1)		(12)	2	
Gain from realized debentures available for sale and from debentures held for trade, net	7	22		62	64	
Effect of accounting treatment of derivatives at fair value and others[2]	5	(65)		48	(111)	
Total financing revenues from current operations	**890**	**813**	**9.5%**	**2,517**	**2,362**	**6.6%**

(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) 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 their fair value.

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

				First nine months
Operating segment	2013	2012	Change amount	Change rate (In %)
Retail banking:				
Mortgages	539	482	57	11.8
Households	[1] 804	827	(23)	(2.8)
Small business	350	335	15	4.5
Total	**1,693**	**1,644**	**49**	**3.0**
Private banking	[1] 45	60	(15)	(25.0)
Commercial banking	125	129	(4)	(3.1)
Business banking	539	519	20	3.9
Financial management	269	85	184	-
Total	**2,671**	**2,437**	**234**	**9.6**

(1) The household and private banking segments were impacted by margin erosion 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):

	Third Quarter			First nine months		
	2013	2012	Change rate	2013	2012	Change rate
Israeli currency - non-linked	91,277	79,066	15.4%	87,687	78,123	12.2%
Israeli currency - linked to the CPI	52,460	48,439	8.3%	51,147	47,645	7.4%
Foreign currency (including Israeli currency linked to foreign currency)	13,394	17,059	(21.5%)	14,082	16,319	(13.7%)
Total	**157,131**	**144,564**	**8.7%**	**152,916**	**142,087**	**7.6%**

The increase in average balances of interest-bearing assets in the NIS-denominated non-linked and CPI-linked segments is primarily due to the increase in volume of mortgages in these segments.

The decrease in average balances of interest-bearing assets in the foreign currency segment is primarily due to lower exchange rates and to realized securities in conjunction with management of the Bank's assets and liabilities.

Below are interest 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:

	First nine months	
Linkage segments	2013	2012
Israeli currency - non-linked	2.11%	2.44%
Israeli currency - linked to the CPI	0.98%	0.83%
Foreign currency	2.08%	1.95%
Total	**2.09%**	**2.09%**

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

The decrease in interest spread in the non-linked NIS segment is primarily due to the lower interest rate environment. The increase in interest spread in the CPI-linked NIS segment is primarily due to the decrease in cost of long-term funds for the Bank (excluding off balance sheet sources).

The increase 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.

Expenses with respect to credit loss[es(1)] for the Group amounted to NIS 283 million in the first nine months of 2013, or an annualized rate of 0.28% of total loans to the public, net, compared with NIS 228 million, or an annualized rate of 0.24% of total loans to the public, net in the corresponding period last year - an increase of NIS 55 million in total. Expenses with respect to credit losses for the Group amounted to NIS 68 million in the third quarter of 2013, or an annualized rate of 0.20% of total loans to the public, net, compared with NIS 116 million, or an annualized rate of 0.37% of total loans to the public, net in the corresponding period last year - a total decrease of NIS 48 million.

(1) For more information about the Supervisor of Banks' directives with regard to housing loans, see Note 1.C.6 to the financial statements (page 146).

The increase in the provision in the first nine months of 2013 over the year-ago period is due to a non-recurring provision for credit losses, amounting to NIS 191 million, made in the second quarter due to implementation of the Supervisor of Banks' directive with regard to housing loans; conversely, from a specific provision for a borrower group included in the third quarter of 2012 – such that in total, expenses with respect to credit losses increased by NIS 55 million, as noted above.

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

	Third Quarter		First nine months	
	2013	2012	2013	2012
Provision for credit loss on individual basis (including accounting write-offs)	26	145	74	287
Provision for credit losses on Group basis:				
By extent of arrears	5	-	7	3
Other	37	(29)	(1) 202	(62)
Total expenses with respect to credit losses	**68**	**116**	**283**	**228**
Expense with respect to credit losses as percentage of total loans to the public, net (annualized)	**0.20%**	**0.37%**	**0.28%**	**0.24%**
Includes: With respect to commercial loans other than housing loans	**0.43%**	**0.96%**	**0.19%**	**0.62%**
Includes: With respect to housing loans	**0.07%**	**0.00%**	**0.33%**	**0.01%**

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

Operating segment	First nine months	
	2013	2012
Retail banking:		
Mortgages	(1) 214	4
Households	35	45
Small business	48	23
Total	**297**	**72**
Private banking	(2)	3
Commercial banking	(9)	11
Business banking	-	138
Financial management	(3)	4
Total	**283**	**228**

(1) Includes adjustment of a provision included in the financial statements for the second quarter, amounting to NIS 191 million, due to application of the Supervisor of Banks' directive with regard to housing loans. See Note 1.C.6 to the financial statements for further information.

Net interest revenues after expenses with respect to credit losses in the first nine months of 2013 amounted to NIS 2,397 million, compared to NIS 2,343 million in the corresponding period last year plus non-interest financing revenues - an increase of 8.1%. Net interest revenues after expenses with respect to credit losses in the third quarter of 2013 amounted to NIS 937 million, compared to NIS 784 million in the corresponding period last year plus non-interest financing revenues - an increase of 23.5%. See above the analysis of evolution of financing revenues from current operations and analysis of expenses with respect to credit losses.

Non-interest revenues in the first nine months of 2013 amounted to NIS 1,096 million, compared to NIS 971 million in the corresponding period last year, an increase of NIS 125 million. Non-interest revenues for the Group in the third quarter of 2013 amounted to NIS 274 million, compared to NIS 287 million in the corresponding period last year, a decrease of NIS 13 million - see explanation below.

Non-interest financing expenses in the first nine months of 2013 amounted to NIS 9 million, compared to NIS 134 million in the corresponding period last year. Non-interest financing expenses for the Group in the third quarter of 2013 amounted to NIS 90 million, compared to NIS 98 million in the corresponding period last year. This item includes, inter alia, the effect of fair value and others and expenses with respect to linkage differentials on CPI derivatives, where the corresponding revenue is recognized as interest revenues, in conformity with accounting rules. See analysis of Financing revenues from current operations above.

Commission revenues amounted to NIS 1,084 million in the first nine months of 2013, compared with NIS 1,085 million in the corresponding period last year.

In the first nine months of 2013, current growth in commission revenues was offset by regulatory effects reducing the commissions charged to Bank clients. For details, see the chapter on Legislation and Supervision of Bank Group Operations below.

Commission revenues for the Group in the third quarter of 2013 amounted to NIS 356 million, compared to NIS 378 million in the corresponding period last year, a decrease of NIS 22 million.

The third quarter of 2012 included multiple transactions of significant amounts, which resulted in commission revenues amounting to NIS 13 million. Furthermore, the third quarter of 2013 had fewer trading days due to holidays.

Other revenues amounted to NIS 21 million in the first nine months of 2013, compared with NIS 20 million in the corresponding period last year. Other revenues for the Group amounted to NIS 8 million in the third quarter of 2013, compared with NIS 7 million in the corresponding period last year.

Operating and other expenses amounted to NIS 2,178 million in the first nine months of 2013, compared with NIS 2,046 million in the corresponding period last year - an increase of 6.5%. Operating and other expenses amounted to NIS 755 million in the third quarter of 2013, compared with NIS 676 million in the corresponding period last year - a year-over-year increase of 11.7%. Excluding extraordinary items of payroll and associated expenses (see below), the increase in the first nine months of 2013 and in the third quarter of this year was 4.8% and 5.8%, respectively. See remarks below.

Payroll and associated expenses amounted to NIS 1,345 million in the first nine months of 2013, compared with NIS 1,247 million in the corresponding period last year - an increase of 7.9%. Payroll and associated expenses amounted to NIS 471 million in the third quarter of 2013, compared with NIS 405 million in the corresponding period last year - an increase of 16.3%.

The year-over-year increase in payroll and associated expenses is primarily due to temporary differences in accounting for provisions for payroll-associated expenses and, *inter alia*, an extraordinary provision for a voluntary retirement program at Bank Yahav.

The increase in payroll and associated expenses in the first nine months of 2013 over the corresponding period last year (excluding extraordinary items) is 5.2%.

Maintenance and depreciation expenses for buildings and equipment amounted to NIS 510 million in the first nine months of 2013, compared with NIS 481 million in the corresponding period last year - an increase of 6.0%. The increase in maintenance and depreciation expenses for buildings and equipment is due to an increase in depreciation expense with respect to investment in technology and to a NIS 7 million extraordinary increase in maintenance and depreciation expenses for buildings and equipment at Bank Yahav, due to expansion of the branch network. Maintenance and depreciation expenses for buildings and equipment for the Group amounted to NIS 172 million in the third quarter of 2013, compared with NIS 163 million in the corresponding period last year – an increase of 5.5%.

Other expenses amounted to NIS 323 million in the first nine months of 2013, compared with NIS 318 million in the corresponding period last year - an increase of 1.6%. Other expenses for the Group amounted to NIS 112 million in the third quarter of 2013, compared with NIS 108 million in the corresponding period last year - a year-over-year increase of 3.7%.

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

	First nine months		All of
	2013	2012	2012
Cost-Income Ratio(1)	57.7	57.8	58.2

	2013			2012			
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Cost-Income Ratio(1)	59.0	54.8	59.4	59.4	57.0	56.1	60.3

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

Pre-tax profit for the Group amounted to NIS 1,315 million in the first nine months of 2013, compared with NIS 1,268 million in the corresponding period last year - an increase of 3.7%. Pre-tax profit for the Group in the third quarter of 2013 amounted to NIS 456 million, compared to NIS 395 million in the corresponding period last year – an increase of 15.4%.

The provision for taxes amounted to NIS 452 million in the first nine months of 2013, compared with NIS 423 million in the corresponding period last year - an increase of 6.9%. The provision for taxes in the third quarter of 2013 amounted to NIS 143 million, compared to NIS 121 million in the corresponding period last year – an increase of 18.2%.

The provision for taxes in the third quarter of 2013 included a reduction in tax expenses amounting to NIS 28 million with respect to deferred taxes, due to the 1.5% increase in corporate tax rate as from January 1, 2014.

The Bank's share of after-tax profit of associates in the third quarter of 2013 amounted to NIS 1 million. The Bank had no after-tax profit from associates in the corresponding period last year. The Bank had no after-tax profit from associates in the first nine months of 2013 nor in the corresponding period last year.

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

	First nine months		All of
	2013	2012	2012
Net return on equity	12.1	13.5	13.1

	2013			2012			
	Thir Quart	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net return on equity	13.3	11.1	13.1	13.1	13.0	15.4	13.6
Ratio of Tier I capital to risk elements at end of quarter	8.84	8.74	8.71	8.55	8.23	8.03	7.94

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

Earnings per share

Earnings per ordinary, NIS .1 par value share are as follows (in NIS):

	Third Quarter		First nine months		All of
	2013	2012	2013	2012	2012
Basic earnings per share:	1.32	1.14	3.62	3.54	4.77
Diluted earnings per share:	1.31	1.13	3.60	3.52	4.74

Development of balance sheet items

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

				Change in % over	
	September 30,		December 31,	September 30,	December 31,
	2013	2012	2012	2012	2012
Balance sheet total	173,332	157,810	162,242	9.8	6.8
Loans to the public, net	136,747	(1) 126,566	128,651	8.0	6.3
Deposits from the public	136,011	124,322	128,499	9.4	5.8
Securities	7,431	7,966	9,041	(6.7)	(17.8)
Shareholders' equity	9,574	8,514	8,811	12.5	8.7

(1) Reclassified.

Loans to the public, net – loans to the public, net on the consolidated balance sheet as of September 30, 2013 accounted for 79% of total assets, similar to the end of 2012. Loans to the public, net for the Group increased in the first nine months of 2013 by NIS 8.1 billion, an increase of 6.3%.

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

				Change in % over	
		September 30,	December 31,	September 30,	December 31,
	2013	2012	2012	2012	2012
Israeli currency					
Non-linked	71,817	64,043	66,160	12.1	8.6
CPI- linked	52,609	48,733	49,221	8.0	6.9
Foreign currency and foreign currency linked	12,321	(1)13,790	13,270	(10.7)	(7.2)
Total	**136,747**	**126,566**	**128,651**	**8.0**	**6.3**

(1) Reclassified.

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

				Change in % over	
	September 30,		December 31,	September 30,	December 31,
Operating segment	2013	2012	2012	2012	2012
Retail banking:					
Mortgages	82,239	73,346	75,011	12.1	9.6
Households	19,334	17,212	18,002	12.3	7.4
Small business	7,589	6,751	6,860	12.4	10.6
Total retail	**109,162**	**97,309**	**99,873**	**12.2**	**9.3**
Private banking	1,002	1,141	1,178	(12.2)	(14.9)
Commercial banking	4,711	4,662	4,679	1.1	0.7
Business banking	21,872	23,454	22,921	(6.7)	(4.6)
Total – business and others	**27,585**	**29,257**	**28,778**	**(5.7)**	**(4.1)**
Total	**136,747**	**126,566**	**128,651**	**8.0**	**6.3**

(1) Reclassified.

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 September 30, 2013			As of September 30, 2012			As of December 31, 2012		
	Credit risk[1]			Credit risk[1]			Credit risk[1]		
	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total
1. Troubled credit risk:									
Impaired credit risk	1,336	385	1,721	1,786	424	2,210	1,664	423	2,087
Inferior credit risk	101	-	101	146	-	146	161	2	163
Credit risk under special supervision [2]	[4] 1,531	160	1,691	1,968	158	2,126	1,927	181	2,108
Total troubled credit risk	**2,968**	**545**	**3,513**	**3,900**	**582**	**4,482**	**3,752**	**606**	**4,358**
Includes: Non-impaired debt in arrears 90 days or longer [2]	1,272			1,716			1,659		
2. Non-performing assets[3]	**1,219**			**1,727**			**1,609**		

(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 1,221 million (as of September 30, 2012 - NIS 1,664 million; as of December 31, 2012 - NIS 1,599 million).
(3) Non-accruing assets.
(4) Includes balance of provision for credit losss, amounting to NIS 281 million, with respect to housing loans fully provided for and written off. See Note 3.A.1 to the financial statements for further information.

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):

	September 30, 2013	September 30, 2012	December 31, 2012
Ratio of impaired loans to the public to total loans to the public	1.0	1.4	1.3
Ratio of impaired loans to the public to total non-housing loans	2.7	3.6	3.4
Troubled debt as percentage of non-housing loan balance	3.5	4.5	4.4
Ratio of housing loans in arrears 90 days or longer to total loans to the public [1][2]	0.9	1.3	1.2
Ratio of provision for credit losses to total loans to the public	1.1	1.4	1.3
Ratio of provision for credit losses to total credit risk with respect to the public	0.8	1.0	0.9
Ratio of troubled credit risk to total credit risk with respect to the public	1.9	2.5	2.4
Ratio of expenses with respect to credit losses to average balance of loans to the public, net	0.29	0.25	0.22
Ratio of net write-offs to average balance of loans to the public, net	0.51	0.24	0.27
Ratio of net write-offs to provision for credit loss[es]	[3] 48.5	17.3	19.9

(1) This non-housing rate is negligible.
(2) Balance of credit in arrears before provision by extent of arrears.
(3) Includes balance of provision for credit losses, amounting to NIS 281 million, with respect to housing loans fully provided for and written off. Net of this effect, the ratio of net write-offs to the balance of provision for credit losses was 21.07%. See Note 3.A.1 to the financial statements for further information.

Below is the sector composition of the top 6 borrowers for the Group as of September 30, 2013 (NIS in millions):

Borrower no.	Sector	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
1.	Power and water	698	404	1,102
2.	Construction and real estate	256	620	876
3.	Construction and real estate	13	787	800
4.	Construction and real estate	213	505	718
5.	Communications and computer services	641	47	688
6.	Construction and real estate	249	317	566

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 nine months of 2013 by NIS 1.6 billion, and by NIS 0.5 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	
	September 30,		December 31,	September 30,	December 31,
	2013	2012	2012	2012	2012
Israeli currency					
Non-linked	4,215	3,534	5,487	19.3	(23.2)
CPI- linked	240	128	251	87.5	(4.4)
Foreign currency and foreign currency linked	2,866	4,222	3,184	(32.1)	(10.0)
Non-monetary items	110	82	119	34.1	(7.6)
Total	**7,431**	**7,966**	**9,041**	**(6.7)**	**(17.8)**

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

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

	Carrying amount as of	
	September 30, 2013	December 31, 2012
Government debentures:		
Government of Israel	6,703	8,114
US Government	61	95
Other	22	-
Total government debentures	**6,786**	**8,209**
Debentures of banks in developed nations:		
UK	97	137
Israel	124	123
Germany	103	109
South Korea	-	26
Holland	18	38
Other	5	5
	347	**438**
Debentures of (non-banking) financial institutions in developed nations: (1)		
USA	10	51
UK	19	20
Luxembourg	10	11
Total	**39**	**82**
Total debentures of banks and financial institutions in developed nations	**386**	**520**
Corporate debentures (composition by sector):		
Industry	72	75
Construction	24	31
Power and water	15	57
Communications and computer services	1	1
Financial services	37	29
Total corporate debentures	**149**	**193**
Shares	**110**	**119**
Total securities	**7,431**	**9,041**

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

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

					As of September 30, 2013
	Duration in which fair value is lower than the amortized cost				
Share of impairment out of amortized cost	Up to 6 months	6-9 months	9-12 months	Over 12 months	Total
Debentures					
Up to 20%	1	5	-	24	30
20%-40%	2	-	-	-	2
Over 40%	-	-	-	-	-
Total securities available for sale	**3**	**5**	**-**	**24**	**32**

					As of December 31, 2012
	Duration in which fair value is lower than the amortized cost				
Share of impairment out of amortized cost	Up to 6 months	6-9 months	9-12 months	Over 12 months	Total
Debentures					
Up to 20%	1	-	-	32	33
20%-40%	-	-	-	20	20
Over 40%	-	-	-	-	-
Total	**1**	**-**	**-**	**52**	**53**
Shares					
Up to 20%	1	-	-	-	1
20%-40%	-	-	-	-	-
Over 40%	-	-	-	-	-
Total	**1**	**-**	**-**	**-**	**1**
Total securities available for sale	**2**	**-**	**-**	**52**	**54**

See Note 2 to the financial statements for additional information.

Deposits from the public - these account for 78% of total consolidated balance sheet as of September 30, 2013, compared to 79% at the end of 2012. In the first nine months of 2013, deposits from the public with the Bank Group increased by NIS 7.5 billion, or 5.8%.

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

				Change in % over	
	September 30,		December 31,	September 30,	December 31,
	2013	2012	2012	2012	2012
Israeli currency					
Non-linked	87,362	77,832	83,411	12.2	4.7
CPI- linked	21,519	22,938	21,823	(6.2)	(1.4)
Foreign currency and foreign currency linked	27,130	23,552	23,265	15.2	16.6
Total	**136,011**	**124,322**	**128,499**	**9.4**	**5.8**

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

				Change in % over	
	September 30,		December 31,	September 30,	December 31,
	2013	2012	2012	2012	2012
Retail banking:					
Households	60,335	58,614	58,645	2.9	2.9
Small business	8,948	7,851	8,159	14.0	9.7
Total retail	**69,283**	**66,465**	**66,804**	**4.2**	**3.7**
Private banking	6,777	6,156	7,077	10.1	(4.2)
Commercial banking	3,309	3,763	3,358	(12.1)	(1.5)
Business banking	39,061	33,083	33,934	18.1	15.1
Financial management	17,581	14,855	17,326	18.4	1.5
Total	**136,011**	**124,322**	**128,499**	**9.4**	**5.8**

The ratio of shareholders' equity to balance sheet total for the Group as of September 30, 2013 was 5.52%, compared to 5.43% as of the end of 2012.

Ratio of capital to risk elements

As per instructions of the Supervisor of Banks, every banking corporation is required to maintain a total minimum capital ratio of no less than 9% of weighted total of risk elements of its balance sheet assets and off-balance-sheet items, and the instructions stipulate 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 amendments to Proper Conduct of Banking Business Regulations 201-211 concerning adoption of Basel III directives with regard to supervisory capital and with regard to risk assets.

For information on these directives and their expected effect on the Bank's capital adequacy, see Note 5.H. to the financial statements.

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

	September 30, 2013	December 31, 2012
Ratio of Tier I capital to risk elements	8.84	8.55
Ratio of total capital to risk elements	12.96	13.35
Minimum total capital ratio required by the directives of the Supervisor of Banks	9.00	9.00

Major Investees

The contribution of investees to net operating profit million in the first nine months of 2013 amounted to NIS 95.0 million, compared with NIS 124.7 million in the corresponding period last year. These data include the effect of exchange rate fluctuations on the balance of investment in overseas investees, covered by the Bank itself. Therefore, the effect of exchange rate fluctuations has no implications for the Group net profit.
Excluding the effect of the above exchange rate fluctuations, contribution of investees amounted to NIS 109.2 million, compared to NIS 101.5 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 nine of 2013 amounted to NIS 37.2 million, compared to NIS 39.2 million in the corresponding period last year. Bank Yahav's net profit return on equity in the first nine months of 2013 was 10.9% on annualized basis, compared to 13.1% in the corresponding period last year. Bank Yahav's balance sheet total as of September 30, 2013 amounted to NIS 19,017 million, compared to NIS 18,367 million as of December 31, 2012 – an increase of NIS 650 million, or 3.5%. Net loans to the public as of September 30, 2013 amounted to NIS 6,469 million, compared to NIS 6,124 million as of December 31, 2012 – an increase of NIS 345 million, or 5.5%. Deposits from the public as of September 30, 2013 amounted to NIS 16,243 million, compared to NIS 15,692 million as of December 31, 2012 – an increase of NIS 551 million, or 3.5%.

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

Tefahot Insurance is an insurance agency wholly owned by the Bank, which manages life insurance policies and property insurance policies of clients obtaining mortgages from the Bank.
Tefahot Insurance's contribution to Group net profit in the first nine months of 2013 amounted to NIS 60.0 million, compared to NIS 50.8 million in the corresponding period last year – an increase of NIS 9.2 million, or 18.1%. The increase in net profit is primarily due to the non-recurring effect of interest rates received on deposits of excess cash.
Bank Yahav's net profit return on equity in the first nine months of 2013 was 12.4% on annualized basis, compared to 11.8% 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 nine months of 2013 amounted to CHF 0.2 million, compared to CHF 1.0 million in the corresponding period last year – see explanation below.
Mizrahi Bank Switzerland's balance sheet total as of September 30, 2013 amounted to CHF 179 million, compared to CHF 167 million at the end of 2012 – an increase of 7.2%.

The balance of loans to the public as of September 30, 2013 amounted to CHF 72 million, compared to CHF 53 million at end of 2012 – an increase of 35.8%. The balance of deposits with banks as of September 30, 2013 amounted to CHF 95 million, compared to CHF 103 million at end of 2012 – a decrease of 7.7%. Deposits from the public as of September 30, 2013 amounted to CHF 120 million, compared to CHF 110 million at end of 2012.

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

Contribution of Mizrahi International Holdings Ltd. (B.V. Holland) to Group net profit in the first nine months of 2013, which includes the contribution of Mizrahi Bank Switzerland to net profit, amounted to a loss of NIS 13.2 million, compared with profit of NIS 14.3 million in the corresponding period last year. These data include impact of changes in exchange rates on the investment balance, covered by the Bank's own sources. Therefore, the impact of exchange rates on Group net profit is not meaningful.

Excluding the impact of changes in exchange rates, the company's contribution to group net profit in the first nine months of the year amounted to a NIS 0.9 million profit, compared to a NIS 4.1 million profit in the corresponding period last year.

Following an agreement between the Governments of Switzerland and the UK, with regard to transactions between the subsidiary and UK residents, the subsidiary (United Mizrahi Bank Switzerland) made a provision amounting to CHF 748 thousand on its financial statements for potential tax liability of the subsidiary with repsect to its transactions with UK residents.

In recent months, authorities in the USA and Switzerland were in negotiations with regard to an investigation by US authorities into Swiss banks, concerning apparent abuse of the double tax avoidance treaty between the USA and Switzerland. As requested by Swiss authorities, several Swiss banks, including Mizrahi Bank Switzerland, have provided statistical information about their business with US clients, to be provided to US authorities.

Consequently, authorities in Switzerland negotiated with US authorities to reach certain legal understandings, whereby fines of different amounts would be imposed on several Swiss banks.

In late August, the Bank in Switzerland was informed by US authorities that it was excluded from the group of banks which may take part in the agreement reached on fines, because an investigation was authorized into the Bank's business and the Bank will be required to provide statistical and individual information.

The Bank has expressed its consent to cooperate with US authorities, subject to legal provisions and to the US-Switzerland Treaty. Statistical and individual information will be provided, when requested, over several months subject to local statutes and subject to approval by regulators.

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 1.1% 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 September 30, 2013 amounted to NIS 139 million, compared to NIS 146 million at end of 2012 – a decrease of NIS 7 million which is primarily due to realized investments. Net profit from dividends and realized gain on investments in non-banking corporations, after provision for impairment, amounted in the first nine months of 2013 to NIS 6 million for the Bank, compared to NIS 5 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 described below. The operations in the six operating segments include all areas of banking operations including classic banking activity (loans and deposits), securities activity for clients and activity in derivative instruments. Operations of the various segments are conducted via Bank branches, trading room, Business Centers, Bank HQ departments and subsidiaries in Israel and overseas.

The Bank's operating segments are:

Household segment - under responsibility of the Retail Division, This segment includes 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, 2012.

Note 12 to the financial statements includes a reporting of Bank Group business results by operating segment.

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

	Net profit for the first nine months		Share of total net profit (in percent) for the first nine months		Return on equity (in percent) for the first nine months	
	2013	2012	2013	2012	2013	2012
Household:						
Mortgages	[(1)]192	303	23	38	7.1	13.8
Other	45	103	5	13	5.5	14.0
Private banking	15	25	2	3	22.2	26.6
Small business	103	125	12	16	30.1	41.2
Commercial banking	52	43	6	5	15.7	13.7
Business banking	329	217	41	27	14.1	9.9
Financial management	90	(10)	11	(2)	43.1	-
Total	**826**	**806**	**100**	**100**	**12.1**	**13.5**

(1) Includes a non-recurring provision for credit losses amounting to NIS 191 million (effect on net profit amounting to NIS 122 million), due to implementation of the Supervisor of Banks' directive with regard to housing loans. See Note 1.C.6 to the financial statements for further information. Return on equity excluding the effect of this provision was 11.8%.

Below are Bank Group operating results by operating segment

Results of Household Segment

	For the nine months ended September 30, 2013					For the nine months ended September 30, 2012				
	Banking and finance	Credit cards	Capital market	Mortgages	Total	Banking and finance	Credit cards	Capital market	Mortgages	Total
	NIS in millions									
Interest revenues, net:										
From outside operating segments	192	19	-	2,795	3,006	90	21	-	2,755	2,866
Inter-segment	593	(4)	-	(2,256)	(1,667)	726	(15)	-	(2,273)	(1,562)
Total interest revenues, net	**785**	**15**	**-**	**539**	**1,339**	**816**	**6**	**-**	**482**	**1,304**
Non-interest financing revenues	(1)	-	5	-	4	-	-	5	-	5
Commissions and other revenues	179	91	129	172	571	185	100	119	180	584
Total revenues	**963**	**106**	**134**	**711**	**1,914**	**1,001**	**106**	**124**	**662**	**1,893**
Expenses with respect to credit losses	35	-	-	214	249	45	-	-	4	49
Operating and other expenses										
From outside operating segments	1,072	19	35	204	1,330	994	21	40	203	1,258
Inter-segment	(83)	(2)	-	-	(85)	(81)	(2)	-	-	(83)
Total operating and other expenses	**989**	**17**	**35**	**204**	**1,245**	**913**	**19**	**40**	**203**	**1,175**
Pre-tax profit	(61)	89	99	293	420	43	87	84	455	669
Provision for taxes on profit	(21)	32	34	101	146	14	30	28	152	224
After-tax profit	**(40)**	**57**	**65**	**192**	**274**	**29**	**57**	**56**	**303**	**445**
Net profit (loss):										
Before attribution to non-controlling interest	(40)	57	65	192	274	29	57	56	303	445
Attributable to non-controlling interest	(37)	-	-	-	(37)	(39)	-	-	-	(39)
Attributable to equity holders of the banking corporation	**(77)**	**57**	**65**	**192**	**237**	**(10)**	**57**	**56**	**303**	**406**
Return on capital (net profit as % of average capital)					**6.7%**					**13.8%**
Average asset balance	14,692	2,939	-	77,377	95,008	14,754	2,552	-	68,907	86,213
Average balance of liabilities	57,777	2,939	-	105	60,821	55,307	2,552	-	97	57,956
Average balance of risk assets	15,345	-	-	41,194	56,539	14,957	-	-	36,275	51,232
Average balance of securities	-	-	30,666	-	30,666	-	-	26,551	-	26,551
Loans to the public, net (end balance)	16,422	2,912	-	82,239	101,573	14,491	2,721	-	73,346	90,558
Deposits from the public (end balance)	60,335	-	-	-	60,335	58,614	-	-	-	58,614
Average balance of other assets managed	9,721	-	-	10,226	19,947	8,568	-	-	11,720	20,288
Profit from interest revenues before expenses with respect to credit losses:										
Margin from credit granting operations	407	15	-	522	944	385	6	-	458	849
Margin from receiving deposits	355	-	-	-	355	407	-	-	-	407
Other	23	-	-	17	40	24	-	-	24	48
Total interest revenues, net	**785**	**15**	**-**	**539**	**1,339**	**816**	**6**	**-**	**482**	**1,304**

Contribution of the household segment to Group profit in the first nine months of 2013 amounted to NIS 237 million, compared to NIS 406 million in the corresponding period last year - a decrease of 41.6%. Below are key factors affecting the change in segment contribution:

Contribution of mortgages in the first nine months of 2013 amounted to NIS 192 million, compared to NIS 303 million in the corresponding period last year - a decrease of 36.6%. The decrease is primarily due to a non-recurring group-based provision for credit losses amounting to NIS 191 million (NIS 122 million, net after tax) due to implementation of the Supervisor of Banks' directive with regard to housing loans, which was included on the financial statements for the second quarter. However, business volume attributed to this segment increased, so that excluding the effect of this non-recurring provision, net profit increased by NIS 11 million (an increase of 3.6% compared to the corresponding period last year). Net return on equity from mortgages, excluding this non-recurring provision, was 11.8% – compared to 9.6% in the year-ago period.

Net interest revenues before expenses with respect to credit losses amounted to NIS 539 million, compared to NIS 482 million in the corresponding period last year, an increase of NIS 57 million - primarily due to an increase in business volume, as reflected in an increase of 12.3% in average asset balance. Commissions and other revenues decreased by NIS 8 million, due to various regulatory effects which reduce commissions charged to Bank clients. See chapter on Legislation and Supervision of Bank Group Operations.

Operating and other expenses were essentially unchanged from the year-ago period.

Contribution of the household segment (except for mortgages) in the first half of 2013 amounted to NIS 45 million, compared to NIS 103 million in the corresponding period last year - a decrease of NIS 58 million. Net interest revenues before expenses with respect to credit losses decreased by 2.7%, primarily due to a decrease in margin from receiving deposits, due to the low interest rate environment.

Commission and other revenues decreased by NIS 5 million, primarily due to various regulatory effects reducing the commissions charged to Bank clients. For details, see the chapter on Legislation and Supervision of Bank Group Operations.

Expenses with respect to credit losses decreased by NIS 10 million, along with an increase of 7.1% in operating expenses. The increase in operating expenses is primarily attributed to the segment share of temporary differences in accounting for provisions for payroll-associated expenses and, *inter alia*, to a provision for a voluntary retirement program at Bank Yahav.

Results of Household Segment

	For the three months ended September 30, 2013					For the three months ended September 30, 2012				
	Banking and finance	Credit cards	Capital market	Mortgages	Total	Banking and finance	Credit cards	Capital market	Mortgages	Total
	NIS in millions									
Interest revenues, net:										
From outside operating segments	48	6	-	1,247	1,301	23	7	-	996	1,026
Inter-segment	211	(1)	-	(1,057)	(847)	243	(5)	-	(825)	(587)
Total interest revenues, net	**259**	**5**	**-**	**190**	**454**	**266**	**2**	**-**	**171**	**439**
Non-interest financing revenues	-	-	2	-	2	-	-	1	-	1
Commissions and other revenues	67	22	41	58	188	63	30	38	61	192
Total revenues	**326**	**27**	**43**	**248**	**644**	**329**	**32**	**39**	**232**	**632**
Expenses with respect to credit losses	14	-	-	16	30	12	-	-	-	12
Operating and other expenses										
From outside operating segments	378	5	7	72	462	325	7	13	79	424
Inter-segment	(29)	-	-	-	(29)	(25)	-	-	-	(25)
Total operating and other expenses	**349**	**5**	**7**	**72**	**433**	**300**	**7**	**13**	**79**	**399**
Pre-tax profit	(37)	22	36	160	181	17	25	26	153	221
Provision for taxes on profit	(12)	7	11	53	59	4	9	8	48	69
After-tax profit	**(25)**	**15**	**25**	**107**	**122**	**13**	**16**	**18**	**105**	**152**
Net profit (loss):										
Before attribution to non-controlling interest	(25)	15	25	107	122	13	16	18	105	152
Attributable to non-controlling interest	(13)	-	-	-	(13)	(14)	-	-	-	(14)
Attributable to equity holders of the banking corporation	**(38)**	**15**	**25**	**107**	**109**	**(1)**	**16**	**18**	**105**	**138**
Return on capital (net profit as % of average capital)					**9.4%**					**14.5%**
Profit from interest revenues before expenses with respect to credit losses:										
Margin from credit granting operations	135	5	-	185	325	136	2	-	162	300
Margin from receiving deposits	118	-	-	-	118	126	-	-	-	126
Other	6	-	-	5	11	4	-	-	9	13
Total interest revenues, net	**259**	**5**	**-**	**190**	**454**	**266**	**2**	**-**	**171**	**439**

Volume of mortgages granted by the segment is as follows:

	Loans granted (NIS in millions)		
	First nine months		
	2013	2012	Change in %
Mortgages originated (for housing and for any purpose)			
From Bank funds	14,580	12,615	15.6
From Treasury funds:			
Directed loans	113	136	(16.9)
Standing loans and grants	139	152	(8.6)
Total new loans	**14,832**	**12,903**	**15.0**
Refinanced loans	1,871	1,277	46.5
Total loans originated	**16,703**	**14,180**	**17.8**
Number of borrowers (includes refinanced loans)	35,142	35,579	(1.2)

Results of Private Banking Segment

	For the nine months ended September 30, 2013			For the nine months ended September 30, 2012		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
	NIS in millions					
Interest revenues, net:						
From outside operating segments	(14)	-	(14)	(8)	-	(8)
Inter-segment	58	-	58	68	-	68
Total interest revenues, net	**44**	**-**	**44**	**60**	**-**	**60**
Non-interest financing revenues	1	-	1	-	-	-
Commissions and other revenues	21	18	39	18	23	41
Total revenues	**66**	**18**	**84**	**78**	**23**	**101**
Expenses with respect to credit losses	(2)	-	(2)	3	-	3
Operating and other expenses						
From outside operating segments	55	-	55	56	5	61
Inter-segment	8	-	8	4	(4)	-
Total operating and other expenses	**63**	**-**	**63**	**60**	**1**	**61**
Pre-tax profit	5	18	23	15	22	37
Provision for taxes on profit	2	6	8	5	7	12
Net profit attributable to equity holders of the banking corporation	**3**	**12**	**15**	**10**	**15**	**25**
Return on capital (net profit as % of average capital)			**22.2%**			**26.6%**
Average asset balance	2,281	-	2,281	2,366	-	2,366
Average balance of liabilities	6,984	-	6,984	7,160	-	7,160
Average balance of risk assets	1,050	-	1,050	1,573	-	1,573
Average balance of securities	-	8,454	8,454	-	7,548	7,548
Loans to the public, net (end balance)	1,002	-	1,002	1,141	-	1,141
Deposits from the public (end balance)	6,777	-	6,777	6,156	-	6,156
Average balance of other assets managed	7	-	7	-	-	-
Profit from interest revenues before expenses with respect to credit losses:						
Margin from credit granting operations	19	-	19	24	-	24
Margin from receiving deposits	24	-	24	35	-	35
Other	1	-	1	1	-	1
Total interest revenues, net	**44**	**-**	**44**	**60**	**-**	**60**

Contribution of the private banking segment to Group profit in the first nine months of 2013 amounted to NIS 15 million, compared to NIS 25 million in the corresponding period last year - a decrease of NIS 10 million. Below are key factors affecting the change in segment contribution: Net interest revenues in the first nine months of 2013 amounted to NIS 44 million, compared to NIS 60 million in the corresponding period last year – a decrease of 26.7%, which is primarily due to erosion of interest spreads on deposits due to the low interest environment and to a decrease in spread on lending due to lower volume of lending business.

Expenses with respect to credit losses decreased by NIS 5 million compared to the corresponding period last year. Commission and other revenues decreased by NIS 2 million. Operating and other expenses increased by NIS 2 million year-over-year.

Results of Private Banking Segment

	For the three months ended September 30, 2013			For the three months ended September 30, 2012		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
	NIS in millions					
Interest revenues, net:						
From outside operating segments	(16)	-	(16)	-	-	-
Inter-segment	25	-	25	22	-	22
Total interest revenues, net	**9**	**-**	**9**	**22**	**-**	**22**
Non-interest financing revenues	1	-	1	-	-	-
Commissions and other revenues	6	3	9	7	7	14
Total revenues	**16**	**3**	**19**	**29**	**7**	**36**
Expenses with respect to credit losses	1	-	1	6	-	6
Operating and other expenses						
From outside operating segments	19	-	19	18	5	23
Inter-segment	3	-	3	1	(4)	(3)
Total operating and other expenses	**22**	**-**	**22**	**19**	**1**	**20**
Pre-tax profit	(7)	3	(4)	4	6	10
Provision for taxes on profit	(2)	1	(1)	1	2	3
Net profit attributable to equity holders of the banking corporation	**(5)**	**2**	**(3)**	**3**	**4**	**7**
Return on capital (net profit as % of average capital)			-			**24.1%**
Profit from interest revenues before expenses with respect to credit losses:						
Margin from credit granting operations	4	-	4	12	-	12
Margin from receiving deposits	5	-	5	9	-	9
Other	-	-	-	1	-	1
Total interest revenues, net	**9**	**-**	**9**	**22**	**-**	**22**

Results of the Small Business Segment

	For the nine months ended September 30, 2013				For the nine months ended September 30, 2012			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
	NIS in millions							
Interest revenues, net:								
From outside operating segments	316	6	-	322	256	5	-	261
Inter-segment	29	(1)	-	28	78	(4)	-	74
Total interest revenues, net	**345**	**5**	**-**	**350**	**334**	**1**	**-**	**335**
Non-interest financing revenues	-	-	-	-	-	-	-	-
Commissions and other revenues	159	11	15	185	152	10	15	177
Total revenues	**504**	**16**	**15**	**535**	**486**	**11**	**15**	**512**
Expenses with respect to credit losses	48	-	-	48	23	-	-	23
Operating and other expenses								
From outside operating segments	363	3	4	370	334	3	3	340
Inter-segment	(39)	-	-	(39)	(38)	-	-	(38)
Total operating and other expenses	**324**	**3**	**4**	**331**	**296**	**3**	**3**	**302**
Pre-tax profit	132	13	11	156	167	8	12	187
Provision for taxes on profit	45	4	4	53	55	3	4	62
Net profit attributable to equity holders of the banking corporation	**87**	**9**	**7**	**103**	**112**	**5**	**8**	**125**
Return on capital (net profit as % of average capital)				**30.1%**				**41.2%**
Average asset balance	7,080	341	-	7,421	6,717	303	-	7,020
Average balance of liabilities	8,794	-	-	8,794	8,050	-	-	8,050
Average balance of risk assets	5,352	-	-	5,352	5,164	-	-	5,164
Average balance of securities	-	-	6,431	6,431	-	-	6,097	6,097
Loans to the public, net (end balance)	7,238	351	-	7,589	6,438	313	-	6,751
Deposits from the public (end balance)	8,948	-	-	8,948	7,851	-	-	7,851
Average balance of other assets managed	198	-	-	198	185	-	-	185
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	285	-	-	285	260	-	-	260
Margin from receiving deposits	49	-	-	49	59	-	-	59
Other	11	5	-	16	15	1	-	16
Total interest revenues, net	**345**	**5**	**-**	**350**	**334**	**1**	**-**	**335**

Contribution of the small business segment to Group profit in the first nine months of 2013 amounted to NIS 103 million, compared to NIS 125 million in the corresponding period last year - a decrease of 17.6%.

Below are key factors affecting the change in segment contribution: Net interest revenues in the first nine months of 2013 amounted to NIS 350 million, compared to NIS 335 million in the corresponding period last year, an increase of NIS 15 million – primarily due to an increase in business volume for both loans and deposits, due to the low interest environment. Commissions and other revenues increased by 4.5% compared to the corresponding period last year.

Expenses with respect to credit losses amounted to NIS 48 million, compared to NIS 23 million in the corresponding period last year, an increase of NIS 25 million – due to changes in the rate of group-based provision attributed to this segment, compared to the year-ago period. Operating expenses increased by 9.6%: In the first nine months of 2013, operating expenses amounted to NIS 331 million, compared to NIS 302 million in the corresponding period last year. The increase is due to temporary differences in accounting for a provision for payroll benefit expenses.

Results of the Small Business Segment

	For the three months ended September 30, 2013				For the three months ended September 30, 2012			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
	NIS in millions							
Interest revenues, net:								
From outside operating segments	94	2	-	96	79	1	-	80
Inter-segment	22	-	-	22	31	(1)	-	30
Total interest revenues, net	**116**	**2**	**-**	**118**	**110**	**-**	**-**	**110**
Non-interest financing revenues	-	-	-	-	-	-	-	-
Commissions and other revenues	53	4	5	62	52	3	5	60
Total revenues	**169**	**6**	**5**	**180**	**162**	**3**	**5**	**170**
Expenses with respect to credit losses	24	-	-	24	8	-	-	8
Operating and other expenses								
From outside operating segments	128	1	2	131	114	1	1	116
Inter-segment	(14)	-	-	(14)	(13)	-	-	(13)
Total operating and other expenses	**114**	**1**	**2**	**117**	**101**	**1**	**1**	**103**
Pre-tax profit	31	5	3	39	53	2	4	59
Provision for taxes on profit	9	1	1	11	16	1	1	18
Net profit attributable to equity holders of the banking corporation	**22**	**4**	**2**	**28**	**37**	**1**	**3**	**41**
Return on capital (net profit as % of average capital)				**25.7%**				**44.7%**
Profit from interest revenues before expenses with respect to credit loss:								
Margin from credit granting operations	97	-	-	97	86	-	-	86
Margin from receiving deposits	15	-	-	15	20	-	-	20
Other	4	2	-	6	4	-	-	4
Total interest revenues, net	**116**	**2**	**-**	**118**	**110**	**-**	**-**	**110**

Results of the Commercial Banking Segment

	For the nine months ended September 30, 2013				For the nine months ended September 30, 2012			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
	NIS in millions							
Interest revenues, net:								
From outside operating segments	145	-	-	145	150	-	-	150
Inter-segment	(21)	-	-	(21)	(22)	-	-	(22)
Total interest revenues, net	**124**	**-**	**-**	**124**	**128**	**-**	**-**	**128**
Non-interest financing revenues	-	-	1	1	-	-	1	1
Commissions and other revenues	35	2	6	43	36	2	8	46
Total revenues	**159**	**2**	**7**	**168**	**164**	**2**	**9**	**175**
Expenses with respect to credit losses	(9)	-	-	(9)	11	-	-	11
Operating and other expenses								
From outside operating segments	48	-	1	49	46	-	1	47
Inter-segment	48	-	-	48	52	-	-	52
Total operating and other expenses	**96**	**-**	**1**	**97**	**98**	**-**	**1**	**99**
Pre-tax profit	72	2	6	80	55	2	8	65
Provision for taxes on profit	25	1	2	28	18	1	3	22
Net profit attributable to equity holders of the banking corporation	**47**	**1**	**4**	**52**	**37**	**1**	**5**	**43**
Return on capital (net profit as % of average capital)				**15.7%**				**13.7%**
Average asset balance	4,632	50	-	4,682	4,670	51	-	4,721
Average balance of liabilities	3,536	-	-	3,536	3,549	-	-	3,549
Average balance of risk assets	5,090	-	-	5,090	5,180	-	-	5,180
Average balance of securities	-	-	3,810	3,810	-	-	3,551	3,551
Loans to the public, net (end balance)	4,664	47	-	4,711	4,617	45	-	4,662
Deposits from the public (end balance)	3,309	-	-	3,309	3,763	-	-	3,763
Average balance of other assets managed	261	-	-	261	224	-	-	224
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	109	-	-	109	111	-	-	111
Margin from receiving deposits	13	-	-	13	15	-	-	15
Other	2	-	-	2	2	-	-	2
Total interest revenues, net	**124**	**-**	**-**	**124**	**128**	**-**	**-**	**128**

Contribution of the commercial banking segment to Group profit in the first nine months of 2013 amounted to NIS 52 million, compared to NIS 43 million in the corresponding period last year, an increase of 20.9%. Below are key factors affecting the change in segment contribution: Total net interest revenues decreased by NIS 4 million, due to a small decrease in average margin on lending business and to erosion of interest spreads on deposits due to the low interest rate environment.

Commission and other revenues decreased by NIS 3 million compared to the corresponding period last year. The decrease is due to various regulatory effects which reduce commissions charged to Bank clients. See chapter on Legislation and Supervision of Bank Group Operations.

Expenses with respect to credit losses decreased by NIS 20 million compared to the corresponding period last year; revenues accounted for in the first nine months of 2013 are due to collection from several individual clients. Operating expenses were essentially unchanged.

Results of the Commercial Banking Segment

	For the three months ended September 30, 2013				For the three months ended September 30, 2012			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
	NIS in millions							
Interest revenues, net:								
From outside operating segments	48	-	-	48	48	-	-	48
Inter-segment	(8)	-	-	(8)	(6)	-	-	(6)
Total interest revenues, net	**40**	**-**	**-**	**40**	**42**	**-**	**-**	**42**
Non-interest financing revenues	-	-	1	1	-	-	1	1
Commissions and other revenues	12	1	2	15	11	1	5	17
Total revenues	**52**	**1**	**3**	**56**	**53**	**1**	**6**	**60**
Expenses with respect to credit losses	(4)	-	-	(4)	9	-	-	9
Operating and other expenses								
From outside operating segments	17	-	1	18	12	-	1	13
Inter-segment	17	-	-	17	19	-	-	19
Total operating and other expenses	**34**	**-**	**1**	**35**	**31**	**-**	**1**	**32**
Pre-tax profit	22	1	2	25	13	1	5	19
Provision for taxes on profit	7	1	1	9	3	1	2	6
Net profit attributable to equity holders of the banking corporation	**15**	**-**	**1**	**16**	**10**	**-**	**3**	**13**
Return on capital (net profit as % of average capital)				**14.9%**				**13.0%**
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	37	-	-	37	36	-	-	36
Margin from receiving deposits	4	-	-	4	5	-	-	5
Other	(1)	-	-	(1)	1	-	-	1
Total interest revenues, net	**40**	**-**	**-**	**40**	**42**	**-**	**-**	**42**

Results of the Business Banking Segment

	For the nine months ended September 30, 2013				For the nine months ended September 30, 2012			
	Banking and finance [(1)]	Capital market	Construction and real estate	Total	Banking and finance [(1)]	Capital market	Construction and real estate	Total
	NIS in millions							
Interest revenues, net:								
From outside operating segments	42	-	266	308	8	-	238	246
Inter-segment	303	-	(102)	201	320	-	(93)	227
Total interest revenues, net	**345**	**-**	**164**	**509**	**328**	**-**	**145**	**473**
Non-interest financing revenues	23	7	-	30	40	6	-	46
Commissions and other revenues	56	22	98	176	67	18	83	168
Total revenues	**424**	**29**	**262**	**715**	**435**	**24**	**228**	**687**
Expenses with respect to credit losses	36	-	(36)	-	138	-	-	138
Operating and other expenses								
From outside operating segments	126	5	23	154	129	5	24	158
Inter-segment	49	-	11	60	55	-	11	66
Total operating and other expenses	**175**	**5**	**34**	**214**	**184**	**5**	**35**	**224**
Pre-tax profit	213	24	264	501	113	19	193	325
Provision for taxes on profit	73	8	91	172	34	6	68	108
Net profit (loss) attributable to equity holders of the banking corporation	**140**	**16**	**173**	**329**	**79**	**13**	**125**	**217**
Return on capital (net profit as % of average capital)				**14.1%**				**9.9%**
Average asset balance	18,641	-	8,023	26,664	20,060	-	7,353	27,413
Average balance of liabilities	34,508	-	2,353	36,861	29,651	-	2,310	31,961
Average balance of risk assets	18,684	-	17,283	35,967	20,456	-	15,592	36,048
Average balance of securities	-	61,841	-	61,841	-	60,639	-	60,639
Loans to the public, net (end balance)	14,432	-	7,440	21,872	16,835	-	6,619	23,454
Deposits from the public (end balance)	36,825	-	2,236	39,061	30,682	-	2,401	33,083
Average balance of other assets managed	179	-	53	232	175	-	92	267
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	286	-	144	430	305	-	119	424
Margin from receiving deposits	62	-	11	73	42	-	12	54
Other	(3)	-	9	6	(19)	-	14	(5)
Total interest revenues, net	**345**	**-**	**164**	**509**	**328**	**-**	**145**	**473**

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

Contribution of the business banking segment to Group profit in the first nine months of 2013 amounted to NIS 329 million, compared to NIS 217 million in the corresponding period last year, an increase of 51.6%.

Below are key factors affecting the change in segment contribution:

Contribution of construction and real estate increased by NIS 48 million, or 38.4%, compared to the corresponding period last year. Net interest revenues increased by NIS 19 million over the year-ago period, primarily due to increased lending volume compared to the year-ago period.

Commissions and other revenues increased by 18.1%, primarily due to commissions on financing business. Expenses with respect to credit losses amounted to revenues of NIS 36 million compared to no expenses with respect to credit losses in the corresponding period last year; this decrease in expenses is primarily due to collection from several individual clients in the first nine months of 2013.

Contribution of business banking excluding construction and real estate increased by 69.6% over the corresponding period last year. Total financing revenues (interest and non-interest revenues) attributed to business banking, excluding construction and real estate, were essentially unchanged. Commissions and other revenues decreased by NIS 7 million year-over-year, due to several significant transactions for which commission revenues amounted to NIS 13 million, which were recognized in the third quarter of 2012.

Expenses with respect to credit losses attributed to business banking, excluding construction and real estate, amounted to NIS 36 million, compared to NIS 138 million in the corresponding period last year. The corresponding period last year included a specific provision for a specific borrower group. Total operating expenses attributed to business banking, excluding construction and real estate, decreased by 4.8% compared to the corresponding period last year. This decrease is due to lower lending volume.

Results of the Business Banking Segment

	For the three months ended September 30, 2013				For the three months ended September 30, 2012			
	Banking and finance[(1)]	Capital market	Construction and real estate	Total	Banking and finance [(1)]	Capital market	Construction and real estate	Total
								NIS in millions
Interest revenues, net:								
From outside operating segments	5	-	97	102	(2)	-	74	72
Inter-segment	110	-	(40)	70	116	-	(29)	87
Total interest revenues, net	**115**	**-**	**57**	**172**	**114**	**-**	**45**	**159**
Non-interest financing revenues	10	2	-	12	10	2	-	12
Commissions and other revenues	17	7	32	56	30	6	33	69
Total revenues	**142**	**9**	**89**	**240**	**154**	**8**	**78**	**240**
Expenses with respect to credit losses	39	-	(19)	20	94	-	(9)	85
Operating and other expenses								
From outside operating segments	43	2	8	53	37	2	8	47
Inter-segment	17	-	4	21	21	-	4	25
Total operating and other expenses	**60**	**2**	**12**	**74**	**58**	**2**	**12**	**72**
Pre-tax profit	43	7	96	146	2	6	75	83
Provision for taxes on profit	10	2	31	43	(4)	2	26	24
Net profit (loss) attributable to equity holders of the banking corporation	**33**	**5**	**65**	**103**	**6**	**4**	**49**	**59**
Return on capital (net profit as % of average capital)				**13.7%**				**8.0%**
Profit from interest revenues before expenses with respect to credit losses:								
Margin from credit granting operations	101	-	56	157	101	-	40	141
Margin from receiving deposits	20	-	3	23	11	-	4	15
Other	(6)	-	(2)	(8)	2	-	1	3
Total interest revenues, net	**115**	**-**	**57**	**172**	**114**	**-**	**45**	**159**

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

Results of the Financial Management Segment

	For the nine months ended September 30, 2013			For the nine months ended September 30, 2012		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
	NIS in millions					
Interest revenues, net:						
From outside operating segments	(1,087)	-	(1,087)	(944)	-	(944)
Inter-segment	1,401	-	1,401	1,215	-	1,215
Total interest revenues, net	**314**	**-**	**314**	**271**	**-**	**271**
Non-interest financing revenues	(47)	2	(45)	(192)	6	(186)
Commissions and other revenues	52	39	91	55	34	89
Total revenues	**319**	**41**	**360**	**134**	**40**	**174**
Expenses with respect to credit losses	(3)	-	(3)	4	-	4
Operating and other expenses						
From outside operating segments	217	3	220	179	3	182
Inter-segment	8	-	8	3	-	3
Total operating and other expenses	**225**	**3**	**228**	**182**	**3**	**185**
Pre-tax profit (loss)	97	38	135	(52)	37	(15)
Provision for taxes on profit (loss)	32	13	45	(18)	13	(5)
After-tax profit (loss)	**65**	**25**	**90**	**(34)**	**24**	**(10)**
Share in net profits of affiliates, after tax	-	-	-	-	-	-
Net profit (loss):						
Before attribution to non-controlling interest	65	25	90	(34)	24	(10)
Attributable to non-controlling interest	-	-	-	-	-	-
Attributable to equity holders of the banking corporation	**65**	**25**	**90**	**(34)**	**24**	**(10)**
Return on capital (net profit as % of average capital)			**43.1%**			**-**
Average asset balance	30,762	-	30,762	26,244	-	26,244
Includes: Investments in associates	62	-	62	54	-	54
Average balance of liabilities	40,142	-	40,142	35,185	-	35,185
Average balance of risk assets	5,535	-	5,535	5,421	-	5,421
Average balance of provident and mutual fund assets	82,410	-	82,410	97,819	-	97,819
Average balance of securities	-	43,111	43,111	-	41,245	41,245
Loans to the public, net (end balance)	-	-	-	-	-	-
Deposits from the public (end balance)	17,581	-	17,581	14,855	-	14,855
Profit from interest revenues before expenses with respect to credit losses:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	314	-	314	271	-	271
Total interest revenues, net	**314**	**-**	**314**	**271**	**-**	**271**

Contribution of the financial management segment to Group profit in the first nine months of 2013 amounted to a profit of NIS 90 million, compared to a loss of NIS 10 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution: Total financing revenues (net interest revenues and non-interest financing revenues) increased by NIS 184 million, primarily due to fair value of financial derivatives. Total commission and other revenues were essentially unchanged. Operating and other expenses increased by NIS 43 million, or 23.2%, primarily due to changes in temporary differences of accounting for provisions for payroll-associated expenses.

Results of the Financial Management Segment

	For the three months ended September 30, 2013			For the three months ended September 30, 2012		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
	NIS in millions					
Interest revenues, net:						
From outside operating segments	(526)	-	(526)	(326)	-	(326)
Inter-segment	738	-	738	454	-	454
Total interest revenues, net	**212**	**-**	**212**	**128**	**-**	**128**
Non-interest financing revenues	(107)	1	(106)	(113)	1	(112)
Commissions and other revenues	16	18	34	23	10	33
Total revenues	**121**	**19**	**140**	**(4)**	**11**	**49**
Expenses with respect to credit losses	(3)	-	(3)	(4)	-	(4)
Operating and other expenses						
From outside operating segments	71	1	72	52	1	53
Inter-segment	2	-	2	(3)	-	(3)
Total operating and other expenses	**73**	**1**	**74**	**49**	**1**	**50**
Pre-tax profit (loss)	51	18	69	(7)	10	3
Provision for taxes on profit (loss)	16	6	22	(4)	5	1
After-tax profit (loss)	**35**	**12**	**47**	**(3)**	**5**	**2**
Share in net profits of affiliates, after tax	1	-	1	-	-	-
Net profit (loss):						
Before attribution to non-controlling interest	36	12	48	(3)	5	2
Attributable to non-controlling interest	-	-	-	-	-	-
Attributable to equity holders of the banking corporation	**36**	**12**	**48**	**(3)**	**5**	**2**
Return on capital (net profit as % of average capital)			**45.7%**			**2.3%**
Profit from interest revenues before expenses with respect to credit losses:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	212	-	212	128	-	128
Total interest revenues, net	**212**	**-**	**212**	**128**	**-**	**128**

Product operations

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

	For the nine months ended September 30, 2013			
	Households	Small business	Commercial banking	Total consolidated
Interest revenues, net	15	5	-	20
Non-interest financing revenues	-	-	-	-
Commissions and other revenues	91	11	2	104
Total revenues	**106**	**16**	**2**	**124**
Expenses with respect to credit losses	-	-	-	-
Operating and other expenses	17	3	-	20
Pre-tax profit	**89**	**13**	**2**	**104**
Provision for taxes on profit	32	4	1	37
Net profit	**57**	**9**	**1**	**67**

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

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

	For the nine months ended September 30, 2013						
	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Non-interest financing revenues	5	-	-	1	7	2	15
Commissions and other revenues	129	18	15	6	22	39	229
Total revenues	**134**	**18**	**15**	**7**	**29**	**41**	**244**
Expenses with respect to credit losses	-	-	-	-	-	-	-
Operating and other expenses	35	-	4	1	5	3	48
Pre-tax profit	**99**	**18**	**11**	**6**	**24**	**38**	**196**
Provision for taxes on profit	34	6	4	2	8	13	67
Net profit	**65**	**12**	**7**	**4**	**16**	**25**	**129**

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

International Operations

The international operations segment of the Bank Group includes business operations and private banking services via subsidiaries and branches in Israel and overseas. Bank Group international operations are primarily focused on private banking, providing financial services to Israeli customers who have activities outside of Israel, foreign trade finance, local credit and participation in syndicated loans. The Bank has affiliates in several countries, as described below.

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 clients. These branches provide full banking services to their clients, primarily private banking. The branches are under Israeli supervision and report to the Private Banking and International Operations sector.

Mortgage center for foreign residents -The Bank operates this center in Jerusalem, specializing in marketing and approval of foreign-currency denominated mortgages for foreign residents.

Representative offices - The major activities of representative offices are marketing of Bank services and its representation overseas. The Bank operates representative offices in Mexico, Uruguay, Panama and Germany.
For details of local supervision of Bank affiliates overseas, see chapter on International Operations in the Board of Directors' Report included with the financial statements as of December 31, 2012.

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

	For the nine months ended September 30, 2013				
	Households	Private banking	Business banking	Financial management	Total
Interest revenues, net	4	37	36	21	98
Non-interest financing revenues	-	-	5	(6)	(1)
Commissions and other revenues	-	31	3	2	36
Total revenues	**4**	**68**	**44**	**17**	**133**
Expenses with respect to credit losses	-	(3)	-	-	(3)
Operating and other expenses	2	49	29	5	85
Pre-tax profit	**2**	**22**	**15**	**12**	**51**
Provision for taxes on profit	-	6	5	4	15
Net profit	**2**	**16**	**10**	**8**	**36**

	For the nine months ended September 30, 2012				
	Households	Private banking	Business banking	Financial management	Total
Interest revenues, net	3	44	48	6	101
Non-interest financing revenues	-	-	2	11	13
Commissions and other revenues	-	30	3	1	34
Total revenues	**3**	**74**	**53**	**18**	**148**
Expenses (reduced expenses) with respect to credit losses	-	-	-	-	-
Operating and other expenses	2	46	35	5	88
Pre-tax profit	**1**	**28**	**18**	**13**	**60**
Provision for taxes on profit	-	9	6	4	19
Net profit	**1**	**19**	**12**	**9**	**41**

Off Balance Sheet Activity

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

				Change in % over	
	September 30,		December 31,	September 30,	December 31,
	2013	2012	2012	2012	2012
Off balance sheet financial instruments other than derivatives [(1)]:					
Documentary credit	394	377	387	4.5	1.8
Loan guarantees	2,457	2,902	2,705	(15.3)	(9.2)
Guarantees to home buyers	9,383	8,596	8,096	9.2	15.9
Guarantees and other liabilities	3,472	3,298	3,281	5.3	5.8
Unutilized revolving credit card facilities	7,132	6,772	6,718	5.3	6.2
Unutilized debitory account and other credit facilities in accounts available on demand	18,720	17,621	16,313	6.2	14.8
Irrevocable commitments for loans approved but not yet granted	8,719	8,795	9,724	(0.9)	(10.3)
Commitments to issue guarantees	5,169	4,618	5,198	11.9	(0.6)
Financial derivatives [(2)]:					
Total par value of financial derivatives	186,711	181,504	185,135	2.9	0.9

(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 % over	
	September 30,		December 31,	September 30,	December 31,
	2013	2012	2012	2012	2012
Client activities involving securities [(1)]	172,253	157,793	165,012	9.2	4.4
Assets of provident funds which receive operating services from the Group	65,369	62,334	64,241	4.9	1.8
Activity by extent of collection [(2)]	14,344	16,318	15,827	(12.1)	(9.4)

(1) Value of security portfolios in Bank custody owned by clients. Revenues from securities transactions for the Group amounted to NIS 163 million in the first nine months of 2013, compared with NIS 156 million as of September 30, 2012 - an increase of 4.5%.

(2) Loan balances secured by deposits refundable to depositors subject to collection of outstanding loans. With respect to these balances, the Bank receives revenues from spreads or collection commission. These amounts exclude standing loans and Government deposits made with respect there to.

Sources and Financing

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

Total deposits from the public for the Group as of September 30, 2013 amounted to NIS 136.0 billion, compared to NIS 128.5 billion at end of 2012. Deposits from the public in the CPI-linked segment decreased in the first nine months of 2013 by 1.4% deposits from the public in the foreign currency and foreign-currency-linked segment increased by 16.6%, while deposits in the NIS-denominated, non-CPI-linked segment increased by 4.7%. 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 11,128 million in total par value (as of December 31, 2012 - NIS 8,928 million), of which NIS 2,131 million in subordinated notes.

On January 21, 2013, Tefahot Issuance issued debentures (Series 29 and Series 35), with total par value of NIS 1,305 million, for consideration of NIS 1,509 million, pursuant to a shelf prospectus dated February 25, 2011.

On July 30, 2013, Tefahot Issuance issued a shelf prospectus for issuance of up to 10 new series of subordinated notes (Series H-Q), 10 new series of debentures (Series 36-45), expansion of debenture series (Series 29 and 32-35), expansion of subordinated note series (Series 31) and issuance of 2 series of commercial paper (Series 1-2). The shelf prospectus is valid through July 29, 2015.

On September 2, 2013, Tefahot Issuance issued CPI-linked debentures (Series 35 and Series 36), with total par value of NIS 1,440 million, for consideration of NIS 1,498 million, pursuant to the new shelf prospectus dated July 30, 2013.

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

Complex capital instruments

All of the Bank's complex capital instruments (Series A) (considered upper Tier 2 capital for maintaining minimum capital ratio) as of September 30, 2013, issued and listed for trading amounted to NIS 1,702 million par value, issued for consideration amounting to NIS 1,644 million.

The revalued balance of the complex capital instruments as of September 30, 2013 was NIS 1.9 billion, similar to the end of 2012.

Rating of Bank obligations

In accordance with a rating provided by Maalot Standard & Poor's (hereinafter: "Maalot"), the Bank's issuer rating, including deposits made at the Bank, is ilAA+.

On January 13, 2013, Maalot confirmed the Bank's issuer rating and its Stable rating outlook. According to Maalot: "The Bank's rating reflects its strong business position in the Israeli banking system, which accounts for its system-wide importance, as reflected in the support reflected by the final rating, good credit quality and a diverse, stable base of retail sources... The stable rating outlook reflects our assessment that Mizrahi-Tefahot would maintain its business position and appropriate risk profile, even should the Israeli economy come under certain pressures over the short to medium term. We believe that these pressures would not significantly impact the Bank's profitability or capital base..."

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

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

On January 3, 2013, Moody's rating agency maintained the Bank's long-term deposit rating at A2 with Negative outlook.

Risk Management

Basel II: Pillar 3 - Market Discipline

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

As of the balance sheet date, there were no material changes in risk management at the Group and in qualitative information, as included in the Board of Directors' report as of December 31, 2012.

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

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

Application scope

Provisions of Proper Conduct of Banking Business Regulations nos. 201-211 "Measurement and Capital Adequacy" apply to the Bank Group and in particular to the Bank - Bank Mizrahi-Tefahot Ltd. - the parent company of the Group. Group companies to which the framework applies, in accordance with the supervisory consolidation basis, are the companies consolidated with the Bank's consolidated financial statements. For details of Bank Group companies, see Note 6 to the financial statements as of December 31, 2012. To the best knowledge of Bank management, and relying on legal counsel, there are no prohibitions or significant restrictions on transfer of funds or supervisory capital between Bank Group companies.

Capital adequacy

The Bank assesses its capital adequacy in accordance with Basel II rules, as stated in Proper Conduct of Banking Business Directive Nos. 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 an internal procedure which specifies the measurement frequency of capital adequacy, the required reporting and actions to be taken if the capital ratio drops below the minimum levels specified; a capital planning and management forum has been created, attended by the Manager, Finance Division - CFO (chair), Risk Control Division - CRO, and the Manager, Accounting and Financial Reporting Division - the Chief Accountant, the Manager, Planning and Operations 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 September 30, 2013		As of September 30, 2012		As of December 31, 2012	
	Weighted risk asset balances	Capital requirement(1)	Weighted risk asset balances	Capital requirement(1)	Weighted risk asset balances	Capital requirement(1)
Sovereign debt	486	44	927	83	565	51
Public sector entity debt	490	44	377	34	374	34
Banking corporation debt	1,120	101	1,091	98	927	83
Corporate debt	39,602	3,564	40,639	3,658	39,572	3,561
Debt secured by commercial real estate	2,353	212	1,875	169	2,194	197
Retail exposure to individuals	11,660	1,049	11,481	1,033	11,585	1,043
Loans to small businesses	2,300	207	2,178	196	2,213	199
Residential mortgages	42,503	3,825	36,401	3,276	37,396	3,366
Other assets	3,778	340	3,085	278	3,910	352
Total	**104,292**	**9,386**	**98,054**	**8,825**	**98,736**	**8,886**

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

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

Exposure group	As of September 30, 2013		As of September 30, 2012		As of December 31, 2012	
	Weighted risk asset balances	Capital requirement(1)	Weighted risk asset balances	Capital requirement(1)	Weighted risk asset balances	Capital requirement(1)
Market risk	1,065	96	944	85	1,119	101
Operating Risk (2)	7,121	641	8,327	749	7,093	638
Total	**8,186**	**737**	**9,271**	**834**	**8,212**	**739**

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

(2) Pursuant to Proper Conduct of Banking Business Regulation 206, calculated using the standard approach (as of September 30, 2012 – using the basic indicator approach).

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

	Ratio of capital to risk elements		
	As of September 30, 2013	As of September 30, 2012	As of December 31, 2012
Ratio of Tier I capital to risk elements	8.84	8.23	8.55
Ratio of total capital to risk elements	12.96	13.11	13.35
Total minimum capital ratio required by the Supervisor of Banks	9.00	9.00	9.00

Risk exposure and assessment there of

Day-to-day activities in a variety of balance sheet and off-balance-sheet financial instruments expose the Group to risk, mainly – market and liquidity risk, credit risk, and operating risk. The risk management policy, in various aspects, is designed to support achievement of the Group's business goals while limiting exposure to such risk.

Risk management at the Group is conducted regularly in accordance with Proper Conduct of Banking Business Regulation 339 of the Bank of Israel (market and interest risk management), and in accordance with the framework stipulated in Basel II, Pillar 2. 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 is preparing to implement the new directives which will become effective in 2014, has conducted a gap review with respect to these directives and, in particular, reviewed the new standards stipulated by the Bank of Israel in its Risk Management Regulation no. 310. For further details, see Legislation chapter. 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.

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

	As of September 30, 2013										
	Sovereigns	Public sector	Banking corporations	Corporations	Secured by commercial real estate	Retail for individuals	Small business	Housing loans	Securitization	Others	Total [(2)]
Loans[(3)]	19,154	511	1,841	28,615	2,665	15,541	4,243	86,608	-	-	159,178
Securities[(4)]	5,478	9	611	177	-	-	-	-	-	-	6,275
Derivatives[(5)]	140	627	1,112	1,635	-	31	9	-	-	-	3,554
Other off-balance-sheet exposures	-	235	27	39,265	418	10,738	1,696	3,526	-	-	55,905
Other assets[(6)]	-	-	-	-	-	-	-	-	-	5,043	5,043
Total	**24,772**	**1,382**	**3,591**	**69,692**	**3,083**	**26,310**	**5,948**	**90,134**	**-**	**5,043**	**229,955**

	As of December 31, 2012										
	Sovereigns	Public sector	Banking corporations	Corporations	Secured by commercial real estate	Retail for individuals	Small business	Housing loans	Securitization	Others	Total [(2)]
Loans[(3)]	14,589	250	1,788	29,322	2,360	15,058	3,836	79,587	-	-	146,790
Securities[(4)]	6,726	13	756	240	-	-	-	-	-	-	7,735
Derivatives[(5)]	-	385	915	1,669	-	26	4	-	-	-	2,999
Other off-balance-sheet exposures	84	284	35	35,767	374	10,324	1,602	4,267	-	-	52,737
Other assets[(6)]	-	-	-	-	-	-	-	-	-	4,900	4,900
Total	**21,399**	**932**	**3,494**	**66,998**	**2,734**	**25,408**	**5,442**	**83,854**	**-**	**4,900**	**215,161**

(1) After deduction of accounting write-offs and before provision for credit 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 II rules.

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

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

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

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

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

	As of September 30, 2013				
	Up to 1 year	1-5 years	Over 5 years	Without maturity	Total [2]
Loans [3]	47,989	24,515	86,564	110	159,178
Securities[4]	351	4,793	1,131	-	6,275
Derivatives [5]	2,133	565	856	-	3,554
Other off-balance-sheet exposures	46,757	8,258	890	-	55,905
Other assets [6]	3,261	-	86	1,696	5,043
Total	**100,491**	**38,131**	**89,527**	**1,806**	**229,955**

	As of December 31, 2012				
	Up to 1 year	1-5 years	Over 5 years	Without maturity	Total [2]
Loans [3]	44,052	23,536	79,097	105	146,790
Securities[4]	504	4,601	2,630	-	7,735
Derivatives [5]	1,533	549	917	-	2,999
Other off-balance-sheet exposures	43,520	8,177	1,040	-	52,737
Other assets [6]	3,096	-	86	1,718	4,900
Total	**92,705**	**36,863**	**83,770**	**1,823**	**215,161**

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

Credit risk - standard approach

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

Before credit risk mitigation

	As of September 30, 2013										
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	22,377	2,369	-	-	-	25	-	-	24,771	-	24,771
Public sector entity debt	-	-	-	1,374	-	-	-	-	1,374	-	1,374
Banking corporation debt	-	2,535	-	920	-	53	-	-	3,508	-	3,508
Corporate debt	-	42	-	176	-	-	-	-	218	-	218
Other assets	-	-	-	-	-	-	-	-	-	33	33
Total	**22,377**	**4,946**	**-**	**2,470**	**-**	**78**	**-**	**-**	**29,871**	**33**	**29,904**
Non-rated exposures:											
Public sector entity debt	-	-	-	9	-	-	-	-	9	-	9
Banking corporation debt	-	59	-	14	-	-	-	-	73	-	73
Corporate debt	-	-	-	-	-	68,852	154	-	69,006	-	69,006
Debt secured by commercial real estate	-	-	-	-	-	3,055	-	-	3,055	-	3,055
Retail exposure to individuals	-	-	-	-	26,015	58	107	-	26,180	-	26,180
Loans to small businesses	-	-	-	-	5,856	18	18	-	5,892	-	5,892
Residential mortgages	-	-	57,890	5,331	20,357	5,651	225	-	89,454	-	89,454
Other assets	1,275	-	-	-	-	3,703	65	-	5,043	87	5,130
Total	**1,275**	**59**	**57,890**	**5,354**	**52,228**	**81,337**	**569**	**-**	**198,712**	**87**	**198,799**
Total	**23,652**	**5,005**	**57,890**	**7,824**	**52,228**	**81,415**	**569**	**-**	**228,583**	**120**	**228,703**

(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 II rules.

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

After credit risk mitigation

	As of September 30, 2013										
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	22,731	2,369	-	-	-	13	-	-	25,113	-	25,113
Public sector entity debt	301	-	-	1,073	-	-	-	-	1,374	-	1,374
Banking corporation debt	-	2,527	-	920	-	50	-	-	3,497	-	3,497
Corporate debt	-	42	-	176	-	-	-	-	218	-	218
Other assets	-	-	-	-	-	-	-	-	-	33	33
Total	**23,032**	**4,938**	**-**	**2,169**	**-**	**63**	**-**	**-**	**30,202**	**33**	**30,235**
Non-rated exposures:											
Public sector entity debt	-	-	-	9	-	-	-	-	9	-	9
Banking corporation debt	-	248	-	118	-	-	-	-	366	-	366
Corporate debt	-	-	-	-	-	59,179	150	-	59,329	-	59,329
Debt secured by commercial real estate	-	-	-	-	-	2,573	-	-	2,573	-	2,573
Retail exposure to individuals	-	-	-	-	24,084	34	106	-	24,224	-	24,224
Loans to small businesses	-	-	-	-	3,990	14	16	-	4,020	-	4,020
Residential mortgages	-	-	57,890	5,331	20,272	5,648	225	-	89,365	-	89,366
Other assets	1,275	-	-	-	-	3,703	65	-	5,043	87	5,130
Total	**1,275**	**248**	**57,890**	**5,458**	**48,346**	**71,151**	**562**	**-**	**184,929**	**87**	**185,017**
Total exposure	**24,307**	**5,186**	**57,890**	**7,627**	**48,346**	**71,214**	**562**	**-**	**215,131**	**120**	**215,252**

Before credit risk mitigation

	As of December 31, 2012										
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	18,926	2,355	-	-	-	118	-	-	21,399	-	21,399
Public sector entity debt	-	-	-	920	-	-	-	-	920	-	920
Banking corporation debt	-	2,994	-	364	-	84	-	-	3,442	-	3,442
Corporate debt	-	51	-	231	-	-	-	-	282	-	282
Other assets	-	-	-	-	-	-	-	-	-	33	33
Total	**18,926**	**5,400**	**-**	**1,515**	**-**	**202**	**-**	**-**	**26,043**	**33**	**26,076**
Non-rated exposures:											
Public sector entity debt	-	-	-	13	-	-	-	-	13	-	13
Banking corporation debt	-	19	-	23	-	-	-	-	42	-	42
Corporate debt	-	-	-	-	-	65,904	262	-	66,166	-	66,166
Debt secured by commercial real estate	-	-	-	-	-	2,709	-	-	2,709	-	2,709
Retail exposure to individuals	-	-	-	-	25,104	60	105	-	25,269	-	25,269
Loans to small businesses	-	-	-	-	5,357	13	17	-	5,387	-	5,387
Residential mortgages	-	-	62,621	-	13,962	6,253	211	-	83,047	-	83,047
Other assets	999	-	-	-	-	3,796	105	-	4,900	87	4,987
Total	**999**	**19**	**62,621**	**36**	**44,423**	**78,735**	**700**	**-**	**187,533**	**87**	**187,620**
Total exposure	**19,925**	**5,419**	**62,621**	**1,551**	**44,423**	**78,937**	**700**	**-**	**213,576**	**120**	**213,696**

After credit risk mitigation

	As of December 31, 2012										
	0%	20%	35%	50%	75%	100%	150%	350%	Net credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	18,644	2,504	-	-	-	106	-	-	21,254	-	21,254
Public sector entity debt	312	-	-	868	-	-	-	-	1,180	-	1,180
Banking corporation debt	-	2,987	-	364	-	81	-	-	3,432	-	3,432
Corporate debt	-	51	-	231	-	-	-	-	282	-	282
Other assets	-	-	-	-	-	-	-	-	-	33	33
Total	**18,956**	**5,542**	**-**	**1,463**	**-**	**187**	**-**	**-**	**26,148**	**33**	**26,181**
Non-rated exposures:											
Public sector entity debt	-	-	-	13	-	-	-	-	13	-	13
Banking corporation debt	-	144	-	90	-	-	-	-	234	-	234
Corporate debt	-	-	-	-	-	56,789	246	-	57,035	-	57,035
Debt secured by commercial real estate	-	-	-	-	-	2,397	-	-	2,397	-	2,397
Retail exposure to individuals	-	-	-	-	23,313	38	104	-	23,455	-	23,455
Loans to small businesses	-	-	-	-	3,822	10	16	-	3,848	-	3,848
Residential mortgages	-	-	62,620	-	13,894	6,253	188	-	82,955	-	82,955
Other assets	999	-	-	-	-	3,796	105	-	4,900	87	4,987
Total	**999**	**144**	**62,620**	**103**	**41,029**	**69,283**	**659**	**-**	**174,837**	**87**	**174,924**
Total exposure	**19,955**	**5,686**	**62,620**	**1,566**	**41,029**	**69,470**	**659**	**-**	**200,985**	**120**	**201,105**

Significant exposure to groups of borrowers

Below is credit risk with respect to significant exposure to borrower groups as of September 30, 2013.

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

	On-balance sheet credit risk, net(1)	Off-balance sheet credit risk				
		With respect to derivatives	Other	Deductions	Total credit risk	Share of equity
Group 1	1,882	197	1,668	(1,555)	2,192	15.0%

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

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

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

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

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

Leveraged financing

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

Details of Bank exposure to credit constituting leveraged financing are as follows (NIS in millions):

Economic sector of acquired company	Credit risk		
	As of September 30,		As of December 31,
	2013	2012	2012
Commerce	-	137	115
Communications and computer services	222	245	235
Construction and real estate	192	339	304
Total	**414**	**721**	**654**

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

	As of September 30, 2013		
External credit rating	On balance sheet credit risk [3]	Off balance sheet credit risk[4]	Current credit exposure
AAA to AA-	672	-	672
A+ to A-	1,197	2	1,199
BBB+ to BBB-	2	-	2
BB+ to B-	-	10	10
Lower than B-	-	-	-
Unrated	4	-	4
Total credit exposure to foreign financial institutions	**1,875**	**12**	**1,887**
Includes: Troubled commercial credit risk, net[5]	4	-	4

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

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

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

The aforementioned credit exposure excludes exposure to financial institutions for which complete, explicit government guarantees are in place, and exclude investments in asset-backed securities. For details of investments in asset-backed securities, if any, see Note 2 to the financial statements. For further information with regard to credit exposure composition with respect to derivative instruments vis-à-vis banks and dealers/brokers (domestic and foreign), see Note 8 to the financial statements.

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

In conjunction with its policy regarding management of exposure to foreign financial institutions, the Bank's Board of Directors sets, inter alia, the maximum exposure limit for states and foreign financial institutions, while adjusting the exposure limit to the risk assessment for each state and financial institution. Exposure limits are set based, inter alia, on rating of the various states and financial institutions and on Bank assessment of the risk level in a manner which diversifies exposure.

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

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

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

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

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

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

Therefore, it is of prime importance that the Bank set its policy for management of environmental risk, including the capacity to identify, assess and monitor the risk over time.

On June 11, 2009, the Bank received a letter from the Supervisor of Banks, demanding that banks act to incorporate management of exposure to environmental risk within all risk factors at the Bank, including specification of procedures for identification of significant risk when granting credit and inclusion of risk assessment within periodic assessment of quality of credit extended. The Bank established a dedicated environmental risk policy, including a methodology for identification, assessment and handling of environmental risk. The environmental risk policy is approved annually by the Bank's Board of Directors.

Credit loss with respect to housing loans

In conjunction with credit risk management, the Bank takes various actions to mitigate risk associated with provision of housing loans. The Bank estimates the risk associated with provision of housing loans as low, relative to the inherent risk in the Bank's overall loan portfolio, due to the high level of client diversification, geographic diversification of borrowers, relatively low leverage, intensive review procedures of borrower quality and their repayment capacity, and securing credit with property as collateral, and occasionally with credit insurance as well. The Bank act regularly to control and manage the risk associated with housing loans, for which the Retail Division and other Bank entities are responsible. The means and tools for mitigating risk with respect to housing loans, and the parties to management of this risk factor, are listed in the Board of Directors' report as of December 31, 2012.
The Bank reviews annually its policy on risk appetite in the mortgage segment. This Bank's policy document was significantly expanded over the past two years, such that the Bank is subject to multiple risk appetite restrictions based on various risk benchmarks, including: LTV ratio, repayment ratio, geography, property type, borrower income, loan purpose, loan mix – interest type, linkage segments, loan term and cross-restrictions on multiple risk benchmarks (such as LTV and repayment ratios).

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 (distress tests, pressure tests) 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 and to foreign regulatory activity (in particular, US regulation in conjunction with stress testing currently conducted as part of the Dodd-Frank reform). 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, as well as for an interest rate whivh is significantly higher than current interest rates. These stress tests indicate that the risk level associated with the Bank's mortgage portfolio is low.

Attributes of the Bank's housing loan portfolio

The Bank's policy with regard to mortgages is based on a conservative approach, limiting specific risk for each loan by reviewing various attributes. These attributes include: LTV ratio, ratio of repayment to regular 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 credit insurance, 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 September 30, 2013).

LTV ratio

One of the key parameters used by the Bank in minimizing risk in its housing loan portfolio is the LTV ratio (ratio of loan amount to value of the property pledged as collateral). The average loan-to-value ratio for the Bank's mortgage portfolio as of September 30, 2013 was 56.8%, compared to 57.8% on December 31, 2012 and to 58.6% on December 31, 2011. Out of the Bank's total housing loan portfolio, amounting to NIS 87.7 million, some 86% 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 3.2 billion, or only 3.7% of the total housing loan portfolio.

On November 1, 2012, the Supervisor of Banks issued directives which further 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 4.8 billion, or 40.1%, is insured by credit insurance.

Over the past two 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 10.8% for loans granted 1-2 years ago, 9.2% for loans granted 3-12 months ago and 6.8% for loans granted in the third quarter of 2013.

Repayment as percentage of regular income

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

The average repayment ratio for the Bank's housing loan portfolio is 30.8%. Some 69% of the Bank's mortgage portfolio were granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is 23.7%); 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 40.5%). Some 8% 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 92.0%).

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 extending housing loans. These directives stipulate restrictions on the ratio of monthly repayment to income. For details see chapter on Legislation and Supervision of Bank Group Business.

Loans bearing variable interest

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

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

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

The repayment capacity of clients who obtained loans in the period when the prime lending rate was high is reviewed using the high interest rate. Over the past two years, when interest rates were low, these clients benefited significantly from lower loan costs. Even in this period of low interest rates, the Bank has acted to reduce loans linked to the prime lending rate, down to 23.3% of loans awarded 1-2 years ago, 26.7% of loans awarded 3-12 months ago and only 26.8% of loans awarded in the third quarter of 2013.

Total loans linked to the prime lending rate granted over the past two years, which constitute the major portion of risk associated with such mortgages, is NIS 8.5 billion, or only 9.7% of the housing loan portfolio.
Note however that before approving a loan linked to the prime lending rate, the Bank reviews the repayment capacity of the borrower under scenarios where the prime lending rate would increase by 2 percentage points.

The directive by the Supervisor of Banks dated May 3, 2011, which restricts the portion of loans extended bearing variable interest adjustable every 5 years or less, to 33.3% of total loan amount, has also contributed to further reduction in variable interest loans extended, and to mitigation of risk in this area. According to the Supervisor of Banks' letter dated August 29, 2013, banking corporations may not approve housing loans where the ratio of the portion of the loan bearing variable interest to loan total exceeds 67%.
For more information see chapter on Legislation and Supervision of Bank Group Operations.

Loan amount

Loans granted by the Bank with an original amount over NIS 2 million amounted in total to NIS 3.5 billion, or only 4.0% of the Bank's housing loan portfolio.

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

LTV ratio	Repayment as percentage of regular income	Loan age [1] (time elapsed since loan grant) Up to 3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Up to 60%	Up to 35%	1,881	5,300	4,705	11,631	5,386	2,157	31,060
	35%-50%	662	1,953	1,921	3,620	1,419	410	9,985
	50%-80%	186	611	697	1,453	631	184	3,762
	Over 80%	18	54	50	193	128	46	489
60%-75%	Up to 35%	1,147	3,638	3,708	9,403	2,449	700	21,045
	35%-50%	400	1,209	1,422	2,853	810	201	6,895
	50%-80%	48	330	474	998	325	89	2,264
	Over 80%	1	15	15	80	66	17	194
Over 75%	Up to 35%	260	1,047	1,171	3,182	1,535	1,513	8,708
	35%-50%	50	242	356	794	503	549	2,494
	50%-80%	6	37	52	218	172	189	674
	Over 80%	-	-	-	26	44	35	105
Total		**4,659**	**14,436**	**14,571**	**34,451**	**13,468**	**6,090**	**87,675**
Includes:								
Loans granted with original amount over NIS 2 million		138	540	683	1,771	327	22	3,481
Percentage of total housing loans		3.0%	3.7%	4.7%	5.1%	2.4%	0.4%	4.0%
Loans bearing variable interest:								
Non-linked, at prime lending rate		1,249	3,861	3,396	13,827	5,503	218	28,054
CPI-linked[2]		103	316	393	6,512	2,333	1,604	11,261
In foreign currency [2]		82	400	682	2,639	405	220	4,428
Total		**1,434**	**4,577**	**4,471**	**22,978**	**8,241**	**2,042**	**43,743**
Non-linked loans at prime lending rate, as percentage of total housing loans		26.8%	26.7%	23.3%	40.1%	40.9%	3.6%	32.0%
CPI-linked loans bearing variable interest as percentage of total housing loans		2.2%	2.2%	2.7%	18.9%	17.3%	26.3%	12.8%
Loans with LTV over 75% as percentage of total housing loans		6.8%	9.2%	10.8%	12.2%	16.7%	37.5%	13.7%

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

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

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 September 30, 2013:

	Extent of arrears							
		In arrears 90 days or longer						
	In arrears 30-89 days	90 days to 6 months	6-15 months	15-33 months	Over 33 months	Total over 90 days	Balance with respect to re-financed loans in arrears[3]	Total
	September 30, 2013							
	Unaudited							
Amount in arrears	6	13	16	18	228	275	84	365
Includes: Balance of provision for interest[1]	-	-	-	1	105	106	6	112
Recorded debt balance	[4] 361	394	227	104	220	945	276	1,582
Balance of provision for credit losses[2]	-	-	33	50	162	245	131	376
Debt balance, net	**361**	**394**	**194**	**54**	**58**	**700**	**145**	**1,206**

(1) With respect to interest on amounts in arrears.
(2) Excludes balance of provision for interest.
(3) Loans for which an agreement was signed for repayment of arrears by borrower, where a change was made in the repayment schedule for the loan balance not yet due.
(4) Pursuant to Public Reporting Regulations, excludes balances of housing loans in arrears up to 2 months.

Credit risk mitigation

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

	As of September 30, 2013				
		Exposure covered by guarantees[2]			
	Gross credit exposure[1]	Amounts de-recognized	Amounts added	Exposure covered by qualified financial collateral	Net credit exposure
Sovereign debt	24,771	(285)	640	(13)	25,113
Public sector entity debt	1,383	(251)	301	(50)	1,383
Banking corporation debt	3,581	(8)	293	(3)	3,863
Corporate debt	69,224	(388)	-	(9,289)	59,547
Debt secured by commercial real estate	3,055	(25)	-	(457)	2,573
Retail exposure to individuals	26,180	(3)	-	(1,953)	24,224
Loans to small businesses	5,892	(274)	-	(1,598)	4,020
Residential mortgages	89,455	-	-	(89)	89,366
Other assets	5,043	-	-	-	5,043
Total	**228,584**	**(1,234)**	**1,234**	**(13,452)**	**215,132**

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

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

	As of December 31, 2012				
		Exposure covered by guarantees[(2)]		Exposure covered by qualified financial collateral	
	Gross credit exposure[(1)]	Amounts de-recognized	Amounts added		Net credit exposure
Sovereign debt	21,399	(291)	157	(11)	21,254
Public sector entity debt	933	-	312	(52)	1,193
Banking corporation debt	3,484	(9)	193	(2)	3,666
Corporate debt	66,448	(251)	23	(8,903)	57,317
Debt secured by commercial real estate	2,709	(7)	-	(305)	2,397
Retail exposure to individuals	25,269	(1)	-	(1,813)	23,455
Loans to small businesses	5,387	(103)	-	(1,436)	3,848
Residential mortgages	83,047	(23)	-	(69)	82,955
Other assets	4,900	-	-	-	4,900
Total	**213,576**	**(685)**	**685**	**(12,591)**	**200,985**

(1) Balance of on- and off-balance sheet balances, after on- and off-balance-sheet offsets, after provision for credit losses, excluding impact of credit risk mitigation, credit conversion factors and risk weighting factors, as defined under Basel II rules.
(2) Mitigating credit risk by using guarantees results in exposures moving from their original exposure group to exposure groups with a lower risk weighting factor. Consequently, sometimes the extent of exposure in a given exposure group, after credit risk mitigation, is higher than the extent of exposure in this group before risk mitigation.

Counter-party credit risk

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

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

Below is the current credit exposure with respect to derivatives:

	As of September 30, 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	162	1,073	2	1	2	1,240
Positive fair value of financial derivatives [(1)]	278	971	784	1	-	2,034
Total exposure with respect to derivatives	**440**	**2,044**	**786**	**2**	**2**	**3,274**
Collateral with respect to derivatives (before safety factors)	(56)	(357)	(2,292)	(1)	-	(2,706)
Impact of safety factors on collateral	6	51	1,671	-	-	1,728
Total current credit exposure after credit risk mitigation	**390**	**1,738**	**165**	**1**	**2**	**2,296**

	As of December 31, 2012					
Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives[(2)]	Total
Par value of derivatives after impact of add-on factor	195	1,079	-	1	4	1,279
Positive fair value of financial derivatives [(1)]	410	611	688	-	11	1,720
Total exposure with respect to derivatives	**605**	**1,690**	**688**	**1**	**15**	**2,999**
Collateral with respect to derivatives (before safety factors)	(94)	(247)	(1,635)	(1)	-	(1,977)
Impact of safety factors on collateral	53	110	1,079	-	-	1,242
Total current credit exposure after credit risk mitigation	**564**	**1,553**	**132**	**-**	**15**	**2,264**

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

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

Securitization

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

As of September 30, 2013 and as of December 31, 2012, the Bank had no investments with securitization exposure.

Below are details of investments in collateralization exposures and relevant capital requirements:

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

(1) Capital requirement (except with respect to exposures deducted from capital) calculated at 9% of risk asset balance, in accordance with interim directive on application of Basel II, Pillar 3.

For further details of exposure to asset-backed securities, if any, see Note 2 to the financial statements.

Market risk

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

The Bank focuses on two major market risk factors:

- Interest risk - the risk of erosion of capital as a result of future interest rate changes. The exposure to interest risk is due, *inter alia*, to lack of correlation between the period to maturity of the Bank's assets and liabilities, or from incomplete correlation of the effect of change in interest rates on the different financial instruments. The Bank is preparing to apply the Bank of Israel directive on interest risk management, which would become effective in mid-2014.
- Linkage-basis risk - the risk of erosion in capital due to changes in the value of the linkage basis – changes in prices, exchange rates and inflation rates. The exposure to basis risk exists when the Bank's assets and liabilities are denominated in different currency or linkage segments.

Interest risk in Bank portfolio

Interest risk in the Bank portfolio is the risk of erosion of the Bank portfolio as a result of future interest rate changes. The exposure to interest risk results from a lack of correlation between the period to maturity of the Bank's assets and liabilities, or from incomplete correlation of the effect of change in interest rates on the different financial instruments.
Interest risk in the Bank's bank portfolio is monitored on a regular basis, both in managing interest risk for the overall portfolio in VaR terms, and in EVE (Economic Value of Equity) terms - a model which reviews changes in the economic value of the portfolio under different assumptions regarding changes to the interest rate curve, including corresponding 2% shifts upwards/downwards of the interest rate curve and historical change for various time horizons, including one year.

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

	September 30, 2013					
	Change in fair value					
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	(139)	(431)	82	(10)	(6)	(504)
2% decrease	201	336	(13)	4	4	532

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

	December 31, 2012					
	Change in fair value					
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	89	(267)	57	(14)	(7)	(142)
2% decrease	(92)	179	(19)	7	2	77

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

The VaR (Value at Risk) model

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

VaR calculations with respect to the option portfolio are conducted hourly at the Bank, using the Monte Carlo 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 nine months	First nine months	All of
	2013	2012	2012
At end of period	198	227	167
Maximum value during period	229 (JUL)	239 (FEB)	239 (FEB)
Minimum value during period	146 (MAR)	144 (APR)	144 (APR)

Back-testing of the historical-analytic VaR model shows that in the year ended September 30, 2013 there were two cases in which the daily loss exceeded the forecasted VaR value (one case in 2013). This number of cases is within the criteria specified by the Basel Committee. Therefore, the Bank's VaR model is valid.

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

Exception date	Exception value
October 16, 2012	18.5
April 2, 2013	1.6

Basis risk

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

Below is an analysis of the sensitivity of Bank Group capital to changes in major exchange rates and in the CPI (before tax effect) as of September 30, 2013:

Capital increase (erosion), NIS in millions

	Scenarios				Extreme historical scenario (1)	
	10% increase	5% increase	5% decrease	10% decrease	Maximum increase	Maximum decrease
CPI	782.2	391.1	(391.1)	(782.2)	114.2	(67.3)
Dollar	(1.7)	(1.5)	4.5	12.4	(0.9)	1.4
Pound Sterling	1.9	0.6	0.4	0.9	0.4	0.3
Yen	-	(0.1)	0.2	0.6	(0.1)	0.1
Euro	(3.8)	(1.6)	4.5	11.0	(1.3)	2.6
Swiss Franc	0.5	0.3	(0.3)	(0.7)	0.3	(0.4)

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

Interest risk

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

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

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

	Israeli currency		Foreign currency[2]			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
September 30, 2013						
Financial assets [1]	95,974	54,729	13,387	4,059	1,817	169,966
Amounts receivable with respect to financial derivatives[3]	67,303	3,968	44,461	10,435	5,121	131,288
Financial liabilities [1]	(94,448)	(38,904)	(21,486)	(4,953)	(2,582)	(162,373)
Amounts payable with respect to financial derivatives[3]	(68,538)	(12,614)	(36,377)	(9,587)	(4,369)	(131,485)
Total	**291**	**7,179**	**(15)**	**(46)**	**(13)**	**7,396**
December 31, 2012						
Financial assets [1]	87,360	51,348	13,961	3,707	[5]1,988	158,364
Amounts receivable with respect to financial derivatives[3]	68,105	5,316	48,135	7,889	5,294	134,739
Financial liabilities [1]	(89,998)	(37,080)	(17,825)	(4,409)	[5] (2,268)	(151,580)
Amounts payable with respect to financial derivatives[3]	(66,079)	(12,555)	(44,211)	(7,254)	(4,893)	(134,992)
Total	**(612)**	**7,029**	**60**	**(67)**	**121**	**6,531**

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

	Israeli currency		Foreign currency[2]				Change in fair value	
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total	NIS in millions	In %
September 30, 2013								
Change in interest rates:								
Concurrent immediate increase of 1%	637	6,997	(31)	(68)	(17)	7,518	122	1.6%
Concurrent immediate increase of 0.1%	333	7,162	(16)	(49)	(13)	7,417	21	0.3%
Concurrent immediate decrease of 1%	185	7,441	48	(4)	(8)	7,662	266	3.6%
December 31, 2012								
Change in interest rates:								
Concurrent immediate increase of 1%	(321)	6,860	(4)	(93)	115	6,557	26	0.4%
Concurrent immediate increase of 0.1%	(581)	7,013	52	(71)	120	6,533	2	-
Concurrent immediate decrease of 1%	(945)	7,453	132	(16)	129	6,753	222	3.4%

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

(2) Includes Israeli currency linked to foreign currency.

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

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

(5) Reclassified.

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

In accordance with Basel I rules, the Bank is also required to calculate specific risk in the negotiable portfolio. Capital requirements with respect to specific risk are intended to provide protection against negative change in the price of a single security due to factors related to the individual issuer. 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 September 30, 2013			As of December 31, 2012		
	Capital requirement			Capital requirement		
risk element[1]	Specific risk	General risk	Total	Specific risk	General risk	Total
Interest risk[2]	-	63	63	1	61	62
Equity risk	-	-	-	-	-	-
Foreign currency exchange rate risk	-	33	33	-	39	39
Total market risk	**-**	**96**	**96**	**1**	**100**	**101**

(1) Risk associated with options activity is included under the different components, and was calculated using the Delta Plus approach, as defined in the Supervisor of Banks' directive.

(2) Calculated using the Effective Duration approach, as defined in the Supervisor of Banks' directive.

Liquidity risk

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

The Bank has developed an internal model to estimate the liquidity needs and liquid resources, as required by Proper Conduct of Bank Businesses regulation 342 “Management of Liquidity Risk". 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. Based on behavioral aspects of depositors and on risk focal points in line with the different scenarios, the Bank's Board of Directors specified restrictions on the Liquidity Coverage Ratio (LCR) for a one-month term under these scenarios, as well as restrictions and guidelines for concentration and other stress scenarios. The Bank holds liquid means, including current account and cash with the Bank of Israel and a high-quality liquid debenture portfolio which may be immediately realized. Furthermore, the Bank's emergency plan also refers to 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 future liquidity crunch.

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

In conjunction with liquidity management at the Bank, an information system was built for daily measurement, control and reporting of the liquidity status. The Bank has a Liquidity Forum, which convenes daily, under the responsibility of the Finance Division, which meets monthly to discuss the liquidity situation and to align the liquidity needs of different Bank units with the liquidity "providers" and liquidity managers.

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.

The Bank regularly reviews global practices with regard to this issue, including the Basel III directives, and is strategically preparing to continue applying these directives.

Operating risk

Basel I provisions referred to operating risk as residual risk, and in fact defined it as risk which is not market risk nor credit risk. Basel II 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 guidelines, see the chapter on Legislation and Supervision of Bank Group Operations.

Equity positions in bank portfolio

For details of equity investments in the Bank's portfolio, see Note 2 to the financial statements. The investment balance includes investments in negotiable and public shares amounting to NIS 1 million, and investment in non-public shares amounting to NIS 171 million.

	As of September 30, 2013	
	Fair value	Capital requirement (1)
Shares	63	6
Venture capital / private equity funds	109	10
Total equity investment in bank portfolio	**172**	**16**

	As of December 31, 2012	
	Fair value	Capital requirement(1)
Shares	64	6
Venture capital / private equity funds	115	10
Total equity investment in bank portfolio	**179**	16

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

Legal risk

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

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.

Compliance

The complexity and development of banking activity requires the Bank to adhere strictly to fulfilling the range of obligations imposed on it in its business ties with its customers, by virtue of statutory provisions applicable to a banking corporation.

As stipulated by Proper Conduct of Banking Business Regulation 308 with regard to Compliance Officer, the Bank has appointed a Compliance Officer who heads the Compliance and AML Department. In June 2012, as part of the reorganization of the Risk Control Division, a Chief Compliance Officer for the Bank Group was appointed in the Risk Control Division. The Compliance Department, headed by the Bank Compliance Officer, is no longer part of the Legal Division, and now reports to the Chief Compliance Officer in the Risk Control Division.

In November 2011, the Bank Board of Directors approved an updated compliance program. The Compliance Department acts to disseminate a compliance culture across the Bank and strives to implement consumer provisions applicable to Bank relationships with its clients, so as to minimize the likelihood of any breach of laws and regulations, to discover, as early as possible, any such breach - thereby minimizing Bank exposure to claims and other damage which may ensue.

The Compliance Department conducts compliance surveys on different issues and provides training to implement compliance policy at the Bank. The Compliance Officer is member of different forums at the Bank, in order to ensure an enterprise-wide view of various compliance aspects.

Prohibition of money laundering

In June 2012, as part of the reorganization of the Risk Control Division, a Chief Compliance Officer was appointed for the Bank Group in the Risk Control Division, who is also in charge of implementation of the Prohibition of Money Laundering Act, and of the Prohibition of Financing Terrorism Act for the Bank Group, including Bank affiliates overseas. The Compliance Officer, who is also in charge of implementation of the Prohibition of Money Laundering Act, and of the Prohibition of Financing Terrorism Act for the Bank, is no longer part of the Legal Division, and now reports to the Chief Compliance Officer in the Risk Control Division.

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

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

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

Risk factors

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

Risk factor	Risk factor impact
Overall effect of credit risk	Low-medium
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
Interest risk	Low
Inflation risk	Intermediate
Exchange rate risk	Low
Share price risk	Low
Liquidity risk	Intermediate
Operating risk	Low
Compliance risk	Low
Money laundering risk	Low
Legal risk	Low
Reputation risk[(1)]	Low
Regulatory risk	Low
Strategic-business risk	Low

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

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

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 2012, as an integral part of the ICAAP process, and towards the approval of the ICAAP document in April 2013, 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 2012. 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 Bank capital and expected annual profit, as follows: Low risk is defined as potential for loss not to exceed 1% of Bank capital (monthly profit); medium risk is defined as potential for loss not to exceed 6% of Bank 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 (previously titled the exposure 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.

Significant Events in the Bank Group's Business

Bank President's term in office

At the Board meeting held on April 24, 2013, the Bank's President, Mr. Eli Yones, announced his intention to not continue in his office for a further term. The date of employment termination stated in his employment contract dated November 30, 2008 is April 1, 2014.

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

On June 17, 2013, the Board of Directors held a meeting and resolved to approve the recommendation by the search committee, to appoint Mr. Eldad Fresher as the Bank's next President.

On June 26, 2013, the Bank received notice from the Supervisor of Banks that the Supervisor had no objection to appointment of Mr. Eldad Fresher as President of Bank Mizrahi-Tefahot.

The Board of Directors, at its meeting held on July 22, 2013, resolved that Mr. Eli Yones would conclude his term in office as Bank President on August 15, 2013.

The Bank's Board of Directors wishes to thank Mr. Eli Yones for his contribution to the Bank over his years of service as Bank President.

As from August 16, 2013, Mr. Eldad Fresher serves as the Bank's President.

Stock option plan for employees

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 employees of the Bank and its subsidiaries. The option plan is based on the principles of the stock option plan for employees at the Bank. See Note 14 to the financial statements for details.

On June 20, 2013, the Bank allotted 5,901,340 options to employees of the Bank and its subsidiaries, pursuant to the plan dated April 29, 2013. The exercise price of each option option allotted to offerees is NIS 36.6 plus CPI linkage differentials, in accordance with the stock option plan. The exercise price was based on the closing price of the Bank's Ordinary 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 options approved for allotment was calculated in accordance with IFRS 2, using the Black & Scholes model. The theoretical benefit value of options in this allotment amounts to NIS 35 million. The benefit value is recognized by the Bank over the vesting term of the options.

Business Strategy

On July 23, 2012 the Bank's Board of Directors approved a strategic plan for 2013-2017. For information about highlights of this plan, see chapter "Business Strategy" of the 2012 financial statements.

Following publication of the Supervisor of Bank's directives dated May 30, 2013, with regard to adoption of Basel III recommendations in Israel, including Supervisory adjustments, deductions from capital and directives on measurement and capital adequacy – the Bank reviewed once again its compliance with schedules to achieve the core capital ratio target of 9% or higher.

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 policy - 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.

Legislation and Supervision of Bank Group Operations

The Supervisor of Banks' letters concerning updated directives and restrictions with regard to housing loans

On March 21, 2013, the Supervisor of Banks issued a letter including "updated directives with regard to housing real estate". In conformity with the directives, guidelines with regard to the group-based provision for credit losses with respect to housing loans were updated. For details of the updated directives and their effect on the Bank's financial statements for 2013, see Note 1.C.6 to the financial statements.

On August 29, 2013, the Supervisor of Banks issued another letter with regard to "Restrictions on housing loans".
According to these directives, as from September 1, 2013, banking corporations may not approve nor originate housing loans where the ratio of monthly repayment to income exceeds 50%.
Loans in which the ratio of monthly repayment to income exceeds 40%, would be assigned a 100% risk weighting when calculating the capital allocation.
Furthermore, banking corporations may not approve housing loans where the ratio of the variable interest portion to loan total exceeds 67% (in addition to the existing directive, restricting the variable interest portion adjustable every 5 years or less to 33.33%).
Furthermore, banking corporations may not originate housing loans with a term to maturity exceeding 30 years.
The aforementioned restrictions shall apply to housing loans approved in principle as from September 1, 2013.

Letter from the Supervisor of Banks with regard to adoption of recommendations by the ministerial committee on regulation of custodian services

On January 16, 2013, the Supervisor of Banks announced the adoption of recommendations by the ministerial committee on regulation of custodian services (hereinafter "the custodian services report"), published in January 2012, in order to establish basic norms in this field (most of which are already currently applied by the Bank). The committee's recommendations would gradually come into effect as from October 2013. These recommendations govern the issue of custody of client assets and stipulate, inter alia, that:
The Bank, being custodian or intermediary, has a duty of diligence and a fiduciary duty to its clients, and should take all reasonable measures in order to ensure the safeguarding of ownership rights in client assets and cash, and safeguarding of rights arising from asset ownership. A custodian or intermediary shall not mix, including on their records and accounts, the assets of one client with those of another client, nor client assets with those of the custodian / intermediary. Moreover, a custodian or intermediary shall not create any right lien right, offset, lien or any other right with respect to client assets without consent of the client. The recommendations further stipulate that an independent auditor shall conduct, at least once annually, an audit of the custodian or intermediary with regard to compliance with various provisions of the custodian services report. The report further regulates reporting which the Bank should provide to its clients with regard to being custodian of their assets. The custodian or intermediary should specify and apply standards and internal procedures for selection, appointment and periodic review of any financial institution used to deposit assets and cash, and should review the financial robustness of such financial institutions. An intermediary

should act diligently, in good faith and with due care in selecting and contracting with a third-party custodian. Application of this directive has no material impact on the Bank's financial statements.

Mutual Investment Regulations (Distribution commission) (Amendment), 2013

On March 11, 2013, the Knesset Finance Committee approved the amendment to Mutual Investment Regulations, so as to reduce the distribution commissions paid by investment houses to banks for distributing their mutual funds. Pursuant to this amendment, commissions for money market funds would be reduced from 0.125% to 0.10%; for debenture and equity funds they would be reduced to 0.35% from0.40% and0.80%, respectively; and for NIS funds they would be reduced to 0.20% from 0.25%.

The amendment to the regulations became effective on May 1, 2013. Application of these regulations has no material impact on the Bank's financial statements.

Corporate governance aspects

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

These references constitute inclusion by way of reference of all information included in the aforementioned Immediate Reports published by the Bank on February 4, 2013 and February 6, 2013.

FATCA (Foreign Account Tax Compliance Act)

In accordance with the Act, which became effective in the USA in March 2010, foreign financial institutions, including banks around the world, are required to provide to the IRS (US Tax Authority) information about US tax payers.

According to the Act, foreign financial institutions are required to identify all accounts of individual and entities directly or indirectly owned by Americans, and to report some of them (based on criteria specified in the Act) to the IRS.

Any foreign financial institution which would not sign an agreement with the IRS, shall be required to withhold tax at 30% on relevant payments from a US Source. The withholding shall apply to financial assets of the foreign financial institution as well as to assets of its clients.

The Act is designed to:

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

In January 2013, the IRS published rules for implementation of the Act, and the Bank is preparing to implement these, as part of continuing preparations for implementation of the Act as from 2014.

The Bank avoids providing consulting or any assistance with regard to how accounts are to be identified as American or with respect to US taxation, including any advice with regard to FATCA.

The Bank is preparing to apply the legislative provisions on the required schedule, including signing an agreement with US tax authorities.

The Dodd Frank Wall Street Reform and Consumer Protection Act 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 specified in the reform apply to US entities and to non-US entities which conduct transactions of significant volume (as defined in the reform) with US entities.

The Bank is preparing to apply the relevant rules of the reform, which would come into effect during 2014, as they apply to the Bank with regard to its relations with foreign financial institutions.

Concurrently with the Dodd Frank reform issued in the USA, a reform based on similar principles was issued in Europe – the European Market Infrastructure Regulation (EMIR).

The EMIR reform, similar to the Dodd Frank reform, calls for mandatory central settlement, requires increased collateral and reporting of transactions made to dedicated databases. Unkike the Dodd Frank reform, EMIR does not classify entities by their business volume, but rather distinguishes between financial and non-financial entities.

The EMIR reform applies to all European entities, and is therefore expected to affect Bank operations involving derivatives, since the Bank does significant business with banks in Europe. However, the EMIR reform is still being legislated and there is no finalized schedule for implementation of its various phases. According to this reform, central settlement is scheduled to start in mid-2014.

The Bank is preparing to implement this reform as it applies to the Bank.

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.

Banking Rules (Customer Service) (Commissions), 2008

On August 1, 2013, Amendment 2 to the Banking Rules (Customer Service) (Commissions), 2008 became effective. In this Amendment, a change was made in the retail price list to the maximum turnover for a "small business" – from NIS 1 million to NIS 5 million. According to the Amendment, the banking corporation should write to corporations no later than

August 15, 2013 to inform them of the fact that, should they provide to the banking corporation an "annual report" (as defined in Section 1 of Commission Rules), whereby their annual turnover is less than NIS 5 million, the banking corporation would act to classify their account as a "small business". This classification is effective for one year, to be renewed subject to provision of current documents. Application of this revision has no material impact on the Bank's financial statements.

Increase in VAT rate and corporate tax rate

On May 27, 2013, the Knesset Finance Committee decided to increase the VAT rate to 18%, effective as from June 2, 2013 (the profit tax and payroll tax rates applied to financial institutions increased accordingly). This legislation was officially published on June 3, 2013. Consequently, the tax rate applicable to the Bank increased to 36.21% in 2013 (compared to 35.90% prior to this change).

The increase in VAT rate has no material impact on the Bank's financial statements.

On July 30, 2013, the Knesset Plenum approved, by second and third vote, the Budget Act and the Arrangements Act for 2013-2014. In conjunction with this legislation, the increase in corporate tax rate to 26.5% was approved, effective as from January 1, 2014.

The Act was officially published on August 5, 2013.

Consequently, the tax rate applicable to the Bank as from 2014 would be 37.71%.

The increase in tax rate applicable to the Bank increases the Bank's deferred tax balance. With respect to this increase, the Bank recognized on these financial statements income amounting to NIS 28 million.

Corporate Regulations (Easements for transactions with interested parties) (Revision 2), 2013

On August 6, 2013, a revision of the aforementioned regulations was published, adding the following easements:

- Contracting of insurance terms and conditions for the General Manager;
- Contracting of liability insurance for company officers shall not be subject to approval by the General Meeting of Shareholders and may be approved by only the Remuneration Committee, provided that terms and conditions of such contracting have been specified in the company's remuneration policy, which has been lawfully approved by the General Meeting of Shareholders, provided that such contracting is at market terms and may not materially impact company profitability, assets or liabilities;
- Contracting with the General Manager with regard to his terms of office and employment is not subject to approval by the General Meeting of Shareholders if the company has adopted a remuneration policy which is exempt from approval by the General Meeting of Shareholders pursuant to the Easement Regulations.

Earlier publication date of financial statements

On September 29, 2013, the Supervisor of Banks issued a directive with regard to earlier publication dates of financial statements. According to this directive, in order to align the publication dates of financial statements of banking corporations in Israel to those in the USA, and in order to allow readers of those financial statements to obtain information about the financial position and operating results of banks sooner, the annual financial statements of a banking corporation which heads a banking group shall be made public within two months after the balance sheet date and their quarterly financial statements shall be made public within 45 days after the balance sheet date.

The directive will take ettect gradually:
The 2013 annual report would be made public by March 20, 2014.
The 2014 annual report would be made public by March 10, 2015.
The 2015 annual report and annual reports there after would be made public within two months after the balance sheet date.
Quarterly financial statements – in 2014 shall 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.

Team for review of increased competition in the banking system

The Governor of the Bank of Israel and the Minister of Finance appointed the team for review of increased competition in the banking system, following recommendations by the Trachtenberg Committee for Social-Economic Change. The letter of appointment of this team, headed by the Supervisor of Banks specifies the team's objectives and stipulates that the team would review and recommend various means and measures to increase competition in the Israeli banking market. The team would consider measures to simplify the banking product, to enhance clients' bargaining position and to improve and enhance credit information in the household and small business segments.
On July 16, 2012, the team issued an interim report listing highlights of its recommendations for increasing competition and enhancing the position of households and small businesses. Upon publication of the interim recommendations, the public was invited to comment; after receiving comments from the public, on March 19, 2013 the team published the complete report listing its work, conclusions and final recommendations.
As from publication of the interim report, the Supervisor of Banks started to apply the team's recommendations. In order to fully apply these recommendations, the Bank of Israel and relevant Government ministries continue to work on the appropriate legislative changes to include the team's recommendations.

Below are specific legislative provisions arising from the team's work:

A. Banking Rules (Customer Service) (Commissions) (Amendment), 2012
On November 28, 2012, the Bank of Israel published the amendment which abolishes securities management fee with respect to MAKAM (short-term Government debentures) and with respect to money market funds; imposes restrictions on bank commissions with respect to securities transactions; and abolishes other commissions applicable to households and small businesses.
The amendment became effective on January 1, 2013.
Application of the amendment and update to the commission price list pursuant to the new legislation is expected to reduce commissions charged to households and small businesses. Overall, application of the amendment is not expected to have any material impact on the Bank's financial statements.

B. Repricing of commissions with respect to securities transactions
On November 28, 2012, the Supervisor of Banks issued a circular concerning repricing of commissions with respect to securities transactions.
Further to findings and recommendations included on the interim report by the team created to review increasing competition in the banking sector, with regard to commissions and benefits with respect to securities transactions,

and further to the Amendment to Addendum I to Banking Rules (Customer Service) (Commissions), 2008 - as described above - the Bank is required to set the new rate of commissions charged for buying, selling and redeeming securities with respect to shares and debentures, taking into consideration the changes made to the commission structure in the aforementioned Amendment to Addendum I (setting a differential rate by transaction channel and setting a maximum commission), as well as the need to align these, in as much as possible, with the price actually charged.

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

Proper Conduct of Banking Business Regulation 311 "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 policy, 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.

Proper Conduct of Banking Business Regulation 350 "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 set forth 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. The Bank is preparing to implement this regulation. Application of the directive is not expected to have any material impact on the Bank's financial statements.

Proper Conduct of Banking Business Regulation 331 "Dividend distribution by banking corporations"

On January 15, 2013, the Bank of Israel amended Proper Conduct of Banking Business Regulation 331 with regard to dividend distribution by banking corporations. The regulation revises the reference to certain profit and loss of banking corporations which are recognized under Other Comprehensive Income rather than on the statement of profit and loss. The regulation adapts the current restrictions on dividend distribution by the Bank and expands them so that restrictions on retained earnings would also include items of cumulative other comprehensive income, and restrictions on net profit would be extended to restrictions on comprehensive income.

The effective start date of this regulation is January 1, 2013. Application of this regulation has no material impact on the Bank's financial statements.

Proper Conduct of Banking Business 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 policy 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. The Bank is preparing to implement this regulation. Application of the directive is not expected to have any material impact on the Bank's financial statements.

Proper Conduct of Banking Business Regulation 333 "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 1, 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". The Bank is preparing to implement these updated regulation. Application of these amendments is not expected to have any 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 is January 1, 2014. Application of the directive is not expected to have any material impact on the Bank's financial statements.

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

For details of highlights of recommendations of the Basel Committee and their application to banks in Israel and their implementation by the Bank, see the Board of Directors' Report as of December 31, 2012.

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

In April 2013, the Bank submitted to the Bank of Israel its ICAAP document (as of December 31, 2012), 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 policy 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 August 26, 2013, the Supervisor of Banks issued a draft directive with regard to disclosure requirements pursuant to Basel II, Pillar 3 – Disclosure requirements with regard to remuneration. The new disclosure requirements were designed to support effective market discipline and to allow market users to assess the quality of remuneration methods and how they support the strategies and risk position of banking corporations.

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 would be gradually applied world-wide starting in 2013.

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

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

On July 23, 2012, the Bank Board of Director instructed Bank management to bring forward implementation of the Supervisor of Banks' directive dated March 28, 2012 - so as to implement it, if possible, as from January 1, 2014. Moreover, the Board of Directors has resolved to instruct Bank management to maintain, in as much as possible, appropriate safety margins to this end.

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

For more information about key amendments made to the regulations, see Note 5.H. 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".

As directed by the Supervisor of Banks, the Bank was required to present the effect of anticipated application of Basel III directives upon the transition date; the Bank believes this would result in a 0.3% decrease in Tier I capital ratio.

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 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 policy - 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.
On August 29, 2013, the Supervisor of Banks issued a circular with regard to Basel disclosure requirements related to capital composition. The circular stipulates, *inter alia*, expansion of existing disclosure and aligning it with Basel III directives as from financial statements for March 31, 2014. The circular further stipulates the disclosure in financial statements as of December 31, 2013 with regard to the anticipated effect of adoption of Basel III directives.

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

On April 10, 2013, the Supervisor of Banks issued draft directives on the 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.2. to the financial statements.

Draft Supervisor of Banks' directives on remuneration policy at banking corporations

On August 27, 2013, the Supervisor of Banks issued draft directives on remuneration policy at banking corporations. This draft 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 draft includes requirements applicable to all remuneration at banking corporations, including roles of the Board of Directors and of the Remuneration Committee, remuneration policy, controls and documentation; the draft 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 draft, risk management, control and audit functions should be involved in development of the remuneration mechanism by reviewing the appropriateness of risk and compliance benchmarks included there in. The draft 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 draft 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 draft, the maximum variable remuneration may not exceed 100% of each employee's fixed remuneration. Under extraordinary conditions and subject to requirements set forth in this directive, the maximum variable remuneration may be set at up to 200%.

Legal Proceedings

For material changes in legal proceedings to which the Bank is party, see Notes 7.D.(2-4).

Other Matters

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

Employment terms of employees of Mizrahi-Tefahot Technology Division Ltd. (hereinafter: "Technology Division")

A. On October 21, 2010, a labor dispute was declared between the MAOF trade union and the Technology Division, the Bank's IT arm. The main causes of this dispute are the demand by employees to sign wage agreements for 2005-2009, their demand to update the wage linkage mechanism, as well as re-structuring by management which, the employees claim, infringes on their rights.

   On April 30, 2013, the management of the Technology Division and the employee union signed an agreement which includes compensation for linkage of payroll for 2009 as well as compensation for the period 2005-2011. This agreement covers all demands and claims with regard to compensation for payroll differences through 2011.

B. On January 26, 2012, a labor dispute was declared between the MAOF trade union and the Technology Division. The key reasons for this dispute are the employee's demand for agreement on methods for hiring contractors at the company.

As of the date of these financial statements, Division management and employee representatives are in continuing negotiations with regard to other disputed issues, primarily the relocation to the Technology-Logistics Center in Lod and hiring of independent contractors by the company - but the parties have yet to reach a signed agreement.

Computer services for Bank Yahav

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

Bank Yahav receives IT and operations services from Bank HaPoalim Ltd. These services are provided pursuant to a permit issued by the Bank of Israel, effective through 2015. The Bank of Israel stipulated that Bank Yahav should be disconnected from the aforementioned systems by the specified date, and also issued directives with regard to schedules for making decisions and for making progress in this regard. In conformity with these Bank of Israel directives, Bank Yahav is reviewing potential routes for disconnecting from the Bank HaPoalim systems currently being used. Bank Yahav's report of the outcome of this review has been provided to the Bank of Israel.

Approval of terms of office and employment of Chairman of the Board of Directors

On June 17, 2013, the General Meeting of shareholders approved the Bank contracting of terms of office and employment of the Chairman of the Bank Board of Directors. For details, see Note 14.C to the financial statements.

Approval of officer remuneration policy

Following the effective start date of Amendment 20 to the Companies Law, 1999 ("the Companies Law"), the Bank acted to formulate and adopt an officer remuneration policy in line with provisions of the Act.

On July 18, 2013, the Remuneration Committee, having reviewed the information presented to it and taken into consideration all the elements required pursuant to Amendment 20 to the Companies Law, resolved to recommend that the Bank's Board of Directors approve the officer remuneration policy; on July 22, 2013, the Bank's Board of Directors approved the remuneration policy. The remuneration policy was approved by the General Meeting of Shareholders on August 27, 2013. For details, see Note 14.E to the financial statements.

Senior Officers

On April 29, 2013, the Bank's Board of Directors approved the appointment of Ms. Ayala Hakim to Manager of the Bank's Technology Division and member of Bank management. The appointment became effective on July 1, 2013.
Ms. Ayala Hakim replaced Mr. Zvi Agrovich, who was appointed Deputy Chairman of the Bank's Technology Division. Ms. Hakim also serves as the Bank's Chief Information Officer.
On February 5, 2013, Mr. Dov Fogel concluded his term as senior officer of the Bank.
On July 1, 2013, Mr. Zvi Agrovich concluded his term as senior officer of the Bank.
On July 22, 2013, the Bank Board of Directors approved appointment of Mr. Moshe Lari to the position of Manager, Financial Division and CFO of the Bank, effective as from August 16, 2013.
On August 15, 2013, Mr. Moshe Lari resigned from his position as Manager, Planning, Operations and Control Division and Manager, Customer Assets and Advisory Division; on August 16, 2013 he was appointed Manager, Financial Division and CFO of the Bank.

On August 15, 2013, Mr. Eldad Fresher resigned his position as Manager, Financial Division and CFO of the Bank and as from August 16, 2013 he serves as Bank President.
For details of the conclusion of the term in office of the Bank's former President, Mr. Eli Yones, and the appointment of the current President, Mr. Eldad Fresher, see chapter "Significant events in the Bank Group's business" above.

The Board of Directors, at its meeting on September 16, 2013, resolved to appoint the following executives:
Mr. Haim Git, Manager, Risk Control Division and CRO of the Bank, would retire on December 31, 2013.
Mr. Doron Klauzner, Manager, Business Division would be appointed Manager, Risk Control Division and CRO of the Bank.
Mr. Ophir Murad, Deputy Manager, Business Division would be appointed Manager, Business Division.
These appointments shall become effective on January 1, 2014.
Mr. Nissan Levi would be appointed Manager, Planning, Operations and Customer Asset Division. The appointments would became effective on January 1, 2014, subject to approval by the Supervisor of Banks.

Internal Auditor

Details of internal audit within the Group, including the professional standards applied by internal audit, the annual and multi-annual work plan and considerations in its determination, extent of employment of the Internal Auditor and his team and the manner in which reports are submitted with regard to findings of the Internal Auditor have been included in the Board of Directors' Report attached to the 2012 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 stated in Note 1 to these condensed financial statements and in Note 1 to the financial statements as of December 31, 2012.
The application of generally accepted accounting principles by management at the time that the financial statements are prepared occasionally involves various assumptions, assessments and estimates that affect the amounts and business results reported in the financial statements. Some of the assumptions, assessments and estimates are critical to the financial position or the results of operations reflected in the Group's financial statements, because of the materiality of the matter, complexity of calculations or the extent of the probability that matters shrouded in uncertainty will be realized.
The financial statements for 2012 include details of accounting policies on critical issues for accounting treatment of the following: Provision for credit losses, derivative instruments, securities, liabilities with respect to employee rights, provisions for legal claims, provision for impairment of non-financial assets and deferred taxes.

In conformity with the Supervisor of Banks' letter dated March 21, 2013, with regard to housing loans, the directives with regard to the group-based provision for credit losses with respect to housing loans were updated. See Note 1.C.6 to the financial statements for further information.

For information about the Supervisor of Banks' draft directives with regard to the group-based provision for credit losses, see Note 1.D.2 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, 2012.

Certification Process of the Financial Statements

The organ in charge of audit supervision at the bank is its Board of Directors. Board members' names, accounting and financial skills and professional qualifications are itemized in the Board of Directors' report as of December 31, 2012 (for changes in 2013, see chapter "Board of Directors" below). The processes of preparing, auditing and approving the financial statements involve additional organs and officers as described below.

Bank financial statements are prepared by a professional department, headed by the Chief Accountant, pursuant to directives and guidance from the Supervisor of Banks and in accordance with the disclosure 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, 2012 (for changes in 2013, see chapter "Senior Officers" above).

The Bank operates two Provision for Credit Losses Committees, headed by the Chief Accountant. The first Committee individually discusses classified clients, while the other Committee discusses group-based provision for economic sectors. Both these Committees receive reports of discussions by additional sub-committees which handle Bank debt and credit exposure.

The Bank also operates a Provision for Credit Losses Committee headed by the President. This Committee further individually discusses the classification and provisions for major clients and determines the appropriateness of of the overall provision for credit losses, including group-based provision. The Committee headed by the President is attended by the Manager, Business Division; Manager, Retail Division; Manager, Finance Division; Chief Accountant; Chief Legal Counsel and other 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 Commtitee (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, 2012 financial statements, subject to changes in 2013 as described in chapter "Board of Directors" below).

The Audit Committee discusses the apporpriateness of disclosure on the financial statements and the review of the financial statements, with all their components, including classification and provision for credit losses with respect to 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 at least one week prior to the Board of Directors plenary meeting to approve the financial statements.

After discussions are concluded by the Audit Committee, its recommendations along with the draft financial statements are submitted to the Board of Directors, such that Board members receive the documents at least three days prior to the discussion there of by the Board of Directors. In conjunction with discussion by the Board of Directors, the Chief Accountant presents the financial results and analysis thereof. The Chair of the Audit Committee presents the Audit Committee's recommendations to the Board of Directors - with regard to issues discussed by the Committee and to approval of the financial statements. The Board of Directors' meeting to discuss approval of the financial statements is attended, other than by members of the Board, by the President, Chief Accountant, Chief Legal Counsel, Chief Internal Auditor and independent auditors, as well as other participants invited to attend on per-case basis. The independent auditors present their comments.

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

Board of Directors

During the first nine months of 2013, the Bank's Board of Directors held 16 plenary meetings, of which 3 by telephone. During this period there were also 85 meetings of Board committees and 6 Board member workshops.

The Board of Directors, at its meeting held on January 21, 2013, resolved to merge the Audit Committee and the Financial Statements Review Committee.

On January 28, 2013, Mr. Dov Mishor resigned his position as member of the Bank's Board of Directors and member of the Audit Committee and Committee for Claims Against the Bank. Upon his departure, the number of Board members having accounting and financial qualifications is 9.

On February 11, 2013, Mr. Zvi Efrat resigned his position as member of the Board's Credit Committee.

On April 11, 2013, Mr. Avraham Neuman was appointed external Board member of the Bank, as this term is defined in the Companies Law, 1999. Upon his appointment, the number of Board members having accounting and financial qualifications is 10. On that date, Mr. Gideon Sitterman gave notice to the Chairman of the Board of Directors of his resignation from the position of Chairman of the Remuneration Committee.

The Board of Directors, at its meeting held on April 14, 2013, approved the appointment of Mr. Avraham Neuman as a member of the Audit Committee and of the Remuneration Committee. At that meeting, the Board of Directors approved the appointment of Mr. Avi Ziegelman to the position of Chairman of the Remuneration Committee and the appointment of Mr. Yossef Shachak as a member of the Remuneration Committee.

At the Board meeting held on April 24, 2013, the Bank's President, Mr. Eli Yones, announced his intention not to continue in his office as Bank President for a further term.

The Board of Directors, at its meeting on April 29, 2013, resolved to establish a search committee for the position of Bank President. The Committee concluded its work on June 9, 2013.

On June 17, 2013, the Board of Directors approved the recommendation by the search committee, to appoint Mr. Eldad Fresher as the Bank's next President.

The Board of Directors, at its meeting held on July 22, 2013, resolved that Mr. Eli Yones would conclude his term in office as Bank President on August 15, 2013.

On August 15, 2013, Mr. Eli Yones concluded his term in office as Bank President.

The Bank's Board of Directors wishes to thank Mr. Eli Yones for his contribution to the Bank over his years of service as Bank President.

On August 16, 2013, Mr. Eldad Fresher started his term in office as Bank President.

On August 27, 2013, the General Meeting of Bank shareholders approved the appointment of Mr. Avi Ziegelman as an external Board member of the Bank, as defined in the Corporate Act, 1999, for an additional 3-year term in office, starting on September 20, 2013.

On October 23, 2013, the General Meeting of Shareholders approved the appointment of Ms. Osnat Ronen as an external Board member of the Bank, as defined in the Companies Law, 1999. Upon her appointment, the number of Board members having accounting and financial qualifications is 11. On the same date, the General Meeting of Shareholders approved the appointment of Mr. Yossef Shachak as an external Board member of the Bank, as defined in Proper Conduct of Banking Business Regulation 301 "Board of Directors", for an additional 3-year term in office, starting on April 26, 2013.
The Board of Directors, at its meeting on October 28, 2013, resolved to change the composition of Board committees as follows.
Mr. Avi Ziegelman and Mr. Gideon Sitterman ceased to be members of the Credit Committee. According to this resolution, as from that date, Ms. Osnat Ronen and Mr. Zvi Efrat became members of said Committee. Furthermore, Mr. Avraham Noyman was appointed member of the Risk Management Committee and Ms. Osnat Ronen was appointed member of the Remuneration Committee.

Controls and Procedures

In accordance with the public reporting directives of the Supervisor of Banks, based on Section 302 of the American Sarbanes Oxley Act, the President and the Chief Accountant of the Bank have each separately signed a Certification attached to the financial statements on "Disclosure Controls and Procedures ("Disclosure Certification"). This directive of the Supervisor of Banks is part of an overall policy regarding the adoption of the provisions of Section 404 of the Sarbanes Oxley Act, which includes, inter alia, certification by the President and Chief Accountant on "the effectiveness of internal controls over the financial reporting", which was attached to the financial statements as of December 31, 2012.

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

At the end of the period covered by this Report, the Bank's management, together with the 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.

Following shortcomings indicated by an audit conducted by the Supervisor of Banks with respect to disclosure of overall risk associated with loans to the public by economic sector, several improvements have been made to controls and procedures related to disclosures, in order to eliminate these shortcomings. These improvements include reinforcement of and creation of procedures for client classification processes into sectors by business units, as well as expansion of control processes of classification into sectors - both at business units and at the Accounting and Financial Reporting Division. Specifically, the Bank reinforced controls to ensure proper disclosure of overall risk associated with loans to the public by economic sector in the financial statements as from December 31, 2012. Correction of the significant faults uncovered by the audit has been completed through the publication of the financial statements for the second quarter of 2013.

During the quarter ended September 30, 2013, no change occurred in the Bank's internal controls over financial reporting that had a material effect, or can reasonably be expected to have a material effect on the Bank's internal control over financial reporting.

Moshe Weidman	Eldad Fresher
Chairman of the Board of Directors	President

Ramat Gan, November 18, 2013

Management Discussion of Group Business and Operating Results

Table of Contents

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

Reported amounts (NIS in millions)

A. Average balances and interest rates - assets

	For the three months ended September 30, 2013			For the three months ended September 30, 2012		
	Average balance[(2)]	Interest revenues	Revenue rate	Average balance[(2)]	Interest revenues	Revenue rate
			In %			In %
Interest-bearing assets						
Loans to the public [(3)]						
In Israel	131,960	1,918	5.94	121,807	1,768	5.93
Outside of Israel	2,498	21	3.41	2,631	25	3.86
Total	**134,458**	**1,939**	**5.89**	**124,438**	**1,793**	**5.89**
Loans to the Government						
In Israel	303	3	4.02	219	2	3.70
Outside of Israel	-	-	-	-	-	-
Total	**303**	**3**	**4.02**	**219**	**2**	**3.70**
Deposits with banks						
In Israel	1,782	23	5.26	2,220	19	3.47
Outside of Israel	377	8	8.76	274	8	12.20
Total	**2,159**	**31**	**5.87**	**2,494**	**27**	**4.40**
Deposits with central banks						
In Israel	17,013	44	1.04	13,237	31	0.94
Outside of Israel	1,439	1	0.28	1,165	1	0.34
Total	**18,452**	**45**	**0.98**	**14,402**	**32**	**0.89**
Securities loaned or sold in repurchase agreements						
In Israel	83	-	0.87	218	1	1.85
Outside of Israel	-	-	-	-	-	-
Total	**83**	**-**	**0.87**	**218**	**1**	**1.85**
Debentures held to maturity and available for sale[(4)]						
In Israel	5,339	30	2.27	6,680	30	1.81
Outside of Israel	1,171	4	1.37	1,583	6	1.52
Total	**6,510**	**34**	**2.11**	**8,263**	**36**	**1.75**
Debentures held for trading[(5)]						
In Israel	651	6	3.74	183	1	2.20
Outside of Israel	-	-	-	4	-	-
Total	**651**	**6**	**3.74**	**187**	**1**	**2.16**
Total interest-bearing assets	**162,616**	**2,058**	**5.16**	**150,221**	**1,892**	**5.13**
Receivables for credit card operations	2,842			2,808		
Other non-interest bearing assets [(6)]	5,260			4,383		
Total assets	**170,718**			**157,412**		
Total interest-bearing assets attributable to operations outside of Israel	**5,485**	**34**	**2.50**	**5,657**	**40**	**2.86**

See remarks below.

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

Reported amounts (NIS in millions)

B. Average balances and interest rates - liabilities and equity

	For the three months ended September 30, 2013			For the three months ended September 30, 2012		
	Average balance[(2)]	Interest expenses	Revenue rate	Average balance[(2)]	Interest expenses	Revenue rate
			In %			In %
Interest-bearing liabilities						
Deposits from the public						
In Israel	125,527	730	2.35	113,259	744	2.65
Outside of Israel	4,628	9	0.78	5,150	13	1.01
Total	**130,155**	**739**	**2.29**	**118,409**	**757**	**2.58**
Deposits from the Government						
In Israel	87	1	4.68	129	1	3.14
Outside of Israel	-	-	-	-	-	-
Total	**87**	**1**	**4.68**	**129**	**1**	**3.14**
Deposits from banks						
In Israel	2,294	10	1.76	2,989	7	0.94
Outside of Israel	11	-	-	122	-	-
Total	**2,305**	**10**	**1.75**	**3,111**	**7**	**0.90**
Debentures and subordinated notes						
In Israel	15,143	303	8.25	14,229	227	6.54
Outside of Israel	-	-	-	-	-	-
Total	**15,143**	**303**	**8.25**	**14,229**	**227**	**6.54**
Total interest-bearing liabilities	**147,690**	**1,053**	**2.88**	**135,878**	**992**	**2.95**
Non-interest bearing deposits from the public	5,459			4,477		
Payables for credit card operations	2,842			2,808		
Other non-interest bearing liabilities [(8)]	4,779			5,409		
Total liabilities	**160,770**			**148,572**		
Total capital resources	**9,948**			**8,840**		
Total liabilities and equity	**170,718**			**157,412**		
Interest margin			**2.28**			**2.18**
Net return [(9)] on interest-bearing assets						
In Israel	157,131	980	2.52	144,564	873	2.44
Outside of Israel	5,485	25	1.84	5,657	27	1.92
Total	**162,616**	**1,005**	**2.50**	**150,221**	**900**	**2.42**
Total interest-bearing liabilities attributable to operations outside of Israel	**4,639**	**9**	**0.78**	**5,272**	**13**	**0.99**

See remarks below.

Management Discussion - Addendum A

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

Reported amounts (NIS in millions)

A. Average balances and interest rates - assets

	For the nine months ended September 30, 2013			For the nine months ended September 30, 2012		
	Average balance[(2)]	Interest revenues	Revenue rate	Average balance[(2)]	Interest revenues	Revenue rate
			In %			In %
Interest-bearing assets						
Loans to the public [(3)]						
In Israel	129,033	4,788	4.98	119,545	5,001	5.62
Outside of Israel	2,591	77	3.98	2,714	76	3.75
Total	**131,624**	**4,865**	**4.96**	**122,259**	**5,077**	**5.57**
Loans to the Government						
In Israel	310	7	3.02	206	5	3.25
Outside of Israel	-	-	-	-	-	-
Total	**310**	**7**	**3.02**	**206**	**5**	**3.25**
Deposits with banks						
In Israel	1,891	33	2.33	2,009	31	2.06
Outside of Israel	338	11	4.36	242	13	7.23
Total	**2,229**	**44**	**2.64**	**2,251**	**44**	**2.61**
Deposits with central banks						
In Israel	14,909	132	1.18	12,406	126	1.36
Outside of Israel	1,603	2	0.17	1,148	2	0.23
Total	**16,512**	**134**	**1.08**	**13,554**	**128**	**1.26**
Securities loaned or sold in repurchase agreements						
In Israel	111	1	1.20	203	3	1.98
Outside of Israel	-	-	-	-	-	-
Total	**111**	**1**	**1.20**	**203**	**3**	**1.98**
Debentures held to maturity and available for sale[(4)]						
In Israel	5,939	95	2.14	7,375	129	2.34
Outside of Israel	1,284	13	1.35	1,537	17	1.48
Total	**7,223**	**108**	**2.00**	**8,912**	**146**	**2.19**
Debentures held for trading[(5)]						
In Israel	723	16	2.96	343	9	3.51
Outside of Israel	2	-	-	4	-	-
Total	**725**	**16**	**2.95**	**347**	**9**	**3.47**
Total interest-bearing assets	**158,734**	**5,175**	**4.37**	**147,732**	**5,412**	**4.91**
Receivables for credit card operations	2,964			2,749		
Other non-interest bearing assets [(6)]	5,120			4,201		
Total assets	**166,818**			**154,682**		
Total interest-bearing assets attributable to operations outside of Israel	**5,818**	**103**	**2.37**	**5,645**	**108**	**2.56**

See remarks below.

Management Discussion - Addendum A

Revenue and Expense Rates – Consolidated[1] - Continued

Reported amounts (NIS in millions)

B. Average balances and interest rates - liabilities and equity

	For the nine months ended September 30, 2013			For the nine months ended September 30, 2012		
	Average balance[2]	Interest expenses	Revenue rate	Average balance[2]	Interest expenses	Revenue rate
			In %			In %
Interest-bearing liabilities						
Deposits from the public						
In Israel	122,181	1,767	1.93	111,722	2,099	2.51
Outside of Israel	4,625	32	0.92	5,264	44	1.12
Total	**126,806**	**1,799**	**1.90**	**116,986**	**2,143**	**2.45**
Deposits from the Government						
In Israel	97	4	5.54	137	4	3.91
Outside of Israel	-	-	-	-	-	-
Total	**97**	**4**	**5.54**	**137**	**4**	**3.91**
Deposits from banks						
In Israel	2,326	33	1.90	3,035	41	1.81
Outside of Israel	19	1	7.08	28	-	-
Total	**2,345**	**34**	**1.94**	**3,063**	**41**	**1.79**
Debentures and subordinated notes						
In Israel	14,817	658	5.96	13,416	653	6.54
Outside of Israel	-	-	-	-	-	-
Total	**14,817**	**658**	**5.96**	**13,416**	**653**	**6.54**
Total interest-bearing liabilities	**144,065**	**2,495**	**2.32**	**133,602**	**2,841**	**2.85**
Non-interest bearing deposits from the public	5,130			4,226		
Payables for credit card operations	2,964			2,749		
Other non-interest bearing liabilities[8]	4,979			5,565		
Total liabilities	**157,138**			**146,142**		
Total capital resources	**9,680**			**8,540**		
Total liabilities and equity	**166,818**			**154,682**		
Interest margin			**2.05**			**2.07**
Net return[9] on interest-bearing assets						
In Israel	152,916	2,610	2.28	142,087	2,507	2.36
Outside of Israel	5,818	70	1.61	5,645	64	1.51
Total	**158,734**	**2,680**	**2.26**	**147,732**	**2,571**	**2.33**
Total interest-bearing liabilities attributable to operations outside of Israel	**4,644**	**33**	**0.95**	**5,292**	**44**	**1.11**

See remarks below.

Management Discussion - Addendum A

Revenue and Expense Rates – Consolidated[1] - Continued

Reported amounts (NIS in millions)

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

	For the thee months ended September 30, 2013			For the three months ended September 30, 2012		
	Average balance[2]	Interest revenues (expenses)	Revenue rate	Average balance[2]	Interest revenues (expenses)	Revenue rate
			In %			In %
Israeli currency - non-linked						
Total interest-bearing assets	91,277	849	3.77	79,066	944	4.86
Total interest-bearing liabilities	83,541	(387)	(1.87)	74,487	(439)	(2.38)
Interest margin			**1.90**			**2.48**
Israeli currency - linked to the CPI						
Total interest-bearing assets	52,460	1,081	8.50	48,439	753	6.36
Total interest-bearing liabilities	35,150	(636)	(7.44)	35,319	(469)	(5.42)
Interest margin			**1.06**			**0.94**
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	13,394	94	2.84	17,059	155	3.68
Total interest-bearing liabilities	24,360	(21)	(0.35)	20,800	(71)	(1.37)
Interest margin			**2.49**			**2.31**
Total - operations in Israel						
Total interest-bearing assets	157,131	2,024	5.25	144,564	1,852	5.22
Total interest-bearing liabilities	143,051	(1,044)	(2.95)	130,606	(979)	(3.03)
Interest margin			**2.30**			**2.19**

See remarks below.

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

Reported amounts (NIS in millions)

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

	For the nine months ended September 30, 2013			For the nine months ended September 30, 2012		
	Average balance[2]	Interest revenues (expenses)	Revenue rate	Average balance[2]	Interest revenues (expenses)	Revenue rate
			In %			In %
Israeli currency - non-linked						
Total interest-bearing assets	87,687	2,598	3.97	78,123	2,839	4.87
Total interest-bearing liabilities	81,455	(1,134)	(1.86)	72,515	(1,316)	(2.43)
Interest margin			**2.11**			**2.44**
Israeli currency - linked to the CPI						
Total interest-bearing assets	51,147	2,218	5.82	47,645	2,102	5.93
Total interest-bearing liabilities	35,108	(1,268)	(4.84)	34,630	(1,317)	(5.10)
Interest margin			**0.98**			**0.83**
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	14,082	256	2.43	16,319	363	2.98
Total interest-bearing liabilities	22,858	(60)	(0.35)	21,165	(164)	(1.03)
Interest margin			**2.08**			**1.95**
Total - operations in Israel						
Total interest-bearing assets	152,916	5,072	4.45	142,087	5,304	5.01
Total interest-bearing liabilities	139,421	(2,462)	(2.36)	128,310	(2,797)	(2.92)
Interest margin			**2.09**			**2.09**

See remarks below.

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

Reported amounts (NIS in millions)

D. Analysis of change in interest revenues and expenses

	The three months ended September 30, 2013 - compared to the three months ended September 30, 2012			For the nine months ended September 30, 2013 - compared to the nine months ended September 30, 2012		
	Increase (decrease)			Increase (decrease)		
	Increase (decrease)		Increase (decrease)		Price	
Interest-bearing assets						
Loans to the public						
In Israel	148	2	150	352	(565)	(213)
Outside of Israel	(1)	(3)	(4)	(4)	5	1
Total	**147**	**(1)**	**146**	**348**	**(560)**	**(212)**
Other interest-bearing assets						
In Israel	10	12	22	16	(35)	(19)
Outside of Israel	-	(2)	(2)	2	(8)	(6)
Total	**10**	**10**	**20**	**18**	**(43)**	**(25)**
Total interest revenues	**157**	**9**	**166**	**366**	**(603)**	**(237)**
Interest-bearing liabilities						
Deposits from the public						
In Israel	71	(85)	(14)	151	(483)	(332)
Outside of Israel	(1)	(3)	(4)	(4)	(8)	(12)
Total	**70**	**(88)**	**(18)**	**147**	**(491)**	**(344)**
Other interest-bearing liabilities						
In Israel	3	76	79	26	(29)	(3)
Outside of Israel	-	-	-	-	1	1
Total	**3**	**76**	**79**	**26**	**(28)**	**(2)**
Total interest expenses	**73**	**(12)**	**61**	**173**	**(519)**	**(346)**

(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 (to) the average balance of debentures available for sale, for the three-month periods ended September 30, 2013 and September 30, 2012, and for the nine-month periods ended September 30, 2013 and September 30, 2012, 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 no balance, NIS 41 million, NIS 24 million and NIS 74 million, respectively.
(5) From the average balance of debentures held for trade, for the three-month periods ended September 30, 2013 and September 30, 2012, and for the nine-month periods ended September 30, 2013 and September 30, 2012, we added the average balance of unrealized loss from adjustment to fair value of debentures held for trade amounting to NIS 20 million, NIS 2 million, NIS 13 million and NIS 6 million, respectively.
(6) Includes derivative instruments, other non-interest bearing assets, net of provision for credit losses.
(7) Commissions amounting to NIS 41 million, NIS 30 million, NIS 124 million and NIS 115 million were included in interest revenues for the three-month periods ended September 30, 2013 and September 30, 2012 and for the nine-month periods ended September 30, 2013 and September 30, 2012, respectively.
(8) Includes financial derivatives.
(9) Net return - net interest revenues divided into total interest-bearing assets.
(10) The change attributed to change in quantity was calculated by multiplying the new price and the change in quantity. The change attributed to change in price was calculated by multiplying the old quantity and the change in price.

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

Reported amounts (NIS in millions)

	September 30, 2013					
	On Call to 1 month	1-3 months	3 months to 1 year	1-3 years	3-5 years	5-10 years
Israeli currency - non-linked						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets(1)(3)	80,013	2,875	3,096	3,547	3,524	2,175
Financial derivatives (other than options)	4,183	9,664	23,297	8,384	6,671	10,514
Options (in terms of underlying asset)	640	1,561	2,129	80	46	94
Total fair value	**84,836**	**14,100**	**28,522**	**12,011**	**10,241**	**12,783**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities (1)	73,320	3,936	8,069	6,087	1,868	750
Financial derivatives (other than options)	10,155	11,730	15,293	8,867	6,618	10,504
Options (in terms of underlying asset)	591	3,172	1,345	82	46	94
Total fair value	**84,066**	**18,838**	**24,707**	**15,036**	**8,532**	**11,348**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	770	(4,738)	3,815	(3,025)	1,709	1,435
Cumulative exposure in sector	770	(3,968)	(153)	(3,178)	(1,469)	(34)

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".

10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective duration [2]	As of September 30, 2012 Total fair value	Internal rate of return	Average effective duration [2]	As of December 31, 2012 Total fair value	Internal rate of return	Average effective duration [2]
				In %	In years		In %	In years		In %	In years
300	-	444	95,974	3.67	0.54	82,742	3.66	0.55	87,360	3.76	0.55
40	-	-	62,753		1.27	60,331		1.26	64,565		1.22
-	-	-	4,550		0.73	4,375		0.36	3,540		1.12
340	**-**	**444**	**163,277**		**0.83**	**147,448**		**0.83**	**155,465**		**0.84**
308	110	-	94,448	1.22	0.40	84,196	2.03	0.42	89,998	1.59	0.39
41	-	-	63,208		1.58	56,740		1.72	61,987		1.69
-	-	-	5,330		0.85	6,940		0.38	4,092		1.10
349	**110**	**-**	**162,986**		**0.87**	**147,876**		**0.92**	**156,077**		**0.92**
(9)	(110)	444	291			(428)			(612)		
(43)	(153)	291	291								

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

Reported amounts (NIS in millions)

	As of September 30, 2013					
	On Call to 1 month	1-3 months	3 months to 1 year	1-3 years	3-5 years	5-10 years
Israeli currency - linked to the CPI						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets (1)	1,080	2,464	9,698	19,269	16,115	4,478
Financial derivatives (other than options)	180	7	491	1,062	565	1,663
Total fair value	**1,260**	**2,471**	**10,189**	**20,331**	**16,680**	**6,141**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities (1)	1,021	1,856	5,234	12,893	6,716	8,875
Financial derivatives (other than options)	1,528	1,465	5,435	1,516	1,047	1,623
Total fair value	**2,549**	**3,321**	**10,669**	**14,409**	**7,763**	**10,498**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	(1,289)	(850)	(480)	5,922	8,917	(4,357)
Cumulative exposure in sector	(1,289)	(2,139)	(2,619)	3,303	12,220	7,863

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 September 30, 2012			As of December 31, 2012		
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
1,351	6	268	54,729	2.47	3.02	51,255	2.72	3.08	51,348	2.63	3.08
-	-	-	3,968		3.52	5,305		4.02	5,316		4.15
1,351	**6**	**268**	**58,697**		**3.05**	**56,560**		**3.17**	**56,664**		**3.18**
2,307	-	2	38,904	1.78	3.39	38,165	1.94	4.08	37,080	1.99	4.12
-	-	-	12,614		1.60	10,545		1.61	12,555		1.68
2,307	**-**	**2**	**51,518**		**2.95**	**48,710**		**3.55**	**49,635**		**3.50**
(956)	6	266	7,179			7,850			7,029		
6,907	6,913	7,179	7,179								

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

Reported amounts (NIS in millions)

						As of September 30, 2013
	On Call to 1 month	1-3 months	3 months to 1 year	1-3 years	3-5 years	5-10 years
Foreign currency [1]						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets [2]	9,428	5,744	1,510	1,248	507	520
Financial derivatives (other than options)	17,311	10,393	12,057	4,665	3,101	7,254
Options (in terms of underlying asset)	376	3,140	1,507	76	45	92
Total fair value	**27,115**	**19,277**	**15,074**	**5,989**	**3,653**	**7,866**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities [2]	15,630	7,313	5,144	777	24	115
Financial derivatives (other than options)	10,036	6,819	15,193	3,875	2,801	7,200
Options (in terms of underlying asset)	375	1,522	2,300	75	45	92
Total fair value	**26,041**	**15,654**	**22,637**	**4,727**	**2,870**	**7,407**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	1,074	3,623	(7,563)	1,262	783	459
Cumulative exposure in sector	1,074	4,697	(2,866)	(1,604)	(821)	(362)

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.

							As of September 30, 2012			As of December 31, 2012		
	10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective (3) duration	Total fair value	Internal rate of return	Average effective (3) duration	Total fair value	Internal rate of return	Average effective (3) duration
					In %	In years		In %	In years		In %	In years
	29	8	269	19,263	2.46	0.58	21,156	2.74	1.05	19,656	2.58	0.89
	-	-	-	54,781		1.64	57,603		1.78	56,845		1.71
	-	-	-	5,236		0.42	7,677		0.41	4,473		0.37
	29	**8**	**269**	**79,280**		**1.30**	**86,436**		**1.48**	**80,974**		**1.44**
	11	-	7	29,021	0.18	0.25	25,083	0.44	0.34	24,502	0.48	0.29
	-	-	-	45,924		1.30	56,817		1.53	52,625		1.46
	-	-	-	4,409		0.44	5,022		0.42	3,733		0.49
	11	**-**	**7**	**79,354**		**0.87**	**86,922**		**1.12**	**80,860**		**1.06**
	18	8	262	(74)			(486)			114		
	(344)	(336)	(74)	(74)								

Management Discussion - Addendum B - Continued
Exposure of the Bank and its Subsidiaries to Changes in Interest Rates
Reported amounts (NIS in millions)

As of September 30, 2013

	On Call to 1 month	1-3 months	3 months to 1 year	1-3 years	3-5 years	5-10 years
Non-monetary segment						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Options (in terms of underlying asset)	-	(1)	-	-	-	-
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)]	90,521	11,083	14,304	24,064	20,146	7,173
Financial derivatives (other than options)	21,674	20,064	35,845	14,111	10,337	19,431
Options (in terms of underlying asset)	1,016	4,701	3,636	156	91	186
Total fair value	**113,211**	**35,848**	**53,785**	**38,331**	**30,574**	**26,790**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities [(1)]	89,971	13,105	18,447	19,757	8,608	9,740
Financial derivatives (other than options)	21,719	20,014	35,921	14,258	10,466	19,327
Options (in terms of underlying asset)	966	4,695	3,645	157	91	186
Total fair value	**112,656**	**37,814**	**58,013**	**34,172**	**19,165**	**29,253**
Financial instruments, net						
Total exposure to interest rate fluctuations	555	(1,966)	(4,228)	4,159	11,409	(2,463)
Total cumulative exposure	555	(1,411)	(5,639)	(1,480)	9,929	7,466

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

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

							As of September 30, 2012			As of December 31, 2012		
	10 to 20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective [(3)] duration	Total fair value	Internal rate of return	Average effective [(3)] duration	Total fair value	Internal rate of return	Average effective [(3)] duration
					In %	In years		In %	In years		In %	In years
	-	-	-	(1)	-	-	(2)	-	-	(2)	-	-
	-	**-**	**-**	**(1)**	**-**	**-**	**(2)**	**-**	**-**	**(2)**	**-**	**-**
	1,680	14	981	169,966	3.15	1.34	155,153	3.22	1.46	158,364	3.24	1.41
	40	-	-	121,502		1.51	123,239		1.62	126,726		1.56
	-	-	-	9,786		0.56	12,052		0.39	8,013		0.70
	1,720	**14**	**981**	**301,254**		**1.39**	**290,444**		**1.48**	**293,103**		**1.46**
	2,626	110	9	162,373	1.17	1.09	147,444	1.74	1.35	151,580	1.51	1.28
	41	-	-	121,746		1.48	124,102		1.62	127,167		1.59
	-	-	-	9,740		0.66	11,964		0.40	7,827		0.81
	2,667	**110**	**9**	**293,859**		**1.24**	**283,510**		**1.43**	**286,574**		**1.41**
	(947)	(96)	972	7,395			6,934			6,529		
	6,519	6,423	7,395	7,395								

Management Discussion - Addendum C
Credit Risk by Economic Sector - Consolidated
As of September 30, 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	541	183	724	-	-
Industry	5,856	3,515	9,371	58	59
Construction and real estate - construction	9,179	14,257	23,436	24	3
Construction and real estate - real estate operations	1,673	1,335	3,008	-	-
Power and water	629	461	1,090	15	363
Commerce	7,161	2,202	9,363	-	39
Hotel and food services	473	164	637	-	1
Transport and storage	803	423	1,226	-	5
Communications and computer services	1,509	739	2,248	1	15
Financial services	3,195	8,127	11,322	-	807
Other business services	2,408	1,020	3,428	-	4
Public and community services	908	290	1,198	-	80
Total commercial credit risk	**34,335**	**32,716**	**67,051**	**98**	**1,376**
Private individuals - housing loans	86,426	3,524	89,950	-	-
Private individuals - other	13,261	10,200	23,461	-	3
Total	**134,022**	**46,440**	**180,462**	**98**	**1,379**
For borrowers' activities overseas	4,090	832	4,922	51	20
Total credit risk to public	**138,112**	**47,272**	**185,384**	**149**	**1,399**
Banking corporations	1,227	21	1,248	386	512
Government	2,313	10	2,323	6,950	-
Total credit risk	**141,652**	**47,303**	**188,955**	**7,485**	**1,911**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with re-sale agreements.
(2) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits, except for derivatives.
(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).
(4) Includes borrowed securities amounting to NIS 153 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 loss [3]
Future transactions	Total	Troubled [5]	Impaired	Expenses with respect to credit losses	Net accounting write-offs	Balance of provision for credit losses
-	724	18	15	-	1	7
224	9,712	321	123	47	9	125
11	23,474	1,028	929	(29)	(3)	174
-	3,008	77	75	(1)	(1)	19
458	1,926	3	2	1	-	2
80	9,482	233	141	(2)	35	101
1	639	9	3	3	2	9
53	1,284	32	25	(2)	-	21
45	2,309	52	43	(1)	1	9
1,137	13,266	219	211	7	50	115
10	3,442	33	18	15	14	30
187	1,465	23	11	(1)	(2)	6
2,206	**70,731**	**2,048**	**1,596**	**37**	**106**	**618**
-	89,950	1,217	2	213	352	681
6	23,470	211	86	41	49	146
2,212	**184,151**	**3,476**	**1,684**	**291**	**507**	**1,445**
89	5,082	37	37	(6)	1	27
2,301	**189,233**	**3,513**	**1,721**	**285**	**508**	**1,472**
1,429	3,575	4	4	(2)	-	8
-	9,273	-	-	-	-	-
3,730	**202,081**	**3,517**	**1,725**	**283**	**508**	**1,480**

Management Discussion - Addendum C - Continued
Credit Risk by Economic Sector - Consolidated
As of September 30, 2012 [6]

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	589	216	805	-	1
Industry	6,494	4,611	11,105	67	79
Construction and real estate - construction	7,822	13,694	21,516	31	2
Construction and real estate - real estate operations	1,000	192	1,192	-	-
Power and water	536	604	1,140	72	144
Commerce	6,995	1,973	8,968	-	37
Hotel and food services	321	172	493	-	29
Transport and storage	862	414	1,276	-	3
Communications and computer services	1,485	728	2,213	2	2
Financial services	5,288	6,810	12,098	-	1,006
Other business services	3,551	741	4,292	-	15
Public and community services	957	330	1,287	-	2
Total commercial credit risk	**35,900**	**30,485**	**66,385**	**172**	**1,320**
Private individuals - housing loans	77,534	3,531	81,065	-	-
Private individuals - other	12,266	9,670	21,936	-	4
Total	**125,700**	**43,686**	**169,386**	**172**	**1,324**
For borrowers' activities overseas	2,520	296	2,816	45	9
Total credit risk to public	**128,220**	**43,982**	**172,202**	**217**	**1,333**
Banking corporations	1,645	110	1,755	597	293
Government	1,271	240	1,511	7,063	-
Total credit risk	**131,136**	**44,332**	**175,468**	**7,877**	**1,626**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with re-sale agreements.
(2) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits, except for derivatives.
(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).
(4) Includes borrowed securities amounting to NIS 251 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) Following shortcomings indicated by an audit conducted by the Supervisor of Banks with respect to disclosure of overall risk associated with loans to the public by economic sector, several improvements have been made to controls and procedures related to disclosures, in order to eliminate these shortcomings. These improvements include reinforcement of and creation of procedures for client classification processes into sectors by business units, as well as expansion of control processes of classification into sectors - both at business units and at the Accounting and Financial Reporting Division. Specifically, the Bank reinforced controls to ensure proper disclosure of overall risk associated with loans to the public by economic sector in the financial statements as from December 31, 2012. Correction of the significant faults uncovered by the audit has been completed through the publication of the financial statements for the second quarter of 2013. Given this background, the comparative figures have been restated.

	Total troubled credit risk		Troubled off balance sheet debt[1] and credit risk (other than derivatives)			
						Credit loss [3]
Future transactions	Total	Troubled [5]	Impaired	Expenses with respect to credit losses	Net accounting write-offs	Balance of provision for credit losses
3	809	13	8	1	1	11
232	11,483	198	134	3	41	103
20	21,569	890	681	120	9	262
-	1,192	22	70	-	14	21
606	1,962	2	1	1	-	1
65	9,070	267	141	8	21	122
71	593	11	5	(2)	2	6
14	1,293	33	30	3	1	10
15	2,232	8	6	(8)	2	14
979	14,144	615	528	61	(1)	184
49	4,356	549	524	(8)	25	22
289	1,578	29	19	-	1	6
2,343	**70,281**	**2,637**	**2,147**	**179**	**116**	**762**
-	81,065	1,649	-	4	59	822
9	21,949	179	46	40	48	158
2,352	**173,295**	**4,465**	**2,193**	**223**	**223**	**1,742**
25	2,895	17	17	1	-	11
2,377	**176,190**	**4,482**	**2,210**	**224**	**223**	**1,753**
1,551	4,151	4	4	4	-	18
-	8,574	-	-	-	-	-
3,928	**188,915**	**4,486**	**2,214**	**228**	**223**	**1,771**

Management Discussion - Addendum C - Continued

Credit Risk by Economic Sector - Consolidated

As of December 31, 2012 [6]

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	480	172	652	-	-
Industry	6,076	3,797	9,873	60	79
Construction and real estate - construction	8,716	13,921	22,637	31	3
Construction and real estate - real estate operations	1,501	297	1,798	-	-
Power and water	299	383	682	57	204
Commerce	7,051	2,037	9,088	-	23
Hotel and food services	414	136	550	-	4
Transport and storage	783	391	1,174	-	3
Communications and computer services	1,762	844	2,606	1	12
Financial services	3,888	7,368	11,256	-	936
Other business services	2,355	1,002	3,357	-	6
Public and community services	838	427	1,265	-	33
Total commercial credit risk	**34,163**	**30,775**	**64,938**	**149**	**1,303**
Private individuals - housing loans	79,361	4,267	83,628	-	-
Private individuals - other	12,680	9,144	21,824	-	3
Total	**126,204**	**44,186**	**170,390**	**149**	**1,306**
For borrowers' activities overseas	4,040	629	4,669	44	9
Total credit risk to public	**130,244**	**44,815**	**175,059**	**193**	**1,315**
Banking corporations	1,666	96	1,762	520	380
Government	1,153	169	1,322	8,209	-
Total credit risk	**133,063**	**45,080**	**178,143**	**8,922**	**1,695**

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with re-sale agreements.
(2) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits, except for derivatives.
(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).
(4) Includes borrowed securities amounting to NIS 207 million.
(5) On- and off-balance sheet credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(6) Following shortcomings indicated by an audit conducted by the Supervisor of Banks with respect to disclosure of overall risk associated with loans to the public by economic sector, several improvements have been made to controls and procedures related to disclosures, in order to eliminate these shortcomings. These improvements include reinforcement of and creation of procedures for client classification processes into sectors by business units, as well as expansion of control processes of classification into sectors - both at business units and at the Accounting and Financial Reporting Division. Specifically, the Bank reinforced controls to ensure proper disclosure of overall risk associated with loans to the public by economic sector in the financial statements as from December 31, 2012. Correction of the significant faults uncovered by the audit has been completed through the publication of the financial statements for the second quarter of 2013. Given this background, the comparative figures have been restated.

		Total troubled credit risk	Troubled off balance sheet debt[1] and credit risk (other than derivatives)			
				Credit loss [3]		
Future transactions	Total	Troubled [5]	Impaired	Expenses with respect to credit losses	Net accounting write-offs	Balance of provision for credit losses
2	654	15	13	2	4	6
306	10,318	213	161	(2)	35	89
25	22,696	1,288	1,138	49	9	211
-	1,798	80	70	(7)	13	18
540	1,483	1	-	-	-	-
51	9,162	367	158	27	27	136
5	559	9	3	1	4	8
8	1,185	33	30	16	1	23
14	2,633	32	30	(13)	-	13
992	13,184	356	291	120	35	160
7	3,370	53	34	(1)	56	34
292	1,590	17	16	-	(7)	7
2,242	**68,632**	**2,464**	**1,944**	**192**	**177**	**705**
-	83,628	1,594	5	10	73	818
7	21,834	251	89	64	70	154
2,249	**174,094**	**4,309**	**2,038**	**266**	**320**	**1,677**
24	4,746	49	49	14	17	18
2,273	**178,840**	**4,358**	**2,087**	**280**	**337**	**1,695**
1,542	4,204	5	5	(4)	-	10
-	9,531	-	-	-	-	-
3,815	**192,575**	**4,363**	**2,092**	**276**	**337**	**1,705**

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

Reported amounts (NIS in millions)

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

	Balance sheet exposure [(2)]									Off-balance sheet exposure [(2)(3)]			
Country	Cross-border balance sheet exposure			Balance sheet exposure of affiliates of the banking corporation in foreign country to local residents								Cross-border balance sheet exposure	
	To governments [(4)]	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction with respect to local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	balance sheet troubled commercial credit risk	Impaired debt	Total off-balance sheet exposure	Includes: Off-balance sheet troubled commercial credit risk	Maturing in under 1 year	Maturing in over 1 year
As of September 30, 2013													
USA	-	619	1,223	2,186	1,568	618	2,460	27	18	1,688	-	883	959
UK	-	129	1,499	-	-	-	1,628	27	-	643	-	445	1,183
France	-	472	716	767	275	492	1,680	15	9	1,160	-	401	787
Other	-	885	1,742	-	-	-	2,627	11	2	1,812	-	1,546	1,081
Total exposure to foreign countries	**-**	**2,105**	**5,180**	**2,953**	**1,843**	**1,110**	**8,395**	**80**	**29**	**5,303**	**-**	**3,275**	**4,010**
Includes: Total exposure to LDC countries	-	56	494	-	-	-	550	2	-	340	-	259	291
Includes: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	2	30	-	-	-	32	-	-	4	-	3	29

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)

Country	Balance sheet exposure (2): Cross-border balance sheet exposure: To governments (4)	To banks	To others	Balance sheet exposure of affiliates of the banking corporation in foreign country to local residents: 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	Off-balance sheet exposure (2)(3): Total off-balance sheet exposure	Includes: Off-balance sheet troubled commercial credit risk	Cross-border balance sheet exposure: Maturing in under 1 year	Maturing in over 1 year
As of September 30, 2012													
USA	-	1,160	1,247	1,334	1,334	-	2,407	47	35	2,061	-	1,366	1,041
France	-	705	945	720	300	420	2,070	4	14	1,103	-	555	1,095
UK	-	65	1,194	-	-	-	1,259	14	3	363	-	355	904
Other	1	1,033	1,928	-	-	-	2,962	18	4	2,470	-	1,590	1,372
Total exposure to foreign countries	**1**	**2,963**	**5,314**	**2,054**	**1,634**	**420**	**8,698**	**83**	**56**	**5,997**	**-**	**3,866**	**4,412**
Includes: Total exposure to LDC countries	-	129	730	-	-	-	859	2	4	385	-	310	549
Includes: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	3	25	-	-	-	28	-	-	4	-	4	24
As of December 31, 2012													
USA	-	991	1,079	1,131	1,131	-	2,070	29	21	1,752	-	1,074	996
UK	-	1,136	899	748	234	514	2,549	6	13	1,070	-	1,052	983
France	-	41	1,321	-	-	-	1,362	13	3	427	-	401	961
Others (5)	1	1,099	1,802	-	-	-	2,902	5	2	2,359	-	1,533	1,369
Total exposure to foreign countries	**1**	**3,267**	**5,101**	**1,879**	**1,365**	**514**	**8,883**	**53**	**39**	**5,608**	**-**	**4,060**	**4,309**
Includes: Total exposure to LDC countries	-	81	391	-	-	-	472	1	2	166	-	130	342
Includes: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	3	26	-	-	-	29	-	-	3	-	4	25

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

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

(2) On- and off-balance sheet credit risk, troubled commercial credit risk and impaired debt are stated before impact of provision for credit 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.

(5) Restated.

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 September 30, 2013 and as of December 31, 2012, there is no reportable exposure pursuant to the Supervisor of Banks' Public Reporting Regulations.

As of September 30, 2012(2)	Balance sheet exposure	Off-balance sheet exposure
Germany	607	677

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

Exposure to Foreign Countries - Consolidated [(1)]

Reported amounts (NIS in millions)

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

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

	For the three months ended September 30, 2013			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	6	-	6
Net change in short-term exposure	-	-	-	-
Exposure at end of reported period	**-**	**6**	**-**	**6**

	For the three months ended September 30, 2012 [(2)]			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	6	-	6
Net change in short-term exposure	-	-	-	-
Exposure at end of reported period	**-**	**6**	**-**	**6**

	For the nine months ended September 30, 2013			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	6	-	6
Net change in short-term exposure	-	-	-	-
Exposure at end of reported period	**-**	**6**	**-**	**6**

	For the nine months ended September 30, 2012[(2)]			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	6	-	6
Net change in short-term exposure	-	-	-	-
Exposure at end of reported period	**-**	**6**	**-**	**6**

	For the year ended December 31, 2012			
	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	6	-	6
Net change in short-term exposure	-	-	-	-
Exposure at end of reported period	**-**	**6**	**-**	**6**

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

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

Certification

I, ELDAD FRESHER, certify that:

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended September 30, 2013 ("the Report").
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, will not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of the dates and for the periods presented in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure and to the Bank's internal control of financial reporting. Furthermore:

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

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

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

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

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

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

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

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

E. Fresher
President

Ramat Gan, November 18, 2013

Certification

I, MENAHEM AVIV, declare that

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended September 30, 2013 ("the Report").

2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, will not be misleading with respect to the period covered by the Report.

3. Based on my knowledge, the quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of the dates and for the periods presented in this Report.

4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure and to the Bank's internal control of financial reporting. Furthermore:

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

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

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

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

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

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

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

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

M. Aviv
Vice-president, Chief Accountant

Ramat Gan, November 18, 2013

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 September 30, 2013, the condensed consolidated statements of profit and loss, comprehensive income, change in equity and cash flows for the nine-month and three-month periods then ended. The Board of Directors and management are responsible for preparation and presentation of financial information for these interim periods, in accordance with generally accepted accounting practice in Israel (Israeli GAAP) for interim financial reporting and in accordance with directives and guidance of the Supervisor of Banks. We are responsible for expressing our conclusion as to the financial information for this interim period based on our review.

We did not review the condensed financial information of certain consolidated subsidiaries, whose assets included in consolidation constitute 7.12% of total consolidated assets as of September 30, 2013, and whose net interest revenues before expenses with respect to credit losses included in the consolidated statements of profit and loss constitute 5.85% and 4.34% of total consolidated net interest revenues before expenses with respect to credit losses, respectively, for the nine-month and three-month periods then ended. Furthermore, we did not review the condensed financial information for the interim period of an affiliate, the investment in which amounted to NIS 18 million as of September 30, 2013. The condensed financial information for the interim periods of the aforementioned companies was reviewed by other independent auditors, we have been provided with their review reports and our conclusions, in as much as it relates to the financial information with respect to those companies, is based on the review reports by those other independent auditors.

Review scope

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

Conclusion

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

Without qualifying our conclusion, we draw your attention to Note 7.D.3)A.-G. 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.

November 18, 2013

Condensed consolidated balance sheet

Reported amounts (NIS in millions)

	Note	As of September 30,		As of December 31,
		2013	2012	2012
		(unaudited)	(unaudited)	(audited)
Assets				
Cash and deposits with banks		21,743	16,658	16,671
Securities [(1)]	2	7,431	7,966	9,041
Securities loaned or sold in repurchase agreements		153	251	207
Loans to the public	3	138,112	[(3)]128,220	130,244
Provision for credit losses	3	(1,365)	(1,654)	(1,593)
Loans to the public, net		136,747	126,566	128,651
Loans to Governments		304	313	317
Investments in associates		62	[(3)]54	60
Buildings and equipment		1,634	1,601	1,658
Intangible assets and goodwill		87	87	87
Assets with respect to derivatives	8	3,180	2,780	3,518
Other assets		1,991	1,534	2,032
Total assets		**173,332**	**157,810**	**162,242**
Liabilities and Shareholders' Equity				
Deposits from the public	4	136,011	124,322	128,499
Deposits from banks		1,950	2,031	1,694
Deposits from the Government		77	119	107
Debentures and subordinated notes		16,542	14,186	14,039
Liabilities with respect to derivatives	8	3,378	3,553	3,773
Other liabilities[(2)]		5,325	4,655	4,878
Total liabilities		**163,283**	**148,866**	**152,990**
Equity attributable to equity holders of the Bank		9,574	8,514	8,811
Non-controlling interest		475	430	441
Total equity		**10,049**	**8,944**	**9,252**
Total liabilities and shareholders' equity		**173,332**	**157,810**	**162,242**

(1) Includes: NIS 5,674 million at fair value (September 30, 2012 - NIS 6,771 million; December 31, 2012 - NIS 7,803 million).
(2) Includes: Provision for credit losses with respect to off balance sheet credit instruments amounting to NIS 107 million (on September 30, 2012 - NIS 99 million, on December 31, 2012 - NIS 102 million).
(3) Reclassified.

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

Moshe Weidman
Chairman of the Board of Directors

Eldad Fresher
President

Menahem Aviv
Vice-president, Chief Accountant

Approval date:
Ramat Gan, November 18, 2013

Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31,
	2013	2012	2013	2012	2012
	(unaudited)		(unaudited)		(audited)
Interest revenues	2,058	1,892	5,175	5,412	6,591
Interest expenses	1,053	992	2,495	2,841	3,377
Interest revenues, net	1,005	900	2,680	2,571	3,214
Expenses with respect to credit losses	68	116	283	228	276
Interest revenues, net after expenses with respect to credit loss	**937**	**784**	**2,397**	**2,343**	**2,938**
Non-interest revenues					
Non-interest financing revenues (expenses)	(90)	(98)	(9)	(134)	95
Commissions	356	378	1,084	1,085	1,452
Other revenues	8	7	21	20	26
Total non-interest revenues	**274**	**287**	**1,096**	**971**	**1,573**
Operating and other expenses					
Payroll and associated expenses	471	405	1,345	1,247	1,701
Maintenance and depreciation of buildings and equipment	172	163	510	481	652
Other expenses	112	108	323	318	433
Total operating and other expenses	**755**	**676**	**2,178**	**2,046**	**2,786**
Pre-tax profit	456	395	1,315	1,268	1,725
Provision for taxes on profit	143	121	452	423	599
After-tax profit	313	274	863	845	1,126
Share in net profits of affiliates, after tax	1	-	-	-	-
Net profit:					
Before attribution to non-controlling interest	314	274	863	845	1,126
Attributable to non-controlling interest	(13)	(14)	(37)	(39)	(50)
Attributable to equity holders of the Bank	**301**	**260**	**826**	**806**	**1,076**

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

Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31,
	2013	2012	2013	2012	2012
		(unaudited)		(unaudited)	(audited)
Earnings per share[(1)]					
Basic earnings per share (in NIS)					
Net profit attributable to equity holders of the Bank	1.32	1.14	3.62	3.54	4.77
Diluted earnings per share (in NIS)					
Net profit attributable to equity holders of the Bank	1.31	1.13	3.60	3.52	4.74

(1) Shares of NIS 0.1 par value each.

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

Condensed consolidated statement of comprehensive income

Reported amounts (NIS in millions)

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31,
	2013	2012	2013	2012	2012
		(unaudited)		(unaudited)	(audited)
Net profit:					
Before attribution to non-controlling interest	314	274	863	845	1,126
Attributable to non-controlling interest	(13)	(14)	(37)	(39)	(50)
Net profit attributable to equity holders of the Bank	**301**	**260**	**826**	**806**	**1,076**
Other comprehensive income (loss) before taxes:					
Adjustments for presentation of available-for-sale securities at fair value, net	4	34	8	57	73
Adjustments from translation of financial statements	(1)	-	(2)	-	-
Net gain (loss) with respect to cash flow hedges	(1)	(12)	(4)	(24)	(22)
Total other comprehensive income, before tax	**2**	**22**	**2**	**33**	**51**
Related tax effect	(2)	(8)	(2)	(13)	(18)
Cumulative Other Comprehensive income (loss):					
Before attribution to non-controlling interest, after tax	-	14	-	20	33
Attributable to non-controlling interest, after tax	2	(3)	3	(3)	(3)
Attributable to equity holders of the Bank, after tax	**2**	**11**	**3**	**17**	**30**
Comprehensive income:					
Before attribution to non-controlling interest	314	288	863	865	1,159
Attributable to non-controlling interest	(11)	(17)	(34)	(42)	(53)
Attributable to equity holders of the Bank	**303**	**271**	**829**	**823**	**1,106**

Condensed Statement of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

	For the three months ended September 30, 2013 (unaudited)			
	Share capital and premium [1]	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves
Balance as of June 30, 2013	**2,074**	**127**	**(76)**	**2,125**
Net profit for the period	-	-	-	-
Dividends paid	-	-	-	-
Benefit from share-based payment transactions	-	(1)	-	(1)
Related tax effect	-	6	-	6
Realized share-based payment transactions [2]	21	(21)	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-
Balance as of September 30, 2013	**2,095**	**111**	**(76)**	**2,130**

	For the three months ended September 30, 2012 (unaudited)			
Balance as of June 30, 2012	**2,015**	**156**	**(76)**	**2,095**
Net profit for the period	-	-	-	-
Benefit from share-based payment transactions	-	1	-	1
Related tax effect	-	11	-	11
Realized share-based payment transactions [2]	13	(13)	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-
Balance as of September 30, 2012	**2,028**	**155**	**(76)**	**2,107**

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

(2) In the third quarter of 2013, 916,643 ordinary NIS 0.1 par value shares were issued (in the third quarter of 2012, 476,750 ordinary NIS 0.1 par value shares were issued) , for exercise of options pursuant to 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 5 below and Note 13 to the 2012 financial statements.

	Cumulative other comprehensive income (loss) [3]	Retained earnings[4]	Total	Non-controlling interest	Total equity
	1	**7,215**	**9,341**	**464**	**9,805**
	-	301	301	13	314
	-	(75)	(75)	-	(75)
	-	-	(1)	-	(1)
	-	-	6	-	6
	-	-	-	-	-
	2	-	2	(2)	-
	3	**7,441**	**9,574**	**475**	**10,049**
	(24)	**6,160**	**8,231**	**413**	**8,644**
	-	260	260	14	274
	-	-	1	-	1
	-	-	11	-	11
	-	-	-	-	-
	11	-	11	3	14
	(13)	**6,420**	**8,514**	**430**	**8,944**

Condensed Statement of Changes in Shareholders' Equity - Continued
Reported amounts (NIS in millions)

	Share capital and premium (1)	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves
	For the nine months ended September 30, 2013 (unaudited)			
Balance as of January 1, 2013	**2,058**	**139**	**(76)**	**2,121**
Net profit for the period	-	-	-	-
Dividends paid	-	-	-	-
Benefit from share-based payment transactions	-	8	-	8
Related tax effect	-	1	-	1
Realized share-based payment transactions (2)	37	(37)	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-
Balance as of September 30, 2013	**2,095**	**111**	**(76)**	**2,130**
	For the nine months ended September 30, 2012 (unaudited)			
Balance as of January 1, 2012	**2,003**	**155**	**(76)**	**2,082**
Net profit for the period	-	-	-	-
Benefit from share-based payment transactions	-	14	-	14
Related tax effect	-	11	-	11
Realized share-based payment transactions (2)	25	(25)	-	-
Other comprehensive income, net after tax	-	-	-	-
Balance as of September 30, 2012	**2,028**	**155**	**(76)**	**2,107**
	For the year ended December 31, 2012 (audited)			
Balance as of January 1, 2012	**2,003**	**155**	**(76)**	**2,082**
Net profit for the period	-	-	-	-
Benefit from share-based payment transactions	-	11	-	11
Related tax effect	-	28	-	28
Realized share-based payment transactions (2)	55	(55)	-	-
Other comprehensive income, net after tax	-	-	-	-
Balance as of December 31, 2012	**2,058**	**139**	**(76)**	**2,121**

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

(2) In the first nine months of 2013, the Bank issued 1,412,700 ordinary NIS .1 par value shares (in the first nine months of 2012, 638,909 ordinary NIS .1 par value shares were issued) for exercise of options pursuant to the Employee Stock Option Plan, and issued 489,076 ordinary NIS 0.1 par value shares to the former President (in the first nine months of 2012, 413,036 ordinary NIS .1 par value shares were issued) for exercise of options. In 2012, the Bank issued 1,948,544 ordinary shares of NIS .1 par value each for exercise of options pursuant to the Employee Stock Option Plan, and issued 413,036 ordinary NIS 0.1 par value shares to the former President for exercise of options.

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

(4) For details on various limitations on dividend distributions, see Note 5 below and Note 13 to the 2012 financial statements.

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

Cumulative other comprehensive income (loss)[3]	Retained earnings[4]	Total	Non-controlling interest	Total equity
-	**6,690**	**8,811**	**441**	**9,252**
-	826	826	37	863
-	(75)	(75)	-	(75)
-	-	8	-	8
-	-	1	-	1
-	-	-	-	-
3	-	3	(3)	-
3	**7,441**	**9,574**	**475**	**10,049**
(30)	**5,614**	**7,666**	**388**	**8,054**
-	806	806	39	845
-	-	14	-	14
-	-	11	-	11
-	-	-	-	-
17	-	17	3	20
(13)	**6,420**	**8,514**	**430**	**8,944**
(30)	**5,614**	**7,666**	**388**	**8,054**
-	1,076	1,076	50	1,126
-	-	11	-	11
-	-	28	-	28
-	-	-	-	-
30	-	30	3	33
-	**6,690**	**8,811**	**441**	**9,252**

Statement of cash flows

Reported amounts (NIS in millions)

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31,
	2013	2012	2013	2012	2012
	(unaudited)		(unaudited)		(audited)
Cash flows provided by current operations					
Net profit for the period	314	274	863	845	1,126
Adjustments:					
Share of Company in undistributed earnings of associates	(1)	-	-	-	-
Depreciation of buildings and equipment	61	54	185	168	230
Expenses with respect to credit losses	68	116	283	228	276
Net profit (loss) from revaluation of securities held to maturity, from revaluation and sale of securities available for sale.	17	(309)	28	(319)	(244)
Impairment of securities held for sale	-	-	-	8	8
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	(8)	6	(30)	(12)	(44)
Benefit from share-based payment transactions	(1)	1	8	14	11
Deferred taxes, net	(11)	(19)	(72)	(11)	17
Severance pay - decrease in excess of amount funded over liability	12	(6)	-	(6)	(8)
Accrual differences included under investment and financing operations	286	140	340	165	73
Effect of change in exchange rate on cash balances	65	17	234	(100)	66
Net change in current assets					
Deposits with banks, net	(61)	(582)	1,443	(2,437)	(1,296)
Loans to the public, net	(3,962)	(3,297)	(8,379)	(7,502)	(9,669)
Loans to the Governments, net	(4)	(104)	13	(117)	(121)
Securities loaned or sold in repurchase agreements, net	(116)	(120)	54	(115)	(71)
Assets with respect to derivatives, net	231	172	334	311	(425)
Securities held for trading, net	559	561	1,279	489	(1,064)
Other assets, net	(54)	(32)	113	(170)	(689)
Net change in current liabilities					
Deposits from banks, net	(156)	244	256	24	(313)
Deposits from the public, net	290	2,217	7,512	5,086	9,263
Deposits from the Government, net	(12)	(18)	(30)	(33)	(45)
Liabilities with respect to derivatives, net	119	(406)	(395)	(411)	(191)
Other liabilities, net	480	(1) 22	410	20	(1) 197
Unearned revenues, net	4	(1)	25	(6)	11
Net cash provided by current operations	**(1,880)**	**(1,070)**	**4,474**	**(3,881)**	**(2,902)**

(1) Reclassified.

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

Statement of cash flows - continued

Reported amounts (NIS in millions)

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31,
	2013	2012	2013	2012	2012
		(unaudited)		(unaudited)	(audited)
Cash flows provided by investment operations					
Acquisition of debentures held to maturity	(444)	(59)	(524)	(415)	(420)
Proceeds on redemption of debentures held to maturity	-	7	-	19	25
Acquisition of securities available for sale	(1,727)	(522)	(2,424)	(6,296)	(7,479)
Proceeds on sale and redemption of securities available for sale	837	1,944	3,289	7,043	8,717
Acquisition of buildings and equipment	(53)	(1) (49)	(150)	(143)	(1) (228)
Proceeds from sale of buildings and equipment	-	2	-	4	-
Purchase of shares in associates	-	-	(4)	(1)	(8)
Net cash provided by investment operations	**(1,387)**	**1,323**	**187**	**211**	**607**
Cash flows provided by financing operations					
Issuance of debentures and subordinated notes	1,498	-	3,007	2,161	2,161
Redemption of debentures and subordinated notes	(49)	(6)	(844)	(342)	(397)
Dividends paid to shareholders	(75)	-	(75)	-	-
Net cash provided by financing operations	**1,374**	**(6)**	**2,088**	**1,819**	**1,764**
Increase (decrease) in cash	(1,893)	247	6,749	(1,851)	(531)
Cash balance at beginning of year	22,867	13,010	14,394	14,991	14,991
Effect of change in exchange rate on cash balances	(65)	(17)	(234)	100	(66)
Cash balance at end of period	**20,909**	**13,240**	**20,909**	**13,240**	**14,394**
Interest and taxes paid / received					
Interest received	1,980	(1) 1,895	5,163	(1) 5,298	6,602
Interest paid	876	(1) 920	2,215	(1) 2,660	3,270
Dividends received	-	1	-	1	24
Taxes on income received	-	-	5	-	-
Taxes on income paid	230	217	523	484	556
Appendix A - Non-cash Transactions					
Acquisition of buildings and equipment	11	14	11	14	44

(1) Reclassified.

Note 1 - Reporting Principles and Accounting Policies

A. General

The financial statements as of September 30, 2013 are prepared in accordance with Israeli GAAP for interim financial reporting and directives of the Supervisor of Banks, and do not include all information required in annual financial statements. These financial statements should be read in conjunction with the audited financial statements as of December 31, 2012.

The Group's accounting policies in these condensed consolidated quarterly financial statements is 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 November 18, 2013.

B. R-classification

Following initial application of the Supervisor of Banks' directives with regard to adaptation of presentation of the statement of comprehensive income, as described in section C.1 below, to requirements stipulated in US GAAP (ASU 2011-05 and ASU 2011-12) and to acceptable presentation of the statement of comprehensive income in financial statements of US banking corporations, items of other comprehensive income on the financial statements for the three-month and nine-month periods ended September 30, 2012 and on the financial statements for the year ended December 31, 2012 were reclassified so as not to be separately presented on the statement of changes to equity, but rather are reported in a separate report named Condensed Consolidated Statement of Comprehensive Income which is presented following the Statement of Profit and Loss.

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

As from reporting periods starting on January 1, 2013, the Bank applies the following new accounting standards and directives:

1. Directive with regard to Statement of Comprehensive Income.
2. Directive with regard to offset of assets and liabilities.
3. Directive with regard to disclosure concerning deposits.
4. Disclosures pursuant to the Supervisor of Banks' directive with regard to disclosure of credit quality of debt and of provision for credit loss, to adopt accounting standard update ASU 2010-20 which is required to be initially applied as from January 1, 2013.
5. New IFRS set with regard to consolidation of financial statements and related matters.
6. The Supervisor of Banks' letter concerning updated directives with regard to residential real estate.

Note 1 - Reporting Principles and Accounting Policies - continued

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

1. Directive on Statement of Comprehensive Income

In conformity with the Supervisor of Banks' circular dated December 9, 2012 with regard to amendment of the Supervisor's public reporting regulations concerning the statement of comprehensive income, the Bank has adapted the presentation of the statement of comprehensive income to the US GAAP requirements (ASU 2011-05 and ASU 2011-12) and to acceptable presentation of the statement of comprehensive income on financial statements of US banking corporations. In conformity with these directives, items of other comprehensive income are reported on a separate statement named "Statement of Comprehensive Income", to be presented immediately following the statement of profit and loss. Furthermore, the Bank presents the composition and movement in Cumulative Other Comprehensive Income in a new note on Cumulative Other Comprehensive Income. The aforementioned disclosure is provided in Note 13 "Cumulative Other Comprehensive Income".

The Bank retroactively applies the directives on the statement of comprehensive income as from January 1, 2013. Initial application of the directive did not impact the Bank's financial statements, other than the change in presentation.

2. Directive with regard to offset of assets and liabilities

The Bank applies the rules stipulated in the Supervisor of Banks' circular dated December 12, 2012, which updates the Supervisor of Banks' Public Reporting Regulations with regard to offset of assets and liabilities. In conformity with the directives, a banking corporation should offset assets and liabilities arising from the same counter-party and present their net balance on the balance sheet, when all of the following conditions are fulfilled:

a. The banking corporation has an enforceable legal right to offset assets against liabilities with regard to these liabilities

b. The banking corporation intends to repay the liabilities and realize the assets on a net basis or concurrently;

c. Both the banking corporation and the counter-party owe each other amounts which may be determined.

According to the directives, a banking corporation should offset assets and liabilities with two different counter-parties and present the net amount on the balance sheet when all of the aforementioned conditions are fulfilled, and provided that the three parties have an agreement which clearly stipulates the banking corporation's set-off rights with regard to the liabilities.

It was further stipulated that a banking corporation should offset deposits whose repayment to the depositor is contingent on the extent of collection of borrowing against the deposits, when the banking corporation has no risk of credit loss.

Note 1 - Reporting Principles and Accounting Policies - continued

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

Moreover, a banking corporation may offset securities purchased in conjunction with repurchase agreements against securities sold in conjunction with repurchase agreements, if certain conditions specified in US GAAP on this matter are fulfilled.

However, the banking corporation may not offset amounts on the balance sheet without prior approval of the Supervisor of Banks.

Currently, the Bank continues to present exposures with transactions on gross basis, except for deposits whose repayment to the depositor is contingent on the extent of collection of borrowing, as described above. Initial application of the circular had no effect on the Bank's financial statements, other than the updated disclosure format in Note 8 with regard to financial derivatives activity – volume, credit risk and maturity, as stipulated by the directive.

3. Directive with regard to disclosure concerning deposits

The Bank applies the directives in the Supervisor of Banks' circular dated January 13, 2013. The circular adapts the Public Reporting Regulations with regard to diclosure concerning deposits, to provide more extensive information about sources of operations of banking corporations and in order to adopt standards of disclosure applied by US banks. In conformity with the circular, the disclosure requirements concerning deposits were updated to include new disclosures with regard, *inter alia*, to deposits from institutional investors, interest-bearing and non-interest bearing deposits, term deposits and on-call deposits, composition of deposits by parameters such as depositor size, with distinction between deposits made in Israel and overseas.

In the condensed consolidated financial statements, the Bank provided disclosure of the balance of deposits from institutional investors included under deposits from the public made in Israel, since the new directives stipulate that this disclosure requirement applies as from the financial statements as of March 31, 2013; all other new disclosure requirements stated in the circular would apply as from annual financial statements for 2013.

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

Note 1 - Reporting Principles and Accounting Policies - continued

4. Effect of initial application of the Supervisor of Banks' directives with regard to updated disclosure of credit quality of debt and of the provision for credit losses, to adopt accounting standard update ASU-2010-20.

The Bank applies the Supervisor of Banks' directive with regard to update of disclosure of credit quality of debt and of provision for credit losses, to adopt accounting standard update ASU 2010-20, which stipulates wider disclosure of debt balances, movement in balance of provision for credit losses, any material acquisition and sale of debts during the reported period and disclosures with regard to credit quality.

Inter alia, the Bank is required to provide quantitative disclosure of indicated credit quality, at least for the troubled debt balance in each debt group. Disclosure of credit quality of housing loans is also included. The new disclosure is required for each credit segment (such as: commercial credit, individuals – housing loans, individuals – other, banks and governments) and for each major debt group, as defined in the directive, with distinction between borrower activity in Israel and overseas, if this is material.

As from financial statements as of March 31, 2013, initial disclosure is required of restructured debt, with regard to the number of contracts and balance before and after such restructuring. In addition, disclosure of the contractual balance and recorded balance is required for debt restructuring in default during the reported period. This new disclosure is required for each credit segment as described above.

The Bank prospectively applies the directives starting with the 2012 annual financial statements. For balance sheet information initially required pursuant to this directive, the Bank has reclassified, to the extent possible, the comparative figures. The Bank applies part of the new disclosure requirements with regard to restructuring of troubled debt as from financial statements for March 31, 2013. No disclosure is required for comparative figures for corresponding interim periods in 2012 for these new disclosures.

Initial application of the directives had no effect other than the updated disclosure format in Note 3 - credit risk, loans to the public and provision for credit losses.

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

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

a. IFRS 10 "Consolidated financial statements"
The standard presents a new control model used to determine whether an investee should be consolidated, to be applied for all investees. According to the standard, *de facto* circumstances would be taken into consideration when assessing control, so that existence of effective control over an investee would require consolidation of its financial statements. Moreover, when assessing the existence of control, all significant potential voting rights would be taken into account, not only those which may be immediately realized.

Note 1 - Reporting Principles and Accounting Policies - continued

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

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

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

The standard provides extensive disclosure requirements with regard to interests in subsidiaries, joint arrangements, associates and structured entities not consolidated. Disclosure requirements with regard to structured entities do not apply to the Bank. Disclosure requirements with regard to structured entities which are not consolidated are treated as stipulated by ASC 810 (FAS 167).

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

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

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

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

Guidelines with regard to capital adequacy were also updated. For details of the changes to calculation of capital adequacy, see Note 5 to the financial statements.

In conformity with the Supervisor of Banks' directives, the Bank is required to review, and update as needed, the method for determining the group-based provision for credit losses with respect to housing loans. When reviewing the method, all factors which impact the likelihood of collecting these loans should be taken into consideration. The Bank is also required, as from the second quarter of 2013, to ensure that the group-based provision for credit losses with respect to housing loans shall not be less than 0.35% of the balance of those loans (excluding housing loans provided for by extent of arrears or on individual basis).

Pending application of the new directives as stated above, the balance of the group-based provision with respect to housing loans is derived from the increase in current loans awarded, compared to the past.

In the second quarter of 2013, the Bank updated its group-based provision for credit losses with respect to housing loans to 0.35%.

The adjustment to the provision included in the financial statements for the second quarter amounted to NIS 191 million before tax.

Note 1 - Reporting Principles and Accounting Policies - continued

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

1. 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.

The directive states rules for treatment of commissions from loan generation and direct costs of loan generation. The qualified commissions and costs pursuant to criteria stipulated 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.

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

On october 17, 2013, the transition provisions were made public including, *inter alia*, required further attribution of early redemption commissions charged prior to January 1, 2014 as well as a directive to include in quarterly and annual financial statements in 2014 data about the effect of this implementation.

On October 31, 2013, the Supervisor of Banks issued a Q&A file with regard to non-refundable fees and other costs was submitted for discussion by the Advisory Committee, which stipulates the initial implementation of the FAS 91 standard. Inter alia, a stipulation was made 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 lthe format of the statement of profit and loss as from January 1, 2012.

The updates related to adoption of interest revenue measurement issues will be applied prospectively for transactions created or renewed as from January 1, 2014.

The Bank is reviewing the effect of adopting this directive on its financial statements.

2. Group provision for credit losses

On April 10, 2013, the Supervisor of Banks issued draft directives on a 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". 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.

Note 1 - Reporting Principles and Accounting Policies - continued

Moreover, 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 following schedule was set in the draft filed with the Advisory Committee on Banking Business on July 18, 2013:

- Changes to the interim directive would apply as from January 1, 2013.
- The update with regard to adjustments for environmental factors would apply to financial statements as of December 31, 2013 and thereafter.
- The update to the Q&A file would apply as from July 1, 2013.

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 Bank is reviewing the effect of application of the directives with regard to adjustments for environmental factors, which would apply as from December 31, 2013, as noted above.

3. Incorporation of Supervisor of Banks' letters in Public Reporting Regulations

On June 20, 2013, the Supervisor of Banks issued a circular with regard to incorporation of Supervisor of Banks' letters in Public Reporting Regulations, designed to include certain letters from the Supervisor of Banks issued in recent years, in the Public Reporting Regulations.

As part of this incorporation, updates were stipulated with regard to disclosures provided in the Note on securities, including a change in the disclosure format in this Note, as well as disclosure of securities held to maturity and available for sale which are in a position of unrealized loss.

The updates pursuant to this directive would apply to annual and quarterly financial statements as from December 31, 2013. According to this directive, comparitive figures should be reclassified to align with the new disclosure format, if applicable. Application of this directive should not materially impact the financial statements.

4. Amounts reclassified out of other comprehensive income

On September 30, 2013, the Supervisor of Banks issued a circular with regard to reporting of amounts reclassified out of cumulative other comprehensive income.

The circular is designed to align the disclosure requirements with regard to re-classification of items out of cumulative other comprehensive income, in line with an update to American accounting standard ASU 2013-02. The circular adds to the Note on cumulative other comprehensive income (loss), a disclosure requirement of any items on the statement of profit and loss which include amounts re-classified from cumulative other comprehensive income to the statement of profit and loss. These provisions will be retroactive applied as from January 1, 2014. Application of this circular is not expected to impact the financial statements, other than the change in presentation of the Note on cumulative other comprehensive income (loss).

Note 1 - Reporting Principles and Accounting Policies - continued

5. Earlier publication date of financial statements

On September 29, 2013, the Supervisor of Banks issued a directive with regard to the presentation and publication of financial statements. According to this directive, in order to allow the public to get current information more rapidly about the financial position and operating results of banks and insurers, these entities shall make public their annual financial statements within two months after the end of the reported year, and their quarterly financial statements - within 45 days from the end of the reported quarter.

This directive would become effective gradually:

The 2013 annual report would be made public by March 20, 2014.

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

The 2015 annual report and annual reports there after would be made public by two months after the balance sheet date.

Quarterly financial statements – in 2014 shall 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.

6. Assets and liabilities by linkage basis and term to maturity

On September 30, 2013, the Supervisor of Banks issued a memo with regard to assets and liabilities by linkage basis and term to maturity. According to this memo, Public Reporting Regulations have been revised so as to allow readers of financial statements to better understand the liquidity risk faced by the banking corporation.

Major changes in this revision include presentation of cash flows with respect to assets and liabilities separately for Israeli currency (including Israeli currency linked to foreign currency) and for foreign currency – instead of distinguishing between local and overseas operations, as was formerly the case.

Moreover, reporting of cash flows with respect to derivatives settled on net basis would be modified so that net expected contractual balance-sheet cash flow with respect to such derivative would be classified under Israeli currency or foreign currency, based on the settlement currency. Off balance sheet amounts for such derivatives would not be reported.

Provisions in this memo should be applied as from 2013 financial statements. Implementation of this memo is not expected to affect the financial statements, other than a presentation effect in the Note on assets and liabilities by linkage basis and term to maturity.

Note 2 - Securities

As of September 30, 2013 (unaudited)

Reported amounts (NIS in millions)

A. Composition:

	Carrying amount	Amortized cost (for shares - cost)	Unrealized profits from adjustments to fair value	Unrecognized loss from adjustments to fair value	Fair value [1]
(1) Government of Israel debentures held to maturity	**1,648**	**1,648**	**11**	**-**	**1,659**

	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]	4,010	4,008	34	(32)	4,010
Of foreign governments[2][6]	83	80	3	-	83
Of banks and financial institutions in Israel	124	124	-	-	124
Of banks and financial institutions overseas	262	261	1	-	262
Of others in Israel	29	28	1	-	29
Of others overseas	120	119	1	-	120
Total debentures available for sale	**4,628**	**4,620**	**40**	**(32)**	**4,628**
Shares[3]	110	110	-	-	110
Total securities available for sale	**4,738**	**4,730**	[4] **40**	[4] **(32)**	**4,738**

	Carrying amount	Amortized cost (for shares - cost)	Unrealized gains from adjustments to fair value	Unrealized loss from adjustments to fair value	Fair value [1]
(3) Securities held for trade					
Debentures -					
Of the Government of Israel [7]	1,045	1,032	13	-	1,045
Total securities held for trade	**1,045**	**1,032**	[5]**13**	**-**	**1,045**
Total securities	**7,431**	**7,410**	**64**	**(32)**	**7,442**

(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 109 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) Primarily US government debentures.
(7) Of which, securities amounting to NIS 554 million classified as held for trade, because the Bank elected to present them in accordance with the fair value alternative in Section 20 of Public Reporting Regulations, even though they had not been acquired for trade.

Note: For details of results of 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.

B. As of September 30, 2013, there is no balance of asset-backed securities.

Note 2 - Securities

As of September 30, 2012 (unaudited) - Continued

Reported amounts (NIS in millions)

A. Composition:

	Carrying amount	Amortized cost (for shares - cost)	Unrealized profits from adjustments to fair value	Unrecognized loss from adjustments to fair value	Fair value (1)
(1) Government of Israel debentures held to maturity	1,118	1,118	4	-	1,122

	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)	5,140	5,163	43	(66)	5,140
Of foreign governments(2)(6)	100	100	-	-	100
Of banks and financial institutions in Israel	122	122	-	-	122
Of banks and financial institutions overseas	471	467	7	(3)	471
Asset-backed (ABS)	7	8	-	(1)	7
Of others in Israel	40	39	1	-	40
Of others overseas	177	175	2	-	177
Total debentures available for sale	**6,057**	**6,074**	**53**	**(70)**	**6,057**
Shares(3)	82	81	1	-	82
Total securities available for sale	**6,139**	**6,155**	**(4)54**	**(4) (70)**	**6,139**

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

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) See Note 15.A-F to the 2011 financial statements for information on liens on securities held by the Bank.
(3) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 77 million.
(4) Included in shareholders' equity in "adjustments on presentation of securities available for sale at net fair value".
(5) Charged to statement of profit and loss but not yet realized.
(6) US government debentures.
(7) Of which, securities amounting to NIS 453 million classified as held for trade, because the Bank elected to present them in accordance with the fair value alternative in Section 20 of Public Reporting Regulations, even though they had not been acquired for trade.

Note: 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.

B. As of September 30, 2012, there is no balance of asset-backed securities.

Note 2 - Securities

As of December 31, 2012 (audited) - Continued

Reported amounts (NIS in millions)

A. Composition:

	Carrying amount	Amortized cost (for shares - cost)	Unrealized profits from adjustments to fair value	Unrecognized loss from adjustments to fair value	Fair value (1)
(1) Government of Israel debentures held to maturity	**1,123**	**1,123**	**3**	**-**	**1,126**

	Carrying amount	Amortized cost (for shares - cost)	Cumulative other comprehensive income		Fair value (1)
			Gain	Loss	
(2) Securities available for sale					
Debentures and bonds -					
Of the Government of Israel (2)	4,700	4,705	46	(51)	4,700
Of foreign governments(2)(6)	95	95	-	-	95
Of banks and financial institutions in Israel	123	123	2	(2)	123
Of banks and financial institutions overseas	394	392	2	-	394
Of others in Israel	25	24	1	-	25
Of others overseas	168	166	2	-	168
Total debentures available for sale	**5,505**	**5,505**	**53**	**(53)**	**5,505**
Shares(3)	119	120	-	(1)	119
Total securities available for sale	**5,624**	**5,625**	(4) **53**	(4) **(54)**	**5,624**

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

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) See Note 15.A-F to the 2012 financial statements for information on liens on securities held by the Bank.
(3) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 115 million.
(4) Included in shareholders' equity in "adjustments on presentation of securities available for sale at net fair value".
(5) Charged to statement of profit and loss but not yet realized.
(6) US government debentures.
(7) Of which, securities amounting to NIS 1,106 million classified as held for trade, because the Bank elected to present them in accordance with the fair value alternative in Section 20 of Public Reporting Regulations, even though they had not been acquired for trade.

Note: For details of results of 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.

B. As of December 31, 2012, there is 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. debts [(1)] and Off balance sheet credit instruments

1. Change in balance of provision for credit losses

	For the three months ended September 30, 2013					
	Provision for credit loss					
	Loans to the public				Banks and governments	Total
	Commercial	Housing	Individual - other	Total		
Balance of provision for credit losses at start of period	680	674	139	1,493	10	1,503
Expenses with respect to credit losses	35	15	20	70	(2)	68
Accounting write-offs	(105)	(7)	(33)	(145)	-	(145)
Recovery of debt written off in previous years	34	-	20	54	-	54
Net accounting write-offs	(71)	(7)	(13)	(91)	-	(91)
Balance of provision for credit losses at end of period	**644**	**682**	**146**	**1,472**	**8**	**1,480**
Includes: With respect to balance sheet credit instruments	97	-	10	107	-	107

	For the three months ended September 30, 2012 [(2)]					
	Provision for credit losses					
	Loans to the public				Banks and governments	Total
	Commercial	Housing	Individual - other	Total		
Balance of provision for credit losses at start of period	736	852	157	1,745	22	1,767
Expenses with respect to credit losses	102	-	18	120	(4)	116
Accounting write-offs	(86)	(29)	(36)	(151)	-	(151)
Recovery of debt written off in previous years	20	-	19	39	-	39
Net accounting write-offs	(66)	(29)	(17)	(112)	-	(112)
Balance of provision for credit losses at end of period	**772**	**823**	**158**	**1,753**	**18**	**1,771**
Includes: With respect to balance sheet credit instruments	83	-	16	99	-	99

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

(2) As from the 2012 financial statements, the Bank applies the Supervisor of Banks' directives with regard to updated disclosure of credit quality of debt and of provision for credit losses. On the interim financial statements for 2013, the comparative figures for the corresponding interim periods in 2012 were reclassified to the extent possible in order to align them with the format required by the aforementioned directives. For details see Note 1.C.4.

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

Reported amounts (NIS in millions)

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

1. Change in balance of provision for credit losses

	For the nine months ended September 30, 2013					
	Provision for credit losses					
	Loans to the public				Banks and governments	Total
	Commercial	Housing	Individual - other	Total		
Balance of provision for credit losses at start of period	720	821	154	1,695	10	1,705
Expenses with respect to credit losses	31	213	41	285	(2)	283
Accounting write-offs	(193)	[(3)] (352)	(108)	(653)	-	(653)
Recovery of debt written off in previous years	86	-	59	145	-	145
Net accounting write-offs	(107)	(352)	(49)	(508)	-	(508)
Balance of provision for credit losses at end of period	**644**	**682**	**146**	**1,472**	**8**	**1,480**
Includes: With respect to balance sheet credit instruments	97	-	10	107	-	107

	For the nine months ended September 30, 2012[(2)]					
	Provision for credit losses					
	Loans to the public				Banks and governments	Total
	Commercial	Housing	Individual - other	Total		
Balance of provision for credit losses at start of period	708	878	166	1,752	14	1,766
Expenses with respect to credit losses	180	4	40	224	4	228
Accounting write-offs	(175)	(59)	(106)	(340)	-	(340)
Recovery of debt written off in previous years	59	-	58	117	-	117
Net accounting write-offs	(116)	(59)	(48)	(223)	-	(223)
Balance of provision for credit losses at end of period	**772**	**823**	**158**	**1,753**	**18**	**1,771**
Includes: With respect to balance sheet credit instruments	83	-	16	99	-	99

(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) As from the 2012 financial statements, the Bank applies the Supervisor of Banks' directives with regard to updated disclosure of credit quality of debt and of provision for credit losses. On the interim financial statements for 2013, the comparative figures for the corresponding interim periods in 2012 were reclassified to the extent possible in order to align them with the format required by the aforementioned directives. For details see Note 1.C.4.

(3) Includes balance of the provision for credit losses, amounting to NIS 281 million, with respect to housing loans fully provided for and written off.

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

Reported amounts (NIS in millions)

A. debts [(1)] and Off balance sheet 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

						September 30, 2013
	Loans to the public				Banks and	
	Commercial	Housing	Individual - other	Total	governments	Total
Recorded debt balance of debt [(1)]						
reviewed on individual basis	30,181	2	560	30,743	3,540	34,283
reviewed on individual basis	6,274	88,051	13,044	107,369	-	107,369
Total debt	**36,455**	**88,053**	**13,604**	**138,112**	**3,540**	**141,652**
Loans for which a provision for credit losses is assessed by extent of arrears	-	[(3)] 87,255	-	87,255	-	87,255
Provision for credit loss with respect to debt [(1)]						
reviewed on individual basis	492	2	39	533	8	541
reviewed on individual basis	55	[(4)(5)] 680	97	832	-	832
Total provision for credit losses	**547**	**682**	**136**	**1,365**	**8**	**1,373**
Includes: Provision by extent of arrears	-	376	-	376	-	376

						September 30, 2012 [(2)]
Recorded debt balance of debt [(1)]						
reviewed on individual basis	30,993	4	618	31,615	2,916	34,531
reviewed on individual basis	5,301	79,038	12,266	96,605	-	96,605
Total debt	**36,294**	**79,042**	**12,884**	**128,220**	**2,916**	**131,136**
Loans for which a provision for credit losses is assessed by extent of arrears	-	[(3)]78,134	-	78,134	-	78,134
Provision for credit losses with respect to debt [(1)]						
reviewed on individual basis	654	2	38	694	18	712
reviewed on individual basis	35	821	104	960	-	960
Total provision for credit losses	**689**	**823**	**142**	**1,654**	**18**	**1,672**
Includes: Provision by extent of arrears	-	717	-	717	-	717

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with re-sale agreements, except for deposits with Bank of Israel.
(2) As from the 2012 financial statements, the Bank applies the Supervisor of Banks' directives with regard to updated disclosure of credit quality of debt and of the provision for credit losses. On the interim financial statements for 2013, the comparative figures for the corresponding interim periods in 2012 were reclassified to the extent possible in order to align them with the format required by the aforementioned directives. For details see Note 1.C.4.
(3) Includes general-purpose loans secured by lien on residential apartments, amounting to NIS 5,132 million (as of September 30, 2012 - NIS 4,878 million and as of December 31, 2012 - NIS 5,047 million).
(4) In the second quarter of 2013, the Bank updated the balance of the group-based provision for credit losses with respect to housing loans to 0.35%. For details see Note 1.C.6.
(5) Includes the balance of a provision for credit losses, amounting to NIS 281 million, with respect to housing loans fully provided for and written off.
(6) Reclassified.

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

Reported amounts (NIS in millions)

A. debts [(1)] and Off balance sheet 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

	December 31, 2012					
	Loans to the public				Banks and governments	Total
	Commercial	Housing	Individual - other	Total		
Recorded debt balance of debt [(1)]						
reviewed on individual basis	[(6)] 30,378	5	[(6)] 611	30,994	2,819	33,813
reviewed on individual basis	[(6)] 5,980	80,864	[(6)] 12,406	99,250	-	99,250
Total debt	**36,358**	**80,869**	**13,017**	**130,244**	**2,819**	**133,063**
Loans for which a provision for credit losses is assessed by extent of arrears	-	[(3)] 79,970	-	79,970	-	79,970
Provision for credit losses with respect to debt [(1)]						
reviewed on individual basis	[(6)] 583	2	[(6)] 35	620	10	630
reviewed on individual basis	52	819	102	973	-	973
Total provision for credit losses	**635**	**821**	**137**	**1,593**	**10**	**1,603**
Includes: Provision by extent of arrears	-	721	-	721	-	721

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with re-sale agreements, except for deposits with Bank of Israel.
(2) As from the 2012 financial statements, the Bank applies the Supervisor of Banks' directives with regard to updated disclosure of credit quality of debt and of the provision for credit losses. On the interim financial statements for 2013, the comparative figures for the corresponding interim periods in 2012 were reclassified to the extent possible in order to align them with the format required by the aforementioned directives. For details see Note 1.C.4.
(3) Includes general-purpose loans secured by lien on residential apartments, amounting to NIS 5,132 million (as of September 30, 2012 - NIS 4,878 million and as of December 31, 2012 - NIS 5,047 million).
(4) In the second quarter of 2013, the Bank updated the balance of the group-based provision for credit losses with respect to housing loans to 0.35%. For details see Note 1.C.6.
(5) Includes the balance of a provision for credit losses, amounting to NIS 281 million, with respect to housing loans fully provided for and written off.
(6) 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

	September 30, 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	7,104	27	611	7,742	3	20
Construction and real estate - real estate operations	1,646	2	25	1,673	-	1
Financial services	2,978	7	210	3,195	3	2
Commercial - other	19,666	254	368	20,288	22	70
Total commercial	**31,394**	**290**	**1,214**	**32,898**	**28**	**93**
Private individuals - housing loans	86,640	[7] 1,221	2	87,863	[6][7] 1,221	[8] 361
Private individuals - other	13,055	121	85	13,261	23	62
Total public - activity in Israel	**131,089**	**1,632**	**1,301**	**134,022**	**1,272**	**516**
Banks in Israel	152	-	-	152	-	-
Government of Israel	2	-	-	2	-	-
Total activity in Israel	**131,243**	**1,632**	**1,301**	**134,176**	**1,272**	**516**
Borrower activity overseas						
Public - commercial						
Construction and real estate	1,615	-	32	1,647	-	-
Commercial - other	1,908	-	2	1,910	-	95
Total commercial	**3,523**	**-**	**34**	**3,557**	**-**	**95**
Private individuals	532	-	1	533	-	-
Total public - activity overseas	**4,055**	**-**	**35**	**4,090**	**-**	**95**
Overseas banks	1,071	-	4	1,075	-	-
Overseas governments	2,311	-	-	2,311	-	-
Total activity overseas	**7,437**	**-**	**39**	**7,476**	**-**	**95**
Total public	135,144	1,632	1,336	138,112	1,272	611
Total banks	1,223	-	4	1,227	-	-
Total governments	2,313	-	-	2,313	-	-
Total	**138,680**	**1,632**	**1,340**	**141,652**	**1,272**	**611**

(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 re-structured 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 23 million was classified as troubled non-impaired debt.
(6) Includes balance of housing loans amounting to NIS 276 million (as of September 30, 2012 - NIS 317 million; as of December 31, 2012 - NIS 304 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.
(7) Includes a balance of a provision for credit losses, amounting to NIS 281 million, with respect to housing loans fully provided for and written off.
(8) In conformity with Public Reporting Regulations, excludes housing loan balances in arrears up to 2 months.

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

	December 31, 2012[(7)]					
		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	6,590	32	800	7,422	7	5
Construction and real estate - real estate operations	1,473	8	20	1,501	1	2
Financial services	3,573	24	291	3,888	2	13
Commercial - other	19,376	264	418	20,058	22	201
Total commercial	**31,012**	**328**	**1,529**	**32,869**	**32**	**221**
Private individuals - housing loans	79,051	1,599	5	80,655	1,599	[(6)] 301
Private individuals - other	12,438	161	81	12,680	28	109
Total public - activity in Israel	**122,501**	**2,088**	**1,615**	**126,204**	**1,659**	**631**
Banks in Israel	512	-	-	512	-	-
Government of Israel	1	-	-	1	-	-
Total activity in Israel	**123,014**	**2,088**	**1,615**	**126,717**	**1,659**	**631**
Borrower activity overseas						
Public - commercial						
Construction and real estate	1,597	-	38	1,635	-	-
Commercial - other	1,849	-	5	1,854	-	-
Total commercial	**3,446**	**-**	**43**	**3,489**	**-**	**-**
Private individuals	545	-	6	551	-	-
Total public - activity overseas	**3,991**	**-**	**49**	**4,040**	**-**	**-**
Overseas banks	1,149	-	5	1,154	-	-
Overseas governments	1,152	-	-	1,152	-	-
Total activity overseas	**6,292**	**-**	**54**	**6,346**	**-**	**-**
Total public	126,492	2,088	1,664	130,244	1,659	631
Total banks	1,661	-	5	1,666	-	-
Total governments	1,153	-	-	1,153	-	-
Total	**129,306**	**2,088**	**1,669**	**133,063**	**1,659**	**631**

(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 70 million was classified as troubled non-impaired debt.
(6) In conformity with Public Reporting Regulations, excludes housing loan balances in arrears up to 2 months.
(7) Due to faults uncovered by an audit conducted by the Supervisor of Banks with regard to disclosure of overall credit risk to the public by economic sector, several material improvements have been introduced to controls and procedures related to disclosure in order to rectify these faults. These improvements include reinforcement of procedures concerning client classification processes by economic sector at business units, as well as expansion of control processes over classification by economic sector at business units and at the Accounting and Financial Reporting Division. In particular, the Bank has reinforced controls to ensure proper disclosure of overall credit risk to the public by economic sector as from financial statements for December 31, 2012. The significant faults uncovered by the audit have been completely rectified by the publication of financial statements for the second quarter of 2013. Consequently, the comparison figures have been re-stated.

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

				September 30, 2012	
	Non impaired	Impaired [(3)]	Total	Non impaired debt - additional information	
				In arrears 90 days or longer [(4)]	In arrears 30 to 89 days
Loans to the public					
Reviewed on individual basis	29,829	1,786	31,615	9	73
Housing loans by extent of arrears	78,134	-	78,134	1,664	[(6)] 327
Reviewed on group basis - other	18,471	-	18,471	43	91
Total public	126,434	1,786	128,220	1,716	491
Total banks	1,641	4	1,645	-	-
Total governments	1,271	-	1,271	-	-
Total	**129,346**	**1,790**	**131,136**	**1,716**	**491**

(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 70 million was classified as troubled non-impaired debt.

(6) In conformity with Public Reporting Regulations, excludes housing loan balances in arrears up to 2 months.

(7) Due to faults uncovered by an audit conducted by the Supervisor of Banks with regard to disclosure of overall credit risk to the public by economic sector, several material improvements have been introduced to controls and procedures related to disclosure in order to rectify these faults. These improvements include reinforcement of procedures concerning client classification processes by economic sector at business units, as well as expansion of control processes over classification by economic sector at business units and at the Accounting and Financial Reporting Division. In particular, the Bank has reinforced controls to ensure proper disclosure of overall credit risk to the public by economic sector as from financial statements for December 31, 2012. The significant faults uncovered by the audit have been completely rectified by the publication of financial statements for the second quarter of 2013. Consequently, the comparison figures have been re-stated.

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.

Debt is also classified as inferior after 60 days in arrears for debt measured on an individual basis, and after 90 days in arrears for debt measured on a group basis. Currently, when counting the 60 and 90 daysfor debt measured on individual basis and for debt measured on group basis, respectively, such debt would be classified as performing debt, i.e. debt 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.

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

						As of September 30, 2013
						Credit segment
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Trouble-free debt, investment grade	32,551	86,830	13,397	2,313	1,216	136,307
Trouble-free debt, other than investment grade	2,366	-	-	-	7	2,373
Troubled non-impaired debt.	290	1,221	121	-	-	1,632
Impaired debt	1,248	2	86	-	4	1,340
Total	**36,455**	**88,053**	**13,604**	**2,313**	**1,227**	**141,652**

						As of December 31, 2012
						Credit segment
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Trouble-free debt, investment grade	(2) 31,034	79,265	(2) 12,769	1,153	1,650	125,871
Trouble-free debt, other than investment grade	(2) 3,424	-	-	-	11	3,435
Troubled non-impaired debt.	328	1,599	161	-	-	2,088
Impaired debt	1,572	5	87	-	5	1,669
Total	**36,358**	**80,869**	**13,017**	**1,153**	**1,666**	**133,063**

(1) Inferior balance sheet credit risk, or under special supervision, including with respect to housing loans for which a provision by extent of arrears has been made and housing loans for which no provision by extent of arrears has been made which are in arrears 90 days or longer.

(2) Reclassified.

(3) As from financial statements for 2012, the Bank initially applied the Supervisor of Banks' directive with regard to updates to disclosure of credit quality of debt and of provision for credit losses. On interim financial statements for 2013, the comparison figures for corresponding periods in 2012 were reclassified in as much as possible to align them with the required layout in conformity with the aforementioned directives. For details see Note 1.C.4.

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

	September 30, 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	191	21	420	611	1,029
Construction and real estate - real estate operations	18	6	7	25	45
Financial services	196	40	14	210	251
Commercial - other	244	86	124	368	646
Total commercial	**649**	**153**	**565**	**1,214**	**1,971**
Private individuals - housing loans	2	2	-	2	2
Private individuals - other	25	11	60	85	99
Total public - activity in Israel	**676**	**166**	**625**	**1,301**	**2,072**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	**676**	**166**	**625**	**1,301**	**2,072**
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	5
Total public - activity overseas	**35**	**-**	**-**	**35**	**110**
Overseas banks	4	-	-	4	5
Overseas governments	-	-	-	-	-
Total activity overseas	**39**	**-**	**-**	**39**	**115**
Total public	711	166	625	1,336	2,182
Total banks	4	-	-	4	5
Total governments	-	-	-	-	-
Total	**715**	**166**	**625**	**1,340**	**2,187**
Includes:					
Measured at present value of cash flows	597	164	232	829	
Debt under troubled debt restructuring	220	27	504	724	

(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

	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 impaired debt balance [(2)]	Contractual principal balance of impaired debt
					December 31, 2012
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	725	31	75	800	1,607
Construction and real estate - real estate operations	20	1	-	20	20
Financial services	267	91	24	291	351
Commercial - other	325	107	93	418	856
Total commercial	**1,337**	**230**	**192**	**1,529**	**2,834**
Private individuals - housing loans	5	2	-	5	5
Private individuals - other	21	11	60	81	115
Total public - activity in Israel	**1,363**	**243**	**252**	**1,615**	**2,954**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	**1,363**	**243**	**252**	**1,615**	**2,954**
Borrower activity overseas					
Public - commercial					
Construction and real estate	36	-	2	38	102
Commercial - other	5	-	-	5	5
Total commercial	**41**	**-**	**2**	**43**	**107**
Private individuals	6	-	-	6	6
Total public - activity overseas	**47**	**-**	**2**	**49**	**113**
Overseas banks	5	-	-	5	5
Overseas governments	-	-	-	-	-
Total activity overseas	**52**	**-**	**2**	**54**	**118**
Total public	1,410	243	254	1,664	3,067
Total banks	5	-	-	5	5
Total governments	-	-	-	-	-
Total	**1,415**	**243**	**254**	**1,669**	**3,072**
Includes:					
Measured at present value of cash flows	1,279	241	176	1,455	
Debt under troubled debt restructuring	736	56	124	860	

				September 30, 2012
Total public	1,538	350	248	1,786
Total banks	4	-	-	4
Total governments	-	-	-	-
Total	**1,542**	**350**	**248**	**1,790**
Includes:				
Measured at present value of cash flows	1,384	350	213	1,597
Debt under troubled debt restructuring	738	71	140	878

(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

	For the three months ended September 30, 2013		
			Includes:
	Average impaired debt balance [(2)]	Interest revenues recorded [(3)]	Recorded on cash bais
Borrower activity in Israel			
Public - commercial			
Construction and real estate - construction	633	6	5
Construction and real estate - real estate operations	24	1	1
Financial services	245	-	-
Commercial - other	360	3	3
Total commercial	**1,262**	**10**	**9**
Private individuals - housing loans	2	-	-
Private individuals - other	83	1	1
Total public - activity in Israel	**1,347**	**11**	**10**
Banks in Israel	-	-	-
Government of Israel	-	-	-
Total activity in Israel	**1,347**	**11**	**10**
Borrower activity overseas			
Public - commercial			
Construction and real estate	33	-	-
Commercial - other	2	-	-
Total commercial	**35**	**-**	**-**
Private individuals	1	-	-
Total public - activity overseas	**36**	**-**	**-**
Overseas banks	5	-	-
Overseas governments	-	-	-
Total activity overseas	**41**	**-**	**-**
Total public	1,383	11	10
Total banks	5	-	-
Total governments	-	-	-
Total [(4)]	**1,388**	**11**	**10**

(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 25 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

	Nine months ended September 30, 2013		
	Average balance of impaired debt [(2)]	Interest revenues recorded [(3)]	Includes: Recorded on cash bais
Borrower activity in Israel			
Public - commercial			
Construction and real estate - construction	677	16	14
Construction and real estate - real estate operations	24	1	1
Financial services	256	-	-
Commercial - other	415	9	9
Total commercial	**1,372**	**26**	**24**
Private individuals - housing loans	3	-	-
Private individuals - other	84	5	4
Total public - activity in Israel	**1,459**	**31**	**28**
Banks in Israel	-	-	-
Government of Israel	-	-	-
Total activity in Israel	**1,459**	**31**	**28**
Borrower activity overseas			
Public - commercial			
Construction and real estate	34	-	-
Commercial - other	3	-	-
Total commercial	**37**	**-**	**-**
Private individuals	2	-	-
Total public - activity overseas	**39**	**-**	**-**
Overseas banks	5	-	-
Overseas governments	-	-	-
Total activity overseas	**44**	**-**	**-**
Total public	1,498	31	28
Total banks	5	-	-
Total governments	-	-	-
Total [(4)]	**1,503**	**31**	**28**

B. Average balance and interest revenues

	For the three months ended September 30, 2012	Fore the nine months ended September 30, 2012	Year ended December 31, 2012
Average recorded debt balance of impaired loans to the public during reported period	[(5)]1,634	[(5)]1,548	1,562
Total interest revenues recognized in the reported period with respect to such loans in the period in which it was classified as impaired [(6)]	27	99	126
Total interest revenues which would have been recognized in the reported period had this credit accrued interest at its original terms	22	58	78
[(6)] Includes: Interest revenues recognized in accordance with cash basis accounting policy	25	94	120

(1) Loans to the public, loans to governments, deposits with banks and other debt, except for debentures and securities borrowed or acquired in conjunction with 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 68 million.
(5) 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
C. Troubled debt under restructuring

	September 30, 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	495	-	-	44	539
Construction and real estate - real estate operations	14	-	-	1	15
Financial services	9	-	-	-	9
Commercial - other	62	-	-	32	94
Total commercial	**580**	**-**	**-**	**77**	**657**
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	27	-	1	37	65
Total public - activity in Israel	**607**	**-**	**1**	**114**	**722**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	**607**	**-**	**1**	**114**	**722**
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	607	-	1	116	724
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	**607**	**-**	**1**	**116**	**724**

(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, 2012				
	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	711	-	-	-	711
Construction and real estate - real estate operations	14	-	3	-	17
Financial services	10	-	-	1	11
Commercial - other	42	-	-	10	52
Total commercial	**777**	**-**	**3**	**11**	**791**
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	28	-	3	36	67
Total public - activity in Israel	**805**	**-**	**6**	**47**	**858**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	**805**	**-**	**6**	**47**	**858**
Borrower activity overseas					
Public - commercial					
Construction and real estate	-	-	-	2	2
Commercial - other	-	-	-	-	-
Total commercial	**-**	**-**	**-**	**2**	**2**
Private individuals	-	-	-	-	-
Total public - activity overseas	**-**	**-**	**-**	**2**	**2**
Overseas banks	-	-	-	-	-
Overseas governments	-	-	-	-	-
Total activity overseas	**-**	**-**	**-**	**2**	**2**
Total public	805	-	6	49	860
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	**805**	**-**	**6**	**49**	**860**
	September 30, 2012				
Total public	819	-	4	55	878
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	**819**	**-**	**4**	**55**	**878**

(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.
(4) Reclassified.

As of September 30, 2013, the Bank had no commitments to provide additional credit to debtors subject to troubled debt restructuring, in which credit terms have been revised.

Note 3 - Credit risk, loans to the public and provision for credit 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 September 30, 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	2	1	-
Construction and real estate - real estate operations	1	-	-
Financial services	-	-	-
Commercial - other	32	4	3
Total commercial	**35**	**5**	**3**
Private individuals - housing loans	-	-	-
Private individuals - other	257	11	11
Total public - activity in Israel	**292**	**16**	**14**
Banks in Israel	-	-	-
Government of Israel	-	-	-
Total activity in Israel	**292**	**16**	**14**
Borrower activity overseas			
Public - commercial			
Construction and real estate	-	-	-
Commercial - other	-	-	-
Total commercial	**-**	**-**	**-**
Private individuals	2	-	-
Total public - activity overseas	**2**	**-**	**-**
Overseas banks	-	-	-
Overseas governments	-	-	-
Total activity overseas	**2**	**-**	**-**
Total public	294	16	14
Total banks	-	-	-
Total governments	-	-	-
Total	**294**	**16**	**14**

(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) In conformity with the Supervisor of Banks' directives with regard to updated disclosure of credit quality of debt and of the provision for credit losses, new disclosures are required with regard to, *inter alia*, restructuring of troubled debt which the transition provisions stipulate should be included on financial statements as from March 31, 2013. The new disclosure requirements should be applied prospectively. See also Note 1.C.4.
(3) Accruing interest revenues.
(4) Included under impaired debt.

Note 3 - Credit risk, loans to the public and provision for credit 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 nine months ended September 30, 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	4	4	3
Construction and real estate - real estate operations	1	-	-
Financial services	2	1	1
Commercial – other	75	47	46
Total commercial	**82**	**52**	**50**
Private individuals - housing loans	-	-	-
Private individuals - other	655	28	26
Total public – activity in Israel	**737**	**80**	**76**
Banks in Israel	-	-	-
Government of Israel	-	-	-
Total activity in Israel	**737**	**80**	**76**
Borrower activity overseas			
Public - commercial			
Construction and real estate	-	-	-
Commercial – other	-	-	-
Total commercial	**-**	**-**	**-**
Private individuals	3	-	-
Total public – activity overseas	**3**	**-**	**-**
Overseas banks	-	-	-
Overseas governments	-	-	-
Total activity overseas	**3**	**-**	**-**
Total public	740	80	76
Total banks	-	-	-
Total governments	-	-	-
Total	**740**	**80**	**76**

(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) In conformity with the Supervisor of Banks' directives with regard to updated disclosure of credit quality of debt and of provision for credit losses, new disclosures are required with regard to, *inter alia*, restructuring of troubled debt which the transition provisions stipulate should be included on financial statements as from March 31, 2013. The new disclosure requirements should be applied prospectively. See also Note 1.C.4.
(3) Accruing interest revenues.
(4) Included under impaired debt.

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

Reported amounts (NIS in millions)

B. Debt [1]

2. Additional information about impaired debt

C. Troubled debt under restructuring - continued

	Restructurings made which are in default [3]	
	For the three months ended September 30, 2012	
		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	2	1
Commercial - other	5	-
Total commercial	**7**	**1**
Private individuals - housing loans	-	-
Private individuals - other	25	1
Total public - activity in Israel	**32**	**2**
Banks in Israel	-	-
Government of Israel	-	-
Total activity in Israel	**32**	**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	32	2
Total banks	-	-
Total governments	-	-
Total	**32**	**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) In conformity with the Supervisor of Banks' directives with regard to updated disclosure of credit quality of debt and of provision for credit losses, new disclosures are required with regard to, *inter alia*, restructuring of troubled debt which the transition provisions stipulate should be included on financial statements as from March 31, 2013. The new disclosure requirements should be applied prospectively. See also Note 1.C.4.

(3) Debt which became, in the reported period, debt in arrears of 30 days or longer, which was 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 [(3)]	
	For the nine months ended September 30, 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	2	1
Commercial – other	7	8
Total commercial	**9**	**9**
Private individuals - housing loans	-	-
Private individuals - other	84	3
Total public – activity in Israel	**93**	**12**
Banks in Israel	-	-
Government of Israel	-	-
Total activity in Israel	**93**	**12**
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	93	12
Total banks	-	-
Total governments	-	-
Total	**93**	**12**

(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) In conformity with the Supervisor of Banks' directives with regard to updated disclosure of credit quality of debt and of provision for credit losrs, new disclosures are required with regard to, *inter alia*, restructuring of troubled debt which the transition provisions stipulate should be included on financial statements as from March 31, 2013. The new disclosure requirements should be applied prospectively. See also Note 1.C.4.

(3) Debt which became, in the reported period, debt in arrears of 30 days or longer, which was 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

					September 30, 2013
		Housing loan balance			Off-balance sheet credit risk
		Total	Includes: Bullet / balloon	Includes: Variable interest	Total
Senior lien: LTV ratio	Up to 60%	46,284	1,279	35,258	2,652
	Over 60%	41,684	518	32,780	1,577
Junior lien or no lien		85	2	66	729
Total		**88,053**	**1,799**	**68,104**	**4,958**

					September 30, 2012 [(2)]
Senior lien: LTV ratio	Up to 60%	39,799	1,024	29,589	2,141
	Over 60%	39,139	521	29,963	1,720
Junior lien or no lien		104	-	68	772
Total		**79,042**	**1,545**	**59,620**	**4,633**

					December 31, 2012
Senior lien: LTV ratio	Up to 60%	40,382	1,066	30,227	2,339
	Over 60%	40,392	527	31,084	1,719
Junior lien or no lien		95	2	59	1,440
Total		**80,869**	**1,595**	**61,370**	**5,498**

(1) Ratio of approved facility upon extending the facility to the property value, as approved by the Bank upon extending the facility

(2) On the 2012 financial statements, the Bank first applied the Supervisor of Banks' directives with regard to updated disclosure of credit quality of debt and of provision for credit losses. On the interim financial statements for 2013, the comparative figures for the corresponding interim periods in 2012 were reclassified to the extent possible in order to align them with the formatt required by the aforementioned directives. For details see Note 1.C.4.

Note 4 - Deposits from the Public

Reported amounts (NIS in millions)

	As of September 30,		As of December 31,
	2013	2012	2012
	(unaudited)	(unaudited)	(audited)
On-call deposits	21,292	18,721	19,499
Term deposits and other deposits	112,674	103,133	106,731
Savings plan deposits	2,045	2,468	2,269
Total deposits from the public	(1) **136,011**	**124,322**	(1) **128,499**

(1) ncludes deposits from institutional investors made in Israel amounting to NIS 40,141 million (as of December 31, 2012 - NIS 33,503 million).

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

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

Reported amounts (NIS in millions)

A. Capital adequacy information

	As of September 30,		As of December 31,
	2013	2012	2012
	(unaudited)		(audited)
1. Consolidated data			
A. Capital for purpose of calculating minimum capital ratio			
Tier I capital, after deductions	9,942	8,836	9,145
Tier II capital, after deductions	4,634	5,239	5,129
Total capital	**14,576**	**14,075**	**14,274**
B. Weighted risk asset balances			
Credit risk	104,292	98,054	98,736
Market risk	1,065	944	1,119
Operating Risk (1)	7,121	8,327	7,093
Total weighted risk asset balances	**112,478**	**107,325**	**106,948**

	As of September 30,		As of December 31,
	2013	2012	2012
	In %		
C. Ratio of capital to risk elements			
Ratio of Tier I capital to risk elements	8.84	8.23	8.55
Ratio of total capital to risk elements	12.96	13.11	13.35
Total minimum capital ratio required by the Supervisor of Banks	9.00	9.00	9.00
2. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and subsidiaries there of			
Ratio of Tier I capital to risk elements	9.72	9.14	9.45
Total ratio of capital to risk elements	14.61	13.75	14.22
Total minimum capital ratio required by the Supervisor of Banks	9.00	9.00	9.00

(1) As from December 31, 2012, the calculation of capital requirement with respect to operating risk used the standard approach, in conformity with Proper Conduct of Banking Business Regulation 206 (Measurement and capital adequacy - operating risk). Through December 31, 2012, the Bank applied the basic indicator approach.

Note 5 - Capital adequacy in accordance with directives of the Supervisor of Banks - continued

Calculated in accordance with Proper Conduct of Banking Business Regulation No. 201-211 "Measurement and Capital Adequacy"
Reported amounts (NIS in millions)

	As of September 30,		As of December 31,
	2013	2012	2012
		(unaudited)	(audited)
3. Capital components for calculation of capital ratio (on consolidated basis)			
A. Tier I capital			
Paid-up share capital and capital reserves	2,130	2,107	2,121
Total cumulative other loss(1)	-	(14)	(3)
Retained earnings	7,441	6,420	6,690
Non-controlling interest of external shareholders in equity of consolidated subsidiaries	475	430	441
Less:			
Goodwill	(87)	(87)	(87)
Tier I capital after Tier I deductions alone	**9,959**	**8,856**	**9,162**
Less:			
Investments in supervisory capital components of banking corporations	(17)	(17)	(17)
Other deductions from Tier I capital	-	(3)	-
Total Tier I capital	**9,942**	**8,836**	**9,145**
B. Tier II capital			
1. Upper Tier II capital			
45% of net profit before related tax effect, with respect to adjustment to fair value of available-for-sale securities	3	-	-
General provision for doubtful debts (2)	110	110	110
Complex capital instruments	1,937	1,908	1,896
2. Lower Tier II capital			
Subordinated notes	2,601	3,241	3,140
3. Deductions from Tier II capital			
Investments in supervisory capital components of banking corporations	(17)	(17)	(17)
Other deductions from Tier II capital	-	(3)	-
Total Tier II capital	**4,634**	**5,239**	**5,129**

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

Note 5 - Capital adequacy in accordance with directives of the Supervisor of Banks - continued

B. On June 30, 2010, the Supervisor of Banks issued a letter to banking corporations, on capital policy for interim periods, in which they are required to adopt a target for Tier I capital ratio by December 31, 2010, to be no less than 7.5%. Concurrently, the banks are required to submit a work plan to the Supervisor for achieving this target. The letter further stipulates that in absence of prior approval by the Supervisor of Banks, the bank shall not distribute dividends if the target has not been achieved, or if such dividend distribution would cause the bank not to achieve the target. This directive is intended to clarify the expectations of the Supervisor of Banks from banking corporations in the interim period, pending adaptation of the Supervisor's directives to emerging changes in recommendations of the Basel Committee.

C. On October 25, 2010, the Bank'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's Board of Directors further resolved that the overall capital adequacy ratio shall be no less than 12.5%.

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

E. On July 23, 2012, the Bank Board of Director instructed Bank management to advance implementation of the Supervisor of Banks' directive dated March 28, 2012 - so as to implement it, if possible, as from January 1, 2014. Moreover, the Board of Directors has resolved to instruct Bank management to maintain, in as much as possible, appropriate safety margins to this end.

F. On 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.

Note 5 - Capital adequacy in accordance with directives of the Supervisor of Banks - continued

G. 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.

H. On May 30, 2013, the Supervisor of Banks issued an amendments to Proper Conduct of Banking Business Regulations 201-211 concerning adoption of Basel III directives with regard to supervisory capital and with regard to risk assets (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 transitional provisions.

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 the 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.

Note 5 - Capital adequacy in accordance with directives of the Supervisor of Banks - continued

  - Investments in equity components of financial institutions - banks, insurance companies and any company doing business in the capital market segment - would be accounted for as a deduction from capital or by risk weighting, subject to specified tests.
  - The accumulated gain with respect to cash flow hedging of items not listed at fair value on the balance sheet - would be deducted from capital. This means that positive amounts would be deducted from capital and negative amounts would be added to capital.
  - Accounting adjustments with respect to liabilities of derivatives arising from a change in the Bank's credit risk (Debit Valuation Adjustment - DVA) would be deducted from capital.
- Capital allocation with respect to **CVA** loss (**Credit Value Adjustments**) - loss due to revaluation at market value with respect to counter-party credit risk.

  In addition to the capital requirement with respect to default risk arising from counter-party credit risk under the standard approach, an additional capital allocation is required to cover the risk of potential loss which may arise from marking to market value of OTC derivatives.

In order to comply with the new requirements in conjunction with application of the Basel III directives, a graduated transition period of several years was specified, until these directives are completely applied.

- Supervisory adjustments and deductions from capital and non-controlling interest not qualified for inclusion under supervisory capital - an annual 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.

The Bank is preparing to implement these directives and is reviewing their impact on the Bank's strategic plan.

As directed by the Supervisor of Banks, the Bank was required to present the effect of anticipated application of Basel III directives upon the transition date; the Bank believes this would result in a 0.3% decrease in Tier I capital ratio.

Note 5 - Capital adequacy in accordance with directives of the Supervisor of Banks - continued

I. 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 a dividend 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 policy - 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.

J. On August 29, the Supervisor of Banks issued directives with regard to restrictions on extending housing loans. According to these directives, as from September 1, 2013, banking corporations may not approve nor originate housing loans where the monthly repayment to income ratio exceeds 50%. In addition, loans where the monthly repayment ratio exceeds 40% would be assigned 100% risk weighting for calculation of capital allocation.

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

As of September 30, 2013 (unaudited)

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency (1)			Non-monetary items(2)	
	Non-linked	CPI-linked	US dollars	Euro	Other currencies		Total
Assets							
Cash and deposits with banks	18,272	127	2,874	216	254	-	21,743
Securities	4,215	240	2,051	785	30	110	7,431
Securities borrowed or bought in conjunction with repurchase agreements	153	-	-	-	-	-	153
Loans to the public, net	71,817	52,609	8,451	2,424	1,446	-	136,747
Loans to Governments	-	-	115	189	-	-	304
Investments in associates	35	-	-	-	-	27	62
Buildings and equipment	-	-	-	-	-	1,634	1,634
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	2,356	448	211	123	42	-	3,180
Other assets	1,469	439	27	1	11	44	1,991
Total assets	**98,317**	**53,863**	**13,729**	**3,738**	**1,783**	**1,902**	**173,332**
Liabilities							
Deposits from the public	87,362	21,519	20,268	4,406	2,456	-	136,011
Deposits from banks	271	461	1,084	100	34	-	1,950
Deposits from the Government	14	32	31	-	-	-	77
Debentures and subordinated notes	2,180	14,362	-	-	-	-	16,542
Liabilities with respect to derivatives	2,267	304	455	320	32	-	3,378
Other liabilities	4,276	662	48	1	21	317	5,325
Total liabilities	**96,370**	**37,340**	**21,886**	**4,827**	**2,543**	**317**	**163,283**
Difference	**1,947**	**16,523**	**(8,157)**	**(1,089)**	**(760)**	**1,585**	**10,049**
Impact of hedging derivatives:							
Derivatives (other than options)	535	(535)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (other than options)	(1,119)	(8,167)	8,029	533	724	-	-
Net in-the-money options (in terms of underlying asset)	(1,020)	-	670	345	6	(1)	-
Net out-of-the-money options (in terms of underlying asset)	193	-	(375)	171	11	-	-
Total	**536**	**7,821**	**167**	**(40)**	**(19)**	**1,584**	**10,049**
Net in-the-money options (capitalized par value)	(622)	-	856	(225)	(5)	(4)	-
Net out-of-the-money options (capitalized par value)	540	-	(664)	68	16	40	-

(1) Includes linked to foreign currency.

(2) Includes derivatives whose base relates to a non-monetary item.

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

As of September 30, 2012 (unaudited) - Continued

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency (1)			Non-monetary items(2)	
	Non-linked	CPI-linked	US dollars	Euro	Other currencies		Total
Assets							
Cash and deposits with banks	13,812	274	1,964	300	308	-	16,658
Securities	3,534	128	3,161	1,029	32	82	7,966
Securities borrowed or bought in conjunction with repurchase agreements	114	137	-	-	-	-	251
Loans to the public, net	64,043	48,733	(3) 9,281	2,420	2,089	-	126,566
Loans to Governments	-	-	96	217	-	-	313
Investments in associates	32	-	-	-	-	(3) 22	54
Buildings and equipment	-	-	-	-	-	1,601	1,601
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	1,504	191	646	149	290	-	2,780
Other assets	1,033	387	67	3	16	28	1,534
Total assets	**84,072**	**49,850**	**15,215**	**4,118**	**2,735**	**1,820**	**157,810**
Liabilities							
Deposits from the public	77,832	22,938	17,021	4,139	2,392	-	124,322
Deposits from banks	341	571	314	571	234	-	2,031
Deposits from the Government	13	71	35	-	-	-	119
Debentures and subordinated notes	2,110	12,076	-	-	-	-	14,186
Liabilities with respect to derivatives	1,684	258	1,124	315	172	-	3,553
Other liabilities	3,529	745	74	16	15	276	4,655
Total liabilities	**85,509**	**36,659**	**18,568**	**5,041**	**2,813**	**276**	**148,866**
Difference	**(1,437)**	**13,191**	**(3,353)**	**(923)**	**(78)**	**1,544**	**8,944**
Impact of hedging derivatives:							
Derivatives (other than options)	400	(400)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (other than options)	3,465	(4,774)	2,173	(600)	(264)	-	-
Net in-the-money options (in terms of underlying asset)	(2,115)	-	561	1,486	68	-	-
Net out-of-the-money options (in terms of underlying asset)	(539)	-	627	(84)	(2)	(2)	-
Total	**(226)**	**8,017**	**8**	**(121)**	**(276)**	**1,542**	**8,944**
Net in-the-money options (capitalized par value)	(447)	-	368	172	(115)	22	-
Net out-of-the-money options (capitalized par value)	2,424	-	(1,256)	(1,160)	(67)	59	-

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

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

As of December 31, 2012 (audited) - Continued

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency [1]				
	Non-linked	CPI-linked	US dollars	Euro	Other currencies	Non-monetary items [2]	Total
Assets							
Cash and deposits with banks	14,068	170	1,802	166	465	-	16,671
Securities	5,487	251	2,396	757	31	119	9,041
Securities borrowed or bought in conjunction with repurchase agreements	15	192	-	-	-	-	207
Loans to the public, net	66,160	49,221	8,908	2,568	1,794	-	128,651
Loans to Governments	-	-	103	213	1	-	317
Investments in associates	33	-	-	-	-	27	60
Buildings and equipment	-	-	-	-	-	1,658	1,658
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	2,653	318	358	74	115	-	3,518
Other assets	1,525	388	51	2	16	50	2,032
Total assets	**89,941**	**50,540**	**13,618**	**3,780**	**2,422**	**1,941**	**162,242**
Liabilities							
Deposits from the public	83,411	21,823	16,369	4,179	2,717	-	128,499
Deposits from banks	196	532	688	222	56	-	1,694
Deposits from the Government	13	62	32	-	-	-	107
Debentures and subordinated notes	2,094	11,945	-	-	-	-	14,039
Liabilities with respect to derivatives	2,645	271	572	269	16	-	3,773
Other liabilities	3,846	663	58	8	19	284	4,878
Total liabilities	**92,205**	**35,296**	**17,719**	**4,678**	**2,808**	**284**	**152,990**
Difference	**(2,264)**	**15,244**	**(4,101)**	**(898)**	**(386)**	**1,657**	**9,252**
Impact of hedging derivatives:							
Derivatives (other than options)	400	(400)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (other than options)	2,342	(6,886)	3,984	355	205	-	-
Net in-the-money options (in terms of underlying asset)	(577)	-	91	381	89	16	-
Net out-of-the-money options (in terms of underlying asset)	(147)	-	64	94	7	(18)	-
Total	**(246)**	**7,958**	**38**	**(68)**	**(85)**	**1,655**	**9,252**
Net in-the-money options (capitalized par value)	88	-	370	(394)	(64)	-	-
Net out-of-the-money options (capitalized par value)	(457)	-	(141)	538	60	-	-

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

Note 7 - Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

	As of September 30,				As of December 31,	
	2013		2012		2012	
			Unaudited		audited	
	Balance (1)	Provision (2)	Balance (1)	Provision (2)	Balance (1)	Provision (2)
A. Off-balance sheet financial instruments						
Contractual balances or their denominated amounts at the end of the year						
Transactions in which the balance represents a credit risk:						
- Documentary credit	394	3	377	2	387	1
- Loan guarantees	2,457	27	2,902	21	2,705	21
- Guarantees to home buyers	9,383	8	8,596	5	8,096	7
- Guarantees and other liabilities (3)	3,472	16	3,298	16	3,281	23
- Unutilized revolving credit card facilities	7,132	5	6,772	6	6,718	6
- Unutilized debitory account and other credit facilities in accounts available on demand	18,720	24	17,621	32	16,313	21
- Irrevocable commitments for loans approved but not yet granted	8,719	18	8,795	14	9,724	17
- Commitments to issue guarantees	5,169	6	4,618	3	5,198	6

(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 105 million. (as of September 30, 2012 and December 31, 2012 - NIS 113 million and NIS 127 million, respectively).

Note 7 - Contingent Liabilities and Special Commitments – Continued

Reported amounts (NIS in millions)

	As of September 30,		As of December 31,
	2013	2012	2012
		(unaudited)	(audited)
B. Special commitments			
Obligations with respect to:			
Long-term leases	557	547	624
Computerization and software service contracts	170	144	178
Acquisition and renovation of buildings	11	20	18
Receipt of deposits on future dates (1)	400	400	400

	As of September 30,		As of December 31,
	2013	2012	2012
		(unaudited)	(audited)
C. Credit exposure arising from securitization structures by others			
Other credit risk with respect to securitization structures	-	7	-

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

Note 7 - Contingent Liabilities and Special Commitments – Continued

D. Contingent liabilities and other special commitments

1) For details of other contingent liabilities and special commitments by the Bank group, see Note 19 to the financial statements for the year ended December 31, 2012. Below is a description of material changes relative to the description provided in the 2012 annual report.

2) Various claims are pending against the Bank and its subsidiaries, namely, claims of customers, as well as motions for recognition of various class actions. In the estimation of the management of the Bank, based on the estimation of the managements of its subsidiaries and on the opinion of their legal counsel as to the possible outcome of the pending claims and motions for approval of claims as class actions, the financial statements include fair provisions, where necessary, to cover possible damages.
Below are details of material claims, where the claim amount (excluding interest and expenses) exceeds 1% of the Bank's shareholder equity, in which developments and changes have occurred compared to the description included in the 2012 financial statements:

A. In December 2001, a statement of claim was filed against the Bank in Tel Aviv District Court in the amount of NIS 80 million. The plaintiffs allege that a bank clerk (who was suspended), when he was an employee of the Bank, executed numerous unlawful transactions in their accounts, without their permission and without their knowledge. The plaintiffs allege that as a result of these acts, they experienced a credit crisis, which required them to effect financial transactions that would not have been effected otherwise, as a result of which they allege that they sustained direct and indirect losses, in tens of millions of NIS.

In January 2002, the Bank filed a statement of defense, in which it argued as preliminary arguments, inter alia, that the statue of limitations had expired for all of the plaintiffs' allegations relating to transactions executed more than seven years prior to the filing of the claim. It was also argued that the plaintiffs had received statements on what was occurring in their accounts, and that they cannot deny the accuracy of the contents of the Bank's books of account. In the body of the statement of defense, it was argued that the plaintiffs knew and/or should have known what was done in their accounts, and that unfortunately they were very negligent in examining their account statements, thus enabling the alleged transactions, which are denied by the Bank, to be executed in their accounts. It was further argued that the improper transactions, to the extent they were executed, were executed by a bank clerk at that time, acting on his own, and exceeding authority, and the Bank could not have prevented them with the reasonable means available to it.

Note 7 - Contingent Liabilities and Special Commitments – Continued

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

In February 2012, a verdict was given which recognizes some of the causes for claim, and instructs recalculation of the corresponding financial values. The Court appointed an expert, consented to by both parties, to quantify and calculate the amount due to the plaintiff. In March 2013, the amount was paid to the plaintiff in accordance with the verdict and with calculations made by the expert on behalf of the Court. This concluded legal proceedings in this case.

B. In March 2004, an action and a motion for recognition as a class action were filed in Nazareth District Court against Bank Tefahot ("the Action"). The action was filed on behalf of borrowers of Bank Tefahot, in the amount of NIS 69 million. The action alleges that Bank Tefahot overcharged interest on arrears beyond that permitted by law, and that it charged a commission for non-payment of a standing order for current repayments of a loan drawn by borrowers of Bank Tefahot. The action alleges that this commission should be deemed to be interest on the loan in arrears, such that this commission, together with the interest on arrears that Bank Tefahot charges for the period in arrears, exceeds the ceiling of permitted interest on arrears under the Interest Law, 1957, and the related legislation.

In January 2007, the Supreme Court ruled to dismiss outright the motion for recognition as a class action, and ordered the parties to file their positions on the issue of the implications of the Class Actions Law, 2006, on this case. The plaintiffs have appealed the Court's' decision. In May 2007, the Supreme Court ruled that processing of this appeal would be suspended pending a court decision in the action based on the same claim against the Bank, which was filed with the Haifa District Court by some of the plaintiffs in these proceedings, in June 2006.The ruling further stipulates that should the decision in the identical case under way at the Haifa District Court be appealed, both appeals may be reviewed concurrently when such a decision is handed down.

In February 2013, the Supreme Court denied both appeals filed by the plaintiffs.

C. In April 2006, a claim was lodged with Tel-Aviv District Court in the amount of NIS 100 million for damages allegedly sustained by the plaintiffs as a result of an alleged misrepresentation made to them by an employee of the Bank's Givatayim branch who has since been dismissed from employment with the Bank. Plaintiffs claim that they have deposited with the Bank over years large amounts totaling NIS millions, and made many investment transactions in various asset classes, mainly by daily telephone contact with an employee at the Bank branch, who carried out their instructions and reported to them on execution of their instructions and the balances in their accounts. The plaintiffs claim that according to reports of the Bank branch employee who handled their accounts, at end of 2003 the balance of their accounts amounted to NIS 91 million. Based on this information, the plaintiffs claim they entered into a contract to purchase a house at a cost of over NIS 10 million.

Note 7 - Contingent Liabilities and Special Commitments – Continued

However, the plaintiffs claim, in retrospect after signing the contract to buy the house, they discovered that reports made by the Bank employee were false, and in actual fact no investment actions were taken in their accounts, which in fact had a debit balance.

Therefore, the plaintiffs claim, they have sustained heavy damages, and the amount claimed by them is composed of the last reported balance in their Bank accounts of NIS 91 million, damage sustained by them due to cancellation of the house purchase contract and claimed damages for distress.

In July 2006, the Bank filed a statement of defense arguing, inter alia, that plaintiffs were unable to provide details or proof of the investment instructions they had given, and in fact not a single investment transaction was made in the plaintiffs' accounts in the capital market during the alleged period, and therefore the alleged balances did not accrue in their accounts.

The Bank also argued that returns claimed by the plaintiffs – amounting to thousands of percent, at a growth rate of over NIS 30 million per year – are unreasonable, let alone for investors who have no relevant expertise and with the plaintiffs' initial equity at the Bank amounting to only NIS 150 thousand.

The Bank further argues that reports provided to plaintiffs by the Bank employee with regard to enormous amounts accumulated in their accounts, in as much as such reports were provided, are also unreasonable and were provided only at the Bank employee's discretion, using false pretenses and acts of fraud and deception, without the Bank's consent or knowledge, and with the Bank being incapable of preventing it by reasonable means available to it. In September 2010, the plaintiff filed an amended claim, reducing the claim amount by half to NIS 50 million.

In June 2013, the case was settled by the parties. The Court has confirmed the settlement agreement, which was adopted as a verdict.

D. In June 2006, an action and a motion for recognition as a class action in the amount of NIS 57 million were lodged in Haifa District Court against the Bank for charges to borrowers whose loans (linked to the CPI) are in arrears and bear delinquent interest, the rate of which allegedly exceeds the rate stipulated in the Interest Law, 1957 and the Interest Order enacted accordingly. The plaintiffs allege that the arrears clause in the loan agreement, which stipulates that at the time of arrears, the Bank will provide the borrowers with unlinked loans, is apparently illegal, since it contradicts the Interest Order. The plaintiffs also claim that their being charged commissions for not honoring automatic debits, in addition to the delinquent interest, is allegedly illegal, since a commission for not honoring an automatic debit is essentially arrears interest in all respects.

The Bank filed a motion to dismiss out of hand the plaintiffs' motion for class action status, arguing that its actions were and are lawful. In November 2010, the evidence was heard in this motion, and as decided by the Court, the parties filed their summary claims in conclusion.

Note 7 - Contingent Liabilities and Special Commitments – Continued

On March 7, 2011 the Haifa District Court dismissed the plaintiffs' motion for class action status. The plaintiffs have appealed the decision by the District Court to the Supreme Court.

In February 2013, the Supreme Court denied the plaintiffs' appeal.

E. In November 2008, a claim was filed with the Tel Aviv District Court, including an application for class action status, amounting to NIS 68 million, against the Bank, Bank Leumi Le-Israel Ltd., First International Bank of Israel Ltd. and Bank Igud Le-Israel Ltd. for alleged over collection of tax on interest and dividend revenues by way of tax withholding. The plaintiff claims that the banks named in the claim over charge their customers who own debentures or shares (the source of revenue) by not deducting the commission on said revenue prior to withholding tax. The Bank and the other banks have yet to file their response to the motion. The parties negotiated out of Court, and in April 2013 the Court approved the settlement agreement between the parties, which was adopted as a verdict.

F. 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.

After evidentiary hearings, a partial verdict was handed down in July 2013 with regard to the defendant banks. In November 2013, the Court handed down a complementary verdict requiring the defendants to pay the plaintiffs NIS 48.5 million plus linkage differences and interest as from November 9, 2009, to refund their Court fees of NIS 0.5 million and to pay their legal fees amounting to NIS 4.2 million.

Note 7 - Contingent Liabilities and Special Commitments – Continued

The banks have filed a motion with the Court to stay the verdict. The Court approved temporary relief, pending the key hearing of this motion.

The Bank's exposure amounts to 10% of the aforementioned amounts.

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

In March 2012, the Bank has filed its response to the motion, in which it claimed that according to a decision by the Bank of Israel, the Bank recognizes as additional loans any loans granted prior to as well as after granting the directed loan.

The parties negotiated to settle their differences.

In June 2013, the Court approved the settlement agreement negotiated by the parties, which was adopted as a verdict.

H. In July 2011, a claim was filed with the Central District Court in the amount of NIS 81.8 million for alleged forward transactions made in the plaintiffs' account, which allegedly caused the plaintiffs to incur a loss. The plaintiffs claim that the Bank acted unilaterally in the account and without prior notification about collateral calculation, causing the plaintiffs to incur losses by taking risky positions. The plaintiffs claim that the Bank, by deed or omission, caused the account and the investment portfolio to collapse.

In January 2012, the Bank filed a statement of defense.

The Bank claims that the plaintiff is skilled and familiar with the capital market, and the Bank acted professionally, thoroughly and skillfully at all times.

In February 2012, a pre-trial hearing was conducted in this case.

In November 2012, the plaintiffs filed their evidence with the Court.

The Bank filed its evidence in April 2013.

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

Note 7 - Contingent Liabilities and Special Commitments – Continued

I. In November 2011, Bank Yahav received a claim filed with the Haifa District Court, against Bank Yahav and Bank Benleumi. As alleged in the claim, the banks over-charged a cash handling commission in alleged contravention of the law, and in particular - in contravention of Banking Rules (Commissions). The plaintiff also filed a motion for class action status, for a total amount of NIS 200 million.

Bank Yahav has filed its response to this motion. In a pre-trial hearing held in this case, the plaintiff withdrew all of his claims, except for the claim alleging unlawful charging of the commission.

In March 2013, the parties' summations in this case were heard.

In November 2013, the Court denied the motion for class action status.

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

K. In September 2012, a claim and motion for class action status were filed with the Tel Aviv District Court, with regard to charging VAT on attorneys' fees in Court Order Execution Service cases filed against debtors. The plaintiff has not stated a specific amount claimed in its class action lawsuit.
In March 2013, the Bank filed its response to the motion with the Court.

In June 2013, the Court annulled the motion at the plaintiff's request.

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

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

Note 7 - Contingent Liabilities and Special Commitments – Continued

M. In December 2012, an action and a motion for recognition as a class action were filed with the Tel Aviv District Court, amounting to NIS 6 billion, with regard to alleged failure to inform borrowers that “Heyter Iska” provisions apply to their loans and consequently, arrears interest was over-charged to these loans by the Bank.

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 normal interest.

In July 2013, the Bank filed its response to this motion with the Court.

With respect to all claims against the Bank Group each amounting to NIS 2 million or higher, excluding those listed in section 3) below, there is additional non-negligible exposure, for which no provision has been made, amounting in total to NIS 114 million.

3) There are pending claims and motions for class action status filed against the Bank where the claimed amount is material, as listed below, where Bank management believes, based on the opinion of legal counsel, that their chances of success may not be estimated at this time, and therefore no provision was made with respect there to.

A. 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.

B. In August 2013, an action and a motion for recognition as a class action 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, on a personal basis - 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 this claim has been dismissed.

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

C. 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 excessive interest charged with respect to loans guaranteed by the State.

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

Note 7 - Contingent Liabilities and Special Commitments – Continued

D. In October 2013, an action and motion for recognition as a class action were lodged in Tel Aviv District Court against the Bank in an amount exceeding NIS 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.

4) On April 26, 2009, the Bank received a determination by the Anti-Trust Supervisor pursuant to Section 43(a)(1) of the Restrictive Trade Practices Act, 1988, whereby restrictive trade practices existed between the Bank and Bank Hapoalim Ltd., Bank Leumi Le-Israel Ltd., Bank Discount Le-Israel Ltd. and First International Bank of Israel Ltd., with regard to commission-related information sharing, since the early 1990s through commencement of the Supervisor inquiry into this matter, in November 2004. This is a civil determination which constitutes a-priori evidence of the content there of in any legal proceeding.
On March 24, 2010, the Bank appealed this ruling to the Anti-Trust Court. The Restrictive Trade Practices Authority filed its response to the appeal on February 22, 2011. On June 18, 2012, the Court ordered parts of the Supervisor's response to the appeal to be erased. The case was continued and no hearing date was set. For details of a claim filed against the Bank based on the determination by the Anti-Trust Supervisor, see Note 19.D.10)K. to the financial statements as of December 31, 2012.

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

Reported amounts (NIS in millions)

a) Activity on consolidated basis

	As of September 30, 2013 (unaudited)					
	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	735	-	-	-	-	735
Swaps	-	2,192	-	-	-	2,192
Total	**735**	**2,192**	**-**	**-**	**-**	**2,927**
Includes: Interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	2,192	-	-	-	2,192
B. ALM derivatives [(1)(2)]						
Forward contracts	9,798	400	51,364	-	30	61,592
Option contracts traded on stock exchange:						
Options written	-	-	3,808	617	-	4,425
Options purchased	-	-	3,934	617	-	4,551
Other option contracts:						
Options written	-	-	10,005	4	-	10,009
Options purchased	-	-	9,643	39	-	9,682
Swaps	2,043	39,126	11,428	-		52,597
Total	**11,841**	**39,526**	**90,182**	**1,277**	**30**	**142,856**
Includes: Interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,493	23,779	-	-	-	25,272
C. Other derivatives [(1)]						
Forward contracts	-	-	756	-	-	756
Option contracts traded on stock exchange:						
Options written	-	-	5,518	10,595	81	16,194
Options purchased	-	-	5,518	10,595	81	16,194
Other option contracts:						-
Options written	-	75	149	969	-	1,193
Options purchased	-	75	163	959	-	1,197
Swaps	**-**	**-**	**-**	3,636	-	3,636
Total	**-**	**150**	**12,104**	**26,754**	**162**	**39,170**

(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 September 30, 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	-	-	-	-	17	17
Foreign currency spot swap contracts	-	-	1,741	-	-	1,741
Total	**-**	**-**	**1,741**	**-**	**17**	**1,758**
Total stated amounts of derivatives	**12,576**	**41,868**	**104,027**	**28,031**	**209**	**186,711**
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives (1)						
Positive fair value, gross	-	4	-	-	-	4
Negative fair value, gross	3	218	-	-	-	221
B. ALM derivatives (1)(2)						
Positive fair value, gross	177	1,025	1,521	71	1	2,795
Negative fair value, gross	202	1,291	1,300	5	1	2,799
C. Other derivatives (1)						
Positive fair value, gross	-	5	148	228	-	381
Negative fair value, gross	-	-	146	214	-	360
D. Total						
Total positive fair value, gross	**177**	**1,034**	**1,669**	**299**	**1**	**3,180**
Includes: Carrying amount of assets with respect to derivatives not subject to a master netting agreement or to similar agreements	51	88	949	299	1	1,388
Total negative fair value, gross(3)	**205**	**1,509**	**1,446**	**219**	**1**	**3,380**
Includes: Carrying amount of liabilities with respect to derivatives not subject to a master netting agreement or to similar agreements	11	118	956	219	-	1,304

(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 negative fair value, gross, of embedded financial derivatives amounting to NIS 2 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 September 30, 2012 (unaudited)					
	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	100	-	-	-	-	100
Swaps	-	3,260	-	-	-	3,260
Total	**100**	**3,260**	**-**	**-**	**-**	**3,360**
Includes: Interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	3,260	-	-	-	3,260
B. ALM derivatives (1)(2)						
Forward contracts	9,237	1,800	55,069	-	24	66,130
Option contracts traded on stock exchange:						
Options written	-	-	1,969	164	-	2,133
Options purchased	-	-	4,073	201	-	4,274
Other option contracts:						
Options written	-	-	11,298	200	-	11,498
Options purchased	-	-	9,372	280	-	9,652
Swaps	1,257	33,575	13,108	-	-	47,940
Total	**10,494**	**35,375**	**94,889**	**845**	**24**	**141,627**
Includes: Interest rate swaps on which the Bank agreed to pay a fixed interest rate	707	18,676	-	-	-	19,383
C. Other derivatives (1)						
Forward contracts	-	-	718	-	-	718
Option contracts traded on stock exchange:						
Options written	-	-	5,260	6,953	-	12,213
Options purchased	-	-	5,260	6,953	-	12,213
Other option contracts:						
Options written	-	367	1,764	595	1	2,727
Options purchased	-	357	1,778	579	1	2,715
Swaps	-	-	-	3,437	-	3,437
Total	**-**	**724**	**14,780**	**18,517**	**2**	**34,023**

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

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

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

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

Reported amounts (NIS in millions)

a) Activity on consolidated basis - continued

	As of December 31, 2012 (unaudited)					
	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	100	-	-	-	-	100
Swaps	-	2,457	-	-	-	2,457
Total	**100**	**2,457**	**-**	**-**	**-**	**2,557**
Includes: Interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	2,449	-	-	-	2,449
B. ALM derivatives [(1)(2)]						
Forward contracts	10,481	1,550	54,712	-	38	66,781
Option contracts traded on stock exchange:						
Options written	-	-	1,640	2,900	-	4,540
Options purchased	-	-	2,372	2,939	-	5,311
Other option contracts:						
Options written	-	-	8,245	-	-	8,245
Options purchased	-	-	8,505	-	-	8,505
Swaps	2,042	38,153	12,625	-	-	52,820
Total	**12,523**	**39,703**	**88,099**	**5,839**	**38**	**146,202**
Includes: Interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,493	21,717	-	-	-	23,210
C. Other derivatives [(1)]						
Forward contracts	-	-	342	-	-	342
Option contracts traded on stock exchange:						
Options written	-	-	3,872	9,836	-	13,708
Options purchased	-	-	3,872	9,836	-	13,708
Other option contracts:						
Options written	-	161	148	809	1	1,119
Options purchased	-	72	174	787	1	1,034
Swaps	-	-	-	3,957	-	3,957
Total	**-**	**233**	**8,408**	**25,225**	**2**	**33,868**

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

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

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

Reported amounts (NIS in millions)

a) Activity on consolidated basis - continued

	As of December 31, 2012 (unaudited)					
	Interest contracts				Commodities and other contracts	Total
	NIS - CPI	Other	Currency contracts	Contracts for shares		
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	177	177
Foreign currency spot swap contracts	-	-	2,331	-	-	2,331
Total	**-**	**-**	**2,331**	**-**	**177**	**2,508**
Total stated amounts of derivatives	**12,623**	**42,393**	**98,838**	**31,064**	**217**	**185,135**
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives (1)						
Positive fair value, gross	1	-	-	-	-	1
Negative fair value, gross	-	316	-	-	-	316
B. ALM derivatives (1)(2)						
Positive fair value, gross	245	1,280	1,451	282	1	3,259
Negative fair value, gross	215	1,490	1,377	131	1	3,214
C. Other derivatives (1)						
Positive fair value, gross	-	2	79	177	-	258
Negative fair value, gross	-	1	79	166	-	246
D. Credit derivatives						
Credit derivatives in which the Bank is guarantor						
Negative fair value, gross	-	-	-	-	1	1
E. Total						
Total positive fair value, gross	**246**	**1,282**	**1,530**	**459**	**1**	**3,518**
Includes: Carrying amount of assets with respect to derivatives not subject to a master netting agreement or to similar agreements	62	126	568	459	1	1,216
Total negative fair value, gross(3)	**215**	**1,807**	**1,456**	**297**	**2**	**3,777**
Includes: Carrying amount of liabilities with respect to derivatives not subject to a master netting agreement or to similar agreements	50	211	783	297	2	1,343

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

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

Reported amounts (NIS in millions)

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

	As of September 30, 2013 (unaudited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivatives[1]	**402**	**1,969**	**14**	**-**	**795**	**3,180**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(1,647)	-	-	-	(1,647)
Mitigation of credit risk with respect to cash collateral received	-	(275)	-	-	-	**(275)**
Net amount of assets with respect to derivatives	**402**	**47**	**14**	**-**	**795**	**1,258**
Off-balance sheet credit risk on financial derivatives [2]	-	1,461	498	-	2,189	4,148
Mitigation of off-balance sheet credit risk	-	(490)	-	-	-	(490)
Net off-balance sheet credit risk with respect to derivatives	**-**	**971**	**498**	**-**	**2,189**	**3,658**
Total credit risk on financial derivatives	**402**	**1,018**	**512**	**-**	**2,984**	**4,916**
Carrying amount of liabilities with respect to derivatives[3]	**392**	**2,209**	**-**	**-**	**779**	**3,380**
Gross amounts not offset on the balance sheet:						
Financial instruments	-	(1,647)	-	-	-	(1,647)
Cash collateral pledged	-	(478)	-	-	-	**(478)**
Net amount of liabilities with respect to derivatives	**392**	**84**	**-**	**-**	**779**	**1,255**

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

(1) As of September 30, 2013 and as of September 30, 2012, there was no positive fair value balance of embedded derivatives.
(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 2 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

	December 31, 2012 (audited) [1]					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivatives[2]	**470**	**2,358**	**23**	**-**	**667**	**3,518**
Gross amounts not offset on the balance sheet:						
Mitigation of credit risk with respect to financial instruments	-	(1,754)	-	-	-	(1,754)
Mitigation of credit risk with respect to cash collateral received	-	(246)	-	-	-	(246)
Net amount of assets with respect to derivatives	**470**	**358**	**23**	**-**	**667**	**1,518**
Off-balance sheet credit risk on financial derivatives [3]	-	1,255	433	-	2,214	3,902
Mitigation of off-balance sheet credit risk	-	(540)	-	-	-	(540)
Net off-balance sheet credit risk with respect to derivatives	**-**	**715**	**433**	**-**	**2,214**	**3,362**
Total credit risk on financial derivatives	**470**	**1,073**	**456**	**-**	**2,881**	**4,880**
Carrying amount of liabilities with respect to derivatives[4]	**337**	**2,691**	**-**	**-**	**749**	**3,777**
Gross amounts not offset on the balance sheet:						
Financial instruments	-	(1,754)	-	-	-	(1,754)
Cash collateral pledged	-	(553)	-	-	-	(553)
Net amount of liabilities with respect to derivatives	**337**	**384**	**-**	**-**	**749**	**1,470**

(1) Re-stated.
(2) As of December 31, 2012, there was no positive fair value balance of embedded derivatives.
(3) 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.
(4) Includes negative fair value, gross, of embedded derivatives amounting to NIS 4 million.

In the nine-month period ended September 30, 2013, the Bank recognized revenues from decrease in credit losses with respect to derivatives, amounting to NIS 27 million (in the nine-month period ended September 30, 2012 and in all of 2012, the Bank recognized credit losses amounting to NIS 17 million and NIS 42 million, respectively).

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

Reported amounts (NIS in millions)

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

	September 30, 2013 (unaudited)				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS - CPI	2,934	5,149	2,451	2,042	12,576
Other	5,083	9,019	13,907	13,859	41,868
Currency contracts	62,163	30,151	4,737	6,976	104,027
Contracts for shares	25,475	2,494	62	-	28,031
Commodities and other contracts	170	21	18	-	209
Total	**95,825**	**46,834**	**21,175**	**22,877**	**186,711**

	September 30, 2012 (unaudited)				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS-CPI	1,705	4,147	3,286	1,456	10,594
Other	2,197	7,905	13,306	15,951	39,359
Currency contracts	72,331	27,594	5,042	6,977	111,944
Contracts for shares	15,696	3,054	612	-	19,362
Commodities and other contracts	15	11	100	119	245
Total	**91,944**	**42,711**	**22,346**	**24,503**	**181,504**

	As of December 31, 2012 (unaudited)				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS - CPI	1,528	5,702	3,122	2,271	12,623
Other	2,989	11,061	13,475	14,868	42,393
Currency contracts	52,778	32,715	5,549	7,796	98,838
Contracts for shares	28,114	2,340	610	-	31,064
Commodities and other contracts	34	6	40	137	217
Total	**85,443**	**51,824**	**22,796**	**25,072**	**185,135**

Note 9 – Balances and Estimates of Fair Value of Financial Instruments

Reported amounts (NIS in millions)

A. Fair value balances

	September 30, 2013 (unaudited)				
	Carrying amount	Fair value			
		Level 1 (1)	Level 2 (1)	Level 3 (1)	Total
Financial assets					
Cash and deposits with banks	21,743	3,163	14,769	3,816	21,748
Securities (3)	7,431	4,526	2,716	200	7,442
Securities loaned or sold in repurchase agreements	153	153	-	-	153
Loans to the public, net	136,747	-	9,928	128,469	138,397
Loans to Governments	304	-	-	304	304
Investments in associates	35	-	-	35	35
Assets with respect to derivatives	3,180	410	1,936	(2) 834	3,180
Other financial assets	1,887	-	-	1,887	1,887
Total financial assets	(4) **171,480**	**8,252**	**29,349**	**135,545**	**173,146**
Financial liabilities					
Deposits from the public	136,011	-	30,240	108,259	138,499
Deposits from banks	1,950	-	26	1,963	1,989
Deposits from the Government	77	-	-	88	88
Debentures and subordinated notes	16,542	15,695	-	2,105	17,800
Liabilities with respect to derivatives	3,378	400	2,055	(2) 923	3,378
Other financial liabilities	3,996	-	3,088	909	3,997
Total financial liabilities	(4) **161,954**	**16,095**	**35,409**	**114,247**	**165,751**

(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 38,854 million and NIS 29,964 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

	September 30, 2012 (unaudited)				
	Carrying	Fair value			
	amount	Level 1 (1)	Level 2 (1)	Level 3 (1)	Total
Financial assets					
Cash and deposits with banks	16,658	3,391	10,422	2,856	16,669
Securities (3)	7,966	3,790	3,914	266	7,970
Securities loaned or sold in repurchase agreements	251	251	-	-	251
Loans to the public, net	126,566	-	10,122	118,358	128,480
Loans to Governments	313	-	-	313	313
Investments in associates	32	-	-	32	32
Assets with respect to derivatives	2,780	226	1,474	(2) 1,080	2,780
Other financial assets	1,438	-	-	1,438	1,438
Total financial assets	**(4) 156,004**	**7,658**	**25,932**	**124,343**	**157,933**
Financial liabilities					
Deposits from the public	124,322	-	395	125,985	126,380
Deposits from banks	2,031	-	29	2,050	2,079
Deposits from the Government	119	-	-	133	133
Debentures and subordinated notes	14,186	-	-	15,460	15,460
Liabilities with respect to derivatives	3,553	104	2,127	(2) 1,322	3,553
Other financial liabilities	3,391	-	2,813	579	3,392
Total financial liabilities	**(4) 147,602**	**104**	**5,364**	**145,529**	**150,997**

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

(2) Fair value measurement is primarily based on 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 36,390 million and NIS 27,314 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see 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 December 31, 2012 (unaudited)				
	Carrying	Fair value			
	amount	Level 1 (1)	Level 2 (1)	Level 3 (1)	Total
Financial assets					
Cash and deposits with banks	16,671	2,259	11,930	2,495	16,684
Securities (3)	9,041	5,783	3,001	260	9,044
Securities loaned or sold in repurchase agreements	207	207	-	-	207
Loans to the public, net	128,651	-	10,463	119,690	130,153
Loans to Governments	317	-	-	317	317
Investments in associates	33	-	-	33	33
Assets with respect to derivatives	3,518	484	2,182	(2) 852	3,518
Other financial assets	1,926	-	-	1,926	1,926
Total financial assets	**(4) 160,364**	**8,733**	**27,576**	**125,573**	**161,882**
Financial liabilities					
Deposits from the public	128,499	-	32,232	98,369	130,601
Deposits from banks	1,694	-	71	1,669	1,740
Deposits from the Government	107	-	-	120	120
Debentures and subordinated notes	14,039	13,259	-	2,203	15,462
Liabilities with respect to derivatives	3,773	351	2,270	(2) 1,152	3,773
Other financial liabilities	3,657	-	2,889	768	3,657
Total financial liabilities	**(4) 151,769**	**13,610**	**37,462**	**104,281**	**155,353**

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

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

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

(4) Includes assets and liabilities amounting to NIS 36,578 million and NIS 29,564 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

Note 9 – Balances and Estimates of Fair Value of Financial Instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value:

1. On recurring basis

	September 30, 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	1,584	2,426	-	4,010
Of foreign governments	83	-	-	83
Of banks and financial institutions in Israel	124	-	-	124
Of banks and financial institutions overseas	-	86	176	262
Of others in Israel	29	-	-	29
Of others overseas	-	96	24	120
Shares	1	-	-	1
Securities held for trade				
Debentures of the Government of Israel	1,045	-	-	1,045
Credit with respect to inter-client loaning	302	-	-	302
Assets with respect to derivatives (1)				
Interest contracts:				
NIS / CPI	-	113	64	177
Other	-	936	98	1,034
Currency contracts	266	887	516	1,669
Contracts for shares	144	-	155	299
Commodities and other contracts	-	-	1	1
Total assets	**3,578**	**4,544**	**1,034**	**9,156**
Liabilities				
Deposits with respect to inter-client loaning	302	-	-	302
Liabilities with respect to derivatives (1)				
Interest contracts:				
NIS / CPI	-	184	21	205
Other	-	1,322	187	1,509
Currency contracts	326	549	571	1,446
Contracts for shares	74	-	143	217
Commodities and other contracts	-	-	1	1
Other	-	-	2	2
Total liabilities	**702**	**2,055**	**925**	**3,682**

(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

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

(1) Fair value measurement of derivatives classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

Note 9 – Balances and Estimates of Fair Value of Financial Instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value:

1. On recurring basis - Continued

	As of December 31, 2012 (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	2,106	2,594	-	4,700
Of foreign governments	95	-	-	95
Of banks and financial institutions in Israel	123	-	-	123
Of banks and financial institutions overseas	-	165	229	394
Of others in Israel	25	-	-	25
Of others overseas	10	127	31	168
Shares	4	-	-	4
Securities held for trade				
Debentures of the Government of Israel	2,291	-	-	2,291
Of banks and financial institutions overseas	3	-	-	3
Credit with respect to inter-client loaning	393	-	-	393
Assets with respect to derivatives (1)				
Interest contracts:				
NIS / CPI	-	145	101	246
Other	-	1,109	173	1,282
Currency contracts	109	928	493	1,530
Contracts for shares	375	-	84	459
Commodities and other contracts	-	-	1	1
Total assets	**5,534**	**5,068**	**1,112**	**11,714**
Liabilities				
Deposits with respect to inter-client loaning	393	-	-	393
Liabilities with respect to derivatives (1)				
Interest contracts:				
NIS / CPI	-	167	48	215
Other	-	1,482	325	1,807
Currency contracts	126	621	709	1,456
Contracts for shares	225	-	68	293
Commodities and other contracts	-	-	2	2
Other	-	-	4	4
Total liabilities	**744**	**2,270**	**1,156**	**4,170**

(1) Fair value measurement of derivatives classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter parties.

Note 9 – Balances and Estimates of Fair Value of Financial Instruments – continued

Reported amounts (NIS in millions)

B. Items measured at fair value:

2. On non-recurring basis - Continued

	As of September 30, 2013 (unaudited)				For the three months ended September 30, 2013	For the nine months ended September 30, 2013
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value	Gain (loss)	Gain (loss)
Impaired credit whose collection is contingent on collateral	-	-	152	152	(3)	(1)

	As of September 30, 2012 (unaudited)				For the three months ended September 30, 2013	For the nine months ended September 30, 2013
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value	Gain (loss)	Gain (loss)
Impaired credit whose collection is contingent on collateral	-	-	193	193	-	(33)

	As of December 31, 2012 (unaudited)				For the year ended December 31, 2012
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value	Gain (loss)
Impaired credit whose collection is contingent on collateral	-	-	145	145	(72)

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 September 30, 2013 (unaudited)								
		Realized / unrealized gain (loss), net (1) included							
	Fair value as of June 30, 2013	On statement of profit and loss	On statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of September 30, 2013	Unrealized gain (loss) with respect to instruments held as of September 30, 2013
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	220	(4)	-	-	-	(40)	-	176	(44)
Of others overseas	30	(1)	-	-	(5)	-	-	24	(6)
Assets with respect to derivatives (2)(3)									
Interest contracts:									
NIS / CPI	117	(34)	-	-	-	(19)	-	64	102
Other	131	(2)	-	-	-	(31)	-	98	61
Currency contracts	362	86	-	160	-	(92)	-	516	338
Contracts for shares	150	46	-	6	-	(47)	-	155	-
Commodities and other contracts	3	-	-	-	-	(2)	-	1	1
Total assets	**1,013**	**91**	**-**	**166**	**(5)**	**(231)**	**-**	**1,034**	**452**
Liabilities									
Liabilities with respect to derivatives (2)(3)									
Interest contracts:									
NIS / CPI	5	14	-	1	-	(1)	2	21	(3)
Other	246	31	-	-	-	(90)	-	187	(45)
Currency contracts	568	15	-	158	-	(170)	-	571	(443)
Contracts for shares	131	52	-	6	-	(46)	-	143	-
Commodities and other contracts	2	-	-	-	-	(1)	-	1	(1)
Other	2	-	-	2	-	(2)	-	2	-
Total liabilities	**954**	**112**	**-**	**167**	**-**	**(310)**	**2**	**925**	**(492)**

(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 September 30, 2012 (unaudited)								
		Realized / unrealized gain (loss), net (1) included							
	Fair value as of June 30, 2012	On statement of profit and loss	On statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of September 30, 2012	Unrealized gain (loss) with respect to instruments held as of September 30, 2012
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	230	-	(2)	-	-	-	-	228	(2)
Asset-backed	33	1	-	-	(27)	-	-	7	1
Of others overseas	36	1	-	-	-	(6)	-	31	1
Assets with respect to derivatives (2)(3)									
Interest contracts:									
NIS / CPI	65	(4)	-	-	-	(19)	-	42	72
Other	181	10	-	5	-	(37)	-	159	44
Currency contracts	811	(206)	-	213	-	(139)	-	679	160
Contracts for shares	216	(18)	-	1	-	-	-	199	-
Commodities and other contracts	-	1	-	-	-	-	-	1	-
Total assets	**1,572**	**(215)**	**(2)**	**219**	**(27)**	**(201)**	**-**	**1,346**	**276**
Liabilities									
Liabilities with respect to derivatives (2)(3)									
Interest contracts:									
NIS / CPI	18	(6)	-	15	-	(1)	14	40	(20)
Other	327	137	-	6	-	(118)	-	352	(132)
Currency contracts	703	366	-	247	-	(558)	-	758	(170)
Contracts for shares	155	14	-	-	-	-	-	169	-
Commodities and other contracts	4	(1)	-	-	-	-	-	3	-
Other	4	-	-	-	-	-	-	4	-
Total liabilities	**1,211**	**510**	**-**	**268**	**-**	**(677)**	**14**	**1,326**	**(322)**

(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 nine months ended September 30, 2013 (unaudited)								
		Realized / unrealized gain (loss), net [(1)] included							
	Fair value as of December 31, 2012	On statement of profit and loss	On statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3	Fair value as of September 30, 2013	Unrealized gain (loss) with respect to instruments held as of September 30, 2013
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	229	(13)	-	-	-	(40)	-	176	(13)
Of others overseas	31	(2)	-	-	(5)	-	-	24	(2)
Assets with respect to derivatives [(2)(3)]									
Interest contracts:									
NIS / CPI	101	(42)	-	2	-	(45)	48	64	102
Other	173	30	-	5	-	(110)	-	98	61
Currency contracts	493	253	-	425	-	(655)	-	516	338
Contracts for shares	84	110	-	66	-	(105)	-	155	-
Commodities and other contracts	1	2	-	2	-	(4)	-	1	1
Total assets	**1,112**	**338**	**-**	**500**	**(5)**	**(959)**	**48**	**1,034**	**487**
Liabilities									
Liabilities with respect to derivatives[(2)(3)]									
Interest contracts:									
NIS / CPI	48	7	-	6	-	(46)	6	21	(3)
Other	325	63	-	10	-	(211)	-	187	(45)
Currency contracts	709	148	-	647	-	(933)	-	571	(443)
Contracts for shares	68	99	-	66	-	(90)	-	143	-
Commodities and other contracts	2	1	-	2	-	(4)	-	1	(1)
Other	4	(2)	-	2	-	(2)	-	2	-
Total liabilities	**1,156**	**316**	**-**	**733**	**-**	**(1,286)**	**6**	**925**	**(492)**

(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 nine months ended September 30, 2012 (unaudited)								
		Realized / unrealized gain (loss), net [(1)] included							
	Fair value as of December 31, 2011	On statement of profit and loss	On statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3 On statement of profit and loss	Realized / unrealized gain (loss), net [(1)] included	Unrealized gain (loss) with respect to instruments held as of September 30, 2012
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	220	8	-	-	-	-	-	228	8
Asset-backed	61	(11)	(1)	-	(42)	-	-	7	(11)
Of others overseas	37	1	-	-	-	(7)	-	31	1
Assets with respect to derivatives [(2)(3)]									
Interest contracts:									
NIS / CPI	128	(89)	-	155	-	(203)	51	42	72
Other	119	84	-	606	-	(650)	-	159	44
Currency contracts	682	139	-	362	-	(504)	-	679	160
Contracts for shares	108	37	-	86	-	(32)	-	199	-
Commodities and other contracts	1	(2)	-	4	-	(2)	-	1	-
Total assets	**1,356**	**167**	**(1)**	**1,213**	**(42)**	**(1,398)**	**51**	**1,346**	**274**
Liabilities									
Liabilities with respect to derivatives [(2)(3)]									
Interest contracts:									
NIS / CPI	28	(18)	-	165	-	(153)	18	40	(20)
Other	309	214	-	606	-	(777)	-	352	(132)
Currency contracts	793	610	-	1,182	-	(1,827)	-	758	(170)
Contracts for shares	125	(26)	-	121	-	(51)	-	169	-
Commodities and other contracts	10	(12)	-	10	-	(5)	-	3	-
Other	6	(2)	-	9	-	(9)	-	4	-
Total liabilities	**1,271**	**766**	**-**	**2,093**	**-**	**(2,822)**	**18**	**1,326**	**(322)**

(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, 2012 (audited)								
		Realized / unrealized gain (loss), net [(1)] included							
	Fair value as of December 31, 2011	On statement of profit and loss	On statement of other comprehensive income under Equity	Acquisitions	Sales	Dispositions	Transfer to level 3 On statement of profit and loss	Fair value as of December 31, 2012	Unrealized gain (loss) with respect to instruments held as of December 31, 2012
Assets									
Securities available for sale									
Debentures and bonds:									
Of banks and financial institutions overseas	220	9	-	-	-	-	-	229	9
Asset-backed	61	(11)	(1)	-	(49)	-	-	-	(1)
Of others overseas	37	2	-	-	-	(8)	-	31	2
Assets with respect to derivatives [(2)(3)]									
Interest contracts:									
NIS / CPI	128	8	-	48	-	(106)	23	101	111
Other	119	19	-	40	-	(5)	-	173	125
Currency contracts	682	94	-	300	-	(583)	-	493	91
Contracts for shares	108	-	-	63	-	(87)	-	84	-
Commodities and other contracts	1	-	-	1	-	(1)	-	1	-
Total assets	**1,356**	**121**	**(1)**	**452**	**(49)**	**(790)**	**23**	**1,112**	**337**
Liabilities									
Liabilities with respect to derivatives[(2)(3)]									
Interest contracts:									
NIS / CPI	28	2	-	45	-	(30)	3	48	(6)
Other	309	(67)	-	90	-	(7)	-	325	(100)
Currency contracts	793	73	-	413	-	(570)	-	709	(10)
Contracts for shares	125	-	-	68	-	(125)	-	68	-
Commodities and other contracts	10	-	-	1	-	(9)	-	2	-
Other	6	(1)	-	-	-	(1)	-	4	(1)
Total liabilities	**1,271**	**7**	**-**	**617**	**-**	**(742)**	**3**	**1,156**	**(117)**

(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:

	Fair value as of September 30, 2013	Valuation t echnique	Non-observed data	Range	Weighted average (unaudited)
Securities available for sale:					
Debentures of foreign banks and financial institutions	5	Estimated recouperation rate	Recouperation rate	5.00%	5.00%
CLN	171	Cash flow discounting	Probability of default	1.45%-0.44%	1.43%
Debentures of foreign others	24	Cash flow discounting	Discount rate	6.18%-5.05%	5.95%
Assets with respect to derivatives:					
Interest contracts - NIS CPI	19	Cash flow discounting	Inflationary expectations	1.62%-1.59%	1.60%
Contracts for shares	9	Option pricing model	Standard deviation of shares	49.15%-28.18%	48.64%
Other	806	Cash flow discounting	Counter-party credit quality	3.10%- 1.20%	1.87%
Liabilities with respect to derivatives:					
Interest contracts - NIS CPI	18	Cash flow discounting	Inflationary expectations	1.62%-1.59%	1.60%
Other	905	Cash flow discounting	Counter-party credit quality	3.10%- 1.20%	1.94%

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

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

F. Election of fair value alternative

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

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

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

Note 9 – Balances and Estimates of Fair Value of Financial Instruments – continued

Reported amounts (NIS in millions)

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

	Fair value as of September 30, 2013	Profit (loss) with respect to change in fair value for the nine months ended September 30, 2013
Securities available for sale	554	7

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

Note 10 – Interest revenues and expenses

Reported amounts (NIS in millions)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2013	2012 [(1)]	2013	2012	2012
		(unaudited)	(unaudited)		(audited)
A. Interest revenues [(2)]					
From loans to the public	1,939	1,793	4,865	[(1)] 5,077	6,146
From loans to Governments	3	2	7	5	7
From deposits with the Bank of Israel and from cash	45	32	134	128	189
From deposits with banks	31	27	44	[(1)] 44	26
From securities loaned or sold in repurchase agreements	-	1	1	3	4
From debentures	40	37	124	155	219
Total interest revenues	**2,058**	**1,892**	**5,175**	**5,412**	**6,591**
B. Interest expenses					
On deposits from the public	739	757	1,799	2,143	2,594
On deposits from governments	1	1	4	4	5
On deposits from banks	10	7	34	41	68
On debentures and subordinated notes	303	227	658	653	710
Total interest expenses	**1,053**	**992**	**2,495**	**2,841**	**3,377**
Total interest revenues, net	**1,005**	**900**	**2,680**	**2,571**	**3,214**
C. Details of net effect of hedging financial derivatives on interest revenues	**(11)**	**(27)**	**20**	**(119)**	**(73)**
D. Details of interest revenues on accrual basis from debentures					
Held to maturity	4	8	16	21	26
Available for sale	30	28	92	125	174
Held for trade	6	1	16	9	19
Total included under interest revenues	**40**	**37**	**124**	**155**	**219**

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

Note 11 – Non-interest financing revenues

Reported amounts (NIS in millions)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2013	2012	2013	2012	2012
		(unaudited)		(unaudited)	(audited)
A. Non-interest financing revenues with respect to non-trade operations					
1. **From activity in derivatives**					
Non-effective element of hedging ratios [(1)]	(1)	(1)	(2)	(2)	(2)
Net expenses with respect to ALM derivatives [(2)]	(253)	(15)	(386)	(42)	(100)
Total from activity in derivatives	**(254)**	**(16)**	**(388)**	**(44)**	**(102)**
2. From investment in debentures					
Gain on sale of debentures available for sale	-	29	33	65	118
Loss on sale of debentures available for sale	(1)	-	(1)	(4)	(5)
Provision for impairment of debentures available for sale	-	-	-	(8)	(8)
Total from investment in debentures	**(1)**	**29**	**32**	**53**	**105**
3. Exchange rate differences, net	**165**	**(56)**	**361**	**(204)**	**(21)**
4. **Gain from investment in shares**					
Gains on sale of available-for-sale shares	1	1	6	4	5
Dividends from available-for-sale shares	-	1	-	1	24
Total from investment in shares	**1**	**2**	**6**	**5**	**29**
Total non-interest financing revenues (expenses) with respect to non-trade operations	**(89)**	**(41)**	**11**	**(190)**	**11**

(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.

Note 11 - Non-interest financing revenues - Continued

Reported amounts (NIS in millions)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2013	2012	2013	2012	2012
		(unaudited)		(unaudited)	(audited)
B. Non-interest financing revenuesrespect to trading activities[1]					
Net revenues (expenses) with respect to other derivatives	(9)	(51)	(50)	44	40
Realized gain from adjustment to fair value of debentures held for trade, net	28	7	32	18	32
Unrealized gain (loss) from adjustment to fair value of debentures held for trade, net	(20)	(13)	(2)	(6)	12
Total from trade operations[2]	**(1)**	**(57)**	**(20)**	**56**	**84**
Details of non-interest financing revenues (expenses) with respect to trade operations, by risk exposure					
Risk exposure	21	(7)	46	10	44
Foreign currency exposure	(11)	(62)	(69)	5	22
Exposure to shares	(2)	7	12	28	(3)
Exposure to commodities and others	(9)	5	(9)	13	21
Total	**(1)**	**(57)**	**(20)**	**56**	**84**

(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 nine months ended September 30, 2013 (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	3,006	(14)	322	145	308	(1,087)	2,680
Inter-segment	(1,667)	58	28	(21)	201	1,401	-
Total interest revenues, net	**1,339**	**44**	**350**	**124**	**509**	**314**	**2,680**
Non-interest financing revenues	4	1	-	1	30	(45)	(9)
Commissions and other revenues	571	39	185	43	176	91	1,105
Total revenues	**1,914**	**84**	**535**	**168**	**715**	**360**	**3,776**
Expenses with respect to credit losses	249	(2)	48	(9)	-	(3)	283
Operating and other expenses							
From outside operating segments	1,330	55	370	49	154	220	2,178
Inter-segment	(85)	8	(39)	48	60	8	-
Other operating expenses - total	**1,245**	**63**	**331**	**97**	**214**	**228**	**2,178**
Pre-tax profit	420	23	156	80	501	135	1,315
Provision for taxes on profit	146	8	53	28	172	45	452
After-tax profit	**274**	**15**	**103**	**52**	**329**	**90**	**863**
Share in net profits of affiliates, after tax	-	-	-	-	-	-	-
Net profit:							
Before attribution to non-controlling interest	274	15	103	52	329	90	863
Attributable to non-controlling interest	(37)	-	-	-	-	-	(37)
Attributable to equity holders of the banking corporation	**237**	**15**	**103**	**52**	**329**	**90**	**826**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**6.7%**	**22.2%**	**30.1%**	**15.7%**	**14.1%**	**43.1%**	**12.1%**
Average asset balance	95,008	2,281	7,421	4,682	26,664	30,762	166,818
Includes: Investments in associates	-	-	-	-	-	62	62
Average balance of liabilities	60,821	6,984	8,794	3,536	36,861	40,142	157,138
Average balance of risk assets (1)	56,539	1,050	5,352	5,090	35,967	5,535	109,533
Average balance of provident and mutual fund assets	-	-	-	-	-	82,410	82,410
Average balance of securities	30,666	8,454	6,431	3,810	61,841	43,111	154,313
Loans to the public, net (end balance)	101,573	1,002	7,589	4,711	21,872	-	136,747
Deposits from the public (end balance)	60,335	6,777	8,948	3,309	39,061	17,581	136,011
Average balance of other assets managed	19,947	7	198	261	232	-	20,645

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	944	19	285	109	430	-	1,787
Margin from receiving deposits	355	24	49	13	73	-	514
Other	40	1	16	2	6	314	379
Total interest revenues, net	**1,339**	**44**	**350**	**124**	**509**	**314**	**2,680**

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

Note 12 – Operating Segments - Continued

For the nine months ended September 30, 2012 (unaudited) - Continued

Reported amounts (NIS in millions)

A. Information regarding operating segments[2]

	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	2,866	(8)	261	150	246	(944)	2,571
Inter-segment	(1,562)	68	74	(22)	227	1,215	-
Total interest revenues, net	**1,304**	**60**	**335**	**128**	**473**	**271**	**2,571**
Non-interest financing revenues	5	-	-	1	[2]46	[2](186)	(134)
Commissions and other revenues	584	41	177	46	168	89	1,105
Total revenues	**1,893**	**101**	**512**	**175**	**687**	**174**	**3,542**
Expenses with respect to credit losses	49	3	23	11	138	4	228
Operating and other expenses							
From outside operating segments	1,258	61	340	47	158	182	2,046
Inter-segment	(83)	-	(38)	52	66	3	-
Other operating expenses - total	**1,175**	**61**	**302**	**99**	**224**	**185**	**2,046**
Pre-tax profit	669	37	187	65	325	(15)	1,268
Provision for taxes on profit	224	12	62	22	108	(5)	423
After-tax profit	**445**	**25**	**125**	**43**	**217**	**(10)**	**845**
Share in net profits of affiliates, after tax	-	-	-	-	-	-	-
Net profit:							
Before attribution to non-controlling interest	445	25	125	43	217	(10)	845
Attributable to non-controlling interest	(39)	-	-	-	-	-	(39)
Attributable to equity holders of the banking corporation	**406**	**25**	**125**	**43**	**217**	**(10)**	**806**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**13.8%**	**26.6%**	**41.2%**	**13.7%**	**9.9%**	**-**	**13.5%**
Average asset balance	86,213	2,366	7,020	4,721	27,413	26,244	153,977
Includes: Investments in associates	-	-	-	-	-	54	54
Average balance of liabilities	57,956	7,160	8,050	3,549	31,961	35,185	143,861
Average balance of risk assets [1]	51,232	1,573	5,164	5,180	36,048	5,421	104,618
Average balance of provident and mutual fund assets	-	-	-	-	-	97,819	97,819
Average balance of securities	26,551	7,548	6,097	3,551	60,639	41,245	145,631
Loans to the public, net (end balance)	90,558	1,141	6,751	4,662	[2]23,454	-	126,566
Deposits from the public (end balance)	58,614	6,156	7,851	3,763	33,083	14,855	124,322
Average balance of other assets managed	20,288	-	185	224	267	-	20,964

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

	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	849	24	260	111	424	-	1,668
Margin from receiving deposits	407	35	59	15	54	-	570
Other	48	1	16	2	(5)	271	333
Total interest revenues, net	**1,304**	**60**	**335**	**128**	**473**	**271**	**2,571**

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

Note 12 – Operating Segments - Continued

For the three months ended September 30, 2013 (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	1,301	(16)	96	48	102	(526)	1,005
Inter-segment	(847)	25	22	(8)	70	738	-
Total interest revenues, net	**454**	**9**	**118**	**40**	**172**	**212**	**1,005**
Non-interest financing revenues	2	1	-	1	12	(106)	(90)
Commissions and other revenues	188	9	62	15	56	34	364
Total revenues	**644**	**19**	**180**	**56**	**240**	**140**	**1,279**
Expenses with respect to credit losses	30	1	24	(4)	20	(3)	68
Operating and other expenses							
From outside operating segments	462	19	131	18	53	72	755
Inter-segment	(29)	3	(14)	17	21	2	-
Other operating expenses - total	**433**	**22**	**117**	**35**	**74**	**74**	**755**
Pre-tax profit	181	(4)	39	25	146	69	456
Provision for taxes on profit	59	(1)	11	9	43	22	143
After-tax profit	**122**	**(3)**	**28**	**16**	**103**	**47**	**313**
Share in net profits of affiliates, after tax	-	-	-	-	-	1	1
Net profit:							
Before attribution to non-controlling interest	122	(3)	28	16	103	48	314
Attributable to non-controlling interest	(13)	-	-	-	-	-	(13)
Attributable to equity holders of the banking corporation	**109**	**(3)**	**28**	**16**	**103**	**48**	**301**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**9.4%**	**-**	**25.7%**	**14.9%**	**13.7%**	**45.7%**	**13.3%**

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	325	4	97	37	157	-	620
Margin from receiving deposits	118	5	15	4	23	-	165
Other	11	-	6	(1)	(8)	212	220
Total interest revenues, net	**454**	**9**	**118**	**40**	**172**	**212**	**1,005**

Note 12 – Operating Segments - Continued

For the three months ended September 30, 2012 (unaudited) - Continued

Reported amounts (NIS in millions)

A. Information regarding operating segments

	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	1,026	-	80	48	72	(326)	900
Inter-segment	(587)	22	30	(6)	87	454	-
Total interest revenues, net	**439**	**22**	**110**	**42**	**159**	**128**	**900**
Non-interest financing revenues	1	-	-	1	(1) 12	(1) (112)	(98)
Commissions and other revenues	192	14	60	17	69	33	385
Total revenues	**632**	**36**	**170**	**60**	**240**	**49**	**1,187**
Expenses with respect to credit losses	12	6	8	9	85	(4)	116
Operating and other expenses							
From outside operating segments	424	23	116	13	47	53	676
Inter-segment	(25)	(3)	(13)	19	25	(3)	-
Other operating expenses - total	**399**	**20**	**103**	**32**	**72**	**50**	**676**
Pre-tax profit	221	10	59	19	83	3	395
Provision for taxes on profit	69	3	18	6	24	1	121
After-tax profit	**152**	**7**	**41**	**13**	**59**	**2**	**274**
Share in net profits of affiliates, after tax	-	-	-	-	-	-	-
Net profit:							
Before attribution to non-controlling interest	152	7	41	13	59	2	274
Attributable to non-controlling interest	(14)	-	-	-	-	-	(14)
Attributable to equity holders of the banking corporation	**138**	**7**	**41**	**13**	**59**	**2**	**260**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**14.5%**	**24.1%**	**44.7%**	**13.0%**	**8.0%**	**2.3%**	**13.0%**

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	300	12	86	36	141	-	586
Margin from receiving deposits	126	9	20	5	15	-	162
Other	13	1	4	1	3	128	152
Total interest revenues, net	**439**	**22**	**110**	**42**	**159**	**128**	**900**

(1) Reclassified.

Note 12 – Operating Segments - Continued

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

Reported amounts (NIS in millions)

A. Information regarding operating segments[2]

	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:							
From outside operating segments	3,274	(12)	316	198	331	(893)	3,214
Inter-segment	(1,543)	85	133	(27)	324	1,028	-
Total interest revenues, net	**1,731**	**73**	**449**	**171**	**655**	**135**	**3,214**
Non-interest financing revenues	7	1	1	1	76	9	95
Commissions and other revenues	778	55	238	60	216	131	1,478
Total revenues	**2,516**	**129**	**688**	**232**	**947**	**275**	**4,787**
Expenses with respect to credit losses	65	(12)	36	8	178	1	276
Operating and other expenses							
From outside operating segments	1,717	78	459	66	217	249	2,786
Inter-segment	(119)	5	(53)	68	86	13	-
Other operating expenses - total	**1,598**	**83**	**406**	**134**	**303**	**262**	**2,786**
Pre-tax profit	853	58	246	90	466	12	1,725
Provision for taxes on profit	297	20	86	31	161	4	599
After-tax profit	**556**	**38**	**160**	**59**	**305**	**8**	**1,126**
Share in net profits of affiliates, after tax	-	-	-	-	-	-	-
Net profit:							
Before attribution to non-controlling interest	556	38	160	59	305	8	1,126
Attributable to non-controlling interest	(50)	-	-	-	-	-	(50)
Attributable to equity holders of the banking corporation	**506**	**38**	**160**	**59**	**305**	**8**	**1,076**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**12.9%**	**39.9%**	**38.8%**	**14.3%**	**10.5%**	**1.7%**	**13.1%**
Average asset balance	85,857	2,274	7,179	4,704	26,919	28,110	155,043
Includes: Investments in associates	-	-	-	-	-	60	60
Average balance of liabilities	58,446	6,958	8,280	3,545	31,702	35,811	144,742
Average balance of risk assets [1]	51,763	1,191	5,160	5,172	36,323	5,476	105,085
Average balance of provident and mutual fund assets	-	-	-	-	-	73,821	73,821
Average balance of securities	26,895	7,767	5,606	3,633	59,957	42,271	146,129
Loans to the public, net (end balance)	93,013	1,178	6,860	4,679	22,921	-	128,651
Deposits from the public (end balance)	58,645	7,077	8,159	3,358	33,934	17,326	128,499
Average balance of other assets managed	20,206	2	191	224	261	-	20,884

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

	Households	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	1,140	31	344	144	552	-	2,211
Margin from receiving deposits	524	41	80	24	70	-	739
Other	67	1	25	3	33	135	264
Total interest revenues, net	**1,731**	**73**	**449**	**171**	**655**	**135**	**3,214**

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

(2) Reclassified.

Note 13 - Cumulative Other Comprehensive Income

A. Changes to cumulative other comprehensive income, after tax effect

	Other comprehensive income (loss), before attribution to non-controlling interest					
	Adjustments for presentation of securities available for sale at fair value	Translation adjustments	Net gain from cash flow hedges	Total	Other comprehensive income attributed to non-controlling interest	Other comprehen-sive income attributable to equity holders of the banking corporation
			(Un-audited)			
Balance as of June 30, 2013	**3**	**(1)**	**1**	**3**	**2**	**1**
Net change in the period	2	(1)	(1)	-	(2)	2
Balance as of September 30, 2013	**5**	**(2)**	**-**	**3**	**-**	**3**
Balance as of June 30, 2012	**(33)**	**-**	**9**	**(24)**	**-**	**(24)**
Net change in the period	22	-	(8)	14	3	11
Balance as of September 30, 2012	**(11)**	**-**	**1**	**(10)**	**3**	**(13)**
Balance as of December 31, 2012	**-**	**-**	**3**	**3**	**3**	**-**
Net change in the period	5	(2)	(3)	-	(3)	3
Balance as of September 30, 2013	**5**	**(2)**	**-**	**3**	**-**	**3**
Balance as of December 31, 2011	**(48)**	**-**	**18**	**(30)**	**-**	**(30)**
Net change in the period	37	-	(17)	20	3	17
Balance as of September 30, 2012	**(11)**	**-**	**1**	**(10)**	**3**	**(13)**
			(Audited)			
Balance as of December 31, 2011	**(48)**	**-**	**18**	**(30)**	**-**	**(30)**
Net change in the period	48	-	(15)	33	3	30
Balance as of December 31, 2012	**-**	**-**	**3**	**3**	**3**	**-**

Note 13 - Cumulative other comprehensive income - continued

B. Changes in items of cumulative other comprehensive income before and after tax effect

	For the three months ended September 3					
	2013			2012		
	Before tax	Tax effect	After tax	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	3	(1)	2	63	(22)	41
Loss (gain) with respect to available-for-sale securities reclassified to the statement of profit and loss	1	(1)	-	(29)	10	(19)
Net change in the period	**4**	**(2)**	**2**	**34**	**(12)**	**22**
Adjustments from translation of financial statements						
Adjustments from translation of financial statements	(1)	-	(1)	-	-	-
Net change during the period from adjustments from translation of financial statements	**(1)**	**-**	**(1)**	**-**	**-**	**-**
Cash flow hedges						
Net gain (loss) with respect to cash flow hedges	(1)	-	(1)	(12)	4	(8)
Net change during the period with respect to cash flow hedges	**(1)**	**-**	**(1)**	**(12)**	**4**	**(8)**
Total net change in the period	**2**	**(2)**	**-**	**22**	**(8)**	**14**
Total net change in the period attributable to non-controlling interest	**2**	**-**	**2**	**(4)**	**1**	**(3)**
Total net change in the period attributable to equity holders of the banking corporation	**4**	**(2)**	**2**	**18**	**(7)**	**11**

(1) Reclassified.

	For the nine months ended September 30						For the year ended December 31,		
	2013			2012			2012		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
	40	(15)	25	110	(39)	71	[1] 178	[1] (62)	[1] 116
	(32)	12	(20)	(53)	19	(34)	[1] (105)	[1] 37	[1] (68)
	8	**(3)**	**5**	**57**	**(20)**	**37**	**73**	**(25)**	**48**
	(2)	-	(2)	-	-	-	-	-	-
	(2)	**-**	**(2)**	**-**	**-**	**-**	**-**	**-**	**-**
	(4)	1	(3)	(24)	7	(17)	(22)	7	(15)
	(4)	**1**	**(3)**	**(24)**	**7**	**(17)**	**(22)**	**7**	**(15)**
	2	**(2)**	**-**	**33**	**(13)**	**20**	**51**	**(18)**	**33**
	4	**(1)**	**3**	**(5)**	**2**	**(3)**	**(4)**	**1**	**(3)**
	6	**(3)**	**3**	**28**	**(11)**	**17**	**47**	**(17)**	**30**

Note 14 – Other matters

A. On January 21, 2013, Tefahot Issuance issued NIS 1,305 million par value debentures (Series 29 and 35, CPI-linked), pursuant to the shelf prospectus dated February 25, 2011, for consideration of NIS 1,509 million.

On July 30, 2013, Tefahot Issuance issued a shelf prospectus for issue of up to 10 new series of subordinated notes (Series H-Q), 10 new series of debentures (Series 36-45), extension of series of debentures (Series 29 and 32-35), extension of series of subordinated notes (Series 31) and issue of 2 series of commercial paper (Series 1-2). This shelf prospectus is valid through July 29, 2015.

On September 2, 2013, Tefahot Issuance issued CPI-linked debentures (Series 35-36) with total par value of NIS 1,440 million, for consideration amounting to NIS 1,498 million – pursuant to the new shelf prospectus dated July 30, 2013.

The consideration from all these issues was deposited with the Bank under terms similar to those of other issues.

B. On April 29, 2013, the Bank Board of Directors, after receiving approval of the Bank's Audit Committee, resolved to approve a plan for allotment of a further 5,921,340 options to 330 offerees who are employees of the Bank and its subsidiaries. The option plan is based on the principles of the stock option plan for employees at the Bank.

The stock option plan is based on the format and principles of the employee stock option plans approved by the Bank in 2008 through 2011, whereby the Bank allocated options on July 8, 2008, on September 24, 2009, on December 5, 2010 and on November 17, 2011. Terms of the aforementioned options were listed in detail in outlines made public by the Bank, as amended. The stock option plan pursuant to this outline is intended for Bank employees other than officers and to employees of Bank subsidiaries. For further information, see Note 16.A.3.A-B. to Financial Statements as of December 31, 2012.
The number of options which offerees may actually exercise, pursuant to plan terms and conditions, is derived from the average rate of net operating profit return on equity for the Bank, based on the formula for exercise eligibility - all as described and similar to plans approved in 2008 through 2011.

The options were awarded in one lot, exercisable as from the first anniversary through 90 days after the second anniversary of the award date. Subject to the average rate of net operating profit return on equity for the Bank, as described above. The exercise price for each option 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 35 million (NIS 41 million including Payroll Tax).

Note 14 - Other matters - continued

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

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

	Lot 1	Total
Allotment approved April 29, 2013		
Number of options	5,921,340	
Annualized standard deviation	31.36%	
Exercise price (in NIS)	36.6	
Risk-free interest rate	-0.18%	
Term to exercise (in years)	1.71	
Fair value per single option	5.894	
Total fair value of award (NIS in thousands)	34,899	34,899

C. On June 17, 2013, the General Meeting of shareholders approved the Bank's contracting of terms of office and employment of the Chairman of the Bank Board of Directors.

Below is a summary of the terms of office and employment of the Chairman of the Board of Directors, Mr. Moshe Weidman:

Mr. Moshe Weidman serves as Chairman of the Bank Board of Directors, at a full-time position equivalent, as from December 1, 2012. The employment agreement is for a 3-year term from the actual start date in office, and would terminate on November 30, 2015. Notwithstanding the foregoing, each party may inform the other party of termination of employment on any date, even before the end of the specified term, by three months' prior notice.

The Chairman would be eligible to receive for his work a monthly salary amounting to NIS 180 thousand, linked to the Consumer Price Index. The Chairman would also be eligible to receive an annual bonus of up to nine monthly salaries and an additional deferred bonus of up to nine monthly salaries, deferred until the end of his term in office. The bonus payments would be calculated based on return on equity, annual return of Bank shares, the Bank's operating efficiency ratio and the Board of Directors' evaluation of the Chairman's performance in discharging his special duties in the assigned areas.

Note 14 - Other matters - continued

The Bank provides to the Chairman of the Board of Directors a budget equal to 15.83% of his salary for contributions towards provident fund, retirement and severance pay. The Bank also contributes, on behalf of the Chairman of the Board of Directors, to a study fund at 7.5% of his salary. These amounts are contributed to provident funds / study funds as selected by the Chairman of the Board of Directors.

Upon termination of the Chairman's employment, the Bank would pay him an amount equal to 150% of his last monthly salary multiplied by his number of years in service. The Bank would also pay an acclimation bonus equal to 6 monthly salaries plus social benefits.

In addition to the foregoing, should the Chairman be terminated prior to completion of the specified term, he would be paid additional amounts as stipulated in the employment agreement - subject to conditions stated in the employment contract.

Upon termination of the Chairman, the Bank would provide him with a letter releasing all contributions made to provident, pension and severance pay funds - in lieu of the full severance pay to which the Chairman of the Board of Directors is entitled. The Bank would also release the study fund to the Chairman.

All other terms of office and employment of the Chairman of the Board of Directors were listed in an Immediate Report dated April 24, 2013, reference number 2013-01-044368. This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

D. On May 27, 2013, the Knesset Finance Committee decided to increase the VAT rate to 18%, effective as from June 2, 2013 (the profit tax and payroll tax rates applied to financial institutions increased accordingly). This legislation was officially published on June 3, 2013. Consequently, the tax rate applicable to the Bank increased to 36.21% in 2013 (compared to 35.90% prior to this change).

The increase in VAT rate had no material impact on the Bank's financial statements.

On July 30, 2013, the Knesset Plenum approved, by second and third vote, the Budget Act and the Arrangements Act for 2013-2014. In conjunction with this legislation, the increase in corporate tax rate to 26.5% was approved, effective as from January 1, 2014.
The Act was officially published on August 5, 2013.

Consequently, the tax rate applicable to the Bank as from 2014 would be 37.71%.

The increase in tax rate applicable to the Bank increases the Bank's deferred tax balance. With respect to said increase, the Bank recognized revenues amounting to NIS 28 million in these financial statements.

Note 14 - Other matters - continued

E. Following the effective start date of Amendment 20 to the Companies Law, 1999 ("the Companies Law"), the Bank acted to formulate and adopt an officer remuneration policy in line with provisions of the Law.

On July 18, 2013, the Remuneration Committee, having reviewed the information presented to it and taken into consideration all the elements required pursuant to Amendment 20 to the Companies Law, resolved to recommend that the Bank's Board of Directors approve the officer remuneration policy; on July 22, 2013, the Bank Board of Directors approved the remuneration policy. The remuneration policy was approved by the General Meeting of Shareholders on August 27, 2013.

The officer remuneration policy approved by the General Meeting of Shareholders is based, *inter alia*, on provisions of the Companies Law and on the Bank of Israel's letter dated April 5, 2009 about remuneration policy at banking corporations.

Major underlying considerations of the approved remuneration policy are:

- Promote the Bank's objectives, strategic plan, working plans and policy from the long-term perspective.
- Create appropriate incentives for officers, with due consideration to the Bank's risk management policy.
- Maintain and promote the Bank's capacity to recruit and preserve outstanding, high-quality managers who form a strong basis for Bank management, continued development and success over time.
- Bank size and the nature of its operations.
- Officer contribution to achievement of Bank objectives and to maximizing Bank profit from the long-term perspective and in line with the officer's position (with regard to variable compensation).

The approved remuneration policy applies to remuneration of all Bank officers; as of the policy approval date, these include the following: President, Vice Presidents, Chief Legal Counsel, Chief Internal Auditor, Bank Secretary, CIO and Board members – including the Chairman of the Board of Directors. Furthermore, the Board may determine from time to time that the remuneration policy would also apply to senior Bank employees who are not officers pursuant to the Corporate Act.

The remuneration policy refers to a "comprehensive remuneration package" to which officers, other than Board members, are eligible – comprising of two major components: monthly salary (and associated components) and variable performance-based compensation (monetary bonus and/or long-term equity-based remuneration). The remuneration package may also include retirement-related remuneration. The remuneration policy makes a distinction in referring to terms of office of Board members and those of the Chairman of the Board of Directors.

Note 14 - Other matters - continued

In formulating the remuneration policy, the Remuneration Committee and the Board of Directors discussed the ratio of fixed to variable remuneration components, considering the maximum allowed variable compensation, in conformity with the remuneration policy and its objectives. These organs further reviewed the ratio of officer remuneration to the average and median pay to all Bank employees, so as to reflect common remuneration differentials in Israel's banking system, with due notice to the Bank's calm labor relations.

For more information about the remuneration policy, its guidelines and scope – see the Immediate Report dated August 18, 2013, reference 2013-01-119877. This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

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