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Bank Hapoalim

Condensed Financial Statement
as at March 31, 2012

Contents

Board of Directors' Report
As at March 31, 2012

At the meeting of the Board of Directors held on May 30, 2012, it was resolved to approve and publish the unaudited consolidated financial statements of Bank Hapoalim B.M. and its consolidated subsidiaries for the period of January-March 2012.

The following are details of the principal developments and changes that occurred during the reported period.

Description of the General Development of the Bank Group's Business

Activities of the Bank Group and Description of the Development of its Business[1]

Development of the Bank Group's Business

Net profit of the Bank Group attributed to shareholders of the Bank totaled approximately NIS 659 million in the first quarter of 2012, compared with NIS 891 million in the same quarter last year.

Net return on equity attributed to shareholders of the Bank was 11.3% in the first quarter of 2012, in annualized terms, compared with 17.0% in the same quarter last year.

Basic net profit per share of par value NIS 1 amounted to NIS 0.50 in the first quarter of 2012, compared with NIS 0.67 in the same quarter last year.

Total assets of the Bank Group as at March 31, 2012 amounted to approximately NIS 350.4 billion, compared with approximately NIS 356.7 billion at the end of 2011, a decrease of 1.8%.

Net total credit to the public amounted to NIS 244.8 billion as at March 31, 2012, compared with NIS 246.5 billion at the end of 2011, a decrease of 0.7%.

Total deposits from the public amounted to NIS 251.6 billion as at March 31, 2012, compared with NIS 256.4 billion at the end of 2011, a decrease of 1.9%.

Total shareholders' equity amounted to NIS 24.4 billion as at March 31, 2012, compared with NIS 23.8 billion at the end of 2011, an increase of 2.6%.

The total capital ratio as at March 31, 2012 was 14.7%, compared with 14.1% at the end of 2011.

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(1) Due to the implementation of the circular of the Supervisor of Banks discussing guidelines and clarifications with regard to the reinforcement of internal control over financial reporting on employee benefits, by retroactive implementation (see also Note 1D to the Condensed Financial Statements), balances of certain assets and liabilities were restated, as well as relevant items of profit and loss for the quarter ended March 31, 2012. Accordingly, the data referring to earlier periods and the explanations of changes are stated after the required adjustments resulting from the implementation of the circular.

Principal Data of the Bank Hapoalim Group

	For the three months ended				
	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
	NIS millions				
Profit and Profitability					
Net interest income	**1,962**	*1,889	*2,165	*2,075	*1,968
Non-interest income	**1,493**	*1,346	*793	*1,292	*1,560
Total income	**3,455**	*3,235	*2,958	*3,367	*3,528
Provision for credit losses	**303**	363	498	327	14
Operating and other expenses	**2,104**	2,197	2,033	2,013	**2,122
Net profit attributed to shareholders of the Bank	**659**	672	471	712	**891
Balance Sheet – Principal Data					
Total balance sheet	**350,350**	***356,662	***341,967	***323,782	***,**319,656
Net credit to the public	**244,804**	246,495	244,577	234,069	229,835
Securities	**36,903**	34,411	27,789	27,701	28,932
Deposits from the public	**251,576**	256,417	242,931	233,237	231,769
Bonds and subordinated notes	**34,422**	32,933	32,050	29,962	28,295
Shareholders' equity	**24,440**	***23,819	***23,050	***22,706	***,**22,408
Total problematic credit risk****	**14,498**	12,799	13,233	13,263	13,590
Of which: impaired balance sheet debts****	**6,825**	7,044	7,170	7,530	7,840
Main Financial Ratios					
Net loan to deposit ratio	**97.3%**	96.1%	100.7%	100.4%	99.2%
Net loan to deposit ratio including bonds and subordinated notes	**85.6%**	85.2%	88.9%	88.9%	88.4%
Shareholders' equity to total assets	**7.0%**	6.7%	6.7%	7.0%	**7.0%
Core Tier I capital to risk-adjusted assets	**8.2%**	7.9%	7.7%	7.9%	**7.9%
Tier I capital to risk-adjusted assets	**9.0%**	8.7%	8.5%	8.7%	**8.7%
Total capital to risk-adjusted assets	**14.7%**	14.1%	13.6%	14.1%	**13.9%
Financing margin from regular activity(1)(2)	**2.29%**	*2.28%	*2.41%	*2.50%	*2.48%
Cost-income ratio	**60.9%**	*67.9%	*68.7%	59.8%	*,**60.1%
Provision for credit losses as a percentage of the average recorded balance of credit to the public(1)	**0.49%**	0.61%	0.84%	0.56%	0.02%
Net return of profit attributed to shareholders of the Bank on equity(1)	**11.3%**	11.9%	8.5%	13.2%	**17.0%
Basic net profit per share in NIS attributed to shareholders of the Bank	**0.50**	0.51	0.36	0.54	**0.67
Diluted net profit per share in NIS attributed to shareholders of the Bank	**0.49**	0.50	0.35	0.53	**0.67

* The Bank adopted the directive of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations for the first time on January 1, 2012. The directives were adopted by retroactive implementation, with the exception of the cancellation of unpaid accrued CPI linkage differentials on principal in respect of debts classified as impaired prior to the initial implementation. Accordingly, the data included in the statement of profit and loss with regard to comparison periods last year were reclassified for adjustment to the new definition, item headings, and presentation method of the current reporting period. For details, see Note 1(C)1 to the Condensed Financial Statements.

** Restated, due to the retroactive implementation of the directives of the Supervisor of Banks regarding financial reporting on employee benefits. For further details, see Note 1(D) to the Condensed Financial Statements.

*** Restated due to the initial implementation of International Accounting Standard 12, Taxes on Income, see Note 1(C)(2.2) to the Condensed Financial Statements.

**** Net of the individual allowance and the allowance according to the extent of arrears.

(1) Calculated on an annualized basis.

(2) Calculation: Financing profit from regular activity is divided by monetary assets generating financing income.

Financing profit from regular activity includes net interest income and non-interest financing income.

Forward-Looking Information

Some of the information in this report that does not refer to historical facts constitutes forward-looking information, as defined in the Securities Law. The Bank's actual results may differ materially from those included in forward-looking information, as a result of a large number of factors, including changes in capital markets in Israel and globally, macro-economic changes, changes in geopolitical conditions, regulatory changes, and other changes not under the Bank's control, which may lead to the failure of estimates to materialize and/or changes in the Bank's business plans. Forward-looking information is marked by words or phrases such as "we believe," "expect," "forecast," "estimate," "intend," "plan," "aim," "may change," and similar expressions, as well as words such as "plan," "target," "wish," "should," "can," or "will." Such forward-looking information and expressions involve risk and uncertainty, because they are based on management's estimates regarding future events, which include changes in the following parameters, among others: economic conditions, public tastes, interest rates in Israel and overseas, inflation rates, new legislation and regulation in the area of banking and the capital market, exposure to financial risks, the financial stability of borrowers, the behavior of competitors, aspects related to the Bank's image, technological developments, and manpower-related matters, and other areas that affect the activity of the Bank and the environment in which it operates, the materialization of which is uncertain by nature.

The information presented below is based, among other things, on information known to the Bank and based, among other things, on publications by various entities, such as the Central Bureau of Statistics, the Ministry of Finance, the Bank of Israel, the Ministry of Housing, and other entities that publish data and estimates regarding the capital markets in Israel and globally.

This information reflects the Bank's current viewpoint with regard to future events, which is based on estimates, and is therefore subject to risks and uncertainty, as well as to the possibility that expected events or developments may not materialize at all or may only partially materialize.

Investments in the Capital of the Bank and Transactions in its Shares

The issued and paid-up share capital of the Bank, as at March 31, 2012, is NIS 1,324,664,064 par value, composed of 1, 324,664,064 ordinary shares of par value NIS 1 each. This is the issued capital following the subtraction of 5,653,853 ordinary shares purchased by the Bank, as detailed below.

The issued and paid-up capital of the Bank near the date of publication of the financial statements is NIS 1,322,141,917 par value, composed of 1,322,141,917 ordinary shares of NIS 1 par value each. This is the issued capital following the subtraction of 8,294,853 ordinary shares purchased by the Bank.

The principal developments related to the capital of the Bank, including investments in the capital of the Bank and transactions in the shares of the Bank, are detailed below.

Changes in the capital of the Bank from January 1, 2012 up to near the date of publication of the financial statements:

Up to the date of publication of the financial statements, an increase of approximately 3,111,000 ordinary shares occurred in the issued and paid-up capital of the Bank, as a result of the conversion of 3,111,000 options allocated to employees of the Bank under the plan from May 2004. The remaining option notes granted to employees of the Bank under this program amount to 6,950,808 option notes.

The last packet of options pursuant to the extension plan of September 30, 2009, consisting of 4,331,145 share option notes, was allocated in February 2012. Near the date of publication of the financial statements, 12,522,245 option notes had been allocated and not yet exercised; these options will be converted into shares, as described below, from the pool of shares to be purchased for this purpose.

For further details regarding the issuance of stock options to the Chairman of the Board of Directors, the CEO, senior executives, and employees of the Bank, see Note 16 to the Annual Financial Statements for 2011.

On February 28, 2012, the Board of Directors of the Bank, following approval by the Salaries and Remuneration Committee and the Audit Committee of the Board of Directors of the Bank, resolved to replace restricted phantom shares that have been granted, the restriction period of which is scheduled to end on December 31, 2013 or later, with restricted stock units ("**RSU**"), and to allocate RSU to executives who renew their employment agreement with the Bank, pursuant to the "Bank Hapoalim B.M. Secondary Plan for the Grant of Restricted Stock Units (RSU) to Senior Executives 2011," which represents the implementation of certain directives of the 2010 remuneration plan, and constitutes an integral part thereof. RSU are rights to shares of the Bank which upon fulfillment of the appropriate vesting conditions, (including completion of certain employment periods, and for some RSU also the attainment of a certain return by the Bank) are automatically exercised into ordinary shares of the Bank, which will be held by the Bank as dormant shares, without the payment of any exercise price. After the RSU vest, the shares of the Bank are restricted and cannot be sold for additional periods specified in the aforesaid plan. The vesting and restriction periods of the RSU shall be identical, as a rule, to those of the restricted phantom shares (and the contingent restricted phantom shares) that they are replacing. The RSU shall be allocated according to the capital gains track pursuant to Section 102(B)(2) of the Income Tax Ordinance [New Version], 1961. Near the date of publication of the financial statements, 3,717,526 RSU had been allocated (of which, 1,349,091 contingent RSU, which vest subject to attainment of a certain return by the Bank in the relevant fiscal years).

Buybacks of Shares of the Bank

1. On November 11, 2010, the Supervisor of Banks approved a buyback of 12,750,000 shares for the purpose of employee compensation under the extension plan of September 2009 (see Note 16(A)(1) to the Annual Financial Statements for 2011), as well as a buyback of up to 14,000,000 shares for the purpose of the senior executives' compensation plan (see Note 15 to the Annual Financial Statements for 2011). The Board of Directors approved a share purchase plan on March 30, 2011. Near the date of publication of the financial statements, the balance of the acquired shares amounts to 7,641,000 shares, at a cost of approximately NIS 117 million.

2. Pursuant to an approval of the Supervisor of Banks, in 2009, the Bank purchased 700,000 ordinary shares of par value NIS 1 each of the Bank through an external entity, with the aim of using the shares as a pool from which to transfer shares in the event of the exercise of options allocated to the former Chairman of the Board of Directors and the former Chief Executive Officer of the Bank, as detailed in Note 16(A)(4) to the Annual Financial Statements for 2011. The remaining shares, following the exercise by the former Chairman of the Board, as described above, amount to 653,853 ordinary shares at a cost of approximately NIS 10 million.

Dividend Distribution

The Board of Directors updated the Bank's policy on dividend distribution on May 30, 2011. Pursuant to the policy established, up to half of net operating profits will be distributed each year, subject to the capital targets of the Bank, as established by the Board of Directors. Dividends from nonrecurring profits will be distributed according to ad-hoc decisions by the Board of Directors.

In addition to restrictions under the Companies Law, dividend distribution by banking corporations is subject to regulation applicable to banking corporations in Israel, pursuant to which no dividends shall be distributed: (A) If the cumulative balance of retained earnings of the bank according to its last published financial statements is not positive, or if the payout would lead to a negative balance; (B) when one or more of the last three calendar years ended in a loss; (C) when the cumulative result of the three quarters ended at the end of the interim period for which the last financial statement has been released indicates a loss; (D) if the payout would cause the bank's ratio of capital to risk-adjusted assets to fall below the required rate; (E) from capital reserves or positive differences resulting from the translation of financial statements of autonomous units abroad; (F) if after the payout the bank's non-monetary assets would exceed its shareholders' equity; or (G) if the bank does not comply with the requirements of Section 23A of the Banking Law, which establishes a limit on the percentage of capital that a banking corporation may invest in non-financial corporations. Notwithstanding the above, in certain cases the Bank can distribute dividends even if the aforesaid circumstances apply, if it obtains prior written approval of the Supervisor of Banks for such distribution, up to the amount thus approved.

According to the circular of the Supervisor of Banks of June 2010, a banking corporation shall not distribute dividends unless it has a Core Tier I Capital ratio of at least 7.5%, or if such distribution would cause a failure to comply with the aforesaid ratio.

The circular of the Bank of Israel of March 28, 2012, concerning minimum Core Tier 1 Capital ratios under Basel III, sets forth a requirement for banking corporations, including the Bank, to reach a minimum Core Tier 1 Capital ratio of 9% by January 1, 2015, and for large banking corporations, including the Bank, a minimum Core Tier 1 Capital ratio of 10% by January 1, 2017. It has been clarified that the Supervisor of Banks expects banking corporations to avoid distributing dividends if the payout would cause it to fail to meet the aforesaid requirements. For further details, see the section "Capital and Capital Adequacy," below.

In addition, pursuant to the terms of the Subordinated Notes (Series A), no dividends shall be distributed in the following cases: (A) If interest payments in respect of these notes are suspended, the Bank shall not pay dividends to its shareholders until all of the suspended interest payments are paid in full, whether such dividends are declared prior to the Bank's announcement regarding the formation of circumstances for suspension, or whether the dividends are declared after such an announcement; and (B) If the payout would cause the Bank's ratio of Core Tier I Capital to risk-adjusted assets to fall below 6.5%.

Furthermore, the permission granted by the Governor of the Bank of Israel to the Arison Group to acquire a controlling interest in the Bank states that no dividend shall be distributed from profits accrued at the Bank up to June 30, 1997 (the day prior to the acquisition of the controlling interest), unless the Supervisor of Banks has consented in advance and in writing.

The Supervisor of Banks approved a buyback of the Bank's shares on November 11, 2010. For further details, see Note 13 to the Annual Financial Statements for 2011.

The balance of retained earnings at the Bank as at March 31, 2012 totaled approximately NIS 16,004 million, of which a total of approximately NIS 2,734 million cannot be distributed as dividends, as mentioned.

Capital and Capital Adequacy

Capital Adequacy Target

The capital target of the Bank is the appropriate level of capital required in respect of the various risks to which the Bank is exposed, as identified, assessed, and estimated by the Bank. This target total capital ratio is higher than the regulatory minimum capital requirement, and includes the capital requirement in respect of Pillar I risks, plus capital in respect of Pillar II risks, with the aim of allowing the Bank to comply with capital requirements in cases of external crisis events (extreme scenarios) while complying with regulatory minimum capital requirements. This target takes into consideration actions of the Board of Management of the Bank aimed at reducing the risk level and/or increasing the capital base.

A resolution of the Board of Directors of the Bank of December 30, 2010 established minimum targets of 7.5% for the Bank's Core Tier I Capital ratio and 12.5% for the Bank's total capital ratio.

In March 2012, the Supervisor of Banks issued a circular to all banking corporations regarding minimum capital ratios within the process of preparation for the implementation of Basel III directives. Pursuant to the circular, all banking corporations will be required to maintain a minimum Core Tier 1 Capital ratio of 9%, by January 1, 2015. The Core Tier 1 Capital ratio is to be calculated in accordance with the requirements of Basel III and the adjustments to be established by the Supervisor of Banks.

In addition, large banking corporations whose total balance sheet assets constitute at least 20% of the total balance sheet assets of the banking system in Israel will be required to maintain a minimum Core Tier 1 Capital ratio of 10%, by January 1, 2017. This additional directive is applicable to the Bank.

The Bank is studying the expected requirements of the Supervisor of Banks, as included in this directive, and intends to prepare as necessary to comply with the requirements to be established. The Bank's Core Tier 1 Capital ratio as at March 31, 2012, calculated according to the Basel II directives, stands at 8.20%.

	March 31, 2012	December 31, 2011*
	NIS millions	
1. Capital for the calculation of the capital ratio		
Core capital	**24,466**	23,769
Tier I capital, after deductions	**26,858**	26,157
Tier II capital, after deductions	**16,895**	16,175
Total overall capital	**43,753**	42,332
2. Weighted balances of risk-adjusted assets		
Credit Risk	**270,128**	274,037
Market risks	**7,391**	7,018
Operational risk	**20,930**	20,047
Total weighted balances of risk-adjusted assets	**298,449**	301,102
	%	
3. Ratio of capital to risk-adjusted assets		
Ratio of Core Tier 1 Capital to risk-adjusted assets	**8.20%**	7.89%
Ratio of Tier I capital to risk-adjusted assets	**9.00%**	8.69%
Ratio of total capital to risk-adjusted assets	**14.66%**	14.06%
Minimum total capital ratio required by the Supervisor of Banks	**9.00%**	9.00%

* Restated due to the initial implementation of International Accounting Standard 12, Taxes on Income, See Note 1(C)(2.2) to the Condensed Financial Statements.

The ratio of total capital to risk-adjusted assets as at March 31, 2012 was 14.66%, compared with a capital ratio of 14.06% at the end of 2011.

The Core Tier I Capital ratio as at March 31, 2012 was 8.20%, compared with a core Tier I capital ratio of 7.89% at the end of 2011.

Data on capital and risk-adjusted assets as at December 31, 2011 were restated due to the retroactive implementation of the directives of International Accounting Standard 12, Taxes on Income. The effect of the implementation on capital as at December 31, 2011 amounted to a decrease in capital and risk-adjusted assets in the amount of NIS 26 million.

Total capital for the purpose of the calculation of the capital ratio as at March 31, 2012 amounted to approximately NIS 43,753 million, compared with NIS 42,332 million as at December 31, 2011. The increase in the capital base mainly resulted from net profit and from the issuance of subordinated notes.

Risk-adjusted assets as at March 31, 2012 amounted to NIS 298.4 billion, compared with NIS 301.1 billion as at December 31, 2011. The decrease in risk-adjusted assets mainly resulted from a decrease in credit to the public and derivatives exposures.

Ratings of the Bank

The following ratings have been assigned to the Bank by rating agencies in Israel and abroad:

In Israel, in local currency, the Bank is rated AA+ by S&P Maalot Ltd. and Aaa by Midroog.

	Rating agency	Long-term foreign currency	Short-term foreign currency	Rating outlook	Last update
Israel – sovereign rating:					
	Moody's	A1	P-1	Stable	April 2011
	S&P	A+	A-1	Stable	September 2011
	Fitch Ratings	A	F1	Stable	April 2012
Bank Hapoalim:					
	Moody's	A2	P-1	Stable	April 2011
	S&P	BBB+	A-2	Stable	May 2011
	Fitch Ratings	A-	F2	Stable	May 2012

In early May 2012, Moody's rating agency announced that in light of the projected slowdown in the Israeli economy, the uncertainty in the corporate bond market, and the high concentration of the banks' credit portfolios, it had revised its outlook for the entire banking system in Israel from Stable to Negative.

It should be noted that the agency's rating and rating outlook for the Bank remained unchanged.

In May 2012 the Fitch rating agency reaffirmed the Bank's rating, with no change.

Economic and Financial Review

Developments in the Global Economy

The economic recovery and improvement in the United States continued during the first quarter of 2012, while emerging markets continued to show growth and Europe continued to fall back. Global growth forecasts for 2012 remain moderate at 3.5%. First-quarter data in the United States point to continued growth, though at a more moderate rate of 2.2%, alongside an improvement in the labor market, where job creation has resumed. The Euro zone drew back into recession in the first quarter of 2012, with zero growth, following an annualized decline of 1.3% in the fourth quarter of 2011. Estimates increasingly indicate that the austerity policies in Europe are suppressing economic growth and contributing to high unemployment, which reached an average of 10.8% in March 2012. Greece reached a debt arrangement that includes conversion of old bonds into new bonds. The arrangement made it possible for Greece to receive a second bailout package in the amount of EUR 130 billion. Even after the arrangement, investors are expressing strong concerns over Greece's future ability to repay its debts, and there are increasing worries that Greece may have to leave the Eurozone. Italy and Spain were at the center of the developments, with deep recession and fiscal problems raising worries over their solvency, as bond yields reached about 6%. The rating agency S&P downgraded Spain's credit rating by two levels, to BBB+, with a negative outlook. The difficult economic conditions have created societal tensions, especially in countries at the focus of the crisis, as well as political changes in some countries. The low inflation environment has made it possible for central banks in the United States, Europe, and Japan to continue to apply highly expansionary policies. In the United States, the Fed has said that the interest rate will likely remain near zero until mid-2014, and that additional quantitative easing plans exist and will be implemented if necessary. In Europe, the interest rate has been lowered to 1.0%, with estimates that it will continue to fall, as the European central bank continues to lend money to commercial banks. Central banks of several emerging countries, including India and Brazil, have also begun to lower interest rates.

Economic Activity in Israel

GDP growth slowed in the first quarter to an annual rate of 3.0%. Recent economic indicators reflect this trend, but by contrast, the expectation surveys were more favorable: a business tendency survey conducted by the Central Bureau of Statistics and the purchasing managers' index published by the Bank indicate improvement and a halt to the contraction. The CBS has made changes to its labor force survey. Based on the new measurement method, unemployment in the first quarter of 2012 was at 6.7%, versus 6.8% in the preceding quarter, but the figure for March 2012 is 6.9%. Note that according to the old measurement method, the unemployment rate in Israel in the fourth quarter of 2011 was only 5.4%. This may also be the reason that wage pressures in the last few years were quite subdued, despite the fact that unemployment, as measured at the time, was low. Purchases of new homes increased impressively in the first quarter, following a sharp drop in sales in the second half of 2011. In our opinion, growth later this year will largely depend on global developments and especially the crisis in the Euro zone. Over the last year, several committees were established with the task of increasing competition in the Israeli economy; in addition, a committee on socioeconomic change (the Trajtenberg Committee) was created. Most of the Trajtenberg Committee's recommendations have been approved by Knesset and are already being implemented. In March 2012, the Committee for Increased Competition submitted its recommendations; these include separation of holdings of significant nonfinancial activities from significant financial activities, as well as recommendations in the area of corporate governance. Further to the Trajtenberg Committee recommendations, a committee headed by the Supervisor of Banks was established to examine an increase of competition in the banking industry. The conclusions of the various committees may influence the Israeli economy in general and the banking industry in particular.

Inflation and Exchange Rates

The consumer price index rose by 0.4% in the first quarter of 2012. The CPI rose by 1.9% in the twelve months ended in March 2012. The housing component of the CPI (rent prices) continues to rise, gaining a relatively high 4.4% over the last year. The global increase in oil prices and the cessation of the supply of natural gas from Egypt led to an increase in energy prices, especially the price of electricity. These price increases are expected to be felt more strongly in the second quarter this year. The second quarter opened with an increase in inflation expectations, probably due to these price increases, to 2.5%.

The NIS appreciated by 2.8% against the US dollar and 0.6% against the effective currency basket in the first quarter of 2012. Exchange-rate volatility was relatively low, and the Bank of Israel was not involved in trading. Foreign investors continued to sell short-term notes (Makams) and showed limited activity in the capital market in general.

Fiscal and Monetary Policy

The budget deficit totaled NIS 1.0 billion in the first quarter of 2012, compared with a surplus of NIS 1.1 billion in the same quarter last year. According to estimates by the Ministry of Finance, state tax revenues will be lower than originally planned by about NIS 11 billion. Beyond that, deviation on the expenditure side also seems likely due to the increase in the defense budget, the adoption of the recommendations of the Trajtenberg Committee, and the wage agreements in the public sector. The budget deficit this year is expected to significantly exceed the established target of 2.0% of GDP.

The Bank of Israel interest rate stood at 2.75% at the beginning of the first quarter of 2012, and was lowered to 2.5% in February, remaining at that level through May 2012. The rate cut followed worries over the effect of the crisis in Europe on the Israeli economy, a slump in exports, and continued expansionary monetary policies globally. As of April 2012, inflation expectations were at a similar level to the Bank of Israel interest rate, so that the real interest rate is near zero.

Financial and Capital Markets

The Israeli equity market experienced an upward trend in prices during the first quarter of 2012, though the increases were more moderate than in most global markets, particularly the American market. Overall for the quarter, the Tel Aviv 100 index gained 5.5%, versus a 12% increase in the S&P 500 index. Daily turnovers in stocks and convertibles dropped sharply, to NIS 1,134 million, versus NIS 2,180 million in the same quarter last year. The positive trend continued in April 2012, as the TASE was one of the best-performing markets.

The bond market has been influenced by the increase in inflation expectations. The CPI-linked government bond index rose by 1.2%, while the unlinked bond index rose by 0.6%. Spreads of corporate bonds over government bonds narrowed, and the corporate bond index gained 3.8% in the first quarter of 2012. Business sector bond offerings in the capital market (excluding banks and insurance companies) showed resurgence, at NIS 6 billion, compared with NIS 2 billion in the preceding quarter.

Data regarding changes in the consumer price index and exchange rates are set out below:

	For the three months ended March 31		For the year
	2012	2011	2011
	%		
Rate of increase in "known" CPI	**0.0%**	0.9%	2.6%
Rate of increase (decrease) in USD exchange rate	**(2.8%)**	(1.9%)	7.7%
Rate of increase in GBP exchange rate	**0.8%**	1.9%	7.3%
Rate of increase in CHF exchange rate	**1.2%**	0.4%	7.2%
Rate of increase in EUR exchange rate	**0.3%**	4.5%	4.2%
Rate of increase (decrease) in TRY exchange rate	**4.7%**	(2.1%)	(13.4%)

Accounting Policies on Critical Matters

The financial statements of the Bank are prepared in accordance with accounting principles and rules, the main points of which are described in Note 1 to these Condensed Financial Statements and in Note 1 to the Financial Statements as at December 31, 2011. In implementing the accounting principles, when preparing the financial statements, the Board of Management of the Bank uses assumptions, estimates, and evaluations that affect the reported amounts of assets and liabilities (including contingent liabilities) and the results reported by the Bank. Actual future results may differ from such estimates and evaluations made when preparing the financial statements.

Some of these estimates and evaluations involve a considerable degree of uncertainty, and can be affected by possible future changes. Such estimates and evaluations in which changes may have a material effect on the financial results presented in the financial statements are considered by the Bank, in all matters connected with accounting policy, as estimates and evaluations on "critical" matters. The Bank's Board of Management is of the opinion that the estimates and evaluations used during the preparation of the financial statements are fair, and were made to the best of its knowledge and professional judgment.

The main areas detailed in the report for 2011 are: provision for credit losses; fair value measurements; obligations for employee benefits; deferred taxes; contingent liabilities; and impairment of securities available for sale and securities held to maturity.

During the reported period, no changes occurred in the Bank's accounting policy on critical matters, as described in the Board of Directors' Report on the Financial Statements as at December 31, 2011.

Disclosure Regarding the Procedure for Approval of the Financial Statements

The Board of Directors of the Bank is the organ charged with overarching control at the Bank, pursuant to the resolution of the Board of Directors of June 29, 2006, and with the approval of its financial statements, as required by Proper Conduct of Banking Business Directive 301, The Board of Directors ("Directive 301").

The Audit Committee of the Board of Directors discusses and examines the drafts of the financial statements presented to it and makes a recommendation to the Board of Directors with regard to the approval of the financial statements, as required by the Companies Regulations (Directives and Terms Regarding the Procedure for the Approval of Financial Statements), 2010, and in accordance with Directive 301.

The financial statements are also discussed by the Finance and Prospectus Committee of the Board of Directors, which mainly examines the business and economic aspects of the financial statements, including an examination of the reported results in comparison to the budget and work plans of the Bank.

The Audit Committee receives reports and holds discussions regarding deficiencies and material weaknesses in the internal control of the financial statements, if and as found, and receives reports of any fraud, whether material or immaterial, if and inasmuch as any exists, in which the Board of Management is involved, or in which other employees are involved who take part in the Bank's internal control of financial reporting, as required under Directive 645 of the Public Reporting Directives of the Supervisor of Banks – Disclosure Declaration.

The Audit Committee examines the material issues and critical estimates applied in the financial statements; the reasonableness of the data; the accounting policies applied and the changes thereto, if any; and the implementation of the due disclosure principle in the financial statements and in the accompanying information, through detailed presentation of the issues by officers and others at the Bank, including the Chief Executive Officer, the Head of Finance (Chief Financial Officer), and the Chief Accountant.

As part of the discussion of the financial statements, the Audit Committee also discusses the problematic debts of the Bank, examines the value of the Bank's holdings in securities, and discusses the provisions for temporary impairment of securities and provision for credit losses of the Bank. In addition, the Audit Committee discusses and examines the Bank's exposure to risks, and the reflection and impact of such risks on the financial statements.

The Bank's external auditors, Ziv Haft CPA (Isr.) and Somekh Chaikin CPA (Isr.), are invited to the meetings of the Audit Committee and of the Board of Directors in which the financial statements are discussed and approved, and they attend all such meetings. The Bank's Internal Auditor is also invited to the discussions of the Audit Committee and the Board of Directors regarding the approval of the financial statements.

The names and qualifications of the members of the Audit Committee and of the Finance and Prospectus Committee are detailed in the section "The Board of Directors and the Discharge of its Functions" and in the section "Report on Directors with Accounting and Financial Expertise" in the Annual Financial Statements for 2011.

The Audit Committee and the Finance and Prospectus Committee held discussions regarding the financial statements as at March 31, 2012, as necessary. The Audit Committee presented its recommendations to the plenum of the Board of Directors prior to the discussion of the financial statements by the Board of Directors.

Profit and Profitability

Net profit attributed to the shareholders of the Bank totaled NIS 659 million in the first quarter of 2012, compared with profit in the amount of NIS 891 million in the same quarter last year.

Net return on shareholders' equity was 11.3% in the first quarter of 2012, in annualized terms, compared with approximately 17.0% in the same quarter last year.

	For the three months ended			Change vs. three months ended	
	March 31, 2012	December 31, 2011*	March 31, 2011*	December 31, 2011	March 31, 2011
	NIS millions			%	
Interest income	**3,374**	3,326	3,545	1.4%	(4.8%)
Interest expenses	**(1,412)**	(1,437)	(1,577)	(1.7%)	(10.5%)
Net interest income	**1,962**	1,889	1,968	3.9%	(0.3%)
Provision for credit losses	**303**	363	14	(16.5%)	
Net interest income after provision for credit losses	**1,659**	1,526	1,954	8.7%	(15.1%)
Non-interest income:	**1,493**	1,346	1,560	10.9%	(4.3%)
Operating and other expenses	**2,104**	2,197	**2,122	(4.2%)	(0.8%)
Profit before taxes	**1,048**	675	**1,392	55.3%	(24.7%)
Provision for taxes on profit	**368**	2	**503		(26.8%)
The Bank's share in profits (losses) of equity-basis investees, after taxes	**(2)**	(5)	1	(60.0%)	(300.0%)
Net profit:					
Before attribution to non-controlling interests	**678**	668	**890	1.5%	(23.8%)
Loss (profit) attributed to non-controlling interests	**(19)**	4	1		
Attributed to shareholders of the Bank	**659**	672	**891	(1.9%)	(26.0%)
Return of net profit on equity attributed to shareholders of the bank	**11.3%**	11.9%	17.0%		

* The Bank adopted the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations for the first time on January 1, 2012. The directives were adopted by retroactive implementation, with the exception of the cancellation of unpaid accrued CPI linkage differentials on principal in respect of debts classified as impaired prior to the initial implementation. Accordingly, the data included in the statement of profit and loss with regard to comparison periods last year were reclassified for adjustment to the new definition, item headings, and presentation method of the current reporting period.
For details, see Note 1(C)1 to the Condensed Financial Reports,

** Restated, due to the retroactive implementation of the directives of the Supervisor of Banks regarding financial reporting on employee benefits. For further details, see Note 1(D) to the Condensed Financial Statements.

Developments in Income and Expenses

Net interest income totaled NIS 1,962 million in the first quarter of 2012, compared with NIS 1,968 million in the same quarter last year. The increase in net interest income mainly resulted from an increase in the volume of activity in credit and deposits, an increase in the unlinked interest rate and from a decrease in the effect of the rate of increase in the known CPI.

Interest income totaled NIS 3,374 million in the first quarter of 2012, compared with NIS 3,545 million in the same quarter last year. Most of the decrease in interest income resulted from the effect of the rate of increase of the known CPI, as noted above. The decrease was offset by an increase in the unlinked interest rate.

Interest expenses totaled NIS 1,412 million in the first quarter of 2012, compared with NIS 1,577 million in the same quarter last year. Most of the decrease in interest expenses resulted from the effects of the known CPI, as noted above, offset by the effect of the increase in the interest rate.

Non-interest financing income totaled NIS 186 million in the first quarter of 2012, compared with NIS 202 million in the same quarter last year. The decrease mainly resulted from a decline in income from derivative financial instruments which was offset by an increase in income from exchange rate differentials; as well as an increase in profits from bonds and from investment in shares.

In order to analyze the profit from regular financing activity, an analysis of the financing profit arising from all assets and liabilities of the Bank is required. Summation of such profit allows offsetting of exposures reflected in various items of financing income, consequently allowing a better examination of profit from regular financing activity. This profit, includes net interest income and non-interest financing income. This amount includes financing income in respect of derivative instruments, which constitute an essential element of the Bank's exposure management. Income from derivatives includes, among other things, the effects of the time value in the fair value of derivatives and the effect of the rate of increase of the known CPI on balances of derivatives, which offset balance sheet interest exposures, as well as the effects of the rate of increase in the known CPI on derivatives balances, which offset CPI exposures in respect of balance sheet balances.

An analysis of total net financing profit is set out below:

	2012	2011			
	Q1	Q4	Q3	Q2	Q1
	NIS millions				
Interest income	**3,374**	3,326	3,812	4,110	3,545
Interest expenses	**(1,412)**	(1,437)	(1,647)	(2,035)	(1,577)
Net interest income	**1,962**	1,889	2,165	2,075	1,968
Non-interest financing income	**186**	74	(505)	16	202
Total net financing profit	**2,148**	1,963	1,660	2,091	2,170

Developments in total net financing profit during the period of January-March 2012, as compared to the same period last year, are set out below:

	For the three months ended		Change vs. three months ended
	March 31, 2012	March 31, 2011	March 31, 2011
	NIS millions		%
Profit from regular financing activity[1]	**1,929**	1,876	2.8%
Income from realization and adjustments to fair value of bonds	**49**	6	716.7%
Profits from investment in shares	**56**	22	154.5%
Adjustments to fair value of derivative instruments[2]	**77**	222	(65.3%)
Interest income on problematic debts not previously recorded	**19**	22	(13.6%)
Financing income (expenses) from hedging of investments overseas[3]	**18**	22	(18.2%)
Net financing profit[4]	**2,148**	2,170	(1.0%)

The quarterly development of total net financing profit is set out below:

	2012	2011			
	Q1	Q4	Q3	Q2	Q1
	NIS millions				
Profit from regular financing activity[1]	**1,929**	1,877	1,899	1,902	1,876
Income (expenses) from realization and adjustments to fair value of bonds	**49**	54	71	(7)	6
Profit (loss) from investment in shares	**56**	(26)	9	50	22
Adjustments to fair value of derivative instruments[2]	**77**	41	(255)	121	222
Interest income on problematic debts not previously recorded	**19**	42	37	38	22
Financing income (expenses) from hedging of investments overseas[3]	**18**	(25)	(101)	(13)	22
Net financing profit[4]	**2,148**	1,963	1,660	2,091	2,170

(1) Financing profit excluding exceptional effects, and excluding effects arising mainly from the timing of recording in accounting.
(2) The effect of the measurement of profit and loss in derivative instruments constituting part of the Bank's asset and liability management strategy on a fair-value basis, versus measurement on an accrual basis. The volatility in this item mainly resulted from changes in interest rates in the CPI-linked segment.
(3) The effect of hedging the asymmetry in the tax liability in respect of exchange-rate differences in investments overseas, which are not taken into account in the income base for the purpose of the calculation of the provision for tax, in contrast to exchange-rate differences in respect of sources of financing. The Bank performs a hedge against the tax exposure in respect of investments overseas by providing surplus financing sources against such investments.
(4) Net financing profit, includes net interest income plus non-interest financing income, as noted above.

Set out below are the developments in total net financing profit, before provision for credit losses, by principal segments of activity(1):

	For the three months ended			Change vs. three months ended	
	March 31, 2012	December 31, 2011*	March 31, 2011*	December 31, 2011	March 31, 2011
Segment	NIS millions			%	
Households Segment	**557**	568	544	(1.9%)	2.4%
Private Banking Segment	**320**	332	291	(3.6%)	10.0%
Small Business Segment	**282**	289	260	(2.4%)	8.5%
Commercial Segment	**179**	185	163	(3.2%)	9.8%
Corporate Segment	**554**	577	497	(4.0%)	11.5%
Financial Management Segment	**256**	12	415		(38.3%)
Total net financing profit	**2,148**	1,963	2,170	9.4%	(1.0%)

* Reclassified due to the initial implementation of the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations. For further details, see Note 1(E)(1) to the Condensed Financial Statements.

(1) Net financing profit includes the sum of net interest income plus non-interest financing income, as noted above.

The increase in financing profit in the Retail banking segments in Israel in the first quarter of 2012, in comparison to the same period last year, mainly resulted from an increase in the volume of credit and deposit activity.

The increase in net financing profit in the Commercial and Corporate Segments, in comparison to the same period last year, resulted from an increase in credit balances.

The decrease in income in the Financial Management Segment, in comparison to the same period last year, resulted from a decrease in adjustments to fair value of derivative instruments. By contrast, an increase in profits from bonds and profits from investment in shares were attributed to this segment.

The overall interest spread (balance sheet and off-balance sheet) calculated according to the reporting format prior to the adoption of the circular of the Supervisor of Banks of December 29, 2011, concerning the format for the statement of profit and loss (for further details, see Note 1(C)(1)), in the first quarter of 2012 stood at 1.18%, compared with an overall interest spread of 1.36% in the same quarter last year.

The decrease in the overall interest spread in the first quarter of 2012 resulted from a decrease in the interest spread in the CPI-linked segment (including derivatives), which stood at 0.54% in the first quarter of 2012, compared with 1.32% in the same quarter last year, mainly due to adjustments to fair value of derivative instruments.

The interest spread (including derivatives) in the unlinked segment also decreased, reaching 1.58% in the first quarter of 2012, compared with 1.91% in the same quarter last year, mainly as a result of adjustments to fair value of derivative instruments and an increase in the volume of activity in derivatives, which is performed at significantly lower spreads than balance sheet activity.

The overall interest spread in the foreign-currency segment stood at 0.44% in the first quarter of 2012, compared with 0.61% in the same quarter last year. Note that the results of operations in respect of foreign-currency options are not included in the calculation of the interest spread.

Provision for credit losses totaled NIS 303 million in the first quarter of 2012, compared with NIS 14 million in the same quarter last year.

A net provision in the amount of NIS 169 million was recorded in respect of debts examined on an individual basis in the first quarter of 2012, resulting from a provision in the amount of NIS 463 million, with the deduction of a decrease in the individual allowance for credit losses and collection of debts written off in accounting in the amount of NIS 294 million.

In the same quarter last year, a net decrease in provision in the amount of NIS 236 million was recorded in respect of debts examined on an individual basis, resulting from a provision in the amount of NIS 230 million, with the deduction of a decrease in the individual allowance for credit losses and collection of debts written off in accounting in the amount of NIS 466 million.

The provision for credit losses in respect of debts examined on a group basis totaled approximately NIS 134 million, compared with NIS 250 million in the same quarter last year.

With regard to the components of the provision for credit losses, see Note 3 to the Condensed Financial Statements.

Set out below is the quarterly provision for credit losses in respect of debts and in respect of off-balance sheet credit instruments*.

	2012	2011			
	Q1	Q4	Q3	Q2	Q1
	NIS millions				
Provision for credit losses in respect of debts examined on an individual basis	**463**	380	439	454	230
Decrease in individual allowance for credit losses and collection of debts written off in accounting	**(294)**	(213)	(219)	(256)	(466)
Total net provision (income) for credit losses in respect of debts examined on an individual basis	**169**	167	220	198	(236)
Total net provision in respect of the group allowance for credit losses and net accounting write-offs of debts examined on a group basis	**134**	196	278	129	250
Total provision for credit losses	**303**	363	498	327	14
Provision as a percentage of total credit to the public**:					
Provision for credit losses as a percentage of the average recorded balance of credit to the public	**0.49%**	0.61%	0.84%	0.56%	0.02%
Net write-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public	**0.57%**	0.37%	1.10%	1.50%	0.58%
Net write-offs in respect of credit to the public as a percentage of the allowance for credit losses in respect of credit to the public	**35.38%**	19.81%	50.93%	60.80%	25.36%

* Including in respect of housing loans examined according to the extent of arrears.

** Annualized.

Set out below is the development of the provision for credit losses by principal segments of activity:

	For the three months ended		
	March 31, 2012	December 31, 2011	March 31, 2011
	NIS millions		
Households Segment	**43**	77	84
Private Banking Segment	**3**	(3)	23
Small Business Segment	**14**	44	8
Commercial Segment	**38**	17	54
Corporate Segment	**205**	228	(155)
Total	**303**	363	14

Set out below is the provision for credit losses, as a percentage of the average recorded balance of net credit to the public, by principal segments of activity[1]:

	For the three months ended		
	March 31, 2012	December 31, 2011	March 31, 2011
	%		
Households Segment	**0.28%**	0.50%	0.58%
Private Banking Segment	**0.04%**	(0.04%)	0.38%
Small Business Segment	**0.24%**	0.78%	0.15%
Commercial Segment	**0.62%**	0.28%	0.98%
Corporate Segment	**0.79%**	0.87%	(0.64%)
Total	**0.49%**	0.61%	0.02%

(1) Annualized.

Non-interest income totaled NIS 1,493 million in the first quarter of 2012, compared with NIS 1,560 million in the same quarter last year.

Set out below are details of non-interest income:

	For the three months ended			Change vs. three months ended	
	March 31, 2012	December 31, 2011*	March 31, 2011*	December 31, 2011	March 31, 2011
	NIS millions			%	
Total non-interest financing income	**186**	74	202	151.4%	(7.9%)
Fees:					
Account management fees	**242**	243	239	(0.4%)	1.3%
Credit cards, net	**381**	376	366	1.3%	4.1%
Securities activity	**269**	251	292	7.2%	(7.9%)
Financial product distribution fees[1]	**42**	42	48	0.0%	(12.5%)
Management, operations, and trust services for institutional entities[2]	**14**	14	21	0.0%	(33.3%)
Credit handling	**86**	87	125	(1.1%)	(31.2%)
Financing transaction fees	**104**	98	104	6.1%	(0.0%)
Conversion differences	**64**	64	65	0.0%	(1.5%)
Foreign trade activity	**38**	28	27	35.7%	40.7%
Net income from credit portfolio services	**10**	9	13	11.1%	(23.1%)
Life insurance and home insurance fees	**12**	13	13	(7.7%)	(7.7%)
Other fees	**12**	18	15	(33.3%)	(20.0%)
Total fees	**1,274**	1,243	1,328	2.5%	(4.1%)
Other income	**33**	29	30	13.8%	10.0%
Total non-interest income	**1,493**	1,346	1,560	10.9%	(4.3%)

* The Bank adopted the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations for the first time on January 1, 2012. The directives were adopted by retroactive implementation, with the exception of the cancellation of unpaid accrued CPI linkage differentials on principal in respect of debts classified as impaired prior to the initial implementation. Accordingly, the data included in the statement of profit and loss with regard to comparison periods last year were reclassified for adjustment to the new definition, item headings, and presentation method of the current reporting period. For details, see Note 1(C)1 to the Condensed Financial Statements.

(1) Mainly mutual funds.

(2) Mainly in respect of management and operational services provided to provident funds.

Non-interest financing income totaled NIS 186 million in the first quarter of 2012, compared with NIS 202 million in the same quarter last year. For further details, see the analysis of financing profit, above.

Fees totaled NIS 1,274 million in the first quarter of 2012, compared with NIS 1,328 million in the same quarter last year. The decrease mainly stemmed from a decrease in income from credit handling compared with income in the same quarter last year from fees for organization of syndications and from a decrease in income from securities activity due to a decline in the volume of transactions and the activity in the capital market in general.

Other income totaled NIS 33 million in the first quarter of 2012, compared with NIS 30 million in the same quarter last year.

Operating and other expenses totaled NIS 2,104 million in the first quarter of 2012, compared with NIS 2,122 million in the same quarter last year.

Details of operating and other expenses are set out below.

	For the three months ended			Change vs. three months ended	
	March 31, 2012	December 31, 2011	March 31, 2011	December 31, 2011	March 31, 2011
	NIS millions			%	
Salary expenses:					
Wages	**1,059**	1,082	*1,115	(2.1%)	(5.0%)
Bonuses and share-based compensation	**148**	145	160	2.1%	(7.5%)
Total salaries	**1,207**	1,227	*1,275	(1.6%)	(5.3%)
Maintenance and depreciation of buildings and equipment	**381**	388	369	(1.8%)	3.3%
Write-downs and impairment of intangible assets and goodwill	**3**	4	3	(25.0%)	0.0%
Other expenses	**513**	578	475	(11.2%)	8.0%
Total operating and other expenses	**2,104**	2,197	*2,122	(4.2%)	(0.8%)

* Restated, due to the retroactive implementation of the directives of the Supervisor of Banks regarding financial reporting on employee benefits. For further details, see Note 1(D) to the Condensed Financial Statements.

Salary expenses in the first quarter of 2012 decreased year-on-year, as a result of a decrease in expenses recorded in respect of share-based payments, due to a decrease in the share price of the Bank, and a decrease in the provision for bonuses.

The provision for taxes on profit amounted to NIS 368 million in the first quarter of 2012, compared with NIS 503 million in the same quarter last year. The effective tax rate in the first quarter of 2012 was 35.1%, compared with a statutory tax rate of 35.3%.

Net profit attributed to shareholders of the Bank totaled NIS 659 million in the first quarter of 2012, compared with NIS 891 million in the same quarter last year.

Basic net profit per share of par value NIS 1 attributed to shareholders of the Bank amounted to NIS 0.50 in the first quarter of 2012, compared with NIS 0.67 in the same quarter last year.

Composition and Development of the Bank Group's Assets and Liabilities

The consolidated balance sheet as at March 31, 2012 totaled NIS 350.4 billion, compared with NIS 356.7 billion at the end of 2011.

A. Set out below are the developments in the main balance sheet items:

	Balance as at		
	March 31, 2012	December 31, 2011	Change
	NIS millions		%
Total assets	**350,350**	*356,662	(1.8%)
Net credit to the public	**244,804**	246,495	(0.7%)
Cash on hand and deposits with banks	**52,270**	55,790	(6.3%)
Securities	**36,903**	34,411	7.2%
Deposits from the public	**251,576**	256,417	(1.9%)
Bonds and subordinated notes	**34,422**	32,933	4.5%
Shareholders' equity	**24,440**	*23,819	2.6%

* Restated due to the initial implementation of certain accounting standards. See Note 1(C)(2.2) to the Condensed Financial Statements.

B. Set out below are the developments in the principal off-balance sheet items:

	Balance as at		
	March 31, 2012	December 31, 2011	Change
	NIS millions		%
1. Off-balance sheet financial instruments, excluding derivatives:			
Documentary credit	**2,127**	2,627	(19.0%)
Guarantees and other commitments	**39,132**	39,403	(0.7%)
Unutilized credit-card credit facilities under the Bank's responsibility	**32,779**	32,924	(0.4%)
Unutilized credit-card credit facilities under other banks' responsibility	**10,542**	10,163	3.7%
Unutilized revolving overdraft and other credit facilities in on-demand accounts	**34,772**	34,515	0.7%
Irrevocable commitments to grant credit approved but not yet provided, and commitments to provide guarantees	**47,513**	44,092	7.8%
2. Derivative instruments (notional value amounts):			
Interest contracts	**305,152**	294,092	3.8%
Foreign currency contracts	**209,670**	274,009	(23.5%)
Contracts in respect of shares	**22,170**	20,480	8.3%
Commodity and service contracts (including credit derivatives)	**3,270**	3,384	(3.4%)
Total notional value of derivatives	**540,262**	591,965	(8.7%)

C. Set out below are the developments in the balance of off-balance sheet monetary assets held by the Bank Group's customers for which the Bank Group provides management, operational, and/or custody services:

	Balance as at		Change
	March 31, 2012	December 31, 2011	
	NIS millions		%
In securities portfolios[(1)(2)]	**662,910**	633,782	4.6%
In mutual funds	**40,374**	40,016	0.9%
Total assets of provident funds receiving operational services	**79,152**	76,617	3.3%
Total	**782,436**	750,415	4.3%

(1) Including securities balances of provident funds and mutual funds for which the Bank Group provides operational services.
(2) Excluding mutual funds held by customers of the Bank.

Net Credit to the Public

Net credit to the public as at March 31, 2012 amounted to NIS 244.8 billion, compared with NIS 246.5 billion at the end of 2011, a decrease of approximately 0.7%.

Set out below are data regarding the volume of credit to the public, by linkage segment:

	Balance as at				The segment's share of total credit to the public as at	
	March 31, 2012	December 31, 2011	Change		**March 31, 2012**	December 31, 2011
	NIS millions		NIS millions	%	%	
Israeli currency unlinked	**143,485**	142,503	982	0.7%	**58.6%**	57.8%
Israeli currency CPI-linked	**56,178**	56,718	(540)	(1.0%)	**22.9%**	23.0%
Foreign currency (including f.c. linked)	**44,976**	47,054	(2,078)	(4.4%)	**18.4%**	19.1%
Non-monetary items	**165**	220	(55)	(25.0%)	**0.1%**	0.1%
Total	**244,804**	246,495	(1,691)	(0.7%)	**100.0%**	100.0%

Credit in the unlinked shekel segment increased by NIS 1.0 billion in the first quarter of 2012, an increase of approximately 0.7%, mainly resulting from an increase in corporate credit, which was evident in the unlinked segment.
Credit in the CPI-linked shekel segment decreased by NIS 0.5 billion in the first quarter of 2012, a decrease of approximately 1.0%.
Credit in the foreign currency (including foreign-currency linked) segment decreased by NIS 2.0 billion in the first quarter of 2012, a decrease of approximately 4.4%. Excluding the effects of the depreciation of the NIS against the major currencies, a decrease of 2.6% occurred.

Net credit to the public by segment of activity:

	Balance as at			Change vs.	
	March 31, 2012	December 31, 2011	March 31, 2011	December 31, 2011	March 31, 2011
	NIS millions			%	
Households Segment	**61,676**	61,685	58,861	(0.0%)	4.8%
Private Banking Segment	**28,496**	28,509	24,951	(0.0%)	14.2%
Small Business Segment	**23,069**	22,911	21,596	0.7%	6.8%
Commercial Segment	**24,770**	24,405	22,636	1.5%	9.4%
Corporate Segment	**102,575**	104,839	97,950	(2.2%)	4.7%
Others and Adjustments	**4,218**	4,146	3,841	1.7%	9.8%
Total	**244,804**	246,495	229,835	(0.7%)	6.5%
Of which, consumer credit in Israel excluding housing loans:					
Households Segment	**26,771**	26,814	25,468	(0.2%)	5.1%
Private Banking Segment	**10,634**	10,767	10,155	(1.2%)	4.7%
Small Business Segment	**19,270**	19,258	18,514	0.1%	4.1%
Total	**56,675**	56,839	54,137	(0.3%)	4.7%
Housing loans in Israel:					
Households Segment	**34,473**	34,409	32,826	0.2%	5.0%
Private Banking Segment	**11,173**	10,806	9,159	3.4%	22.0%
Small Business Segment	**3,799**	3,653	3,082	4.0%	23.3%
Total	**49,445**	48,868	45,067	1.2%	9.7%

Set out below are data regarding the balance of housing loans and regarding execution (including refinanced loans), divided into loans from Bank funds and loans from Ministry of Finance funds, all with regard to activity in Israel:

	Balance as at		
	March 31, 2012	December 31, 2011	March 31, 2011
	NIS millions		
Credit balances			
Loans from Bank funds	**49,827**	49,250	45,067
Loans from Finance Ministry funds*	**4,887**	5,098	5,557
Grants from Finance Ministry funds*	**350**	482	545
Total	**55,064**	54,830	51,169

	For three months ended	For twelve months ended	For three months ended
	31.03.12	31.12.11	31.03.11
	NIS millions		
Execution of housing loans			
Loans from Finance Ministry funds:			
Loans	**3**	20	5
Grants	**1**	8	3
Total from Finance Ministry funds	**4**	28	8
Total loans from Bank funds	**2,298**	11,303	3,424
Total new loans	**2,302**	11,331	3,432
Old loans refinanced from Bank funds	**387**	1,455	478
Total loans extended	**2,689**	12,786	3,910

* This amount is not included in balance sheet balances to the public.

Development of housing credit balances:

Development of the balance in the housing credit portfolio, by linkage base and as a percentage of the balance in the credit portfolio of the Bank*:

	Unlinked segment				CPI-linked segment				Foreign currency segment		Total	Rate of change during the period
	Fixed rate		Floating rate		Fixed rate		Floating rate		Floating rate			
	Balance in NIS millions(1)	Rate in %	Balance in NIS millions(1)	Rate in %	Balance in NIS millions(1)	Rate in %	Balance in NIS millions(1)	Rate in %	Balance in NIS millions(1)	Rate in %	Recorded debt balance in NIS millions(1)	
Dec. 31, 2008	45	0.1%	6,166	18.3%	17,801	52.8%	8,494	25.2%	1,228	3.6%	33,734	
Dec. 31, 2009	171	0.5%	10,504	28.4%	15,365	41.5%	9,928	26.8%	1,026	2.8%	36,994	9.7%
Dec. 31, 2010	298	0.7%	14,870	34.3%	13,837	31.9%	13,361	30.9%	943	2.2%	43,309	17.1%
Dec. 31, 2011	431	0.9%	16,403	33.3%	13,642	27.7%	17,464	35.4%	1,310	2.7%	49,250	13.7%
Mar. 31, 2012	**522**	**1.0%**	**16,390**	**32.9%**	**13,486**	**27.1%**	**18,180**	**36.5%**	**1,249**	**2.5%**	**49,827**	**1.2%**

* Excluding balances in respect of subsidiaries overseas (as at March 31, 2012, a recorded debt balance in the amount of NIS 88 million; as at December 31, 2011, a recorded debt balance in the amount of NIS 94 million).

(1) The balance of the housing credit portfolio as at March 31, 2012 stands at NIS 49,827 million. The increase in the volume of housing credit in recent years stems from an increase in housing prices and a low interest-rate environment. As shown, the percentage of floating-rate unlinked credit rose from December 2008 to March 2012: from 18.3% in 2008 to 32.9%. The proportion of credit in the floating-rate CPI-linked segment also rose, from 25.2% to 36.5%. The increase occurred at the expense of a decrease in the proportion of fixed-rate CPI-linked credit.

Volume of Problematic Debt

A continual decrease has been apparent in the last few years in the volume of amounts in arrears and in the volume of provision for credit losses.

Development of amounts in arrears in housing loans and provision for credit losses (excluding the group provision)*

	Recorded debt balance (NIS millions)	Amount in arrears of more than 90 days (NIS millions)	Rate of arrears	Provision for credit losses based on extent of arrears (NIS millions)	Rate of provision for credit losses based on extent of arrears	Problematic debt (NIS millions)	Rate of problematic debt
Dec. 31, 2008	33,734	241	0.7%	285	0.8%	1,072	3.2%
Dec. 31, 2009	36,994	246	0.7%	269	0.7%	1,058	2.9%
Dec. 31, 2010	43,309	157	0.4%	306	0.7%	1,028	2.4%
Dec. 31, 2011	49,250	151	0.3%	294	0.6%	990	2.0%
Mar. 31, 2012	**49,827**	**146**	**0.3%**	**290**	**0.6%**	**973**	**2.0%**

* Excluding balances in respect of subsidiaries overseas (as at March 31, 2012, a recorded debt balance in the amount of NIS 88 million, and a provision for credit losses based on the extent of arrears in the amount of NIS 6 million; as at December 31, 2011, a recorded debt balance in the amount of NIS 94 million and a provision for credit losses based on the extent of arrears in the amount of NIS 5 million).

Risk Quantification and Measurement – Housing Credit Execution

Housing credit risk is quantified and measured on several levels: the level of the individual customer, the level of the product, and the level of the overall credit portfolio of the Bank. For that purpose, quantification and measurement processes have been developed and implemented, combining assessments by housing-credit experts with statistical models. As part of the quantification of risk, a focused examination of repayment capability is performed, including a test of sensitivity to possible changes in repayment capability as a result of possible changes in the interest rate.

The following table lists various characteristics of housing credit granted by the Bank on a quarterly basis.

Housing loan data – percentage of total new loans executed

Characteristics	**For the three months ended March 31, 2012**	For the three months ended December 31, 2011	For the three months ended September 30, 2011	For the three months ended June 30, 2011	For the three months ended March 31, 2011
Financing rate over 75%	**1.2%**	3.3%	9.8%	11.2%	10.3%
Ratio of repayment to income greater than 50%	**11.8%**	14.5%	15.3%	16.7%	15.8%
Financing rate over 60% and repayment rates over 50%	**5.2%**	6.9%	8.3%	8.8%	7.0%
Financing rate over 75% and repayment rates over 50%	**0.1%**	0.5%	0.4%	0.9%	1.5%
Percentage of execution of floating-rate loans with interest varying at a frequency of less than 5 years	**29%**	30%	29%	55%	69%
Percentage of loans for investment purposes	**11.1%**	13.6%	12.4%	13.5%	
Average loan balance (in thousands of NIS)	**300**	298	293	289	
Average original term to maturity in years (with monthly payments)*	**17.5**	17.3	18.4	18.5	17.6
Percentage of all-purpose loans	**13.5%**	13.4%	10.2%	9.9%	11.2%
Average loan for purchase (in NIS thousands)*	**565**	588	592	578	

* Restated.

Note that financing rates were calculated pursuant to Reporting Directive No. 876 of the Supervisor of Banks, "Report on Housing Loans."

Risk Quantification and Measurement – Housing Credit Portfolio

The Bank routinely monitors developments in the housing credit portfolio, with reference to many parameters, such as LTV distribution, repayment capability, distribution of credit products in the portfolio, volume of problematic debt, and rate of arrears.

The Bank uses a statistical model to measure the probability of default and the economic allowance required in the mortgage portfolio. In addition, stress scenarios are applied to the mortgage portfolio, and the effect on the portfolio and on the Bank as a whole is analyzed. These scenarios include steep declines in prices of homes, increases in the interest rate, and increases in the unemployment rate.

In addition, insurance arrangements are in place (life insurance and building insurance). The Bank also requires credit insurance for loans where the LTV ratio is greater than 75%.

Monthly Discussion of Housing Credit Risks

A monthly discussion is held regarding the development of the various indices, both on the level of the execution of credit and on the level of the overall portfolio, in accordance with the risk appetite defined by the Board of Management of the Bank.

Overall Credit Risk to the Public

Overall credit risk to the public consists of balance sheet credit risk, which comprises credit to the public, investments in corporate bonds, other debts of the public, and assets arising from derivative instruments transacted with the public as the counterparty; and off-balance sheet credit risk, which includes guarantees, transactions in off-balance sheet financial instruments, unutilized credit facilities, and commitments to grant credit.

For further details, see Appendix 3 in the Management's Review.

Overall credit risk to the public as at March 31, 2012 totaled NIS 403.1 billion.

Set out below is the development of overall credit risk to the public*, by principal sectors of the economy:

	March 31, 2012		December 31, 2011		
	Overall credit risk to the public***	Percent of total	Overall credit risk to the public***	Percent of total	Rate of change vs. Dec. 31, 2011
Economic sector:	NIS millions	%	NIS millions	%	%
Agriculture	**2,956**	**0.7%**	2,864	0.7%	3.2%
Industry	**47,000**	**11.7%**	47,351	11.7%	(0.7%)
Construction and real estate**	**84,638**	**21.0%**	83,630	20.7%	1.2%
Electricity and water	**9,086**	**2.2%**	9,574	2.4%	(5.1%)
Commerce	**28,682**	**7.1%**	28,628	7.1%	0.2%
Hotels, hospitality, and food services	**9,900**	**2.5%**	9,981	2.5%	(0.8%)
Transportation and storage	**8,550**	**2.1%**	8,559	2.1%	(0.1%)
Communications and computer services	**12,124**	**3.0%**	12,377	3.1%	(2.0%)
Financial services	**46,267**	**11.5%**	49,099	12.1%	(5.8%)
Other business services	**14,276**	**3.5%**	14,305	3.5%	(0.2%)
Public and community services	**8,694**	**2.2%**	8,948	2.2%	(2.8%)
Private individuals - housing loans	**48,180**	**12.0%**	47,437	11.7%	1.6%
Private individuals - others	**82,730**	**20.5%**	82,021	20.2%	0.9%
Total	**403,083**	**100.0%**	404,774	100.0%	(0.4%)

* Data on overall credit risk are presented after deduction of the balance of accounting write-offs, and before deduction of the allowance for credit losses (on an individual and group basis).

** Includes balance sheet credit risk in the amount of approximately NIS 441 million, and off-balance sheet credit risk in the amount of approximately NIS 1,996 million, in respect of loans granted to certain purchasing groups currently engaged in the process of construction (December 31, 2011: balance sheet credit risk in the amount of approximately NIS 433 million, and off-balance sheet credit risk in the amount of approximately NIS 2,169 million).

*** Excluding unutilized credit facilities in credit cards under the responsibility of other banks in the amount of approximately NIS 10,542 million (December 31, 2011: NIS 10,163 million).

Construction and Real Estate

Overall credit risk in this sector totaled NIS 84.6 billion as at March 31, 2012.

Set out below is a breakdown of credit risk of the Bank Group in the construction and real-estate sector, by principal areas of activity.

	Balance as at March 31, 2012		
	Balance-sheet credit risk	Off-balance sheet credit risk	Overall credit risk
	NIS millions		
Construction for commerce and services	**1,659**	**1,955**	**3,614**
Construction for industry	**471**	**389**	**860**
Construction for housing	**9,694**	**22,340**	**32,034**
Yield-generating properties	**28,593**	**5,979**	**34,572**
Other	**7,051**	**6,507**	**13,558**
Total construction and real-estate sector	**47,468**	**37,170**	**84,638**

Set out below are details of balances of credit to the public and off-balance sheet credit risk to borrowers whose balance of indebtedness exceeds NIS 1,200 million, by sectors of the economy, as at March 31, 2012.

	Number of borrowers	Balance sheet credit	Off-balance sheet credit	Total
Economic sector		NIS millions		
Industry	**4**	**1,684**	**8,054**	**9,738**
Construction and real estate	**4**	**3,533**	**2,369**	**5,902**
Electricity and water	**1**	**1,620**	**2,142**	**3,762**
Commerce	**1**	**202**	**1,000**	**1,202**
Communications and computer services	**1**	**2,577**	**30**	**2,607**
Financial services	**4**	**4,167**	**3,136**	**7,303**
Total	**15**	**13,783**	**16,731**	**30,514**

Credit Risk in Respect of Exposure to Borrower Groups

Set out below are details of credit risk balances for each group of borrowers with a net indebtedness, on a consolidated basis, pursuant to Proper Conduct of Banking Business Directive No. 313, "Limits on the Indebtedness of Borrowers and Borrower Groups" (hereinafter: Directive 313), exceeding 15% of the capital of the banking corporation (as defined in Directive 313) as at March 31, 2012.

	Balance-sheet credit risk(1)	Off-balance-sheet credit risk(1)	Of which: off-balance sheet credit risk in respect of derivative instruments(2)	Gross indebtedness(3)	Deductions(4)	Net indebtedness(5)	Percentage of regulatory capital
	NIS millions						%
Borrower group A	**8,129**	**2,503**	**752**	**10,781**	**111**	**10,670**	**25.2%**
Borrower group B	**6,219**	**2,133**	**103**	**8,392**	**608**	**7,784**	**18.4%**
Borrower group C	**4,848**	**2,929**	**240**	**7,793**	**76**	**7,717**	**18.2%**

(1) After deduction of the balance of accounting write-offs and the allowance for credit losses calculated on an individual basis.
(2) Off-balance sheet credit risk in respect of derivative instruments, as calculated for the purposes of the limits on indebtedness of borrowers and of borrower groups.
(3) This amount includes third-party guarantees outside the group.
(4) Deductions permitted under Directive 313, primarily including deposits deposited with the Bank, bonds issued by the State of Israel, deductible indemnification letters of the State of Israel or financial entities.
(5) The data presented above represent exposure to borrower groups, and are stated after the permitted deductions pursuant to Directive 313, and after deduction of the allowance for credit losses calculated on an individual basis. These data are therefore not comparable with data regarding borrowers' indebtedness provided in other disclosures in the report.

Pursuant to Proper Conduct of Banking Business Directive No. 313, "Limits on Indebtedness of a Borrower and of a Group of Borrowers," a limit is imposed on the Bank, among other matters, under which the rate of "indebtedness" of a "borrower" and of a "group of borrowers," as defined in the directive, after subtracting certain permitted amounts as specified in the directive, shall not exceed 15% and 25%, respectively, of the capital of the Bank, calculated according to Proper Conduct of Banking Business Directive No. 202, "Capital Components." The directive further states that the total indebtedness (after subtracting the permitted amounts) of the borrowers, borrower groups, and banking borrower groups, each of whose indebtedness exceeds 10% of the capital of the Bank, shall not exceed 120% of the capital of the Bank. A transitional period was established, beginning December 31, 2011, during which this indebtedness shall not exceed 135%, with a decrease of 3.75% each quarter, until the end of 2012.

It is hereby clarified that for the purpose of calculation of the indebtedness, principles were adopted with regard to credit conversion coefficients and permitted deductions in accordance with Proper Conduct of Banking Business Directive No. 203, "Capital Measurement and Adequacy – The Standard Approach – Credit Risk."

As at the reporting date, there is one group of borrowers with a rate of indebtedness to the Bank exceeding 25%. The Bank applied to the Supervisor of Banks and received approval for the exceptional indebtedness of this group to the Bank to be reduced, at equal rates, over eight quarters, beginning December 31, 2011.

The Bank conducts monitoring and control processes in order to examine compliance with the limits set forth in Directive 313 with regard to exposure to the indebtedness of borrower groups. In addition, the Bank performs periodic surveys of credit risk in such borrower groups, with an individual examination of the borrowers belonging to the borrower group, the nature of these borrowers' activities, and the correlations between the borrowers that can affect group-level risk.

Information Regarding Problematic Debts for the Measurement and Disclosure of Impaired Debts, Credit Risk, and Provision for Credit Losses

A. Segmentation of problematic credit risk

	March 31, 2012			December 31, 2011		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
			NIS millions			
Impaired credit risk	**8,291**	**815**	**9,106**	8,652	887	9,539
Substandard credit risk	**1,809**	**150**	**1,959**	1,643	141	1,784
Credit risk under special supervision	**4,095**	**1,195**	**5,290**	2,483	984	3,467
Total problematic credit risk	**14,195**	**2,160**	**16,355**	12,778	2,012	14,790
Net total problematic credit risk	**12,433**	**2,065**	**14,498**	10,871	1,928	12,799

	March 31, 2012	December 31, 2011
	NIS millions	
Impaired balance sheet credit risk		
Impaired credit to the public not accruing interest income -		
Examined on an individual basis	**7,806**	8,252
Impaired debts under problematic debts restructuring accruing interest income	**436**	357
Impaired bonds accruing interest income	**49**	39
Impaired bonds not accruing interest income:	**-**	4
Total impaired credit risk	**8,291**	8,652

B. Problematic credit risk

	March 31, 2012	December 31, 2011
	NIS millions	
Problematic commercial credit risk(1)		
Balance-sheet credit risk in respect of the public	**12,005**	10,540
Off-balance sheet credit risk in respect of the public(2)	**2,127**	1,980
Total problematic commercial credit risk in respect of the public	**14,132**	12,520
Balance-sheet credit risk in respect of others	**-**	4
Off-balance sheet credit risk in respect of others(2)	**25**	26
Total problematic commercial credit risk	**14,157**	12,550
Problematic credit risk in respect of private individuals	**2,198**	2,240
Total problematic credit risk	**16,355**	14,790

(1) Balance-sheet credit risk (credit, bonds, other debts recognized in the balance sheet, and assets in respect of derivative instruments) and off-balance sheet credit risk that is impaired, substandard, or under special supervision, excluding balance sheet and off-balance sheet credit risk in respect of private individuals.
(2) As calculated for the purposes of the limits on indebtedness of borrowers and borrower groups, except in respect of guarantees provided by a borrower to secure the indebtedness or a third party, prior to the effect of deductible collateral.

Note:
Balance-sheet and off-balance sheet credit risk are presented prior to the effect of the allowance for credit losses and prior to the effect of collateral deductible for the purposes of the indebtedness of borrowers and borrower groups.

Nonperforming Assets

Nonperforming assets include assets of the Bank that do not accumulate interest income. This information is similar to the balance of nonperforming assets presented in the financial statements of banking corporations in the United States. This data is provided in order to give disclosure to the part of the Bank's assets included in the financial statements that does not accumulate interest income.

	Balance as at	
	March 31, 2012	December 31, 2011
C. Nonperforming assets	NIS millions	
Impaired credit to the public not accruing interest income		
Examined on an individual basis	**7,806**	8,252
Impaired bonds not accruing interest income	**-**	4
Total impaired debts not accruing interest income	**7,806**	8,256
Assets received in respect of credit repaid	**158**	161
Total nonperforming assets	**7,964**	8,417
D. Impaired debts under problematic debt restructuring accruing interest income	**436**	357
E. Unimpaired debts in arrears of 90 days or more	**1,114**	1,132
Of which:		
Housing loans for which an allowance according to the extent of arrears exists	**716**	705
Housing loans for which an allowance according to the extent of arrears does not exist[(1)]	**267**	292

(1) Housing loans for which the minimum provision is calculated according to the extent of arrears, which are in arrears of more than 3 months and up to 6 months; and other unimpaired housing loans in arrears of 90 days or more, for which the minimum provision is not calculated according to the extent of arrears.

F. Risk Indices

	31.03.2012	31.12.2011
Balance of impaired credit to the public not accruing interest income, as a percentage of the balance of credit to the public*	**3.14%**	3.29%
Balance of unimpaired credit to the public, in arrears of 90 days or more, as a percentage of the balance of credit to the public*	**0.45%**	0.45%
Balance of allowance for credit losses in respect of credit to the public, as a percentage of the balance of credit to the public*	**1.61%**	1.63%
Balance of allowance for credit losses in respect of credit to the public, as a percentage of the balance of impaired credit to the public not accruing interest income*	**51.41%**	49.65%
Problematic commercial credit risk in respect of the public, as a percentage of total credit risk in respect of the public*	**3.51%**	3.09%
Problematic credit risk in respect of the public, as a percentage of total credit risk in respect of the public*	**4.06%**	3.65%

* Before deduction of the allowance for credit losses.

Cash on Hand and Deposits with Banks

Cash on hand and deposits with banks totaled NIS 52.3 billion as at March 31, 2012, compared with NIS 55.8 billion at the end of 2011, a decrease of approximately 6.3%.

Set out below are details of the balance of cash and deposits with banks.

	Balance as at		Change at
	March 31, 2012	December 31, 2011	December 31, 2011
	NIS millions		%
Cash	**2,106**	2,232	(5.6%)
Deposits with the Bank of Israel	**31,253**	31,319	(0.2%)
Deposits with central banks abroad	**14,173**	16,451	(13.8%)
Deposits with banks in Israel	**237**	290	(18.3%)
Deposits with banks abroad	**4,501**	5,498	(18.1%)
Total	**52,270**	55,790	(6.3%)

Securities

Securities as at March 31, 2012, totaled NIS 36.9 billion, compared with NIS 34.4 billion at the end of 2011, an increase of approximately 7.2%, which mainly resulted from the purchase of government bonds.

For further details, see Note 2 to the Condensed Financial Statements.

Details of the securities of the Bank Group by balance sheet classification are set out below.

	March 31, 2012				
	Depreciated cost	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value	Balance sheet value
	NIS millions				
Bonds:					
Held to maturity	**850**	**60**	**-**	**910**	**850**
Available for sale	**30,247**	**213**	**(65)**	**30,395**	**30,395**
For trading	**4,089**	***14**	***(3)**	**4,100**	**4,100**
Total bonds	**35,186**	**287**	**(68)**	**35,405**	**35,345**
Shares:					
Available for sale	**1,347**	**164**	**(9)**	**1,502**	**1,502**
For trading	**55**	***1**	***-**	**56**	**56**
Total shares	**1,402**	**165**	**(9)**	**1,558**	**1,558**
Total securities	**36,588**	**452**	**(77)**	**36,963**	**36,903**

	December 31, 2011				
	Depreciated cost	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value	Balance sheet value
	NIS millions				
Bonds:					
Held to maturity	869	57	-	926	869
Available for sale	28,251	253	(92)	28,412	28,412
For trading	3,516	*24	*-	3,540	3,540
Total bonds	32,636	334	(92)	32,878	32,821
Shares:					
Available for sale	1,343	198	(3)	1,538	1,538
For trading	61	*-	*(9)	52	52
Total shares	1,404	198	(12)	1,590	1,590
Total securities	34,040	532	(104)	34,468	34,411

* Charged to the statement of profit and loss.

Set out below are details of the unrealized loss from adjustments to fair value in respect of securities in the available-for-sale portfolio, as at March 31, 2012.

With respect to bonds*:

	Time elapsed since beginning of decline in value				
	Up to 6 months	6-9 months	9-12 months	Over 12 months	Total
Rate of decline	NIS millions				
Up to 20%	**20**	**12**	**15**	**18**	**65**

With respect to shares:

	Time elapsed since beginning of decline in value				
	Up to 6 months	6-9 months	9-12 months	Over 12 months	Total
Rate of decline	NIS millions				
Up to 20%	**9**	**-**	**-**	**-**	**9**

* The decrease in the capital reserve mainly derived from Israeli government bonds.

Investments in Bonds in the Available-for-Sale Portfolio and in the Trading Portfolio

The following table provides additional details regarding the Bank Group's investments in bonds, as at March 31, 2012 (in NIS millions).

	Balance sheet value	Total balance sheet value
Government bonds:		
Israeli government	**28,373**	
US government	**19**	
Governments of developed countries	**1,764**	
Governments of developing countries	**682**	
		30,838
Bonds of banks and financial institutions:		
Banks in Israel		**155**
Banks in developed countries:		
US	**293**	
Australia	**60**	
Netherlands	**186**	
UK	**254**	
Spain	**51**	
Jersey	**98**	
Other*	**190**	
		1,132
Banks in developing countries		**22**
Financial institutions (other than banks):		
Israel	**59**	
US**	**430**	
Ireland	**30**	
UK	**33**	
		552

* Includes 12 countries; the highest balance is approximately NIS 45 million.
** Includes 12 issuers; the highest balance of a single issuer is approximately NIS 83 million.

	Balance sheet value	Total balance sheet value
Bonds of corporations, other than banks and financial institutions, by economic sector:		
Industry	**458**	
Real-estate activities	**147**	
Electricity and water	**493**	
Commerce	**30**	
Agriculture	**3**	
Transportation	**28**	
Communications and computer services	**90**	
Financial services	**167**	
Public services*	**124**	
Other business services	**256**	
		1,796
Total bonds		**34,495**

* Including asset-backed securities.

Investments in Shares

The Bank has investments in tradable shares, non-tradable shares, and mutual funds, broadly diversified, at a total amount of NIS 1,558 million as at March 31, 2012, compared with NIS 1,590 million at the end of 2011.

Deposits

Deposits include deposits from the public, government deposits, and deposits from the Bank of Israel and other banks.

	Balance as at		
	March 31, 2012	December 31, 2011	Change
	NIS millions		%
Deposits from the public	**251,576**	256,417	(1.9%)
Deposits from banks	**6,624**	7,001	(5.4%)
Government deposits	**906**	1,085	(16.5%)
Total	**259,106**	264,503	(2.0%)

Deposits from the public as at March 31, 2012 totaled NIS 251.6 billion, compared with NIS 256.4 billion at the end of 2011, a decrease of approximately 1.9%. This decrease mainly resulted from a decrease in the amount of NIS 2.9 billion in Corporate deposits and NIS 1.2 billion in deposits in the Financial Management segment, mainly callable CD's.

Set out below is the distribution of the portfolio of deposits from the public, by linkage segment.

	Balance as at		Change		Share of segment in total deposits from the public as at	
	March 31, 2012	December 31, 2011			**March 31, 2012**	December 31, 2011
	NIS millions		NIS millions	%	%	%
Israeli currency unlinked	**153,959**	155,391	(1,432)	(0.9%)	**61.2%**	60.6%
Israeli currency CPI-linked	**20,497**	20,615	(118)	(0.6%)	**8.1%**	8.0%
Foreign currency (including f. c. linked)	**76,955**	80,191	(3,236)	(4.0%)	**30.6%**	31.3%
Non-monetary items	**165**	220	(55)	(25.0%)	**0.1%**	0.1%
Total	**251,576**	256,417	(4,841)	(1.9%)	**100.0%**	100.0%

Deposits from the public by segment of activity:

	Balance as at			Change vs.	
	March 31, 2012	December 31, 2011	March 31, 2011*	December 31, 2011	March 31, 2011
	NIS millions			%	
Households Segment	**35,446**	34,965	32,119	1.4%	10.4%
Private Banking Segment	**123,415**	124,352	110,126	(0.8%)	12.1%
Small Business Segment	**23,473**	23,545	20,660	(0.3%)	13.6%
Commercial Segment	**13,409**	13,662	11,486	(1.9%)	16.7%
Corporate Segment	**49,897**	52,757	50,432	(5.4%)	(1.1%)
Financial Management Segment	**5,936**	7,136	6,946	(16.8%)	(14.5%)
Total	**251,576**	256,417	231,769	(1.9%)	8.5%

* Reclassified.

Bonds and subordinated notes totaled NIS 34.4 billion as at March 31, 2012, compared with NIS 32.9 billion at the end of 2011, an increase of approximately 4.5%. Most of the increase resulted from subordinated notes in a total amount of approximately NIS 1.5 billion, issued by the Bank during the first quarter of 2012, which were included in lower Tier II capital, subject to the limit in the Proper Conduct of Banking Business Directives.

Description of the Bank Group's Business by Segments of Activity

Condensed Financial Information on Segments of Activity

The Bank Group operates in Israel and abroad in all areas of banking through the Bank, subsidiaries, branches, and representative offices, and provides a wide range of banking and financial services to its customers. The Bank also has investments in equity-basis investee companies.

The activity of the Bank Group is conducted via six principal segments of activity. The division into segments of activity is based on the types of products and services or on the types of customers included in each of the segments. The Board of Management of the Bank uses this division to make decisions and to analyze the Group's business results. The segments of activity are presented according to characteristics stipulated by the Supervisor of Banks.

For details regarding the assignment of customers to the segments of activity, see Note 32 to the Annual Financial Statements for 2011.

The Bank adopted the directives of the Supervisor of Banks concerning the new format of statements of profit and loss for banking corporations for the first time on January 1, 2012. The directives were adopted retroactively, with the exception of the cancellation of CPI linkage differences on accrued unpaid principal in respect of debts classified as impaired prior to the initial implementation date. Accordingly, data included in the statement of profit and loss with regard to comparison periods last year were reclassified to match the new definition, headings, and presentation method of the current reporting period. For details, see Note 1(C)(1) to the Condensed Financial Statements.

Set out below are the condensed developments in the results of operations of the Bank Group and the principal balance sheet items, by segment of activity.

A. Net Profit Attributed to Shareholders of the Bank:

	For the three months ended			Change vs. three months ended	
	March 31, 2012	December 31, 2011	March 31, 2011	December 31, 2011	March 31, 2011
	NIS millions			%	
Households Segment	**107**	49	53	118.4%	101.9%
Private Banking Segment	**91**	70	52	30.0%	75.0%
Small Business Segment	**121**	99	99	22.2%	22.2%
Commercial Segment	**65**	81	41	(19.8%)	58.5%
Corporate Segment	**222**	201	449	10.4%	(50.6%)
Financial Management Segment	**62**	(134)	185	(146.3%)	(66.5%)
Others and Adjustments	**(9)**	306	12	(102.9%)	(175.0%)
Total	**659**	672	891	(1.9%)	(26.0%)

B. Net Credit to the Public by Segment of Activity:

	Balance as at			Change vs.	
	March 31, 2012	December 31, 2011	March 31, 2011	December 31, 2011	March 31, 2011
	NIS millions			%	
Households Segment	**61,676**	61,685	58,861	(0.0%)	4.8%
Private Banking Segment	**28,496**	28,509	24,951	(0.0%)	14.2%
Small Business Segment	**23,069**	22,911	21,596	0.7%	6.8%
Commercial Segment	**24,770**	24,405	22,636	1.5%	9.4%
Corporate Segment	**102,575**	104,839	97,950	(2.2%)	4.7%
Others and Adjustments	**4,218**	4,146	3,841	1.7%	9.8%
Total	**244,804**	246,495	229,835	(0.7%)	6.5%
Of which, consumer credit in Israel excluding housing loans:					
Households Segment	**26,771**	26,814	25,468	(0.2%)	5.1%
Private Banking Segment	**10,634**	10,767	10,155	(1.2%)	4.7%
Small Business Segment	**19,270**	19,258	18,514	0.1%	4.1%
Total	**56,675**	56,839	54,137	(0.3%)	4.7%
Housing loans in Israel:					
Households Segment	**34,473**	34,409	32,826	0.2%	5.0%
Private Banking Segment	**11,173**	10,806	9,159	3.4%	22.0%
Small Business Segment	**3,799**	3,653	3,082	4.0%	23.3%
Total	**49,445**	48,868	45,067	1.2%	9.7%

C. Deposits from the Public by Segment of Activity

	Balance as at			Change vs.	
	March 31, 2012	December 31, 2011	March 31, 2011*	December 31, 2011	March 31, 2011
	NIS millions			%	
Households Segment	**35,446**	34,965	32,119	1.4%	10.4%
Private Banking Segment	**123,415**	124,352	110,126	(0.8%)	12.1%
Small Business Segment	**23,473**	23,545	20,660	(0.3%)	13.6%
Commercial Segment	**13,409**	13,662	11,486	(1.9%)	16.7%
Corporate Segment	**49,897**	52,757	50,432	(5.4%)	(1.1%)
Financial Management Segment	**5,936**	7,136	6,946	(16.8%)	(14.5%)
Total	**251,576**	256,417	231,769	(1.9%)	8.5%

* Reclassified.

Set out below are details of the capital allocated to each segment of activity for the purpose of the calculation of return on equity(1):

	For the three months ended			Change vs. three months ended	
	March 31, 2012	December 31, 2011*	March 31, 2011*,**	December 31, 2011	March 31, 2011
	NIS millions			%	
Households Segment	**3,404**	3,292	3,506	3.4%	(2.9%)
Private Banking Segment	**1,719**	1,712	1,377	(0.4%)	24.8%
Small Business Segment	**2,025**	2,038	2,004	(0.6%)	1.0%
Commercial Segment	**2,533**	2,640	2,154	(4.1%)	17.6%
Corporate Segment	**10,770**	11,618	9,524	(7.3%)	13.1%
Financial Management Segment	**3,207**	1,600	3,098	100.4%	3.5%
Others and Adjustments	**673**	635	583	6.0%	15.4%
Total	**24,331**	23,535	22,246	3.4%	9.4%

* Restated due to the initial implementation of International Accounting Standard 12, Taxes on Income, see Note 1(C)(2.2) to the Condensed Financial Statements.

** Reclassified.

(1) The capital allocation based on risk-adjusted assets in each segment is calculated according to risk-adjusted assets pursuant to Basel II.

Off-Balance-Sheet Activity

Set out below is the development in balances of holdings in off-balance sheet monetary assets of customers of the Bank Group(1):

	Balance as at			Change	
	March 31, 2012	December 31, 2011	March 31, 2011	December 31, 2011	March 31, 2011
	NIS millions			%	
Households Segment	**5,026**	5,052	5,927	(0.5%)	(15.2%)
Private Banking Segment	**143,315**	133,214	145,798	7.6%	(1.7%)
Small Business Segment	**10,788**	10,168	12,901	6.1%	(16.4%)
Commercial Segment	**11,700**	11,341	11,650	3.2%	0.4%
Corporate Segment	**532,456**	514,023	547,334	3.6%	(2.7%)
Others and Adjustments	**79,151**	76,617	85,006	3.3%	(6.9%)
Total	**782,436**	750,415	808,616	4.3%	(3.2%)

(1) Includes customers' holdings in securities portfolios and mutual funds, and in assets of provident funds receiving operational services.

The Households Segment

General and Segment Structure

The Households Segment provides a range of services to private customers who mostly operate at relatively low financial volumes. Services are provided to customers of the segment through 278 branches located throughout Israel, from Kiryat Shmona to Eilat, organized by geographical location into eight regional administrations. These services are also delivered through direct channels: automated teller machines adjacent to branches and in "Customer Courts," "Poalim Online," "Poalim by Cell Phone," and "Poalim by Telephone." These services are also provided to Bank customers belonging to other segments, as well as to walk-in customers.

The Bank's activity in the Households Segment abroad also includes the households activity of Bank Pozitif in Turkey and Bank Pozitiv in Kazakhstan, at immaterial volumes.

In the first quarter of 2012, the Bank opened two new retail branches tailored to customers' needs.

Technological Changes that May Have a Material Impact on the Segment

Poalim HD, an advanced, innovative, smart application for account management via iPad, was launched at the end of the first quarter of 2012. The application allows Bank Hapoalim customers to view information and execute transactions in their accounts in an innovative way, through an interface adapted to customers' current iPad use.

Condensed operating results and principal data of the Households Segment:

	For the three months ended March 31, 2012						
	Activity in Israel				Activity abroad		
	Banking and financial services	Credit cards	Capital market[1]	Housing loans	Banking and financial services	Housing loans	Total
	NIS millions						
Net interest income:							
- From externals	**370**	**21**	**1**	**313**	**4**	**15**	**724**
- Inter-segmental	**101**	**-**	**-**	**(255)**	**(4)**	**(9)**	**(167)**
Total	**471**	**21**	**1**	**58**	**-**	**6**	**557**
Non-interest income:							
- From externals	**134**	**139**	**11**	**23**	**1**	**1**	**309**
- Inter-segmental	**(17)**	**-**	**(3)**	**6**	**-**	**-**	**(14)**
Total income	**588**	**160**	**9**	**87**	**1**	**7**	**852**
Provision for credit losses	**31**	**9**	**-**	**3**	**-**	**-**	**43**
Operating and other expenses:							
- From externals	**447**	**115**	**15**	**53**	**4**	**4**	**638**
- Inter-segmental	**4**	**-**	**-**	**-**	**-**	**-**	**4**
Profit before taxes (loss)	**106**	**36**	**(6)**	**31**	**(3)**	**3**	**167**
Provision for taxes (tax benefit) on profit (loss)	**39**	**12**	**(2)**	**11**	**(1)**	**1**	**60**
Net profit (loss):							
Before attribution to non-controlling interests	**67**	**24**	**(4)**	**20**	**(2)**	**2**	**107**
Attributed to non-controlling interests	**-**	**(1)**	**-**	**-**	**1**	**-**	**-**
Attributed to shareholders of the Bank	**67**	**23**	**(4)**	**20**	**(1)**	**2**	**107**
Return on equity (net profit attributed to shareholders of the Bank as a percentage of average equity)[2]	**19.9%**	**22.8%**	**-**	**5.5%**	**-**	**-**	**13.2%**
Average balance of assets	**21,070**	**5,972**	**-**	**34,426**	**370**	**105**	**61,943**
Average balance of liabilities	**35,118**	**-**	**-**	**-**	**12**	**-**	**35,130**
Average balance of risk-adjusted assets	**18,040**	**5,434**	**-**	**18,355**	**315**	**53**	**42,197**
Average balance of mutual funds	**-**	**-**	**2,123**	**-**	**-**	**-**	**2,123**
Average balance of securities in custody	**-**	**-**	**2,888**	**-**	**-**	**-**	**2,888**
Balance of credit to the public	**21,080**	**5,691**	**-**	**34,473**	**350**	**82**	**61,676**
Balance of deposits from the public	**35,433**	**-**	**-**	**-**	**13**	**-**	**35,446**

(1) Management, operations, and trust for institutional entities; distribution fees for financial products; and securities activity.
(2) In activities to which risk-adjusted assets cannot be attributed, return on equity was not calculated.

Condensed operating results and principal data of the Households Segment (continued):

	For the three months ended December 31, 2011*						
	Activity in Israel				Activity abroad		
	Banking and financial services	Credit cards	Capital market[1]	Housing loans	Banking and financial services	Housing loans	Total
	NIS millions						
Net interest income:							
- From externals	392	26	2	295	17	2	734
- Inter-segmental	97	-	-	(248)	(12)	(3)	(166)
Total	489	26	2	47	5	(1)	568
Non-interest income:							
- From externals	135	146	10	25	1	-	317
- Inter-segmental	(22)	-	(4)	8	-	-	(18)
Total income	602	172	8	80	6	(1)	867
Provision for credit losses	56	4	-	16	1	-	77
Operating and other expenses:							
- From externals	485	149	17	49	13	1	714
- Inter-segmental	4	-	-	-	-	-	4
Profit before taxes (loss)	57	19	(9)	15	(8)	(2)	72
Provision for taxes (tax benefit) on profit (loss)	19	7	(3)	5	(2)	(1)	25
Net profit (loss):							
Before attribution to non-controlling interests	38	12	(6)	10	(6)	(1)	47
Attributed to non-controlling interests	-	-	-	-	2	-	2
Attributed to shareholders of the Bank	38	12	(6)	10	(4)	(1)	49
Balance of credit to the public	21,002	5,812	-	34,409	373	89	61,685
Balance of deposits from the public	34,948	-	-	-	17	-	34,965

* Reclassified due to the initial implementation of the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations. For further details, see Note 1(C)(1) to the Condensed Financial Statements.

(1) Management, operations, and trust for institutional entities; distribution fees for financial products; and securities activity.

Condensed operating results and principal data of the Households Segment (continued):

	For the three months ended March 31, 2011*						
	Activity in Israel				Activity abroad		
	Banking and financial services	Credit cards	Capital market(1)	Housing loans	Banking and financial services	Housing loans	Total
	NIS millions						
Net interest income:							
- From externals	331	27	1	318	23	2	702
- Inter-segmental	119	-	-	(262)	(14)	(1)	(158)
Total	450	27	1	56	9	1	544
Non-interest income:							
- From externals	131	131	17	28	-	-	307
- Inter-segmental	(15)	-	(4)	3	-	-	(16)
Total income	566	158	14	87	9	1	835
Provision for credit losses	71	13	0	-	-	-	84
Operating and other expenses:							
- From externals	467	106	18	52	18	2	663
- Inter-segmental	4	-	-	-	-	-	4
Profit before taxes (loss)	24	39	(4)	35	(9)	(1)	84
Provision for taxes (tax benefit) on profit (loss)	8	14	(1)	14	(3)	-	32
Net profit (loss):							
Before attribution to non-controlling interests	16	25	(3)	21	(6)	(1)	52
Attributed to non-controlling interests	-	(1)	-	-	2	-	1
Attributed to shareholders of the Bank	16	24	(3)	21	(4)	(1)	53
Return on equity (net profit attributed to shareholders of the Bank as a percentage of average equity)(2)**	4.2%	23.2%	-	5.8%	-	-	6.2%
Average balance of assets	19,869	5,458	-	32,544	453	127	58,451
Average balance of liabilities	32,292	-	-	-	20	-	32,312
Average balance of risk-adjusted assets	17,750	5,166	-	18,213	405	67	41,601
Average balance of mutual funds	-	-	2,711	-	-	-	2,711
Average balance of securities in custody	-	-	3,232	-	-	-	3,232
Balance of credit to the public	20,178	5,290	-	32,826	454	113	58,861
Balance of deposits from the public**	32,098	-	-	-	21	-	32,119

* Reclassified due to the initial implementation of the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations. For further details, see Note 1(C)(1) to the Condensed Financial Statements.
** Reclassified.
(1) Management, operations, and trust for institutional entities; distribution fees for financial products; and securities activity.
(2) In activities to which risk-adjusted assets cannot be attributed, return on equity was not calculated.

Principal Changes in Net Profit and Balance-Sheet Balances

Net profit attributed to shareholders of the Bank in the Households Segment totaled NIS 107 million in the first quarter of 2012, compared with NIS 53 million in the same period last year. The increase in profit mainly resulted from a decrease in the provision for credit losses, a decrease in operating expenses, and an increase in net interest income,, as noted below.

Net interest income in the first quarter of 2012 totaled NIS 557 million, compared with NIS 544 million in the same period last year. The 2.4% increase mainly resulted from an increase in the volume of credit and deposits activity.

Non-interest income in the first quarter of 2012 totaled NIS 295 million, compared with NIS 291 million in the same period last year.

Provision for credit losses totaled NIS 43 million in the first quarter of 2012, compared with NIS 84 million in the same period last year.

The segment's expenses totaled NIS 642 million in the first quarter of 2012, compared with NIS 667 million in the same period last year. The 3.7% decrease mainly resulted from a decrease in salary expenses, as a result of a reduction of expenses recorded in respect of share-based payments, due to a decrease in the price of the Bank's shares, and a decrease in the provision for bonuses.

Net credit to the public totaled approximately NIS 61.7 billion as at March 31, 2012, similar to the balance as at December 31, 2011.

Housing loans in Israel totaled approximately NIS 34.5 billion as at March 31, 2012, compared with approximately NIS 34.4 billion as at December 31, 2011.

Deposits from the public totaled approximately NIS 35.4 billion as at March 31, 2012, compared with approximately NIS 35.0 billion as at December 31, 2011.

The balance of off-balance sheet monetary assets of the customers of the Bank Group attributed to this segment as at March 31, 2012 totaled approximately NIS 5.0 billion, similar to the balance as at December 31, 2011. This balance includes customers' holdings in securities portfolios and mutual funds.

Legal Proceedings

See Note 6C to the Condensed Financial Statements.

The Private Banking Segment

Condensed operating results and principal data of the Private Banking Segment:

	For the three months ended March 31, 2012						
	Activity in Israel				Activity abroad		
	Banking and financial services	Credit cards	Capital market[1]	Housing loans	Banking and financial services	Capital market[1]	Total
	NIS millions						
Net interest income:							
- From externals	**(358)**	**9**	**3**	**74**	**17**	**-**	**(255)**
- Inter-segmental	**605**	**-**	**-**	**(63)**	**28**	**-**	**570**
Total	**247**	**9**	**3**	**11**	**45**	**-**	**315**
Non-interest income:							
- From externals	**71**	**78**	**146**	**2**	**48**	**42**	**387**
- Inter-segmental	**(8)**	**-**	**(40)**	**1**	**-**	**(2)**	**(49)**
Total income	**310**	**87**	**109**	**14**	**93**	**40**	**653**
Provision for credit losses (reduction of provision)	**(2)**	**5**	**-**	**-**	**-**	**-**	**3**
Operating and other expenses:							
- From externals	**246**	**57**	**68**	**4**	**87**	**45**	**507**
- Inter-segmental	**6**	**-**	**-**	**-**	**-**	**-**	**6**
Profit before taxes (loss)	**60**	**25**	**41**	**10**	**6**	**(5)**	**137**
Provision for taxes (tax benefit) on profit (loss)	**20**	**9**	**14**	**3**	**2**	**(2)**	**46**
Net profit (loss):							
Attributed to shareholders of the Bank	**40**	**16**	**27**	**7**	**4**	**(3)**	**91**
Return on equity (net profit attributed to shareholders of the Bank as a percentage of average equity)[2]	**35.5%**	**28.7%**	**-**	**6.0%**	**3.3%**	**-**	**22.9%**
Average balance of assets	**7,410**	**3,266**	**-**	**11,132**	**6,687**	**-**	**28,495**
Average balance of liabilities	**103,281**	**-**	**-**	**-**	**20,201**	**-**	**123,482**
Average balance of risk-adjusted assets	**6,314**	**3,063**	**-**	**5,885**	**5,697**	**-**	**20,959**
Average balance of mutual funds	**-**	**-**	**30,056**	**-**	**-**	**769**	**30,825**
Average balance of other assets under management	**-**	**-**	**242**	**-**	**-**	**944**	**1,186**
Average balance of securities in custody	**-**	**-**	**73,612**	**-**	**-**	**28,635**	**102,247**
Balance of credit to the public	**7,426**	**3,208**	**-**	**11,173**	**6,689**	**-**	**28,496**
Balance of deposits from the public	**103,653**	**-**	**-**	**-**	**19,762**	**-**	**123,415**

(1) Management, operations, and trust for institutional entities; distribution fees for financial products; and securities activity.
(2) In activities to which risk-adjusted assets cannot be attributed, return on equity was not calculated.

Condensed operating results and principal data of the Private Banking Segment (continued):

	For the three months ended December 31, 2011*						
	Activity in Israel				Activity abroad		
	Banking and financial services	Credit cards	Capital market[(1)]	Housing loans	Banking and financial services	Capital market[(1)]	Total
	NIS millions						
Net interest income:							
- From externals	(332)	4	5	79	(8)	-	(252)
- Inter-segmental	591	-	-	(68)	57	-	580
Total	259	4	5	11	49	-	328
Non-interest income:							
- From externals	67	82	142	2	43	38	374
- Inter-segmental	(9)	-	(42)	1	(5)	2	(53)
Total income	317	86	105	14	87	40	649
Provision for credit losses (reduction of provision)	-	2	-	(2)	(3)	-	(3)
Operating and other expenses:							
- From externals	247	74	69	6	80	64	540
- Inter-segmental	6	-	-	-	-	-	6
Profit before taxes (loss)	64	10	36	10	10	(24)	106
Provision for taxes (tax benefit) on profit (loss)	22	4	12	3	2	(8)	35
Net profit (loss):							
Before attribution to non-controlling interests	42	6	24	7	8	(16)	71
Attributed to non-controlling interests	-	(1)	-	-	-	-	(1)
Attributed to shareholders of the Bank	42	5	24	7	8	(16)	70
Balance of credit to the public	7,491	3,276	-	10,806	6,936	-	28,509
Balance of deposits from the public	102,763	-	-	-	21,589	-	124,352

* Reclassified due to the initial implementation of the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations. For further details, see Note 1(C)(1) to the Condensed Financial Statements.
(1) Management, operations, and trust for institutional entities; distribution fees for financial products; and securities activity.

Condensed operating results and principal data of the Private Banking Segment (continued):

	For the three months ended March 31, 2011*						
	Activity in Israel				Activity abroad		
	Banking and financial services	Credit cards	Capital market(1)	Housing loans	Banking and financial services	Capital market(1)	Total
	NIS millions						
Net interest income:							
- From externals	(265)	4	5	59	(6)	-	(203)
- Inter-segmental	493	-	-	(49)	48	-	492
Total	228	4	5	10	42	-	289
Non-interest income:							
- From externals	68	74	175	2	40	48	407
- Inter-segmental	(9)	-	(47)	-	-	(2)	(58)
Total income	287	78	133	12	82	46	638
Provision for credit losses (reduction of provision)	19	7	-	-	(3)	-	23
Operating and other expenses:							
- From externals	267	51	83	3	75	49	528
- Inter-segmental	6	-	-	-	-	-	6
Profit before taxes (loss)	(5)	20	50	9	10	(3)	81
Provision for taxes (tax benefit) on profit (loss)	(2)	7	18	3	4	(1)	29
Net profit (loss):							
Attributed to shareholders of the Bank	(3)	13	32	6	6	(2)	52
Return on equity (net profit attributed to shareholders of the Bank as a percentage of average equity)(2)**	(2.2%)	22.2%	-	6.0%	14.6%	-	16.0%
Average balance of assets	7,023	3,076	-	8,917	5,554	-	24,570
Average balance of liabilities	90,423	-	-	-	19,534	-	109,957
Average balance of risk-adjusted assets	6,260	2,911	-	4,988	4,963	-	19,122
Average balance of mutual funds	-	-	33,607	-	-	1,495	35,102
Average balance of other assets under management	-	-	257	-	-	920	1,177
Average balance of securities in custody	-	-	74,295	-	-	29,655	103,950
Balance of credit to the public	7,174	2,981	-	9,159	5,637	-	24,951
Balance of deposits from the public**	89,687	-	-	-	20,439	-	110,126

* Reclassified due to the initial implementation of the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations. For further details, see Note 1(C)(1) to the Condensed Financial Statements.

** Reclassified.

(1) Management, operations, and trust for institutional entities; distribution fees for financial products; and securities activity.

(2) In activities to which risk-adjusted assets cannot be attributed, return on equity was not calculated.

Principal Changes in Net Profit and Balance-Sheet Balances

Net profit attributed to the shareholders of the Bank in the Private Banking Segment totaled NIS 91 million in the first quarter of 2012, compared with NIS 52 million in the same period last year. The increase mainly resulted from an increase in net interest income, a decrease in operating expenses, and a decrease in the provision for credit losses.

Net interest income totaled NIS 315 million in the first quarter of 2012, compared with NIS 289 million in the same period last year. The increase mainly resulted from an increase in the volume of credit and deposit activity.

Non-interest income of the segment totaled NIS 338 million in the first quarter of 2012, compared with NIS 349 million in the same period last year. The decrease resulted from a decrease in income from the capital market.

Provision for credit losses totaled NIS 3 million in the first quarter of 2012, compared with NIS 23 million in the same period last year.

The segment's expenses totaled NIS 513 million in the first quarter of 2012, compared with NIS 534 million in the same period last year. The 3.9% decrease mainly resulted from a decrease in salary expenses, as a result of a reduction of expenses recorded in respect of share-based payments, due to a decrease in the price of the Bank's shares, and a decrease in the provision for bonuses.

Net credit to the public totaled approximately NIS 28.5 billion as at March 31, 2012, similar to the balance as at December 31, 2011.

Deposits from the public totaled approximately NIS 123.4 billion as at March 31, 2012, compared with approximately NIS 124.4 billion as at December 31, 2011.

The balance of off-balance sheet monetary assets of the customers of the Bank Group attributed to this segment as at March 31, 2012 totaled approximately NIS 143.3 billion, compared with approximately NIS 133.2 billion as at December 31, 2011. This balance includes customers' holdings in securities portfolios and mutual funds.

Legal Proceedings

See Note 6C to the Condensed Financial Statements.

The Small Business Segment

Activities

The Small Business Segment is an important element of the activity of the Bank in 2012. Accordingly, the Bank will provide credit in a total amount of over NIS 1 billion to small businesses, through various funds, including the Bank's specialized Poalim for Growth fund, the Bank's win of the small and mid-sized businesses fund backed by the state, and sector-based funds to be established by the Bank in cooperation with leading market players.

Condensed operating results and principal data of the Small Business Segment:

	For the three months ended March 31, 2012				
	Activity in Israel				
	Banking and financial services	Credit cards	Capital market(1)	Housing loans	Total
	NIS millions				
Net interest income:					
- From externals	**262**	**16**	**-**	**28**	**306**
- Inter-segmental	**(4)**	**-**	**-**	**(21)**	**(25)**
Total	**258**	**16**	**-**	**7**	**281**
Non-interest income:					
- From externals	**120**	**28**	**11**	**-**	**159**
- Inter-segmental	**(11)**	**-**	**(3)**	**-**	**(14)**
Total income	**367**	**44**	**8**	**7**	**426**
Provision for credit losses	**12**	**2**	**-**	**-**	**14**
Operating and other expenses:					
- From externals	**200**	**19**	**10**	**1**	**230**
- Inter-segmental	**(2)**	**-**	**-**	**-**	**(2)**
Profit before taxes (loss)	**157**	**23**	**(2)**	**6**	**184**
Provision for taxes (tax benefit) on profit (loss)	**54**	**8**	**(1)**	**2**	**63**
Net profit (loss):					
Attributed to shareholders of the Bank	**103**	**15**	**(1)**	**4**	**121**
Return on equity (net profit attributed to shareholders of the Bank as a percentage of average equity)(2)	**29.6%**	**43.4%**	**-**	**4.9%**	**26.1%**
Average balance of assets	**18,036**	**1,194**	**-**	**3,718**	**22,948**
Average balance of liabilities	**23,441**	**2,187**	**-**	**-**	**25,628**
Average balance of risk-adjusted assets	**19,740**	**1,399**	**-**	**4,064**	**25,203**
Average balance of mutual funds	**-**	**-**	**2,563**	**-**	**2,563**
Average balance of other assets under management	**-**	**-**	**21**	**-**	**21**
Average balance of securities in custody	**-**	**-**	**8,071**	**-**	**8,071**
Balance of credit to the public	**18,132**	**1,138**	**-**	**3,799**	**23,069**
Balance of deposits from the public	**23,473**	**-**	**-**	**-**	**23,473**

(1) Management, operations, and trust for institutional entities; distribution fees for financial products; and securities activity.
(2) In activities to which risk-adjusted assets cannot be attributed, return on equity was not calculated.

Condensed operating results and principal data of the Small Business Segment (continued):

	For the three months ended December 31, 2011*				
	Activity in Israel				
	Banking and financial services	Credit cards	Capital market(1)	Housing loans	Total
	NIS millions				
Net interest income:					
- From externals	233	16	1	29	279
- Inter-segmental	31	-	-	(22)	9
Total	264	16	1	7	288
Non-interest income:					
- From externals	122	29	10	1	162
- Inter-segmental	(12)	-	(4)	-	(16)
Total income	374	45	7	8	434
Provision for credit losses (reduction of provision)	36	(2)	-	10	44
Operating and other expenses:					
- From externals	205	28	9	-	242
- Inter-segmental	(5)	-	-	-	(5)
Profit before taxes (loss)	138	19	(2)	(2)	153
Provision for taxes (tax benefit) on profit (loss)	48	7	-	(1)	54
Net profit (loss):					
Attributed to shareholders of the Bank	90	12	(2)	(1)	99
Balance of credit to the public	18,096	1,162	-	3,653	22,911
Balance of deposits from the public	23,545	-	-	-	23,545

* Reclassified due to the initial implementation of the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations. For further details, see Note 1(C)(1) to the Condensed Financial Statements.

(1) Management, operations, and trust for institutional entities; distribution fees for financial products; and securities activity.

Condensed operating results and principal data of the Small Business Segment (continued):

	For the three months ended March 31, 2011*				
	Activity in Israel				
	Banking and financial services	Credit cards	Capital market(1)	Housing loans	Total
	NIS millions				
Net interest income:					
- From externals	237	8	1	19	265
- Inter-segmental	8	-	-	(13)	(5)
Total	245	8	1	6	260
Non-interest income:					
- From externals	118	26	14	-	158
- Inter-segmental	(12)	-	(4)	-	(16)
Total income	351	34	11	6	402
Provision for credit losses	6	2	-	-	8
Operating and other expenses:					
- From externals	220	18	9	1	248
- Inter-segmental	(10)	-	-	-	(10)
Profit before taxes	135	14	2	5	156
Provision for taxes on profit	49	5	1	2	57
Net (loss) profit:					
Attributed to shareholders of the Bank	86	9	1	3	99
Return on equity (net profit attributed to shareholders of the Bank as a percentage of average equity)(2)	23.0%	37.4%	-	4.4%	21.3%
Average balance of assets	17,277	1,092	-	2,972	21,341
Average balance of liabilities	20,719	2,031	-	-	22,750
Average balance of risk-adjusted assets	18,636	1,253	-	3,378	23,267
Average balance of mutual funds	-	-	3,136	-	3,136
Average balance of other assets under management	-	-	19	-	19
Average balance of securities in custody	-	-	9,813	-	9,813
Balance of credit to the public	17,456	1,058	-	3,082	21,596
Balance of deposits from the public**	20,660	-	-	-	20,660

* Reclassified due to the initial implementation of the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations. For further details, see Note 1(C)(1) to the Condensed Financial Statements.

** Reclassified.

(1) Management, operations, and trust for institutional entities; distribution fees for financial products; and securities activity.

(2) In activities to which risk-adjusted assets cannot be attributed, return on equity was not calculated.

Principal Changes in Net Profit and Balance-Sheet Balances

Net profit attributed to the shareholders of the Bank in the Small Business Segment in the first quarter of 2012 totaled NIS 121 million, compared with NIS 99 million in the same period last year. The increase mainly resulted from an increase in net interest income and a decrease in operating expenses.

Net interest income in the first quarter of 2012 totaled NIS 281 million, compared with NIS 260 million in the same period last year. The 8.1% increase mainly resulted from an increase in the volume of credit and deposit activity.

Non-interest income of the segment in the first quarter of 2012 totaled NIS 145 million, compared with NIS 142 million in the same period last year.

Provision for credit losses totaled NIS 14 million in the first quarter of 2012, compared with NIS 8 million in the same period last year.

The segment's expenses totaled NIS 228 million in the first quarter of 2012, compared with NIS 238 million in the same period last year. The 4.2% decrease mainly resulted from a decrease in salary expenses, as a result of a reduction of expenses recorded in respect of share-based payments, due to a decrease in the price of the Bank's shares, and a decrease in the provision for bonuses.

Net credit to the public as at March 31, 2012 totaled approximately NIS 23.1 billion, compared with NIS 22.9 billion as at December 31, 2011.

Deposits from the public as at March 31, 2012 totaled approximately NIS 23.5 billion, similar to the balance as at December 31, 2011.

Legal Proceedings

See Note 6C to the Condensed Financial Statements.

The Commercial Segment

Condensed operating results and principal data of the Commercial Segment:

	For the three months ended March 31, 2012				
	Activity in Israel		Activity abroad		
	Banking and financial services(1)	Construction and real estate	Banking and financial services(1)	Construction and real estate	Total
	NIS millions				
Net interest income:					
- From externals	**162**	**73**	**40**	**13**	**288**
- Inter-segmental	**(57)**	**(20)**	**(25)**	**(9)**	**(111)**
Total	**105**	**53**	**15**	**4**	**177**
Non-interest income:					
- From externals	**45**	**24**	**5**	**1**	**75**
- Inter-segmental	**(8)**	**-**	**-**	**-**	**(8)**
Total income	**142**	**77**	**20**	**5**	**244**
Provision for credit losses (reduction of provision)	**55**	**(24)**	**6**	**1**	**38**
Operating and other expenses:					
- From externals	**82**	**15**	**10**	**2**	**109**
- Inter-segmental	**(1)**	**-**	**-**	**-**	**(1)**
Profit before taxes	**6**	**86**	**4**	**2**	**98**
Provision for taxes on profit	**2**	**29**	**1**	**-**	**32**
Net profit:					
Before attribution to non-controlling interests	**4**	**57**	**3**	**2**	**66**
Attributed to non-controlling interests	**-**	**-**	**(1)**	**-**	**(1)**
Attributed to shareholders of the Bank	**4**	**57**	**2**	**2**	**65**
Return on equity (net profit attributed to shareholders of the Bank as a percentage of average equity)(2)	**1.2%**	**26.9%**	**3.6%**	**16.3%**	**10.7%**
Average balance of assets	**13,778**	**8,839**	**2,085**	**519**	**25,221**
Average balance of liabilities	**13,500**	**1,860**	**90**	**30**	**15,480**
Average balance of risk-adjusted assets	**16,575**	**11,452**	**2,542**	**657**	**31,226**
Average balance of mutual funds	**1,307**	**-**	**-**	**-**	**1,307**
Average balance of other assets under management	**12**	**-**	**-**	**-**	**12**
Average balance of securities in custody	**10,486**	**-**	**-**	**-**	**10,486**
Balance of credit to the public	**13,589**	**8,763**	**1,908**	**510**	**24,770**
Balance of deposits from the public	**11,438**	**1,866**	**79**	**26**	**13,409**

(1) Includes activity in the area of credit cards and the capital market.
(2) In activities to which risk-adjusted assets cannot be attributed, return on equity was not calculated.

Condensed operating results and principal data of the Commercial Segment (continued):

	For the three months ended December 31, 2011*				
	Activity in Israel		Activity abroad		
	Banking and financial services(1)	Construction and real estate	Banking and financial services(1)	Construction and real estate	Total
	NIS millions				
Net interest income:					
- From externals	144	93	39	13	289
- Inter-segmental	(31)	(42)	(23)	(10)	(106)
Total	113	51	16	3	183
Non-interest income:					
- From externals	44	19	1	1	65
- Inter-segmental	(7)	-	-	-	(7)
Total income	150	70	17	4	241
Provision for credit losses	-	17	-	-	17
Operating and other expenses:					
- From externals	80	14	7	1	102
- Inter-segmental	(1)	(1)	-	-	(2)
Profit before taxes	71	40	10	3	124
Provision for taxes on profit	23	14	4	1	42
Net profit:					
Before attribution to non-controlling interests	48	26	6	2	82
Attributed to non-controlling interests	-	-	(1)	-	(1)
Attributed to shareholders of the Bank	48	26	5	2	81
Balance of credit to the public	13,537	8,434	1,890	544	24,405
Balance of deposits from the public	11,491	2,025	109	37	13,662

* Reclassified due to the initial implementation of the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations. For further details, see Note 1(C)(1) to the Condensed Financial Statements.

(1) Includes activity in the area of credit cards and the capital market.

Condensed operating results and principal data of the Commercial Segment (continued):

	For the three months ended March 31, 2011*				
	Activity in Israel		Activity abroad		
	Banking and financial services(1)	Construction and real estate	Banking and financial services(1)	Construction and real estate	Total
	NIS millions				
Net interest income:					
- From externals	157	69	41	10	277
- Inter-segmental	(67)	(20)	(22)	(8)	(117)
Total	90	49	19	2	160
Non-interest income:					
- From externals	45	20	1	-	66
- Inter-segmental	(6)	-	-	-	(6)
Total income	129	69	20	2	220
Provision for credit losses	42	7	4	1	54
Operating and other expenses:					
- From externals	73	13	8	1	95
- Inter-segmental	3	-	-	-	3
Profit before taxes	11	49	8	-	68
Provision for taxes on profit	3	18	3	1	25
Net profit (loss):					
Before attribution to non-controlling interests	8	31	5	(1)	43
Attributed to non-controlling interests	-	-	(2)	-	(2)
Attributed to shareholders of the Bank	8	31	3	(1)	41
Return on equity (net profit attributed to shareholders of the Bank as a percentage of average equity)(2)**	2.4%	19.3%	11.9%	(15.1%)	7.8%
Average balance of assets	12,597	7,718	2,108	571	22,994
Average balance of liabilities	10,885	1,888	162	13	12,948
Average balance of risk-adjusted assets	15,378	8,426	2,542	648	26,994
Average balance of mutual funds	1,654	-	-	-	1,654
Average balance of other assets under management	13	-	-	-	13
Average balance of securities in custody	9,878	-	-	-	9,878
Balance of credit to the public	12,685	7,649	1,775	527	22,636
Balance of deposits from the public**	9,332	2,006	133	15	11,486

* Reclassified due to the initial implementation of the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations. For further details, see Note 1(C)(1) to the Condensed Financial Statements.

** Reclassified.

(1) Includes activity in the area of credit cards and the capital market.

(2) In activities to which risk-adjusted assets cannot be attributed, return on equity was not calculated.

Principal Changes in Net Profit and Balance-Sheet Balances

Net profit attributed to shareholders of the Bank in the Commercial Segment in the first quarter of 2012 totaled NIS 65 million, compared with NIS 41 million in the same period last year. The increase mainly resulted from an increase in net interest income and a decrease in the provision for credit losses.

Net interest income of the segment in the first quarter of 2012 totaled NIS 177 million, compared with NIS 160 million in the same period last year. The increase mainly resulted from an increase in the volume of credit and deposit activity.

Non-interest income of the segment totaled NIS 67 million in the first quarter of 2012, compared with NIS 60 million in the same period last year. The increase mainly resulted from an increase in fees from financing transactions.

Provision for credit losses totaled NIS 38 million in the first quarter of 2012, compared with NIS 54 million in the same period last year.

The segment's operating and other expenses totaled NIS 108 million in the first quarter of 2012, compared with NIS 98 million in the same period last year.

Net credit to the public totaled approximately NIS 24.8 billion as at March 31, 2012, compared with approximately NIS 24.4 billion as at December 31, 2011.

Deposits from the public totaled approximately NIS 13.4 billion as at March 31, 2012, compared with approximately NIS 13.7 billion as at December 31, 2011.

Legal Proceedings

See Note 6C to the Condensed Financial Statements.

The Corporate Segment

Condensed operating results and principal data of the Corporate Segment are set out below:

	For the three months ended March 31, 2012				
	Activity in Israel		Activity abroad		
	Banking and financial services[1]	Construction and real estate	Banking and financial services[1]	Construction and real estate	Total
	NIS millions				
Net interest income:					
- From externals	**445**	**281**	**60**	**30**	**816**
- Inter-segmental	**(122)**	**(124)**	**(24)**	**(13)**	**(283)**
Total	**323**	**157**	**36**	**17**	**533**
Non-interest income:					
- From externals	**147**	**42**	**60**	**1**	**250**
- Inter-segmental	**(2)**	**-**	**-**	**-**	**(2)**
Total income	**468**	**199**	**96**	**18**	**781**
Provision for credit losses (reduction of provision)	**248**	**(42)**	**(1)**	**-**	**205**
Operating and other expenses:					
- From externals	**115**	**26**	**69**	**7**	**217**
- Inter-segmental	**17**	**4**	**-**	**-**	**21**
Profit before taxes	**88**	**211**	**28**	**11**	**338**
Provision for taxes on profit	**30**	**72**	**10**	**4**	**116**
Net profit (loss):					
Attributed to shareholders of the Bank	**58**	**139**	**18**	**7**	**222**
Return on equity (net profit attributed to shareholders of the Bank as a percentage of average equity)[2]	**4.0%**	**15.9%**	**9.0%**	**10.0%**	**8.5%**
Average balance of assets	**57,792**	**36,043**	**7,907**	**2,733**	**104,475**
Average balance of liabilities	**55,851**	**6,695**	**3,178**	**24**	**65,748**
Average balance of risk-adjusted assets	**74,252**	**45,647**	**9,505**	**3,462**	**134,866**
Average balance of mutual funds	**3,377**	**-**	**-**	**-**	**3,377**
Average balance of other assets under management	**38**	**-**	**-**	**-**	**38**
Average balance of securities in custody	**526,569**	**-**	**-**	**-**	**526,569**
Balance of credit to the public	**57,799**	**34,159**	**7,919**	**2,698**	**102,575**
Balance of deposits from the public	**40,612**	**5,967**	**3,303**	**15**	**49,897**

(1) Includes activity in the area of credit cards and the capital market.
(2) In activities to which risk-adjusted assets cannot be attributed, return on equity was not calculated.

Condensed operating results and principal data of the Corporate Segment (continued.):

	For the three months ended December 31, 2011*				
	Activity in Israel		Activity abroad		
	Banking and financial services(1)	Construction and real estate	Banking and financial services(1)	Construction and real estate	Total
	NIS millions				
Net interest income:					
- From externals	520	353	65	35	973
- Inter-segmental	(200)	(182)	(18)	(14)	(414)
Total	320	171	47	21	559
Non-interest income:					
- From externals	123	34	49	3	209
- Inter-segmental	(3)	-	-	-	(3)
Total income	440	205	96	24	765
Provision for credit losses (reduction of provision)	(50)	285	(7)	-	228
Operating and other expenses:					
- From externals	103	22	73	10	208
- Inter-segmental	18	4	-	-	22
Profit before taxes (loss)	369	(106)	30	14	307
Provision for taxes (tax benefit) on profit (loss)	129	(36)	7	6	106
Net profit (loss):					
Attributed to shareholders of the Bank	240	(70)	23	8	201
Balance of credit to the public	57,901	36,068	7,938	2,932	104,839
Balance of deposits from the public	43,058	6,806	2,871	22	52,757

* Reclassified due to the initial implementation of the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations. For further details, see Note 1(C)(1) to the Condensed Financial Statements.

(1) Includes activity in the area of credit cards and the capital market.

Condensed operating results and principal data of the Corporate Segment (continued):

	For the three months ended March 31, 2011*				
	Activity in Israel		Activity abroad		
	Banking and financial services(1)	Construction and real estate	Banking and financial services(1)	Construction and real estate	Total
	NIS millions				
Net interest income:					
- From externals	250	456	50	26	782
- Inter-segmental	35	(313)	(21)	(12)	(311)
Total	285	143	29	14	471
Non-interest income:					
- From externals	204	34	36	2	276
- Inter-segmental	(1)	-	-	-	(1)
Total income	488	177	65	16	746
Provision for credit losses (reduction of provision)	(99)	(55)	(1)	-	(155)
Operating and other expenses:					
- From externals	104	22	48	8	182
- Inter-segmental	17	5	-	-	22
Profit before taxes	466	205	18	8	697
Provision for taxes on profit	165	74	7	2	248
Net profit:					
Attributed to shareholders of the Bank	301	131	11	6	449
Return on equity (net profit attributed to shareholders of the Bank as a percentage of average equity)(2)**	22.4%	16.8%	16.2%	19.0%	20.2%
Average balance of assets	52,489	36,609	6,870	2,707	98,675
Average balance of liabilities	52,468	6,015	3,340	22	61,845
Average balance of risk-adjusted assets	66,804	40,407	8,285	3,072	118,568
Average balance of mutual funds	6,553	-	-	-	6,553
Average balance of other assets under management	27	-	-	-	27
Average balance of securities in custody	542,443	-	-	-	542,443
Balance of credit to the public	54,732	34,479	6,105	2,634	97,950
Balance of deposits from the public**	40,685	6,340	3,386	21	50,432

* Reclassified due to the initial implementation of the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations. For further details, see Note 1(C)(1) to the Condensed Financial Statements.

** Reclassified.

(1) Includes activity in the area of credit cards and the capital market.

(2) In activities to which risk-adjusted assets cannot be attributed, return on equity was not calculated.

Principal Changes in Net Profit and Balance-Sheet Balances

Net profit attributed to shareholders of the Bank in the Corporate Segment in the first quarter of 2012 totaled NIS 222 million, compared with NIS 449 million in the same period last year. The decrease in net profit resulted from an increase in the provision for credit losses, an increase in operating expenses, and a decrease in non-interest income. This decrease was offset by an increase in net interest income.

Net interest income of the segment totaled NIS 533 million in the first quarter of 2012, compared with NIS 471 million in the same period last year. The 13.2% increase mainly resulted from an increase in credit balances.

Non-interest income totaled NIS 248 million in the first quarter of 2012, compared with NIS 275 million in the same period last year. The 9.8% decrease resulted from a decrease in income from credit handling, mainly due to nonrecurring fees for the organization of syndications recorded in the preceding year. Income under this item totaled NIS 20 million in the first quarter of 2012, compared with NIS 55 million in the same period last year. This decrease was offset by an increase in operating income overseas.

Provision for credit losses in the first quarter of 2012 totaled NIS 205 million, compared with income in the amount of NIS 155 million recorded in the same period last year.

Operating and other expenses totaled NIS 238 million in the first quarter of 2012, compared with NIS 204 million in the same period last year.

Net credit to the public totaled approximately NIS 102.6 billion as at March 31, 2012, compared with approximately NIS 104.8 billion as at December 31, 2011.

Deposits from the public totaled approximately NIS 49.9 billion as at March 31, 2012, compared with approximately NIS 52.8 billion as at December 31, 2011.

The balance of off-balance sheet monetary assets of the customers of the Bank Group attributed to this segment as at March 31, 2012 totaled approximately NIS 532.5 billion, compared with approximately NIS 514.0 billion as at December 31, 2011. This balance includes customers' holdings in securities portfolios and mutual funds

Legal Proceedings

See Note 6C to the Condensed Financial Statements.

The Financial Management Segment

General and Structure

Further to the information provided in the section on the Financial Management Segment in the Annual Financial Statements for 2011, responsibility for brokerage activities, securities operation and clearing, control over Maof trading, and services for financial asset managers was transferred from the Client Assets Area to the Financial Markets Area.

Condensed operating results of the Financial Management Segment:

	For the three months ended		
	March 31, 2012	December 31, 2011*	March 31, 2011*
	NIS millions		
Net interest income:			
- From externals	**83**	(134)	145
- Inter-segmental	**16**	97	99
Total	**99**	(37)	244
Non-interest income:			
- From externals	**158**	55	166
Total income	**257**	18	410
Operating and other expenses:			
- From externals	**120**	104	123
Profit before taxes (loss)	**137**	(86)	287
Provision for taxes on profit (loss)	**55**	49	106
Profit (loss) after taxes	**82**	(135)	181
The Bank's share in profits (losses) of equity-basis investees, after taxes	**(2)**	(5)	1
Net profit (loss):			
Before attribution to non-controlling interests	**80**	(140)	182
Attributed to non-controlling interests	**(18)**	6	3
Attributed to shareholders of the Bank	**62**	(134)	185

* Reclassified due to the initial implementation of the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations. For further details, see Note 1(C)(1) to the Condensed Financial Statements.

Principal Changes in Net Profit and Balance-Sheet Balances

Net profit attributed to shareholders of the Bank in the Financial Management Segment in the first quarter of 2012 totaled NIS 62 million, compared with profit in the amount of NIS 185 million in the same period last year.

Total income attributed to this segment totaled NIS 257 million in the first quarter of 2012, compared with NIS 410 million in the same period last year. The decrease mainly resulted from adjustments to fair value of derivative instruments, which amounted to profit in the amount of NIS 77 million, compared with profit in the amount of NIS 222 million in the first quarter of 2011. By contrast, profit from bonds and profit from investment in shares attributed to this segment increased.

Others and Adjustments

This section includes all other activities of the Bank Group, each of which does not form a reportable segment under the Supervisor of Banks' directives. These activities mainly include investment banking, services for financial asset managers, trust activity, capital market activity not attributed to the banking segments, and activity in credit cards in respect of the activity of customers of banks outside the Group and from incoming tourism. This segment also includes income from computer services for companies consolidated in the past. In addition, adjustments of inter-segmental activities are allocated to this section.

Profit from credit cards in respect of the activity of customers of banks outside the Group and from incoming tourism totaled NIS 9 million in the first quarter of 2012, compared with profit in the amount of NIS 8 million in the same period last year.

Losses from capital-market activity not assigned to the banking segments totaled NIS 4 million in the first quarter of 2012. No profit was recorded under this item in the first quarter of 2011.

Credit to customers of other banks, which are not part of the Bank Group and with which the Isracard Group has entered into an arrangement, as at March 31, 2012, totaled approximately NIS 4.2 billion, compared with NIS 4.1 billion as at December 31, 2011.

Additional Information Concerning Activity in Certain Products

Credit Cards

General

The Bank Group's principal activities in the area of credit cards are conducted through companies operating in the area of means of payment under a single managerial and operational umbrella, referred to hereinafter as the "Isracard Group." The core activity of the Isracard Group is the issuance and clearing of Isracard credit cards, a private brand under its ownership, as well as of MasterCard, Visa, and American Express cards under licensing agreements.

Credit Card Issuance

The Isracard Group issues credit cards to customers of banks that have entered into arrangements with the Isracard Group, including the Bank, Mizrahi Tefahot Bank, First International Bank, Bank Yahav, Bank Otsar Hahayal, Bank Massad, Bank Poaley Agudat Israel Ltd., Bank of Jerusalem Ltd., and Union Bank Ltd. The Isracard Group also issues cards directly to customers ("non-bank cards"), primarily members of various consumer clubs and groups with which the Isracard Group has contracted.

Customers of the Isracard Group in the area of issuance are private customers, employees of corporations, and corporations (as well as corporate purchasing, including B2B – Business to Business payments).

As part of its issuance activity, the Isracard Group issues and operates a range of additional products and services, such as cards providing revolving credit, fuel cards and fuel devices, gift cards, and gift certificates. In addition, the Isracard Group grants general-purpose credit and loans based on credit facilities of credit cards.

In addition to the Bank Group, two credit-card companies controlled by banks currently operate in Israel in the area of issuance: Cartisei Ashrai LeIsrael Ltd. (hereinafter: "CAL"), controlled by Discount Bank, and Leumi Card Ltd. (hereinafter: "Leumi Card"), controlled by Bank Leumi.

The number of cards issued by the Isracard Group as at March 31, 2012 is 3.5 million, compared with 3.4 million cards as at December 31, 2011.

In the first quarter of 2012, the volume of activity in Isracard Group cards reached NIS 24.7 billion, compared with NIS 22.4 billion in the same period last year.

Credit Card Clearing

In agreements signed for the purpose of providing clearing services, the clearing credit-card company undertakes a commitment to the merchant, subject to fulfillment of the terms of the agreement, to settle the debits to the merchant undertaken by holders of the cards which it clears when purchasing goods or services from the merchant.

The Isracard Group also offers merchants a range of additional financial services, such as loans, advances (advancement of payments in respect of transactions executed), and marketing and operational services.

Customers of the Isracard Group in the area of credit-card clearing are numerous diverse merchants that have entered into agreements with it, including various government agencies, as well as companies that provide discounting services to merchants.

The credit-card clearing sector is characterized by a very high level of competition, due to factors including the operation of the local interface for cross-clearing of transactions in MasterCard and Visa credit cards (subsequent to which CAL and Leumi Card began to clear MasterCard cards, and the Isracard Group began to clear Visa cards), After the balance sheet date, the market for clearing of Isracard private brand cards was opened; merchants can now switch clearers of these brands.

Competition in the area of clearing is focused on recruiting new merchants for clearing agreements and retaining existing merchants as customers in the area of clearing. Another aspect of this competition is reflected in the development of financial and operational products and services for merchants, to increase the volume of transactions and/or the amounts of transactions executed with each merchant.

In addition to the Bank Group, the two credit-card companies controlled by banks listed above operate in the area of clearing in Israel.

Additional Activities

In addition to activities related to the issuance and clearing of credit cards, as described above, the Isracard Group has the following additional activities: check settlement guaranteeing and check discounting; granting of consumer credit other than through credit cards; direct sales-slip discounting; and factoring (receivables discounting).

Contribution of Income from Credit Cards

The contribution of income from credit cards to income from fees, included within operating income (before deducting related expenses), totaled NIS 381 million in the first quarter of 2012, compared with NIS 366 million in the same period last year, an increase of approximately 4.1%.

Legal Proceedings

For details regarding various regulatory issues, see Note 19C to the Annual Financial Statements for 2011.

For details regarding claims pending against Isracard, see Note 6C to the Condensed Financial Statements.

Set out below is the distribution of the results of operations and principal data in credit cards, by segment of activity:

	For the three months ended March 31, 2012							
	Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Incoming tourism and others	Financial Management Segment	Total
	NIS millions							
Net interest income:								
- From externals	**21**	**9**	**16**	**5**	**-**	**-**	**1**	**52**
Non-interest income	**139**	**78**	**28**	**3**	**3**	**130**	**36**	**417**
Total income	**160**	**87**	**44**	**8**	**3**	**130**	**37**	**469**
Provision for credit losses	**9**	**5**	**2**	**-**	**-**	**-**	**-**	**16**
Operating and other expenses	**115**	**57**	**19**	**2**	**2**	**116**	**-**	**311**
Profit before taxes	**36**	**25**	**23**	**6**	**1**	**14**	**37**	**142**
Provision for taxes on profit	**12**	**9**	**8**	**2**	**-**	**5**	**10**	**46**
Net profit:								
Before attribution to non-controlling interests	**24**	**16**	**15**	**4**	**1**	**9**	**27**	**96**
Attributed to non-controlling interests	**(1)**	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**
Attributed to shareholders of the Bank	**23**	**16**	**15**	**4**	**1**	**9**	**27**	**95**
Average balances:								
Average balance of assets	**5,972**	**3,366**	**1,194**	**217**	**109**	**4,178**	**-**	**15,036**
Average balance of liabilities	**-**	**-**	**2,187**	**2,051**	**9,433**	**258**	**-**	**13,929**
Average balance of risk-adjusted assets	**5,434**	**3,063**	**1,399**	**131**	**71**	**-**	**-**	**10,098**

Set out below is the distribution of the results of operations and principal data in credit cards, by segment of activity (continued):

	For the year ended December 31, 2011*							
	Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Incoming tourism and others	Financial Management Segment	Total
	NIS millions							
Net interest income:								
- From externals	26	4	16	5	-	-	5	56
Non-interest income	146	82	29	3	2	114	17	393
Total income	172	86	45	8	2	114	22	449
Provision for credit losses	4	2	(2)	-	-	-	-	4
Operating and other expenses	149	74	28	3	2	101	-	357
Profit before taxes	19	10	19	5	-	13	22	88
Provision for taxes on profit	7	4	7	1	-	4	8	31
Net profit:								
Before attribution to non-controlling interests	12	6	12	4	-	9	14	57
Attributed to non-controlling interests	-	(1)	-	-	-	-	-	(1)
Attributed to shareholders of the Bank	12	5	12	4	-	9	14	56

	For the three months ended March 31, 2011*							
	Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Incoming tourism and others	Financial Management Segment	Total
	NIS millions							
Net interest income:								
- From externals	27	4	8	2	-	-	4	45
Non-interest income	131	74	26	3	2	130	-	366
Total income	158	78	34	5	2	130	4	411
Provision for credit losses	13	7	2	-	-	-	-	22
Operating and other expenses	106	51	18	2	1	117	-	295
Profit before taxes	39	20	14	3	1	13	4	94
Provision for taxes on profit	14	7	5	1	-	5	1	33
Net profit:								
Before attribution to non-controlling interests	25	13	9	2	1	8	3	61
Attributed to non-controlling interests	(1)	-	-	-	-	-	-	(1)
Attributed to shareholders of the Bank	24	13	9	2	1	8	3	60
Average balances:								
Average balance of assets	5,458	3,076	1,092	198	99	3,910	-	13,833
Average balance of liabilities	-	-	2,031	1,904	8,760	158	-	12,853
Average balance of risk-adjusted assets	5,166	2,911	1,253	170	90	-	-	9,590

* Reclassified due to the initial implementation of the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations. For further details, see Note 1(C)(1) to the Condensed Financial Statements.

Capital Market Activity

General

The Bank Group's capital-market activity includes a range of financial activities and services in various areas: executing trading transactions in securities and financial assets, including in "Maof" (the Bank and a wholly-owned subsidiary are members of the Tel Aviv Stock Exchange and the TASE Clearing House; the Bank is also a member of the Maof Clearing House; for details regarding a lien placed on the assets of the Bank as a condition of its membership in various clearing houses, see Note 14 to the Annual Financial Statements for 2011) and in foreign securities (the Bank is a member of the Euroclear clearing house); custody services in securities; research and consulting services for customers on the capital market; provision of services to financial-asset managers; issuance management; management of investment portfolios in securities and financial assets for private customers, corporations, non-profit organizations, and institutions; and trust services (an equity-basis investee of the Bank also engages in underwriting). Some of the aforesaid financial activities and services are performed directly by the Bank, while others are performed by subsidiaries, each of which specializes and engages in a specified field.

Pension Advising

In January 2009, the Supervisor of the Capital Markets, Insurance, and Savings at the Ministry of Finance (the **"Supervisor"**) consented to the Bank's request and granted the Bank a pension advisor's license. Upon receiving its license, the Bank began to provide pension-advising services. In the first stage, this service was provided only at certain branches and only to some customers. The number and geographical distribution of the branches offering pension-advising services through trained pension advisors is planned to expand gradually. To date, the Bank has signed distribution agreements with approximately 25 management companies of provident funds and pension funds. Despite the aforementioned preparations by the Bank, difficulties have arisen in the provision of pension-advising services to customers, as a result of the absence of regularization of the relationships between the parties operating in the market (advisors, institutional entities offering products, and employers) with regard to the transfer of information from these entities to pension advisors in a routine and efficient manner. Another difficulty on the operational level concerns the settlement of monetary transactions between the aforesaid parties, due to the lack of a central settlement system for these transactions.

In 2011, the Supervision of Financial Services Law (Engaging in Pension Advising and Pension Marketing), 2005 (the **"Advising Law"**) was amended to include a section concerning the operation of a central pension clearing system (the **"Pension Clearing House"**). Pursuant to the Advising Law, the operation of a Pension Clearing House will be contingent upon a license from the Supervisor, and will be subject to supervision by the Supervisor. Users of the Pension Clearing House, including the Bank, will not be permitted to hold more than one-seventh of a particular type of means of control of the Pension Clearing House. In July 2011, the Supervisor announced that he was dissatisfied with the work and pace of progress of the company established by the institutional entities and the distributors to establish the Pension Clearing House, and published a tender for the selection of a company to establish the Pension Clearing House. In March 2012, a new tender for the establishment of a pension clearing system was published, stating that the agreement with the winner would be signed by August 2012. As at the date of preparation of this report, a winner has not yet been chosen in this tender and it is not possible to estimate when the Pension Clearing House may commence operations or what its contribution will be to the banks in their capacity as pension advisors.

Another obstacle to the delivery of pension-advising services to customers concerns the distribution of insurance products. As at the date of preparation of this report, regulations have not yet been enacted to establish the rate of the distribution fees to be received by banks for the distribution of insurance products. Distribution agreements have not been signed between the Bank and the insurance companies, and arrangements have not been established, including concerning the transfer of information and the services required in order to provide pension advice on insurance products. There are problems with the examination and identification of insurance products, due to the wide variety of types of insurance plans in the various years, the lack of a fixed parameter for ratings of the various products, and a lack of standardization that would make it possible to compare the different products and match the product to the customer. All of these factors may lead to delays in the Bank's readiness and ability to provide pension advice regarding insurance products.

In November 2010, the Capital Markets, Insurance, and Savings Division of the Ministry of Finance announced a plan aimed at increasing competition in the pension-savings market. The plan was published in a presentation and a press release. Drafts, circulars, and regulations regarding the implementation of the plan were released in late 2011. The plan includes the following elements, among others:

- Establishment of a uniform distribution fee for pension advisors in respect of pension-saving products. The maximum distribution fee to a bank for advisory services on pension-saving products, with the exception of study funds, will be just 0.2% of accrual and 2% of routine deposits. This replaces the current version of the distribution fee regulations, in which the maximum rate is 0.25% of accrual, as detailed therein. The Bank's fee for advising on study funds will remain at the previous level of 0.25% of accrual.
- Distribution fees will be paid only to the last distributor appointed by the customer. Even if the last distributor is an insurance agent or pension marketer, the advising bank will be denied the distribution fee owed to it in respect of the advisory services, starting on the transition date. For customers granted a discount on management fees by the institutional entity, the Bank's fee will be reduced to 40% of the management fee.

Because the implementation of the plan largely depends on legislative processes and on the enactment of regulations, at this stage it is not possible to estimate when the plan may be implemented, whether it will be implemented in full, or what its impact will be on the Bank in its capacity as a pension advisor.

Set out below are the developments in the balances of study funds and pension products for which advice is provided ("advisory balances"):

	Balance as at		
	March 31, 2012	December 31, 2011	Change
	NIS millions		%
Advisory balances with distribution agreement	**8,669**	7,960	8.9%

Advisory balances are balances of pension products and study funds (also considered a financial product) in respect of which customers received pension advice, or financial advice on study funds, from advisors at the Bank who hold a pension advisor's license and/or an investment advisor's license, as relevant, and for which the Bank is entitled to distribution fees. Note that the advisory balances are the total balances for which advice is provided, and some of the advised investments may not be executed. The increase resulted from the expansion of pension advising and the increase in the average balance per advisory session.

Set out below is a description of the principal services provided by the Bank Group within its capital-market activity, and of some of the companies in the Bank Group that operate in this area:

Distribution of Study Funds, Provident Funds, and Pension Funds

The Bank has entered into agreements with management companies of study funds, provident funds, and pension funds regarding the distribution of study funds, provident funds, and pension funds to its customers. The Bank is entitled to collect distribution fees for the distribution of the funds, as stipulated in the regulations.

Distribution of Mutual Funds

The Bank has reached agreements with the decisive majority of mutual-fund managers in Israel with regard to the distribution of mutual-fund units to its customers. The Bank is entitled to collect distribution fees from the fund managers in respect of this activity, as stipulated in the regulations.

Poalim Sahar Ltd.

Poalim Sahar Ltd. (hereinafter: "Poalim Sahar"), a wholly owned subsidiary of the Bank, is a member of the TASE and of the TASE Clearing House. The company specializes in services for institutional entities: new and established pension funds, segmental provident funds, study funds, insurance companies, and public companies and entities. The company provides brokerage services to customers in Israel and abroad, as well as research services, custody services, and other related services, including operational services. For further details, see the section "Principal Subsidiary and Affiliated Companies," below.

Peilim Portfolio Management Company Ltd.

Peilim Portfolio Management Company Ltd., a wholly owned subsidiary of the Bank, manages investment portfolios for private customers, business organizations, non-profit entities, and others. Investments are managed for local and foreign customers in the Israeli capital market and in capital markets worldwide.

As at March 31, 2012, the company manages portfolios at a monetary value of NIS 10.36 billion, compared with NIS 10 billion at the end of 2011.

Services for Financial Asset Managers

The Financial Asset Manager Services Division encompasses activities related to the provision of various services to financial-asset managers: provident-fund managers, study funds and pension funds, mutual-fund managers, and investment-portfolio managers.

The activity of the division encompasses the operation of the financial assets noted above and the provision of banking services to entities that manage these assets. Services include asset revaluation, production of control reports, production of reports to government agencies, bookkeeping, management of accounts and rights of provident-fund members, calculation of daily and monthly returns of provident funds, and calculation of daily rates in mutual funds.

The Bank has signed agreements for the provision of operational services in the area of provident funds to provident-fund management companies, some incidental to the sale of provident funds formerly owned by the Bank. In the area of mutual funds, service agreements have been signed with mutual-fund management companies.

At the end of 2011, the volume of assets of provident funds, study funds, and pension funds for which the Bank supplies operational services totaled approximately NIS 76.8 billion. The value of the assets of mutual funds for which the division provides services related to account management, at various volumes, totaled approximately NIS 37.2 billion.

Starting in 2012, this activity will be conducted within the Financial Markets Area.

Organizational Change in the Client Asset Area and the GT Area and Establishment of the Financial Markets Area

In September 2011, the Board of Management and Board of Directors of the Bank approved an organizational change in which responsibility for brokerage activities, operation and clearing of securities, control over Maof trading, and services for financial-asset managers was transferred from the Client Asset Area to the Global Treasury Area. The goal of the organizational change is to solidify the Bank's leadership in the area of financial-market activity and to offer Bank customers an advanced, efficient, professional service package for trading in the complete range of financial instruments, in a full-service operation. The organizational change was implemented in January 2012. As a result of the change, the Global Treasury Area was renamed the Financial Markets Area.

The Dealing Rooms and Brokerage Division, established within the new Area, includes the dealing room for currencies, interest rates, and commodities and the dealing rooms for Israeli and foreign securities. The Financial Markets Operational Services Division was established to oversee operations and clearing for all activities of the dealing rooms as well as operations and clearing activity in securities of the Bank and its customers, and to provide services to financial-asset managers. In addition, a central system was established for analysis and control of risks in the activity of the Bank and its customers in the financial markets.

Set out below is the distribution of results of operations and principal data in the capital market, by segment of activity:

	For the three months ended March 31, 2012						
	Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Others	Total
	NIS mlllions						
Net interest income	**1**	**3**	**-**	**-**	**-**	**-**	**4**
Non-interest income:							
- From externals	**11**	**188**	**11**	**4**	**86**	**25**	**325**
- Inter-segmental	**(3)**	**(42)**	**(3)**	**(1)**	**(7)**	**56**	**-**
Total income	**9**	**149**	**8**	**3**	**79**	**81**	**329**
Operating and other expenses	**15**	**113**	**10**	**-**	**59**	**87**	**284**
Profit before taxes (loss)	**(6)**	**36**	**(2)**	**3**	**20**	**(6)**	**45**
Provision for taxes (tax benefit) on profit (loss)	**(2)**	**12**	**(1)**	**1**	**7**	**(2)**	**15**
Net profit (loss):							
Attributed to shareholders of the Bank	**(4)**	**24**	**(1)**	**2**	**13**	**(4)**	**30**
Average balances:							
Average balance of assets of provident funds and mutual funds	**2,123**	**30,825**	**2,563**	**1,307**	**3,377**	**77,885**	**118,080**
Average balance of other assets under management	**-**	**1,186**	**21**	**12**	**38**	**-**	**1,257**
Average balance of securities in custody	**2,888**	**102,247**	**8,071**	**10,486**	**526,569**	**-**	**650,261**

Set out below is the distribution of results of operations and principal data in the capital market, by segment of activity (continued):

	For the three months ended December 31, 2011*						
	Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Others	Total
	NIS millions						
Net interest income	2	5	1	-	(1)	-	7
Non-interest income:							
- From externals	10	180	10	5	87	122	314
- Inter-segmental	(4)	(40)	(4)	(2)	(9)	59	-
Total income	8	145	7	3	77	81	321
Operating and other expenses	17	133	9	-	54	91	304
Profit before taxes (loss)	(9)	12	(2)	3	23	(10)	17
Provision for taxes (tax benefit) on profit (loss)	(3)	4	-	1	6	(3)	5
Net profit (loss):							
Attributed to shareholders of the Bank	(6)	8	(2)	2	17	(7)	12

	For the three months ended March 31, 2011*						
	Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Others	Total
	NIS millions						
Net interest income	1	5	1	-	-	-	7
Non-interest income:							
- From externals	17	223	14	5	78	32	369
- Inter-segmental	(4)	(49)	(4)	(1)	(8)	66	-
Total income	14	179	11	4	70	98	376
Operating and other expenses	18	132	9	-	41	98	298
Profit (loss) before taxes	(4)	47	2	4	29	-	78
Provision for taxes (tax benefit) on profit (loss)	(1)	17	1	1	10	-	28
Net profit (loss):							
Attributed to shareholders of the Bank	(3)	30	1	3	19	-	50
Average balances:							
Average balance of assets of provident funds and mutual funds	2,711	35,102	3,136	1,654	6,553	81,813	130,969
Average balance of other assets under management	-	1,177	19	13	27	-	1,236
Average balance of securities in custody	3,232	103,950	9,813	9,878	542,443	-	669,316

* Reclassified due to the initial implementation of the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations. For further details, see Note 1(C)(1) to the Condensed Financial Statements.

Principal Subsidiary and Affiliated Companies

General

The Bank Group operates through banking and non-banking subsidiary companies in Israel and abroad. The non-banking subsidiaries operate in the fields of finance, marketing and operation of credit-card systems, trust activity, issuance and financing, and investment banking services.

The contribution of subsidiary and affiliated companies to the Bank's results of operations in the first quarter of 2012, excluding exchange-rate differences of the subsidiaries overseas, totaled NIS 191 million, compared with NIS 140 million in the same period last year.

The Bank's investment in subsidiary and affiliated companies totaled NIS 15.2 billion as at March 31, 2012, similar to the balance at the end of 2011.

Subsidiaries in Israel

The principal companies are reviewed below:

The Isracard Group

The Group includes the following companies: Isracard Ltd., Poalim Express Ltd., Aminit Ltd., Europay (Eurocard) Israel Ltd., Isracard Mimun Ltd., Isracard (Nechasim) 1994 Ltd., Tzameret Mimunim Ltd., and Global Factoring Ltd. These companies constitute the Bank's credit-card business. The core activity of the Isracard Group is issuance, clearing, and financing in Isracard credit cards, a private brand under its ownership, as well as MasterCard, Visa, and American Express credit cards under licensing agreements. The Group also has activities in the following areas: granting consumer credit other than through credit cards, check payment guarantees and check discounting, direct sales slip discounting, and factoring (receivables discounting).

Net profit of the Isracard Group totaled NIS 74 million in the first quarter of 2012, compared with NIS 47 million in the same quarter last year, an increase of approximately 57%. Net profit for the quarter included profit in the amount of NIS 16 million from the sale of shares of MasterCard Inc. Net profit excluding the sale of shares of MC amounted to NIS 58 million, compared with NIS 47 million, an increase of 23%.

The contribution of the Isracard Group to the Bank's operating results after taxes amounted to NIS 84 million in the first quarter of 2012, compared with NIS 47 million in the same quarter last year.

Most of the increase in the net profit of the Isracard Group and contribution to the Bank's operating results stemmed from the sale of Mastercard shares in the first quarter of 2012.

The Bank's investment in the Isracard Group totaled NIS 1,700 million on March 31, 2012, compared with NIS 1,636 million at the end of 2011.

In August 2011, a government bill was passed by the Knesset plenum and published in the Official Gazette of the Israeli Government, concerning discounting, among other matters, as well as a directive stating that an issuer of 10% or more of the charge cards issued in Israel, or an issuer of charge cards used to execute 10% or more of the amount of transactions executed in Israel, shall be required to contract with a clearer for cross-clearing of transactions in the charge cards which it issues. The directives of this law will take effect as of May 15, 2012. In the opinion of the Bank, this law will have an adverse effect on the revenue of the Bank Group in the future; however, at this stage the Bank cannot estimate the extent of this effect.

An agreement was signed between Isracard and Leumi Card in April 2012, and an agreement was signed between Isracard and CAL in May 2012, both in connection with the implementation of Amendment 18 to the Banking (Licensing) Law. Pursuant to the agreement, Leumi Card and CAL were granted licenses to clear Isracard brand charge cards, under the terms agreed upon by the parties. On May 14, 2012, the Commissioner granted a temporary exemption for a restrictive arrangement, for three months, under which Leumi Card and CAL can clear Isracard branch cards by paying an issuer fee. If the Commissioner approves the collection of any additional amounts by Isracard in the future, Isracard will be able to collect such amounts retroactively, including with respect to the period of the temporary exemption.

For details regarding various regulatory issues, see Note 19C to the Annual Financial Statements for 2011.

For details regarding claims pending against Isracard, see Note 6C to the Condensed Financial Statements.

Poalim Capital Markets – Investment House Ltd.

Poalim Capital Markets Ltd. (hereinafter: "Poalim Capital Markets") operates in two main areas: investment-banking activity in Israel and abroad; and investments in private-equity funds and direct investments, including technology sector investment funds.

In the area of investment banking, Poalim Capital Markets provides a range of services, including financial and strategic consulting for mergers and acquisitions in Israel and abroad, consulting for privatization processes and for public and private issues abroad, and guidance of companies in Israel and abroad in investments of various kinds. The Poalim Capital Markets Group also provides, through its equity-basis investee (19.97%) Poalim I.B.I., consulting, underwriting, and management services for public issues in Israel and capital raising through private issues.

In the area of investment in private-equity funds and direct investments, Poalim Capital Markets invests in funds operating in various sectors, including venture capital, alternative energy, and others; invests in management corporations of private-equity funds; and provides services to these corporations. In addition, Poalim Capital Markets continues to manage venture-capital funds, in accordance with a permit from the Bank of Israel.

The contribution of Poalim Capital Markets to the results of operations of the Bank in the first quarter of 2012 amounted to NIS 9 million, compared with a contribution in the amount of NIS 2 million in the same quarter last year.

The Bank's investment in Poalim Capital Markets totaled NIS 682 million on March 31, 2012, compared with NIS 673 million at the end of 2011.

Poalim Sahar Ltd.

Poalim Sahar Ltd. (hereinafter: "Poalim Sahar"), a wholly owned subsidiary of the Bank, is a member of the TASE and of the TASE Clearing House. The company specializes in services for institutional entities: new and established pension funds, segmental provident funds, study funds, insurance companies, and public companies and entities. The company provides brokerage services to customers in Israel and abroad, as well as research services, custody services, and other related services, including operational services.

The net profit of Poalim Sahar and its contribution to the operating results of the Bank totaled NIS 6 million in the first quarter of 2012, compared with NIS 8 million in the same quarter last year.

The Bank's investment in Poalim Sahar totaled NIS 263 million on March 31, 2012, compared with NIS 257 million at the end of 2011.

Activity of the Bank Group Abroad

General

The international activity of the Bank Group is conducted through banking subsidiaries, financial companies, the Bank's overseas branches, and representative offices used for public relations purposes only – a total of 46 locations. The Bank's activity overseas is focused on the private-banking and corporate sectors. The Bank also has activities in the households and commercial sectors in Turkey and Kazakhstan. Within its international activity, the Bank maintains relationships with over 2,400 correspondent banks around the world. Its activity with these correspondent banks includes trading through dealing rooms, cooperation in foreign trade and international trade financing, project financing, clearing of payments, and capital-market services (see the section "Credit Exposure to Foreign Financial Institutions"). In its Global Private Banking business, the Bank provides high-net-worth customers abroad with advanced professional services and products, including investment products and global asset management. Activity in the corporate segment abroad includes credit granting to local and foreign borrowers, mainly through participation in credit organized by leading banks overseas; credit granting to borrowers with an affinity to Israel; and investments in bonds. Activity in the households and commercial segments in emerging markets is focused on the activity of Bank Pozitif in Turkey and Bank Pozitiv in Kazakhstan.

The Bank's strategy is currently targeted to the development and expansion of its international activity, in the area of Global Private Banking and in the business activities of its London and New York branches. The Bank aims to continue to expand its service offering and improve its capabilities in products, marketing, and customer service.

Legislative Restrictions, Regulation, and Special Constraints Applicable to International Activity

The following is a brief description of the main limits applicable to international activity.

Regulatory Supervision Abroad

In addition to the rules and limits imposed by the Bank of Israel on the international activity of the Bank Group, pursuant to legislation and procedures as well as the provisions of permits granted by the Bank of Israel for the acquisition of subsidiaries and/or opening of branches abroad, the activity of the international sector in the various countries is subject to regulatory supervision by various government agencies in the relevant countries, which includes requirements concerning capital, holdings of liquid assets, etc.

Regulatory Supervision – Miami Branch

An agreement (called a "Written Agreement") between the Bank and the Miami branch of the Bank, on one side, and the Federal Reserve of New York, the Federal Reserve of Atlanta, and the Office of Financial Regulation of the State of Florida (hereinafter: the "US Regulatory Agencies"), on the other side, took effect on July 8, 2009. A Written Agreement is a formal enforcement procedure available to the US Regulatory Agencies, which has been used more extensively since the outbreak of the economic crisis in 2008. The agreement signed essentially concerns the reinforcement of the compliance, risk management, and audit functions of the Bank and the increased involvement of the Board of Directors and Board of Management of the Bank in the supervision of the Miami branch, with the aim of correcting flaws discovered in compliance with the provisions of US law in the area of the prevention of money laundering and "Know Your Customer" regulations. In addition, under the agreement the Bank undertook a commitment to adopt work plans for the correction of the flaws, as approved by the regulatory agencies, and to submit periodic progress reports on the implementation of the work plans.

The agreement does not create or impose any limitations on the Bank's business activity, in the US or in general; it is not expected to have a material impact on the financial results of the Bank.

The Bank is working to meet its obligations under the agreement in full and on time. A subcommittee of the Board of Directors' Risk Management Committee is monitoring and supervising the correction of the flaws at the Miami branch. An external consulting firm specializing in advising banks on enforcement processes occasionally advises the Board of Management of the Bank in Israel; supervision procedures have been tightened.

Failure to fulfill the obligations in the Written Agreement could lead to the application of more severe enforcement procedures by the US Regulatory Agencies.

Condensed Aggregate Financial Statements of International Operations

The condensed financial statements of international operations presented below include the Bank's overseas offices with activity in one or more of the following areas: granting credit, taking deposits, issuing bonds or notes, and managing client assets. The activity of the Global Private Banking Center in Israel is also included.

A. Balance Sheet*

	Balance as at	
	March 31, 2012	December 31, 2011
	USD millions	
Assets		
Cash on hand and deposits with banks	**7,556**	8,415
Securities	**1,863**	1,700
Net credit to the public	**5,412**	5,418
Buildings and equipment	**30**	31
Assets in respect of derivative instruments	**109**	337
Other assets	**186**	141
Total assets	**15,156**	16,042
Liabilities and Capital		
Deposits from the public	**7,857**	8,310
Deposits from banks	**5,077**	5,491
Securities lent or sold under agreements to repurchase	**75**	41
Bonds and subordinated notes	**600**	530
Liabilities in respect of derivative instruments	**220**	469
Other liabilities	**325**	275
Total liabilities	**14,154**	15,116
Noncontrolling Interests	**77**	63
Capital means**	**925**	863
Total liabilities and capital	**15,156**	16,042

* The balance sheet of international operations is based on data of the overseas offices, translated into US dollars, following adjustments to the accounting principles applied by the Bank, with adjustments in respect of the balance of the surplus of the acquisition cost over the capital of the overseas offices, and attribution of the share of non-controlling interests.

** Includes positive calculated capital in the amount of USD 179 million (December 31, 2011: USD 170 million) for branches of the Bank that are not companies. The calculated capital includes the amounts of the original deposits deposited with the branches of the Bank, with the addition of profits or subtraction of losses recorded up to the balance sheet date, including adjustments from the presentation of securities available for sale at fair value.

B. Client Assets

	Balance as at	
	March 31, 2012	December 31, 2011
	USD millions	
Deposits from the public, bonds, and subordinated notes	**8,457**	8,840
Client assets (off-balance sheet)	**8,546**	7,791
Total	**17,003**	16,631

C. Profit and Loss and Contribution of the Bank's Overseas Offices*

	For the three months ended	
	March 31, 2012	March 31, 2011**
Net interest income	**37**	49
Provision (income) for credit losses	**2**	-
Net interest income, after provision for credit losses	**35**	49
Non-interest income	**52**	38
Operating and other expenses	**66**	68
Operating profit (loss) before taxes	**21**	19
Provision for taxes (tax benefit) on operating profit	**7**	6
Net profit (loss):		
Before attribution to non-controlling interests	**14**	13
Attributed to non-controlling interests	**2**	-
Attributed to shareholders of the Bank	**12**	13

* Based on the results of the overseas offices, translated into US dollars, after adjustment to the accounting principles applied by the Bank, deduction of the surplus acquisition cost over the capital of the overseas offices, attribution of the share of minority interests in the results of consolidated companies, and a supplement for the additional tax applicable to the Bank in Israel.

** The Bank adopted the directive of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations for the first time on January 1, 2012. The directives were adopted by retroactive implementation, with the exception of the cancellation of unpaid accrued CPI linkage differentials on principal in respect of debts classified as impaired prior to the initial implementation. Accordingly, the data included in the statement of profit and loss with regard to comparison period last year and to 2011 were reclassified for adjustment to the new definition, item headings, and presentation method of the current reporting period. For details, see Note 1(C)(1) to the Condensed Financial Statements.

Set out below are data regarding the investment in the principal overseas offices, and their contribution to the net profit of the Bank.

March 31, 2012

Company	Investment balance as at March 31, 2012(1)	Contribution in the first quarter of 2012 excluding exchange-rate differences(2)	Contribution in the first quarter of 2012(3)	Exchange-rate differences in respect of the investment, allocated to the statement of profit and loss in the first quarter of 2012*	Contribution in the first quarter of 2012 including exchange-rate differences*
	NIS millions		%	NIS millions	
US branches	**-**	**9**		**-**	**9**
London branch	**-**	**4**		**-**	**4**
Bank Hapoalim (Switzerland) Ltd.	**1,545**	**14**	**4.0%**	**-**	**14**
Pozitif Group	**622**	**13**	**8.2%**	**25**	**38**
Hapoalim Securities U.S.A. Inc.	**122**	**4**	**15.1%**	**(3)**	**1**
Banque Hapoalim (Luxembourg) S.A.	**42**	**1**	**8.8%**	**(1)**	**-**
Other offices	**366**	**-**		**(4)**	**(4)**
Total	**-**	**45**		**17**	**62**

March 31, 2011

Company	Investment balance as at March 31, 2011(1)	Contribution in the first quarter of 2011 excluding exchange-rate differences(2)	Contribution in the first quarter of 2011(3)	Exchange-rate differences in respect of the investment, allocated to the statement of profit and loss in the first quarter of 2011*	Contribution in the first quarter of 2011 including exchange-rate differences*
	NIS millions		%	NIS millions	
US branches	-	16		-	16
London branch	-	12		-	12
Bank Hapoalim (Switzerland) Ltd.	1,389	14	4.3%	5	19
Pozitif Group	682	3	1.5%	(11)	(8)
Hapoalim Securities U.S.A. Inc.	100	-		(2)	(2)
Banque Hapoalim (Luxembourg) S.A.	48	(3)	(19.4%)	(1)	(4)
Other offices	375	2		(1)	1
Total	-	44		(10)	34

* The functional currency of consolidated subsidiaries overseas is defined in accordance with the directives of the Supervisor of Banks (see also Note 1.C.3 to the Condensed Financial Statements). As of January 1, 2012, exchange-rate differences in respect of the investment in Bank Hapoalim Switzerland are allocated directly, net of hedging effects, to shareholders' equity, within adjustments from translation. With regard to other investments, the Bank performs economic hedges of currency exposures arising from such investments.

(1) The balance of the investment in the subsidiaries is presented after adjustment to the accounting principles applied at the Bank.

(2) The contribution of the overseas offices consists of net profit, translated into NIS, with adjustments for the deduction of the surplus of the investment cost in respect of these offices, and the attribution of minority interests' share of the profits of consolidated companies overseas, excluding the supplement for the statutory tax rate applicable in Israel, in the amount of NIS 10 million (in the same period last year: NIS 8 million).

(3) The return of the companies is calculated on an annualized basis, by dividing the contribution of the subsidiaries, excluding exchange-rate differences, by the average investment.

Set out below are details of the net profit of the principal offices overseas, after adjustment to the accounting principles applied at the Bank (in local currencies):

	For the three months ended	
	March 31, 2012	March 31, 2011
	In millions	
US branches – USD*	**3.9**	6.8
London branch – GBP*	**1.0**	3.3
Bank Hapoalim (Switzerland) Ltd. – CHF	**5.3**	5.6
Bank Pozitif Group – TRY	**6.7**	3.4
Hapoalim Securities U.S.A. Inc. – USD	**1.2**	0.1
Banque Hapoalim (Luxembourg S.A.) – USD	**0.0**	(0.9)
Other offices – USD	**1.1**	0.4

* At the U.S. and London branches, data are before local tax.

Global Private Banking Activity of the Bank Group

Within this framework, the Bank Group provides private customers with accounts at the Bank Group's overseas branches and at the Private Banking Center in Tel Aviv with advanced professional services and products, including investment products and global asset management. This activity currently encompasses Israel, Europe, the United States, Latin America, Canada, Hong Kong, and Singapore, by means of sites including banking subsidiaries, branches, asset-management subsidiaries, and representative offices engaged solely in public relations.

Set out below are details of the Bank's branches and principal subsidiaries overseas operating in the area of private banking:

Bank Hapoalim (Switzerland) Ltd. (Hapoalim Switzerland)

A banking subsidiary, wholly owned by the Bank, mainly engaged in the provision of private-banking services, through four branches – two in Switzerland, in Zurich and Geneva; one in Luxembourg; and one in Singapore – as well as through an investment consulting firm in Hong Kong.

Net profit of Hapoalim Switzerland totaled approximately CHF 5.3 million in the first quarter of 2012, compared with approximately CHF 5.6 million in the same quarter last year. The decrease in profit mainly resulted from a one-time amount received from the sale of securities, in the amount of approximately CHF 2 million, in the same quarter last year.

The contribution of Hapoalim Switzerland, excluding exchange-rate differences and after supplementary taxes in Israel, to the Bank's operating results in the first quarter of 2012 totaled NIS 14 million, similar to the same quarter last year.

Total capital of Hapoalim Switzerland amounted to approximately CHF 379 million as at March 31, 2012, compared with approximately CHF 374 million at the end of 2011.

The total balance sheet of Hapoalim Switzerland amounted to approximately CHF 2,852 million as at March 31, 2012, compared with approximately CHF 3,167 million at the end of 2011.

During the second half of 2011, Hapoalim Switzerland was notified that talks were underway between government agencies in Switzerland and in the United States in connection with the Double Taxation Treaty between these countries. The Swiss authorities informed Hapoalim Switzerland that several Swiss banks, including Hapoalim Switzerland, were under investigation by U.S. authorities. No details or circumstances concerning Hapoalim Switzerland specifically were provided in connection with this investigation. Pursuant to a request by the Swiss authorities, the Swiss banks, including Hapoalim Switzerland, submitted statistical information to U.S. authorities with regard to their business with American clients. Identifying information regarding the clients, such as client names, was not submitted. Hapoalim Switzerland is cooperating with the Swiss authorities and acting in accordance with the legal directives to which it is subject. At this stage, due to the limited information available to it, Hapoalim Switzerland cannot estimate the degree to which it will be affected by the investigation.

Global Private Banking Center in Tel Aviv

A center providing private-banking services and products to foreign residents from all over the world; an integral part of the GPB network.

Poalim Asset Management (UK) Ltd. and Poalim Asset Management (Ireland) Ltd., held by PAM Holdings Ltd. (hereinafter: "PAM Companies")

PAM Companies (wholly owned subsidiaries of the Bank) are responsible for selecting and providing professional support for investment products offered to Global Private Banking customers worldwide, in cooperation with leading international financial companies in these fields. The Group is a key element in the implementation of the Bank's growth strategy abroad.

As at March 31, 2012, the Bank Group's customers have holdings in funds of international financial entities with which PAM collaborates totaling approximately USD 2.1 billion, compared with USD 2.0 billion on December 31, 2011.

PAM Companies also develop, plan, and provide professional support for other investment products, such as structured products, in accordance with international standards, including through collaboration with leading global financial entities. In addition, PAM Companies offer consulting and research services to the Bank's subsidiaries and branches abroad.

Banque Hapoalim (Luxembourg) S.A. (hereinafter: "Hapoalim Luxembourg")

A banking subsidiary, wholly owned by the Bank, engaged in financial and banking activity in and outside of Luxembourg. Hapoalim Luxembourg grants loans to private and institutional customers.

Bank Hapoalim (Cayman) Ltd. (hereinafter: "Cayman")

A commercial bank, wholly owned by the Bank, which under the terms of its license is permitted to operate in all types of banking activity except for activity with local residents in the Cayman Islands. Cayman's assets include an investment in a wholly-owned subsidiary in Uruguay, Hapoalim (Latin America) S.A.

Hapoalim (Latin America) S.A. (hereinafter: "Hapoalim Latin America")

Provides private-banking services to the Bank's customers in South America. Hapoalim Latin America operates in Uruguay through three branches, in Montevideo, Punta del Este, and Colonia.

U.S. Branches

The New York Branch - Activity in the Corporate Segment

Most of the Bank Group's international corporate activity is conducted through the New York branch. The New York branch is focused on three areas of activity:

- Providing comprehensive banking services to large Israeli companies operating in the United States as well as to local companies and clients, including credit, foreign trade, investments, and dealing-room services. The Bank allows Israeli companies as well as American companies with assets in Israel to use collateral held in Israel in order to open credit lines at the New York branch. The New York branch also offers its customers FDIC deposit insurance, similar to American banks.
- Granting corporate credit to large companies in the U.S. economy by participating in credit lines organized by leading banks (some 95% of the credit is provided to companies rated Investment Grade or secured by entities rated Investment Grade by the international rating agencies Standard & Poor's or Moody's).
- Providing dealing-room services, including during hours in which dealing rooms in Israel are closed, as part of the global activity of the Bank's dealing rooms.

As part of the international strategy formulated for the coming years, the New York branch was granted approval to increase and focus its activity in the middle-market segment (hereinafter: "Local Activity") in the United States, by developing relationships with and granting direct credit to local commercial clients, with a clear business focus on specific geographical regions and areas of activity. The Local Activity primarily focuses on private companies with annual turnovers of up to USD 500 million. The plan includes expansion of the activity and an update of aspects of corporate governance. Concurrently, the Bank will continue its activity in the syndications market, as a complementary activity, as well as its activity with Israeli clients conducting business in the United States.

The branch's credit portfolio totaled approximately USD 2.1 billion as at March 31, 2012, similar to the end of 2011. The branch also provided unutilized credit facilities and backup lines in the amount of approximately USD 1.6 billion as at March 31, 2012, similar to the end of 2011.

In addition, as at March 31, 2012, a total of approximately USD 3.7 billion was deposited with the Federal Reserve Bank, compared with approximately USD 4.1 billion on December 31, 2011.

Private Banking in the United States

The Miami branch and the Private Banking Department at the New York branch offer private-banking services to GPB customers. For further details regarding the activity of the New York branch, see above. Private banking in the United States primarily focuses on customers from Latin America.

The profit of the U.S. branches before local taxes totaled approximately USD 3.9 million in the first quarter of 2012, compared with approximately USD 6.8 million in the same period last year.

Total capital means of the U.S. branches amounted to approximately USD 118 million as at March 31, 2012, compared with approximately USD 112 million on December 31, 2011.

The total balance sheet of the U.S. branches as at March 31, 2012, totaled approximately USD 7.6 billion, compared with approximately USD 8.2 billion on December 31, 2011.

Hapoalim Securities U.S.A. Inc. (hereinafter: "Hapoalim Securities")

A broker-dealer (wholly owned by the Bank) registered and operating in the United States. The broker-dealer is under the supervision of the Securities and Exchange Commission (SEC) in the United States, the New York Stock Exchange (NYSE), the National Association of Securities Dealers (NASD), and additional stock markets in which it is a member, and operates in accordance with the rules established by these entities. The company's activity is also subject to supervision by the Supervisor of Banks in Israel. The company supports the expansion of the Bank's activity in securities trading on behalf of its customers.

The London Branch

The London branch focuses on three areas of activity:

- Corporate credit activity, within which the branch provides comprehensive banking services to large Israeli companies operating in Europe and to local companies, including corporate credit and foreign trade.
- Dealing-room services, in which the branch provides its customers with trading services in foreign-currency futures and options, as part of the global dealing room activity of the Bank.
- The Private Banking Department of the branch provides services to high-net-worth clients and the companies under their ownership, including corporate credit and investment products.

Profit of the London branch before local taxes totaled approximately GBP 1 million in the first quarter of 2012, compared with approximately GBP 3.3 million in the same period last year.

Total capital means of the London branch as at March 31, 2012 amounted to approximately GBP 38 million, compared with approximately GBP 37 million on December 31, 2011.

The total balance sheet of the London branch amounted to approximately GBP 739 million as at March 31, 2012, compared with approximately GBP 970 million on December 31, 2011.

Activity in Emerging Markets

The Bank Group currently operates in Turkey and Kazakhstan through the Bank's holdings in the shares of Bank Pozitif Kredi Ve Kalkinma Bankasi Anonim Sirketi in Turkey, and its stake in JSC Bank Pozitiv in Kazakhstan.

Bank Pozitif Kredi Ve Kalkinma Bankasi Anonim Sirketi (hereinafter: "Bank Pozitif")

A bank incorporated and operating in Turkey, specializing in corporate and investment banking and in the households segment. The Bank's stake in Bank Pozitif stands at 69.8%. Bank Pozitif does not have a permit from the Turkish regulator to take deposits. Bank Pozitif's application for such a permit was recently denied. According to a statement by the Turkish regulator, the aforesaid permit cannot be granted due to the uncertainty in the global financial markets.

JSC Bank Pozitiv

A bank incorporated and operating in Kazakhstan, wholly owned by Bank Pozitif. The bank provides banking services to business and private customers.

Set out below are details regarding the balance sheet and results of the Bank Pozitif Group:

The profit of the Bank Pozitif Group totaled approximately TRY 6.7 million (approximately USD 3.6 million) in the first quarter of 2012, compared with TRY 3.4 million (approximately USD 1.8 million) in the same quarter last year. The increase in profit resulted from an increase in net interest income, as a result of an increase in activity, primarily credit, as well as an increase in spreads. In addition, the provision for credit losses and operating expenses decreased, due to a restructuring program implemented at Bank Pozitif in Turkey.

The Bank Pozitif Group's contribution to the Bank's operating results, excluding exchange-rate differences and after supplementary taxes in Israel, amounted to approximately NIS 13 million in the first quarter of 2012, compared with a contribution in the amount of NIS 3 million in the same quarter last year.

Total equity of the Bank Pozitif Group amounted to TRY 408 million (approximately USD 221 million) as at March 31, 2012, compared with approximately TRY 398 million (approximately USD 207 million) at the end of 2011.

Total assets of the Bank Pozitif Group amounted to approximately TRY 2.00 billion (approximately USD 1.08 billion) as at March 31, 2012, compared with approximately TRY 1.95 billion (approximately USD 1.02 billion) at the end of 2011.

The Bank's investment in the Bank Pozitif Group totaled NIS 622 million as at March 31, 2012, compared with approximately NIS 581 million at the end of 2011.

Liquidity and Raising of Sources of Funds at the Bank

Monetary Tools of the Bank of Israel

There are several means available to the Bank of Israel in order to establish the liquidity level of the banking system.

The monetary activity of the Bank of Israel is divided into two types:

- Activity during a liquidity month – A liquidity month is defined by the Bank of Israel as a period of 4-5 weeks, ending on the last Wednesday of the calendar month. Activity is conducted through loan and/or deposit auctions for the commercial banks, including weekly and daily auctions, as well as through monetary loans and/or deposits at interest rates different by ±0.5% from the Bank of Israel interest rate.
- Activity over periods longer than a liquidity month – According to economic conditions in Israel and globally, the Bank of Israel determines the desired liquidity position for the banking system. The Bank of Israel can apply expansionary monetary policies leading the system to high liquidity surpluses, or restrictive monetary policies that lead the system to liquidity deficits.

The monetary interest rate of the Bank of Israel, which stood at an annual rate of 2.75% at the beginning of 2012, was lowered to 2.50% at the end of January 2012 and remained unchanged until April 2012.

The following are the means used by the Bank of Israel:

- Makam (T-Bill) auctions – The Bank of Israel maintains balances of Makams (short-term notes) of approximately NIS 126 billion. By decreasing or increasing this balance it changes the liquidity position of the banking system.
- Intervention in the foreign-currency market – The Bank of Israel buys or sells foreign currency from or to the banking system.
- Intervention in the government bond market – The Bank of Israel buys or sells government bonds.
- Operation of repo auctions – Activity of the Bank of Israel with the banks and institutional entities.

At the end of 2011, the liquidity surpluses of the banking system totaled approximately NIS 109 billion. During the first quarter of 2012, the Bank of Israel increased net Makam issues by approximately NIS 3 billion. The liquidity surpluses of the banking system totaled approximately NIS 98 billion at the end of March 2012.

For reasons of caution, the Bank continues to deposit a large part of its liquidity balances in foreign currency with the Federal Reserve Bank in the United States, at low returns, and is considering investing some of its liquidity balances in bonds of high-rated countries and financial institutions.

The Bank monitors its overall liquidity position daily, as well as its liquidity position in NIS and in foreign currency separately (including the overseas offices). In addition to the monitoring of its current liquidity position, the Bank estimates liquidity risk using an internal model. The risk estimate is executed under various assumptions referring to different market conditions for the Israeli banking system and for the Bank.

Capital and Debt Raised from the Public

The Bank Group raises resources through both public and private issues of bonds and subordinated notes, which serve as part of the regulatory capital of the Bank.

The balance of bonds and notes totaled NIS 34.4 billion as at March 31, 2012, compared with NIS 32.9 billion at the end of 2011. For further details regarding bonds and subordinated notes issued by the aforesaid entities, see Note 11 to the Annual Financial Statements for 2011.

The balance of amounts raised by the Bank as at March 31, 2012 includes subordinated notes in the amount of NIS 6.2 billion, of which tradable notes in the amount of approximately NIS 0.8 billion.

In addition, the Bank issues through its wholly owned subsidiaries, Hapoalim Hanpakot and Hapoalim International, which are primarily engaged in raising monetary resources in Israel and overseas, respectively, through issues of bonds and notes of various types (which constitute part of the regulatory capital of the Bank), and depositing the proceeds of the issuance with the Bank. As at March 31, 2012, the balance of notes raised by these companies is approximately NIS 16.7 billion, and the balance of bonds is approximately NIS 11.5 billion.

During the first quarter of 2012, the Bank issued subordinated notes constituting Lower Tier II capital through Hapoalim Hanpakot, in the amount of approximately NIS 1.5 billion, which are included in Lower Tier II capital, subject to the limit in the Proper Conduct of Banking Business Directives.

Business Strategy and Objectives

The Bank operates under a long-term strategic plan approved in late 2009, which is examined each year and adjusted to changes in the business environment in Israel and globally and to changes in the competitive landscape in which the Bank operates. At the end of 2011, the Board of Management and Board of Directors of the Bank approved the Bank's work plans and business objectives for 2012, based on its multi-year strategic plan, while making adjustments to the plan derived from the risks in the global economy, the slowdown in growth forecasts for the Israeli economy, and the changes and developments in the competitive environment for the various segments of the Bank's activity.

The Bank of Israel published directives on increased Core Tier 1 Capital targets at the end of the first quarter of 2012. The Bank is studying the directives and will refer to them when formulating its strategic plan for 2013-2017.

The Bank's multi-year strategic plan takes into consideration the caution necessitated by the risks still present in the global economy and the Israeli market, and balances risk and return considerations. This plan is expected to enable the Bank to continue to pursue a long-term trajectory of stable growth, despite the challenges and instability in the global economy and financial system, while generating a double-digit return on equity and solidifying the leadership of the Bank in the Israeli banking system.

At the end of 2011, as part of the Board of Directors' and Board of Management's commitment to and focus on effective implementation of the strategic plan, the Bank earned international certification for the Strategic Management methodologies, work processes, and technological tools that have been introduced over the last three years. The certification is granted by the international Palladium Group, founded by Prof. Kaplan and Prof. Norton of Harvard University, the inventors of the Balanced Scorecard method. The Bank thereby became the first organization in Israel to earn this certification, which is the highest rank in the international Strategic Management certification system of the Palladium Group.

The multi-year strategic plan is focused on five main axes:

- Expanding relationships and activity with the Bank's customers, based on innovation in service and in channels of activity, professional skill, and the creation of solutions tailored to customers' needs, with the aim of reinforcing the Bank's leadership in Israel.
- Creating a platform for future growth in international activity based on customer relationships, while leveraging the Bank's strengths in commercial and corporate activity and in private-banking services for high-net-worth customers.
- Development and expansion of income sources from investment activity, based on specialization in the management of the Bank's relationships with its customers.
- Operational excellence in the execution of existing activities and in the realization of the Bank's growth plans, while streamlining and curbing expenses.
- Strengthening global risk management and capital management capabilities.

The Bank will work to progress on these axes while emphasizing the cultivation of its human capital and excellence within the organization, based on the core values of the Bank and in alignment with the principles of sustainability, as defined in the Bank's vision. In this context, the Bank will work to continue to lead the financial industry in the areas of corporate social responsibility and contribution to the community, as it has in recent years.

In the Retail Banking Area, the Bank will continue its focused, resolute efforts to solidify and strengthen its leadership. The Bank will focus on improving the value offered to its customers and on providing a comprehensive solution tailored to customers' requirements and needs, by means including optimization of the distribution of the branch network and opening branches in formats suited to customers, as well as strengthening of the multi-channel value offer and customer experience through constant improvement and addition of advanced technological transactions and services via a range of channels: mobile devices, Internet, self-service stations, and more. The Bank accords high importance to customer service and continually strives to significantly improve service while making use of technological means and adapting service to customers' needs.

In the Corporate Banking Area, the Bank will continue to work to preserve its leading position with customers in the corporate segment – the largest companies and businesses in the Israeli economy. The Bank aims and is working to extend and develop its activity with these clients, with an emphasis on the expansion of the service and product offering and the creation of a comprehensive package of specially tailored services providing the optimal solution to the needs of clients in this sector. The Bank also expects this activity to enable it to increase its non-credit revenues in this sector. Concurrently, the Bank will work to achieve a leap forward in its activity in the "middle-market" business sector, which is an important element of the backbone of the Israeli economy, through means including the network of Business Branches which the Bank will continue to deploy in the coming year, and an improved and expanded value offer for customers in this sector.

The activity of the Bank in the capital market and in the area of treasury management is centralized under the Financial Markets Area, a new Area formed as a result of the transfer of brokerage activities, securities clearing and operation, and services for financial asset managers from the Client Assets Area to the Global Treasury Area. The emphasis in these activities will be placed on adapting the Bank's alignment to the needs of its customers, in Israel and overseas, and to the changes in the capital and currency markets. The Bank will continue to work to implement a strategic plan based on global treasury management, encompassing the dealing rooms in Tel Aviv, New York, and London, while continuing to reinforce the infrastructures of the operational systems serving the dealing rooms and the area of asset and liability management at the Bank. The Bank will also continue to strengthen the management of its proprietary ("nostro") banking portfolio, with an emphasis on prudent management of the mix in the portfolio alongside risk management.

In overseas operations, led by the International Banking Area, the Bank will work to continue the development of Global Private Banking. In this area of activity, the Bank aims to continue to improve its abilities in products and expand the service package offered to its customers, in order to strengthen the platform for the organic growth of its asset portfolio, with a focus on high-net-worth clients.

The Bank will work to strengthen the connections between its international operations and the activity of its customers in Israel, in order to maximize possible synergies from the provision of banking services overseas to customers of the Bank. The Bank will offer Global Private Banking services to its customers at its specialized centers, as well as business services, primarily in the financial centers of Switzerland, New York, and London. At the same time, the Bank is following the changes in the developing markets in order to take advantage of opportunities for expansion, mainly through support for trading and investment activities of Israeli companies.

Striving for operational excellence and improving expense management will continue to be key principles for the Bank. The Bank will work to improve its operational efficiency ratio throughout the period of the strategic plan. The push towards operational excellence will allow the Bank to make optimal use of its existing resources in order to realize new initiatives. The Bank will work to continue to streamline and improve work processes at its Head Office and administrative units, with an emphasis on expansion and development of the Central Back Office, where activities not involving direct contact with customers will be channeled, thereby improving service to customers while strengthening operational excellence.

It should be noted that the strategic plan sets ambitious goals for each of the Bank's activities, yet in any planning, especially in planning several years ahead, and all the more so during a period of changes and turmoil in the global economy and in the world financial system, a considerable degree of uncertainty must be taken into consideration. Various diverse factors may prevent the assumptions on which the strategic plan is based from materializing, or may prevent them from materializing in full, and may prevent the realization or full realization of future plans. Among these factors, it should be noted that the success of a plan of this kind depends on the Bank's internal ability to carry out its objectives, as well as on the business environment in Israel and globally and on macro conditions. Special importance should be accorded to the condition of the global economy, and to the economic, political, and security situation in Israel and in the region. It should be taken into consideration that a high level of uncertainty remains with regard to the growth rates that will accompany the recovery of the real economy in Israel and globally in the coming years.

It is emphasized that the Bank's approved work plans and the working assumptions on which they are based refer to the Bank's future activities; therefore, all of the above information in this section with regard to the Bank's action plans and intentions is "forward-looking information."

Risk Management

General

The Bank's activity is accompanied by financial risks: credit risks, which represent the risk that a borrower or debtor will default on scheduled payments to the Bank as defined in the credit agreement; market risks deriving from exposure to changes in rates in the financial markets, such as exchange rates, interest rates, and inflation; an additional financial risk is liquidity risk, which is the risk to a banking corporation's profits, stability, and ability to continue its routine operations resulting from uncertainty with regard to its ability to supply its liquidity needs. These risks are managed by designated members of the Board of Management and under their responsibility. The member of the Board of Management responsible for managing credit risks is Mr. S. Gal. The member of the Board of Management responsible for managing market and liquidity risks is Ms. A. Levin. A regulatory requirement of capital adequacy applies to credit risk and market risks.

Other non-financial risks are mainly legal risk and operational risks. Legal risk is managed by the Chief Legal Advisor, Attorney I. Mazur. Operational risk, excluding legal risk, is managed by each member of the Board of Management in the area of activity for which he or she is responsible. Operational risk is defined as the risk of losses that may be caused by failed or faulty internal processes, human actions, system malfunctions, or external events. A regulatory requirement of capital adequacy also applies to operational risk.

Other risks to which the Bank is exposed are handled directly as part of the management of its business: reputation risk, competitive risk, regulatory and legislative risk, economic risk, and political/security-related risk.

The Supervisor of Banks has set forth guidelines concerning risk management in the Proper Conduct of Banking Business Directives. The directives detail the risks to which a banking corporation is exposed and stipulate various basic principles for the management and control of risks, including suitable involvement in and thorough understanding of risk management by the board of directors of the banking corporation, the management of risks by a risk manager who is a member of the board of management, the employment of tools for the assessment and measurement of risks, and the creation of means for supervision and control, including the existence of an independent risk-control function. The Bank operates in accordance with the guidelines of the Supervisor of Banks concerning the Chief Risk Officer and the risk-management function. In addition, the Bank has established methodologies and work plans for the implementation of the directives of the Supervisor of Banks concerning exposure to environmental risks and to large borrowers.

Risk management is performed based on a global view of the Bank's activity in Israel and of activity at the Bank's branches abroad, with due attention to the activity of banking subsidiaries. Risks are managed separately by each banking subsidiary in the Bank Group, according to policy formulated by each company's board of directors and presented to the Board of Directors of the Bank. The Bank manages the various risks, using hedges for some risks, as detailed in the relevant sections below. Risk control and the assessment of financial risks and operational risks are performed based on a uniform methodology at the Group level, under the direction of the Risk Management Area, taking into account the unique characteristics of the activity of each subsidiary.

Structure and Organization of the Risk Management System

The Board of Directors' Committee on Risk Management and Control and Basel II Implementation – A Board of Directors' Committee on Risk Management and Basel II Implementation is in operation at the Bank. The committee's mission is to formulate the Bank's risk-management policy, including establishing risk limits in the various areas of activity, examining the Bank's risk profile, monitoring the implementation of the established risk-management policy, and examining the processes and actions to be implemented by the Bank in order to comply with all regulatory directives concerning risk management.

The Board of Directors' Committee on Risk Management and Basel II Implementation and the plenum of the Board of Directors receive reports on risks and on the execution of approved policies, at least once each quarter.

The Board of Management's Committee on Risk Management and Basel II Implementation Headed by the CEO – The Board of Management's Committee on Risk Management, headed by the CEO of the Bank, is responsible for planning the Bank's risk-management policy, risk limits, and reporting and control procedures, and for examining the Bank's overall risk profile and the interactions among the various risk types and factors.

The Board of Management's Committee on Compliance Headed by the CEO – The Board of Management's Committee on Compliance, headed by the CEO, was established in the first quarter of 2011. The objectives of the committee include strengthening and solidifying compliance at the Bank and addressing matters requiring special attention.

The Risk Management Area – The member of the Board of Management responsible for the Risk Management Area is Mr. D. Koller, Chief Risk Officer. The Area's primary objective is to instill an advanced culture of risk management and monitoring at the Bank Group, while formulating risk-management policies and methodologies in line with the goals of the Group and with the Basel II directives and the directives of the Supervisor of Banks. The Risk Management Area ensures the existence and quality of the key risk management processes of the Group: identification, assessment, establishment of risk tolerance limits, establishment of control mechanisms, monitoring of positions, and reporting. The Area leads and coordinates the ICAAP and is an active participant in capital management.

The Risk Management Area comprises four units: (1) the Credit Risk Management Unit, which consists of two departments: the Credit Risk Analysis and Management Department, and the Credit Control Department; (2) the Operational and Market Risk Management Unit, which consists of two departments: the Operational Risk Management Department, and the Market and Liquidity Risk Management Department; (3) the Chief Compliance Officer Unit, which consists of three main units: the Compliance Department, the Anti-Money Laundering and Prevention of Terrorism Financing Department, and the International Compliance and Anti-Money Laundering Unit; and (4) the Basel II Plan Administration.

The approach taken with regard to control of all financial and operational risks at the Bank involves identification and assessment of the risks, and control of compliance with the limits stipulated in the various regulations, through three spheres of control: The first sphere includes the business units within the Areas, including supporting and operational units, that create or take risks, as well as the internal control units within the Areas that provide internal control over the risk creators and risk takers. The second sphere of control consists of the control units at the Risk Management Area, which is considered entirely independent of the business Areas. This sphere is also responsible for presenting an overview of risks. Additional independent control functions, such as accountancy, legal counsel, and human resources, are commonly attributed to the second sphere of control. The third sphere of control consists of the Internal Audit system.

Financial Risks

A. Credit Risks

General

Credit risk is the risk that a borrower or debtor may default on obligations to the Bank under a credit agreement. The credit portfolio is a major component of the asset portfolio of the Bank Group; therefore, deterioration in the stability of the various borrowers can have an adverse effect on the Group's asset value and profitability. In order to manage credit risks, a credit-risk management policy, credit policy, and exposure limits for borrowers and/or sectors and/or products in the various segments of activity have been defined for the Group.

Volatility in the global economic markets remains high, due to the debt crisis in Europe and the uncertainty regarding economic growth in the United States. These events, along with the uncertainty surrounding the economic plans of the government of Israel, have raised the risk level in the Israeli economy. In addition, recent reports indicate an increased probability of a slowdown in the real-estate market in Israel, which, if it persists, may have a negative effect on the repayment capability and value of collateral of borrowers in the construction and real-estate sectors and on mortgage takers. Accordingly, the Bank has mapped the sectors likely to be significantly affected by these changes, updated its exposure policies as necessary, and increased controls in these areas.

Management of Credit Risks

The goal of credit risk management is to allow and ensure that the Group operates in accordance with the policies and strategic objectives established, and within the risk appetite defined in the area of credit, from the level of the single transaction to the overview of the credit portfolio.

The Bank's policy on the management of credit risks is based on diversification of the credit portfolio and controlled management of risks. Risk diversification is reflected by the distribution of the Bank's credit portfolio among a large number of borrowers in different sectors of the economy, among the different linkage segments, and among different geographical regions overseas. The policy of distributing risks among economic sectors is based on an estimate of anticipated developments in the different sectors. For this purpose, the Bank conducts industry-level surveys and economic feasibility studies to evaluate the risk and business potential related to activity in the various economic sectors. The Bank's business objectives are determined in accordance with these surveys and studies.

As part of its credit risk management policy, the Bank applies principles including the following:

1. **Independence**

The principle of independence is an essential element of proper corporate governance, in order to prevent conflicts of interest and create a system of checks and balances. The goal of this principle is to ensure that the information regarding risks reported to managers, and in particular to senior management and the Board of Directors, is objective and is not influenced by other considerations, in particular considerations of business success and remuneration for such success.

2. **Hierarchy of authority**

The Bank has a hierarchy of authority that outlines a sequence of credit authorizations, according to the level of the debt of the borrower or group, the risk rating, and problematic classifications, allowing control over the process of approving new credit transactions. The hierarchy of authority provides a definition of individual credit approval thresholds and thresholds for transfer to approval committees, as well as the composition of such committees.

3. **Comprehensive view of the customer/group**

Management of risk groups encompassing several borrowers who are related in terms of risk, such as a company and its subsidiaries, a married couple, etc. The activity of customers and groups is overseen by a customer manager who is responsible for all activities of that borrower/group. Information systems continuously provide the customer manager and his or her staff with a comprehensive view of the activity of the customer/group, including the level of credit risk.

4. **Credit policies and procedures**

The Bank's credit policies and procedures are binding for everyone involved in the area of credit at the Bank. The policies and procedures specify all of the principles and considerations related to credit granting, the authority to grant credit, and the prohibitions and limits applied to credit granting. The procedures are a key means of managing credit risks, as they define the Bank's practices and principles in the areas of credit and collateral, including references to customer types, economic sectors, types of credit, etc.

5. **Uniform instruction and training**

Employees involved in the area of credit undergo training and instruction on credit, foreign trade, and mortgages. These sessions provide uniform training to all those involved in this area, imparting professional tools and teaching the Bank's policies and principles in the area of credit.

Credit risk management policy at the Bank's subsidiaries, offices, and branches abroad is based on similar principles to those of credit risk management policy in Israel, adapted to regulatory requirements in each country. The Credit Risk Management Unit at the Bank functions as the authoritative unit of the Group in the area of credit risks, with the aim of allowing uniform, centralized risk management, reporting, and control at the level of the Group. Credit risk policy at the Bank's overseas subsidiaries and offices is approved by the local board of directors following consultation with credit risk management officials at the Bank, and presented to the Board of Directors of the Bank.

Identification and Control of Credit Risks

The process of controlling and identifying credit risks is conducted by the three spheres of control. Risk at the level of the overall portfolio of the Group is monitored by the Credit Risk Management Unit (as part of the second sphere of control), which reports to the Board of Management and the Board of Directors of the Bank on trends and changes in the credit portfolio, including the level of credit risk in the portfolio, compliance with limits, special events, an analysis of concentration, extreme scenarios, and a presentation of general risk indices in Israel and globally.

The identification of credit risk in existing products is based on risk management, measurement, and control processes at the various levels. The identification of risk in new products relies on the procedure for new products, which specifies the policies and procedures to be followed for each new product at the Bank in order to identify all risks involved in the product, assess the extent and materiality of such risk, and provide solutions for the measurement, control, and hedging of the risk.

A quarterly and annual process has been designed in order to identify concentration risk and examine the potential implications of various shocks (financial, political, and others) on the financial robustness of the Bank. This process includes definition, examination, and reporting of the results of extreme scenarios, and mapping of the effects on profit and on capital adequacy.

Risk Quantification and Measurement

Credit risk is quantified and measured on several levels: the level of the individual borrower, borrower groups by area of activity, sectors of the economy, borrower sectors, products, and the overall portfolio of the Bank and of the Group. Procedures for risk quantification and measurement and for the ranking of borrowers and of credit have been developed and implemented for each area of activity and type of credit. These processes combine assessments by credit experts with decision-making processes and advanced statistical models.

In the area of financing of Bank customers' transactions involving derivative financial instruments, the Bank has developed computerized models for measuring and controlling the level of counterparty risk at the transaction level and the customer level. These models allow the Bank to regularly monitor customers' financial situation. In this activity, credit risk at a particular date is defined as the total of the value of the present position plus potential risk of future losses arising from volatility of the underlying assets in the position of the counterparty, taking into account offsets and correlation between the transactions; this represents the Bank's loss in the event of default by the client. Rules and working procedures have been defined to determine the level of collateral required for these transactions. Rules have also been defined for the closing of exposures with respect to transactions and to customers. Limits on exposure to counterparties are set by the appropriate credit authorities at the Bank.

Risk Alignment

The mix and risk profile of the credit portfolio are managed through several mechanisms:

(1) The credit policies defined for the various areas of activity and economic sectors.

(2) A system of limits, including concentration limits for various parameters such as economic sectors, borrowers, borrower groups, and products.

(3) Price policies, which take risk into account, with a comprehensive view of the customer.

(4) Active management of the risk profile of the portfolio.

The Board of Directors of the Bank establishes credit policies, which are routinely examined and updated according to the changes in the financial markets and in the economy. This policy includes various restrictions of the credit portfolio, which include exposure limits by economic sector, country, and financial institution, as a function of the risk level estimated by the Bank. Limits are also imposed on the maximum exposure to a single borrower, based on the credit rating assigned to the customer, which reflects the customer's risk level; and on maximum exposure to a group of borrowers. Procedures are in place for the monitoring and control of compliance with such limits. The Board of Directors receives quarterly reports on limit control.

Within collateral policy, principles and rules have been set forth to determine the value of collateral with respect to its type and the type of credit that it secures, such as: the estimated time range and expenses necessary for realization of the collateral, type of indexation, volatility in the value of the collateral, etc. Procedures have also been defined for the processing of collateral and for monitoring changes in collateral and its value. A computerized collateral-management system is operational with respect to most types of collateral. Collateral received by the Bank to secure credit includes financial assets, real-estate assets, and other assets. Against credit granted to companies, the Bank also receives collateral in the form of general floating liens on the companies' assets.

Credit Exposure to Foreign Financial Institutions

In the course of its routine business operations, the Bank Group is exposed to risk arising from credit exposures to foreign financial institutions. This risk is evident in a variety of activities with financial institutions, such as transactions carried out at the Bank's dealing rooms (deposits, foreign-currency balances, and derivatives), purchases of bonds issued by such institutions, financing of the various types of foreign trade, capital-market activity, and account management. The foreign financial institutions include banks, investment banks, insurance companies, broker-dealers, and institutional entities, mainly pension funds.

The exposure to foreign financial institutions is influenced both by the specific condition of each institution and by the risk level of the countries in which it operates, and may be affected by events in foreign countries that can cause a decrease in the value of the Bank's assets or impair the foreign institutions' ability to meet their obligations, including obligations to the Bank Group. Such events include financial or economic crises, the effects of changes in political conditions in various countries, social instability, and more. It should be emphasized that the majority of the Bank Group's credit exposures to foreign financial institutions are to banks, and most of these exposures are to the banking system in Western Europe and North America; exposure to other financial institutions is relatively low.

Due to the financial crisis, which peaked in 2008-2009, the Bank took steps to minimize risk by channeling activity in derivative financial instruments to institutions with which Credit Support Annex (CSA) agreements have been signed (offsetting agreements that limit and minimize the credit risks in this activity, through daily account settlement usually performed between the Bank and the counterparty, pursuant to the agreement). Settlement risks were also neutralized by conducting currency settlement activities through the international clearinghouse known as CLS (Continuous Linked Settlement).

Credit policy is continually examined and adjusted to developments in the global markets. Accordingly, in view of the ongoing economic crisis in Europe over the last year, exposures to these countries were reduced or suspended, based on the developments in each country, and the frequency of monitoring and controls of exposures to institutions in these countries has been increased. This monitoring is based on routine examination of several indicators, among other matters: the position of the international rating agencies; price movements in the capital markets, including prices of insurance for financial assets (CDS); financial statements; macro-economic forecasts and estimates; and an examination of countries' ability to support the financial sector if necessary. For further details, see the section "Economic and Financial Review," above.

The following table details the Bank Group's exposure to foreign financial institutions as at March 31, 2012[1]:

External credit rating[5]	Balance sheet credit risk[2]	Current off-balance sheet credit risk[3]	Total current credit risk
	NIS millions		
AAA to AA-	**1,876**	**2,303**	**4,179**
A+ to A-	**8,026**	**796**	**8,822**
BBB+ to BBB-	**94**	**33**	**127**
BB+ to B-	**73**	**17**	**90**
Lower than B-	**50**	**-**	**50**
Unrated**	**436**	**69**	**505**
Total credit exposures to foreign financial institutions*	**10,555**	**3,218**	**13,773**
Of which: Balance of problematic debts[4]	**78**	**-**	**78**
Of which: Balance of impaired debts	**78**	**-**	**78**
Individual allowance for credit losses	**53**	**-**	**53**
Total current credit exposure to foreign financial institutions after deduction of the individual allowance for credit losses	**10,502**	**3,218**	**13,720**
Group allowance for credit losses	**5**	**2**	**7**

* The balances include the exposure of the Bank Group to financial institutions in the following countries:
Spain – Total exposure of approximately NIS 83 million of which a total of approximately NIS 71 million rated A, and the remaining NIS 12 million rated A- (total exposure at the end of 2011 was approximately NIS 79 million, NIS 78 million rated A and NIS 1 million rated BBB).
Ireland – Total exposure of approximately NIS 17 million, of which approximately NIS 14 million rated AA- and the remaining NIS 3 million unrated (total exposure at the end of 2011 was approximately NIS 13 million, of which a total of approximately NIS 8 million rated AA-, NIS 2 million rated BB+, and the remaining NIS 3 million unrated).
Italy – Total exposure of approximately NIS 22 million, of which approximately NIS 6 million rated A, NIS 13 million rated BBB+, and the remaining NIS 3 million rated BBB (total exposure in 2011 was NIS 17 million, of which NIS 6 million rated A and approximately NIS 11 million rated BBB+).
In Greece and Portugal, exposure to financial institutions is minimal, in the amount of less than NIS 1 million.

** Of which, clearing houses overseas constitute 43% of the balance. The remaining amount is distributed among a long list of banks and financial institutions (December 31, 2011: 50% of the balance).

(1) Foreign financial institutions include banks, investment banks, broker-dealers, insurance companies, institutional entities, and entities controlled by such entities.
(2) Deposits with banks, credit to the public, investments in bonds, securities borrowed or bought in resale agreements, and other assets in respect of derivative instruments.
(3) Mainly guarantees and commitments to grant credit. Does not include credit risk in off-balance sheet financial instruments, as calculated for the purposes of the limits on indebtedness of a borrower.
(4) The risk of credit that is impaired, substandard, or under special supervision.
(5) According to the lowest of the long-term foreign-currency credit ratings assigned by any of the major rating agencies: S&P, Moody's, and Fitch. Ratings are current as at May 4, 2012 (December 31, 2011: Ratings as at March 1, 2012).

The following table details the Bank Group's exposure to foreign financial institutions as at December 31, 2011[(1)]:

External credit rating[(5)]	Balance sheet credit risk[(2)]	Off-balance sheet credit risk[(3)]	Total credit risk
	NIS millions		
AAA to AA-	2,278	2,281	4,559
A+ to A-	9,999	685	10,684
BBB+ to BBB-	128	33	161
BB+ to B-	189	16	205
Lower than B-	56	-	56
Unrated**	517	52	569
Total credit exposures to foreign financial institutions*	13,167	3,067	16,234
Of which: Balance of problematic debts[(4)]	85	-	85
Of which: Balance of impaired debts	85	-	85
Individual allowance for credit losses	55	-	55
Total credit exposure to foreign financial institutions, after deduction of the individual allowance for credit losses	13,112	3,067	16,179
Group allowance for credit losses	9	2	11

Details of expenses charged to the statement of profit and loss in respect of exposure to foreign financial institutions:

	For the three months ended March 31, 2012	For the year ended December 31, 2011
	NIS millions	
Deposits/credit with foreign banks and financial institutions	**-**	25
Securities of foreign banks and financial institutions	**-**	15
Total	**-**	40

* The balances include the exposure of the Bank Group to financial institutions in the following countries:
Spain – Total exposure of approximately NIS 83 million of which a total of approximately NIS 71 million rated A, and the remaining NIS 12 million rated A- (total exposure at the end of 2011 was approximately NIS 79 million, NIS 78 million rated A and NIS 1 million rated BBB).
Ireland – Total exposure of approximately NIS 17 million, of which approximately NIS 14 million rated AA- and the remaining NIS 3 million unrated (total exposure at the end of 2011 was approximately NIS 13 million, of which a total of approximately NIS 8 million rated AA-, NIS 2 million rated BB+, and the remaining NIS 3 million unrated.
Italy – Total exposure of approximately NIS 22 million, of which approximately NIS 6 million rated A, NIS 13 million rated BBB+, and the remaining NIS 3 million rated BBB (total exposure in 2011 was NIS 17 million, of which NIS 6 million rated A and approximately NIS 11 million rated BBB+).
In Greece and Portugal, exposure to financial institutions is minimal, in the amount of less than NIS 1 million.

** Of which, clearing houses overseas constitute 43% of the balance. The remaining amount is distributed among a long list of banks and financial institutions (December 31, 2011: 50% of the balance).

(1) Foreign financial institutions include banks, investment banks, broker-dealers, insurance companies, institutional entities, and entities controlled by such entities.
(2) Deposits with banks, credit to the public, investments in bonds, securities borrowed or bought in resale agreements, and other assets in respect of derivative instruments.
(3) Mainly guarantees and commitments to grant credit. Does not include credit risk in off-balance sheet financial instruments, as calculated for the purposes of the limits on indebtedness of a borrower.
(4) The risk of credit that is impaired, substandard, or under special supervision.
(5) According to the lowest of the long-term foreign-currency credit ratings assigned by any of the major rating agencies: S&P, Moody's, and Fitch. Ratings are current as at May 4, 2012 (December 31, 2011: Ratings as at March 1, 2012).

The exposure of the Bank Group to foreign financial institutions totaled approximately NIS 13.8 billion on March 31, 2012, a decrease of NIS 2.4 billion compared with approximately NIS 16.2 billion at the end of 2011. This decrease mainly resulted from a decrease in balance sheet exposure in respect of credit and derivatives, in the amount of approximately NIS 2.8 billion and was offset by the purchase of bonds in the amount of approximately NIS 0.4 billion, mainly of foreign banks rated A- or higher.

Approximately 94% of the exposure to foreign financial institutions is to financial institutions rated A- or higher. The Bank Group's exposure to foreign financial institutions is distributed as follows: 78% in banks and banking holding companies, 17% in other financial institutions, 3% in pension funds, and 2% in insurance companies. Most of the Bank Group's exposure is to foreign financial institutions operating in the United States (48%) and in Western European countries (47%).

Credit Exposure in Respect of Derivative Financial Instruments

The Bank executes transactions in derivative financial instruments as part of the management of market risks (linkage base, currency, and interest rate exposures; see the section "Management of Market and Liquidity Risks"), and as a service to its customers. The activity in derivative financial instruments involves a number of risks, as detailed below:

- Credit risk – The maximum amount of loss to the Bank in the event that the counterparty fails to comply with the terms of the contract.
- Market risk – Risk arising from fluctuations in the value of the derivative financial instrument as a result of changes in market prices, such as exchange rates, interest rates, inflation, etc.
- Illiquidity – Risk arising from an inability to close an exposure rapidly through settlement in cash or through the creation of an opposite exposure.
- Operational risk – Risk arising from errors in the operation of the transactions, from formation to the completion of account settlement, due to human errors or mechanical malfunctions or as a result of the realization of another operational risk.

This activity is routinely administered and measured using specialized automated systems commonly used in the international markets for these purposes, such as Opics, Summit, and Derivatech, as well as automated systems developed by the Bank. Market risks arising from this activity are measured using the Algorithmics system. For details regarding market risk measurement methodology, see the subsection "Risk Assessment and Control" below.

Credit risks arising from transactions in derivative financial instruments related to the counterparty to the transactions are measured by applying conservative coefficients to the nominal amounts of the transactions, or using the scenarios approach, in which the maximum potential exposure of the customer is calculated in a range of different market situations, or using an internal model developed at the Bank, as detailed above. The measurement method is matched to the customer according to the nature of activity in the customer's derivatives portfolio. Rules and working procedures have been established in order to determine the required level of collateral for such transactions, as well as rules regarding the actions necessary in order to close exposures, with regard to transactions and customers. Limits on exposure to counterparties are established by the appropriate credit authorities at the Bank. Operational aspects arising from this activity are examined and controlled routinely by a specialized unit.

The following table details credit exposures in respect of the positive fair value of derivative financial instruments, by counterparty to the contract, as at March 31, 2012 (in NIS millions):

	Credit rating			
	AAA to AA-	A+ to A-	BBB+	Total
Banks outside Israel:				
United States[(1)]	**16**	**1,160**	**-**	**1,176**
England	**200**	**328**	**-**	**528**
Germany	**-**	**441**	**-**	**441**
France	**-**	**639**	**-**	**639**
Switzerland	**12**	**223**	**12**	**247**
Other	**13**	**4**	**-**	**17**
Eurozone – other	**-**	**58**	**-**	**58**
Total banks outside Israel	**241**	**2,853**	**12**	**3,106**
Banks in Israel				**1,150**
Stock exchanges				**165**
Governments and central banks				**2**
Brokers/dealers[(2)]				**659**
Corporate clients by economic sector:				
Financial services				**568**
Transportation and storage				**129**
Electricity and water				**94**
Construction and real estate				**138**
Other				**1,355**
Total corporate clients by economic sector				**2,284**
Total*				**7,366**

* The Bank has implemented the directives of FAS 157 concerning fair-value measurement as of January 1, 2011. The amounts in this table are presented before the attribution of the effects of the implementation of this standard.

(1) Of which JP Morgan Chase – balance in the amount of NIS 1,000 million.

(2) Of which Goldman Sachs – balance in the amount of NIS 368 million.

Exposure of the Bank to securitization – A policy of reducing this portfolio was implemented due to the crisis; the current volume of the exposure is approximately NIS 188 million, mainly resulting from credit lines to corporations engaged in securitization.

Credit Exposure to Foreign Countries

The risk of credit exposure to foreign countries represents the possibility that an economic, political, or other event in a foreign country may impair the value of assets of the Bank Group or negatively affect the ability of debtors in that country to meet their obligations to the Bank Group. The risk of exposure to foreign countries includes cross-border balance sheet exposure (total balance sheet exposure of the Bank in Israel to residents of foreign countries, plus total balance sheet exposures of the Bank's overseas offices to non-residents of the country in which the office is located) as well as balance sheet exposure of the Bank's overseas offices to local residents in those countries, net of these offices' liabilities. Cross-border balance sheet exposure risk is the risk that actions taken by foreign governments may eliminate the possibility of converting currency and/or transferring currency outside the country (transfer risk), thereby affecting the ability of companies and customers to execute cross-border transactions.

The risk of exposure to foreign countries is managed at the Bank by individually examining the risks arising from the various countries, taking into consideration the countries' ratings by the international rating agencies S&P, Moody's, and Fitch. Appendix 4 to the Management Review details the total balance sheet exposure, by country risk, and divided into sectors (governments, banks, and others). The total exposure to foreign countries includes balance sheet exposures in respect of balance sheet debt balances, net of local liabilities, securities, and other investments attributed to countries other than Israel. The balance sheet exposure was adjusted based on the final risk, taking into account credit reinforcements, which include guarantees, tangible and liquid collateral, insurance contracts, participations in risk, and credit derivatives. For further details, see the section "Composition and Development of the Assets and Liabilities of the Bank Group", above.

The risk level in the global economic markets has risen recently, due to the debt crisis in Europe, and due to the uncertainty regarding global growth, the credit-rating downgrade of the United States by S&P, from AAA to AA+, and the way it is coping with its debt burden. The Bank is applying controls and monitoring credit risks arising from the capital markets following these developments. For further details, see the section "Economic and Financial Review", above.

Balance-sheet exposure to foreign countries as at March 31, 2012 amounted to NIS 41.6 billion, compared with NIS 45.9 billion at the end of 2011.

Total principal exposures to foreign countries as at March 31, 2012 (in NIS millions):

Country	Total balance sheet exposure(1)	Total off-balance sheet exposure	Total exposure	Percentage of balance sheet exposure
United States	**16,727**	**6,840**	**23,567**	**40.3%**
Switzerland	**5,054**	**414**	**5,468**	**12.2%**
England	**5,016**	**3,308**	**8,324**	**12.1%**
Germany	**1,679**	**952**	**2,631**	**4.1%**
France	**1,546**	**1,180**	**2,726**	**3.7%**
Ireland*	**100**	**190**	**290**	**0.2%**
Spain**	**108**	**129**	**237**	**0.3%**
Portugal	**2**	**-**	**2**	**0.0%**
Greece	**6**	**1**	**7**	**0.0%**
Italy***	**61**	**32**	**93**	**0.1%**
Other developed countries(2)	**6,906**	**1,764**	**8,670**	**16.6%**
Turkey	**3,173**	**952**	**4,125**	**7.6%**
Other less developed countries (LDCs)(3)	**1,179**	**948**	**2,127**	**2.8%**
Total exposures to foreign countries	**41,557**	**16,710**	**58,267**	**100%**

Total principal exposures to foreign countries as at December 31, 2011 (in NIS millions):

Country	Total balance sheet exposure(1)	Total off-balance sheet exposure	Total exposure	Percentage of balance sheet exposure
United States	17,371	7,103	24,474	37.8%
Switzerland	5,661	548	6,209	12.3%
England	6,431	3,634	10,065	14.0%
Germany	1,926	995	2,921	4.2%
France	2,200	1,282	3,482	4.8%
Ireland	110	195	305	0.2%
Spain	124	129	253	0.3%
Portugal	1	-	1	0.0%
Greece	1	1	2	0.0%
Italy	49	32	81	0.1%
Other developed countries(2)	7,573	1,727	9,300	16.6%
Turkey	3,138	1,049	4,187	6.8%
Other less developed countries (LDCs)(3)	1,345	1,115	2,460	2.9%
Total exposures to foreign countries	45,930	17,810	63,740	100%

* The exposure in Ireland includes NIS 17 million to banks in Ireland and NIS 273 million to customers. Of the total exposure to customers, approximately NIS 186 million derives from a backup line granted by the Bank to an SPE incorporated in Ireland, which is engaged in securitization of debtors who are not residents of Ireland.

** The exposure to Spain includes NIS 202 million to banks, and NIS 35 million to customers. Of the total exposure to banks, approximately NIS 119 million constitutes off-balance sheet credit risk in respect of derivatives, as calculated for the purpose of borrower limits. Among other matters, the off-balance sheet indebtedness includes exposure in respect of the "added" coefficient reflecting the potential future exposure for the remaining lifetime of the derivative contract, multiplied by three. Note that these derivatives were executed with parties with which CSA agreements have been signed in order to limit and minimize credit risks in derivatives activity.

*** The exposure in Italy includes NIS 1 million to the Italian government, NIS 22 million to banks, and NIS 70 million to customers.

(1) After deducting liabilities of the Bank's overseas offices to local residents.

(2) The main exposures arise from Canada, Luxembourg, and the Netherlands.

(3) Less developed countries (LDCs) – according to definitions of the World Bank, based on national per-capita income. The main exposures arise from Kazakhstan and Russia.

Identification and Treatment of Borrowers in Distress

The Bank has established procedures for the identification and handling of borrowers who, according to the Bank's evaluation, may default on their obligations to the Bank. These borrowers are supervised and monitored more closely, and the Bank endeavors to reduce its exposure to them by redeeming credit from the borrowers' resources and/or by obtaining additional collateral from them. In certain cases, customers are transferred to a division specializing in monitoring and restructuring of customers' debt, or to debt collection units. In addition, the Bank regularly reviews the level of credit risk in borrower portfolios on the basis of conservative assumptions, classifies problematic credit risk according to the rules in the directives of the Bank of Israel (impaired, substandard, or under special supervision), and records a sufficient provision for credit losses in respect of the total credit risk at the Bank.

With regard to credit classified as "impaired", the provision for credit losses is derived from an individual examination of the amount collectible from the customer (cash flows and/or expected realization of collateral), after capitalization of the amounts according to the expected collection and realization dates. Debts not expected to be collected within a reasonable period are written off in accounting, in accordance with the rules established in the Bank of Israel's directive. The collectible amount is determined with the inclusion of safety margins aimed at addressing situations of uncertainty regarding the ability to repay the debt. However, because economic variables are involved, there is no certainty that the collectible amount will not be lower than the estimate established, due to changes for the worse in economic parameters or for any other reason.

The suitability of the classification of the debt and of the collectible amount is approved by an officer one authorization level above the level of the authorization to grant the credit to the customer, with the necessary adjustments. For this purpose, a process is in place in which a discussion regarding the suitability of the classification and of the collectible amount for each such customer is held each quarter.

With regard to sound credit or problematic credit that is not impaired (substandard or under special supervision), a "group provision" is calculated based on the history of credit losses in the economic sector to which the customer belongs. In order to calculate the group provision, the Bank sets two provision rates for each economic sector, for problematic and sound credit risk, on a quarterly basis. The rates are set based on a quarterly analysis of historical credit losses, and on an analysis of market trends, in accordance with the instructions of the Bank of Israel.

With regard to borrowers in the housing finance sector, a provision is also calculated, according to the directives of the Supervisor of Banks, taking into account the extent of the arrears of the borrower, such that the deeper the arrears, the greater the rate of the provision out of the total credit. In addition, in accordance with the directives of the Supervisor of Banks, a group provision is calculated in respect of housing loans granted with a high rate of leverage in recent years.

The Credit Risk Management Unit

The Credit Risk Management Unit serves as an independent administrative unit for the management and analysis of credit risks. The unit reports to the Chief Risk Officer and is independent of underwriting and credit approval processes. The role of the unit is to formulate credit risk management methodologies in line with the strategic goals of the Bank Group; to instill an organizational culture of rational risk-taking within limits – in other words, the execution of transactions that do not exceed the limits, at a price congruent with the risk; and to apply controls to ensure the Bank's compliance with the established policy. The unit serves as the administrative unit responsible for the control of credit risk management processes and methodologies at the subsidiaries in the Bank Group.

Two departments operate within the Credit Risk Management Unit:

The Credit Risk Analysis and Management Department is responsible for the development of methodologies for the identification, control, and management of credit risks; the development of models for credit risk rating measurement and pricing, at the level of the individual borrower and at the portfolio level; the development of models for the allocation of economic capital in respect of credit risk to the various segments; the advancement of preparations for the measurement of credit risks in accordance with the advanced approach under Basel II; the development of methodologies for the calculation of group provisions, for the implementation of the directive on impaired debts; monitoring credit exposures, the level of credit risk, and compliance with credit limits within the Group, and reporting the results to the Board of Management and Board of Directors; applying extreme scenarios at the level of the Bank and of the Group; and monitoring, measuring, and managing credit concentration risk.

The Credit Control Department performs independent assessments of the level of credit risk of all of the Bank's major corporate borrowers, in a three-year cycle, or at a higher frequency for borrowers identified as having risk potential. It also performs reliability tests on the credit ratings of the examined borrowers. The department is responsible for credit-control activities at the branches of the Bank and at the subsidiaries overseas, and monitors both control processes and the volume of control and execution of work plans.

B. Market and Liquidity Risks

General

Market risk – The risk of loss arising from change in the economic value of a financial instrument, or of a particular portfolio or group of portfolios; and on the general level, a change in the economic value of the Bank due to changes in prices, rates, spreads, and other parameters, detailed below:

Interest-rate risk – The risk of loss as a result of changes in interest rates in the various currencies.

Inflation risk and/or exchange-rate risk – The risk of loss as a result of changes in exchange rates or as a result of changes in the consumer price index.

Share price risk – The risk of loss as a result of changes in stock prices or in stock indices. The Group holds shares primarily for investment purposes (not for trading), and declines in the value of these shares may impair the profitability of the Bank. The volume of holdings of the Group in shares available for sale as at the date of this report stands at approximately NIS 1,502 million, and approximately NIS 56 million in shares for trading.

Spread risk – The risk of loss as a result of changes in the spreads between different interest-rate curves.

Liquidity risk – Defined as risk to the profit and stability of a banking corporation arising from an inability to supply its liquidity needs. The Bank takes a broader view of liquidity management, referring not only to the Bank's ability to meet all of its current liabilities (including off-balance sheet liabilities), but also to its ability to do so without damage to its routine operations (i.e. to the Bank's ability to continue to finance new business according to its wishes and needs) and to its existing capabilities, and without sustaining exceptional losses.

Management of Market and Liquidity Risks

Market and liquidity risks are managed based on a global view of the Bank's activity in Israel and at its branches abroad, taking into account the activity of the banking subsidiaries. The Board of Management and the Board of Directors approve areas of activity and risk limits. Market risk management policy is aimed at increasing expected profits on an economic basis, while maintaining approved, controlled risk levels.

Global asset and liability management in the banking book (ALM) and trading management (in the dealing rooms) are performed under the responsibility and direction of the Head of the Financial Markets Area. Routine management and supervision of asset and liability management and trading management are under the responsibility of managers in the Asset and Liability Management Division and in the Dealing Room Division of the Financial Markets Area in Tel Aviv, and in asset and liability management units and dealing rooms at the Bank's branches in New York and London, which are professionally subordinate to the Head of the Financial Markets Area, as relevant. Routine control and monitoring of activity at the branches abroad are performed by local units, in full coordination and with regular reports to the corresponding Head Office units, in accordance with the control approach (the spheres of control).

In addition to the assessment of risks, examination of outcomes, and routine control of compliance with limits, various units in the Financial Markets Area perform operational control activities. The goals of these controls are to check for correctness, completeness, and congruence among the different databases in the various reporting systems and to identify operational errors.

Risk limits reflect the Bank's risk appetite for market risks – the level of risk which the Board of Management and the Board of Directors are willing to bear in the course of business operations in order to achieve returns or value. The limits are approved by the Board of Directors and fixed in regulations, including, among other things, limits on the sensitivity of the Bank's economic value to changes in the principal risk factors and specific limits for each of the various trading activities. The main risk factors to which the Bank is exposed are NIS interest rates in the linked and unlinked segments, inflation, and the NIS/USD exchange rate. The Bank's risk appetite is established in terms of VaR and/or sensitivities and/or scenarios.

The Board of Directors and the Risk Management and Control and Basel II Implementation Committee receive reports on activity, exposures, results of operations, and execution of approved policy, at least once each quarter. These reports include: a review of topics discussed and reported in committees, including main resolutions; exposures and risk levels utilized out of approved limits; results of operations; events requiring a report (losses, exceptions from procedures, exceptional events); expansion of activities and authorizations for the various dealing rooms, in line with approved authorizations; overview of risk at the Bank and banking subsidiaries in the Group; and a quarterly report on the control of market risks.

ALM and market and liquidity risk management policy are defined and controlled by the Global Asset and Liability Management Committee, which consists of members of the Bank's Board of Management, headed by the Bank's Chief Executive Officer. Policies, including the established limits, are submitted for discussion and approval to the Global Asset and Liability Management Committee of the Bank's Board of Management, the committees of the Board of Directors, or the plenum of the Board of Directors, as relevant.

Ongoing activity is conducted by secondary committees, with the participation of senior officers of the Bank; one secondary committee is headed by the Head of Financial Markets and another is headed by the Head of the ALM Division. Local committees also operate in New York and London. The committees operate on the basis of resolutions adopted by the Board of Directors and by its committees regarding exposure to market and liquidity risks, subject to the directives issued by the Supervisor of Banks or by the local regulator, as relevant.

Market and liquidity risks are managed separately by each banking subsidiary in the Bank Group, according to policy established by each company's board of directors and in accordance with Group policy. Market and liquidity risks are assessed and controlled based on a uniform methodology at the level of the Group, under the direction of the Risk Management Area, taking into account the size of capital and the unique characteristics of the activity of each banking subsidiary. Subsidiaries' exposures to market and liquidity risks are examined by the Market and Liquidity Risk Management Department in the Risk Management Area, and reported to the Board of Management and the Board of Directors of the Bank at an appropriate frequency based on the risk level.

Market Risks

Market risk management at the Bank differentiates between exposures that arise in the course of the Bank's routine asset and liability management (ALM – the banking book, "non-trade") and exposures in the trading book ("trade"). A detailed description of the management of market risks in activity in the banking book and in trading activity is provided in the Financial Statements as at December 31, 2011.

Liquidity Risk

Liquidity risk at the Bank, in foreign currency and in NIS, is managed and controlled routinely, in accordance with Group policy, with the aim of ensuring the ability to cope competitively even in exceptional supply and demand situations in the financial markets. Routine liquidity management is under the responsibility of the ALM Division, and is performed through NIS and foreign-currency liquidity units. A daily liquidity risk report is generated by a comprehensive computerized system for asset and liability management.

In accordance with Proper Conduct of Banking Business Directive No. 342, "Liquidity Risk Management", the Bank operates an internal model for the assessment of liquidity risk. This model is based on the proven stability of deposits at the Bank over long periods, and includes different scenarios with respect to rollover and maturity rates of assets and liabilities. A liquidity ratio is calculated for each scenario, which is not to fall below a minimum level defined in the directive. The scenarios applied in the internal model refer to different market conditions: ordinary business conditions and extraordinary conditions for the banking system in general and specifically for the Bank. In each scenario, the liquidity gap is examined, for a period of up to one month, against liquid assets. The scenarios mainly differ in the assumptions with regard to the rollover of deposits. Periods exceeding one month are examined routinely against the business plan.

The Bank has implemented a plan to address liquidity crises, on various levels. The plan includes a system for monitoring metrics that may indicate a crisis situation, and the steps necessary upon materialization of defined scenarios. These steps include committee meetings, a reporting system, and a series of actions to cope with a possible crisis. In addition, scenarios were set up to examine the effect of changes in the pace of execution of the business plan on liquidity needs in a one-year range.

In early August 2011, the Bank of Israel issued a draft amendment of Proper Conduct of Banking Business Directive No. 342. According to the draft, the Bank of Israel intends to adopt the Basel III directives on liquidity risk, with the necessary changes, at a date to be determined. The Bank is examining the measures required in order to comply with the amendment of the directive within the defined timeframe, and the measures required in order to implement and comply with the recommendations of the Basel III Committee.

Risk Assessment and Control

Identification and assessment of risks, control of limits on the volume of risks, and reporting of findings are carried out or controlled by the Risk Management Area, independently of the routine analyses and reports performed as part of the operation of the Financial Markets Area.

The Market and Liquidity Risk Management Department in the Risk Management Area is responsible for the formulation of market and liquidity risk assessment methodology, in line with the strategic goals of the Bank Group, and for the control of market and liquidity risks in the Group.

The Bank's risk level is measured and controlled according to procedures that include, among other things, limits in terms of the sensitivity of the Bank's economic value to changes in the primary risk factors. In addition, a risk estimate is calculated using the VaR (value at risk) method. The VaR method is used to estimate the maximum potential loss to a corporation resulting from the materialization of market risks within a given period of time and at a level of statistical significance predefined by the Bank and approved by the Board of Directors. The principal limits are detailed in the subsection "Procedures for Exposure to Market and Liquidity Risks", below. Risk assessments as well as limit control of trading positions are performed at least once daily.

Market Risk Assessment Methodology

The methodology used by the Bank to assess market risks was approved by the Board of Directors and by the Board of Management. This methodology includes both VaR calculations and the application of extreme scenarios (stress tests) to all trading portfolios and to the banking book. The market risk assessment methodology is congruent with the requirements of the Basel Committee and complies with international standards.

The estimate of the risk in trading activity is calculated for a horizon of ten business days, at a significance level of 99%. The higher of the risk-level outcomes of two commonly accepted risk-assessment methods (historical simulation, in which all observations are assigned equal weights; and Monte Carlo simulation, in which recent observations are assigned greater weight) is taken into account. This methodology is compatible with the relevant recommendations of the Basel Committee following the crisis in U.S. markets. The estimate provides a relatively prompt alert of the level of market risk during periods of rising volatility. A full revaluation of the trading portfolio is performed at least once daily, under various scenarios, in order to produce an estimate. An assessment of the risk level of the Bank's overall activity is executed once a month, using a historical simulation with a one-month horizon.

In addition, a back-test procedure is performed routinely, based on the criteria recommended by the Basel Committee, in order to examine the validity of the risk-assessment model. The results of these tests are reported annually to the Board of Management and to the Board of Directors. According to the results of the test, the model meets the criteria defined by the Basel Committee for acceptance of a model.

The market risk assessment methodology of the Bank includes the application of stress tests to trading portfolios and to the overall banking book, in addition to the VaR calculations. The Market Risk Management Department applies three types of scenarios, in accordance with common practice worldwide: sensitivity analysis, worst historical scenario, and macro-economic scenarios. For an extensive review of the methodology, see this section in the Financial Statements as at December 31, 2011.

Overall Activity of the Bank

Set out below are data regarding the sensitivity of the capital of the Bank to changes in the CPI (the theoretical change in economic value as a result of each scenario), as at March 31, 2012:

	March 31, 2012	**Maximum Q1 2012**	**Minimum Q1 2012**
Scenario	NIS millions		
1% decrease in CPI	**(49)**	**(49)**	**(35)**

The Bank operates in currency markets through spot and forward transactions, as well as through options, both on its own behalf and on behalf of its customers. Consequently, the Bank has activity in most of the world's tradable currencies, in developed markets as well as developing markets. Due to the limits imposed on currency exposure, key points of which are noted in the summary of limits below, net currency exposure is relatively low.

Set out below are data regarding the sensitivity of the capital of the Bank to changes in the major currency exchange rates (theoretical change in economic value as a result of each scenario, where an appreciation scenario indicates strengthening of the currency in question against all of the other currencies), as at March 31, 2012:

	10% appreciation	5% appreciation	5% depreciation	10% depreciation
Currency	NIS millions			
USD	**82**	**21**	**(9)**	**(16)**
EUR	**(49)**	**(19)**	**(9)**	**(19)**
JPY	**16**	**5**	**-**	**10**
CAD	**(3)**	**(1)**	**(1)**	**(2)**
GBP	**2**	**1**	**1**	**11**
CHF	**13**	**9**	**(10)**	**(17)**

Limits are imposed on the sensitivity of the capital of the Bank (including financial subsidiaries managed by the Bank) to a scenario of change in the NIS, CPI-linked, and dollar interest-rate curves.

Set out below are data regarding the sensitivity of the capital of the Bank to parallel changes in interest-rate curves (theoretical change in economic value as a result of each scenario) as at March 31, 2012:

	March 31, 2012			**Maximum in the first quarter of 2012**		**Minimum in the first quarter of 2012**	
	1% increase	1% decrease	0.1% increase	1% increase	1% decrease	1% increase	1% decrease
Scenario	NIS millions						
Shift in CPI-linked interest rate:							
Bank	**43**	**(32)**	**4**	**71**	**(63)**	**(16)**	**36**
Of which: Banking book	**42**	**(31)**	**4**	**70**	**(62)**	**(18)**	**37**
Trading book	**1**	**(1)**	**-**	**1**	**(1)**	**1**	**(1)**
Shift in unlinked interest rate:							
Bank	**172**	**(167)**	**17**	**213**	**(187)**	**172**	**(153)**
Of which: Banking book	**173**	**(169)**	**17**	**194**	**(188)**	**156**	**(149)**
Trading book	**(1)**	**2**	**-**	**19**	**(4)**	**(1)**	**2**
Shift in foreign-currency interest rates:							
Bank	**(14)**	**(29)**	**(2)**	**(22)**	**(29)**	**(14)**	**(9)**
Of which: Banking book	**(7)**	**(36)**	**(1)**	**(13)**	**(36)**	**(4)**	**(18)**
Trading book	**(7)**	**7**	**(1)**	**(10)**	**10**	**(7)**	**7**

Set out below are data regarding the sensitivity of the capital of the Bank to parallel changes in interest-rate curves (theoretical change in economic value as a result of each scenario) as at December 31, 2011:

	December 31, 2011			Maximum in 2011		Minimum in 2011	
	1% increase	1% decrease	0.1% increase	1% increase	1% decrease	1% increase	1% decrease
Scenario	NIS millions						
Shift in CPI-linked interest rate:							
Bank	(21)	41	(3)	224	(241)	(21)	41
Of which: Banking book	(22)	42	(3)	223	(239)	(22)	42
Trading book	1	(1)	-	2	(2)	-	-
Shift in unlinked interest rate:							
Bank	175	(169)	17	375	(376)	175	(169)
Of which: Banking book	172	(164)	17	353	(360)	164	(153)
Trading book	3	(5)	-	29	(36)	(17)	12
Shift in foreign-currency interest rates:							
Bank	(2)	(16)	-	(30)	(39)	(2)	(7)
Of which: Banking book	4	(22)	-	43	(55)	(2)	(2)
Trading book	(6)	6	-	(28)	28	(3)	(3)

The above table presents an analysis of the sensitivity of the Bank's economic value to changes in interest-rate curves, based, among other factors, on the capitalization of expected cash flows in the interest-rate curve without taking into account the credit risk spread of the counterparty. This differs from a fair-value calculation, which is based on factors including the capitalization of expected cash flows at interest rates reflecting the risk levels.

The examination of extreme scenarios includes a test of the sensitivity of the Bank's economic value to the worst historical scenario of the last five years, including changes in the various risk factors in a one-month range. Note that during the first quarter of 2012, this sensitivity did not exceed NIS 455 million.

Set out below are details of the fair value of the Bank and its consolidated companies, as at March 31, 2012, by linkage segment:

	Israeli currency		Foreign currency**			
	Unlinked	CPI-linked	USD	EUR	Other	Total
	NIS millions					
Financial assets*	**200,657**	**61,825**	**53,287**	**8,866**	**12,260**	**336,895**
Amounts receivable in respect of derivative and off-balance sheet financial instruments***	**176,268**	**11,714**	**178,804**	**21,578**	**26,134**	**414,498**
Financial liabilities*	**176,926**	**51,894**	**65,241**	**13,621**	**7,361**	**315,043**
Amounts payable in respect of derivative and off-balance sheet financial instruments***	**183,707**	**17,628**	**168,043**	**17,005**	**31,113**	**417,496**
Net fair value of financial instruments	**16,292**	**4,017**	**(1,193)**	**(182)**	**(80)**	**18,854**

Set out below are details of the fair value of the Bank and its consolidated companies as at December 31, 2011, by linkage segment:

	Israeli currency		Foreign currency**			
	Unlinked	CPI-linked	USD	EUR	Other	Total
	NIS millions					
Financial assets*	198,490	61,701	56,565	9,363	13,124	339,243
Amounts receivable in respect of derivative and off-balance sheet financial instruments***	168,098	10,370	206,273	29,458	29,856	444,055
Financial liabilities*	179,176	50,523	67,663	14,056	7,386	318,804
Amounts payable in respect of derivative and off-balance sheet financial instruments***	171,750	17,270	197,052	24,803	35,852	446,727
Net fair value of financial instruments	15,662	4,278	(1,877)	(38)	(258)	17,767

* Includes hybrid financial instruments. Does not include balance sheet balances of derivative financial instruments and fair value of off-balance sheet financial instruments.

** Includes foreign-currency-linked Israeli currency.

*** Amounts receivable (payable) in respect of derivative financial instruments and in respect of off-balance sheet financial instruments, capitalized by the interest rates used to calculate the fair value.

Set out below are data regarding the effect of theoretical changes in interest rates on the net fair value of financial instruments of the Bank and its consolidated companies, excluding non-monetary items, as at March 31, 2012:

	Net fair value of financial instruments, after the effect of changes in interest rates**						Change in fair value	
	Israeli currency		Foreign currency*					
	Unlinked	CPI-linked	USD	EUR	Other	Total	Total	Total
Change in interest rates	NIS millions							%
Immediate parallel increase of 1%	**16,375**	**4,255**	**(1,114)**	**(188)**	**(115)**	**19,213**	**359**	**1.9%**
Immediate parallel increase of 0.1%	**16,303**	**4,046**	**(1,186)**	**(183)**	**(90)**	**18,890**	**36**	**0.2%**
Immediate parallel decrease of 1%	**16,220**	**3,774**	**(1,266)**	**(174)**	**(50)**	**18,504**	**(350)**	**(1.9%)**

Set out below are data regarding the effect of theoretical changes in interest rates on the net fair value of financial instruments of the Bank and its consolidated companies, excluding non-monetary items, as at December 31, 2011:

	Net fair value of financial instruments, after the effect of changes in interest rates**						Change in fair value	
	Israeli currency		Foreign currency*					
	Unlinked	CPI-linked	USD	EUR	Other	Total	Total	Total
Change in interest rates	NIS millions							%
Immediate parallel increase of 1%	15,764	4,473	(1,899)	(55)	(295)	17,988	221	1.2%
Immediate parallel increase of 0.1%	15,684	4,304	(1,871)	(42)	(266)	17,809	42	0.2%
Immediate parallel decrease of 1%	15,572	4,164	(1,866)	(27)	(219)	17,624	(143)	(0.8%)

* Includes foreign-currency-linked Israeli currency.

** The net fair value of financial instruments presented in each linkage segment is the net fair value in that segment, assuming that the noted change occurred in all interest rates in that linkage segment. The total net fair value of financial instruments is the net fair value of all financial instruments (excluding non-monetary items) assuming that the noted change occurred in all interest rates in all linkage segments.

Trading Activity

Trade exposures result from the Bank's activity as a market maker and from dynamic management of a portfolio of liquid financial assets. The goal of this activity is to maximize expected profits, while maintaining a controlled, approved level of risk. The authorizations for activities and the risk of the activities are measured, as relevant, in terms of the value at risk (VaR); theoretical loss under various scenarios, including extreme scenarios; sensitivity to risk factors; and volume of activity. Risk assessments as well as limit control of trading activity are carried out at least once daily. In addition to the specific authorizations for each activity separately, an overall authorization in terms of VaR has been established for trading activity in the Bank's dealing rooms.

- **Currency Exposures – Market Making and Trading**

Spot/forward desks in foreign currency and in NIS operate in each of the Bank's three dealing rooms. The Tel Aviv dealing room also has a desk for options in foreign currency and in NIS. Trading and market-making activity in currencies and options is conducted subject to various limits on risk and under an overall authorization for exposure in NIS/foreign currency allocated to this activity, out of the total limit on the exposure of the Bank's financial capital to foreign currency.

- **Interest-Rate Exposure – Market Making and Trading**

The dealing rooms are also active in the area of interest-rate trading exposures, under authorizations from the Board of Management and the Board of Directors. The dealing room in Tel Aviv manages a trading desk in NIS interest-rate instruments, including market making in interest-rate options, and a bond trading desk. The desks' activity is subject to risk estimate limits and other restrictions.

Set out below are risk estimates of trading activity (VaR) as at March 31, 2012.

	March 31, 2012	Average in the first quarter of 2012	Maximum in the first quarter of 2012	Minimum in the first quarter of 2012
	NIS millions			
Total trading in the dealing rooms	**33**	**24**	**36**	**17**

Procedures for Exposure to Market and Liquidity Risks

At the end of 2011, the Board of Directors approved a document on exposures to market and liquidity risks for 2012. The approved limits include a general limit for the overall risk estimate of the Bank, limits on the overall sensitivity of the Bank to risk factors, limits for proprietary investment activity, and risk limits in the various areas of trading activity. The exposures document for 2012 reflects the work plan of the Financial Markets Area, including the expansion of investment activity in the proprietary portfolio, as part of the management of the banking book. Utilization of the approved limits is subject to approval by the Global ALM Committee of the Bank.

Set out below are the principal limits on exposures to market risks, in the overall activity of the Bank and separately for trading activity, as at March 31, 2012.

	Limit	NIS millions	% of active financial capital
Banking book	Overall risk estimate (VaR)	750	
	Sensitivity of economic value to parallel changes of 1% and non-parallel changes of up to 1% in interest-rate curves:		
	CPI-linked NIS	500	
	Unlinked NIS	500	
	Foreign currency	300	
	Sensitivity of derivatives to parallel change of 1% in interest-rate curves*:		
	CPI-linked NIS	260	
	Unlinked NIS	150	
	Linkage-base exposures by segment:		
	CPI-linked NIS		+/-100
	Foreign currency, including foreign-currency linked		+/-20
	Sensitivity to 10% change in NIS/USD exchange rate	500	
	Volume of total proprietary investment*	*14,500	
	Of which: Volume of investment in shares	3,000	
Trading book	Overall risk estimate (VaR)	200	
	NIS/foreign-currency exposure		+/-10
	Sensitivity to 10% change in NIS/USD exchange rate	200	
	Sensitivity of economic value to parallel changes of 1% and non-parallel changes of up to 1.5% in interest-rate curves:		
	Unlinked NIS	120	
	Foreign currency	70	
	Foreign-currency / foreign-currency exposure in trading and currencies	800	

* Not including investment in Israeli government bonds and in short-term US bonds.

The Bank is required to maintain a minimum capital ratio in respect of market risks on the basis of a standard model defined by the Bank of Israel. The regulatory rate of capital adequacy is calculated for interest-rate risks in the areas of trading alone, as defined above, and for currency risks at the Bank Group.

Market and Liquidity Risk Management Department

In accordance with Proper Conduct of Banking Business Directive No. 339, "Risk Management", the Bank has a unit engaged in operational and market risk management. This unit reports to the Chief Risk Officer. Market and liquidity risk assessment and control are executed by the Market and Liquidity Risk Management Department, independently and in addition to the monitoring and analysis performed as part of the activity of the Financial Markets Area.

Operational and Legal Risks

A. Operational Risks

General

Operational risk is defined as the risk of loss resulting from failed or faulty internal processes, human actions, system malfunctions, or external events. The definition includes legal risk, but does not include strategic risk or reputation risk. Failures related to one of the aforesaid factors may cause damage to profitability. The Bank operates control units, including the Compliance Officer Unit and the Anti-Money Laundering and Terrorism Financing Prevention Unit, as well as procedures and systems in the area of human resources, information security, security, process control, emergency operation, survivability and recovery plans, and more.

Management of Operational Risks

Operational risk management policy is aimed at supporting the achievement of the Group's strategic objectives and maximizing business value, while taking into consideration the costs in terms of risk, by all responsible parties at all levels of the organization. The managerial process is oriented towards execution based on the designation of risk ownership. The goal is for communication and prudent treatment with regard to operational risks to contribute to managerial decision-making, based on considerations of business value versus cost in terms of risk, both at the level of the management of the organization and at the level of the various units.

The responsibility for routine management of operational risk and for activities aimed at mitigating the risk lies with the Area managers and the managers of subsidiaries in the Bank Group. These activities are overseen by the Operational Risk Management Department in the Risk Management Area. Routine activity is conducted in the Bank's units and in the Group by a network of operational risk controllers, based on the matrix management principle; controllers report organizationally to Area managers or CEOs of subsidiaries, and receive methodology guidance from the Operational Risk Management Department.

Operational risk management activity is supervised and directed by three forums:

- The Board of Directors' Committee on Risk Management and Control and Basel II Implementation;
- The Board of Management Committee on Risk Management and Basel II Implementation, headed by the CEO;
- The Sub-Committee on Operational Risk Management, headed by the Head of the Risk Management Area.

The operational risk management policy was approved by the Board of Directors of the Bank. The policy document serves as a framework for operational risk management within the Group, in accordance with uniform principles and reporting duties aimed at complying with Basel II standards on Sound Practices. The Bank's activity in this area is conducted according to the rules of the Proper Conduct of Banking Business Directive concerning capital measurement and adequacy, which refers among other matters to capital allocation in respect of operational risks. The directive relevant to the management of operational risks is Directive 206, Capital Measurement and Adequacy – Operational Risk. The guidelines on this matter took effect in Israel as of January 1, 2010. In addition, Proper Conduct of Banking Business Directive 350, concerning operational risk management, has been published, based on the updated guidelines in the new Basel document of June 2011 on sound practice for operational risk management.

The Bank has operated in accordance with the Basel II standard approach and the requirements of the corresponding Proper Conduct of Banking Business Directives as of 2010. The strategic plan for the coming years includes, among other matters, extension and expansion of some of the activities, and adjustment for updates of the relevant documents and regulatory guidelines.

The following projects and activities, among others, are underway as part of the standard approach:

- Quarterly reports submitted to the Subcommittee on Operational Risk Management, the Board of Management Committee on Risk Management and Basel II Implementation, the Board of Directors Committee on Risk Management and Control, and the plenum of the Board of Directors. The reports include updates on the implementation of the standard approach in the Group, work plans, the status of projects in progress, and information about operational events.
- Collection of information regarding operational events in the Bank Group. A database for this purpose was established in late 2002, and is used, among other things, to analyze events, trends, and patterns and to support the mapping and assessment of operational risks to which the Group is exposed.
- Routine procedures performed to identify, map, and assess operational risks and controls at the units of the Bank and the Group, including mapping of the risk of embezzlement and fraud. This activity is conducted based on a uniform methodology in line with the requirements of the Basel Committee and the directives of the Bank of Israel on this matter, including monitoring of the implementation of the recommendations. A comprehensive mapping process of operational risks in all units of the Group is performed periodically. Subsequently, the findings are maintained, updated, and expanded through additional analyses, depth analyses, and risk analyses regarding new products and activities.
- Activities aimed at identifying material risk areas, defining risk ownership, assessing existing risks (average and extreme) and controls, and adding controls if necessary, while applying cost/benefit considerations.
- A system known as the Operational Risk Management Automation Project (Basel II – PAMELA) has been implemented at the Bank's units. The system operates in the areas of collection of information regarding operational events, mapping and assessment of risks and controls, action items, and reports. Additional applications and expansions are planned, in order to support operational risk management in the Bank Group.
- Principles and standards have been defined as part of the process of formulating a uniform control philosophy within the Bank Group. This philosophy is currently being instilled and implemented.
- A methodological infrastructure has been defined for the management of operational risks in material IT processes.
- In the area of information security, activity is being conducted as required under the directives of the Bank of Israel, the Protection of Privacy Law, 1981, and other laws, as relevant, with the aim of protecting the information-technology system and minimizing information-security risks.

Emergency preparedness – In order to preserve business continuity, survivability, and the continuous activity of the Bank following a disaster or malfunction, in accordance with the Bank of Israel's Directive 357 concerning information technology management, the Bank has continuous preparedness based on detailed action plans, working procedures, and periodic drills, defined in a system of emergency procedures. As part of its emergency preparedness, the Bank conducted a lateral process to establish policies, define reference scenarios, map and analyze critical processes and the resources required to confirm such processes during an emergency, and update its action plans based on the prevalent methodologies globally. Several emergency drills are held by the Bank each year, with the participation of the various units, from branches, regional managements, units, and Areas, to the Board of Management of the Bank.

The Israel Standards Institute has affirmed that the business continuity management system of the Bank complies with the requirements of Israeli standards and of the international standard BS 25999. Alongside the improvement and enhancement of emergency preparedness in Israel, business continuity plans at the Bank's overseas branches and subsidiaries are also being examined, with the aim of completing preparations at the overseas branches based on the prevalent methodology in Israel. In addition, the Bank is preparing for the implementation of the various new aspects of Directive 355 of the Bank of Israel concerning business continuity management. A process is being conducted in order to improve the level of preparedness for various cyber-events; in addition, a process is underway to improve preparedness for confirmation of the Bank's IT systems in various reference scenarios.

Insurance – The Bank has a banking insurance policy to hedge risks, which includes: (1) banking insurance to cover damages that may arise from embezzlement by employees, loss of documents, forged documents, etc.; (2) professional liability insurance, to protect against claims filed by customers regarding damage caused by negligent banking actions; (3) computer crimes insurance, to cover damages to the Bank and to customers of the Bank as a result of malicious penetration of the Bank's computer systems. The banking insurance policies are subject to exclusions common in insurance policies of banking corporations in Israel (including an exclusion of damage arising from violation of the directives related to money laundering and terrorism financing).

In addition, the insurance structure of the Bank also includes property insurance, third-party insurance, employers' liability, directors' and officers' insurance, and additional insurance policies.

The liability limits in the policies were established by the Bank according to its needs, as part of its overall risk-management policy. Within the fulfillment of the Sound Practice requirements under the Basel guidelines, cooperation and exchanges of information are maintained between the Operational Risk Management Department and the unit that handles banking insurance.

B. The Chief Compliance Officer Unit

In late 2010, the Bank appointed a Chief Compliance Officer, whose areas of responsibility include the areas of responsibility of the Compliance Officer of the Bank pursuant to Proper Conduct of Banking Business Directive No. 308, and of the Supervisor of the Prohibition of Money Laundering pursuant to the Prohibition of Money Laundering Law, the Prohibition of Terrorism Financing Law, and Proper Conduct of Banking Business Directive No. 411. As part of this process, the Bank established the Chief Compliance Officer Unit, which encompasses the Bank's existing Compliance Unit and Anti-Money Laundering Unit. The Chief Compliance Officer Unit includes two additional units, working alongside the Compliance Unit and the Anti-Money Laundering Unit. The first is the International Unit, which is responsible for ensuring compliance and the prohibition of money laundering at the Bank's offices outside Israel. Compliance staff at the Bank's overseas branches now report directly to this unit, on both the professional and the managerial level. The second unit is an administrative unit (Operations, Coordination, and Control), which assists the Chief Compliance Officer with the execution of systemic and operational assignments.

The purpose of the Chief Compliance Officer Unit is to support the achievement of the strategic and business objectives of the Group, while minimizing exposure to compliance and reputation risks. The objectives of the Chief Compliance Officer Unit are:

- To attain full implementation of legislation at all units of the Bank, in Israel and worldwide, with support for the activity of the business units.
- To promote the internalization of professional, values-driven, fair business conduct by the Bank's employees and managers;
- To provide maximum protection to the Bank, its managers, its employees, and its reputation, with full realization of the professional capabilities of the Bank's employees and enhancement of these abilities.

The responsibility for routine management of the compliance aspects of risk at the Bank and for the execution of activities aimed at minimizing this risk lies with the Area managers and the managers of subsidiaries in the Bank Group. Professional responsibility in this field rests with the Chief Compliance Officer Unit in the Risk Management Area. Routine activity is conducted at the Bank's units and in the Group by a network of compliance officers, based on the matrix management principle, with organizational subordination to Area heads or CEOs of subsidiaries, and guidance and control by the Chief Compliance Officer Unit.

The activity of the Chief Compliance Officer Unit is supervised through three channels:

- The Board of Directors' Committee on Risk Management and Control and Basel II Implementation;
- The Board of Management Committee on Compliance, headed by the CEO;
- Quarterly and annual reports to the Board of Directors of the Bank, the CEO, and the heads of the Areas. The reports include updates on the main exposures and risk areas in the Group; progress on work plans; and activities performed, including controls, mapping of knowledge gaps, organizational learning, technological and other projects in this field, reports submitted to the Israel Money Laundering Prohibition Authority, violations, and reports of exceptional events.

Upon the establishment of the Chief Compliance Officer Unit, the Board of Directors of the Bank established a new Group-level compliance policy for the Bank. The new policy sets forth rules regarding all of the component areas of the prohibition of money laundering and compliance with consumer-protection directives. The policy emphasizes corporate control and the interaction with subsidiaries and branches outside Israel. The policy is based on Proper Conduct of Banking Business Directive No. 308, the Money Laundering Prohibition Law, the Terrorism Financing Prohibition Law, and Proper Conduct of Banking Business Directive No. 411. This policy took effect at the end of December 2010, and was updated in December 2011.

In order to comply with legislative directives and with the Group-level compliance policy, several activities are being conducted at the Bank, as detailed below:

- Identifying the main exposures and risk areas in the Group, and monitoring work plans to eliminate them;
- Applying process-based, qualitative, and quantitative controls to ensure adherence to the directives that regulate relationships between the Bank and its customers and the prohibition of money laundering and terrorism financing, analyzing such controls, and creating work plans to minimize any gaps discovered;
- Developing a training system in the area of compliance and the prohibition of money laundering and terrorism financing, including focused presentations to refresh knowledge, practical guides for bankers, workshops, instructional pamphlets, knowledge management on the organizational portal, etc.;
- Collecting information on the progress of learning within the organization in the area of compliance with directives that regulate relationships between the Bank and its customers and the prohibition of money laundering and terrorism financing;
- Conducting continual processes aimed at identifying, mapping, and assessing compliance risks and gaps in the Bank's procedures and systems through an infrastructure survey;
- Conducting a diagnostic process in the Bank's professional units, focused on compliance and the prohibition of money laundering and terrorism financing, and building control processes and training methods adapted to the nature of the units' activity, with the aim of minimizing exposures and risks in the area of compliance and the prohibition of money laundering and terrorism financing;
- Formulating job descriptions for compliance officers in corporate banking;
- Analyzing data in order to assess risks at the Bank, and as infrastructure for the construction of new controls and new learning systems as necessary;
- Analyzing new products and services and new business activities from the perspective of compliance and the prohibition of money laundering;

- Developing improvements to technological systems and building new infrastructures in the area of compliance and the prohibition of money laundering, including systems for reporting to the Israel Money Laundering Prohibition Authority, and control and monitoring systems within the Bank;
- Development of risk metrics and performance metrics in the area of compliance and the prohibition of money laundering, and inclusion of the metrics in the strategic maps of the Areas of the Bank and in the executives' KPIs.
- Integration of compliance metrics into the remuneration model of the Retail Banking Area and into achievement metrics in the areas of customer relationship management and routine credit management in the Corporate Banking Area.
- Visiting the corporate units of the Bank, in order to provide localized responses to issues causing exposure for the Bank in the area of compliance and the prohibition of money laundering, clarify work processes, and locate risk areas at these units;
- Convening forums of compliance officers of the Group, for updates on legislation; instillation of new work processes, new systems and applications, and changes in procedures; training and knowledge refreshment presentations for instruction of other compliance officers within the system; etc.;
- Managing compliance units at the overseas branches, providing routine support to overseas units, and monitoring compliance processes there.

The main activities of each department are described below.

The Anti-Money Laundering and Terrorism Financing Prevention Department

The Anti-Money Laundering Department is responsible for fulfillment of the duties imposed upon the banking corporation, and supervision of the execution of such duties. The department is also responsible for ensuring that the Bank's policies and procedures are implemented at the Group level. The Anti-Money Laundering and Terrorism Financing Prevention Department closely monitors banking activity in accounts, with the aim of identifying activities that appear to be unusual and reporting such activities to the Israel Money Laundering Prohibition Authority (IMLPA). The improved ability to monitor unusual activities, the improvement of computerized control systems, the training and absorption activities, and the increased awareness and professional capabilities of the staff in the business units have led, among other effects, to an increase in the number of reports to the IMLPA.

The Anti-Money Laundering Department conducted the following activities: Development of a regulatory rating model for the prohibition of money laundering; development of a new system for subjective reports; implementation of an abridged Know Your Customer questionnaire for transactions by walk-in customers; update of expanded and corporate Know Your Customer questionnaires; implementation of an expanded due diligence (EDD) questionnaire in the branch network; visits to branches and regional administrations to provide guidance and raise awareness of the monitoring of unusual activities and the importance of reporting; training through Campus courses and training sessions at compliance officers' conferences in this area. Presentations were held for bankers to refresh their knowledge in the relevant areas. In light of the instructions of the Bank of Israel, the Bank's policy concerning activity involving hostile nations and activity related to gambling websites has been updated and approved by the Board of Management and the Board of Directors. In addition, an initial survey has been conducted on the subject of activity involving hostile nations, and the findings have been reported to the Bank of Israel. At the request of the Bank of Israel, during the first quarter of 2012 the Bank also began to conduct a gap survey to examine the Bank's compliance with legal directives concerning the prohibition of money laundering and terrorism financing. The survey is scheduled for completion in the second quarter of 2012. The findings of the survey and a plan for closure of the gaps discovered will be presented to the Board of Directors for approval and reported to the Bank of Israel.

The Compliance Department

The Compliance Department assists the Board of Management and the Board of Directors in fulfilling requirements in the areas under its responsibility, reducing the corporation's exposure to legal claims, and protecting the corporation's reputation. The Compliance Department monitors gaps and violations (if any) in the area of consumer-protection directives. In addition, changes in legislation and in the directives of the Bank of Israel are monitored, as they pertain to consumer-protection directives and their implementation at the Bank. A new infrastructure survey is performed at the Bank every five years, as required by Proper Conduct of Banking Business Directive No. 308.

During the year, the Compliance Department conducted the following activities: Review of work processes at the various units of the Bank and adaptation of necessary controls and training activities; working meetings with professional units supporting the execution of the new compliance policy; visits to branches and regional managements to provide guidance and raise awareness of the importance of this matter; seminars for compliance officers; training sessions on matters related to consumer-protection directives, with a focus on account closures; mapping of all items of consumer-protection directives in relation to the materials taught in the various courses at the Bank's training center, as infrastructure for an update of the directives necessary in the relevant course materials; addition of this subject to the infrastructure survey; development of a new tutorial on consumer-protection directives that regulate the relationship between the Bank and its customers, and beginning of a learning process at the Bank in the area of compliance through this tutorial and a tutorial on banking confidentiality. New products and services of the Bank, findings of internal audit reports, and customer complaints related to consumer-protection directives were examined, in order to learn and identify trends in the area of consumerism.

The International Compliance Unit

The International Compliance Unit oversees the compliance officers at the Bank's overseas branches, from the professional perspective, and works to ensure that the compliance system at the subsidiaries operates in accordance with the policies of the Board of Directors and the local regulatory directives. The unit continued its activities aimed at creating a uniform compliance infrastructure and procedures for communication and reporting by all units of the Bank around the world. The unit worked to update the Group policy document in order to resolve gaps relative to legislative directives and local standards. A process began to ensure full congruence of procedures at the overseas branches with local legislation. The unit monitors the timely execution of the annual compliance plan at all units of the Bank and examines the quality of execution, through routine reports received as well as controls in the field, through visits to the branches. Activities were conducted to examine the manpower of the compliance units. Accordingly, managers and employees were hired, and controls were applied to monitor the performance of the compliance departments, through visits to the Bank's branches in the United States and in London. Processes were completed to upgrade the automated control systems of the branch compliance systems, in order to improve the efficiency of monitoring and improve the ability to track exceptional activities.

The Administrative (Coordination, Operations, and Control) Department

The Administrative (Coordination, Operations, and Control) Department is responsible for coordination, monitoring, and control of the activities of the Chief Compliance Officer Unit; maintaining contact with the compliance system of the Bank; managing the work plans of the Chief Compliance Officer Unit; managing incentives, and measurement and control of the execution of controls, training activities, and activities related to compliance and the prohibition of money laundering at the business units of the Areas of the Bank; centralizing reports to the Board of Directors and the Board of Management; managing technological projects and involvement in development projects of the systems of the Bank; monitoring the correctness of systems; planning and construction of the training system in the area of compliance and the prohibition of money laundering; creation of knowledge-refreshment presentations and other training tools; managing the content websites in the area of compliance and the prohibition of money laundering and terrorism financing; managing conferences for the compliance officers of the Group; creating communication and change management plans for new systems and processes; distributing tasks to be performed with customers, derived from legislation or directives concerning the relationship between the Bank and its customers, or derived from violations or flaws discovered through computerized systems; and measuring the performance of the business units in this area. The department also develops risk metrics and performance metrics in the area of compliance and the prohibition of money laundering, including the inclusion of the metrics in the remuneration models of the business Areas, in the strategic maps of the Areas of the Bank, and in the executives' KPIs.

C. Legal Risk

Risk to the Group's income and capital resulting from unexpected events such as legal claims, including class-action suits, inability to enforce contracts, or rulings against the Group, which may cause damage to the Group's profitability. The Group is aided by internal and external legal counsel.

According to the Bank of Israel's definition, legal risk is "the risk of a loss due to the inability to enforce an agreement by legal actions." Risks of this kind in the Bank's work may arise from a wide range of diverse circumstances. Thus, for example, risks may arise from the absence of written documentation of contractual engagements between the Bank and its customers, or between the Bank and its suppliers or others, deficient signatures, and/or a lack of details in written agreements; from improperly phrased agreements and/or agreements open to interpretation that does not reflect the Bank's intentions; or from agreements that are subject to cancellation (in full or in part) and/or that include unenforceable provisions or other legal flaws.

The Bank takes a broad approach to legal risks, encompassing risks arising from primary and secondary legislative directives, regulatory directives, rulings of courts, tribunals, and other entities with quasi-judicial authority, risks arising from activity not backed by legal counsel or from flawed legal counsel, and risks arising from legal proceedings.

Legal risks are naturally intertwined with operational risks, as for example in the case of the possible absence of a full, written, legally signed agreement in a particular transaction, despite the fact that an agreement of the same type exists at the Bank and is used in the ordinary course of its business.

A legal risk management policy document has been approved at the Bank, emphasizing the following points:

- Identifying and addressing areas of material legal risk, with the appointment of an officer responsible for implementing the directives.
- Preparing suitable agreements, guidelines, and procedures in order to ensure that risk-prevention measures are implemented.
- Examining the implications of legislative directives (including court rulings) and directives of government agencies, and their consequences for the Bank's work.
- Drawing conclusions from legislative changes (including court rulings) and applying those conclusions in the legal documents customarily used in the Bank; delivering opinions on such matters to the relevant Bank units.

With regard to subsidiaries in Israel and abroad, the plan delineates a general risk-management policy that each subsidiary must adapt to its circumstances and operations; mechanisms for reporting to the Head of Legal Risk are also required of these subsidiaries.

Other Risks

Reputation Risk

Reputation risk is defined as present or future risk of damage to income or capital as a result of a negative image in the eyes of relevant stakeholders, such as customers, counterparties to transactions, shareholders, investors, or regulatory agencies. The reputation risk management policy of the Bank Hapoalim Group has been approved by the Board of Management and the Board of Directors. As part of the process of instilling this policy, expansion of the risk assessment process and of reports in this area is planned.

Competition Risk

Competitive risks arise from the banking system in Israel and from various financial institutions such as insurance companies, investment-portfolio managers, foreign banks, etc., that may cause customers to transfer to these entities by transferring all of their activities or by selectively acquiring services from different suppliers; there is also a risk of erosion of profitability arising from competitive pressure to reduce fees and interest spreads. As a result, damage may be caused to the Group's market share and profitability. Measures aimed at coping with competitive pressure are an important element of the strategic plan and work plans; we therefore assume that no material impact is expected in the short to medium term, beyond the existing effects on which the plans are based.

Regulatory and Legislation Risk

Risk to the Group's income and capital arising from legislation and/or directives of various regulatory agencies that cause changes to the Group's business environment. Such changes may occasionally influence the Group's ability to offer certain services and/or may obligate the Group to carry out technological and other investments at considerable cost, while disrupting schedules for development of other planned services.

Changes in legislation as well as various regulatory developments, which result, among other things, in the imposition of limits on holdings of shares of the Bank and on holdings by the Bank in shares of entities related to the Bank, influence the Bank's operations and may influence its business results.

As a "bank" and as a "banking corporation", the Bank's activities are guided and bound by a system of laws, orders, and regulations, including, among others, the Banking Ordinance, 1941; the Bank of Israel Law, 1954; the Banking Law; and the Banking (Service to Customers) Law, 1981, as well as other laws with implications for its activity, such as the Securities Law, 1968; the Supervision of Financial Services (Profession of Pension Advising) Law, 2005; the Regulation of Investment Advice, Investment Marketing, and Investment Portfolio Management Law, 1995; and regulations and rules including the rules of the Governor of the Bank of Israel, and the directives, guidelines, and position statements of the Supervisor of Banks.

Banking laws include directives that apply to numerous areas of the Bank's activity, to the point that there is virtually no area of its activity that is not influenced by them to some degree. Banking laws also influence the Bank's subsidiaries, including those not considered "banking corporations", and to a lesser extent, companies related to the Bank.

Under the banking laws, the Bank is subject to supervision by the Bank of Israel, and in particular, supervision by the Governor of the Bank of Israel and by the Supervisor of Banks. In addition, the Bank is subject to supervision by agencies within government ministries, particularly the Ministry of Finance.

Banking laws refer to the Bank's capital and to the manner of its management, including the imposition of external and internal auditing and internal controls; they also determine the areas of activity in which the Bank is permitted to engage, and the other legal entities that the Bank is permitted to control, or in which it is permitted to hold means of control at specified rates; and they restrict the extent of the Bank's influence over controlled, related, and other companies in which it holds means of control.

These laws restrict the Bank's freedom of investment, particularly in "non-financial corporations", as defined in the Banking Law. The banking laws impose certain usages of assets on the Bank, and they impose restrictions and conditions for other usages of its assets.

The Bank monitors proposed legislation, regulations, and directives of the regulatory agencies to whose supervision it is subject and/or that may affect the activity of the Bank Group and/or its business results.

Economic Risk – Condition of the Israeli Economy

Risk to the Group's income and capital arising from a slowdown in economic activity, which may have an adverse effect on the condition of some businesses, on income levels, and on unemployment in the Israeli economy. Such a process may cause deterioration in the condition of some of the Group's borrowers, leading to an adverse effect on the probability of collecting credit. Furthermore, a slowdown in economic activity may cause a decline in non-credit income, such as income from capital-market activity and foreign-trade activity, and may cause a change for the worse in the composition of financial resources, such as an increase in the cost of resources and a decrease in their availability.

Economic Risk – Condition of the Global Economy

Risk to the Group's income and capital arising from a significant slowdown in economic activity in the global market, which may have an adverse effect on the condition of some businesses in Israel and on the volume of business activity. This could have a negative impact on the probability of collecting credit and/or reduce income from fees and/or from capital-market activity and/or from the Group's activity abroad and/or from the provision of services related to foreign-trade activity and/or from the activity of foreign investors and/or from the provision of services to Israeli customers with activity abroad.

In light of the recent economic events in the Eurozone and the uncertainty regarding economic growth in the United States, the Bank is conducting frequent analyses of the situation and its effects on the Bank, including scenarios of escalation of this situation. As a result, the Bank is updating its exposure policies and has increased control over sectors that may be affected by these events.

Political/Security Risk

Risk to the Group's income and capital arising from a lack of security/political stability in Israel. Deterioration in the security situation may cause a slowdown throughout the economy, and an adverse effect on particular industries such as tourism and hotels, aviation, commerce, construction, and foreign trade. In addition, there is a risk of damage to commercial relations between Israel and other countries. Such situations may cause an adverse effect on the ability to raise resources in foreign currency, on various investors, and on the condition of some of the Group's borrowers and the probability of collecting credit from these borrowers.

Environmental Risk

Environmental risk to the Bank is the risk of loss as a result of directives related to the protection of the environment and the enforcement thereof, which may occur if the Bank bears direct responsibility for an environmental hazard, including the possibility that the Bank may be required to remove an environmental hazard, or may be liable to a third party in respect of an environmental hazard, or as a result of the impairment of realized collateral. This risk may also materialize indirectly as a result of the deterioration of the financial condition of another entity due to environmental costs stemming from directives related to the protection of the environment. Reputation risk may also materialize as a result of the attribution to the Bank of an association with the cause of an environmental hazard.

On June 11, 2009, the Supervisor of Banks issued a letter to banking corporations concerning the exposure to and management of environmental risks. The letter refers to aspects of the Bank's exposure to environmental risks. Environmental risks may be included in other risks, such as operational risks, market risks, credit risks, and more. The letter emphasizes that the identification and assessment of environmental risks are an inseparable part of a proper process of risk assessment at the Bank; the Bank is therefore required to work to implement environmental risk management as part of its overall risk management, including through the implementation of procedures for the identification of material environmental risk when granting credit, and through the integration of environmental risk assessment in the evaluation of the quality of credit extended to customers by the Bank.

Accordingly, the Board of Management of the Bank approved policies and methodologies for the identification, specification, and management of environmental risks, to address the effect of environmental risk on the credit risk of major borrowers. In the course of formulating the policies and working procedures, prevalent methodologies used at international banks were examined and advisors specializing in this field were consulted.

Capital Adequacy

As of December 31, 2009, the Bank has implemented the directives on capital measurement and adequacy based on the Basel II directives (hereinafter: "Basel II"), as published by the Supervisor of Banks and as integrated into Proper Conduct of Banking Business Directives 201-211.

Pursuant to these directives, in addition to the calculation of the minimum capital requirement in respect of credit risk, market risk, and operational risk, the Bank is required to carry out an Internal Capital Adequacy Assessment Process (ICAAP), submitted annually. The Board of Directors received a review of the ICAAP and approved the ICAAP report for 2011, on April 30, 2012. The Board of Directors also approved the risk appetite policy of the Bank.

Implementation and Effect of New Regulatory Directives Regarding Capital Measurement and Adequacy

1. Basel III – On October 26, 2011, the Supervisor of Banks issued a letter entitled "Preparation for the Adoption of Basel III Recommendations." According to the letter, the banking system in Israel will adopt the recommendations of "Basel III: A global regulatory framework for more resilient banks and banking systems", published in December 2010, after the recommendations are formulated, with adjustments. Accordingly, working committees were established within the office of the Supervisor of Banks, which will submit professional recommendations regarding the manner of adoption.

On November 30, 2011, the Supervisor of Banks issued a draft translation of the original document of the Basel III directives. In addition, on December 11, 2011, the Supervisor of Banks issued a letter entitled "Draft Translation of Amendments to the Capital Measurement and Adequacy Framework – Basel II", which contains amendments of the Basel II directives on securitization and market risks.

On January 30, 2012, the Supervisor of Banks issued a letter entitled "Preparation for Implementation of the Basel III Directives – Quantitative Impact Survey (QIS)". According to this letter, the Bank is required to perform a quantitative survey estimating the effects of the implementation of the Basel III directives in connection with the allocation of capital for potential losses that may arise from revaluation to market value (CVA risk), changes in the definition of regulatory capital, and calculation of market risks. The results of the survey are to be submitted to the Supervisor of Banks by June 15, 2012.

The Basel III directives change the structure of regulatory capital, including by focusing on reinforcement of the components of Core Tier 1 Capital, and by applying limits to the types of instruments to be included in Tier I capital and in Tier II capital. The directives also establish two new capital cushions: a cushion for the preservation of capital, and an anti-cyclical cushion, designed to increase supervision and adjust capital requirements to the risk profile of the bank. The directives also add a new limit – the leverage ratio – to the existing capital adequacy ratios, as well as addressing liquidity ratios. The Bank is examining the effect of these guidelines and will begin implementation thereof subject to the adoption of the guidelines by the Supervisor of Banks. At this stage, it is not possible to estimate the effect of the implementation of these directives on the Bank.

2. **Minimum Core Tier 1 Capital ratios –** In March 2012, the Supervisor of Banks issued a circular to all banking corporations concerning minimum capital ratios, within the process of preparation for implementation of the Basel III directives. According to the directive, all banking corporations will be required to maintain a minimum Core Tier I Capital ratio of 9% by January 1, 2015. The Core Tier I Capital ratio is to be calculated in accordance with the Basel III directives and the adjustments to be established by the Supervisor of Banks.
In addition, a large banking corporation whose total consolidated balance sheet assets constitute at least 20% of the total balance sheet assets in the banking system in Israel will be required to maintain a minimum Core Tier 1 Capital ratio of 10% by January 1, 2017. This additional directive applies to the Bank.
The Bank is studying the expected requirements of the Supervisor of Banks, as presented in this directive, and intends to prepare as necessary to comply with the requirements to be established. The Bank's Core Tier 1 Capital ratio, calculated according to the Basel II directives, as at March 31, 2012 stands at 8.20%.

Pillar III Disclosure

The following table summarizes the disclosure requirements according to Pillar III:

	Quantitative disclosure
Subject	Page number
Structure of regulatory capital and composition of capital	120
Capital adequacy	121
Credit risk exposures	122
Credit risk mitigation	125
Credit risk in respect of derivative financial instruments	129
Securitization exposures	130
Capital requirements in respect of market risk	130
Positions in shares in the banking book	130
Interest risk in the banking book	103

Capital Requirements Pursuant to Basel II Directives

Set out below is the calculation of the capital ratio according to the Basel II directives.

	March 31, 2012	December 31, 2011*
	Unaudited	Audited
	NIS millions	
1. Capital for the calculation of the capital ratio		
Core capital	**24,466**	**23,769**
Tier I capital, after deductions	**26,858**	**26,157**
Tier II capital, after deductions	**16,895**	**16,175**
Total overall capital	**43,753**	**42,332**
2. Weighted balances of risk-adjusted assets		
Credit risk	**270,128**	**274,037**
Market risks	**7,391**	**7,018**
Operational risk	**20,930**	**20,047**
Total weighted balances of risk-adjusted assets	**298,449**	**301,102**
3. Ratio of capital to risk-adjusted assets	%	
Ratio of Core Tier 1 Capital to risk-adjusted assets	**8.20%**	7.89%
Ratio of Tier I capital to risk-adjusted assets	**9.00%**	8.69%
Ratio of total capital to risk-adjusted assets	**14.66%**	14.06%
Minimum total capital ratio required by the Supervisor of Banks	**9.00%**	9.00%
4. Significant subsidiaries		
Isracard		
Ratio of Tier I capital to risk-adjusted assets	**14.60%**	13.80%
Ratio of total capital to risk-adjusted assets	**14.70%**	14.00%
Minimum total capital ratio required by the Supervisor of Banks	**9.00%**	9.00%
Bank Hapoalim Switzerland		
Ratio of Tier I capital to risk-adjusted assets	**24.94%**	22.36%
Ratio of total capital to risk-adjusted assets	**24.94%**	22.36%
Minimum total capital ratio required by local regulation	**11.20%**	11.20%
Bank Pozitif		
Ratio of Tier I capital to risk-adjusted assets	**23.09%**	20.76%
Ratio of total capital to risk-adjusted assets	**20.67%**	18.34%
Minimum total capital ratio required by local regulation	**12.00%**	12.00%

* Restated due to the initial implementation of International Accounting Standard 12, Taxes on Income, see Note 1(C)(2.2) to the Condensed Financial Statements.

Structure of Regulatory Capital and Composition of Capital

Set out below is the composition of capital for the purpose of calculating the capital ratio.

	March 31, 2012	December 31, 2011
	NIS millions	
Tier I capital		
Paid-up common share capital and premium	**8,075**	8,066
Retained earnings	**16,004**	*15,345
Noncontrolling interests in equity of consolidated subsidiaries	**304**	282
Other capital instruments	**188**	188
Amounts deducted from Tier I capital	**(105)**	(112)
Total Core Tier 1 Capital	**24,466**	*23,769
Innovative hybrid instruments	**2,392**	2,388
Total Tier I capital	**26,858**	*26,157
Tier II capital		
Upper Tier II capital	**3,495**	3,523
Lower Tier II capital	**13,453**	12,707
Amounts deducted from Tier II capital	**(53)**	(55)
Total Tier I capital	**16,895**	16,175
Total eligible capital	**43,753**	*42,332

* Restated due to the initial implementation of International Accounting Standard 12, Taxes on Income, see Note 1(C)(2.2) to the Condensed Financial Statements.

For further details, see Note 4 to the Condensed Financial Statements.

Capital Adequacy

Set out below are risk-adjusted assets and capital requirements in respect of credit risk, market risk, and operational risk.

	March 31, 2012		December 31, 2011	
	Risk-adjusted assets	Capital requirements	Risk-adjusted assets	Capital requirements
	NIS millions			
Credit risk				
Sovereign debt	**1,958**	**176**	1,709	154
Debts of public-sector entities	**3,404**	**306**	3,395	306
Debts of banking corporations	**6,499**	**585**	7,919	713
Debts of corporations	**125,376**	**11,284**	127,004	11,430
Debts secured by commercial real estate	**57,966**	**5,217**	59,504	5,355
Retail exposures to individuals	**34,305**	**3,087**	34,395	3,096
Loans to small businesses	**6,040**	**544**	5,971	537
Housing loans	**24,624**	**2,216**	24,146	2,173
Securitization	**39**	**4**	41	4
Other assets	**9,917**	**893**	*9,953	*896
Total in respect of credit risk	**270,128**	**24,312**	274,037	24,664
Market risks	**7,391**	**665**	7,018	632
Operational risk	**20,930**	**1,884**	20,047	1,804
Total risk-adjusted assets in respect of the various risks	**298,449**	**26,861**	*301,102	*27,100
Total capital	**43,753**		*42,332	
Capital ratio required by the Supervisor of Banks	**9.00%**		9.00%	
Ratio of Core Tier 1 Capital to risk-adjusted assets	**8.20%**		*7.89%	
Ratio of Tier I capital to risk-adjusted assets	**9.00%**		*8.69%	
Ratio of total capital to risk-adjusted assets	**14.66%**		*14.06%	

* Restated due to the initial implementation of International Accounting Standard 12, Taxes on Income, see Note 1(C)(2.2) to the Condensed Financial Statements.

Credit Risk Exposures

Set out below is the segmentation of credit risk exposures by counterparty and by main types of credit exposures, before provision for credit losses[(1)].

	March 31, 2012											
	Sovereign	Public sector	Banking corporations	Corporations	Secured by commercial real estate	Retail to individuals	Small businesses	Housing loans	Securitization	Others	Gross credit exposure[(2)]	Average gross credit exposure
	NIS millions											
Loans[(3)]	**45,835**	**4,691**	**6,057**	**98,761**	**43,116**	**44,103**	**8,331**	**49,560**	**-**	**-**	**300,454**	**293,292**
Bonds[(4)]	**26,510**	**1,170**	**1,015**	**2,450**	**98**	**-**	**-**	**-**	**2**	**-**	**31,245**	**26,540**
Derivatives[(5)]	**90**	**525**	**7,288**	**4,743**	**263**	**7**	**7**	**17**	**-**	**-**	**12,940**	**14,844**
Other off-balance-sheet exposures	**503**	**1,193**	**1,760**	**65,453**	**42,855**	**49,013**	**4,086**	**2,311**	**186**	**-**	**167,360**	**160,000**
Other assets[(6)]	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**12,067**	**12,067**	**12,274**
Total	**72,938**	**7,579**	**16,120**	**171,407**	**86,332**	**93,123**	**12,424**	**51,888**	**188**	**12,067**	**524,066**	**506,950**

	December 31, 2011											
	Sovereign	Public sector	Banking corporations	Corporations	Secured by commercial real estate	Retail to individuals	Small businesses	Housing loans	Securitization	Others	Gross credit exposure[(2)]	Average gross credit exposure
	NIS millions											
Loans[(3)]	48,128	4,806	7,227	99,259	45,002	44,066	8,192	48,746	-	-	305,426	290,023
Bonds[(4)]	24,914	1,195	888	2,190	87	-	-	-	7	-	29,281	25,684
Derivatives[(5)]	81	429	9,413	5,693	1,100	12	1	18	-	-	16,747	14,633
Other off-balance-sheet exposures	546	1,491	2,046	64,542	40,369	48,699	4,120	2,176	191	-	164,180	157,087
Other assets[(6)]	-	-	-	-	-	-	-	-	-	*12,429	*12,429	*12,357
Total	73,669	7,921	19,574	171,684	86,558	92,777	12,313	50,940	198	*12,429	*528,063	*499,784

* Restated due to the initial implementation of International Accounting Standard 12, Taxes on Income, see Note 1(C)(2.2) to the Condensed Financial Statements.

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

(2) Before conversion to credit of off-balance sheet components, as required in the Basel II directives (e.g. weighting of unutilized credit facilities as credit), and before credit risk mitigation as a result of the execution of certain actions (e.g. use of guarantees).

(3) Including credit to the public, credit to the government, and deposits with central banks.

(4) Not including bonds held for trading.

(5) Positive fair value of derivatives, including the add-on established in the Basel II directive reflecting the amount of the future potential exposure to credit in respect of the balance of the face value of derivative instruments.

(6) Including cash, advance payments to tax authorities, shares, and other assets with no counterparty such as buildings and equipment.

The main gross credit exposures derive from loans extended by the Bank to its customers and from off-balance sheet exposures, which mainly include credit facilities, guarantees, and commitments to extend credit.

Gross credit exposures as at March 31, 2012 totaled approximately NIS 524 billion, compared with NIS 528 billion as at December 31, 2011, a decrease of approximately NIS 4 billion. This decrease is mainly the result of a decrease in credit exposures in respect of banking corporations by a total of approximately NIS 3.5 billion. Deposits with central banks and credit to governments also decreased, by a total of approximately NIS 2.3 billion. This decrease was mainly offset by an increase in government bonds, in the amount of approximately NIS 1.6 billion.

Approximately 33% of the gross credit exposure of the Bank derives from exposure to corporations handled by the Corporate Banking Area, or other clients each of whose total balance of credit, calculated in accordance with the directive, exceeds NIS 5 million. Risk-adjusted assets in respect of such customers are weighted according to ratings by international rating agencies or at 100% in the absence of such ratings.

Approximately 18% of the gross credit exposure of the Bank derives from retail exposure to customers each of whose total balance of credit, calculated in accordance with the directive, does not exceed NIS 5 million (including small businesses). Subject to compliance with certain conditions, the directive permits weighting of risk-adjusted assets in respect of such exposures at 75%.

Credit exposure in respect of housing loans, constituting approximately 10% of the gross credit exposure of the Bank, includes credit granted for the purchase of homes where the ratio of the loan to the value of the asset at the date of granting of the loan (LTV) does not exceed 75%. Subject to compliance with certain conditions, the directive permits weighting of risk-adjusted assets in respect of such exposures at 35%.

Sovereign credit exposures, constituting approximately 14% of the gross credit exposure of the Bank, primarily include deposits with central banks in Israel and in the United States, and investments in bonds issued by the Israeli government and the U.S. government.

Approximately 16% of the gross credit exposure of the Bank derives from exposure to debts secured by commercial real estate, including credit granted for the purchase of income-bearing commercial real estate.

Set out below is the segmentation of gross credit exposure, before deducting the allowance for credit losses[1], by contractual term to maturity (the last period), according to the principal types of financial instruments.

	March 31, 2012				
	Up to 1 year	1 year to 5 years	Over 5 years	Other	Gross credit exposure[2]
	NIS millions				
Loans[3]	**142,979**	**73,534**	**83,941**	**-**	**300,454**
Bonds[4]	**14,141**	**5,729**	**11,375**	**-**	**31,245**
Derivatives[5]	**4,198**	**3,978**	**4,764**	**-**	**12,940**
Other off-balance sheet exposures	**25,575**	**134,120**	**7,665**	**-**	**167,360**
Other assets[6]	**2,106**	**-**	**-**	**9,961**	**12,067**
Total	**188,999**	**217,361**	**107,745**	**9,961**	**524,066**

Set out below is the segmentation of gross credit exposure, after deducting the provision for doubtful debts[1], by contractual term to maturity (the last period), according to the principal types of financial instruments.

	December 31, 2011				
	Up to 1 year	1 year to 5 years	Over 5 years	Other	Gross credit exposure[2]
	NIS millions				
Loans[3]	145,876	74,294	85,256	-	305,426
Bonds[4]	12,409	5,633	11,239	-	29,281
Derivatives[5]	7,252	4,315	5,180	-	16,747
Other off-balance sheet exposures	23,202	132,979	7,999	-	164,180
Other assets[6]	2,232	-	-	10,197	*12,429
Total	190,971	217,221	109,674	10,197	*528,063

* Restated due to the initial implementation of International Accounting Standard 12, Taxes on Income, see Note 1(C)(2.2) to the Condensed Financial Statements.

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

(2) Before conversion to credit of off-balance sheet components, as required in the Basel II directives (e.g. weighting of unutilized credit facilities as credit), and before credit risk mitigation as a result of the execution of certain actions (e.g. use of guarantees).

(3) Including credit to the public, credit to the government, and deposits with central banks.

(4) Not including bonds held for trading.

(5) Positive fair value of derivatives, including the add-on reflecting the amount of the future potential exposure to credit in respect of the balance of the face value of derivative instruments.

(6) Including cash, advance payments to tax authorities, shares, and other assets with no counterparty such as buildings and equipment.

Information regarding problematic loans and the allowance for credit losses by counterparty is set out below.

	March 31, 2012			
	Impaired loans	Loans in arrears	Allowance on an individual basis	Allowance on a group basis
	NIS millions			
Public sector	**-**	**-**	**-**	**21**
Banking corporations	**-**	**-**	**-**	**4**
Corporations	**4,111**	**1,011**	**859**	**1,049**
Secured by commercial real estate	**2,935**	**1,284**	**345**	**1,043**
Retail to individuals	**1,044**	**461**	**292**	**485**
Small businesses	**152**	**76**	**65**	**57**
Housing loans	**-**	**983**	**-**	**386**
Others	**-**	**-**	**-**	**2**
Total	**8,242**	**3,815**	**1,561**	**3,047**

	December 31, 2011			
	Impaired loans	Loans in arrears	Allowance on an individual basis	Allowance on a group basis
	NIS millions			
Public sector	-	-	-	18
Banking corporations	-	-	-	4
Corporations	4,218	1,118	965	970
Secured by commercial real estate	3,206	1,365	388	1,043
Retail to individuals	1,038	464	284	488
Small businesses	147	76	55	56
Housing loans	-	997	-	387
Others	-	-	-	2
Total	8,609	4,020	1,692	2,968

For the distribution of the balance of problematic debts by economic sector, see Appendix 3 to the Management Review regarding total credit risk to the public by economic sector.

For the distribution of credit exposures by geographical region, see Appendix 4 to the Management Review regarding exposure to foreign countries.

For further information regarding changes in the allowance for credit losses, see Note 3 to the Condensed Financial Statements.

Credit Risk Mitigation

The Bank applies the comprehensive standard approach in order to determine risk weightings to apply to the counterparty. The standard approach requires the use of independent ratings prepared by international rating agencies. The following tables present details of gross credit exposure (after deducting the allowance for credit losses on an individual and group basis) by risk weightings, with segmentation of the exposure by counterparty (segments), before and after credit risk mitigation in respect of recognized collateral.

Before credit risk mitigation

	March 31, 2012							
	0%	20%	35%	50%	75%	100%	150%	Gross credit exposure(1)
	NIS millions							
Sovereign	**67,225**	**4,298**	**-**	**250**	**-**	**1,165**	**-**	**72,938**
Public sector	**-**	**217**	**-**	**7,341**	**-**	**-**	**-**	**7,558**
Banking corporations	**-**	**10,694**	**-**	**5,100**	**-**	**322**	**-**	**16,116**
Corporations	**-**	**1,001**	**-**	**3,901**	**-**	**163,726**	**871**	**169,499**
Secured by commercial real estate	**-**	**-**	**-**	**-**	**-**	**83,808**	**1,136**	**84,944**
Retail to individuals	**-**	**-**	**-**	**-**	**92,127**	**101**	**118**	**92,346**
Small businesses	**-**	**-**	**-**	**-**	**12,268**	**16**	**18**	**12,302**
Housing loans	**-**	**-**	**35,341**	**-**	**8,901**	**7,097**	**163**	**51,502**
Securitization	**-**	**183**	**-**	**5**	**-**	**-**	**-**	**188**
Others	**2,275**	**-**	**-**	**-**	**-**	**9,101**	**689**	**12,065**
Total	**69,500**	**16,393**	**35,341**	**16,597**	**113,296**	**265,336**	**2,995**	**519,458**

	December 31, 2011							
	0%	20%	35%	50%	75%	100%	150%	Gross credit exposure(1)
	NIS millions							
Sovereign	68,496	4,035	-	216	-	922	-	73,669
Public sector	-	622	-	7,281	-	-	-	7,903
Banking corporations	-	12,830	-	5,985	-	755	-	19,570
Corporations	-	1,032	-	4,094	-	163,559	1,064	169,749
Secured by commercial real estate	-	-	-	-	-	83,887	1,240	85,127
Retail to individuals	-	-	-	-	91,725	163	117	92,005
Small businesses	-	-	-	-	12,165	9	28	12,202
Housing loans	-	-	35,096	-	8,754	6,307	396	50,553
Securitization	-	193	-	5	-	-	-	198
Others	2,606	-	-	-	-	*9,167	654	*12,427
Total	71,102	18,712	35,096	17,581	112,644	*264,769	3,499	*523,403

* Restated due to the initial implementation of International Accounting Standard 12, Taxes on Income, see Note 1(C)(2.2) to the Condensed Financial Statements.

(1) Before conversion to credit of off-balance sheet components, as required in the Basel II directives (e.g. weighting of unutilized credit facilities as credit), and after credit risk mitigation.

After credit risk mitigation

	March 31, 2012							
	0%	20%	35%	50%	75%	100%	150%	Net credit exposure(1)
	NIS millions							
Sovereign	**67,870**	**4,297**	**-**	**250**	**-**	**1,037**	**-**	**73,454**
Public sector	**-**	**217**	**-**	**7,338**	**-**	**-**	**-**	**7,555**
Banking corporations	**-**	**12,855**	**-**	**17,438**	**-**	**748**	**-**	**31,041**
Corporations	**-**	**1,001**	**-**	**3,901**	**-**	**160,848**	**745**	**166,495**
Secured by commercial real estate	**-**	**-**	**-**	**-**	**-**	**80,912**	**1,135**	**82,047**
Retail to individuals	**-**	**-**	**-**	**-**	**76,989**	**101**	**118**	**77,208**
Small businesses	**-**	**-**	**-**	**-**	**10,212**	**16**	**18**	**10,246**
Housing loans	**-**	**-**	**35,341**	**-**	**8,901**	**7,097**	**163**	**51,502**
Securitization	**-**	**183**	**-**	**5**	**-**	**-**	**-**	**188**
Others	**2,275**	**-**	**-**	**-**	**-**	**9,101**	**689**	**12,065**
Total	**70,145**	**18,553**	**35,341**	**28,932**	**96,102**	**259,860**	**2,868**	**511,801**

	December 31, 2011							
	0%	20%	35%	50%	75%	100%	150%	Net credit exposure(1)
	NIS millions							
Sovereign	68,496	4,035	-	216	-	922	-	73,669
Public sector	-	622	-	7,281	-	-	-	7,903
Banking corporations	-	15,305	-	18,292	-	755	-	34,352
Corporations	-	1,032	-	4,094	-	160,558	941	166,625
Secured by commercial real estate	-	-	-	-	-	81,197	1,222	82,419
Retail to individuals	-	-	-	-	77,010	162	117	77,289
Small businesses	-	-	-	-	10,177	9	27	10,213
Housing loans	-	-	35,096	-	8,754	6,307	396	50,553
Securitization	-	193	-	5	-	-	-	198
Others	2,606	-	-	-	-	*9,167	654	12,427
Total	71,102	21,187	35,096	29,888	95,941	*259,077	3,357	515,648

* Restated due to the initial implementation of International Accounting Standard 12, Taxes on Income, see Note 1(C)(2.2) to the Condensed Financial Statements.

(1) Before conversion to credit of off-balance sheet components, as required in the Basel II directives (e.g. weighting of unutilized credit facilities as credit), and after credit risk mitigation.

Use of Eligible Collateral for Credit Risk Mitigation

The following table lists the types of collateral used, and presents the exposures covered by guarantees, exposures covered by credit derivatives, and exposures covered by eligible financial collateral, by counterparty.

	March 31, 2012						
	Gross credit exposure(1)	Exposure covered by guarantees	Exposure covered by derivatives	Total amounts subtracted	Total amounts added(2)	Exposure covered by financial collateral(3)	Net credit exposure(4)
	NIS millions						
Sovereign	**72,938**	**(128)**	**-**	**(128)**	**644**	**-**	**73,454**
Public sector	**7,558**	**-**	**-**	**-**	**-**	**(3)**	**7,555**
Banking corporations	**16,116**	**(317)**	**-**	**(317)**	**15,242**	**-**	**31,041**
Corporations	**169,499**	**(385)**	**-**	**(385)**	**-**	**(2,619)**	**166,495**
Secured by commercial real estate	**84,944**	**(83)**	**-**	**(83)**	**-**	**(2,814)**	**82,047**
Retail to individuals	**92,346**	**(13,482)**	**-**	**(13,482)**	**-**	**(1,656)**	**77,208**
Small businesses	**12,302**	**(1,065)**	**-**	**(1,065)**	**-**	**(991)**	**10,246**
Housing loans	**51,502**	**-**	**-**	**-**	**-**	**-**	**51,502**
Securitization	**188**	**-**	**-**	**-**	**-**	**-**	**188**
Others	**12,065**	**-**	**-**	**-**	**-**	**-**	**12,065**
Total	**519,458**	**(15,460)**	**-**	**(15,460)**	**15,886**	**(8,083)**	**511,801**

	December 31, 2011						
	Gross credit exposure(1)	Exposure covered by guarantees	Exposure covered by derivatives	Total amounts subtracted	Total amounts added	Exposure covered by financial collateral(3)	Net credit exposure(4)
	NIS millions						
Sovereign	73,669	-	-	-	-	-	73,669
Public sector	7,903	-	-	-	-	-	7,903
Banking corporations	19,570	-	-	-	14,782	-	34,352
Corporations	169,749	(176)	-	(176)	-	(2,948)	166,625
Secured by commercial real estate	85,127	(71)	-	(71)	-	(2,637)	82,419
Retail to individuals	92,005	(13,132)	-	(13,132)	-	(1,584)	77,289
Small businesses	12,202	(1,026)	-	(1,026)	-	(963)	10,213
Housing loans	50,553	-	-	-	-	-	50,553
Securitization	198	-	-	-	-	-	198
Others	*12,427	-	-	-	-	-	*12,427
Total	*523,403	(14,405)	-	(14,405)	14,782	(8,132)	*515,648

* Restated due to the initial implementation of International Accounting Standard 12, Taxes on Income, see Note 1(C)(2.2) to the Condensed Financial Statements.

(1) Before conversion to credit of off-balance sheet components, as required in the Basel II directives (e.g. weighting of unutilized credit facilities as credit), and before credit risk mitigation.

(2) Including exposures added in respect of repurchase transactions.

(3) After taking safety coefficients into account.

(4) Before conversion to credit of off-balance sheet components, as required in the Basel II directives (e.g. weighting of unutilized credit facilities as credit), and after credit risk mitigation.

The use of eligible collateral led to a decrease in credit exposures assigned risk weightings of 75% and 100%. Credit exposures in the amount of approximately NIS 15.5 billion were assigned reduced risk weightings of 20% and 50%, due to the use of guarantees of banking corporations. In addition, the use of eligible financial collateral, mainly including pledged deposits and government bonds, led to a reduction of the overall credit exposure by a total of approximately NIS 8.1 billion.

Credit Risk in Respect of Derivative Financial Instruments

	March 31, 2012					
	Interest-rate derivatives	Foreign-currency and gold derivatives	Share derivatives	Precious metals	Commodity derivatives	Total
	NIS millions					
Positive gross fair value	**4,775**	**2,287**	**223**	**64**	**17**	***7,366**
Add-on values	**1,593**	**3,875**	**155**	**33**	**22**	**5,678**
Net credit exposure	**6,368**	**6,162**	**378**	**97**	**39**	***13,044**

* Before adjusting the credit risk inherent in these transactions, resulting from the implementation of the directives of FAS 157.

	December 31, 2011					
	Interest-rate derivatives	Foreign-currency and gold derivatives	Share derivatives	Precious metals	Commodity derivatives	Total
	NIS millions					
Positive gross fair value	5,580	4,895	299	105	42	*10,921
Add-on values	1,484	4,300	96	28	22	5,930
Net credit exposure	7,064	9,195	395	133	64	*16,851

* Before adjusting the credit risk inherent in these transactions, resulting from the implementation of the directives of FAS 157.

The following table details the face value of the Bank's credit-derivatives portfolio, used for risk management in the Bank's credit portfolio (the Bank is not a party to CDS transactions originating in mediation activities).

	March 31, 2012		
	Face value in NIS millions		
	Banking book		
	Protection acquired	Protection sold	Total face value of credit derivatives
Credit derivatives	**30**	**557**	**587**

	December 31, 2011		
	Face value in NIS millions		
	Banking book		
	Protection acquired	Protection sold	Total face value of credit derivatives
Credit derivatives	30	573	603

Securitization Exposures

Securitization exposures of the Bank arise from holdings of bonds of various securitization entities. The Bank uses the lower of the ratings assigned by two international credit rating agencies, Standard and Poor's Rating Group and Moody's Investor Service, to assign the relevant risk weights to these exposures.

The following table details securitization exposures acquired by the Bank and the relevant capital requirements.

		March 31, 2012		December 31, 2011	
	Risk weight	Amount of exposure	Capital requirement	Amount of exposure	Capital requirement
		NIS millions			
AAA to AA-	20%	**183**	**4**	193	4
A+ to A-	50%	**5**	**-**	5	-
BBB+ to BBB-	100%	**-**	**-**	-	-
BB+ to BB-	350%	**-**	**-**	-	-
B+ or lower or unrated	Deducted from capital	**-**	**-**	-	-
Total		**188**	**4**	198	4

Capital Requirements in Respect of Market Risk

	March 31, 2012			December 31, 2011		
	Specific risk	General risk	Total	Specific risk	General risk	Total
	NIS millions					
Interest-rate risk	**72**	**210**	**282**	55	211	266
Share risk	**5**	**5**	**10**	5	5	10
Foreign currency exchange-rate risk	**-**	**247**	**247**	-	282	282
Option risk	**-**	**126**	**126**	-	74	74
Total	**77**	**588**	**665**	60	572	632

Positions in Shares in the Banking Book

The following are details of the Bank's investments in shares in the banking book.

	March 31, 2012		December 31, 2011	
	Balance sheet value and fair value	Capital requirements	Balance sheet value and fair value	Capital requirements
	NIS millions			
Investments classified into the trading portfolio	**56**	**(1)10**	52	(1)10
Investments classified into the available-for-sale portfolio	**1,502**	**135**	1,538	138
Total investments in shares	**1,558**	**145**	1,590	148
Of which: Traded on the stock exchange	**989**		1,027	
Privately held	**569**		563	
Unrealized profits included in Tier II capital	**70**		88	

(1) Including capital allocation with respect to specific market risk and general market risk.

Disclosure Regarding the Internal Auditor

Details regarding the Group's internal auditing, including the professional standards under which the internal audit operates and the considerations involved in formulating the annual and multi-year work plans, are provided in the Annual Report for 2011. No material changes occurred in this information during the reported period.

Poalim in the Community – Social Involvement and Contribution to the Community

Strategy and Vision

As part of the Bank Hapoalim Group's vision, strategy, and corporate values, the Bank is committed to an active, leading role in the community, alongside its business leadership and economic initiatives. This involvement, implemented through "Poalim for the Community", is part of an advanced managerial approach stating that an organization that operates within the community, and draws both its employees and customers from it, is an integral part of that community, and as a business leader, should strengthen the community and take a leading role in the advancement and improvement of conditions for all members of the community, especially those who are underprivileged.

In the spirit of this business philosophy, the Bank conducts a varied and extensive range of community-oriented activities that take the form of social involvement, monetary donations, and large-scale volunteer activities in which both members of management and employees participate. Activity on behalf of the community is an important factor in cultivating employees' sense of pride and cohesion.

Ongoing Activities

All of the Bank's community-oriented activity is organized within the framework of "Poalim for the Community"; part of the activity is conducted through the "Poalim for the Community Foundation (Registered Non-Profit Organization)", and the rest is conducted through other channels, described below.

Poalim for the Community devotes special attention to work with children and adolescents, with the aim of advancing the generation of the future. However, the activity of Poalim for the Community is extensive and varied, and includes other target groups as well.

In the first quarter of 2012, Poalim for the Community focused on projects in the area of education, aimed at children, adolescents, and specific population groups, with special emphasis on teaching sensible financial behavior. Poalim for the Community devotes approximately half of its budget to the area of education.

Through the areas of activity described below, and through the various projects promoted by the Bank Group, the Group's involvement in the community in the first quarter of 2012 was expressed in a financial expenditure of approximately NIS 14 million. The budget for this activity is determined each year by a committee headed by the Chairman of the Board of Directors. This decision is made separately for each specific year, and approved within the overall budget of the Bank.

Details of the various channels and projects follow.

"Poalim Volunteers" employee volunteer project – Several Bank units collaborate on this project, aimed at assisting employees interested in volunteering for community activities. The Bank units involved are the Human Resources, Logistics and Procurement Area, the Employees' Union, the Head of Community Relations, regional managements in the Retail Banking Area, and the "Ruach Tova" and "Matan" foundations. Within this collaboration, employees are offered a wide variety of volunteering possibilities, for groups, branches, or individuals. Other Bank employees also volunteer individually with the Bank's assistance; a specialized unit was established in 2011 to handle this activity, and continues to operate in 2012.

"Poalim for the Community Foundation" – Monetary donations to the numerous organizations supported by the Bank Group are made via the "Poalim for the Community Foundation." Donations are given to organizations that fulfill the criteria defined under the Foundation's donation policy. In the first quarter of 2012, as in previous years, the Poalim for the Community Foundation contributed to a large number of causes, including assistance for children and youth, strengthening disadvantaged population groups, and support for educational, culture, welfare, health care, and science institutions. Through the Foundation, the Bank contributes to higher-education institutions, to scholarships for university students and underprivileged schoolchildren, and to the realization of educational initiatives and enrichment programs for children and youth, as well as for children who are hospitalized and need special assistance in order to progress in their studies.

The Poalim for the Community Foundation contributes to the advancement of culture and the arts, and makes donations to various activities throughout Israel, focusing on enrichment programs for children and youth via innovative educational projects. The Foundation helps to run workshops in Jewish and Arab schools throughout Israel in order to promote understanding and coexistence among the peoples and encourage tolerance and democracy.

Another important area in which the Poalim for the Community Foundation is a regular donor is health care. The Poalim for the Community Foundation supports several medical centers, with donations intended mainly to improve conditions of patients' treatment and hospitalization. The Foundation also promotes projects aimed at integrating persons with disabilities into community life. In addition, the Foundation contributes to organizations that help realize wishes of children suffering from cancer.

"Read & Succeed" community project – Poalim for the Community is committed to changing the reading habits of Israeli children and youth. In addition to its ongoing community activities, the Foundation decided in 2004 to initiate a focused effort to bring about fundamental changes in the reading habits of Israeli children and youth. The project continued during 2005-2012. The aim of the project is to raise public awareness of the encouragement of reading. The project includes a public informational campaign; funding of story hours throughout Israel; activities during National Book Week; and collaboration with the Key Books Foundation, which operates a mobile library for remote communities, as well as various media outlets.

Community-oriented sponsorships – Poalim for the Community is involved in various community activities through community-oriented sponsorships, primarily encouraging excellence in sports, funding cultural events, and assisting health-care institutions.

Donations of computers and accompanying equipment – The Bank is aware of the paramount importance of investment in technology for the education and advancement of children and youth, and accordingly donates computers and accompanying equipment each year. In the first quarter of 2012, the Bank donated approximately 323 computer systems as well as additional accompanying equipment.

"Poalim for Culture and Nature in Israel" – The Bank believes that closeness to our heritage and culture is of the utmost importance, and has therefore resolved to make it possible for parents and children throughout Israel to tour during holidays and enjoy a variety of sites all over the country, without resulting in a heavy financial burden for the families. During Passover 2005, the Bank launched a special project in which all Israelis were invited to visit sites throughout Israel free of charge during the holiday week. Since then, this project has become an annual tradition, and continued during Passover in 2012.

Support for culture and arts – Each year, the Bank contributes to the promotion of culture and the arts through donations and sponsorships; for example, the Bank provides support to museums throughout Israel. Likewise, through multi-year agreements, the Bank accompanies and supports several internationally recognized cultural institutions committed to leadership and excellence in their field: the Bank supports the activity of the Batsheva Dance Company through three-year scholarships for dancers, and supports the Israel Philharmonic Orchestra and the Cameri Theater under three-year and five-year agreements respectively. The Bank also holds art exhibits at its Head Office building, with revenues devoted to the various foundations that participate in this initiative.

"Poalim from Three to Five" Project – The Bank, in cooperation with the ORT organization, participates in the initiative of the Technion to help students from geographically remote communities with lower socio-economic backgrounds improve their academic achievements in mathematics. The goal is to increase the number of applicants for the five credit point matriculation exam in mathematics by about 5%.

"Matan – Investing in the Community" (hereinafter: "Matan") **–** Since 1999, the Bank has engaged in activity on behalf of the community in cooperation with the Matan Foundation. Through the "Matan Campaign", employees engaged in volunteer work gain awareness of community needs and the importance of giving, and share this message with their colleagues. The model is based on partnership between management and employees in the workplace. All donations to Matan by employees and management are intended for a wide variety of community causes, aimed at supporting and strengthening disadvantaged groups in society. Donations are allocated in a special procedure that involves an examination of needs and effectiveness. Bank employees participate as volunteers on the Matan fund-designation committee, which decides on the distribution of the funds in the community, and as "Matan Observers", assisting in the monitoring process of use of the funds donated. Matan is committed to transferring donations to organizations or community causes chosen by the employee.

Sustainability and Corporate Social Responsibility

Bank Hapoalim has adopted the principles of sustainability and CSR as essential foundations for its activity, within its strategic philosophy, based on a strong conviction that this is its moral and professional duty and the expectation of the community in which the Bank operates and from which it draws its strength.

Based on this philosophy, the Bank is implementing a large-scale long-term plan to apply CSR principles to all levels of its activity, encompassing environmental issues, partnership with employees, service to customers, and contribution to the community.

The following are examples of the Bank's achievements in the area of sustainability and CSR, as of the end of 2011: cumulative savings of 3,000 tons of paper for internal use at the Bank since 2008, equivalent to saving 45,000 trees; a 5.6% decrease in electricity consumption per square meter in 2011 relative to 2010; over 400,000 Mail Net subscribers, saving production of about 17 million pages of notifications annually; 2,500 manpower agency workers hired as employees of the Bank in 2008-2011; 49.6% women among the managers at the Bank, compared to 33.6% in the Israeli workforce; an increase in minority employees at the Bank, from 445 in 2007 to 606 in 2011; 430 employees studied towards academic degrees with financing from the Bank in 2011, and the rate of degree-holding employees rose from 54.4% to 56.6%; 194 branches accessible or in advanced stages of accessibilization to disabled persons; 80 ATMs adapted for access by customers with visual impairments; 8,406 students from more than twenty peripheral communities have participated, so far, in the "From Three to Five" program for the improvement of academic achievement in mathematics. In the area of employee volunteering, in accordance with the vision of the Bank, the Board of Management resolved to promote these efforts through orderly integrative management within the Bank's organizational structure. Thousands of employees participated as volunteers in various community projects in 2011. The Bank is the top-ranked business organization in contribution to the community in the areas of education, welfare, and culture, with an emphasis on the cultivation of excellence in education, based on the aim of nurturing the relative advantage of Israeli society, found in Israel's human capital.

As part of the extensive efforts of Bank Hapoalim to expand its sphere of influence in the area of sustainability and CSR, while promoting national goals, a pioneering comprehensive project was carried out in the city of Holon for the collection of electronic waste, electrical appliances, and metal objects. The Bank provides the city with a full range of solutions for the promotion of activity in this area: special receptacles developed for this purpose by an Israeli factory (rather than imported); placement of the receptacles in central locations in the town, offering convenient everyday access for residents; solutions for collection and recycling through Ecommunity, which employs workers with disabilities; extensive marketing communications in the town, in order to instill the habit of collecting this type of waste; and more. In view of the success of the pilot project, there are plans to expand this program to other towns in Israel, promoting the protection of the environment and returning precious resources to the manufacturing chain, while also creating jobs for disabled workers.

Extensive details of sustainability and CSR activities are provided in the Bank's CSR report, which is available on its website. Like the previous editions, this report earned the Global Reporting Initiative's highest grade of A+. The Bank is the first business organization in Israel to attain the highest score for all four of its reports.

The Bank continues to develop a wide range of activities and initiatives on the various levels of sustainability and CSR. As part of its business strategy of facilitating the transition to renewable energy, the Bank is leading a wide-ranging drive to promote the solar-energy sector in Israel, and offering a range of financing solutions in this field to all segments of the population. The Bank is also a leader in financing solutions for the water desalination market and for the construction of power stations fueled by natural gas.

Within the philosophy of sustainability, understanding of customers' full life cycle, and encouragement of a culture of long-term savings, the Bank has announced a new stage of the All-Life Financial Planning initiative, which is designed to impart knowledge and tools to customers for responsible, prudent management of their financial future: a relaunch of the legendary children's savings program, Dan the Saver, as a theme for a series of savings and investment plans for durations of up to 15 years, designed to instill a culture of savings from an early age. This program has met with great success, with 160,000 savings plans at an aggregate volume of NIS 1.2 billion opened by the end of 2011.
Ratings: At the end of the first quarter of 2011, the Bank was added to the global FTSE4Good index, considered the leading index of sustainability and responsible investment. The Bank was assigned the maximum score of 100 by FTSE4Good. In the semiannual update of March 2012, the Bank scored 99 on this index.

Legal Proceedings

The Bank Group (the Bank and its consolidated subsidiaries) is a party to legal proceedings, including petitions to certify class actions, taken against it by its customers, former customers, and various third parties, who deem themselves injured or harmed by the Bank Group's operations during the normal course of its business. The causes of the claims against the Bank Group are various and wide-ranging. In the opinion of the Bank's Board of Management, based on legal opinions with regard to the likely outcome of pending claims, including petitions to certify class actions, the financial statements include sufficient provisions, in accordance with generally accepted accounting principles, to cover possible damages resulting from all claims, where such provisions are necessary.
For details, see Note 19(C)(11), 19(C)(12), 19D, 19F, and 19G to the Annual Financial Statements for 2011, and Note 6C to the Condensed Financial Statements.

Other Matters

On January 2, 2012, after receiving approval from the Bank of Israel, the Board of Directors approved and recommended approval by the authorized entities at the companies listed hereinafter of the extension of the term of service of Ms. Irit Izakson as Chairperson of the Board of Directors of the companies in the Isracard Group: Isracard Ltd., Europay (Eurocard) Israel Ltd., Aminit Ltd., and Poalim Express Ltd., for an additional period of two years, effective January 1, 2012.

The annual general meeting of shareholders of the Bank convened on January 3, 2012. The shareholders discussed the financial statements of the Bank for 2010; approved the appointment of the accountants; approved the replacement of Article 24 of the Articles of the Bank, with respect to directives concerning insurance and indemnification; approved the granting of a letter of indemnification to the officers of the Bank, including officers who may be considered to have a personal interest in the granting of the letter of indemnification; and approved the appointment of Mr. Imri Tov, who has served as an external director of the Bank as of February 5, 2009, for an additional term of service of three years, beginning February 5, 2012.

A special general meeting of shareholders of the Bank convened on April 5, 2012. The shareholders approved the appointment of Ms. Dafna Schwartz as an external director (under the Companies Law), for a period of three years, effective April 5, 2012. Pursuant to the resolution of the meeting, Ms. Dafna Schwartz serves as an external director (under the Companies Law) as of April 6, 2012, replacing Ms. Nira Dror, whose term of service ended on April 5, 2012.

Ms. Irit Izakson (who serves as a director of the Bank) has served as Acting Chairperson of the Board of Directors of Isracard Ltd. and of Europay (Eurocard) Israel Ltd. (hereinafter: **"Chairperson of Isracard"**) as of October 1, 2008, and also serves as Acting Chairperson of the Board of Directors of Aminit Ltd. and of Poalim Express Ltd. as of January 1, 2009. The appointment of the Chairperson of Isracard was for a term of three years and three months, which ended on December 31, 2011.

On January 25, 2012, further to approval by the Wage and Remuneration Committee and the Audit Committee of Isracard, and by the Supervisor of Banks, the Board of Directors of Isracard approved the extension of Ms. Izakson's term of service until December 31, 2013. On April 30, 2012, further to approval by the Wage and Remuneration Committee and the Audit Committee of Isracard, the Board of Directors of Isracard approved a new employment agreement with the Chairperson of Isracard (hereinafter: the **"Employment Agreement"**). The Employment Agreement was approved by the Human Resources - Salaries and Remuneration Committee, the Audit Committee, and the Board of Directors of the Bank. The Employment Agreement is subject to approval by the general meeting of shareholders of Isracard and by the general meeting of the Bank.

The Employment Agreement covers a period of three years, beginning January 1, 2012, and ending December 31, 2014. The continued contractual engagement with the Chairperson of Isracard in the third year of the agreement (2014) is subject to approval by the Supervisor of Banks. Notwithstanding the aforesaid, the parties are entitled to terminate the contractual engagement pursuant to the Employment Agreement, at any time, with 90 days' advance notice in writing; in the event that the Supervisor of Banks does not approve the continued service of Ms. Izakson as Chairperson of the Board of Directors of Isracard, the contractual engagement shall be considered terminated; if her employment is terminated at the initiative of Isracard, or at her initiative under circumstances that entitle her to severance pay according to law, the Chairperson of Isracard shall be entitled to receive the full supplement of the amount of severance pay to 250% of her last salary, if the amount of severance pay accumulated in the provident funds is lower; the Chairperson of Isracard will be entitled to a monthly salary in a total amount of NIS 92,126, linked to the CPI for December 2011 (to be paid from the inception date of the Employment Agreement, i.e. beginning January 1, 2012). The Employment Agreement also includes related terms, such as a vehicle, telephone, etc., and employer contributions to compensation (including disability), severance pay, and a study fund.

The Chairperson of Isracard shall also be entitled to an annual bonus, in accordance with a bonus plan essentially similar to the bonus plan for senior executives at Isracard (which is structured based on the bonus plan for senior executives at the Bank) (hereinafter: the **"Bonus Plan"**). The annual bonus to be paid to the Chairperson of Isracard, inasmuch as is paid, shall be derived from the difference between the annual net operating profit of Isracard and the threshold profit for compensation established in the Bonus Plan (under certain conditions, the threshold profit for remuneration will be updated by the Board of Directors of Isracard, subject to approval by the organs of the Bank, as required by law). Part of the annual bonus will be determined according to a personal score to be assigned to the Chairperson of Isracard each year, based on achievement of objectives. The payment of the annual bonus amount is spread over several years. In addition, a negative bonus amount may be established in years in which the annual net operating profit of Isracard is lower than the threshold profit for compensation established in the Bonus Plan. In any event, pursuant to the Bonus Plan, the amount of the positive annual bonus for the Chairperson of Isracard in any given year shall not exceed 18 monthly salaries of the Chairperson of Isracard, while the amount of the negative annual bonus in any given year shall not exceed 10 monthly salaries of the Chairperson of Isracard.

In addition, the Chairperson of Isracard shall be entitled to Restricted Share Units (**"RSU"**), exercisable into shares of the Bank, as follows: 161,241 ordinary RSU and 51,000 contingent RSU, under the terms detailed in the "Secondary Plan for the Grant of Restricted Stock Units (RSU) to Senior Executives 2011" of the Bank (hereinafter: the **"Remuneration Plan of the Bank"**); for further details, see Note 16 to the Annual Financial Statements for 2011.

Isracard has undertaken a commitment to compensate the Bank for the cost arising from the RSU granted by the Bank to the Chairperson of Isracard.

On April 29, 2012, April 30, 2012, and May 3, 2012, respectively, the Wage and Remuneration Committee, the Audit Committee, and the Board of Directors of Isracard approved the exercise of the options granted to the Chairperson of Isracard under her former employment agreement ended on December 31, 2011 which had vested in full, using the net exercise method. Accordingly, the Chairperson of Isracard will be allocated ordinary shares of Isracard, which will be sold to Isracard, subject to approval by the Supervisor of Banks. In the event that such approval is not granted by the Supervisor of Banks, the Bank has undertaken a commitment to purchase the aforesaid shares, at the same terms. The shares will be purchased for a total amount of approximately NIS 3,512 thousand (before deduction of applicable tax), established based on an assessment by an external assessor. The aforesaid exercise of options and sale of shares were approved by the Human Resources, Salaries, and Remuneration Committee, the Audit Committee, and the Board of Directors of the Bank on May 13, 2012, May 21, 2012, and May 30, 2012, respectively; they are subject to approval by the general meeting of Isracard and by the general meeting of the Bank.

The Board of Directors of the Bank held 10 meetings during the period of January-March 2012.
The various committees of the Board of Directors held 49 meetings during the period of January-March 2012.

Controls and Procedures

In accordance with the Public Reporting Directives of the Supervisor of Banks, the Chief Executive Officer and the Chief Accountant of the Bank must each separately sign a declaration regarding their responsibility for the establishment and application of controls and procedures concerning disclosure and the Bank's internal control of financial reporting, including an assessment of the effectiveness of these controls, pursuant to the provisions of Sections 302 and 404 of the law known as the "Sarbanes-Oxley Act", enacted in the United States.
The provisions of these two sections of the law were consolidated by the Supervisor of Banks in a Proper Conduct of Banking Business Directive (Directive 309) in September 2008, and integrated into the Public Reporting Directives in June 2009.
These directives have been implemented at the Bank since their inception dates:

- The directive in Section 302 regarding the responsibility for the establishment and application of controls and procedures concerning disclosure has been implemented quarterly as of the financial statements for June 30, 2005.
- The directive in Section 404 regarding the responsibility for the Bank's internal control of financial reporting has been implemented at year end, as of the financial statements for December 31, 2008.

As part of the implementation of the directives of Section 404, the Bank, with the assistance of a consulting firm, mapped and documented all material control processes, based on the directives of the SEC (the Securities and Exchange Commission in the United States), using the prevalent methodologies, based on criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. In addition, in accordance with the requirements, the Bank carried out a test of the effectiveness of the procedures for internal control of financial reporting, through an examination of the effectiveness of the main controls in practice.

In 2012, the Bank, with the assistance of the consulting firm, according to the prevalent methodologies, will update the documentation of the material control processes and examine the effectiveness of the procedures for the internal control of financial reporting, through a renewed examination of the main controls for 2012. The aforesaid update of documentation and examination of effectiveness are carried out at the Bank in accordance with an established work plan. According to plan, this activity began in the first quarter, and the main part of it will be completed early in the fourth quarter.

Evaluations of Controls and Procedures Concerning Disclosure

The Board of Management of the Bank, in cooperation with the Chief Executive Officer and the Chief Accountant of the Bank, has assessed the effectiveness of the controls and procedures concerning disclosure at the Bank as at March 31, 2012. Based on this assessment, the Chief Executive Officer and the Chief Accountant of the Bank have concluded that, as at the end of this period, the controls and procedures concerning disclosure at the Bank are effective in order to record, process, summarize, and report the information that the Bank is required to disclose in its financial report, in accordance with the Public Reporting Directives of the Supervisor of Banks, on the date stipulated in these directives.

Changes in Internal Control

During the quarter ended on March 31, 2012, there was no change in the Bank's internal control of financial reporting that had a material impact, or could reasonably be expected to have a material impact, on the Bank's internal control of financial reporting.

Yair Seroussi	**Zion Kenan**
Chairman of the Board of Directors	President & Chief Executive Officer

Tel-Aviv, May 30, 2012

Rates of Financing Income and Expenses

Appendix 1

	For the three months ended March 31							
	2012				2011			
			Rate of income (expense)(3)				Rate of income (expense)(3)	
	Average balance(1)(2)	Financing income (expenses)(1)	Without effect of derivatives	Including effect of derivatives(4)	Average balance(1)(2)	Financing income (expenses)(1)	Without effect of derivatives	Including effect of derivatives(4)
	NIS millions		%	%	NIS millions		%	%
Israeli currency - Unlinked								
Assets(5)(6)	**203,487**	**2,233**	**4.46**		*184,915	1,979	4.35	
Effect of derivatives(4)								
Embedded derivatives and ALM	**154,206**	**524**			107,995	(91)		
Total assets	**357,693**	**2,757**		**3.12**	*292,910	1,888		2.60
Liabilities(6)	**(173,743)**	**(771)**	**(1.79)**		(150,910)	(593)	(1.58)	
Effect of derivatives(4)								
Embedded derivatives and ALM	**(158,388)**	**(502)**			(117,425)	129		
Total liabilities	**(332,131)**	**(1,273)**		**(1.54)**	(268,335)	(464)		(0.69)
Interest spread			**2.67**	**1.58**			2.77	1.91
Israeli currency - Linked to the CPI								
Assets(5)(6)	**60,615**	**609**	**4.08**		56,841	1,080	7.82	
Effect of derivatives(4)								
Embedded derivatives and ALM	**11,138**	**(6)**			6,451	(30)		
Total assets	**71,753**	**603**		**3.40**	63,292	1,050		6.80
Liabilities(6)	**(47,274)**	**(440)**	**(3.78)**		(41,600)	(775)	(7.66)	
Effect of derivatives(4)								
Embedded derivatives and ALM	**(17,562)**	**(18)**			(15,738)	5		
Total liabilities	**(64,836)**	**(458)**		**(2.86)**	(57,338)	(770)		(5.48)
Interest spread			**0.30**	**0.54**			0.16	1.32

* Restated following the initial implementation of International Accounting standard 12, Taxes on Income. See Note 1(C)(2.2) to the condensed Financial Statements.

(1) The data are given before and after the effect of derivative instruments (including off-balance sheet effects of derivative instruments).

(2) Based on monthly opening balances (based on daily balances in the unlinked Israeli currency segment), and before deduction of the average balance sheet allowance for credit losses.

(3) Calculated on an annual basis.

(4) Hedging derivative instruments (excluding options), embedded derivatives that have been detached and ALM derivatives that form part of the Bank's ALM network.

(5) The average balance of the profits (losses) not yet realized from the adjustments to fair value, was deducted/added from the average balance of bonds available for sale and bonds held for trading at March 31, 2012 NIS 94 million (March 31, 2011: NIS 43 million) in the unlinked segment, NIS 24 million (March 31, 2011: NIS 21 million) in the CPI-linked segment, NIS 54 million (March 31, 2011: NIS 181 million) in the foreign currency segment (including Israeli currency linked to foreign currency).

(6) Excluding derivative instruments.

Note:

This appendix is reported in accordance with the reporting format in effect prior to the adoption of the circular of the Supervisor of Banks of December 29, 2011, concerning the format for the statement of profit and loss (for further details, see Note 1C(1)).

Rates of Financing Income and Expenses

Appendix 1 (continued)

	For the three months ended March 31							
	2012				2011			
			Rate of income (expense)(3)				Rate of income (expense)(3)	
	Average balance(1)(2)	Financing income (expenses)(1)	Without effect of derivatives	Including effect of derivatives(4)	Average balance(1)(2)	Financing income (expenses)(1)	Without effect of derivatives	Including effect of derivatives(4)
	NIS millions		%	%	NIS millions		%	%
Foreign currency - (including Israeli currency linked to foreign currency)								
Assets(5)(6)	**75,896**	**(725)**	**(3.77)**		63,738	*(82)	*(0.51)	
Effect of derivatives(4)								
Hedging derivatives	**9,888**	**36**			12,310	21		
Embedded derivatives and ALM	**194,259**	**(2,926)**			177,212	*(136)		
Total assets	**280,043**	**(3,615)**		**(5.06)**	253,260	*(197)		*(0.31)
Liabilities(6)	**(87,051)**	**1,091**	**4.92**		(83,617)	273	1.30	
Effect of derivatives(4)								
Hedging derivatives	**(10,371)**	**9**			(12,615)	(13)		
Embedded derivatives and ALM	**(186,378)**	**2,887**			(157,803)	*325		
Total liabilities	**(283,800)**	**3,987**		**5.50**	(254,035)	*585		*0.92
Interest spread			**1.15**	**0.44**			*0.79	*0.61

* Reclassified.
(1) The data are given before and after the effect of derivative instruments (including off-balance sheet effects of derivative instruments).
(2) Based on monthly opening balances (based on daily balances in the unlinked Israeli currency segment), and before deduction of the average balance sheet allowance for credit losses.
(3) Calculated on an annual basis.
(4) Hedging derivative instruments (excluding options), embedded derivatives that have been detached and ALM derivatives that form part of the Bank's ALM network.
(5) The average balance of the profits (losses) not yet realized from the adjustments to fair value, was deducted/added from the average balance of bonds available for sale and bonds held for trading at March 31, 2012 NIS 94 million (March 31, 2011: NIS 43 million) in the unlinked segment, NIS 24 million (March 31, 2011: NIS 21 million) in the CPI-linked segment, NIS 54 million (March 31, 2011: NIS 181 million) in the foreign currency segment (including Israeli currency linked to foreign currency).
(6) Excluding derivative instruments.

Note:
This appendix is reported in accordance with the reporting format in effect prior to the adoption of the circular of the Supervisor of Banks of December 29, 2011, concerning the format for the statement of profit and loss (for further details, see Note 1C(1)).

Rates of Financing Income and Expenses

Appendix 1 (continued)

	For the three months ended March 31							
	2012				2011			
			Rate of income (expense)[3]				Rate of income (expense)[3]	
	Average balance[(1)(2)]	Financing income (expenses)[(1)]	Without effect of derivatives	Including effect of derivatives[(4)]	Average balance[(1)(2)]	Financing income (expenses)[(1)]	Without effect of derivatives	Including effect of derivatives[(4)]
	NIS millions		%	%	NIS millions		%	%
Total								
Monetary assets generating financial income[(5)(6)]	**339,998**	**2,117**	**2.51**		*305,494	**2,977	**3.96	
Effect of derivatives[(4)]								
Hedging derivatives	**9,888**	**36**			12,310	21		
Embedded derivatives and ALM	**359,603**	**(2,408)**			291,658	**(257)		
Total assets	**709,489**	**(255)**		**(0.14)**	*609,462	**2,741		**1.81
Monetary liabilities generating financial expenses[(6)]	**(308,068)**	**(120)**	**(0.16)**		(276,127)	(1,095)	(1.60)	
Effect of derivatives[(4)]								
Hedging derivatives	**(10,371)**	**9**			(12,615)	(13)		
Embedded derivatives and ALM	**(362,328)**	**2,367**			(290,966)	**459		
Total liabilities	**(680,767)**	**2,256**		**1.32**	(579,708)	**(649)		**(0.45)
Interest spread			**2.35**	**1.18**			**2.36	**1.36

* Restated following the initial implementation of International Accounting standard 12, Taxes on Income. See Note 1(C)(2.2) to the condensed Financial Statements.
** Reclassified.
(1) The data are given before and after the effect of derivative instruments (including off-balance sheet effects of derivative instruments).
(2) Based on monthly opening balances (based on daily balances in the unlinked Israeli currency segment), and before deduction of the average balance sheet allowance for credit losses.
(3) Calculated on an annual basis.
(4) Hedging derivative instruments (excluding options), embedded derivatives that have been detached and ALM derivatives that form part of the Bank's ALM network.
(5) The average balance of the profits (losses) not yet realized from the adjustments to fair value, was deducted/added from the average balance of bonds available for sale and bonds held for trading at March 31, 2012 NIS 94 million (March 31, 2011: NIS 43 million) in the unlinked segment, NIS 24 million (March 31, 2011: NIS 21 million) in the CPI-linked segment, NIS 54 million (March 31, 2011: NIS 181 million) in the foreign currency segment (including Israeli currency linked to foreign currency).
(6) Excluding derivative instruments.

Note:
This appendix is reported in accordance with the reporting format in effect prior to the adoption of the circular of the Supervisor of Banks of December 29, 2011, concerning the format for the statement of profit and loss (for further details, see Note 1C(1)).

Rates of Financing Income and Expenses

Appendix 1 (continued)

(NIS millions)

	For the three months ended March 31			
	2012		2011	
	Average balance[1]	Financing income (expenses)	Average balance[1]	Financing income (expenses)
In respect of options		8		***8
In respect of other derivative instruments (not including options, hedging derivatives, ALM derivatives and embedded derivatives that have been detached)[2]				
Commissions from financing transactions and other financing income[5]		**192**		***154
Other financing expenses				(2)
Profit from financing activities before provision for credit losses		**2,201**		2,252
Provision for credit losses		**(303)**		(14)
Profit from financing activities after provision for credit losses		**1,898**		2,238
Total				
Monetary assets that generated financing income**[3][4]	**339,998**		305,494	
Assets deriving from derivative instruments[6]	**9,293**		6,567	
Other monetary assets[4]	**1,701**		**,*1,880	
Provision for credit losses	**(4,060)**		(4,414)	
Total monetary assets	**346,932**		**,*309,527	
Total				
Monetary liabilities that generated financing expenses[4]	**(308,068)**		(276,127)	
Liabilities deriving from derivative instruments[6]	**(11,936)**		(9,456)	
Other monetary liabilities[4]	**(7,589)**		*(6,787)	
Total monetary liabilities	**(327,593)**		*(292,370)	
Total excess of assets over financial liabilities	**19,339**		**,*17,157	
Non-monetary assets	**5,828**		5,973	
Non-monetary liabilities	**(715)**		(797)	
Total capital resources	**24,452**		**,*22,333	

* Restated following the retroactive implementation of the directives of the Supervisor of Banks regarding financial reporting on employee benefits. For further details, see Note 1(D) to the condensed Financial Statements.

** Restated following the initial implementation of International Accounting standard 12, Taxes on Income. See Note 1(C)(2.2) to the condensed Financial Statements.

*** Reclassified.

(1) Based on monthly opening balances (based on daily balances in the unlinked Israeli currency segment), and before deduction of the average balance sheet allowance for credit losses.

(2) Hedging derivative instruments (excluding options), embedded derivatives that have been detached and ALM derivatives that form part of the Bank's ALM network.

(3) The average balance of the profits (losses) not yet realized from the adjustments to fair value, was deducted/added from the average balance of bonds available for sale and bonds held for trading at March 31, 2012 NIS 94 million (March 31, 2011: NIS 43 million) in the unlinked segment, NIS 24 million (March 31, 2011: NIS 21 million) in the CPI-linked segment, NIS 54 million (March 31, 2011: NIS 181 million) in the foreign currency segment (including Israeli currency linked to foreign currency).

(4) Excluding derivative instruments.

(5) Including profits and losses from the sale of investments in bonds and from the adjustments to fair value of bonds held for trading.

(6) Average balance sheet balances of derivative instruments (not including average off-balance sheet balances of derivative instruments).

Note:

This appendix is reported in accordance with the reporting format in effect prior to the adoption of the circular of the Supervisor of Banks of December 29, 2011, concerning the format for the statement of profit and loss (for further details, see Note 1C(1)).

Rates of Financing Income and Expenses

Appendix I (continued)

	For the three months ended March 31							
	2012				2011			
			Rate of income (expense)[3]				Rate of income (expense)[3]	
	Average balance[1][2]	Financing income (expenses)[1]	Without effect of derivatives	Including effect of derivatives[4]	Average balance[1][2]	Financing income (expenses)[1]	Without effect of derivatives	Including effect of derivatives[4]
	USD millions		%	%	USD millions		%	%
Foreign currency (including Israeli currency linked to foreign currency)								
Monetary assets in foreign currency generating financial income[5]	**20,208**	**193**	**3.88**		17,680	225	5.19	
Effect of derivatives[4]								
Hedging derivatives	**2,583**	**9**			3,372	8		
Embedded derivatives and ALM	**51,825**	**767**			49,150	*1,153		
Total assets	**74,616**	**969**		**5.30**	70,202	*1,386		*8.13
Monetary liabilities in foreign currency generating financial expenses[5]	**(23,276)**	**(193)**	**(3.36)**		(22,940)	(71)	(1.24)	
Effect of derivatives[4]								
Hedging derivatives	**(2,711)**	**2**			(3,455)	(4)		
Embedded derivatives and ALM	**(49,652)**	**(729)**			(44,220)	*(978)		
Total liabilities	**(75,639)**	**(920)**		**(4.95)**	(70,615)	*(1,053)		*(6.10)
Interest spread			**0.52**	**0.35**			3.95	*2.03

* Reclassified.
(1) The data are given before and after the effect of derivative instruments (including off-balance sheet effects of derivative instruments).
(2) Based on monthly opening balances (based on daily balances in the unlinked Israeli currency segment), and before deduction of the average balance sheet allowance for credit losses.
(3) Calculated on an annual basis.
(4) Hedging derivative instruments (excluding options), embedded derivatives that have been detached and ALM derivatives that form part of the Bank's ALM network.
(5) Excluding derivative instruments.

Note:
This appendix is reported in accordance with the reporting format in effect prior to the adoption of the circular of the Supervisor of Banks of December 29, 2011, concerning the format for the statement of profit and loss (for further details, see Note 1C(1)).

Exposure of the Bank and Subsidiaries to Changes in Interest Rates

as at March 31, 2012

Appendix 2

	On demand up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	From 5 to 10 years	From 10 to 20 years
	NIS millions						
Israeli currency - unlinked							
Financial assets and amounts receivable in respect of derivative instruments and in respect of off-balance sheet financial instruments and complex financial assets							
Financial assets*,***	**155,149**	**7,477**	**20,862**	**6,745**	**3,239**	**3,455**	**1,532**
Derivative financial instruments (except options)	**30,698**	**55,554**	**44,672**	**19,621**	**9,571**	**12,380**	**270**
Options (In terms of the underlying asset)	**1,060**	**1,183**	**1,107**	**144**	**8**	**-**	**-**
Total Fair value	**186,907**	**64,214**	**66,641**	**26,510**	**12,818**	**15,835**	**1,802**
Financial liabilities and amounts payable in respect of derivative instruments and in respect of off-balance sheet financial instruments and complex financial liabilities							
Financial liabilities*	**138,725**	**10,604**	**11,956**	**9,241**	**2,142**	**3,962**	**237**
Derivative financial instruments (except options)	**34,788**	**52,035**	**48,319**	**20,471**	**9,361**	**13,561**	**312**
Options (In terms of the underlying asset)	**1,386**	**1,317**	**1,952**	**202**	**3**	**-**	**-**
Total fair value	**174,899**	**63,956**	**62,227**	**29,914**	**11,506**	**17,523**	**549**
Financial instruments, net							
Exposure to changes in interest rates in the segment	**12,008**	**258**	**4,414**	**(3,404)**	**1,312**	**(1,688)**	**1,253**
Cumulative exposure in the segment	**12,008**	**12,266**	**16,680**	**13,276**	**14,588**	**12,900**	**14,153**

* With the exception of balance sheet balances of derivative financial instruments, fair value of off-balance sheet financial instruments, and fair value of complex financial instruments.

** Average weighted by fair value of effective average duration.

*** The data include assumptions regarding early repayment in respect of housing loans. The effect of these assumptions is negligible.

General Notes:

(1) Further details regarding the exposure to changes in interest rates in each segment of the financial assets and financial liabilities, according to the different balance sheet items, will be provided upon request.

(2) In this table, data by periods reflect the current value of future cash flows of each financial instrument, capitalized by the interest rate used for deductiont to the fair value included in respect of the financial instrument, in consistency with the assumptions used to calculate the fair value of the financial instrument. For further details regarding the assumptions used in the calculation of the fair value of the financial instruments, see Note 8(A) in the condensed Financial Statements.

(3) The internal return rate is the interest rate for the deduction of the expected cash flows from the financial instrument to the fair value included in respect of it.

(4) The effective average duration of a group of financial instruments constitutes an approximation of the change, in percent, in the fair value of the group of financial instruments which would be caused by a small change (an increase of 0.1%) in the internal return rate of each of the financial instruments.

(5) Option components embedded in financial instruments, for accounting purposes, were expressed in cash flows through sorting by terms to maturity.

Over 20 years	With no repayment period	March 31, 2012 Total fair value	Internal rate of return	Effective duration	March 31, 2011 Total fair value	Internal rate of return	Effective duration	December 31, 2011 Total fair value	Internal rate of return	Effective duration
	NIS millions		%	years	NIS millions	%	years	NIS millions	%	years
1	2,197	200,657	4.82	0.39	182,340	5.92	0.40	198,490	5.03	0.41
-	-	172,766		1.02	138,239		0.89	164,005		0.95
-	-	3,502		0.30	5,940		0.18	4,093		0.20
1	2,197	376,925		**0.68	326,519		**0.61	366,588		**0.65
-	59	176,926	3.91	0.40	158,592	4.39	0.45	179,176	3.89	0.39
-	-	178,847		1.04	144,749		0.96	165,387		1.02
-	-	4,860		0.31	7,570		0.28	6,363		0.26
-	59	360,633		**0.72	310,911		**0.68	350,926		**0.68
1	2,138	16,292			15,608			15,662		
14,154	16,292									

Exposure of the Bank and Subsidiaries to Changes in Interest Rates

as at March 31, 2012

Appendix 2 (continued)

	On demand up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	From 5 to 10 years	From 10 to 20 years
	NIS millions						
Israeli currency - Linked to the CPI							
Financial assets and amounts receivable in respect of derivative instruments and in respect of off-balance sheet financial instruments and complex financial assets							
Financial assets*,***	**1,652**	**2,221**	**10,684**	**20,757**	**13,723**	**9,238**	**2,700**
Derivative financial instruments (except options)	**5**	**408**	**1,277**	**2,989**	**2,506**	**4,460**	**69**
Total Fair value	**1,657**	**2,629**	**11,961**	**23,746**	**16,229**	**13,698**	**2,769**
Financial liabilities and amounts payable in respect of derivative instruments and in respect of off-balance sheet financial instruments and complex financial liabilities							
Financial liabilities*	**1,666**	**1,147**	**6,487**	**14,251**	**9,095**	**16,471**	**2,739**
Derivative financial instruments (except options)	**231**	**647**	**3,040**	**5,456**	**1,985**	**6,269**	**-**
Total fair value	**1,897**	**1,794**	**9,527**	**19,707**	**11,080**	**22,740**	**2,739**
Financial instruments, net							
Exposure to changes in interest rates in the segment	**(240)**	**835**	**2,434**	**4,039**	**5,149**	**(9,042)**	**30**
Cumulative exposure in the segment	**(240)**	**595**	**3,029**	**7,068**	**12,217**	**3,175**	**3,205**

* With the exception of balance sheet balances of derivative financial instruments, fair value of off-balance sheet financial instruments, and fair value of complex financial instruments.

** Average weighted by fair value of effective average duration.

*** The data include assumptions regarding early repayment in respect of housing loans. The effect of these assumptions on fair value is a reduction of the fair value by NIS 9 million, and a reduction of the duration of the assets and of the difference in the duration by 0.16 years.

General Notes:

(1) Further details regarding the exposure to changes in interest rates in each segment of the financial assets and financial liabilities, according to the different balance sheet items, will be provided upon request.

(2) In this table, data by periods reflect the current value of future cash flows of each financial instrument, capitalized by the interest rate used for deductiont to the fair value included in respect of the financial instrument, in consistency with the assumptions used to calculate the fair value of the financial instrument. For further details regarding the assumptions used in the calculation of the fair value of the financial instruments, see Note 8(A) in the condensed Financial Statements.

(3) The internal return rate is the interest rate for the deduction of the expected cash flows from the financial instrument to the fair value included in respect of it.

(4) The effective average duration of a group of financial instruments constitutes an approximation of the change, in percent, in the fair value of the group of financial instruments which would be caused by a small change (an increase of 0.1%) in the internal return rate of each of the financial instruments.

(5) Option components embedded in financial instruments, for accounting purposes, were expressed in cash flows through sorting by terms to maturity.

		March 31, 2012			March 31, 2011			December 31, 2011		
Over 20 years	With no repayment period	Total fair value	Internal rate of return	Effective duration	Total fair value	Internal rate of return	Effective duration	Total fair value	Internal rate of return	Effective duration
	NIS millions		%	years	NIS millions	%	years	NIS millions	%	years
546	304	61,825	3.03	3.42	57,673	3.53	3.31	61,701	3.34	3.34
-	-	11,714		4.38	6,504		4.59	10,370		4.65
546	304	73,539		**3.57	64,177		**3.44	72,071		**3.53
38	-	51,894	2.26	4.20	46,023	2.07	4.18	50,523	2.47	4.15
-	-	17,628		3.63	16,377		3.79	17,270		3.83
38	-	69,522		**4.06	62,400		**4.08	67,793		**4.07
508	304	4,017			1,777			4,278		
3,713	4,017									

Exposure of the Bank and Subsidiaries to Changes in Interest Rates

as at March 31, 2012

Appendix 2 (continued)

	On demand up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	From 5 to 10 years	From 10 to 20 years
	NIS millions						
Foreign Currency******							
Financial assets and amounts receivable in respect of derivative instruments and in respect of off-balance sheet financial instruments and complex financial assets							
Financial assets*,***	**40,509**	**13,027**	**7,576**	**5,319**	**2,957**	**3,299**	**706**
Derivative financial instruments (except options)	**52,434**	**71,722**	**50,342**	**14,002**	**15,520**	**11,617**	**1,068**
Options (In terms of the underlying asset)	**2,347**	**3,225**	**3,486**	**327**	**12**	**-**	**-**
Total Fair value	**95,290**	**87,974**	**61,404**	**19,648**	**18,489**	**14,916**	**1,774**
Financial liabilities and amounts payable in respect of derivative instruments and in respect of off-balance sheet financial instruments and complex financial liabilities							
Financial liabilities*	**41,721**	**22,768**	**16,705**	**2,554**	**531**	**368**	**984**
Derivative financial instruments (except options)	**59,809**	**61,062**	**41,354**	**14,221**	**16,467**	**14,468**	**689**
Options (In terms of the underlying asset)	**2,024**	**3,085**	**2,639**	**245**	**3**	**-**	**-**
Total fair value	**103,554**	**86,915**	**60,698**	**17,020**	**17,001**	**14,836**	**1,673**
Financial instruments, net							
Exposure to changes in interest rates in the segment	**(8,264)**	**1,059**	**706**	**2,628**	**1,488**	**80**	**101**
Cumulative exposure in the segment	**(8,264)**	**(7,205)**	**(6,499)**	**(3,871)**	**(2,383)**	**(2,303)**	**(2,202)**

* With the exception of balance sheet balances of derivative financial instruments, fair value of off-balance sheet financial instruments, and fair value of complex financial instruments.

** Average weighted by fair value of effective average duration.

*** The data include assumptions regarding early repayment in respect of housing loans. The effect of these assumptions is negligible.

**** Including Israeli currency linked to foreign currency.

General Notes:

(1) Further details regarding the exposure to changes in interest rates in each segment of the financial assets and financial liabilities, according to the different balance sheet items, will be provided upon request.

(2) In this table, data by periods reflect the current value of future cash flows of each financial instrument, capitalized by the interest rate used for deductiont to the fair value included in respect of the financial instrument, in consistency with the assumptions used to calculate the fair value of the financial instrument. For further details regarding the assumptions used in the calculation of the fair value of the financial instruments, see Note 8(A) in the condensed Financial Statements.

(3) The internal return rate is the interest rate for the deduction of the expected cash flows from the financial instrument to the fair value included in respect of it.

(4) The effective average duration of a group of financial instruments constitutes an approximation of the change, in percent, in the fair value of the group of financial instruments which would be caused by a small change (an increase of 0.1%) in the internal return rate of each of the financial instruments.

(5) Option components embedded in financial instruments, for accounting purposes, were expressed in cash flows through sorting by terms to maturity.

Over 20 years	With no repayment period	March 31, 2012 Total fair value	March 31, 2012 Internal rate of return	March 31, 2012 Effective duration	March 31, 2011 Total fair value	March 31, 2011 Internal rate of return	March 31, 2011 Effective duration	December 31, 2011 Total fair value	December 31, 2011 Internal rate of return	December 31, 2011 Effective duration
	NIS millions		%	years	NIS millions	%	years	NIS millions	%	years
97	**923**	**74,413**	**4.21**	**0.88**	65,346	3.87	1.07	79,052	4.13	0.87
414	**-**	**217,119**		**1.02**	260,180		1.14	246,037		1.11
-	**-**	**9,397**		**0.17**	15,367		0.27	19,550		0.15
511	**923**	**300,929**		****0.96**	340,893		**1.09	344,639		**1.00
439	**153**	**86,223**	**1.57**	**0.68**	81,413	1.86	1.39	89,105	1.85	0.91
95	**-**	**208,165**		**1.09**	246,925		0.97	240,472		1.04
-	**-**	**7,996**		**0.13**	13,718		0.24	17,235		0.11
534	**153**	**302,384**		****0.95**	342,056		**1.04	346,812		**0.96
(23)	**770**	**(1,455)**			(1,163)			(2,173)		
(2,225)	**(1,455)**									

Exposure of the Bank and Subsidiaries to Changes in Interest Rates

as at March 31, 2012

Appendix 2 (continued)

	On demand up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	From 5 to 10 years	From 10 to 20 years
	NIS millions						
Total exposure to changes in interest rates							
Financial assets and amounts receivable in respect of derivative instruments and in respect of off-balance sheet financial instruments and complex financial assets							
Financial assets*,***,****	**197,310**	**22,725**	**39,122**	**32,821**	**19,919**	**15,992**	**4,938**
Derivative financial instruments (except options)	**83,137**	**127,684**	**96,291**	**36,612**	**27,597**	**28,457**	**1,407**
Options (In terms of the underlying asset)	**3,407**	**4,408**	**4,593**	**471**	**20**	**-**	**-**
Total Fair value	**283,854**	**154,817**	**140,006**	**69,904**	**47,536**	**44,449**	**6,345**
Financial liabilities and amounts payable in respect of derivative instruments and in respect of off-balance sheet financial instruments and complex financial liabilities							
Financial liabilities*	**182,112**	**34,519**	**35,148**	**26,046**	**11,768**	**20,801**	**3,960**
Derivative financial instruments (except options)	**94,828**	**113,744**	**92,713**	**40,148**	**27,813**	**34,298**	**1,001**
Options (In terms of the underlying asset)	**3,410**	**4,402**	**4,591**	**447**	**6**	**-**	**-**
Total fair value	**280,350**	**152,665**	**132,452**	**66,641**	**39,587**	**55,099**	**4,961**
Financial instruments, net							
Exposure to changes in interest rates in the segment	**3,504**	**2,152**	**7,554**	**3,263**	**7,949**	**(10,650)**	**1,384**
Cumulative exposure in the segment	**3,504**	**5,656**	**13,210**	**16,473**	**24,422**	**13,772**	**15,156**

* With the exception of balance sheet balances of derivative financial instruments, fair value of off-balance sheet financial instruments, and fair value of complex financial instruments.

** Average weighted by fair value of effective average duration.

*** Including shares presented in the "with no repayment period" column.

**** The data include assumptions regarding early repayment in respect of housing loans. In the unlinked and foreign-currency segments: the effect of these assumptions is negligible. In the CPI-linked segment: the effect of these assumptions on fair value is a reduction of the fair value by NIS 9 million, and a reduction of the duration of the assets and of the difference in the duration by 0.16 years.

General Notes:

(1) Further details regarding the exposure to changes in interest rates in each segment of the financial assets and financial liabilities, according to the different balance sheet items, will be provided upon request.

(2) In this table, data by periods reflect the current value of future cash flows of each financial instrument, capitalized by the interest rate used for deductiont to the fair value included in respect of the financial instrument, in consistency with the assumptions used to calculate the fair value of the financial instrument. For further details regarding the assumptions used in the calculation of the fair value of the financial instruments, see Note 8(A) in the condensed Financial Statements.

(3) The internal return rate is the interest rate for the deduction of the expected cash flows from the financial instrument to the fair value included in respect of it.

(4) The effective average duration of a group of financial instruments constitutes an approximation of the change, in percent, in the fair value of the group of financial instruments which would be caused by a small change (an increase of 0.1%) in the internal return rate of each of the financial instruments.

(5) Option components embedded in financial instruments, for accounting purposes, were expressed in cash flows through sorting by terms to maturity.

Over 20 years	With no repayment period	March 31, 2012 Total fair value	March 31, 2012 Internal rate of return	March 31, 2012 Effective duration	March 31, 2011 Total fair value	March 31, 2011 Internal rate of return	March 31, 2011 Effective duration	December 31, 2011 Total fair value	December 31, 2011 Internal rate of return	December 31, 2011 Effective duration
	NIS millions		%	years	NIS millions	%	years	NIS millions	%	years
644	**4,982**	**338,453**	**4.47**	**1.04**	307,664	5.33	1.07	340,833	4.49	1.03
414	**-**	**401,599**		**1.12**	404,923		1.11	420,412		1.14
-	**-**	**12,899**		**0.21**	21,307		0.24	23,643		0.16
1,058	**4,982**	**752,951**		****1.07**	733,894		**1.07	784,888		**1.06
477	**212**	**315,043**	**2.90**	**1.10**	286,028	3.04	1.32	318,804	3.01	1.13
95	**-**	**404,640**		**1.18**	408,051		1.08	423,129		1.15
-	**-**	**12,856**		**0.20**	21,288		0.25	23,598		0.15
572	**212**	**732,539**		****1.13**	715,367		**1.15	765,531		**1.11
486	**4,770**	**20,412**			18,527			19,357		
15,642	**20,412**									

Total Credit Risk to the Public by Economic Sectors

Appendix 3

In respect of borrowers activities in Israel
Agriculture
Industry
Construction and Real Estate(7)
Electricity and water
Commerce
Hotels, hospitality & food services
Transportation and storage
Communications and computer services
Financial services
Other business services
Public and community services
Private individuals - housing loans
Private individuals - other
Total with respect to borrowers activities in Israel
With respect to borrowers activities abroad
Total
Credit risk included within the various economic sectors:
Settlement movements(5)
Local authorities(6)

* Balance-sheet and off-balance sheet credit risk, problematic credit risk, and impaired credit to the public are presented before the effect of the provision for credit losses, and before the effect of collateral permitted for deduction for the purpose of the indebtedness of a borrower and borrowers group.

(1) Credit to the public, investments in corporate bonds, other liabilities of the public and other assets in respect of derivative instruments transacted against the public amounted to NIS 248,817, 3,133, 552 and 3,072 million respectively.

(2) Credit risk in respect of off-balance sheet financial instruments as calculated for the purpose of the limits on indebtedness of a borrower (Excluding unutilized credit-card credit facilities under the responsibility of other banks in the amount of approximately NIS 10,542 million), pursuant to the amended Proper Conduct of Banking Business Directive No. 313, which took effect on December 31, 2011.

(3) Balance-sheet and off-balance sheet credit risk in respect of the public that is impaired, substandard, or under special supervision, including in respect of housing loans for which a provision based on the extent of arrears exists, and housing loans for which a provision based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").

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

(6) Including corporations under their control.

(7) Including balance sheet credit risk in the amount of NIS 441 million, and off-balance sheet credit risk in the amount of NIS 1,996 million that extended to certain purchasing groups, which are currently in the process of construction.

(NIS millions)

	as at March 31, 2012							
	Credit risk to the public*					Credit losses[4]		
				The risk of credit to the public includes:				
	Balance Sheet credit risk[1]	Off-Balance Sheet credit risk[2]	Total credit risk to the public	Problematic credit risk[3]	Impaired credit to the public	Provision (income) for credit losses	Net accounting write-offs	Allowance for credit losses
	2,181	**696**	**2,877**	**116**	**71**	**(5)**	**(29)**	**25**
	20,219	**21,004**	**41,223**	**2,514**	**1,387**	**(96)**	**(61)**	**605**
	40,355	**35,217**	**75,572**	**4,336**	**2,425**	**(35)**	**(19)**	**1,151**
	3,972	**3,901**	**7,873**	**87**	**61**	**(1)**	**(9)**	**30**
	18,744	**8,302**	**27,046**	**1,207**	**672**	**192**	**(172)**	**380**
	6,640	**1,112**	**7,752**	**541**	**354**	**16**	**(32)**	**79**
	6,284	**1,891**	**8,175**	**1,015**	**32**	**82**	**-**	**101**
	7,107	**4,123**	**11,230**	**517**	**165**	**3**	**6**	**57**
	19,571	**12,046**	**31,617**	**1,821**	**801**	**112**	**(2)**	**274**
	9,269	**4,114**	**13,383**	**214**	**103**	**(19)**	**-**	**99**
	6,040	**1,508**	**7,548**	**223**	**106**	**11**	**(6)**	**54**
	45,390	**2,141**	**47,531**	**965**	**-**	**3**	**-**	**345**
	41,857	**36,858**	**78,715**	**1,158**	**944**	**62**	**(1)**	**889**
	227,629	**132,913**	**360,542**	**14,714**	**7,121**	**325**	**(325)**	**4,089**
	27,945	**14,596**	**42,541**	**1,616**	**1,121**	**(22)**	**(30)**	**515**
	255,574	**147,509**	**403,083**	**16,330**	**8,242**	**303**	**(355)**	**4,604**
	2,823	**1,320**	**4,143**	**496**	**314**	**(5)**	**-**	**88**
	4,243	**425**	**4,668**	**26**	**-**	**3**	**-**	**21**

Total Credit Risk to the Public by Economic Sectors

Appendix 3 (continued)

In respect of borrowers activities in Israel
Agriculture
Industry
Construction and Real Estate[(7)]
Electricity and water
Commerce
Hotels, hospitality & food services
Transportation and storage
Communications and computer services
Financial services
Other business services
Public and community services
Private individuals - housing loans
Private individuals - other
Total with respect to borrowers activities in Israel
With respect to borrowers activities abroad
Total
Credit risk included within the various economic sectors:
Settlement movements[(5)]
Local authorities[(6)]

* Balance-sheet and off-balance sheet credit risk, problematic credit risk, and impaired credit to the public are presented before the effect of the provision for credit losses, and before the effect of collateral permitted for deduction for the purpose of the indebtedness of a borrower and borrowers group.

** Restated.

(1) Credit to the public, investments in corporate bonds, other liabilities of the public and other assets in respect of derivative instruments transacted against the public amounted to NIS 234,628, 3,757, 573 and 3,018 million respectively.

(2) Credit risk in respect of off-balance sheet financial instruments as calculated for the purpose of the limits on indebtedness of a borrower (Excluding unutilized credit-card credit facilities under the responsibility of other banks in the amount of approximately NIS 9,803 million), Pursuant to Proper Conduct of Banking Business Directive No.313 (old version).

(3) Balance-sheet and off-balance sheet credit risk in respect of the public that is impaired, substandard, or under special supervision, excluding balance sheet and off-balance sheet credit risk in respect of private individuals.

(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").

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

(6) Including corporations under their control.

(7) Including balance sheet credit risk in the amount of NIS 371 million, and off-balance sheet credit risk in the amount of NIS 1,718 million that extended to certain purchasing groups, which are currently in the process of construction.

(NIS millions)

as at March 31, 2011							
Credit risk to the public*					Credit losses[4]		
			The risk of credit to the public includes:				
Balance Sheet credit risk[1]	Off-Balance Sheet credit risk[2]	Total credit risk to the public	Problematic credit risk[3]	Impaired credit to the public	Provision (income) for credit losses	Net accounting write-offs**	Allowance for credit losses
1,980	638	2,618	154	87	4	(24)	41
19,398	21,951	41,349	2,839	1,838	(5)	(3)	1,281
39,935	29,384	69,319	4,864	3,811	(36)	(195)	1,135
2,959	1,866	4,825	67	63	-	-	24
16,206	8,445	24,651	830	387	127	(7)	408
5,859	1,380	7,239	455	417	(5)	(34)	97
5,869	1,863	7,732	98	71	(8)	(1)	32
6,701	3,803	10,504	492	78	(49)	9	116
19,792	15,036	34,828	2,347	1,498	(67)	(36)	298
9,288	4,368	13,656	185	120	-	(3)	152
6,575	2,013	8,588	298	99	26	(15)	74
42,087	4,860	46,947	-	-	(1)	-	354
39,586	34,307	73,893	-	936	29	(28)	919
216,235	129,914	346,149	12,629	9,405	15	(337)	4,931
25,741	17,856	43,597	1,499	858	(1)	(1)	294
241,976	147,770	389,746	14,128	10,263	14	(338)	5,225
3,242	1,244	4,486	575	376	4	-	49
4,389	530	4,919	35	-	-	-	9

Total Credit Risk to the Public by Economic Sectors

Appendix 3 (continued)

(NIS millions)

In respect of borrowers activities in Israel
Agriculture
Industry
Construction and Real Estate[7]
Electricity and water
Commerce
Hotels, hospitality & food services
Transportation and storage
Communications and computer services
Financial services
Other business services
Public and community services
Private individuals - housing loans
Private individuals - other
Total with respect to borrowers activities in Israel
With respect to borrowers activities abroad
Total
Credit risk included within the various economic sectors:
Settlement movements[5]
Local authorities[6]

* Balance-sheet and off-balance sheet credit risk, problematic credit risk, and impaired credit to the public are presented before the effect of the provision for credit losses, and before the effect of collateral permitted for deduction for the purpose of the indebtedness of a borrower and borrowers group.

(1) Credit to the public, investments in corporate bonds, other liabilities of the public and other assets in respect of derivative instruments transacted against the public amounted to NIS 250,592, 2,867, 687 and 4,765 million respectively.

(2) Credit risk in respect of off-balance sheet financial instruments as calculated for the purpose of the limits on indebtedness of a borrower (Excluding unutilized credit-card credit facilities under the responsibility of other banks in the amount of approximately NIS 10,163 million), pursuant to the amended Proper Conduct of Banking Business Directive No. 313, which took effect on December 31, 2011.

(3) Includes balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which a provision based on the extent of arrears exists, and housing loans for which a provision based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").

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

(6) Including corporations under their control.

(7) Including balance sheet credit risk in the amount of NIS 433 million, and off-balance sheet credit risk in the amount of NIS 2,169 million that extended to certain purchasing groups, which are currently in the process of construction.

(NIS millions)

as at December 31, 2011							
Credit risk to the public*					Credit losses for the year ended December 31, 2011[(4)]		
			The risk of credit to the public includes:				
Balance Sheet credit risk[(1)]	Off-Balance Sheet credit risk[(2)]	Total credit risk to the public	Problematic credit risk[(3)]	Impaired credit to the public	Provision (income) for credit losses	Net accounting write-offs	Allowance for credit losses
2,185	610	2,795	116	77	(12)	(153)	23
20,311	21,207	41,518	2,630	1,482	(265)	(108)	798
41,583	32,681	74,264	4,628	2,709	1,165	(1,260)	1,178
3,866	4,167	8,033	111	63	6	(48)	41
18,492	8,561	27,053	1,220	712	136	(34)	356
6,546	1,122	7,668	426	372	18	(168)	64
5,843	2,180	8,023	60	26	(11)	(28)	16
7,180	4,272	11,452	380	166	(141)	97	53
21,724	12,123	33,847	907	691	(20)	(38)	135
9,136	4,003	13,139	213	103	19	(19)	115
6,087	1,665	7,752	231	111	37	(120)	47
44,781	2,012	46,793	984	-	45	(23)	356
41,741	36,059	77,800	1,176	924	240	(191)	899
229,475	130,662	360,137	13,082	7,436	1,217	(2,093)	4,081
29,436	15,201	44,637	1,678	1,173	(14)	(3)	575
258,911	145,863	404,774	14,760	8,609	1,203	(2,096)	4,656
2,947	1,386	4,333	569	337	(12)	-	92
4,303	573	4,876	28	-	6	-	18

Exposure to Foreign Countries[1]
Appendix 4

Part A – Information regarding total exposures to foreign countries and exposures to countries where total exposure to each country is greater than 1% of total consolidated assets or greater than 20% of capital, whichever is lower:

	as at March 31, 2012		
	Balance Sheet exposure[4]		
	Cross-Border Balance Sheet exposure		
	To Governments[3]	To Banks	To Others
Country			
A. United States	**-**	**1,868**	**2,027**
B. Switzerland	**-**	**278**	**475**
C. England	**-**	**1,692**	**2,603**
D. Turkey	**-**	**113**	**8**
E. Germany	**90**	**960**	**629**
F. France	**25**	**1,054**	**467**
G. Ireland	**-**	**17**	**83**
H. Spain	**-**	**83**	**25**
I. Portugal	**1**	**-**	**1**
J. Greece	**6**	**-**	**-**
K. Italy	**1**	**6**	**54**
L. Others	**542**	**1,443**	**5,754**
Total exposure to foreign countries	**665**	**7,514**	**12,126**
Total exposure to LDC	**61**	**252**	**641**

The line "total LDCs" includes the total exposure to countries defined as Less Developed Countries (LDCs) in Proper Conduct of Banking Business Directive No. 315, "Supplementary Provisions for Doubtful Debts". This amount includes data for Turkey, as detailed in the table above.
The balance sheet exposure to a foreign country includes cross-border balance sheet exposure and balance sheet exposure of the offices of the banking corporation in the foreign country to local residents. Cross-border balance sheet exposure includes balance sheet exposure of the offices of the banking corporation in Israel to residents of the foreign country, and balance sheet exposure of the overseas offices of the banking corporation to non-residents of the country in which the office is located.
Balance-sheet exposure of the banking corporation's offices in a foreign country to local residents includes balance sheet exposure of the offices of the banking corporation in that foreign country to the residents of the country, less liabilities of those offices (the deduction is performed up to the level of the exposure).

(1) Based on the final risk, taking into account guarantees, liquid collateral and credit derivatives.
(2) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limits on indebtedness of a borrower, pursuant to the amended Proper Conduct of Banking Business Directive No. 313, which took effect on December 31, 2011.
(3) Governments, Official institutions and Central Banks.
(4) Balance-sheet and off-balance sheet credit risk, problematic commercial credit risk, and impaired debts are presented before the effect of the provision for credit losses, and before the effect of collateral permitted for deduction for the purpose of the indebtedness of a borrower and borrowers group.

(NIS millions)

as at March 31, 2012									
Balance Sheet exposure[(4)]						Off-Balance Sheet Exposure[(2)(4)]			
Balance Sheet exposure of the Bank's overseas offices to local residents								Cross-Border Balance Sheet Exposure	
Balance Sheet exposure, before deduction for local liabilities	Deduction for local liabilities	Balance Sheet exposure, net of local liabilities	Total Balance Sheet exposure	Problematic Balance Sheet commercial credit risk[(4)]	Impaired debts[(4)]	Total off-Balance Sheet exposure	Of which: Problematic off-Balance-Sheet commercial credit risk[(4)]	Maturity up to one year	Maturity over one year
19,392	**6,560**	**12,832**	**16,727**	**377**	**223**	**6,840**	**96**	**1,739**	**2,156**
4,301	**-**	**4,301**	**5,054**	**-**	**-**	**414**	**-**	**515**	**238**
1,163	**442**	**721**	**5,016**	**71**	**45**	**3,308**	**-**	**2,493**	**1,802**
3,501	**449**	**3,052**	**3,173**	**114**	**114**	**952**	**-**	**117**	**4**
-	**-**	**-**	**1,679**	**8**	**8**	**952**	**-**	**802**	**877**
-	**-**	**-**	**1,546**	**34**	**35**	**1,180**	**1**	**590**	**956**
-	**-**	**-**	**100**	**3**	**-**	**190**	**-**	**99**	**1**
-	**-**	**-**	**108**	**-**	**-**	**129**	**-**	**26**	**82**
-	**-**	**-**	**2**	**-**	**-**	**-**	**-**	**-**	**2**
-	**-**	**-**	**6**	**-**	**-**	**1**	**-**	**-**	**6**
-	**-**	**-**	**61**	**5**	**-**	**32**	**-**	**9**	**52**
366	**20**	**346**	**8,085**	**159**	**44**	**2,712**	**-**	**4,454**	**3,285**
28,723	**7,471**	**21,252**	**41,557**	**771**	**469**	**16,710**	**97**	**10,844**	**9,461**
3,867	**469**	**3,398**	**4,352**	**150**	**150**	**1,900**	**-**	**349**	**605**

Exposure to Foreign Countries(1)

Appendix 4 (continued)

Part A – Information regarding total exposures to foreign countries and exposures to countries where total exposure to each country is greater than 1% of total consolidated assets or greater than 20% of capital, whichever is lower (continued):

	as at March 31, 2011		
	Balance Sheet exposure(4)		
	Cross-Border Balance Sheet exposure		
Country	To Governments(3)	To Banks	To Others
A. United States	1	1,298	1,734
B. Switzerland	-	559	478
C. England	-	1,641	1,668
D. Turkey	-	154	40
E. Germany	185	953	831
F. France	44	1,163	485
G. Ireland	-	15	132
H. Spain	25	133	49
I. Portugal	-	3	2
J. Greece	-	-	1
K. Italy*	-	12	51
L. Others*	858	1,343	5,514
Total exposure to foreign countries	1,113	7,274	10,985
Total exposure to LDC	20	347	495

The line "total LDCs" includes the total exposure to countries defined as Less Developed Countries (LDCs) in Proper Conduct of Banking Business Directive No. 315, "Supplementary Provisions for Doubtful Debts". This amount includes data for Turkey, as detailed in the table above.
The balance sheet exposure to a foreign country includes cross-border balance sheet exposure and balance sheet exposure of the offices of the banking corporation in the foreign country to local residents. Cross-border balance sheet exposure includes balance sheet exposure of the offices of the banking corporation in Israel to residents of the foreign country, and balance sheet exposure of the overseas offices of the banking corporation to non-residents of the country in which the office is located.
Balance-sheet exposure of the banking corporation's offices in a foreign country to local residents includes balance sheet exposure of the offices of the banking corporation in that foreign country to the residents of the country, less liabilities of those offices (the deduction is performed up to the level of the exposure).

* Reclassified; data on exposure to Italy, previously included in other countries, are presented separately.
(1) Based on the final risk, taking into account guarantees, liquid collateral and credit derivatives.
(2) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limits on indebtedness of a borrower, pursuant to the amended Proper Conduct of Banking Business Directive No. 313 (old version).
(3) Governments, Official institutions and Central Banks.
(4) Balance-sheet and off-balance sheet credit risk, problematic commercial credit risk, and impaired debts are presented before the effect of the provision for credit losses, and before the effect of collateral permitted for deduction for the purpose of the indebtedness of a borrower and borrowers group.

(NIS millions)

as at March 31, 2011									
Balance Sheet exposure[4]						Off-Balance Sheet Exposure[2][4]			
Balance Sheet exposure of the Bank's overseas offices to local residents								Cross-Border Balance Sheet Exposure	
Balance Sheet exposure, before deduction for local liabilities	Deduction for local liabilities	Balance Sheet exposure, net of local liabilities	Total Balance Sheet exposure	Problematic Balance Sheet commercial credit risk[4]	Impaired debts[4]	Total off-Balance Sheet exposure	Of which: Problematic off-Balance-Sheet commercial credit risk[4]	Maturity up to one year	Maturity over one year
14,122	7,380	6,742	9,775	404	109	10,633	113	1,404	1,629
3,188	-	3,188	4,225	-	-	4,051	-	704	333
1,092	322	770	4,079	30	-	9,822	10	1,129	2,180
3,349	443	2,906	3,100	147	147	935	-	98	96
-	-	-	1,969	9	9	3,087	-	825	1,144
-	-	-	1,692	-	-	4,830	-	835	857
-	-	-	147	3	-	176	-	112	35
-	-	-	207	-	-	335	-	68	139
-	-	-	5	-	-	-	-	3	2
-	-	-	1	-	-	1	-	1	-
-	-	-	63	-	-	34	-	28	35
370	119	251	7,966	2	15	2,880	-	4,748	2,967
22,121	8,264	13,857	33,229	595	280	36,784	123	9,955	9,417
3,714	561	3,153	4,015	147	149	1,923	-	245	617

Exposure to Foreign Countries[1]

Appendix 4 (continued)

Part A – Information regarding total exposures to foreign countries and exposures to countries where total exposure to each country is greater than 1% of total consolidated assets or greater than 20% of capital, whichever is lower (continued):

	as at December 31, 2011		
	Balance Sheet exposure[4]		
	Cross-Border Balance Sheet exposure		
Country	To Governments[3]	To Banks	To Others
A. United States	2	1,451	2,218
B. Switzerland	-	597	445
C. England	-	2,438	2,885
D. Turkey	-	82	44
E. Germany	139	1,185	602
F. France	-	1,698	502
G. Ireland	-	13	97
H. Spain	12	79	33
I. Portugal	-	-	1
J. Greece	-	-	1
K. Italy	-	3	46
L. Others	613	1,644	6,222
Total exposure to foreign countries	766	9,190	13,096
Total exposure to LDC	70	302	660

The line "total LDCs" includes the total exposure to countries defined as Less Developed Countries (LDCs) in Proper Conduct of Banking Business Directive No. 315, "Supplementary Provisions for Doubtful Debts". This amount includes data for Turkey, as detailed in the table above.

The balance sheet exposure to a foreign country includes cross-border balance sheet exposure and balance sheet exposure of the offices of the banking corporation in the foreign country to local residents. Cross-border balance sheet exposure includes balance sheet exposure of the offices of the banking corporation in Israel to residents of the foreign country, and balance sheet exposure of the overseas offices of the banking corporation to non-residents of the country in which the office is located.

Balance-sheet exposure of the banking corporation's offices in a foreign country to local residents includes balance sheet exposure of the offices of the banking corporation in that foreign country to the residents of the country, less liabilities of those offices (the deduction is performed up to the level of the exposure).

(1) Based on the final risk, taking into account guarantees, liquid collateral and credit derivatives.

(2) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limits on indebtedness of a borrower, pursuant to the amended Proper Conduct of Banking Business Directive No. 313, which took effect on December 31, 2011.

(3) Governments, Official institutions and Central Banks.

(4) Balance-sheet and off-balance sheet credit risk, problematic commercial credit risk, and impaired debts are presented before the effect of the provision for credit losses, and before the effect of collateral permitted for deduction for the purpose of the indebtedness of a borrower and borrowers group.

Part B – Information regarding countries where total exposure to each country is between 0.75% and 1% of total consolidated assets, or between 15% and 20% of capital, whichever is lower.

Name of Country:
Canada
The aggregate balance sheet exposures to foreign countries detailed in this section total NIS 2,348 million as at March 31, 2012 (March 31, 2011: NIS 2,605 million, December 31, 2011: NIS 2,556 million).

Note: Data for March 2012 include countries that do not exceed the required exposure amount, because these countries were included in the data for December 2011.

(NIS millions)

as at December 31, 2011									
Balance Sheet exposure[4]						Off-Balance Sheet Exposure[2][4]			
Balance Sheet exposure of the Bank's overseas offices to local residents								Cross-Border Balance Sheet Exposure	
Balance Sheet exposure, before deduction for local liabilities	Deduction for local liabilities	Balance Sheet exposure, net of local liabilities	Total Balance Sheet exposure	Problematic Balance Sheet commercial credit risk[4]	Impaired debts[4]	Total off-Balance Sheet exposure	Of which: Problematic off-Balance -Sheet commercial credit risk[4]	Maturity up to one year	Maturity over one year
21,275	7,575	13,700	17,371	424	231	7,103	90	1,346	2,325
4,619	-	4,619	5,661	-	-	548	-	795	247
1,503	395	1,108	6,431	70	47	3,634	-	3,324	1,999
3,322	310	3,012	3,138	120	120	1,049	-	67	59
-	-	-	1,926	8	8	995	-	1,006	920
-	-	-	2,200	-	1	1,282	-	1,088	1,112
-	-	-	110	3	-	195	-	104	6
-	-	-	124	-	-	129	-	43	81
-	-	-	1	-	-	-	-	-	1
-	-	-	1	-	-	1	-	1	-
-	-	-	49	5	-	32	1	11	38
449	10	439	8,918	159	43	2,842	-	5,158	3,321
31,168	8,290	22,878	45,930	789	450	17,810	91	12,943	10,109
3,771	320	3,451	4,483	155	154	2,164	-	363	669

(NIS millions)

Part C – Information regarding Balance Sheet exposure to foreign countries with liquidity problems.

A. Change in amount of Balance Sheet exposure to foreign countries with liquidity problems, which are detailed in Section A above.

	For the period of three months ended March 31, 2012					
	Greece	Ireland	Portugal	Italy	Spain	Total
Total exposure at beginning of the period	**1**	**110**	**1**	**49**	**124**	**285**
Net changes in amount of short-term exposure	**(1)**	**(10)**	**-**	**(2)**	**(20)**	**(33)**
Changes in other exposures:						
Additional exposures	**6**	**-**	**1**	**24**	**27**	**58**
Accrued interest income	**-**	**-**	**-**	**1**	**-**	**1**
Amounts collected	**-**	**-**	**-**	**(11)**	**(23)**	**(34)**
Total exposure at end of the period	**6**	**100**	**2**	**61**	**108**	**277**

	For the period of three months ended March 31, 2011					
	Greece	Ireland	Portugal	Italy	Spain	Total
Total exposure at beginning of the period	2	215	-	136	186	539
Net changes in amount of short-term exposure	(1)	(68)	4	(87)	-	(152)
Changes in other exposures:						
Additional exposures	-	-	1	22	20	43
Accrued interest income	-	-	-	-	1	1
Amounts collected	-	-	-	(8)	-	(8)
Total exposure at end of the period	1	147	5	63	207	423

	For 2011					
	Greece	Ireland	Portugal	Italy	Spain	Total
Total exposure at beginning of the period	2	215	-	136	186	539
Net changes in amount of short-term exposure	(1)	(110)	-	(80)	(58)	(249)
Changes in other exposures:						
Additional exposures	-	5	1	7	13	26
Accrued interest income	-	-	-	2	1	3
Amounts collected	-	-	-	(16)	(18)	(34)
Total exposure at end of the period	1	110	1	49	124	285

(1) Based on the final risk, taking into account guarantees, liquid collateral and credit derivatives.

CEO Certification

I, Zion Kenan, declare that:

1. I have reviewed the quarterly report of Bank Hapoalim B.M. (hereinafter: the "Bank") for the quarter ended March 31, 2012 (hereinafter: the "Report").
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included in the Report fairly reflect the financial condition, results of operations, changes in equity, and cash flows of the Bank, in all material aspects, for the dates and periods presented in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure and internal control of financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"); furthermore:
   (A) We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report;
   (B) We have established such internal control of financial reporting, or caused such internal control of financial reporting to be established under our supervision, intended to provide a reasonable degree of confidence with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks;
   (C) We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure in the Report, as at the end of the period covered in the Report, based on our assessment; and
   (D) We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during the quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditors, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control of financial reporting:
   (A) Any significant deficiencies and material weaknesses in the establishment or application of internal control of financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, or report financial information; and
   (B) Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have a significant role in the internal control of financial reporting at the Bank.

The aforesaid shall not detract from my responsibility, or from the responsibility of any other person, under any law.

Zion Kenan
President & Chief Executive Officer

Tel Aviv, May 30, 2012

Chief Accountant Certification

I, Ofer Levy, declare that:

1. I have reviewed the quarterly report of Bank Hapoalim B.M. (hereinafter: the "Bank") for the quarter ended March 31, 2012 (hereinafter: the "Report").
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included in the Report correctly reflect the financial condition, results of operations, changes in equity, and cash flows of the Bank, in all material aspects, for the dates and periods presented in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure and internal control of financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"); furthermore:
   (A) We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report;
   (B) We have established such internal control of financial reporting, or caused such internal control of financial reporting to be established under our supervision, intended to provide a reasonable degree of confidence with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks;
   (C) We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure, as at the end of the period covered in the Report, based on our assessment; and
   (D) We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during the quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditors, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control of financial reporting:
   (A) Any significant deficiencies or material weaknesses in the establishment or application of internal control of financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, or report financial information; and
   (B) Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have a significant role in the internal control of financial reporting at the Bank.

The aforesaid shall not detract from my responsibility, or from the responsibility of any other person, under any law.

Ofer Levy
Senior Deputy Managing Director,
Chief Accountant

Tel Aviv, May 30, 2012

Review Report to the Shareholders of Bank Hapoalim Ltd.

Introduction

We have reviewed the accompanying financial information of Bank Hapoalim B.M. and its subsidiaries (hereinafter – "the Bank") comprising of the condensed consolidated interim balance sheet as at March 31, 2012 and the related condensed consolidated interim statements of income, changes in equity and cash flows for the three-month period then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with generally accepted accounting principles in Israel (Israeli GAAP) on interim financial reporting and in accordance with the directives and guidelines of the Supervisor of Banks. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel and a review standard applied in the review of banking institutions according to the directives and guidelines of the Supervisor of Banks. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with generally accepted accounting principles in Israel (Israeli GAAP) on interim financial reporting and in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our above conclusion, we draw attention to Note 6C(B) regarding the exposure to class actions that were filed against the Bank Group.

Somekh Chaikin
Certified Public Accountants (Isr.)

Ziv Haft
Certified Public Accountants (Isr.)

Tel Aviv, May 30, 2012

Condensed Consolidated Balance Sheet

as at March 31, 2012

(NIS millions)

December 31			March 31	
2011		Note	**2012**	2011
Audited			Unaudited	
	Assets			
55,790	Cash on hand and deposits with banks		**52,270**	46,230
34,411	Securities	2	**36,903**	28,932
-	Securities which were borrowed or bought under agreements to resell		**70**	67
250,592	Credit to the public	3	**248,817**	234,628
(4,097)	Allowance for credit losses	3	**(4,013)**	(4,793)
246,495	Credit to the public, net	3	**244,804**	229,835
616	Credit to governments		**743**	311
125	Investments in equity basis investees		**127**	129
3,720	Buildings and equipment		**3,709**	3,713
44	Intangible assets and goodwill		**42**	62
10,799	Assets in respect of derivative instruments	7	**7,245**	6,373
**4,662	Other assets		**4,437**	**,*4,004
**356,662	Total assets		**350,350**	**,*319,656
	Liabilities and Equity			
256,417	Deposits from the public		**251,576**	231,769
7,001	Deposits from banks		**6,624**	5,633
1,085	Deposits from the Government		**906**	1,227
1,305	Securities which were lent or sold under agreements to repurchase		**1,393**	428
32,933	Debentures and subordinated notes		**34,422**	28,295
13,421	Liabilities in respect of derivative instruments	7	**10,180**	9,431
20,399	Other liabilities		**20,505**	*20,138
332,561	Total liabilities		**325,606**	*296,921
**23,819	Shareholders` equity	4	**24,440**	**,*22,408
282	Non-controlling interests		**304**	327
**24,101	Total equity		**24,744**	**,*22,735
**356,662	Total liabilities and equity		**350,350**	**,*319,656

* Restated following the retroactive implementation of the directives of the Supervisor of Banks regarding financial reporting on employee benefits. For further details, see Note 1(D) below.

** Restated following the initial implementation of Internationl Accounting Standard 12, Taxes on Income. See Note 1(C)(2.2) below.

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

Yair Seroussi
Chairman of the
Board of Directors

Zion Kenan
President &
Chief Executive Officer

Ofer Levy
Senior Deputy Managing Director,
Chief Accountant

Tel Aviv, May 30, 2012

Condensed Consolidated Statement of Profit and Loss

For the period ended March 31, 2012

(NIS millions)

Year ended December 31			Three months ended March 31	
2011*		Note	**2012**	2011*
Audited			Unaudited	
14,793	Interest income	9	**3,374**	3,545
(6,696)	Interest expenses	9	**(1,412)**	(1,577)
8,097	Net interest income		**1,962**	1,968
1,202	Provision for credit losses	3	**303**	14
6,895	Net interest income after provision for credit losses		**1,659**	1,954
	Non-interest income			
(213)	Non-interest financing income (expenses)	10	**186**	202
5,098	Commissions		**1,274**	1,328
106	Other income		**33**	30
4,991	Total non-interest income		**1,493**	1,560
	Operating and other expenses			
4,759	Salaries and related expenses		**1,207**	**1,275
1,535	Maintenance and depreciation of buildings and equipment		**381**	369
21	Depreciation and impairment of intangible assets and goodwill		**3**	3
2,050	Other expenses		**513**	475
8,365	Total operating and other expenses		**2,104**	**2,122
3,521	Profit before taxes		**1,048**	**1,392
809	Provision for taxes on profit		**368**	**503
2,712	Profit after taxes		**680**	**889
(5)	Share in net, after-tax profits (losses) of equity basis investees		**(2)**	1
	Net profit:			
2,707	Before attribution to non-controlling interests		**678**	**890
39	Loss (profit) attributed to non-controlling interests		**(19)**	1
2,746	Attributed to shareholders of the Bank		**659**	**891
	Profit per ordinary share in NIS:			
	Basic profit:			
2.07	Net profit attributed to shareholders of the Bank		**0.50**	**0.67
	Diluted profit:			
2.05	Net profit attributed to shareholders of the Bank		**0.49**	**0.67

* The Bank adopted the directive of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations for the first time on January 1, 2012. The directives were adopted by retroactive implementation, with the exception of the cancellation of unpaid accrued CPI linkage differentials on principal in respect of debts classified as impaired prior to the initial implementation. Accordingly, the data included in the statement of profit and loss with regard to comparison period last year and to 2011 were reclassified for adjustment to the new definition, item headings, and presentation method of the current reporting period. For details, see Note 1(C)(1) below.

** Restated, due to the retroactive implementation of the directives of the Supervisor of Banks regarding financial reporting on employee benefits. For further details, see Note 1(D) below.

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

Condensed Statement of Changes in Equity

For the period ended March 31, 2012

	For the three months ended March 31, 2012			
		Capital Reserves		
	Share capital and premium*	Benefit inherent in share based payment transactions	Other	Total capital and capital reserves
Balance as at January 1, 2012	**8,066**	**209**	**(21)**	**8,254**
Net profit for the period				
Buyback of shares	**(6)**			**(6)**
Adjustments in respect of presentation of securities available for sale at fair value				
Adjustments in respect of presentation of securities available for sale which were reclassified to the statement of profit and loss				
Related tax effect				
Benefit inherent in share based payment transactions		**19**		**19**
Realization of options to shares	**15**	**(20)**		**(5)**
Net profits in respect of cash flow hedging which were reclassified to the statement of profit and loss				
Related tax effect				
Translation Financial Statements adjustments**				
Net profits (losses) in respect of net hedging of investments in foreign currency				
Related tax effect				
Balance as at March 31, 2012	**8,075**	**208**	**(21)**	**8,262**

* Deducting 5,653,853 shares purchased by the Bank at a total cost of approximately NIS 90 million.

** Adjustments from translation of an affiliate overseas whose functional currency differs from the functional currency of the Bank; see Note 1(C)(3) below.

*** Includes an amount of NIS 2,734 million that cannot be distributed as dividend.

**** Restated following the initial implementation of International Accounting Standard 12, Taxes on Income. As a result of the initial implementation, the opening balance of retained earnings for the period decreased by a total of NIS 26 million. See Note 1(C)(2.2) below.

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

(NIS millions)

For the three months ended March 31, 2012

Cumulative other comprehensive profit (loss)						
Adjustments in respect of presentation of securities available for sale at fair value	Translation adjustments**	Net losses from cash flow hedging	Retained earnings	Total shareholders' equity	Non-controlling interests	Total equity
233		**(13)**	******15,345**	******23,819**	**282**	******24,101**
			659	**659**	**19**	**678**
				(6)		**(6)**
(16)				**(16)**	**1**	**(15)**
(40)				**(40)**		**(40)**
6				**6**		**6**
				19	**2**	**21**
				(5)		**(5)**
		4		**4**		**4**
		(1)		**(1)**		**(1)**
	19			**19**		**19**
	(27)			**(27)**		**(27)**
	9			**9**		**9**
183	**1**	**(10)**	*****16,004**	**24,440**	**304**	**24,744**

Condensed Statement of Changes in Equity

For the period ended March 31, 2012 (continued)

	For the three months ended March 31, 2011			
		Capital Reserves		
	Share capital and premium*	Benefit inherent in share based payment transactions	Other	Total capital and capital reserves
Balance as at January 1, 2011	8,147	217	(21)	8,343
Cumulative effect, net of tax, of the initial implementation on January 1, 2011 of the directive on the measurement of impaired debts and provisions for credit losses				
Cumulative effect, net of tax, of the initial implementation on January 1, 2011 of certain IFRS	(45)	(5)		(50)
Net profit for the period				
Adjustments in respect of presentation of securities available for sale at fair value				
Adjustments in respect of presentation of securities available for sale which were reclassified to the statement of profit and loss				
Related tax effect				
Benefit inherent in share based payment transactions		8		8
Realization of options to shares	15	(14)		1
Net profits in respect of cash flow hedging which was reclassified to the statement of profit and loss				
Related tax effect				
Balance as at March 31, 2011	8,117	206	(21)	8,302

* Deducting 653,853 shares purchased by the Bank at a total cost of approximately NIS 10 million.
** Adjustments from translation of financial statements of autonomous units.
*** Restated following the retroactive implementation of the directives of the Supervisor of Banks regarding financial reporting on employee benefits. For further details, see Note 1(D) below.
**** Restated following the initial implementation of International Accounting Standard 12, Taxes on Income. As a result of the initial implementation, the opening balance of retained earnings for the period decreased by a total of NIS 26 million. See Note 1(C)(2.2) below.

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

(NIS millions)

For the three months ended March 31, 2011						
Cumulative other comprehensive profit (loss)						
Adjustments in respect of presentation of securities available for sale at fair value	Translation adjustments**	Net losses from cash flow hedging	Retained earnings	Total shareholders' equity	Non-controlling interests	Total equity
553	(110)	(24)	****13,773	****22,535	337	****22,872
			(807)	(807)	(9)	(816)
	110		(97)	(37)	(3)	(40)
			***891	***891	(1)	***890
(243)				(243)	(3)	(246)
(8)				(8)		(8)
63				63	1	64
				8	5	13
				1		1
		8		8		8
		(3)		(3)		(3)
365	-	(19)	****,***13,760	****,***22,408	327	****,***22,735

Condensed Statement of Changes in Equity

For the period ended March 31, 2012 (continued)

	For the year ended December 31, 2011			
		Capital Reserves		
	Share capital and premium*	Benefit inherent in share based payment transactions	Other	Total capital and capital reserves
Balance as at January 1, 2011	8,147	217	(21)	8,343
Cumulative effect, net of tax, of the initial implementation on January 1, 2011 of the directive on the measurement of impaired debts and provisions for credit losses				
Cumulative effect, net of tax, of the initial implementation on January 1, 2011 of certain IFRS	(45)	(5)		(50)
Net profit for the year				
Buyback of shares	(74)			(74)
Adjustments in respect of presentation of securities available for sale at fair value				
Adjustments in respect of presentation of securities available for sale which were reclassified to the statement of profit and loss				
Related tax effect				
Dividend paid				
Benefit inherent in share based payment transactions		31		31
Realization of options to shares	38	(34)		4
Net profits in respect of cash flow hedging which was reclassified to the statement of profit and loss				
Related tax effect				
Dividend paid to holders of non-controlling interests in a subsidiary				
Balance as at December 31, 2011	8,066	209	(21)	8,254

* Deducting 5,183,853 shares purchased by the Bank at a total cost of approximately NIS 84 million.
** Adjustments from translation of financial statements of autonomous units.
*** Restated following the initial implementation of International Accounting Standard 12, Taxes on Income. As a result of the initial implementation, the opening balance of retained earnings for the period decreased by a total of NIS 26 million. See Note 1(C)(2.2) below.

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

(NIS millions)

For the year ended
December 31, 2011

Cumulative other comprehensive profit (loss)						
Adjustments in respect of presentation of securities available for sale at fair value	Translation adjustments**	Net profit (losses) from cash flow hedging	Retained earnings	Total shareholders' equity	Non-controlling interests	Total equity
553	(110)	(24)	***13,773	***22,535	337	***22,872
			(807)	(807)	(9)	(816)
	110		(97)	(37)	(3)	(40)
			2,746	2,746	(39)	2,707
				(74)		(74)
(378)				(378)	(5)	(383)
(55)				(55)		(55)
113				113	1	114
			(270)	(270)		(270)
				31	6	37
				4		4
		17		17		17
		(6)		(6)		(6)
					(6)	(6)
233	-	(13)	***15,345	***23,819	282	***24,101

Condensed Statement of Cash Flows

For the period ended March 31, 2012

(NIS millions)

	For the three months ended March 31		For the year ended December 31
	2012	2011*	2011*
	Unaudited		Audited
Cash flows for operating activities			
Net profit for the period	**678**	**890	2,707
The bank's share in losses (profits) of equity basis investees	**2**	(1)	5
Depreciation of buildings and equipment	**176**	174	718
Amortizations	**7**	6	38
Provision for credit losses	**303**	14	1,202
Profit from sale and adjustment of securities available for sale and held to maturity	**(245)**	(27)	(1,410)
Realized and unrealized loss (profit) from adjustments to fair value of securities held for trading	**3**	1	(17)
Profit from realization of buildings and equipment	**(7)**	-	-
Change in benefit inherent in share based transactions	**16**	8	2
Change in liabilities in respect of employee benefits	**558**	**208	254
Deferred taxes, net	**18**	**(144)	(383)
Profit from sale of credit portfolios	**-**	-	(11)
Adjustments in respect of exchange-rate differences	**451**	205	(1,016)
Adjustments differentials included in investment and financing activities	**(162)**	43	649
Net change in current assets:			
Deposits in banks	**595**	(208)	(762)
Credit to the public, net	**1,406**	(5,807)	(24,821)
Credit to governments	**(127)**	28	(277)
Securities which were borrowed or bought under agreements to resell	**(70)**	(51)	16
Assets in respect of deriative instruments	**3,554**	99	(4,327)
Securities held for trading, net	**(567)**	732	(1,155)
Other assets, net	**224**	60	(369)
Net change in current liabilities:			
Deposits from banks	**(386)**	799	2,167
Deposits from the public	**(4,970)**	(2,196)	22,452
Deposits from the Government	**(179)**	(108)	(250)
Securities which were lent or sold under agreements to repurchase	**88**	42	919
Liabilities in respect of derivative instruments	**(3,264)**	(818)	3,172
Other liabilities, net	**(481)**	**(423)	71
Net cash used in operating activity	**(2,379)**	(6,474)	(426)

* The directives of the Supervisor of Banks concerning International Accounting Standard 7, Statement of Cash Flows, as established in the circular of the Supervisor of Banks on the adoption of certain IFRS, of November 30, 2011, were adopted by the Bank for the first time on January 1, 2012. Comparison figures for previous periods were reclassified to match the new definitions, item headings, and presentation method of the current reporting period. For further details, see Note 1(C)(2.1) below.

** Restated, due to the retroactive implementation of the directives of the Supervisor of Banks regarding financial reporting on employee benefits. For further details, see Note 1(D) below.

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

Condensed Statement of Cash Flows

(NIS millions)

For the period ended March 31, 2012 (continued)

	For the three months ended March 31		For the year ended December 31
	2012	2011*	2011*
	Unaudited		Audited
Cash flows generated by (for) investment activities			
Acquisition of debentures held to maturity	**(240)**	(200)	(283)
Proceeds from redemption of debentures held to maturity	**255**	81	218
Acquisition of securities available for sale	**(7,796)**	(1,147)	(19,008)
Proceeds from sale of securities available for sale	**5,711**	1,637	10,285
Proceeds from redemption of securities available for sale	**367**	1,341	8,125
Proceeds from sale of credit portfolios	**83**	125	1,114
Dividends received from equity-basis investees accounted by using the equity value method	**-**	1	5
Acquisition of rights in equity basis investees	**-**	-	(5)
Investment in equity basis investee	**(4)**	-	-
Proceeds from sale of investment in equity-basis investees	**-**	2	2
Acquisition of buildings and equipment	**(170)**	(120)	(673)
Proceeds from sale of buildings and equipment	**12**	-	1
Net cash inflow generated by (for) investment activities	**(1,782)**	1,720	(219)

* The directives of the Supervisor of Banks concerning International Accounting Standard 7, Statement of Cash Flows, as established in the circular of the Supervisor of Banks on the adoption of certain IFRS, of November 30, 2011, were adopted by the Bank for the first time on January 1, 2012. Comparison figures for previous periods were reclassified to match the new definitions, item headings, and presentation method of the current reporting period. For further details, see Note 1(C)(2.1) below.

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

Condensed Statement of Cash Flows

(NIS millions)

For the period ended March 31, 2012 (continued)

	For the three months ended March 31		For the year ended December 31
	2012	2011*	2011*
	Unaudited		Audited
Cash flows generated by financing activities			
Issuance of debentures and subordinated notes	**1,783**	934	5,961
Redemption of debentures and subordinated notes	**(132)**	(290)	(1,285)
Issue of shares and options	**(5)**	1	4
Dividend paid to shareholders of the Bank	**-**	-	(270)
Buyback of shares	**(6)**	-	(74)
Dividend paid to minority shareholders of consolidated companies	**-**	-	(6)
Net cash inflow generated by financing activities	**1,640**	645	4,330
Increase (decrease) in cash	**(2,521)**	(4,109)	3,685
Balance of cash at beginning of period	**53,975**	49,274	49,274
Effect of changes in exchange rates on cash balances	**(400)**	(205)	1,016
Balance of cash at end of period	**51,054**	44,960	53,975
Interest and taxes paid and/or received:			
Interest received	**3,541**	3,860	15,800
Interest paid	**(1,610)**	(1,401)	(5,493)
Dividends received	**-**	10	33
Income tax paid	**(307)**	(467)	(2,059)
Income tax received	**175**	49	266

* The directives of the Supervisor of Banks concerning International Accounting Standard 7, Statement of Cash Flows, as established in the circular of the Supervisor of Banks on the adoption of certain IFRS, of November 30, 2011, were adopted by the Bank for the first time on January 1, 2012. Comparison figures for previous periods were reclassified to match the new definitions, item headings, and presentation method of the current reporting period. For further details, see Note 1(C)(2.1) below.

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

Notes to the Condensed Financial Statements
as at March 31, 2012

Note 1 Significant Accounting Policies

A. General

The Condensed Financial Statements as at March 31, 2012 were prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP) concerning interim financial reporting and in accordance with directives and guidelines of the Supervisor of Banks. The accounting principles used in the preparation of these Condensed Financial Statements were implemented consistently with the accounting principles used in the preparation of the audited Financial Statements as of at December 31, 2011, with the exceptions noted in Sections C and D below.
These reports should be perused in conjunction with the Annual Financial Statements as at December 31, 2011, and the accompanying Notes.
The Condensed Financial Statements were approved for publication by the Board of Directors of the Bank on May 30, 2012.

B. Reclassification due to First-Time Implementation of Accounting Standards and Directives of the Supervisor of Banks

Due to the first-time implementation of certain accounting standards and directives of the Supervisor of Banks (see Section C below), certain items in the financial statements and certain comparative figures were reclassified, in order to match the item headings and presentation method of the current reporting period. Specifically, the following items were reclassified:

Items included in the condensed consolidated statement of profit and loss –

Due to the initial implementation of the directives of the Supervisor of Banks concerning the new format for the statement of profit and loss (see Note 1(C)(1) below), the reclassifications described below were performed in the financial statements for the three-month period ended March 31, 2011, and in the financial statements for the year ended December 31, 2011.

- Items listed below, which were previously included in the item "profit from financing activity before provision for credit losses", were reclassified and included in the item "non-interest financing income", as part of non-trading activities:
  - Financing income (expenses) in respect of foreign currency exchange rate differences accrued in respect of financial assets or financial liabilities not measured at fair value through profit and loss (such as credit to the public and to governments, deposits with banks, securities borrowed or bought in resale agreements, bonds available for sale and bonds held to maturity, deposits from the public, deposits from banks or deposits from the government, and bonds and securities lent or sold in repurchase agreements);
  - Income (expenses) in respect of derivative instruments used for ALM activity and the non-effective part of accounting hedge ratios;
  - Profits (losses) from the sale of bonds available for sale and bonds held to maturity; and
  - Profits (losses) from the sale of loans.

Note 1 Significant Accounting Policies (continued)

- Items listed below, which were previously included in the item "profit from financing activity before provision for credit losses", were reclassified and included in the item "non-interest financing income", as part of trading activities:
  - Realized and unrealized profits (losses) from adjustments to fair value of bonds held for trading;
  - Income (expenses) from other derivative instruments (not used for accounting hedges or ALM).
- Income from fees from financing business, previously included in the item "profit from financing activity before provision for credit losses", were reclassified and included in the item "fees" (formerly "operating fees").
- Early repayment fees previously included in the item "other financing income" were reclassified and included in the item "interest income."

As a result of the aforesaid reclassifications, income (expenses) included in profit from financing activity in the three-month period ended March 31, 2011, in the amount of NIS 180 million were reclassified under the item "non-interest financing income". In addition, an amount of NIS (268) million was reclassified in the aforesaid manner in the year ended December 31, 2011. In addition, income from fees from financing business, in the amount of NIS 104 million in the three-month period ended March 31, 2011, and in the amount of NIS 402 million in the year ended December 31, 2011, were reclassified and included in the item "fees."

- Profits (losses) previously included in the item "net profits (losses) from investments in shares" were reclassified and included in the item "non-interest financing income", as part of trading activities or as part of non-trading activities, according to the classification of the shares, in the portfolio held for trading or in the portfolio available for sale, respectively.
- Profits (losses) previously included in the item "profit (loss) from extraordinary transactions after taxes" were reclassified in the following manner:
  - Profits (losses) from the sale of shares of equity-basis investees were reclassified under the item "non-interest financing income", as part of non-trading activities;
  - Profits (losses) from the realization of buildings and equipment were reclassified under the item "other income."

As a result of the aforesaid reclassifications, "net profits (losses) from investments in shares" in the three-month period ended March 31, 2011, in the amount of NIS 22 million, were reclassified under the item "non-interest financing income". In addition, an amount of NIS 55 million was reclassified in the aforesaid manner in the year ended December 31, 2011.

In addition, as a result of the aforesaid reclassifications, "profits (losses) from extraordinary transactions after taxes" in the in the three-month period ended March 31, 2011, in the amount of NIS 1 million, were reclassified under the item "other income." In addition, an amount of NIS 5 million was reclassified in the aforesaid manner in the year ended December 31, 2011.

Note 1 Significant Accounting Policies (continued)

Items included in the condensed consolidated statement of cash flows:

Due to the initial implementation of IAS 7, Statement of Cash Flows (see Note 1(C)(2.1) below), which establishes rules for the classification of the various items in the statement of cash flows according to the nature of the activity, the following reclassification has been implemented:

- Net changes in flows in respect of current assets (such as deposits with banks, credit to the public, securities lent or sold in repurchase agreements, assets in respect of derivative instruments, securities held for trading, and other assets) previously included in investment activity (formerly activity in assets), in the amount of NIS (5,147) million in the three-month period ended March 31, 2011, were reclassified under current activity. In addition, an amount of NIS (31,695) million was reclassified in the aforesaid manner in the year ended December 31, 2011.
- Net changes in flows in respect of current liabilities (such as deposits from banks, deposits from the public, deposits from the government, securities lent or sold in repurchase agreements, liabilities in respect of derivative instruments, and other liabilities) previously included in financing activity (formerly activity in liabilities and capital), in the amount of NIS (2.704) million in the three-month period ended March 31, 2011, were reclassified under current activity. In addition, an amount of NIS 28,531 million was reclassified in the aforesaid manner in the year ended December 31, 2011.

C. First-Time Implementation of Accounting Standards, Updates of Accounting Standards, and Directives of the Supervisor of Banks

Set out below is a description of the main points of changes in accounting policies applied in these condensed consolidated financial statements, and a description of the manner and effect of initial implementation, if any:

1. Directives concerning the format for the statement of profit and loss, established in the circular of the Supervisor of Banks on the format for statements of profit and loss of banking corporations and the adoption of GAAP for US banks on the measurement of interest income

Pursuant to the circular of the Supervisor of Banks of December 29, 2011, concerning the format for statements of profit and loss of banking corporations and the adoption of GAAP for US banks on the measurement of interest income, the bank has implemented the directives pertaining to the presentation method of the statement of profit and loss.

In accordance with these directives, the Bank has adjusted the presentation method of components of financing profit in the statement of profit and loss itself and in the accompanying notes, in the following manner:

- The item "profit from financing activity before provision for credit losses was split into three separate items – "interest income", "interest expenses", and "non-interest financing income", presented on separate lines.
- The components of non-interest financing profit and the components of profits (losses) from investments in shares were classified under the item "non-interest financing income", with a distinction between trading activities and non-trading activities.
- The definition of "interest" was updated to include CPI linkage differences on interest, rate differences on interest, and linkage to the CPI on principal (a component previously considered not part of the definition of interest).

Note 1 Significant Accounting Policies (continued)

- The distinction between fees from financing business, previously included in profit from financing activity, and operating fees was eliminated. Accordingly, all income from fees were included in the item "fees" in the statement of profit and loss (formerly the item "operating fees").
- The item "profit from extraordinary transactions" was cancelled, and the common practice in the United States was adopted, where extraordinary items are defined as items that are "unusual" and "infrequent." Accordingly, the classification of any event as an extraordinary item in the statement of profit and loss shall be performed only with advance approval by the Supervisor of Banks.

Initial implementation of the directives on the new format for the statement of profit and loss

The Bank has implemented the directives concerning the format for the statement of profit and loss as of January 1, 2012, retroactively, with the exception of the cancellation of CPI linkage differences on accrued unpaid principal in respect of debts classified as impaired prior to the initial implementation date. The initial implementation of this directive had no effect, other than the change in presentation. For details regarding the reclassifications, see Note 1B.

2. Certain International Financial Reporting Standards (IFRS)

Pursuant to the circular of the Supervisor of Banks of November 30, 2011, concerning the adoption of certain IFRS, the Bank implements the IFRS listed below.

2.1. IAS 7, Statement of Cash Flows

The statement of cash flows is presented with classification into cash flows from regular activity, investing activity (formerly "activity in assets"), and financing activity (formerly "activity in liabilities and capital"). Cash flows arising from main activities of the Bank are classified under regular activity. The item of cash and cash equivalents includes cash, deposits with banks, and deposits with central banks for original periods of up to three months.

Initial Implementation of IAS 7, Statement of Cash Flows

The Bank has implemented the rules established in this standard as of January 1, 2012, retroactively. The initial implementation of the standard had no effect, other than the change in presentation. For details regarding the reclassifications, see Note 1B.

2.2. IAS 12, Taxes on Income

This standard, as adopted by the Supervisor of Banks, contains similar directives to Israel Accounting Standard 19, Taxes on Income, hitherto applied in the banking system. However, concurrently with the adoption of the international standard, specific directives, as established by the Supervisor of Banks, were changed, and directives were adopted with regard to the treatment of situations in which uncertain tax positions exist. In general, deferred tax assets are recognized in the books in respect of losses carried forward, tax credits, and deductible temporary differences, when it is more likely than not that income against which they can be used will exist in the future.

Note 1 Significant Accounting Policies (continued)

Uncertain Tax Positions

The Bank recognizes the effect of tax positions only if it is more likely than not that the positions will be accepted by the tax authorities or by the court. Recognized tax positions are measured according to the maximum amount with a probability of realization greater than 50%. Changes in recognition or measurement are reflected in the period during which the changes in circumstances occurred that led to the change in the decision.

Initial Implementation of IAS 12, Taxes on Income

In accordance with Israeli GAAP (Standard 19) and the Public Reporting Directives of the Supervisor of Banks, no deferred tax liability was recognized in respect of temporary differences arising from the adjustment component of depreciable non-monetary assets defined as protected assets in the Income Tax Law (Taxation under Inflationary Circumstances), 1982, which were acquired before this law took effect, and which have a depreciation period of at least 20 years from the date of operation. Pursuant to IAS 12, the Bank is required to recognize such deferred tax liabilities. The Bank has implemented the rules set forth in the standard, as of January 1, 2012, retroactively. With regard to the effect of the initial implementation, see Note 1D below.

2.3. IAS 23, Borrowing Costs

This standard states the entities must capitalize credit costs directly related to the acquisition and setup or manufacturing of an eligible asset. An eligible asset is an asset for which a significant period of time is needed to prepare the asset for its intended use or for sale, including, among others, fixed assets, software assets, and other assets for which a prolonged period is needed to bring the assets to a condition in which they can serve their intended purpose or be sold. However, the directives of the Supervisor of Banks clarify that banking corporations shall not capitalize credit costs unless they have established clear policies, procedures, and controls with regard to the criteria for recognition of eligible assets and with regard to the credit costs capitalized.

Initial Implementation of IAS 23, Borrowing Costs

The initial implementation of this standard had no effect on the financial statements of the Bank.

2.4. IAS 24, Related Party Disclosures

This standard establishes the disclosure required of entities with regard to their relationships with related parties and with regard to unsettled transactions and balances with related parties. In addition, disclosure of remuneration of key executives is required. Key executives are defined as persons with the authority and responsibility to plan the activity of the entity, or to directly or indirectly guide and control the entity, including any director (active or inactive) of the entity. As part of the adoption of this standard by the Supervisor of Banks, the format of the required disclosure in the financial statements was adjusted in order to comply with the disclosure requirements of IAS 24 as well as with the additional disclosures required under the Securities Regulations, 2010.

Note 1 Significant Accounting Policies (continued)

Initial Implementation of IAS 24, Related Party Disclosures

The Bank has implemented this standard as of January 1, 2012, retroactively. For the purpose of the initial implementation of the standard, the Bank mapped its relationships with related parties. Under the new definition, as a result of the mapping process, new related parties were identified. The initial implementation of the standard had no effect on the financial statements of the Bank, other than a change in presentation.

3. Clarifications of the Supervisor of Banks Regarding the Establishment of the Functional Currency of Overseas Banking Offices

Upon the initial implementation of the IFRS, among other matters, the Bank examined its overseas banking offices in accordance with the IFRS rules and the instructions of the Supervisor of Banks. Pursuant to the instructions of the Supervisor of Banks, changing the classification of a banking office as a foreign operation with a functional currency other than the NIS requires advance guidance from the Head of the Financial Reporting Unit of the Supervisor of Banks. Accordingly, until such advance guidance was received, the Bank continued to treat the overseas banking offices as foreign operations whose functional currency is the same as the functional currency of the Bank.

A circular of the Supervisor of Banks issued on February 14, 2012, contains criteria established by the Supervisor of Banks for determining the functional currency of an overseas banking office. In determining the functional currency, the Bank is required to examine the fulfillment/non-fulfillment of each of the following criteria:

- The primary environment in which the office generates and expends cash is foreign currency, whereas the office's activity in NIS is marginal;
- Autonomous recruitment of customers by the office – The activity of the office with customers of the Bank and/or closely affiliated parties thereof and/or parties referred to the office by the Bank is not significant;
- The activity of the office with the Bank and/or with its related parties is not significant. In addition, the office is not significantly dependent upon financing sources from the Bank and/or its related parties;
- The activity of the office is independent in essence and stands in its own right, and is not an extension or supplement to the local activity of the Bank. In addition, the office conducts its activities with a significant degree of autonomy.

Clear non-fulfillment of one of the aforesaid criteria is an indication that the office should be treated as a foreign operation whose functional currency is the NIS. The Bank has examined the classification of its overseas banking offices based on the new criteria. In light of this examination, the Bank classified Bank Hapoalim Switzerland as a foreign operation with a functional currency other than the NIS, as of January 1, 2012. The change in classification was performed prospectively, such that exchange-rate differences in respect of translation are recognized, as of January 1, 2012, in other comprehensive income, and presented under "translation adjustments".

Note 1 Significant Accounting Policies (continued)

Foreign Operations

Assets and liabilities of foreign operations, including goodwill and adjustments to fair value created in an acquisition, were translated into NIS at the exchange rates in effect at the reporting date. Income and expenses of foreign operations were translated into NIS at the average monthly exchange rate according to the date of execution of the transactions. Exchange-rate differences in respect of translation are recognized in other comprehensive income, as of January 1, 2012, and presented in equity under "translation adjustments".

Upon the realization of a foreign operation leading to a loss of control, material influence, or joint control, the amount accumulated in the translation reserve arising from the foreign operation is reclassified to profit and loss, as part of the profit or loss from the realization.

Hedges of Net Investment in a Foreign Operation

The Bank applies hedge accounting to exchange-rate differences between the functional currency of Bank Hapoalim Switzerland and the functional currency of the Bank (NIS). Exchange-rate differences in respect of the effective part of the hedge resulting from the translation of the financial liability hedging the net investment in Bank Hapoalim Switzerland are allocated to other comprehensive income and presented in equity under "translation adjustments". The non-effective part of the hedge is allocated to profit and loss.

4. Directives of the Supervisor of Banks Regarding Transactions between a Banking Corporation and its Controlling Party or a Company Controlled by the Banking Corporation

Pursuant to the circular issued by the Supervisor of Banks on November 30, 2011, concerning the adoption of certain IFRS, as of January 1, 2012, the Bank has implemented US GAAP for accounting for transactions between a banking corporation and its controlling party or a company controlled by the banking corporation. In situations where these rules do not address the treatment method, the Bank applies the rules established in Standard 23 of the Israel Accounting Standards Board, Accounting Treatment of Transactions between an Entity and its Controlling Party, in a manner consistent with the principles of the adoption of IFRS on matters not related to the core business of banking. Pursuant to the circular, loans or deposits given to or received from a controlling party are presented in the financial statements of the Bank at fair value as an asset or liability, as relevant. The difference between the amount of the loan granted or deposit received and the fair value thereof at the first recognition date is allocated to equity.
In reporting periods subsequent to the first recognition date, the aforesaid loans or deposits are presented in the financial statements of the Bank at their depreciated cost, with implementation of the effective interest method, excluding cases in which, pursuant to GAAP, they are presented at fair value.
The Bank has implemented these directives, prospectively, with regard to all transactions between the Bank and its controlling party executed after January 1, 2012, and with regard to loans granted or deposits received from the controlling party before the inception date of the directives, as of the inception date. The initial implementation of the directives had no material effect.

Note 1 Significant Accounting Policies (continued)

5. ASU 2011-03, Reconsideration of Effective Control for Repurchase Agreements

ASU 2011-03, Reconsideration of Effective Control for Repurchase Agreements, an update of rules established in FAS 166 (ASC 860), has been implemented by the Bank as of January 1, 2012.

The assessment of effective control focuses on contractual rights and contractual obligations of the transferor, and therefore does not take into consideration: (1) a criterion requiring the transferor to have the ability to acquire the transferred securities even in the event of default by the transferee, or (2) instructions regarding collateral requirements in connection with the aforesaid criterion.

In financial asset transfer transactions, the Bank determines that the transferor retains effective control over the transferred assets (and that the asset transfer should therefore be treated as a secured debt) if all of the following conditions are fulfilled:

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

Initial Implementation of ASU 2011-03, Reconsideration of Effective Control for Repurchase Agreements

The Bank has implemented the rules established in ASU 2011-03, as of January 1, 2012, prospectively, with respect to new transactions and existing transactions changed after the inception date of the update. At the transition date, there was no effect on the financial statements of the Bank.

6. ASU 2011-04, Fair Value Measurement (ASU 820-10): Revision of Fair Value Measurement and Uniform Disclosure Requirements in US GAAP and IFRS

This update sets forth revisions to FAS 157 (ASU 820-10), necessary in order to establish a uniform definition of fair value measurement in US GAAP and in IFRS.

Among other matters, the update sets forth additional disclosure requirements with regard to the following:

- Classifications into the levels of the fair value hierarchy, with regard to items not measured at fair value in the balance sheet, but for which disclosure of fair value is required in the notes.
- With regard to fair value measurements classified as Level 3 in the fair value hierarchy:
  - The assessment process implemented by the Bank;
  - Qualitative disclosure of the analysis of sensitivity of the fair value measurement to changes in unobservable inputs and the interaction between such unobservable inputs, if any.
- Any transition of a fair value measurement from Level 2 to Level 1, or vice versa, including reasons for the transitions.

Note 1 Significant Accounting Policies (continued)

Initial Implementation of ASU 2011-04, Fair Value Measurement (ASU 820-10): Revision of Fair Value Measurement and Uniform Disclosure Requirements in US GAAP and IFRS

The Bank has implemented the revisions set forth in ASU 2011-04 as of January 1, 2012, prospectively. The initial implementation of ASU 2011-04 had no effect on the financial statements of the Bank, other than a change in presentation due to the new disclosure requirements.

D. Effect of Retroactive Implementation of Accounting Standards and Directives of the Supervisor of Banks

- As noted in Note 1(E)(18) to the Annual Financial Statements for 2011, the Bank has implemented the instructions of the Supervisor of Banks concerning the reinforcement of internal control over financial reporting on employee benefits, retroactively, and comparison figures have been restated. The implementation of the directives applied starting with the financial statements for the second quarter of 2011. Accordingly, the effect of the retroactive implementation on balance sheet items as at March 31, 2011, and on the statement of profit and loss for the period ended March 31, 2011, is presented below.
- As noted in Note 1(C)(2.2) above, the Bank has implemented the rules set forth in IAS 12, Taxes on Income, as of January 1, 2012, retroactively. Accordingly, the effect of the retroactive implementation on balance sheet items for each of the reporting periods for which data is included in the financial statements is presented below. The effect of the retroactive implementation on the statement of profit and loss is immaterial.

Note 1 Significant Accounting Policies (continued)

Effect of retroactive implementation on balance sheet items

	March 31, 2011				December 31, 2011		
	Effect of retroactive implementation				Effect of retroactive implementation		
	As previously reported	IAS 12 – Taxes on Income	Employee benefits	As reported in these financial statements	As previously reported	IAS 12 – Taxes on Income	As reported in these financial statements
	Unaudited				Audited		
Other assets	3,814	(26)	216	4,004	4,688	(26)	4,662
Other liabilities	19,382	-	756	20,138	20,399	-	20,399
Shareholders' equity	22,974	(26)	(540)	22,408	23,845	(26)	23,819
Ratio of total capital to risk-adjusted assets	14.1%	-	(0.2%)	13.9%	14.1%	-	14.1%
Ratio of core Tier I capital to risk-adjusted assets	8.1%	-	(0.2%)	7.9%	7.9%	-	7.9%

Effect of retroactive implementation on statement of profit and loss

	For the three months ended March 31, 2011		
	As previously reported	Effect of retroactive implementation in respect of employee benefits	As reported in these financial statements
	Unaudited		
Salary and related expenses	1,260	15	1,275
Profit before taxes	1,407	(15)	1,392
Provision for taxes on profit	506	(3)	503
Profit after taxes	901	(12)	889
Net profit attributed to shareholders of the bank	903	(12)	891
Basic profit per share	0.68	(0.01)	0.67
Diluted profit per share	0.67	-	0.67

Note 1 Significant Accounting Policies

E. New Accounting Standards and New Directives of the Supervisor of Banks in the Period Prior to Implementation

1. Adoption of GAAP for US Banks on Interest Income Measurement

A circular of the Supervisor of Banks was issued on December 29, 2011, with the aim of adjusting the Public Reporting Directive for the purpose of adoption of the rules established in US GAAP regarding nonrefundable fees and other costs. The directive establishes rules for the treatment of loan origination fees and direct loan origination costs. The eligible fees and costs, according to the criteria established in the directive, shall not be recognized immediately in the statement of profit and loss, but shall be taken into account in calculating the effective interest rate of the loan. In addition, the directive changes the treatment of credit allocation commitment fees and costs, including credit-card transactions. The directive also sets forth rules regarding the treatment of changes in the terms of debt that do not constitute restructuring of problematic debt, treatment of early repayment of debts, and treatment of other credit granting transactions, such as syndication transactions.

The rules established in the directive represent a significant change relative to the existing rules in the Public Reporting Directives. The preparations for the implementation of the rules established in the directive are complex; the Supervisor of Banks intends to guide the banking corporations in the preparatory process, especially in the area of identifying eligible costs. The circular states that the rules on this matter will be implemented from January 1, 2013, forward.

The Bank is examining the expected implications of the initial implementation of the directives. At this stage, the Bank is unable to estimate the expected effect of the implementation of the directives.

2. Adoption of IFRS

In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29, Adoption of International Financial Reporting Standards (IFRS). The standard states that entities subject to the Securities Law, 1968, and required to report under its regulations shall prepare their financial statements according to IFRS for periods starting as of January 1, 2008. The aforesaid does not apply to banking corporations whose financial statements are prepared according to the directives and guidelines of the Supervisor of Banks. In June 2009, the Supervisor of Banks issued a letter concerning reporting by banking corporations and credit-card companies in Israel in accordance with IFRS, which establishes the expected manner of adoption of IFRS by banking corporations.

It was further clarified that subsequent to the completion of the process of adjusting the directives to the international standards, the Supervisor of Banks will retain the authority to set forth binding clarifications with regard to the manner of implementation of the requirements of the international standards, and to set forth additional directives in cases in which it is necessary due to the requirements of the supervisory agencies in developed countries globally, or on matters not addressed by the international standards. In addition, the Supervisor of Banks will retain the authority to establish disclosure and reporting requirements.

Note 1 Significant Accounting Policies (continued)

Pursuant to the circular, the deadlines for reporting by banking corporations according to IFRS are as follows:

- On matters not related to the core business of banking – Gradual implementation during 2011 and 2012. However, IAS 19, Employee Benefits, has not yet taken effect and will be adopted according to the instructions of the Supervisor of Banks, when such instructions are published, with regard to the timing and manner of initial implementation.
- On matters related to the core business of banking – As of January 1, 2013. The Supervisor of Banks intends to reach a final decision on this matter, taking into consideration the schedule established in the United States and the progress of the convergence process between international and American standards.

A New System of New Financial Reporting Standards Concerning the Consolidation of Financial Statements and Related Matters

In May 2011, the IASB published a new system of standards, which is part of the consolidation project conducted jointly by the IASB and the FASB, and essentially replaces the existing standards concerning the consolidation of financial statements and joint transactions, and includes a number of changes with regard to equity-basis investees. Pursuant to the directives of the Supervisor of Banks, banking corporations shall routinely update the accounting treatment of matters adopted in the Public Reporting Directives. Such update is required prior to the inception date and according to the transitional directives established in new IFRS to be published on these matters, and in accordance with the adoption principles and clarifications of the Supervisor of Banks. In light of the foregoing, the implementation of the rules established in the new system of standards concerning the consolidation of financial statements and related matters shall be performed subject to the guidelines set forth in the Public Reporting Directives, among other matters, concerning the implementation of the standard, on matters regarding which specific rules were established or adopted in the Public Reporting Directives that differ from the rules set forth in the standard and/or in the guidelines referring to the standard.

For further details, see Note 1(F)(5) to the Annual Financial Statements for 2011.

(NIS millions)

Note 2 Securities

	as at March 31, 2012				
	Book value	Amortized cost (in shares-cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
1) Debentures held to maturity					
Debentures and bonds:					
Of Israeli government	**56**	**56**	**-**	**-**	**56**
Of financial institutions in Israel	**786**	**786**	**60**	**-**	**846**
Of foreign financial institutions	**8**	**8**	**-**	**-**	**8**
Total debentures held to maturity	**850**	**850**	**60**	**-**	**910**

			Cumulative other comprehensive income		
	Book value	Amortized cost (in shares-cost)	Profits	Losses	Fair value*
2) Securities available for sale					
Debentures and bonds:					
Of Israeli government	**25,096**	**25,035**	**113**	**(52)**	**25,096**
Of foreign governments	**2,392**	**2,377**	**19**	**(4)**	**2,392**
Of financial institutions in Israel	**205**	**199**	**6**	**-**	**205**
Of foreign financial institutions	**1,179**	**1,168**	**17**	**(6)**	**1,179**
Asset-backed securities (ABS)	**2**	**2**	**-**	**-**	**2**
Of others in Israel	**717**	**686**	**33**	**(2)**	**717**
Of foreign others	**804**	**780**	**25**	**(1)**	**804**
Total debentures and bonds available for sale	**30,395**	**30,247**	**213**	**(65)**	**30,395**
Shares:					
Of others	**1,502**	**1,347**	**164**	**(9)**	**(1)1,502**
Total securities available for sale	**31,897**	**31,594**	**(2)377**	**(2)(74)**	**(1)31,897**

* Fair value data is usually based on stock exchange prices, which do not necessarily reflect the price which will be obtained from a large-volume sale of securities.
(1) Including shares and options for which no fair value is available, which are stated at cost, amounting to NIS 569 million.
(2) Included in equity in the item "Adjustments in respect of presentation of securities available for sale at fair value".

Notes:
(A) For details of the results of activity in investments in debentures and in shares - see Note 10.
(B) Israeli bonds and foreign bonds are differentiated according to the country of residence of the Issuer entity.

(NIS millions)

Note 2 Securities (continued)

	as at March 31, 2012				
	Book value	Amortized cost (in shares-cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
3) Securities held for trading					
Debentures and bonds:					
Of Israeli government	**3,277**	**3,266**	**12**	**(1)**	**3,277**
Of foreign governments	**73**	**71**	**2**	**-**	**73**
Of financial institutions in Israel	**9**	**9**	**-**	**-**	**9**
Of foreign financial institutions	**468**	**469**	**-**	**(1)**	**468**
Of others in Israel	**26**	**26**	**-**	**-**	**26**
Of foreign others	**247**	**248**	**-**	**(1)**	**247**
Total debentures and bonds held for trading	**4,100**	**4,089**	**14**	**(3)**	**4,100**
Shares:					
Of others	**56**	**55**	**1**	**-**	**56**
Total securities held for trading	**4,156**	**4,144**	**(1)15**	**(1)(3)**	**4,156**
Total securities(2)	**36,903**	**36,588**	**452**	**(77)**	**36,963**

4) Data regarding impaired bonds

	as at March 31, 2012
Set out below are the recorded debt balances of:	
Impaired bonds accruing interest income	**49**

* Fair value data is usually based on stock exchange prices, which do not necessarily reflect the price which will be obtained from a large-volume sale of securities.
(1) Attributed to the Statement of Profit and Loss.
(2) Of which: Securities in the amount of approximately NIS 5.0 billion were pledged to lenders.

Notes:
(A) For details of the results of activity in investments in debentures and in shares - see Note 10.
(B) Israeli bonds and foreign bonds are differentiated according to the country of residence of the Issuer entity.

(NIS millions)

Note 2 Securities (continued)

	as at March 31, 2011**				
	Book value	Amortized cost (in shares-cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
1) Debentures held to maturity					
Debentures and bonds:					
Of Israeli government	52	52	-	-	52
Of financial institutions in Israel	857	857	64	-	921
Of foreign financial institutions	4	4	-	-	4
Total debentures held to maturity	913	913	64	-	977

			Cumulative othe comprehensive income		
	Book value	Amortized cost (in shares-cost)	Profits	Losses	Fair value*
2) Securities available for sale					
Debentures and bonds:					
Of Israeli government	18,191	18,289	118	(216)	18,191
Of foreign governments	2,187	2,152	37	(2)	2,187
Of foreign financial institutions	2,203	2,159	51	(7)	2,203
Asset-backed securities (ABS)	269	271	-	(2)	269
Of others in Israel	454	397	57	-	454
Of foreign others	796	779	18	(1)	796
Total debentures and bonds available for sale	24,100	24,047	281	(228)	24,100
Shares:					
Of others	2,232	1,755	479	(2)	(1)2,232
Total Securities available for sale	26,332	25,802	(2)760	(2)(230)	(1)26,332

* Fair value data is usually based on stock exchange prices, which do not necessarily reflect the price which will be obtained from a large-volume sale of securities.

** On November 15, 2011, the Supervisor of Banks issued a circular concerning disclosure of investments in securities and description of the business of banking corporations, which established new disclosure requirements regarding securities. Accordingly, the Bank reclassified the data as of March 31, 2011 to match the item headings and presentation method of the current period.

(1) Including shares and options for which no fair value is available, which are stated at cost, amounting to NIS 539 million.

(2) Included in equity in the item "Adjustments in respect of presentation of securities available for sale at fair value".

Notes:

(A) For details of the results of activity in investments in debentures and in shares - see Note 10.

(B) Israeli bonds and foreign bonds are differentiated according to the country of residence of the Issuer entity.

(NIS millions)

Note 2 Securities (continued)

	as at March 31, 2011**				
	Book value	Amortized cost (in shares-cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
3) Securities held for trading					
Debentures and bonds:					
Of Israeli government	1,029	1,035	-	(6)	1,029
Of foreign governments	42	42	-	-	42
Of foreign financial institutions	375	374	-	-	374
Of others in Israel	24	23	2	-	25
Of foreign others	144	144	-	-	144
Total debentures and bonds held for trading	1,614	1,618	2	(6)	1,614
Shares:					
Of others	73	81	1	(9)	73
Total securities held for trading	1,687	1,699	(1)3	(1)(15)	1,687
Total securities(2)	28,932	28,414	827	(245)	28,996

	as at March 31, 2011
4) Data regarding impaired bonds	
Set out below are the recorded debt balances of:	
Impaired bonds accruing interest income	50
Impaired bonds not accruing interest income	36
Total recorded debt balances	86

* Fair value data is usually based on stock exchange prices, which do not necessarily reflect the price which will be obtained from a large-volume sale of securities.

** On November 15, 2011, the Supervisor of Banks issued a circular concerning disclosure of investments in securities and description of the business of banking corporations, which established new disclosure requirements regarding securities. Accordingly, the Bank reclassified the data as of March 31, 2011 to match the item headings and presentation method of the current period.

(1) Attributed to the Statement of Profit and Loss.

(2) Of which: Securities in the amount of approximately NIS 2.8 billion were pledged to lenders.

Notes:

(A) For details of the results of activity in investments in debentures and in shares - see Note 10.

(B) Israeli bonds and foreign bonds are differentiated according to the country of residence of the Issuer entity.

(NIS millions)

Note 2 Securities (continued)

	as at December 31, 2011				
	Book value	Amortized cost (in shares-cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
1) Debentures held to maturity					
Debentures and bonds:					
Of Israeli government	57	57	-	-	57
Of financial institutions in Israel	804	804	57	-	861
Of foreign financial institutions	8	8	-	-	8
Total debentures held to maturity	869	869	57	-	926

			Cumulative other comprehensive income		
	Book value	Amortized cost (in shares-cost)	Profits	Losses	Fair value*
2) Securities available for sale					
Debentures and bonds:					
Of Israeli government	23,859	23,738	176	(55)	23,859
Of foreign governments	2,053	2,041	18	(6)	2,053
Of financial institutions in Israel	173	169	4	-	173
Of foreign financial institutions	1,026	1,033	13	(20)	1,026
Asset-backed securities (ABS)	7	7	-	-	7
Of others in Israel	547	539	18	(10)	547
Of foreign others	747	724	24	(1)	747
Total debentures and bonds available for sale	28,412	28,251	253	(92)	28,412
Shares:					
Of others	1,538	1,343	198	(3)	(1)1,538
Total Securities available for sale	29,950	29,594	(2)451	(2)(95)	(1)29,950

* Fair value data is usually based on stock exchange prices, which do not necessarily reflect the price which will be obtained from a large-volume sale of securities.

(1) Including shares and options for which no fair value is available, which are stated at cost, amounting to NIS 563 million.
(2) Included in equity in the item "Adjustments in respect of presentation of securities available for sale at fair value".

Notes:
(A) For details of the results of activity in investments in debentures and in shares - see Note 10.
(B) Israeli bonds and foreign bonds are differentiated according to the country of residence of the Issuer entity.

Audited
(NIS millions)

Note 2 Securities (continued)

	as at December 31, 2011				
	Book value	Amortized cost (in shares-cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
3) Securities held for trading					
Debentures and bonds:					
Of Israeli government	2,924	2,900	24	-	2,924
Of foreign governments	50	50	-	-	50
Of financial institutions in Israel	10	10	-	-	10
Of foreign financial institutions	348	348	-	-	348
Of others in Israel	27	27	-	-	27
Of foreign others	181	181	-	-	181
Total debentures and bonds held for trading	3,540	3,516	24	-	3,540
Shares:					
Of others	52	61	-	(9)	52
Total securities held for trading	3,592	3,577	(2)24	(2)(9)	3,592
Total securities(3)	34,411	34,040	532	(104)	(1)34,468

4) Data regarding impaired bonds

	as at December 31, 2011
Set out below are the recorded debt balances of:	
Impaired bonds accruing interest income	39
Impaired bonds not accruing interest income	4
Total recorded debt balances	43

* Fair value data is usually based on stock exchange prices, which do not necessarily reflect the price which will be obtained from a large-volume sale of securities.

(1) Including shares and options for which no fair value is available, which are stated at cost, amounting to NIS 563 million.
(2) Attributed to the Statement of Profit and Loss.
(3) Of which: Securities in the amount of approximately NIS 5.4 billion were pledged to lenders.

Notes:
(A) For details of the results of activity in investments in debentures and in shares - see Note 10.
(B) Israeli bonds and foreign bonds are differentiated according to the country of residence of the Issuer entity.

as at March 31, 2012 (NIS millions)

Note 3 Credit to the public and allowance for credit losses

A. Credit to the public

	March 31, 2012		
	Recorded debt balance	Allowance for credit losses	Net debt balance
	Unaudited		
Credit to the public examined on an individual basis*	**145,827**	**3,019**	**142,808**
Credit to the public examined on a group basis**	**102,990**	**994**	**101,996**
Total credit to the public	**248,817**	**4,013**	**244,804**
Of which: Customers' liabilities for acceptances	**404**	**5**	**399**

	March 31, 2011		
	Unaudited		
Credit to the public examined on an individual basis*	140,500	3,848	136,652
Credit to the public examined on a group basis**	94,128	945	93,183
Total credit to the public	234,628	4,793	229,835
Of which: Customers' liabilities for acceptances	469	4	465

	December 31, 2011		
	Audited		
Credit to the public examined on an individual basis*	149,320	3,075	146,245
Credit to the public examined on a group basis**	101,272	1,022	100,250
Total credit to the public	250,592	4,097	246,495
Of which: Customers' liabilities for acceptances	305	3	302

* Including credit examined on an individual basis and found to be unimpaired. The allowance for credit losses in respect of such credit was calculated on a group basis.

** Credit for which the allowance for credit losses is assessed on a group basis using the method of the extent of arrears, pursuant to the appendix to Proper Conduct of Banking Business Directive No. 314, and other credit not individually examined for which the provision for credit losses was calculated on a group basis.

(NIS millions)

Note 3 Credit to the public and allowance for credit losses (continued)

B. Credit to the public examined on an individual basis:
1. Credit to the public examined on an individual basis includes:

	March 31, 2012		
	Recorded debt balance	Allowance for credit losses	Net debt balance
Impaired credit to the public*	**8,242**	**1,466**	**6,776**
Unimpaired credit to the public, 30 to 89 days in arrears**	**621**	**15**	**606**
Other unimpaired credit to the public**	**136,964**	**1,538**	**135,426**
Total unimpaired credit to the public**	**137,585**	**1,553**	**136,032**
Total individually examined credit to the public	**145,827**	**3,019**	**142,808**

* Impaired credit does not accrue interest income, with the exception of certain credit in restructuring, as noted in sub-section 4 below.
** Credit examined individually and found to be unimpaired. The allowance for credit losses in respect of this credit was calculated on a group basis.

	March 31, 2012
2.	
Impaired credit to the public for which an individual credit loss allowance exists	**4,185**
Impaired credit to the public for which an individual credit loss allowance does not exist	**4,057**
Total impaired credit to the public	**8,242**

3.	
Impaired credit to the public measured at the current value of cash flows	**5,472**
Impaired credit to the public measured by the value of collateral	**2,770**
Total impaired credit to the public	**8,242**

(NIS millions)

Note 3 Credit to the public and allowance for credit losses (continued)

B. Credit to the public examined on an individual basis (continued)**:**
4. Problematic credit in restructuring where the terms of the credit have been changed

	March 31, 2012		
	Recorded debt balance	Allowance for credit losses	Net debt balance
Not accruing interest income	**3,279**	**542**	**2,737**
Accruing interest income	**436**	**-**	**436**
Total credit (included in impaired credit to the public)	**3,715**	**542**	**3,173**

Commitments to grant additional credit to debtors whose problematic credit has been restructured with changes to the terms of the credit totaled NIS 60 million as at March 31, 2012.

5.

	For the three months ended March 31, 2012
Average recorded debt balance of impaired credit to the public in the reported period	**8,423**
Total interest income recorded in the reported period in respect of this credit, during the period of time in which it was classified as impaired*	**30**
Total interest income that would have been recorded in the reported period, if this credit had accrued interest according to its original terms	**186**
* Of which: Interest income recorded according to the cash base accounting method	**19**

(NIS millions)

Note 3 Credit to the public and allowance for credit losses (continued)

B. Credit to the public examined on an individual basis (continued)**:**
1. Credit to the public examined on an individual basis includes:

	March 31, 2011		
	Recorded debt balance	Allowance for credit losses	Net debt balance
Impaired credit to the public*	10,263	2,564	7,699
Unimpaired credit to the public, 30 to 89 days in arrears**	414	12	402
Other unimpaired credit to the public**	129,823	1,272	128,551
Total unimpaired credit to the public**	130,237	1,284	128,953
Total individually examined credit to the public	140,500	3,848	136,652

* Impaired credit does not accrue interest income, with the exception of certain credit in restructuring, as noted in sub-section 4 below.
** Credit examined individually and found to be unimpaired. The allowance for credit losses in respect of this credit was calculated on a group basis.

	March 31, 2011
2.	
Impaired credit to the public for which an individual credit loss allowance exists	6,753
Impaired credit to the public for which an individual credit loss allowance does not exist	3,510
Total impaired credit to the public	10,263

3.	
Impaired credit to the public measured at the current value of cash flows	6,228
Impaired credit to the public measured by the value of collateral	4,035
Total impaired credit to the public	10,263

(NIS millions)

Note 3 Credit to the public and allowance for credit losses (continued)

B. Credit to the public examined on an individual basis (continued)**:**
4. Problematic credit in restructuring where the terms of the credit have been changed

	March 31, 2011		
	Recorded debt balance	Allowance for credit losses	Net debt balance
Not accruing interest income	3,405	858	2,547
Accruing interest income	317	-	317
Total credit (included in impaired credit to the public)	3,722	858	2,864

Commitments to grant additional credit to debtors whose problematic credit has been restructured with changes to the terms of the credit totaled NIS 163 million as at March 31, 2011.

5.

	For the three months ended March 31, 2011
Average recorded debt balance of impaired credit to the public in the reported period	10,686
Total interest income recorded in the reported period in respect of this credit, during the period of time in which it was classified as impaired*	29
Total interest income that would have been recorded in the reported period, if this credit had accrued interest according to its original terms	227
* Of which: Interest income recorded according to the cash base accounting method	22

Audited
(NIS millions)

Note 3 Credit to the public and allowance for credit losses (continued)

B. Credit to the public examined on an individual basis (continued)**:**
1. Credit to the public examined on an individual basis includes:

	December 31, 2011		
	Recorded debt balance	Allowance for credit losses	Net debt balance
Impaired credit to the public*	8,609	1,608	7,001
Unimpaired credit to the public, 30 to 89 days in arrears**	648	16	632
Other unimpaired credit to the public**	140,063	1,451	138,612
Total unimpaired credit to the public**	140,711	1,467	139,244
Total individually examined credit to the public	149,320	3,075	146,245

* Impaired credit does not accrue interest income, with the exception of certain credit in restructuring, as noted in sub-section 4 below.
** Credit examined individually and found to be unimpaired. The allowance for credit losses in respect of this credit was calculated on a group basis.

	December 31, 2011
2.	
Impaired credit to the public for which an individual credit loss allowance exists	5,290
Impaired credit to the public for which an individual credit loss allowance does not exist	3,319
Total impaired credit to the public	8,609

3.	
Impaired credit to the public measured at the current value of cash flows	5,639
Impaired credit to the public measured by the value of collateral	2,970
Total impaired credit to the public	8,609

(NIS millions)

Note 3 Credit to the public and allowance for credit losses (continued)

B. Credit to the public examined on an individual basis (continued)**:**
4. Problematic credit in restructuring where the terms of the credit have been changed

	December 31, 2011		
	Recorded debt balance	Allowance for credit losses	Net debt balance
Not accruing interest income	3,255	635	2,620
Accruing interest income	357	-	357
Total credit (included in impaired credit to the public)	3,612	635	2,977

Commitments to grant additional credit to debtors whose problematic credit has been restructured with changes to the terms of the credit totaled NIS 65 million as at December 31, 2011.

5.

	For the year ended December 31, 2011
Average recorded debt balance of impaired credit to the public in the reported period	9,867
Total interest income recorded in the reported period in respect of this credit, during the period of time in which it was classified as impaired*	171
Total interest income that would have been recorded in the reported period, if this credit had accrued interest according to its original terms	887
* Of which: Interest income recorded according to the cash base accounting method	139

(NIS millions)

Note 3 Credit to the public and allowance for credit losses (continued)

C. Credit to the public examined on a group basis includes:

1. Housing loans in respect of which a minimum provision for credit losses was performed based on the extent of arrears, pursuant to the appendix of Proper Conduct of Banking Business Directive No. 314:

	March 31, 2012							
	Extent of arrears							
	30 to 90 days	More than 90 days						
	Over a month, up to 3 months	Over 3 months, up to 6 months	Over 6 months, up to 15 months	Over 15 months, up to 33 months	Over 33 months	Total over 3 months	Balances in respect of refinanced loans in arrears***	Total
Amount in arrears	**9**	**15**	**19**	**20**	**96**	**150**	**14**	**173**
Of which: Allowance for interest*	**-**	**-**	**-**	**1**	**44**	**45**	**6**	**51**
Recorded debt balance(1)	**550**	**272**	**186**	**74**	**97**	**629**	**362**	**1,541**
Allowance for credit losses**	**-**	**-**	**27**	**37**	**93**	**157**	**139**	**296**
Net debt balance	**550**	**272**	**159**	**37**	**4**	**472**	**223**	**1,245**

* In respect of interest on amounts in arrears.

** Includes the balance of the individual allowance, beyond the level required under the method of the extent of arrears; does not include the balance of the allowance for interest and the balance of the group allowance in respect of housing loans.

*** Loans in which an arrangement has been signed for repayment of the arrears of the borrower, where the amortization schedule has been changed in respect of the balance of the loan that has not yet matured.

(1) Excluding interest on arrears and early repayment fees.

2. Other credit not individually examined, for which the credit loss allowance was calculated on a group basis:

	March 31, 2012		
	Recorded debt balance	Allowance for credit losses	Net debt balance
Impaired credit to the public	**-**	**-**	**-**
Unimpaired credit to the public, 90 days or more in arrears	**131**	**49**	**82**
Unimpaired credit to the public, 30 to 89 days in arrears	**407**	**33**	**374**
Other unimpaired credit to the public	**52,679**	**526**	**52,153**
Total	**53,217**	**608**	**52,609**

(NIS millions)

Note 3 Credit to the public and allowance for credit losses (continued)

C. Credit to the public examined on a group basis includes (continued)**:**

1. Housing loans in respect of which a minimum provision for credit losses was performed based on the extent of arrears, pursuant to the appendix of Proper Conduct of Banking Business Directive No. 314:

	March 31, 2011							
	Extent of arrears							
	30 to 90 days	More than 90 days						
	Over a month, up to 3 months	Over 3 months, up to 6 months	Over 6 months, up to 15 months	Over 15 months, up to 33 months	Over 33 months	Total over 3 months	Balances in respect of refinanced loans in arrears***	Total
Amount in arrears	9	10	16	14	100	140	58	207
Of which: Allowance for interest*	-	-	-	1	41	42	6	48
Recorded debt balance(1)	575	282	199	84	156	721	414	1,710
Allowance for credit losses**	-	-	29	40	88	157	144	301
Net debt balance	575	282	170	44	68	564	270	1,409

* In respect of interest on amounts in arrears.

** Includes the balance of the individual allowance, beyond the level required under the method of the extent of arrears; does not include the balance of the allowance for interest and the balance of the group allowance in respect of housing loans.

*** Loans in which an arrangement has been signed for repayment of the arrears of the borrower, where the amortization schedule has been changed in respect of the balance of the loan that has not yet matured.

(1) Excluding interest on arrears and early repayment fees.

2. Other credit not individually examined, for which the credit loss allowance was calculated on a group basis:

	March 31, 2011		
	Recorded debt balance	Allowance for credit losses	Net debt balance
Impaired credit to the public	-	-	-
Unimpaired credit to the public, 90 days or more in arrears	143	53	90
Unimpaired credit to the public, 30 to 89 days in arrears	444	34	410
Other unimpaired credit to the public	48,188	498	47,690
Total	48,775	585	48,190

(NIS millions)

Note 3 Credit to the public and allowance for credit losses (continued)

C. Credit to the public examined on a group basis includes (continued)**:**

1. Housing loans in respect of which a minimum provision for credit losses was performed based on the extent of arrears, pursuant to the appendix of Proper Conduct of Banking Business Directive No. 314:

	December 31, 2011							
	Extent of arrears							
	30 to 90 days	More than 90 days						
	Over a month, up to 3 months	Over 3 months, up to 6 months	Over 6 months, up to 15 months	Over 15 months, up to 33 months	Over 33 months	Total over 3 months	Balances in respect of refinanced loans in arrears***	Total
Amount in arrears	9	14	18	19	99	150	14	173
Of which: Allowance for interest*	-	-	-	1	43	44	5	49
Recorded debt balance(1)	580	276	184	77	102	639	365	1,584
Allowance for credit losses**	-	-	26	39	93	158	141	299
Net debt balance	580	276	158	38	9	481	224	1,285

* In respect of interest on amounts in arrears.
** Includes the balance of the individual allowance, beyond the level required under the method of the extent of arrears; does not include the balance of the allowance for interest and the balance of the group allowance in respect of housing loans.
*** Loans in which an arrangement has been signed for repayment of the arrears of the borrower, where the amortization schedule has been changed in respect of the balance of the loan that has not yet matured.
(1) Excluding interest on arrears and early repayment fees.

2. Other credit not individually examined, for which the credit loss allowance was calculated on a group basis:

	December 31, 2011		
	Recorded debt balance	Allowance for credit losses	Net debt balance
Impaired credit to the public	-	-	-
Unimpaired credit to the public, 90 days or more in arrears	135	52	83
Unimpaired credit to the public, 30 to 89 days in arrears	392	38	354
Other unimpaired credit to the public	51,539	546	50,993
Total	52,066	636	51,430

(NIS millions)

Note 3 Credit to the public and allowance for credit losses (continued)

D. Allowance for credit losses in respect of debts and in respect of off-balance sheet credit instruments

	Allowance for credit losses			
		On a group basis		
	Individual	By extent of arrears	Other*	Total
Allowance for credit losses as at December 31, 2011 (Audited):	**1,692**	**299**	**2,669**	**4,660**
Three months ended March 31, 2012 (unaudited):				
Provision for credit losses	**169**	**1**	**133**	**303**
Accounting write-offs	**(300)**	**(4)**	**(172)**	**(476)**
Collection of debts written off in accounting in previous years	**-**	**-**	**121**	**121**
Net accounting write-offs	**(300)**	**(4)**	**(51)**	**(355)**
Allowance for credit losses as at March 31, 2012 (unaudited):	**1,561**	**296**	**2,751**	**4,608**
Of which: Allowance not deducted from the item "credit to the public"	**95**	**-**	**500**	**595**
Allowance for credit losses as at January 1, 2011 (audited):	**3,145**	**310**	**2,099**	**5,554**
Three months ended March 31, 2011 (unaudited):				
Provision for credit losses	**(236)**	**(10)**	**260**	**14**
Accounting write-offs	**(281)**	**-**	**(117)**	**(398)**
Collection of debts written off in accounting in previous years	**34**	**-**	**26**	**60**
Net accounting write-offs	**(247)**	**-**	**(91)**	**(338)**
Allowance for credit losses as at March 31, 2011 (unaudited):	****2,662**	****300**	****2,268**	**5,230**
Of which: Allowance not deducted from the item "credit to the public"	**92**	**-**	**345**	**437**

* Including provisions on a group basis in respect of debts examined individually and found to be unimpaired.
** Reclassified.

(NIS millions)

Note 3 Credit to the public and allowance for credit losses (continued)

D. Allowance for credit losses in respect of debts and in respect of off-balance sheet credit instruments (continued)**:**

	Allowance for credit losses			
		On a group basis**		
	Individual	By extent of arrears	Other	Total
Composition of the allowance as at March 31, 2012 (unaudited):				
In respect of credit to the public	**1,466**	**296**	**2,251**	**4,013**
In respect of debts other than credit to the public	**-**	**-**	**6**	**6**
In respect of off-balance sheet credit instruments (included in the "other liabilities" item)	**95**	**-**	**494**	**589**
Allowance for credit losses as at March 31, 2012	**1,561**	**296**	**2,751**	**4,608**

	Allowance for credit losses			
		On a group basis**		
	Individual	By extent of arrears	Other	Total
Composition of the allowance as at March 31, 2011 (unaudited):				
In respect of credit to the public	*2,570	*300	*1,923	4,793
In respect of debts other than credit to the public	-	-	5	5
In respect of off-balance sheet credit instruments (included in the "other liabilities" item)	92	-	340	432
Allowance for credit losses as at March 31, 2011	*2,662	*300	*2,268	5,230

	Allowance for credit losses			
		On a group basis**		
	Individual	By extent of arrears	Other	Total
Composition of the allowance as at December 31, 2011 (audited):				
In respect of credit to the public	1,608	299	2,190	4,097
In respect of debts other than credit to the public	-	-	6	6
In respect of off-balance sheet credit instruments (included in the "other liabilities" item)	84	-	473	557
Allowance for credit losses as at December 31, 2011	1,692	299	2,669	4,660

* Reclassified.

** Includes the allowance on a group basis in respect of debts examined individually and found to be unimpaired.

as at March 31, 2012 (NIS millions)

Note 3 Credit to the public and allowance for credit losses (continued)

E. Additional details regarding housing loans and the manner of calculation of the allowance for credit losses

	March 31, 2012						
	Housing loans	Housing loans – impaired or more than 90 days in arrears		Allowance for credit losses			
					other*		
	Recorded debt balance	Amount in arrears***	Recorded debt balance	By extent of arrears	On a group basis	On an individual basis	Total
Housing loans requiring calculation of allowance for credit losses based on extent of arrears**	**49,773**	**164**	**983**	**296**	**90**	**-**	**386**
Other housing loans(1)	**142**	**-**	**-**	**-**	**1**	**-**	**1**
Total	*******49,915**	**164**	**983**	******296**	**91**	**-**	**387**

	March 31, 2011						
	Housing loans	Housing loans – impaired or more than 90 days in arrears		Allowance for credit losses			
					other*		
	Recorded debt balance	Amount in arrears***	Recorded debt balance	By extent of arrears	On a group basis	On an individual basis	Total
Housing loans requiring calculation of allowance for credit losses based on extent of arrears**	45,353	208	1,132	301	59	-	360
Other housing loans(1)	122	-	-	-	2	-	2
Total	*****45,475	208	1,132	****301	61	-	362

* The allowance also includes the group allowance in respect of housing loans granted from 2009 forward in which the ratio of the debt to the value of the pledged asset when the credit was granted (LTV) is greater than 60%.

** Of which: General-purpose loans with the mortgage of a residence, in the amount of approximately NIS 4,368 million (March 31, 2011: NIS 3,851 million, December 31, 2011: NIS 4,240 million).

*** Includes interest on the amount in arrears.

**** Includes the allowance beyond the requirement based on the extent of arrears in the amount of approximately NIS 27 million (March 31, 2011: NIS 12 million, December 31, 2010: NIS 24 million).

***** Of which: Floating-rate housing loans in the amount of approximately NIS 35,819 million (March 31, 2011: NIS 31,197 million, December 31, 2010: NIS 35,177 million).

(1) This group includes housing loans not repaid in monthly or quarterly installments.

as at March 31, 2012 (NIS millions)

Note 3 Credit to the public and allowance for credit losses (continued)

E. Additional details regarding housing loans and the manner of calculation of the allowance for credit losses (continued)**:**

	December 31, 2011						
	Housing loans	Housing loans – impaired or more than 90 days in arrears		Allowance for credit losses			
					other*		
	Recorded debt balance	Amount in arrears***	Recorded debt balance	By extent of arrears	On a group basis	On an individual basis	Total
Housing loans requiring calculation of allowance for credit losses based on extent of arrears**	49,206	164	997	299	87		386
Other housing loans[(1)]	138				1		1
Total	*****49,344	164	997	****299	88		387

* The allowance also includes the group allowance in respect of housing loans granted from 2009 forward in which the ratio of the debt to the value of the pledged asset when the credit was granted (LTV) is greater than 60%.
** Of which: General-purpose loans with the mortgage of a residence, in the amount of approximately NIS 4,368 million (March 31, 2011: NIS 3,851 million, December 31, 2011: NIS 4,240 million).
*** Includes interest on the amount in arrears.
**** Includes the allowance beyond the requirement based on the extent of arrears in the amount of approximately NIS 27 million (March 31, 2011: NIS 12 million, December 31, 2010: NIS 24 million).
***** Of which: Floating-rate housing loans in the amount of approximately NIS 35,819 million (March 31, 2011: NIS 31,197 million, December 31, 2010: NIS 35,177 million).
(1) This group includes housing loans not repaid in monthly or quarterly installments.

Note 4 Capital and Capital Adequacy

A. Capital Adequacy in consolidated data

	March 31, 2012	March 31, 2011*,**	December 31, 2011**
	Unaudited		Audited
	NIS millions		
1. Capital for the purpose of calculating the capital ratio			
Core Tier I capital	**24,466**	22,274	23,769
Tier I capital, after deductions	**26,858**	24,627	26,157
Tier II capital, after deductions	**16,895**	14,506	16,175
Total Capital	**43,753**	39,133	42,332
2. Weighted balances of risk assets			
Credit risk	**270,128**	257,193	274,037
Market risks	**7,391**	5,493	7,018
Operational risk	**20,930**	19,665	20,047
Total weighted balances of risk assets	**298,449**	282,351	301,102
3. Ratio of capital to risk assets		%	
Ratio of Core Tier I capital to risk assets	**8.20%**	7.89%	7.89%
Ratio of Tier I capital to risk assets	**9.00%**	8.72%	8.69%
Ratio of Total capital to risk assets	**14.66%**	13.86%	14.06%
Minimum ratio of Total capital as required by the Supervisor of Banks	**9.00%**	9.00%	9.00%
B. Significant Subsidiaries			
Isracard			
Ratio of Tier I capital to risk assets	**14.60%**	*13.60%	13.80%
Ratio of Total capital to risk assets	**14.70%**	*13.70%	14.00%
Minimum ratio of Total capital as required by the Supervisor of Banks	**9.00%**	9.00%	9.00%
Bank Hapoalim Switzerland			
Ratio of Tier I capital to risk assets	**24.94%**	21.32%	22.36%
Ratio of Total capital to risk assets	**24.94%**	21.32%	22.36%
Minimum ratio of Total capital as required according to the local regulation	**11.20%**	8.00%	11.20%
Bank Pozitif			
Ratio of Tier I capital to risk assets	**23.09%**	25.22%	20.76%
Ratio of Total capital to risk assets	**20.67%**	22.85%	18.34%
Minimum ratio of Total capital as required according to the local regulation	**12.00%**	12.00%	12.00%

* Restated following the retroactive implementation of the directives of the Supervisor of Banks regarding financial reporting on employee benefits. For further details, see Note 1(D) above.

** Restated following the initial implementation of International Accounting Standard 12, Taxes on Income. See Note 1(C)(2.2) above.

(NIS millions)

Note 4 Capital and Capital Adequacy (continued)

C. Components of capital for the purpose of calculating the capital ratio

	March 31, 2012	March 31, 2011	December 31, 2011
	Unaudited		Audited
1. Tier I capital			
Capital	**24,744**	**,*22,735	**24,101
Hybrid capital instruments	**2,392**	2,353	2,388
Less: Intangible assets and goodwill	**(42)**	(62)	(44)
Less: net profits in respect of adjustments to fair value of securities available for sale	**(183)**	(346)	(233)
Less: Investments in financial companies in which the Bank has material influence	**(53)**	(53)	(55)
Total Tier I capital	**26,858**	**,*24,627	**26,157
2. Tier II capital			
A. Upper Tier II capital			
45% of the total net profits before the effect of related taxes			
In respect of adjustments to fair value of securities available for sale	**136**	238	160
General provision for doubtful debts	**674**	674	674
Hybrid capital instruments	**2,685**	2,655	2,689
B. Lower Tier II capital			
Subordinated notes	**13,453**	10,992	12,707
C. Tier II capital deductions			
Investments in financial companies in which the Bank has material influence	**(53)**	(53)	(55)
Total Tier II capital	**16,895**	14,506	16,175
Total Capital	**43,753**	**,*39,133	**42,332

* Restated following the retroactive implementation of the directives of the Supervisor of Banks regarding financial reporting on employee benefits. For further details, see Note 1(D) above.

** Restated following the initial implementation of International Accounting Standard 12, Taxes on Income. See Note 1(C)(2.2) above.

Note 4 Capital and Capital Adequacy (continued)

D. Capital Adequacy Target

Capital adequacy is calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, "Capital Measurement and Adequacy". A resolution of the Board of Directors of December 30, 2010 established minimum targets of 7.5% for the Bank's core Tier I capital ratio and 12.5% for the Bank's total capital ratio.

Minimum Core Tier 1 Capital Ratios

In March 2012, the Supervisor of Banks issued a circular to all banking corporations concerning minimum capital ratios, within the process of preparation for the implementation of the Basel III directives. According to the circular, all banking corporations will be required to maintain a minimum core Tier 1 capital ratio of 9% by January 1, 2015. The core Tier 1 capital ratio is to be calculated in accordance with the Basel III directives and the adjustments to be established by the Supervisor of Banks.

In addition, a large banking corporation whose total consolidated balance sheet assets constitute at least 20% of the total balance sheet assets in the banking system in Israel will be required to maintain a minimum core Tier 1 capital ratio of 10% by January 1, 2017. This additional directive applies to the Bank.

The Bank is studying the expected requirements of the Supervisor of Banks, as presented in this directive, and intends to prepare as necessary to comply with the requirements to be established. The core Tier 1 capital ratio of the Bank as at March 31, 2012, calculated according to the Basel II directives, is 8.20%.

(NIS millions)

Note 5 Assets and Liabilities According to Linkage Basis

	as at March 31, 2012						
	Israeli Currency		Foreign Currency[1]				
	Unlinked	Linked to the CPI	US Dollar	Euro	Other	Non-monetary items*	Total
Assets							
Cash on hand and deposits with banks	33,223	101	17,238	627	1,081	-	52,270
Securities	23,158	3,341	5,744	1,295	1,807	1,558	36,903
Securities which were borrowed or bought under agreement to resell	70	-	-	-	-	-	70
Credit to the public, net[2]	143,485	56,178	29,364	6,578	9,034	165	244,804
Credit to governments	99	-	410	234	-	-	743
Investments in equity basis investees	-	-	-	-	-	127	127
Buildings and equipment	-	-	-	-	-	3,709	3,709
Intangible assets and goodwill	-	-	-	-	-	42	42
Assets in respect of derivative instruments[3]	2,171	127	4,016	316	596	19	7,245
Other assets	3,138	250	327	86	123	513	4,437
Total assets	205,344	59,997	57,099	9,136	12,641	6,133	350,350
Liabilities							
Deposits from the public	153,959	20,497	58,104	12,368	6,483	165	251,576
Deposits from banks	1,905	585	2,918	1,076	140	-	6,624
Deposits from the Government	156	614	136	-	-	-	906
Securities which were lent or sold under agreements to repurchase	-	-	1,116	-	277	-	1,393
Debentures and subordinated notes	6,156	26,039	1,758	94	375	-	34,422
Liabilities in respect of derivative instruments[3]	2,790	2,066	4,291	351	682	-	10,180
Other liabilities	18,468	191	1,028	107	160	551	20,505
Total liabilities	183,434	49,992	69,351	13,996	8,117	716	325,606
Excess of assets (liabilities)	21,910	10,005	(12,252)	(4,860)	4,524	5,417	24,744
Effect of hedging derivatives:							
Derivative instruments (not including options) I	(5,509)	(3,975)	10,756	3,514	(4,786)		
Options in the money, net (in terms of underlying asset)	(540)	-	(325)	699	166		
Options out of the money, net (in terms of underlying asset)	(788)	-	659	398	(269)		
Total	15,073	6,030	(1,162)	(249)	(365)	5,417	
Options in the money, net (nominal present value)	(853)	-	(255)	1,039	69		
Options out of the money, (net nominal present value)	(1,836)	-	1,848	956	(968)		

* Including derivative instruments whose underlying asset relates to a non-monetary item.
(1) Including linked to foreign currency.
(2) After the deductions of allowance for credit losses attributed to the linkage bases.
(3) The Bank has implemented the directives of FAS 157 concerning fair value measurements as of January 1, 2011. Balances of assets and liabilities presented in this note are gross amounts,after the attribution of the effects of the implementation of the standard, in the amount of NIS (16) million, these effects were presented in the unlinked segment.

(NIS millions)

Note 5 Assets and Liabilities According to Linkage Basis (continued)

	as at March 31, 2011						
	Israeli Currency		Foreign Currency(1)				
	Unlinked	Linked to the CPI	US Dollar	Euro	Other	Non-monetary items*	Total
Assets							
Cash on hand and deposits with banks	32,335	203	12,208	500	984	-	46,230
Securities	15,990	1,781	5,138	2,236	1,482	2,305	28,932
Securities which were borrowed or bought under agreement to resell	65	-	-	-	2	-	67
Credit to the public, net(2)	134,181	53,965	25,794	7,251	8,447	197	229,835
Credit to governments	1	1	223	86	-	-	311
Investments in equity basis investees	-	-	-	-	-	129	129
Buildings and equipment	-	-	-	-	-	3,713	3,713
Intangible assets and goodwill	-	-	-	-	-	62	62
Assets in respect of derivative instruments(3)	1,975	287	2,408	698	991	14	6,373
Other assets	***,**2,761	3	436	79	49	676	***,**4,004
Total assets	***,**187,308	56,240	46,207	10,850	11,955	7,096	***,**319,656
Liabilities							
Deposits from the public	137,169	19,869	55,227	13,421	5,886	197	231,769
Deposits from banks	1,537	832	2,658	465	141	-	5,633
Deposits from the Government	284	811	132	-	-	-	1,227
Securities which were lent or sold under agreements to repurchase			-	-	428	-	428
Debentures and subordinated notes	5,534	21,448	855	60	398	-	28,295
Liabilities in respect of derivative instruments(3)	2,476	2,454	2,601	880	1,020	-	9,431
Other liabilities	**17,828	118	1,367	80	188	557	**20,138
Total liabilities	**164,828	45,532	62,840	14,906	8,061	754	**296,921
Excess of assets (liabilities)	***,**22,480	10,708	(16,633)	(4,056)	3,894	6,342	***,**22,735
Effect of hedging derivatives:							
Derivative instruments (not including options)	(6,076)	(7,706)	14,433	3,210	(3,861)		
Options in the money, net (in terms of underlying asset)	(862)	-	822	(4)	44		
Options out of the money, net (in terms of underlying asset)	(709)		477	570	(338)		
Total	***,**14,833	3,002	(901)	(280)	(261)	6,342	
Options in the money, net (nominal present value)	(1,382)	-	970	220	192		
Options out of the money, (net nominal present value)	(2,143)	-	1,426	1,407	(690)		

* Including derivative instruments whose underlying asset relates to a non-monetary item.
** Restated following the retroactive implementation of the directives of the Supervisor of Banks regarding financial reporting on employee benefits. For further details, see Note 1(D) above.
*** Restated following the initial implementation of International Accounting Standard 12, Taxes on Income. See Note 1(C)(2.2) above.
(1) Including linked to foreign currency.
(2) After the deductions of allowance for credit losses attributed to the linkage bases.
(3) The Bank has implemented the directives of FAS 157 concerning fair value measurements as of January 1, 2011. Balances of assets and liabilities presented in this note are gross amounts,after the attribution of the effects of the implementation of the standard, in the amount of NIS (42) million, these effects were presented in the unlinked segment.

Audited
(NIS millions)

Note 5 Assets and Liabilities According to Linkage Basis (continued)

	as at December 31, 2011						
	Israeli Currency		Foreign Currency[1]				
	Unlinked	Linked to the CPI	US Dollar	Euro	Other	Non-monetary items*	Total
Assets							
Cash on hand and deposits with banks	33,271	166	19,881	995	1,477	-	55,790
Securities	21,747	3,136	5,172	1,291	1,475	1,590	34,411
Credit to the public, net[2]	142,503	56,718	30,760	6,455	9,839	220	246,495
Credit to governments	80	1	303	232	-	-	616
Investments in equity basis investees	-	-	-	-	-	125	125
Buildings and equipment	-	-	-	-	-	3,720	3,720
Intangible assets and goodwill	-	-	-	-	-	44	44
Assets in respect of derivative instruments[3]	2,449	77	7,098	229	927	19	10,799
Other assets	**3,127	509	307	184	91	444	**4,662
Total assets	**203,177	60,607	63,521	9,386	13,809	6,162	**356,662
Liabilities							
Deposits from the public	155,391	20,615	60,404	12,938	6,849	220	256,417
Deposits from banks	2,338	693	3,058	857	55	-	7,001
Deposits from the Government	264	684	137	-	-	-	1,085
Securities which were lent or sold under agreements to repurchase	-	-	1,148	-	157	-	1,305
Debentures and subordinated notes	6,265	24,646	1,690	75	257	-	32,933
Liabilities in respect of derivative instruments[3]	3,040	2,143	6,971	334	933	-	13,421
Other liabilities	18,330	189	1,074	200	128	478	20,399
Total liabilities	185,628	48,970	74,482	14,404	8,379	698	332,561
Excess of assets (liabilities)	**17,549	11,637	(10,961)	(5,018)	5,430	5,464	**24,101
Effect of non hedging derivatives:							
Derivative instruments (not including options)	(814)	(4,834)	9,211	3,285	(6,848)		
Options in the money, net (in terms of underlying asset)	(1,630)	-	(658)	1,307	981		
Options out of the money, net (in terms of underlying asset)	(629)	-	582	169	(122)		
Total	**14,476	6,803	(1,826)	(257)	(559)	5,464	
Options in the money, net (nominal present value)	(1,893)	-	(942)	1,743	1,092		
Options out of the money, net (nominal present value)	(2,072)	-	1,651	469	(48)		

* Including derivative instruments whose underlying asset relates to a non-monetary item.
** Restated following the initial implementation of International Accounting Standard 12, Taxes on Income. See Note 1(C)(2.2) above.
(1) Including linked to foreign currency.
(2) After the deductions of allowance for credit losses attributed to the linkage bases.
(3) The Bank has implemented the directives of FAS 157 concerning fair value measurements as of January 1, 2011. Balances of assets and liabilities presented in this note are gross amounts,after the attribution of the effects of the implementation of the standard, in the amount of NIS (19) million, these effects were presented in the unlinked segment.

(NIS millions)

Note 6 Contingent Liabilities and Special Commitments

	Mar. 31		Dec. 31	Mar. 31		Dec. 31
	2012	2011	2011	**2012**	2011	2011
	Unaudited		Audited	Unaudited		Audited
	Contract balances*			Allowance for credit losses		
A. Off-balance sheet financial instruments:						
Transactions, the balance of which represents a credit risk:						
(a) Documentary credit	**2,127**	2,021	2,627	**4**		4
(b) Credit guarantees	**6,736**	6,763	7,012	**18**	13	18
(c) Guarantees to purchasers of apartments	**13,663**	11,369	13,032	**61**	45	58
(d) Other guarantees and liabilities	**18,733**	18,047	19,359	**183**	134	168
(e) Unutilized credit facilities for credit cards under the responsibility of the bank	**32,779**	30,446	32,924	**73**	59	76
(f) Unutilized credit facilities for credit cards under the responsibility of other banks	**10,542**	9,803	10,163			
(g) Unutilized revolving debitory and other on-demand credit facilities	**34,772**	36,696	34,515	**88**	63	90
(h) Irrevocable obligations to grant credit, which has been approved but is yet undrawn	**27,781**	24,554	26,456	**75**	55	67
(i) Obligations to issue guarantees	**19,732**	14,677	17,636	**87**	63	76

B. Contingent liabilities and other special commitments:			
(1) Liability to purchase securities	**290**	156	260
(2) Construction and purchase of buildings and equipment	**95**	88	39
(3) Rent payable in future years for buildings and equipment in respect of commitments for periods longer than three years, after balance sheet date**:			
First year	**146**	130	147
Second year	**146**	130	147
Third year	**146**	130	147
Fourth year	**141**	128	140
Fifth year	**129**	120	129
Over five years	**773**	734	795
Total rent for buildings and equipment	**1,481**	1,372	1,505

* Contract balances or nominal amounts for period-end, before the affect of allowance for credit losses.
** Restated.

Note 6 Contingent Liabilities and Special Commitments (continued)

C. Legal Claims

The Bank Group (the Bank and its consolidated subsidiaries) is a party to legal proceedings, including petitions to certify class actions, taken against it by its customers, former customers, and various third parties, who deem themselves injured or harmed by the Bank Group's operations during the normal course of its business. The causes of the claims against the Bank Group are various and wide-ranging. In the opinion of the Bank's Board of Management, based on legal opinions with regard to the likely outcome of pending claims, including petitions to certify class actions, the financial statements include sufficient provisions, in accordance with generally accepted accounting principles, to cover possible damages resulting from all claims, where such provisions are necessary.

The additional exposure in respect of claims filed against the Bank Group on various matters, as at March 31, 2012, that have a "reasonably possible" probability of materialization amounts to approximately NIS 99 million.

(A) For details concerning claims and petitions to certify claims as class actions in material amounts, see Note 19(D)(a) to the Financial Statements as at December 31, 2011.

At the date of publication of the Financial Statements, there have been no material changes with regard to claims against the Bank Group relative to the description in the aforesaid Financial Statements.

(B) Also pending against the Bank Group are claims, including petitions to certify class actions, as detailed below. In the opinion of the Bank's Board of Management, based on legal opinions, at this stage it is not possible to assess the probability of success of these legal proceedings; accordingly, no provision has been made in respect thereof:

1. A claim and a petition to certify the claim as a class action against Isracard Ltd., a wholly owned subsidiary of the Bank (hereinafter: "Isracard"), were filed with the District Court of Tel-Aviv-Jaffa on May 20, 2012. The amount of the personal claim noted in the claim statement is NIS 1,231, and the class-action suit is estimated at no less than NIS 373 million. According to the claimant, Isracard clears credit-card transactions on websites (transactions with a missing document) with no examination of the credit-card data entered into the website, other than the number and expiration date of the card, and without cross-referencing the data transferred to it. According to the claimant, Isracard thereby acted negligently, and therefore in violation of the contract signed with the claimant. The claimants seeks to represent "merchants who execute transactions with missing documents." The remedy sought is reimbursement for the members of the aforesaid group of the fees paid in respect of denied transactions, as well as the value of the goods delivered to the customer following Isracard's approval of a transaction that was subsequently denied. At this preliminary stage, it is not possible to estimate the probability of certification of the claim as a class action or the probability of success of the claim itself.

2. On March 29, 2012, Attorney Irving Pickard, liquidator of Bernard L. Madoff Investment Securities LLC (hereinafter: "Madoff") filed a claim with the US Bankruptcy Court of the Southern District of New York against the Bank and against Bank Hapoalim Switzerland, a wholly owned subsidiary of the Bank (hereinafter: "BHS"). The claim is in the amount of approximately USD 27.5 million, of which approximately USD 26 million against BHS. In the claim demands that the defendants reimburse the Madoff liquidation fund for redemptions withdrawn from the Fairfield Sentry and Kingate funds during the period preceding Madoff's bankruptcy. This refers to funds in which customers of the Bank and of BHS invested at the time, which in turn invested in Madoff.

Note 6 Contingent Liabilities and Special Commitments (continued)

It should be noted that a substantial part of the amount of the reimbursement demanded in this claim (approximately USD 22 million of the total USD 27.5 million) correspond to the amounts claimed by the Fairfield Sentry fund on its own behalf, in the claim described in Note 19(D)(a)(1) to the Annual Financial Statements for 2011; therefore, there does not seem to be a risk of duplicate payment in respect of the corresponding amounts.

3. A claim statement and a petition to certify the claim as a class action against Isracard Ltd., a wholly owned subsidiary of the Bank (hereinafter: "Isracard"), and against others, were filed with the District Court of Tel Aviv on January 22, 2012. The personal claim is in the amount of NIS 5,000, and the class-action suit is in an estimated amount of NIS 75 million against all of the defendants. According to the petitioners, Isracard was negligent in failing to check the security of a certain shopping website.

Isracard filed for dismissal in limine, as it believes that the petition is missing factual infrastructure, lacks cause, and does not discover opponency between the group and Isracard, and that there is no cause for a personal claim. Note that concurrently with the filing of the request for dismissal in limine, a request was filed to extend the deadline for submission of a response to the petition for certification, until after the ruling on the request for dismissal.

4. A claim statement and a petition to certify and administer the claim as a class action against the Bank were filed with the District Court of the Central District on November 27, 2011. The claim and the petition concern the allegation that the Bank charges its customers for various legal expenses (delivery of pleading statements, collection expenses, etc.), unlawfully, because the Bank charges the customer for the aforesaid expenses even in cases in which the expenses have not been approved by a judicial authority or by the Execution Office, and the Bank adds the aforesaid expenses to the debt balance of the customer, thereby creating a misleading misrepresentation for the customer; and because the Bank charges the customer for such expenses at an interest rate higher than the rate established in the Adjudication of Interest and Linkage Law, 1961. The class-action suit does not stipulate an amount, and states that the amount cannot be estimated.

5. A petition to certify a derived claim against the Bank and a derived claim against four members of the Board of Management of the Bank who served in 2006 (the "Defendants"), and against the Bank as a formal defendant, was filed with the Economic Department of the District Court of Tel Aviv on October 23, 2011. According to the claimant, the petition and the derived claim concern alleged failures in the conduct of the Defendants with respect to financial instruments acquired and held by the Bank during and after the second quarter of 2006.

The claimant bases his claim on a report which he alleges that the Defendants ordered from an external company during 2006, the conclusions of which, he alleges, were that MBS series acquired by the Bank were mortgage-backed bonds of private entities, and were therefore riskier than MBS series of United States government agencies. The claimant alleges that the surplus returns on these bonds did not justify the risk of holding the bonds. The claimant alleges that the Defendants disregarded the findings of the report, did not exchange the MBS series for allegedly less risky series, and allegedly continued to acquire MBS series at the same level of risk, even after receiving the report. The claimant further alleges that the Defendants concealed the findings of the report from the Board of Directors of the Bank.

The claimant alleges that the losses caused to the Bank by the investment in MBS exceed a total of USD 1 billion, and that if the Defendants had ensured that the Bank realize the MBS series, or alternatively exchange the aforesaid series for allegedly less risky series, the Bank would not have incurred any loss.

Note 6 Contingent Liabilities and Special Commitments (continued)

The claimant is petitioning the court to determine that the Defendants violated the duties imposed upon them by law towards the Bank, and to therefore obligate them to reimburse the Bank for the monetary damages incurred by the Bank.

6. A claim statement and a petition to certify and administer the claim as a class action were filed with the District Court of the Central District against the Bank and against two additional banks (hereinafter: the "Respondent Banks") on September 21, 2011. The claim against all of the Respondent Banks is in a total amount of NIS 927 million, while the share of the Bank is in the amount of NIS 280 million.

The cause of the claim, according to the petitioners, is excessive collection allegedly deriving from prohibited collection of "compound interest" in housing loans taken by the petitioners from the Respondent Banks, and the Respondent Banks' interest calculations that disregard the fact that the interest has already been paid and that previous payments also repaid part of the principal.

7. The Bank has been notified by Psagot Provident Funds and Pensions Ltd. (hereinafter: "Psagot") and by Clal Pensions and Provident Funds Ltd. (hereinafter: "Clal") that, in July 2011, a claim was filed with the District Court of Tel-Aviv-Jaffa, along with a petition to certify the claim as a class action against Psagot, Clal, and four other defendants that manage provident funds and study funds.

In the claim, the claimants allege that the defendants unlawfully discriminated among the members of the provident funds by granting benefits in the payment of management fees to only some of the members. The claimants demand equalization of the rights of all members of the provident funds, such that all members pay identical, uniform management fees at the lowest rate collected from any of the members, or alternatively, at a uniform average rate to be determined. The claimants further demand reimbursement of the excess management fees collected from the members allegedly discriminated against in the last five years.

The aforesaid claim was not filed against the Bank. However, it refers to the period of the last five years, during which the Bank (through companies under its ownership) managed some of the provident funds currently managed by Psagot and Clal, for a period of approximately two years. Psagot and Clal therefore notified the Bank that if the claim results in the imposition of a monetary charge upon them referring to the provident funds managed by the Bank during the period of management by the Bank, they will claim indemnification and compensation from the Bank in respect thereof. Psagot and Clal stated that having studying the claim and the petition, at this stage, they still do not have a monetary calculation of the part in respect of which indemnification and compensation may be claimed from the Bank.

8. A claim statement and a petition to certify and administer the claim as a class action were filed with the District Court of Tel-Aviv-Jaffa against the Bank, three additional banks (hereinafter: the "Respondent Banks"), and Automatic Bank Services Ltd., which is owned by the Respondent Banks (hereinafter: "ABS"), on July 13, 2011. The class-action suit against all of the Respondent Banks and ABS is in a total amount of approximately NIS 153 million.

The claim and the petition concern the allegation that clients using the automated teller machines of ABS are charged a fee, in addition to the withdrawal fee charged upon withdrawal, for the execution of a transaction through a direct channel, charged to the client's bank account, without notification of the client during the withdrawal.

Note 6 Contingent Liabilities and Special Commitments

9. In November 2011, it came to the attention of the Bank, through publications in the media, that a petition to certify a class action had been filed against three credit-card companies, including Isracard, and against banks including the Bank. According to these publications, the claim is in the amount of NIS 4.9 billion, and concerns the rates of fees collected by the credit-card companies. The Bank and Isracard did not receive the aforesaid petition by the date of approval of the financial statements of the Bank; the Bank therefore does not know the amount of the claim attributed to it and to Isracard, and cannot formulate a position with regard to the petition.

D. Variable Interest Entities (VIE)

The Bank supplies liquidity lines to securitization entities in which third parties serve as the sponsors. The lines supplied by the Bank constitute a relatively small share of the total liquidity lines of these securitization entities. The Bank does not supply credit reinforcement to these entities. The total liquidity lines supplied to securitization entities, as described above, as at March 31, 2012, amounted to NIS 186 million (USD 50 million), compared with NIS 177 million (USD 50 million) at the end of 2011. No withdrawals were performed on any of these lines up to March 31, 2012. Taking into consideration the fact that the Bank usually supplies a relatively small share of the total liquidity lines to these securitization entities and does not provide them with other types of support, the Bank has determined that it does not hold variable interests that would make it the primary beneficiary in any VIE of these securitization entities.

E. Further to Note 19C to the Annual Financial Statements for 2011, a government bill was approved by the Knesset plenum and published in the Official Gazette of the Government of Israel in August 2011 which concerns, among other matters, the area of discounting, as well as a directive whereby an issuer that issues 10% or more of the number of charge cards issued in Israel, or an issuer of charge cards used to execute at least 10% of the amount of transactions executed in Israel, shall be required to contract with a clearer for cross-clearing of transactions in the charge card which it issues. The directives of this law are in effect as of May 15, 2012. According to the Bank's estimates, this law will have an adverse effect on the Bank Group's revenues in the future; however, at this stage the Bank is unable to estimate the extent of this effect.

An agreement was signed between Isracard and Leumi Card in April 2012, and an agreement was signed between Isracard and CAL in May 2012, both in connection with the implementation of Amendment 18 to the Banking (Licensing) Law. Pursuant to the agreement, Leumi Card and CAL were granted licenses to clear Isracard brand charge cards, under the terms agreed upon by the parties. On May 14, 2012, the Commissioner granted a temporary exemption for a restrictive arrangement, for three months, under which Leumi Card and CAL can clear Isracard brand cards by paying an issuer fee. If the Commissioner approves the collection of any additional amounts by Isracard in the future, Isracard will be able to collect such amounts retroactively, including with respect to the period of the temporary exemption.

(NIS millions)

Note 7 Derivative instruments activity - volume, credit risks and maturity dates

A. Nominal value of derivative instruments

	as at March 31, 2012					
	Interest contracts		Foreign currency contracts	Shares related contracts	Commodity and other contracts	Total
	NIS-CPI	Other				
1. Hedging derivatives*						
Forward contracts	-	-	**4,446**	-	-	**4,446**
Swaps	-	**8,183**	-	-	-	**8,183**
Total hedging derivatives	-	**8,183**	**4,446**	-	-	**12,629**
Of which interest rate swaps contracts in which the banking corporation has agreed to pay a fixed interest rate	-	**4,067**	-	-	-	**4,067**
2. ALM derivatives*,**						
Futures contracts	-	**7,768**	-	-	-	**7,768**
Forward contracts	**9,679**	**26,904**	**111,334**	**31**	**2,060**	**150,008**
Option contracts traded on the stock exchange						
Options written	-	-	**335**	-	-	**335**
Options bought	-	-	**325**	-	-	**325**
Other option contracts						
Options written	-	**28,968**	**19,074**	**5,030**	**377**	**53,449**
Options bought	-	**28,532**	**19,483**	**1,026**	**246**	**49,287**
Swaps	**2,294**	**192,824**	**32,597**	**1,605**	-	**229,320**
Total ALM derivatives	**11,973**	**284,996**	**183,148**	**7,692**	**2,683**	**490,492**
Of which interest rate swaps contracts in which the banking corporation has agreed to pay a fixed interest rate	**1,922**	**88,323**	-	-	-	**90,245**

* Except for credit derivatives and foreign currency spot swap contracts.
** Derivatives constituting part of the Bank's assets and liabilities management, that have not been designated for hedging.

(NIS millions)

Note 7 Derivative instruments activity - volume, credit risks and maturity dates (continued)

A. Nominal value of derivative instruments

	as at March 31, 2012					
	Interest contracts		Foreign currency contracts	Shares related contracts	Commodity and other contracts	Total
	NIS-CPI	Other				
3. Other derivatives*						
Option contracts traded on the stock exchange:						
Options written	-	-	**2,314**	**7,194**	-	**9,508**
Options bought	-	-	**2,314**	**7,194**	-	**9,508**
Other option contracts						
Options bought	-	-	-	**90**	-	**90**
Total other derivatives	-	-	**4,628**	**14,478**	-	**19,106**
4. Credit derivatives and spot swap foreign currency contracts						
Credit derivatives for which the banking corporation is a guarantor	-	-	-	-	**557**	**557**
Credit derivatives for which the banking corporation is a beneficiary	-	-	-	-	**30**	**30**
Spot swap foreign currency contracts	-	-	**17,448**	-	-	**17,448**
Total nominal value	**11,973**	**293,179**	**209,670**	**22,170**	**3,270**	**540,262**

* Except for credit derivatives and foreign currency spot swap contracts.

(NIS millions)

Note 7 Derivative instruments activity - volume, credit risks and maturity dates (continued)

B. Gross fair value of derivative instruments*

	as at March 31, 2012					
	Interest contracts		Foreign currency contracts	Shares related contracts	Commodity and other contracts	Total
	NIS-CPI	Other				
1. Hedging derivatives**						
Gross positive fair value	**-**	**50**	**23**	**-**	**-**	**73**
Gross negative fair value	**-**	**408**	**95**	**-**	**-**	**503**
2. ALM derivatives**,***						
Gross positive fair value	**80**	**4,645**	**2,209**	**91**	**84**	**7,109**
Gross negative fair value	**332**	**5,189**	**3,975**	**77**	**87**	**9,660**
3. Other derivatives**						
Gross positive fair value	**-**	**-**	**47**	**132**	**-**	**179**
Gross negative fair value	**-**	**-**	**46**	**119**	**-**	**165**
4. Credit derivatives						
Credit derivatives for which the banking corporation is a guarantor:						
Gross positive fair value	**-**	**-**	**-**	**-**	**1**	**1**
Gross negative fair value	**-**	**-**	**-**	**-**	**3**	**3**
Credit derivatives for which the banking corporation is a beneficiary:						
Gross positive fair value	**-**	**-**	**-**	**-**	**4**	**4**
Total gross positive fair value	**80**	**4,695**	**2,279**	**223**	**89**	**7,366**
Total gross negative fair value	**332**	**5,597**	**4,116**	**196**	**90**	**10,331**

* The Bank has implemented the directives of FAS 157 concerning fair value measurements as of January 1, 2011. Balances of assets and liabilities presented in this note are gross amounts, before the attribution of effects of the implementation of this standard, in the amount of NIS (16)million.

** Except for credit derivatives.

*** Derivatives constituting part of the Bank's assets and liabilities management, that have not been designated for hedging.

(NIS millions)

Note 7 Derivative instruments activity - volume, credit risks and maturity dates (continued)

A. Nominal value of derivative instruments

	as at March 31, 2011*					
	Interest contracts		Foreign currency contracts	Shares related contracts	Commodity and other contracts	Total
	NIS-CPI	Other				
1. Hedging derivatives**						
Swaps	-	11,331	-	-	-	11,331
Total hedging derivatives	-	11,331	-	-	-	11,331
Of which interest rate swaps contracts in which the banking corporation has agreed to pay a fixed interest rate	-	3,364	-	-	-	3,364
2. ALM derivatives**,***						
Futures contracts	-	9,030	16	-	-	9,046
Forward contracts	7,251	62,215	136,805	49	1,695	208,015
Option contracts traded on the stock exchange:						
Options written	-	-	217	-	-	217
Options bought	-	-	217	-	-	217
Other option contracts						
Options written	-	16,493	30,354	4,923	947	52,717
Options bought	-	14,952	30,515	802	748	47,017
Swaps	1,294	142,864	26,043	433	-	170,634
Total ALM derivatives	8,545	245,554	224,167	6,207	3,390	487,863
Of which interest rate swaps contracts in which the banking corporation has agreed to pay a fixed interest rate	839	70,720	-	-	-	71,559

* The Bank has implemented the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations as of January 1, 2012. Pursuant to the new directive, activity in derivative instruments is separated into trading activity and non-trading activity. The directive was adopted through retroactive implementation. Accordingly, other non-trading derivatives were reclassified, to match the new disclosure format.
** Except for credit derivatives and foreign currency spot swap contracts.
*** Derivatives constituting part of the Bank's assets and liabilities management, that have not been designated for hedging.

(NIS millions)

Note 7 Derivative instruments activity - volume, credit risks and maturity dates (continued)

A. Nominal value of derivative instruments

	as at March 31, 2011*					
	Interest contracts		Foreign currency contracts	Shares related contracts	Commodity and other contracts	Total
	NIS-CPI	Other				
3. Other derivatives**						
Option contracts traded on the stock exchange:						
Options written	-	-	2,757	10,761	-	13,518
Options bought	-	-	2,757	10,761	-	13,518
Total other derivatives	-	-	5,514	21,522	-	27,036
4. Credit derivatives and spot swap foreign currency contracts						
Credit derivatives for which the banking corporation is a guarantor	-	-	-	-	572	572
Credit derivatives for which the banking corporation is a beneficiary	-	-	-	-	30	30
Spot swap foreign currency contracts	-	-	19,626	-	-	19,626
Total nominal value	8,545	256,885	249,307	27,729	3,992	546,458

* The Bank has implemented the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations as of January 1, 2012. Pursuant to the new directive, activity in derivative instruments is separated into trading activity and non-trading activity. The directive was adopted through retroactive implementation. Accordingly, other non-trading derivatives were reclassified, to match the new disclosure format.

** Except for credit derivatives and foreign currency spot swap contracts.

(NIS millions)

Note 7 Derivative instruments activity - volume, credit risks and maturity dates (continued)

B. Gross fair value of derivative instruments**

	as at March 31, 2011*					
	Interest contracts		Foreign currency contracts	Shares related contracts	Commodity and other contracts	Total
	NIS-CPI	Other				
1. Hedging derivatives***						
Gross positive fair value	-	74	-	-	-	74
Gross negative fair value	-	454	-	-	-	454
2. ALM derivatives***,****						
Gross positive fair value	38	2,625	3,449	84	52	6,248
Gross negative fair value	299	3,118	5,396	65	48	8,926
3. Other derivatives***						
Gross positive fair value	-	-	71	140	-	211
Gross negative fair value	-	-	71	140	-	211
4. Credit derivatives						
Credit derivatives for which the banking corporation is a guarantor:						
Gross positive fair value	-	-	-	-	1	1
Gross negative fair value	-	-	-	-	4	4
Total gross positive fair value	38	2,699	3,520	224	53	6,534
Total gross negative fair value	299	3,572	5,467	205	52	9,595

* The Bank has implemented the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations as of January 1, 2012. Pursuant to the new directive, activity in derivative instruments is separated into trading activity and non-trading activity. The directive was adopted through retroactive implementation. Accordingly, other non-trading derivatives were reclassified, to match the new disclosure format.

** The Bank has implemented the directives of FAS 157 concerning fair value measurements as of January 1, 2011. Balances of assets and liabilities presented in this note are gross amounts, before the attribution of effects of the implementation of this standard, in the amount of NIS (42) million.

*** Except for credit derivatives.

**** Derivatives constituting part of the Bank's assets and liabilities management, that have not been designated for hedging.

Audited
(NIS millions)

Note 7 Derivative instruments activity - volume, credit risks and maturity dates (continued)

A. Nominal value of derivative instruments

	as at December 31, 2011*					
	Interest contracts		Foreign currency contracts	Shares related contracts	Commodity and other contracts	Total
	NIS-CPI	Other				
1. Hedging derivatives**						
Swaps	-	10,101	-	-	-	10,101
Total hedging derivatives	-	10,101	-	-	-	10,101
Of which interest rate swaps contracts in which the banking corporation has agreed to pay a fixed interest rate	-	3,802	-	-	-	3,802
2. ALM derivatives**,***						
Futures contracts	-	10,355	-	-	-	10,355
Forward contracts	9,018	31,548	143,006	42	1,536	185,150
Option contracts traded on the stock exchange						
Options written	-	-	190	-	-	190
Options bought	-	-	190	-	-	190
Other option contracts						
Options written	-	24,770	36,740	4,387	736	66,633
Options bought	-	26,669	37,139	743	509	65,060
Swaps	2,106	179,525	32,254	841	-	214,726
Total ALM derivatives	11,124	272,867	249,519	6,013	2,781	542,304
Of which interest rate swaps contracts in which the banking corporation has agreed to pay a fixed interest rate	1,739	83,979	-	-	-	85,718

* The Bank has implemented the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations as of January 1, 2012. Pursuant to the new directive, activity in derivative instruments is separated into trading activity and non-trading activity. The directive was adopted through retroactive implementation. Accordingly, other non-trading derivatives were reclassified, to match the new disclosure format.

** Except for credit derivatives and foreign currency spot swap contracts.

*** Derivatives constituting part of the Bank's assets and liabilities management, that have not been designated for hedging.

Audited
(NIS millions)

Note 7 Derivative instruments activity - volume, credit risks and maturity dates (continued)

A. Nominal value of derivative instruments

	as at December 31, 2011*					
	Interest contracts		Foreign currency contracts	Shares related contracts	Commodity and other contracts	Total
	NIS-CPI	Other				
3. Other derivatives**						
Option contracts traded on the stock exchange:						
Options written	-	-	2,956	7,193	-	10,149
Options bought	-	-	2,956	7,193	-	10,149
Other option contracts						
Options bought	-	-	-	81	-	81
Total other derivatives	-	-	5,912	14,467	-	20,379
4. Credit derivatives and spot swap foreign currency contracts						
Credit derivatives for which the banking corporation is a guarantor	-	-	-	-	573	573
Credit derivatives for which the banking corporation is a beneficiary	-	-	-	-	30	30
Spot swap foreign currency contracts	-	-	18,578	-	-	18,578
Total nominal value	11,124	282,968	274,009	20,480	3,384	591,965

* The Bank has implemented the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations as of January 1, 2012. Pursuant to the new directive, activity in derivative instruments is separated into trading activity and non-trading activity. The directive was adopted through retroactive implementation. Accordingly, other non-trading derivatives were reclassified, to match the new disclosure format.

** Except for credit derivatives and foreign currency spot swap contracts.

Audited
(NIS millions)

Note 7 Derivative instruments activity - volume, credit risks and maturity dates (continued)

B. Gross fair value of derivative instruments**

	as at December 31, 2011*					
	Interest contracts		Foreign currency contracts	Shares related contracts	Commodity and other contracts	Total
	NIS-CPI	Other				
1. Hedging derivatives***						
Gross positive fair value	-	67	-	-	-	67
Gross negative fair value	-	535	-	-	-	535
2. ALM derivatives***,****						
Gross positive fair value	93	5,420	4,844	61	146	10,564
Gross negative fair value	373	6,018	6,105	96	159	12,751
3. Other derivatives***						
Gross positive fair value	-	-	46	238	-	284
Gross negative fair value	-	-	46	228	-	274
4. Credit derivatives						
Credit derivatives for which the banking corporation is a guarantor:						
Gross positive fair value	-	-	-	-	1	1
Gross negative fair value	-	-	-	-	6	6
Credit derivatives for which the banking corporation is a beneficiary:						
Gross positive fair value	-	-	-	-	5	5
Total gross positive fair value	93	5,487	4,890	299	152	10,921
Total gross negative fair value	373	6,553	6,151	324	165	13,566

* The Bank has implemented the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations as of January 1, 2012. Pursuant to the new directive, activity in derivative instruments is separated into trading activity and non-trading activity. The directive was adopted through retroactive implementation. Accordingly, other non-trading derivatives were reclassified, to match the new disclosure format.

** The Bank has implemented the directives of FAS 157 concerning fair value measurements as of January 1, 2011. Balances of assets and liabilities presented in this note are gross amounts, before the attribution of effects of the implementation of this standard, in the amount of NIS (19) million.

*** Except for credit derivatives.

**** Derivatives constituting part of the Bank's assets and liabilities management, that have not been designated for hedging.

as at March 31, 2012 (NIS millions)

Note 7 Derivative instruments activity - volume, credit risks and maturity dates (continued)

C. Credit risk in respect of derivative instruments, according to transaction counterparty

	as at March 31, 2012					
	Unaudited					
	Stock Exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Positive gross fair value of derivative instruments(1)	**165**	**4,256**	**659**	**2**	**2,284**	**7,366**
Balance sheet balances of assets deriving from derivative instruments(2)	**165**	**4,256**	**659**	**2**	**2,284**	**7,366**
Off balance sheet credit risk in respect of derivative instruments(3)	**-**	**7,920**	**1,438**	**292**	**7,384**	**17,034**
Total credit risk in respect of derivative instruments	**165**	**12,176**	**2,097**	**294**	**9,668**	**24,400**

	as at March 31, 2011					
	Unaudited					
	Stock Exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Positive gross fair value of derivative instruments(1)	211	3,464	469	15	2,375	6,534
Balance sheet balances of assets deriving from derivative instruments(2)	211	3,464	469	15	2,375	6,534
Off balance sheet credit risk in respect of derivative instruments(3)	3	29,609	3,435	150	12,957	46,154
Total credit risk in respect of derivative instruments	214	33,073	3,904	165	15,332	52,688

	as at December 31, 2011					
	Audited					
	Stock Exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Positive gross fair value of derivative instruments(1)	274	6,114	856	-	3,677	10,921
Balance sheet balances of assets deriving from derivative instruments(2)	274	6,114	856	-	3,677	10,921
Off balance sheet credit risk in respect of derivative instruments(3)	-	8,348	1,519	259	7,665	17,791
Total credit risk in respect of derivative instruments	274	14,462	2,375	259	11,342	28,712

(1) Of which positive gross value of embedded derivative instruments is NIS 17 million (March 31,2011: NIS 21 million, December 31, 2011: NIS 18 million).

(2) Positive gross fair value, before attribution to the effects of the implementation of FAS 157 concerning fair value measurement which total NIS 104 million (March 31,2011: NIS 140 million, December 31, 2011: NIS 104 million). For further details, see note 8 below.

(3) Off balance sheet credit risk in respect of derivative instruments (including derivative instruments with negative fair value) as calculated for the purpose of restrictions on the liability of a single borrower. Data on off-balance sheet credit risk as at December 31, 2011 were calculated according to the new definitions established in Proper Conduct of Banking Business Directive No. 313, Limits on Indebtedness of a borrower and borrowers group (amended version). Data on off-balance sheet credit risk as at March 31, 2011 are presented according to the definitions established in Proper Conduct of Banking Business Directive No. 313 prior to the update.

as at March 31, 2012 (NIS millions)

Note 7 Derivative instruments activity - volume, credit risks and maturity dates (continued)

D. Maturity dates (nominal value amounts)

	as at March 31, 2012				
	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
	Unaudited				
Interest rate contracts					
NIS-CPI	**886**	**2,983**	**6,074**	**2,030**	**11,973**
Other	**77,984**	**72,367**	**92,640**	**50,188**	**293,179**
Foreign currency contracts	**123,552**	**53,290**	**12,449**	**20,379**	**209,670**
Shares related contracts	**15,322**	**2,421**	**4,122**	**305**	**22,170**
Commodity and other contracts (including credit derivatives)	**2,212**	**656**	**402**	**-**	**3,270**
Total	**219,956**	**131,717**	**115,687**	**72,902**	**540,262**
	as at March 31, 2011				
	Unaudited				
Total	236,508	133,705	98,197	78,048	546,458
	as at December 31, 2011				
	Audited				
Total	271,475	136,409	110,323	73,758	591,965

(NIS millions)

Note 8 Balances and fair value estimations of financial instruments

A. Balances and fair value estimations of financial instruments

	as at March 31, 2012			
	Balance sheet balances			
	(1)	(2)	Total	Fair Value
Financial Assets				
Cash on hand and deposits with banks	**2,106**	**50,164**	**52,270**	**52,265**
Securities*	**36,053**	**850**	**36,903**	**36,963**
Securities which were borrowed or bought under agreements to resell	**-**	**70**	**70**	**70**
Credit to the public, net	**697**	**244,107**	**244,804**	**247,061**
Credit to governments	**-**	**743**	**743**	**745**
Assets in respect of derivative instruments	**7,245**	**-**	**7,245**	**7,245**
Other financial assets	**1,391**	**124**	**1,515**	**1,514**
Total financial assets	**47,492**	**296,058**	**343,550**	**345,863**
Financial liabilities				
Deposits from the public	**697**	**250,879**	**251,576**	**253,597**
Deposits from banks	**-**	**6,624**	**6,624**	**6,817**
Deposits from the Government	**-**	**906**	**906**	**979**
Securities which were lent or sold under agreements to repurchase	**-**	**1,393**	**1,393**	**1,393**
Debentures and subordinated notes	**-**	**34,422**	**34,422**	**36,416**
Liabilities in respect of derivative instruments	**10,180**	**-**	**10,180**	**10,180**
Other financial liabilities	**3,276**	**12,800**	**16,076**	**16,006**
Total financial liabilities	**14,153**	**307,024**	**321,177**	**325,388**

* Includes shares and options for which no fair value is available, stated at cost in the amount of NIS 569 million.

Notes:
(1) Financial instruments for which the balance sheet balance is identical to the fair value.
(2) Other financial instruments for which fair value calculated.

(NIS millions)

Note 8 Balances and fair value estimations of financial instruments (continued)

A. Balances and fair value estimations of financial instruments (continued)

	as at March 31, 2011			
	Balance sheet balances			
	(1)	(2)	Total	Fair Value
Financial Assets				
Cash on hand and deposits with banks	2,435	43,795	46,230	46,227
Securities*	28,019	913	28,932	28,996
Securities which were borrowed or bought under agreements to resell	-	67	67	67
Credit to the public, net	949	228,886	229,835	230,858
Credit to governments	-	311	311	311
Assets in respect of derivative instruments	6,373	-	6,373	6,373
Other financial assets	1,402	-	1,402	1,402
Total financial assets	39,178	273,972	313,150	314,234
Financial liabilities				
Deposits from the public	949	230,820	231,769	233,137
Deposits from banks	-	5,633	5,633	5,882
Deposits from the Government	-	1,227	1,227	1,304
Securities which were lent or sold under agreements to repurchase	-	428	428	428
Debentures and subordinated notes	-	28,295	28,295	29,772
Liabilities in respect of derivative instruments	9,431	-	9,431	9,431
Other financial liabilities	2,821	12,881	15,702	15,702
Total financial liabilities	13,201	279,284	292,485	295,656

* Includes shares and options for which no fair value is available, stated at cost in the amount of NIS 539 million.

Notes:
(1) Financial instruments for which the balance sheet balance is identical to the fair value.
(2) Other financial instruments for which fair value calculated.

Audited
(NIS millions)

Note 8 Balances and fair value estimations of financial instruments (continued)

A. Balances and fair value estimations of financial instruments (continued)

	as at December 31, 2011			
	Balance sheet balances			
	(1)	(2)	Total	Fair Value
Financial Assets				
Cash on hand and deposits with banks	2,212	53,578	55,790	55,776
Securities*	33,542	869	34,411	34,468
Credit to the public, net	880	245,615	246,495	248,501
Credit to governments	-	616	616	616
Assets in respect of derivative instruments	10,799	-	10,799	10,799
Other financial assets	1,580	114	1,694	1,692
Total financial assets	49,013	300,792	349,805	351,852
Financial liabilities				
Deposits from the public	880	255,537	256,417	258,369
Deposits from banks	-	7,001	7,001	7,218
Deposits from the Government	-	1,085	1,085	1,156
Securities which were lent or sold under agreements to repurchase	-	1,305	1,305	1,307
Debentures and subordinated notes	-	32,933	32,933	34,806
Liabilities in respect of derivative instruments	13,421	-	13,421	13,421
Other financial liabilities	2,513	13,726	16,239	16,168
Total financial liabilities	16,814	311,587	328,401	332,445

* Includes shares and options for which no fair value is available, stated at cost in the amount of NIS 563 million.

Notes:
(1) Financial instruments for which the balance sheet balance is identical to the fair value, or constitutes an approximation of fair value.
(2) Other financial instruments for which fair value calculated.

Note 8 Balances and fair value estimations of financial instruments (continued)

Fair Value of Financial Instruments

This note includes information concerning the assessment of the fair value of financial instruments.

A "market price" cannot be quoted for the majority of financial instruments at the Bank because no active market exists in which they are traded. Fair value is therefore estimated by means of accepted pricing models, such as the present value of future cash flows discounted by a discounting interest rate that reflects the level of risk inherent in the financial instrument. An estimate of fair value by means of an assessment of future cash flows and the setting of a discounting interest rate are subjective. Therefore, for the majority of financial instruments, the following assessment of fair value is not necessarily an indication of the disposal value of the financial instrument on the reporting date. The fair value is assessed on the basis of the interest rates valid at the reporting date, and does not take interest-rate volatility into account. Under the assumption of different interest rates, fair values would be obtained that may differ materially. This mainly applies to financial instruments that bear a fixed rate of interest or that do not bear interest. In addition, the assessment of fair value does not take into consideration commissions to be received or paid in the course of business activity, and does not include the effect of non-controlling interests or tax effects. Moreover, the difference between the balance sheet balance and fair-value balances may not be realized, because in the majority of cases the financial instrument may be held to maturity by the Bank. Due to all of these factors, it should be emphasized that the data included in this note are insufficient to indicate the value of the banking corporation as a going concern. In addition, due to the broad spectrum of assessment techniques and estimates that can be applied in assessing fair value, caution should be exercised when comparing fair values between different banks.

Principal Methods and Assumptions Used to Estimate the Fair Value of Financial Instruments

Deposits with banks, nontradable bonds and loans, and credit to the government – By discounting future cash flows according to the interest rates at which the Bank executed similar transactions at the reporting date.

Marketable securities – According to market value in the primary market.

Credit to the public – The fair value of the balance of credit to the public is estimated using the method of the present value of future cash flows discounted by a suitable discounting rate. The balance of credit was segmented into homogenous categories. In each category, the flow of future receipts (principal and interest) was calculated. These receipts were discounted by an interest rate reflecting the level of risk inherent in the credit in that category. This interest rate was usually determined according to the interest rate at which similar transactions were executed at the Bank at the reporting date.

The fair value of impaired debts was calculated using discounting interest rates reflecting the high credit risk inherent in such debts. In any case, these discounting rates were not lower than the highest interest rate used by the Bank in its transactions at the reporting date.

Future cash flows for impaired debts and other debts were calculated after the deduction of the effects of accounting write-offs and of allowances for credit losses in respect of the debts.

Note 8 Balances and fair value estimations of financial instruments (continued)

Accounting write-offs and allowances for credit losses were attributed to the periods in which the debt was classified, where possible (e.g. when an allowance was calculated on an individual basis according to the current value of a cash flow). In the absence of these data, accounting write-offs and the allowance are attributed proportionally to the balance of credit, according to the term to maturity at the end of the period.

The fair value calculation includes assumptions with regard to early repayment of housing credit, according to the estimates of the Bank, based on an examination of historical data on early repayment in relation to the parameters that account for the repayments. These assumptions had the effect of reducing the fair value by NIS 9 million.

Deposits, bonds, and subordinated notes – By discounting future cash flows according to the interest rates at which the corporation raises similar deposits or the Bank issues similar bonds and notes (if a price quoted in an active market is not available) on the reporting date. With regard to bonds and subordinated notes traded as an asset in an active market, fair value is based on quoted market prices or on quotes from traders for an identical liability traded as an asset in an active market.

Inter-client lending – Presented as credit and deposits, and measured according to the value of the loaned securities on the stock market.

Derivative instruments – Derivative financial instruments that have an active market were assessed at the market value established in the primary market. Derivative financial instruments not traded in an active market were assessed on the basis of models used by the Bank in its routine operations, taking into account the risks inherent in the financial instrument.

The measurement of the fair value of derivative instruments takes the credit risk inherent in such transactions into account, among other factors. Estimates of the fair value of assets in respect of derivative instruments also reflect the credit risk of the counterparty, and estimates of the fair value of liabilities in respect of derivative instruments also reflect the credit risk of the Bank.

Set out below are data regarding the adjustment of assets and liabilities in respect of derivative instruments, as described above, as at March 31, 2012.

	Unaudited
	NIS millions
Assets in respect of derivative instruments	**7,366**
Adjustment in respect of credit risk of assets in respect of derivative instruments	**(104)**
Liabilities in respect of derivative instruments	**10,331**
Adjustment in respect of credit risk of liabilities in respect of derivative instruments	**(88)**

Assets and liabilities for which fair value is measured based on Level 3 data – Items for which fair value is determined based on an indicative price from an independent entity; indicative price of a counterparty to the transaction; evaluation models in which some of the significant inputs are unobservable; and items for which fair value is determined based on internal calculators or service bureaus in which some of the inputs are unobservable.

(NIS millions)

Note 8 Balances and fair value estimations of financial instruments (continued)

B. Items measured at fair value on a recurrent basis

	as at March 31, 2012			
	Fair-value measurements using –			
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Balance Sheet balance
Assets				
Securities available for sale:				
Government bonds - Israeli government	**21,724**	**3,372**	**-**	**25,096**
Government bonds - Foreign governments	**1,935**	**457**	**-**	**2,392**
Bonds of financial institutions in Israel	**205**	**-**	**-**	**205**
Bonds of foreign financial institutions	**760**	**354**	**65**	**1,179**
Bonds of others in Israel	**393**	**324**	**-**	**717**
Bonds of foreign others	**674**	**130**	**-**	**804**
Asset backed securities (ABS)	**-**	**-**	**2**	**2**
Tradable shares	**933**	**-**	**-**	**933**
Securities held for trading:				
Government bonds - Israeli government	**3,277**	**-**	**-**	**3,277**
Government bonds - Foreign governments	**73**	**-**	**-**	**73**
Bonds of financial institutions in Israel	**9**	**-**	**-**	**9**
Bonds of foreign financial institutions	**468**	**-**	**-**	**468**
Bonds of others in Israel	**26**	**-**	**-**	**26**
Bonds of foreign others	**247**	**-**	**-**	**247**
Tradable shares	**56**	**-**	**-**	**56**
Assets in respect of derivative instruments:				
NIS-CPI contracts	**-**	**80**	**-**	**80**
Other interest contracts		**4,692**	**3**	**4,695**
Foreign-currency contracts	**46**	**2,216**	**17**	**2,279**
Share contracts	**119**	**11**	**93**	**223**
Commodity and other contracts	**-**	**84**	**5**	**89**
Credit in respect of inter-customer lending	**697**	**-**	**-**	**697**
Assets in respect of activity in the Maof market	**438**	**-**	**-**	**438**
Total Assets	**32,080**	**11,720**	**185**	**43,985**

(NIS millions)

Note 8 Balances and fair value estimations of financial instruments (continued)

B. Items measured at fair value on a recurrent basis (continued)

	as at March 31, 2012			
	Fair-value measurements using –			
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Balance Sheet balance
Liabilities				
Liabilities in respect of derivative instruments :				
NIS-CPI contracts	**-**	**332**	**-**	**332**
Other interest contracts	**-**	**5,591**	**6**	**5,597**
Foreign-currency contracts	**46**	**4,070**	**-**	**4,116**
Share contracts	**119**	**12**	**65**	**196**
Commodity and other contracts	**-**	**87**	**3**	**90**
Deposits in respect of inter-customer lending	**697**	**-**	**-**	**697**
Liabilities in respect of activity in the Maof market	**438**	**-**	**-**	**438**
Total Liabilities	**1,300**	**10,092**	**74**	**11,466**

(NIS millions)

Note 8 Balances and fair value estimations of financial instruments (continued)

B. Items measured at fair value on a recurrent basis (continued)

	as at March 31, 2011*			
	Fair-value measurements using –			
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Balance Sheet balance
Assets				
Securities available for sale:				
Government bonds - Israeli government	15,623	2,568	-	18,191
Government bonds - Foreign governments	1,828	359	-	2,187
Bonds of foreign financial institutions	1,230	733	240	2,203
Bonds of others in Israel	103	351	-	454
Bonds of foreign others	791	5	-	796
Asset backed securities (ABS)	-	-	269	269
Tradable shares	1,693	-	-	1,693
Securities held for trading:				
Government bonds - Israeli government	1,029	-	-	1,029
Government bonds - Foreign governments	42	-	-	42
Bonds of foreign financial institutions	374	-	-	374
Bonds of others in Israel	25	-	-	25
Bonds of foreign others	144	-	-	144
Tradable shares	73	-	-	73
Assets in respect of derivative instruments:				
NIS-CPI contracts	-	38	-	38
Other interest contracts	-	2,669	30	2,699
Foreign-currency contracts	71	3,416	33	3,520
Share contracts	140	1	83	224
Commodity and other contracts	-	51	2	53
Credit in respect of inter-customer lending	949	-	-	949
Assets in respect of activity in the Maof market	573	-	-	573
Total Assets	24,668	10,191	657	35,536

* On November 15, 2011, the Supervisor of Banks issued a circular concerning disclosure of investments in securities and description of the business of banking corporations, which established new disclosure requirements regarding securities. Accordingly, the Bank reclassified the data as at March 31, 2011 to match the item headings and presentation method of the current period.

(NIS millions)

Note 8 Balances and fair value estimations of financial instruments (continued)

B. Items measured at fair value on a recurrent basis (continued)

	as at March 31, 2011			
	Fair-value measurements using –			
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Balance Sheet balance
Liabilities				
Liabilities in respect of derivative instruments :				
NIS-CPI contracts	-	299	-	299
Other interest contracts	-	3,531	41	3,572
Foreign-currency contracts	71	5,375	21	5,467
Share contracts	140	1	64	205
Commodity and other contracts	-	47	5	52
Deposits in respect of inter-customer lending	949	-	-	949
Liabilities in respect of activity in the Maof Market	573	-	-	573
Total Liabilities	1,733	9,253	131	11,117

Audited
(NIS millions)

Note 8 Balances and fair value estimations of financial instruments (continued)

B. Items measured at fair value on a recurrent basis (continued)

	as at December 31, 2011			
	Fair-value measurements using –			
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Balance Sheet balance
Assets				
Securities available for sale:				
Government bonds - Israeli government	20,658	3,201	-	23,859
Government bonds - Foreign governments	1,714	339	-	2,053
Bonds of financial institutions in Israel	173	-	-	173
Bonds of foreign financial institutions	621	342	63	1,026
Bonds of others in Israel	237	310	-	547
Bonds of foreign others	741	6	-	747
Asset backed securities (ABS)	-	-	7	7
Tradable shares	975	-	-	975
Securities held for trading:				
Government bonds - Israeli government	2,924	-	-	2,924
Government bonds - Foreign governments	50	-	-	50
Bonds of financial institutions in Israel	10	-	-	10
Bonds of foreign financial institutions	348	-	-	348
Bonds of others in Israel	27	-	-	27
Bonds of foreign others	181	-	-	181
Tradable shares	52	-	-	52
Assets in respect of derivative instruments:				
NIS-CPI contracts	-	93	-	93
Other interest contracts	-	5,483	4	5,487
Foreign-currency contracts	46	4,824	20	4,890
Share contracts	229	2	68	299
Commodity and other contracts	-	147	5	152
Credit in respect of inter-customer lending	880	-	-	880
Assets in respect of activity in the Maof market	590	-	-	590
Total Assets	30,456	14,747	167	45,370

(NIS millions)

Note 8 Balances and fair value estimations of financial instruments (continued)

B. Items measured at fair value on a recurrent basis (continued)

	as at December 31, 2011			
	Fair-value measurements using –			
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Balance Sheet balance
Liabilities				
Liabilities in respect of derivative instruments:				
NIS-CPI contracts	-	373	-	373
Other interest contracts	-	6,547	6	6,553
Foreign-currency contracts	46	6,102	3	6,151
Share contracts	228	4	92	324
Commodity and other contracts	-	159	6	165
Deposits in respect of inter-customer lending	880	-	-	880
Liabilities in respect of activity in the Maof market	590	-	-	590
Total Liabilities	1,744	13,185	107	15,036

Unaudited
(NIS millions)

Note 8 Balances and fair value estimations of financial instruments (continued)

C. Changes in items measured at fair value on a recurrent basis included in level 3

	Fair value as at December 31, 2011	Profits (losses) included in statement of profit and loss(1)(3)	Profits (losses) included in equity(2)	Acquisitions	Issuance	Extinguishment	Fair value as at March 31, 2012	Unrealized profits (losses) in respect of instruments held as at March 31, 2012
Assets								
Securities available for sale:								
Bonds of foreign financial institutions	**63**	**1**	**1**	**-**	**-**	**-**	**65**	**(2)(1)13**
Asset backed securities (ABS)	**7**	**-**	**-**	**-**	**-**	**(5)**	**2**	**(2)(1)-**
Net balances in respect of derivative instruments:								
Other interest contracts	**(2)**	**(3)**	**-**	**-**	**-**	**2**	**(3)**	**(3)-**
Foreign-currency contracts	**17**	**-**	**-**	**-**	**-**	**-**	**17**	**(3)-**
Share contracts	**(24)**	**51**	**-**	**2**	**(2)**	**1**	**28**	**(3)47**
Commodity and other contracts	**(1)**	**3**	**-**	**-**	**-**	**-**	**2**	**(3)3**
Total	**60**	**52**	**1**	**2**	**(2)**	**(2)**	**111**	**63**

(1) Profits (losses) are included in the statement of profit and loss, under the item "Interest income".
(2) Profits (losses) are included in equity, under the item "adjustments in respect of the presentation of securities available for sale at fair value".
(3) Profits (losses) are included in the statement of profit and loss, under the item "Non-interest financing income".

(NIS millions)

Note 8 Balances and fair value estimations of financial instruments (continued)

C. Changes in items measured at fair value on a recurrent basis included in level 3 (continued)

	Fairvalue as at December 31, 2010	Profits (losses) included in statement of profit and loss(1)	Profits (losses) included in equity(2)	Issuance	Extinguishment	Fair value as at March 31, 2011	Unrealized profits (losses) in respect of instruments held as at March 31, 2011
Assets							
Securities available for sale:							
Bonds of foreign financial institutions	242	(3)	1	-	-	240	**(2)(1)(2)**
Bonds of others in Israel	*105	(1)	-	-	(104)	-	**(2)(1)(1)**
Asset backed securities (ABS)	262	(5)	13	-	(1)	269	**(2)(1)8**
Net balances in respect of derivative instruments:							
Other interest contracts	(4)	(3)	-	-	(4)	(11)	**(3)(3)**
Foreign-currency contracts	12	(1)	-	1	-	12	**(3)(1)**
Share contracts	10	3	-	6	-	19	**(3)3**
Commodity and other contracts	(1)	(2)	-	-	-	(3)	**(3)(2)**
Total	*626	(12)	14	7	(109)	526	**2**

* Restated.
(1) Profits (losses) are included in the statement of profit and loss, under the item "Interest income".
(2) Profits (losses) are included in equity, under the item "adjustments in respect of the presentation of securities available for sale at fair value".
(3) Profits (losses) are included in the statement of profit and loss, under the item "Non-interest financing income".

D. During the period, there were no transfers of items measured at fair value from Level 2 measurement to Level 1 measurement.

Unaudited
(NIS millions)

Note 8 Balances and fair value estimations of financial instruments (continued)

E. Items measured at fair value on a recurrent basis and other items*

	as at March 31, 2012					
	Fair-value measurements using –					
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Total fair value	Balance Sheet balance	Total profit (loss) in respect of changes in value in the period ended March 31, 2012
Assets measured at fair value on a nonrecurring basis						
Investments in Shares	-	-	13	13	13	-
Other Assets and Liabilities						
Assets:						
Cash on hand and deposits with banks	2,106	-	50,159	52,265	52,270	-
Securities	-	-	1,466	1,466	1,406	-
Securities which were borrowed or bought under agreements to resell	-	-	70	70	70	-
Credit to the public, net	-	-	246,364	246,364	244,107	-
Credit to government	-	-	745	745	743	-
Other	-	-	1,076	1,076	1,077	-
Total assets	2,106	-	299,880	301,986	299,673	-
Liabilities:						
Deposits from the public	-	-	252,900	252,900	250,879	-
Deposits from banks	-	-	6,817	6,817	6,624	-
Deposits from the Government	-	-	979	979	906	-
Securities which were lent or sold under agreements to repurchase	-	-	1,393	1,393	1,393	-
Debentures and subordinated notes	31,133	-	5,283	36,416	34,422	-
Other	-	-	15,568	15,568	15,638	-
Total Liabilities	31,133	-	282,940	314,073	309,862	-

* Items not measured at fair value in the balance sheet, but in respect of which disclosure of fair value is given.

(NIS millions)

Note 8 Balances and fair value estimations of financial instruments (continued)

F. Additional information regarding significant unobservable inputs and assessment techniques used in the measurement of the fair value of items classified as Level 3

	as at March 31, 2012			
	Fair value	Assessment technique	Unobservable inputs	Range (weighted average)
Assets				
Securities:				
Investment in shares[1]:	13	Discounted Cash Flow	Weighted average cost of capital (WACC)	14.6%
Net balances in respect of derivative instruments:				
Foreign-currency contracts[2]	17	Option pricing model	Unlinked NIS interest rate	1.58%-6.11% (3.35%)
Share contracts[3]	17	Option pricing model	Standard deviation	24.09%-68.70% (36.34%)
			Dividend yield	2.00%-10.56% (2.30%)
			Unlinked NIS interest rate	5.03%-5.23% (5.14%)

Sensitivity analysis of fair value measurements classified as Level 3:

(1) An increase (decrease) in the rate of return on equity would lead to a higher (lower) fair value measurement.
(2) An increase (decrease) in the discounting interest rate would lead to a significantly lower (higher) fair value measurement.
(3) An increase (decrease) in the standard deviation would lead to a significantly higher (lower) fair value measurement. Conversely, an increase (decrease) in the dividend yield or in the discounting interest rate would lead to a significantly lower (higher) fair value measurement.

(NIS millions)

Note 9 Interest income and expenses

	For the three months ended March 31	
	2012	2011*
A. Interest income**		
From credit to the public	**2,920**	3,128
From credit to government	**4**	2
From deposits with banks	**20**	20
From deposits with Bank of Israel and from cash	**160**	152
From debentures	**270**	241
From other assets	**-**	2
Total interest income	**3,374**	3,545
B. Interest expenses**		
On deposits from the public	**(984)**	(978)
On deposits from government	**(7)**	(18)
On deposits from banks	**(50)**	(62)
On securities which were lent or sold under agreements to repurchase	**(5)**	-
On debentures and subordinated notes	**(366)**	(520)
On other liabilities	**-**	1
Total interest expenses	**(1,412)**	(1,577)
Total interest income (expenses), net	**1,962**	1,968
C. Details of net effect of hedging derivative instruments on interest income and expenses***		
Interest income	**37**	17
Interest expenses	**8**	(8)
D. Details of interest income from debentures on a cumulative basis		
Held to maturity	**12**	16
Available for sale	**233**	222
Held for trading	**25**	3
Total included in interest income	**270**	241

* Reclassified due to the initial implementation of the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations. For further details, see Note 1(C)(1) above.
** Including effective component in hedging relations.
*** Details of effect of hedging derivative instruments on subsections (A) and (B).

(NIS millions)

Note 10 Non-Interest Financing Income

A. Non-interest financing income in respect of non-trading activities

	For the three months ended March 31	
	2012	2011*
1. From activity in derivative instruments		
Non-effective part of hedging ratios (see C below)(1)	**8**	(1)
Net income (expenses) in respect of ALM derivative instruments(2)	**(49)**	202
Total from activity in derivative instruments	**(41)**	201
2. From investment in bonds		
Profits from sale of bonds available for sale	**60**	17
Losses from sale of bonds available for sale	**(4)**	(9)
Total from investment in bonds	**56**	8
3. Net rate differences	**114**	(35)
4. Profits (losses) from investment in shares		
Profits from sale of shares available for sale	**55**	11
Losses from sale of shares available for sale	**(4)**	-
Dividend from shares available for sale	**-**	10
Total from investment in shares	**51**	21
Total non-interest financing income in respect of non-trading activities	**180**	195

* Reclassified due to the initial implementation of the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations. For further details, see Note 1(C)(1)above.
(1) Excluding the effective component of hedging ratios.
(2) Derivative instruments constituting part of the asset and liability management system of the Bank, which are not designated for hedging ratios.

(NIS millions)

Note 10 Non-Interest Financing Income (continued)

B. Non-interest financing income in respect of trading activities**

	For the three months ended March 31	
	2012	2011*
Net income in respect of other derivative instruments	**8**	8
Net realized and unrealized losses from adjustments to fair value of bonds held for trading[(1)]	**(7)**	(2)
Net realized and unrealized profits from adjustments to fair value of shares held for trading[(2)]	**4**	1
Dividends received from shares held for trading	**1**	-
Total non-interest financing income from trading activities***	**6**	7
Total non-interest financing income	**186**	202
Details of non-interest financing income in respect of trading activities, by risk exposure		
Interest-rate exposure	**(6)**	(2)
Foreign-currency exposure	**-**	1
Share exposure	**12**	8
Commodities and other exposure	**-**	-
Total	**6**	7

C. Non-effective part of hedging ratios – further details******		
1. Fair value hedges		
Non-effectiveness of hedges	**(1)**	(1)
Profit component in respect of derivative instruments excluded for the evaluation of the effectiveness of the hedge	**1**	-
2. Cash flow hedges		
Profit component in respect of derivative instruments excluded for the evaluation of the effectiveness of the hedge	**8**	-
Total	**8**	(1)

(1) Of which, the part of profit (losses) associated with bonds held for trading still held at the balance sheet date, in the amount of approximately NIS (1) million (March 31, 2011: NIS 4 million).
(2) Of which, the part of profit (losses) associated with shares held for trading still held at the balance sheet date, in the amount of approximately NIS (2) million (March 31, 2011: NIS (8) million).
* Reclassified due to the initial implementation of the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations. For further details, see Note 1(C)(1) above.
** Includes rate differences arising from trading activity.
*** With regard to interest income from investment in bonds held for trading, see Note 9.
**** For a disclosure of the net effect of hedging derivative instruments on interest income and expenses, see Note 9.

(NIS millions)

Note 11 Operating Segments

	For the three months ended March 31, 2012							
	Household Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Financial Management Segment	Others and Adjustments	Total
Net interest income:								
- From externals	**724**	**(255)**	**306**	**288**	**816**	**83**	**-**	**1,962**
- Inter-segmental	**(167)**	**570**	**(25)**	**(111)**	**(283)**	**16**	**-**	**-**
Non-interest income:								
- From externals	**309**	**387**	**159**	**75**	**250**	**158**	**155**	**1,493**
- Inter-segmental	**(14)**	**(49)**	**(14)**	**(8)**	**(2)**	**-**	**87**	**-**
Total income	**852**	**653**	**426**	**244**	**781**	**257**	**242**	**3,455**
Provision for credit losses	**43**	**3**	**14**	**38**	**205**	**-**	**-**	**303**
Net profit (loss) attributed to shareholders of the Bank	**107**	**91**	**121**	**65**	**222**	**62**	**(9)**	**659**
Return on equity (percent net profit attributed to shareholders of the Bank out of average equity)	**13.2%**	**22.9%**	**26.1%**	**10.7%**	**8.5%**	**8.0%**	**-**	**11.3%**

	For the three months ended March 31, 2011*							
	Household Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Financial Management Segment	Others and Adjustments	Total
Net interest income:								
- From externals	702	(203)	265	277	782	145	-	1,968
- Inter-segmental	(158)	492	(5)	(117)	(311)	99	-	-
Non-interest income:								
- From externals	307	407	158	66	276	166	180	1,560
- Inter-segmental	(16)	(58)	(16)	(6)	(1)	-	97	-
Total income	835	638	402	220	746	410	277	3,528
Provision for credit losses (provision reduction)	84	23	8	54	(155)	-	-	14
Net profit attributed to shareholders of the Bank	53	52	99	41	449	185	12	891
Return on equity (percent net profit attributed to shareholders of the Bank out of average equity)**	6.2%	16.0%	21.3%	7.8%	20.2%	26.1%	-	17.0%

* Reclassified due to the initial implementation of the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations. For further details, see Note 1(C)(1) above. In addition, restated, due to the retroactive implementation of the directives of the Supervisor of Banks regarding financial reporting on employee benefits. For further details, see Note 1(D) above.

** Reclassified.

Audited
(NIS millions)

Note 11 Operating Segments (continued)

	For the year ended December 31, 2011*							
	Household Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Financial Management Segment	Others and Adjustments	Total
Net interest income:								
- From externals	3,390	(811)	1,150	1,198	3,848	(678)	-	8,097
- Inter-segmental	(1,128)	2,080	(29)	(497)	(1,815)	1,389	-	-
Non-interest income:								
- From externals	1,263	1,559	632	263	903	(319)	690	4,991
- Inter-segmental	(68)	(209)	(62)	(25)	(1)	-	365	-
Total income	3,457	2,619	1,691	939	2,935	392	1,055	13,088
Provision for credit losses	268	57	124	130	623	-	-	1,202
Net profit attributed to shareholders of the Bank	340	299	433	268	961	118	327	2,746
Return on equity (percent net profit attributed to shareholders of the Bank out of average equity)	10.0%	18.5%	21.7%	11.1%	9.0%	5.5%	-	12.0%

* Reclassified due to the initial implementation of the directives of the Supervisor of Banks concerning the format for statements of profit and loss of banking corporations. For further details, see Note 1(C)(1) above.

Note 12 Office-Holders' Salary

Irit Izakson (who serves as a director of the Bank) has served as Acting Chairperson of the Board of Directors of Isracard Ltd. and of Europay (Eurocard) Israel Ltd. (hereinafter:"**Chairperson of Isracard**") as of October 1, 2008, and also serves as Acting Chairperson of the Board of Directors of Aminit Ltd. and of Poalim Express Ltd. as of January 1, 2009. The appointment of the Chairperson of Isracard was for a term of three years and three months, which ended on December 31, 2011.

On January 25, 2012, further to approval by the Wage and Remuneration Committee and the Audit Committee of Isracard, and by the Supervisor of Banks, the Board of Directors of Isracard approved the extension of Ms. Izakson's term of service until December 31, 2013. On April 30, 2012, further to approval by the Wage and Remuneration Committee and the Audit Committee of Isracard, the Board of Directors of Isracard approved a new employment agreement with the Chairperson of Isracard (hereinafter: the "**Employment Agreement**"). The Employment Agreement was approved by the Human Resources - Salaries and Remuneration Committee, the Audit Committee, and the Board of Directors of the Bank. The Employment Agreement is subject to approval by the general meeting of shareholders of Isracard and by the general meeting of the Bank.

The Employment Agreement covers a period of three years, beginning January 1, 2012, and ending December 31, 2014. The continued contractual engagement with the Chairperson of Isracard in the third year of the agreement (2014) is subject to approval by the Supervisor of Banks. Notwithstanding the aforesaid, the parties are entitled to terminate the contractual engagement pursuant to the Employment Agreement, at any time, with 90 days' advance notice in writing. In the event that the Supervisor of Banks does not approve the continued service of Ms. Izakson as Chairperson of the Board of Directors of Isracard, the contractual engagement shall be considered terminated; if her employment is terminated at the initiative of Isracard, or at her initiative under circumstances that entitle her to severance pay according to law, the Chairperson of Isracard shall be entitled to receive the full supplement of the amount of severance pay to 250% of her last salary, if the amount of severance pay accumulated in the provident funds is lower; The Chairperson of Isracard will be entitled to a monthly salary in a total amount of NIS 92,126, linked to the CPI for December 2011 (to be paid from the inception date of the Employment Agreement, i.e. beginning January 1, 2012). The Employment Agreement also includes related terms, such as a vehicle, telephone, etc., and employer contributions to compensation (including disability), severance pay, and a study fund.

The Chairperson of Isracard shall also be entitled to an annual bonus, in accordance with a bonus plan essentially similar to the bonus plan for senior executives at Isracard (which is structured based on the bonus plan for senior executives at the Bank) (hereinafter: the "**Bonus Plan**"). The annual bonus to be paid to the Chairperson of Isracard, inasmuch as is paid, shall be derived from the difference between the annual net operating profit of Isracard and the threshold profit for compensation established in the Bonus Plan (under certain conditions, the threshold profit for remuneration will be updated by the Board of Directors of Isracard, subject to approval by the organs of the Bank as required by law). Part of the annual bonus will be determined according to a personal score to be assigned to the Chairperson of Isracard each year, based on achievement of objectives. The payment of the annual bonus amount is spread over several years. In addition, a negative bonus amount may be established in years in which the annual net operating profit of Isracard is lower than the threshold profit for compensation established in the Bonus Plan. In any event, pursuant to the Bonus Plan, the amount of the positive annual bonus for the Chairperson of Isracard in any given year shall not exceed 18 monthly salaries of the Chairperson of Isracard, while the amount of the negative annual bonus in any given year shall not exceed 10 monthly salaries of the Chairperson of Isracard.

Note 12 Office-Holders' Salary (continued)

In addition, the Chairperson of Isracard shall be entitled to Restricted Share Units (**"RSU"**), exercisable into shares of the Bank, as follows: 161,241 ordinary RSU and 51,000 contingent RSU, under the terms detailed in the "Secondary Plan for the Grant of Restricted Stock Units (RSU) to Senior Executives 2011" of the Bank (hereinafter: the **"Remuneration Plan of the Bank"**); for further details, see Note 16 to the Annual Financial Statements for 2011.

Isracard has undertaken a commitment to compensate the Bank for the cost arising from the RSU granted by the Bank to the Chairperson of Isracard.

On April 29, 2012, April 30, 2012, and May 3, 2012, respectively, the Wage and Remuneration Committee, the Audit Committee, and the Board of Directors of Isracard approved the exercise of the options granted to the Chairperson of Isracard under her former employment agreement ended on December 31, 2011 which had vested in full, using the net exercise method. Accordingly, the Chairperson of Isracard will be allocated ordinary shares of Isracard, which will be sold to Isracard, subject to approval by the Supervisor of Banks. In the event that such approval is not granted by the Supervisor of Banks, the Bank has undertaken a commitment to purchase the aforesaid shares, at the same terms. The shares will be purchased for a total amount of approximately NIS 3,512 thousand (before deduction of applicable tax), established based on an assessment by an external assessor. The aforesaid exercise of options and sale of shares were approved by the Human Resources, Salaries, and Remuneration Committee, the Audit Committee, and the Board of Directors of the Bank on May 13, 2012, May 21, 2012, and May 30, 2012, respectively; they are subject to approval by the general meeting of Isracard and by the general meeting of the Bank.