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Bank Hapoalim | Condensed Financial Statement as at March 31, 2013

Contents

This is a translation of the Hebrew report and has been prepared for convenience only. In the case of any discrepancy, the Hebrew will prevail.

At the meeting of the Board of Directors held on May 29, 2013, 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 2013.

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

Development of the Bank Group's Business

Net profit of the Bank Group attributed to shareholders of the Bank totaled approximately NIS 621 million in the first quarter of 2013, compared with NIS 659 million in the same quarter last year.

Net return on equity attributed to shareholders of the Bank was 9.5% in the first quarter of 2013, in annualized terms, compared with 11.3% in the same quarter last year.

Basic net profit per share of par value NIS 1 amounted to NIS 0.47 in the first quarter of 2013, compared with NIS 0.50 in the same quarter last year.

Total assets of the Bank Group as at March 31, 2013 amounted to approximately NIS 370.3 billion, compared with approximately NIS 376.4 billion at the end of 2012, a decrease of 1.6%.

Net total credit to the public amounted to NIS 247.8 billion as at March 31, 2013, compared with NIS 249.2 billion at the end of 2012, a decrease of 0.6%.

Total deposits from the public amounted to NIS 265.3 billion as at March 31, 2013, compared with NIS 271.4 billion at the end of 2012, a decrease of 2.3%.

Total shareholders' equity amounted to NIS 27.3 billion as at March 31, 2013, compared with NIS 26.8 billion at the end of 2012, an increase of 2.0%.

The total capital adequacy ratio as at March 31, 2013 was 15.6%, compared with 15.7% at the end of 2012.

Principal Data of the Bank Hapoalim Group

	For the three months ended				
	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
	NIS millions				
Profit and Profitability					
Net financing income*	**2,057**	2,111	2,115	2,041	2,148
Fees and other income	**1,287**	1,314	1,335	1,266	1,307
Total income	**3,344**	3,425	3,450	3,307	3,455
Provision for credit losses	**257**	54	286	344	303
Operating and other expenses	**2,135**	2,354	2,249	2,118	2,104
Net profit attributed to shareholders of the Bank	**621**	652	625	607	659
Balance Sheet – Principal Data					
Total balance sheet	**370,317**	376,388	367,365	362,105	350,350
Net credit to the public	**247,782**	249,182	249,904	248,614	244,804
Securities	**59,461**	52,070	53,076	40,728	36,903
Deposits from the public	**265,297**	271,411	264,490	259,668	251,576
Bonds and subordinated notes	**36,222**	35,677	36,051	35,679	34,422
Shareholders' equity	**27,279**	26,755	25,759	24,907	24,440
Net total problematic credit risk**	**13,561**	13,284	14,187	13,398	13,993
Of which: net impaired balance sheet debts**	**6,856**	6,701	6,493	6,685	6,356
Main Financial Ratios					
Net loan to deposit ratio	**93.4%**	91.8%	94.5%	95.7%	97.3%
Financing margin from regular activity	**82.2%**	81.1%	83.2%	84.2%	85.6%
Shareholders' equity to total assets	**7.4%**	7.1%	7.0%	6.9%	7.0%
Core Tier 1 capital to risk-adjusted assets	**9.1%**	8.9%	8.5%	8.3%	8.2%
Total capital to risk-adjusted assets	**15.6%**	15.7%	15.1%	14.8%	14.7%
Financing margin from regular activity(1)(2)	**2.07%**	2.06%	2.37%	2.47%	2.36%
Cost-income ratio	**63.8%**	68.7%	65.2%	64.0%	60.9%
Total assets to income(3)	**3.7%**	3.8%	3.8%	3.8%	4.0%
Total assets to expenses(4)	**2.3%**	2.6%	2.5%	2.4%	2.4%
Provision for credit losses as a percentage of the average recorded balance of credit to the public(1)	**0.41%**	0.09%	0.45%	0.55%	0.49%
Net return of profit attributed to shareholders of the Bank on equity(1)	**9.5%**	10.3%	10.2%	10.2%	11.3%
Basic net earnings per share in NIS attributed to shareholders of the Bank	**0.47**	0.49	0.47	0.46	0.50

* Net financing income includes net interest income and non-interest income (expenses).

** Net of the individual allowance, the allowance according to the extent of arrears, and the collective allowance for problematic credit risk.

(1) Calculated on an annualized basis.

(2) Financing profit from regular activity (see the Board of Directors' report, in the section Profit and Profitability – Development of Financing Profit) is divided by total financial assets after allowance for credit losses, net of non-interest bearing balances in respect of credit cards.

(3) Total financing and operating income, divided by the balance of total average assets.

(4) Total operating and other expenses, divided by the balance of total average assets.

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, 2013, is NIS 1,320,039,960 par value, composed of ordinary shares of par value NIS 1 each. This is the issued capital following the reduction of 14,400,796 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 1,319,929,066 par value, following the net reduction of 14,678,286 the balance of 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.

Buybacks of Shares of the Bank

On November 11, 2010, the Supervisor of Banks approved a buyback of 12,750,000 shares for the purpose of employee compensation under the 2010-2012 Plan (see Note 16(A)(2) to the Annual Financial Statements for 2012), 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 2012). The Board of Directors approved a share purchase plan on March 30, 2011. Near the date of publication of the Financial Statements, the Bank had purchased 17,133,853 shares, at a cost of approximately NIS 256 million.

Changes in the capital of the Bank from January 1, 2013, to near the date of publication of the financial statements:

Up to the date of publication of the financial statements, an increase of 235,421 ordinary shares occurred in the issued and paid-up capital of the Bank, as a result of shares purchased for the pool of shares, offset by shares issued due to the conversion of options granted to employees under the 2004-2009 series and the transfer of shares from the pool as a result of the exercise of RSU.

Details regarding the remaining options and RSU issued but not yet exercised near the date of publication of the financial statements:

The remainder of the 2004-2009 series issued to employees of the Bank, in the amount of 2,768,838 option units.

The remainder of the 2010-2012 series issued to employees of the Bank, in the amount of 12,452,411 option units, to be converted into shares from the pool of shares that will be purchased for that purpose.

The remaining restricted stock units (**RSU**) issued to senior executives, in the amount of 7,604,608 RSU, to be exercised from a pool of shares purchased by the Bank for that 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 2012 and Note 14 to the Condensed Financial Statements.

Dividend Distribution

The Board of Directors updated the Bank's dividend distribution policy 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 (net of negative differences included in cumulative other comprehensive income) 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 or in a comprehensive 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 or a comprehensive 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 dated June 2010, a banking corporation shall not distribute dividends unless it has a Core Tier 1 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 dated March 28, 2012, concerning minimum Core Tier 1 capital ratios under Basel 3, 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. 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.

Pursuant to the position of the Supervisor of Banks dated October 28, 2012, dividend distribution by the Bank will be possible only after the Bank has ensured its compliance with the trajectory established for the development of its Core Tier 1 capital ratio, taking into account the effects of Basel 3. In any event, the Bank is required to contact the Supervisor of Banks prior to making a decision regarding dividend distribution.

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 1 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 2012.

The balance of retained earnings at the Bank as at March 31, 2013 totaled NIS 18,494 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 2 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.

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 the Basel 3 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. In addition, banking corporations of significant importance whose total balance sheet assets on a consolidated basis 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.

Further, draft circulars issued by the Supervisor of Banks on December 30, 2012, state that minimum total capital ratios shall stand at 12.5% for the banking system in general, by January 1, 2015, and 13.5% for banking corporations of significant importance, by January 1, 2017.

The Bank meets the conditions for the definition of a banking corporation of significant importance, and will therefore be required to comply with a minimum Core Tier 1 capital ratio of 10% and a minimum total capital ratio of 13.5% as of January 1, 2017. The aforesaid minimum capital ratios will be calculated in accordance with the Basel 3 directive and the adjustments to be established by the Supervisor of Banks.

In 2010, the Board of Directors resolved that the target Core Tier 1 capital ratio of the Bank would be no less than 7.5%, and the target total capital ratio of the Bank would be no less than 12.5%. Upon the publication of the Supervisor's directive noted above, the Board of Directors resolved that the Bank would work to meet the targets established therein, on schedule. In addition, on December 26, 2012, the Board of Directors approved the target minimum capital ratios which the Bank will be required to attain as of January 1, 2015 and as of January 1, 2017.

On December 30, 2012, the Supervisor of Banks issued draft circulars updating Directives 201-211 on capital measurement and adequacy, which are expected to adopt the Basel 3 directives as part of the Proper Conduct of Banking Business Directives. The initial implementation date for the aforesaid directives has not yet been determined. The Bank is examining the effects of these directives, based on the drafts and on the position statements of the Supervisor of Banks, as published from time to time, including the effect of the gradual transitional directives that have been established.

The estimated effect, as at March 31, 2013, assuming full implementation of the directives, is a decrease in the Core Tier 1 capital ratio, in the range of 0.3% to 0.5%.

As noted, this estimate is based on the drafts and position statements of the Supervisor of Banks; the final directives may contain changes that may affect the aforesaid estimate of the Bank. Likewise, at this stage the Bank has not yet completed all of the preparations necessary in order to implement the directive, including the development and update of various IT tools and processes. Due to the complexity of the directive and of the processes necessary for its implementation, the expected effect may differ from the foregoing description.

Pursuant to the position of the Supervisor of Banks dated October 28, 2012, dividend distribution by the Bank will be possible only after the Bank has ensured its compliance with the trajectory established for the development of its Core Tier 1 capital ratio, taking into account the effects of Basel 3. In any event, the Bank is required to apply to the Supervisor of Banks prior to making a decision regarding dividend distribution.

	March 31, 2013	December 31, 2012
	NIS millions	
1. Capital for the calculation of the capital ratio		
Core Tier 1 capital	**26,913**	26,323
Tier 1 capital, after deductions	**29,340**	28,745
Tier 2 capital, after deductions	**16,984**	17,801
Total overall capital	**46,324**	46,546
2. Weighted balances of risk-adjusted assets		
Credit risk	**269,858**	269,948
Market risks	**5,944**	5,557
Operational risk	**21,524**	21,302
Total weighted balances of risk-adjusted assets	**297,326**	296,807
	Percent	
3. Ratio of capital to risk-adjusted assets		
Ratio of Core Tier 1 capital to risk-adjusted assets	**9.05%**	8.87%
Ratio of Tier 1 capital to risk-adjusted assets	**9.87%**	9.68%
Ratio of total capital to risk-adjusted assets	**15.58%**	15.68%
Minimum total capital ratio required by the Supervisor of Banks	**9.00%**	9.00%

The ratio of total capital to risk-adjusted assets as at March 31, 2013 was 15.58%, compared with a capital ratio of 15.68% on December 31, 2012.

The Core Tier 1 capital ratio as at March 31, 2013 was 9.05%, compared with a Core Tier 1 capital ratio of 8.87% on December 31, 2012. The increase resulted mainly from the net profit in the first quarter.

Total capital for the calculation of the capital ratio as at March 31, 2013 amounted to approximately NIS 46,324 million, compared with NIS 46,546 million as at December 31, 2012. The decrease in the capital base mainly resulted from the detraction of notes considered Tier 2 capital, which was offset by the net profit for the quarter.

Risk-adjusted assets as at March 31, 2013 amounted to NIS 297.3 billion, compared with NIS 296.8 billion as at December 31, 2012.

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	August 2012
	S&P	A+	A-1	Stable	May 2013
	Fitch Ratings	A	F1	Stable	April 2012
Bank Hapoalim:					
	Moody's	A2	P-1	Stable	June 2012
	S&P	BBB+	A-2	Stable	July 2012
	Fitch Ratings	A-	F2	Stable	May 2013

In January 2013, Moody's confirmed that it had assigned the Bank's New York branch a rating identical to the rating of the Bank.
In May 2013 the rating agency Fitch reaffirmed the Bank's rating, with no change.
In May 2013 the rating agency S&P reduced the local currency sovereign rating to A+/A-1 and reaffirmed the foreign currency sovereign rating at the same level. The sovereign rating outlook remains stable.

Economic and Financial Review

Developments in the Global Economy

Since the beginning of 2013, global financial risk indices have continued to trend down; Due to the continued inflow of liquidity from the leading Western central banks, some stock-price indices, in the United States, for example, broke historical records. The European Central Bank's bond purchasing plan of August 2012 also led to a decrease in risk premiums in the financial markets and gave hope to the Eurozone economies. The prolonged recession, the collapse of banks in Cyprus, and the many difficulties surrounding the establishment of the government in Italy are evidence that the Eurozone crisis is far from resolution. Nonetheless, the level of uncertainty is significantly lower than in the middle of last year: the threat of break-down of the Eurozone has receded, and the US continues to show growth despite its fiscal cutbacks. Cyprus banks fell into crisis due to heavy losses on the Greek bond market as well as the long recession. The Cyprus banking system reached a scale of seven times the GDP, mainly from foreign investors' funds. The Eurozone countries made aid for Cyprus conditional on participation in the losses by owners of deposits at the banks in distress, when the deposits were in amounts greater than EUR 100,000. This was an unprecedented measure in the current European crisis, as until then governments had backed their banks. The precedent may have future implications for the behavior of depositors with banks in other peripheral Eurozone countries.

There are large gaps between the US and Europe: the US economy grew by 2.5% in the first quarter of 2013, while unemployment fell to 7.5% in April 2013. By contrast, the Eurozone economy continued to contract in the first quarter of 2013, at an annualized rate of 0.9%, and the unemployment rate rose to more than 12%. Due to these figures, the International Monetary Fund lowered its growth forecasts for this year.

Inflation is falling, worldwide, which has allowed central banks to continue to provide liquidity to the markets. While in the US questions are being raised regarding the effectiveness of this policy, with a sense that it may have run its course, in Japan an exceptionally extensive quantitative expansion plan has been announced, which some may consider an unprecedented economic experiment. In Europe, the interest rate was lowered to 0.5% in May 2013.

Growth slowed in the first quarter of 2013 in China as well, to an annualized rate of 7.7%, but worries over a severe downturn leading to a real-estate crisis or a financial crisis have largely subsided.

Economic Activity in Israel

Estimates by the Central Bureau of Statistics for the first quarter of 2013 indicate growth at an annualized rate of 2.8%, versus 2.6% in the fourth quarter of 2012. Notable improvements were in private consumption, which rose by 5.6%, and in exports, which grew by 5.6% (excluding diamonds and start-up companies). Fixed-asset investments decreased at a steep annualized rate of 14.7%.

Surveys of companies' expectations were positive: the purchasing managers' index has been above the 50-point line for three months, and a similar result emerged from business trend surveys published by the Central Bureau of Statistics. Labor-market data continue to indicate strength, with unemployment down to 6.5% in the first quarter of 2013, from 6.8% in the fourth quarter of 2012. The number of employed persons rose by 0.7%.

Natural gas began to arrive from the Tamar reservoir in early April 2013, as planned. In the coming months, imports of energy materials are expected to decrease; the decrease should be translated into an increase in growth, as early as the second quarter.

The fiscal situation presents a significant challenge this year. Although the state budget expected to grow in comparison to last year, the increase in government expenditures last year, particularly the increase in wage expenses, have already contributed to domestic demand, so that the planned restraining measures are expected to detract from growth in the second half.

Fiscal and Monetary Policy

The government deficit in the first quarter amounted to NIS 4.6 billion, versus a deficit of NIS 1.6 billion in the same period last year. The cumulative budget deficit in the twelve months ended in March 2013 reached 4.5% of GDP. A notable figure was the increase in wage expenses and transfer payments, by 10.2% year-on-year in the first quarter of 2013, as a result of public-sector wage agreements as well as an increase in the number of employees. The trajectory for the deficit without cutbacks is substantially higher than the 3% target set by the previous government. The new government has approved an extensive plan for cutbacks and raised taxes, which must be approved by Knesset before it can be implemented. The plan includes a broad cutback of government ministries' budgets as well as increases in direct and indirect taxes: value-added tax will increase by one percentage point, while corporation tax and income tax rise by 1.5 percentage points. The deficit target for this year is expected to rise to 4.65% of GDP; the deficit target for 2014 is expected to be 3% of GDP. In response to the considerable deviation from this year's target, S&P lowered Israel's local debt rating to A+, equal to its foreign-currency debt rating, which remained unchanged.

The Bank of Israel interest rate was lowered to 1.75% in January 2013 and remained at that level until May16, 2013. On May 17, 2013, the Bank of Israel lowered the interest rate to 1.5%. The decision was made outside the usual schedule. Along with the interest-rate decision, the central bank also stated it would purchase foreign currency, in order to offset the effect of the natural gas on the exchange rate. This decision was based on the ongoing appreciation of the shekel, the expansionary monetary policies worldwide, and the low inflation environment (excluding the housing market). Relative to inflation expectations, the real interest rate is negative.

Inflation and Exchange Rates

The consumer price index remained unchanged during the first quarter, and rose by 1.3% in the twelve months ended in March. Excluding housing, the CPI rose by only 0.8% during this period. The CPI for April rose by 0.4%. Inflation is trending down globally; this has been evident in the decrease in prices of commodities and energy, which seems to be influencing the local economy as well. In addition, the appreciation of the shekel served to temper inflation. The survey of prices of homes published by the Central Bureau of Statistics indicates a steep rise of 10.5% over the last year. The level of activity in the market remains high; the rate of sales of new homes remains high, and the supply of unsold new homes has decreased.

The shekel strengthened by 2.3% against the US dollar and by 4.3% against the effective currency basket in the first quarter of 2013. The appreciation trend continued during April. The combination of steep appreciation within a relatively short period, a low absolute exchange rate, and low volatility led the Bank of Israel to purchase foreign currency again in April. Estimates indicate that the appreciation may be related to the arrival of natural gas from the Tamar reservoir, although this event was anticipated. On May 13, 2013, the Bank of Israel announced that it would buy foreign currency in order to offset the effect of the arrival of natural gas from the Tamar reservoir on the exchange rate. The volume of expected purchases by the end of this year is estimated by the Bank of Israel at USD 2.1 billion.

Financial and Capital Markets

The Israeli stock market trended up during the first quarter, though more moderately than most markets globally, especially in comparison to the US market. Overall for the quarter, the TA-100 index rose by 4.9%, versus a 10% increase in the S&P 500 index (in US dollar terms). Daily turnovers continued to decrease, reaching NIS 1,125 million, compared with NIS 1,134 million in the same quarter last year.

The bond market saw an upward trend in prices of unlinked and corporate bonds and a downward trend in CPI-linked and foreign-currency-linked bonds. The CPI-linked government bond index fell by 0.9%, while the unlinked bond index rose by 0.4%. The corporate bond index rose by 1.9% in the first quarter, as yield spreads against government bonds continued to narrow. Bond issuance by the corporate sector (excluding banks and insurance companies) on the capital market continued to increase, to approximately NIS 8 billion, from NIS 7 billion in the fourth quarter of 2012. The decrease in yields of long-term series continued in April, to a new record low.

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
	2013	2012	2012
	%		
Rate of increase in "known" CPI	**0.01%**	0.00%	1.40%
Rate of decrease in USD exchange rate	**(2.3%)**	(2.8%)	(2.3%)
Rate of increase (decrease) in GBP exchange rate	**(8.3%)**	0.8%	2.5%
Rate of increase (decrease) in CHF exchange rate	**(6.2%)**	1.2%	0.4%
Rate of increase (decrease) in EUR exchange rate	**(5.3%)**	0.3%	(0.4%)
Rate of increase (decrease) in TRY exchange rate	**(3.6%)**	4.7%	5.0%

Critical Accounting Policies

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, 2012. 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.

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, 2012, with the exception of the statements in Note 1(C)(5) to the Condensed Financial Statements, with regard to the guideline of the Supervisor of Banks concerning the collective allowance for housing loans, which was implemented by the Bank in the first quarter of 2013.

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 a summary of 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 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 provision for other than 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 2012.

The Audit Committee and the Finance and Prospectus Committee held discussions regarding the financial statements as at March 31, 2013, 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 621 million in the first quarter of 2013, compared with profit in the amount of NIS 659 million in the same quarter last year.

Net return on shareholders' equity was 9.5% in the first quarter of 2013, in annualized terms, compared with 11.3% in the same quarter last year.

	For the three months ended			Change vs. three months ended	
	March 31, 2013	December 31, 2012	March 31, 2012	December 31, 2012	March 31, 2012
	NIS millions			%	
Interest income	**3,089**	2,897	3,374	6.6%	(8.4%)
Interest expenses	**(1,175)**	(953)	(1,412)	23.3%	(16.8%)
Net interest income	**1,914**	1,944	1,962	(1.5%)	(2.4%)
Non-interest financing income (expenses)	**143**	167	186	(14.4%)	(23.1%)
Net financing profit*	**2,057**	2,111	2,148	(2.6%)	(4.2%)
Provision for credit losses	**257**	54	303	375.9%	(15.2%)
Net financing profit after provision for credit losses	**1,800**	2,057	1,845	(12.5%)	(2.4%)
Fees and other income*	**1,287**	1,314	1,307	(2.1%)	(1.5%)
Operating and other expenses	**2,135**	2,354	2,104	(9.3%)	1.5%
Profit before taxes	**952**	1,017	1,048	(6.4%)	(9.2%)
Provision for taxes on profit	**337**	378	368	(10.8%)	(8.4%)
The Bank's share in profits (losses) of equity-basis investees, after taxes	**4**	4	(2)	-	
Net profit:					
Before attribution to non-controlling interests	**619**	643	678	(3.7%)	(8.7%)
Loss (profit) attributed to non-controlling interests	**2**	9	(19)	(77.8%)	110.5%
Attributed to shareholders of the Bank	**621**	652	659	(4.8%)	(5.8%)
Return of net profit on equity attributed to shareholders of the Bank	**9.5%**	10.3%	11.3%		

* The profit and loss items above were presented in a different format than in the condensed statement of profit and loss, in order to allow better analysis of the financial results. This change is expressed in the reclassification of non-interest financing income, from the item of non-interest income to the item of net financing profit.

Developments in Income and Expenses

Net Financing Profit:

In order to analyze profit from regular financing activity, an analysis of 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, 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.

Set out below are details of the composition of net financing profit:

	2013	2012			
	Q1	Q4	Q3	Q2	Q1
	NIS millions				
Interest income	**3,089**	2,897	3,929	4,146	3,374
Interest expenses	**(1,175)**	(953)	(1,821)	(2,000)	(1,412)
Net interest income	**1,914**	1,944	2,108	2,146	1,962
Non-interest financing income (expenses)	**143**	167	7	(105)	186
Total net financing profit	**2,057**	2,111	2,115	2,041	2,148

Net financing profit totaled NIS 2,057 million in the first quarter of 2013, compared with NIS 2,148 million in the same period last year. The decrease in financing profit mainly resulted from a decrease in profit from regular financing activity, due to a decrease in financial spreads in deposits and a decrease in the interest rate in Israel. By contrast, income from realization and adjustment to fair value of bonds increased.

Developments in net total financing profit for the period of January-March 2013, as compared with the same period last year, are set out below.

	For the three months ended		Change vs. three months ended
	March 31, 2013	March 31, 2013	March 31, 2013
	NIS millions		%
Profit from regular financing activity[(1)]	**1,773**	1,929	(8.1%)
Income from realization and adjustments to fair value of bonds	**124**	49	153.1%
Profit from investments in shares	**52**	56	(7.1%)
Adjustments to fair value of derivative instruments[(2)]	**63**	77	(18.2%)
Interest income on problematic debts not previously recorded	**21**	19	10.5%
Financing income from hedging of investments overseas[(3)]	**24**	18	33.3%
Net financing profit	**2,057**	2,148	(4.2%)

(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 hedges against tax exposure in respect of investments overseas by providing surplus financing sources against such investments.

Quarterly developments in net total financing profit are set out below:

	2013	2012			
	Q1	Q4	Q3	Q2	Q1
	NIS millions				
Profit from regular financing activity[(1)]	**1,773**	1,755	2,024	2,025	1,929
Income from realization and adjustments to fair value of bonds	**124**	190	49	59	49
Gains from investments in shares	**52**	30	4	-	56
Adjustments to fair value of derivative instruments[(2)]	**63**	27	8	2	77
Interest income on problematic debts not previously recorded	**21**	36	32	31	19
Financing income (expenses) from hedging of investments overseas[(3)]	**24**	73	(2)	(76)	18
Net financing profit	**2,057**	2,111	2,115	2,041	2,148

(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 hedges against tax exposure in respect of investments overseas by providing surplus financing sources against such investments.

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

	For the three months ended			Change vs. three months ended	
	March 31, 2013	December 31, 2012	March 31, 2012*	December 31, 2012	March 31, 2012
Segment	NIS millions			%	
Households Segment	**541**	561	562	(3.6%)	(3.7%)
Private Banking Segment	**286**	298	330	(4.0%)	(13.3%)
Small Business Segment	**277**	278	280	(0.4%)	(1.1%)
Commercial Segment	**198**	194	188	2.1%	5.3%
Corporate Segment	**555**	574	547	(3.3%)	1.5%
Financial Management Segment	**200**	206	241	(2.9%)	(17.0%)
Total net financing profit	**2,057**	2,111	2,148	(2.6%)	(4.2%)

* Reclassified, as described in the section "Description of the Business of the Bank Group by Segments of Activity" in the Board of Directors' Report for 2012.
(1) Net financing profit includes the sum of net interest income plus non-interest financing income, as noted above.

The decrease in financing profit in the retail banking segments in Israel in the first quarter of 2013, in comparison to the same period last year, mainly resulted from a decrease in spreads and a decrease in the interest rate in Israel. The decrease was offset by an increase in the volume of credit and deposits.

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 financial spreads on credit. By contrast, the volume of credit decreased.

The decrease in income in the Financial Management Segment, in comparison to the same period last year, resulted from a decrease in income from financial capital, and a decrease in income from the dealing room. The decrease was offset by an increase in income from realization and adjustments to fair value of bonds.

On December 23, 2012, the Supervisor of Banks issued a circular entitled "Appendix 1 – Rates of Interest Income and Expenses." The amendments specified in the circular update the reporting format for this appendix, as required due to the update in 2012 of the new format for the statement of profit and loss. The circular took effect on January 1, 2013, for retroactive implementation. The following are the principal changes:

1. Interest income and expenses – Interest income and expenses included in Appendix 1 in the new format are identical to interest income and expenses in the statement of profit and loss.
2. Change in presentation method – In the new format, the report differentiates between local activity (Israel) and activity overseas. The presentation of local activity by currency (unlinked Israeli currency, CPI-linked Israeli currency, and foreign currency) is provided as additional information with regard to total assets and total liabilities.
3. Presentation of non-interest-bearing monetary assets and liabilities – In the new format, non-interest-bearing assets and liabilities are presented separately, as non-interest-bearing balances. The calculation of the interest spread is based only on interest-bearing balance sheet balances.
4. Analysis of changes in rates of income and expenses – in the new format, changes in interest income and expenses are reported with a distinction between changes referring to quantities (volumes) and changes referring to prices.

The overall interest spread was 2.12% in the first quarter of 2013, compared with 2.29% in the same quarter last year. The decrease in the interest spread resulted from a decrease in financial spreads and the decrease in the interest rate in Israel.

As a result, the ratio of total net interest income to the balance of interest-bearing assets also decreased, and stood at 2.32% in the first quarter of 2013, compared with 2.51% in the same quarter last year.

The decrease in the interest rate in Israel was also reflected in the rate of income on interest-bearing assets, which was 3.76% in the first quarter of 2013, compared with 4.35% in the same quarter last year; and in a decrease in the rate of expenses on interest-bearing liabilities, which was 1.65% in the first quarter of 2013, compared with 2.06% in the same quarter last year.

An analysis of the changes in interest income and expenses, in a comparison of the first quarter of 2013 to the first quarter of 2012, indicates that changes in quantities (the volume of average balance sheet balances) caused an increase in the amount of NIS 70 million, and changes in prices caused a decrease in the amount of NIS 118 million.

The provision for credit losses totaled NIS 257 million in the first quarter of 2013, compared with NIS 303 million in the same quarter last year. A net provision in the amount of NIS 26 million was recorded in respect of debts examined on an individual basis in the first quarter of 2013, as a result of a provision in the amount of NIS 273 million, net of a decrease in the individual allowance for credit losses and recovery of charged off debts in the amount of NIS 247 million.

In the same quarter last year, a net provision was recorded in respect of debts examined on an individual basis, in the amount of NIS 169 million, due to a provision in the amount of NIS 463 million, net of a decrease in the individual allowance for credit losses and recovery of charged off debts in the amount of NIS 294 million.

The provision for credit losses in respect of debts examined on a collective basis amounted to approximately NIS 231 million, compared with NIS 134 million in the same quarter last year.

Following the directive of the Supervisor of Banks, "Update of Guidelines Regarding Housing Loans," the Bank implemented the directive early, in the first quarter of 2013, and set the minimum allowance at the required rate of 0.35% of housing loans, in the amount of NIS 84 million.

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**:

	2013	2012			
	Q1	Q4	Q3	Q2	Q1
	NIS millions				
Provision for credit losses in respect of debts examined on an individual basis	**273**	297	351	513	463
Decrease in individual allowance for credit losses and recovery of debts previously charged off	**(247)**	(240)	(179)	(252)	(294)
Net provision for credit losses in respect of debts examined on an individual basis	**26**	57	172	261	169
Net provision in respect of the collective allowance for credit losses and net charge-offs of debts examined on a collective basis	**231**	(3)	114	83	134
Total provision for credit losses*	**257**	54	286	344	303
* Of which:					
Net provision for credit losses in respect of business credit risk	**154**	(14)	227	222	238
Net provision for credit losses in respect of housing credit risk	**84**	13	8	5	3
Net provision for credit losses in respect of other private credit risk	**18**	55	50	117	62
Net provision for credit losses in respect of risk of credit to banks and governments	**1**	-	1	-	-
Total provision for credit losses	**257**	54	286	344	303
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	**0.41%**	0.09%	0.45%	0.55%	0.49%
Net charge-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public	**0.81%**	0.31%	0.08%	0.57%	0.57%
Net charge-offs in respect of credit to the public as a percentage of the allowance for credit losses in respect of credit to the public	**53.86%**	19.09%	4.81%	35.87%	35.38%

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

Set out below are the developments in the provision for credit losses by principal segment of activity:

	For the three months ended		
	March 31, 2013	March 31, 2012	March 31, 2012*
	NIS millions		
Households Segment	**91**	71	29
Private Banking Segment	**26**	16	4
Small Business Segment	**28**	30	23
Commercial Segment	**33**	(11)	54
Corporate Segment	**79**	(52)	193
Total	**257**	54	303

* Reclassified, as described in the section "Description of the Business of the Bank Group by Segments of Activity" in the Board of Directors' Report for 2012.

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, 2013	December 31, 2012	March 31, 2012*
	%		
Households Segment	**0.57%**	0.45%	0.19%
Private Banking Segment	**0.33%**	0.21%	0.06%
Small Business Segment	**0.46%**	0.50%	0.40%
Commercial Segment	**0.48%**	(0.16%)	0.85%
Corporate Segment	**0.33%**	(0.21%)	0.75%
Total	**0.41%**	0.09%	0.49%

* Reclassified, as described in the section "Description of the Business of the Bank Group by Segments of Activity" in the Board of Directors' Report for 2012.
(1) Annualized.

Fees and other income totaled NIS 1,287 million in the first quarter of 2013, compared with NIS 1,307 million in the same quarter last year.

Set out below are details of fees and other income:

	For the three months ended			Change vs. three months ended	
	March 31, 2013	December 31, 2012	March 31, 2012	December 31, 2012	March 31, 2012
	NIS millions			%	
Fees:					
Account management fees	**237**	246	242	(3.7%)	(2.1%)
Securities activity	**232**	232	269		(13.8%)
Financial product distribution fees[(1)]	**48**	50	42	(4.0%)	14.3%
Management, operations, and trust services for institutional entities[(2)]	**13**	13	14		(7.1%)
Credit cards, net	**384**	396	381	(3.0%)	0.8%
Credit handling	**90**	81	86	11.1%	4.7%
Financing transaction fees	**121**	124	104	(2.4%)	16.3%
Conversion differences	**64**	64	64		
Foreign trade activity	**26**	30	38	(13.3%)	(31.6%)
Net income from credit portfolio services	**9**	9	10		(10.0%)
Life insurance and home insurance fees	**12**	12	12		
Other fees	**14**	16	12	(12.5%)	16.7%
Total fees	**1,250**	1,273	1,274	(1.8%)	(1.9%)
Other income	**37**	41	33	(9.8%)	12.1%
Total fees and other income	**1,287**	1,314	1,307	(2.1%)	(1.5%)

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

Fees totaled NIS 1,250 million in the first quarter of 2013, compared with NIS 1,274 million in the same quarter last year. Most of the decrease resulted from changes in the price-list, due to the amendment of the Banking Rules (Service to Customers), which led to cancellation and changes in a number of fees in two stages: on January 1, 2013 and on March 1, 2013. In addition, fees from foreign-trade activity decreased as a result of a decrease in the volume of special transactions. The decrease was offset by an increase in fees from financing transactions.

Other income totaled NIS 37 million in the first quarter of 2013, compared with NIS 33 million in the same quarter last year. Most of the increase resulted from profit from the realization of assets received from credit collateral.

Operating and other expenses totaled NIS 2,135 million in the first quarter of 2013, compared with NIS 2,104 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, 2013	December 31, 2012	March 31, 2012	December 31, 2012	March 31, 2012
	NIS millions			%	
Salary expenses:					
Wages	**1,149**	1,177	1,059	(2.4%)	8.5%
Bonuses and share-based compensation	**95**	103	148	(7.8%)	(35.8%)
Total salaries	**1,244**	1,280	1,207	(2.8%)	3.1%
Maintenance and depreciation of buildings and equipment	**388**	476	381	(18.5%)	1.8%
Write-downs and impairment of intangible assets and goodwill	**3**	3	3	0.0%	0.0%
Other expenses	**500**	595	513	(16.0%)	(2.5%)
Total operating and other expenses	**2,135**	2,354	2,104	(9.3%)	1.5%

Salary expenses in the first quarter of 2013 increased year-on-year, as a result of an increase in employees' wages in accordance with a new wage agreement signed in March 2013 by the Board of Management of the Bank and the Employee Union of the Bank; the increase was offset by a decrease in the provision for bonuses as a result of the decline in return on equity.

The provision for taxes on profit amounted to NIS 337 million in the first quarter of 2013, compared with NIS 368 million in the same quarter last year. The effective tax rate in the first quarter of 2013 reached 35.4%, compared with a statutory tax rate of 35.9%.

For details regarding expected changes in corporate tax rates and the VAT rate, see Note 16 to the Condensed Financial Statements.

Net profit attributed to shareholders of the Bank totaled NIS 621 million in the first quarter of 2013, compared with NIS 659 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 0.47 in the first quarter of 2013, compared with NIS 0.50 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, 2013 totaled NIS 370.3 billion, compared with NIS 376.4 billion at the end of 2012.

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

	Balance as at		Change vs.
	March 31, 2013	December 31, 2012	December 31, 2012
	NIS millions		%
Total assets	**370,317**	376,388	(1.6%)
Net credit to the public	**247,782**	249,182	(0.6%)
Cash on hand and deposits with banks	**43,272**	55,301	(21.8%)
Securities	**59,461**	52,070	14.2%
Deposits from the public	**265,297**	271,411	(2.3%)
Bonds and subordinated notes	**36,222**	35,677	1.5%
Shareholders' equity	**27,279**	26,755	2.0%

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

	Balance as at		Change
	March 31, 2013	December 31, 2012	December 31, 2012
	NIS millions		%
1. Off-balance sheet financial instruments, excluding derivatives:			
Documentary credit	**1,394**	1,460	(4.5%)
Guarantees and other commitments	**42,821**	40,694	5.2%
Unutilized credit-card credit facilities under the Bank's responsibility	**31,382**	32,343	(3.0%)
Unutilized credit-card credit facilities under other banks' responsibility	**10,283**	10,279	0.0%
Unutilized revolving overdraft and other credit facilities in on-demand accounts	**34,655**	36,090	(4.0%)
Irrevocable commitments to grant credit approved but not yet provided, and commitments to provide guarantees	**48,733**	46,861	4.0%
2. Derivative instruments (notional value amounts):			
Interest contracts	**382,480**	361,689	5.7%
Foreign-currency contracts	**203,954**	206,635	(1.3%)
Contracts in respect of shares	**21,822**	26,425	(17.4%)
Commodity and service contracts (including credit derivatives)	**2,092**	3,820	(45.2%)
Total notional value of derivatives	**610,348**	598,569	2.0%

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, 2013	December 31, 2012	
	NIS millions		%
In securities portfolios[(1)(2)]	**713,033**	694,878	2.6%
In mutual funds	**52,325**	47,687	9.7%
Total assets of provident funds receiving operational services	**81,456**	79,444	2.5%
Total	**846,814**	822,009	3.0%

(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, 2013 amounted to NIS 247.8 billion, compared with NIS 249.2 billion at the end of 2012, a decrease of approximately 0.6%.

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

	Balance as at		Change		The segment's share of total credit to the public as at	
	March 31, 2013	December 31, 2012			**March 31, 2013**	December 31, 2012
	NIS millions		NIS millions	%	%	
Israeli currency unlinked	**150,545**	148,633	1,912	1.3%	**60.8%**	59.6%
CPI-linked Israeli currency	**56,317**	56,878	(561)	(1.0%)	**22.7%**	22.8%
Foreign currency (including f. c. linked)	**40,730**	43,523	(2,793)	(6.4%)	**16.4%**	17.5%
Non-monetary items	**190**	148	42	28.4%	**0.1%**	0.1%
Total	**247,782**	249,182	(1,400)	(0.6%)	**100.0%**	100.0%

Credit in the unlinked shekel segment increased by NIS 1.9 billion in the first quarter of 2013, an increase of approximately 1.3%.

Credit in the CPI-linked shekel segment decreased by NIS 0.6 billion in the first quarter of 2013, a decrease of approximately 1.0%.

Credit in the foreign currency (including foreign currency linked) segment decreased by NIS 2.8 billion in the first quarter of 2013, a decrease of approximately 6.4%. Excluding the effects of the appreciation of the NIS against the major currencies, a decrease of 3.5% occurred.

Net credit to the public by segment of activity:

	Balance as at			Change vs.	
	March 31, 2013	December 31, 2012	March 31, 2012*	December 31, 2012	March 31, 2012
	NIS millions			%	
Households Segment	**64,573**	64,063	61,609	0.8%	4.8%
Private Banking Segment	**31,644**	31,528	28,897	0.4%	9.5%
Small Business Segment	**24,377**	24,303	23,011	0.3%	5.9%
Commercial Segment	**27,893**	27,056	25,734	3.1%	8.4%
Corporate Segment	**94,702**	97,757	101,304	(3.1%)	(6.5%)
Others and Adjustments	**4,593**	4,475	4,249	2.6%	8.1%
Total	**247,782**	249,182	244,804	(0.6%)	1.2%
Of which, consumer credit in Israel excluding housing loans:					
Households Segment	**28,074**	27,626	26,682	1.6%	5.2%
Private Banking Segment	**11,698**	11,624	11,027	0.6%	6.1%
Small Business Segment	**20,077**	20,007	19,210	0.3%	4.5%
Total	**59,849**	59,257	56,919	1.0%	5.1%
Housing loans in Israel:					
Households Segment	**36,163**	36,099	34,495	0.2%	4.8%
Private Banking Segment	**13,778**	13,328	11,181	3.4%	23.2%
Small Business Segment	**4,300**	4,296	3,801	0.1%	13.1%
Total	**54,241**	53,723	49,477	1.0%	9.6%

* Reclassified, as described in the section "Description of the Business of the Bank Group by Segments of Activity" in the Board of Directors' Report for 2012.

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

	Balance as at		
	March 31, 2013	December 31, 2012	March 31, 2012
	NIS millions		
Credit balances			
Loans from Bank funds	**54,734**	54,060	49,827
Loans from Finance Ministry funds*	**4,153**	4,365	4,887
Grants from Finance Ministry funds*	**285**	301	350
Total	**59,172**	58,726	55,064

	For the three months ended March 31, 2013	For the twelve months ended December 31, 2012	For the three months ended March 31, 2012
	NIS millions		
Execution of housing loans			
Loans from Finance Ministry funds:			
Loans	**7**	35	3
Grants	**2**	9	1
Total from Finance Ministry funds	**9**	44	4
Total loans from Bank funds	**2,626**	11,541	2,298
Total new loans	**2,635**	11,585	2,302
Old loans refinanced from Bank funds	**632**	1,863	387
Total loans extended	**3,267**	13,448	2,689

* 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		Recorded debt balance in NIS millions	
	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %		
March 31, 2013	**1,360**	**2.5%**	**17,603**	**32.2%**	**26,755**	**48.9%**	**7,941**	**14.5%**	**1,074**	**2.0%**	**54,734**	**1.2%**
Dec. 31, 2012	1,109	2.1%	17,378	32.1%	26,117	48.3%	8,314	15.4%	1,142	2.1%	54,060	9.8%
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%
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%

* Excluding balances in respect of subsidiaries overseas (as at March 31, 2013, a recorded debt balance in the amount of NIS 57 million; as at December 31, 2012, a recorded debt balance in the amount of NIS 66 million).

Volume of Problematic Debt

In the last few years the volume of amounts in arrears and the volume of the allowance for credit losses has been stable and a continual decrease in the volume of problematic debt has been apparent.

Development of amounts in arrears in housing loans and allowance for credit losses (excluding collective allowance)*

	Recorded debt balance (NIS millions)	Amount in arrears of more than 90 days	Rate of arrears	Allowance for credit losses based on extent of arrears (NIS millions)	Rate of allowance for credit losses based on extent of arrears	Problematic debt (NIS millions)	Rate of problematic debt
March 31, 2013	**54,734**	**178**	**0.3%**	**279**	**0.5%**	**880**	**1.6%**
Dec. 31, 2012	54,060	154	0.3%	290	0.5%	980	1.8%
Dec. 31, 2011	49,250	151	0.3%	294	0.6%	990	2.0%
Dec. 31, 2010	43,309	157	0.4%	306	0.7%	1,028	2.4%

* Excluding balances in respect of subsidiaries overseas (as at March 31, 2013, a recorded debt balance in the amount of NIS 57 million; as at December 31, 2012, a recorded debt balance in the amount of NIS 66 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 executed, 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, 2013**	For the three months ended December 31, 2012	For the three months ended September 30, 2012	For the three months ended June 30, 2012	For the three months ended March 31, 2012
Financing rate over 60%	**36.9%**	45.3%	46.6%	43.3%	41.3%
Ratio of repayment to income greater than 50%	**4.2%**	6.6%	9.8%	10.6%	11.8%
Financing rate over 60% and repayment rates over 50%	**1.6%**	2.3%	4.5%	4.6%	5.2%
Percentage of execution of floating-rate loans with interest varying at a frequency of less than 5 years	**30%**	30%	31%	30%	29%
Percentage of all-purpose loans	**6.8%**	8.3%	6.4%	8.7%	13.5%
Percentage of loans for investment purposes	**12.6%**	12.3%	11.1%	9.8%	11.1%
Bullet and balloon loans as a percentage of purchases	**1.1%**	1.9%	2.6%	0.9%	0.5%
Average loan per purchase (in NIS thousands)	**618**	614	665	612	565
Average original term to maturity per purchase, in years	**18.1**	18.3	17.9	16.9	17.5

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 allocation 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.

In addition, insurance arrangements are in place (life insurance and building insurance). For loans approved up to November 1, 2012, the Bank also required credit insurance when the LTV ratio was greater than 75%. As of November 1, 2012, loans with an LTV ratio greater than 75% can no longer be approved.

For further details, see the "Households Segment" section below.

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.

Update of the Guidelines of the Supervisor of Banks Concerning Real Estate Loans for Housing

In light of the rapid growth of the portfolios of loans secured by residential properties, and the increase in prices of homes, the Supervisor of Banks issued guidelines on March 21, 2013 concerning real estate for housing.

Main points of the guidelines:

A. For the purpose of calculation of capital-adequacy ratios, until the 2012 Financial Statements housing loans are weighted at 35%, with the exception of certain housing loans with a floating-rate component, which are weighted at 100% since October 2010. Pursuant to the new guidelines, capital in respect of housing loans shall be allocated according to the following weighting rates:

- Housing loans with an LTV of up to 45% shall be weighted at 35%, with no change to the existing rates.
- Housing loans with an LTV of more than 45%, up to 60%, shall be weighted at 50%, instead of 35%.
- Housing loans with an LTV of more than 60% shall be weighted at 75% for the purpose of capital requirements, instead of 35% or 100%.
- Concurrently, the guidelines cancel the requirement for 100% weighting of loans with an LTV of more than 60% in an amount exceeding NIS 800,000 where the floating-rate component constitutes 25% of the loan; instead, as noted, a weighting of 75% will apply.

B. The capital allocation required in respect of guarantees under the Sale Law, in cases in which the residence has already been handed over to the resident, will be reduced. These guarantees shall be weighted at a credit conversion coefficient of 10%, instead of 20%.

C. In addition, the guidelines establish a requirement for a minimum ratio of the collective allowance to the balance of housing loans, at 0.35%. This requirement does not apply to housing loans for which an allowance according to the extent of arrears exists.

The changes in the capital requirements set forth in the directive apply to housing loans executed from January 1, 2013, forward. The rate of the collective allowance in respect of housing loans is required to be no lower than the aforesaid rate, beginning with the financial statements as at June 30, 2013, for the balance of housing loans (The Bank included this allowance in the financial statements for the First Quarter of 2013). See also Note 1C (5) to the Condensed Financial Statements.

Overall Credit Risk by Economic Sector

Overall credit risk consists of balance sheet credit risk, which comprises debts [credit to the public, credit to governments, deposits with banks, (excluding deposits with the Bank of Israel) and other debts], investments in bonds, securities borrowed or bought under agreements to resell, and assets in respect of derivative instruments; 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 to the Management Review.

Overall credit risk to the public as at March 31, 2013 totaled NIS 508.9 billion.

Set out below is the development of overall credit risk[(1)], by principal sectors of the economy:

	March 31, 2013		December 31, 2012		
	Total credit risk**	Percent of total	Total credit risk**	Percent of total	Rate of change vs. Dec. 31, 2012
Economic sector:	NIS millions	%	NIS millions	%	%
Agriculture	**2,940**	**0.6%**	2,920	0.6%	0.7%
Industry	**44,738**	**8.8%**	45,039	9.0%	(0.7%)
Construction and real estate - construction***	**51,244**	**10.1%**	50,998	10.2%	0.5%
Construction and real estate - real-estate activities	**31,983**	**6.4%**	32,775	6.5%	(2.4%)
Electricity and water	**11,567**	**2.3%**	11,758	2.4%	(1.6%)
Commerce	**32,107**	**6.3%**	30,861	6.2%	4.0%
Hotels, hospitality, and food services	**9,639**	**1.9%**	9,838	2.0%	(2.0%)
Transportation and storage	**8,300**	**1.6%**	8,334	1.7%	(0.4%)
Communications and computer services	**10,539**	**2.1%**	10,418	2.1%	1.2%
Financial services	**47,068**	**9.2%**	48,610	9.7%	(3.2%)
Other business services	**14,989**	**2.9%**	14,605	2.9%	2.6%
Public and community services	**9,351**	**1.8%**	9,232	1.8%	1.3%
Total commercial	**274,465**	**54.0%**	275,388	55.1%	(0.3%)
Private individuals - housing loans	**52,153**	**10.2%**	51,864	10.4%	0.6%
Private individuals - others	**83,083**	**16.3%**	83,116	16.6%	0.0%
Total credit risk to the public	**409,701**	**80.5%**	410,368	82%	(0.2%)
Total banks****	**45,466**	**8.9%**	42,353	8.5%	7.4%
Total governments	**53,741**	**10.6%**	47,154	9.4%	14.0%
Total	**508,908**	**100%**	499,875	100%	1.8%

* Restated. Assets in respect of derivative instruments are presented after attribution of the effects of the implementation of FAS 157, Fair Value Measurement.

** Excluding unutilized credit facilities in credit cards under the responsibility of other banks in the amount of approximately NIS 10,283 million (December 31, 2012: NIS 10,279 million).

*** Includes balance sheet credit risk in the amount of approximately NIS 662 million, and off-balance sheet credit risk in the amount of approximately NIS 2,037 million, granted to certain purchasing groups currently engaged in the process of construction (December 31, 2012: balance sheet credit risk in the amount of approximately NIS 653 million, and off-balance sheet credit risk in the amount of approximately NIS 2,163 million).

**** Excluding cash balances in the Bank's funds and deposits with the Bank of Israel, and before deducting the allowance for credit losses.

(1) Data on overall credit risk are presented before deduction of the allowance for credit losses (on an individual and collective basis).

Construction and Real Estate

Overall credit risk in the construction and real estate sectors totaled NIS 83.2 billion as at March 31, 2013.

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

	Balance as at March 31, 2013		
	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
	NIS millions		
Construction for commerce and services	**1,597**	**531**	**2,128**
Construction for industry	**475**	**384**	**859**
Housing construction	**9,641**	**23,537**	**33,178**
Yield-generating properties	**25,907**	**5,532**	**31,439**
Other	**8,529**	**7,094**	**15,623**
Total construction and real-estate sectors	**46,149**	**37,078**	**83,227**

Set out below are the details of balances of balance sheet credit and off-balance sheet credit risk to borrowers whose balance of debt exceeds NIS 1,200 million, by sectors of the economy, as at March 31, 2013:

	Number of borrowers	Balance sheet credit	Off-balance sheet credit	Total
Economic sector		NIS millions		
Industry	**4**	**887**	**8,427**	**9,314**
Construction and real estate - real-estate activities	**3**	**3,154**	**1,473**	**4,627**
Construction and real estate - construction	**1**	**542**	**883**	**1,425**
Electricity and water	**1**	**4,013**	**2,149**	**6,162**
Commerce	**2**	**432**	**2,545**	**2,977**
Communications and computer services	**2**	**3,630**	**89**	**3,719**
Financial services	**5**	**5,377**	**2,890**	**8,267**
Total	**18**	**18,035**	**18,456**	**36,491**

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 Indebtedness of a Borrower and of a Group of Borrowers" (hereinafter: Directive 313), exceeding 15% of the capital of the banking corporation (as defined in Directive 313) as at March 31, 2013:

	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	**5,850**	**2,536**	**634**	**8,544**	**43**	**8,501**	**18.4**
Borrower group B	**5,683**	**2,522**	**115**	**8,244**	**252**	**7,992**	**17.3**
Borrower group C	**4,616**	**2,798**	**363**	**7,456**	**109**	**7,347**	**15.9**

(1) After deduction of the balance of charge-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, and 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.

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 Standardized Approach – Credit Risk."

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 groups, the nature of these borrowers' activities, and the correlations between the borrowers that can affect group-level risk.

Prolematic Debts

A. Segmentation of problematic debts

	March 31, 2013			December 31, 2012		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
	NIS millions					
Impaired credit risk	**7,992**	**844**	**8,836**	8,241	975	9,216
Substandard credit risk	**2,490**	**282**	**2,772**	2,429	362	2,791
Credit risk under special supervision	**3,022**	**958**	**3,980**	2,808	897	3,705
Total problematic credit risk*	**13,504**	**2,084**	**15,588**	13,478	2,234	15,712
Problematic credit risk net of allowance for credit losses	**11,609**	**1,952**	**13,561**	11,174	2,110	13,284
* Of which, unimpaired debts in arrears of 90 days or more	**1,338**	**-**	**1,338**	1,433	-	1,433

B. Nonperforming assets*

	Balance as at	
	March 31, 2013	December 31, 2012
	NIS millions	
Impaired credit to the public not accruing interest income (NPL)	**7,262**	7,538
Assets received upon settlement of debts	**158**	223
Total nonperforming assets	**7,420**	7,761

* 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.

C. Performing impaired assets

	Balance as at	
	March 31, 2013	December 31, 2012
	NIS millions	
Impaired debts in troubled debt restructuring, accruing interest income	**673**	640
Impaired bonds accruing interest income	**43**	49
Total	**716**	689

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.

D. Risk indices

	as at	
	March 31, 2013	December 31, 2012
Balance of impaired credit to the public, as a percentage of the balance of credit to the public*	**3.15%**	3.23%
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*	**0.53%**	0.57%
Balance of allowance for credit losses in respect of credit to the public, as a percentage of the balance of credit to the public*	**1.52%**	1.61%
Balance of collective allowance for credit losses, as a percentage of the balance of credit to the public*	**1.16%**	1.09%
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*	**48.10%**	49.99%
Problematic credit risk in respect of the public, as a percentage of total credit risk in respect of the public*	**3.80%**	3.83%

* Before deducting the allowance for credit losses.

E. Composition of the allowance for credit losses

	Allowance for credit losses			
	On an individual basis	By extent of arrears	On a collective basis	Total
Composition of the allowance as at March 31, 2013:				
In respect of credit to the public	**1,135**	**282**	**2,400**	**3,817**
In respect of debts other than credit to the public	**-**	**-**	**8**	**8**
In respect of off-balance sheet credit instruments (included in the "other liabilities" item)	**100**	**-**	**504**	**604**
Allowance for credit losses as at March 31, 2013	**1,235**	**282**	**2,912**	**4,429**
Composition of the allowance as at March 31, 2012:				
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
Composition of the allowance as at December 31, 2012:				
In respect of credit to the public	1,540	293	2,253	4,086
In respect of debts other than credit to the public	-	-	7	7
In respect of off-balance sheet credit instruments (included in the "other liabilities" item)	97	-	498	595
Allowance for credit losses as at December 31, 2012	1,637	293	2,758	4,688

Cash on Hand and Deposits with Banks

Cash on hand and deposits with banks totaled NIS 43.3 billion as at March 31, 2013, compared with NIS 55.3 billion at the end of 2012, a decrease of approximately 21.8%.

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

	Balance as at		Change vs.
	March 31, 2013	December 31, 2012	December 31, 2012
	NIS millions		%
Cash	**2,738**	2,376	15.2%
Deposits with the Bank of Israel	**13,424**	28,757	(53.3%)
Deposits with central banks abroad	**21,614**	19,834	9.0%
Deposits with banks in Israel	**91**	59	54.2%
Deposits with banks abroad	**5,405**	4,275	26.4%
Total	**43,272**	55,301	(21.8%)

Securities

Securities totaled NIS 59.5 billion as at March 31, 2013, compared with NIS 52.1 billion at the end of 2012, an increase of approximately 14.2%, 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, 2013				
	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	**680**	**52**	**-**	**732**	**680**
Available for sale	**51,734**	**500**	**(22)**	**52,212**	**52,212**
For trading	**4,741**	***9**	***(6)**	**4,744**	**4,744**
Total bonds	**57,155**	**561**	**(28)**	**57,688**	**57,636**
Shares:					
Available for sale	**1,461**	**331**	**-**	**1,792**	**1,792**
For trading	**42**	***-**	***(9)**	**33**	**33**
Total shares	**1,503**	**331**	**(9)**	**1,825**	**1,825**
Total securities	**58,658**	**892**	**(37)**	**59,513**	**59,461**

	December 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	749	59	-	808	749
Available for sale	45,057	633	(26)	45,664	45,664
For trading	3,934	*29	*(3)	3,960	3,960
Total bonds	49,740	721	(29)	50,432	50,373
Shares:					
Available for sale	1,346	308	-	1,654	1,654
For trading	52	*-	*(9)	43	43
Total shares	1,398	308	(9)	1,697	1,697
Total securities	51,138	1,029	(38)	52,129	52,070

* 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, 2013:

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%	**5**	**-**	**2**	**15**	**22**

* Mainly 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, 2013 (in NIS millions):

	Balance sheet value	Total balance sheet value
Government bonds:		
Israeli government	**47,566**	
Governments of developed countries	**1,905**	
Governments of developing countries	**492**	
		49,963
Bonds of banks and financial institutions:		
Banks in Israel		**306**
Banks in developed countries:		
US	**376**	
Australia	**102**	
Netherlands	**446**	
Japan	**74**	
Spain	**49**	
Sweden	**278**	
Norway	**79**	
Canada	**2**	
Switzerland	**38**	
Cayman Islands	**20**	
South Korea	**37**	
UK	**162**	
Other*	**22**	
		1,685
Banks in developing countries		**38**
Financial institutions (other than banks):		
Israel	**140**	
US**	**522**	
UK	**30**	
Other	**6**	
		698
		2,727
Bonds of corporations, other than banks and financial institutions, by economic sector:		
Industry	**562**	
Real-estate activities	**357**	
Electricity and water	**2,288**	
Commerce	**123**	
Transportation	**2**	
Communications and computer services	**349**	
Financial services	**344**	
Public services	**89**	
Other business services	**152**	
		4,266
Total bonds		**56,956**

* Includes 6 countries; the highest balance is approximately NIS 9 million.

** Includes 12 issuers; the highest balance of a single issuer is approximately NIS 342 million.

Investments in Shares

The Bank has investments in tradable shares, non-tradable shares, and mutual funds, broadly diversified, at a total amount of NIS 1,825 million as at March 31, 2013, compared with NIS 1,697 million at the end of 2012.

Deposits

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

	Balance as at		Change
	March 31, 2012	December 31, 2012	
	NIS millions		%
Deposits from the public*	**265,297**	271,411	(2.3%)
Deposits from banks	**4,893**	6,015	(18.7%)
Government deposits	**678**	629	7.8%
Total	**270,868**	278,055	(2.6%)
* Of which: Deposits of financial institutions raised in Israel	**11,657**	12,884	(9.5%)

Deposits from the public as at March 31, 2013 totaled NIS 265.3 billion, compared with NIS 271.4 billion at the end of 2012, a decrease of approximately 2.3%. This decrease mainly resulted from a decrease in the amount of NIS 3.4 billion in retail deposits, a decrease of NIS 1.3 million in deposits in the Financial Management Segment, and a decrease of NIS 1.2 billion in deposits in the Corporate Segment.

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, 2012			**March 31, 2012**	December 31, 2012
	NIS millions		NIS millions	%	%	%
Israeli currency unlinked	**162,679**	167,651	(4,972)	(3.0%)	**61.3%**	61.7%
CPI-linked Israeli currency	**20,061**	20,350	(289)	(1.4%)	**7.6%**	7.5%
Foreign currency (including f. c. linked)	**82,367**	83,262	(895)	(1.1%)	**31.0%**	30.7%
Non-monetary items	**190**	148	42	28.4%	**0.1%**	0.1%
Total	**265,297**	271,411	(6,114)	(2.3%)	**100.0%**	100.0%

Unlinked shekel deposits from the public totaled NIS 162.7 billion as at March 31, 2013, compared with NIS 167.7 billion on December 31, 2012, a decrease of approximately 3.0%. This decrease resulted from customers' transition from investment in deposits to investment in the capital market.

Deposits from the public in CPI-linked shekels totaled NIS 20.1 billion as at March 31, 2013, compared with NIS 20.4 billion on December 31, 2012, a decrease of approximately 1.4%.

Deposits from the public in foreign currency (including linked to foreign currency) totaled NIS 82.4 billion as at March 31, 2013, compared with NIS 83.3 billion on December 31, 2012, a decrease of approximately 1.1%. This decrease mainly resulted from a decrease in deposits in the Financial Management Segment and a decrease in retail deposits, offset by an increase in corporate deposits.

Deposits from the public by segment of activity:

	Balance as at			Change vs.	
	March 31, 2013	December 31, 2012	March 31, 2012*	December 31, 2012	March 31, 2012
	NIS millions			%	
Households Segment	**37,907**	37,636	35,441	0.7%	7.0%
Private Banking Segment	**126,527**	129,197	123,400	(2.1%)	2.5%
Small Business Segment	**24,906**	25,869	23,470	(3.7%)	6.1%
Commercial Segment	**16,699**	17,011	15,477	(1.8%)	7.9%
Corporate Segment	**52,547**	53,717	47,820	(2.2%)	9.9%
Financial Management Segment	**6,711**	7,981	5,968	(15.9%)	12.4%
Total	**265,297**	271,411	251,576	(2.3%)	5.5%

* Reclassified, as described in the section "Description of the Business of the Bank Group by Segments of Activity" in the Board of Directors' Report for 2012.

Bonds and subordinated notes totaled NIS 36.2 billion as at March 31, 2013, compared with NIS 35.7 billion at the end of 2012, an increase of approximately 1.5%. Most of the increase resulted from bonds issued in Bank Pozitif in the amount of approximately NIS 0.8 billion.

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 31 to the Annual Financial Statements for 2012. Comparison figures reported for the quarters of 2012 were reclassified, as detailed in the section "Description of the Bank Group's Business by Segments of Activity" in the Board of Directors' Report for 2012.

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, 2013	December 31, 2012	March 31, 2012*	December 31, 2012	March 31, 2012
	NIS millions			%	
Households Segment	**40**	66	126	(39.4%)	(68.3%)
Private Banking Segment	**45**	33	91	36.4%	(50.5%)
Small Business Segment	**98**	93	110	5.4%	(10.9%)
Commercial Segment	**73**	92	47	(20.7%)	55.3%
Corporate Segment	**304**	379	211	(19.8%)	44.1%
Financial Management Segment	**50**	17	66	194.1%	(24.2%)
Others and Adjustments	**11**	(28)	8	139.3%	37.5%
Total	**621**	652	659	(4.8%)	(5.8%)

* Reclassified, as described in the section "Description of the Business of the Bank Group by Segments of Activity" in the Board of Directors' Report for 2012.

B. Net Credit to the Public by Segment of Activity

	Balance as at			Change vs.	
	March 31, 2013	December 31, 2012	March 31, 2012*	December 31, 2012	March 31, 2012
	NIS millions			%	
Households Segment	**64,573**	64,063	61,609	0.8%	4.8%
Private Banking Segment	**31,644**	31,528	28,897	0.4%	9.5%
Small Business Segment	**24,377**	24,303	23,011	0.3%	5.9%
Commercial Segment	**27,893**	27,056	25,734	3.1%	8.4%
Corporate Segment	**94,702**	97,757	101,304	(3.1%)	(6.5%)
Others and Adjustments	**4,593**	4,475	4,249	2.6%	8.1%
Total	**247,782**	249,182	244,804	(0.6%)	1.2%
Of which, consumer credit in Israel excluding housing loans:					
Households Segment	**28,074**	27,626	26,682	1.6%	5.2%
Private Banking Segment	**11,698**	11,624	11,027	0.6%	6.1%
Small Business Segment	**20,077**	20,007	19,210	0.3%	4.5%
Total	**59,849**	59,257	56,919	1.0%	5.1%
Housing loans in Israel:					
Households Segment	**36,163**	36,099	34,495	0.2%	4.8%
Private Banking Segment	**13,778**	13,328	11,181	3.4%	23.2%
Small Business Segment	**4,300**	4,296	3,801	0.1%	13.1%
Total	**54,241**	53,723	49,477	1.0%	9.6%

* Reclassified, as described in the section "Description of the Business of the Bank Group by Segments of Activity" in the Board of Directors' Report for 2012.

C. Deposits from the Public by Segment of Activity

	Balance as at			Change vs.	
	March 31, 2013	December 31, 2012	March 31, 2012*	December 31, 2012	March 31, 2012
	NIS millions			%	
Households Segment	**37,907**	37,636	35,441	0.7%	7.0%
Private Banking Segment	**126,527**	129,197	123,400	(2.1%)	2.5%
Small Business Segment	**24,906**	25,869	23,470	(3.7%)	6.1%
Commercial Segment	**16,699**	17,011	15,477	(1.8%)	7.9%
Corporate Segment	**52,547**	53,717	47,820	(2.2%)	9.9%
Financial Management Segment	**6,711**	7,981	5,968	(15.9%)	12.4%
Total	**265,297**	271,411	251,576	(2.3%)	5.5%

* Reclassified, as described in the section "Description of the Business of the Bank Group by Segments of Activity" in the Board of Directors' Report for 2012.

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, 2013	December 31, 2012	March 31, 2012*	December 31, 2012	March 31, 2012
	NIS millions			%	
Households Segment	**4,391**	4,293	3,802	2.3%	15.5%
Private Banking Segment	**2,602**	2,613	2,242	(0.4%)	16.1%
Small Business Segment	**1,946**	1,934	1,678	0.6%	16.0%
Commercial Segment	**3,239**	2,959	2,600	9.5%	24.6%
Corporate Segment	**12,163**	12,130	11,717	0.3%	3.8%
Financial Management Segment	**1,648**	1,438	1,476	14.6%	11.7%
Others and Adjustments	**964**	935	816	3.1%	18.1%
Total	**26,953**	26,302	24,331	2.5%	10.8%

* Reclassified as detailed in section "Description of the Bank Group's Business by Segments of Activity" in the Board of Director's Report for the year 2012.

(1) The capital allocation based on risk-adjusted assets in each segment is calculated according to risk-adjusted assets pursuant to Basel 2.

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 vs.	
	March 31, 2013	December 31, 2012	March 31, 2012*	December 31, 2012	March 31, 2012
	NIS millions			%	
Households Segment	**4,589**	4,177	4,290	9.9%	7.0%
Private Banking Segment	**155,164**	151,906	143,315	2.1%	8.3%
Small Business Segment	**10,350**	10,255	10,788	0.9%	(4.1%)
Commercial Segment	**13,256**	13,392	11,700	(1.0%)	13.3%
Corporate Segment	**241,597**	236,152	251,592	2.3%	(4.0%)
Financial Management Segment	**421,858**	406,127	360,751	3.9%	16.9%
Total	**846,814**	822,009	782,436	3.0%	8.2%

* Reclassified, as described in the section "Description of the Business of the Bank Group by Segments of Activity" in the Board of Directors' Report for 2012.

(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 274 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". The 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' sector activity of Bank Pozitif in Turkey and Bank Pozitiv in Kazakhstan, at immaterial volumes.

The Bank merged two branches into existing branches during the first quarter of 2013.

New Products

In September 2012, the Bank launched the Cash Back Club – the largest customer club in Israel, which grants all customers of the Bank who hold credit cards issued by the Bank a rebate, directly to their bank accounts, on purchases of goods and services from any of the businesses participating in the program. Customers become members of the club automatically, with no need to register and no added fee.

As part of the Bank's strategy for the Year of the Small Business, focused on supporting and promoting small businesses, the club includes small and mid-sized businesses in addition to major nationwide chains. Over 2,400 small and local businesses from all parts of Israel have joined the club. With the launch of the club, a website was created to provide information and various special offers.

In addition, this year, an advanced marketing package was introduced as a gift for small businesses joining the Cash Back Club. The package consists of construction of a website and application for the business, a messaging system, 5,000 free text messages, and a marketing newsletter (in compliance with the Spam Law) containing various benefits and offers from Cash Back participating businesses.

Pension Advising

For further details regarding the Bank Group's preparations to provide advisory services, see the section "Additional Information Regarding Activity in Certain Products".

Regulatory Changes Concerning Housing Loans

In light of the rapid growth of portfolios of loans secured by residential properties, and the increase in housing prices, the Supervisor of Banks issued guidelines concerning credit for housing and real estate, on March 21, 2013.

For further details, see the section "Composition and Development of the Bank Group's Assets and Liabilities," above.

Condensed operating results and principal data of the Households Segment:

	For the three months ended March 31, 2013						
	Activity in Israel				Activity abroad		Total
	Banking and financial services	Credit cards	Capital market[1]	Housing loans	Banking and financial services	Housing loans	
	NIS millions						
Net interest income:							
- From externals	**385**	**18**	**-**	**307**	**7**	**7**	**724**
- Inter-segmental	**74**	**-**	**-**	**(249)**	**(5)**	**(3)**	**(183)**
Total net financing profit	**459**	**18**	**-**	**58**	**2**	**4**	**541**
Fees and other income	**123**	**142**	**8**	**22**	**-**	**-**	**295**
Total income	**582**	**160**	**8**	**80**	**2**	**4**	**836**
Provision for credit losses	**26**	**-**	**-**	**65**	**-**	**-**	**91**
Operating and other expenses:							
- From externals	**514**	**115**	**14**	**45**	**7**	**4**	**699**
- Inter-segmental	**(8)**	**-**	**2**	**(8)**	**-**	**-**	**(14)**
Profit (loss) before taxes	**50**	**45**	**(8)**	**(22)**	**(5)**	**-**	**60**
Provision for taxes (tax benefit) on profit (loss)	**18**	**12**	**(3)**	**(8)**	**(1)**	**-**	**18**
Net profit (loss):							
Before attribution to non-controlling interests	**32**	**33**	**(5)**	**(14)**	**(4)**	**-**	**42**
Attributed to non-controlling interests	**-**	**(3)**	**-**	**-**	**1**	**-**	**(2)**
Attributed to shareholders of the Bank	**32**	**30**	**(5)**	**(14)**	**(3)**	**-**	**40**
Return on equity[2]	**7.8%**	**17.1%**	**-**	**(2.9%)**	**-**	**-**	**3.7%**
Average balance of assets	**21,489**	**6,067**	**-**	**35,994**	**307**	**42**	**63,899**
Average balance of liabilities	**37,520**	**-**	**-**	**-**	**22**	**-**	**37,542**
Average balance of risk-adjusted assets	**18,693**	**8,231**	**12**	**21,009**	**428**	**21**	**48,394**
Average balance of mutual funds	**-**	**-**	**2,293**	**-**	**-**	**-**	**2,293**
Average balance of securities in custody	**-**	**-**	**2,049**	**-**	**-**	**-**	**2,049**
Balance of credit to the public	**21,914**	**6,160**	**-**	**36,163**	**301**	**35**	**64,573**
Balance of deposits from the public	**37,878**	**-**	**-**	**-**	**29**	**-**	**37,907**

(1) 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, 2012						
	Activity in Israel				Activity abroad		Total
	Banking and financial services	Credit cards	Capital market(1)	Housing loans	Banking and financial services	Housing loans	
	NIS millions						
Net interest income:							
- From externals	405	25	-	156	5	7	598
- Inter-segmental	66	-	-	(98)	(3)	(3)	(38)
Non-interest financing income	1	-	-	-	-	-	1
Total net financing profit	472	25	-	58	2	4	561
Fees and other income	137	141	10	24	-	-	312
Total income	609	166	10	82	2	4	873
Provision for credit losses	57	3	-	9	-	2	71
Operating and other expenses:							
- From externals	514	128	14	56	5	5	722
- Inter-segmental	(7)	-	2	(6)	-	-	(11)
Profit (loss) before taxes	45	35	(6)	23	(3)	(3)	91
Provision for taxes (tax benefit) on profit (loss)	11	11	(1)	6	(1)	-	26
Net profit (loss):							
Before attribution to non-controlling interests	34	24	(5)	17	(2)	(3)	65
Attributed to non-controlling interests	-	-	-	-	1	-	1
Attributed to shareholders of the Bank	34	24	(5)	17	(1)	(3)	66
Balance of credit to the public	21,699	5,927	-	36,099	296	42	64,063
Balance of deposits from the public	37,601	-	-	-	35	-	37,636

(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, 2012*						
	Activity in Israel				Activity abroad		Total
	Banking and financial services	Credit cards	Capital market(1)	Housing loans	Banking and financial services	Housing loans	
	NIS millions						
Net interest income:							
- From externals	372	21	-	325	4	15	737
- Inter-segmental	104	-	-	(266)	(4)	(9)	(175)
Total net financing profit	476	21	-	59	-	6	562
Fees and other income	133	139	10	23	1	1	307
Total income	609	160	10	82	1	7	869
Provision for credit losses	17	9	-	3	-	-	29
Operating and other expenses:							
- From externals	475	115	14	47	4	4	659
- Inter-segmental	(6)	-	3	(6)	-	-	(9)
Profit (loss) before taxes	123	36	(7)	38	(3)	3	190
Provision for taxes (tax benefit) on profit (loss)	43	10	(2)	13	(1)	1	64
Net profit (loss):							
Before attribution to non-controlling interests	80	26	(5)	25	(2)	2	126
Attributed to non-controlling interests	-	(1)	-	-	1	-	-
Attributed to shareholders of the Bank	80	25	(5)	25	(1)	2	126
Return on equity(2)	22.9%	16.7%	-	6.3%	-	-	13.9%
Average balance of assets	20,648	5,972	-	34,849	370	105	61,944
Average balance of liabilities	34,849	-	-	-	12	-	34,861
Average balance of risk-adjusted assets	18,582	7,813	15	20,031	398	3	46,842
Average balance of mutual funds	-	-	2,123	-	-	-	2,123
Average balance of securities in custody	-	-	2,203	-	-	-	2,203
Balance of credit to the public	20,991	5,691	-	34,495	350	82	61,609
Balance of deposits from the public	35,428	-	-	-	13	-	35,441

* Reclassified, as described in the section "Description of the Business of the Bank Group by Segments of Activity" in the Board of Directors' Report for 2012.

(1) 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 40 million in the first quarter of 2013, compared with NIS 126 million in the same period last year. The decrease in profit mainly resulted from an increase in the provision for credit losses as noted below, as well as a decrease in net financing profit, a decrease in fees and other income, and an increase in operating expenses.

Net financing profit in the first quarter of 2013 totaled NIS 541 million, compared with NIS 562 million in the same period last year. The 3.7% decrease mainly resulted from a decrease in profit from regular financing activity, due to a decrease in financial spreads and the decrease in the interest rate in Israel. The decrease was offset by an increase in the volume of credit and deposits.

Fees and other income in the first quarter of 2013 totaled NIS 295 million, compared with NIS 307 million in the same period last year. The decrease mainly resulted from the change in the fee list due to the amendment of the Banking Rules (Service to Customers), which led to the cancellation or change of several fees, in two phases: on January 1, 2013, and on March 1, 2013.

The provision for credit losses totaled NIS 91 million in the first quarter of 2013, compared with NIS 29 million in the same period last year. The increase resulted from the initial implementation of the directive of the Supervisor of Banks concerning the update of the guidelines for residential real estate, as described in Note 1(C)(5) to the Financial Statements.

The segment's operating and other expenses totaled NIS 685 million in the first quarter of 2013, compared with NIS 650 million in the same period last year. The increase mainly resulted from an increase in salary expenses, due to an increase in employees' wages pursuant to the new wage agreement signed by the Board of Management of the Bank and the Employee Union in March 2013; the increase was offset by a decrease in the provision for bonuses.

Net credit to the public totaled approximately NIS 64.6 billion as at March 31, 2013, compared with approximately NIS 64.1 billion as at December 31, 2012.

Housing loans in Israel totaled approximately NIS 36.2 billion as at March 31, 2013, compared with approximately NIS 36.1 billion as at December 31, 2012.

Deposits from the public totaled approximately NIS 37.9 billion as at March 31, 2013, compared with approximately NIS 37.6 billion as at December 31, 2012.

Technological Changes that May Have a Material Impact on the Segment

A new trading experience was launched on the Bank's website during the first quarter of 2013, enabling customers to obtain real-time updates. The new interface provides capital-market traders with an up-to-date work environment, including faster updates of data on securities, indices, and news flashes and an overview of data from selected world stock exchanges.

The Committee on Competitiveness

In December 2011, the Committee for the Examination of Increasing Competition in the Banking System, headed by the Supervisor of Banks, was appointed as an adjunct to the Committee for Economic and Social Change, headed by Prof. Manuel Trajtenberg. The committee's mission, as described in its letter of appointment, is to examine and recommend "various means and measures to increase competitiveness in the Israeli banking market."

The committee's recommendations were published in its final report on March 19, 2013. The main recommendations of the report in the area of fees were implemented in the recent amendment of the Banking Rules, issued on November 28, 2012, and applied in two phases, on January 1 and March 1, 2013.

Based on mapping and examination of the overall implications for the Bank's revenues, as well as additional long-term business and operational implications, in the opinion of the Bank, the implementation of the additional recommendations in the report that have not yet put into practice is likely to have a material negative impact on the results of its operations.

Legal Proceedings

See Note 6(D) to the Condensed Financial Statements.

The Private Banking Segment

Developments in the Segment's Markets or Changes in the Profile of its Customers

TASE turnovers continued to fall during the first quarter of 2013. However, the trend in the stock market was positive; similar to 2012, due to low interest rates in Israel and globally. Advised customers' risk appetite rose slightly. The Bank's customers continued to redirect stock investments overseas, with an emphasis on American stock indices. Investment in European companies has been low due to the ongoing debt crisis. Risk components are being focused on shares, at the expense of corporate bonds, due to the reduction in spreads.

Regulatory Changes Concerning Housing Loans

In light of the rapid growth of portfolios of loans secured by residential properties, and the increase in housing prices, the Supervisor of Banks issued guidelines concerning credit for housing and real estate, on March 21, 2013.
For further details, see the section "Composition and Development of the Bank Group's Assets and Liabilities," above.

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

	For the three months ended March 31, 2013						
	Activity in Israel				Activity abroad		Total
	Banking and financial services	Credit cards	Capital market(1)	Housing loans	Banking and financial services	Capital market(1)	
	NIS millions						
Net interest income:							
- From externals	**(222)**	**8**	**-**	**87**	**12**	**-**	**(115)**
- Inter-segmental	**441**	**-**	**-**	**(74)**	**25**	**-**	**392**
Non-interest financing income	**8**	**-**	**-**	**-**	**1**	**-**	**9**
Total net financing profit	**227**	**8**	**-**	**13**	**38**	**-**	**286**
Fees and other income	**64**	**80**	**128**	**2**	**34**	**57**	**365**
Total income	**291**	**88**	**128**	**15**	**72**	**57**	**651**
Provision for credit losses	**2**	**1**	**-**	**22**	**1**	**-**	**26**
Operating and other expenses:							
- From externals	**257**	**57**	**65**	**6**	**66**	**55**	**506**
- Inter-segmental	**12**	**-**	**37**	**(1)**	**-**	**5**	**53**
Profit (loss) before taxes	**20**	**30**	**26**	**(12)**	**5**	**(3)**	**66**
Provision for taxes (tax benefit) on profit (loss)	**7**	**8**	**9**	**(4)**	**1**	**(1)**	**20**
Net profit (loss):							
Before attribution to non-controlling interests	**13**	**22**	**17**	**(8)**	**4**	**(2)**	**46**
Attributed to non-controlling interests	**-**	**(1)**	**-**	**-**	**-**	**-**	**(1)**
Attributed to shareholders of the Bank	**13**	**21**	**17**	**(8)**	**4**	**(2)**	**45**
Return on equity(2)	**7.5%**	**19.2%**	**-**	**(4.4%)**	**2.3%**	**-**	**7.1%**
Average balance of assets	**8,183**	**3,419**	**-**	**13,469**	**6,149**	**-**	**31,220**
Average balance of liabilities	**106,727**	**-**	**-**	**-**	**20,114**	**-**	**126,841**
Average balance of risk-adjusted assets	**7,735**	**5,115**	**171**	**7,872**	**7,793**	**3**	**28,689**
Average balance of mutual funds	**-**	**-**	**37,847**	**-**	**-**	**390**	**38,237**
Average balance of other assets under management	**-**	**-**	**188**	**-**	**-**	**857**	**1,045**
Average balance of securities in custody	**-**	**-**	**83,823**	**-**	**-**	**30,548**	**114,371**
Balance of credit to the public	**8,226**	**3,472**	**-**	**13,778**	**6,168**	**-**	**31,644**
Balance of deposits from the public	**106,487**	**-**	**-**	**-**	**20,040**	**-**	**126,527**

(1) 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, 2012						
	Activity in Israel				Activity abroad		Total
	Banking and financial services	Credit cards	Capital market[(1)]	Housing loans	Banking and financial services	Capital market[(1)]	
	NIS millions						
Net interest income:							
- From externals	(216)	4	-	44	17	-	(151)
- Inter-segmental	450	-	-	(30)	21	-	441
Non-interest financing income	7	-	-	-	1	-	8
Total net financing profit	241	4	-	14	39	-	298
Fees and other income	66	79	138	2	39	42	366
Total income	307	83	138	16	78	42	664
Provision for credit losses	13	1	-	1	1	-	16
Operating and other expenses:							
- From externals	267	67	72	10	86	42	544
- Inter-segmental	13	-	39	(1)	-	10	61
Profit (loss) before taxes	14	15	27	6	(9)	(10)	43
Provision for taxes (tax benefit) on profit (loss)	2	4	8	2	(3)	(3)	10
Net profit (loss):							
Attributed to shareholders of the Bank	12	11	19	4	(6)	(7)	33
Balance of credit to the public	8,283	3,341	-	13,328	6,576	-	31,528
Balance of deposits from the public	108,720	-	-	-	20,477	-	129,197

(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, 2012*						
	Activity in Israel				Activity abroad		Total
	Banking and financial services	Credit cards	Capital market[1]	Housing loans	Banking and financial services	Capital market[1]	
	NIS millions						
Net interest income:							
- From externals	(353)	9	-	82	14	-	(248)
- Inter-segmental	607	-	-	(70)	32	-	569
Non-interest financing income	8	-	-	-	1	-	9
Total net financing profit	262	9	-	12	47	-	330
Fees and other income	65	78	138	2	42	45	370
Total income	327	87	138	14	89	45	700
Provision for credit losses (reduction of allowance)	(1)	5	-	-	-	-	4
Operating and other expenses:							
- From externals	250	57	67	6	79	49	508
- Inter-segmental	10	-	40	(1)	-	2	51
Profit (loss) before taxes	68	25	31	9	10	(6)	137
Provision for taxes (tax benefit) on profit (loss)	24	7	11	3	3	(2)	46
Net profit (loss):							
Attributed to shareholders of the Bank	44	18	20	6	7	(4)	91
Return on equity[2]	28.8%	19.1%	-	4.8%	4.3%	-	17.3%
Average balance of assets	7,701	3,266	-	10,992	6,687	-	28,646
Average balance of liabilities	101,176	-	-	-	20,201	-	121,377
Average balance of risk-adjusted assets	8,190	4,889	184	6,271	8,122	3	27,659
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	-	-	81,909	-	-	28,635	110,544
Balance of credit to the public	7,819	3,208	-	11,181	6,689	-	28,897
Balance of deposits from the public	103,638	-	-	-	19,762	-	123,400

* Reclassified, as described in the section "Description of the Business of the Bank Group by Segments of Activity" in the Board of Directors' Report for 2012.

(1) 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 45 million in the first quarter of 2013, compared with NIS 91 million in the same period last year. The decrease mainly resulted from a decrease in net financing profit and a decrease in fees and other income and from an increase in the provision for credit losses as noted below.

Net financing profit in the first quarter of 2013 totaled NIS 286 million, compared with NIS 330 million in the same period last year. The decrease mainly resulted from a decrease in profit from regular financing activity, due to a decrease in financial spreads and the decrease in the interest rate. The decrease was offset by an increase in the volume of credit and deposits.

Fees and other income of the segment totaled NIS 365 million in the first quarter of 2013, compared with NIS 370 million in the same period last year. The decrease in income mainly resulted from a decrease in income from the capital market.

The provision for credit losses totaled NIS 26 million in the first quarter of 2013, compared with NIS 4 million in the same period last year. The increase resulted from the initial implementation of the directive of the Supervisor of Banks concerning the update of the guidelines for residential real estate, as described in Note 1(C)(5) to the Financial Statements.

The segment's operating and other expenses totaled NIS 559 million in the first quarter of 2013, similar to the same period last year. On one hand, an increase occurred mainly as a result of an increase in salary expenses, due to an increase in employees' wages pursuant to the new wage agreement signed by the Board of Management of the Bank and the Employee Union in March 2013; the increase was offset by a decrease in the provision for bonuses. On the other hand, a decrease occurred mainly due to a decrease in the segment's expenses overseas.

Net credit to the public totaled approximately NIS 31.6 billion as at March 31, 2013, compared with approximately NIS 31.5 billion as at December 31, 2012. The increase mainly resulted from an increase in housing loans. By contrast, balances overseas decreased, mainly due to a decrease in foreign exchange rates.

Housing credit in Israel totaled approximately NIS 13.8 billion as at March 31, 2013, compared with approximately NIS 13.3 billion as at December 31, 2012.

Deposits from the public totaled approximately NIS 126.5 billion as at March 31, 2013, compared with approximately NIS 129.2 billion as at December 31, 2012. The decrease mainly resulted from customers' transition from investment in deposits to investment in the capital market. In addition, balances overseas decreased, due to the appreciation of foreign exchange rates relative to the shekel.

The balance of off-balance sheet monetary assets of the customers of the Bank Group attributed to this segment as at March 31, 2013 totaled approximately NIS 155.2 billion, compared with approximately NIS 151.9 billion as at December 31, 2012. This balance includes customers' holdings in securities portfolios and mutual funds.

The Committee on Competitiveness

See the "Households Segment" section above.

Legal Proceedings

See Note 6(D) in the Condensed Financial Statements.

The Small Business Segment

Activities

The Small Business Segment is an important element of the activity of the Bank in 2013. Accordingly, the Bank will provide credit to small businesses, through various funds, including the small and mid-sized businesses fund backed by the state, a joint fund with the Israel Manufacturers' Association, and sector-based funds established by the Bank in cooperation with leading market players. The goal of this effort is to increase the funding available to this sector while reducing risk through collaborations with various elements of the economy (the state, the Manufacturers' Association, and more). This financing is in addition to the business credit offered by the bank to small businesses in the course of its routine operations.

Activity of the Segment in 2013

During the first quarter of 2013, the Bank continued to focus and strengthen its activity in the small business sector. The bank views this sector as highly important, both in terms of its responsibility for the development of the Israeli economy and from a business perspective, as a growth driver for the Retail Banking Area. Based on this view, the Bank has continued to focus on this sector, expanding its service offering and developing a range of unique value offers, services, and financial tools designed to guide businesses to growth and to create a full package customized to the businesses' needs.

Marketing and Distribution

On Small Business Day, held in January 2013 as part of the Bank's support for the Year of the Small Business, all residents of Israel were invited to patronize small business and contribute to economic growth. This effort was carried out in collaboration with various public entities, such as municipal authorities, Lahav, Emun Hatzibur (Public Trust), and more. The Bank intends to establish Small Business Day as an annual event.

Regulatory Changes Concerning Housing Loans

For details, see the section "Composition and Development of the Bank Group's Assets and Liabilities," above.

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

	For the three months ended March 31, 2013				
	Activity in Israel				
	Banking and financial services	Credit cards	Capital market[1]	Housing loans	Total
	NIS millions				
Net interest income:					
- From externals	**247**	**14**	**-**	**29**	**290**
- Inter-segmental	**9**	**-**	**-**	**(22)**	**(13)**
Total net financing profit	**256**	**14**	**-**	**7**	**277**
Fees and other income	**115**	**28**	**10**	**-**	**153**
Total income	**371**	**42**	**10**	**7**	**430**
Provision for credit losses	**21**	**-**	**-**	**7**	**28**
Operating and other expenses:					
- From externals	**207**	**19**	**9**	**4**	**239**
- Inter-segmental	**14**	**-**	**3**	**(1)**	**16**
Profit (loss) before taxes	**129**	**23**	**(2)**	**(3)**	**147**
Provision for taxes (tax benefit) on profit (loss)	**45**	**6**	**(1)**	**(1)**	**49**
Net profit (loss):					
Attributed to shareholders of the Bank	**84**	**17**	**(1)**	**(2)**	**98**
Return on equity[2]	**25.9%**	**26.7%**	**-**	**(3.2%)**	**21.7%**
Average balance of assets	**18,689**	**1,213**	**-**	**4,280**	**24,182**
Average balance of liabilities	**24,877**	**2,211**	**-**	**-**	**27,088**
Average balance of risk-adjusted assets	**16,249**	**2,466**	**1**	**2,735**	**21,451**
Average balance of mutual funds	**-**	**-**	**2,912**	**-**	**2,912**
Average balance of other assets under management	**-**	**-**	**23**	**-**	**23**
Average balance of securities in custody	**-**	**-**	**7,368**	**-**	**7,368**
Balance of credit to the public	**18,845**	**1,232**	**-**	**4,300**	**24,377**
Balance of deposits from the public	**24,906**	**-**	**-**	**-**	**24,906**

(1) 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, 2012				
	Activity in Israel				
	Banking and financial services	Credit cards	Capital market[1]	Housing loans	Total
	NIS millions				
Net interest income:					
- From externals	247	12	-	16	275
- Inter-segmental	12	-	-	(9)	3
Total net financing profit	259	12	-	7	278
Fees and other income	122	26	10	1	159
Total income	381	38	10	8	437
Provision for credit losses	30	-	-	-	30
Operating and other expenses:					
- From externals	222	23	10	6	261
- Inter-segmental	13	-	3	-	16
Profit (loss) before taxes	116	15	(3)	2	130
Provision for taxes (tax benefit) on profit (loss)	32	5	(1)	1	37
Net profit (loss):					
Attributed to shareholders of the Bank	84	10	(2)	1	93
Balance of credit to the public	18,822	1,185	-	4,296	24,303
Balance of deposits from the public	25,869	-	-	-	25,869

(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, 2012				
	Activity in Israel				
	Banking and financial services	Credit cards	Capital market[1]	Housing loans	Total
	NIS millions				
Net interest income:					
- From externals	263	16	-	30	309
- Inter-segmental	(5)	-	-	(24)	(29)
Total net financing profit	258	16	-	6	280
Fees and other income	119	28	10	-	157
Total income	377	44	10	6	437
Provision for credit losses	21	2			23
Operating and other expenses:					
- From externals	206	19	9	3	237
- Inter-segmental	7	-	3	-	10
Profit (loss) before taxes	143	23	(2)	3	167
Provision for taxes (tax benefit) on profit (loss)	51	6	(1)	1	57
Net profit (loss):					
Attributed to shareholders of the Bank	92	17	(1)	2	110
Return on equity[2]	32.9%	31.9%	-	4.2%	28.9%
Average balance of assets	17,860	1,194	-	3,713	22,767
Average balance of liabilities	23,269	2,187	-	-	25,456
Average balance of risk-adjusted assets	15,931	2,342	4	2,385	20,662
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	18,072	1,138	-	3,801	23,011
Balance of deposits from the public	23,470	-	-	-	23,470

* Reclassified, as described in the section "Description of the Business of the Bank Group by Segments of Activity" in the Board of Directors' Report for 2012.
(1) 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 three months of 2013 totaled NIS 98 million, compared with NIS 110 million in the same period last year. The decrease mainly resulted from an increase in operating expenses, an increase in the provision for credit losses and a decrease in fees and other income.

Net financing profit in the first three months of 2013 totaled NIS 277 million, compared with NIS 280 million in the same period last year. The decrease mainly resulted from a decrease in profit from regular financing activity, due to a decrease in financial spreads and the decrease in the interest rate, offset by an increase in the volume of credit and deposits attributed to this segment.

Fees and other income of the segment in the first three months of 2013 totaled NIS 153 million, compared with NIS 157 million in the same period last year.

The provision for credit losses totaled NIS 28 million in the first three months of 2013, compared with NIS 23 million in the same period last year. The increase resulted from the initial implementation of the directive of the Supervisor of Banks concerning the update of the guidelines for residential real estate, as described in Note 1(C)(5) to the Financial Statements.

The segment's operating and other expenses totaled NIS 255 million in the first three months of 2013, compared with NIS 247 million in the same period last year. The increase mainly resulted from an increase in salary expenses, due to an increase in employees' wages pursuant to the new wage agreement signed by the Board of Management of the Bank and the Employee Union in March 2013; the increase was offset by a decrease in the provision for bonuses.

Net credit to the public as at March 31, 2013 totaled approximately NIS 24.4 billion, compared with approximately NIS 24.3 billion as at December 31, 2012.

Deposits from the public as at March 31, 2013 totaled approximately NIS 24.9 billion, compared with approximately NIS 25.9 billion as at December 31, 2012.

The Committee on Competitiveness

See the "Households Segment" section above.

Legal Proceedings

See Note 6(D) 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, 2013				
	Activity in Israel		Activity abroad		Total
	Banking and financial services(1)	Construction and real estate	Banking and financial services(1)	Construction and real estate	
	NIS millions				
Net interest income:					
- From externals	**137**	**85**	**46**	**13**	**281**
- Inter-segmental	**(29)**	**(27)**	**(20)**	**(8)**	**(84)**
Non-interest financing income	**1**	**-**	**-**	**-**	**1**
Total net financing profit	**109**	**58**	**26**	**5**	**198**
Fees and other income	**42**	**26**	**24**	**2**	**94**
Total income	**151**	**84**	**50**	**7**	**292**
Provision for credit losses	**8**	**4**	**21**	**-**	**33**
Operating and other expenses:					
- From externals	**95**	**18**	**17**	**10**	**140**
- Inter-segmental	**3**	**-**	**-**	**-**	**3**
Profit (loss) before taxes	**45**	**62**	**12**	**(3)**	**116**
Provision for taxes (tax benefit) on profit (loss)	**15**	**22**	**5**	**(1)**	**41**
Net profit (loss):					
Before attribution to non-controlling interests	**30**	**40**	**7**	**(2)**	**75**
Attributed to non-controlling interests		**-**	**(2)**	**-**	**(2)**
Attributed to shareholders of the Bank	**30**	**40**	**5**	**(2)**	**73**
Return on equity(2)	**8.1%**	**13.6%**	**5.9%**	**(5.7%)**	**9.3%**
Average balance of assets	**14,110**	**9,084**	**3,200**	**1,202**	**27,596**
Average balance of liabilities	**14,587**	**2,089**	**2,616**	**13**	**19,305**
Average balance of risk-adjusted assets	**16,775**	**13,607**	**3,946**	**1,382**	**35,710**
Average balance of mutual funds	**1,770**	**-**	**-**	**-**	**1,770**
Average balance of other assets under management	**10**	**-**	**-**	**-**	**10**
Average balance of securities in custody	**11,537**	**-**	**-**	**-**	**11,537**
Balance of credit to the public	**14,328**	**9,269**	**3,210**	**1,086**	**27,893**
Balance of deposits from the public	**11,864**	**2,459**	**2,370**	**6**	**16,699**

(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, 2012				
	Activity in Israel		Activity abroad		Total
	Banking and financial services[1]	Construction and real estate	Banking and financial services[1]	Construction and real estate	
	NIS millions				
Net interest income:					
- From externals	134	84	48	17	283
- Inter-segmental	(27)	(26)	(28)	(10)	(91)
Non-interest financing income	2	-	-	-	2
Total net financing profit	109	58	20	7	194
Fees and other income	43	23	5	2	73
Total income	152	81	25	9	267
Provision for credit losses (reduction of allowance)	(4)	(6)	(2)	1	(11)
Operating and other expenses:					
- From externals	104	19	12	12	147
- Inter-segmental	(3)	1	-	-	(2)
Profit (loss) before taxes	55	67	15	(4)	133
Provision for taxes (tax benefit) on profit (loss)	18	18	5	(1)	40
Net profit (loss):					
Before attribution to non-controlling interests	37	49	10	(3)	93
Attributed to non-controlling interests	-	-	(1)	-	(1)
Attributed to shareholders of the Bank	37	49	9	(3)	92
Balance of credit to the public	13,509	9,165	3,177	1,205	27,056
Balance of deposits from the public	12,506	2,081	2,405	19	17,011

(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, 2012*				
	Activity in Israel		Activity abroad		Total
	Banking and financial services(1)	Construction and real estate	Banking and financial services(1)	Construction and real estate	
	NIS millions				
Net interest income:					
- From externals	160	74	41	13	288
- Inter-segmental	(53)	(19)	(23)	(7)	(102)
Non-interest financing income	2	-	-	-	2
Total net financing profit	109	55	18	6	188
Fees and other income	43	22	5	1	71
Total income	152	77	23	7	259
Provision for credit losses (reduction of allowance)	68	(21)	6	1	54
Operating and other expenses:					
- From externals	82	15	14	9	120
- Inter-segmental	8	1	-	-	9
Profit (loss) before taxes	(6)	82	3	(3)	76
Provision for taxes (tax benefit) on profit (loss)	(2)	29	2	(1)	28
Net profit (loss):					
Before attribution to non-controlling interests	(4)	53	1	(2)	48
Attributed to non-controlling interests	-	-	(1)	-	(1)
Attributed to shareholders of the Bank	(4)	53	-	(2)	47
Return on equity(2)	(1.2%)	22.4%	-	(12.3%)	7.4%
Average balance of assets	13,584	8,685	2,719	879	25,867
Average balance of liabilities	13,206	1,882	2,098	30	17,216
Average balance of risk-adjusted assets	16,196	12,622	2,405	815	32,038
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	13,518	8,763	2,456	997	25,734
Balance of deposits from the public	11,436	1,866	2,149	26	15,477

* Reclassified, as described in the section "Description of the Business of the Bank Group by Segments of Activity" in the Board of Directors' Report for 2012.

(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 three months of 2013 totaled NIS 73 million, compared with NIS 47 million in the same period last year. The increase resulted from a decrease in the provision for credit losses, an increase in net financing profit, and an increase in income from fees and other income.

Net financing profit of the segment in the first three months of 2013 totaled NIS 198 million, compared with NIS 188 million in the same period last year. The increase mainly resulted from an increase in credit balances.

Fees and other income of the segment totaled NIS 94 million in the first three months of 2013, compared with NIS 71 million in the same period last year. The increase resulted from an increase in the segment's income attributed to the Bank's activity in Turkey.

The provision for credit losses totaled NIS 33 million in the first three months of 2013, compared with NIS 54 million in the same period last year. The decrease mainly resulted from a decrease in the individual allowance, offset by an increase in the collective allowance.

The segment's operating and other expenses totaled NIS 143 million in the first three months of 2013, compared with NIS 129 million in the same period last year. The increase mainly resulted from an increase in salary expenses, due to an increase in employees' wages pursuant to the new wage agreement signed by the Board of Management of the Bank and the Employee Union in March 2013; the increase was offset by a decrease in the provision for bonuses.

Net credit to the public totaled approximately NIS 27.9 billion as at March 31, 2013, compared with approximately NIS 27.1 billion as at December 31, 2012.

Deposits from the public totaled approximately NIS 16.7 billion as at March 31, 2013, compared with approximately NIS 17.0 billion as at December 31, 2012.

Legal Proceedings

See Note 6 (D) to the Condensed Financial Statements.

The Corporate Segment

Condensed operating results and principal data of the Corporate Segment:

	For the three months ended March 31, 2013				
	Activity in Israel		Activity abroad		Total
	Banking and financial services(1)	Construction and real estate	Banking and financial services(1)	Construction and real estate	
	NIS millions				
Net interest income:					
- From externals	**401**	**285**	**52**	**30**	**768**
- Inter-segmental	**(91)**	**(109)**	**(18)**	**(16)**	**(234)**
Non-interest financing income	**19**	**-**	**2**	**-**	**21**
Total net financing profit	**329**	**176**	**36**	**14**	**555**
Fees and other income	**96**	**53**	**3**	**1**	**153**
Total income	**425**	**229**	**39**	**15**	**708**
Provision for credit losses (reduction of allowance)	**98**	**(18)**	**(1)**	**-**	**79**
Operating and other expenses:					
- From externals	**100**	**25**	**13**	**4**	**142**
- Inter-segmental	**15**	**4**	**-**	**-**	**19**
Profit before taxes	**212**	**218**	**27**	**11**	**468**
Provision for taxes on profit	**74**	**77**	**9**	**4**	**164**
Net profit:					
Attributed to shareholders of the Bank	**138**	**141**	**18**	**7**	**304**
Return on equity(2)	**7.5%**	**14.8%**	**16.4%**	**19.2%**	**10.4%**
Average balance of assets	**55,165**	**32,686**	**6,898**	**2,314**	**97,063**
Average balance of liabilities	**53,794**	**7,514**	**912**	**12**	**62,232**
Average balance of risk-adjusted assets	**82,981**	**44,238**	**6,360**	**496**	**134,075**
Average balance of mutual funds	**2,622**	**-**	**-**	**-**	**2,622**
Average balance of other assets under management	**35**	**-**	**-**	**-**	**35**
Average balance of securities in custody	**236,298**	**-**	**-**	**-**	**236,298**
Balance of credit to the public	**53,993**	**32,335**	**6,070**	**2,304**	**94,702**
Balance of deposits from the public	**44,068**	**7,492**	**984**	**3**	**52,547**

(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, 2012				
	Activity in Israel		Activity abroad		Total
	Banking and financial services[(1)]	Construction and real estate	Banking and financial services[(1)]	Construction and real estate	
	NIS millions				
Net interest income:					
- From externals	416	257	46	37	756
- Inter-segmental	(84)	(82)	(15)	(25)	(206)
Non-interest financing income	18	-	6	-	24
Total net financing profit	350	175	37	12	574
Fees and other income	96	42	-	-	138
Total income	446	217	37	12	712
Provision for credit losses (reduction of allowance)	(17)	(26)	(9)	-	(52)
Operating and other expenses:					
- From externals	139	34	29	5	207
- Inter-segmental	15	4	-	-	19
Profit before taxes	309	205	17	7	538
Provision for taxes on profit	95	56	6	2	159
Net profit (loss):					
Attributed to shareholders of the Bank	214	149	11	5	379
Balance of credit to the public	54,925	33,794	6,642	2,396	97,757
Balance of deposits from the public	44,724	7,831	1,124	38	53,717

(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, 2012*				
	Activity in Israel		Activity abroad		Total
	Banking and financial services(1)	Construction and real estate	Banking and financial services(1)	Construction and real estate	
	NIS millions				
Net interest income:					
- From externals	498	262	57	30	847
- Inter-segmental	(179)	(100)	(27)	(14)	(320)
Non-interest financing income	19	-	1	-	20
Total net financing profit	338	162	31	16	547
Fees and other income	96	38	6	1	141
Total income	434	200	37	17	688
Provision for credit losses (reduction of allowance)	236	(42)	(1)	-	193
Operating and other expenses:					
- From externals	105	26	16	4	151
- Inter-segmental	15	4	-	-	19
Profit before taxes	78	212	22	13	325
Provision for taxes on profit	27	75	8	4	114
Net profit:					
Attributed to shareholders of the Bank	51	137	14	9	211
Return on equity(2)	3.0%	15.6%	7.2%	14.4%	7.4%
Average balance of assets	57,248	36,175	7,273	2,373	103,069
Average balance of liabilities	51,467	6,772	1,170	24	59,433
Average balance of risk-adjusted assets	85,507	45,809	11,528	1,485	144,329
Average balance of mutual funds	1,986	-	-	-	1,986
Average balance of other assets under management	38	-	-	-	38
Average balance of securities in custody	212,137	-	-	-	212,137
Balance of credit to the public	57,563	34,159	7,371	2,211	101,304
Balance of deposits from the public	40,605	5,967	1,233	15	47,820

* Reclassified, as described in the section "Description of the Business of the Bank Group by Segments of Activity" in the Board of Directors' Report for 2012.

(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 three months of 2013 totaled NIS 304 million, compared with NIS 211 million in the same period last year. The increase in net profit resulted from a decrease in the provision for credit losses.

Net financing profit of the segment totaled NIS 555 million in the first three months of 2013, compared with NIS 547 million in the same period last year. The 1.5% increase mainly resulted from an increase in credit spreads which was offset by a decrease in the volume of credit activity.

Fees and other income totaled NIS 153 million in the first three months of 2013, compared with NIS 141 million in the same period last year. The increase resulted from an increase in income from credit handling, mainly due to nonrecurring fees for the organization of syndications. Income from credit handling amounted to NIS 34 million in the first three months of 2013, compared with NIS 20 million in the same period last year.

The provision for credit losses in the first three months of 2013 totaled NIS 79 million, compared with NIS 193 million in the same period last year. The decrease resulted mainly from a decrease in the individual allowance.

The segment's operating and other expenses totaled NIS 161 million in the first three months of 2012, compared with NIS 170 million in the same period last year.

Net credit to the public totaled approximately NIS 94.7 billion as at March 31, 2013, compared with approximately NIS 97.8 billion as at December 31, 2012.

Deposits from the public totaled approximately NIS 52.5 billion as at March 31, 2013, compared with approximately NIS 53.7 billion as at December 31, 2012.

The balance of off-balance sheet monetary assets of customers of the Bank Group attributed to this segment as at March 31, 2013 totaled approximately NIS 241.6 billion, compared with approximately NIS 236.2 billion as at December 31, 2012. This balance includes customers' holdings in securities portfolios and mutual funds.

Legal Proceedings

See Note 6 (D) to the Condensed Financial Statements.

The Financial Management Segment

Condensed operating results of the Financial Management Segment:

	For the three months ended		
	March 31, 2013	December 31, 2012	March 31, 2012*
	NIS millions		
Net interest income:			
- From externals	**(34)**	183	29
- Inter-segmental	**122**	(109)	57
Non-interest financing income	**112**	132	155
Total net financing profit	**200**	206	241
Fees and other income	**80**	76	104
Total income	**280**	282	345
Operating and other expenses:			
- From externals	**195**	197	203
- Inter-segmental	**3**	12	2
Profit before taxes	**82**	73	140
Provision for taxes on profit	**43**	69	54
Profit after taxes	**39**	4	86
The Bank's share in profits (losses) of equity-basis investees, after taxes	**4**	4	(2)
Net profit:			
Before attribution to non-controlling interests	**43**	8	84
Attributed to non-controlling interests	**7**	9	(18)
Attributed to shareholders of the Bank	**50**	17	66

* Reclassified, as described in the section "Description of the Business of the Bank Group by Segments of Activity" in the Board of Directors' Report for 2012.

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 three months of 2013 totaled NIS 50 million, compared with profit in the amount of NIS 66 million in the same period last year.

Net financing profit attributed to this segment totaled NIS 200 million in the first three months of 2013, compared with NIS 241 million in the same period last year. The decrease in income resulted from a decrease in income from financial capital and a decrease in income in the dealing room. The decrease was offset by an increase in income from realization and adjustments to fair value of bonds.

Fees and other income of the segment in the first three months of 2013 totaled NIS 80 million, compared with NIS 104 million in the same period last year. The decrease mainly resulted from a decrease in income from the capital market overseas.

Operating and other expenses of the segment in the first three months of 2013 totaled NIS 198 million, compared with NIS 205 million in the same period last year.

The tax expenses item includes tax expenses arising from the effect of the change in currency exchange rates on recorded investments in consolidated companies overseas that are not included in the tax base, which were attributed to this segment.

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 activity in credit cards in respect of the activity of customers of banks outside the Group and from incoming tourism, as well as income from computer services for companies consolidated in the past. In addition, adjustments of inter-segmental activities are allocated to this section.

Net profit attributed to shareholders of the Bank in this section totaled NIS 11 million in the first three months of 2013, compared with NIS 8 million in the same period last year.

Profit from credit cards in respect of the activity of customers of banks outside the Group and from incoming tourism totaled NIS 4 million in the first three months of 2013, compared with profit in the amount of NIS 10 million in the same period last year.

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, 2013, totaled approximately NIS 4.6 billion, compared with NIS 4.5 billion as at December 31, 2012.

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, specialized purchasing cards, and prepaid cards. 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, 2013 is 3.7 million, compared with 3.6 million cards as at December 31, 2012.

In the first quarter of 2013, the volume of activity in Isracard Group cards reached NIS 26.8 billion, compared with NIS 24.7 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). In May 2012, the market for cross-clearing of Isracard brand cards was opened; merchants can now switch clearers in this brand. 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 384 million in the first quarter of 2013, compared with NIS 381 million in the same period last year, an increase of approximately 0.8%.

Legal Proceedings

For details regarding various regulatory issues, see Note 19C to the Annual Financial Statements for 2012.

For details regarding claims pending against Isracard, see Note 6D 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, 2013							
	Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Financial Management Segment	Incoming tourism and others	Total
	NIS millions							
Net interest income:								
- From externals	**18**	**8**	**14**	**4**	**-**	**4**	**-**	**48**
Non-interest financing income	**-**	**-**	**-**	**-**	**-**	**29**	**-**	**29**
Net financing profit	**18**	**8**	**14**	**4**	**-**	**33**	**-**	**77**
Income from fees	**142**	**80**	**28**	**3**	**2**	**-**	**129**	**384**
Total income	**160**	**88**	**42**	**7**	**2**	**33**	**129**	**461**
Provision for credit losses	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**1**
Operating and other expenses	**115**	**57**	**19**	**2**	**1**	**-**	**123**	**317**
Profit before taxes	**45**	**30**	**23**	**5**	**1**	**33**	**6**	**143**
Provision for taxes on profit	**12**	**8**	**6**	**1**	**-**	**9**	**2**	**38**
Net profit:								
Before attribution to non-controlling interests	**33**	**22**	**17**	**4**	**1**	**24**	**4**	**105**
Attributed to non-controlling interests	**(3)**	**(1)**	**-**	**-**	**-**	**-**	**-**	**(4)**
Attributed to shareholders of the Bank	**30**	**21**	**17**	**4**	**1**	**24**	**4**	**101**
Average balances								
Average balance of assets	**6,067**	**3,419**	**1,213**	**221**	**110**	**-**	**4,487**	**15,517**
Average balance of liabilities	**-**	**-**	**2,211**	**2,073**	**9,536**	**-**	**419**	**14,239**
Average balance of risk-adjusted assets	**8,231**	**5,115**	**2,446**	**115**	**136**	**-**	**-**	**16,063**

Distribution of the results of operations and principal data in credit cards by segment of activity (continued):

	For the three months ended December 31, 2012							
	Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Financial Management Segment	Incoming tourism and others	Total
	NIS millions							
Net interest income:								
- From externals	25	4	12	3	-	5	-	49
Non-interest financing income	-	-	-	-	-	6	-	6
Total net financing profit	25	4	12	3	-	11	-	55
Income from fees	141	79	26	3	2	-	145	396
Total income	166	83	38	6	2	11	145	451
Provision for credit losses	3	1	-	-	-	-	-	4
Operating and other expenses	128	67	23	3	-	-	136	357
Profit before taxes	35	15	15	3	2	11	9	90
Provision for taxes on profit	11	4	5	1	-	3	3	27
Net profit:								
Attributed to shareholders of the Bank	24	11	10	2	2	8	6	63

	For the three months ended March 31, 2012*							
	Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Financial Management Segment	Incoming tourism and others	Total
	NIS millions							
Net interest income:								
- From externals	21	9	16	5	-	1	-	52
Non-interest financing income	-	-	-	-	-	36	-	36
Total net financing profit	21	9	16	5	-	37	-	88
Income from fees	139	78	28	3	3	-	130	381
Total income	160	87	44	8	3	37	130	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	37	14	142
Provision for taxes on profit	10	7	6	2	-	9	4	38
Net profit:								
Before attribution to non-controlling interests	26	18	17	4	1	28	10	104
Attributed to non-controlling interests	(1)	-	-	-	-	-	-	(1)
Attributed to shareholders of the Bank	25	18	17	4	1	28	10	103
Average balances								
Average balance of assets	5,972	3,266	1,194	217	109	-	4,178	14,936
Average balance of liabilities	-	-	2,187	2,051	9,433	-	258	13,929
Average balance of risk-adjusted assets	7,813	4,889	2,342	123	71	-	-	15,238

* Reclassified, as described in the section "Description of the Business of the Bank Group by Segments of Activity" in the Board of Directors' Report for 2012.

Capital Market Activity

General

The Bank Group's capital-market activity includes a range of financial activities and services in various areas: trading, operations, and custody in Israeli securities, including Maof (the Bank and a wholly-owned subsidiary are members of the Tel Aviv Stock Exchange and the TASE 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 2012); trading in foreign securities (the Bank is a member of the Euroclear clearing house); 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

The Bank holds a pension advisor's license and employs licensed pension advisors. To date, the Bank has signed distribution agreements with approximately 21 management companies of provident funds and pension funds.

Difficulties have arisen in the provision of advisory services to customers, among other matters as a result of the difficulty of routinely and efficiently receiving information from institutional entities and from employers. Another difficulty concerns the settlement of monetary transactions, due to the lack of a central pension settlement system. A company is working to establish a central pension clearing house (the "Clearing House"); in the first stage, planned for June 2013, the Clearing House will clear information only. The Clearing House will collect payment from participants. At this stage, it is not possible to estimate what the contribution of the Clearing House will be to the Bank in its capacity as a pension advisor.

Another obstacle concerns the distribution of insurance products. Regulations have not yet been enacted to establish the rate of distribution fees for the distribution of insurance products; distribution agreements have not been signed with insurance companies. The examination of insurance products is difficult, due to the wide variety of types of insurance plans in the various years and the problems comparing them to one another.

The Capital Market, Insurance, and Savings Division of the Ministry of Finance has announced a plan for increasing competition in the pension-savings market. Drafts, circulars, and regulations have been released regarding the implementation of this plan. 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 1.6% of routine deposits, or 40% of management fees, whichever is lower (this would replace 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.

Because the implementation of the plan 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:

	Balance as at		Change
	March 31, 2013	December 31, 2012	
	NIS millions		%
Advisory balances	**13,831**	13,100	5.6%

Advisory balances are balances of pension products, including study funds, in respect of which customers have received pension advice, or advice regarding a study fund in the financial track.
There are two categories of advisory balances: balances in respect of which the Bank does not receive distribution fees (established pension funds, provident funds, and study funds with which the Bank does not have a distribution agreement); and balances in respect of which the Bank receives distribution fees.

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, bank provident 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, 2013, the company manages portfolios at a monetary value of NIS 1.11 billion, compared with NIS 10.6 billion at the end of 2012.

Services for Financial Asset Managers

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

The activity of the unit 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, and calculation of returns.

The Bank has signed agreements for the provision of operational services 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.

In the first quarter of 2013, the volume of assets of provident funds, study funds, and pension funds for which the Bank supplies operational services totaled approximately NIS 81.5 billion. The value of assets of mutual funds for which the unit provides services related to account management, at various volumes, totaled approximately NIS 56.9 billion.

Brokerage Services

In addition to the foreign-currency dealing rooms, the Financial Markets Area also contains two dealing rooms for securities: the Israeli securities dealing room and the foreign securities dealing room. The Israeli securities dealing room serves institutional clients as well as private customers with high levels of activity. The foreign securities dealing room serves institutional clients and select private customers, and provides backup for trading activities for other customers of the Bank. All three dealing rooms operate in coordination, providing the Bank's customers with a professional, advanced, efficient, centralized service package.

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

	For the three months ended March 31, 2013						
	Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Financial Management Segment	Total
	NIS millions						
Fees and other income	**8**	**185**	**10**	**5**	**16**	**69**	**293**
Operating and other expenses:							
- From externals	**14**	**120**	**9**	**-**	**-**	**76**	**219**
- Inter-segmental	**2**	**42**	**3**	**2**	**4**	**-**	**53**
Profit (loss) before taxes	**(8)**	**23**	**(2)**	**3**	**12**	**(7)**	**21**
Provision for taxes (tax benefit) on profit (loss)	**(3)**	**8**	**(1)**	**1**	**4**	**(2)**	**7**
Net profit (loss):							
Attributed to shareholders of the Bank	**(5)**	**15**	**(1)**	**2**	**8**	**(5)**	**14**
Average balances							
Average balance of assets of provident funds and mutual funds	**2,293**	**38,237**	**2,912**	**1,770**	**2,622**	**80,450**	**128,284**
Average balance of other assets under management	**-**	**1,045**	**23**	**10**	**35**	**-**	**1,113**
Average balance of securities in custody	**2,049**	**114,371**	**7,368**	**11,537**	**236,298**	**288,856**	**660,479**

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

	For the three months ended December 31, 2012						
	Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Financial Management Segment	Total
	NIS millions						
Fees and other income	10	180	10	4	16	75	295
Operating and other expenses:							
- From externals	14	114	10	-	-	76	214
- Inter-segmental	2	49	3	1	4	-	59
Profit (loss) before taxes	(6)	17	(3)	3	12	(1)	22
Provision for taxes (tax benefit) on profit (loss)	(1)	5	(1)	1	3	(1)	6
Net profit (loss):							
Before attribution to non-controlling interests	(5)	12	(2)	2	9	-	16

	For the three months ended March 31, 2012*						
	Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Financial Management Segment	Total
	NIS millions						
Fees and other income	10	183	10	4	15	103	325
Operating and other expenses:							
- From externals	14	116	9	-	-	96	235
- Inter-segmental	3	42	3	1	4	-	53
Profit (loss) before taxes	(7)	25	(2)	3	11	7	37
Provision for taxes (tax benefit) on profit (loss)	(2)	9	(1)	1	4	2	13
Net profit (loss):							
Attributed to shareholders of the Bank	(5)	16	(1)	2	7	5	24
Average balances							
Average balance of assets of provident funds and mutual funds	2,123	30,825	2,563	1,307	1,986	79,276	118,080
Average balance of other assets under management	-	1,186	21	12	38	-	1,257
Average balance of securities in custody	2,203	110,544	8,071	10,486	212,137	315,117	658,558

* Reclassified, as described in the section "Description of the Business of the Bank Group by Segments of Activity" in the Board of Directors' Report for 2012.

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 2013, excluding exchange-rate differences of the subsidiaries overseas, totaled NIS 215 million, compared with NIS 193 million in the same quarter last year.

The Bank's investment in subsidiary and affiliated companies totaled NIS 15.7 billion as at March 31, 2013, compared with NIS 15.8 billion at the end of 2012.

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 92 million in the first quarter of 2013, compared with NIS 74 million in the same quarter last year, an increase of approximately 24%. Net profit for the quarter included profit in the amount of NIS 18 million from the sale of shares of MasterCard Inc., compared with NIS 16 million in the same quarter last year. Net profit excluding the sale of shares of MC amounted to NIS 74 million, compared with NIS 58 million, in the same quarter last year, an increase of 28%.

The contribution of the Isracard Group to the Bank's operating results after taxes amounted to NIS 99 million in the first quarter of 2013, compared with NIS 84 million in the same quarter last year.

The Bank's investment in the Isracard Group totaled NIS 1,989 million on March 31, 2013, compared with NIS 1,916 million at the end of 2012.

Pursuant to an arrangement between Isracard and the credit-card companies Leumi Card and CAL, which was approved by the Antitrust Tribunal on March 7, 2012 (hereinafter: the "Arrangement"), the average issuer fee decreased beginning on January 1, 2013, to 0.75%. The average issuer fee will stand at 0.735% starting July 1, 2013, and 0.7% from July 1, 2014 to the end of the period of the Arrangement (December 31, 2018).

The agreement signed by the parties detailing the terms for the operation of the common technical interface was submitted to the Commissioner, in order to receive an exemption from approval of a restrictive arrangement.

The reduction of the issuer fee approved by the Antitrust Tribunal may have a material negative effect on the financial results of Isracard in the future; however, Isracard cannot estimate the actual extent of such an 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, 1981 (hereinafter: the "Agreements"). Pursuant to the Agreements, Leumi Card and CAL were granted licenses to clear Isracard brand charge cards, under the terms agreed upon by the parties. According to estimates by Isracard, the granting of the licenses pursuant to the law will have a material adverse effect on Isracard; however, at this stage Isracard cannot estimate the actual extent of this effect.

Pursuant to an exemption from a restrictive arrangement granted by the Commissioner on September 13, 2012, Leumi Card and CAL will be able to clear Isracard brand cards by paying an issuer fee, a one-time licensing fee, and an additional amount, the content and extent of which were ruled privileged information by the Restrictive Trade Practices Court. Because the Commissioner did not grant permission for the collection of licensing fees as agreed by the parties, Isracard petitioned the Restrictive Trade Practices Court, on February 6, 2013, to approve the Agreements.
For details regarding various regulatory issues, see Note 19C to the Annual Financial Statements for 2012.
For details regarding claims pending against Isracard, see Note 6D to the Condensed Financial Statements.

Poalim Capital Markets Group – Investment House Ltd.

The Poalim Capital Markets Group Ltd. (hereinafter: "Poalim Capital Markets") operates in three main areas: investment-banking activity in Israel and abroad; investments in private-equity funds and direct investments, including technology sector investment funds; and broker-dealer activities in the United States.
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.
Broker-dealer activities in the United States are conducted through the wholly owned subsidiary Hapoalim Securities U.S.A. Inc.
The contribution of Poalim Capital Markets to the results of operations of the Bank in the first quarter of 2013 amounted to NIS 1 million, compared with a contribution in the amount of NIS 10 million in the same quarter last year. The Bank's investment in Poalim Capital Markets totaled NIS 815 million on March 31, 2013, compared with NIS 814 million at the end of 2012.

Activity of the Bank Group Abroad

General

The international activity of the Bank Group encompasses about 40 locations, and is conducted through banking subsidiaries, financial companies, the Bank's overseas branches, and representative offices. 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 granting credit to local and foreign 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 primarily targeted to the development and expansion of its Global Private Banking (GPB) activity and of its commercial banking activity in New York. 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 has met all of its obligations under the agreement in full and on time, to date, and continues to do so. 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; in addition, supervision procedures have been tightened, and the compliance officers of the Miami branch now report to the Risk Management Area. 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, 2013	December 31, 2012
	USD millions	
Assets		
Cash on hand and deposits with banks	**9,425**	8,699
Securities	**1,990**	1,891
Net credit to the public	**5,256**	5,447
Buildings and equipment	**25**	24
Assets in respect of derivative instruments	**81**	69
Other assets	**129**	133
Total assets	**16,906**	16,263
Liabilities and Capital		
Deposits from the public	**8,223**	8,582
Deposits from banks	**6,359**	5,414
Securities lent or sold under agreements to repurchase	**25**	148
Bonds and subordinated notes	**765**	567
Liabilities in respect of derivative instruments	**203**	234
Other liabilities	**316**	293
Total liabilities	**15,891**	15,238
Non-controlling interests	**73**	74
Capital means**	**942**	951
Total liabilities and capital	**16,906**	16,263

* 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 calculated capital in the amount of USD 214 million (December 31, 2012: USD 207 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, 2013	December 31, 2012
	USD millions	
Deposits from the public, bonds, and subordinated notes	**8,988**	9,149
Client assets (off-balance sheet)	**8,889**	8,542
Total	**17,877**	17,691

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

	For the three months ended	
	March 31, 2013	March 31, 2012*
	USD millions	
Net interest income	**44**	47
Non-interest financing income	**5**	4
Net financing profit	**49**	51
Provision for credit losses	**5**	2
Net financing profit after provision for credit losses	**44**	49
Fees and other income	**41**	38
Operating and other expenses	**65**	66
Profit before taxes	**20**	21
Provision for taxes on profit	**7**	7
Net profit:		
Before attribution to non-controlling interests	**13**	14
Attributed to non-controlling interests	**(1)**	(2)
Attributed to shareholders of the Bank	**12**	12

* Reclassified.

** 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.

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

As at March 31, 2013

Company	Investment balance as at March 31, 2013[1]	Contribution in the first quarter of 2013 excluding exchange-rate differences[2]	Return in the first quarter of 2013[3]	Exchange-rate differences in respect of the investment, allocated to the statement of profit and loss in the first quarter of 2013	Contribution in the first quarter of 2013, including exchange-rate differences
	NIS millions		%	NIS millions	
US branches[4]	**516**	**12**	**10.1%**	**-**	**12**
London branch[4]	**210**	**6**	**10.8%**	**-**	**6**
Bank Hapoalim (Switzerland) Ltd.	**1,485**	**16**	**4.3%**	**-**	**16**
Bank Pozitif Group	**637**	**8**	**5.1%**	**(20)**	**(12)**
Hapoalim Securities U.S.A. Inc.	**126**	**2**	**5.9%**	**(4)**	**(2)**
Banque Hapoalim (Luxembourg) S.A.	**47**	**(2)**	**(15.4%)**	**(2)**	**(4)**
Other offices	**355**	**2**	**1.7%**	**(16)**	**(14)**
Total	**3,376**	**44**	**5.2%**	**(42)**	**2**

As at March 31, 2012

Company	Investment balance as at March 31, 2012[1]	Contribution in the first quarter of 2012 excluding exchange-rate differences[2]	Return 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[4]	462	9	8.4%	-	9
London branch[4]	227	4	7.2%	-	4
Bank Hapoalim (Switzerland) Ltd.	1,545	14	4.0%	-	14
Bank 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	-	8.8%	-	-
Other offices	366	3	0.1%	(7)	(4)
Total	3,386	47	7.1%	15	62

(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 19 million (in the same period last year: NIS 10 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.
(4) The balance of the investment in the Bank's overseas branches is based on the branches' calculated capital, which includes the original amounts of deposits deposited with the branches of the Bank, plus profits or less losses recorded up to the balance sheet date, including adjustments from the presentation of securities available for sale at fair value.

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, 2013	December 31, 2012
	In millions	
US branches – USD*	**5.3**	3.9
London branch – GBP*	**1.6**	1.0
Bank Hapoalim (Switzerland) Ltd. – CHF	**4.6**	5.3
Bank Pozitif Group – TRY	**7.2**	6.7
Hapoalim Securities U.S.A. Inc. – USD	**0.3**	1.2
Banque Hapoalim (Luxembourg S.A.) – USD	**(0.6)**	0.0
Other offices – USD	**0.6**	1.1

* At the US 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 Global 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, and Asia, by means of sites including banking subsidiaries, branches, representative offices, and asset-management subsidiaries.

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, and one in Luxembourg; the fourth branch, in Singapore, is in the process of being closed, and is scheduled to cease operations in the second quarter of 2013. The Bank also operates through an investment consulting firm in Hong Kong.

Net profit of Hapoalim Switzerland totaled approximately CHF 4.6 million in the first quarter of 2013, compared to CHF 5.3 million in the same quarter last year. The decrease in profit mainly resulted from a decrease in net interest income and an increase in provisions for taxes.

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 2013 totaled NIS 16 million, compared to CHF 14 million in the same quarter last year.

Total capital of Hapoalim Switzerland amounted to approximately CHF 391 million as at March 31, 2013, compared with approximately CHF 386 million at the end of 2012.

The total balance sheet of Hapoalim Switzerland amounted to approximately CHF 3,259 million as at March 31, 2013, compared with approximately CHF 3,232 million at the end of 2012.

The total credit of Hapoalim Switzerland totaled approximately CHF 1,374 million as at March 31, 2013, compared with approximately CHF 1,376 million at the end of 2012.

Total deposits from the public of Hapoalim Switzerland totaled approximately CHF 2,739 million as at March 31, 2013, compared with approximately CHF 2,638 million at the end of 2012.

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 US 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 US 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, 2013, the Bank Group's customers have holdings in funds of international financial entities with which PAM collaborates totaling approximately USD 2.5 billion, compared with USD 2.2 billion on December 31, 2012.

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.

US 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 US 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.

In accordance with the strategy approved for the branch, the New York branch is developing 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 total credit amounted to approximately USD 1.9 billion as at March 31, 2013, similar to the balance at the end of 2012. The branch also provided unutilized credit facilities and backup lines in the amount of approximately USD 1.8 billion as at March 31, 2013, similar to the balance at the end of 2012.

In addition, as at March 31, 2013, a total of approximately USD 5.6 billion was deposited with the Federal Reserve Bank, compared with approximately USD 4.9 billion on December 31, 2012.

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. Private banking in the United States primarily focuses on customers from Latin America.

The profit of the US branches before local taxes totaled approximately USD 5.3 million in the first quarter of 2013, compared with approximately USD 3.9 million in the same period last year.

Total capital means of the US branches amounted to approximately USD 156 million as at March 31, 2013, compared with approximately USD 148 million on December 31, 2012.

The total balance sheet of the US branches as at March 31, 2013, totaled approximately USD 9.4 billion, compared with approximately USD 8.4 billion on December 31, 2012.

The total credit of the US branches totaled approximately USD 2.1 billion as at March 31, 2013, similar to the balance at the end of 2012.

Total deposits of the US branches totaled approximately USD 3.3 billion as at March 31, 2013, compared with approximately USD 3.5 billion at the end of 2012.

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

Within the work plan approved for 2013-2015, the Bank decided to downsize the activity of its London branch, and to gradually terminate the provision of credit and private-banking services.

Profit of the London branch before local taxes totaled approximately GBP 1.6 million in the first quarter of 2013, compared with approximately GBP 1 million in the same period last year.

Total capital means of the London branch as at March 31, 2013 amounted to approximately GBP 38 million, compared with approximately GBP 36 million on December 31, 2012.

The total balance sheet of the London branch amounted to approximately GBP 805 million as at March 31, 2013, compared with approximately GBP 844 million on December 31, 2012.

The total credit of the London branch amounted to approximately GBP 635 million as at March 31, 2013, compared with approximately GBP 644 million at the end of 2012.

Total deposits of the London branch amounted to approximately GBP 399 million as at March 31, 2013, compared with approximately GBP 451 million at the end of 2012.

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.

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 7.2 million (approximately USD 4.0 million) in the first quarter of 2013, compared with approximately TRY 6.7 million (approximately USD 3.8 million) in the same quarter last year. The increase in profit mainly resulted from profit in the amount of approximately TRY 9 million from the realization of assets foreclosed by the Bank, mostly offset by an increase in the provision for credit losses for corporate customers.

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 8 million in the first quarter of 2013, compared with NIS 13 million in the same quarter last year.

Total equity of the Bank Pozitif Group amounted to TRY 441 million (approximately USD 243 million) as at March 31, 2013, compared with approximately TRY 435 million (approximately USD 243 million) at the end of 2012.

Total assets of the Bank Pozitif Group amounted to approximately TRY 1.81 billion (approximately USD 1.00 billion) as at March 31, 2013, compared with approximately TRY 1.80 billion (approximately USD 1.01 billion) at the end of 2012.

Total net credit to the public of the Bank Pozitif Group amounted to approximately TRY 1,245 million (approximately USD 687 million) as at March 31, 2013, compared with approximately TRY 1,274 million (approximately USD 713 million) at the end of 2012.

Total deposits from the public of the Bank Pozitif Group amounted to approximately TRY 119 million (approximately USD 66 million) as at March 31, 2013, compared with approximately TRY 111 million (approximately USD 62 million) at the end of 2012.

The Bank's investment in the Bank Pozitif Group totaled NIS 637 million as at March 31, 2013, compared with approximately NIS 648 million at the end of 2012.

General Information and Additional Matters

Liquidity and Raising of Sources of Funds at the Bank

Monetary Tools of the Central Bank

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 monthly, 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 contractionary 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 1.75% at the beginning of 2013, was lowered on May 17, 2013, by 0.25% to an annual rate of 1.50%.

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 122 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 2012, the liquidity surpluses of the banking system totaled approximately NIS 106 billion. During the quarter, the Bank of Israel increased net Makam issues by approximately NIS 4 billion. The Bank of Israel intervened in the foreign-currency market in April, by buying dollars on the market, following a long hiatus. In addition, the Bank of Israel announced that it would buy dollars on the market, in the amount of approximately USD 2.8 billion per year, to offset the effect of the use of natural gas. The liquidity surpluses of the banking system totaled approximately NIS 89 billion at the end of the first quarter.

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 invests some of its liquidity surpluses 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 36.2 billion as at March 31, 2013, compared with NIS 35.7 billion on December 31, 2012. For further details regarding bonds and subordinated notes issued by the aforesaid entities, see Note 11 to the Annual Financial Statements for 2012.

The balance of subordinated notes raised by the Bank as at March 31, 2013 is approximately NIS 6 billion, of which tradable notes in the amount of approximately NIS 0.9 billion.

In addition, the Bank, through its wholly owned subsidiaries, Hapoalim Hanpakot and Hapoalim International, which are primarily engaged in raising monetary resources in Israel and overseas, respectively, issues bonds and notes of various types (which constitute part of the regulatory capital of the Bank), and deposits the proceeds of the issuance with the Bank.

As at March 31, 2013, the balance of notes issued by these companies is approximately NIS 17.8 billion, and the balance of bonds is approximately NIS 12.4 billion.

In the first quarter of 2013, Bank Pozitif issued bonds in the amount of approximately NIS 0.8 billion.

Objectives and Business Strategy

The Bank operates in accordance with a three-year strategic plan (2013-2015) approved in late 2012. In the process of constructing the strategy, changes in the global economy, changes in the business environment in Israel, regulatory measures, and changes in the competitive environment for all of the Bank's areas of activity were taken into consideration. The three-year strategic plan formulated and approved is a continuation of the previous strategic plan launched in early 2010, which guided the Bank's formulation of its strategic map and work plans for 2010-2012. The Bank's multi-year strategic plan takes the caution necessitated by the risks still present in the global economy and the Israeli market into account, and balances risk and return considerations. This plan is expected to enable the Bank to continue to pursue a trajectory of stable growth, despite the challenges and instability in the global economy and financial system, while generating a double-digit return on equity for the long term and continuing to solidify the leadership of the Bank in the Israeli banking system.

In addition, the Bank is preparing to implement the directives of the Bank of Israel, issued at the end of the first quarter of 2012, regarding higher total capital targets; these directives were taken into consideration in the formulation of the strategic plan for 2013-2015.

The strategic plan is examined each year, and adjusted to changes in the business environment in Israel and globally and to changes in the competitive environment in which the Bank operates.

The multi-year strategic plan is focused on five key themes:

(1) Maintaining and strengthening the Bank's leadership in Israel in the various areas of banking, by expanding relationships and activity with the Bank's customers, based on innovation in services and optimization of activity channels, enhanced added value, and the creation of solutions tailored to customers' needs.

(2) Focused international growth based on customer relationships, leveraging the Bank's strengths in commercial and corporate activity and in Global Private Banking services.

(3) Excellence in financial management and advanced capital management, through efficient capital management and the expansion of sources of revenue from non-credit products.

(4) Streamlining and operational excellence in the execution of existing activities and in the realization of the Bank's growth plans, while examining and improving the efficiency of resource allocation and curbing expenses.

(5) Technological and business leadership, through the development of the Bank's technological capabilities, with extensive consideration of the future needs of the Bank's customers and analysis of trends in financial services.

Activity on all of these axes will be conducted while applying advanced risk management congruent with the trajectory for the activity of the Bank.

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. Planned actions include optimization of the distribution of the branch network and prudent development of the branch network, using formats adapted to future environments. The Bank will continue to develop the multi-channel experience for customers, 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 will continue to focus and develop its activity in the area of small businesses and high-potential sectors, through value offers uniquely suited to their needs. 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, while improving and expanding the value offer for customers in this sector. In addition, the Area will expand its activity in the area of syndication and debt sales. Its leadership will be solidified and strengthened with conscientious management of capital resources and risk-adjusted assets, while maintaining its strong capabilities in the area of risk management.

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 consolidation of brokerage activities, securities clearing and operation, and services for financial asset managers from the Client Asset Management Area with the activity of the Global Treasury Area in a single unit. 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 leverage the synergies gained by centralizing these activities. The Bank will work to develop its leadership in the capital market, while strengthening its cooperation with institutional entities and developing new products, trading channels, and market-making arenas.

In overseas operations, led by the International Banking Area, the Bank will work to continue the development of Global Private Banking, while tightening the global cooperation among its international units. In this area of activity, the Bank aims to continue to improve the value offer 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 continue to develop its activity in the commercial segment in the United States, strengthening its value offer and solidifying its brand in the local market.

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 additional activities not involving direct contact with customers will be channeled, thereby improving service to customers while strengthening operational excellence.

Another key theme of the Bank's strategy is technological business leadership. The Bank will invest in the development of its technological capabilities and platform, with the goal of ensuring its technological and business leadership. The Bank will carry out this goal based on a broad view of customers' future needs, an understanding of the competitive environment for its operations, and the identification of new consumer and technological trends in the financial world. The Bank will continue to develop and launch advanced financial services that respond to its customers' changing needs in an age of advanced technology.

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, 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 working procedures for the implementation of the directives of the Supervisor of Banks concerning exposure to environmental risks and to large borrowers.

In December 2012-January 2013, the Bank of Israel issued several substantial updates of the Proper Conduct of Banking Business Directives, including Directive 310, "Risk Management," Directive 311, "Credit Risk Management," Directive 301, "The Board of Directors," and Directive 342, "Liquidity Risk Management." Among other matters, Directive 310 addresses the governance of risk management, risk appetite and the framework for risk management, and risk monitoring and reporting, and clarifies the roles of the board of directors, the risk-management committee, management, and the risk-management function. Directive 311 establishes principles for credit-risk management, including principles for the structure of credit-risk management required of banking corporations, and the division of authority with regard to credit-risk management among the various entities within banking corporations. According to the guidelines, a high degree of involvement of an independent party is necessary at the business units, in order to support appropriate decision-making regarding credit and minimize the effect of conflicts of interest and of extraneous considerations. In particular, such involvement is necessary in the formulation of credit policy, the classification of debts, and the establishment of allowances for credit losses. It was further established that decisions regarding the approval of material credit exposures should be made while taking the opinion of the risk-management function under advisement. The updates will apply at the end of 2013. The Bank is examining the implications of the directives, and has established a schedule for the formulation of a work plan accordingly.

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 – A Board of Directors' Committee on Risk Management and Basel 2 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 Control 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 2 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 objectives of the Board of Management's Committee on Compliance, headed by the CEO, 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. T. Cohen, 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 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 2 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.

Uncertainty remains high in global economic markets, due to the debt crisis and economic slowdown in Europe and the uncertainty regarding economic growth in the United States. Further to the decelerated growth in 2012 and in view of the expected fiscal cutback, the forecast for the local economy indicates low growth and an increase in unemployment. Consequently, the risk level in the economy is not expected to fall. The Bank is examining the developments in the various sectors and adjusts its credit policies as necessary.

Management of Credit Risks

The goal of credit risk management is to allow the Group to operate, and to ensure that it 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.

The credit management system monitors customers' credit exposure on a daily basis. The credit control systems identify, monitor, and report to the responsible function and managers on negative signs related to borrowers.

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 debt 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). This unit 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 counterparty. 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. These policies include 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 most 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 economic crisis in several European countries 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 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, 2013[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-	**2,677**	**2,309**	**4,986**
A+ to A-	**8,933**	**543**	**9,476**
BBB+ to BBB-	**1,136**	**32**	**1,168**
BB+ to B-	**44**	**16**	**60**
Lower than B-	**1**	**-**	**1**
Unrated**	**363**	**68**	**431**
Total current credit exposures to foreign financial institutions*	**13,154**	**2,968**	**16,122**
Of which: Balance of problematic debts[4]	**26**	**-**	**26**
Of which: Balance of impaired debts	**26**	**-**	**26**
Individual allowance for credit losses	**26**	**-**	**26**
Total credit exposure to foreign financial institutions after deduction of the individual allowance for credit losses	**13,128**	**2,968**	**16,096**
Collective allowance for credit losses	**7**	**2**	**9**

* The balances include the exposure of the Bank Group to financial institutions in the following countries:
Spain – Total exposure of approximately NIS 126 million, of which a total of approximately NIS 52 million rated BBB, and the remaining NIS 74 million rated BBB- (total exposure at the end of 2012 was approximately NIS 99 million, NIS 55 million rated BBB, NIS 44 million rated BBB-).
Ireland – Total exposure of approximately NIS 4 million, of which a total of approximately NIS 3 million rated AA-, and the remaining NIS 1 million unrated (total exposure at the end of 2012 was approximately NIS 15 million, of which a total of approximately NIS 14 million rated AA-, and the remaining NIS 1 million unrated).
Italy – Total exposure of approximately NIS 17 million, of which approximately NIS 16 million rated BBB, and the remaining NIS 1 million rated BB+ (total exposure at the end of 2012 was approximately NIS 19 million, NIS 16 million rated BBB, and the remaining NIS 3 million rated BB+).
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 45% of the balance. The remaining amount is distributed among a long list of banks and financial institutions. (December 31, 2012: 34% 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 2, 2013 (December 31, 2012: ratings current as at February 28, 2013).

The following table details the Bank Group's exposure to foreign financial institutions as at December 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-	2,383	2,323	4,706
A+ to A-	8,194	624	8,818
BBB+ to BBB-	1,113	29	1,142
BB+ to B-	27	18	45
Lower than B-	1	-	1
Unrated**	206	81	287
Total current credit exposures to foreign financial institutions*	11,924	3,075	14,999
Of which: Balance of problematic debts[(4)]	32	-	32
Of which: Balance of impaired debts	32	-	32
Individual allowance for credit losses	28	-	28
Total credit exposure to foreign financial institutions after deduction of the individual allowance for credit losses	11,896	3,075	14,971
Collective allowance for credit losses	6	2	8

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

	For the three months ended March 31, 2013	For the year ended December 31, 2012
	NIS millions	
Deposits/credit with foreign banks and financial institutions	**-**	(12)

* The balances include the exposure of the Bank Group to financial institutions in the following countries:
Spain – Total exposure of approximately NIS 126 million, of which a total of approximately NIS 52 million rated BBB, and the remaining NIS 74 million rated BBB- (total exposure at the end of 2012 was approximately NIS 99 million, NIS 55 million rated BBB, NIS 44 million rated BBB-).
Ireland – Total exposure of approximately NIS 4 million, of which a total of approximately NIS 3 million rated AA-, and the remaining NIS 1 million unrated (total exposure at the end of 2012 was approximately NIS 15 million, of which a total of approximately NIS 14 million rated AA-, and the remaining NIS 1 million unrated).
Italy – Total exposure of approximately NIS 17 million, of which approximately NIS 16 million rated BBB, and the remaining NIS 1 million rated BB+ (total exposure at the end of 2012 was approximately NIS 19 million, NIS 16 million rated BBB, and the remaining NIS 3 million rated BB+).
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 45% of the balance. The remaining amount is distributed among a long list of banks and financial institutions. (December 31, 2012: 34% 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 2, 2013 (December 31, 2012: ratings current as at February 28, 2013).

The exposure of the Bank Group to foreign financial institutions totaled approximately NIS 16.1 billion on March 31, 2013, an increase of approximately NIS 1.1 million compared with approximately NIS 15.0 billion at the end of 2012. This increase mainly resulted from an increase in balance sheet exposure in respect of credit and securities, mainly to foreign banks rated A-or higher.

Approximately 90% 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: 86% in banks and bank holding companies, 11% in other financial institutions, 2% in pension funds, and 1% in insurance companies. Most of the Bank Group's exposure is to foreign financial institutions operating in the United States (38%) and in Western European countries (53%).

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, 2013 (in NIS millions):

	Credit rating			Total
	AAA to AA-	A+ to A-	BBB+	
Banks outside Israel:				
United States[(1)]	**6**	**1,052**	**142**	**1,200**
England	**366**	**469**	**7**	**842**
Germany	**-**	**783**	**1**	**784**
France	**-**	**795**	**-**	**795**
Switzerland	**17**	**248**	**-**	**265**
Other	**4**	**3**	**9**	**16**
Eurozone – other	**-**	**10**	**78**	**88**
Total banks outside Israel	**393**	**3,360**	**237**	**3,990**
Banks in Israel				**2,128**
Stock exchanges				**227**
Governments and central banks				**-**
Brokers/dealers[(2)]				**926**
Corporate clients by economic sector:				
Financial services				**795**
Transportation and storage				**210**
Electricity and water				**473**
Construction and real estate				**86**
Other				**695**
Total corporate clients by economic sector				**2,259**
Total				**9,530**

(1) Of which: JP Morgan Chase – balance in the amount of NIS 892 million.
(2) Of which: Goldman Sachs – balance in the amount of NIS 512 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 182 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 global economic markets has risen recently, due to the debt crisis in Europe and the uncertainty regarding global growth, as well as the downgrade of the credit rating for 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, 2013 amounted to NIS 50.0 billion, compared with NIS 48.1 billion at the end of 2012.

Total principal exposures to foreign countries as at March 31, 2013 (in NIS millions):

Country	Total balance sheet exposure[(1)]	Total off-balance sheet exposure	Total exposure	Percentage of balance sheet exposure
United States	**22,136**	**7,469**	**29,605**	**44.3%**
Switzerland	**5,580**	**240**	**5,820**	**11.2%**
England	**6,776**	**4,321**	**11,097**	**13.6%**
Germany	**1,426**	**308**	**1,734**	**2.8%**
France	**1,840**	**1,625**	**3,465**	**3.7%**
Ireland*	**66**	**189**	**255**	**0.1%**
Spain**	**154**	**81**	**235**	**0.3%**
Portugal	**2**	**5**	**7**	**0.0%**
Greece	**-**	**1**	**1**	**-**
Italy***	**55**	**25**	**80**	**0.1%**
Other developed countries[(2)]	**8,931**	**804**	**9,735**	**17.9%**
Turkey	**1,785**	**1,243**	**3,028**	**3.5%**
Other less developed countries (LDCs)[(3)]	**1,249**	**513**	**1,762**	**2.5%**
Total exposures to foreign countries	**50,000**	**16,824**	**66,824**	**100%**

Total principal exposures to foreign countries as at December 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	18,630	7,594	26,224	38.7%
Switzerland	6,468	398	6,866	13.4%
England	7,298	4,650	11,948	15.2%
Germany	1,355	357	1,712	2.8%
France	1,759	1,624	3,383	3.7%
Ireland	67	190	257	0.1%
Spain	133	82	215	0.3%
Portugal	2	5	7	0.0%
Greece	-	1	1	-
Italy	54	28	82	0.1%
Other developed countries[(2)]	8,615	782	9,397	17.9%
Turkey	2,502	1,038	3,540	5.2%
Other less developed countries (LDCs)[(3)]	1,229	623	1,852	2.6%
Total exposures to foreign countries	48,112	17,372	65,484	100%

* The exposure in Ireland includes NIS 4 million to banks in Ireland and NIS 251 million to customers. Of the total exposure to customers, approximately NIS 182 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 204 million to banks, and NIS 31 million to customers. Of the total exposure to banks, approximately NIS 78 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 to Italy includes NIS 2 million to the Italian government, NIS 18 million to banks, and NIS 60 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 allowance for credit losses in respect of the total credit risk at the Bank.

With regard to credit classified as "impaired," the allowance 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 discounting the amounts according to the expected collection and realization dates. Debts not expected to be collected within a reasonable period are charged off, in accordance with the rules established in the Bank of Israel's directives. 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 established estimate, due to worsening of 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 "collective allowance" is calculated based on the history of credit losses in the economic sector to which the customer belongs. In order to calculate the collective allowance, the Bank sets two allowance 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, net charge-offs, the quality of the credit portfolio in the sector, and an analysis of market trends, in accordance with the instructions of the Bank of Israel.

With regard to borrowers in the housing finance sector, an allowance 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 allowance out of the total credit. In addition, in accordance with the directives of the Supervisor of Banks, a collective allowance is calculated in respect of housing loans granted with a high rate of leverage in recent years.

In an update of the instructions issued on March 21, 2013, the Bank of Israel directed banks to examine, and to update if necessary, the methods of calculating the collective allowance in respect of housing loans, and stated that in any case the collective allowance in respect of housing loans shall not fall below 0.35% of the balance of loans, beginning with the report to the public for the second quarter of 2013. The Bank decided to set the allowance at the minimum required level, as early as the first quarter of 2013.

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 2; the development of methodologies for the calculation of the collective allowance, 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 or decline in value 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 or decline in value 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 1,792 million, and approximately NIS 33 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 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 Group level, 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, 2012.

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 activity of the Bank, and additional risk indices in NIS and in foreign currency are examined.

The Bank has prepared 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 January 2013, the Bank of Israel issued an amendment of Proper Conduct of Banking Business Directive No. 342. According to the circular accompanying this directive, the Bank of Israel intends to adopt the Basel 3 directives on liquidity risk, with the necessary changes, at a date to be determined following study of the Basel 3 recommendations and their implications for the banking system. The Bank will carry out the measures required in order to comply with the amendment of the directive within the defined timeframe, and is examining the measures required in order to implement and comply with the recommendations being formulated by the Basel 3 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 US 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 executed at least once daily, under various scenarios, in order to produce an estimate. An assessment of the risk level of activity in the banking book 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 banking book, in addition to the VaR calculations. The Market Risk Management Department applies scenarios in accordance with common practice worldwide: sensitivity analysis, worst historical scenario, macro-economic scenarios, fixed interest-rate scenarios, and extreme scenarios based on the volatility of risk factors during periods of stress in the markets. For an extensive review of the methodology, see this section in the Financial Statements as at December 31, 2012.

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, 2013:

	March 31, 2013	Maximum Q1 2013	Minimum Q1 2013
Scenario	NIS millions		
1% decrease in CPI	**(76)**	**(84)**	**(76)**

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, 2013:

	10% appreciation	5% appreciation	5% depreciation	10% depreciation
Currency	NIS millions			
USD	**(14)**	**(8)**	**(22)**	**(60)**
EUR	**4**	**5**	**(7)**	**(25)**
JPY	**2**	**1**	**5**	**14**
CAD	**4**	**1**	**(3)**	**(6)**
GBP	**15**	**5**	**(1)**	**2**
CHF	**(1)**	**1**	**-**	**-**

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, 2013:

	March 31, 2013			**Maximum in Q1 2013**		**Minimum in Q1 2013**	
	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	**(42)**	**51**	**(5)**	**(65)**	**85**	**(42)**	**51**
Of which: Banking book	**(43)**	**52**	**(5)**	**(66)**	**86**	**(43)**	**52**
Trading book	**1**	**(1)**	**-**	**1**	**(1)**	**1**	**(1)**
Shift in unlinked interest rate:							
Bank	**246**	**(242)**	**25**	**246**	**(242)**	**134**	**(95)**
Of which: Banking book	**245**	**(254)**	**25**	**245**	**(254)**	**139**	**(139)**
Trading book	**1**	**12**	**-**	**(5)**	**44**	**1**	**12**
Shift in foreign-currency interest rates:							
Bank	**7**	**(7)**	**1**	**28**	**(29)**	**5**	**(4)**
Of which: Banking book	**12**	**(2)**	**1**	**38**	**(19)**	**12**	**(2)**
Trading book	**(5)**	**(5)**	**-**	**(10)**	**(10)**	**(5)**	**(5)**

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

	December 31, 2012			Maximum in 2012		Minimum in 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	(78)	106	(9)	(148)	184	(14)	(31)
Of which: Banking book	(79)	107	(9)	(149)	185	(15)	(31)
Trading book	1	(1)	-	1	(2)	-	-
Shift in unlinked interest rate:							
Bank	281	(230)	27	288	285	127	(120)
Of which: Banking book	270	(276)	27	287	(287)	125	(118)
Trading book	11	46	-	19	46	(15)	(14)
Shift in foreign-currency interest rates:							
Bank	12	(10)	1	34	(41)	-	(1)
Of which: Banking book	7	(14)	1	39	(38)	(1)	(4)
Trading book	5	4	-	(12)	14	(5)	(2)

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 2013, this sensitivity did not exceed NIS 681 million.

Set out below are details of the fair value of the Bank and its consolidated companies, as at March 31, 2013, by linkage segment:

	Israeli currency		Foreign currency**			
	Unlinked	CPI-linked	USD	EUR	Other	Total
	NIS millions					
Financial assets*	**212,225**	**61,315**	**60,155**	**9,120**	**11,063**	**353,878**
Amounts receivable in respect of derivative and off-balance sheet financial instruments***	**252,600**	**15,333**	**161,286**	**21,666**	**24,272**	**475,157**
Financial liabilities*	**188,288**	**52,223**	**68,385**	**13,971**	**8,005**	**330,872**
Amounts payable in respect of derivative and off-balance sheet financial instruments***	**261,868**	**19,043**	**153,599**	**16,808**	**26,855**	**478,173**
Net fair value of financial instruments	**14,669**	**5,382**	**(543)**	**7**	**475**	**19,990**

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

	Israeli currency(1)		Foreign currency**(1)			
	Unlinked	CPI-linked	USD	EUR	Other	Total
	NIS millions					
Financial assets*	218,931	62,442	56,540	8,999	13,385	360,297
Amounts receivable in respect of derivative and off-balance sheet financial instruments***	235,332	15,216	174,019	22,684	24,592	471,843
Financial liabilities*	193,938	53,021	68,042	14,238	8,596	337,835
Amounts payable in respect of derivative and off-balance sheet financial instruments***	246,897	18,752	163,038	17,478	28,799	474,964
Net fair value of financial instruments	13,428	5,885	(521)	(33)	582	19,341

* 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.
(1) Restated after attribution of the effects of the implementation of FAS 157, Fair Value Measurements.

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, 2013:

	Net fair value of financial instruments, after the effect of changes in interest rates**						Change in fair value	
	Israeli currency		Foreign currency*			Total	Total	Total
	Unlinked	CPI-linked	USD	EUR	Other			
Change in interest rates	NIS millions							%
Immediate parallel increase of 1%	**14,561**	**5,372**	**(530)**	**(13)**	**420**	**19,810**	**(180)**	**(0.9%)**
Immediate parallel increase of 0.1%	**14,658**	**5,379**	**(540)**	**6**	**467**	**19,970**	**(20)**	**(0.1%)**
Immediate parallel decrease of 1%	**14,784**	**5,389**	**(499)**	**43**	**522**	**20,239**	**249**	**1.2%**

Set out below are data regarding the effect of hypothetical 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, 2012:

	Net fair value of financial instruments, after the effect of changes in interest rates**						Change in fair value	
	Israeli currency		Foreign currency*			Total(1)	Total	Total
	Unlinked(1)	CPI-linked	USD	EUR	Other			
Change in interest rates	NIS millions							%
Immediate parallel increase of 1%	13,402	5,869	(389)	(25)	406	19,263	(78)	(0.4%)
Immediate parallel increase of 0.1%	13,425	5,883	(506)	(33)	565	19,334	(7)	(0.0%)
Immediate parallel decrease of 1%	13,509	5,922	(628)	(13)	753	19,543	202	1.0%

* 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.

(1) Restated after attribution of the effects of the implementation of FAS 157, Fair Value Measurements.

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 Tel Aviv dealing room is also active in the area of interest-rate trading exposures. The dealing room manages a trading desk in NIS interest-rate instruments, including market making in interest-rate options, and a government bond trading desk. The activity of the desks is conducted subject to limits on risk estimates and other limits approved by the Board of Management and the Board of Directors.

Set out below are risk estimates of trading activity (VaR) as at March 31, 2013:

	March 31, 2013	Average in Q1 2013	Maximum in Q1 2013	Minimum in Q1 2013
	NIS millions			
Total trading in dealing rooms	**31**	**16**	**31**	**10**

Procedures for Exposure to Market and Liquidity Risks

In early 2013, the Board of Directors approved a document on exposures to market and liquidity risks for 2013. 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 Nostro investment activity, and risk limits in the various areas of trading activity. The exposures document for 2013 reflects the work plan of the Financial Markets Area, including the expansion of investment activity in the Nostro portfolio and the execution of repo transactions, as part of the management of the banking book, as well as approval for a new trading activity in over-the-counter options on the Tel Aviv 100 index. 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, 2013:

	Limit	NIS millions	% of active financial capital
Banking book	Overall risk estimate (VaR)	**950**	
	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	**620**	
	Foreign currency	**370**	
	Sensitivity of derivatives in the banking book to parallel change of 1% in interest-rate curves:		
	CPI-linked NIS	**180**	
	Unlinked NIS	**150**	
	Linkage-base exposures by segment:		
	CPI-linked NIS		**+/-100**
	Foreign currency, including foreign-currency linked		**+/-30**
	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**	
	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 and share 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, business continuity 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;
- The Board of Management Committee on Risk Management, 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 2 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 on January 1, 2010. In addition, Proper Conduct of Banking Business Directive 350, concerning operational risk management, has taken effect, 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 2 standardized approach and the requirements of the corresponding Proper Conduct of Banking Business Directives since 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 standardized approach:

- Quarterly reports submitted to the Subcommittee on Operational Risk Management, the Board of Management Committee on Risk Management, 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 standardized approach in the Group, work plans, the status of projects in progress, information about operational events, and findings of surveys.

- 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 every three years. Subsequently, the findings are maintained, updated, and expanded through additional analyses, depth analyses, and risk analyses regarding new products and activities. The goal of this activity is to identify material risk areas, define risk ownership, assess existing risks (average and extreme) and controls, and add controls if necessary, while applying cost/benefit considerations.
- A system known as the Operational Risk Management Automation Project (Basel 2 – 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, collection of KRIs (key risk indicators), action items, and reports.
- A comprehensive framework of principles and standards has been formulated for the implementation of a uniform control philosophy within the Bank Group; this philosophy is being instilled and implemented.
- A methodological infrastructure has been defined for the management of operational risks in material IT processes.

Information security and cyber incidents risks – Activity in the area of information security is conducted as required in 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.

On December 6, 2012, the Supervisor of Banks issued a final letter on "Effects of information security and cyber incidents risks on the report to the public." According to the letter, banking corporations and credit-card companies are required to assess information-security risks and take all relevant information into consideration, including past cyber incidents and the severity and frequency of such incidents. This includes a requirement to assess the probability of cyber incidents and the qualitative and quantitative volume of information-security risks, including potential costs and other implications arising from disruptions of activity or from the illegal use of assets or of sensitive information. In addition, the adequacy of preventive actions taken to minimize information-security risks and cyber attacks must be taken into consideration.

The goal of cyber attacks is to abuse computer systems and networks in technology-based organizations, to destabilize or damage computer-based systems, or to monitor the electronic activity of individuals without their consent. Such attacks can be carried out without the knowledge of the users, and can disrupt routine operations; damage computer services to the point of preventing them from functioning, shutting them down, or slowing them significantly; or collect intelligence and information.

The frequency and severity of cyber incidents to which the Bank is exposed has increased in recent years. There is a possibility that the Bank may incur costs and suffer negative consequences as a result of cyber attacks, such as disruption of the Bank's operations, theft of financial assets of the Bank or of its customers, or damage to reputation, affecting the confidence of customers or of investors.

The Bank invests extensive human and technological resources to minimize and prevent this risk, but absolute protection cannot be ensured.

Emergency preparedness – In order to preserve business continuity, survivability, and the continuous activity of the Bank following a disaster or malfunction, in accordance with Directive 355 concerning business continuity management, and 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 for the recovery of 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, covering operational scenarios as well as complex business scenarios, 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. This system undergoes annual authorization tests. Alongside the improvement and enhancement of emergency preparedness in Israel, business continuity plans at the Bank's subsidiaries in Israel and elsewhere and at its overseas branches have also been adjusted based on the prevalent methodology in Israel. The Bank has completed its preparations for the implementation of the various new aspects of Directive 355 of the Bank of Israel concerning business continuity management. The process of setting up a new central IT site has been initiated; the project is slated for completion in mid-2015.

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 responsibilities 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 four additional units, working alongside the Compliance Unit and the Anti-Money Laundering and Prohibition of Terrorism Financing Unit. The first is the International Unit, which is responsible for ensuring compliance and the prohibition of money laundering and prevention of terrorism financing 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. In addition to these units, a support team for American clients has been established; this team is responsible for responding to inquiries by the branches and other business units on matters related to American clients and for processing forms signed by American clients.

In early 2012, the Board of Directors appointed the Chief Compliance Officer to the additional position of Head of Internal Enforcement for Securities. This role entails the implementation of legal and regulatory directives concerning securities. Subsequently, the Securities Internal Enforcement Unit was established within the Chief Compliance Officer Unit. The process of mapping processes and procedures at the Bank relevant to securities, in order to identify and close gaps and construct appropriate absorption and enforcement procedures, which began in 2011, continued during 2012.

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 an understanding of the needs of the business units and support for their activity;
- 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 2 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.

Compliance 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, March 2012, and December 2012. Towards the end of 2012, the Board of Directors approved an internal enforcement policy for securities, and extensive processes were initiated in order to instill this policy at the Bank.

In order to comply with legislative directives and with the Group-level compliance policy, several activities are 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, the prohibition of money laundering and terrorism financing, and securities law, analyzing such controls, and creating work plans to minimize any gaps discovered;
- Developing a training system in the area of compliance, the prohibition of money laundering and terrorism financing, and securities law, including focused presentations to refresh knowledge, practical guides for bankers, workshops, instructional pamphlets, news flashes, 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 at the Bank's professional units, focused on compliance, the prohibition of money laundering and terrorism financing, and securities law, and building control processes and training methods adapted to the nature of the units' activity, with the aim of minimizing exposures to these risks;
- Formulating job descriptions for compliance officers and securities enforcement trustees 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, the prohibition of money laundering, and securities law;
- Developing improvements to technological systems and building new infrastructures in the area of compliance, the prohibition of money laundering, and securities law, including systems for reporting to the Israel Money Laundering Prohibition Authority, and control and monitoring systems within the Bank;
- Developing risk metrics and performance metrics in the area of compliance, the prohibition of money laundering, and securities law, and including the metrics in the strategic maps of the Areas of the Bank and in the executives' KPIs;
- Integrating compliance metrics into the remuneration model of the Retail Banking Area and into achievement metrics in the areas of customer relationship management and credit management in the Corporate Banking Area;
- Visiting the corporate units of the Bank, in order to provide localized responses to issues creating exposure for the Bank in the area of compliance, the prohibition of money laundering, and securities law, 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;
- Creating mechanisms for examining failures, correcting violations, drawing conclusions and preventing the recurrence of problems, and enforcement against deviations from the directives of the Israel Securities Authority;
- Supporting the business units of the Bank in serving American clients.

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 at 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 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 underway.

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.

Foreign Account Tax Compliance Act (FATCA)

The Foreign Account Tax Compliance Act (FATCA), known as the FATCA legislation, was passed by the US Congress in March 2010. The law requires non-American financial institutions, among others, to report to US tax authorities on the accounts of American customers and of certain American-owned foreign legal entities. The FATCA regime will take effect in January 2014.
In addition, subsequent to the FATCA legislation, several bilateral agreements were signed for the exchange of information on tax matters between the United States and several other countries, including countries in which the Bank Group has a presence, establishing a different reporting regime than the regime set forth by FATCA.
The Bank Group is preparing to comply with the requirements of this legislation and of additional derived regulations (and in the relevant countries, matters derived from the relevant bilateral agreement), from an operational and procedural perspective.

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. The forecast for the Israeli economy points to a low growth rate and somewhat higher unemployment; consequently, the risk level in the economy is expected to rise.

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.
The level of uncertainty in the global economy remains high, due to the debt crisis in developed countries. The Eurozone is in recession, and growth in the United States is relatively low. In view of these factors and the condition of the Israeli economy, the Bank performed a mapping process of sectors likely to be significantly affected by these changes, updated its credit exposure policy as necessary, and increased controls in these areas.

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 materialize 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 has 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 2 directives (hereinafter: "Basel 2"), 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 on April 30, 2013, and approved the ICAAP report for 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 3

1.1. Preparation for the adoption of the Basel 3 directives

On October 26, 2011, the Supervisor of Banks issued a letter entitled "Preparation for the Adoption of Basel 3 Recommendations." According to the letter, the banking system in Israel will adopt the recommendations of "Basel 3: A global regulatory framework for more resilient banks and banking systems," published in December 2010, after the recommendations are formulated, with adjustments.

On January 30, 2012, the Bank of Israel issued a letter entitled "Preparation for Implementation of the Basel 3 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 3 directives in connection with the allocation of capital for potential losses that may arise from revaluation to market value (CVA risk), the definition of regulatory capital, and market risks. The Bank submitted the results of the survey to the Supervisor of Banks on June 14, 2012.

On December 30, 2012, the Supervisor of Banks issued draft circulars updating Directives 201-211 on capital measurement and adequacy, which are expected to adopt the Basel 3 directives as part of the Proper Conduct of Banking Business Directives. These directives change the structure of regulatory capital, including through a focus on the reinforcement of core capital components, establishment of supervisory adjustments (deductions from capital), and imposition of limits on the types of instruments to be included in Tier 1 capital and Tier 2 capital. The directives also integrate the capital requirements in respect of potential losses that may arise from revaluation to market value (CVA risk).

The initial implementation date for the aforesaid directives has not yet been determined. The Bank is examining the effects of these directives, based on the drafts and on the position statements of the Supervisor of Banks, as published from time to time, including the effect of the gradual transitional directives that have been established.

The estimated effect, as at March 31, 2013, assuming full implementation of the directives, is a decrease in the Core Tier 1 capital ratio, in the range of 0.3% to 0.5%. As noted, this estimate is based on the drafts and position statements of the Supervisor of Banks; the final directives may contain changes that may affect the aforesaid estimate of the Bank. Likewise, at this stage, the Bank has not yet completed all of the preparations necessary in order to implement the directive, including the development and update of various IT tools and processes. Due to the complexity of the directive and of the processes necessary for its implementation, the expected effect may differ from the foregoing description.

1.2. Liquidity risk

On January 13, 2013, the Supervisor of Banks issued a circular amending Proper Conduct of Banking Business Directive 342, "Liquidity Risk Management." The amendment of the directive is aimed at strengthening and improving liquidity risk management at banking corporations, and constitutes an interim stage in advance of the future adoption in Israel of the Basel 3 recommendations concerning liquidity. For further information on liquidity risk management at the Bank, see the section "Risk Management" in this report.

1.3. Minimum 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 3 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.

In addition, banking corporations of significant importance 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.

In addition, the draft circulars issued by the Supervisor of Banks on December 30, 2012 require minimum total capital ratios of 12.5% for the banking system in general by January 1, 2015, and 13.5% for banking corporations of significant importance by January 1, 2017.

The Bank meets the conditions for the definition of a banking corporation of significant importance, and will therefore be required to maintain a minimum Core Tier 1 capital ratio of 10% and a minimum total capital ratio of 13.5% as of January 1, 2017.

1.4 Dividends

According to the position stated by the Supervisor of Banks on October 28, 2012, dividend distribution by the Bank will be possible only after the Bank ensures its compliance with the trajectory set forth for the development of its Core Tier 1 capital ratio, taking into consideration the effects of Basel 3. In any event, the Bank is required to apply to the Supervisor of Banks prior to making a decision regarding dividend distribution.

2. Update of the Guidelines of the Supervisor of Banks Concerning Housing Loans

The Supervisor of Banks issued guidelines concerning residential real estate on March 21, 2013. Pursuant to the guidelines, capital allocations in respect of loans executed from January 1, 2013 forward are performed according to the following weighting rates:

- Housing loans with an LTV of up to 45% are weighted at 35%, with no change to the existing rates.
- Housing loans with an LTV of more than 45%, up to 60%, are weighted at 50%, instead of 35%.
- Housing loans with an LTV of more than 60% are weighted at 75% for the purpose of capital requirements, instead of 35% or 100%.
- Concurrently, the guidelines cancel the requirement for 100% weighting of loans with an LTV of more than 60% in an amount exceeding NIS 800,000 where the floating-rate component constitutes 25% or more of the loan. Instead, as noted, a weighting of 75% applies (the effect of this directive is immaterial).

In addition, the capital allocation required in respect of guarantees under the Sale Law, in cases in which the residence has already been handed over to the resident, was reduced. These guarantees were weighted at a credit conversion coefficient of 10%, instead of 20%.

Pillar 3 Disclosure

The following table summarizes the disclosure requirements according to Pillar 3:

Subject	Quantitative disclosure Page number
Structure and composition of regulatory capital	125
Capital Adequacy	126
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Credit risk mitigation	130
Credit risk in respect of derivative financial instruments	134
Securitization exposures, Capital requirements in respect of market risks	135
Positions in shares in the banking book	136
Interest risk in the banking book	108

Capital Requirements Pursuant to Basel 2 Directives

Set out below is the calculation of the capital ratio according to the Basel 2 directives:

	March 31, 2013	December 31, 2012
	NIS millions	
1. Capital for the calculation of the capital ratio		
Core Tier 1 capital	**26,913**	26,323
Tier 1 capital, after deductions	**29,340**	28,745
Tier 2 capital, after deductions	**16,984**	17,801
Total overall capital	**46,324**	46,546
2. Weighted balances of risk-adjusted assets		
Credit risk	**269,858**	269,948
Market risks	**5,944**	5,557
Operational risk	**21,524**	21,302
Total weighted balances of risk-adjusted assets	**297,326**	296,807
3. Ratio of capital to risk-adjusted assets	%	
Ratio of Core Tier 1 capital to risk-adjusted assets	**9.05%**	8.87%
Ratio of Tier 1 capital to risk-adjusted assets	**9.87%**	9.68%
Ratio of total capital to risk-adjusted assets	**15.58%**	15.68%
Minimum total capital ratio required by the Supervisor of Banks	**9.00%**	9.00%
4. Significant subsidiaries		
Isracard		
Ratio of Tier 1 capital to risk-adjusted assets	**16.30%**	15.50%
Ratio of total capital to risk-adjusted assets	**16.40%**	15.70%
Minimum total capital ratio required by the Supervisor of Banks	**9.00%**	9.00%
Bank Hapoalim Switzerland		
Ratio of Tier 1 capital to risk-adjusted assets	***26.51%**	28.37%
Ratio of total capital to risk-adjusted assets	***26.51%**	28.37%
Minimum total capital ratio required by local regulation	**11.20%**	11.20%
Bank Pozitif		
Ratio of Tier 1 capital to risk-adjusted assets	**20.75%**	20.69%
Ratio of total capital to risk-adjusted assets	**21.50%**	21.47%
Minimum total capital ratio required by local regulation	**12.00%**	12.00%

* Bank Hapoalim Switzerland has implemented Basel 3 Directives as of the first quarter of 2013.

Structure of Regulatory Capital and Composition of Capital

Set out below is the composition of capital for the calculation of the capital ratio:

	March 31, 2013	December 31, 2012
	NIS millions	
Tier 1 capital		
Paid-up common share capital and premium	**8,009**	8,010
Retained earnings	**18,494**	*17,873
Non-controlling interests in equity of consolidated subsidiaries	**299**	302
Other capital instruments	**213**	*245
Amounts deducted from Tier 1 capital	**(102)**	(107)
Total Core Tier 1 capital	**26,913**	26,323
Innovative hybrid instruments	**2,427**	2,422
Total Tier 1 capital	**29,340**	28,745
Tier 2 capital		
Upper Tier 2 capital	**3,750**	3,801
Lower Tier 2 capital	**13,295**	14,059
Amounts deducted from Tier 2 capital	**(61)**	(59)
Total Tier 2 capital	**16,984**	17,801
Total eligible capital	**46,324**	46,546

* Reclassified due to the initial adoption of the directives of the Supervisor of Banks concerning the statement of comprehensive income. See Note 1(B) and 1(C) to the Condensed Financial Statements.

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

Capital Adequacy

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

	March 31, 2013		December 31, 2012	
	Risk-adjusted assets	Capital requirements	Risk-adjusted assets	Capital requirements
	NIS millions			
Credit risk				
Sovereign debt	**2,256**	**203**	2,113	190
Debts of public-sector entities	**3,734**	**336**	3,709	334
Debts of banking corporations	**6,113**	**550**	5,257	473
Debts of corporations	**124,190**	**11,177**	125,122	11,261
Debts secured by commercial real estate	**54,301**	**4,887**	55,765	5,019
Retail exposures to individuals	**35,157**	**3,164**	34,676	3,121
Loans to small businesses	**5,273**	**475**	5,211	469
Housing loans	**27,593**	**2,483**	27,044	2,434
Securitization	**18**	**2**	19	2
Other assets	**11,223**	**1,010**	11,032	993
Total in respect of credit risk	**269,858**	**24,287**	269,948	24,296
Market risks	**5,944**	**535**	5,557	500
Operational risk	**21,524**	**1,937**	21,302	1,917
Total risk-adjusted assets in respect of the various risks	**297,326**	**26,759**	296,807	26,713
Total capital	**46,324**		46,546	
Minimum Total capital ratio required by the Supervisor of Banks	**9.00%**		9.00%	
Ratio of Core Tier 1 capital to risk-adjusted assets	**9.05%**		8.87%	
Ratio of Tier 1 capital to risk-adjusted assets	**9.87%**		9.68%	
Ratio of total capital to risk-adjusted assets	**15.58%**		15.68%	

Credit Risk Exposures

Set out below is the segmentation of credit risk exposures by counterparty and by main types of credit exposures, before allowance for credit losses[1]:

	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
	March 31, 2013											
	NIS millions											
Loans[3]	**35,491**	**4,965**	**7,114**	**98,178**	**38,321**	**47,822**	**7,369**	**54,336**	**-**	**-**	**293,596**	**300,649**
Bonds[4]	**44,991**	**2,910**	**1,351**	**3,372**	**268**	**-**	**-**	**-**	**-**	**-**	**52,892**	**49,653**
Derivatives[5]	**27**	**1,082**	**2,606**	**3,115**	**226**	**26**	**2**	**15**	**-**	**-**	**7,099**	**7,014**
Other off-balance sheet exposures	**1,451**	**937**	**1,701**	**68,122**	**44,399**	**48,215**	**3,113**	**1,830**	**182**	**-**	**169,950**	**169,152**
Other assets[6]	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**14,080**	**14,080**	**13,789**
Total	**81,960**	**9,894**	**12,772**	**172,787**	**83,214**	**96,063**	**10,484**	**56,181**	**182**	**14,080**	**537,617**	**540,257**

	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
	December 31, 2012											
	NIS millions											
Loans[3]	49,051	5,139	5,873	99,267	40,338	47,219	7,249	53,566	-	-	307,702	303,535
Bonds[4]	39,023	2,871	1,301	2,950	268	-	-	-	-	-	46,413	38,002
Derivatives[5]	27	898	2,573	3,173	223	18	2	15	-	-	6,929	13,453
Other off-balance sheet exposures	1,486	829	1,588	68,838	41,959	47,948	3,167	2,351	187	-	168,353	167,350
Other assets[6]	-	-	-	-	-	-	-	-	-	13,498	13,498	12,777
Total	89,587	9,737	11,335	174,228	82,788	95,185	10,418	55,932	187	13,498	542,895	535,117

(1) After deduction of charge-offs, and before deduction of the allowance for credit losses on an individual and collective basis.
(2) Before conversion to credit of off-balance sheet components, as required in the Basel 2 directives (e.g. weighting of unutilized credit facilities as credit), before credit risk mitigation as a result of the execution of certain actions (e.g. use of guarantees), and after offsetting of transactions in derivatives (netting).
(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 2 directive reflecting the amount of the future potential exposure to credit in respect of the balance of the face value of derivative instruments, after offsetting of transactions in derivatives (netting).
(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, 2013 totaled approximately NIS 537.6 billion, compared with NIS 542.9 billion as at December 31, 2012, a decrease of approximately NIS 5.3 billion. The decrease mainly resulted from a decrease in deposits with central banks and credit to governments, in the amount of approximately NIS 13.6 billion, and a decrease in credit exposures in respect of corporations, in the amount of approximately NIS 1.4 billion. This decrease was mainly offset by an increase in government bonds, in the amount of approximately NIS 5.9 billion, an increase in exposure to banking corporations, in the amount of approximately NIS 1.4 billion and retail exposures to individuals (including small businesses) in the amount of approximately NIS 0.9 billion.

Approximately 32% 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 20% 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%.

Sovereign credit exposures, constituting approximately 15% 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 United States government.

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%-50%.

Approximately 15% 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, 2013					
	Up to 1 year	1 year to 5 years	Over 5 years	Other	Effect of netting agreements	Gross credit exposure[(2)]
	NIS millions					
Loans[(3)]	**136,173**	**72,855**	**84,568**	**-**	**-**	**293,596**
Bonds[(4)]	**26,892**	**14,471**	**11,529**	**-**	**-**	**52,892**
Derivatives[(5)]	**4,595**	**4,710**	**6,080**	**-**	**(8,286)**	**7,099**
Other off-balance sheet exposures	**25,934**	**139,195**	**4,821**	**-**	**-**	**169,950**
Other assets[(6)]	**2,738**	**-**	**-**	**11,342**	**-**	**14,080**
Total	**196,332**	**231,231**	**106,998**	**11,342**	**(8,286)**	**537,617**

	December 31, 2012					
	Up to 1 year	1 year to 5 years	Over 5 years	Other	Effect of netting agreements	Gross credit exposure[(2)]
	NIS millions					
Loans[(3)]	149,451	74,604	83,647	-	-	307,702
Bonds[(4)]	22,550	12,840	11,023	-	-	46,413
Derivatives[(5)]	4,624	4,633	6,296	-	(8,624)	6,929
Other off-balance sheet exposures	24,819	138,683	4,851	-	-	168,353
Other assets[(6)]	2,376	-	-	11,122	-	13,498
Total	203,820	230,760	105,817	11,122	(8,624)	542,895

(1) After deduction of charge-offs, and before deduction of the allowance for credit losses on an individual and collective basis.
(2) Before conversion to credit of off-balance sheet components, as required in the Basel 2 directives (e.g. weighting of unutilized credit facilities as credit), before credit risk mitigation as a result of the execution of certain actions (e.g. use of guarantees), and after offsetting of transactions in derivatives (netting).
(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, after offsetting of transactions in derivatives (netting).
(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, 2013			
	Impaired loans	Loans in arrears	Allowance on an individual basis	Allowance on a collective basis
	NIS millions			
Public sector	**-**	**-**	**-**	**24**
Banking corporations	**-**	**-**	**-**	**6**
Corporations	**4,003**	**791**	**948**	**1,302**
Secured by commercial real estate	**2,989**	**796**	**109**	**897**
Retail to individuals	**814**	**310**	**134**	**474**
Small businesses	**129**	**65**	**44**	**64**
Housing loans	**-**	**804**	**-**	**425**
Others	**-**	**-**	**-**	**2**
Total	**7,935**	**2,766**	**1,235**	**3,194**

	December 31, 2012			
	Impaired loans	Loans in arrears	Allowance on an individual basis	Allowance on a collective basis
	NIS millions			
Public sector	-	9	-	24
Banking corporations	-	-	-	5
Corporations	3,913	1,026	1,041	1,197
Secured by commercial real estate	3,139	1,013	193	894
Retail to individuals	973	487	330	505
Small businesses	153	84	73	66
Housing loans	-	904	-	358
Others	-	-	-	2
Total	8,178	3,523	1,637	3,051

For the distribution of the balance of problematic debts by economic sector, see Appendix 3 to the Management Review regarding credit risk 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 problematic loans and the allowance for credit losses, see Note 3 to the Condensed Financial Statements.

Credit Risk Mitigation

The Bank applies the comprehensive standardized approach in order to determine risk weightings to apply to the counterparty. The standardized 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 collective 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, 2013							
	0%	20%	35%	50%	75%	100%	150%	Gross credit exposure(1)
	NIS millions							
Sovereign	**74,785**	**4,874**	**-**	**420**	**-**	**1,881**	**-**	**81,960**
Public sector	**-**	**630**	**-**	**9,235**	**-**	**5**	**-**	**9,870**
Banking corporations	**-**	**7,451**	**-**	**4,640**	**-**	**675**	**-**	**12,766**
Corporations	**-**	**1,005**	**-**	**2,500**	**-**	**166,319**	**713**	**170,537**
Secured by commercial real estate	**-**	**-**	**-**	**-**	**-**	**81,454**	**754**	**82,208**
Retail to individuals	**-**	**-**	**-**	**-**	**95,226**	**144**	**85**	**95,455**
Small businesses	**-**	**-**	**-**	**-**	**10,341**	**15**	**20**	**10,376**
Housing loans	**-**	**-**	**36,939**	**1,001**	**9,940**	**7,695**	**181**	**55,756**
Securitization	**-**	**182**	**-**	**-**	**-**	**-**	**-**	**182**
Others	**2,996**	**-**	**-**	**-**	**-**	**10,489**	**593**	**14,078**
Total	**77,781**	**14,142**	**36,939**	**17,796**	**115,507**	**268,677**	**2,346**	**533,188**

	December 31, 2012							
	0%	20%	35%	50%	75%	100%	150%	Gross credit exposure(1)
	NIS millions							
Sovereign	83,126	4,173	-	362	-	1,926	-	89,587
Public sector	-	546	-	9,152	-	6	9	9,713
Banking corporations	-	7,105	-	3,951	-	274	-	11,330
Corporations	-	981	-	2,223	-	167,859	927	171,990
Secured by commercial real estate	-	-	-	-	-	80,761	940	81,701
Retail to individuals	-	-	-	-	94,155	127	68	94,350
Small businesses	-	-	-	-	10,251	12	16	10,279
Housing loans	-	-	37,924	-	8,958	8,509	183	55,574
Securitization	-	187	-	-	-	-	-	187
Others	2,601	-	-	-	-	10,247	648	13,496
Total	85,727	12,992	37,924	15,688	113,364	269,721	2,791	538,207

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

After credit risk mitigation

	March 31, 2013							
	0%	20%	35%	50%	75%	100%	150%	Net credit exposure(1)
	NIS millions							
Sovereign	**76,562**	**4,874**	**-**	**420**	**-**	**1,718**	**-**	**83,574**
Public sector	**650**	**630**	**-**	**7,458**	**-**	**5**	**-**	**8,743**
Banking corporations	**-**	**10,171**	**-**	**16,825**	**-**	**674**	**-**	**27,670**
Corporations	**-**	**1,005**	**-**	**2,500**	**-**	**162,400**	**711**	**166,616**
Secured by commercial real estate	**-**	**-**	**-**	**-**	**-**	**78,883**	**754**	**79,637**
Retail to individuals	**-**	**-**	**-**	**-**	**79,612**	**144**	**85**	**79,841**
Small businesses	**-**	**-**	**-**	**-**	**9,075**	**15**	**19**	**9,109**
Housing loans	**-**	**-**	**36,939**	**1,001**	**9,940**	**7,695**	**181**	**55,756**
Securitization	**-**	**182**	**-**	**-**	**-**	**-**	**-**	**182**
Others	**2,996**	**-**	**-**	**-**	**-**	**10,489**	**593**	**14,078**
Total	**80,208**	**16,862**	**36,939**	**28,204**	**98,627**	**262,023**	**2,343**	**525,206**

	December 31, 2012							
	0%	20%	35%	50%	75%	100%	150%	Net credit exposure(1)
	NIS millions							
Sovereign	84,887	4,173	-	362	-	1,760	-	91,182
Public sector	666	546	-	7,391	-	6	9	8,618
Banking corporations	-	9,585	-	16,109	-	273	-	25,967
Corporations	-	981	-	2,223	-	164,048	869	168,121
Secured by commercial real estate	-	-	-	-	-	78,318	940	79,258
Retail to individuals	-	-	-	-	78,841	127	68	79,036
Small businesses	-	-	-	-	9,024	12	15	9,051
Housing loans	-	-	37,924	-	8,958	8,509	183	55,574
Securitization	-	187	-	-	-	-	-	187
Others	2,601	-	-	-	-	10,247	648	13,496
Total	88,154	15,472	37,924	26,085	96,823	263,300	2,732	530,490

(1) Before conversion to credit of off-balance sheet components, as required in the Basel 2 directives (e.g. weighting of unutilized credit facilities as credit), after credit risk mitigation, and after offsetting of transactions in derivatives (netting).

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, 2013						
	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	**81,960**	**(162)**	**-**	**(162)**	**1,776**	**-**	**83,574**
Public sector	**9,870**	**(1,776)**	**-**	**(1,776)**	**649**	**-**	**8,743**
Banking corporations	**12,766**	**(255)**	**-**	**(255)**	**15,159**	**-**	**27,670**
Corporations	**170,537**	**(1,172)**	**-**	**(1,172)**	**-**	**(2,749)**	**166,616**
Secured by commercial real estate	**82,208**	**(32)**	**-**	**(32)**	**-**	**(2,539)**	**79,637**
Retail to individuals	**95,455**	**(13,808)**	**-**	**(13,808)**	**-**	**(1,806)**	**79,841**
Small businesses	**10,376**	**(202)**	**-**	**(202)**	**-**	**(1,065)**	**9,109**
Housing loans	**55,756**	**-**	**-**	**-**	**-**	**-**	**55,756**
Securitization	**182**	**-**	**-**	**-**	**-**	**-**	**182**
Others	**14,078**	**-**	**-**	**-**	**-**	**-**	**14,078**
Total	**533,188**	**(17,407)**	**-**	**(17,407)**	**17,584**	**(8,159)**	**525,206**

	December 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	89,587	(166)	-	(166)	1,761	-	91,182
Public sector	9,713	(1,761)	-	(1,761)	666	-	8,618
Banking corporations	11,330	(266)	-	(266)	14,903	-	25,967
Corporations	171,990	(1,153)	-	(1,153)	-	(2,716)	168,121
Secured by commercial real estate	81,701	(28)	-	(28)	-	(2,415)	79,258
Retail to individuals	94,350	(13,564)	-	(13,564)	-	(1,750)	79,036
Small businesses	10,279	(210)	-	(210)	-	(1,018)	9,051
Housing loans	55,574	-	-	-	-	-	55,574
Securitization	187	-	-	-	-	-	187
Others	13,496	-	-	-	-	-	13,496
Total	538,207	(17,148)	-	(17,148)	17,330	(7,899)	530,490

(1) Before conversion to credit of off-balance sheet components, as required in the Basel 2 directives (e.g. weighting of unutilized credit facilities as credit), before credit risk mitigation, and after offsetting of transactions in derivatives (netting).
(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 2 directives (e.g. weighting of unutilized credit facilities as credit), after credit risk mitigation, and after offsetting of transactions in derivatives (netting).

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 17.4 billion were assigned reduced risk weightings, mainly due to the use of guarantees of banking corporations and sovereigns. 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 8.2 billion.

Credit Risk in Respect of Derivative Financial Instruments

As of December 31, 2012, the Bank offsets transactions in derivatives, for capital-adequacy purposes, under bilateral netting arrangements that fulfill the conditions of the directive. The offsets are performed in accordance with the procedures and policies established at the Bank.

	March 31, 2013					
	Interest-rate derivatives	Foreign-currency and gold derivatives	Share derivatives	Precious metals	Commodity derivatives	Total
	NIS millions					
Positive gross fair value	**6,147**	**3,017**	**335**	**20**	**11**	**9,530**
Add-on values	**1,881**	**3,782**	**152**	**7**	**33**	**5,855**
Effect of netting agreements	**-**	**-**	**-**	**-**	**-**	**(8,286)**
Net credit exposure	**8,028**	**6,799**	**487**	**27**	**44**	**7,099**

	December 31, 2012					
	Interest-rate derivatives	Foreign-currency and gold derivatives	Share derivatives	Precious metals	Commodity derivatives	Total
	NIS millions					
Positive gross fair value	6,622	2,576	402	20	19	*9,639
Add-on values	1,781	3,895	150	7	81	5,914
Effect of netting agreements	-	-	-	-	-	(8,624)
Net credit exposure	8,403	6,471	552	27	100	*6,929

* Reclassified. Gross fair value is presented after attribution of the effects of the implementation of FAS 157, Fair Value Measurement.

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, 2013		
	Face value in NIS millions		
	Banking book		Total face value of credit derivatives
	Protection acquired	Protection sold	
Credit derivatives	**30**	**365**	**395**

	December 31, 2012		
	Face value in NIS millions		
	Banking book		Total face value of credit derivatives
	Protection acquired	Protection sold	
Credit derivatives	30	373	403

Securitization Exposures

Securitization exposures of the Bank arise from liquidity lines provided by the Bank to 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, 2013		December 31, 2012	
	Risk weight	Amount of exposure(1)	Capital requirement	Amount of exposure(1)	Capital requirement
		NIS millions			
AAA to AA-	20%	**91**	**2**	93	2
A+ to A-	50%	**-**	**-**	-	-
BBB+ to BBB-	100%	**-**	**-**	-	-
BB+ to BB-	350%	**-**	**-**	-	-
B+ or lower or unrated	Deducted from capital	**-**	**-**	-	-
Total		**91**	**2**	93	2

(1) After conversion to credit in respect of off-balance sheet components, as required in the Basel 2 directives.

Capital Requirements in Respect of Market Risk

	March 31, 2013			December 31, 2012		
	Specific risk	General risk	Total	Specific risk	General risk	Total
	NIS millions					
Interest-rate risk	**86**	**257**	**343**	83	247	330
Share risk	**3**	**3**	**6**	4	4	8
Foreign currency exchange-rate risk	**-**	**117**	**117**	-	115	115
Option risk	**-**	**69**	**69**	-	47	47
Total	**89**	**446**	**535**	87	413	500

Positions in Shares in the Banking Book

The following are details of the Bank's investments in shares in the banking book:

	March 31, 2013		December 31, 2012	
	Balance sheet value and fair value	Capital requirements	Balance sheet value and fair value	Capital requirements
	NIS millions			
Investments classified into the trading portfolio	**33**	**(1)6**	43	(1)8
Investments classified into the available-for-sale portfolio	**1,792**	**161**	1,654	149
Total investments in shares	**1,825**	**167**	1,697	157
Of which: traded on the stock exchange	**1,296**	**-**	1,133	-
Privately held	**529**	**-**	564	-
Unrealized gains included in Tier 2 capital	**149**	**-**	139	-

(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 2012. 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 2013, 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 2013 was expressed in a financial expenditure of approximately NIS 15.7 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 Capital, Advising and Resources 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.

"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 2013, 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 has continued during 2005-2013. 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 Children's Channel and other 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 2013, the Bank donated approximately 183 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 it 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, which continued during Passover in 2013.

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 sponsors several internationally recognized cultural institutions committed to leadership and excellence in their field: the Bank supports the activity of the Batsheva Dance Company through 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%.

Financial education project with the ORT chain – The Bank is committed to an effort, in collaboration with the ORT chain, to promote financial education and education on sensible economic conduct for adolescents, and to improve financial dialogue between parents and children. With the completion of the development of the learning environment and the writing of learning materials over recent months, the program is being rolled out to all of the schools in the ORT chain.

"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.

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 publish a full report, in Hebrew and in English, each year. All five of the reports issued attained the highest score. The sixth report is currently in the process of preparation and production.

In April 2011, the Bank was added to the global Good4FTSE index, considered the world's leading index for sustainability and responsible investment. The Good4FTSE index, launched in London twelve years ago, evaluates companies listed on the FTSE All World Index (which also includes the large-cap companies on the TASE) and selects those companies that meet threshold requirements in the management of environmental, social, and corporate governance issues. In the latest update of the Good4FTSE, in March 2013, Bank Hapoalim was assigned a relative score of 99 in the banking industry – the industry's highest score. The Bank leads the group of banks in the index, along with two other banks, and is ranked a Super Leader in its sector. For reference, the absolute score for Bank Hapoalim is 4.8; the average score for the index as a whole is 2.77; the average score in the banking industry is 2.95; and the average score for Israeli companies is 2.43. The Bank's achievements are based on its performance in the area of sustainability and CSR at all of its units and on all dimensions of its activity.

The Bank continues to develop a broad range of initiatives and activities related to the various aspects of sustainability and CSR. As part of its business strategy of supporting the transition to renewable energy, the Bank is leading a wide-ranging drive to promote Israel's solar-energy industry, and offering a range of financing solutions in this field to all population segments. The Bank is also a leader in financing solutions for the water desalination market, and is involved in approximately 80% of the current and planned volume of desalinated water. The Bank finances projects for the construction of power stations fueled by natural gas, energy efficiency, transition of factories and institutions to natural gas, waste treatment facilities, and green construction, at a volume of billions of NIS.

During the first quarter of 2013, the Bank completed a drive to formalize and structure processes in the area of environmental management. The Bank is the first institution in Israel to attain certification for an environmental management system in accordance with the international standard ISO-14001. This certification joins the extensive activities conducted by the Bank in the area of environmental management, efficient management of energy resources, computers, water, paper, and more, with the aim of reducing the consumption of these resources, reducing costs, and minimizing pollution.

Original branded waste receptacles have been developed, along with processes for the appropriate treatment of waste generated by the Bank: paper, cardboard, used light bulbs, toner cartridges, electronic waste, and more, for reuse through recycling or responsible disposal at licensed sites, in order to prevent pollution.

In order to expand its sphere of influence in the area of responsible environmental conduct and involve employees and their families in this effort, the Bank invites employees to bring in electronic waste, old metal tools and appliances, unneeded medications, clothing, and batteries, for the Bank to arrange recycling or disposal.

The activities aimed at formalizing and structuring environmental management processes were conducted with the assistance and cooperation of the licensed professional firm IQC, the Logistics Division, the Construction Department, the Information Technology Area, the Procurement Center, and the Paperless Branch Committee at the Corporate Strategy Area.

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 19C(12), 19D, and 19F to the Annual Financial Statements for 2012, and Note 6C to the Condensed Financial Statements.

Other Matters

The annual general meeting of shareholders of the Bank convened on March 24, 2013. The shareholders discussed the financial statements of the Bank for 2012; approved the appointment of the accountants; approved the extension of the appointment of Mr. Ido Stern as a director of the Bank, for a period of three years, beginning March 24, 2013; and approved the extension of the appointment of Mr. Amnon Dick as a director of the Bank, for an additional period of three years (Mr. Dick is considered an "external director," as defined in Proper Conduct of Banking Business Directive 301 of the Supervisor of Banks).

The Board of Directors of the Bank held 11 meetings during the period of January-March 2013.

The various committees of the Board of Directors held 56 meetings during the period of January-March 2013.

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 beginning with the financial statements as at 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, beginning with the financial statements as at 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 2013, as it has done every year, the Bank will update the documentation of the material control processes and examine the effectiveness of the procedures for the internal control of financial reporting, with the assistance of the consulting firm, according to the prevalent methodologies, through a renewed examination of the main controls for the current year. As planned, this activity began in the first quarter and will be conducted throughout the year, with the main portion of the work being completed during the second half.

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, 2013. 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, 2013, 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
Chairman of the Board of Directors

Zion Kenan
President & Chief Executive Officer

Tel-Aviv, May 29, 2013

Rates of Interest Income and Expenses of the Bank and its Consolidated Companies, and Analysis of Changes in Interest Income and Expenses[(1)]

Appendix 1

A. Average balances and interest rates

	For the three months ended March 31					
	2013			2012		
	Average balance[(2)]	Interest income	Rate of income	Average balance[(2)]	Interest income	Rate of income
	NIS millions		%	NIS millions		%
Interest-bearing assets						
Credit to the public[(3)]:						
In Israel	**218,267**	**2,488**	**4.64%**	215,266	2,717	5.15%
Outside Israel	**19,707**	**180**	**3.70%**	20,091	203	4.10%
Total	**237,974**	**[(4)]2,668**	**4.56%**	235,357	[(4)]2,920	5.06%
Credit to the governments:						
In Israel	**791**	**4**	**2.04%**	657	4	2.46%
Deposits with banks:						
In Israel	**2,728**	**9**	**1.33%**	3,222	13	1.62%
Outside Israel	**2,265**	**4**	**0.71%**	2,137	7	1.32%
Total	**4,993**	**13**	**1.05%**	5,359	20	1.50%
Deposits with central banks:						
In Israel	**16,384**	**70**	**1.72%**	25,462	160	2.54%
Outside Israel	**18,824**	**11**	**0.23%**	14,490	9	0.25%
Total	**35,208**	**81**	**0.92%**	39,952	169	1.70%
Securities borrowed or bought under agreements to resell:						
In Israel	**57**	**-**		16	-	

(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).
(3) Before deduction of the average balance sheet balance of the allowance for credit losses. Includes impaired debts that do not accrue interest income.
(4) Fees in the amount of NIS 86 million were included in interest income in the three-month period ended March 31, 2013 (March 31, 2012: NIS 77 million).

Rates of Interest Income and Expenses of the Bank and its Consolidated Companies, and Analysis of Changes in Interest Income and Expenses[1]

Appendix 1 (continued)

A. Average balances and interest rates (continued)

	For the three months ended March 31					
	2013			2012		
	Average balance[2]	Interest income	Rate of income	Average balance[2]	Interest income	Rate of income
	NIS millions		%	NIS millions		%
Interest-bearing assets (continued)						
Bonds held to maturity and available for sale[3]:						
In Israel	**44,272**	**264**	**2.41%**	24,330	198	3.30%
Outside Israel	**5,833**	**32**	**2.21%**	5,990	38	2.56%
Total	**50,105**	**296**	**2.38%**	30,320	236	3.15%
Bonds held for trading[3]:						
In Israel	**2,132**	**12**	**2.27%**	2,757	24	3.53%
Outside Israel	**1,168**	**1**	**0.34%**	706	1	0.57%
Total	**3,300**	**13**	**1.59%**	3,463	25	2.92%
Other assets:						
In Israel	**306**	**4**	**5.33%**	201	-	
Outside Israel	**154**	**10**	**28.62%**	151	-	
Total	**460**	**14**	**12.74%**	352	-	
Total interest-bearing assets	**332,888**	**3,089**	**3.76%**	315,476	3,374	4.35%
Non-interest-bearing debtors in respect of credit cards	**13,346**	**-**		12,855	-	
Other non-interest-bearing assets[4]	**23,447**	**-**		23,404	-	
Total assets	**369,681**	**-**		351,735	-	
Total interest-bearing assets attributed to activities outside Israel	**47,951**	**238**	**2.00%**	43,565	258	2.39%

(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).
(3) The average balance of unrealized gains (losses) from adjustments to fair value of bonds held for trading and of gains (losses) from bonds available for sale, which are included in equity within cumulative other comprehensive income in the amount of NIS 542 million for the three months ended March 31, 2013 (March 31, 2012: NIS 172 million), were deducted from (added to) the average balance of bonds available for sale and of bonds held for trading.
(4) Includes derivative instruments and other non-interest-bearing assets; net of the allowance for credit losses.

Rates of Interest Income and Expenses of the Bank and its Consolidated Companies, and Analysis of Changes in Interest Income and Expenses[1]

Appendix 1 (continued)

A. Average balances and interest rates (continued)

	For the three months ended March 31					
	2013			2012		
	Average balance[2]	Interest expenses	Rate of expense	Average balance[2]	Interest expenses	Rate of expense
	NIS millions		%	NIS millions		%
Interest-bearing liabilities						
Deposits from the public:						
In Israel	**217,981**	**702**	**1.29%**	208,761	949	1.83%
Outside Israel	**26,298**	**25**	**0.38%**	24,537	35	0.57%
Total	**244,279**	**727**	**1.20%**	233,298	984	1.70%
Government deposits:						
In Israel	**657**	**6**	**3.70%**	947	7	2.99%
Deposits from banks:						
In Israel	**3,722**	**8**	**0.86%**	3,992	7	0.70%
Outside Israel	**1,630**	**32**	**8.09%**	2,973	43	5.91%
Total	**5,352**	**40**	**3.02%**	6,965	50	2.90%
Securities lent or sold under agreements to repurchase:						
In Israel	**559**	**-**		1,135	-	
Outside Israel	**324**	**2**	**2.49%**	217	5	9.54%
Total	**883**	**2**	**0.91%**	1,352	5	1.49%

(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

Rates of Interest Income and Expenses of the Bank and its Consolidated Companies, and Analysis of Changes in Interest Income and Expenses[(1)]

Appendix 1 (continued)

A. Average balances and interest rates (continued)

	For the three months ended March 31					
	2013			2012		
	Average balance[(2)]	Interest expenses	Rate of expense	Average balance[(2)]	Interest expenses	Rate of expense
	NIS millions		%	NIS millions		%
Interest-bearing liabilities (continued)						
Bonds:						
In Israel	**33,906**	**370**	**4.44%**	31,332	348	4.52%
Outside Israel	**2,032**	**24**	**4.81%**	2,125	18	3.43%
Total	**35,938**	**394**	**4.46%**	33,457	366	4.45%
Other liabilities:						
In Israel	**77**	**2**	**10.80%**	5	-	
Outside Israel	**36**	**4**	**52.42%**	108	-	
Total	**113**	**6**	**22.99%**	113	-	
Total interest-bearing liabilities	**287,222**	**1,175**	**1.65%**	276,132	1,412	2.06%
Non-interest-bearing deposits from the public	**21,569**	**-**		17,763	-	
Non-interest-bearing creditors in respect of credit cards	**13,842**	**-**		13,405	-	
Other non-interest-bearing liabilities[(3)]	**20,336**	**-**		19,983	-	
Total liabilities	**342,969**	**-**		327,283	-	
Total capital means	**26,712**	**-**		24,452	-	
Total liabilities and capital means	**369,681**	**-**		351,735	-	
Interest spread			**2.12%**			2.29%
Net return on interest-bearing assets[(4)]						
In Israel	**284,937**	**1,763**	**2.50%**	271,911	1,805	2.68%
Outside Israel	**47,951**	**151**	**1.27%**	43,565	157	1.45%
Total	**332,888**	**1,914**	**2.32%**	315,476	1,962	2.51%
Total interest-bearing liabilities attributed to activities outside Israel	**30,320**	**87**	**1.15%**	29,960	101	1.36%

(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).
(3) Includes derivative instruments.
(4) Net return – net interest income divided by total interest-bearing assets.

Rates of Interest Income and Expenses of the Bank and its Consolidated Companies, and Analysis of Changes in Interest Income and Expenses[1]

Appendix 1 (continued)

B. Average balances and interest rates – additional information regarding interest-bearing assets and liabilities attributed to activity in Israel

	For the three months ended March 31					
	2013			2012		
	Average balance[2]	Interest income/ (expenses)	Rate of income/ (expense)	Average balance[2]	Interest income/ (expenses)	Rate of income/ (expense)
	NIS millions		%	NIS millions		%
Unlinked Israeli currency						
Total interest-bearing assets	**194,944**	**2,093**	**4.36%**	179,317	2,292	5.21%
Total interest-bearing liabilities	**149,322**	**(596)**	**(1.61%)**	142,728	(769)	(2.17%)
Interest spread			**2.75%**			3.04%
CPI-linked Israeli currency						
Total interest-bearing assets	**60,070**	**536**	**3.62%**	60,544	583	3.91%
Total interest-bearing liabilities	**48,110**	**(438)**	**(3.69%)**	47,089	(443)	(3.82%)
Interest spread			**(0.07%)**			0.09%
Foreign currency (includes foreign-currency-linked Israeli currency)						
Total interest-bearing assets	**29,923**	**222**	**3.00%**	32,050	241	3.04%
Total interest-bearing liabilities	**59,470**	**(54)**	**(0.36%)**	56,355	(99)	(0.70%)
Interest spread			**2.64%**			2.34%
Total activity in Israel						
Total interest-bearing assets	**284,937**	**2,851**	**4.06%**	271,911	3,116	4.66%
Total interest-bearing liabilities	**256,902**	**(1,088)**	**(1.70%)**	246,172	(1,311)	(2.15%)
Interest spread			**2.36%**			2.51%

(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

Rates of Interest Income and Expenses of the Bank and its Consolidated Companies, and Analysis of Changes in Interest Income and Expenses[1]

Appendix 1 (continued)

C. Analysis of changes in interest income and expenses

	Three months ended March 31, 2013, versus three months ended March 31, 2012		
	Increase (decrease) due to change[2]		Net change
	Quantity	Price	
	NIS millions		
Interest-bearing assets			
Credit to the public:			
In Israel	**34**	**(263)**	**(229)**
Outside Israel	**(4)**	**(19)**	**(23)**
Total	**30**	**(282)**	**(252)**
Other interest-bearing assets:			
In Israel	**55**	**(91)**	**(36)**
Outside Israel	**10**	**(7)**	**3**
Total	**65**	**(98)**	**(33)**
Total interest income	**95**	**(380)**	**(285)**
Interest-bearing liabilities			
Deposits from the public:			
In Israel	**30**	**(277)**	**(247)**
Outside Israel	**2**	**(12)**	**(10)**
Total	**32**	**(289)**	**(257)**
Other interest-bearing liabilities:			
In Israel	**15**	**9**	**24**
Outside Israel	**(22)**	**18**	**(4)**
Total	**(7)**	**27**	**20**
Total interest expenses	**25**	**(262)**	**(237)**
Total interest income less interest expenses	**70**	**(118)**	**(48)**

(1) Data presented after the effect of hedging derivative instruments.
(2) The change attributed to change in quantity was calculated by multiplying the new price by the change in quantity. The change attributed to change in price was calculated by multiplying the old quantity by the change in price.

Exposure of the Bank and its Consolidated Companies to Changes in Interest Rates

as at March 31, 2013

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, amounts receivable in respect of derivative instruments and in respect of off-balance sheet financial instruments and complex financial assets							
Financial assets[(1)(3)]	**144,713**	**11,596**	**30,642**	**14,452**	**3,349**	**4,061**	**825**
Derivative financial instruments (except options)	**42,871**	**71,599**	**71,572**	**31,226**	**13,366**	**16,723**	**307**
Options (in terms of the underlying asset)	**1,014**	**1,864**	**2,023**	**43**	**7**	**-**	**-**
Total Fair value	**188,598**	**85,059**	**104,237**	**45,721**	**16,722**	**20,784**	**1,132**
Financial liabilities, amounts payable in respect of derivative instruments and in respect of off-balance sheet financial instruments and complex financial liabilities							
Financial liabilities[(1)]	**147,721**	**12,283**	**13,944**	**7,475**	**2,778**	**3,616**	**407**
Derivative financial instruments (except options)	**45,497**	**73,923**	**72,986**	**31,047**	**16,252**	**16,782**	**417**
Options (in terms of the underlying asset)	**1,574**	**1,459**	**1,900**	**27**	**5**	**-**	**-**
Total fair value	**194,792**	**87,665**	**88,830**	**38,549**	**19,035**	**20,398**	**824**
Financial instruments, net							
Exposure to changes in interest rates in the segment	**(6,194)**	**(2,606)**	**15,407**	**7,172**	**(2,313)**	**386**	**308**
Cumulative exposure in the segment	**(6,194)**	**(8,800)**	**6,607**	**13,779**	**11,466**	**11,852**	**12,160**

* Reclassified after attribution of the effects of the implementation of FAS 157, Fair Value Measurement.
(1) 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.
(2) Average weighted by fair value of effective average duration.
(3) The data include assumptions regarding early repayment in respect of housing loans. The effect of these assumptions is negligible.

General Notes:

A. 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.

B. In this table, data by periods reflect the present value of future cash flows of each financial instrument, capitalized by the interest rate used for deduction 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 9A in the condensed Financial Statements.

C. 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.

D. 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.

E. 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, 2013** Total fair value	Internal rate of return	Effective duration	March 31, 2012 Total fair value	Internal rate of return	Effective duration	December 31, 2012 Total fair value	Internal rate of return	Effective duration
	NIS millions		%	years	NIS millions	%	years	NIS millions	%	years
3	**2,569**	**212,210**	**3.57**	**0.44**	200,657	4.82	0.39	218,916	3.80	0.38
-	**-**	**247,664**		**0.97**	172,766		1.02	*230,521		*0.99
-	**-**	**4,951**		**0.84**	3,502		0.30	4,826		1.05
3	**2,569**	**464,825**		**(2)0.73**	376,925		(2)0.68	*454,263		(2)*0.69
-	**63**	**188,287**	**2.85**	**0.36**	176,926	3.91	0.40	193,893	2.76	0.35
-	**-**	**256,904**		**0.98**	178,847		1.04	*241,924		*0.98
-	**-**	**4,965**		**1.62**	4,860		0.31	5,018		1.51
-	**63**	**450,156**		**(2)0.73**	360,633		(2)0.72	*440,835		(2)*0.71
3	**2,506**	**14,669**			16,292			*13,428		
12,163	**14,669**									

Exposure of the Bank and its Consolidated Companies to Changes in Interest Rates

as at March 31, 2013

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, amounts receivable in respect of derivative instruments and in respect of off-balance sheet financial instruments and complex financial assets							
Financial assets[(1)(3)]	**2,018**	**2,459**	**10,167**	**20,768**	**15,354**	**7,779**	**1,894**
Derivative financial instruments (except options)	**207**	**933**	**2,392**	**2,710**	**2,918**	**6,103**	**70**
Total Fair value	**2,225**	**3,392**	**12,559**	**23,478**	**18,272**	**13,882**	**1,964**
Financial liabilities, amounts payable in respect of derivative instruments and in respect of off-balance sheet financial instruments and complex financial liabilities							
Financial liabilities[(1)]	**1,973**	**1,945**	**6,754**	**14,495**	**6,769**	**17,103**	**3,144**
Derivative financial instruments (except options)	**479**	**1,434**	**3,800**	**3,762**	**3,753**	**5,771**	**44**
Total fair value	**2,452**	**3,379**	**10,554**	**18,257**	**10,522**	**22,874**	**3,188**
Financial instruments, net							
Exposure to changes in interest rates in the segment	**(227)**	**13**	**2,005**	**5,221**	**7,750**	**(8,992)**	**(1,224)**
Cumulative exposure in the segment	**(227)**	**(214)**	**1,791**	**7,012**	**14,762**	**5,770**	**4,546**

(1) 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.
(2) Average weighted by fair value of effective average duration.
(3) 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 50 million, and a reduction of the duration of the assets and of the difference in the duration by 0.24 years.

General Notes:

A. 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.
B. In this table, data by periods reflect the present value of future cash flows of each financial instrument, capitalized by the interest rate used for deduction 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 9A in the condensed Financial Statements.
C. 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.
D. 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.
E. 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, 2013** Total fair value	Internal rate of return	Effective duration	March 31, 2012 Total fair value	Internal rate of return	Effective duration	December 31, 2012 Total fair value	Internal rate of return	Effective duration
	NIS millions		%	years	NIS millions	%	years	NIS millions	%	years
713	**163**	**61,315**	**2.74**	**3.22**	61,825	3.03	3.42	62,442	2.69	3.41
-	**-**	**15,333**		**3.82**	11,714		4.38	15,216		3.98
713	**163**	**76,648**		**(2)3.34**	73,539		(2)3.57	77,658		(2)3.52
40	**-**	**52,223**	**1.62**	**3.72**	51,894	2.26	4.20	53,021	1.69	3.92
-	**-**	**19,043**		**3.32**	17,628		3.63	18,752		3.47
40	**-**	**71,266**		**(2)3.61**	69,522		(2)4.06	71,773		(2)3.80
673	**163**	**5,382**			4,017			5,885		
5,219	**5,382**									

Exposure of the Bank and its Consolidated Companies to Changes in Interest Rates

as at March 31, 2013

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[3]							
Financial assets, amounts receivable in respect of derivative instruments and in respect of off-balance sheet financial instruments and complex financial assets							
Financial assets[1][4]	**45,350**	**13,841**	**7,489**	**4,491**	**2,959**	**3,921**	**1,369**
Derivative financial instruments (except options)	**41,994**	**71,501**	**44,609**	**12,962**	**11,579**	**15,500**	**73**
Options (in terms of the underlying asset)	**2,200**	**3,164**	**3,564**	**78**	**-**	**-**	**-**
Total Fair value	**89,544**	**88,506**	**55,662**	**17,531**	**14,538**	**19,421**	**1,442**
Financial liabilities, amounts payable in respect of derivative instruments and in respect of off-balance sheet financial instruments and complex financial liabilities							
Financial liabilities[1]	**52,085**	**16,585**	**17,859**	**2,888**	**721**	**53**	**47**
Derivative financial instruments (except options)	**48,396**	**55,928**	**39,512**	**11,187**	**13,489**	**19,144**	**598**
Options (in terms of the underlying asset)	**1,671**	**3,498**	**3,709**	**61**	**-**	**-**	**-**
Total fair value	**102,152**	**76,011**	**61,080**	**14,136**	**14,210**	**19,197**	**645**
Financial instruments, net							
Exposure to changes in interest rates in the segment	**(12,608)**	**12,495**	**(5,418)**	**3,395**	**328**	**224**	**797**
Cumulative exposure in the segment	**(12,608)**	**(113)**	**(5,531)**	**(2,136)**	**(1,808)**	**(1,584)**	**(787)**

(1) 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.
(2) Average weighted by fair value of effective average duration.
(3) Including Israeli currency linked to foreign currency.
(4) The data include assumptions regarding early repayment in respect of housing loans. The effect of these assumptions is negligible.

General Notes:

A. 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.
B. In this table, data by periods reflect the present value of future cash flows of each financial instrument, capitalized by the interest rate used for deduction 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 9A in the condensed Financial Statements.
C. 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.
D. 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.
E. 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, 2013** Total fair value	Internal rate of return	Effective duration	March 31, 2012 Total fair value	Internal rate of return	Effective duration	December 31, 2012 Total fair value	Internal rate of return	Effective duration
	NIS millions		%	years	NIS millions	%	years	NIS millions	%	years
131	**787**	**80,338**	**3.32**	**0.84**	74,413	4.21	0.88	78,924	3.36	0.84
-	**-**	**198,218**		**1.02**	217,119		1.02	212,787		0.97
-	**-**	**9,006**		**0.24**	9,397		0.17	8,508		0.21
131	**787**	**287,562**		**(2)0.95**	300,929		(2)0.96	300,219		(2)0.91
-	**81**	**90,319**	**1.80**	**0.28**	86,223	1.57	0.68	90,865	1.27	0.26
111	**-**	**188,365**		**1.26**	208,165		1.09	201,057		1.22
-	**-**	**8,939**		**0.28**	7,996		0.13	8,269		0.26
111	**81**	**287,623**		**(2)0.92**	302,384		(2)0.95	300,191		(2)0.90
20	**706**	**(61)**			(1,455)			28		
(767)	**(61)**									

Exposure of the Bank and its Consolidated Companies to Changes in Interest Rates

as at March 31, 2013

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, amounts receivable in respect of derivative instruments and in respect of off-balance sheet financial instruments and complex financial assets							
Financial assets(1)(3)(4)	**192,081**	**27,896**	**48,298**	**39,711**	**21,662**	**15,761**	**4,088**
Derivative financial instruments (except options)	**85,072**	**144,033**	**118,573**	**46,898**	**27,863**	**38,326**	**450**
Options (in terms of the underlying asset)	**3,214**	**5,028**	**5,587**	**121**	**7**	**-**	**-**
Total Fair value	**280,367**	**176,957**	**172,458**	**86,730**	**49,532**	**54,087**	**4,538**
Financial liabilities, amounts payable in respect of derivative instruments and in respect of off-balance sheet financial instruments and complex financial liabilities							
Financial liabilities(1)	**201,779**	**30,813**	**38,557**	**24,858**	**10,268**	**20,772**	**3,598**
Derivative financial instruments (except options)	**94,372**	**131,285**	**116,298**	**45,996**	**33,494**	**41,697**	**1,059**
Options (in terms of the underlying asset)	**3,245**	**4,957**	**5,609**	**88**	**5**	**-**	**-**
Total fair value	**299,396**	**167,055**	**160,464**	**70,942**	**43,767**	**62,469**	**4,657**
Financial instruments, net							
Exposure to changes in interest rates in the segment	**(19,029)**	**9,902**	**11,994**	**15,788**	**5,765**	**(8,382)**	**(119)**
Cumulative exposure in the segment	**(19,029)**	**(9,127)**	**2,867**	**18,655**	**24,420**	**16,038**	**15,919**

* Reclassified after attribution of the effects of the implementation of FAS 157, Fair Value Measurement.

(1) 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.

(2) Average weighted by fair value of effective average duration.

(3) Including shares presented in the "with no repayment period" column.

(4) 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 50 million, and a reduction of the duration of the assets and of the difference in the duration by 0.24 years.

General Notes:

A. 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.

B. In this table, data by periods reflect the present value of future cash flows of each financial instrument, capitalized by the interest rate used for deduction 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 9A in the condensed Financial Statements.

C. 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.

D. 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.

E. Option components embedded in financial instruments, for accounting purposes, were expressed in cash flows through sorting by terms to maturity.

		March 31, 2013			March 31, 2012			December 31, 2012		
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
847	**5,215**	**355,559**	**3.80**	**1.00**	338,453	4.47	1.04	361,979	3.82	0.99
-	**-**	**461,215**		**1.08**	401,599		1.12	*458,524		1.07
-	**-**	**13,957**		**0.45**	12,899		0.21	13,334		0.51
847	**5,215**	**830,731**		**(2)1.04**	752,951		(2)1.07	*833,837		(2)1.03
40	**144**	**330,829**	**2.14**	**0.87**	315,043	2.90	1.10	337,779	2.11	0.89
111	**-**	**464,312**		**1.19**	404,640		1.18	*461,733		1.19
-	**-**	**13,904**		**0.76**	12,856		0.20	13,287		0.73
151	**144**	**809,045**		**(2)1.05**	732,539		(2)1.13	*812,799		(2)1.05
696	**5,071**	**21,686**			20,412			*21,038		
16,615	**21,686**									

Credit Risk by Economic Sector

Appendix 3

1. In respect of borrower activity in Israel

Public-Commercial
Agriculture
Industry
Construction and real estate - construction[6]
Construction and real estate - real-estate activities
Electricity and water
Commerce
Hotels, hospitality, and food services
Transportation and storage
Communications and computer services
Financial services
Other business services
Public and community services
Total commercial
Private individuals - housing loans
Private individuals - others
Total public - activity in Israel
Banks in Israel[7]
Israeli government
Total activity in Israel

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 229,394, 51,671, 31, 4,472, and 138,453 million respectively.
(2) Credit to the public, credit to governments, deposits with banks (excluding deposits with the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness (excluding unutilized credit-card credit facilities under the responsibility of other banks, in the amount of approximately NIS 10,283 million), excluding in respect of derivative instruments.
(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").
(5) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.
(6) Includes balance sheet credit risk in the amount of approximately NIS 662 million and off-balance sheet credit risk in the amount of approximately NIS 2,037 million extended to certain purchasing groups, which are currently in the process of construction.
(7) Excluding cash balances in the Bank's funds and deposits with the Bank of Israel, and before deducting the allowance for credit losses.

(NIS millions)

as at March 31, 2013								
Total credit risk(1)		Debts(2) and off-balance sheet credit risk (excluding derivatives)(3)						
						Credit losses for the period ended March 31, 2013(4)		
Total	Problematic(5)	Total*	* Of which: Debts(2)	Problematic(5)	Impaired	Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
2,805	**122**	**2,796**	**2,214**	**122**	**97**	**(1)**	**3**	**19**
39,360	**3,469**	**37,950**	**19,813**	**3,317**	**1,474**	**34**	**51**	**581**
49,222	**2,558**	**49,034**	**18,110**	**2,515**	**1,747**	**(13)**	**(8)**	**498**
24,734	**1,081**	**24,406**	**20,557**	**1,081**	**865**	**12**	**(3)**	**445**
10,212	**82**	**6,072**	**3,799**	**82**	**78**	**(1)**	**-**	**10**
30,014	**913**	**29,585**	**19,839**	**911**	**572**	**(8)**	**15**	**404**
7,694	**689**	**7,655**	**6,676**	**689**	**454**	**6**	**7**	**112**
8,006	**946**	**7,751**	**6,253**	**901**	**81**	**(1)**	**-**	**91**
9,728	**1,035**	**9,300**	**6,411**	**1,035**	**326**	**55**	**(11)**	**137**
32,442	**1,248**	**26,743**	**17,268**	**1,117**	**1,022**	**45**	**197**	**548**
14,292	**507**	**14,062**	**9,813**	**507**	**404**	**27**	**13**	**107**
8,349	**123**	**8,325**	**6,614**	**123**	**65**	**(1)**	**26**	**45**
236,858	**12,773**	**223,679**	**137,367**	**12,400**	**7,185**	**154**	**290**	**2,997**
51,472	**775**	**51,472**	**49,767**	**775**	**-**	**85**	**17**	**419**
79,512	**967**	**79,479**	**42,143**	**967**	**777**	**16**	**216**	**721**
367,842	**14,515**	**354,630**	**229,277**	**14,142**	**7,962**	**255**	**523**	**4,137**
6,843	**-**	**1,528**	**91**	**-**	**-**	**-**	**-**	**-**
49,336	**-**	**1,480**	**26**	**-**	**-**	**-**	**-**	**-**
(1)424,021	**14,515**	**357,638**	**229,394**	**14,142**	**7,962**	**255**	**523**	**4,137**

Credit Risk by Economic Sector

Appendix 3 (continued)

2. In respect of borrower activity abroad

Public-Commercial
Agriculture
Industry
Construction and real estate
Electricity and water
Commerce
Hotels, hospitality, and food services
Transportation and storage
Communications and computer services
Financial services
Other business services
Public and community services
Total commercial
Private individuals - housing loans
Private individuals - others
Total public - activity abroad
Banks abroad[(6)]
Governments abroad
Total activity abroad
Total

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts[(2)], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 51,464, 5,965, 0, 5,015, and 22,443 million respectively.

(2) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, excluding in respect of derivative instruments.

(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").

(5) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(6) Excluding cash balances in the Bank's funds and before deducting the allowance for credit losses.

(NIS millions)

as at March 31, 2013								
Total credit risk[(1)]		Debts[(2)] and off-balance sheet credit risk (excluding derivatives)[(3)]						
Total	Problematic[(5)]	Total*	* Of which: Debts[(2)]	Problematic[(5)]	Impaired	Credit losses for the period ended March 31, 2013[(4)]		
						Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
135	-	135	88	-	-	-	-	1
5,378	166	4,820	2,908	165	165	2	(2)	26
9,271	380	8,663	7,054	380	377	(13)	(9)	63
1,355	-	1,230	419	-	-	-	-	4
2,093	26	2,068	1,039	26	15	-	-	9
1,945	137	1,862	1,655	137	1	13	-	27
294	73	292	162	73	43	-	-	12
811	-	744	507	-	-	(2)	-	1
14,626	137	11,398	5,991	137	101	6	-	65
697	-	644	438	-	-	(5)	-	4
1,002	77	912	601	77	45	(1)	-	22
37,607	996	32,768	20,862	995	747	-	(11)	234
681	19	681	650	19	-	(1)	-	6
3,571	58	3,508	2,186	58	56	2	2	46
41,859	1,073	36,957	23,698	1,072	803	1	(9)	286
38,623	-	27,585	27,025	-	-	1	-	6
4,405	-	2,008	741	-	-	-	-	-
(1)84,887	1,073	66,550	51,464	1,072	803	2	(9)	292
508,908	15,588	424,188	280,858	15,214	8,765	257	514	4,429

Credit Risk by Economic Sector

Appendix 3 (continued)

1. In respect of borrower activity in Israel

Public-Commercial
Agriculture
Industry
Construction and real estate - construction[6]
Construction and real estate - real-estate activities
Electricity and water
Commerce
Hotels, hospitality, and food services
Transportation and storage
Communications and computer services
Financial services
Other business services
Public and community services
Total commercial
Private individuals - housing loans
Private individuals - others
Total public - activity in Israel

** Comparison figures were reclassified, to the extent possible, for adjustment to the new disclosure format required starting with the reports for 2012. In addition, assets in respect of derivative instruments are presented after attribution of the effects of the implementation of FAS 157, Fair Value Measurement.

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 223,832, 1,522, 0, 2,238, and 132,913 million respectively.

(2) Credit to the public and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness (excluding unutilized credit-card credit facilities under the responsibility of other banks, in the amount of approximately NIS 10,542 million), excluding in respect of derivative instruments.

(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").

(5) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(6) 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 extended to certain purchasing groups, which are currently in the process of construction.

(NIS millions)

as at March 31, 2012**								
Total credit risk[1]		Debts[2] and off-balance sheet credit risk (excluding derivatives)[3]						
						Credit losses for the period ended March 31, 2012[4]		
Total	Problematic[5]	Total*	* Of which: Debts[2]	Problematic[5]	Impaired	Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
2,877	116	2,867	2,179	116	79	(5)	29	25
41,218	2,514	39,301	19,948	2,346	1,501	(96)	61	605
47,683	2,996	47,433	16,988	2,947	1,787	41	(4)	585
27,887	1,340	27,623	23,204	1,340	1,148	(76)	23	566
7,873	87	6,160	3,556	87	87	(1)	9	30
27,045	1,207	26,812	18,643	1,206	709	192	172	380
7,752	541	7,731	6,633	541	364	16	32	79
8,167	1,015	7,936	6,164	945	38	82	-	101
11,230	517	11,056	7,030	517	184	3	(6)	57
31,597	1,821	25,997	17,101	1,737	803	112	2	192
13,383	214	13,183	9,117	214	107	(19)	-	99
7,548	223	7,536	6,036	223	111	11	6	54
234,260	12,591	223,635	136,599	12,219	6,918	260	324	2,773
47,531	965	47,531	45,390	965	-	3	-	346
78,714	1,158	78,679	41,843	1,158	950	62	1	970
[1]360,505	14,714	349,845	223,832	14,342	7,868	325	325	4,089

Credit Risk by Economic Sector

Appendix 3 (continued)

2. In respect of borrower activity abroad

Public-Commercial
Agriculture
Industry
Construction and real estate
Electricity and water
Commerce
Hotels, hospitality, and food services
Transportation and storage
Communications and computer services
Financial services
Other business services
Public and community services
Total commercial
Private individuals - housing loans
Private individuals - others
Total public - activity abroad
Total

** Comparison figures were reclassified, to the extent possible, for adjustment to the new disclosure format required starting with the reports for 2012. In addition, assets in respect of derivative instruments are presented after attribution of the effects of the implementation of FAS 157, Fair Value Measurement.

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts[(2)], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 25,537, 1,611, 0, 732, and 14,596 million respectively.

(2) Credit to the public and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, excluding in respect of derivative instruments.

(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").

(5) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(NIS millions)

as at March 31, 2012**								
Total credit risk[(1)]		Debts[(2)] and off-balance sheet credit risk (excluding derivatives)[(3)]						
Total	Problematic[(5)]	Total*	* Of which: Debts[(2)]	Problematic[(5)]	Impaired	Credit losses for the period ended March 31, 2012[(4)]		
						Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
79	-	76	53	-	-	-	-	-
5,777	260	5,297	3,568	256	254	3	24	52
9,066	542	8,608	7,042	542	530	(27)	-	237
1,213	-	1,039	481	-	-	-	-	3
1,636	13	1,635	863	13	7	-	-	10
2,148	214	2,085	1,846	214	64	2	-	48
375	31	347	202	31	-	-	-	1
894	-	868	348	-	-	-	-	2
14,585	377	11,746	6,897	377	195	-	-	89
893	-	766	358	-	-	(2)	-	3
1,146	104	1,021	903	104	78	2	3	28
37,812	1,541	33,488	22,561	1,537	1,128	(22)	27	473
649	18	649	609	18	-	-	-	8
4,015	57	3,895	2,367	57	55	-	3	34
[(1)]42,476	1,616	38,032	25,537	1,612	1,183	(22)	30	515
402,981	16,330	387,877	249,369	15,954	9,051	303	355	4,604

Credit Risk by Economic Sector

Appendix 3 (continued)

1. In respect of borrower activity in Israel

Public-Commercial
Agriculture
Industry
Construction and real estate - construction[6]
Construction and real estate - real-estate activities
Electricity and water
Commerce
Hotels, hospitality, and food services
Transportation and storage
Communications and computer services
Financial services
Other business services
Public and community services
Total commercial
Private individuals - housing loans
Private individuals - others
Total public - activity in Israel
Banks in Israel[7]
Israeli government
Total activity in Israel

** Restated. Assets in respect of derivative instruments are presented after attribution of the effects of the implementation of FAS 157, Fair Value Measurement.

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 229,354, 44,952, 47, 4,440, and 137,621 million respectively.

(2) Credit to the public, credit to governments, deposits with banks (excluding deposits with the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness (excluding unutilized credit-card credit facilities under the responsibility of other banks, in the amount of approximately NIS 10,279 million), excluding in respect of derivative instruments.

(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").

(5) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(6) Includes balance sheet credit risk in the amount of approximately NIS 653 million and off-balance sheet credit risk in the amount of approximately NIS 2,163 million extended to certain purchasing groups, which are currently in the process of construction.

(7) Excluding cash balances in the Bank's funds and deposits with the Bank of Israel, and before deducting the allowance for credit losses.

(NIS millions)

as at December 31, 2012								
Total credit risk[1]		Debts[2] and off-balance sheet credit risk (excluding derivatives)[3]						
Total**	Problematic[5]	Total*	* Of which: Debts[2]	Problematic[5]	Impaired	Credit losses for the year ended December 31, 2012[4]		
						Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
2,791	103	2,776	2,200	103	73	(13)	(62)	22
39,553	3,560	38,242	19,469	3,392	1,534	(73)	113	612
48,939	2,660	48,685	18,367	2,619	1,770	81	62	572
24,567	1,037	24,333	21,056	1,037	994	(280)	157	439
10,338	88	6,328	3,647	88	84	(20)	9	10
28,767	1,099	28,479	19,877	1,098	583	296	210	439
7,706	565	7,676	6,778	565	483	55	(29)	117
7,988	1,049	7,682	6,172	979	80	72	4	94
9,566	523	9,274	6,358	515	337	13	(4)	77
33,549	1,532	27,696	18,078	1,368	1,241	462	91	557
13,909	218	13,674	9,654	218	111	28	18	95
8,336	168	8,307	6,563	168	99	40	14	70
236,009	12,602	223,152	138,219	12,150	7,389	661	583	3,104
51,161	823	51,161	49,017	823	-	27	18	352
79,661	1,192	79,631	42,013	1,192	965	277	250	908
366,831	14,617	353,944	229,249	14,165	8,354	965	851	4,364
6,628	-	1,521	59	-	-	-	-	-
42,955	-	1,532	46	-	-	-	-	-
[1]416,414	14,617	356,997	229,354	14,165	8,354	965	851	4,364

Credit Risk by Economic Sector

Appendix 3 (continued)

2. In respect of borrower activity abroad

Public-Commercial
Agriculture
Industry
Construction and real estate
Electricity and water
Commerce
Hotels, hospitality, and food services
Transportation and storage
Communications and computer services
Financial services
Other business services
Public and community services
Total commercial
Private individuals - housing loans
Private individuals - others
Total public - activity abroad
Banks abroad(6)
Governments abroad
Total activity abroad
Total

** Restated. Assets in respect of derivative instruments are presented after attribution of the effects of the implementation of FAS 157, Fair Value Measurement.

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts(2), bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 50,240, 5,421, 0, 5,160, and 22,640 million respectively.

(2) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, excluding in respect of derivative instruments.

(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").

(5) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(6) Excluding cash balances in the Bank's funds and deposits with the Bank of Israel, and before deducting the allowance for credit losses.

(NIS millions)

as at December 31, 2012								
Total credit risk[(1)]		Debts[(2)] and off-balance sheet credit risk (excluding derivatives)[(3)]						
						Credit losses for the year ended December 31, 2012[(4)]		
Total**	Problematic[(5)]	Total*	* Of which: Debts[(2)]	Problematic[(5)]	Impaired	Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
129	-	129	72	-	-	1	-	1
5,486	171	4,963	3,024	167	167	24	59	23
10,267	393	9,659	7,945	393	375	(21)	16	76
1,420	-	1,211	410	-	-	1	-	3
2,094	25	2,072	1,135	25	13	-	1	30
2,132	148	2,045	1,811	148	1	(7)	-	15
346	78	327	196	78	-	10	-	7
852	-	787	527	-	-	-	-	2
15,061	119	11,673	6,431	119	53	33	14	64
696	16	615	394	16	-	(10)	-	8
896	71	792	643	71	46	(19)	3	23
39,379	1,021	34,273	22,588	1,017	655	12	93	252
703	12	703	653	12	-	2	4	6
3,455	62	3,416	2,133	62	60	7	11	61
43,537	1,095	38,392	25,374	1,091	715	21	108	319
35,725	-	24,667	24,114	-	-	1	-	5
4,199	-	2,058	752	-	-	-	-	-
[(1)]83,461	1,095	65,117	50,240	1,091	715	22	108	324
499,875	15,712	422,114	279,594	15,256	9,069	987	959	4,688

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, 2013		
	Balance Sheet exposure[4]		
	Cross-Border Balance Sheet exposure		
	To Governments[3]	To Banks	To Others
Country			
A. United States	**511**	**1,608**	**1,809**
B. Switzerland	**-**	**263**	**305**
C. England	**-**	**3,035**	**2,750**
D. Turkey	**-**	**16**	**5**
E. Germany	**148**	**691**	**587**
F. France	**-**	**1,350**	**490**
G. Ireland	**-**	**4**	**62**
H. Spain	**1**	**126**	**27**
I. Portugal	**-**	**-**	**2**
J. Greece	**-**	**-**	**-**
K. Italy	**2**	**1**	**52**
L. Others	**468**	**3,126**	**6,451**
Total exposure to foreign countries	**1,130**	**10,220**	**12,540**
Total exposure to LDC	**107**	**241**	**787**

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, according to the Proper Conduct of Banking Business Directive No. 313.
(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 allowance 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, 2013									
Balance Sheet exposure[4]						Off-Balance Sheet exposure[2][4]			
Balance Sheet exposure of the Bank's overseas offices to local residents			Total Balance Sheet exposure	Problematic Balance Sheet credit risk[4]	Impaired debts[4]	Total Off-Balance Sheet exposure	Of which: Problematic Off-Balance Sheet credit risk[4]	Cross-Border Balance Sheet exposure	
Balance Sheet exposure, before deduction for local liabilities	Deduction for local liabilities	Balance Sheet exposure, net of local liabilities						Maturity up to one year	Maturity over one year
26,368	**8,160**	**18,208**	**22,136**	**287**	**185**	**7,469**	**41**	**2,004**	**1,924**
5,012	**-**	**5,012**	**5,580**	**-**	**-**	**240**	**-**	**274**	**294**
1,148	**157**	**991**	**6,776**	**4**	**-**	**4,321**	**-**	**2,269**	**3,516**
3,005	**1,241**	**1,764**	**1,785**	**103**	**103**	**1,243**	**-**	**10**	**11**
-	**-**	**-**	**1,426**	**1**	**1**	**308**	**-**	**1,087**	**339**
-	**-**	**-**	**1,840**	**45**	**35**	**1,625**	**-**	**757**	**1,083**
-	**-**	**-**	**66**	**-**	**-**	**189**	**-**	**61**	**5**
-	**-**	**-**	**154**	**-**	**-**	**81**	**-**	**35**	**119**
-	**-**	**-**	**2**	**-**	**-**	**5**	**-**	**-**	**2**
-	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**-**
-	**-**	**-**	**55**	**-**	**-**	**25**	**-**	**9**	**46**
135	**-**	**135**	**10,180**	**187**	**59**	**1,317**	**-**	**6,095**	**3,950**
35,668	**9,558**	**26,110**	**50,000**	**627**	**383**	**16,824**	**41**	**12,601**	**11,289**
3,140	**1,241**	**1,899**	**3,034**	**110**	**107**	**1,756**	**-**	**359**	**776**

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, 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, according to the 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 allowance 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 December 31, 2012		
	Balance Sheet exposure[4]		
	Cross-Border Balance Sheet exposure		
	To Governments[3]	To Banks	To Others
Country			
A. United States	1	1,768	1,821
B. Switzerland	-	319	393
C. England	-	3,101	3,141
D. Turkey	-	58	6
E. Germany	158	586	611
F. France	-	1,236	523
G. Ireland	-	15	52
H. Spain	1	99	33
I. Portugal	-	-	2
J. Greece	-	-	-
K. Italy	-	-	54
L. Others	472	2,160	7,047
Total exposure to foreign countries	632	9,342	13,683
Total exposure to LDC	85	221	822

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, according to the Proper Conduct of Banking Business Directive No. 313.
(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.

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(NIS millions)

as at December 31, 2012									
Balance Sheet exposure[4]						Off-Balance Sheet exposure[2][4]			
Balance Sheet exposure of the Bank's overseas offices to local residents			Total Balance Sheet exposure	Problematic Balance Sheet credit risk[4]	Impaired debts [4]	Total Off-Balance Sheet exposure	Of which: Problematic Off-Balance Sheet credit risk[4]	Cross-Border Balance Sheet exposure	
Balance Sheet exposure, before deduction for local liabilities	Deduction for local liabilities	Balance Sheet exposure, net of local liabilities						Maturity up to one year	Maturity over one year
24,074	9,034	15,040	18,630	262	138	7,594	45	1,574	2,016
5,756	-	5,756	6,468	-	-	398	1	410	302
1,311	255	1,056	7,298	2	-	4,650	2	2,331	3,911
3,067	629	2,438	2,502	82	77	1,038	-	45	19
-	-	-	1,355	1	1	357	1	998	357
-	-	-	1,759	42	35	1,624	20	580	1,179
-	-	-	67	-	-	190	-	65	2
-	-	-	133	-	-	82	-	29	104
-	-	-	2	-	-	5	-	1	1
-	-	-	-	-	-	1	-	-	-
-	-	-	54	-	-	28	-	5	49
285	120	165	9,844	241	43	1,405	2	5,568	4,111
34,493	10,038	24,455	48,112	630	294	17,372	71	11,606	12,051
3,352	749	2,603	3,731	133	109	1,661	2	369	759

(NIS millions)

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 2,020 million as at March 31, 2013 (March 31, 2012: NIS 2,348 million, December 31, 2012: NIS 2,311 million).

Note:
Data for March 2013 include countries that do not exceed the required exposure amount, because these countries were included in the data for December 2012.

Part C – Information regarding Balance Sheet exposure to foreign countries with liquidity problems.

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, 2013					
	Greece	Ireland	Portugal	Italy	Spain	Total
Total exposure at beginning of the period	**-**	**67**	**2**	**54**	**133**	**256**
Net changes in amount of short-term exposure	**-**	**(4)**	**(1)**	**4**	**6**	**5**
Changes in other exposures:						
Added exposures	**-**	**6**	**2**	**7**	**18**	**33**
Accrued interest income	**-**	**-**	**-**	**1**	**-**	**1**
Amounts collected	**-**	**(3)**	**(1)**	**(11)**	**(3)**	**(18)**
Total exposure at end of the period	**-**	**66**	**2**	**55**	**154**	**277**

	For the period of three months ended March 31, 2012					
	Greece	Ireland	Portugal	Italy	Spain	Total
Total exposure at beginning of the year	1	110	1	49	124	285
Net changes in amount of short-term exposure	(1)	(10)	-	(2)	(20)	(33)
Changes in other exposures:						
Added 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

(1) Based on the final risk, taking into account guarantees, liquid collateral and credit derivatives.

(NIS millions)

Part C – Information regarding Balance Sheet exposure to foreign countries with liquidity problems (continued).

Change in amount of Balance Sheet exposure to foreign countries with liquidity problems, which are detailed in Section A above (continued).

	For the year 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)	(39)	1	(6)	(14)	(59)
Changes in other exposures:						
Added exposures	-	1	2	20	42	65
Accrued interest income	-	-	-	2	4	6
Amounts collected	-	(5)	(2)	(11)	(23)	(41)
Total exposure at end of the period	-	67	2	54	133	256

(1) Based on the final risk, taking into account guarantees, liquid collateral and credit derivatives.

CEO Declaration

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, 2013 (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 position, results of operations, changes in equity, and cash flows of the Bank, in all material aspects, for the dates and periods covered 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, and 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 29, 2013

Chief Accountant Declaration

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, 2013 (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 position, results of operations, changes in equity, and cash flows of the Bank, in all material aspects, for the dates and periods covered 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, and 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 29, 2013

Auditors' 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 of March 31, 2013 and the related condensed consolidated interim statements of income, comprehensive 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) for interim accounting 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) for interim accounting and in accordance with
the directives and guidelines of the Supervisor of Banks.

Without qualifying our above conclusion, we draw attention to Note 6D(2) regarding the exposure to class actions that were filled against the Bank Group.

Somekh Chaikin
Certified Public Accountants (Isr.)

Ziv Haft
Certified Public Accountants (Isr.)

Tel Aviv, May 29, 2013

Somekh Chaikin, an Israeli partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Ziv Haft
is a member of BDO.

Condensed Consolidated Balance Sheet

as at March 31, 2013

(NIS millions)

	Note	March 31		December 31
		2013	2012	2012
		Unaudited		Audited
Assets				
Cash on hand and deposits with banks		**43,272**	52,270	55,301
Securities (of which, 5,407; 4,964; 5,794 respectively, under lien to lenders)(1)	2	**59,461**	36,903	52,070
Securities which were borrowed or bought under agreements to resell		**31**	70	47
Credit to the public	3	**251,599**	248,817	253,268
Allowance for credit losses	3	**(3,817)**	(4,013)	(4,086)
Net credit to the public	3	**247,782**	244,804	249,182
Credit to governments		**767**	743	798
Investments in equity basis investees		**134**	127	127
Buildings and equipment		**3,673**	3,709	3,726
Intangible assets and goodwill		**28**	42	33
Assets in respect of derivative instruments	8	**9,515**	7,245	9,624
Other assets(1)		**5,654**	4,437	5,480
Total assets		**370,317**	350,350	376,388
Liabilities and Equity				
Deposits from the public	7	**265,297**	251,576	271,411
Deposits from banks		**4,893**	6,624	6,015
Deposits from the Government		**678**	906	629
Securities which were lent or sold under agreements to repurchase		**639**	1,393	1,116
Bonds and subordinated notes		**36,222**	34,422	35,677
Liabilities in respect of derivative instruments	8	**12,454**	10,180	12,718
Other liabilities (of which, 604; 589; 595 respectively, allowance for credit losses in respect of off-balance sheet credit instruments)(1)		**22,556**	20,505	21,765
Total liabilities		**342,739**	325,606	349,331
Shareholders' equity	4	**27,279**	24,440	26,755
Non-controlling interests		**299**	304	302
Total equity		**27,578**	24,744	27,057
Total liabilities and equity		**370,317**	350,350	376,388

(1) Amounts measured at fair value; see Note 9(B) 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 29, 2013

Condensed Consolidated Statement of Profit and Loss

For the period ended March 31, 2013

(NIS millions)

	Note	Three months ended March 31		Year ended December 31
		2013	2012	2012
		Unaudited		Audited
Interest income	10	**3,089**	3,374	14,346
Interest expenses	10	**(1,175)**	(1,412)	(6,186)
Net interest income		**1,914**	1,962	8,160
Provision for credit losses	3	**257**	303	987
Net interest income after provision for credit losses		**1,657**	1,659	7,173
Non-interest income				
Non-interest financing income	11	**143**	186	255
Fees		**1,250**	1,274	5,105
Other income		**37**	33	117
Total non-interest income		**1,430**	1,493	5,477
Operating and other expenses				
Salaries and related expenses		**1,244**	1,207	5,012
Maintenance and depreciation of buildings and equipment		**388**	381	1,673
Depreciation and impairment of intangible assets and goodwill		**3**	3	11
Other expenses		**500**	513	2,129
Total operating and other expenses		**2,135**	2,104	8,825
Profit before taxes		**952**	1,048	3,825
Provision for taxes on profit		**337**	368	1,254
Profit after taxes		**615**	680	2,571
The Bank's share in profits (losses) of equity-basis investees, after taxes		**4**	(2)	6
Net profit:				
Before attribution to non-controlling interests		**619**	678	2,577
Loss (profit) attributed to non-controlling interests		**2**	(19)	(34)
Attributed to shareholders of the Bank		**621**	659	2,543
Earnings per ordinary share in NIS:				
Basic earnings:				
Net profit attributed to shareholders of the Bank		**0.47**	0.50	1.92
Diluted earnings:				
Net profit attributed to shareholders of the Bank		**0.47**	0.49	1.91

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

Condensed Consolidated Statement of Comprehensive Income

For the period ended March 31, 2013

(NIS millions)

	For the three months ended March 31		For the year ended December 31
	2013	2012*	2012*
	Unaudited		Audited
Net profit before attribution to non-controlling interests	**619**	678	2,577
Net loss (profit) attributed to non-controlling interests	**2**	(19)	(34)
Net profit attributed to shareholders of the Bank	**621**	659	2,543
Other comprehensive income (loss) before taxes:			
Net adjustments for presentation of securities available for sale at fair value	**(98)**	(55)	550
Net adjustments from translation of financial statements**, after hedge effects***	**2**	(8)	12
Net profits in respect of cash-flow hedges	**3**	4	7
Other comprehensive income (loss) before taxes	**(93)**	(59)	569
Effect of related tax	**(5)**	14	(150)
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	**(98)**	(45)	419
Net of other comprehensive loss (income) attributed to non-controlling interests	**1**	(1)	(3)
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes	**(97)**	(46)	416
Comprehensive income before attribution to non-controlling interests	**521**	633	2,996
Comprehensive loss (income) attributed to non-controlling interests	**3**	(20)	(37)
Comprehensive income attributed to shareholders of the Bank	**524**	613	2,959

* The Bank adopted the directives of the Supervisor of Banks concerning the statement of comprehensive income for the first time on January 1, 2013. The directive was adopted retroactively. Accordingly, data on other comprehensive income for the corresponding period last year and for the full year of 2012 were reclassified, and are no longer presented as part of the statement of changes in equity; instead, they are presented in the condensed consolidated statement of comprehensive income. See also Note 1(B) and 1(C). In addition, Note 13, Cumulative Other Comprehensive Income (Loss), includes details of changes in the components of other comprehensive income.

** Adjustments from the translation of financial statements of foreign operation whose functional currency differs from the functional currency of the Bank.

*** Hedges – net profits (losses) in respect of net hedges of investments in foreign currency.

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

Condensed Statement of Changes in Equity

For the period ended March 31, 2013

Unaudited
(NIS millions)

	For the three months ended March 31, 2013							
	Share capital and premium*	Capital Reserves from benefit due to share-based payment transactions	Total capital and capital reserves	Cumulative other comprehensive income**	Retained earnings	Total shareholders' equity	Non-controlling interests	Total equity
Balance as at January 1, 2013	**8,010**	**236**	**8,246**	**636**	****17,873**	**26,755**	**302**	**27,057**
Net profit (loss) for the period	**-**	**-**	**-**	**-**	**621**	**621**	**(2)**	**619**
Buyback of shares	**(15)**	**-**	**(15)**	**-**	**-**	**(15)**	**-**	**(15)**
Adjustments and changes from:								
Benefits due to share-based payment transactions	**-**	**22**	**22**	**-**	**-**	**22**	**-**	**22**
Realization of options to shares	**14**	**(21)**	**(7)**	**-**	**-**	**(7)**	**-**	**(7)**
Net other comprehensive loss after tax effect**	**-**	**-**	**-**	**(97)**	**-**	**(97)**	**(1)**	**(98)**
Balance as at March 31, 2013	**8,009**	**237**	**8,246**	**539**	*****18,494**	**27,279**	**299**	**27,578**

* Deducting 14,400,796 shares purchased by the Bank at a total cost of approximately NIS 211 million.

** The Bank adopted the directives of the Supervisor of Banks concerning the statement of comprehensive income for the first time on January 1, 2013. Among other matters, the directive states that changes in the statement of changes in equity referring to items included in cumulative other comprehensive income should be presented as a single amount. Details of the composition of and changes in cumulative other comprehensive income are presented in Note 13, "Cumulative Other Comprehensive Income". The directive was implemented retroactively; comparative figures were reclassified to match the new presentation method. See also Note 1(B) and 1(C).

*** Includes a total of NIS 2,734 million that cannot be distributed as dividends.

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

Condensed Statement of Changes in Equity

Unaudited
(NIS millions)

For the period ended March 31, 2013
(Continued)

	For the three months ended March 31, 2012							
	Share capital and premium*	Capital Reserves from benefit due to share-based payment transactions	Total capital and capital reserves	Cumulative other comprehensive income**	Retained earnings	Total shareholders' equity	Non-controlling interests	Total equity
Balance as at January 1, 2012	8,066	209	8,275	220	**15,324	23,819	282	24,101
Net profit for the period	-	-	-	-	659	659	19	678
Buyback of shares	(6)	-	(6)	-	-	(6)	-	(6)
Adjustments and changes from:								
Benefits due to share-based payment transactions	-	19	19	-	-	19	2	21
Realization of options to shares	15	(20)	(5)	-	-	(5)	-	(5)
Net other comprehensive income (loss) after tax effect**	-	-	-	(46)	-	(46)	1	(45)
Balance as at March 31, 2012	8,075	208	8,283	174	**15,983	24,440	304	24,744

* Deducting 5,653,853 shares purchased by the Bank at a total cost of approximately NIS 90 million.

** The Bank adopted the directives of the Supervisor of Banks concerning the statement of comprehensive income for the first time on January 1, 2013. Among other matters, the directive states that changes in the statement of changes in equity referring to items included in cumulative other comprehensive income should be presented as a single amount. Details of the composition of and changes in cumulative other comprehensive income are presented in Note 13, "Cumulative Other Comprehensive Income". The directive was implemented retroactively; comparative figures were reclassified to match the new presentation method. See also Note 1(B) and 1(C).

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

Condensed Statement of Changes in Equity

For the period ended March 31, 2013
(Continued)

Audited
(NIS millions)

	For the year ended December 31, 2012							
	Share capital and premium*	Capital Reserves from benefit due to share-based payment transactions	Total capital and capital reserves	Cumulative other comprehensive income**	Retained earnings	Total shareholders' equity	Non-controlling interests	Total equity
Balance as at January 1, 2012	8,066	209	8,275	220	**15,324	23,819	282	24,101
Net profit for the year	-	-	-	-	2,543	2,543	34	2,577
Buyback of shares	(113)	-	(113)	-	-	(113)	-	(113)
Adjustments and changes from:								
Benefits due to share-based payment transactions	-	82	82	-	6	88	(14)	74
Realization of options to shares	57	(55)	2	-	-	2	-	2
Net other comprehensive income after tax effect**	-	-	-	416	-	416	3	419
Dividend paid for non-controlling interests in a consolidated company	-	-	-	-	-	-	(3)	(3)
Balance as at December 31, 2012	8,010	236	8,246	636	**17,873	26,755	302	27,057

* Deducting 13,453,853 shares purchased by the Bank at a total cost of approximately NIS 196 million.

** The Bank adopted the directives of the Supervisor of Banks concerning the statement of comprehensive income for the first time on January 1, 2013. Among other matters, the directive states that changes in the statement of changes in equity referring to items included in cumulative other comprehensive income should be presented as a single amount. Details of the composition of and changes in cumulative other comprehensive income are presented in Note 13, "Cumulative Other Comprehensive Income". The directive was implemented retroactively; comparative figures were reclassified to match the new presentation method. See also Note 1(B) and 1(C).

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, 2013

	For the three months ended March 31		For the year ended December 31
	2013	2012	2012
	Unaudited		Audited
Cash flows generated by (for) operating activity			
Net profit for the period	**619**	678	2,577
Adjustments necessary to present cash flows from operating activity:			
The bank's share in losses (profits) of equity basis investees	**(4)**	2	(6)
Depreciation of buildings and equipment	**182**	176	769
Amortizations	**8**	7	30
Provision for credit losses	**257**	303	987
Gain from realization of securities available for sale and held to maturity	**(152)**	*(107)	(333)
Realized and unrealized loss (gain) from adjustments to fair value of securities held for trading	**(12)**	3	(48)
Gain from realization of buildings and equipment	**-**	(7)	(7)
Change in benefit due to share-based transactions	**10**	*10	*42
Net change in liabilities in respect of employee benefits	**(9)**	*(16)	130
Deferred taxes, net	**(45)**	18	232
Gain from sale of credit portfolios	**-**	-	(19)
Adjustments in respect of exchange-rate differences	**682**	451	404
Accumulation differentials included in investment and financing activities	**(678)**	*(301)	(723)
Net change in current assets:			
Deposits in banks	**(1,370)**	595	453
Credit to the public	**810**	1,406	(4,063)
Credit to governments	**31**	(127)	(182)
Securities which were borrowed or bought under agreements to resell	**16**	(70)	(47)
Assets in respect of derivative instruments	**109**	3,554	1,175
Securities held for trading	**(763)**	(567)	(364)
Other assets	**(155)**	224	(1,211)
Net change in current liabilities:			
Deposits from banks	**(1,105)**	(386)	(993)
Deposits from the public	**(5,435)**	(4,970)	14,942
Deposits from the Government	**49**	(179)	(456)
Securities which were lent or sold under agreements to repurchase	**(468)**	88	(186)
Liabilities in respect of derivative instruments	**(164)**	(3,264)	(689)
Other liabilities	**817**	*93	1,224
Net cash generated by (for) operating activity	**(6,770)**	*(2,386)	*13,638

* Reclassified.

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, 2013 (Continued)

	For the three months ended March 31		For the year ended December 31
	2013	2012	2012
	Unaudited		Audited
Cash flows generated for investment activity			
Proceeds from redemption of bonds held to maturity	**58**	*16	109
Acquisition of securities available for sale	**(14,161)**	(7,796)	(44,758)
Proceeds from sale of securities available for sale	**3,029**	5,711	19,410
Proceeds from redemption of securities available for sale	**4,788**	367	10,001
Proceeds from sale of credit portfolios	**-**	83	486
Investment in equity basis investee	**(3)**	(4)	(4)
Proceeds from realization of investment and repayment of loans in equity basis investees	**-**	-	8
Acquisition of buildings and equipment	**(136)**	(170)	(782)
Proceeds from sale of buildings and equipment	**6**	12	14
Net cash generated for investment activity	**(6,419)**	*(1,781)	(15,516)

* Reclassified.

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, 2013
(Continued)

	For the three months ended March 31		For the year ended December 31
	2013	2012	2012
	Unaudited		Audited
Cash flows generated by financing activity			
Issuance of bonds and subordinated notes	**930**	1,783	4,079
Redemption of bonds and subordinated notes	**(143)**	(132)	(1,724)
Issuance of shares and options	**1**	*1	*4
Additional acquisition of shares in consolidated companies	**-**	-	(8)
Buyback of shares	**(15)**	(6)	(113)
Dividend paid to minority shareholders of consolidated companies	**-**	-	(3)
Net cash generated by financing activity	**773**	*1,646	*2,235
Increase (decrease) in cash	**(12,416)**	(2,521)	357
Balance of cash at beginning of period	**53,937**	53,975	53,975
Effect of changes in exchange rates on cash balances	**(871)**	(400)	(395)
Balance of cash at end of period	**40,650**	51,054	53,937
Interest and taxes paid and/or received:			
Interest received	**4,052**	*3,775	15,990
Interest paid	**(1,642)**	*(1,661)	(6,865)
Dividends received	**11**	-	56
Income tax paid	**(446)**	(307)	(1,442)
Income tax received	**28**	175	212

* Reclassified.

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

Note 1 Significant Accounting Policies

A. General

The Condensed Financial Statements as at March 31, 2013 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 at December 31, 2012, with the exceptions noted in Section C below.

These reports should be perused in conjunction with the Annual Financial Statements as at December 31, 2012, and the accompanying Notes.

The Condensed Financial Statements were approved for publication by the Board of Directors of the Bank on May 29, 2013.

B. Reclassification

Presentation of Items of Other Comprehensive Income

Due to the initial implementation of the directives of the Supervisor of Banks regarding the adjustment of the presentation method of the statement of comprehensive income to the requirements of US GAAP (USA 2011-05 and USA 2011-12), and to the prevalent presentation method of the statement of comprehensive income in the financial statements of US banking corporations, items of other comprehensive income in the financial statements for the three-month period ended March 31, 2012 and in the reports for the year ended December 31, 2012 were reclassified such that they are not presented separately in the statement of changes in equity, but are reported in a total amount, with details of the composition presented in a separate report, entitled the "condensed consolidated statement of comprehensive income," which is presented immediately following the statement of profit and loss.

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 material changes in accounting policies applied in these condensed consolidated interim financial statements and a description of the manner and effect of the initial implementation, if any:

1. Directive concerning the statement of comprehensive income

Pursuant to the circular of the Supervisor of Banks of December 9, 2012, which amended the Public Reporting Directives of the Supervisor of Banks concerning the statement of comprehensive income, the Bank adjusted the presentation method of the statement of comprehensive income to the requirements of US GAAP (USA 2011-05 and USA 2011-12), and to the prevalent presentation method of the statement of comprehensive income in the financial statements of US banking corporations. In accordance with the directives, items of other comprehensive income are reported in a separate report, entitled the "statement of comprehensive income," presented immediately following the statement of profit and loss. In addition, details of the composition of and changes in "cumulative other comprehensive income" are presented in a new note on cumulative other comprehensive income. This disclosure is provided in Note 13, "Cumulative Other Comprehensive Income (Loss)."

Note 1 Significant Accounting Policies (continued)

The Bank has implemented the directive concerning the statement of comprehensive income beginning January 1, 2013, retroactively. The initial implementation of the directive had no material effect on the financial statements, other than the change in presentation.

2. Directive Concerning Netting of Assets and Liabilities

The Bank applies the rules established in the circular of the Supervisor of Banks of December 12, 2012, which amends the Public Reporting Directives of the Supervisor of Banks concerning netting of assets and liabilities. The amendments set forth in the circular are aimed at adjusting Section 15A of the Public Reporting Directives to US GAAP. Pursuant to the directives, the Bank will offset assets and liabilities arising from the same counterparty and present the net balance thereof in the balance sheet, under the following cumulative conditions:

- With respect to such liabilities, a legally enforceable right exists to offset the liabilities against the assets;
- The Bank intends to settle the liability and realize the assets on a net basis or simultaneously;
- The Bank and the counterparty owe one another determinable amounts.

It was further determined that the Bank will offset deposits where the repayment to the depositor is contingent upon the extent of collection from credit against the credit granted from such deposits, when the Bank has no risk of loss from the credit.

The Bank will not offset assets in respect of derivative instruments against liabilities in respect of derivative instruments, unless all of the cumulative conditions listed above are fulfilled. However, the directives state that in certain cases a bank may offset fair-value amounts recognized in respect of derivative instruments and fair-value amounts recognized in respect of the right to demand the return of collateral in cash (receivables) or the commitment to return collateral in cash (payables) arising from derivative instruments executed with the same counterparty under a master netting arrangement.

However, the Bank is not permitted to offset amounts in the balance sheet without the advance approval of the Supervisor of Banks. The Bank therefore continues to present exposures in respect of transactions in a gross amount in its financial statements.

The Bank has updated in the disclosure in Note 8, "Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates," in accordance with the new disclosure requirements in the directive.

The Bank has applied the rules in the directive retroactively. However, the new disclosure requirements were not applied to comparative figures referring to the quarters of 2012, as the circular does not require implementation with regard to these comparison periods. The initial implementation had no material effect on the Bank's financial statements, other than the update of the format of the disclosure in Note 8, "Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates," as required by the directive.

Note 1 Significant Accounting Policies (continued)

3. Effect of Initial Implementation of the Directives of the Supervisor of Banks Concerning the Update of the Disclosure of Credit Quality of Debts and the Allowance for Credit Losses, for the Adoption of USA 2010-20

The Bank implements the directives in the circular of the Supervisor of Banks concerning an update of the disclosure of credit quality of debts and the allowance for credit losses, for the adoption of USA 2010-20, which requires more extensive disclosure of debt balances, changes in the balance of the allowance for credit losses, any material acquisitions and sales of debts during the reporting period, and additional disclosures regarding credit quality.

Among other matters, banking corporations are required to provide quantitative disclosure of an indication of credit quality, at least with regard to the balance of problematic debts in each group of debts. In addition, a disclosure of the credit quality of housing loans shall be included. The new disclosure is required for each segment of credit (such as commercial credit, private individuals – housing loans, private individuals – other, and banks and governments) and for each of the main groups of debts, as defined in the directive, with a distinction between the activity of borrowers in Israel and the activity of borrowers overseas, if such a distinction is material.

Disclosure regarding restructured debts, noting the number of contracts and the balance before and after restructuring, is required beginning with the financial statements as at March 31, 2013. In addition, with regard to debt restructurings which were carried out during the twelve months preceding the balance sheet date and which failed during the reported period, disclosure of the recorded balance of the debts is required. This disclosure is required for each of the credit segments, as noted above.

The Bank has implemented these directives, beginning January 1, 2012, prospectively. With regard to data required for the first time under the directive, the Bank reclassified comparative figures to the extent possible. Some of the new disclosure requirements concerning troubled debt restructuring have been implemented by the Bank beginning January 1, 2013. Disclosure is not required for comparative figures in the corresponding periods of 2012, with regard to the new disclosures.

The initial implementation of the directives had no effect other than the update of the format of the disclosure in Note 3, "Credit Risk, Credit to the Public, and Allowance for Credit Losses."

4. A New System of International Financial Reporting Standards (IFRS) Concerning the Consolidation of Financial Statements and Related Matters.

The Bank implements the new system of IFRS concerning the consolidation of financial statements and related matters. The main points of the rules established in the new system of IFRS concerning the consolidation of financial statements and related matters, as implemented by the Supervisor of Banks, are described in Note 1F(3) to the Annual Financial Statements as at December 31, 2012.

The Bank has implemented the system of standards for interim and annual periods beginning January 1, 2013, or later, retroactively (with the exception of certain reliefs in the transitional instructions). The implementation of the system of standards had no effect on the Bank's financial statements.

Note 1 Significant Accounting Policies (continued)

5. Letter of the Supervisor of Banks Concerning an Update of Guidelines Concerning Residential Real Estate

The Supervisor of Banks issued guidelines on March 21, 2013, updating the capital requirements in respect of housing and real-estate credit risk and the calculation of the collective allowance in respect of housing loans, as follows:

5.1 For the purpose of the calculation of capital-adequacy ratios, housing loans are weighted at 35%, with the exception of certain housing loans with a floating interest-rate component, which are weighted at 100% as of October 2010. Pursuant to the new guidelines, capital in respect of housing loans executed from January 1, 2013 forward shall be allocated according to the following weighted rates:

- Housing loans with a financing rate of up to 45% shall be weighted at 35%, with no change to the existing rates.
- Housing loans with a financing rate of more than 45%, up to 60%, shall be weighted at 50%, instead of 35%.
- Housing loans with a financing rate of more than 60% shall be weighted at 75%, instead of 35% or 100%.
- Concurrently, the guidelines cancel the requirement for 100% weighting of loans with a financing rate of more than 60% in an amount exceeding NIS 800,000 in which the floating-rate component constitutes 25% of the loan; instead, as noted, a weighting of 75% will apply.

5.2 The capital allocation required in respect of guarantees under the Sale Law, in cases in which the residence has already been handed over to the resident, will be reduced. These guarantees shall be weighted at a credit conversion coefficient of 10%, instead of 20%.

5.3 In addition, the guidelines establish a requirement for a minimum ratio of the collective allowance to the balance of housing loans, at 0.35%. This requirement does not apply to housing loans for which an allowance according to the extent of arrears exists. The Bank early implemented the directive and set the collective allowance for housing loans at a minimum rate of 0.35% of the balance of housing loans, in the financial statements as at March 31, 2013. The effect of the implementation of the directive was an increase in the allowance for housing loans, in the amount of approximately NIS 84 million before tax.

The Bank has adjusted its capital requirements in respect of housing loans executed beginning January 1, 2013. In addition, the Bank updated the capital allocation method for Sale Law guarantees, as of January 1, 2013. With respect to such guarantees executed from that date forward, the effect of the updated weighting on the capital ratio of the Bank was immaterial.

Note 1 Significant Accounting Policies (continued)

D. New Accounting Standards and New Directives of the Supervisor of Banks in the Period Prior to Implementation

1. In June 2009, the Supervisor of Banks issued a letter establishing the manner of adoption of IFRS by banking corporations in Israel. In accordance with the circular, standards concerning matters not related to the core business of banking were adopted gradually during 2011 and 2012. However, IAS 19, Employee Benefits, has not yet taken effect, and will be adopted in accordance with the directives of the Supervisor of Banks. The Supervisor of Banks is considering changing the accounting treatment of employee benefits. At this stage, it is not yet known which standards will be adopted, if any, or what the manner or date of implementation of such standards will be.

2. Directive Concerning the Format of the Statement of Profit and Loss of a Banking Corporation and the 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 Directives for the 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 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 troubled debt restructuring, treatment of early repayment of debts, and treatment of other credit granting transactions, such as syndication transactions. The Bank is examining the effects of the adoption of this directive on its financial statements.

3. Collective Allowance for Credit Losses

A draft entitled "Collective Allowance for Credit Losses" was issued on April 10, 2013. Among other matters, the draft contains the temporary order "Collective Allowance for Credit Losses," which replaces the temporary order "Collective Allowance for Credit Losses in 2011-2012". The new directive will apply to quarterly and annual financial statements from January 1, 2013 forward. The temporary order clarifies the range of years for which the Bank should calculate rates of loss, and extends the calculation of the general and supplementary allowance pursuant to the Proper Conduct of Banking Business Directives, as the minimum amount of the allowance, until December 31, 2014. The draft also adds questions and answers explaining the calculation method of the collective allowance for credit losses. The updates to the questions and answers file are applicable from July 1, 2013 forward. In addition, the directive includes instructions for the examination of the fairness of the allowance for credit losses, applicable from December 31, 2013 forward. Early implementation is recommended. The Bank is examining the expected effect of the implementation of the draft directive.

(NIS millions)

Note 2 Securities

	as at March 31, 2013				
	Book value	Amortized cost (in shares-cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value*
1) Bonds held to maturity					
Bonds and debentures:					
Israeli government	**55**	**55**	**-**	**-**	**55**
Financial institutions in Israel	**625**	**625**	**52**	**-**	**677**
Total bonds held to maturity	**680**	**680**	**52**	**-**	**732**

	Book value	Amortized cost (in shares-cost)	Cumulative other comprehensive income		Fair value*
			Gains	Losses	
2) Securities available for sale					
Bonds and debentures:					
Israeli government	**44,169**	**43,873**	**312**	**(16)**	**44,169**
Foreign governments	**1,923**	**1,905**	**19**	**(1)**	**1,923**
Financial institutions in Israel	**446**	**434**	**13**	**(1)**	**446**
Foreign financial institutions	**1,679**	**1,664**	**17**	**(2)**	**1,679**
Others in Israel	**3,160**	**3,040**	**122**	**(2)**	**3,160**
Foreign others	**835**	**818**	**17**	**-**	**835**
Total bonds and debentures available for sale	**52,212**	**51,734**	**500**	**(22)**	**52,212**
Shares:					
Others	**1,792**	**1,461**	**331**	**-**	**(1)1,792**
Total securities available for sale	**54,004**	**53,195**	**(2)831**	**(2)(22)**	**(1)54,004**

* 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 529 million.
(2) Included 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 bonds and in shares - see Notes 10 and 11.
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, 2013				
	Book value	Amortized cost (in shares-cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
3) Securities held for trading					
Bonds and debentures:					
Israeli government	**3,397**	**3,393**	**4**	**-**	**3,397**
Foreign governments	**474**	**474**	**1**	**(1)**	**474**
Foreign financial institutions	**602**	**602**	**2**	**(2)**	**602**
Others in Israel	**8**	**8**	**-**	**-**	**8**
Foreign others	**263**	**264**	**2**	**(3)**	**263**
Total bonds and debentures held for trading	**4,744**	**4,741**	**9**	**(6)**	**4,744**
Shares:					
Others	**33**	**42**	**-**	**(9)**	**33**
Total securities held for trading	**4,777**	**4,783**	**(1)9**	**(1)(15)**	**4,777**
Total securities(2)	**59,461**	**58,658**	**892**	**(37)**	**59,513**

	as at March 31, 2013
4) Data regarding impaired bonds	
Set out below are the recorded debt balances of:	
Impaired bonds accruing interest income	**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) Attributed to the Statement of Profit and Loss.
(2) 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 bonds and in shares - see Notes 10 and 11.
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)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value*
1) Bonds held to maturity					
Bonds and debentures:					
Israeli government	56	56	-	-	56
Financial institutions in Israel	786	786	60	-	846
Foreign financial institutions	8	8	-	-	8
Total bonds held to maturity	850	850	60	-	910

	Book value	Amortized cost (in shares-cost)	Cumulative other comprehensive income		Fair value*
			Gains	Losses	
2) Securities available for sale					
Bonds and debentures:					
Israeli government	25,096	25,035	113	(52)	25,096
Foreign governments	2,392	2,377	19	(4)	2,392
Financial institutions in Israel	205	199	6	-	205
Foreign financial institutions	1,179	1,168	17	(6)	1,179
Asset-backed securities (ABS)	2	2	-	-	2
Others in Israel	717	686	33	(2)	717
Foreign others	804	780	25	(1)	804
Total bonds available for sale	30,395	30,247	213	(65)	30,395
Shares:					
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 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 bonds and in shares - see Notes 10 and 11.
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 gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
3) Securities held for trading					
Bonds and debentures:					
Israeli government	3,277	3,266	12	(1)	3,277
Foreign governments	73	71	2	-	73
Financial institutions in Israel	9	9	-	-	9
Foreign financial institutions	468	469	-	(1)	468
Others in Israel	26	26	-	-	26
Foreign others	247	248	-	(1)	247
Total bonds held for trading	4,100	4,089	14	(3)	4,100
Shares:					
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

	as at March 31, 2012
4) Data regarding impaired bonds	
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 bonds and in shares - see Notes 10 and 11.
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, 2012				
	Book value	Amortized cost (in shares-cost)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value*
1) Bonds held to maturity					
Bonds and debentures:					
Israeli government	56	56	-	-	56
Financial institutions in Israel	693	693	59	-	752
Total bonds held to maturity	749	749	59	-	808

	Book value	Amortized cost (in shares-cost)	Cumulative other comprehensive income		Fair value*
			Gains	Losses	
2) Securities available for sale					
Bonds and debentures:					
Israeli government	38,123	37,672	470	(19)	38,123
Foreign governments	2,062	2,041	22	(1)	2,062
Financial institutions in Israel	276	264	12	-	276
Foreign financial institutions	1,345	1,324	24	(3)	1,345
Others in Israel	2,902	2,820	85	(3)	2,902
Foreign others	956	936	20	-	956
Total bonds and debentures available for sale	45,664	45,057	633	(26)	45,664
Shares:					
Others	1,654	1,346	308	-	(1)1,654
Total Securities available for sale	47,318	46,403	(2)941	(2)(26)	(1)47,318

* 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 564 million.
(2) Included 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 bonds and in shares - see Notes 10 and 11.
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, 2012				
	Book value	Amortized cost (in shares-cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
3) Securities held for trading					
Bonds and debentures:					
Israeli government	2,993	2,969	25	(1)	2,993
Foreign governments	79	79	-	-	79
Foreign financial institutions	608	608	1	(1)	608
Others in Israel	8	8	-	-	8
Foreign others	272	270	3	(1)	272
Total bonds and debentures held for trading	3,960	3,934	29	(3)	3,960
Shares:					
Others	43	52	-	(9)	43
Total securities and debentures held for trading	4,003	3,986	(2)29	(2)(12)	4,003
Total securities(3)	52,070	51,138	1,029	(38)	(1)52,129

	as at December 31, 2012
4) Data regarding impaired bonds	
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) Including shares and options for which no fair value is available, which are stated at cost, amounting to NIS 564 million.
(2) Attributed to the Statement of Profit and Loss.
(3) Of which: Securities in the amount of approximately NIS 5.8 billion were pledged to lenders.

Notes:
a. For details of the results of activity in investments in bonds and in shares - see Notes 10 and 11.
b. Israeli bonds and foreign bonds are differentiated according to the country of residence of the Issuer entity.

as at March 31, 2013 (NIS millions)

Note 3 Credit Risk, Credit to the Public and Allowance for Credit Losses

A. Off-balance sheet debts** and credit instruments

Allowance for credit losses

1. Change in allowance for credit losses

	For the three months ended March 31, 2013					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Allowance for credit losses at beginning of year (audited)	**3,356**	**358**	**969**	**4,683**	**5**	**4,688**
Provision for credit losses[1]	**154**	**84**	**18**	**256**	**1**	**257**
Charge-offs	**(359)**	**(17)**	**(274)**	**(650)**	**-**	**(650)**
Recoveries of debts charged-off in previous years	**80**	**-**	**56**	**136**	**-**	**136**
Net charge-offs	**(279)**	**(17)**	**(218)**	**(514)**	**-**	**(514)**
Adjustments from translation of financial statements	**-**	**-**	**(2)**	**(2)**	**-**	**(2)**
Allowance for credit losses at March 31, 2013[2][3] (unaudited)	**3,231**	**425**	**767**	**4,423**	**6**	**4,429**
(1) Of which: In respect of off-balance sheet credit instruments	**27**	**-**	**(18)**	**9**	**-**	**9**
(2) Of which: In respect of off-balance sheet credit instruments	**529**	**-**	**75**	**604**	**-**	**604**
(3) Of which: In respect of other debt instruments	**-**	**-**	**2**	**2**	**-**	**2**

	For the three months ended March 31, 2012*					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Allowance for credit losses at beginning of year (audited)	3,359	351	946	4,656	4	4,660
Provision for credit losses[1]	238	3	62	303	-	303
Charge-offs	(412)	-	(64)	(476)	-	(476)
Recoveries of debts charged-off in previous years	61	-	60	121	-	121
Net charge-offs	(351)	-	(4)	(355)	-	(355)
Allowance for credit losses at March 31, 2012[2][3] (unaudited)	3,246	354	1,004	4,604	4	4,608
(1) Of which: In respect of off-balance sheet credit instruments	33	-	(1)	32	-	32
(2) Of which: In respect of off-balance sheet credit instruments	481	-	108	589	-	589
(3) Of which: In respect of other debt instruments	-	-	2	2	-	2

* Starting with the report for 2012, the Bank implemented the directives of the Supervisor of Banks concerning the update of the disclosure regarding credit quality of debts and regarding the allowance for credit losses, for the first time. Comparison figures for corresponding interim periods in 2012 were reclassified, to the extent possible, for adjustment to the required format under the aforesaid directives. For details, see Note 1(C)(3) above.

** Credit to the public, credit to governments, deposits with banks (excluding deposits with the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(NIS millions)

Note 3 Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

A. Off-balance sheet debts* and credit instruments (continued)

Allowance for credit losses (continued)

2. Additional information regarding the method of calculating the allowance for credit losses in respect of debts* and the underlying debts*

	March 31, 2013					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Recorded debt balance of debts*						
Examined on an individual basis	**139,290**	**-**	**3,643**	**142,933**	**27,883**	**170,816**
Examined on a collective basis(1)	**17,563**	**50,417**	**40,686**	**108,666**	**-**	**108,666**
Total debts*	**156,853**	**50,417**	**44,329**	**251,599**	**27,883**	**279,482**
(1) Of which: Allowance for which was calculated according to the extent of arrears	**4,374**	**50,146**	**-**	**54,520**	**-**	**54,520**
Allowance for credit losses in respect of debts*						
Examined on an individual basis	**2,555**	**-**	**191**	**2,746**	**6**	**2,752**
Examined on a collective basis**(2)	**147**	**425**	**501**	**1,073**	**-**	**1,073**
Total allowance for credit losses	**2,702**	**425**	**692**	**3,819**	**6**	**3,825**
(2) Of which: Allowance for which was calculated according to the extent of arrears***	**34**	**248**	**-**	**282**	**-**	**282**

* Credit to the public, credit to governments, deposits with banks (excluding deposits with the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

** Includes the allowance beyond the amount required according to the method of the extent of arrears, calculated on an collective basis in the amount of approximately NIS 188 million, including the initial implementation of the directive of the Supervisor of Banks, as detailed in Note 1(C)(5) (March 31, 2012: NIS 91 million; December 31, 2012: NIS 102 million).

*** Includes the allowance beyond the amount required according to the method of the extent of arrears, in the amount of approximately NIS 20 million (March 31, 2012: NIS 27 million; December 31, 2012: NIS 21 million).

(NIS millions)

Note 3 Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

A. Off-balance sheet debts and credit instruments** (continued)

Allowance for credit losses (continued)

2. Additional information regarding the method of calculating the allowance for credit losses in respect of debts** and the underlying debts** (continued)

	March 31, 2012*					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Recorded debt balance of debts**						
Examined on an individual basis	141,837	-	3,990	145,827	19,658	165,485
Examined on a collective basis(1)	16,771	45,999	40,220	102,990	-	102,990
Total debts**	158,608	45,999	44,210	248,817	19,658	268,475
(1) Of which: Allowance for which was calculated according to the extent of arrears	3,916	45,857	-	49,773	-	49,773
Allowance for credit losses in respect of debts**						
Examined on an individual basis	2,706	-	313	3,019	4	3,023
Examined on a collective basis***(2)	59	354	583	996	-	996
Total allowance for credit losses	2,765	354	896	4,015	4	4,019
(2) Of which: Allowance for which was calculated according to the extent of arrears****	29	267	-	296	-	296

* Starting with the report for 2012, the Bank implemented the directives of the Supervisor of Banks concerning the update of the disclosure regarding credit quality of debts and regarding the allowance for credit losses, for the first time. Comparison figures for corresponding interim periods in 2012 were reclassified, to the extent possible, for adjustment to the required format under the aforesaid directives. For details, see Note 1(C)(3) above.

** Credit to the public, credit to governments, deposits with banks (excluding deposits with the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

*** Includes the allowance beyond the amount required according to the method of the extent of arrears, calculated on an collective basis in the amount of approximately NIS 188 million, including the initial implementation of the directive of the Supervisor of Banks, as detailed in Note 1(C)(5) (March 31, 2012: NIS 91 million; December 31, 2012: NIS 102 million).

**** Includes the allowance beyond the amount required according to the method of the extent of arrears, in the amount of approximately NIS 20 million (March 31, 2012: NIS 27 million; December 31, 2012: NIS 21 million).

(NIS millions)

Note 3 Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

A. Off-balance sheet debts* and credit instruments (continued)

Allowance for credit losses (continued)

2. Additional information regarding the method of calculating the allowance for credit losses in respect of debts* and the underlying debts* (continued)

	December 31, 2012					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Recorded debt balance of debts*						
Examined on an individual basis	140,829	-	4,534	145,363	24,971	170,334
Examined on a collective basis(1)	18,623	49,670	39,612	107,905	-	107,905
Total debts*	159,452	49,670	44,146	253,268	24,971	278,239
(1) Of which: Allowance for which was calculated according to the extent of arrears	4,437	49,424	-	53,861	-	53,861
Allowance for credit losses in respect of debts*						
Examined on an individual basis	2,703	-	381	3,084	5	3,089
Examined on a collective basis**(2)	151	358	495	1,004	-	1,004
Total allowance for credit losses	2,854	358	876	4,088	5	4,093
(2) Of which: Allowance for which was calculated according to the extent of arrears***	29	264	-	293	-	293

* Credit to the public, credit to governments, deposits with banks (excluding deposits with the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

** Includes the allowance beyond the amount required according to the method of the extent of arrears, calculated on an collective basis in the amount of approximately NIS 188 million, including the initial implementation of the directive of the Supervisor of Banks, as detailed in Note 1(C)(5) (March 31, 2012: NIS 91 million; December 31, 2012: NIS 102 million).

*** Includes the allowance beyond the amount required according to the method of the extent of arrears, in the amount of approximately NIS 20 million (March 31, 2012: NIS 27 million; December 31, 2012: NIS 21 million).

(NIS millions)

Note 3 Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts**

1. Credit quality and arrears

	March 31, 2013					
	Non-problematic	Problematic(1)		Total	Unimpaired debts* – additional information	
		Unimpaired	Impaired(2)		In arrears of 90 days or more(3)	In arrears of 30 to 89 days(4)
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	**16,319**	**329**	**1,462**	**18,110**	**66**	**106**
Construction and real estate - real-estate activities	**19,576**	**213**	**768**	**20,557**	**30**	**26**
Financial services	**14,792**	**89**	**1,011**	**15,892**	**13**	**4**
Commercial - other	**74,619**	**3,631**	**3,182**	**81,432**	**108**	**357**
Total commercial	**125,306**	**4,262**	**6,423**	**135,991**	**217**	**493**
Private individuals - housing loans(5)	**48,992**	**775**	**-**	**49,767**	**968**	**840**
Private individuals - other	**41,188**	**184**	**771**	**42,143**	**88**	**271**
Total public - activity in Israel	**215,486**	**5,221**	**7,194**	**227,901**	**1,273**	**1,604**
Banks in Israel	**91**	**-**	**-**	**91**	**-**	**-**
Israeli government	**26**	**-**	**-**	**26**	**-**	**-**
Total activity in Israel	**215,603**	**5,221**	**7,194**	**228,018**	**1,273**	**1,604**

* For this purpose, "unimpaired debts" include non-problematic debts.

** Credit to the public, credit to governments, deposits with banks (excluding deposits with the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(1) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 3(B)(2)(2.3) below.

(3) Classified as unimpaired problematic debts (with the exception of housing loans in arrears of up to 3 months) accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days, in the amount of approximately NIS 238 million (March 31, 2012: NIS 97 million; December 31, 2012: NIS 110 million) were classified as unimpaired problematic debts.

(5) Includes a balance of housing loans, in the amount of approximately NIS 95 million (March 31, 2012: NIS 97 million; December 31, 2012: NIS 89 million) with allowance based on the extent of arrears, for which an arrangement has been signed for the borrower's repayment of the amounts in arrears, where a change has been made in the repayment schedule with regard to the balance of the loan not yet due for repayment.

(NIS millions)

Note 3 Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts** (continued)

1. Credit quality and arrears (continued)

	March 31, 2013					
	Non-problematic	Problematic(1)		Total	Unimpaired debts* – additional information	
		Unimpaired	Impaired(2)		In arrears of 90 days or more(3)	In arrears of 30 to 89 days(4)
Borrower activity abroad						
Public - commercial						
Construction and real estate	**6,674**	**3**	**377**	**7,054**	**-**	**19**
Other commercial	**13,295**	**205**	**308**	**13,808**	**44**	**78**
Total commercial	**19,969**	**208**	**685**	**20,862**	**44**	**97**
Private individuals	**2,759**	**21**	**56**	**2,836**	**21**	**40**
Total public - activity abroad	**22,728**	**229**	**741**	**23,698**	**65**	**137**
Banks abroad	**27,025**	**-**	**-**	**27,025**	**-**	**-**
Governments abroad	**741**	**-**	**-**	**741**	**-**	**-**
Total activity abroad	**50,494**	**229**	**741**	**51,464**	**65**	**137**
Total public	**238,214**	**5,450**	**7,935**	**251,599**	**1,338**	**1,741**
Total banks	**27,116**	**-**	**-**	**27,116**	**-**	**-**
Total governments	**767**	**-**	**-**	**767**	**-**	**-**
Total	**266,097**	**5,450**	**7,935**	**279,482**	**1,338**	**1,741**

* For this purpose, "unimpaired debts" include non-problematic debts.

** Credit to the public, credit to governments, deposits with banks (excluding deposits with the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(1) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 3(B)(2)(2.3) below.

(3) Classified as unimpaired problematic debts (with the exception of housing loans in arrears of up to 3 months) accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days, in the amount of approximately NIS 238 million (March 31, 2012: NIS 97 million; December 31, 2012: NIS 110 million) were classified as unimpaired problematic debts.

(NIS millions)

Note 3 Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts* ** (continued)

1. Credit quality and arrears (continued)

	March 31, 2012**				
	Unimpaired	Impaired(1)	Total	Unimpaired debts* – additional information	
				In arrears of 90 days or more(2)	In arrears of 30 to 89 days(3)
Credit to the public					
Examined on an individual basis	137,585	8,242	145,827	-	621
Housing loans based on the extent of arrears	49,773	-	49,773	983	558
Examined on a collective basis - other	53,217	-	53,217	131	407
Total public	240,575	8,242	248,817	1,114	1,586
Total banks	18,915	-	18,915	-	-
Total governments	743	-	743	-	-
Total	260,233	8,242	268,475	1,114	1,586

* For this purpose, "unimpaired debts" include non-problematic debts.
** Starting with the report for 2012, the Bank implemented the directives of the Supervisor of Banks concerning the update of the disclosure regarding credit quality of debts and regarding the allowance for credit losses, for the first time. Comparison figures for corresponding interim periods in 2012 were reclassified, to the extent possible, for adjustment to the required format under the aforesaid directives. For details, see Note 1(C)(3) above.
*** Credit to the public, credit to governments, deposits with banks (excluding deposits with the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
(1) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 3(B)(2)(2.3) below.
(2) Classified as unimpaired problematic debts (with the exception of housing loans in arrears of up to 3 months) accruing interest income.
(3) Accruing interest income. Debts in arrears of 30 to 89 days, in the amount of approximately NIS 238 million (March 31, 2012: NIS 97 million; December 31, 2012: NIS 110 million) were classified as unimpaired problematic debts.

Audited
(NIS millions)

Note 3 Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts*** (continued)

1. Credit quality and arrears (continued)

	December 31, 2012					
	Non-problematic	Problematic[(1)]		Total	Unimpaired debts** – additional information	
		Unimpaired	Impaired[(2)]		In arrears of 90 days or more*[(3)]	In arrears of 30 to 89 days[(4)]
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	16,439	502	1,426	18,367	76	30
Construction and real estate - real-estate activities	20,150	40	866	21,056	40	25
Financial services	15,362	124	1,237	16,723	6	16
Commercial - other	74,506	3,172	3,040	80,718	116	119
Total commercial	126,457	3,838	6,569	136,864	238	190
Private individuals - housing loans[(5)]	48,194	823	-	49,017	1,023	885
Private individuals - other	40,829	226	958	42,013	102	284
Total public - activity in Israel	215,480	4,887	7,527	227,894	1,363	1,359
Banks in Israel	59	-	-	59	-	-
Israeli government	46	-	-	46	-	-
Total activity in Israel	215,585	4,887	7,527	227,999	1,363	1,359

* Restated.
** For this purpose, "unimpaired debts" include non-problematic debts.
*** Credit to the public, credit to governments, deposits with banks (excluding deposits with the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
(1) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.
(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 3(B)(2)(2.3) below.
(3) Classified as unimpaired problematic debts (with the exception of housing loans in arrears of up to 3 months) accruing interest income.
(4) Accruing interest income. Debts in arrears of 30 to 89 days, in the amount of approximately NIS 238 million (March 31, 2012: NIS 97 million; December 31, 2012: NIS 110 million) were classified as unimpaired problematic debts.
(5) Includes a balance of housing loans, in the amount of approximately NIS 95 million (March 31, 2012: NIS 97 million; December 31, 2012: NIS 89 million) with allowance based on the extent of arrears, for which an arrangement has been signed for the borrower's repayment of the amounts in arrears, where a change has been made in the repayment schedule with regard to the balance of the loan not yet due for repayment.

(NIS millions)

Note 3 Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts*** (continued)

1. Credit quality and arrears (continued)

	December 31, 2012					
	Non-problematic	Problematic(1)		Total	Unimpaired debts** – additional information	
		Unimpaired	Impaired(2)		In arrears of 90 days or more*(3)	In arrears of 30 to 89 days(4)
Borrower activity abroad						
Public - commercial						
Construction and real estate	7,570	-	375	7,945	-	63
Other commercial	14,124	303	216	14,643	58	70
Total commercial	21,694	303	591	22,588	58	133
Private individuals	2,712	14	60	2,786	12	63
Total public - activity abroad	24,406	317	651	25,374	70	196
Banks abroad	24,114	-	-	24,114	-	14
Governments abroad	752	-	-	752	-	-
Total activity abroad	49,272	317	651	50,240	70	210
Total public	239,886	5,204	8,178	253,268	1,433	1,555
Total banks	24,173	-	-	24,173	-	14
Total governments	798	-	-	798	-	-
Total	264,857	5,204	8,178	278,239	1,433	1,569

* Restated.
** For this purpose, "unimpaired debts" include non-problematic debts.
*** Credit to the public, credit to governments, deposits with banks (excluding deposits with the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
(1) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.
(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 3(B)(2)(2.3) below.
(3) Classified as unimpaired problematic debts (with the exception of housing loans in arrears of up to 3 months) accruing interest income.
(4) Accruing interest income. Debts in arrears of 30 to 89 days, in the amount of approximately NIS 238 million (March 31, 2012: NIS 97 million; December 31, 2012: NIS 110 million) were classified as unimpaired problematic debts.

Credit Quality – The Status of Debts in Arrears

The status of debts in arrears is monitored routinely, and serves as one of the key indicators of credit quality. The status of debts in arrears is determined based on actual days of arrears. Debts examined individually are treated as nonperforming debts (debts not accruing interest income) after 90 days of arrears, as is any debt that has undergone troubled debt restructuring and has resumed accruing interest when it is 30 days in arrears relative to the new terms of the debt. With regard to debts evaluated on a collective basis, the status of arrears affects the classification of the debt (the classification is more severe for more extensive arrears) and after 150 days of arrears, the Bank performs a charge-off of the debt. With regard to housing loans, with the exception of loans without quarterly or monthly payments, the Bank establishes an allowance according to the method of the extent of arrears.

(NIS millions)

Note 3 Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts** (continued)

2. Additional information regarding impaired debts

2.1 Impaired debts and individual allowance

	March 31, 2013				
	Balance[(1)] of impaired debts for which an individual allowance exists[(2)]	Individual allowance[(2)]	Balance[(1)] of impaired debts for which no individual allowance exists[(2)]	Total balance[(1)] of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	**717**	**46**	**745**	**1,462**	**5,079**
Construction and real estate - real-estate activities	**174**	**9**	**594**	**768**	**1,935**
Financial services	**937**	**308**	**74**	**1,011**	**1,983**
Commercial - other	**2,316**	**498**	**866**	**3,182**	**6,755**
Total commercial	**4,144**	**861**	**2,279**	**6,423**	**15,752**
Private individuals - other	**455**	**141**	**316**	**771**	**1,210**
Total public - activity in Israel	**4,599**	**1,002**	**2,595**	**7,194**	**16,962**
Borrower activity abroad					
Public - commercial					
Construction and real estate	**196**	**11**	**181**	**377**	**597**
Other commercial	**212**	**86**	**96**	**308**	**582**
Total commercial	**408**	**97**	**277**	**685**	**1,179**
Private individuals	**53**	**37**	**3**	**56**	**63**
Total public - activity abroad	**461**	**134**	**280**	**741**	**1,242**
Total public*	**5,060**	**1,136**	**2,875**	**7,935**	**18,204**
* Of which:					
Measured at the present value of cash flows	**3,882**	**858**	**2,194**	**6,076**	
Debts in troubled debt restructuring	**1,370**	**504**	**1,576**	**2,946**	

** Credit to the public, credit to governments, deposits with banks (excluding deposits with the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
(1) Recorded debt balance.
(2) Individual allowance for credit losses.

(NIS millions)

Note 3 Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts*** (continued)

2. Additional information regarding impaired debts

2.1 Impaired debts and individual allowance (continued)

	March 31, 2012**			
	Balance[1] of impaired debts for which an individual allowance exists[2]	Individual allowance[2]	Balance[1] of impaired debts for which no individual allowance exists[2]	Total balance[1] of impaired debts
	Unaudited			
Total public*	4,185	1,466	4,057	8,242
* Of which:				
Measured at the present value of cash flows	3,256	639	2,216	5,472
Debts in troubled debt restructuring	1,270	542	2,445	3,715

	December 31, 2012				
	Balance[1] of impaired debts for which an individual allowance exists[2]	Individual allowance[2]	Balance[1] of impaired debts for which no individual allowance exists[2]	Total balance[1] of impaired debts	Balance of contractual principal of impaired debts
	Audited				
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	580	56	846	1,426	5,033
Construction and real estate - real-estate activities	240	20	626	866	2,032
Financial services	1,160	461	77	1,237	2,046
Commercial - other	2,164	552	876	3,040	6,377
Total commercial	4,144	1,089	2,425	6,569	15,488
Private individuals - other	529	308	429	958	1,182
Total public - activity in Israel	4,673	1,397	2,854	7,527	16,670

** Starting with the report for 2012, the Bank implemented the directives of the Supervisor of Banks concerning the update of the disclosure regarding credit quality of debts and regarding the allowance for credit losses, for the first time. Comparative figures for corresponding interim periods in 2012 were reclassified, to the extent possible, for adjustment to the required format under the aforesaid directives. For details, see Note 1(C)(3) above.

*** Credit to the public, credit to governments, deposits with banks (excluding deposits with the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(1) Recorded debt balance.

(2) Individual allowance for credit losses.

Audited
(NIS millions)

Note 3 Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts** (continued)

2. Additional information regarding impaired debts (continued)

2.1 Impaired debts and individual allowance (continued)

	December 31, 2012				
	Balance(1) of impaired debts for which an individual allowance exists(2)	Individual allowance(2)	Balance(1) of impaired debts for which no individual allowance exists(2)	Total balance(1) of impaired debts	Balance of contractual principal of impaired debts
Borrower activity abroad					
Public - commercial					
Construction and real estate	300	21	75	375	603
Other commercial	122	75	94	216	583
Total commercial	422	96	169	591	1,186
Private individuals	52	45	8	60	65
Total public - activity abroad	474	141	177	651	1,251
Total public*	5,147	1,538	3,031	8,178	17,921
* Of which:					
Measured at the present value of cash flows	4,234	1,245	1,681	5,915	-
Debts in troubled debt restructuring	1,021	428	2,205	3,226	-

** Credit to the public, credit to governments, deposits with banks (excluding deposits with the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
(1) Recorded debt balance.
(2) Individual allowance for credit losses.

(NIS millions)

Note 3 Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts** (continued)

2. Additional information regarding impaired debts (continued)

2.2 Average balance and interest income

	March 31, 2013		
	Average balance of impaired debts	Interest income recorded***	Of which: recorded on a cash basis
	Unaudited		
Borrower activity in Israel			
Public - commercial			
Construction and real estate - construction	**1,443**	**6**	**3**
Construction and real estate - real-estate activities	**817**	**3**	**2**
Financial services	**1,124**	**2**	**2**
Commercial - other	**3,109**	**9**	**7**
Total commercial	**6,493**	**20**	**14**
Private individuals - other	**857**	**12**	**5**
Total public – activity in Israel	**7,350**	**32**	**19**
Borrower activity abroad			
Public - commercial			
Construction and real estate	**376**	**1**	**1**
Commercial - other	**262**	**-**	**-**
Total commercial	**638**	**1**	**1**
Private individuals	**56**	**1**	**1**
Total public – activity abroad	**694**	**2**	**2**
Total	**8,044**	**34**	**21**

	March 31, 2012****	December 31, 2012****
	Unaudited	Audited
Average recorded debt balance of impaired credit to the public in the reported period	8,423	8,487
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	182
Total interest income that would have been recorded in the reported period, if this credit had accrued interest according to its original terms	186	692
* Of which: Interest income recorded according to the cash base accounting method	19	118

** Credit to the public, credit to governments, deposits with banks (excluding deposits with the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

*** If the impaired debts had accrued interest according to the original terms, interest income in the amount of NIS 160 million would have been recorded.

**** Starting with the report for 2012, the Bank implemented the directives of the Supervisor of Banks concerning the update of the disclosure regarding credit quality of debts and regarding the allowance for credit losses, for the first time. Comparison figures for corresponding interim periods in 2012 were reclassified, to the extent possible, for adjustment to the required format under the aforesaid directives. For details, see Note 1(C)(3) above.

(NIS millions)

Note 3 Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

2.3 Troubled debt restructuring

	March 31, 2013		
	Recorded debt balance		
	Not accruing interest income	Accruing[1] not in arrears	Total[2]
Borrower activity in Israel			
Public - commercial			
Construction and real estate - construction	**241**	**232**	**473**
Construction and real estate - real-estate activities	**247**	**67**	**314**
Financial services	**195**	**13**	**208**
Commercial - other	**871**	**94**	**965**
Total commercial	**1,554**	**406**	**1,960**
Private individuals - other	**416**	**266**	**682**
Total public - activity in Israel	**1,970**	**672**	**2,642**
Borrower activity abroad			
Public - commercial			
Construction and real estate	**238**	**-**	**238**
Other commercial	**60**	**-**	**60**
Total commercial	**298**	**-**	**298**
Private individuals	**5**	**1**	**6**
Total public - activity abroad	**303**	**1**	**304**
Total public	**2,273**	**673**	**2,946**

	March 31, 2012**		
	Recorded debt balance		
	Not accruing interest income	Accruing[1], not in arrears	Total[2]
Total public	3,279	436	3,715

* Credit to the public, credit to governments, deposits with banks (excluding deposits with the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

** Pursuant to the directives of the Supervisor of Banks concerning the update of the disclosure of credit quality of debts and the allowance for credit losses, among other matters, new disclosures are required with regard to troubled debt restructuring; the transitional directives state that such disclosures should be included beginning with the financial statements as at March 31, 2013. The new disclosure requirements are to be implemented prospectively. Also see Note 1(C)(3).

(1) Accruing interest income.

(2) Included in impaired debts.

Commitments to grant additional credit to debtors who have undergone troubled debt restructuring with changes to the terms of the credit totaled approximately NIS 151 million as at March 31, 2013 (December 31, 2012: NIS 128 million).

(NIS millions)

Note 3 Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

2.3 Troubled debt restructuring (continued)

	December 31, 2012		
	Recorded debt balance		
	Not accruing interest income	Accruing[1], not in arrears	Total[2]
Borrower activity in Israel			
Public - commercial			
Construction and real estate - construction	388	200	588
Construction and real estate - real-estate activities	265	72	337
Financial services	211	6	217
Commercial - other	820	92	912
Total commercial	1,684	370	2,054
Private individuals - other	579	268	847
Total activity in Israel	2,263	638	2,901
Borrower activity abroad			
Public - commercial			
Construction and real estate	255	-	255
Other commercial	66	1	67
Total commercial	321	1	322
Private individuals	2	1	3
Total public - activity abroad	323	2	325
Total public	2,586	640	3,226

* Credit to the public, credit to governments, deposits with banks (excluding deposits with the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
(1) Accruing interest income.
(2) Included in impaired debts.

(NIS millions)

Note 3 Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

2.3 Troubled debt restructuring (continued)

	Debts restructured For the three months ended March 31, 2013		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel			
Public - commercial			
Construction and real estate - construction	**24**	**10**	**9**
Construction and real estate - real-estate activities	**6**	**15**	**14**
Financial services	**3**	**29**	**18**
Commercial - other	**137**	**423**	**419**
Total commercial	**170**	**477**	**460**
Private individuals - other	**1,940**	**83**	**83**
Total public - activity in Israel	**2,110**	**560**	**543**
Borrower activity abroad			
Public - commercial			
Commercial - other	**2**	**66**	**60**
Private individuals	**115**	**4**	**4**
Total public - activity abroad	**117**	**70**	**64**
Total public	**2,227**	**630**	**607**

* Credit to the public, credit to governments, deposits with banks (excluding deposits with the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(NIS millions)

Note 3 Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

2.3 Troubled debt restructuring (continued)

	Failed debt restructuring For the three months ended March 31, 2013*****	
	Number of contracts	Recorded debt balance
Borrower activity in Israel		
Public - commercial		
Construction and real estate - construction	**7**	**1**
Construction and real estate - real-estate activities	**1**	**-**
Commercial - other	**58**	**10**
Total commercial	**66**	**11**
Private individuals - other	**759**	**28**
Total public – activity in Israel	**825**	**39**
Borrower activity abroad		
Public - commercial		
Commercial - other	**1**	**-**
Private individuals	**3**	**-**
Total public – activity abroad	**4**	**-**
Total public	**829**	**39**

* Credit to the public, credit to governments, deposits with banks (excluding deposits with the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

** Debts that became debts in arrears of 30 days or more during the reporting period, and which underwent troubled debt restructuring during the 12 months preceding the date on which they became debts in arrears.

*** Pursuant to the directives of the Supervisor of Banks concerning the update of the disclosure of credit quality of debts and the allowance for credit losses, among other matters, new disclosures are required with regard to troubled debt restructuring; the transitional directives state that such disclosures should be included beginning with the financial statements as at March 31, 2013. The new disclosure requirements are to be implemented prospectively. Also see Note 1(C)(3).

as at March 31, 2013 (NIS millions)

Note 3 Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts**** (continued)

3. Additional information regarding housing loans

Year-end balances by financing ratio (LTV), repayment type, and interest type**

		March 31, 2013			
		Balance of housing loans			Off-balance sheet credit risk
		Total	Of which: bullet and balloon	Of which: floating interest rate	
		Unaudited			
First lien: financing rate	Up to 60%	**28,814**	**156**	**13,490**	**672**
	Over 60%	**25,511**	**115**	**12,801**	**804**
Secondary lien or no lien		**466**	**-**	**327**	**869**
Total		**54,791**	**271**	**26,618**	**2,345**

	March 31, 2012***			
	Balance of housing loans			Off-balance sheet credit risk
	Total	Of which: bullet and balloon	Of which: floating interest rate	
	Unaudited			
Total housing loans	49,915	142	35,819	2,902

		December 31, 2012			
		Balance of housing loans			Off-balance sheet credit risk*
		Total	Of which: bullet and balloon	Of which: floating interest rate	
		Audited			
First lien: financing rate	Up to 60%	28,035	157	13,289	963
	Over 60%	25,654	108	13,213	655
Secondary lien or no lien		437	-	342	1,238
Total		54,126	265	26,844	2,856

* Restated.

** Ratio of the approved credit facility, when the facility was provided, to the value of the asset, as approved by the Bank when the facility was provided.

*** Starting with the report for 2012, the Bank implemented the directives of the Supervisor of Banks concerning the update of the disclosure regarding credit quality of debts and regarding the allowance for credit losses, for the first time. Comparative figures for corresponding interim periods in 2012 were reclassified, to the extent possible, for adjustment to the required format under the aforesaid directives. For details, see Note 1(C)(3) above.

**** Credit to the public, credit to governments, deposits with banks (excluding deposits with the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

Note 3 Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

Credit Quality – LTV Ratio

The LTV ratio provides another indication of credit quality for the Bank. The LTV ratio is the ratio of the amount of the loan to the estimated value of the financed asset, as approved by the Bank when the credit facility was granted. The LTV ratio is calculated at the time of approval of the credit, with the following exceptions:

1. Granting of additional credit secured by the same asset.
2. Receiving a loan from another corporation with a joint pari-passu lien on the asset.
3. Transfer of a mortgage.
4. Part of the credit facility that has not been utilized.
5. Substantial early repayment (10 percent or more).

Note 3.B.3 presents balances of debt in respect of housing loans, with a breakdown by ranges of LTV ratios and levels of liens.

C. Information regarding sales of debt

For further information regarding loan sale transactions, see Note 6(C) below.

Note 4 Capital and Capital Adequacy

A. Capital Adequacy in consolidated data

	March 31, 2013	March 31, 2012	December 31, 2012
	Unaudited		Audited
	NIS millions		
1. Capital for the purpose of calculating the capital ratio			
Core Tier I capital	**26,913**	24,466	26,323
Tier I capital, after deductions	**29,340**	26,858	28,745
Tier 2 capital, after deductions	**16,984**	16,895	17,801
Total Capital	**46,324**	43,753	46,546
2. Weighted balances of risk assets			
Credit risk	**269,858**	270,128	269,948
Market risks	**5,944**	7,391	5,557
Operational risk	**21,524**	20,930	21,302
Total weighted balances of risk assets	**297,326**	298,449	296,807
	%		
3. Ratio of capital to risk assets			
Ratio of Core Tier I capital to risk assets	**9.05%**	8.20%	8.87%
Ratio of Tier I capital to risk assets	**9.87%**	9.00%	9.68%
Ratio of Total capital to risk assets	**15.58%**	14.66%	15.68%
Minimum ratio of Total capital as required by the Supervisor of Banks	**9.00%**	9.00%	9.00%
4. Significant Subsidiaries			
Isracard			
Ratio of Tier I capital to risk assets	**16.30%**	14.60%	15.50%
Ratio of Total capital to risk assets	**16.40%**	14.70%	15.70%
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	***26.51%**	24.94%	28.37%
Ratio of Total capital to risk assets	***26.51%**	24.94%	28.37%
Minimum ratio of Total capital as required by the local regulation	**11.20%**	11.20%	11.20%
Bank Pozitif			
Ratio of Tier I capital to risk assets	**20.75%**	23.09%	20.69%
Ratio of Total capital to risk assets	**21.50%**	20.67%	21.47%
Minimum ratio of Total capital as required by the local regulation	**12.00%**	12.00%	12.00%

* Bank Hapoalim Switzerland has implemented the Basel 3 directives, beginning in the first quarter of 2013.

as at March 31, 2013 (NIS millions)

Note 4 Capital and Capital Adequacy (continued)

B. Components of capital for the purpose of calculating the capital ratio

	March 31, 2013	March 31, 2012	December 31, 2012
	Unaudited		Audited
1. Tier I capital			
Capital	**27,578**	24,744	27,057
Hybrid capital instruments	**2,427**	2,392	2,422
Less: Intangible assets and goodwill	**(28)**	(42)	(33)
Less: net profits in respect of adjustments to fair value of securities available for sale	**(577)**	(183)	(643)
Less: Investments in financial companies in which the Bank has material influence	**(60)**	(53)	(58)
Total Tier I capital	**29,340**	26,858	28,745
2. Tier 2 capital			
A. Upper Tier 2 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	**364**	136	412
General provision for doubtful debts	**674**	674	674
Hybrid capital instruments	**2,712**	2,685	2,715
B. Lower Tier 2 capital			
Subordinated notes	**13,295**	13,453	14,059
C. Tier 2 capital deductions			
Investments in financial companies in which the Bank has material influence	**(61)**	(53)	(59)
Total Tier 2 capital	**16,984**	16,895	17,801
Total Capital	**46,324**	43,753	46,546

Note 4 Capital and Capital Adequacy (continued)

C. Capital Adequacy

Capital adequacy is calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, "Capital Measurement and Adequacy."

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 3 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. In addition, banking corporations of significant importance whose total balance sheet assets on a consolidated basis 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.

Further, drafts circulars issued by the Supervisor of Banks on December 30, 2012, state that minimum total capital ratios shall stand at 12.5% for the banking system in general, by January 1, 2015, and 13.5% for banking corporations of significant importance, by January 1, 2017.

The Bank meets the conditions for the definition of a banking corporation of significant importance, and will therefore be required to comply with a minimum Core Tier 1 capital ratio of 10% and a minimum total capital ratio of 13.5% as of January 1, 2017. The aforesaid minimum capital ratios will be calculated in accordance with the Basel 3 directives and the adjustments to be established by the Supervisor of Banks.

Note that the definitions of core capital and total capital and the supervisory adjustments (deductions from capital) to be established by the Supervisor of Banks as part of the adoption of Basel 3 are expected to be significantly different from the definitions included in Basel 2.

In 2010, the Board of Directors resolved that the target Core Tier 1 capital ratio of the Bank would be no less than 7.5%, and the target total capital ratio of the Bank would be no less than 12.5%. Upon the publication of the Supervisor's directive noted above, the Board of Directors resolved that the Bank would work to meet the targets established therein, on schedule. In addition, on December 26, 2012, the Board of Directors approved the target minimum capital ratios which the Bank will be required to attain as of January 1, 2015 and as of January 1, 2017.

According to the position of the Supervisor of Banks dated October 28, 2012, dividend distribution by the Bank will be possible only after the Bank has ensured its compliance with the trajectory established for its Core Tier I capital ratio, taking into account the effects of Basel 3. In any event, the Bank is required to contact the Supervisor of Banks prior to making a decision regarding dividend distribution.

D. Update of the Guidelines of the Supervisor of Banks Concerning Housing Loans

For details regarding the guidelines of the Supervisor of Banks concerning housing loans, see Note 1(C)(5), above. The implementation of these guidelines had no material effect.

(NIS millions)

Note 5 Assets and Liabilities According to Linkage Basis

	as at March 31, 2013						
	Israeli Currency		Foreign Currency(1)			Non-monetary items*	Total
	Unlinked	Linked to the CPI	US Dollar	Euro	Other		
Assets							
Cash on hand and deposits with banks	16,034	-	24,841	554	1,843	-	43,272
Securities	44,098	2,880	7,869	1,109	1,809	1,696	59,461
Securities which were borrowed or bought under agreement to resell	31	-	-	-	-	-	31
Credit to the public, net(2)	150,545	56,317	26,751	6,763	7,216	190	247,782
Credit to governments	26	-	486	255	-	-	767
Investments in equity basis investees	-	-	-	-	-	134	134
Buildings and equipment	-	-	-	-	-	3,673	3,673
Intangible assets and goodwill	-	-	-	-	-	28	28
Assets in respect of derivative instruments(3)	5,151	674	3,028	233	421	8	9,515
Other assets	4,076	293	170	495	101	519	5,654
Total assets	219,961	60,164	63,145	9,409	11,390	6,248	370,317
Liabilities							
Deposits from the public	162,679	20,061	62,284	13,021	7,062	190	265,297
Deposits from banks	1,706	247	2,360	468	112	-	4,893
Deposits from the Government	294	255	129	-	-	-	678
Securities which were lent or sold under agreements to repurchase	-	-	548	-	91	-	639
Bonds and subordinated notes	6,824	27,043	1,605	52	698	-	36,222
Liabilities in respect of derivative instruments(3)	5,944	2,173	3,454	387	496	-	12,454
Other liabilities	19,968	198	1,302	439	114	535	22,556
Total liabilities	197,415	49,977	71,682	14,367	8,573	725	342,739
Excess of assets (liabilities)	22,546	10,187	(8,537)	(4,958)	2,817	5,523	27,578
Effect of hedging derivatives:							
Derivative instruments (not including options)	1,477	-	(7)	-	(1,470)		
Effect of non hedging derivatives:							
Derivative instruments (not including options)	(9,889)	(2,212)	8,281	5,078	(1,258)		
Options in the money, net (in terms of underlying asset)	208	-	(197)	(123)	112		
Options out of the money, net (in terms of underlying asset)	(235)	-	39	115	81		
Total	14,107	7,975	(421)	112	282	5,523	
Options in the money, net (nominal present value)	(201)	-	250	(169)	120		
Options out of the money, net (nominal present value)	(1,369)	-	310	460	599		

* Including derivative instruments whose underlying asset relates to a non-monetary item.
(1) Including linked to foreign currency.
(2) After the deduction of allowances 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 net amounts, after the attribution of the effects of the implementation of the standard, in the amount of NIS (59) 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, 2012						
	Israeli Currency		Foreign Currency[1]			Non-monetary items*	Total
	Unlinked	Linked to the CPI	US Dollar	Euro	Other		
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
Bonds 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 non hedging derivatives:							
Derivative instruments (not including options)	(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 deduction of allowances 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 net 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.

Audited
(NIS millions)

Note 5 Assets and Liabilities According to Linkage Basis (continued)

	as at December 31, 2012						
	Israeli Currency		Foreign Currency[1]			Non-monetary items*	Total
	Unlinked	Linked to the CPI	US Dollar	Euro	Other		
Assets							
Cash on hand and deposits with banks	30,739	-	21,768	499	2,295	-	55,301
Securities	37,767	3,219	6,295	1,199	1,893	1,697	52,070
Securities which were borrowed or bought under agreement to resell	47	-	-	-	-	-	47
Credit to the public, net[2]	148,633	56,878	27,731	6,805	8,987	148	249,182
Credit to governments	47	-	488	263	-	-	798
Investments in equity basis investees	-	-	-	-	-	127	127
Buildings and equipment	-	-	-	-	-	3,726	3,726
Intangible assets and goodwill	-	-	-	-	-	33	33
Assets in respect of derivative instruments[3]	5,181	469	3,262	352	333	27	9,624
Other assets	4,247	214	76	283	78	582	5,480
Total assets	226,661	60,780	59,620	9,401	13,586	6,340	376,388
Liabilities							
Deposits from the public	167,651	20,350	62,492	13,465	7,305	148	271,411
Deposits from banks	2,496	346	2,531	534	108	-	6,015
Deposits from the Government	171	328	130	-	-	-	629
Securities which were lent or sold under agreements to repurchase	-	-	561	-	555	-	1,116
Bonds and subordinated notes	6,852	27,120	1,062	64	579	-	35,677
Liabilities in respect of derivative instruments[3]	5,941	2,203	3,592	597	385	-	12,718
Other liabilities	19,691	192	1,172	197	46	467	21,765
Total liabilities	202,802	50,539	71,540	14,857	8,978	615	349,331
Excess of assets (liabilities)	23,859	10,241	(11,920)	(5,456)	4,608	5,725	27,057
Effect of hedging derivatives:							
Derivative instruments (not including options)	1,525	-	-	-	(1,525)		
Effect of non hedging derivatives:							
Derivative instruments (not including options)	(12,239)	(1,802)	11,490	5,208	(2,657)		
Options in the money, net (in terms of underlying asset)	(376)	-	167	110	99		
Options out of the money, net (in terms of underlying asset)	239	-	(301)	141	(79)		
Total	13,008	8,439	(564)	3	446	5,725	
Options in the money, net (nominal present value)	(736)	-	186	367	183		
Options out of the money, net (nominal present value)	(1,428)	-	416	1,069	(57)		

* Including derivative instruments whose underlying asset relates to a non-monetary item.
(1) Including linked to foreign currency.
(2) After the deduction of allowances 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 net amounts, after the attribution of the effects of the implementation of the standard, in the amount of NIS (61) million, these effects were presented in the unlinked segment.

(NIS millions)

Note 6 Contingent Liabilities and Special Commitments

	March 31		December 31	March 31		December 31
	2013	2012	2012	**2013**	2012	2012
	Contract balances*			Allowance for credit losses for period-end		
	Unaudited		Audited	Unaudited		Audited
A. Off-balance sheet financial instruments:						
Transactions, the balance of which represents a credit risk:						
(1) Documentary credit	**1,394**	2,127	1,460	**1**	4	3
(2) Credit guarantees	**6,550**	6,736	6,605	**18**	18	20
(3) Guarantees to purchasers of apartments	**15,809**	13,663	15,085	**74**	61	66
(4) Other guarantees and liabilities	**20,462**	18,733	19,004	**191**	183	191
(5) Unutilized credit facilities for credit cards under the responsibility of the bank	**31,382**	32,779	32,343	**58**	73	69
(6) Unutilized credit facilities for credit cards under the responsibility of other banks	**10,283**	10,542	10,279	**-**	-	-
(7) Unutilized revolving debitory and other on-demand credit facilities	**34,655**	34,772	36,090	**96**	88	96
(8) Irrevocable obligations to grant credit,which has been approved but is yet undrawn**	**29,178**	27,781	26,591	**78**	75	64
(9) Obligations to issue guarantees	**19,555**	19,732	20,270	**88**	87	86
B. Contingent liabilities and other special commitments:						
(1) Liability to purchase securities	**208**	290	250			
(2) Construction and purchase of buildings and equipment	**108**	95	21			
(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**	146	154			
Second year	**146**	146	154			
Third year	**146**	146	154			
Fourth year	**140**	141	144			
Fifth year	**129**	129	132			
Over five years	**757**	773	777			
Total rent for buildings and equipment	**1,464**	1,481	1,515			

* Contract balances or their nominal amounts for period-end, before the affect of allowance for credit losses.

** Includes commitments to grant credit given to customers in loans "approved in principle with a hold on the interest rate", under Proper Conduct of Banking Business Directive 451, Procedures for Granting Housing Loans.

Note 6 Contingent Liabilities and Special Commitments (continued)

C. Credit selling activity

The following table summarizes the credit selling activity of the Bank:

	March 31	
	2013	2012
Book value of credit sold	**-**	83
Consideration received in cash	**-**	83
Total net profit from sale of credit	**-**	-

D. 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, 2013, that have a "reasonably possible" probability of materialization amounts to approximately NIS 100 million.

1. 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, 2012.

As 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, with the exceptions described below.

1.1 In addition to the claim noted in Note 19(D)(a)4 to the Financial Statements as at December 31, 2012, 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 - Southern District of New York against the Bank and against Bank Hapoalim (Switzerland) Ltd., 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 is against BHS. 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.

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) corresponds to the amounts claimed by the Fairfield Sentry fund on its own behalf, in the claim described in Note 19(D)(a)4 to the Financial Statements as at December 31, 2012; therefore, there does not seem to be a risk of duplicate payment in respect of the corresponding amounts.

The claim was noted in Note 19(D)(a)4 to the Financial Statements as at December 31, 2012.

Note 6 Contingent Liabilities and Special Commitments (continued)

2. 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:

2.1 A claim and a petition to certify the claim as a class action against the Bank and others were filed with the District Court of Tel-Aviv-Jaffa on November 26, 2012. The amount of the claim stated in the claim statement is approximately NIS 2.284 billion. The claim and the petition concern cash withdrawals from automated teller machines operated by Automated Banking Services Ltd. and by Casponet Ltd. According to the claimant, the Bank and others cause overcharging of a fee allegedly caused by the splitting of cash withdrawals from automated teller machines into several withdrawals, due to the limit on the withdrawal amounts at these automated teller machines, and by charging a fee for each withdrawal.

2.2 A claim and a petition to certify the claim as a class action against Isracard Ltd., a company under the control of the Bank (hereinafter: "Isracard"), were filed with the District Court of Tel-Aviv-Jaffa in the second half of November 2012. The claim is in the amount of approximately NIS 150 million. The cause of the claim, according to the claimant, is the misleading of credit-card holders with regard to the rate of currency conversion fees for the euro, in violation of the Consumer Protection Law and the Unjust Enrichment Law. The group is defined as the group of holders of credit cards of the Isracard Group of all kinds who executed purchases of products outside Israel and were charged with currency conversion fees, despite the fact that no such fee is mentioned in the information published in the rate list of fees for cards and various services.

2.3 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 Tel Aviv on July 16, 2012. The amount of the class-action suit noted in the claim statement is NIS 18 billion. The claim and the petition concern the allegation that the Bank conceals the existence of a "transaction permit" from its customers who take out loans, and charges such customers arrears interest not in accordance with this permit.

Near the date on which the claim and the petition were filed, the petitioners filed several petitions for certification, against other banks, concerning similar or identical allegations to those of the proceeding described herein. Petitions to consolidate the discussion, pursuant to the provisions of Section 7(A) of the Class Actions Law, were filed with the various courts; the parties are now awaiting a decision determining which court will hear all of the proceedings in conjunction.

as at March 31, 2013 (NIS millions)

Note 6 Contingent Liabilities and Special Commitments (continued)

E. 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, 2013, amounted to NIS 182 million (USD 50 million), compared with NIS 187 million (USD 50 million) at the end of 2012. No withdrawals were performed on any of these lines up to March 31, 2013. 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.

Note 7 Deposits from the public

	March 31		December 31
	2013	2012	2012
	Unaudited		Audited
Demand deposits	**57,687**	47,450	56,296
Fixed-term deposits	**204,128**	199,783	211,489
Deposits in savings plans	**3,482**	4,343	3,626
Total deposits from the public*	**265,297**	251,576	271,411
* Of which: Deposits of institutional entities taken in Israel (unaudited)	**11,657**	**-	12,884

** Disclosure of comparison figures for corresponding interim periods in 2012 is not required.

(NIS millions)

Note 8 Derivative Instruments Activity - volume, credit risks and maturity dates

A. Nominal amount of derivative instruments

	as at March 31, 2013					
	Interest contracts		Foreign currency contracts	Share related contracts	Commodity and other contracts	Total
	NIS-CPI	Other				
1. Hedging derivatives*						
Forward contracts	-	-	**3,037**	-	-	**3,037**
Swaps	-	**9,283**	-	-	-	**9,283**
Total hedging derivatives	-	**9,283**	**3,037**	-	-	**12,320**
Of which interest rate swap contracts in which the banking corporation has agreed to pay a fixed interest rate	-	**2,523**	-	-	-	**2,523**
2. ALM derivatives*,**						
Future contracts	-	**9,390**	-	-	-	**9,390**
Forward contracts	**10,540**	**49,390**	**114,036**	-	**837**	**174,803**
Option contracts traded on the stock exchange						
Options written	-	-	**743**	-	-	**743**
Options bought	-	-	**746**	-	-	**746**
Other option contracts						
Options written	-	**35,312**	**18,345**	**4,268**	**444**	**58,369**
Options bought	-	**40,702**	**17,963**	**778**	**416**	**59,859**
Swaps	**3,273**	**224,590**	**35,310**	**1,927**	-	**265,100**
Total ALM derivatives	**13,813**	**359,384**	**187,143**	**6,973**	**1,697**	**569,010**
Of which interest rate swap contracts in which the banking corporation has agreed to pay a fixed interest rate	**2,377**	**106,663**	-	-	-	**109,040**
3. Other derivatives*						
Option contracts traded on the stock exchange						
Options written	-	-	**2,199**	**7,366**	-	**9,565**
Options bought	-	-	**2,199**	**7,366**	-	**9,565**
Other option contracts						
Options bought	-	-	-	**117**	-	**117**
Total other derivatives	-	-	**4,398**	**14,849**	-	**19,247**
4. Credit derivatives and foreign currency spot swap contracts						
Credit derivatives for which the banking corporation is a guarantor	-	-	-	-	**365**	**365**
Credit derivatives for which the banking corporation is a beneficiary	-	-	-	-	**30**	**30**
Foreign currency spot swap contracts	-	-	**9,376**	-	-	**9,376**
Total nominal amount	**13,813**	**368,667**	**203,954**	**21,822**	**2,092**	**610,348**

* Except for credit derivatives and foreign currency spot swap contracts.
** Derivatives constituting part of the Bank's assets and liabilities management network, that have not been designated for hedging.

(NIS millions)

Note 8 Derivative Instruments Activity - volume, credit risks and maturity dates (continued)

B. Gross fair value of derivative instruments*

	as at March 31, 2013					
	Interest contracts		Foreign currency contracts	Share related contracts	Commodity and other contracts	Total
	NIS-CPI	Other				
1. Hedging derivatives**						
Positive gross fair value	**-**	**26**	**88**	**-**	**-**	**114**
Negative gross fair value	**-**	**442**	**-**	**-**	**-**	**442**
2. ALM derivatives**,***						
Positive gross fair value	**163**	**5,958**	**2,843**	**162**	**25**	**9,151**
Negative gross fair value	**450**	**6,218**	**5,051**	**84**	**25**	**11,828**
3. Other derivatives**						**-**
Positive gross fair value	**-**	**-**	**78**	**173**	**-**	**251**
Negative gross fair value	**-**	**-**	**78**	**149**	**-**	**227**
4. Credit derivatives						
Credit derivatives for which the banking corporation is a guarantor:						
Positive gross fair value	**-**	**-**	**-**	**-**	**3**	**3**
Credit derivatives for which the banking corporation is a beneficiary:						
Positive gross fair value	**-**	**-**	**-**	**-**	**11**	**11**
Total positive gross fair value	**163**	**5,984**	**3,009**	**335**	**39**	**9,530**
Amounts of fair value offset in the balance sheet	**-**	**-**	**-**	**-**	**-**	**-**
Balance sheet balance of assets in respect of derivative instruments(1)	**163**	**5,984**	**3,009**	**335**	**39**	**9,530**
(1) Of which: balance sheet balance of assets in respect of derivative instruments not subject to a netting arrangement or similar arrangements****	**82**	**447**	**1,554**	**334**	**18**	**2,435**
Total negative gross fair value	**450**	**6,660**	**5,129**	**233**	**25**	**12,497**
Amounts of fair value offset in the balance sheet	**-**	**-**	**-**	**-**	**-**	**-**
Balance sheet balance of liabilities in respect of derivative instruments(2)	**450**	**6,660**	**5,129**	**233**	**25**	**12,497**
(2) Of which: balance sheet balance of liabilities in respect of derivative instruments not subject to a netting arrangement or similar arrangements****	**2**	**166**	**3,447**	**233**	**11**	**3,859**

* The Bank has implemented the directive of the Supervisor of Banks concerning offsetting of assets and liabilities, beginning on January 1, 2013. This directive includes new disclosure requirements with regard to offsets of derivative instruments, including with regard to collateral received in cash referring to assets in respect of derivative instruments. The Bank implemented the directive retroactively; however, the directive states that with regard to disclosures required for the first time due to the implementation of the directive, disclosure is not required for comparative figures referring to the corresponding quarters of 2012. Also see Note 1(C).

** Except for credit derivatives.

*** Derivatives constituting part of the Bank's assets and liabilities management network, that have not been designated for hedging.

**** For this purpose, a netting arrangement is an arrangement that meets the legal and operational conditions established with regard to offsets in Appendix C to Proper Conduct of Banking Business Directive 203, Capital Measurement and Adequacy.

(NIS millions)

Note 8 Derivative Instruments Activity - volume, credit risks and maturity dates (continued)

A. Nominal amount of derivative instruments

	as at March 31, 2012					
	Interest contracts		Foreign currency contracts	Share 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 swap contracts in which the banking corporation has agreed to pay a fixed interest rate	-	4,067	-	-	-	4,067
2. ALM derivatives*,**						
Future 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 swap contracts in which the banking corporation has agreed to pay a fixed interest rate	1,922	88,323	-	-	-	90,245
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 foreign currency spot swap 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
Foreign currency spot swap contracts	-	-	17,448	-	-	17,448
Total nominal amount	11,973	293,179	209,670	22,170	3,270	540,262

* Except for credit derivatives and foreign currency spot swap contracts.
** Derivatives constituting part of the Bank's assets and liabilities management network, that have not been designated for hedging.

(NIS millions)

Note 8 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	Share related contracts	Commodity and other contracts	Total
	NIS-CPI	Other				
1. Hedging derivatives*						
Positive gross fair value	-	50	23	-	-	73
Negative gross fair value	-	408	95	-	-	503
2. ALM derivatives*,**						
Positive gross fair value	78	4,623	2,129	91	84	7,005
Negative gross fair value	331	5,186	3,888	77	87	9,569
3. Other derivatives*						
Positive gross fair value	-	-	47	132	-	179
Negative gross fair value	-	-	46	119	-	165
4. Credit derivatives						
Credit derivatives for which the banking corporation is a guarantor:						
Positive gross fair value	-	-	-	-	1	1
Negative gross fair value	-	-	-	-	3	3
Credit derivatives for which the banking corporation is a beneficiary:						
Positive gross fair value	-	-	-	-	4	4
Total positive gross fair value	78	4,673	2,199	223	89	7,262
Total negative gross fair value	331	5,594	4,029	196	90	10,240

* Except for credit derivatives.
** Derivatives constituting part of the Bank's assets and liabilities management network, that have not been designated for hedging.
*** Reclassified. Gross fair value is after attribution of the effects of the implementation of FAS 157, Fair Value Measurement.

Audited
(NIS millions)

Note 8 Derivative Instruments Activity - volume, credit risks and maturity dates (continued)

A. Nominal amount of derivative instruments

	as at December 31, 2012					
	Interest contracts		Foreign currency contracts	Share related contracts	Commodity and other contracts	Total
	NIS-CPI	Other				
1. Hedging derivatives*						
Forward contracts	-	-	3,108	-	-	3,108
Swaps	-	8,956	-	-	-	8,956
Total hedging derivatives	-	8,956	3,108	-	-	12,064
Of which interest rate swap contracts in which the banking corporation has agreed to pay a fixed interest rate	-	1,670	-	-	-	1,670
2. ALM derivatives*,**						
Future contracts	-	14,185	-	-	-	14,185
Forward contracts	10,053	42,177	113,922	-	1,658	167,810
Option contracts traded on the stock exchange						
Options written	-	-	629	-	-	629
Options bought	-	-	631	-	-	631
Other option contracts						
Options written	-	28,485	18,286	4,456	961	52,188
Options bought	-	33,916	19,827	886	798	55,427
Swaps	2,953	220,964	35,566	1,786	-	261,269
Total ALM derivatives	13,006	339,727	188,861	7,128	3,417	552,139
Of which interest rate swap contracts in which the banking corporation has agreed to pay a fixed interest rate	2,247	104,972	-	-	-	107,219
3. Other derivatives*						
Option contracts traded on the stock exchange						
Options written	-	-	2,020	9,594	-	11,614
Options bought	-	-	2,020	9,594	-	11,614
Other option contracts						
Options bought	-	-	-	109	-	109
Total other derivatives	-	-	4,040	19,297	-	23,337
4. Credit derivatives and foreign currency spot swap contracts						
Credit derivatives for which the banking corporation is a guarantor	-	-	-	-	373	373
Credit derivatives for which the banking corporation is a beneficiary	-	-	-	-	30	30
Foreign currency spot swap contracts	-	-	10,626	-	-	10,626
Total nominal amount	13,006	348,683	206,635	26,425	3,820	598,569

* Except for credit derivatives and foreign currency spot swap contracts.
** Derivatives constituting part of the Bank's assets and liabilities management network, that have not been designated for hedging.

(NIS millions)

Note 8 Derivative Instruments Activity - volume, credit risks and maturity dates (continued)

B. Gross fair value of derivative instruments*,****

	as at December 31, 2012					
	Interest contracts		Foreign currency contracts	Share related contracts	Commodity and other contracts	Total
	NIS-CPI	Other				
1. Hedging derivatives**						
Positive gross fair value	-	31	57	-	-	88
Negative gross fair value	-	549	20	-	-	569
2. ALM derivatives**,***						
Positive gross fair value	175	6,416	2,451	104	47	9,193
Negative gross fair value	490	6,719	4,582	55	47	11,893
3. Other derivatives**						
Positive gross fair value	-	-	39	298	-	337
Negative gross fair value	-	-	39	271	-	310
4. Credit derivatives						
Credit derivatives for which the banking corporation is a guarantor:						
Positive gross fair value	-	-	-	-	2	2
Credit derivatives for which the banking corporation is a beneficiary:						
Positive gross fair value	-	-	-	-	19	19
Total positive gross fair value	175	6,447	2,547	402	68	9,639
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets in respect of derivative instruments(1)	175	6,447	2,547	402	68	9,639
(1) Of which: balance sheet balance of assets in respect of derivative instruments not subject to a netting arrangement or similar arrangements*****	78	469	1,257	402	27	2,233
Total negative gross fair value	490	7,268	4,641	326	47	12,772
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities in respect of derivative instruments(2)	490	7,268	4,641	326	47	12,772
(2) Of which: balance sheet balance of liabilities in respect of derivative instruments not subject to a netting arrangement or similar arrangements*****	2	194	3,013	326	17	3,552

* The Bank has implemented the directive of the Supervisor of Banks concerning offsetting of assets and liabilities, beginning on January 1, 2013. This directive includes new disclosure requirements with regard to offsets of derivative instruments, including with regard to collateral received in cash referring to assets in respect of derivative instruments. The Bank implemented the directive retroactively; however, the directive states that with regard to disclosures required for the first time due to the implementation of the directive, disclosure is not required for comparative figures referring to the corresponding quarters of 2012. Also see Note 1(C).

** Except for credit derivatives.

*** Derivatives constituting part of the Bank's assets and liabilities management network, that have not been designated for hedging.

**** Reclassified. Gross fair value is after attribution of the effects of the implementation of FAS 157, Fair Value Measurement.

***** For this purpose, a netting arrangement is an arrangement that meets the legal and operational conditions established with regard to offsets in Appendix C to Proper Conduct of Banking Business Directive 203, Capital Measurement and Adequacy.

(NIS millions)

Note 8 Derivative Instruments Activity - volume, credit risks and maturity dates (continued)

C. Credit risk in respect of derivative instruments, according to contract counterparty*

	as at March 31, 2013					
	Stock Exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Positive gross fair value of derivative instruments(1)	**227**	**6,118**	**926**	**-**	**2,259**	**9,530**
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	**-**	**(5,327)**	**(770)**	**-**	**(429)**	**(6,526)**
Net total assets in respect of derivative instruments	**227**	**791**	**156**	**-**	**1,830**	**3,004**
Off-balance sheet credit risk in respect of derivative instruments(2)	**-**	**8,207**	**1,440**	**204**	**7,715**	**17,566**
Total credit risk in respect of derivative instruments	**227**	**14,325**	**2,366**	**204**	**9,974**	**27,096**
Balance sheet balance of liabilities in respect of derivative instruments(3)	**227**	**6,495**	**1,614**	**44**	**4,117**	**12,497**
Gross amounts not offset in the balance sheet:						
Financial instruments	**-**	**(5,327)**	**(770)**	**-**	**(429)**	**(6,526)**
Net total liabilities in respect of derivative instruments	**227**	**1,168**	**844**	**44**	**3,688**	**5,971**

	as at March 31, 2012					
	Stock Exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Positive gross fair value of derivative instruments(1)	165	**4,254	659	2	**2,182	**7,262
Balance sheet balances of assets deriving from derivative instruments	165	**4,254	659	2	**2,182	**7,262
Off-balance sheet credit risk in respect of derivative instruments(2)	-	7,920	1,438	292	7,384	17,034
Total credit risk in respect of derivative instruments	165	**12,174	2,097	294	**9,566	**24,296

* The Bank has implemented the directive of the Supervisor of Banks concerning offsetting of assets and liabilities, beginning on January 1, 2013. This directive includes new disclosure requirements with regard to offsets of derivative instruments, including with regard to collateral received in cash referring to assets in respect of derivative instruments. The Bank implemented the directive retroactively; however, the directive states that with regard to disclosures required for the first time due to the implementation of the directive, disclosure is not required for comparative figures referring to the corresponding quarters of 2012. Also see Note 1(C).

** Reclassified. Positive gross fair value is after attribution of the effects of the implementation of FAS 157, Fair Value Measurement.

(1) Of which positive gross fair value of embedded derivative instruments is NIS 15 million (March 31, 2012: NIS 17 million).

(2) 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 borrower.

(3) Of which negative gross fair value of embedded derivative instruments is NIS 43 million.

(NIS millions)

Note 8 Derivative Instruments Activity - volume, credit risks and maturity dates (continued)

C. Credit risk in respect of derivative instruments, according to contract counterparty* (continued)

	as at December 31, 2012					
	Stock Exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Positive gross fair value of derivative instruments(1)	310	**6,090	1,038	-	**2,201	**9,639
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(5,490)	(877)	-	(437)	(6,804)
Net total assets in respect of derivative instruments	310	600	161	-	1,764	2,835
Off-balance sheet credit risk in respect of derivative instruments	-	8,468	1,493	204	7,577	17,742
Total credit risk in respect of derivative instruments	310	14,558	2,531	204	**9,778	**27,381
Balance sheet balance of liabilities in respect of derivative instruments(2)	310	7,266	1,767	69	3,360	12,772
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(5,490)	(877)	-	(437)	(6,804)
Net total liabilities in respect of derivative instruments	310	1,776	890	69	2,923	5,968

* The Bank has implemented the directive of the Supervisor of Banks concerning offsetting of assets and liabilities, beginning on January 1, 2013. This directive includes new disclosure requirements with regard to offsets of derivative instruments, including with regard to collateral received in cash referring to assets in respect of derivative instruments. The Bank implemented the directive retroactively; however, the directive states that with regard to disclosures required for the first time due to the implementation of the directive, disclosure is not required for comparative figures referring to the corresponding quarters of 2012. Also see Note 1(C).

** Reclassified. Positive gross fair value is after attribution of the effects of the implementation of FAS 157, Fair Value Measurement.

(1) Of which positive gross fair value of embedded derivative instruments is NIS 15 million.

(2) Of which negative gross fair value of embedded derivative instruments is NIS 54 million.

(NIS millions)

Note 8 Derivative Instruments Activity - volume, credit risks and maturity dates (continued)

D. Details of maturity dates (nominal value amounts):

	as at March 31, 2013				
	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	**2,098**	**4,248**	**4,919**	**2,548**	**13,813**
Other	**77,720**	**117,205**	**111,059**	**62,683**	**368,667**
Foreign currency contracts	**122,414**	**51,621**	**12,607**	**17,312**	**203,954**
Share related contracts	**16,144**	**1,622**	**3,782**	**274**	**21,822**
Commodity and other contracts (including credit derivatives)	**1,134**	**587**	**371**	**-**	**2,092**
Total	**219,510**	**175,283**	**132,738**	**82,817**	**610,348**
	as at March 31, 2012				
	Unaudited				
Total	219,956	131,717	115,687	72,902	540,262
	as at December 31, 2012				
	Audited				
Total	220,989	161,724	133,067	82,789	598,569

(NIS millions)

Note 9 Balances and Fair Value Estimations of Financial Instruments

A. Balances and fair value estimations of financial instruments

	March 31, 2013				
	Balance sheet balance	Fair Value(1)			Total
		Level 1	Level 2	Level 3	
Financial Assets					
Cash on hand and deposits with banks	**43,272**	**2,738**	**-**	**40,539**	**43,277**
Securities*	**59,461**	**50,829**	**7,380**	**1,304**	**59,513**
Securities which were borrowed or bought under agreements to resell	**31**	**-**	**-**	**31**	**31**
Credit to the public, net***	**247,782**	**1,388**	**-**	**248,541**	**249,929**
Credit to governments	**767**	**-**	**-**	**769**	**769**
Assets in respect of derivative instruments	**9,515**	**227**	**7,141**	**2,147**	**9,515**
Other financial assets	**2,245**	**1,243**	**-**	**1,002**	**2,245**
Total financial assets	****363,073**	**56,425**	**14,521**	**294,333**	**365,279**
Financial liabilities					
Deposits from the public***	**265,297**	**1,388**	**-**	**266,203**	**267,591**
Deposits from banks	**4,893**	**-**	**-**	**5,034**	**5,034**
Deposits from the Government	**678**	**-**	**-**	**743**	**743**
Securities which were lent or sold under agreements to repurchase	**639**	**-**	**-**	**639**	**639**
Bonds and subordinated notes	**36,222**	**33,625**	**-**	**5,586**	**39,211**
Liabilities in respect of derivative instruments	**12,454**	**227**	**11,645**	**582**	**12,454**
Other financial liabilities	**17,913**	**1,243**	**-**	**16,601**	**17,844**
Total financial liabilities	****338,096**	**36,483**	**11,645**	**295,388**	**343,516**

* Includes shares and options for which no fair value is available, stated at cost in the amount of NIS 529 million.
** Of which: Assets and liabilities in the amount of NIS 74,682 million and in the amount of NIS 17,400 million, respectively, whose balance sheet balance is identical to their fair value (instruments presented at fair value in the balance sheet). For further information regarding instruments measured at fair value on a recurring basis and on a nonrecurring basis, see Sections B-F.
*** Of which, amounts of NIS 15 million and NIS 43 million, respectively, were included in the balance of credit to the public and in the balance of deposits from the public, in respect of embedded derivative instruments.
(1) Level 1 - Fair value measurements using prices quoted on an active market.
Level 2 - Fair value measurements using other significant observable inputs.
Level 3 - Fair value measurements using significant unobservable inputs.

(NIS millions)

Note 9 Balances and Fair Value Estimations of Financial Instruments (continued)

A. Balances and fair value estimations of financial instruments (continued)

	March 31, 2012				
	Balance sheet balance	Fair Value(1)			Total
		Level 1	Level 2	Level 3	
Financial Assets					
Cash on hand and deposits with banks	52,270	2,106	-	50,159	52,265
Securities*	36,903	30,780	4,637	1,546	36,963
Securities which were borrowed or bought under agreements to resell	70	-	-	70	70
Credit to the public, net***	244,804	697	-	246,381	247,078
Credit to governments	743	-	-	745	745
Assets in respect of derivative instruments	7,245	165	4,985	2,095	7,245
Other financial assets	1,515	438	-	1,076	1,514
Total financial assets	**343,550	34,186	9,622	302,072	345,880
Financial liabilities					
Deposits from the public***	251,576	697	-	252,960	253,657
Deposits from banks	6,624	-	-	6,817	6,817
Deposits from the Government	906	-	-	979	979
Securities which were lent or sold under agreements to repurchase	1,393	-	-	1,393	1,393
Bonds and subordinated notes	34,422	31,133	-	5,283	36,416
Liabilities in respect of derivative instruments	10,180	165	10,000	15	10,180
Other financial liabilities	16,076	438	-	15,568	16,006
Total financial liabilities	**321,177	32,433	10,000	283,015	325,448

* Includes shares and options for which no fair value is available, stated at cost in the amount of NIS 569 million.

** Of which: Assets and liabilities in the amount of NIS 47,509 million and in the amount of NIS 14,213 million, respectively, whose balance sheet balance is identical to their fair value (instruments presented at fair value in the balance sheet). For further information regarding instruments measured at fair value on a recurring basis and on a nonrecurring basis, see Sections B-F.

*** Of which, amounts of NIS 17 million and NIS 60 million, respectively, were included in the balance of credit to the public and in the balance of deposits from the public, in respect of embedded derivative instruments.

(1) Level 1 - Fair value measurements using prices quoted on an active market.
Level 2 - Fair value measurements using other significant observable inputs.
Level 3 - Fair value measurements using significant unobservable inputs.

Audited
(NIS millions)

Note 9 Balances and Fair Value Estimations of Financial Instruments (continued)

A. Balances and fair value estimations of financial instruments (continued)

	December 31, 2012				
	Balance sheet balance	Fair Value[(1)]			Total
		Level 1	Level 2	Level 3	
Financial Assets					
Cash on hand and deposits with banks	55,301	2,376	-	52,934	55,310
Securities**	52,070	44,976	5,738	1,415	52,129
Securities which were borrowed or bought under agreements to resell	47	-	-	47	47
Credit to the public, net****	249,182	1,009	-	250,673	251,682
Credit to governments	798	-	-	800	800
Assets in respect of derivative instruments	9,624	309	*7,797	*1,518	*9,624
Other financial assets	2,177	1,234	-	943	2,177
Total financial assets	***369,199	49,904	*13,535	*308,330	*371,769
Financial liabilities					
Deposits from the public****	271,411	1,009	-	272,977	273,986
Deposits from banks	6,015	-	-	6,169	6,169
Deposits from the Government	629	-	-	698	698
Securities which were lent or sold under agreements to repurchase	1,116	-	-	1,116	1,116
Bonds and subordinated notes	35,677	33,843	-	4,908	38,751
Liabilities in respect of derivative instruments	12,718	309	*12,393	*16	*12,718
Other financial liabilities	17,313	1,234	-	16,030	17,264
Total financial liabilities	***344,879	36,395	*12,393	*301,914	*350,702

* Reclassified after attribution of the effects of the implementation of FAS 157, Fair Value Measurement.
** Includes shares and options for which no fair value is available, stated at cost in the amount of NIS 564 million.
*** Of which: Assets and liabilities in the amount of NIS 66,522 million and in the amount of NIS 17,254 million, respectively, whose balance sheet balance is identical to their fair value (instruments presented at fair value in the balance sheet). For further information regarding instruments measured at fair value on a recurring basis and on a nonrecurring basis, see Sections B-F.
**** Of which, amounts of NIS 15 million and NIS 54 million, respectively, were included in the balance of credit to the public and in the balance of deposits from the public, in respect of embedded derivative instruments.
(1) Level 1 - Fair value measurements using prices quoted on an active market.
Level 2 - Fair value measurements using other significant observable inputs.
Level 3 - Fair value measurements using significant unobservable inputs.

Note 9 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 fees 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 is 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 by 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 charge-offs and of allowances for credit losses in respect of the debts.

Note 9 Balances and Fair Value Estimations of Financial Instruments (continued)

Charge-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 this data, charge-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 fair value by NIS 50 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 assets 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 exchange.

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.

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, an indicative price of a counterparty to the transaction, or 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 9 Balances and Fair Value Estimations of Financial Instruments (continued)

B. Items measured at fair value on a recurrent basis

	March 31, 2013			
	Fair value measurements using –			Balance sheet balance
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	
Assets				
Securities available for sale:				
Government bonds - Israeli government	**39,635**	**4,534**	**-**	**44,169**
Government bonds - Foreign governments	**1,507**	**416**	**-**	**1,923**
Bonds of financial institutions in Israel	**351**	**95**	**-**	**446**
Bonds of foreign financial institutions	**257**	**1,379**	**43**	**1,679**
Bonds of others in Israel	**2,626**	**534**	**-**	**3,160**
Bonds of foreign others	**777**	**58**	**-**	**835**
Tradable shares	**1,263**	**-**	**-**	**1,263**
Securities held for trading:				
Government bonds - Israeli government	**3,397**	**-**	**-**	**3,397**
Government bonds - Foreign governments	**110**	**364**	**-**	**474**
Bonds of foreign financial institutions	**602**	**-**	**-**	**602**
Bonds of others in Israel	**8**	**-**	**-**	**8**
Bonds of foreign others	**263**	**-**	**-**	**263**
Tradable shares	**33**	**-**	**-**	**33**
Total securities measured at fair value:	**50,829**	**7,380**	**43**	**58,252**
Assets in respect of derivative instruments:				
NIS-CPI contracts	**-**	**80**	**83**	**163**
Other interest contracts	**-**	**5,244**	**740**	**5,984**
Foreign-currency contracts	**78**	**1,801**	**1,115**	**2,994**
Share contracts	**149**	**-**	**186**	**335**
Commodity and other contracts	**-**	**16**	**23**	**39**
Assets in respect of embedded derivatives	**-**	**-**	**15**	**15**
Credit in respect of inter-customer lending	**1,388**	**-**	**-**	**1,388**
Assets in respect of activity in the Maof market	**1,243**	**-**	**-**	**1,243**
Total Assets	**53,687**	**14,521**	**2,205**	**70,413**

(NIS millions)

Note 9 Balances and Fair Value Estimations of Financial Instruments (continued)

B. Items measured at fair value on a recurrent basis (continued)

	March 31, 2013			
	Fair value measurements using –			Balance sheet balance
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	
Liabilities				
Liabilities in respect of derivative instruments:				
NIS-CPI contracts	**-**	**448**	**2**	**450**
Other interest contracts	**-**	**6,260**	**402**	**6,662**
Foreign-currency contracts	**78**	**4,913**	**138**	**5,129**
Share contracts	**149**	**-**	**39**	**188**
Commodity and other contracts	**-**	**24**	**1**	**25**
Liabilities in respect of embedded derivatives	**-**	**-**	**43**	**43**
Deposits in respect of inter-customer lending	**1,388**	**-**	**-**	**1,388**
Liabilities in respect of activity in the Maof market	**1,243**	**-**	**-**	**1,243**
Total Liabilities	**2,858**	**11,645**	**625**	**15,128**

(NIS millions)

Note 9 Balances and Fair Value Estimations of Financial Instruments (continued)

B. Items measured at fair value on a recurrent basis (continued)

	March 31, 2012			
	Fair value measurements using –			Balance sheet balance
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	
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
Total securities measured at fair value:	30,780	4,637	67	35,484
Assets in respect of derivative instruments*:				
NIS-CPI contracts	-	35	43	78
Other interest contracts	-	3,535	1,138	4,673
Foreign-currency contracts	46	1,372	764	2,182
Share contracts	119	6	98	223
Commodity and other contracts	-	37	52	89
Assets in respect of embedded derivatives	-	-	17	17
Credit in respect of inter-customer lending	697	-	-	697
Assets in respect of activity in the Maof market	438	-	-	438
Total Assets	32,080	9,622	2,179	43,881

* Restated. Fair value measurements of assets and liabilities in respect of derivative instruments are after attribution of the effects of the implementation of FAS 157, Fair Value Measurement.

(NIS millions)

Note 9 Balances and Fair Value Estimations of Financial Instruments (continued)

B. Items measured at fair value on a recurrent basis (continued)

	March 31, 2012			
	Fair value measurements using –			Balance sheet balance
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	
Liabilities				
Liabilities in respect of derivative instruments*:				
NIS-CPI contracts	-	331	-	331
Other interest contracts	-	5,588	5	5,593
Foreign-currency contracts	46	3,982	-	4,028
Share contracts	119	12	7	138
Commodity and other contracts	-	87	3	90
Liabilities in respect of embedded derivatives	-	1	59	60
Deposits in respect of inter-customer lending	697	-	-	697
Liabilities in respect of activity in the Maof market	438	-	-	438
Total Liabilities	1,300	10,001	74	11,375

* Restated. Fair value measurements of assets and liabilities in respect of derivative instruments are after attribution of the effects of the implementation of FAS 157, Fair Value Measurement.

(NIS millions)

Note 9 Balances and Fair Value Estimations of Financial Instruments (continued)

B. Items measured at fair value on a recurrent basis (continued)

	December 31, 2012			
	Fair value measurements using –			Balance sheet balance
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	
Assets				
Securities available for sale:				
Government bonds - Israeli government	34,343	3,780	-	38,123
Government bonds - Foreign governments	1,625	437	-	2,062
Bonds of financial institutions in Israel	181	95	-	276
Bonds of foreign financial institutions	268	1,034	43	1,345
Bonds of others in Israel	2,534	368	-	2,902
Bonds of foreign others	932	24	-	956
Tradable shares	1,090	-	-	1,090
Securities held for trading:				
Government bonds - Israeli government	2,993	-	-	2,993
Government bonds - Foreign governments	79	-	-	79
Bonds of foreign financial institutions	608	-	-	608
Bonds of others in Israel	8	-	-	8
Bonds of foreign others	272	-	-	272
Tradable shares	43	-	-	43
Total securities measured at fair value:	44,976	5,738	43	50,757
Assets in respect of derivative instruments*:				
NIS-CPI contracts	-	95	80	175
Other interest contracts	-	5,989	458	6,447
Foreign-currency contracts	39	1,681	812	2,532
Share contracts	270	-	132	402
Commodity and other contracts	-	32	36	68
Assets in respect of embedded derivatives	-	-	15	15
Credit in respect of inter-customer lending	1,009	-	-	1,009
Assets in respect of activity in the Maof market	1,234	-	-	1,234
Total Assets	47,528	13,535	1,576	62,639

* Restated. Fair value measurements of assets and liabilities in respect of derivative instruments are after attribution of the effects of the implementation of FAS 157, Fair Value Measurement.

Audited
(NIS millions)

Note 9 Balances and Fair Value Estimations of Financial Instruments (continued)

B. Items measured at fair value on a recurrent basis (continued)

	December 31, 2012			
	Fair value measurements using –			Balance sheet balance
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	
Liabilities				
Liabilities in respect of derivative instruments*:				
NIS-CPI contracts	-	490	-	490
Other interest contracts	-	7,265	4	7,269
Foreign-currency contracts	39	4,591	11	4,641
Share contracts	270	-	1	271
Commodity and other contracts	-	47	-	47
Liabilities in respect of embedded derivatives	-	-	54	54
Deposits in respect of inter-customer lending	1,009	-	-	1,009
Liabilities in respect of activity in the Maof market	1,234	-	-	1,234
Total Liabilities	2,552	12,393	70	15,015

* Restated. Fair value measurements of assets and liabilities in respect of derivative instruments are after attribution of the effects of the implementation of FAS 157, Fair Value Measurement.

as at March 31, 2013 (NIS millions)

Note 9 Balances and Fair Value Estimations of Financial Instruments (continued)

C. Items measured at fair value on a nonrecurrent basis

	March 31, 2013				
	Fair value measurements using –			Total fair value	Total gain (loss) in the period ended March 31, 2013
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)		
	Unaudited				
Assets measured at fair value on a nonrecurrent basis					
Impaired credit the collection of which is contingent on collateral	**-**	**-**	**1,859**	**1,859**	**(1)2**
Investments in Shares	**-**	**-**	**33**	**33**	**(2)(8)**
Total	**-**	**-**	**1,892**	**1,892**	**(6)**

	March 31, 2012				
	Fair value measurements using –			Total fair value	Total loss in the period ended March 31, 2012
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)		
	Unaudited				
Assets measured at fair value on a nonrecurrent basis					
Investments in Shares	-	-	13	13	(2)(1)

	December 31, 2012				
	Fair value measurements using –			Total fair value	Total loss in the period ended December 31, 2012
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)		
	Audited				
Assets measured at fair value on a nonrecurrent basis					
Impaired credit the collection of which is contingent on collateral	-	-	2,263	2,263	(1)(145)
Investments in Shares	-	-	13	13	(2)(1)
Total	-	-	2,276	2,276	(146)

(1) Gains (losses) are included in the statement of profit and loss under the item "Provision for credit losses".
(2) Losses are included in the statement of profit and loss under the item "Non-interest financing income".

(NIS millions)

Note 9 Balances and Fair Value Estimations of Financial Instruments (continued)

D. Changes in items measured at fair value on a recurrent basis included in level 3

	as at March 31, 2013								
	Fair value as at December 31, 2012	Profits (losses) included in statement of profit and loss(1)(3)	Acquisitions	Issuance	Extinguishment	Transfers to level 3	Transfers from level 3	Fair value as at March 31, 2013	Unrealized profits (losses) in respect of instruments held as at March 31, 2013
Assets									
Securities available for sale:									
Bonds of foreign financial institutions	**43**	**-**	**-**	**-**	**-**	**-**	**-**	**43**	**(2)(1)-**
Net balances in respect of derivative instruments:									
NIS-CPI contracts	**80**	**2**	**-**	**-**	**(2)**	**1**		**81**	**(3)2**
Other interest contracts	**454**	**(147)**	**24**	**(1)**	**6**	**-**	**2**	**338**	**(3)(1)(36)**
Foreign currency contracts	**801**	**476**	**91**	**-**	**(707)**	**(4)**	**320**	**977**	**(3)421**
Share contracts	**131**	**25**	**5**	**-**	**(14)**	**-**	**-**	**147**	**(3)32**
Commodity and other contracts	**36**	**1**	**2**	**-**	**(18)**	**-**	**1**	**22**	**(3)(7)**
Embedded derivatives	**(39)**	**3**	**-**	**(5)**	**13**	**-**	**-**	**(28)**	**(3)(6)**
Total	**1,506**	**360**	**122**	**(6)**	**(722)**	**(3)**	**323**	**1,580**	**406**

(1) Gains (losses) are included in the statement of profit and loss under the item "Interest income".
(2) Gains (losses) are included in equity under the item "adjustments in respect of the presentation of securities available for sale at fair value".
(3) Gains (losses) are included in the statement of profit and loss under the item "Non-interest financing income".

(NIS millions)

Note 9 Balances and Fair Value Estimations of Financial Instruments (continued)

D. Changes in items measured at fair value on a recurrent basis included in level 3 (continued)

	as at March 31, 2012									
	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	Transfers to level 3	Transfers from level 3	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]*2
Asset backed securities (ABS)	7	-	-	-	-	(5)	-	-	2	[2][1]-
Tradable shares										
Net balances in respect of derivative instruments*:										
NIS-CPI contracts	53	(9)	-	-	-	(2)	-	1	43	[3]-
Other interest contracts	1,285	(330)	-	142	-	35	1	-	1,133	[3][1]-
Foreign currency contracts	1,486	(401)	-	79	-	(531)	84	47	764	[3]-
Share contracts	22	62	-	7	-	-	-	-	91	[3]47
Commodity and other contracts	82	(18)	-	4	-	(21)	1	1	49	[3]3
Embedded derivatives	(28)	(14)	-	-	(2)	2	-	-	(42)	-
Total	2,970	(709)	1	232	(2)	(522)	86	49	2,105	52

* Restated. Fair value measurements of assets and liabilities in respect of derivative instruments are after attribution of the effects of the implementation of FAS 157, Fair Value Measurement.
(1) Gains (losses) are included in the statement of profit and loss under the item "Interest income".
(2) Gains (losses) are included in equity under the item "adjustments in respect of the presentation of securities available for sale at fair value".
(3) Gains (losses) are included in the statement of profit and loss under the item "Non-interest financing income".

Audited
(NIS millions)

Note 9 Balances and Fair Value Estimations of Financial Instruments (continued)

D. Changes in items measured at fair value on a recurrent basis included in level 3 (continued)

	as at December 31, 2012									
	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	Transfers to level 3	Transfers from level 3	Fair value as at December 31, 2012	Unrealized profits (losses) in respect of instruments held as at December 31, 2012
Assets										
Securities available for sale:										
Bonds of foreign financial institutions	63	13	(8)	-	-	(25)		-	43	(2)(1) 1
Asset backed securities (ABS)	7	(2)	-	-	-	(5)		-	-	(2)(1) -
Net balances in respect of derivative instruments*:										
NIS-CPI contracts	53	81	-	-	-	(54)	-	-	80	(3) 38
Other interest contracts	1,285	(1,200)	-	62	-	307	-	-	454	(3)(1) (85)
Foreign currency contracts	1,486	(2)	-	152	-	(984)	131	18	801	(3) 553
Share contracts	22	113	-	11	-	(15)	-	-	131	(3) 64
Commodity and other contracts	82	(9)	-	19	-	(56)	-	-	36	(3) 22
Embedded derivatives	(28)	(13)	-	-	(6)	8	-		(39)	(3) (11)
Total	2,970	(1,019)	(8)	244	(6)	(824)	131	18	1,506	582

* Restated. Fair value measurements of assets and liabilities in respect of derivative instruments are after attribution of the effects of the implementation of FAS 157, Fair Value Measurement.
(1) Gains (losses) are included in the statement of profit and loss under the item "Interest income".
(2) Gains (losses) are included in equity under the item "adjustments in respect of the presentation of securities available for sale at fair value".
(3) Gains (losses) are included in the statement of profit and loss under the item "Non-interest financing income".

E. During the period, there were no transfers of items measured at fair value from Level 2 measurement to Level 1 measurement.

F. The Bank transferred net assets in respect of interest-rate derivatives in the amount of NIS 3 million from Level 3 measurement to Level 2 measurement during the period, which prior to the transfer were measured using unobservable inputs.

(NIS millions)

Note 9 Balances and Fair Value Estimations of Financial Instruments (continued)

G. Additional information regarding significant unobservable inputs and assessment techniques used in the measurement of the fair value of items classified as Level 3

	March 31, 2013			
	Fair value	Assessment technique	Unobservable inputs	Range (weighted average)
Assets				
Impaired credit the collection of which is contingent on collateral	1,859	Tradable assets – market value net of an appropriate safety coefficient Non-tradable assets – discounted cash flow net of an appropriate safety coefficient		
Net balances in respect of derivative instruments:				
NIS-CPI contracts	85	Currency and interest-rate derivatives pricing model	Transaction counterparty risk	1.95%-5.48% (3.78%)
Other interest contracts	369	Interest-rate derivatives pricing model	Transaction counterparty risk	1.95%-5.48% (3.04%)
Foreign currency contracts	1,087	Option pricing model	Transaction counterparty risk	1.95%-5.59% (3.03%)
Share contracts(1)	30	Option pricing model	Standard deviation	24.64%-63.03% (34.61%)
			Dividend yield	2.00%-10.56% (2.33%)
			Unlinked NIS interest rate	3.59%-3.89% (3.75%)
Commodity and other contracts	9	Currency derivatives pricing model	Transaction counterparty risk	1.95%-4.61% (3.53%)
Embedded derivatives(2)	15	Option pricing model	Unlinked NIS interest rate	1.02%-4.56% (2.66%)

Sensitivity analysis of fair value measurements classified as Level 3:

(1) 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.

(2) An increase (decrease) in the discounting interest rate would lead to a significantly lower (higher) fair value measurement.

(NIS millions)

Note 10 Interest Income and Expenses

	For the three months ended March 31	
	2013	2012
A. Interest income**		
From credit to the public	**2,668**	2,920
From credit to governments	**4**	4
From deposits with banks	**24**	*29
From deposits with Bank of Israel and from cash	**70**	160
From bonds	**309**	*261
From other assets	**14**	-
Total interest income	**3,089**	3,374
B. Interest expenses**		
On deposits from the public	**(727)**	(984)
On deposits from Government	**(6)**	(7)
On deposits from banks	**(40)**	(50)
On securities which were lent or sold under agreements to repurchase	**(2)**	(5)
On bonds and subordinated notes	**(394)**	(366)
On other liabilities	**(6)**	-
Total interest expenses	**(1,175)**	(1,412)
Total interest income, net	**1,914**	1,962
C. Details of net effect of hedging derivative instruments on interest income and expenses***		
Interest income	**(37)**	37
Interest expenses	**(5)**	8
D. Details of interest income from bonds on a cumulative basis		
Held to maturity	**10**	12
Available for sale	**286**	*224
Held for trading	**13**	25
Total included in interest income	**309**	*261

* Reclassified.
** Including effective component in hedging relations.
*** Details of effect of hedging derivative instruments on subsections (A) and (B).

(NIS millions)

Note 11 Non-Interest Financing Income

A. Non-interest financing income in respect of non-trading activities

	For the three months ended March 31	
	2013	2012
1. From activity in derivative instruments		
Non-effective part of hedging ratios (see C below)(1)	**7**	8
Net expenses in respect of ALM derivative instruments(2)	**(502)**	(49)
Total from activity in derivative instruments	**(495)**	(41)
2. From investment in bonds		
Profits from sale of bonds available for sale	**114**	60
Losses from sale of bonds available for sale	**(1)**	(4)
Total from investment in bonds	**113**	56
3. Net exchange differences	**454**	114
4. Gains (losses) from investment in shares		
Gains from sale of shares available for sale	**50**	55
Losses from sale of shares available for sale(3)	**(11)**	(4)
Dividend from shares available for sale	**12**	-
Total from investment in shares	**51**	51
5. Net gains (losses) in respect of securitization transactions	**-**	-
6. Net gains (losses) in respect of loans sold	**-**	-
Total non-interest financing income in respect of non-trading activities	**123**	180

(1) Excluding the effective component of hedging ratios.
(2) Derivative instruments constituting part of the asset and liability management network of the Bank, which are not designated for hedging ratios.
(3) Including a provision for impairment in the amount of NIS 11 million for the three-month period ended March 31, 2013 (NIS 4 million for the three-month period ended March 31, 2012).

(NIS millions)

Note 11 Non-Interest Financing Income (continued)

B. Non-interest financing income in respect of trading activities*

	For the three months ended March 31	
	2013	2012
Net income in respect of other derivative instruments	**8**	8
Net realized and unrealized gains (losses) from adjustments to fair value of bonds held for trading(1)	**11**	(7)
Net realized and unrealized gains from adjustments to fair value of shares held for trading(2)	**1**	4
Dividends received from shares held for trading	**-**	1
Total non-interest financing income from trading activities**	**20**	6
Total non-interest financing income	**143**	186
Details of non-interest financing income in respect of trading activities, by risk exposure		
Interest-rate exposure	**11**	(6)
Share exposure	**9**	12
Total	**20**	6

C. Non-effective part of hedging ratios – further details* **		
1. Fair value hedges		
Non-effectiveness of hedges	**(1)**	(1)
Gains component in respect of derivative instruments excluded for the evaluation of the effectiveness of the hedge	**1**	1
2. Cash flow hedges		
Gains component in respect of derivative instruments excluded for the evaluation of the effectiveness of the hedge	**7**	8

* Including exchange differences arising from trading activity.
** With regard to interest income from investment in bonds held for trading, see Note 10.
*** For a disclosure of the net effect of hedging derivative instruments on interest income and expenses, see Note 10.
(1) Of which, the part of gains (losses) associated with bonds held for trading still held at the balance sheet date, in the amount of approximately NIS 1 million (March 31, 2012: NIS (1) million).
(2) Of which, the part of gains (losses) associated with shares held for trading still held at the balance sheet date, in the amount of approximately NIS 0 million (March 31, 2012: NIS (2) million).

(NIS millions)

Note 12 Operating Segments

	For the three months ended March 31, 2013							
	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**	**(115)**	**290**	**281**	**768**	**(34)**	**-**	**1,914**
- Inter-segmental	**(183)**	**392**	**(13)**	**(84)**	**(234)**	**122**	**-**	**-**
Non-interest income:								
Non-interest financing income	**-**	**9**	**-**	**1**	**21**	**112**	**-**	**143**
Fees and other income	**295**	**365**	**153**	**94**	**153**	**80**	**147**	**1,287**
Total income	**836**	**651**	**430**	**292**	**708**	**280**	**147**	**3,344**
Provision for credit losses	**91**	**26**	**28**	**33**	**79**	**-**	**-**	**257**
Net profit attributed to shareholders of the Bank	**40**	**45**	**98**	**73**	**304**	**50**	**11**	**621**
Return on equity (percent net profit attributed to shareholders of the Bank out of average equity)	**3.7%**	**7.1%**	**21.7%**	**9.3%**	**10.4%**	**12.7%**	**-**	**9.5%**

	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	737	(248)	309	288	847	29	-	1,962
- Inter-segmental	(175)	569	(29)	(102)	(320)	57	-	-
Non-interest income:								
Non-interest financing income	-	9	-	2	20	155	-	186
Fees and other income	307	370	157	71	141	104	157	1,307
Total income	869	700	437	259	688	345	157	3,455
Provision for credit losses	29	4	23	54	193	-	-	303
Net profit attributed to shareholders of the Bank	126	91	110	47	211	66	8	659
Return on equity (percent net profit attributed to shareholders of the Bank out of average equity)	13.9%	17.3%	28.9%	7.4%	7.4%	19.1%	-	11.3%

* Reclassified as detailed in Note 31 to the Financial Statements of 2012.

(NIS millions)

Note 12 Operating Segments (continued)

	For the year ended December 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	3,267	(850)	1,196	1,218	3,529	(200)	-	8,160
- Inter-segmental	(1,027)	2,079	(74)	(449)	(1,308)	779	-	-
Non-interest income:								
Non-interest financing income	2	37	-	6	97	113	-	255
Fees and other income	1,252	1,491	628	284	560	370	637	5,222
Total income	3,494	2,757	1,750	1,059	2,878	1,062	637	13,637
Provision for credit losses (reduction of allowance)	257	38	133	90	481	(12)	-	987
Net profit (loss) attributed to shareholders of the Bank	365	258	386	279	1,103	164	(12)	2,543
Return on equity (percent net profit attributed to shareholders of the Bank out of average equity)	9.2%	10.7%	21.9%	10.2%	9.3%	10.8%	-	10.1%

(NIS millions)

Note 13 Cumulative Other Comprehensive Income (Loss)

A. Changes in cumulative other comprehensive income (loss), after tax effect

1. Changes in cumulative other comprehensive income (loss) for the three-month periods ended March 31, 2013 and 2012 (unaudited)

	Other comprehensive income before attribution to non-controlling interests				Other comprehensive income (loss) attributed to non-controlling interests	Other comprehensive income attributed to shareholders of the Bank
	Adjustments for presentation of securities available for sale at fair value	Net adjustments from translation* after hedge effects**	Net profits (losses) in respect of cash-flow hedges	Total		
Balance as at December 31, 2012	**646**	**9**	**(16)**	**639**	**3**	**636**
Net change during the period	**(67)**	**(33)**	**2**	**(98)**	**(1)**	**(97)**
Balance as at March 31, 2013	**579**	**(24)**	**(14)**	**541**	**2**	**539**
Balance as at December 31, 2011	233	-	(13)	220	-	220
Net change during the period	(49)	1	3	(45)	1	(46)
Balance as at March 31, 2012	184	1	(10)	175	1	174

2. Changes in cumulative other comprehensive income (loss) in 2012 (audited)

	Other comprehensive income before attribution to non-controlling interests				Other comprehensive income attributed to non-controlling interests	Other comprehensive income attributed to shareholders of the Bank
	Adjustments for presentation of securities available for sale at fair value	Net adjustments from translation* after hedge effects**	Net profits (losses) in respect of cash-flow hedges	Total		
Balance as at December 31, 2011	233	-	(13)	220	-	220
Net change during the year	413	9	(3)	419	3	416
Balance as at December 31, 2012	646	9	(16)	639	3	636

* Adjustments from the translation of financial statements of foreign operation whose functional currency differs from the functional currency of the Bank.

** Net profits (losses) in respect of hedging of investments, net, in foreign currency.

(NIS millions)

Note 13 Cumulative Other Comprehensive Income (Loss) (continued)

B. Changes in components of cumulative other comprehensive income (loss), before and after tax effect

1. Changes in cumulative other comprehensive income (loss) for the three-month periods ended March 31, 2013 and 2012

	For the three months ended					
	March 31, 2013			March 31, 2012		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Changes in components of other comprehensive income (loss) before attribution to non-controlling interests:						
Adjustments for presentation of securities available for sale at fair value						
Net unrealized gains (losses) from adjustments to fair value	**27**	**(11)**	**16**	(15)	2	(13)
(Gains) losses in respect of securities available for sale reclassified to the statement of profit and loss	**(125)**	**42**	**(83)**	(40)	4	(36)
Net change during the period	**(98)**	**31**	**(67)**	(55)	6	(49)
Adjustments from translation*						
Adjustments from translation of financial statements	**(95)**	**-**	**(95)**	19	-	19
Hedges**	**97**	**(35)**	**62**	(27)	9	(18)
Net change during the period	**2**	**(35)**	**(33)**	(8)	9	1
Cash-flow hedges						
Net (profits) losses in respect of cash-flow hedges reclassified to the statement of profit and loss	**3**	**(1)**	**2**	4	(1)	3
Net change during the period	**3**	**(1)**	**2**	4	(1)	3
Total net change during the period	**(93)**	**(5)**	**(98)**	(59)	14	(45)
Changes in components of other comprehensive income (loss) attributed to non-controlling interests:						
Total net change during the period	**(1)**	**-**	**(1)**	1	-	1
Changes in components of other comprehensive income (loss) attributed to shareholders of the Bank:						
Total net change during the period	**(92)**	**(5)**	**(97)**	(60)	14	(46)

* Adjustments from the translation of financial statements of foreign operation whose functional currency differs from the functional currency of the Bank.
** Net profits (losses) in respect of hedging of investments, net, in foreign currency.

(NIS millions)

Note 13 Cumulative Other Comprehensive Income (Loss) (continued)

B. Changes in components of cumulative other comprehensive income (loss), before and after tax effect (continued)

2. Changes in cumulative other comprehensive income (loss) for the year ended December 31, 2012

	For the year ended December 31, 2012		
	Before tax	Tax effect	After tax
Changes in components of other comprehensive income (loss) before attribution to non-controlling interests:			
Adjustments for presentation of securities available for sale at fair value			
Net unrealized gains (losses) from adjustments to fair value	644	(168)	476
(Gains) losses in respect of securities available for sale reclassified to the statement of profit and loss	(94)	31	(63)
Net change during the period	550	(137)	413
Adjustments from translation*			
Adjustments from translation of financial statements	5	-	5
Hedges**	7	(3)	4
Net change during the period	12	(3)	9
Cash-flow hedges			
Net (profits) losses in respect of cash-flow hedges reclassified to the statement of profit and loss	7	(10)	(3)
Net change during the period	7	(10)	(3)
Total net change during the period	569	(150)	419
Changes in components of other comprehensive income (loss) attributed to non-controlling interests:			
Total net change during the period	3	-	3
Changes in components of other comprehensive income (loss) attributed to shareholders of the Bank:			
Total net change during the period	566	(150)	416

* Adjustments from the translation of financial statements of foreign operation whose functional currency differs from the functional currency of the Bank.
** Net profits (losses) in respect of hedging of investments, net, in foreign currency.

Note 14 Wage Agreement

A wage agreement for 2013-2017 was signed by the Board of Management of the Bank and the Employee Union of the Bank in March 2013 (hereinafter: the "Agreement"). In accordance with the Agreement, the Bank paid its employees a one-time bonus in the amount of one monthly salary. In addition, employees' combined wages will rise, differentially, based on pay grades.

Along with the update of certain related terms, the Agreement cancels certain post-retirement benefits.

The Agreement further states that the Bank will grant its employees share-based compensation, in a similar format to that of previous agreements, using phantom units.

The method and volume of ranking of Bank employees, the seniority mechanism, and the annual bonus will remain similar to the format currently in use.

Note 15 Fees

"The Committee for the Examination of Increasing Competitiveness in the Banking System", headed by the Supervisor of Banks, was appointed in December 2011 as an adjunct to the Committee for Economic and Social Change, headed by Prof. Manuel Trajtenberg.

The committee's mission, as described in its letter of appointment, is to examine and recommend "various means and measures to increase competitiveness in the Israeli banking market." The committee's recommendations were published in an interim report on July 16, 2012.

Further to the publication of the interim report, on November 28, 2012, the Supervisor of Banks issued the Amendment to the Banking Rules (Service to Customers) (Fees), 2008, which reflected the main points of the recommendations in the interim report concerning fees.

The amendment took effect in two phases:

- On January 1, 2013, several fees in the areas of securities, information cards and cash withdrawal cards, credit, account management, and other fees were cancelled or changed under the amendment.
- On March 1, 2013, banks were required to apply the following measures: reprice fees for securities activity, taking into consideration the changes in the fee structure under the first amendment (January 1, 2013) and the need to adjust the fees, to the extent possible, to the price collected in practice; and change the manner of engagement with customers with regard to discounts on fees for securities activity, such that the discount is based on the rate or amount of the fee, rather than on a percent discount off the listed fee.

Based on mapping and examination of the overall implications for the Bank's revenues, in the opinion of the Bank, the implementation of the changes in the amendment to the Banking Rules, and of additional items included in the interim report but not yet put into practice, is likely to have a material negative impact on the results of its operations.

Note 16 Events After the Balance Sheet Date

A. Value Added Tax Law, 1975

The Bank is defined as a financial institution for the purposes of the Value Added Tax Law, which imposes wage tax and profit tax on such institutions. According to publications, the Minister of Finance plans to adjust the rate of profit tax and wage tax applicable to financial institutions, in the proposed economic plan for 2013-2014, to 18% as of June 1, 2013. If this change takes effect, its impact will be reflected beginning with the financial statements for the second quarter of 2013.

Such a change would raise the statutory tax rate applicable to the Bank. In addition, the change would lead to an increase of one percentage point in wage tax, to 18%, as of June 1, 2013. This change would cause an increase in the balance of deferred taxes (as reflected at the end of the quarter) in the amount of approximately NIS 30 million, and an increase in the balance of liabilities for employee benefits in the amount of approximately NIS 25 million, before the related tax effect.

B. Proposed Change in Rate of Corporation Tax

Pursuant to the announcement of the Ministry of Finance of May 14, 2013, the government has resolved to act to raise corporation tax by 1.5% beginning in 2014, to 26.5%. If this change passes the stages of legislation in Knesset, it is expected to lead to an increase in the balance of deferred taxes (as reflected at the end of the quarter) by a total of approximately NIS 90 million, beyond the effect of the expected change in profit tax described above.

C. Expected Combined Tax Rates

Taxes paid on profits of banking corporations include corporation tax, pursuant to the Income Tax Ordinance, and profit tax, pursuant to the Value Added Tax Law. Accordingly, the combined tax rates, taking into consideration the aforesaid expected changes, are as follows:

Year	Profit tax rate	Income tax rate	Combined tax rate
2012	16.33%	25.00%	35.53%
2013*	17.58%	25.00%	36.22%
2014 forward**,*	18.00%	26.50%	37.71%

* Assuming an increase in value-added tax on June 1, 2013.
** Assuming an increase in corporation tax on January 1, 2014.