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Bank Hapoalim

Condensed Financial Statement
as at March 31, 2014

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.

Board of Directors' Report
As at March 31, 2014

At the meeting of the Board of Directors held on May 21, 2014, 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 2014.

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 753 million in the first quarter of 2014, compared with NIS 621 million in the same quarter last year.

Net return on equity attributed to shareholders of the Bank was 10.7% in the first quarter of 2014, in annualized terms, compared with 9.5% in the same quarter last year.

Basic net profit per share of par value NIS 1 amounted to NIS 0.57 in the first quarter of 2014, compared with NIS 0.47 in the same quarter last year.

Total assets of the Bank Group as at March 31, 2014 amounted to approximately NIS 376.9 billion, compared with approximately NIS 380.2 billion at the end of 2013, a decrease of 0.9%.

Net total credit to the public amounted to NIS 250.2 billion as at March 31, 2014, compared with NIS 251.6 billion at the end of 2013, a decrease of 0.5%.

Total deposits from the public amounted to NIS 276.0 billion as at March 31, 2014, compared with NIS 276.5 billion at the end of 2013, a decrease of 0.2%.

Total shareholders' equity amounted to NIS 29.9 billion as at March 31, 2014, compared with NIS 29.1 billion at the end of 2013, an increase of 2.7%.

The total capital ratio according to Basel 3 as at March 31, 2014 was 14.96%, compared with 14.68% on January 1, 2014.

The common equity Tier 1 capital ratio as at March 31, 2014 was 9.44%, compared with 9.15% on January 1, 2014.

Principal Data of the Bank Hapoalim Group

	For the three months ended				
	March 31, 2014	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	March 31, 2013
	NIS millions				
Profit and Profitability					
Net financing income*	**2,056**	2,073	2,117	2,176	2,057
Fees and other income	**1,299**	1,394	1,278	1,282	1,287
Total income	**3,355**	3,467	3,395	3,458	3,344
Provision (income) for credit losses	**(15)**	(59)	375	301	257
Operating and other expenses	**2,156**	2,562	2,133	2,135	2,135
Net profit attributed to shareholders of the Bank	**753**	651	653	655	621

	March 31, 2014	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	March 31, 2013
	NIS millions				
Balance Sheet – Principal Data					
Total balance sheet	**376,867**	380,246	374,216	378,483	370,317
Net credit to the public	**250,232**	251,600	249,341	247,120	247,782
Securities	**65,333**	60,912	60,998	61,137	59,461
Deposits from the public	**276,014**	276,525	269,632	274,601	265,297
Bonds and subordinated notes	**31,314**	33,980	34,819	35,874	36,222
Shareholders' equity	**29,855**	29,060	28,391	27,808	27,279
Net total problematic credit risk**	**14,205**	16,279	13,870	13,264	13,561
Of which: net impaired balance sheet debts**	**6,305**	6,817	6,624	7,030	6,856

* 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 in respect of problematic credit risk.

Principal Data of the Bank Hapoalim Group (continued)

	For the three months ended				
	March 31, 2014	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	March 31, 2013
Main Financial Ratios					
Net loan to deposit ratio	**90.7%**	91.0%	92.5%	90.0%	93.4%
Net loan to deposit ratio including bonds and subordinated notes	**81.4%**	81.0%	81.9%	79.6%	82.2%
Shareholders' equity to total assets	**7.9%**	7.6%	7.6%	7.3%	7.4%
Common equity Tier 1 capital according to Basel 3	**9.4%**				
Total capital according to Basel 3	**15.0%**				
Ratio of core capital to risk-adjusted assets according to Basel 2		9.4%	9.3%	9.2%	9.1%
Ratio of total capital to risk-adjusted assets according to Basel 2		15.6%	15.7%	15.7%	15.6%
Financing margin from regular activity(1)(2)	**2.09%**	2.13%	2.20%	2.16%	2.07%
Cost-income ratio(5)	**64.3%**	61.2%	62.8%	61.7%	63.8%
Total income to assets(3)	**3.6%**	3.8%	3.6%	3.7%	3.7%
Total expenses to assets(4)	**2.3%**	2.8%	2.3%	2.3%	2.3%
Provision (income) for credit losses as a percentage of the average recorded balance of credit to the public(1)	**(0.02%)**	(0.09%)	0.59%	0.48%	0.41%
Net return of profit attributed to shareholders of the Bank on equity(1)	**10.7%**	9.4%	9.6%	9.9%	9.5%
Basic net earnings per share in NIS attributed to shareholders of the Bank	**0.57**	0.49	0.50	0.50	0.47

(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 income divided by the average balance of total assets.
(4) Total operating and other expenses, divided by the balance of total average assets.
(5) Does not include expenses for efficiency plans.

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, 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, 2014, is NIS 1,322,483,241 par value, composed of ordinary shares of par value NIS 1 each. This is the issued capital following the subtraction of 14,893,870 ordinary shares purchased by the Bank (hereinafter: "Treasury Shares"), as detailed below.

The issued and paid-up capital of the Bank near the date of publication of the financial statements is NIS 1,321,061,953 par value, following subtraction of the balance of 16,315,158 Treasury Shares.

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

The Supervisor of Banks granted the Bank approval for a buyback of 39,250,000 shares, to create a pool of shares for the equity compensation program for employees and senior executives (see Note 13(B) to the Annual Financial Statements for 2013). Near the date of publication of the Financial Statements, the Bank had purchased 23,553,853 shares, at a cost of approximately NIS 376 million.

Changes in the capital of the Bank from January 1, 2014, to near the date of publication of the financial statements:

Up to the date of publication of the financial statements, an increase of 486,063 ordinary shares occurred in the issued and paid-up capital of the Bank, as a result of the transfer of shares from the pool and exercise of RSU, which was offset by shares purchased for the pool of shares.

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 2010-2012 series issued to employees of the Bank, in the amount of 10,447,721 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 6,314,598 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 2013.

Dividends

On July 10, 2013, the Board of Directors of the Bank resolved to update the Bank's dividend distribution policy. Pursuant to the dividend distribution policy established by the Board of Directors, up to 30% of net operating profits will be distributed. This policy will be in effect until the Bank meets the capital targets set by the Supervisor of Banks and adopted by the Board of Directors. The Bank received the Supervisor of Banks' approval to distribute dividends at a rate of 15% of annual profit.
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.
On May 30, 2013, the Supervisor of Banks issued a circular to all banking corporations regarding minimum capital ratios, as part of the preparation for the implementation of the Basel 3 directives. Pursuant to the circular, all banking corporations will be required to maintain a minimum common equity 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 common equity Tier 1 capital ratio of 10%, by January 1, 2017. It was further established 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 common equity Tier 1 capital ratio of 10% and a minimum total capital ratio of 13.5%, beginning January 1, 2017.
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 Tier 1 capital ratio, taking into account the effects of Basel 3.

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 has approved a buyback of the Bank's shares for the Bank's compensation program. For further details, see the section "Investments in the Capital of the Bank and Transactions in its Shares."
The balance of retained earnings at the Bank as at March 31, 2014 totaled NIS 20,824 million, of which a total of approximately NIS 2,734 million cannot be distributed as dividends, as mentioned.

Details regarding dividend distribution in 2014:
In accordance with the dividend distribution policy of the Bank, following approval by the Supervisor of Banks for the distribution of a quarterly dividend at a rate of 15% of net profits, the Board of Directors resolved on May 21, 2014, to distribute a dividend in respect of the profits of the first quarter of 2014, in the amount of approximately NIS 106 million, or NIS 0.08 per share of par value NIS 1. The Board of Directors set the record date for payment of the dividend at May 29, 2014 and the date of payment at June 12, 2014.

Details of dividends paid as of January 1, 2013:

Date of declaration	Date of payment	Dividend per share	Dividend paid in cash
		in agorot	in NIS millions
July 10, 2013	August 5, 2013	7	92
August 28, 2013	September 30, 2013	7	92
November 26, 2013	December 18, 2013	7	92
March 19, 2014	**April 10, 2014**	**8**	**106**

Capital and Capital Adequacy

In May 2013, the Supervisor of Banks amended Proper Conduct of Banking Business Directives 201-211 concerning capital measurement and adequacy, in order to adjust them to the Basel 3 directives.

It should be emphasized that the Basel 3 directives establish significant changes in the calculation of supervisory capital requirements, with regard to the following matters, among others:

- Components of supervisory capital;
- Deductions from capital and supervisory adjustments;
- Accounting for exposures to financial corporations;
- Accounting for exposures to credit risk in respect of impaired debts;
- Allocation of capital for CVA risk.

The amendments to the aforesaid directives are in effect as of January 1, 2014. Implementation is gradual, in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299, "Capital Measurement and Adequacy – Supervisory Capital – Transitional Directives," which is aimed at making it possible to comply with the new requirements regarding supervisory capital within the implementation of the Basel 3 directives and establishing a transitional period until full implementation.

Among other matters, the transitional directives address supervisory adjustments and deductions from capital, as well as capital instruments not eligible for inclusion in supervisory capital, according to the new criteria established in the Basel directives. Specifically, pursuant to the transitional directives, supervisory adjustments and deductions from capital, as well as minority interests not eligible for inclusion in supervisory capital, shall be deducted from capital gradually, at a rate of 20% per annum, from January 1, 2014 to January 1, 2018. Capital instruments that are no longer eligible as supervisory capital shall be recognized up to a ceiling of 80% on January 1, 2014; the ceiling will be lowered by an additional 10% in each subsequent year, until January 1, 2022.

On May 30, 2013, the Supervisor of Banks issued a circular to all banking corporations regarding minimum capital ratios, as part of the preparation for the implementation of the Basel 3 directives. Pursuant to the circular, all banking corporations will be required to maintain a minimum common equity 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 common equity Tier 1 capital ratio of 10%, by January 1, 2017.

It was further established 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 common equity Tier 1 capital ratio of 10% and a minimum total capital ratio of 13.5%, beginning January 1, 2017.

The aforesaid minimum capital ratios will be calculated in accordance with the Basel 3 directives and the adjustments established by the Supervisor of Banks. The Board of Directors of the Bank approved the target minimum capital ratios on December 25, 2013, as described above.

	March 31, 2014	Jan. 1, 2014	Dec. 31, 2013
	Basel 3(1)		Basel 2(2)
	NIS millions		
1. Capital for the calculation of the capital ratio			
Common equity Tier 1 capital/core capital	**30,036**	29,223	(4)28,421
Tier 1 capital	**31,990**	31,177	(4)30,890
Tier 2 capital	**15,632**	15,697	16,341
Total overall capital	**47,622**	46,874	(4)47,231
2. Weighted balances of risk-adjusted assets			
Credit risk	**290,357**	292,814	276,763
Market risks	**6,328**	4,748	4,748
Operational risk	**21,553**	21,769	21,769
Total weighted balances of risk-adjusted assets	**318,238**	319,331	303,280
	%		
3. Ratio of capital to risk-adjusted assets			
Ratio of common equity Tier 1 capital to risk-adjusted assets/ratio of core capital to risk-adjusted assets	**9.44%**	9.15%	9.37%
Ratio of Tier 1 capital to risk-adjusted assets	**10.05%**	9.76%	10.19%
Ratio of total capital to risk-adjusted assets	**14.96%**	14.68%	15.57%
Minimum common equity Tier 1 capital ratio required by the Supervisor of Banks	**(3)9.00%**	(3)9.00%	
Minimum total capital ratio required by the Supervisor of Banks	**(3)12.50%**	(3)12.50%	9.00%

(1) Calculated according to Proper Conduct of Banking Business Directives 201-211, 299, "Capital Measurement and Adequacy," applicable beginning January 1, 2014. Data as at January 1, 2014 are based on balances as at December 31, 2013.
(2) Calculated according to Proper Conduct of Banking Business Directives 201-211, "Capital Measurement and Adequacy," which applied until December 31, 2013.
(3) The minimum capital ratio required according to the directives of the Supervisor of Banks, from January 1, 2015 to December 31, 2016. As of January 1, 2017, the minimum required common equity Tier 1 capital ratio is 10%, and the minimum required total capital ratio is 13.5%.
(4) Net of a dividend declared after the balance sheet date in the amount of NIS 106 million, in accordance with the Basel 2 directives.

The common equity Tier 1 capital ratio as at March 31, 2014 was 9.44%, compared with a common equity Tier 1 capital ratio of 9.15% as at January 1, 2014.

The ratio of total capital to risk-adjusted assets as at March 31, 2014 was 14.96%, compared with a total capital ratio of 14.68% as at January 1, 2014.

Total capital as at March 31, 2014 amounted to approximately NIS 47,622 million, compared with NIS 46,874 million as at January 1, 2014. The increase in the capital base mainly resulted from the net profit for the quarter.

Risk-adjusted assets as at March 31, 2014 amounted to NIS 318.2 billion, compared with NIS 319.3 billion as at January 1, 2014.

Ratings of the Bank

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

	Rating agency	Long-term foreign currency	Short-term foreign currency	Rating outlook	Last update
Israel – sovereign rating:					
	Moody's	A1	P-1	Stable	August 2013
	S&P	A+	A-1	Stable	March 2014
	Fitch Ratings	A	F1	Positive	Dec 2013
Bank Hapoalim:					
	Moody's	A2	P-1	Stable	Dec 2013
	S&P	BBB+	A-2	Stable	August 2013
	Fitch Ratings	A-	F1	Stable	May 2014
Local rating (in Israel):					
	S&P Maalot	AA+		Stable	August 2013
	Midroog	Aaa	P-1	Stable	March 2014

In March 2014, the rating agency S&P confirmed the foreign currency rating to A+. The rating outlook remains stable.
In May 2014, the rating agency Midroog reaffirmed the Bank's rating (with no change), and upgraded its rating outlook to Stable (from Negative).
In May 2014, the rating agency Fitch reaffirmed the Bank's long-term rating (with no change) and upgraded its short-term rating to F1 (from F2).

Economic and Financial Review

Developments in the Global Economy

The process of recovery from the crisis continues, and was particularly notable in the European countries. Trends were mostly positive in the United States as well. Developments in the emerging markets were uneven, as some countries experienced political and social crises; overall, growth in these markets slowed. In the United States, the harsh winter on the East Coast caused damage to economic activity in the first quarter of 2014, and growth was minimal at 0.1% in annualized terms. However, recent figures point to a rebound. In the Eurozone, the improvement in indices of economic activity and confidence continues, while political developments further reduce near-term risks for the peripheral countries. In the emerging countries, concerns are mounting over the implications of the decelerating growth in China and its effects on the financial sector. China posted 7.4% growth year-on-year in the first quarter, the lowest rate since 2009. Looking ahead, the recovery of the global economy may be threatened by continued worsening in the emerging economies and escalation of the crisis between Russia and the West. The International Monetary Fund has slightly lowered its growth forecasts for this year and next year, to 3.6% and 3.9% respectively; the emerging economies are the main cause of the lowered growth forecasts.

Due to the relatively moderate improvement in economic activity, conditions in the labor market, and the low inflation environment, monetary policies in the developed countries remained strongly expansionary. Tapering of bond purchases continued in the United States, and Fed members, corroborated by capital-market expectations, now predict that the interest rate will rise more rapidly than previously estimated. However, the increase is not likely to occur until the second half of 2015. Meanwhile, the European Central Bank has hinted that it may use additional expansionary tools at its disposal, and quantitative expansion continues in Japan.

Tensions between Russia and the Western countries over Russia's annexation of the Crimean Peninsula and worries over possible invasion of additional Eastern Ukrainian territories are now significant risk factors. The Western countries have already begun to impose sanctions on Russia; in certain scenarios, escalation could lead to recession in Europe and impede the recovery of the global economy. The main pathway of the economic impact is Europe's high dependence on natural gas, which arrives from Russia through Ukraine; in addition, Russia is a major importer of consumer goods from Europe. Despite the Ukrainian crisis, most global financial risk indices continued to fall, while some stock indices, such as those in the United States, broke historic records. The downward trend of government bond yields in the peripheral European countries continues, with yields falling to pre-crisis levels or below.

Economic Activity in Israel

Indicators of economic activity point to some degree of acceleration of growth, most notably in domestic demand. Revenues of the sectors of the economy rose at an annualized rate of 6.2% in December 2013 - February 2014, and industrial production rose by 13.5%. Exports of goods remained flat in the first quarter of 2014; excluding a steep increase in pharmaceutical exports, exports actually declined. The unemployment rate stabilized at 5.8% in February 2014. The strength of the labor market is somewhat surprising, given the moderate level of economic growth, but excluding the effects of natural gas. The Bank of Israel estimates that, among other factors, the decrease in unemployment reflects a decrease in frictional unemployment – i.e., a structural change in the characteristics of the labor market. The Housing Cabinet approved measures aimed at lowering prices of homes, including a reduction of the rate of VAT to zero for first-time home buyers and land sales with target prices. The plans have not yet been approved by Knesset, and details have yet to be determined. These measures have generated uncertainty in the housing market, leading to postponement of new transactions. It should be noted that purchases of new homes had decreased somewhat even before these plans were announced. Overall for the quarter, sales decreased by 10% year-on-year.

Fiscal and Monetary Policy

A budget surplus of NIS 78 million accumulated in the first quarter, versus a deficit of NIS 4.7 billion in the same quarter last year. State tax revenues grew at a real rate (excluding legislative changes) of approximately 6% year-on-year. The budget deficit for the last twelve months decreased to 2.7% of GDP.

The Bank of Israel lowered the interest rate for March 2014 to 0.75%. The rate cut followed pressures towards appreciation of the NIS, inflation approaching the lower limit of the target range, and cooled growth. The interest rate remained unchanged in April and May 2014. Expectations in the T-bills market point to stability in the interest rate over the coming year.

Inflation and Exchange Rates

The consumer price index decreased by 0.7% in the first quarter. The decrease was steeper than the seasonal effect for the quarter; most notable were the decreases of 0.9% in prices of food, 13.4% in clothing and footwear, and 0.3% in transportation and communications. Housing prices (rent) increased by 0.6% during the quarter. Annual inflation (March versus March 2013) is now at 1.3%, or just 0.6% excluding housing. The low inflation during this period was less influenced by the growth rate of the economy or the fact that Israel is essentially at full employment, than by localized factors such as increasing competition in the communications market, growing exposure to competing imports, and appreciation of the exchange rate.

The NIS remained stable against the currency basket and appreciated slightly, by 0.5%, against the US dollar in the first quarter of 2014. Volatility of the exchange rate remained very low. The Bank of Israel purchased almost USD 3 billion in the foreign currency market during the first quarter of 2014, in order to prevent further currency depreciation. Of that amount, approximately USD 875 million were part of the purchasing plan aimed at offsetting the effect of natural gas.

Financial and Capital Markets

The Israeli stock market trended up during the first quarter, a positive standout in comparison to the relatively moderate gains on the American stock market and the declines in the emerging-markets index. Overall for the first quarter of 2014, the TA-100 index rose by 6.2%, versus a 1.3% increase in USD terms in the S&P 500 index and a 1.9% decline in the emerging-markets index. The gains were accompanied by an increase in turnovers. Daily turnovers rose to NIS 1,296 million in the first quarter of 2014, versus NIS 1,126 million in the same quarter last year.

The bond market saw an upward trend, due to the decrease in the Bank of Israel interest rate. The CPI-linked and unlinked government bond indices were up by approximately 2.0%, while the corporate bond index rose by 2.4% 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 decreased, to approximately NIS 6.3 billion, from NIS 8.7 billion in the preceding quarter.

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

	For the three months ended March 31		For the year 2013
	2014	2013	
Rate of increase (decrease) in "known" CPI	**(0.7%)**	0.0%	1.9%
Rate of increase (decrease) in USD exchange rate	**0.5%**	(2.3%)	(7.0%)
Rate of increase (decrease) in GBP exchange rate	**1.1%**	(8.3%)	(4.9%)
Rate of increase (decrease) in CHF exchange rate	**1.3%**	(6.2%)	(4.4%)
Rate of increase (decrease) in EUR exchange rate	**0.6%**	(5.3%)	(2.8%)
Rate of increase (decrease) in TRY exchange rate	**0.9%**	(3.6%)	(23.1%)

Data regarding the Bank of Israel interest rate are set out below:

	March 31, 2014	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	March 31, 2013
Interest rate at end of period	**0.75%**	1.00%	1.25%	1.25%	1.75%

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, 2013. 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.

No changes occurred during the reported period in the Bank's critical accounting policies, as described in the Board of Directors' Report on the Financial Statements as at December 31, 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 received reports and held discussions regarding deficiencies and material weaknesses in the internal control over the financial statements, if and as found, and received reports of any fraud, whether material or immaterial, if and inasmuch as any existed, in which the Board of Management is involved, or in which other employees are involved who take part in the Bank's internal control over financial reporting, as required under Directive 645 of the Public Reporting Directives of the Supervisor of Banks – Disclosure Declaration.

The Audit Committee examined 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 accounting treatment applied to material matters. The committee also examined 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, and examined the effectiveness of the internal controls over financial reporting.

As part of the discussion of the financial statements, the Audit Committee also discussed the problematic debts of the Bank, examined the value of the Bank's holdings in securities, and discussed the provision for other-than-temporary impairment of securities and provision for credit losses of the Bank. In addition, the Audit Committee discussed and examined 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 2013.

The Audit Committee and the Finance and Prospectus Committee held discussions regarding the financial statements as at March 31, 2014, and thereafter. 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 753 million in the first quarter of 2014, compared with profit in the amount of NIS 621 million in the same quarter last year.

Net return on shareholders' equity was 10.7% in the first quarter of 2014, in annualized terms, compared with 9.5% in the same quarter last year.

	For the three months ended			Change vs. three months ended	
	March 31, 2014	Dec. 31, 2013	March 31, 2013	Dec. 31, 2013	March 31, 2013
	NIS millions				
Interest income	**2,439**	2,755	3,089	(11.5%)	(21.0%)
Interest expenses	**(590)**	(815)	(1,175)	(27.6%)	(49.8%)
Net interest income	**1,849**	1,940	1,914	(4.7%)	(3.4%)
Non-interest financing income	**207**	133	143	55.6%	44.8%
Net financing profit*	**2,056**	2,073	2,057	(0.8%)	(0.0%)
Provision for credit losses	**(15)**	(59)	257	(74.6%)	(105.8%)
Net financing profit after provision (income) for credit losses	**2,071**	2,132	1,800	(2.9%)	15.1%
Fees and other income*	**1,299**	1,394	1,287	(6.8%)	0.9%
Operating and other expenses	**2,156**	2,562	2,135	(15.8%)	1.0%
Profit before taxes	**1,214**	964	952	25.9%	27.5%
Provision for taxes on profit	**479**	333	337	43.8%	42.1%
The Bank's share in profits of equity-basis investees, after taxes	**13**	5	4	160.0%	
Net profit:					
Before attribution to non-controlling interests	**748**	636	619	17.6%	20.8%
Loss attributed to non-controlling interests	**5**	15	2	(66.7%)	150.0%
Attributed to shareholders of the Bank	**753**	651	621	15.7%	21.3%
Net return of profit attributed to shareholders of the Bank on equity	**10.7%**	9.4%	9.5%		

* 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.

Details regarding the composition of net financing profit are set out below:

	2014	2013			
	Q1	Q4	Q3	Q2	Q1
	NIS millions				
Interest income	**2,439**	2,755	3,694	3,423	3,089
Interest expenses	**(590)**	(815)	(1,613)	(1,415)	(1,175)
Net interest income	**1,849**	1,940	2,081	2,008	1,914
Non-interest financing income	**207**	133	36	168	143
Total net financing profit	**2,056**	2,073	2,117	2,176	2,057

Net financing profit totaled NIS 2,056 million in the first quarter of 2014, compared with NIS 2,057 million in the same period last year. The decrease in financing profit mainly resulted from a decrease in profits from bonds, a decrease in income from adjustment to fair value of derivative instruments, and a decrease in income from hedges of investments overseas. The decrease was offset by the effect of the implementation of instructions set forth in the circular of the Supervisor of Banks concerning the adoption of GAAP for US banks on income measurement (hereinafter: FAS 91), beginning January 1, 2014.

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

	2014	2013			
	Q1	Q4	Q3	Q2	Q1
	NIS millions				
Profit from regular financing activity[1]	**1,795**	1,838	1,922	1,864	1,773
Income from realization and adjustments to fair value of bonds	**93**	81	50	214	124
Gains from investments in shares	**71**	32	55	1	52
Adjustments to fair value of derivative instruments[2]	**(3)**	47	21	34	63
Interest income on problematic debts not previously recorded	**30**	49	43	40	21
Financing income (expenses) from hedging of investments overseas[3]	**(4)**	26	26	23	24
Effects of FAS 91 [4]	**74**	-	-	-	-
Net financing profit	**2,056**	2,073	2,117	2,176	2,057

(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.
(4) Effect of implementation of the directives of FAS 91, beginning January 1, 2014. For further details, see Note 1.B.

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
	March 31, 2014	March 31, 2013*	
	NIS millions		
Households Segment	**519**	535	(3.0%)
Private Banking Segment	**239**	283	(15.5%)
Small Business Segment	**292**	276	5.8%
Commercial Segment	**219**	192	14.1%
Corporate Segment	**469**	526	(10.8%)
Financial Management Segment	**318**	245	29.8%
Total net financing profit	**2,056**	2,057	(0.0%)

* 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 2013. In addition, activity arising from customers of management companies of provident funds (other than management companies of provident funds managed within insurance companies) and mutual funds was reclassified from the Corporate Segment to the Financial Management Segment, following the implementation of the organizational change described above.
(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 2014, in comparison to the same period last year, mainly resulted from a decrease in the interest rate in Israel. The decrease was mainly offset by an increase in the volume of credit and deposits in the Small Business Segment. Net financing profit in the Commercial Segment increased, due to an increase in the volume of credit.

The decrease in net financing profit in the Corporate Segment, in comparison to the same period last year, resulted from a decrease in the volume of credit.

The increase in income in the Financial Management Segment, in comparison to the same period last year, mainly resulted from the effect of the implementation of FAS 91, as well as from an increase in profits from investments in shares. By contrast, profits from bonds, income from adjustments to fair value of derivative instruments, and income arising from hedging of investments overseas decreased.

Key data regarding rates of interest income and expenses:

	For the three months ended	
	March 31, 2014	March 31, 2013
Rate of income on interest-bearing assets	**2.99%**	3.76%
Rate of expense on interest-bearing liabilities	**0.88%**	1.72%
Overall interest spread	**2.11%**	2.04%
Net interest income as a percentage of the balance of interest-bearing assets	**2.26%**	2.32%

The decrease in the rate of income on assets and in the rate of the expense on liabilities resulted from the decrease in the interest rate in Israel. The increase in the overall interest spread resulted from the effects of the implementation of FAS 91. The increase was offset by a decrease in financial spreads in deposits. The decrease in the ratio of total net interest income to the balance of interest-bearing assets resulted from the decrease in financial spreads in deposits and early repayment fees.

An analysis of the changes in interest income and expenses, in a comparison of the first quarter of 2014 to the same quarter last year, indicates that changes in the volume of average balance sheet balances caused an increase in the amount of NIS 5 million, and changes in interest rates caused a decrease in the amount of NIS 70 million in net interest income.

The provision (income) for credit losses amounted to income in the amount of NIS 15 million in the first quarter of 2014, compared with a provision in the amount of NIS 257 million in the same quarter last year.

Net income in the amount of NIS 56 million was recorded in the first quarter of 2014 in respect of debts examined on an individual basis, resulting from a provision in the amount of NIS 216 million, net of a decrease in the individual allowance for credit losses and recovery of charged-off debts in the amount of NIS 272 million.

A net provision in the amount of NIS 26 million was recorded in respect of debts examined on an individual basis in the same quarter last year, resulting from 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.

The provision for credit losses in respect of debts examined on a collective basis amounted to approximately NIS 41 million, compared with NIS 231 million in the same quarter last year.

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

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

	2014	2013			
	Q1	Q4	Q3	Q2	Q1
	NIS millions				
Provision for credit losses in respect of debts examined on an individual basis	**216**	210	248	240	273
Decrease in individual allowance for credit losses and recovery of charged off debts	**(272)**	(212)	(147)	(143)	(247)
Net provision (income) for credit losses in respect of debts examined on an individual basis	**(56)**	(2)	101	97	26
Net provision (income) in respect of the collective allowance for credit losses and net charge-offs of debts examined on a collective basis	**41**	(57)	274	204	231
Total provision (income) for credit losses*	**(15)**	(59)	375	301	257
* Of which:					
Net provision (income) for credit losses in respect of commercial credit risk	**(26)**	(57)	328	210	154
Net provision (income) for credit losses in respect of housing credit risk	**(4)**	(1)	12	13	84
Net provision (income) for credit losses in respect of other private credit risk	**15**	(2)	37	77	18
Net provision for credit losses in respect of risk of credit to banks and governments	**-**	1	(2)	1	1
Total provision (income) for credit losses	**(15)**	(59)	375	301	257
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	**(0.02%)**	(0.09%)	0.59%	0.48%	0.41%
Net charge-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public	**0.18%**	0.30%	0.23%	0.20%	0.81%
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	**12.12%**	19.48%	13.69%	12.55%	53.86%

** 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, 2014	March 31, 2013*
	NIS millions	
Households Segment	**10**	91
Private Banking Segment	**7**	26
Small Business Segment	**24**	28
Commercial Segment	**8**	33
Corporate Segment	**(64)**	79
Total	**(15)**	257

* 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 2013.

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 segment of activity[1]:

	For the three months ended	
	March 31, 2014	March 31, 2013*
Households Segment	**0.06%**	0.57%
Private Banking Segment	**0.08%**	0.34%
Small Business Segment	**0.36%**	0.46%
Commercial Segment	**0.11%**	0.48%
Corporate Segment	**(0.31%)**	0.33%
Total	**(0.02%)**	0.41%

* 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 2013.
(1) Annualized.

Fees and other income totaled NIS 1,299 million in the first quarter of 2014, compared with NIS 1,287 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, 2014	Dec. 31, 2013	March 31, 2013	Dec. 31, 2013	March 31, 2013
	NIS millions				
Fees:					
Account management fees	**247**	254	237	(2.8%)	4.2%
Securities activity	**262**	239	232	9.6%	12.9%
Financial product distribution fees[1]	**50**	48	48	4.2%	4.2%
Management, operations, and trust services for institutional entities[2]	**12**	12	13	0.0%	(7.7%)
Credit cards, net	**404**	429	384	(5.8%)	5.2%
Credit handling[3]	**27**	95	90	(71.6%)	(70.0%)
Financing transaction fees	**135**	147	121	(8.2%)	11.6%
Conversion differences	**72**	72	64	0.0%	12.5%
Foreign trade activity	**29**	31	26	(6.5%)	11.5%
Net income from credit portfolio services	**9**	7	9	28.6%	0.0%
Life insurance and home insurance fees	**12**	13	12	(7.7%)	0.0%
Other fees	**11**	10	14	10.0%	(21.4%)
Total operating fees	**1,270**	1,357	1,250	(6.4%)	1.6%
Other income	**29**	37	37	(21.6%)	(21.6%)
Total fees and other income	**1,299**	1,394	1,287	(6.8%)	0.9%

(1) Mainly mutual funds.
(2) Mainly in respect of management and operational services provided to provident funds.
(3) Influenced by the implementation of FAS 91. For further details, see Note 1(B).

Fees totaled NIS 1,270 million in the first quarter of 2014, compared with NIS 1,250 million in the same quarter last year. Income from activity in securities increased, due to an increase in the volume of activity; income from credit card and fees from financing transactions increased as well. By contrast, income from credit handling decreased by approximately NIS 63 million. This decrease resulted from the implementation of FAS 91 as of January 1, 2014 (for details, see Note 1(B) to the Condensed Financial Statements). Fees previously recorded upon receipt were spread; and as of this date, some certain fees are included in the interest income item, instead of in the fees item, as in the past. The effect of the implementation caused a decrease in recorded fee income in the amount of approximately NIS 69 million.

Other income totaled NIS 29 million in the first quarter of 2014, compared with NIS 37 million in the same quarter last year. Most of the decrease resulted from profit which was recorded in the comparison period from the realization of assets received from credit collateral.

Operating and other expenses totaled NIS 2,156 million in the first quarter of 2014, compared with NIS 2,135 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, 2014	Dec. 31, 2013	March 31, 2013	Dec. 31, 2013	March 31, 2013
	NIS millions				
Salary expenses					
Wages	**1,122**	1,490	1,149	(24.7%)	(2.3%)
Bonuses and share-based compensation	**123**	130	95	(5.4%)	29.5%
Total salaries	**1,245**	1,620	1,244	(23.1%)	0.1%
Maintenance and depreciation of buildings and equipment	**390**	400	388	(2.5%)	0.5%
Amortization and impairment of intangible assets and goodwill	**3**	3	3	0.0%	0.0%
Other expenses	**518**	539	500	(3.9%)	3.6%
Total operating and other expenses	**2,156**	2,562	2,135	(15.8%)	1.0%

Salary expenses totaled NIS 1,245 million in the first quarter of 2014, similar to the expense in the same quarter last year. This increase was offset by a decrease in the number of positions year-on-year and savings on routine costs as a result of improved efficiency.
Salary expenses increased, due to an increase in bonus amounts, following the results for the quarter, as well as an increase in current wages; by contrast, salary expenses decreased as a result of a reduction in the number of employees and savings on routine costs due to efficiency processes.

The provision for taxes on profit amounted to NIS 479 million in the first quarter of 2014, compared with NIS 337 million in the same quarter last year. The effective tax rate in the first quarter of 2014 reached 39.5%, compared with a statutory tax rate of 37.7% mainly in respect of expenses not recognized for tax purposes.

Net profit attributed to shareholders of the Bank totaled NIS 753 million in the first quarter of 2014, compared with NIS 621 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 0.57 in the first quarter of 2014, compared with NIS 0.47 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, 2014 totaled NIS 376.9 billion, compared with NIS 380.2 billion at the end of 2013.

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

	Balance as at		Change
	March 31, 2014	December 31, 2013	
	NIS millions		
Total assets	**376,867**	380,246	(0.9%)
Net credit to the public	**250,232**	251,600	(0.5%)
Cash on hand and deposits with banks	**39,467**	45,709	(13.7%)
Securities	**65,333**	60,912	7.3%
Deposits from the public	**276,014**	276,525	(0.2%)
Bonds and subordinated notes	**31,314**	33,980	(7.8%)
Shareholders' equity	**29,855**	29,060	2.7%

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

	Balance as at		Change
	March 31, 2014	Dec. 31, 2013	
	NIS millions		
1. Off-balance sheet financial instruments, excluding derivatives:			
Documentary credit	**1,363**	1,270	7.3%
Guarantees and other commitments	**44,352**	42,593	4.1%
Unutilized credit-card credit facilities under the Bank's responsibility	**30,873**	31,066	(0.6%)
Unutilized credit-card credit facilities under other banks' responsibility	**10,374**	10,011	3.6%
Unutilized revolving overdraft and other credit facilities in on-demand accounts	**36,985**	37,214	(0.6%)
Irrevocable commitments to grant credit approved but not yet provided, and commitments to provide guarantees	**51,333**	50,879	0.9%
2. Derivative instruments (notional value amounts):			
Interest contracts	**482,885**	376,634	28.2%
Currency contracts	**266,101**	225,822	17.8%
Contracts in respect of shares	**30,434**	32,615	(6.7%)
Commodity and service contracts (including credit derivatives)	**1,171**	1,923	(39.1%)
Total notional value of derivatives	**780,591**	636,994	22.5%

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 custody, operational, consulting services:

	Balance as at		Change
	March 31, 2014	Dec. 31, 2013	
	NIS millions		
Securities[(1)]	**870,485**	840,070	3.6%
Assets of provident funds receiving operational services	**94,489**	83,399	13.3%
Assets of mutual funds[(2)]	**89,500**	89,400	0.1%
Pension advisory balances[(3)]	**19,493**	18,523	5.2%

(1) Including securities balances of provident funds and mutual funds for which the Bank Group provides custody services.
(2) Value of assets of mutual funds receiving services related to account management, at various volumes.
(3) Balances of study funds and pension products for which pension advice was provided.

Net Credit to the Public

Net credit to the public as at March 31, 2014 amounted to NIS 250.2 billion, compared with NIS 251.6 billion at the end of 2013, a decrease of approximately 0.5%.

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, 2014	Dec. 31, 2013			**March 31, 2014**	Dec. 31, 2013
	NIS millions					
Israeli currency unlinked	**159,086**	**157,885**	1,201	0.8%	**63.6%**	62.7%
Israeli currency CPI-linked	**53,991**	**55,560**	(1,569)	(2.8%)	**21.6%**	22.1%
Foreign currency (including f. c. linked)	**36,840**	**37,965**	(1,125)	(3.0%)	**14.7%**	15.1%
Non-monetary items	**315**	**190**	125	65.8%	**0.1%**	0.1%
Total	**250,232**	**251,600**	(1,368)	(0.5%)	**100.0%**	100.0%

Credit in the unlinked shekel segment increased by NIS 1.2 billion in the first quarter of 2014, an increase of approximately 0.8%. The increase resulted from an increase in retail credit, commercial credit, and housing credit, offset by a decrease in corporate credit.

Credit in the CPI-linked shekel segment decreased by NIS 1.6 billion in the first quarter of 2014, a decrease of approximately 2.8%. The decrease mainly resulted from a decrease in corporate credit and a decrease in housing credit, mainly due to a decrease in the consumer price index in the first quarter of 2014.

Credit in the foreign currency (including foreign currency linked) segment decreased by NIS 1.1 billion in the first quarter of 2014, a decrease of approximately 3.0%. The decrease mainly resulted from a decrease in corporate credit in Israel and a decrease in corporate credit in the Bank's overseas activity.

Net credit to the public by segment of activity:

	Balance as at			Change vs.	
	March 31, 2014	Dec. 31, 2013	March 31, 2013**	Dec. 31, 2013	March 31, 2013
	NIS millions				
Households Segment	**66,853**	66,123	64,573	1.1%	3.5%
Private Banking Segment	**35,102**	34,302	31,644	2.3%	10.9%
Small Business Segment	**26,748**	26,242	24,377	1.9%	9.7%
Commercial Segment	**31,269**	31,131	27,893	0.4%	12.1%
Corporate Segment	**84,968**	*88,273	*94,567	(3.7%)	(10.2%)
Financial Management Segment	**864**	*876	*135	(1.4%)	
Others and Adjustments	**4,428**	4,653	4,593	(4.8%)	(3.6%)
Total	**250,232**	251,600	247,782	(0.5%)	1.0%
Of which, consumer credit in Israel excluding housing loans:					
Households Segment	**23,215**	22,588	21,914	2.8%	5.9%
Private Banking Segment	**9,048**	8,859	8,226	2.1%	10.0%
Small Business Segment	**20,921**	20,392	18,845	2.6%	11.0%
Total	**53,184**	51,839	48,985	2.6%	8.6%
Housing loans in Israel:					
Households Segment	**37,456**	37,273	36,163	0.5%	3.6%
Private Banking Segment	**16,312**	15,940	13,778	2.3%	18.4%
Small Business Segment	**4,654**	4,663	4,300	(0.2%)	8.2%
Total	**58,422**	57,876	54,241	0.9%	7.7%

* Activity arising from customers of management companies of provident funds (other than management companies of provident funds managed within insurance companies) and in mutual funds was reclassified from the Corporate Segment to the Financial Management Segment, following the implementation of the organizational change described above.

** 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 2013.

Set out below are data regarding the balance of housing loans and 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, 2014	Dec. 31, 2013	March 31, 2013
	NIS millions		
Credit balances			
Loans from Bank funds	**58,836**	58,294	54,734
Loans from Finance Ministry funds*	**3,423**	3,613	4,153
Grants from Finance Ministry funds*	**227**	255	285
Total	**62,486**	62,162	59,172

	For the three months ended	For the twelve months ended	For the three months ended
	March 31, 2014	Dec. 31, 2013	March 31, 2013
	NIS millions		
Execution of housing loans			
Loans from Finance Ministry funds:			
Loans	**7**	32	7
Grants	**4**	24	2
Total from Finance Ministry funds	**11**	56	9
Total loans from Bank funds	**2,892**	11,748	2,626
Total new loans	**2,903**	11,804	2,635
Old loans refinanced from Bank funds	**435**	2,449	632
Total loans extended	**3,338**	14,253	3,267

* 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 of credit of the Bank*:

	Unlinked segment				CPI-linked segment				Foreign currency segment		Total	
	Fixed interest rate		Floating interest rate		Fixed interest rate		Floating interest rate		Floating interest rate		Recorded debt balance in NIS millions	Rate of change during the period
	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, 2014	**2,686**	**4.6%**	**19,646**	**33.4%**	**12,962**	**22.0%**	**22,627**	**38.5%**	**915**	**1.6%**	**58,836**	**0.9%**
Dec. 31, 2013	2,298	3.9%	19,171	32.9%	12,918	22.2%	22,964	39.4%	943	1.6%	58,294	7.8%

* Excluding balances in respect of subsidiaries overseas (as at March 31, 2014, a recorded debt balance in the amount of NIS 36 million; as at December 31, 2013, a recorded debt balance in the amount of NIS 38 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.

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

	Recorded debt balance in 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, 2014	**58,836**	**114**	**0.2%**	**261**	**0.4%**	**1,078**	**1.8%**
December 31, 2013	58,294	129	0.2%	272	0.5%	1,111	1.9%
December 31, 2012	54,060	154	0.3%	290	0.5%	980	1.8%
December 31, 2011	49,250	151	0.3%	294	0.6%	990	2.0%

* Excluding balances in respect of subsidiaries overseas (as at March 31, 2014, a recorded debt balance in the amount of NIS 36 million; as at December 31, 2013, a recorded debt balance in the amount of NIS 38 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

	For the three months ended				
	March 31, 2014	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	March 31, 2013
Characteristics					
Financing rate over 60%	**34.5%**	36.3%	36.9%	36.6%	36.9%
Ratio of repayment to income greater than 40% (for acquisition and in monthly payments)	**9.1%**	10.7%	12.5%	11.6%	12.9%
Financing rate over 60% and repayment rate over 40%	**2.5%**	3.5%	4.2%	4.4%	4.7%
Percentage of execution of floating-rate loans with interest varying at a frequency of less than 5 years (Bank of Israel limit 33.3%)	**31.8%**	31.7%	31.1%	30.8%	30.3%
Percentage of all-purpose loans	**4.6%**	5.8%	5.2%	4.9%	6.8%
Loans for investment purposes as a percentage of acquisition	**16.3%**	15.6%	14.7%	15.7%	12.6%
Bullet and balloon loans as a percentage of acquisition	**1.1%**	1.3%	2.1%	1.6%	1.1%
Average loan per acquisition (in NIS thousands)	**637**	621	625	643	618
Average original term to maturity for acquisition, in years	**18.0**	18.3	18.4	17.8	18.1

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.

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.

On April 24, 2014, the Supervisor of Banks issued a draft temporary order concerning housing loans, which consolidates a series of directives issued in the area of housing loans from July 11, 2010 to August 29, 2013. In this draft, the Supervisor established a new directive pursuant to which housing loans in an amount greater than NIS 5 million shall be weighted at 100% in capital allocation. The draft also redefines the payment as a percentage of income, and states that in addition to the borrower's income, half of a borrower's parent's disposable monthly income can be recognized, even if the parent does not acquire an interest in the property, if the parent is also a borrower and pays 25% of the monthly payment.

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's Review.

Overall credit risk to the public as at March 31, 2014 totaled NIS 509.0 billion, compared with NIS 512.4 billion at the end of 2013.

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

	March 31, 2014		Dec. 31, 2013		Change
	Total credit risk*	Percent of total	Total credit risk*	Percent of total	
	NIS millions		NIS millions		
Economic sector					
Agriculture	**2,973**	**0.6%**	2,927	0.6%	1.6%
Industry	**49,650**	**9.8%**	47,876	9.3%	3.7%
Construction and real estate - construction**	**52,096**	**10.2%**	51,413	10.0%	1.3%
Construction and real estate - real estate activities	**29,110**	**5.7%**	30,029	6.0%	(3.1%)
Electricity and water	**11,498**	**2.3%**	12,615	2.5%	(8.9%)
Commerce	**33,964**	**6.7%**	33,761	6.6%	0.6%
Hotels, hospitality, and food services	**10,485**	**2.1%**	9,957	1.9%	5.3%
Transportation and storage	**8,711**	**1.7%**	8,876	1.7%	(1.9%)
Communications and computer services	**7,738**	**1.5%**	8,946	1.7%	(13.5%)
Financial services	**39,298**	**7.7%**	45,470	8.9%	(13.6%)
Other business services	**16,434**	**3.2%**	15,508	3.0%	6.0%
Public and community services	**9,316**	**1.8%**	9,260	1.8%	0.6%
Total commercial	**271,273**	**53.3%**	276,638	54.0%	(1.9%)
Private individuals - housing loans	**55,936**	**11.0%**	55,898	10.9%	0.1%
Private individuals - others	**84,703**	**16.6%**	84,052	16.4%	0.8%
Total credit risk to the public	**411,912**	**80.9%**	416,588	81.3%	(1.1%)
Total banks***	**39,751**	**7.8%**	40,332	7.9%	(1.3%)
Total governments	**57,318**	**11.3%**	55,477	10.8%	3.3%
Total	**508,981**	**100.0%**	512,397	100%	(0.7%)

* Excluding unutilized credit facilities in credit cards under the responsibility of other banks in the amount of approximately NIS 10,374 million (December 31, 2013: NIS 10,011 million).

** Includes balance sheet credit risk in the amount of approximately NIS 741 million, and off-balance sheet credit risk in the amount of approximately NIS 1,732 million, granted to certain purchasing groups currently engaged in the process of construction (December 31, 2013: balance sheet credit risk in the amount of approximately NIS 882 million, and off-balance sheet credit risk in the amount of approximately NIS 1,764 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 81.2 billion as at March 31, 2014.

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, 2014		
	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
	NIS millions		
Construction for commerce and services	**1,779**	**1,628**	**3,407**
Construction for industry	**434**	**128**	**562**
Housing construction	**9,700**	**23,370**	**33,070**
Yield-generating properties	**21,936**	**6,484**	**28,420**
Other	**8,337**	**7,410**	**15,747**
Total construction and real-estate sectors	**42,186**	**39,020**	**81,206**

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, 2014:

	Number of borrowers	Balance sheet credit	Off-balance sheet credit	Total
		NIS millions		
Economic sector				
Industry	**4**	**744**	**9,056**	**9,800**
Construction and real estate - real-estate activities	**2**	**1,575**	**1,370**	**2,945**
Electricity and water	**1**	**3,618**	**812**	**4,430**
Commerce	**1**	**290**	**1,391**	**1,681**
Communications and computer services	**1**	**1,280**	**6**	**1,286**
Financial services	**3**	**2,634**	**2,847**	**5,481**
Total	**12**	**10,141**	**15,482**	**25,623**

Of which: balances of balance sheet credit and off-balance sheet credit risk to the 6 largest borrowers, by sector of the economy, as at March 31, 2014:

	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
	NIS millions		
Economic sector			
Industry	**13**	**4,599**	**4,612**
Electricity and water	**3,618**	**812**	**4,430**
Financial services	**1,403**	**693**	**2,096**
Industry	**4**	**2,067**	**2,071**
Financial services	**107**	**1,848**	**1,955**
Industry	**1**	**1,732**	**1,733**
Total	**5,146**	**11,751**	**16,897**

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, 2014:

	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	**5,204**	**2,997**	**75**	**8,222**	**499**	**7,723**	**16.22%**

From the beginning of 2012 to the end of the first quarter of 2014, the total indebtedness of groups of borrowers whose exposure exceeds 15% of the regulatory capital of the Bank decreased from NIS 27.5 billion to NIS 7.7 billion; accordingly, this indebtedness as a percentage of regulatory capital decreased from 61.8% to16.2%, a decrease of approximately 73.8%. In addition, the number of such groups decreased from three to one at the end of the first quarter of 2014.
In addition, the cumulative percentage of total credit risk composed of borrowers with indebtedness of more than NIS 1.2 billion each decreased from approximately 8.4% at the end of 2011 to approximately 6.2% at the end of March 2014, a decrease of approximately 26.2%.

(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.

Problematic Debts

A. Segmentation of problematic debts

	March 31, 2014			Dec. 31, 2013		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
Impaired credit risk	**7,226**	**736**	**7,962**	7,855	746	8,601
Substandard credit risk	**3,312**	**182**	**3,494**	3,522	277	3,799
Credit risk under special supervision	**3,318**	**1,589**	**4,907**	4,529	1,577	6,106
Total problematic credit risk*	**13,856**	**2,507**	**16,363**	15,906	2,600	18,506
Problematic credit risk net of allowance for credit losses	**11,909**	**2,296**	**14,205**	13,834	2,445	16,279
* Of which, unimpaired debts in arrears of 90 days or more	**1,047**	**-**	**1,047**	1,251	-	1,251

B. Nonperforming assets*

	Balance as at	
	March 31, 2014	Dec. 31, 2013
	NIS millions	
Impaired credit to the public not accruing interest income (NPL)	**6,682**	7,240
Assets received upon settlement of debts	**134**	151
Total nonperforming assets	**6,816**	7,391

* 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, 2014	Dec. 31, 2013
	NIS millions	
Impaired debts in troubled debt restructuring, accruing interest income	**490**	553
Impaired bonds accruing interest income	**45**	43
Total	**535**	596

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, 2014	Dec. 31, 2013
Balance of impaired credit to the public, as a percentage of the balance of credit to the public*	**2.82%**	3.05%
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*	**0.41%**	0.49%
Balance of allowance for credit losses in respect of credit to the public, as a percentage of the balance of credit to the public*	**1.48%**	1.54%
Balance of collective allowance for credit losses, as a percentage of the balance of credit to the public*	**1.25%**	1.24%
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*	**52.45%**	50.60%
Problematic credit risk in respect of the public, as a percentage of total credit risk in respect of the public*	**3.97%**	4.44%

* Before deducting the allowance for credit losses.

E. Composition of the allowance for credit losses

	Allowance for credit losses			
	On an individual basis	On a collective basis		Total
		According to the extent of arrears	Other	
	NIS millions			
Composition of the allowance as at March 31, 2014				
In respect of credit to the public	**921**	**261**	**2,580**	**3,762**
In respect of debts other than credit to the public	**-**	**-**	**6**	**6**
In respect of off-balance sheet credit instruments (included in the item "other liabilities")	**109**	**-**	**581**	**690**
Allowance for credit losses as at March 31, 2014	**1,030**	**261**	**3,167**	**4,458**
Composition of the allowance as at March 31, 2013				
In respect of credit to the public	1,136	282	2,399	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 item "other liabilities")	100	-	504	604
Allowance for credit losses as at March 31, 2013	1,236	282	2,911	4,429
Composition of the allowance as at December 31, 2013				
In respect of credit to the public	1,038	275	2,630	3,943
In respect of debts other than credit to the public	-	-	6	6
In respect of off-balance sheet credit instruments (included in the item "other liabilities")	108	-	530	638
Allowance for credit losses as at December 31, 2013	1,146	275	3,166	4,587

Cash on Hand and Deposits with Banks

Cash on hand and deposits with banks totaled NIS 39.5 billion as at March 31, 2014, compared with NIS 45.7 billion at the end of 2013, a decrease of approximately 13.7%.

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

	Balance as at		Change
	March 31, 2014	Dec. 31, 2013	Dec. 31, 2013
	NIS millions		
Cash	**2,173**	2,435	(10.8%)
Deposits with the Bank of Israel	**12,790**	22,446	(43.0%)
Deposits with central banks abroad	**18,504**	15,341	20.6%
Deposits with commercial banks in Israel	**26**	115	(77.4%)
Deposits with commercial banks abroad	**5,974**	5,372	11.2%
Total	**39,467**	45,709	(13.7%)

Securities

Securities totaled NIS 65.3 billion as at March 31, 2014, compared with NIS 60.9 billion at the end of 2013, an increase of approximately 7.3%, 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, 2014				
	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	**462**	**43**	**-**	**505**	**462**
Available for sale	**60,037**	**792**	**(21)**	**60,808**	**60,808**
For trading	**1,657**	***22**	***(4)**	**1,675**	**1,675**
Total bonds	**62,156**	**857**	**(25)**	**62,988**	**62,945**
Shares:					
Available for sale	**1,908**	**437**	**(4)**	**2,341**	**2,341**
For trading	**54**	***-**	***(7)**	**47**	**47**
Total shares	**1,962**	**437**	**(11)**	**2,388**	**2,388**
Total securities	**64,118**	**1,294**	**(36)**	**65,376**	**65,333**

* Charged to the statement of profit and loss.

	December 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	471	45	-	516	471
Available for sale	55,572	544	(29)	56,087	56,087
For trading	2,091	*20	*(11)	2,100	2,100
Total bonds	58,134	609	(40)	58,703	58,658
Shares:					
Available for sale	1,748	473	-	2,221	2,221
For trading	40	*-	*(7)	33	33
Total shares	1,788	473	(7)	2,254	2,254
Total securities	59,922	1,082	(47)	60,957	60,912

* Charged to the statement of profit and loss.

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, 2014 (in NIS millions):

	Balance sheet value	Total balance sheet value
Government bonds:		
Israeli government	**50,895**	
US government	**79**	
Governments of developed countries	**2,081**	
Governments of developing countries	**520**	
		53,575
Bonds of banks and financial institutions:		
Banks in Israel		**501**
Banks in developed countries:		
US	**959**	
Australia	**285**	
Netherlands	**441**	
Sweden	**359**	
France	**287**	
South Korea	**221**	
UK	**136**	
Japan	**89**	
China	**88**	
Luxembourg	**66**	
Others*	**304**	
		3,235
Banks in developing countries:		**112**
Financial institutions (other than banks):		
Israel	**188**	
US**	**184**	
Others	**13**	
		385
		4,233

Bonds of corporations, other than banks and financial institutions, by economic sector:

Industry	**1,362**	
Real-estate activities	**643**	
Electricity and water	**700**	
Commerce	**308**	
Transportation	**95**	
Communication and computer services	**706**	
Financial services	**539**	
Public services	**107**	
Other business services	**215**	
		4,675
Total bonds		**62,483**

* Includes 11 countries; the highest balance is approximately NIS 53 million.
** Includes 10 issuers the highest balance of one issuer is approximately NIS 121 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 2,388 million as at March 31, 2014, compared with NIS 2,254 million at the end of 2013.

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, 2014	Dec. 31, 2013	
	NIS millions		
Deposits from the public	**276,014**	276,525	(0.2%)
Deposits from banks	**4,849**	5,303	(8.6%)
Government deposits	**504**	613	(17.8%)
Total	**281,367**	282,441	(0.4%)

Deposits from the public as at March 31, 2014 totaled NIS 276.0 billion, compared with NIS 276.5 billion at the end of 2013, a decrease of approximately 0.2%.

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, 2014	Dec. 31, 2013			**March 31, 2014**	Dec. 31, 2013
	NIS millions					
Israeli currency unlinked	**175,598**	175,886	(288)	(0.2%)	**63.6%**	63.6%
Israeli currency CPI-linked	**17,528**	18,368	(840)	(4.6%)	**6.4%**	6.6%
Foreign currency (including f. c. linked)	**82,573**	82,081	492	0.6%	**29.9%**	29.7%
Non-monetary items	**315**	190	125	65.8%	**0.1%**	0.1%
Total	**276,014**	276,525	(511)	(0.2%)	**100.0%**	100.0%

Unlinked shekel deposits from the public totaled NIS 175.6 billion as at March 31, 2014, compared with NIS 175.9 billion as at December 31, 2013, a decrease of approximately 0.2%. This decrease resulted from a decrease in deposits in the Private Banking Segment, which was offset by an increase in Corporate deposits.

CPI-linked shekel deposits from the public totaled NIS 17.5 billion as at March 31, 2014, compared with NIS 18.4 billion as at December 31, 2013, a decrease of approximately 4.6%. This decrease mainly resulted from a decrease in deposits in the Private Banking Segment.

Deposits from the public in foreign currency (including linked to foreign currency) totaled NIS 82.6 billion as at March 31, 2014, compared with NIS 82.6 billion as at December 31, 2013, an increase of approximately 0.6%. This increase mainly resulted from an increase in the Bank's deposits in Switzerland and in small businesses, offset by a decrease in deposits in the Corporate Banking Area and in deposits of large depositors

Set out below are details of deposits from the public by size:

	Balance as at	
	March 31, 2014	Dec. 31, 2013
	Unaudited	Audited
	NIS millions	
Deposit ceiling		
Up to 1	**97,488**	98,342
Over 1 up to 10	**69,744**	70,755
Over 10 up to 100	**43,405**	42,254
Over 100 up to 500	**31,809**	27,344
Over 500	**33,568**	37,830
Total	**276,014**	276,525

Balance of total deposits of the three largest groups* of depositors**:

	Balance as at	
	March 31, 2014	Dec. 31, 2013
	NIS millions	
Group A	**10,147**	9,879
Group B	**2,942**	3,730
Group C	**2,403**	3,491

* "Group" – A depositor, including a controlling party thereof (including others under its control), and a party under its control.
** The three largest groups of depositors at that report date.

Deposits from the public by segment of activity:

	Balance as at			Change vs.	
	March 31, 2014	Dec. 31, 2013	March 31, 2013**	Dec. 31, 2013	March 31, 2013
	NIS millions				
Households Segment	**36,398**	36,561	37,907	(0.4%)	(4.0%)
Private Banking Segment	**123,283**	123,315	126,527	(0.0%)	(2.6%)
Small Business Segment	**27,581**	27,622	24,906	(0.1%)	10.7%
Commercial Segment	**19,365**	19,329	16,699	0.2%	16.0%
Corporate Segment	**23,555**	*23,837	*22,413	(1.2%)	5.1%
Financial Management Segment	**45,832**	*45,861	*36,845	(0.1%)	24.4%
Total	**276,014**	276,525	265,297	(0.2%)	4.0%

* Activity arising from customers of management companies of provident funds (other than management companies of provident funds managed within insurance companies) and in mutual funds was reclassified from the Corporate Segment to the Financial Management Segment, following the implementation of the organizational change described above.
** 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 2013.

Bonds and subordinated notes totaled NIS 31.3 billion as at March 31, 2014, compared with NIS 34.0 billion at the end of 2013, a decrease of approximately 7.8%. During the first quarter of 2014, bonds in the amount of approximately NIS 0.1 billion were issued by the Bank Group, and bonds in the amount of approximately NIS 2.5 billion matured.

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 2013.

As of January 1, 2014, the Bank has applied the instructions set forth in the circular of the Supervisor of Banks concerning the adoption of GAAP for US banks on interest income measurement (ASC 310-20), which among other matters establishes rules for the treatment of credit origination fees, commitments to grant credit, changes in the terms of a debt, and early repayment fees. The directives were implemented prospectively. Following the implementation of the directive, certain fees were classified as interest income in the various segments of activity, and certain income items previously classified as interest income are now stated within the fees item. For further details, see Note 1(B) to the Financial Statements.

As of January 1, 2014, the Bank has applied the capital measurement and adequacy directives based on the Basel 3 directives (hereinafter: "Basel 3"), as published by the Supervisor of Banks and as integrated into Proper Conduct of Banking Business Directives 201-211. The Bank applied the Basel 2 directives until December 31, 2013. Data on risk-adjusted assets, capital allocation, and return on equity based on risk-adjusted assets were calculated in accordance with the implementation of the relevant directives, as noted. For further details, see the section "Capital Adequacy" in the Board of Directors' Report.

Reclassification of Segment Data

- On January 1, 2014, in accordance with a decision of the Board of Management of the Bank, responsibility for the Bank's business with management companies of provident funds (other than management companies of provident funds managed within insurance companies) and with mutual funds was transferred from the Corporate Banking Area to the Financial Markets Area. Following the implementation of this organizational change, amounts of balances and results of operations in this area were reclassified from the Corporate Segment to the Financial Management Segment.
- Comparative figures reported for the quarters of 2013 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 2013.

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
	March 31, 2014	March 31, 2013*	
	NIS millions		
Households Segment	**89**	36	**147.2%
Private Banking Segment	**41**	43	(4.7%)
Small Business Segment	**81**	97	(16.5%)
Commercial Segment	**85**	69	23.2%
Corporate Segment	**299**	283	5.7%
Financial Management Segment	**143**	82	74.4%
Others and Adjustments	**15**	11	36.4%
Total	**753**	621	21.3%

* 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 2013. In addition, activity arising from customers of management companies of provident funds (other than management companies of provident funds managed within insurance companies) and mutual funds was reclassified from the Corporate Segment to the Financial Management Segment, following the implementation of the organizational change described above.

** The difference mainly resulted from a collective allowance recorded in the first quarter of 2013, due to the initial implementation of the directive of the Supervisor of Banks concerning the update of the guidelines for residential real estate.

B. Net credit to the public by segment of activity

	Balance as at			Change vs.	
	March 31, 2014	Dec. 31, 2013	March 31, 2013**	Dec. 31, 2013	March 31, 2013
	NIS millions				
Households Segment	**66,853**	66,123	64,573	1.1%	3.5%
Private Banking Segment	**35,102**	34,302	31,644	2.3%	10.9%
Small Business Segment	**26,748**	26,242	24,377	1.9%	9.7%
Commercial Segment	**31,269**	31,131	27,893	0.4%	12.1%
Corporate Segment	**84,968**	*88,273	*94,567	(3.7%)	(10.2%)
Financial Management Segment	**864**	*876	*135	(1.4%)	
Others and Adjustments	**4,428**	4,653	4,593	(4.8%)	(3.6%)
Total	**250,232**	251,600	247,782	(0.5%)	1.0%
Of which, consumer credit in Israel excluding housing loans:					
Households Segment	**23,215**	22,588	21,914	2.8%	5.9%
Private Banking Segment	**9,048**	8,859	8,226	2.1%	10.0%
Small Business Segment	**20,921**	20,392	18,845	2.6%	11.0%
Total	**53,184**	51,839	48,985	2.6%	8.6%
Housing loans in Israel:					
Households Segment	**37,456**	37,273	36,163	0.5%	3.6%
Private Banking Segment	**16,312**	15,940	13,778	2.3%	18.4%
Small Business Segment	**4,654**	4,663	4,300	(0.2%)	8.2%
Total	**58,422**	57,876	54,241	0.9%	7.7%

* Activity arising from customers of management companies of provident funds (other than management companies of provident funds managed within insurance companies) and in mutual funds was reclassified from the Corporate Segment to the Financial Management Segment, following the implementation of the organizational change described above.

** 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 2013.

C. Deposits from the public by segment of activity

	Balance as at			Change vs.	
	March 31, 2014	Dec. 31, 2013	March 31, 2013**	Dec. 31, 2013	March 31, 2013
	NIS millions				
Households Segment	**36,398**	36,561	37,907	(0.4%)	(4.0%)
Private Banking Segment	**123,283**	123,315	126,527	(0.0%)	(2.6%)
Small Business Segment	**27,581**	27,622	24,906	(0.1%)	10.7%
Commercial Segment	**19,365**	19,329	16,699	0.2%	16.0%
Corporate Segment	**23,555**	*23,837	*22,413	(1.2%)	5.1%
Financial Management Segment	**45,832**	*45,861	*36,845	(0.1%)	24.4%
Total	**276,014**	276,525	265,297	(0.2%)	4.0%

* Activity arising from customers of management companies of provident funds (other than management companies of provident funds managed within insurance companies) and in mutual funds was reclassified from the Corporate Segment to the Financial Management Segment, following the implementation of the organizational change described above.

** 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 2013.

Set out below are details of the average balances of net credit to the public and deposits from the public, by segment of activity:

	Average balance of net credit to the public			Average balance of deposits from the public		
	For the three months ended March 31		Change	For the three months ended March 31		Change
	2014	2013*		**2014**	2013*	
	NIS millions			NIS millions		
Households Segment	**66,289**	63,604	4.2%	**36,273**	37,533	(3.4%)
Private Banking Segment	**34,318**	31,054	10.5%	**121,504**	126,819	(4.2%)
Small Business Segment	**26,314**	24,121	9.1%	**27,558**	24,858	10.9%
Commercial Segment	**30,222**	27,281	10.8%	**18,669**	16,847	10.8%
Corporate Segment	**83,811**	96,196	(12.9%)	**22,420**	23,147	(3.1%)
Financial Management Segment	**1,036**	145		**42,228**	36,644	15.2%
Others and Adjustments	**4,441**	4,734	(6.2%)	**-**	-	-
Total	**246,431**	247,135	(0.3%)	**268,652**	265,848	1.1%

* 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 2013. In addition, activity arising from customers of management companies of provident funds (other than management companies of provident funds managed within insurance companies) and mutual funds was reclassified from the Corporate Segment to the Financial Management Segment, following the implementation of the organizational change described above.

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
	March 31, 2014	March 31, 2013*	
	NIS millions		
Households Segment	**5,141**	4,554	12.9%
Private Banking Segment	**3,165**	2,776	14.0%
Small Business Segment	**2,302**	2,035	13.1%
Commercial Segment	**4,040**	3,415	18.3%
Corporate Segment	**12,238**	12,034	1.7%
Financial Management Segment	**2,238**	1,976	13.2%
Others and Adjustments Segment	**201**	163	23.4%
Total	**29,325**	26,953	8.8%

* 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 2013. In addition, activity arising from customers of management companies of provident funds (other than management companies of provident funds managed within insurance companies) and mutual funds was reclassified from the Corporate Segment to the Financial Management Segment, following the implementation of the organizational change described above.

(1) With the adoption of the Basel 3 directives, beginning in the first quarter of 2014, the capital allocation based on risk-adjusted assets in each segment was calculated based on risk-adjusted assets according to Basel 3. The capital allocation for the first quarter of 2013 was calculated based on risk-adjusted assets according 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, 2014	Dec. 31, 2013	March 31, 2013**	Dec. 31, 2013	March 31, 2013
	NIS millions				
Households Segment	**5,111**	4,288	4,589	19.2%	11.4%
Private Banking Segment	**170,825**	165,740	155,164	3.1%	10.1%
Small Business Segment	**11,900**	11,213	10,350	6.1%	15.0%
Commercial Segment	**15,445**	15,091	13,256	2.3%	16.5%
Corporate Segment	**163,299**	*163,131	*139,102	0.1%	17.4%
Financial Management Segment	**598,394**	*564,006	*524,353	6.1%	14.1%
Total	**964,974**	923,469	846,814	4.5%	14.0%

* Activity arising from customers of management companies of provident funds (other than management companies of provident funds managed within insurance companies) and in mutual funds was reclassified from the Corporate Segment to the Financial Management Segment, following the implementation of the organizational change described above.

** 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 2013.

(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 260 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 Mobile," 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.

A new retail branch serving the Arab-Israeli sector was opened in 2013. Express branches were converted, with the range of services offered to these branches' customers expanded and matched to the services provided to all customers of the Bank at its traditional branches. In addition, 13 branches were merged.

2014: A new branch serving the Arab-Israeli sector was opened during the first quarter; 5 branches have been merged to date. Work plans for the rest of this year include the opening of 4 new Arab-Israeli sector branches and continued examination of mergers of 11 additional branches.

New Products

Poalim UP – In 2013, the Bank began to develop a range of innovative services for customers under the brand Poalim UP, designed to allow customers to manage their accounts in the way best suited to them. This range will serve as the first step in the process of creating new differentiated current-account tracks for customers. The new services and tracks were launched in the first quarter of 2014. The launch is an important breakthrough brought to consumers in the household and small business sectors by the Bank, the first bank to introduce accessibly priced current-account tracks representing a discount of 50-80% relative to prices today.

- UP Card – An international prepaid card drawn from the customer's bank account. The card is transferable to family members aged 14 or over, as it is not imprinted with the account owner's name. Customers can easily reload the card through any service channel (at a branch or via direct channels), return money from the card to the account, and receive text-message alerts of debits on the card.
- UP Active – A service designed to help customers achieve better financial management of their accounts, remain up to date, and improve order and organization in their accounts, simply and conveniently. Among other features, the service offers automatic orders of checkbooks when the existing checkbook has almost run out, automatic withdrawal of daily interest deposits if necessary to cover a negative balance in the account, automatic deposit to savings of positive balances, and more.
- UP Smart – A service that allows routine debits in current accounts to be concentrated on one regular monthly debit date, similar to credit-card payments, allowing customers better control over expense management in their accounts. Debits that can be deferred include check payments, cash withdrawals, payments in installments, transfers, and more. The customer can select the day of the month to which the debits are deferred.

Poalim UP products are also offered as part of the new current-account tracks launched in April 2014.

Poalim CashBack – The CashBack Club, launched in 2012, solidified its standing as the Bank's customer club during 2013, its first year of activity. The club offers rebates directly in customers' accounts on credit-card purchases at any of the participating businesses. The club includes 59 large nationwide chains and thousands of small businesses, where customers benefit from cash rebates in addition to special offers and significant discounts. A location-based application for the CashBack club was launched in early 2014. The application, which displays the large and small participating businesses by geographical proximity to the user, appears as part of the account management functions in the mobile wallet application.

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."

Technological Changes that May Have a Material Impact on the Segment

The Poalim Wallet, launched during the first quarter of 2014, offers a package of services for payments, fund transfers, and purchases via smartphone. The Poalim Wallet services represent an upgrade of the mobile wallet application offered by the Bank in the last three years. The application expands the existing range of services and transforms the use of the mobile wallet into a consumer experience.

Innovations in Poalim Wallet:

- Deposits of checks to the customer's account through the application;
- Transfers of funds to smartphone contacts;
- Booking an appointment at the branch via smartphone;
- Receiving location-based CashBack benefits;
- Payments to businesses using the Isracard MyCheck application, and ordering and paying for taxis via smartphone using the TaxiPay application, which is also offered in collaboration with Isracard.

Budget Management Tool

The Bank is upgrading the budget management tool offered to customers on its website. The new, advanced version encourages customers to manage their budgets in a simple experienced-based format, through means including an innovative interface using gamification themed visual elements.

Regulatory Changes Concerning Housing Loans

On March 18, 2014, MK Haim Katz and others submitted a bill proposing to amend the Housing Loans Law in order to require housing loans to be granted on the condition that the borrower purchases unemployment insurance, to ensure that the mortgage is repaid throughout the period of the borrower's eligibility for unemployment benefits and for a short period thereafter. The proposed insurance requirement would apply to all housing loans granted in the market, not only those loans covered by the Housing Loans Law. Pursuant to the proposal, insurance compensation would be transferred directly to the lending bank. In addition, a duty would apply to notify the borrower that the insurance can be purchased other than through an insurance agent controlled by the bank. A date for discussion of this bill has not yet been set.

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 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. The directives in the Banking Rules concerning minimum management fees and the fee for a single transaction by a clerk have been implemented as of April 1, 2014; the current account tracks also took effect on that date. Supervision has also been applied to the price of the basic track. The maximum price for this track has been set at NIS 10.

An amendment to the Banking Rules was issued on September 9, 2013, addressing the maintenance of an addition to or subtraction from the basic interest rate established at the creation of a deposit throughout the entire duration of the deposit. It was further established that the mechanism for determining the interest rate should be objective and external, and the banking corporation should not have the ability to influence this determination. These directives will take effect on July 1, 2014.

A circular concerning disclosure of the cost of securities services was issued on April 2, 2014. The changes will take effect on January 1, 2015.

A draft directive of the Bank of Israel concerning opening of accounts over the Internet was issued on April 30, 2014. The draft was discussed by the advisory committee on May 12, 2014.

The Bank is currently reviewing the overall implications for the Bank's revenues as well as additional long-term business and operational implications. Based on mapping and examination of the other recommendations of the report which have not yet been implemented, the Bank's estimates indicate that implementation of these recommendations is likely to have a negative impact on the results of its operations; however, these effects cannot be quantified at this stage, and depend on customers' behavior, additional regulatory changes, and the activity of competitors, among other factors.

In March 2014, an amendment to the Banking Law (Service to Customers) was published in the Official Gazette of the Israeli Government, pursuant to which customers shall be notified before the immediate repayment of a loan granted to them by a banking corporation is demanded, or before a legal proceeding is initiated, as detailed in the law. The law will take effect six months from publication, and will also apply to loans granted before the inception date.

With regard to the reduction of the number of fees in the area of charge cards and clearing, see the section "Principal Subsidiary and Affiliated Companies – Isracard."

Legal Proceedings

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

Condensed operating results and principal data of the Households Segment:

	For the three months ended March 31, 2014						
	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	**455**	**18**	**-**	**106**	**12**	**1**	**592**
Inter-segmental	**(13)**	**-**	**-**	**(52)**	**(7)**	**(1)**	**(73)**
Total net financing profit	**442**	**18**	**-**	**54**	**5**	**-**	**519**
Fees and other income	**117**	**147**	**8**	**18**	**-**	**-**	**290**
Total income	**559**	**165**	**8**	**72**	**5**	**-**	**809**
Provision (income) for credit losses	**9**	**2**	**-**	**(3)**	**2**	**-**	**10**
Operating and other expenses:							
From externals	**493**	**113**	**14**	**48**	**9**	**-**	**677**
Inter-segmental	**(14)**	**-**	**2**	**(9)**	**-**	**-**	**(21)**
Profit (loss) before taxes	**71**	**50**	**(8)**	**36**	**(6)**	**-**	**143**
Provision for taxes (tax benefit) on profit (loss)	**29**	**15**	**(3)**	**15**	**(2)**	**-**	**54**
Net profit (loss):							
Before attribution to non-controlling interests	**42**	**35**	**(5)**	**21**	**(4)**	**-**	**89**
Attributed to non-controlling interests	**-**	**(1)**	**-**	**-**	**1**	**-**	**-**
Attributed to shareholders of the Bank	**42**	**34**	**(5)**	**21**	**(3)**	**-**	**89**
Return on equity	**7.2%**	**18.7%**		**4.5%**	**(25.0%)**		**7.1%**
Average balance of assets	**24,122**	**6,318**	**-**	**37,396**	**305**	**42**	**68,183**
Average balance of liabilities	**36,254**	**-**	**-**	**-**	**23**	**-**	**36,277**
Average balance of risk-adjusted assets (Basel 3)	**26,031**	**8,451**	**147**	**20,734**	**470**	**55**	**55,888**
Average balance of mutual funds[2]	**-**	**-**	**2,732**	**-**	**-**	**-**	**2,732**
Average balance of securities	**-**	**-**	**2,209**	**-**	**-**	**-**	**2,209**
Balance of net credit to the public	**23,215**	**5,866**	**-**	**37,456**	**280**	**36**	**66,853**
Balance of deposits from the public	**36,370**	**-**	**-**	**-**	**28**	**-**	**36,398**

(1) Distribution fees for financial products and securities activity.
(2) Mutual funds for which the Bank Group provides custody services.

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

	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	13	1	724
Inter-segmental	72	-	-	(253)	(7)	(1)	(189)
Total net financing profit	457	18	-	54	6	-	535
Fees and other income	123	142	8	22	-	-	295
Total income	580	160	8	76	6	-	830
Provision for credit losses	26	-	-	65	-	-	91
Operating and other expenses:							
From externals	514	115	14	45	11	-	699
Inter-segmental	(8)	-	2	(8)	-	-	(14)
Profit (loss) before taxes	48	45	(8)	(26)	(5)	-	54
Provision for taxes (tax benefit) on profit (loss)	17	12	(3)	(9)	(1)	-	16
Net profit (loss):							
Before attribution to non-controlling interests	31	33	(5)	(17)	(4)	-	38
Attributed to non-controlling interests	-	(3)	-	-	1	-	(2)
Attributed to shareholders of the Bank	31	30	(5)	(17)	(3)	-	36
Return on equity	6.2%	16.8%		(3.9%)	(28.0%)		3.2%
Average balance of assets	22,551	6,149	-	36,064	287	62	65,113
Average balance of liabilities	37,520	-	-	-	22	-	37,542
Average balance of risk-adjusted assets (Basel 2)	22,540	8,361	138	18,717	419	23	50,198
Average balance of mutual funds[(2)]	-	-	2,293	-	-	-	2,293
Average balance of securities	-	-	2,049	-	-	-	2,049
Balance of net 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

* 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 2013.
(1) Distribution fees for financial products and securities activity.
(2) Mutual funds for which the Bank Group provides custody services.

Principal Changes in Net Profit and Balance Sheet Balances

Net profit attributed to shareholders of the Bank in the Households Segment totaled NIS 89 million in the first quarter of 2014, compared with NIS 36 million in the same period last year. The increase in profit mainly resulted from a decrease in the provision for credit losses and in operating expenses. This increase was offset by a decrease in net financing profit.

Net financing profit in the first quarter of 2014 totaled NIS 519 million, compared with NIS 535 million in the same period last year. The decrease mainly resulted from the decrease in the interest rate in Israel. The decrease was partially offset by an increase in the volume of credit.

Fees and other income in the first quarter of 2014 totaled NIS 290 million, compared with NIS 295 million in the same period last year.

The provision for credit losses totaled NIS 10 million in the first quarter of 2014, compared with NIS 91 million in the same period last year. The difference mainly resulted from a collective allowance recorded in the first quarter of 2013, in the amount of NIS 59 million, due to the initial implementation of the directive of the Supervisor of Banks concerning the update of the guidelines for residential real estate.

The segment's operating and other expenses totaled NIS 656 million in the first quarter of 2014, compared with NIS 685 million in the same period last year. The decrease mainly resulted from a decrease in wage expenses, as a result of a decrease in the number of employee positions between the periods, and savings on current costs due to improved efficiency. The decrease was offset by an increase in the amount of the bonus, following the results for the quarter, as well as by an increase in current wages.

Net credit to the public totaled approximately NIS 66.9 billion as at March 31, 2014, compared with approximately NIS 66.1 billion as at December 31, 2013.

Housing loans in Israel totaled approximately NIS 37.5 billion as at March 31, 2014, compared with approximately NIS 37.3 billion as at December 31, 2013.

Deposits from the public as at March 31, 2014 totaled approximately NIS 36.4 billion, compared with approximately NIS 36.6 billion as at December 31, 2013.

The Private Banking Segment

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

The positive trend in the stock market continued during the first quarter of 2014, similar to 2013, in view of the low interest rate in Israel and globally. Due to the gains in the market over the last year, advisory clients' risk appetite has increased somewhat. Risk components are being focused in shares, at the expense of corporate bonds, due to lower spreads. The Bank's customers continue to diversify their investments overseas, using a variety of investment instruments.

Regulatory Changes Concerning Housing Loans

See the "Households Segment" section above.

The Committee on Competitiveness

See the "Households Segment" section above.

Legal Proceedings

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

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

	For the three months ended March 31, 2014						
	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	**(49)**	**7**	**-**	**31**	**23**	**-**	**12**
Inter-segmental	**230**	**-**	**-**	**(20)**	**9**	**-**	**219**
Non-interest financing income	**7**	**-**	**-**	**-**	**1**	**-**	**8**
Total net financing profit	**188**	**7**	**-**	**11**	**33**	**-**	**239**
Fees and other income	**66**	**83**	**155**	**1**	**38**	**56**	**399**
Total income	**254**	**90**	**155**	**12**	**71**	**56**	**638**
Provision (income) for credit losses	**7**	**1**	**-**	**(1)**	**-**	**-**	**7**
Operating and other expenses:							
From externals	**268**	**57**	**70**	**7**	**53**	**53**	**508**
Inter-segmental	**12**	**-**	**46**	**(1)**	**-**	**3**	**60**
Profit (loss) before taxes	**(33)**	**32**	**39**	**7**	**18**	**-**	**63**
Provision for taxes (tax benefit) on profit (loss)	**(13)**	**9**	**16**	**3**	**7**	**-**	**22**
Net profit (loss):							
Before attribution to non-controlling interests	**(20)**	**23**	**23**	**4**	**11**	**-**	**41**
Return on equity	**(7.1%)**	**20.8%**		**2.1%**	**6.7%**		**5.3%**
Average balance of assets	**9,423**	**3,540**	**-**	**16,124**	**6,002**	**-**	**35,089**
Average balance of liabilities	**102,819**	**-**	**-**	**-**	**18,698**	**-**	**121,517**
Average balance of risk-adjusted assets (Basel 3)	**11,940**	**5,175**	**1,209**	**8,396**	**7,368**	**314**	**34,402**
Average balance of mutual funds[(2)]	**-**	**-**	**53,064**	**-**	**-**	**1,043**	**54,107**
Average balance of other assets under management	**-**	**-**	**-**	**-**	**-**	**938**	**938**
Average balance of securities	**-**	**-**	**84,264**	**-**	**-**	**29,967**	**114,231**
Balance of net credit to the public	**9,048**	**3,306**	**-**	**16,312**	**6,436**	**-**	**35,102**
Balance of deposits from the public	**102,848**	**-**	**-**	**-**	**20,435**	**-**	**123,283**

(1) Distribution fees for financial products and securities activity.
(2) Mutual funds for which the Bank Group provides custody services.

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

	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	-	-	(76)	24	-	389
Non-interest financing income	8	-	-	-	1	-	9
Total net financing profit	227	8	-	11	37	-	283
Fees and other income	64	80	128	2	34	57	365
Total income	291	88	128	13	71	57	648
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	(14)	4	(3)	63
Provision for taxes (tax benefit) on profit (loss)	7	8	9	(5)	1	(1)	19
Net profit (loss):							
Before attribution to non-controlling interests	13	22	17	(9)	3	(2)	44
Attributed to non-controlling interests	-	(1)	-	-	-	-	(1)
Attributed to shareholders of the Bank	13	21	17	(9)	3	(2)	43
Return on equity	6.0%	19.4%		(5.6%)	1.8%		6.3%
Average balance of assets	8,621	3,448	-	13,471	6,165	-	31,705
Average balance of liabilities	106,727	-	-	-	20,113	-	126,840
Average balance of risk-adjusted assets (Basel 2)	9,762	5,119	1,143	6,890	7,419	266	30,599
Average balance of mutual funds[2]	-	-	37,847	-	-	390	38,237
Average balance of other assets under management	-	-	-	-	-	857	857
Average balance of securities	-	-	84,011	-	-	30,548	114,559
Balance of net 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

* 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 2013.
(1) Distribution fees for financial products and securities activity.
(2) Mutual funds for which the Bank Group provides custody services.

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 41 million in the first quarter of 2014, compared with NIS 43 million in the same period last year. Fees and other income increased, and the provision for credit losses decreased; however, net financing profit decreased.

Net financing profit in the first quarter of 2014 totaled NIS 239 million, compared with NIS 283 million in the same period last year. The decrease mainly resulted from a decrease in the interest rate in Israel. The decrease was offset by an increase in the volume of credit.

Fees and other income of the segment totaled NIS 399 million in the first quarter of 2014, compared with NIS 365 million in the same period last year. The increase mainly resulted from an increase in income due to a significant increase in capital market activity.

The provision for credit losses totaled NIS 7 million in the first quarter of 2014, compared with NIS 26 million in the same period last year. The difference mainly resulted from a collective allowance recorded in the first quarter of 2013, in the amount of NIS 20 million, due to the initial implementation of the directive of the Supervisor of Banks concerning the update of the guidelines for residential real estate.

The segment's operating and other expenses totaled NIS 568 million in the first quarter of 2014, compared with NIS 559 million in the same period last year. The increase mainly resulted from an increase in wage expenses, due to an increase in the amount of the bonus, following the results for the quarter, as well as an increase in current wages. This increase was offset by a decrease in the number of employee positions between the periods, savings on current costs due to improved efficiency, and a decrease in expenses for the activity of the Bank overseas attributed to this segment.

Net credit to the public totaled approximately NIS 35.1 billion as at March 31, 2014, compared with approximately NIS 34.3 billion as at December 31, 2013. The increase mainly resulted from an increase in housing loans.

Housing credit in Israel totaled approximately NIS 16.3 billion as at March 31, 2014, compared with approximately NIS 15.9 billion as at December 31, 2013.

Deposits from the public totaled approximately NIS 123.3 billion as at March 31, 2014, similar to the balance as at December 31, 2013.

The balance of off-balance sheet monetary assets of the customers of the Bank Group attributed to this segment as at March 31, 2014 totaled approximately NIS 170.8 billion, compared with approximately NIS 165.7 billion as at December 31, 2013. This balance includes customers' holdings in securities portfolios and mutual funds.

The Small Business Segment

Activities

The Small Business Segment is a focus area for the Bank during 2013- 2014. In 2014, the Bank plans to offer 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 Bank continues to lead the small and mid-sized businesses fund backed by the state, and has granted credit through the fund to a large number of small and mid-sized businesses. A considerable number of customers are clients of other banks who have chosen to transfer their accounts to Bank Hapoalim. 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). All of these are 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 2014

During the first quarter of 2014, the Bank expanded its solutions for small business by continuing to increase the deployment of business units in its retail branches and of specialized bankers for small businesses. The Bank plans to continue this process, in accordance with the strategic trajectory for the Small Business Segment.

Customers

In 2014, for the first time, the Poalim CashBack Club is conducting continuous marketing efforts calling on customers of the Bank to patronize small businesses near their homes. A different segment of small businesses will be chosen every two months for an exceptionally worthwhile offer exclusive to Bank Hapoalim customers (flower shops, cosmetics, bakeries, garages, and more).

New Products

In March 2014, the Bank launched a new service, the drawn check report file, which enables business clients who use large numbers of checks to monitor and track checks drawn on their accounts. The service is an innovation and important news for the business sector, minimizing payment on forged checks and reducing the damages paid for such checks by the Bank.

UP Business – The Poalim UP Business track is designed for small businesses, helping them manage and monitor their expenses, in Israel and overseas, receive updates on the status of the account by text message, and receive benefits on credit cards.

Marketing and Distribution

On Small Business Day, held in January 2014 as part of the Bank's support for the Year of the Small Business, all residents of Israel were invited to patronize small businesses 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 additional details, see the section "Composition and Development of the Bank Group's Assets and Liabilities," above.

The Committee on Competitiveness

See the "Households Segment" section above.

Legal Proceedings

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

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

	For the three months ended March 31, 2014					
	Activity in Israel					
	Banking and financial services	Credit cards	Capital market[1]	Housing loans	Construction and real estate	Total
	NIS millions					
Net interest income:						
From externals	**250**	**12**	**-**	**10**	**43**	**315**
Inter-segmental	**(15)**	**-**	**-**	**(2)**	**(6)**	**(23)**
Total net financing profit	**235**	**12**	**-**	**8**	**37**	**292**
Fees and other income	**94**	**29**	**11**	**1**	**10**	**145**
Total income	**329**	**41**	**11**	**9**	**47**	**437**
Provision for credit losses	**23**	**-**	**-**	**-**	**1**	**24**
Operating and other expenses:						
From externals	**210**	**20**	**9**	**4**	**13**	**256**
Inter-segmental	**15**	**-**	**3**	**(1)**	**7**	**24**
Profit (loss) before taxes	**81**	**21**	**(1)**	**6**	**26**	**133**
Provision for taxes on profit (loss)	**33**	**6**	**-**	**2**	**11**	**52**
Net profit (loss):						
Attributed to shareholders of the Bank	**48**	**15**	**(1)**	**4**	**15**	**81**
Return on equity	**13.1%**	**30.5%**		**6.3%**	**23.4%**	**14.8%**
Average balance of assets	**17,547**	**1,253**	**-**	**4,683**	**3,351**	**26,834**
Average balance of liabilities	**25,154**	**2,305**	**-**	**-**	**2,426**	**29,885**
Average balance of risk-adjusted assets (Basel 3)	**16,673**	**2,373**	**104**	**2,844**	**3,024**	**25,018**
Average balance of mutual funds[2]	**-**	**-**	**4,182**	**-**	**-**	**4,182**
Average balance of securities	**-**	**-**	**7,407**	**-**	**-**	**7,407**
Balance of net credit to the public	**17,525**	**1,173**	**-**	**4,654**	**3,396**	**26,748**
Balance of deposits from the public	**25,107**	**-**	**-**	**-**	**2,474**	**27,581**

(1) Distribution fees for financial products and securities activity.
(2) Mutual funds for which the Bank Group provides custody services.

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

	For the three months ended March 31, 2013*					
	Activity in Israel					
	Banking and financial services	Credit cards	Capital market(1)	Housing loans	Construction and real estate	Total
	NIS millions					
Net interest income:						
From externals	208	14	-	29	39	290
Inter-segmental	12	-	-	(21)	(5)	(14)
Total net financing profit	220	14	-	8	34	276
Fees and other income	103	28	10	-	12	153
Total income	323	42	10	8	46	429
Provision for credit losses	19	-	-	7	2	28
Operating and other expenses:						
From externals	189	19	9	4	18	239
Inter-segmental	7	-	3	(1)	7	16
Profit (loss) before taxes	108	23	(2)	(2)	19	146
Provision for taxes (tax benefit) on profit (loss)	38	6	(1)	(1)	7	49
Net profit (loss):						
Attributed to shareholders of the Bank	70	17	(1)	(1)	12	97
Return on equity	22.6%	35.7%		(1.7%)	21.1%	20.5%
Average balance of assets	16,075	1,221	-	4,280	2,956	24,532
Average balance of liabilities	22,602	2,211	-	-	2,275	27,088
Average balance of risk-adjusted assets (Basel 2)	14,771	2,363	95	2,504	2,697	22,430
Average balance of mutual funds(2)	-	-	2,912	-	-	2,912
Average balance of securities	-	-	7,391	-	-	7,391
Balance of net credit to the public	15,873	1,232	-	4,300	2,972	24,377
Balance of deposits from the public	22,650	-	-	-	2,256	24,906

* 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 2013.

(1) Distribution fees for financial products and securities activity.

(2) Mutual funds for which the Bank Group provides custody services.

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 2014 totaled NIS 81 million, compared with NIS 97 million in the same period last year. The decrease mainly resulted from a decrease in fees and other income and an increase in operating expenses. The increase was offset by an increase in net financing profit.

Net financing profit in the first three months of 2014 totaled NIS 292 million, compared with NIS 276 million in the same period last year. The increase mainly resulted from an increase of 9.1% in the average volume of credit attributed to this segment. The increase was offset by a decrease in spreads due to the decrease in the interest rate.

Fees and other income of the segment in the first three months of 2014 totaled NIS 145 million, compared with NIS 153 million in the same period last year. The decrease resulted from a decrease in income from credit handling in the segment, in the amount of approximately NIS 19 million, mainly due to the implementation of FAS 91 for the treatment of income interest measurement as of January 1, 2014 (for further details, see Note 1(B)).

The provision for credit losses totaled NIS 24 million in the first three months of 2014, compared with NIS 28 million in the same period last year.

The segment's operating and other expenses totaled NIS 280 million in the first three months of 2014, compared with NIS 255 million in the same period last year. The increase mainly resulted from an increase in the amount of the bonus, following the results for the quarter, as well as an increase in current wages. In addition, an increase occurred as a result of growth in the segment's activity.

Net credit to the public as at March 31, 2014 totaled approximately NIS 26.7 billion (December 31, 2013: NIS 26.2 billion), compared with approximately NIS 24.4 billion as at March 31, 2013. The increase resulted from growth of the segment's activity.

Deposits from the public as at March 31, 2014 totaled approximately NIS 27.6 billion (December 31, 2013: NIS 27.6 billion), compared with approximately NIS 24.9 billion as at March 31, 2013. The increase resulted from growth of the segment's activity.

The Commercial Segment

Legal Proceedings

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

Condensed operating results and principal data of the Commercial Segment:

	For the three months ended March 31, 2014				
	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	**135**	**85**	**51**	**24**	**295**
Inter-segmental	**(20)**	**(20)**	**(26)**	**(12)**	**(78)**
Non-interest financing income	**2**	**-**	**-**	**-**	**2**
Total net financing profit	**117**	**65**	**25**	**12**	**219**
Fees and other income	**42**	**23**	**12**	**3**	**80**
Total income	**159**	**88**	**37**	**15**	**299**
Provision (income) for credit losses	**(1)**	**(2)**	**12**	**(1)**	**8**
Operating and other expenses:					
From externals	**95**	**18**	**13**	**15**	**141**
Inter-segmental	**-**	**2**	**-**	**-**	**2**
Profit before taxes	**65**	**70**	**12**	**1**	**148**
Provision for taxes on profit	**26**	**28**	**5**	**-**	**59**
Net profit:					
Before attribution to non-controlling interests	**39**	**42**	**7**	**1**	**89**
Attributed to non-controlling interests	**-**	**-**	**(3)**	**(1)**	**(4)**
Attributed to shareholders of the Bank	**39**	**42**	**4**	**-**	**85**
Return on equity	**8.5%**	**12.0%**	**3.3%**		**8.7%**
Average balance of assets	**16,299**	**9,634**	**3,883**	**1,612**	**31,428**
Average balance of liabilities	**15,082**	**2,427**	**3,700**	**16**	**21,225**
Average balance of risk-adjusted assets (Basel 3)	**20,508**	**15,863**	**5,402**	**2,142**	**43,915**
Average balance of mutual funds(2)	**2,387**	**-**	**-**	**-**	**2,387**
Average balance of securities	**12,777**	**-**	**-**	**-**	**12,777**
Balance of net credit to the public	**15,763**	**10,018**	**4,046**	**1,442**	**31,269**
Balance of deposits from the public	**12,556**	**2,445**	**4,363**	**1**	**19,365**

(1) Includes activity in the area of credit cards and the capital market.
(2) Mutual funds for which the Bank Group provides custody services.

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

	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	(32)	(29)	(21)	(8)	(90)
Non-interest financing income	1	-	-	-	1
Total net financing profit	106	56	25	5	192
Fees and other income	42	26	24	2	94
Total income	148	82	49	7	286
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	42	60	11	(3)	110
Provision for taxes (tax benefit) on profit (loss)	14	21	5	(1)	39
Net profit (loss):					
Before attribution to non-controlling interests	28	39	6	(2)	71
Attributed to non-controlling interests	-	-	(2)	-	(2)
Attributed to shareholders of the Bank	28	39	4	(2)	69
Return on equity	7.3%	13.2%	4.1%	(4.2%)	8.3%
Average balance of assets	15,571	7,857	3,200	1,202	27,830
Average balance of liabilities	14,587	2,089	2,616	13	19,305
Average balance of risk-adjusted assets (Basel 2)	17,473	13,702	4,401	2,074	37,650
Average balance of mutual funds(2)	1,770	-	-	-	1,770
Average balance of securities	11,547	-	-	-	11,547
Balance of net credit to the public	15,688	7,909	3,210	1,086	27,893
Balance of deposits from the public	11,864	2,459	2,370	6	16,699

* 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 2013.
(1) Includes activity in the area of credit cards and the capital market.
(2) Mutual funds for which the Bank Group provides custody services.

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 2014 totaled NIS 85 million, compared with NIS 69 million in the same period last year. The increase mainly resulted from a decrease in the provision for credit losses and an increase in net financing profit. This increase was offset by a decrease in income from fees and other income.

Net financing profit of the segment in the first three months of 2014 totaled NIS 219 million, compared with NIS 192 million in the same period last year. The increase mainly resulted from an increase of about 10.8% in the average volume of credit between the periods.

Fees and other income of the segment totaled NIS 80 million in the first three months of 2014, compared with NIS 94 million in the same period last year. The decrease resulted from a decrease in income from credit handling in the segment, in the amount of approximately NIS 9 million. The decrease was mainly due to the implementation of FAS 91 for the treatment of income interest measurement as of January 1, 2014 (for further details, see Note 1(B) to the Condensed Financial Statements). The decrease also resulted from a decrease in the segment's income attributed to the Bank's activity in Turkey.

The provision for credit losses totaled NIS 8 million in the first three months of 2014, compared with NIS 33 million in the same period last year. The decrease mainly resulted from a decrease in collective allowances, offset by an increase in individual allowances.

The segment's operating and other expenses totaled NIS 143 million in the first three months of 2014, similar to the same period last year. Wage expenses decreased, as a result of a decrease in the number of employee positions between the periods, and savings on current costs due to improved efficiency. The decrease was offset by an increase in the amount of the bonus, following the results for the quarter, as well as by an increase in current wages.

Net credit to the public totaled approximately NIS 31.3 billion as at March 31, 2014 (December 31, 2013: NIS 31.1 billion), compared with approximately NIS 27.9 billion as at March 31, 2013. The increase resulted mainly from an increase in activity in Israel as well as an increase in the Middle Market activity in the New York branch.

Deposits from the public totaled approximately NIS 19.4 billion as at March 31, 2014 (December 31, 2013: NIS 19.3 billion), compared with approximately NIS 16.7 billion as at March 31, 2013.

The Corporate Segment

Activities

On January 1, 2014, in accordance with a decision of the Board of Management of the Bank, responsibility for the Bank's business with management companies of provident funds (other than management companies of provident funds managed within insurance companies) and with mutual funds was transferred from the Corporate Banking Area to the Financial Markets Area. Following the implementation of this organizational change, amounts of balances and results of operations in this area were reclassified from the Corporate Segment to the Financial Management Segment.

Legal Proceedings

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

Condensed operating results and principal data of the Corporate Segment:

	For the three months ended March 31, 2014				
	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	**475**	**171**	**18**	**24**	**688**
Inter-segmental	**(183)**	**(46)**	**(4)**	**(13)**	**(246)**
Non-interest financing income	**27**	**-**	**-**	**-**	**27**
Total net financing profit	**319**	**125**	**14**	**11**	**469**
Fees and other income	**82**	**50**	**7**	**1**	**140**
Total income	**401**	**175**	**21**	**12**	**609**
Provision (income) for credit losses	**(7)**	**(55)**	**(2)**	**-**	**(64)**
Operating and other expenses:					
From externals	**105**	**27**	**14**	**4**	**150**
Inter-segmental	**16**	**3**	**-**	**-**	**19**
Profit before taxes	**287**	**200**	**9**	**8**	**504**
Provision for taxes on profit	**117**	**81**	**4**	**3**	**205**
Net profit:					
Attributed to shareholders of the Bank	**170**	**119**	**5**	**5**	**299**
Return on equity	**9.3%**	**12.8%**	**3.2%**	**15.4%**	**10.1%**
Average balance of assets	**57,619**	**23,856**	**3,188**	**1,505**	**86,168**
Average balance of liabilities	**27,842**	**5,538**	**167**	**-**	**33,547**
Average balance of risk-adjusted assets (Basel 3)	**82,388**	**42,180**	**6,982**	**1,489**	**133,039**
Average balance of mutual funds[2]	**3,258**	**-**	**-**	**-**	**3,258**
Average balance of securities	**159,112**	**-**	**-**	**-**	**159,112**
Balance of net credit to the public	**55,304**	**23,970**	**4,363**	**1,331**	**84,968**
Balance of deposits from the public	**17,283**	**6,081**	**191**	**-**	**23,555**

(1) Includes activity in the area of credit cards and the capital market.
(2) Mutual funds for which the Bank Group provides custody services.

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

	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	563	285	52	30	930
Inter-segmental	(273)	(116)	(19)	(16)	(424)
Non-interest financing income	18	-	2	-	20
Total net financing profit	308	169	35	14	526
Fees and other income	90	53	3	1	147
Total income	398	222	38	15	673
Provision (income) for credit losses	98	(18)	(1)	-	79
Operating and other expenses:					
From externals	100	25	13	4	142
Inter-segmental	14	4	-	-	18
Profit before taxes	186	211	26	11	434
Provision for taxes on profit	64	74	9	4	151
Net profit:					
Attributed to shareholders of the Bank	122	137	17	7	283
Return on equity	7.1%	14.3%	9.6%	14.1%	9.7%
Average balance of assets	60,153	27,961	6,901	2,315	97,330
Average balance of liabilities	24,069	7,164	912	12	32,157
Average balance of risk-adjusted assets (Basel 2)	77,949	44,313	8,090	2,306	132,658
Average balance of mutual funds(2)	2,622	-	-	-	2,622
Average balance of securities	134,435	-	-	-	134,435
Balance of net credit to the public	58,603	27,590	6,070	2,304	94,567
Balance of deposits from the public	13,934	7,492	984	3	22,413

* 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 2013. In addition, activity arising from customers of management companies of provident funds (other than management companies of provident funds managed within insurance companies) and mutual funds was reclassified from the Corporate Segment to the Financial Management Segment, following the implementation of the organizational change described above.

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

(2) Mutual funds for which the Bank Group provides custody services.

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 2014 totaled NIS 299 million, compared with NIS 283 million in the same period last year. The increase in net profit resulted from income recorded in the item of the provision for credit losses, compared with an expense in the same quarter last year. This increase was offset by a decrease in net financing profit.

Net financing profit of the segment totaled NIS 469 million in the first three months of 2014, compared with NIS 526 million in the same period last year. The decrease mainly resulted from a decrease in the volume of credit.

Fees and other income totaled NIS 140 million in the first three months of 2014, compared with NIS 147 million in the same period last year. The decrease resulted from a decrease in income from credit handling, in the amount of approximately NIS 28 million, due to the implementation of FAS 91 for the treatment of income interest measurement as of January 1, 2014 (for details, see Note 1(B) to the Condensed Financial Statements). This decrease was offset by an increase in fees from financing transactions.

Income in the amount of NIS 64 million was recorded in the item of the provision for credit losses in the first three months of 2014, compared with an expense in the amount of NIS 79 million recorded in the same period last year. The decrease in the provision resulted from a decrease in both the individual allowance and the collective allowance.

The segment's operating and other expenses totaled NIS 169 million in the first three months of 2014, compared with NIS 160 million in the same period last year. The increase mainly resulted from an increase in wage expenses, due to an increase in the amount of the bonus, following the results for the quarter, as well as an increase in current wages. This increase was offset by a decrease in the number of employee positions between the periods, and by savings on current costs due to improved efficiency.

Net credit to the public totaled approximately NIS 85.0 billion as at March 31, 2014, compared with approximately NIS 88.3 billion as at December 31, 2013. The decrease mainly resulted from a decrease in credit to the sectors of construction and real estate, financial services, and communications.

Deposits from the public totaled approximately NIS 23.6 billion as at March 31, 2014, compared with approximately NIS 23.8 billion as at December 31, 2013.

The balance of off-balance sheet monetary assets of customers of the Bank Group attributed to this segment as at March 31, 2014 totaled approximately NIS 163.3 billion, compared with approximately NIS 163.1 billion as at December 31, 2013. This balance includes customers' holdings in securities portfolios and mutual funds.

The Financial Management Segment

Services for Financial Asset Managers

On January 1, 2014, in accordance with a decision of the Board of Management of the Bank, responsibility for the Bank's business with management companies of provident funds (other than management companies of provident funds managed within insurance companies) and with mutual funds was transferred from the Corporate Banking Area to the Financial Markets Area. Following the implementation of this organizational change, amounts of balances and results of operations in this area were reclassified from the Corporate Segment to the Financial Management Segment.

Condensed operating results of the Financial Management Segment:

	For the three months ended	
	March 31, 2014	March 31, 2013*
	NIS millions	
Net interest income:		
From externals	**(53)**	(196)
Inter-segmental	**201**	328
Non-interest financing income	**170**	113
Total net financing profit	**318**	245
Fees and other income	**92**	86
Total income	**410**	331
Operating and other expenses:		
From externals	**265**	248
Inter-segmental	**(59)**	(49)
Profit before taxes	**204**	132
Provision for taxes on profit	**83**	61
Profit after taxes	**121**	71
The Bank's share in profits of equity-basis investees, after taxes	**13**	4
Net profit (loss):		
Before attribution to non-controlling interests	**134**	75
Attributed to non-controlling interests	**9**	7
Attributed to shareholders of the Bank	**143**	82
Return on equity	**28.1%**	17.7%
Average balance of assets	**119,025**	117,777
Of which: investments in equity-basis investees	**139**	131
Average balance of liabilities	**101,530**	98,965
Average balance of risk-adjusted assets(1)	**24,323**	21,785
Average balance of assets of provident funds and mutual funds(2)	**89,022**	80,450
Average balance of securities	**498,712**	431,799
Average number of employee positions	**854**	897
Balance of net credit to the public	**864**	135
Balance of deposits from the public	**45,832**	36,845

* 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 2013. In addition, activity arising from customers of management companies of provident funds (other than management companies of provident funds managed within insurance companies) and mutual funds was reclassified from the Corporate Segment to the Financial Management Segment, following the implementation of the organizational change described above.

(1) With the adoption of the Basel 3 directives, beginning in the first quarter of 2014, the capital allocation based on risk-adjusted assets in each segment was calculated based on risk-adjusted assets according to Basel 3. The capital allocation for the first quarter of 2013 was calculated based on risk-adjusted assets according to Basel 2.

(2) Provident funds receiving operational services.

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 2014 totaled NIS 143 million, compared with profit in the amount of NIS 82 million in the same period last year.

Net financing profit attributed to this segment totaled NIS 318 million in the first three months of 2014, compared with NIS 245 million in the same period last year. The increase mainly resulted from an increase in income from fees collected for early repayment of loans executed after January 1, 2014, and recognized immediately in interest income due to the effect of the implementation of FAS 91 (for further details, see Note 1(B) to the Financial Statements) as well as from an increase in profits from investments in shares. By contrast, profits from bonds, income from adjustments to fair value of derivative instruments, and income arising from hedges of investments overseas decreased.

Fees and other income of the segment in the first three months of 2014 totaled NIS 92 million, compared with NIS 86 million in the same period last year. The increase mainly resulted from an increase in income from securities activity in Israel. The increase was offset by a decrease in income from securities activity overseas.

Operating and other expenses of the segment in the first three months of 2014 totaled NIS 206 million, compared with NIS 199 million in the same period last year. The increase mainly resulted from an increase in salary expenses due to an increase in the amount of the bonus, following the results for the quarter, as well as by an increase in current wages. This increase was offset by a decrease in the number of positions between the periods and by savings on routine expenses as a result of improved efficiency.

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 incoming tourism, as well as income from computer services for a company 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 15 million in the first three months of 2014, compared with NIS 11 million in the same period last year.

Profit from credit cards in respect of the activity of customers of banks outside the Group and incoming tourism totaled NIS 9 million in the first three months of 2014, compared with profit in the amount of NIS 4 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, 2014, totaled approximately NIS 4.4 billion, compared with NIS 4.7 billion as at December 31, 2013.

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 rechargeable cards. In addition, the Isracard Group grants general-purpose credit and loans based on credit facilities of credit cards, loans for the purchase of vehicles, various options for payment in installments, and information and confirmation services.

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, 2014 is 3.9 million, compared with 3.8 million cards as at December 31, 2013.

In the first quarter of 2014, the volume of activity in Isracard Group cards reached NIS 27.9 billion, compared with NIS 26.8 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 and advances (advancement of payments in respect of transactions executed), advance payments, sale-slips discounting, and marketing and operational services, including options for payment in installments, flexible crediting dates, targeted information, and sales promotion campaigns as well as 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). The market was opened for cross-clearing of Isracard brand cards in May 2012; merchants can now switch clearers of 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. 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 sale-slips 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 404 million in the first quarter of 2014, compared with NIS 384 million in the same period last year, an increase of approximately 5.2%.

Legal Proceedings

For details regarding various regulatory issues, see the section "Principal Subsidiary and Affiliated Companies – Isracard," below, and Note 19C to the Annual Financial Statements for 2013.Note 19C to the Annual Financial Statements for 2013.

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, 2014							
	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**	**7**	**12**	**4**	**-**	**2**	**-**	**43**
Non-interest financing income	**-**	**-**	**-**	**-**	**-**	**19**	**-**	**19**
Net financing profit	**18**	**7**	**12**	**4**	**-**	**21**	**-**	**62**
Income from fees	**147**	**83**	**29**	**4**	**2**	**-**	**139**	**404**
Total income	**165**	**90**	**41**	**8**	**2**	**21**	**139**	**466**
Provision for credit losses	**2**	**1**	**-**	**-**	**-**	**-**	**-**	**3**
Operating and other expenses	**113**	**57**	**20**	**2**	**2**	**-**	**126**	**320**
Profit before taxes	**50**	**32**	**21**	**6**	**-**	**21**	**13**	**143**
Provision for taxes on profit	**15**	**9**	**6**	**2**	**-**	**6**	**4**	**42**
Net profit:								
Before attribution to non-controlling interests	**35**	**23**	**15**	**4**	**-**	**15**	**9**	**101**
Attributed to non-controlling interests	**(1)**	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**
Attributed to shareholders of the Bank	**34**	**23**	**15**	**4**	**-**	**15**	**9**	**100**
Average balances								
Average balance of assets	**6,318**	**3,540**	**1,253**	**226**	**113**	**-**	**4,560**	**16,010**
Average balance of liabilities	**-**	**-**	**2,305**	**2,161**	**9,939**	**-**	**-**	**14,405**
Average balance of risk-adjusted assets	**8,451**	**5,175**	**2,373**	**150**	**94**	**-**	**-**	**16,243**

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

	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
Total 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	6,149	3,448	1,221	221	110	-	4,487	15,636
Average balance of liabilities	-	-	2,211	2,073	9,536	-	419	14,239
Average balance of risk-adjusted assets	8,361	5,119	2,363	131	172	-	-	16,146

* 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 2013.

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 2013); 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 16 management companies of provident funds and pension funds.
Two pension advising centers were established in 2013, at the Rehovot branch and the Beer Sheba branch. Gradual deployment of pension advising centers throughout Israel is planned to continue in 2014.
In December 2013, it became mandatory to use the pension clearing house established for transfers of advance information regarding customers' holdings in pension products from institutional entities to pension advisors and marketers. Difficulties exist in the provision of pension advisory services to customers, among other matters as a result of the difficulty of routinely and efficiently receiving full information from institutional entities and from employers and transmitting it to the clearing house. In addition, at this stage the clearing house does not perform monetary transfers in connection with the pension products; there are difficulties with the settlement of monetary transactions. 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, and distribution agreements have not been signed for such products. The examination of insurance products is difficult, due to the wide variety of insurance plans in the various years and the problems comparing them to one another.
The Ministry of Finance has announced a plan to increase competition in the pension-savings market. The plan includes the following elements, among others:

- The maximum distribution fee for advisory services on pension-saving products, with the exception of study funds, will be 0.2% of accrual and 1.6% of routine deposits (this would replace the current version of the distribution fee regulations, in which the maximum rate is 0.25% of accrual, as detailed therein), or 40% of management fees, whichever is lower. 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 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 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 information, 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, 2014, the company manages portfolios at a monetary value of approximately NIS 13.5 billion, compared with approximately NIS 12.5 billion at the end of 2013.

Services for Financial Asset Managers

The Financial Asset Managers Services Unit encompasses activities related to the provision of various services to financial-asset managers: managers of provident funds and study 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.

Further to a decision by the Board of Management of the Bank, on January 1, 2014, responsibility for the Bank's business with management companies of provident funds (other than insurance companies) and with mutual funds was transferred from the Corporate Banking Area to the Financial Markets Area.

At the end of the first quarter of 2014, the volume of assets of provident funds and study funds for which the Bank supplies operational services totaled approximately NIS 94.5 billion. The value of assets of mutual funds for which the unit provides services related to account management, at various volumes, totaled approximately NIS 89.5 billion.

Within its activity with foreign banks and financial institutions, the Bank also supplies sub-custody services to leading foreign custodian banks operating in Israel in the area of securities.

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, 2014						
	Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Financial Management Segment	Total
	NIS millions						
Fees and other income	**8**	**211**	**11**	**5**	**13**	**76**	**324**
Operating and other expenses:							
From externals	**14**	**123**	**9**	**-**	**-**	**135**	**281**
Inter-segmental	**2**	**49**	**3**	**2**	**4**	**(60)**	**-**
Profit (loss) before taxes	**(8)**	**39**	**(1)**	**3**	**9**	**1**	**43**
Provision for taxes (tax benefit) on profit (loss)	**(3)**	**16**	**-**	**1**	**4**	**-**	**18**
Net profit (loss):							
Attributed to shareholders of the Bank	**(5)**	**23**	**(1)**	**2**	**5**	**1**	**25**
Average balances							
Average balance of assets of provident funds and mutual funds(1)	**2,732**	**54,107**	**4,182**	**2,387**	**3,258**	**89,022**	**155,688**
Average balance of other assets under management	**-**	**938**	**-**	**-**	**-**	**-**	**938**
Average balance of securities	**2,209**	**114,231**	**7,407**	**12,777**	**159,112**	**498,712**	**794,448**

	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	10	75	293
Operating and other expenses:							
From externals	14	120	9	-	-	129	272
Inter-segmental	2	42	3	2	3	(52)	-
Profit (loss) before taxes	(8)	23	(2)	3	7	(2)	21
Provision for taxes (tax benefit) on profit (loss)	(3)	8	(1)	1	2	-	7
Net profit (loss):							
Attributed to shareholders of the Bank	(5)	15	(1)	2	5	(2)	14
Average balances							
Average balance of assets of provident funds and mutual funds(1)	2,293	38,237	2,912	1,770	2,622	80,450	128,284
Average balance of other assets under management	-	857	-	-	-	-	857
Average balance of securities	2,049	114,559	7,391	11,547	134,435	431,799	701,780

* 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 2013. In addition, activity arising from customers of management companies of provident funds (other than management companies of provident funds managed within insurance companies) and mutual funds was reclassified from the Corporate Segment to the Financial Management Segment, following the implementation of the organizational change described above.

(1) Provident funds which receive operational services and mutual funds for which the Bank Group provides custody services.

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 2014, excluding exchange-rate differences of the subsidiaries overseas, totaled NIS 162 million, compared with NIS 215 million in the same quarter last year. In terms of the subsidiaries overseas, most of the decrease stemmed from the Pozitif Group, which was influenced by a significant depreciation in Kazakhstan (approximately NIS 33 million).

The Bank's investment in subsidiary and affiliated companies totaled NIS 16.2 billion as at March 31, 2014, compared with NIS 16.0 billion at the end of 2013.

Subsidiaries in Israel

The principal companies are reviewed below:

The Isracard Group

The Group includes the following companies: Isracard Ltd., Poalim Express 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 excluding the sale of MasterCard Inc. shares, totaled NIS 74 million in the first quarter of 2014, similar to the same quarter last year. The net profit for the quarter included profit in the amount of NIS 9 million from the sale of shares of MasterCard Inc., compared with NIS 18 million in the same quarter last year and totaled NIS 83 million compared with NIS 92 million in the same quarter last year, a decrease of approximately 10%.

The contribution of the Isracard Group to the Bank's operating results after taxes amounted to NIS 84 million in the first quarter of 2014, compared with NIS 99 million in the same quarter last year.

The Bank's investment in the Isracard Group totaled NIS 2,227 million on March 31, 2014, compared with NIS 2,155 million at the end of 2013.

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 stands at 0.735% as of July 1, 2013. From July 1, 2014 to the end of the period of the Arrangement (December 31, 2018), the average issuer fee will stand at 0.7%.

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.

Pursuant to a bill for increasing competition in credit, submitted to Knesset in February 2014, and a bill amending the Banking (Licensing) Law submitted to Knesset in March 2014, banking corporations would be prohibited from holding or operating means of control in credit-card companies, among other matters.

A draft published by the Israel Antitrust Authority for comments by the public on February 12, 2014, includes recommendations for expansion of the use of debit cards in Israel and for rapid crediting of businesses in charge-card transactions. On April 2, 2014, the Ministers' Committee on the Cost of Living passed a resolution to ask the Bank of Israel, the Antitrust Commissioner, and the Supervisor of Banks to consider a number of matters related to the introduction of immediate debit cards as a means of payment.

In April 2014, the Supervisor of Banks published a draft directive concerning benefits for customers, aimed at establishing clear, uniform rules to allow customers to compare banking services and products offered to them and differentiate the value of non-banking benefits from the value of banking services, and increasing competition over prices of banking services.

In April 2014, the Supervisor of Banks announced a reduction of the number of fees in the area of charge cards and clearing, and published a draft amendment of the Banking Rules on this matter. Pursuant to the draft, the number of fees collected from small businesses receiving clearing services will be reduced, through the establishment of a uniform price list for common services in this field. In addition, rules concerning fees collected from cardholders will be amended; for example, the deferred payment fee will be cancelled, and the rules regarding the collection of conversion fees will be simplified.

Note that the large number of regulatory procedures, if implemented, may in its own right have a material negative effect on the activity of the company; however, the extent of such an effect cannot be estimated at this stage.

For details regarding various regulatory issues, see Note 19C to the Annual Financial Statements for 2013.

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 granted by 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 2014 amounted to NIS 7 million, compared with a contribution in the amount of NIS 1 million in the same quarter last year. The Bank's investment in Poalim Capital Markets totaled NIS 825 million on March 31, 2014, compared with NIS 818 million at the end of 2013.

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.

The net profit of Poalim Sahar and its contribution to the operating results of the Bank totaled NIS 4 million in the first quarter of 2014, compared with NIS 3 million in the same quarter last year.

The Bank's investment in Poalim Sahar totaled NIS 295 million on March 31, 2014, compared with NIS 291 million at the end of 2013.

Activity of the Bank Group Abroad

General

The international activity of the Bank Group encompasses 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 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, 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.

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, 2014	Dec. 31, 2013
	USD millions	
Assets		
Cash on hand and deposits with banks	**8,639**	7,648
Securities	**2,205**	2,169
Securities borrowed or bought under agreements to resell	**-**	8
Net credit to the public	**5,143**	5,282
Buildings and equipment	**28**	26
Assets in respect of derivative instruments	**59**	74
Other assets	**131**	171
Total assets	**16,205**	15,378
Liabilities and Capital		
Deposits from the public	**8,743**	8,147
Deposits from banks	**5,221**	5,063
Securities lent or sold under agreements to repurchase	**54**	70
Bonds and subordinated notes	**642**	600
Liabilities in respect of derivative instruments	**127**	143
Other liabilities	**294**	272
Total liabilities	**15,081**	14,295
Non-controlling interests	**59**	61
Capital means**	**1,065**	1,022
Total liabilities and capital	**16,205**	15,378

* 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 office, and attribution of the share of non-controlling interests.

** Includes calculated capital in the amount of USD 288 million (December 31, 2013: USD 283 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, 2014	Dec. 31, 2013
	USD millions	
Deposits from the public, bonds, and subordinated notes	**9,385**	8,747
Client assets (off-balance sheet)	**8,899**	9,421
Total	**18,284**	18,168

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

	For the three months ended	
	March 31, 2014	March 31, 2013
	USD millions	
Net interest income	**40**	44
Non-interest financing income (expense)	**-**	5
Net financing profit	**40**	49
Provision for credit losses	**3**	5
Net financing profit after provision for credit losses	**37**	44
Fees and other income	**43**	41
Operating and other expenses	**69**	65
Profit before taxes	**11**	20
Provision for taxes on profit	**9**	7
Net profit:		
Before attribution to non-controlling interests	**2**	13
Attributed to non-controlling interests	**3**	(1)
Attributed to shareholders of the Bank	**5**	12

* 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:

March 31, 2014

	Balance as at March 31, 2014[1]	Contribution in the first quarter of 2014 excluding exchange-rate differences[2]	Return in the first quarter of 2014[3]	Exchange-rate differences in respect of the investment, allocated to the statement of profit and loss in the first quarter of 2014	Contribution in the first quarter of 2013, including exchange-rate differences
	NIS millions			NIS millions	
Company					
US branches[4]	**659**	**11**	**7.1%**	**-**	**11**
London branch[4]	**268**	**4**	**5.6%**	**-**	**4**
Bank Hapoalim (Switzerland) Ltd.	**1,582**	**15**	**3.9%**	**-**	**15**
Bank Pozitif Group	**500**	**(19)**	**(14.2%)**	**4**	**(15)**
Hapoalim Securities U.S.A. Inc.	**122**	**2**	**6.8%**	**1**	**3**
Hapoalim Securities U.S.A. Inc.	**146**	**(3)**	**(12.0%)**	**-**	**(3)**
Others	**359**	**6**	**7.2%**	**-**	**6**
Total	**3,636**	**16**	**1.8%**	**5**	**21**

March 31, 2013

	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	
Company					
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	355	2	1.7%	(16)	(14)
Total	3,376	44	5.2%	(42)	2

* The functional currency of consolidated subsidiaries overseas is defined in accordance with the directives of the Supervisor of Banks. Exchange-rate differences in respect of the investment in Bank Hapoalim Switzerland are allocated directly, net of hedging effects, to equity, within adjustments from translation. With regard to other investments, the Bank performs economic hedges of currency exposures arising from such investments.

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

(2) The contribution of the overseas offices consists of net profit, translated into NIS, with adjustments for the deduction of the surplus of the investment cost in respect of these offices, and the attribution of minority interests' share of the profits of consolidated companies overseas, excluding the supplement for the statutory tax rate applicable in Israel, in the amount of NIS 13 million (in the same period last year: NIS 19 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 branches overseas is based on the calculated capital of the branches, which includes the original amounts of 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.

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, 2014	March 31, 2013
	Millions	
US branches – USD*	**5.2**	5.3
London branch – GBP*	**1.0**	1.6
Bank Hapoalim (Switzerland) Ltd. – CHF	**4.7**	4.6
Bank Pozitif Group – TRY	**(16.1)**	7.2
Hapoalim Securities U.S.A. Inc. – USD	**0.5**	0.3
Banque Hapoalim (Luxembourg) S.A. – USD	**(0.8)**	(0.6)
Other offices – USD	**1.5**	0.6

* 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, asset-management subsidiaries, and representative offices engaged solely in public relations.

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

Bank Hapoalim (Switzerland) Ltd. (Hapoalim Switzerland)

A banking subsidiary, wholly owned by the Bank, mainly engaged in the provision of private-banking services, through three branches – two in Switzerland, in Zurich and Geneva, and one in Luxembourg. The Bank also operates through an investment consulting firm in Hong Kong.

Net profit of Hapoalim Switzerland totaled approximately CHF 4.7 million in the first quarter of 2014, compared with approximately CHF 4.6 million in the first quarter of 2013.

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 2014 totaled NIS 15 million, compared with CHF 16 million in the first quarter of 2013.

Total capital of Hapoalim Switzerland amounted to approximately CHF 402 million as at March 31, 2014, compared with approximately CHF 395 million at the end of 2013.

The total balance sheet of Hapoalim Switzerland amounted to approximately CHF 3,916 million as at March 31, 2014, compared with approximately CHF 3,419 million at the end of 2013, due to an increase in deposits from the public.

The total credit of Hapoalim Switzerland amounted to approximately CHF 1,445 million as at March 31, 2014, compared with approximately CHF 1,403 million at the end of 2013.

Total deposits from the public of Hapoalim Switzerland amounted to approximately CHF 3,372 million as at March 31, 2014, compared with approximately CHF 2,890 million at the end of 2013.

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, these banks submitted statistical information with regard to their business with American clients to the Swiss authorities, which they were to convey to the US authorities. As part of this process, in the second half of 2011, Bank Hapoalim Switzerland submitted statistical information to the Swiss authorities, without submitting identifying information regarding the clients, such as client names. Hapoalim Switzerland is cooperating with the Swiss authorities and acting in accordance with the legal directives to which it is subject.

On August 29, 2013, it was announced that the US and Swiss authorities had reached an arrangement (the "Proposed Arrangement"), pursuant to which Swiss banks that choose to join the Proposed Arrangement and that meet its conditions (including the payment of a fine, and submission of extensive information regarding the accounts of their American customers, funds received from other banks, and more) will not be indicted in the United States in connection with matters covered by the Proposed Arrangement. The US Department of Justice stated that the Proposed Arrangement would not apply to 14 Swiss banks whose activity was under investigation. Therefore, Hapoalim Switzerland is not included in the Proposed Arrangement; on August 29, 2013, the US Department of Justice gave notice in a letter to the representative of Hapoalim Switzerland that it would not be included in the Proposed Arrangement, because it was under investigation. Other than this letter there has been no additional communication directed to Hapoalim Switzerland. Under these circumstances, Hapoalim Switzerland cannot estimate the extent to which it may be affected by this investigation.

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.

During 2013, the necessary infrastructure was created at Hapoalim Luxembourg in order to grant commercial credit to Israeli clients operating in Europe. As of the fourth quarter of 2013, Hapoalim Luxembourg has absorbed former clients of the London branch At the end of the first quarter of 2014, total credit amounted to USD 548 million, compared with USD 121 million at the end of 2013.

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, 2014, the Bank Group's customers have holdings in funds of international financial entities with which PAM collaborates totaling approximately USD 2.7 billion, compared with USD 2.5 billion on December 31, 2013.

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.

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 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")

A bank wholly owned by Bank Hapoalim Cayman, providing 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 business 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 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 syndicated 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. Concurrently, the Bank will continue its activity in the syndication 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 2.0 billion as at March 31, 2014, similar to the balance at the end of 2013. Of the total credit, total credit to middle-market clients amounted to approximately USD 937 million, compared with approximately USD 908 million at the end of 2013.

The branch also provided unutilized credit facilities and backup lines in the amount of approximately USD 1.8 billion as at March 31, 2014, compared with approximately USD 1.9 billion at the end of 2013.

In addition, as at March 31, 2014, a total of approximately USD 4.6 billion was deposited with the Federal Reserve Bank, compared with approximately USD 3.8 billion at the end of 2013.

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 5.2 million in the first quarter of 2014, compared with approximately USD 5.3 million in the first quarter of 2013.
During the quarter, the New York branch collected approximately USD 5 million in connection with MBS transactions written down in the past. This income was offset by an allowance for credit losses in the amount of approximately USD 4.5 million.
Total capital means of the US branches amounted to approximately USD 211 million as at March 31, 2014, compared with approximately USD 209 million at the end of 2013.
The total balance sheet of the US branches as at March 31, 2014, totaled approximately USD 8.3 billion, compared with approximately USD 7.5 billion at the end of 2013.
Total credit of the US branches amounted to approximately USD 2.1 billion as at March 31, 2014, compared with approximately USD 2.2 billion at the end of 2013.
Total deposits of the US branches amounted to approximately USD 3.5 billion as at March 31, 2014, compared with approximately USD 3.4 billion at the end of 2013.

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

A broker-dealer 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 million in the first quarter of 2014, compared with approximately GBP 1.6 million in the first quarter of 2013.
Total capital means of the London branch as at March 31, 2014 amounted to approximately GBP 46 million, compared with approximately GBP 45 million at the end of 2013.
The total balance sheet of the London branch amounted to approximately GBP 102 million as at March 31, 2014, compared with approximately GBP 523 million at the end of 2013.
The total credit of the London branch amounted to approximately GBP 18 million as at March 31, 2014, compared with approximately GBP 374 million at the end of 2013.
Total deposits of the London branch amounted to approximately GBP 4 million as at March 31, 2014, compared with approximately GBP 69 million at the end of 2013.
At the end of April 2014, all remaining loans and deposits were transferred from the London branch.

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 loss of the Bank Pozitif Group totaled approximately TRY 16.1 million (approximately USD 7.5 million) in the first quarter of 2014, compared with profit of approximately TRY 7.2 million (approximately USD 4.0 million) in the first quarter of 2013. The loss mainly resulted from depreciation of the Kazakhstani Tenge against the US dollar, which led to a loss of approximately TRY 19 million, and from a decrease in net interest income. This loss was offset by a decrease in the collective allowance and by profit from the sale of loans.

The Bank Pozitif Group's contribution to the Bank's operating results, excluding exchange-rate differences and after supplementary taxes in Israel, amounted to a negative contribution of approximately NIS 23 million in the first quarter of 2014, compared with a contribution of approximately NIS 8 million in the first quarter of 2013.

Total capital of the Bank Pozitif Group amounted to TRY 421 million (approximately USD 196 million) as at March 31, 2014, compared with approximately TRY 435 million (approximately USD 201 million) at the end of 2013.

Total assets of the Bank Pozitif Group amounted to approximately TRY 2,126 million (approximately USD 988 million) as at March 31, 2014, compared with approximately TRY 2,293 million (approximately USD 1,061 million) at the end of 2013.

Total net credit to the public of the Bank Pozitif Group amounted to approximately TRY 1,565 million (approximately USD 727 million) as at March 31, 2014, compared with approximately TRY 1,676 million (approximately USD 776 million) at the end of 2013.

Total deposits from the public at the Bank Pozitif Group amounted to approximately TRY 199 million (approximately USD 93 million) as at March 31, 2014, compared with approximately TRY 188 million (approximately USD 87 million) at the end of 2013.

The Bank's investment in the Bank Pozitif Group totaled NIS 500 million as at March 31, 2014, compared with approximately NIS 513 million at the end of 2013.

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 1.0% at the beginning of 2014, was lowered by 0.25% at the end of February, to 0.75%.

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

- Setting the basic interest rate for the Israeli economy.
- Makam (T-Bill) auctions – The Bank of Israel maintains balances of Makams (short-term notes) of approximately NIS 129 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 the first quarter of 2014, the liquidity surpluses of the banking system totaled NIS 99 billion, compared with NIS 104 billion at the end of 2013, a decrease of approximately NIS 5 billion.

The following actions decreased liquidity:

The Bank of Israel increased Makam issues by a total of approximately NIS 3 billion during the quarter.

The government's fiscal and capital-market actions led to the absorption of approximately NIS 10 billion.

The amount of money in public circulation increased by NIS 1 billion.

The banks' liquidity requirement increased by a total of approximately NIS 1 billion.

The decrease in liquidity was offset by the following factors:

Foreign currency purchases by the Bank of Israel during the period, in a total amount of approximately NIS 10 billion (USD 3.0 billion, of which USD 0.9 billion to offset the effects of natural-gas production).

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 interest rates, and invests some of its liquidity surpluses, mainly 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 31.3 billion as at March 31, 2014, compared with NIS 34.0 billion as at December 31, 2013. For further details regarding bonds and subordinated notes issued by the aforesaid entities, see Note 11 to the Annual Financial Statements for 2013.

The balance of subordinated notes issued by the Bank as at March 31, 2014 is approximately NIS 5.6 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 supervisory capital of the Bank), and deposits the proceeds of the issuance with the Bank. As at March 31, 2014, the balance of notes issued by the Bank Group is approximately NIS 17.4 billion, and the balance of bonds is approximately NIS 8.3 billion.

In the first quarter of 2014, bonds in the amount of approximately NIS 0.1 billion were issued by the Bank Group, and bonds in the amount of approximately NIS 2.5 million matured.

Objectives and Business Strategy

The Bank operates in accordance with a three-year strategic plan (2013-2015) approved in late 2012 and updated at the end of 2013. 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 continuing to solidify its leadership in the Israeli banking system and maximizing value for its shareholders and all of its stakeholders.

In addition, the Bank is preparing to implement the directives of the Bank of Israel, 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. **Business and technological 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, formed as a result of the consolidation of brokerage activities, securities clearing and operation, and operational 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 business and technological 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; and 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 Mr. D. Koller. 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 Chief Risk Officer and the member of the Board of Management responsible for the Risk Management Area is Mr. T. Cohen.

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 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 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 who is not part of the business units is necessary in order to support appropriate decision-making regarding credit and challenge the judgment exercised by the business functions. In particular, such involvement is necessary in the formulation of credit policy, the review of credit ratings, 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, as defined in the directive, should be made while taking the written opinion of the risk-management function under advisement. These directives took effect on January 1, 2014.

The Bank is implementing the requirements in the directive in accordance with its preparation plan, which entails reinforcement of its risk-management system as well as changes and adjustments of relevant work processes, including:

1. A specialized department for credit analysis has been established (hereinafter: the Credit Analysis Department), responsible for examining credit transactions that create material credit exposure, in accordance with the requirements of the directive. The work process has been adapted such that an independent opinion of the Credit Analysis Department in the Risk Management Area is attached to credit applications and submitted to the authorized party, as part of the credit approval process.
2. A credit policy committee has been established within the Risk Management Area, to formulate a credit policy document for the Bank and for the business units, which will be submitted to the Board of Management and Board of Directors for approval, in cooperation with the relevant business functions at the Bank.
3. Responsibility for classifications and allowances has been transferred to the Risk Management Area. A function responsible for the process of classifying problematic debts and establishing the allowance for credit losses has been set up in the Credit Risk Management Unit (see further details in the section "Identification and Treatment of Borrowers in Distress").
4. Separation of credit granting from credit operations in the Corporate Banking Area, in accordance with the requirement in the directive for operational employees to report to managers who are not involved in business activity or credit approvals.

5. Responsibility for the approval of material ratings (as defined in Directive 311) has been transferred to the Risk Management Area. Within this transition, a new work process has been established, in which the Credit Analysis Department examines the credit rating when examining significant credit exposures, and in cases in which the business function seeks to change or reapprove the credit rating.

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 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 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 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 three departments: the Credit Risk Analysis and Management Department, the Credit Control Department, and the Credit Analysis 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 Risk Integration Unit.

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. The second sphere of control contains additional independent control functions, such as accountancy, legal counsel, and human resources. The third sphere of control consists of the Internal Audit system.

Financial Risks

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 may 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. The Bank examines developments in the global and Israeli economy, taking note of the various sectors of activity, and updates its credit policy if 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 management functions, 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 policy for new products, which specifies the processes 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) for 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 exposure 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. In addition, the Bank routinely monitors and examines the financial robustness of all financial institutions with which it conducts activity, and its exposures to such institutions. 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, 2014[1]:

	Balance sheet credit risk[2]	Current off-balance sheet credit risk[3]	Total current credit risk
	NIS millions		
External credit rating[5]			
AAA to AA-	**3,882**	**1,337**	**5,219**
A+ to A-	**8,212**	**601**	**8,813**
BBB+ to BBB-	**3,694**	**173**	**3,867**
BB+ to B-	**8**	**16**	**24**
Lower than B-	**2**	**1**	**3**
Unrated**	**205**	**61**	**266**
Total current credit exposures to foreign financial institutions*	**16,003**	**2,189**	**18,192**
Of which: Problematic credit risk[4]	**-**	**-**	**-**
Of which: Balance of impaired debts	**-**	**-**	**-**
Individual allowance for credit losses	**-**	**-**	**-**
Total credit exposure to foreign financial institutions after deduction of the individual allowance for credit losses	**16,003**	**2,189**	**18,192**
Collective allowance for credit losses	**6**	**1**	**7**

* The balances include the exposure of the Bank Group to financial institutions in the following countries:
Spain – Total exposure in the amount of approximately NIS 104 million, of which a total of approximately NIS 37 million rated BBB and a total of NIS 67 million rated BBB- (total exposure at year end 2013 was approximately NIS 136 million, of which a total of approximately NIS 53 million rated BBB, a total of NIS 81 million rated BBB-, and the remaining amount of NIS 2 million rated BB).
Ireland – Total exposure in the amount of approximately NIS 24 million, of which a total of approximately NIS 3 million rated AA-, and the remaining amount of NIS 21 million unrated (total exposure at year end 2013 was approximately NIS 27 million, of which a total of approximately NIS 3 million rated AA- and the remaining amount of NIS 24 million unrated).
Italy – Total exposure of approximately NIS 59 million, of which a total of approximately NIS 48 million rated BBB, a total of NIS 10 million rated BBB-, and the remaining amount of approximately NIS 1 million rated B (total exposure at year end 2013 was approximately NIS 52 million, of which approximately NIS 41 million rated BBB, a total of NIS 10 million rated BBB-, and the remaining amount of approximately NIS 1 million rated B).
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 16% of the balance. The remaining amount is distributed among a long list of banks and financial institutions (December 31, 2013: 12% 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 1, 2014 (December 31, 2013: ratings current as at February 5, 2014).

The following table details the Bank Group's exposure to foreign financial institutions as at December 31, 2013[(1)]:

	Balance sheet credit risk[(2)]	Current off-balance sheet credit risk[(3)]	Total current credit risk
	NIS millions		
External credit rating[(5)]			
AAA to AA-	3,757	1,712	5,469
A+ to A-	7,443	691	8,134
BBB+ to BBB-	3,096	86	3,182
BB+ to B-	21	13	34
Lower than B-	1	-	1
Unrated**	143	74	217
Total current credit exposures to foreign financial institutions*	14,461	2,576	17,037
Of which: Problematic credit risk[(4)]	-	-	-
Of which: Balance of impaired debts	-	-	-
Individual allowance for credit losses	-	-	-
Total credit exposure to foreign financial institutions after deduction of the individual allowance for credit losses	14,461	2,576	17,037
Collective allowance for credit losses	9	2	11

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

	For the period ended March 31, 2014	For the year ended Dec. 31, 2013
	NIS millions	
Deposits/credit with foreign banks and financial institutions	**-**	-

* The balances include the exposure of the Bank Group to financial institutions in the following countries:
Spain – Total exposure in the amount of approximately NIS 104 million, of which a total of approximately NIS 37 million rated BBB and a total of NIS 67 million rated BBB- (total exposure at year end 2013 was approximately NIS 136 million, of which a total of approximately NIS 53 million rated BBB, a total of NIS 81 million rated BBB-, and the remaining amount of NIS 2 million rated BB).
Ireland – Total exposure in the amount of approximately NIS 24 million, of which a total of approximately NIS 3 million rated AA-, and the remaining amount of NIS 21 million unrated (total exposure at year end 2013 was approximately NIS 27 million, of which a total of approximately NIS 3 million rated AA- and the remaining amount of NIS 24 million unrated).
Italy – Total exposure of approximately NIS 59 million, of which a total of approximately NIS 48 million rated BBB, a total of NIS 10 million rated BBB-, and the remaining amount of approximately NIS 1 million rated B (total exposure at year end 2013 was approximately NIS 52 million, of which approximately NIS 41 million rated BBB, a total of NIS 10 million rated BBB-, and the remaining amount of approximately NIS 1 million rated B).
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 16% of the balance. The remaining amount is distributed among a long list of banks and financial institutions (December 31, 2013: 12% 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 1, 2014 (December 31, 2013: ratings current as at February 5, 2014).

The exposure of the Bank Group to foreign financial institutions totaled approximately NIS 18.2 billion on March 31, 2014, an increase of approximately NIS 1.2 million compared with approximately NIS 17.0 billion at the end of 2013. This increase resulted from an increase in balance sheet exposure, in the amount of approximately NIS 1.5 billion, and a decrease in off-balance sheet exposure, in the amount of approximately NIS 0.4 billion. The increase in balance sheet exposure mainly resulted from purchases of bonds of foreign banks, and an increase in derivatives.

Approximately 77% 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: 87% in banks and bank holding companies, 12% in other financial institutions, and 1% in insurance companies. Most of the Bank Group's exposure is to foreign financial institutions operating in the United States (34%) and in Western European countries (49%).

The sector "banks overseas" in Appendix 3 includes only exposures in respect of banks abroad, including central banks. Financial institutions are mainly presented in the "financial services" sector. "Total credit risk" also includes balance sheet and off-balance sheet balances in respect of derivatives. The table above does not include exposure in respect of central banks, or off-balance sheet balances in respect of derivatives. The total of "debts and off-balance sheet credit risk" in Appendix 3 includes credit to the public and deposits with banks, but does not include bonds and securities borrowed or bought under agreements to resell, which are included in the table above. Balance sheet and off-balance sheet credit in respect of derivatives is not included in the total of "debts and off-balance sheet credit risk." However, the table above includes balance sheet balances in respect of derivatives.

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 risk arising from transactions in derivative financial instruments related to the counterparty to the transactions is 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, 2014 (in NIS millions):

	Credit rating			Total
	AAA to AA-	A+ to A-	BBB+	
Banks outside Israel:				
United States[1]	**4**	**1,131**	**2**	**1,137**
England	**322**	**510**	**126**	**958**
Germany	**-**	**833**	**79**	**912**
France	**-**	**876**	**-**	**876**
Switzerland	**1**	**147**	**-**	**148**
Other	**43**	**1**	**3**	**47**
Eurozone – other	**-**	**7**	**82**	**89**
Total banks outside Israel	**370**	**3,505**	**292**	**4,167**
Banks in Israel				**1,919**
Stock exchanges				**388**
Governments and central banks				**78**
Brokers/dealers[2]				**1,084**
Corporate clients by economic sector:				
Financial services				**968**
Transportation and storage				**142**
Electricity and water				**1,162**
Construction and real estate				**30**
Other				**626**
Total corporate clients by economic sector				**2,928**
Total				**10,564**

(1) Of which: JPMorgan Chase – balance in the amount of NIS 947 million.
(2) Of which: Goldman Sachs – balance in the amount of NIS 628 million.

Exposures of the Bank to Securitization

The volume of the exposure at the report date is approximately NIS 174 million, mainly arising from liquidity lines granted to securitization entities.

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 Bank routinely monitors and examines the macro-economic situation in countries in which it conducts credit activity, using analyses and reports by international rating agencies, among other means. For further details, see the section "Economic and Financial Review," above.

Balance sheet exposure to foreign countries as at March 31, 2014 totaled NIS 50.7 billion, compared with NIS 45.6 billion at the end of 2013.

Off-balance sheet exposure to foreign countries as at March 31, 2014 totaled NIS 13.3 billion, compared with NIS 18.5 billion at the end of 2013.

Total principal exposures to foreign countries as at March 31, 2014 (in NIS millions):

	Total balance sheet exposure(1)	Total off-balance sheet exposure	Total exposure	Percentage of balance sheet exposure
Country				
United States*	**18,523**	**6,976**	**25,499**	**36.6%**
Switzerland	**6,691**	**242**	**6,933**	**13.2%**
England	**6,876**	**1,938**	**8,814**	**13.5%**
Germany	**1,842**	**56**	**1,898**	**3.6%**
France	**2,338**	**752**	**3,090**	**4.6%**
Ireland**	**185**	**200**	**385**	**0.4%**
Spain***	**111**	**19**	**130**	**0.2%**
Portugal	**1**	**5**	**6**	**0.0%**
Greece	**-**	**1**	**1**	**-**
Italy	**72**	**44**	**116**	**0.1%**
Other developed countries(2)	**10,808**	**1,394**	**12,202**	**21.3%**
Turkey	**1,644**	**1,401**	**3,045**	**3.2%**
Other less developed countries (LDCs)(3)	**1,658**	**274**	**1,932**	**3.3%**
Total exposures to foreign countries	**50,749**	**13,302**	**64,051**	**100%**

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

	Total balance sheet exposure(1)	Total off-balance sheet exposure	Total exposure	Percentage of balance sheet exposure
Country				
United States	15,377	7,703	23,080	33.7%
Switzerland	6,368	299	6,667	14.0%
England	6,757	4,751	11,508	14.8%
Germany	1,601	142	1,743	3.5%
France	2,152	1,746	3,898	4.7%
Ireland	156	211	367	0.3%
Spain	142	63	205	0.3%
Portugal	2	5	7	0.0%
Greece	-	1	1	0.0%
Italy	70	37	107	0.2%
Other developed countries(2)	9,707	1,604	11,311	21.3%
Turkey	1,972	1,558	3,530	4.3%
Other less developed countries (LDCs)(3)	1,320	331	1,651	2.9%
Total exposures to foreign countries	45,624	18,451	64,075	100%

* The increase in the exposure to the United States in comparison to the end of 2013 mainly resulted from an increase in deposits with the Federal Reserve in the United States.

** The exposure in Ireland includes NIS 4 million to banks in Ireland and NIS 381 million to customers. Of the total exposure to customers, approximately NIS 174 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 120 million to banks, and NIS 10 million to customers. Of the total exposure to banks, approximately NIS 16 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.

(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 (LDC) – 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 the Credit Risk Management Unit. 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.

During the first half of 2013, the Supervisor of Banks issued substantial updates to several of the Proper Conduct of Banking Business Directives concerning risk management (Directives 310, 311, 314, and others). As part of the implementation of these directives, the Bank is preparing to update and enhance its procedures, methods, controls, and computerized systems in areas including the identification and treatment of borrowers in distress.

The Bank's preparations for the implementation of Directive 311 in 2014 included the following processes:

- Responsibility for classifications and allowances has been transferred to the Risk Management Area.
- A classifications and allowances committee has been established (replacing the credit committee on these matters), headed by the Head of Risk Management.
- The Bank appointed a function responsible for classifications and allowances, and determined that customer analysis and opinions are performed by the Credit Control Department.
- The Credit Analysis Department and the Credit Control Department are required to address the following issues in the opinions they prepare: whether the specific customer should be included in a list of customers under supervision by the Bank; whether the customer's rating requires a classification; and whether an allowance for credit losses is required. Customers identified for supervision will be discussed in a quarterly process of examination of the fairness of classifications, by an inter-division committee headed by the Head of the Credit Risk Management Unit, and by the classifications and allowances committee headed by the Head of Risk Management.
- A committee was established to write the classifications and allowances policy of the Bank.

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 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, based on an 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. In light of the draft of the new guidelines of the Supervisor of Banks concerning the collective allowance, as published in April 2013, the Bank plans to update its method for evaluation, control, and documentation of collective allowance rates and balances.

With regard to borrowers in the housing finance sector, an allowance is 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 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. The Bank set the allowance at the minimum required level in the first quarter of 2013. In accordance with the directives of the Bank of Israel, the Bank developed an internal method for establishing the rate of the collective allowance in respect of the portfolio of housing loans. This method is based on a statistical model for the assessment of the expected rates of loss in the portfolio over the coming year, with adjustments for the economic environment and forecasts regarding macro-economic parameters. The collective allowance for housing loans is determined using this method, taking into account the aforesaid minimum rate; the method has replaced the previous calculation performed in respect of the portfolio of housing loans with a high leverage rate.

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 objectives 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. The unit received responsibility for overseeing classifications and allowances of the Bank, as part of the preparations for implementation of Directive 311; a function was defined to oversee individual allowances and collective allowances for credit losses.

Three departments operate within the Credit Risk Management Unit:

The Credit Portfolio Risk 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 internal models approach; 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. Pursuant to Directive 311, a team has been established to coordinate the process of writing and approving the credit policy of the Bank.

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. As part of the implementation of Directive 311, the department will examine the suitability of classifications and of individual allowances at the Bank, and will present its recommendations for the establishment of classifications and individual debt allowances in accordance with the hierarchy of authorizations.

The Credit Analysis Department was established as part of the preparations for Directive 311. The department examines material credit transactions and material changes in the terms of credit, as well as applications for rating upgrades. The department will provide the opinion of the risk function, as part of the credit approval process.

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 capital 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 2,341 million, and approximately NIS 47 million in shares held 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 broad view of liquidity management, encompassing the Bank's ability to meet all of its current liabilities (including off-balance sheet liabilities), as well as 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 (managed by the ALM Division) and trading portfolio management (mainly 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 Rooms and Brokerage Division of the Financial Markets Area in Tel Aviv, and in asset and liability management units and the dealing rooms at the Bank's branches in New York and London. The branches are professionally subordinate in these matters to the Head of the Financial Markets Area. Routine control and monitoring of activity abroad is executed 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; main exposures and risk levels utilized out of approved limits; results of operations; events requiring a report (losses, exceptions from procedures, exceptional events); applications for and approvals of expansion of activities and transaction authorizations for the various activities, according to the hierarchy of 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 guided and controlled by the Global Asset and Liability Management Committee and the Board of Management Investment Committee, which consist of members of the Bank's Board of Management, and are headed by the Bank's Chief Executive Officer. Policies, including the established limits, are submitted for discussion and approval to the committees of the 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 the Financial Markets Area and another is headed by the head of the ALM Division. A local committee also operates in New York. The committees operate on the basis of resolutions passed 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, 2013.

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 calculated.

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 February 2014, the Bank of Israel issued a draft of the Basel 3 liquidity directive to the banks, and asked the banks to perform a survey to examine the quantitative effect of the directive. The Bank submitted the data as required. In March 2014, the Bank of Israel issued a draft reporting directive addressing liquidity risk, among other matters. The Bank will prepare to implement these directives.

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 the market and liquidity risk assessment methodology of the Bank Group, and for independent control over 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 on 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 strategic objectives of the Bank and with the requirements of the Basel Committee, and complies with international standards.

The estimate of the risk in trading activity is calculated at least once daily, 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. Full revaluation of the trading portfolio is performed at least once daily, under various scenarios, in order to generate an estimate. An assessment of the risk level of activity in the banking book is executed once a month, using the historical method, with a one-month horizon. In addition, a backtest procedure is performed routinely in order to examine the validity of the risk-assessment model in the trading book. The number of deviations is examined based on criteria established in the recommendations of the Basel Committee; up to four deviations in approximately 250 observations annually is considered the "green zone" (at a significance level of 99%). The results of this test are reported annually to the Board of Management and to the Board of Directors. No deviations have been observed in this test since the beginning of 2014. According to the results of the test, the model meets the acceptance criteria established by the Basel Committee.

The market risk assessment methodology of the Bank also includes the application of stress tests to trading books and to the banking book, in addition to VaR calculations. The Market Risk Management Department applies several types of scenarios, in accordance with common practice worldwide. For an extensive review of the methodology, see this section in the Financial Statements as at December 31, 2013.

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, 2014:

	As at March 31, 2014	Maximum From the beginning of 2014	Minimum From the beginning of 2014
Scenario	NIS millions		
1% decrease in CPI	**(78)**	**(89)**	**(78)**

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, 2014:

	10% appreciation	5% appreciation	5% depreciation	10% depreciation
	NIS millions			
Currency				
USD	**115**	**24**	**(3)**	**(8)**
EUR	**43**	**12**	**16**	**40**
JPY	**5**	**-**	**22**	**63**
CAD	**2**	**-**	**7**	**14**
GBP	**23**	**7**	**2**	**9**
CHF	**8**	**3**	**-**	**3**

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 US 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, 2014:

	March 31, 2014			**Maximum in Q1 2014**		**Minimum in Q1 2014**	
	1% increase	1% decrease	0.1% increase	1% increase	1% decrease	1% increase	1% decrease
	NIS millions						
Scenario							
Shift in CPI-linked interest rate:							
Bank	**(126)**	**136**	**(13)**	**(158)**	**169**	**(126)**	**136**
Of which: Banking book	**(127)**	**137**	**(13)**	**(157)**	**169**	**(127)**	**137**
Trading book	**1**	**(1)**	**-**	**2**	**(2)**	**(1)**	**1**
Shift in unlinked interest rate:							
Bank	**(140)**	**152**	**(14)**	**(140)**	**152**	**(22)**	**22**
Of which: Banking book	**(123)**	**141**	**(13)**	**123**	**141**	**(123)**	**35**
Trading book	**(17)**	**11**	**(1)**	**(17)**	**(13)**	**2**	**11**
Shift in foreign currency interest rates:							
Bank	**62**	**(61)**	**6**	**62**	**(61)**	**33**	**(34)**
Of which: Banking book	**60**	**(63)**	**6**	**60**	**(63)**	**39**	**(15)**
Trading book	**2**	**2**	**-**	**19**	**(19)**	**2**	**2**

Set out below are data regarding the sensitivity of the capital of the Bank to parallel changes in interest-rate curves (theoretical change in economic value as a result of each scenario) as at December 31, 2013:

	December 31, 2013			Maximum in 2013		Minimum in 2013	
	1% increase	1% decrease	0.1% increase	1% increase	1% decrease	1% increase	1% decrease
	NIS millions						
Scenario							
Shift in CPI-linked interest rate:							
Bank	(189)	213	(20)	(189)	213	(39)	51
Of which: Banking book	(190)	214	(20)	(190)	214	(38)	50
Trading book	1	(1)	-	(4)	4	-	-
Shift in unlinked interest rate:							
Bank	61	(59)	6	246	(242)	(6)	32
Of which: Banking book	50	(48)	5	245	(246)	(22)	(255)
Trading book	11	(11)	1	(26)	44	17	(11)
Shift in foreign currency interest rates:							
Bank	(10)	12	1	30	(29)	(4)	4
Of which: Banking book	2	24	-	38	(36)	2	(2)
Trading book	(12)	(12)	1	(12)	(12)	(1)	-

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 since the beginning of 2014, this sensitivity has not exceeded NIS 453 million.

Set out below are details of the fair value of the Bank and its consolidated companies, as at March 31, 2014, by linkage segment:

	Israeli currency		Foreign currency**			Total
	Unlinked	CPI-linked	USD	EUR	Other	
	NIS millions					
Financial assets*	**221,529**	**58,407**	**57,203**	**8,729**	**12,327**	**358,195**
Amounts receivable in respect of derivative and off-balance sheet financial instruments***	**363,781**	**14,069**	**201,112**	**34,172**	**34,403**	**647,537**
Financial liabilities*	**199,095**	**45,222**	**66,875**	**14,283**	**9,103**	**334,578**
Amounts payable in respect of derivative and off-balance sheet financial instruments***	**371,176**	**19,061**	**194,000**	**28,298**	**36,093**	**648,628**
Net fair value of financial instruments	**15,039**	**8,193**	**(2,560)**	**320**	**1,534**	**22,526**

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

	Israeli currency		Foreign currency**			Total
	Unlinked	CPI-linked	USD	EUR	Other	
	NIS millions					
Financial assets*	228,044	60,404	52,525	9,633	11,576	362,182
Amounts receivable in respect of derivative and off-balance sheet financial instruments***	277,386	14,376	170,777	24,307	23,581	510,427
Financial liabilities*	199,943	48,729	67,975	14,457	7,317	338,421
Amounts payable in respect of derivative and off-balance sheet financial instruments***	289,738	19,107	158,390	19,163	25,506	511,904
Net fair value of financial instruments	15,749	6,944	(3,063)	320	2,334	22,284

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

** Includes foreign-currency-linked Israeli currency.

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

Set out below are data regarding the effect of theoretical changes in interest rates on the net fair value of financial instruments of the Bank and its consolidated companies, excluding non-monetary items, as at March 31, 2014:

	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			
	NIS millions							
Change in interest rates								
Immediate parallel increase of 1%	**14,914**	**8,157**	**(2,599)**	**264**	**1,438**	**22,174**	**(352)**	**(1.6%)**
Immediate parallel increase of 0.1%	**15,027**	**8,187**	**(2,562)**	**304**	**1,520**	**22,476**	**(50)**	**(0.2%)**
Immediate parallel decrease of 1%	**15,213**	**8,209**	**(2,431)**	**366**	**1,616**	**22,973**	**447**	**2.0%**

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, 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			
	NIS millions							
Change in interest rates								
Immediate parallel increase of 1%	15,801	6,805	(3,093)	279	2,232	22,024	(260)	(1.2%)
Immediate parallel increase of 0.1%	15,753	6,924	(3,066)	316	2,318	22,245	(39)	(0.2%)
Immediate parallel decrease of 1%	15,686	7,089	(2,946)	376	2,423	22,628	344	1.5%

* 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.

Exposures in 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 two 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 NIS/foreign currency exposure allocated to this activity, out of the total limit on the exposure of the Bank's financial capital to foreign currency.

- **Interest-Rate Exposures – 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, 2014:

	As at March 31, 2014	Average from the beginning of 2014	Maximum from the beginning of 2014	Minimum from the beginning of 2014
	NIS millions			
Total trading in dealing rooms	**16**	**24**	**36**	**12**

Procedures for Exposure to Market and Liquidity Risks

A document on exposures to market and liquidity risks is presented to the Board of Directors for approval each year, for the coming year of activity. Limits approved as part of this document include a general limit on 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 2014 reflects the work plan of the Financial Markets Area, including the expansion of activity in the investment portfolio and diversification of tools used in the various activities.

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, 2014:

	Limit	NIS millions	% of active financial capital
Overall Bank Activity	Overall risk estimate (VaR)	**950**	
	Sensitivity of economic value to parallel changes of 1% in interest-rate curves:		
	CPI-linked NIS	**500**	
	Unlinked NIS	**620**	
	Foreign currency	**370**	
	Sensitivity of the derivatives in the banking book to a 1% parallel change in interest-rate curves:		
	CPI-linked NIS	**150**	
	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 Nostro investment***	****14,500**	
	Of which: Volume of investment in shares***	*****3,000**	
	Risk capacity – theoretical loss in an extreme scenario in the investment portfolio***	***3,250**	
	Risk Appetite***	**1,200**	
Of which: 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**	

* Excluding an investment in Israeli government bonds, and limited amounts of the following bonds: US government bonds held at the New York branch, Swiss government bonds (or bonds backed by the Swiss government) held in Switzerland, and Turkish government bonds held in Turkey.
** Not including investment in Israeli government bonds and in short-term US bonds.
*** Excluding investments in Poalim Capital Markets.

The Bank is required to maintain a minimum capital ratio in respect of market risks on the basis of a standardized 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 Subcommittee on Operational Risk Management, headed by the Head of the Risk Management Area.

The operational risk management policy was approved by the Board of Management and 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 the Basel 2 standards on Sound Practices. The Bank's activity in this area is conducted according to the rules of Proper Conduct of Banking Business Directive 206, "Capital Measurement and Adequacy – Operational Risk," which refers among other matters to capital allocation in respect of operational risks, and Proper Conduct of Banking Business Directive 350, "Operational Risk Management," which is congruent with the updated guidelines in the 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 corresponding requirements of the 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, lessons learned, and reports.
- A comprehensive framework of principles and standards has been formulated for the implementation of a uniform control philosophy within the Bank Group.
- A methodology 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.

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 in an emergency, 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 Bank is establishing a new remote central IT site, to ensure the availability and protection of its central information systems.
As part of its business preparedness, the Bank is prepared for a set of emergency scenarios that may cause it to incur significant damage. Red-alert systems are monitored and business continuity contingency plans are in place with respect to these scenarios. The extreme scenarios are reviewed and discussed periodically by the Board of Management Committee on Extreme Scenarios and Stress Concentrations. The activation of a contingency plan is under the responsibility of the Board of Management or of the Board of Management committee responsible for the financial aspects, which will be established based on a decision according to the charter of the Board of Management Committee on Financial Crisis Management. The business continuity policy has also been adopted by the subsidiaries in Israel and elsewhere, and by the Bank's overseas branches, with adjustments, based on the prevalent methodology in Israel. The Israel Standards Institute has affirmed that the business continuity management system of the Bank complies with the requirements of the international standard ISO 22301.

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 and Securities Enforcement Unit

The Chief Compliance Officer of the Bank serves as the compliance officer pursuant to Proper Conduct of Banking Business Directive 308, the officer responsible for the duties set forth in the Prohibition of Money Laundering Law, the supervisor of securities enforcement pursuant to the Law for More Efficient Enforcement Procedures at the Israel Securities Authority, and, beginning in March 2014, as the responsible officer pursuant to FATCA.

The Chief Compliance Officer and Securities Enforcement Unit consists of the Consumer Protection Directives Compliance Unit, the Anti-Money Laundering Unit, the Securities Enforcement Unit, the International Compliance Unit (which deals with compliance at units of the Bank outside Israel), the FATCA Unit, and the Administrative Unit.

The mission 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 and Securities Enforcement 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 308, the Money Laundering Prohibition Law, the Terrorism Financing Prohibition Law, and Proper Conduct of Banking Business Directive 411. This policy took effect at the end of December 2010, and has since been updated several times. In late 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. The Board of Directors approved the FATCA chapter of the Group-level compliance policy in March 2014.

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 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;
- Dealing with events that require in-depth investigation and drawing of conclusions.

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, and is implemented by the units of the Group.

Competitive Risk

Competitive risks arise from the banking system in Israel as well as 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. The strategic plan of the Bank, as well as its annual work plans, establish methods of coping with competition.

Regulatory and Legislative 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, 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 July 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. The Supervisor of Banks recently issued a directive on this matter, calling on banks to prepare for the FATCA requirements and adjust their policies. These processes have been carried out at the bank and continue to be performed in line with the guidelines. The bank has registered, in accordance with the FATCA requirements, and received a GIIN number, as also required by a bilateral agreement currently being formulated.

Economic Risk – Condition of the Israeli Economy

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

Economic growth has been stable at approximately 3.3% over the last two years. However, the growth of the last year includes the effect of natural gas derived from the Tamar reservoir. Excluding the effect of natural gas, the growth rate is probably around 2.5% – lower than in the past, under the influence of the stagnation in exports of goods. The continued appreciation of the shekel poses a threat to the profitability of Israeli exports.

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.

Global risks have decreased somewhat, particularly in the Eurozone and US economies, but have now migrated to the emerging economies: growth in China is decelerating, and uncertainty has arisen with regard to the robustness of its financial system, due to exceptionally high leverage rates. Several emerging countries have experienced political turmoil over the last year, most notably Ukraine, which saw regime change and the Russian annexation of the Crimean Peninsula. Tensions between Russia and the Western countries have intensified, but no trade sanctions have been imposed at this time, and the flow of natural gas from Russia to Europe continues. Accordingly, and in view of the condition of the Israeli economy, the Bank is continuing to monitor the risks and the sectors that may be affected by these changes, and adapting its policies and control activities as necessary.

Political – Security Risk

Risk to the Group's income and capital arising from a lack of security/political stability. Deterioration in the security situation may cause a slowdown throughout the Israeli 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. Likewise, 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 January 1, 2014, the Bank has applied the capital measurement and adequacy directives based on the Basel 3 directives (hereinafter: "Basel 3"), as published by the Supervisor of Banks and as integrated into Proper Conduct of Banking Business Directives 201-211. The Bank applied the Basel 2 directives until December 31, 2013.

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 24, 2014, and approved the ICAAP report for 2013. The Board of Directors also approved the risk appetite policy of the Bank.

Adoption of Basel 3 Directives

In May 2013, the Supervisor of Banks amended Proper Conduct of Banking Business Directives 201-211 concerning capital measurement and adequacy, in order to adjust them to the Basel 3 directives.

It should be emphasized that the Basel 3 directives call for significant changes in the calculation of the supervisory capital requirements, including in the following areas:

- Components of supervisory capital;
- Deductions from capital and supervisory adjustments;
- Accounting for exposures to financial corporations;
- Accounting for exposures to credit risk in respect of impaired debts;
- Capital allocation for CVA risk.

The amendments to the aforesaid directives took effect on January 1, 2014. Implementation is gradual, in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299, "Capital Measurement and Adequacy – Supervisory Capital – Transitional Directives," in order to make it possible to comply with the new requirements regarding supervisory capital within the process of implementation of Basel 3 and establish a transitional period until full implementation. Among other matters, the transitional directives concern supervisory adjustments and deductions from capital, as well as capital instruments ineligible for inclusion in supervisory capital according to the new criteria established in the Basel directives. Specifically, pursuant to the transitional directives, the supervisory adjustments and deductions from capital as well as minority interests ineligible for inclusion in supervisory capital will be deducted from capital gradually, at a rate of 20% per annum, from January 1, 2014 to January 1, 2018. Capital instruments that no longer qualify as supervisory capital will be recognized up to a ceiling of 80% on January 1, 2014; this ceiling will be lowered by 10% in each subsequent year, until January 1, 2022.

In addition, a circular of the Supervisor of Banks entitled "Basel Disclosure Requirements Concerning the Composition of Capital" (hereinafter: the "Circular") was published on August 29, 2013. The Circular establishes updated disclosure requirements which banks will be required to include as part of the adoption of Basel 3. Accordingly, the note on capital adequacy in quarterly financial statements in 2014 includes disclosure of comparative figures for previous periods prepared according to the Basel 2 directives, as adopted by the Supervisor of Banks, as well as disclosure of comparative figures as at January 1, 2014, prepared according to the Basel 3 directives.

Minimum Capital Ratios

On May 30, 2013, 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 common equity 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 common equity Tier 1 capital ratio of 10% by January 1, 2017. In addition, minimum total capital ratios were set 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 maintain a minimum common equity 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 established by the Supervisor of Banks. The Board of Directors approved the target minimum capital ratios noted above on December 25, 2013.

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

1. Disclosure requirements concerning compensation

On November 26, 2013, the Supervisor of Banks issued a circular entitled, "Temporary Order – Implementation of Disclosure Requirements Pursuant to Pillar 3 of Basel 2 – Disclosure Requirements in Respect of Compensation." The circular specifies the main disclosures to be included with regard to compensation: qualitative disclosures regarding the entities that supervise compensation; information referring to the planning and structure of compensation processes; a description of the ways in which present and future risks are taken into consideration in the compensation process; and a description of the ways in which the Bank links performance with the level of compensation. In addition, quantitative disclosure is required regarding the overall value of fixed and variable compensation granted to senior officers and other key employees. These disclosure requirements will apply to annual reports only, beginning with reports for 2014.

2. Liquidity risk

In January 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 adoption in Israel of the Basel 3 recommendations concerning liquidity. In February 2014, the Bank of Israel published a draft of the Basel 3 liquidity directive and asked the banks to perform a survey to examine the quantitative effect of the directive. The Bank submitted the data, as required. In March 2014, the Bank of Israel published a draft reporting directive concerning liquidity risk, among other matters. The Bank will prepare to implement these directives. For further information on liquidity risk management at the Bank, see the section "Risk Management" in this report.

Capital Requirements Pursuant to Basel 3 Directives

Set out below is the calculation of the capital ratio according to the Basel 3 directives:

	March 31, 2014	Jan. 1, 2014	Dec. 31, 2013
	Basel 3[(1)]		Basel 2[(2)]
	NIS millions		
1. Capital for the calculation of the capital ratio			
Common equity Tier 1 capital / core capital	**30,036**	29,223	[(4)]28,421
Tier 1 capital	**31,990**	31,177	[(4)]30,890
Tier 2 capital	**15,632**	15,697	16,341
Total overall capital	**47,622**	46,874	[(4)]47,231
2. Weighted balances of risk-adjusted assets			
Credit risk	**290,357**	292,814	276,763
Market risks	**6,328**	4,748	4,748
Operational risk	**21,553**	21,769	21,769
Total weighted balances of risk-adjusted assets	**318,238**	319,331	303,280
	%		
3. Ratio of capital to risk-adjusted assets			
Ratio of common equity Tier 1 capital to risk-adjusted assets / ratio of core capital to risk-adjusted assets	9.44%	9.15%	9.37%
Ratio of Tier 1 capital to risk-adjusted assets	10.05%	9.76%	10.19%
Ratio of total capital to risk-adjusted assets	14.96%	14.68%	15.57%
Minimum common equity Tier 1 capital ratio required by the Supervisor of Banks	[(3)]9.00%	[(3)]9.00%	
Minimum total capital ratio required by the Supervisor of Banks	[(3)]12.50%	[(3)]12.50%	9.00%

(1) Calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, 299, "Capital Measurement and Adequacy," applicable beginning January 1, 2014. Data as at January 1, 2014 are based on balances as at December 31, 2013.
(2) Calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, "Capital Measurement and Adequacy," which applied until December 31, 2013.
(3) The minimum capital ratio required according to the directives of the Supervisor of Banks, from January 1, 2015 to December 31, 2016. As of January 1, 2017, the minimum required common equity Tier 1 capital ratio is 10%, and the minimum required total capital ratio is 13.5%.
(4) Net of a dividend declared after the balance sheet date in the amount of NIS 106 million, in accordance with the Basel 2 directives.

Set out below is the calculation of the capital ratio according to the Basel 3 directives (continued):

	March 31, 2014	Jan. 1, 2014	Dec. 31, 2013
	Basel 3[1]		Basel 2[2]
	NIS millions		
4. Significant subsidiaries			
Isracard			
Ratio of common equity Tier 1 capital to risk-adjusted assets	**17.90%**	17.40%	
Ratio of Tier 1 capital to risk-adjusted assets	**17.90%**	17.40%	17.60%
Ratio of total capital to risk-adjusted assets	**18.80%**	18.20%	17.70%
Minimum common equity Tier 1 capital ratio required by the Supervisor of Banks	**(3)9.00%**	(3)9.00%	
Minimum total capital ratio required by the Supervisor of Banks	**(3)12.50%**	(3)12.50%	9.00%
Bank Hapoalim Switzerland[4]			
Ratio of common equity Tier 1 capital to risk-adjusted assets	**22.39%**	26.56%	
Ratio of Tier 1 capital to risk-adjusted assets	**22.39%**	26.56%	26.56%
Ratio of total capital to risk-adjusted assets	**22.48%**	27.13%	27.13%
Minimum common equity Tier 1 capital ratio required by local regulation	**8.00%**	8.00%	
Minimum total capital ratio required by local regulation	**11.20%**	11.20%	11.20%
	Basel 2[5]		
Bank Pozitif			
Ratio of Tier 1 capital to risk-adjusted assets	**16.31%**		15.56%
Ratio of total capital to risk-adjusted assets	**17.04%**		16.51%
Minimum total capital ratio required by local regulation	**12.00%**		12.00%

(1) Calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, 299, "Capital Measurement and Adequacy," applicable beginning January 1, 2014. Data as at January 1, 2014 are based on balances as at December 31, 2013.
(2) Calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, "Capital Measurement and Adequacy," which applied until December 31, 2013.
(3) The minimum capital ratio required according to the directives of the Supervisor of Banks, from January 1, 2015
(4) Bank Hapoalim Switzerland has implemented the Basel 3 directives as of the first quarter of 2013.
(5) Bank Pozitif has not implemented the Basel 3 directives; the data are therefore presented according to the Basel 2 directives.

Structure of Supervisory Capital and Composition of Capital

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

	March 31, 2014	Jan. 1, 2014	Dec. 31, 2013
	Basel 3		Basel 2
	NIS millions		
Tier 1 capital			
Paid-up common share capital and premium	**8,012**	7,984	7,984
Retained earnings	**20,824**	20,177	*20,071
Non-controlling interests in equity of consolidated subsidiaries	**223**	227	250
Unrealized profits (losses) from adjustments of securities available for sale to fair value	**832**	701	-
Other capital instruments	**187**	198	207
Amounts deducted from Tier 1 capital	**(42)**	(64)	(91)
Total common equity Tier 1 capital	**30,036**	29,223	*28,421
Innovative hybrid instruments	**1,954**	1,954	2,469
Total Tier 1 capital	**31,990**	31,177	*30,890
Tier 2 capital			
Hybrid capital instruments and subordinated notes	**1,407**	1,386	-
Collective allowances for credit losses before the effect of related tax	**3,428**	3,441	-
Minority interests in subsidiaries	**10,797**	10,870	-
Upper Tier 2 capital	**-**	-	3,872
Lower Tier 2 capital	**-**	-	12,532
Amounts deducted from Tier 2 capital	**-**	-	(63)
Total Tier 2 capital	**15,632**	15,697	16,341
Total eligible capital	**47,622**	46,874	*47,231

* Net of a dividend declared after the balance sheet date in the amount of NIS 106 million, in accordance with the Basel 2 directives.

For further details, see Note 4 to 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, 2014		December 31, 2013	
	Basel 3		Basel 2	
	Risk-adjusted assets	Capital requirements*	Risk-adjusted assets	Capital requirements**
	NIS millions			
Credit risk				
Sovereign debt	**2,151**	**269**	2,426	218
Debts of public-sector entities	**3,998**	**500**	4,175	376
Debts of banking corporations	**6,954**	**869**	6,268	564
Debts of corporations	**124,822**	**15,603**	124,625	11,216
Debts secured by commercial real estate	**53,166**	**6,646**	54,028	4,863
Retail exposures to individuals	**38,237**	**4,780**	37,235	3,351
Loans to small businesses	**5,817**	**727**	5,499	495
Housing loans	**30,949**	**3,869**	29,940	2,695
Securitization	**87**	**11**	87	8
Other assets	**17,513**	**2,189**	12,480	1,123
Total in respect of credit risk	**283,694**	**35,463**	276,763	24,909
CVA risk	**6,663**	**833**	-	-
Market risks	**6,328**	**791**	4,748	427
Operational risk	**21,553**	**2,694**	21,769	1,959
Total risk-adjusted assets in respect of the various risks	**318,238**	**39,781**	303,280	27,295
Common equity Tier 1 capital	**30,036**			
Tier 1 capital	**31,990**			
Total capital	**47,622**		***47,231	

	March 31, 2014	December 31, 2013
	%	
Ratio of common equity Tier 1 capital / core capital to risk-adjusted assets	**9.44%**	9.37%
Ratio of Tier 1 capital to risk-adjusted assets	**10.05%**	10.19%
Ratio of total capital to risk-adjusted assets	**14.96%**	15.57%
Minimum common equity Tier 1 capital ratio required by the Supervisor of Banks from January 1, 2015 to December 31, 2016	**9.00%**	
Minimum total capital ratio required by the Supervisor of Banks from January 1, 2015 to December 31, 2016	**12.50%**	
Minimum total capital ratio required by the Supervisor of Banks		9.00%

* The capital requirements were calculated in accordance with the minimum total capital ratio of 12.5% required by the Supervisor of Banks from January 1, 2015 to December 31, 2016. The minimum capital ratio required as of January 1, 2017 is 13.5%.

** The capital requirements were calculated in accordance with the minimum total capital ratio of 9% required by the Supervisor of Banks.

*** Excluding a dividend declared after the balance sheet date, in the amount of NIS 106 million.

Additional Disclosure Pursuant to Basel 3 Pillar 3

Additional disclosure information pursuant to the directives of Pillar 3 of Basel 3 is available on the bank's website, at www.bankhapoalim.com

Subject	Reference
Structure of supervisory capital and composition of capital	Financial statements, p. 124
Structure of supervisory capital	Website, additional disclosure, p. 5
Structure of supervisory balance sheet	Website, additional disclosure, p. 14
Capital adequacy	Financial statements, p. 125
Credit risk exposures	Website, additional disclosure, p. 18
Problematic loans and allowances for credit losses by economic sector	Financial statements, appendix 3
Credit risk mitigation	Website, additional disclosure, p. 21
Credit risk in respect of derivative financial instruments	Website, additional disclosure, p. 24
Securitization exposures	Website, additional disclosure, p. 25
Capital requirements in respect of market risk and positions in shares in the banking book	Website, additional disclosure, p. 26
Interest risk in the banking book	Financial statements, p. 106
Main characteristics of supervisory capital instruments	Website

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 2013. 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 "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 2014, 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 2014 was expressed in a financial expenditure of approximately NIS 18.2 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 2014, 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 2005-2014. The goal 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 2014, the Bank donated approximately 234 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 2014.

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. The Bank sponsors several internationally recognized cultural institutions committed to leadership and excellence in their field: the Batsheva Dance Company; the Israel Philharmonic Orchestra; the Israeli Opera; Cameri, Habima, and Gesher theaters; and others. The Bank also holds art exhibits in the Head Office building at its compound in Shefayim, 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 embed CSR principles in all aspects 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, in Hebrew and in English. The Bank is the first business organization in Israel to attain the top score for all of its reports.

The following is an initial report on several of the CSR indices for 2013, from the information collected for the annual CSR report currently being prepared:

Accessibility – The Bank has made 116 branches fully accessible to disabled persons; dozens of additional branches are in the advanced stages of full accessibilization. Access to ATMs for blind users has been completed at 87% of the branches throughout Israel.

Financial freedom – As part of the effort to promote awareness of sensible financial conduct in the general public, 145,000 additional customers registered for online budget management services during 2013.

Community volunteering – Employees of the Bank contributed approximately 125,000 hours of volunteer work to the community, and 1,200 children of employees volunteered in a range of activities for the benefit of the community during the summer vacation.

Percentage of women in management positions at the Bank – The percentage of female executives continues to rise and currently stands at 51.7%, versus approximately 34% in the labor market.

Percentage of academic degree holders at the Bank – The percentage of employees with academic degrees has continued to rise, to 59.5%. In 2013, 200 employees were in the process of attaining academic degrees financed by the Bank.

Workplace diversity – 20% of new employees hired by the Bank belong to population groups with a low rate of participation in the job market.

Reduction of paper use – Cumulative savings of paper consumption, measured since 2007, reached 5,274 tons. This is equivalent to preventing approximately 80,000 trees from being cut down for paper production.

Energy efficiency and reduction of carbon emissions – The Bank's electricity consumption was reduced further by 3.19% in 2013.

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(11), 19D, and 19F to the Annual Financial Statements for 2013, and Note 6D to the Condensed Financial Statements.

Other Matters

A special general meeting of shareholders of the Bank convened on February 11, 2014. The shareholders approved the remuneration policy for the officers of the Bank, applicable as of January 1, 2013.

A special general meeting of shareholders of the Bank convened on March 12, 2014. The shareholders approved the extension of the term of service of Mr. Yosef Yarom as a director of the Bank for an additional period of three years, beginning March 21, 2014; Mr. Yarom is considered an external director pursuant to Directive 301.

The Board of Directors of the Bank held 11 meetings during the period of January-March 2014.

The various committees of the Board of Directors held 52 meetings during the period of January-March 2014.

Controls and Procedures

In accordance with the Public Reporting Directives of the Supervisor of Banks, the Chief Executive Officer, the Chief Financial 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.

The directive in Section 302 regarding the existence of controls and procedures concerning disclosure is implemented at the Bank on a quarterly level, and the directive in Section 404 regarding the Bank's internal control of financial reporting in implemented for the end of each year, as required in the directives.

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 of the Treadway Commission (COSO 1992). 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 2014, 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.

Evaluation of Controls and Procedures Concerning Disclosure

The Board of Management of the Bank, in cooperation with the Chief Executive Officer, the Chief Financial 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, 2014. Based on this assessment, the Chief Executive Officer, the Chief Financial 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, 2014, 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
Tel-Aviv, May 21, 2014

Zion Kenan
President & Chief Executive Officer

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					
	2014			2013		
	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	**218,436**	**1,984**	**3.68%**	218,267	2,488	4.64%
Outside Israel	**18,352**	**170**	**3.76%**	19,707	180	3.70%
Total	**236,788**	**(4)2,154**	**3.69%**	237,974	(4)2,668	4.56%
Credit to governments:						
In Israel	**1,242**	**7**	**2.27%**	791	4	2.04%
Deposits with banks:						
In Israel	**4,834**	**17**	**1.41%**	2,728	9	1.33%
Outside Israel	**2,689**	**1**	**0.15%**	2,265	4	0.71%
Total	**7,523**	**18**	**0.96%**	4,993	13	1.05%
Deposits with central banks:						
In Israel	**14,169**	**32**	**0.91%**	16,384	70	1.72%
Outside Israel	**12,443**	**7**	**0.23%**	18,824	11	0.23%
Total	**26,612**	**39**	**0.59%**	35,208	81	0.92%
Securities borrowed or bought under agreements to resell:						
In Israel	**51**	**-**	**-**	57	-	-
Outside Israel	**15**	**-**	**-**	-	-	-
Total	**66**	**-**	**-**	57	-	-

(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 168 million were included in interest income in the three-month period ended March 31, 2014 (March 31, 2013: NIS 86 million). For further details, see Note 1(B) in the Financial Statements.

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					
	2014			2013		
	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	**48,813**	**183**	**1.51%**	44,272	264	2.41%
Outside Israel	**6,526**	**31**	**1.91%**	5,833	32	2.21%
Total	**55,339**	**214**	**1.56%**	50,105	296	2.38%
Bonds held for trading(3):						
In Israel	**1,053**	**4**	**1.53%**	2,132	12	2.27%
Outside Israel	**1,077**	**1**	**0.37%**	1,168	1	0.34%
Total	**2,130**	**5**	**0.94%**	3,300	13	1.59%
Other assets:						
In Israel	**597**	**2**	**1.35%**	306	4	5.33%
Outside Israel	**-**	**-**	**-**	154	10	28.62%
Total	**597**	**2**	**1.35%**	460	14	12.74%
Total interest-bearing assets	**330,297**	**2,439**	**2.99%**	332,888	3,089	3.76%
Non-interest-bearing debtors in respect of credit cards	**13,593**	**-**	**-**	13,346	-	-
Other non-interest-bearing assets(4)	**29,564**	**-**	**-**	23,447	-	-
Total assets	**373,454**	**-**	**-**	369,681	-	-
Total interest-bearing assets attributed to activities outside Israel	**41,102**	**210**	**2.06%**	47,951	238	2.00%

(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 558 million for the three months ended March 31, 2014 (March 31, 2013: NIS 542 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 I (continued)

A. Average balances and interest rates (continued)

	For the three months ended March 31					
	2014			2013		
	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	**211,226**	**350**	**0.66%**	*213,626	702	*1.32%
On demand	**61,007**	**70**	**0.46%**	50,547	120	0.95%
Fixed term	**150,219**	**280**	**0.75%**	163,079	582	1.44%
Outside Israel	**16,147**	**18**	**0.45%**	*18,956	25	*0.53%
On demand	**7,745**	**5**	**0.26%**	6,498	6	0.37%
Fixed term	**8,402**	**13**	**0.62%**	12,458	19	0.61%
Total	**227,373**	**368**	**0.65%**	*232,582	727	*1.26%
Government deposits:						
In Israel	**533**	**3**	**2.27%**	657	6	3.70%
Total	**533**	**3**	**2.27%**	657	6	3.70%
Deposits from banks:						
In Israel	**3,902**	**10**	**1.03%**	3,722	8	0.86%
Outside Israel	**2,035**	**16**	**3.18%**	1,630	32	8.09%
Total	**5,937**	**26**	**1.76%**	5,352	40	3.02%
Securities lent or sold under agreements to repurchase:						
In Israel	**-**	**-**	**-**	559	-	-
Outside Israel	**215**	**5**	**9.63%**	324	2	2.49%
Total	**215**	**5**	**9.63%**	883	2	0.91%

* Reclassified.
(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					
	2014			2013		
	Average balance(2)	Interest expenses	Rate of expense	Average balance(2)	Interest expenses	Rate of expense
	NIS millions		%	NIS millions		%
Interest-bearing liabilities (contimiued)						
Bonds:						
In Israel	**32,577**	**161**	**1.99%**	33,906	370	4.44%
Outside Israel	**2,163**	**26**	**4.90%**	2,032	24	4.81%
Total	**34,740**	**187**	**2.17%**	35,938	394	4.46%
Other liabilities:						
In Israel	**16**	**1**	**27.44%**	77	2	10.80%
Outside Israel	**-**	**-**	**-**	36	4	52.42%
Total	**16**	**1**	**27.44%**	113	6	22.99%
Total interest-bearing liabilities	**268,814**	**590**	**0.88%**	*275,525	1,175	*1.72%
Non-interest-bearing deposits from the public	**41,279**			*33,266		
Non-interest-bearing creditors in respect of credit cards	**13,804**			13,842		
Other non-interest-bearing liabilities(3)	**20,542**			20,336		
Total liabilities	**344,439**			342,969		
Total capital means	**29,015**			26,712		
Total liabilities and capital means	**373,454**			369,681		
Interest spread			**2.11%**			*2.04%
Net return on interest-bearing assets(4)						
In Israel	**289,195**	**1,704**	**2.38%**	284,937	1,763	2.50%
Outside Israel	**41,102**	**145**	**1.42%**	47,951	151	1.27%
Total	**330,297**	**1,849**	**2.26%**	332,888	1,914	2.32%
Total interest-bearing liabilities attributed to activities outside Israel	**20,560**	**65**	**1.27%**	*22,978	87	*1.52%

* Reclassified.
(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					
	2014			2013		
	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	**200,443**	**1,923**	**3.89%**	194,944	2,093	4.36%
Total interest-bearing liabilities	**149,638**	**(367)**	**(0.98%)**	149,322	(596)	(1.61%)
Interest spread			**2.91%**			2.75%
CPI-linked Israeli currency						
Total interest-bearing assets	**58,076**	**103**	**0.71%**	60,070	536	3.62%
Total interest-bearing liabilities	**44,040**	**(122)**	**(1.11%)**	48,110	(438)	(3.69%)
Interest spread			**(0.40%)**			(0.07%)
Foreign currency (includes foreign-currency-linked Israeli currency)						
Total interest-bearing assets	**30,676**	**203**	**2.67%**	29,923	222	3.00%
Total interest-bearing liabilities	**54,576**	**(36)**	**(0.26%)**	*55,115	(54)	*(0.39%)
Interest spread			**2.41%**			*2.61%
Total activity in Israel						
Total interest-bearing assets	**289,195**	**2,229**	**3.12%**	284,937	2,851	4.06%
Total interest-bearing liabilities	**248,254**	**(525)**	**(0.85%)**	*252,547	(1,088)	*(1.73%)
Interest spread			**2.27%**			2.33%

* Reclassified.
(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, 2014, versus three months ended March 31, 2013		
	Increase (decrease) due to change[2]		Net change
	Quantity	Price	
	NIS millions		
Interest-bearing assets			
Credit to the public			
In Israel	**2**	**(506)**	**(504)**
Outside Israel	**(13)**	**3**	**(10)**
Total	**(11)**	**(503)**	**(514)**
Other interest-bearing assets			
In Israel	**14**	**(132)**	**(118)**
Outside Israel	**(10)**	**(8)**	**(18)**
Total	**4**	**(140)**	**(136)**
Total interest income	**(7)**	**(643)**	**(650)**
Interest-bearing liabilities			
Deposits from the public			
In Israel	**(4)**	**(348)**	**(352)**
Outside Israel	**(3)**	**(4)**	**(7)**
Total	**(7)**	**(352)**	**(359)**
Other interest-bearing liabilities			
In Israel	**(9)**	**(202)**	**(211)**
Outside Israel	**4**	**(19)**	**(15)**
Total	**(5)**	**(221)**	**(226)**
Total interest expenses	**(12)**	**(573)**	**(585)**
Total interest income less interest expenses	**5**	**(70)**	**(65)**

(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, 2014

Appendix 2

	On demand up to 1 month	Over 1 month up to 3 months	Over 3 months up to 1 year	Over 1 year up to 3 years	Over 3 years up to 5 years	Over 5 years up to 10 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)	**149,726**	**14,170**	**29,323**	**14,984**	**4,336**	**4,521**
Derivative financial instruments (excluding options)	**60,647**	**98,719**	**87,235**	**65,251**	**22,564**	**21,978**
Options (in terms of underlying asset)	**2,019**	**1,045**	**1,760**	**21**	**791**	**1,297**
Total fair value	**212,392**	**113,934**	**118,318**	**80,256**	**27,691**	**27,796**
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)	**144,378**	**10,643**	**15,402**	**20,863**	**3,263**	**2,112**
Derivative financial instruments (excluding options)	**60,197**	**109,770**	**78,611**	**68,883**	**25,427**	**22,514**
Options (in terms of underlying asset)	**1,563**	**1,500**	**2,158**	**7**	**62**	**-**
Total fair value	**206,138**	**121,913**	**96,171**	**89,753**	**28,752**	**24,626**
Financial instruments, net						
Exposure to changes in interest rates in the segment	**6,254**	**(7,979)**	**22,147**	**(9,497)**	**(1,061)**	**3,170**
Cumulative exposure in the segment	**6,254**	**(1,725)**	**20,422**	**10,925**	**9,864**	**13,034**

(1) Excluding balance sheet balances of derivative financial instruments, fair value of off-balance sheet financial instruments, and fair value of hybrid 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 various balance sheet items, will be provided upon request.

B. In this table, data by periods represent the current value of future cash flows of each financial instrument, capitalized by the interest rate used for discounting 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 to calculate the fair value of financial instruments, see Note 9A to the Condensed Financial Statements.

C. The internal return rate is the interest rate for discounting of the expected cash flows from the financial instrument to the fair value included in respect thereof.

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 10 years up to 20 years	Over 20 years	No maturity period	**March 31, 2014** Total fair value	**March 31, 2014** Internal rate of return	**March 31, 2014** Effective average duration	March 31, 2013 Total fair value	March 31, 2013 Internal rate of return	March 31, 2013 Effective average duration	December 31, 2013 Total fair value	December 31, 2013 Internal rate of return	December 31, 2013 Effective average duration
NIS millions				%	Years	NIS millions	%	Years	NIS millions	%	Years
1,249	**10**	**3,193**	**221,512**	**2.84**	**0.58**	212,210	3.57	0.44	228,027	3.04	0.47
471	**-**	**-**	**356,865**		**0.96**	247,664		0.97	271,154		1.08
-	**-**	**-**	**6,933**		**2.14**	4,951		0.84	6,249		1.21
1,720	**10**	**3,193**	**585,310**		**(2)0.83**	464,825		(2)0.73	505,430		(2)0.81
2,340	**-**	**94**	**199,095**	**1.86**	**0.54**	188,287	2.85	0.36	199,943	2.08	0.53
484	**-**	**-**	**365,886**		**0.97**	256,904		0.98	284,512		1.06
-	**-**	**-**	**5,290**		**0.33**	4,965		1.62	5,226		0.75
2,824	**-**	**94**	**570,271**		**(2)0.81**	450,156		(2)0.73	489,681		(2)0.84
(1,104)	**10**	**3,099**	**15,039**			14,669			15,749		
11,930	**11,940**	**15,039**									

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

as at March 31, 2014

Appendix 2 (continued)

	On demand up to 1 month	Over 1 month up to 3 months	Over 3 months up to 1 year	Over 1 year up to 3 years	Over 3 years up to 5 years	Over 5 years up to 10 years
	NIS millions					
CPI-linked Israeli currency						
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)	**1,860**	**2,047**	**9,568**	**21,188**	**14,012**	**7,447**
Derivative financial instruments (excluding options)	**109**	**437**	**1,659**	**3,461**	**4,402**	**3,738**
Total fair value	**1,969**	**2,484**	**11,227**	**24,649**	**18,414**	**11,185**
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)	**1,584**	**2,094**	**5,003**	**11,345**	**5,594**	**6,632**
Derivative financial instruments (excluding options)	**626**	**918**	**3,610**	**4,202**	**5,956**	**3,479**
Total fair value	**2,210**	**3,012**	**8,613**	**15,547**	**11,550**	**10,111**
Financial instruments, net						
Exposure to changes in interest rates in the segment	**(241)**	**(528)**	**2,614**	**9,102**	**6,864**	**1,074**
Cumulative exposure in the segment	**(241)**	**(769)**	**1,845**	**10,947**	**17,811**	**18,885**

(1) Excluding balance sheet balances of derivative financial instruments, fair value of off-balance sheet financial instruments, and fair value of hybrid 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 15 million, and a reduction of the duration of the assets and of the difference in the duration by 0.18 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 various balance sheet items, will be provided upon request.

B. In this table, data by periods represent the current value of future cash flows of each financial instrument, capitalized by the interest rate used for discounting 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 to calculate the fair value of financial instruments, see Note 9A to the Condensed Financial Statements.

C. The internal return rate is the interest rate for discounting of the expected cash flows from the financial instrument to the fair value included in respect thereof.

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 10 years up to 20 years	Over 20 years	No maturity period	March 31, 2014 Total fair value	March 31, 2014 Internal rate of return	March 31, 2014 Effective average duration	March 31, 2013 Total fair value	March 31, 2013 Internal rate of return	March 31, 2013 Effective average duration	December 31, 2013 Total fair value	December 31, 2013 Internal rate of return	December 31, 2013 Effective average duration
NIS millions				%	Years	NIS millions	%	Years	NIS millions	%	Years
1,977	**178**	**130**	**58,407**	**2.38**	**3.16**	61,315	2.74	3.22	60,404	2.42	3.24
263	**-**	**-**	**14,069**		**4.02**	15,333		3.82	14,376		4.10
2,240	**178**	**130**	**72,476**		**(2)3.33**	76,648		(2)3.34	74,780		(2)3.40
12,927	**43**	**-**	**45,222**	**1.15**	**3.95**	52,223	1.62	3.72	48,729	1.45	3.70
270	**-**	**-**	**19,061**		**3.24**	19,043		3.32	19,107		3.22
13,197	**43**	**-**	**64,283**		**(2)3.74**	71,266		(2)3.61	67,836		(2)3.57
(10,957)	**135**	**130**	**8,193**			5,382			6,944		
7,928	**8,063**	**8,193**									

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

as at March 31, 2014

Appendix 2 (continued)

	On demand up to 1 month	Over 1 month up to 3 months	Over 3 months up to 1 year	Over 1 year up to 3 years	Over 3 years up to 5 years	Over 5 years up to 10 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]	**41,526**	**11,535**	**5,781**	**6,113**	**5,700**	**6,131**
Derivative financial instruments (excluding options)	**74,140**	**82,093**	**52,195**	**25,306**	**10,001**	**15,466**
Options (in terms of underlying asset)	**2,727**	**2,992**	**4,032**	**53**	**64**	**-**
Total fair value	**118,393**	**96,620**	**62,008**	**31,472**	**15,765**	**21,597**
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]	**56,421**	**15,903**	**13,461**	**2,670**	**1,175**	**355**
Derivative financial instruments (excluding options)	**71,260**	**63,311**	**55,904**	**24,136**	**12,275**	**19,391**
Options (in terms of underlying asset)	**3,105**	**2,530**	**3,644**	**52**	**749**	**1,228**
Total fair value	**130,786**	**81,744**	**73,009**	**26,858**	**14,199**	**20,974**
Financial instruments, net						
Exposure to changes in interest rates in the segment	**(12,393)**	**14,876**	**(11,001)**	**4,614**	**1,566**	**623**
Cumulative exposure in the segment	**(12,393)**	**2,483**	**(8,518)**	**(3,904)**	**(2,338)**	**(1,715)**

(1) Excluding balance sheet balances of derivative financial instruments, fair value of off-balance sheet financial instruments, and fair value of hybrid financial instruments.
(2) Average weighted by fair value of effective average duration.
(3) Includes 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 various balance sheet items, will be provided upon request.

B. In this table, data by periods represent the current value of future cash flows of each financial instrument, capitalized by the interest rate used for discounting 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 to calculate the fair value of financial instruments, see Note 9A to the Condensed Financial Statements.

C. The internal return rate is the interest rate for discounting of the expected cash flows from the financial instrument to the fair value included in respect thereof.

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 10 years up to 20 years	Over 20 years	No maturity period	March 31, 2014			March 31, 2013			December 31, 2013		
				Total fair value	Internal rate of return	Effective average duration	Total fair value	Internal rate of return	Effective average duration	Total fair value	Internal rate of return	Effective average duration
	NIS millions				%	Years	NIS millions	%	Years	NIS millions	%	Years
	540	168	765	78,259	3.13	1.24	80,338	3.32	0.84	73,734	3.08	1.11
	618	-	-	259,819		0.96	198,218		1.02	209,691		0.99
	-	-	-	9,868		0.30	9,006		0.24	8,974		0.27
	1,158	168	765	347,946		(2)1.00	287,562		(2)0.95	292,399		(2)1.00
	186	53	12	90,236	2.01	0.25	90,319	1.80	0.28	89,736	1.92	0.24
	748	83	-	247,108		1.16	188,365		1.26	193,188		1.26
	-	-	-	11,308		1.36	8,939		0.28	9,884		0.74
	934	136	12	348,652		(2)0.93	287,623		(2)0.92	292,808		(2)0.93
	224	32	753	(706)			(61)			(409)		
	(1,491)	(1,459)	(706)									

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

as at March 31, 2014

Appendix 2 (continued)

	On demand up to 1 month	Over 1 month up to 3 months	Over 3 months up to 1 year	Over 1 year up to 3 years	Over 3 years up to 5 years	Over 5 years up to 10 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)	**193,112**	**27,752**	**44,672**	**42,285**	**24,048**	**18,099**
Derivative financial instruments (excluding options)	**134,896**	**181,249**	**141,089**	**94,018**	**36,967**	**41,182**
Options (in terms of underlying asset)	**4,746**	**4,037**	**5,792**	**74**	**855**	**1,297**
Total fair value	**332,754**	**213,038**	**191,553**	**136,377**	**61,870**	**60,578**
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)	**202,383**	**28,640**	**33,866**	**34,878**	**10,032**	**9,099**
Derivative financial instruments (excluding options)	**132,083**	**173,999**	**138,125**	**97,221**	**43,658**	**45,384**
Options (in terms of underlying asset)	**4,668**	**4,030**	**5,802**	**59**	**811**	**1,228**
Total fair value	**339,134**	**206,669**	**177,793**	**132,158**	**54,501**	**55,711**
Financial instruments, net						
Exposure to changes in interest rates in the segment	**(6,380)**	**6,369**	**13,760**	**4,219**	**7,369**	**4,867**
Cumulative exposure in the segment	**(6,380)**	**(11)**	**13,749**	**17,968**	**25,337**	**30,204**

(1) Excluding balance sheet balances of derivative financial instruments, fair value of off-balance sheet financial instruments, and fair value of hybrid financial instruments.
(2) Average weighted by fair value of effective average duration.
(3) Includes shares presented in the "no maturity 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 15 million, and a reduction of the duration of the assets and of the difference in the duration by 0.18 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 various balance sheet items, will be provided upon request.
B. In this table, data by periods represent the current value of future cash flows of each financial instrument, capitalized by the interest rate used for discounting 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 to calculate the fair value of financial instruments, see Note 9A to the Condensed Financial Statements.
C. The internal return rate is the interest rate for discounting of the expected cash flows from the financial instrument to the fair value included in respect thereof.
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, 2014			March 31, 2013			December 31, 2013		
Over 10 years up to 20 years	Over 20 years	No maturity period	Total fair value	Internal rate of return	Effective average duration	Total fair value	Internal rate of return	Effective average duration	Total fair value	Internal rate of return	Effective average duration
NIS millions				%	Years	NIS millions	%	Years	NIS millions	%	Years
3,766	**356**	**6,476**	**360,566**	**3.15**	**1.12**	355,559	3.80	1.00	364,419	3.28	1.06
1,352	**-**	**-**	**630,753**		**1.03**	461,215		1.08	495,221		1.13
-	**-**	**-**	**16,801**		**1.06**	13,957		0.45	15,223		0.65
5,118	**356**	**6,476**	**1,008,120**		**[2] 1.06**	830,731		[2] 1.04	874,863		[2] 1.09
15,453	**96**	**106**	**334,553**	**1.48**	**0.92**	330,829	2.14	0.87	338,408	1.72	0.91
1,502	**83**	**-**	**632,055**		**1.11**	464,312		1.19	496,807		1.22
-	**-**	**-**	**16,598**		**1.03**	13,904		0.76	15,110		0.74
16,955	**179**	**106**	**983,206**		**[2] 1.05**	809,045		[2] 1.05	850,325		[2] 1.09
(11,837)	**177**	**6,370**	**24,914**			21,686			24,538		
18,367	**18,544**	**24,914**									

NIS millions

1. In respect of borrower activity in Israel

	March 31, 2014								
	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, 2014[4]		
							Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
Public - commercial									
Agriculture	**2,811**	**60**	**2,805**	**2,131**	**60**	**34**	**2**	**3**	**16**
Industry	**43,689**	**4,620**	**42,749**	**22,117**	**4,503**	**1,669**	**73**	**35**	**701**
Construction and real estate - construction[6]	**50,600**	**1,940**	**50,337**	**18,337**	**1,895**	**1,131**	**(14)**	**(18)**	**662**
Construction and real estate - real-estate activities	**23,337**	**1,427**	**23,075**	**18,608**	**1,427**	**818**	**(38)**	**(18)**	**466**
Electricity and water	**9,785**	**111**	**7,806**	**5,249**	**111**	**76**	**1**	**-**	**9**
Commerce	**31,801**	**1,989**	**31,433**	**21,373**	**1,989**	**969**	**53**	**44**	**530**
Hotels, hospitality and food services	**8,316**	**574**	**8,294**	**7,273**	**574**	**548**	**(2)**	**3**	**92**
Transportation and storage	**8,273**	**93**	**8,125**	**6,336**	**93**	**32**	**(55)**	**6**	**20**
Communications and computer services	**6,974**	**1,072**	**6,547**	**4,459**	**1,007**	**220**	**(9)**	**(1)**	**126**
Financial services	**25,725**	**1,133**	**21,524**	**10,962**	**1,103**	**743**	**(70)**	**3**	**357**
Other business services	**15,661**	**510**	**15,566**	**11,018**	**509**	**336**	**32**	**3**	**125**
Public and community services	**8,046**	**164**	**8,040**	**6,250**	**164**	**48**	**(6)**	**(4)**	**50**
Total commercial	**235,018**	**13,693**	**226,301**	**134,113**	**13,435**	**6,624**	**(33)**	**56**	**3,154**
Private individuals - housing loans	**55,317**	**752**	**55,317**	**53,250**	**752**	**-**	**(4)**	**1**	**412**
Private individuals - others	**81,337**	**931**	**81,311**	**44,617**	**931**	**684**	**14**	**33**	**665**
Total public - activity in Israel	**371,672**	**15,376**	**362,929**	**231,980**	**15,118**	**7,308**	**(23)**	**90**	**4,231**
Banks in Israel[7]	**4,885**	**-**	**1,411**	**26**	**-**	**-**	**-**	**-**	**-**
Israeli government	**52,647**	**-**	**1,548**	**395**	**-**	**-**	**-**	**-**	**-**
Total activity in Israel	**[1]429,204**	**15,376**	**365,888**	**232,401**	**15,118**	**7,308**	**(23)**	**90**	**4,231**

(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 232,401, 53,725, 50, 5,016, and 138,012 million respectively. The method of calculation of credit risk in respect of derivative instruments in the context of the limits on borrower indebtedness changed beginning January 1, 2014. The change was implemented prospectively; comparative figures were not restated.
(2) Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness (excluding unutilized credit-card facilities under the responsibility of other banks, in the amount of approximately NIS 10,374 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) Including balance sheet credit risk in the amount of approximately NIS 741 million and off-balance sheet credit risk in the amount of approximately NIS 1,732 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

2. In respect of borrower activity overseas

	March 31, 2014								
	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, 2014(4)		
							Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
Public - commercial									
Agriculture	**162**	**25**	**162**	**132**	**25**	**25**	**-**	**-**	**4**
Industry	**5,961**	**91**	**4,729**	**2,942**	**91**	**27**	**(5)**	**-**	**18**
Construction and real estate	**7,269**	**321**	**6,918**	**4,575**	**321**	**321**	**(2)**	**4**	**50**
Electricity and water	**1,713**	**-**	**1,401**	**385**	**-**	**-**	**-**	**-**	**6**
Commerce	**2,163**	**49**	**2,060**	**1,255**	**49**	**36**	**18**	**15**	**19**
Hotels, hospitality and food services	**2,169**	**151**	**2,139**	**1,879**	**151**	**59**	**2**	**-**	**10**
Transportation and storage	**438**	**25**	**343**	**203**	**25**	**25**	**2**	**-**	**2**
Communications and computer services	**764**	**171**	**442**	**257**	**171**	**-**	**(1)**	**-**	**18**
Financial services	**13,573**	**55**	**10,706**	**6,250**	**55**	**54**	**12**	**-**	**35**
Other business services	**773**	**6**	**630**	**458**	**6**	**4**	**2**	**2**	**4**
Public and community services	**1,270**	**11**	**1,163**	**932**	**11**	**4**	**(21)**	**-**	**7**
Total commercial	**36,255**	**905**	**30,693**	**19,268**	**905**	**555**	**7**	**21**	**173**
Private individuals - housing loans	**619**	**11**	**619**	**589**	**11**	**-**	**-**	**-**	**5**
Private individuals - others	**3,366**	**71**	**3,306**	**2,157**	**71**	**42**	**1**	**3**	**43**
Total public - activity overseas	**40,240**	**987**	**34,618**	**22,014**	**987**	**597**	**8**	**24**	**221**
Banks overseas(6)	**34,866**	**-**	**25,202**	**24,484**	**-**	**-**	**-**	**-**	**6**
Governments overseas	**4,671**	**-**	**1,991**	**985**	**-**	**-**	**-**	**-**	**-**
Total activity overseas	**(1)79,777**	**987**	**61,811**	**47,483**	**987**	**597**	**8**	**24**	**227**
Total	**508,981**	**16,363**	**427,699**	**279,884**	**16,105**	**7,905**	**(15)**	**114**	**4,458**

(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 47,483, 9,220, 0, 5,521, and 17,553 million respectively. The method of calculation of credit risk in respect of derivative instruments in the context of the limits on borrower indebtedness changed beginning January 1, 2014. The change was implemented prospectively; comparative figures were not restated.
(2) Credit to the public, credit to governments, and deposits with banks, excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(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

1. In respect of borrower activity in Israel

	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
Public - commercial									
Agriculture	2,805	122	2,796	2,214	122	97	(1)	3	19
Industry***	41,097	3,591	39,356	20,847	3,437	1,594	36	51	589
Construction and real estate - construction[6]	49,222	2,558	49,034	18,110	2,515	1,747	(13)	(8)	498
Construction and real estate - real-estate activities	24,734	1,081	24,406	20,557	1,081	865	12	(3)	445
Electricity and water	10,212	82	6,072	3,799	82	78	(1)	-	10
Commerce	30,014	913	29,585	19,839	911	572	(8)	15	404
Hotels, hospitality and food services	7,694	689	7,655	6,676	689	454	6	7	112
Transportation and storage	8,006	946	7,751	6,253	901	81	(1)	-	91
Communications and computer services	9,728	1,035	9,300	6,411	1,035	326	55	(11)	137
Financial services**,***	29,584	1,248	24,214	15,050	1,117	1,022	43	197	540
Other business services	14,292	507	14,062	9,813	507	404	27	13	107
Public and community services	8,349	123	8,325	6,614	123	65	(1)	26	45
Total commercial**,***	235,737	12,895	222,556	136,183	12,520	7,305	154	290	2,997
Private individuals - housing loans	51,472	775	51,472	49,767	775	-	85	17	419
Private individuals - others	79,512	967	79,479	42,143	967	777	16	216	721
Total public - activity in Israel**,***	366,721	14,637	353,507	228,093	14,262	8,082	255	523	4,137
Banks in Israel[7]	6,843	-	1,528	91	-	-	-	-	-
Israeli government	49,336	-	1,480	26	-	-	-	-	-
Total activity in Israel**,***	[1]422,900	14,637	356,515	228,210	14,262	8,082	255	523	4,137

** Comparative figures were adjusted, and do not include assets in respect of activity in the Maof market, which are presented under the item "other assets".

*** Reclassified.

(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 228,210, 51,671, 31, 4,472, and 138,516 million respectively.

(2) Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness (excluding unutilized credit-card 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) Including 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

2. In respect of borrower activity overseas

	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
Public - commercial									
Agriculture	135	-	135	88	-	-	-	-	1
Industry***	5,256	44	4,700	2,849	45	45	2	(2)	26
Construction and real estate	9,271	380	8,663	7,054	380	377	(13)	(9)	63
Electricity and water	1,355	-	1,230	419	-	-	-	-	4
Commerce	2,093	26	2,068	1,039	26	15	-	-	9
Hotels, hospitality and food services	1,945	137	1,862	1,655	137	1	13	-	27
Transportation and storage	294	73	292	162	73	43	-	-	12
Communications and computer services	811	-	744	507	-	-	(2)	-	1
Financial services	14,626	137	11,398	5,991	137	101	6	-	65
Other business services	697	-	644	438	-	-	(5)	-	4
Public and community services	1,002	77	912	601	77	45	(1)	-	22
Total commercial***	37,485	874	32,648	20,803	875	627	-	(11)	234
Private individuals - housing loans	681	19	681	650	19	-	(1)	-	6
Private individuals - others	3,571	58	3,508	2,186	58	56	2	2	46
Total public - activity overseas***	41,737	951	36,837	23,639	952	683	1	(9)	286
Banks overseas[6]	38,623	-	27,585	27,025	-	-	1	-	6
Governments overseas	4,405	-	2,008	741	-	-	-	-	-
Total activity overseas***	[1]84,765	951	66,430	51,405	952	683	2	(9)	292
Total**	507,665	15,588	422,945	279,615	15,214	8,765	257	514	4,429

** Comparative figures were adjusted, and do not include assets in respect of activity in the Maof market, which are presented under the item "other assets".
*** Reclassified.
(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 51,405, 5,965, 0, 5,015, and 22,380 million respectively.
(2) Credit to the public, credit to governments, and deposits with banks, excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(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

Credit Risk by Economic Sector

Appendix 3 (continued)

1. In respect of borrower activity in Israel

	December 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 year ended December 31, 2013[4]		
							Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
Public - commercial									
Agriculture	2,780	66	2,767	2,127	66	40	(15)	(8)	16
Industry	42,291	4,912	40,335	21,250	4,580	1,624	190	118	675
Construction and real estate - construction[6]	49,576	2,221	49,277	18,283	2,178	1,352	42	(111)	660
Construction and real estate - real-estate activities	23,168	1,636	22,963	18,886	1,636	929	93	21	482
Electricity and water	10,923	77	7,951	5,309	77	77	(1)	3	8
Commerce	31,660	1,916	31,078	20,707	1,915	1,137	146	153	513
Hotels, hospitality and food services	8,055	577	8,012	7,067	577	555	3	23	98
Transportation and storage	8,613	844	8,366	6,405	748	45	(11)	25	81
Communications and computer services	8,161	1,081	7,649	5,385	1,014	226	136	95	134
Financial services	30,204	1,660	23,906	13,064	1,283	874	4	(33)	431
Other business services	14,717	431	14,595	10,557	429	340	51	252	99
Public and community services	8,157	143	8,143	6,545	143	54	(19)	1	50
Total commercial	238,305	15,564	225,042	135,585	14,646	7,253	619	539	3,247
Private individuals - housing loans	55,278	1,042	55,278	53,309	1,042	-	109	44	417
Private individuals - others	80,643	917	80,612	43,659	917	710	125	367	685
Total public - activity in Israel	374,226	17,523	360,932	232,553	16,605	7,963	853	950	4,349
Banks in Israel[7]	6,712	-	1,481	115	-	-	-	-	-
Israeli government	50,392	-	1,464	314	-	-	-	-	-
Total activity in Israel	[1]431,330	17,523	363,877	232,982	16,605	7,963	853	950	4,349

(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 232,982, 50,810, 36, 5,413, and 142,089 million respectively.
(2) Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness (excluding unutilized credit-card facilities under the responsibility of other banks, in the amount of approximately NIS 10,011 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) Including balance sheet credit risk in the amount of approximately NIS 882 million and off-balance sheet credit risk in the amount of approximately NIS 1,764 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

2. In respect of borrower activity overseas

	December 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 year ended December 31, 2013[4]		
							Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
Public - commercial									
Agriculture	147	-	147	120	-	-	1	-	1
Industry	5,585	99	4,706	2,952	99	50	8	14	21
Construction and real estate	8,698	340	8,088	6,148	340	340	(8)	(6)	57
Electricity and water	1,692	-	1,482	373	-	-	1	-	6
Commerce	2,101	35	2,055	1,242	35	35	5	11	18
Hotels, hospitality and food services	1,902	152	1,867	1,648	152	1	(2)	-	9
Transportation and storage	263	27	187	162	27	27	(2)	9	1
Communications and computer services	785	183	515	205	183	-	15	-	18
Financial services	15,266	56	11,297	6,083	56	56	(14)	(42)	41
Other business services	791	8	657	507	8	4	(3)	36	4
Public and community services	1,103	11	972	790	11	4	15	-	7
Total commercial	38,333	911	31,973	20,230	911	517	16	22	183
Private individuals - housing loans	620	7	620	590	7	-	(1)	-	5
Private individuals - others	3,409	65	3,328	2,170	65	46	5	2	44
Total public - activity overseas	42,362	983	35,921	22,990	983	563	20	24	232
Banks overseas[6]	33,620	-	21,450	20,719	-	-	1	-	6
Governments overseas	5,085	-	2,240	855	-	-	-	-	-
Total activity overseas	(1)81,067	983	59,611	44,564	983	563	21	24	238
Total	512,397	18,506	423,488	277,546	17,588	8,526	874	974	4,587

(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 44,564, 7,848, 29, 5,245, and 23,381 million respectively.
(2) Credit to the public, credit to governments, and deposits with banks, excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(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.

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 balance sheet assets or greater than 20% of capital, whichever is lower:

	March 31, 2014		
	Balance sheet exposure[4]		
	Cross-border balance sheet exposure		
	To governments[3]	To banks	To others
Country			
A. United States	**284**	**1,264**	**2,681**
B. Switzerland	**-**	**133**	**55**
C. England	**35**	**3,616**	**3,165**
D. Turkey	**-**	**15**	**6**
E. Germany	**279**	**838**	**725**
F. France	**40**	**1,798**	**500**
G. Ireland	**-**	**4**	**181**
H. Spain	**-**	**104**	**7**
I. Portugal	**-**	**-**	**1**
J. Greece	**-**	**-**	**-**
K. Italy	**2**	**17**	**53**
L. Others	**1,161**	**4,415**	**6,574**
Total exposures to foreign countries	**1,801**	**12,204**	**13,948**
Of which: total exposure to LDCs	**43**	**479**	**870**

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 Provision for Doubtful Debts." This amount includes data for Turkey, as detailed in the table above.
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, after the effect of 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 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 deductible for the indebtedness of a borrower and of a group of borrowers.

NIS millions

March 31, 2014									
Balance sheet exposure(4)						Off-balance sheet exposure(2)(4)			
Balance sheet exposure of the banking corporation's offices in foreign countries 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 of local liabilities	Deduction in respect of local liabilities	Net balance sheet exposure after deduction of local liabilities						Maturity up to one year	Maturity over one year
22,190	**7,896**	**14,294**	**18,523**	**125**	**92**	**6,976**	**-**	**1,651**	**2,578**
6,503	**-**	**6,503**	**6,691**	**-**	**-**	**242**	**-**	**141**	**47**
60	**-**	**60**	**6,876**	**1**	**-**	**1,938**	**-**	**1,737**	**5,079**
2,726	**1,103**	**1,623**	**1,644**	**151**	**94**	**1,401**	**-**	**9**	**12**
-	**-**	**-**	**1,842**	**1**	**1**	**56**	**-**	**956**	**886**
-	**-**	**-**	**2,338**	**43**	**38**	**752**	**-**	**719**	**1,619**
-	**-**	**-**	**185**	**-**	**-**	**200**	**-**	**155**	**30**
-	**-**	**-**	**111**	**-**	**-**	**19**	**-**	**39**	**72**
-	**-**	**-**	**1**	**-**	**-**	**5**	**-**	**-**	**1**
-	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**-**
-	**-**	**-**	**72**	**-**	**-**	**44**	**-**	**24**	**48**
316	**-**	**316**	**12,466**	**189**	**57**	**1,668**	**-**	**5,815**	**6,335**
31,795	**8,999**	**22,796**	**50,749**	**510**	**282**	**13,302**	**-**	**11,246**	**16,707**
3,013	**1,103**	**1,910**	**3,302**	**154**	**96**	**1,675**	**-**	**518**	**874**

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 balance sheet assets or greater than 20% of capital, whichever is lower (continued):

	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 exposures to foreign countries	1,130	10,220	12,540
Of which: total exposure to LDCs	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 Provision for Doubtful Debts." This amount includes data for Turkey, as detailed in the table above.

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, after the effect of 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 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 deductible for the indebtedness of a borrower and of a group of borrowers.

NIS millions

March 31, 2013									
Balance sheet exposure[4]						Off-balance sheet exposure[2][4]			
Balance sheet exposure of the banking corporation's offices in foreign countries 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 of local liabilities	Deduction in respect of local liabilities	Net balance sheet exposure after deduction 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 balance sheet assets or greater than 20% of capital, whichever is lower (continued):

	December 31, 2013		
	Balance sheet exposure[4]		
	Cross-border balance sheet exposure		
	To governments[3]	To banks	To others
Country			
A. United States	882	1,422	2,581
B. Switzerland	-	130	38
C. England	-	3,393	2,678
D. Turkey	-	13	6
E. Germany	245	774	582
F. France	-	1,639	513
G. Ireland	-	4	152
H. Spain	-	134	8
I. Portugal	-	-	2
J. Greece	-	-	-
K. Italy	2	18	50
L. Others	287	3,958	6,432
Total exposures to foreign countries	1,416	11,485	13,042
Of which: total exposure to LDCs	39	219	750

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 Provision for Doubtful Debts." This amount includes data for Turkey, as detailed in the table above.

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, after the effect of 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 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 deductible for the indebtedness of a borrower and of a group of borrowers.

NIS millions

December 31, 2013									
Balance sheet exposure(4)						Off-balance sheet exposure(2)(4)		Cross-border balance sheet exposure	
Balance sheet exposure of the banking corporation's offices in foreign countries to local residents: Balance sheet exposure before deduction of local liabilities	Deduction in respect of local liabilities	Net balance sheet exposure after deduction of local liabilities	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)	Maturity up to one year	Maturity over one year
18,782	8,290	10,492	15,377	121	99	7,703	-	2,353	2,532
6,200	-	6,200	6,368	-	-	299	-	119	49
762	76	686	6,757	1	-	4,751	-	2,162	3,909
2,989	1,036	1,953	1,972	59	59	1,558	-	9	10
-	-	-	1,601	1	1	142	-	933	668
-	-	-	2,152	44	38	1,746	-	757	1,395
-	-	-	156	-	-	211	-	155	1
-	-	-	142	-	-	63	-	17	125
-	-	-	2	-	-	5	-	-	2
-	-	-	-	-	-	1	-	-	-
-	-	-	70	1	-	37	-	23	47
350	-	350	11,027	161	61	1,935	-	5,826	4,851
29,083	9,402	19,681	45,624	388	258	18,451	-	12,354	13,589
3,320	1,036	2,284	3,292	63	61	1,889	-	337	671

NIS millions

Part B – Information regarding countries total exposure to each of which is between 0.75% and 1% of total consolidated balance sheet assets, or between 15% and 20% of capital, whichever is lower:

Country:
Canada
The aggregate balance sheet exposures to foreign countries on a consolidated basis detailed in this section total NIS 1,079 million as at March 31, 2014 (March 31, 2013: NIS 2,020 million; December 31, 2013: NIS 1,346 million).

Note:
Data for March 2014 include countries that do not exceed the required exposure threshold, because these countries were included in the data for December 2013.

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 detailed in Section A above:

	For the three-month period ended March 31, 2014					
	Greece	Ireland	Portugal	Italy	Spain	Total
Total exposure at the beginning of the year	**-**	**156**	**2**	**70**	**142**	**370**
Net changes in amount of short-term exposure	**-**	**-**	**-**	**1**	**22**	**23**
Changes in other exposures:						
Added exposures	**-**	**29**	**-**	**3**	**-**	**32**
Accrued interest income	**-**	**-**	**-**	**-**	**1**	**1**
Amounts collected	**-**	**-**	**(1)**	**(2)**	**(54)**	**(57)**
Total exposure at the end of the period	**-**	**185**	**1**	**72**	**111**	**369**

	For the three-month period ended March 31, 2013					
	Greece	Ireland	Portugal	Italy	Spain	Total
Total exposure at the 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 the end of the period	-	66	2	55	154	277

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

NIS millions

Exposure to Foreign Countries[(1)]

Appendix 4 (continued)

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 detailed in Section A above (continued):

	2013					
	Greece	Ireland	Portugal	Italy	Spain	Total
Total exposure at the beginning of the period	-	67	2	54	133	256
Net changes in amount of short-term exposure	-	90	(1)	18	(12)	95
Changes in other exposures:						
Added exposures	-	-	1	7	75	83
Accrued interest income	-	1	-	2	5	8
Amounts collected	-	(2)	-	(11)	(59)	(72)
Total exposure at the end of the period	-	156	2	70	142	370

(1) Based on the final risk, after the effect of 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, 2014 (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 quarterly financial statements and other financial information included in the Report fairly reflect the financial condition, results of operations, changes in equity, and cash flows of the Bank, in all material aspects, for the dates and periods presented in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure and internal control of financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"); furthermore:
   A. We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report;
   B. We have established such internal control of financial reporting, or caused such internal control of financial reporting to be established under our supervision, intended to provide a reasonable degree of confidence with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks;
   C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure in the Report, as at the end of the period covered in the Report, based on our assessment; and
   D. We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during the quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditors, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control of financial reporting:
   A. Any significant deficiencies or material weaknesses in the establishment or application of internal control of financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, or report financial information; and
   B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have a significant role in the internal control of financial reporting at the Bank.

The aforesaid shall not detract from my responsibility, or from the responsibility of any other person, under any law.

Zion Kenan
President & Chief Executive Officer

Tel Aviv, May 21, 2014

CFO Declaration

I, Yadin Antebi, declare that:

1. I have reviewed the quarterly report of Bank Hapoalim B.M. (hereinafter: the "Bank") for the quarter ended March 31, 2014 (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 quarterly financial statements and other financial information included in the Report fairly reflect the financial condition, results of operations, changes in equity, and cash flows of the Bank, in all material aspects, for the dates and periods presented in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure and internal control of financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"); furthermore:
   A. We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report;
   B. We have established such internal control of financial reporting, or caused such internal control of financial reporting to be established under our supervision, intended to provide a reasonable degree of confidence with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks;
   C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure in the Report, as at the end of the period covered in the Report, based on our assessment; and
   D. We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during the quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditors, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control of financial reporting:
   A. Any significant deficiencies or material weaknesses in the establishment or application of internal control of financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, or report financial information; and
   B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have a significant role in the internal control of financial reporting at the Bank.

The aforesaid shall not detract from my responsibility, or from the responsibility of any other person, under any law.

Yadin Antebi
Senior Deputy Managing Director,
Chief Financial Officer

Tel Aviv, May 21, 2014

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, 2014 (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 quarterly financial statements and other financial information included in the Report fairly reflect the financial condition, results of operations, changes in equity, and cash flows of the Bank, in all material aspects, for the dates and periods presented in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure and internal control of financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"); furthermore:
   A. We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report;
   B. We have established such internal control of financial reporting, or caused such internal control of financial reporting to be established under our supervision, intended to provide a reasonable degree of confidence with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks;
   C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure in the Report, as at the end of the period covered in the Report, based on our assessment; and
   D. We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during the quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditors, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control of financial reporting:
   A. Any significant deficiencies or material weaknesses in the establishment or application of internal control of financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, or report financial information; and
   B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have a significant role in the internal control of financial reporting at the Bank.

The aforesaid shall not detract from my responsibility, or from the responsibility of any other person, under any law.

Ofer Levy
Senior Deputy Managing Director,
Chief Accountant

Tel Aviv, May 21, 2014

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 31,2014 and the related condensed consolidated interim statements of profit and loss, statements of comprehensive income, statements of changes in equity and statements of 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 reporting and in accordance with the directives and guidelines of the Supervisor of Banks. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel and a review standard applied in the review of banking institutions according to the directives and guidelines of the Supervisor of Banks. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for interim reporting 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 exposure to class actions that were filed against the Bank's Group.

Somekh Chaikin
Certified Public Accountants (Isr.)

Ziv Haft
Certified Public Accountants (Isr.)

Tel Aviv, May 21, 2014

Condensed Consolidated Balance Sheet
as at March 31, 2014

NIS millions

	Note	March 31		December 31
		2014	2013	2013
		Unaudited		Audited
Assets				
Cash on hand and deposits with banks		**39,467**	43,272	45,709
Securities(1)(2)	2	**65,333**	59,461	60,912
Securities borrowed or bought under agreements to resell		**50**	31	65
Credit to the public	3	**253,994**	251,599	255,543
Allowance for credit losses	3	**(3,762)**	(3,817)	(3,943)
Net credit to the public	3	**250,232**	247,782	251,600
Credit to governments		**1,380**	767	1,169
Investments in equity-basis investees		**141**	134	137
Buildings and equipment		**3,749**	3,673	3,791
Intangible assets and goodwill		**17**	28	19
Assets in respect of derivative instruments	8	**10,547**	9,515	10,672
Other assets(1)		**5,951**	5,654	6,172
Total assets		**376,867**	370,317	380,246
Liabilities and Capital				
Deposits from the public	7	**276,014**	265,297	276,525
Deposits from banks		**4,849**	4,893	5,303
Deposits from the government		**504**	678	613
Securities lent or sold under agreements to repurchase		**188**	639	242
Bonds and subordinated notes		**31,314**	36,222	33,980
Liabilities in respect of derivative instruments	8	**11,623**	12,454	12,129
Other liabilities (of which: 690, 604, 638 respectively, allowance for credit losses in respect of off-balance sheet credit instruments)(1)		**22,273**	22,556	22,144
Total liabilities		**346,765**	342,739	350,936
Shareholders' equity	4	**29,855**	27,279	29,060
Non-controlling interests		**247**	299	250
Total capital		**30,102**	27,578	29,310
Total liabilities and capital		**376,867**	370,317	380,246

(1) Amounts measured at fair value; see Note 9B.
(2) For details regarding securities pledged to lenders, see Note 2.

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

Yair Seroussi
Chairman of the Board of Directors

Zion Kenan
President and Chief Executive Officer

Yadin Antebi
Senior Deputy Managing Director, Chief Financial Officer

Ofer Levy
Senior Deputy Managing Director, Chief Accountant

Tel Aviv, May 21, 2014

Condensed Consolidated Statement of Profit and Loss

NIS millions

For the period ended March 31, 2014

		For the three months ended March 31		For the year ended December 31
		2014	2013	2013
	Note	Unaudited		Audited
Interest income	10	**2,439**	3,089	12,961
Interest expenses	10	**(590)**	(1,175)	(5,018)
Net interest income		**1,849**	1,914	7,943
Provision (income) for credit losses	3	**(15)**	257	874
Net interest income after provision for credit losses		**1,864**	1,657	7,069
Non-interest income				
Non-interest financing income	11	**207**	143	480
Fees		**1,270**	1,250	5,115
Other income		**29**	37	126
Total non-interest income		**1,506**	1,430	5,721
Operating and other expenses				
Salaries and related expenses		**1,245**	1,244	5,310
Maintenance and depreciation of buildings and equipment		**390**	388	1,609
Amortization and impairment of intangible assets and goodwill		**3**	3	12
Other expenses		**518**	500	2,034
Total operating and other expenses		**2,156**	2,135	8,965
Profit before taxes		**1,214**	952	3,825
Provision for taxes on profit		**479**	337	1,298
Profit after taxes		**735**	615	2,527
The Bank's share in profits of equity-basis investees, after taxes		**13**	4	9
Net profit:				
Before attribution to non-controlling interests		**748**	619	2,536
Loss attributed to non-controlling interests		**5**	2	44
Attributed to shareholders of the Bank		**753**	621	2,580
Earnings per ordinary share in NIS:				
Basic earnings				
Net profit attributed to shareholders of the Bank		**0.57**	0.47	1.96
Diluted earnings				
Net profit attributed to shareholders of the Bank		**0.56**	0.47	1.94

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

Condensed Consolidated Statement of Comprehensive Income

NIS millions

For the period ended March 31, 2014

	For the three months ended March 31		For the year ended December 31
	2014	2013	2013
	Unaudited		Audited
Net profit before attribution to non-controlling interests	**748**	619	2,536
Net loss attributed to non-controlling interests	**5**	2	44
Net profit attributed to shareholders of the Bank	**753**	621	2,580
Other comprehensive income (loss) before taxes:			
Net adjustments for presentation of securities available for sale at fair value	**216**	(98)	81
Net adjustments from translation of financial statements*, after hedge effects**	**1**	2	(1)
Net gains in respect of cash-flow hedges	**2**	3	10
Other comprehensive income (loss) before taxes	**219**	(93)	90
Effect of related tax	**(78)**	(5)	(53)
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	**141**	(98)	37
Net of other comprehensive loss (income) attributed to non-controlling interests	**(1)**	1	2
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes	**140**	(97)	39
Comprehensive income before attribution to non-controlling interests	**889**	521	2,573
Comprehensive loss attributed to non-controlling interests	**4**	3	46
Comprehensive income attributed to shareholders of the Bank	**893**	524	2,619

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

** Hedges – net gains (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, 2014

Unaudited
NIS millions

	For the three months ended March 31, 2014							
	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 capital
Balance as at January 1, 2014	**7,984**	**224**	**8,208**	**675**	**20,177**	**29,060**	**250**	**29,310**
Net profit (loss) for the period	**-**	**-**	**-**	**-**	**753**	**753**	**(5)**	**748**
Dividend	**-**	**-**	**-**	**-**	**(106)**	**(106)**	**-**	**(106)**
Buyback of shares	**(10)**	**-**	**(10)**	**-**	**-**	**(10)**	**-**	**(10)**
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	**-**	**15**	**15**	**-**	**-**	**15**	**-**	**15**
Realization of options into shares	**38**	**(35)**	**3**	**-**	**-**	**3**	**-**	**3**
Net other comprehensive income after tax effect	**-**	**-**	**-**	**140**	**-**	**140**	**1**	**141**
Increase in non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**1**
Balance as at March 31, 2014	**8,012**	**204**	**8,216**	**815**	****20,824**	**29,855**	**247**	**30,102**

* Excluding a balance of 14,893,870 treasury shares.
** 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

For the period ended March 31, 2014 (continued)

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 capital
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 arising from:								
Benefit due to share-based payment transactions	-	22	22	-	-	22	-	22
Realization of options into 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

* Excluding a balance of 14,400,796 treasury shares.

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

Condensed Statement of Changes in Equity

For the period ended March 31, 2014
(continued)

Audited
NIS millions

	For the year ended December 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 capital
Balance as at January 1, 2013	8,010	236	8,246	636	17,873	26,755	302	27,057
Net profit (loss) for the year	-	-	-	-	2,580	2,580	(44)	2,536
Dividend	-	-	-	-	(276)	(276)	-	(276)
Buyback of shares	(127)	-	(127)	-	-	(127)	-	(127)
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	-	102	102	-	-	102	-	102
Realization of options into shares	101	(114)	(13)	-	-	(13)	-	(13)
Net other comprehensive income (loss) after tax effect	-	-	-	39	-	39	(2)	37
Increase in non-controlling interests	-	-	-	-	-	-	2	2
Dividend for non-controlling interests in a consolidated company	-	-	-	-	-	-	(8)	(8)
Balance as at December 31, 2013	7,984	224	8,208	675	20,177	29,060	250	29,310

* Excluding a balance of 16,801,221 treasury shares.

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

Condensed Statement of Cash Flows

For the period ended March 31, 2014

NIS millions

	For the three months ended March 31		For the year ended December 31
	2014	2013	2013
	Unaudited		Audited
Cash flows from (for) operating activity			
Net profit for the period	**748**	619	2,536
Adjustments necessary to present cash flows from (for) operating activity:			
The Bank's share in profits of equity-basis investees	**(13)**	(4)	(9)
Depreciation of buildings and equipment	**173**	182	739
Amortizations	**7**	8	31
Provision (income) for credit losses	**(15)**	257	874
Gain from realization of securities available for sale and held to maturity	**(139)**	(152)	(541)
Realized and unrealized gain from adjustments to fair value of securities held for trading	**(21)**	(12)	(30)
Gain from realization of buildings and equipment	**(1)**	-	(11)
Change in benefit due to share-based payment transactions	**39**	10	100
Net change in liabilities in respect of employee benefits	**(26)**	(9)	345
Deferred taxes, net	**4**	(45)	512
Gain from sale of credit portfolios	**-**	-	(2)
Adjustments in respect of exchange-rate differences	**89**	682	2,115
Accumulation differentials included in investing and financing activities	**(668)**	(678)	(737)
Net change in current assets:			
Deposits with banks	**(1,149)**	(1,370)	(457)
Credit to the public	**1,511**	810	(3,631)
Credit to governments	**(211)**	31	(371)
Securities borrowed or bought under agreements to resell	**15**	16	(18)
Assets in respect of derivative instruments	**127**	109	(1,043)
Securities held for trading	**433**	(763)	1,900
Other assets	**141**	(155)	(1,259)
Net change in current liabilities:			
Deposits from banks	**(459)**	(1,105)	(694)
Deposits from the public	**(666)**	(5,435)	5,591
Deposits from the government	**(109)**	49	(16)
Securities lent or sold under agreements to repurchase	**(54)**	(468)	(865)
Liabilities in respect of derivative instruments	**(524)**	(164)	(511)
Other liabilities	**72**	817	(58)
Net cash from (for) operating activity	**(696)**	(6,770)	4,490

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

Condensed Statement of Cash Flows

For the period ended March 31, 2014 (continued)

NIS millions

	For the three months ended March 31		For the year ended December 31
	2014	2013	2013
	Unaudited		Audited
Cash flows for investing activity			
Acquisition of bonds held to maturity	**-**	-	(39)
Proceeds from redemption of bonds held to maturity	**6**	58	237
Acquisition of securities available for sale	**(18,750)**	(14,161)	(64,848)
Proceeds from sale of securities available for sale	**6,608**	3,029	28,342
Proceeds from redemption of securities available for sale	**8,013**	4,788	26,877
Acquisition of credit portfolios	**-**	-	(49)
Proceeds from sale of credit portfolios	**2**	-	203
Dividends received from equity-basis investees	**10**	-	5
Investment in an equity-basis investee	**(1)**	(3)	(6)
Acquisition of buildings and equipment	**(133)**	(136)	(824)
Proceeds from realization of buildings and equipment	**4**	6	30
Net cash for investing activity	**(4,241)**	(6,419)	(10,072)
Cash flows from (for) financing activity			
Issuance of bonds and subordinated notes	**195**	930	1,834
Redemption of bonds and subordinated notes	**(2,505)**	(143)	(3,561)
Issuance of shares and options	**2**	1	4
Dividend paid to shareholders of the Bank	**(106)**	-	(276)
Buyback of shares	**(10)**	(15)	(127)
Dividend paid to minority shareholders of consolidated companies	**-**	-	(8)
Net cash from (for) financing activity	**(2,424)**	773	(2,134)
Decrease in cash	**(7,361)**	(12,416)	(7,716)
Balance of cash at beginning of period	**43,933**	53,937	53,937
Effect of changes in exchange rates on cash balances	**(40)**	(871)	(2,288)
Balance of cash at end of period	**36,532**	40,650	43,933
Interest and taxes paid and/or received:			
Interest received	**3,539**	4,052	13,861
Interest paid	**(1,466)**	(1,642)	(5,679)
Dividends received	**6**	11	43
Income tax paid	**(628)**	(446)	(1,697)
Income tax received	**50**	28	46

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, 2014 were prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP) concerning interim financial reporting and in accordance with the 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, 2013, with the exceptions noted in Section B below.

These reports should be perused in conjunction with the Annual Financial Statements as at December 31, 2013, and the accompanying Notes.

The Condensed Financial Statements were approved for publication by the Board of Directors of the Bank on May 21, 2014.

B. 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 essence of the changes in accounting policies applied in these condensed consolidated interim financial statements and the effect of the initial implementation, if any:

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

As of January 1, 2014, the Bank has applied the instructions set forth in the circular of the Supervisor of Banks concerning the adoption of GAAP for US banks on interest income measurement (ASC 310-20), which among other matters establishes rules for the treatment of credit origination fees, commitments to grant credit, changes in the terms of a debt, and early repayment fees.

Credit Origination Fees

Fees charged for credit origination, with the exception of loans for a period of up to three months, are not recognized immediately as income in the statement of profit and loss; instead they are deferred and recognized over the life of the loan as an adjustment of the return. Income from such fees is allocated according to the effective interest rate method, and reported as part of interest income.

Credit Allocation Fees

Credit allocation fees are treated according to the probability of realization of the commitment to grant the credit. If the probability is remote, the fee is recognized on a straight-line basis over the period of the commitment; otherwise, the recognition of income from such fees is deferred until the realization of the commitment or until it expires, whichever is earlier. If the commitment is realized, the fees are recognized by adjustment of the return over the life of the loan, as noted above. If the commitment expires without being realized, the fees are recognized at the date of expiration and reported within income from fees. For this purpose, the Bank assumes that the probability of realization of the commitment is not remote.

Note 1 Significant Accounting Policies (continued)

Changes in Terms of Debts

In the case of refinancing or restructuring of non-problematic debt, it is necessary to determine whether the change in the terms of the loan is minor or otherwise. In cases where the change is not minor, all unamortized fees as well as early repayment fees collected from the customer in respect of changes in the terms of the credit are recognized in profit and loss. Otherwise, the aforesaid fees are included as part of the net investment in the new loan, and recognized as an adjustment of return, as noted above.

According to the transitional directives issued by the Supervisor of Banks, this determination is to be performed using reasonable estimates and safety margins to ensure that the accounting treatment is cautious; otherwise, the determination should be that the change is minor, and the fees should be recognized as an adjustment of return. For this purpose, the Bank assumes that the changes in the terms of the debt are minor.

Early Repayment of Loans

Early repayment fees charged for early repayments executed prior to January 1, 2014, and not yet amortized are recognized over a period of three years, or the remaining period of the loan, whichever is shorter. Fees charged for early repayments executed after January 1, 2014, are recognized immediately within interest income.

Effect of Initial Implementation

As noted, the Bank has implemented these directives, beginning January 1, 2014, in accordance with the transitional directives and instructions of the Supervisor of Banks. The directives were implemented prospectively. Following the implementation of the directive, certain fees were classified as interest income, and certain income items previously classified as interest income are now stated within the fees item.

As a result of the implementation of this standard, income from fees in the amount of approximately NIS 71 million, previously recognized immediately as income from fees in the statement of profit and loss, was deferred. Part of this amount will be recognized as interest income over the life of the loan, while part will be recognized in the fees item in subsequent periods. Concurrently, interest income increased by approximately NIS 75 million. Most of the increase, approximately NIS 61 million, derived from fees collected for early repayments executed after January 1, 2014, which were recognized immediately within interest income (rather than spread over three years or the remaining period of the loan, whichever is shorter, as was required in the past). Total net profit increased by approximately NIS 3 million as a result of the implementation of the standard.

Note 1 Significant Accounting Policies (continued)

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

1. Adoption of US GAAP on Employee Benefits and Share-Based Payment Transactions

On April 9, 2014, the Supervisor of Banks issued a circular concerning the adoption of US GAAP on employee benefits. The circular updates the recognition, measurement, and disclosure requirements regarding employee benefits in the Public Reporting Directives, according to GAAP for US banks.

Pursuant to the circular, the amendments to the Public Reporting Directives will apply beginning January 1, 2015. At the initial implementation, the Bank will amend comparative figures for periods from January 1, 2013 forward, retroactively, in order to comply with the requirements of the aforesaid rules.

Among other matters, the circular states that:

- The discount rate for the calculation of liabilities for employee benefits shall be based on market yields of government bonds in Israel. Consequently, the temporary order in the existing directives, which sets the discount rate for the calculation of the provision to cover employee benefits, will be cancelled.
- Banking corporations shall implement GAAP for US banks concerning share-based payment, as described in ASC 718 – Compensation – Stock Compensation.

In financial statements for interim periods in 2014, the Bank is required to at least disclose the estimated quantitative effect on the shareholders' equity of the Bank resulting from calculation of the liability for employee benefits using discount rates based on market yields, at the report date, of government bonds in Israel.

According to the Bank's estimate, the expected effect on the shareholders' equity of the Bank as at March 31, 2014, due to the change in the discount rate only, is approximately NIS 460 million. It is emphasized that the adoption of US GAAP concerning employee benefits may have additional impacts on the Bank, including effects on the shareholders' equity of the Bank. The effect noted above does not take such additional effects into consideration; it refers only to the effect of the use of discount rates as noted above. It is emphasized that for the purpose of the calculation of capital requirements according to the Basel 3 directives, based on the transitional directives established in Proper Conduct of Banking Business Directive 299, cumulative profit or loss balances from remeasurement of net liabilities or net assets in respect of a defined employee benefit shall not be taken into account immediately, but shall be subject to transitional directives, such that its effect is distributed into equal installments of 20%, until full implementation beginning January 1, 2018.

Note 1 Significant Accounting Policies (continued)

2. Collective Allowance for Credit Losses

A draft circular updating the Public Reporting Directives concerning the collective allowance for credit losses was submitted for discussion by the advisory committee on July 18, 2013. The draft extends the application of the temporary orders concerning the calculation of the collective allowance for credit losses, based on segmentation by economic sector; establishes clarifications and guidelines for the method of calculation of rates of past losses; and establishes comprehensive requirements for the inclusion of adjustments for environmental factors in the allowance coefficient. The draft also requires significant expansion of the requirements for documentation supporting the collective allowance coefficient and the overall fairness of the allowance, as well as significant expansion of the requirements regarding reporting to management and to the board of directors.

The expected effect of the implementation of the instructions with regard to the calculation of rates of past losses will be handled as a change in estimate, and allocated to profit and loss.

The initial implementation date has not yet been established. At this stage, the Bank cannot estimate the effect of the adoption of this directive, when it is implemented.

3. Reporting According to US GAAP on Differentiation of Liabilities from Capital

A draft circular was published by the Supervisor of Banks on April 24, 2014, concerning reporting according to generally accepted accounting principles in the United States on the examination of classifications as equity or as liabilities of financial instruments, including hybrid instruments. Pursuant to the draft circular, banking corporations are required to implement US GAAP on this matter, including rules for presentation, measurement, and disclosure established in the following codification topics:

- ASC 480 - Distinguishing Liabilities From Equity.
- ASC 470-20 - Debt with Conversion and Other Options.
- ASC 505-30 - Treasury Stock.

The directives established in the draft circular are expected to apply beginning January 1, 2015. Initial implementation is to be performed in accordance with the transitional directives established in the codification topics noted above, including amendment of comparative figures where relevant.

The Bank is examining the effects of the implementation of these directives on the financial statements.

NIS millions

Note 2 Securities

	March 31, 2014				
	Balance sheet value	Depreciated 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:					
Financial institutions in Israel	**462**	**462**	**43**	**-**	**505**

	Balance sheet value	Depreciated cost (in shares-cost)	Cumulative other comprehensive income		Fair value*
			Gains	Losses	
2) Securities available for sale					
Bonds and debentures:					
Israeli government	**50,075**	**49,581**	**502**	**(8)**	**50,075**
Foreign governments	**2,639**	**2,592**	**54**	**(7)**	**2,639**
Financial institutions in Israel	**689**	**661**	**28**	**-**	**689**
Foreign financial institutions	**3,003**	**2,971**	**34**	**(2)**	**3,003**
Others in Israel	**1,691**	**1,550**	**141**	**-**	**1,691**
Foreign others	**2,711**	**2,682**	**33**	**(4)**	**2,711**
Total bonds and debentures available for sale	**60,808**	**60,037**	**792**	**(21)**	**60,808**
Shares:					
Others	**2,341**	**1,908**	**437**	**(4)**	**(1)2,341**
Total securities available for sale	**63,149**	**61,945**	**(2)1,229**	**(2)(25)**	**(1)63,149**

* Fair value data are usually based on stock exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.
(1) Includes shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 595 million.
(2) Included in equity under the item "adjustments for presentation of securities available for sale at fair value," within other comprehensive income.

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.

NIS millions

Note 2 Securities (continued)

	March 31, 2014				
	Balance sheet value	Depreciated 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	**820**	**817**	**4**	**(1)**	**820**
Foreign governments	**41**	**38**	**3**	**-**	**41**
Foreign financial institutions	**541**	**538**	**5**	**(2)**	**541**
Others in Israel	**18**	**18**	**-**	**-**	**18**
Foreign others	**255**	**246**	**10**	**(1)**	**255**
Total bonds and debentures held for trading	**1,675**	**1,657**	**22**	**(4)**	**1,675**
Shares:					
Others	**47**	**54**	**-**	**(7)**	**47**
Total securities held for trading	**1,722**	**1,711**	**(1)22**	**(1)(11)**	**1,722**
Total securities(2)	**65,333**	**64,118**	**1,294**	**(36)**	**65,376**

	March 31, 2014
4) Information regarding impaired bonds	
Recorded debt balance of:	
Impaired bonds accruing interest income	**45**

* Fair value data are usually based on stock exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.
(1) Allocated to the statement of profit and loss.
(2) Of which: securities in the amount of approximately NIS 8.2 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.

NIS millions

Note 2 Securities (continued)

	March 31, 2013				
	Balance sheet value	Depreciated 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

	Balance sheet value	Depreciated 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 are usually based on stock exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.
(1) Includes shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 529 million.
(2) Included in equity under the item "adjustments for presentation of securities available for sale at fair value," within other comprehensive income.

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.

Unaudited
NIS millions

Note 2 Securities (continued)

	March 31, 2013				
	Balance sheet value	Depreciated 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

	March 31, 2013
4) Information regarding impaired bonds	
Recorded debt balance of:	
Impaired bonds accruing interest income	43

* Fair value data are usually based on stock exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.
(1) Allocated to the statement of profit and loss.
(2) Of which: securities in the amount of approximately NIS 7.2 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.

Audited
NIS millions

Note 2 Securities (continued)

	December 31, 2013				
	Balance sheet value	Depreciated 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:					
Financial institutions in Israel	471	471	45	-	516

	Balance sheet value	Depreciated cost (in shares-cost)	Cumulative other comprehensive income		Fair value*
			Gains	Losses	
2) Securities available for sale					
Bonds and debentures:					
Israeli government	46,984	46,636	357	(9)	46,984
Foreign governments	2,812	2,780	42	(10)	2,812
Financial institutions in Israel	404	386	18	-	404
Foreign financial institutions	2,362	2,352	14	(4)	2,362
Others in Israel	1,559	1,459	100	-	1,559
Foreign others	1,966	1,959	13	(6)	1,966
Total bonds and debentures available for sale	56,087	55,572	544	(29)	56,087
Shares:					
Others	2,221	1,748	473	-	(1)2,221
Total securities available for sale	58,308	57,320	(2)1,017	(2)(29)	(1)58,308

* Fair value data are usually based on stock exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.
(1) Includes shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 562 million.
(2) Included in equity under the item "adjustments for presentation of securities available for sale at fair value," within other comprehensive income.

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.

Audited
NIS millions

Note 2 Securities (continued)

	December 31, 2013				
	Balance sheet value	Depreciated 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	1,502	1,499	3	-	1,502
Foreign governments	33	29	4	-	33
Foreign financial institutions	315	320	5	(10)	315
Others in Israel	11	11	-	-	11
Foreign others	239	232	8	(1)	239
Total bonds and debentures held for trading	2,100	2,091	20	(11)	2,100
Shares:					
Others	33	40	-	(7)	33
Total securities held for trading	2,133	2,131	(2)20	(2)(18)	2,133
Total securities(3)	60,912	59,922	1,082	(47)	(1)60,957

	December 31, 2013
4) Information regarding impaired bonds	
Recorded debt balance of:	
Impaired bonds accruing interest income	43

* Fair value data are usually based on stock exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.
(1) Includes shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 562 million.
(2) Allocated to the statement of profit and loss.
(3) Of which: securities in the amount of approximately NIS 8.0 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.

NIS millions

Note 2 Securities (continued)

	March 31, 2014							
	Less than 12 months				12 months or more			
	Fair value	Unrealized losses		Total	Fair value	Unrealized losses		Total
		0-20%	20-40%			0-20%	20-40%	
5) Fair value and unrealized losses, by duration and rate of impairment, of securities available for sale in an unrealized loss position								
Bonds and debentures:								
Israeli government	**317**	**(4)**	**-**	**(4)**	**105**	**(4)**	**-**	**(4)**
Foreign governments	**215**	**(2)**	**-**	**(2)**	**66**	**(5)**	**-**	**(5)**
Foreign financial institutions	**370**	**(2)**	**-**	**(2)**	**-**	**-**	**-**	**-**
Foreign others	**483**	**(4)**	**-**	**(4)**	**26**	**-**	**-**	**-**
Total bonds and debentures available for sale	**1,385**	**(12)**	**-**	**(12)**	**197**	**(9)**	**-**	**(9)**
Shares:								
Others	**91**	**(4)**	**-**	**(4)**	**-**	**-**	**-**	**-**
Total securities available for sale	**1,476**	**(16)**	**-**	**(16)**	**197**	**(9)**	**-**	**(9)**

	March 31, 2013*							
	Less than 12 months				12 months or more			
	Fair value	Unrealized losses		Total	Fair value	Unrealized losses		Total
		0-20%	20-40%			0-20%	20-40%	
Bonds and debentures:								
Israeli government	576	(3)	-	(3)	182	(13)	-	(13)
Foreign governments	-	-	-	-	46	(1)	-	(1)
Financial institutions in Israel	38	(1)	-	(1)	-	-	-	-
Foreign financial institutions	325	(1)	-	(1)	37	(1)	-	(1)
Others in Israel	12	(2)	-	(2)	-	-	-	-
Total securities available for sale	951	(7)	-	(7)	265	(15)	-	(15)

* The Bank has implemented the instructions in the Supervisor of Banks' circular concerning the integration of the letters of the Supervisor of Banks with the Public Reporting Directives beginning December 31, 2013. The Bank implemented the directive retroactively. Comparative figures for corresponding interim periods in 2013 were reclassified for adjustment to the required format according to the aforesaid guidelines.

NIS millions

Note 2 Securities (continued)

	December 31, 2013							
	Less than 12 months				12 months or more			
	Fair value	Unrealized losses		Total	Fair value	Unrealized losses		Total
		0-20%	20-40%			0-20%	20-40%	
5) Fair value and unrealized losses, by duration and rate of impairment, of securities available for sale in an unrealized loss position (continued)								
Bonds and debentures:								
Israeli government	821	(5)	-	(5)	236	(4)	-	(4)
Foreign governments	702	(7)	-	(7)	38	(3)	-	(3)
Foreign financial institutions	760	(4)	-	(4)	36	-	-	-
Others in Israel	20	-	-	-	-	-	-	-
Foreign others	871	(6)	-	(6)	-	-	-	-
Total securities available for sale	3,174	(22)	-	(22)	310	(7)	-	(7)

NIS millions

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

A. Debts* and off-balance sheet credit instruments

Allowance for credit losses

1. Change in allowance for credit losses

	For the three months ended March 31, 2014					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Allowance for credit losses at beginning of year (audited)	**3,430**	**422**	**729**	**4,581**	**6**	**4,587**
Provision (income) for credit losses(1)	**(26)**	**(4)**	**15**	**(15)**	**-**	**(15)**
Charge-offs	**(195)**	**(1)**	**(69)**	**(265)**	**-**	**(265)**
Recoveries of debts charged off in previous years	**118**	**-**	**33**	**151**	**-**	**151**
Net charge-offs	**(77)**	**(1)**	**(36)**	**(114)**	**-**	**(114)**
Allowance for credit losses as at March 31, 2014(2)(3) (unaudited)	**3,327**	**417**	**708**	**4,452**	**6**	**4,458**
(1) Of which: in respect of off-balance sheet credit instruments	**62**	**-**	**(10)**	**52**	**-**	**52**
(2) Of which: in respect of off-balance sheet credit instruments	**625**	**-**	**65**	**690**	**-**	**690**
(3) Of which: in respect of other debt instruments	**-**	**-**	**-**	**-**	**-**	**-**

	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 as 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

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

NIS millions

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

A. Debts* and off-balance sheet 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, 2014					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Recorded debt balance of debts*:						
Examined on an individual basis	**132,213**	**-**	**3,418**	**135,631**	**25,890**	**161,521**
Examined on a collective basis(1)	**21,168**	**53,839**	**43,356**	**118,363**	**-**	**118,363**
Total debts*	**153,381**	**53,839**	**46,774**	**253,994**	**25,890**	**279,884**
(1) Of which: allowance for which was calculated according to the extent of arrears	**5,033**	**53,470**	**-**	**58,503**	**-**	**58,503**
Allowance for credit losses in respect of debts*:						
Examined on an individual basis	**2,497**	**-**	**157**	**2,654**	**6**	**2,660**
Examined on a collective basis**(2)	**205**	**417**	**486**	**1,108**	**-**	**1,108**
Total allowance for credit losses	**2,702**	**417**	**643**	**3,762**	**6**	**3,768**
(2) Of which: allowance for which was calculated according to the extent of arrears***	**32**	**229**	**-**	**261**	**-**	**261**

	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, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** Includes the allowance beyond the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 205 million (March 31, 2013: NIS 188 million; December 31, 2013: NIS 201 million).

*** Includes the allowance beyond the amount required according to the method of the extent of arrears, in the amount of approximately NIS 18 million (March 31, 2013: NIS 20 million; December 31, 2013: NIS 18 million).

NIS millions

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

A. Debts* and off-balance sheet 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, 2013					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Recorded debt balance of debts*:						
Examined on an individual basis	134,706	-	3,481	138,187	22,003	160,190
Examined on a collective basis(1)	21,109	53,899	42,348	117,356	-	117,356
Total debts*	155,815	53,899	45,829	255,543	22,003	277,546
(1) Of which: allowance for which was calculated according to the extent of arrears	4,433	53,549	-	57,982	-	57,982
Allowance for credit losses in respect of debts*:						
Examined on an individual basis	2,665	-	180	2,845	6	2,851
Examined on a collective basis**(2)	202	422	474	1,098	-	1,098
Total allowance for credit losses	2,867	422	654	3,943	6	3,949
(2) Of which: allowance for which was calculated according to the extent of arrears***	39	236	-	275	-	275

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** Includes the allowance beyond the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 205 million (March 31, 2013: NIS 188 million; December 31, 2013: NIS 201 million).

*** Includes the allowance beyond the amount required according to the method of the extent of arrears, in the amount of approximately NIS 18 million (March 31, 2013: NIS 20 million; December 31, 2013: NIS 18 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, 2014					
	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	**17,052**	**370**	**915**	**18,337**	**20**	**197**
Construction and real estate - real-estate activities	**17,305**	**583**	**720**	**18,608**	**6**	**119**
Financial services	**9,864**	**358**	**740**	**10,962**	**14**	**22**
Commercial - other	**78,828**	**3,856**	**3,522**	**86,206**	**81**	**115**
Total commercial	**123,049**	**5,167**	**5,897**	**134,113**	**121**	**453**
Private individuals - housing loans(5)	**52,498**	**752**	**-**	**53,250**	**849**	**484**
Private individuals - others	**43,697**	**242**	**678**	**44,617**	**68**	**224**
Total public – activity in Israel	**219,244**	**6,161**	**6,575**	**231,980**	**1,038**	**1,161**
Banks in Israel	**26**	**-**	**-**	**26**	**-**	**-**
Israeli government	**395**	**-**	**-**	**395**	**-**	**-**
Total activity in Israel	**219,665**	**6,161**	**6,575**	**232,401**	**1,038**	**1,161**

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

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(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)(c) 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 274 million (March 31, 2013: NIS 238 million; December 31, 2013: NIS 269 million) were classified as unimpaired problematic debts.

(5) Includes a balance of housing loans, in the amount of approximately NIS 106 million (March 31, 2013: NIS 95 million; December 31, 2013: NIS 100 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, 2014					
	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 overseas						
Public - commercial						
Construction and real estate	**4,254**	**-**	**321**	**4,575**	**-**	**-**
Commercial - other	**14,127**	**332**	**234**	**14,693**	**1**	**69**
Total commercial	**18,381**	**332**	**555**	**19,268**	**1**	**69**
Private individuals	**2,664**	**40**	**42**	**2,746**	**8**	**32**
Total public – activity overseas	**21,045**	**372**	**597**	**22,014**	**9**	**101**
Banks overseas	**24,484**	**-**	**-**	**24,484**	**-**	**-**
Governments overseas	**985**	**-**	**-**	**985**	**-**	**-**
Total activity overseas	**46,514**	**372**	**597**	**47,483**	**9**	**101**
Total public	**240,289**	**6,533**	**7,172**	**253,994**	**1,047**	**1,262**
Total banks	**24,510**	**-**	**-**	**24,510**	**-**	**-**
Total governments	**1,380**	**-**	**-**	**1,380**	**-**	**-**
Total	**266,179**	**6,533**	**7,172**	**279,884**	**1,047**	**1,262**

* For this purpose, "unimpaired debts" include non-problematic debts.
** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(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)(c) 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 274 million (March 31, 2013: NIS 238 million; December 31, 2013: NIS 269 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, 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	13,817	89	1,011	14,917	13	4
Commercial - other	75,594	3,631	3,241	82,466	108	357
Total commercial	125,306	4,262	6,482	136,050	217	493
Private individuals - housing loans(5)	48,992	775	-	49,767	968	840
Private individuals - others	41,188	184	771	42,143	88	271
Total public – activity in Israel	215,486	5,221	7,253	227,960	1,273	1,604
Banks in Israel	91	-	-	91	-	-
Israeli government	26	-	-	26	-	-
Total activity in Israel	215,603	5,221	7,253	228,077	1,273	1,604

* Reclassified.
** For this purpose, "unimpaired debts" include non-problematic debts.
*** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(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)(c) 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 274 million (March 31, 2013: NIS 238 million; December 31, 2013: NIS 269 million) were classified as unimpaired problematic debts.
(5) Includes a balance of housing loans, in the amount of approximately NIS 106 million (March 31, 2013: NIS 95 million; December 31, 2013: NIS 100 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 overseas						
Public - commercial						
Construction and real estate	6,674	3	377	7,054	-	19
Commercial - other	13,295	205	249	13,749	44	78
Total commercial	19,969	208	626	20,803	44	97
Private individuals	2,759	21	56	2,836	21	40
Total public – activity overseas	22,728	229	682	23,639	65	137
Banks overseas	27,025	-	-	27,025	-	-
Governments overseas	741	-	-	741	-	-
Total activity overseas	50,494	229	682	51,405	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

* Reclassified.
** For this purpose, "unimpaired debts" include non-problematic debts.
*** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(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)(c) 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 274 million (March 31, 2013: NIS 238 million; December 31, 2013: NIS 269 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)

	December 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	16,708	445	1,130	18,283	45	48
Construction and real estate - real-estate activities	17,395	678	813	18,886	6	17
Financial services	11,803	388	873	13,064	-	23
Commercial - other	77,128	4,514	3,710	85,352	64	149
Total commercial	123,034	6,025	6,526	135,585	115	237
Private individuals - housing loans(5)	52,267	1,042	-	53,309	1,042	844
Private individuals - others	42,756	199	704	43,659	82	197
Total public – activity in Israel	218,057	7,266	7,230	232,553	1,239	1,278
Banks in Israel	115	-	-	115	-	-
Israeli government	314	-	-	314	-	-
Total activity in Israel	218,486	7,266	7,230	232,982	1,239	1,278

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

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(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)(c) 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 274 million (March 31, 2013: NIS 238 million; December 31, 2013: NIS 269 million) were classified as unimpaired problematic debts.

(5) Includes a balance of housing loans, in the amount of approximately NIS 106 million (March 31, 2013: NIS 95 million; December 31, 2013: NIS 100 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, 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 overseas						
Public - commercial						
Construction and real estate	5,808	-	340	6,148	-	-
Commercial - other	13,529	376	177	14,082	5	123
Total commercial	19,337	376	517	20,230	5	123
Private individuals	2,688	26	46	2,760	7	25
Total public – activity overseas	22,025	402	563	22,990	12	148
Banks overseas	20,719	-	-	20,719	-	-
Governments overseas	855	-	-	855	-	-
Total activity overseas	43,599	402	563	44,564	12	148
Total public	240,082	7,668	7,793	255,543	1,251	1,426
Total banks	20,834	-	-	20,834	-	-
Total governments	1,169	-	-	1,169	-	-
Total	262,085	7,668	7,793	277,546	1,251	1,426

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

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(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)(c) 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 274 million (March 31, 2013: NIS 238 million; December 31, 2013: NIS 269 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 in 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 in 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

a. Impaired debts and individual allowance

	March 31, 2014				
	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	**334**	**107**	**581**	**915**	**4,309**
Construction and real estate - real-estate activities	**158**	**7**	**562**	**720**	**1,614**
Financial services	**706**	**218**	**34**	**740**	**1,609**
Commercial - other	**2,128**	**385**	**1,394**	**3,522**	**7,625**
Total commercial	**3,326**	**717**	**2,571**	**5,897**	**15,157**
Private individuals - others	**401**	**110**	**277**	**678**	**1,135**
Total public – activity in Israel	**3,727**	**827**	**2,848**	**6,575**	**16,292**
Borrower activity overseas					
Public - commercial					
Construction and real estate	**153**	**11**	**168**	**321**	**553**
Commercial - other	**199**	**49**	**35**	**234**	**341**
Total commercial	**352**	**60**	**203**	**555**	**894**
Private individuals	**41**	**34**	**1**	**42**	**45**
Total public – activity overseas	**393**	**94**	**204**	**597**	**939**
Total public*	**4,120**	**921**	**3,052**	**7,172**	**17,231**
* Of which:					
Measured at the present value of cash flows	**3,279**	**792**	**905**	**4,184**	
Debts in troubled debt restructuring	**1,248**	**233**	**1,832**	**3,080**	

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(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)

a. Impaired debts and individual allowance (continued)

	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	925	3,241	7,020
Total commercial	4,144	861	2,338	6,482	16,017
Private individuals - others	455	141	316	771	1,210
Total activity in Israel	4,599	1,002	2,654	7,253	17,227
Borrower activity overseas					
Public - commercial					
Construction and real estate	196	11	181	377	597
Commercial - other	212	86	37	249	317
Total commercial	408	97	218	626	914
Private individuals	53	37	3	56	63
Total activity overseas	461	134	221	682	977
Total*	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	

** Reclassified.
*** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(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)

a. Impaired debts and individual allowance (continued)

	December 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	335	117	795	1,130	4,414
Construction and real estate - real-estate activities	289	8	524	813	1,743
Financial services	837	268	36	873	1,721
Commercial - other	2,673	422	1,037	3,710	7,734
Total commercial	4,134	815	2,392	6,526	15,612
Private individuals - others	428	127	276	704	1,147
Total activity in Israel	4,562	942	2,668	7,230	16,759
Borrower activity overseas					
Public - commercial					
Construction and real estate	164	9	176	340	561
Commercial - other	142	52	35	177	283
Total commercial	306	61	211	517	844
Private individuals	45	35	1	46	49
Total activity overseas	351	96	212	563	893
Total*	4,913	1,038	2,880	7,793	17,652
* Of which:					
Measured at the present value of cash flows	3,111	802	**1,511	**4,622	
Debts in troubled debt restructuring	1,170	215	2,114	3,284	

** Reclassified.

*** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(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)

b. Average balance and interest income

	For the three months ended March 31, 2014		
	Average balance of impaired debts	Interest income recorded**	Of which: recorded on a cash basis
Borrower activity in Israel			
Public - commercial			
Construction and real estate - construction	**1,023**	**7**	**6**
Construction and real estate - real-estate activities	**767**	**2**	**1**
Financial services	**807**	**3**	**3**
Commercial - other	**3,614**	**13**	**11**
Total commercial	**6,211**	**25**	**21**
Private individuals - others	**690**	**10**	**4**
Total activity in Israel	**6,901**	**35**	**25**
Borrower activity overseas			
Public - commercial			
Construction and real estate	**331**	**1**	**1**
Commercial - other	**214**	**2**	**2**
Total commercial	**545**	**3**	**3**
Private individuals	**44**	**2**	**2**
Total public – activity overseas	**589**	**5**	**5**
Total	**7,490**	**40**	**30**

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** Had the impaired debts accrued interest according to the original terms, interest income in the amount of NIS 124 million would have been recorded (March 31, 2013: NIS 160 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)

b. Average balance and interest income (continued)

	For the three months ended March 31, 2013		
	Average balance of impaired debts	Interest income recorded**	Of which: recorded on a cash basis
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 - others	857	12	5
Total activity in Israel	7,350	32	19
Borrower activity overseas			
Public - commercial			
Construction and real estate	376	1	1
Commercial - other	262	-	-
Total commercial	638	1	1
Private individuals	56	1	1
Total activity overseas	694	2	2
Total	8,044	34	21

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** Had the impaired debts accrued interest according to the original terms, interest income in the amount of NIS 124 million would have been recorded (March 31, 2013: NIS 160 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)

c. Troubled debt restructuring

	March 31, 2014		
	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	**454**	**120**	**574**
Construction and real estate - real-estate activities	**285**	**46**	**331**
Financial services	**104**	**6**	**110**
Commercial - other	**1,140**	**79**	**1,219**
Total commercial	**1,983**	**251**	**2,234**
Private individuals - others	**366**	**238**	**604**
Total public – activity in Israel	**2,349**	**489**	**2,838**
Borrower activity overseas			
Public - commercial			
Construction and real estate	**235**	**-**	**235**
Commercial - other	**1**	**-**	**1**
Total commercial	**236**	**-**	**236**
Private individuals	**5**	**1**	**6**
Total public – activity overseas	**241**	**1**	**242**
Total public	**2,590**	**490**	**3,080**

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(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 425 million as at March 31, 2014 (March 31, 2013: NIS 151 million; December 31, 2013: NIS 132 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)

c. Troubled debt restructuring (continued)

	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	930	94	1,024
Total commercial	1,613	406	2,019
Private individuals - others	416	266	682
Total activity in Israel	2,029	672	2,701
Borrower activity overseas			
Public - commercial			
Construction and real estate	238	-	238
Commercial - other	1	-	1
Total commercial	239	-	239
Private individuals	5	1	6
Total activity overseas	244	1	245
Total	2,273	673	2,946

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

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)

c. Troubled debt restructuring (continued)

	December 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	450	148	598
Construction and real estate - real-estate activities	238	53	291
Financial services	141	7	148
Commercial - other	1,302	92	1,394
Total commercial	2,131	300	2,431
Private individuals - others	370	252	622
Total activity in Israel	2,501	552	3,053
Borrower activity overseas			
Public - commercial			
Construction and real estate	223	-	223
Commercial - other	1	-	1
Total commercial	224	-	224
Private individuals	6	1	7
Total activity overseas	230	1	231
Total	2,731	553	3,284

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(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)

c. Troubled debt restructuring (continued)

	Debts restructured in the three-month period ended March 31, 2014		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel			
Public - commercial			
Construction and real estate - construction	**22**	**165**	**157**
Construction and real estate - real-estate activities	**7**	**66**	**62**
Commercial - other	**172**	**45**	**41**
Total commercial	**201**	**276**	**260**
Private individuals - others	**1,932**	**84**	**74**
Total public - activity in Israel	**2,133**	**360**	**334**
Borrower activity overseas			
Public - commercial			
Construction and real estate	**1**	**26**	**21**
Commercial - other	**1**	**1**	**1**
Total commercial	**2**	**27**	**22**
Private individuals	**87**	**4**	**4**
Total public – activity overseas	**89**	**31**	**26**
Total public	**2,222**	**391**	**360**

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

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)

c. Troubled debt restructuring (continued)

	Debts restructured in the three-month period 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	133	227	221
Total commercial	166	281	262
Private individuals - others	1,940	83	83
Total activity in Israel	2,106	364	345
Borrower activity overseas			
Public - commercial			
Commercial - other	1	1	1
Private individuals	115	4	4
Total activity overseas	116	5	5
Total	2,222	369	350

* Restated.
** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

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)

c. Troubled debt restructuring (continued)

	Failed restructured debts* in the three-month period ended March 31, 2014	
	Number of contracts	Recorded debt balance
Borrower activity in Israel		
Public - commercial		
Construction and real estate - construction	**13**	**6**
Commercial - other	**75**	**11**
Total commercial	**88**	**17**
Private individuals - others	**758**	**19**
Total public - activity in Israel	**846**	**36**
Borrower activity overseas		
Public - commercial		
Private individuals	**4**	**-**
Total public	**850**	**36**

* 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.

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

Unaudited
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)

c. Troubled debt restructuring (continued)

	Failed restructured debts* in the three-month period 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 - others	759	28
Total activity in Israel	825	39
Borrower activity overseas		
Public - commercial		
Commercial - other	1	-
Private individuals	3	-
Total activity overseas	4	-
Total	829	39

* 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.

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

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, 2014			
		Balance of housing loans			Off-balance sheet credit risk
		Total	Of which: bullet and balloon	Of which: floating interest rate	
First lien: financing rate	Up to 60%	**32,240**	**235**	**22,641**	**903**
	Over 60%	**25,935**	**134**	**20,056**	**284**
Secondary lien or no lien		**697**	**-**	**491**	**1,770**
Total		**58,872**	**369**	**43,188**	**2,957**

		March 31, 2013			
		Balance of housing loans			Off-balance sheet credit risk
		Total	Of which: bullet and balloon	Of which: floating interest rate*	
First lien: financing rate	Up to 60%	28,814	156	20,391	672
	Over 60%	25,511	115	19,350	804
Secondary lien or no lien		466	-	494	869
Total		54,791	271	40,235	2,345

		December 31, 2013			
		Balance of housing loans			Off-balance sheet credit risk
		Total	Of which: bullet and balloon	Of which: floating interest rate*	
First lien: financing rate	Up to 60%	31,421	222	22,390	854
	Over 60%	26,058	128	20,231	542
Secondary lien or no lien		853	-	457	1,106
Total		58,332	350	43,078	2,502

* 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.

*** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

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 segmentation by ranges of LTV ratios and levels of liens.

Note 4 Capital and Capital Adequacy

In May 2013, the Supervisor of Banks amended Proper Conduct of Banking Business Directives 201-211 concerning capital measurement and adequacy, in order to adjust them to the Basel 3 directives.

It is emphasized that the Basel 3 directives establish significant changes in the calculation of supervisory capital requirements, with regard to the following matters, among others:

- Components of supervisory capital;
- Deductions from capital and supervisory adjustments;
- Accounting for exposures to financial corporations;
- Accounting for exposures to credit risk in respect of impaired debts;
- Allocation of capital for CVA risk.

The amendments to the aforesaid directives are in effect as of January 1, 2014. Implementation is gradual, in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299, "Capital Measurement and Adequacy – Supervisory Capital – Transitional Directives," which is aimed at making it possible to comply with the new requirements regarding supervisory capital within the implementation of the Basel 3 directives and establishing a transitional period until full implementation. Among other matters, the transitional directives address supervisory adjustments and deductions from capital, as well as capital instruments not eligible for inclusion in supervisory capital, according to the new criteria established in the Basel directives. Specifically, pursuant to the transitional directives, supervisory adjustments and deductions from capital, as well as minority interests not eligible for inclusion in supervisory capital, shall be deducted from capital gradually, at a rate of 20% per annum, from January 1, 2014 to January 1, 2018. Capital instruments that are no longer eligible as supervisory capital shall be recognized up to a ceiling of 80% on January 1, 2014; the ceiling will be lowered by an additional 10% in each subsequent year, until January 1, 2022.

In addition, a circular of the Supervisor of Banks entitled "Basel Disclosure Requirements Concerning the Composition of Capital" (hereinafter: the "Circular") was published on August 29, 2013. The Circular establishes updated disclosure requirements which banks will be required to include as part of the adoption of Basel 3.

Accordingly, the note on capital adequacy in quarterly financial statements in 2014 includes disclosure of comparative figures for previous periods prepared according to the Basel 2 directives, as adopted by the Supervisor of Banks, as well as disclosure of comparative figures as at January 1, 2014, prepared according to the Basel 3 directives.

Note 4 Capital and Capital Adequacy (continued)

A. Capital adequacy in consolidated data

	March 31, 2014	January 1, 2014	December 31, 2013	March 31, 2013
	Basel 3[1]		Basel 2[2]	
	Unaudited		Audited	Unaudited
	NIS millions			
1. Capital for the calculation of the capital ratio				
Common equity Tier I capital/core capital	**30,036**	29,223	(4)28,421	26,913
Tier I capital	**31,990**	31,177	(4)30,890	29,340
Tier 2 capital	**15,632**	15,697	16,341	16,984
Total overall capital	**47,622**	46,874	(4)47,231	46,324
2. Weighted balances of risk-adjusted assets				
Credit risk	**290,357**	292,814	276,763	269,858
Market risks	**6,328**	4,748	4,748	5,944
Operational risk	**21,553**	21,769	21,769	21,524
Total weighted balances of risk-adjusted assets	**318,238**	319,331	303,280	297,326
	%			
3. Ratio of capital to risk-adjusted assets				
Ratio of common equity Tier I capital to risk-adjusted assets/ratio of core capital to risk-adjusted assets	**9.44%**	9.15%	9.37%	9.05%
Ratio of Tier I capital to risk-adjusted assets	**10.05%**	9.76%	10.19%	9.87%
Ratio of total capital to risk-adjusted assets	**14.96%**	14.68%	15.57%	15.58%
Minimum common equity Tier I capital ratio required by the Supervisor of Banks	**(3)9.00%**	(3)9.00%		
Minimum total capital ratio required by the Supervisor of Banks	**(3)12.50%**	(3)12.50%	9.00%	9.00%

(1) Calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, 299, "Capital Measurement and Adequacy," applicable beginning January 1, 2014. Data as at January 1, 2014 are based on balances as at December 31, 2013.
(2) Calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, "Capital Measurement and Adequacy," which applied until December 31, 2013.
(3) The minimum capital ratio required according to the directives of the Supervisor of Banks from January 1, 2015 to December 31, 2016. Beginning January 1, 2017, the minimum required common equity Tier I capital ratio is 10%, and the minimum required total capital ratio is 13.5%.
(4) Net of a dividend declared after the balance sheet date in the amount of NIS 106 million, in accordance with the Basel 2 directives.

Note 4 Capital and Capital Adequacy (continued)

A. Capital adequacy in consolidated data (continued)

	March 31, 2014	January 1, 2014	December 31, 2013	March 31, 2013
	Basel 3[1]		Basel 2[2]	
	Unaudited		Audited	Unaudited
	%			
4. Significant subsidiaries				
Isracard				
Ratio of common equity Tier 1 capital to risk-adjusted assets	**17.90%**	17.40%		
Ratio of Tier 1 capital to risk-adjusted assets	**17.90%**	17.40%	17.60%	(6) 15.90%
Ratio of total capital to risk-adjusted assets	**18.80%**	18.20%	17.70%	(6) 16.20%
Minimum common equity Tier 1 capital ratio required by the Supervisor of Banks	**(3) 9.00%**	(3) 9.00%		
Minimum total capital ratio required by the Supervisor of Banks	**(3) 12.50%**	(3) 12.50%	9.00%	9.00%
Bank Hapoalim Switzerland[4]				
Ratio of common equity Tier 1 capital to risk-adjusted assets	**22.39%**	26.56%		
Ratio of Tier 1 capital to risk-adjusted assets	**22.39%**	26.56%	26.56%	26.51%
Ratio of total capital to risk-adjusted assets	**22.48%**	27.13%	27.13%	26.51%
Minimum common equity Tier 1 capital ratio required by local regulation	**8.00%**	8.00%		
Minimum total capital ratio required by local regulation	**11.20%**	11.20%	11.20%	11.20%
	Basel 2[5]			
Bank Pozitif				
Ratio of Tier 1 capital to risk-adjusted assets	**16.31%**		15.56%	20.75%
Ratio of total capital to risk-adjusted assets	**17.04%**		16.51%	21.50%
Minimum total capital ratio required by local regulation	**12.00%**		12.00%	12.00%

(1) Calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, 299, "Capital Measurement and Adequacy," applicable beginning January 1, 2014. Data as at January 1, 2014 are based on balances as at December 31, 2013.
(2) Calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, "Capital Measurement and Adequacy," which applied until December 31, 2013.
(3) The minimum capital ratio required according to the directives of the Supervisor of Banks from January 1, 2015.
(4) Bank Hapoalim Switzerland has implemented the Basel 3 directives as of the first quarter of 2013.
(5) Bank Pozitif has not implemented the Basel 3 directives; the data are therefore presented according to the Basel 2 directives.
(6) Restated due to the acquisition and merger of a sister company of Isracard.

NIS millions

Note 4 Capital and Capital Adequacy (continued)

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

	March 31, 2014	January 1, 2014
	Basel 3[(1)]	
Common equity Tier 1 capital		
Total capital	**30,102**	29,310
Differences between total capital and common equity Tier 1 capital	**(24)**	(23)
Total common equity Tier 1 capital before supervisory adjustments and deductions	**30,078**	29,287
Supervisory adjustments and deductions:		
Goodwill and intangible assets	**17**	19
Deferred taxes receivable	**11**	21
Investments in capital of financial corporations not consolidated in the reports to the public		
Other supervisory adjustments and deductions - common equity Tier 1 capital	**14**	24
Total supervisory adjustments and deductions - common equity Tier 1 capital	**42**	64
Total common equity Tier 1 capital after supervisory adjustments and deductions	**30,036**	29,223
Additional Tier 1 capital		
Additional Tier 1 capital - instruments, before deductions	**1,954**	1,954
Additional Tier 1 capital - total deductions		
Total additional Tier 1 capital, after deductions	**1,954**	1,954
Total Tier 1 capital after supervisory adjustments and deductions	**31,990**	31,177
Tier 2 capital		
Tier 2 capital - instruments, before deductions	**12,204**	12,256
Tier 2 capital - provisions, before deductions	**3,428**	3,441
Total Tier 2 capital, before deductions	**15,632**	15,697
Deductions:		
Total deductions - Tier 2 capital		
Total Tier 2 capital	**15,632**	15,697
Total overall capital	**47,622**	46,874

(1) Calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, 299, "Capital Measurement and Adequacy," applicable beginning January 1, 2014. Data as at January 1, 2014 are based on balances as at December 31, 2013.

Note 4 Capital and Capital Adequacy (continued)

B. Components of capital for the purpose of calculating the capital ratio (continued)

	December 31, 2013	March 31, 2013
	Basel 2[1]	
	Audited	Unaudited
	NIS millions	
Tier 1 capital		
Capital	[2]29,204	27,578
Hybrid capital instruments	2,469	2,427
Less: intangible assets and goodwill	(19)	(28)
Less: net gains in respect of adjustments to fair value of securities available for sale	(701)	(577)
Less: investments in financial companies in which the Bank has material influence	(63)	(60)
Total Tier 1 capital	[2]30,890	29,340
Tier 2 capital		
1. Upper Tier 2 capital		
45% of the total net gains before the effect of related taxes in respect of adjustments to fair value of securities available for sale	445	364
General provision for doubtful debts	674	674
Hybrid capital instruments	2,753	2,712
2. Lower Tier 2 capital		
Subordinated notes	12,532	13,295
3. Tier 2 capital deductions		
Investments in financial companies in which the Bank has material influence	(63)	(61)
Total Tier 2 capital	16,341	16,984
Total overall capital	[2]47,231	46,324

C. Effect of the transitional directives on the common equity Tier 1 capital ratio

	March 31, 2014	January 1, 2014
	Unaudited	
	%	
Ratio of capital to risk-adjusted assets		
Ratio of common equity Tier 1 capital to risk-adjusted assets before implementation of the transitional directives in Directive 299	**9.38%**	9.06%
Effect of the transitional directives	**0.06%**	0.09%
Ratio of common equity Tier 1 capital to risk-adjusted assets after implementation of the transitional directives in Directive 299	**9.44%**	9.15%

(1) Calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, "Capital Measurement and Adequacy," which applied until December 31, 2013.
(2) Excluding dividends declared after the balance sheet date, in the amount of NIS 106 million.

Note 4 Capital and Capital Adequacy (continued)

D. Capital Adequacy Target

On May 30, 2013, 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 common equity Tier 1 capital ratio of 9% by January 1, 2015. In addition, a banking corporation 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 common equity Tier 1 capital ratio of 10% by January 1, 2017. In addition, minimum total capital ratios were set 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 maintain a minimum common equity 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 established by the Supervisor of Banks. The Board of Directors of the Bank approved the target minimum capital ratios noted above on December 25, 2013.

E. Dividends

On July 10, 2013, the Board of Directors of the Bank resolved to update the Bank's dividend distribution policy. Pursuant to the dividend distribution policy established by the Board of Directors, up to 30% of net operating profits will be distributed. This policy will be in effect until the Bank meets the capital targets set by the Supervisor of Banks and adopted by the Board of Directors.

Dividend Payments

In accordance with the dividend distribution policy of the Bank, following approval by the Supervisor of Banks for the distribution of a quarterly dividend at a rate of 15% of net profits, the Board of Directors of the Bank resolved on May 21, 2014, to distribute a dividend in respect of the profits of the first quarter of 2014, in the amount of approximately NIS 106 million, or NIS 0.08 per share of par value NIS 1.

The Board of Directors set the record date for payment of the dividend at May 29, 2014 and the date of payment at June 12, 2014.

Details of dividends paid beginning January 1, 2013:

Date of declaration	Date of payment	Dividend per share	Dividend paid in cash
		in agorot	in NIS millions
July 10, 2013	August 5, 2013	7	92
August 28, 2013	September 30, 2013	7	92
November 26, 2013	December 18, 2013	7	92
March 19, 2014	**April 10, 2014**	**8**	**106**

NIS millions

Note 5 Assets and Liabilities by Linkage Base

	March 31, 2014						
	Israeli currency		Foreign currency[1]			Non-monetary items*	Total
	Unlinked	CPI-linked	USD	EUR	Other		
Assets							
Cash on hand and deposits with banks	**14,479**	**-**	**20,843**	**437**	**3,708**	**-**	**39,467**
Securities	**46,756**	**2,329**	**10,488**	**1,206**	**2,166**	**2,388**	**65,333**
Securities borrowed or bought under agreements to resell	**50**	**-**	**-**	**-**	**-**	**-**	**50**
Net credit to the public[2]	**159,086**	**53,991**	**24,629**	**5,910**	**6,301**	**315**	**250,232**
Credit to governments	**6**	**-**	**737**	**637**	**-**	**-**	**1,380**
Investments in equity-basis investees	**-**	**-**	**-**	**-**	**-**	**141**	**141**
Buildings and equipment	**-**	**-**	**-**	**-**	**-**	**3,749**	**3,749**
Intangible assets and goodwill	**-**	**-**	**-**	**-**	**-**	**17**	**17**
Assets in respect of derivative instruments[3]	**6,112**	**1,451**	**2,116**	**424**	**429**	**15**	**10,547**
Other assets	**4,120**	**393**	**197**	**463**	**146**	**632**	**5,951**
Total assets	**230,609**	**58,164**	**59,010**	**9,077**	**12,750**	**7,257**	**376,867**
Liabilities							
Deposits from the public	**175,598**	**17,528**	**61,374**	**13,181**	**8,018**	**315**	**276,014**
Deposits from banks	**1,482**	**182**	**2,439**	**554**	**192**	**-**	**4,849**
Deposits from the government	**348**	**39**	**117**	**-**	**-**	**-**	**504**
Securities lent or sold under agreements to repurchase	**-**	**-**	**-**	**-**	**188**	**-**	**188**
Bonds and subordinated notes	**6,064**	**23,010**	**1,649**	**48**	**543**	**-**	**31,314**
Liabilities in respect of derivative instruments[3]	**6,305**	**2,057**	**2,215**	**526**	**520**	**-**	**11,623**
Other liabilities	**19,518**	**275**	**1,171**	**490**	**188**	**631**	**22,273**
Total liabilities	**209,315**	**43,091**	**68,965**	**14,799**	**9,649**	**946**	**346,765**
Surplus assets (liabilities)	**21,294**	**15,073**	**(9,955)**	**(5,722)**	**3,101**	**6,311**	**30,102**
Effect of hedging derivatives:							
Derivative instruments (excluding options)	**1,540**	**-**	**-**	**-**	**(1,540)**		
Effect of non-hedging derivatives:							
Derivative instruments (excluding options)	**(10,076)**	**(4,386)**	**11,139**	**5,020**	**(1,697)**		
Options in the money, net (in terms of underlying asset)	**861**	**-**	**(1,578)**	**293**	**424**		
Options out of the money, net (in terms of underlying asset)	**546**	**-**	**(802)**	**263**	**(7)**		
Total	**14,165**	**10,687**	**(1,196)**	**(146)**	**281**	**6,311**	
Options in the money, net (nominal present value)	**411**	**-**	**(1,317)**	**574**	**332**		
Options out of the money, net (nominal present value)	**1,574**	**-**	**(2,564)**	**699**	**291**		

* Including derivative instruments whose underlying asset refers to a non-monetary item.
(1) Including linked to foreign currency.
(2) After deduction of allowances for credit losses attributed to the linkage base.
(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 (141) million. These effects were presented in the unlinked segment.

NIS millions

Note 5 Assets and Liabilities by Linkage Base (continued)

	March 31, 2013						
	Israeli currency		Foreign currency(1)			Non-monetary items*	Total
	Unlinked	CPI-linked	USD	EUR	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 borrowed or bought under agreements to resell	31	-	-	-	-	-	31
Net credit to the public(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 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
Surplus assets (liabilities)	22,546	10,187	(8,537)	(4,958)	2,817	5,523	27,578
Effect of hedging derivatives:							
Derivative instruments (excluding options)	1,477	-	(7)	-	(1,470)		
Effect of non-hedging derivatives:							
Derivative instruments (excluding 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 refers to a non-monetary item.
(1) Including linked to foreign currency.
(2) After deduction of allowances for credit losses attributed to the linkage base.
(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.

Audited
NIS millions

Note 5 Assets and Liabilities by Linkage Base (continued)

	December 31, 2013						
	Israeli currency		Foreign currency[1]			Non-monetary items*	Total
	Unlinked	CPI-linked	USD	EUR	Other		
Assets							
Cash on hand and deposits with banks	24,363	-	17,789	455	3,102	-	45,709
Securities	44,100	2,570	8,840	922	2,226	2,254	60,912
Securities borrowed or bought under agreements to resell	36	-	-	-	29	-	65
Net credit to the public[2]	157,885	55,560	24,681	7,125	6,159	190	251,600
Credit to governments	10	-	599	560	-	-	1,169
Investments in equity-basis investees	-	-	-	-	-	137	137
Buildings and equipment	-	-	-	-	-	3,791	3,791
Intangible assets and goodwill	-	-	-	-	-	19	19
Assets in respect of derivative instruments[3]	5,823	1,437	2,532	390	470	20	10,672
Other assets	4,609	131	397	462	74	499	6,172
Total assets	236,826	59,698	54,838	9,914	12,060	6,910	380,246
Liabilities							
Deposits from the public	175,886	18,368	62,805	13,061	6,215	190	276,525
Deposits from banks	1,646	204	2,327	859	267	-	5,303
Deposits from the government	457	39	117	-	-	-	613
Securities lent or sold under agreements to repurchase	-	-	-	-	242	-	242
Bonds and subordinated notes	6,120	25,775	1,564	30	491	-	33,980
Liabilities in respect of derivative instruments[3]	6,447	2,104	2,587	489	502	-	12,129
Other liabilities	19,715	247	1,037	490	128	527	22,144
Total liabilities	210,271	46,737	70,437	14,929	7,845	717	350,936
Surplus assets (liabilities)	26,555	12,961	(15,599)	(5,015)	4,215	6,193	29,310
Effect of hedging derivatives:							
Derivative instruments (excluding options)	1,498	-	-	-	(1,498)		
Effect of non-hedging derivatives:							
Derivative instruments (excluding options)	(14,148)	(4,064)	16,440	4,645	(2,873)		
Options in the money, net (in terms of underlying asset)	589	-	(1,015)	64	362		
Options out of the money, net (in terms of underlying asset)	318	-	(567)	207	42		
Total	14,812	8,897	(741)	(99)	248	6,193	
Options in the money, net (nominal present value)	533	-	(1,065)	89	443		
Options out of the money, net (nominal present value)	659	-	(621)	(124)	86		

* Including derivative instruments whose underlying asset refers to a non-monetary item.
(1) Including linked to foreign currency.
(2) After deduction of allowances for credit losses attributed to the linkage base.
(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 (128) million. These effects were presented in the unlinked segment.

NIS millions

Note 6 Contingent Liabilities and Special Commitments

	March 31		Dec. 31	March 31		Dec. 31
	2014	2013	2013	**2014**	2013	2013
	Contract balances**			Allowance for credit losses at end of period		
	Unaudited		Audited	Unaudited		Audited
A. Off-balance sheet financial instruments						
Transactions the balance of which represents a credit risk:						
1. Documentary credit	**1,363**	1,394	1,270	**10**	1	11
2. Credit guarantees	**6,665**	6,550	6,748	**22**	18	22
3. Guarantees to purchasers of homes	**17,102**	15,809	16,330	**83**	74	76
4. Other guarantees and liabilities	**20,585**	20,462	19,515	**219**	191	199
5. Unutilized credit facilities for credit cards under the responsibility of the Bank	**30,873**	31,382	31,066	**54**	58	55
6. Unutilized credit facilities for credit cards under the responsibility of other banks	**10,374**	10,283	10,011	**-**	-	-
7. Unutilized revolving overdraft and other on-demand credit facilities	**36,985**	34,655	37,214	**111**	96	101
8. Irrevocable commitments to grant credit which has been approved but not yet drawn***	**30,575**	29,178	29,417	**90**	78	78
9. Commitments to issue guarantees	**20,758**	19,555	21,462	**101**	88	96
B. Contingent liabilities and other special commitments						
1. Commitment to purchase securities	**191**	208	185			
2. Construction and acquisition of buildings and equipment	**162**	108	126			
3. Long-term rent contracts - rent for buildings and equipment in agreements to be paid in future years*:						
First year	**172**	163	174			
Second year	**167**	161	168			
Third year	**152**	153	155			
Fourth year	**140**	140	143			
Fifth year	**137**	129	136			
Over five years	**689**	757	712			
Total rent on buildings and equipment	**1,457**	1,503	1,488			

* Comparative figures as at March 31, 2013 were restated.
** Contract balances or the nominal amounts thereof at the end of the period, before the effect of the 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.

NIS millions

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	
	2014	2013
Book value of credit sold	**2**	-
Consideration received in cash	**2**	-
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, 2014, that have a "reasonably possible" probability of materialization amounts to approximately NIS 89 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, 2013.

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 Note 19(D)(a) to the aforesaid Financial Statements.

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:

A. A claim and a petition to certify and administer the claim as a class action against Isracard Ltd., a subsidiary of the Bank (hereinafter: "Isracard"), and against Leumi Card Ltd. and Cartisei Ashrai Leisrael Ltd., was filed with the Central District Court on April 28, 2014. The amount of the class-action suit has been set at a total of approximately NIS 1.7 billion.

The claimants allege the three credit-card companies are parties to a restrictive arrangement that has not been approved, in which they compel merchants to pay them high interchange fees of credit cards for debit and prepaid transactions, and in which they unlawfully delay funds owed to the merchants for an average period of about 20 days after the funds have already been drawn from the cardholder's account, and that sections of the merchant agreement constitute depriving conditions in a uniform contract.

The requested remedies are compensation in the amount noted above, issuance of an order prohibiting the credit-card companies from continuing to be parties to the restrictive arrangement, and declaratory remedies.

Note 6 Contingent Liabilities and Special Commitments (continued)

B. A claim and a petition to certify and administer the claim as a class action were filed against the Bank with the Central District Court on January 12, 2014. The amount of the class-action suit noted in the claim statement is NIS 546 million.
According to the claimants, the Bank entered into an arrangement with the Isracard Group to issue bank credit cards for its customers, but the terms established in the arrangement caused the card fees paid by customers of the Bank to the Isracard Group to be higher than the fees paid by customers of other banks that have contracted with the Isracard Group for the issuance of bank credit cards. The claimants allege that the Bank is operating in a conflict of interests and giving precedence to the interests of the Bank and the Isracard Group over the interests of the customers of the Bank.

C. A claim and a petition to certify and administer the claim as a class action were filed against the Bank with the Central District Court on January 9, 2014. The amount of the class-action suit noted in the claim statement is approximately NIS 230 million.
The claim and the petition concern the collection of fees for transfers of foreign currency from a customer's account with the Bank in Israel to the account of a beneficiary overseas. The claimants allege that the Bank failed to disclose to its customers all of the information pertaining to available alternatives for the distribution of fees between the transferor and the beneficiary, as well as the fact that the manner of selection of the distribution of fees determines whether they are charged with an underwriting fee.
According to the claimants, the alleged misinformation by the Bank caused customers who transferred foreign currency overseas to pay an underwriting fee even when this fee could have been avoided.

D. A claim and a petition to certify the claim as a class action against the Bank and four other banks were filed with the District Court of Jerusalem on October 30, 2013. The total amount of the claim against all of the respondents has been set at NIS 2 billion.
The claimants allege that the respondent banks charge customers who wish to renew credit granted to them in the past a credit and collateral processing fee, which according to the claimants is unlawful. The claimants allege that the conduct of the respondent banks violates the directives of the Civil Wrongs Ordinance; the Contracts Law (General Section), 1973; the Unjust Enrichment Law; and the duty of fidelity of the respondents to their customers.

E. A claim and a petition to certify and administer the claim as a class action against the Bank and the CEO of the Bank, and against four other banks and their CEOs, and also against the Supervisor of Banks, the Governor of the Bank of Israel, and the Antitrust Commissioner as formal respondents, were filed with the District Court of Tel-Aviv-Jaffa on August 28, 2013. The total amount of the claim against all of the respondents was set at approximately NIS 10.5 billion.

Note 6 Contingent Liabilities and Special Commitments (continued)

The claimants allege that the respondent banks collect a fee, unlawfully and without due disclosure to customers, in connection with foreign currency conversion and delivery. According to the claimants, a customer who executes a transaction for the conversion of foreign currency pays a fee for the conversion services, in addition to the fee listed in the bank's fee list, which according to the allegation is the difference between the rate at which the banks buy foreign currency on the interbank market and the rate at which they sell foreign currency to customers, without due disclosure and unlawfully. The claimants further allege that in performing this activity, the respondent banks maintain a mutual restrictive arrangement.

On October 1, 2013, the claimants filed a petition to withdraw from the suit against the CEOs of the five banks; the court approved this petition on January 26, 2014.

After obtaining court approval, the claimants filed an amended petition for certification of the claim as a class action, in which the amount of the class-action suit was set at approximately NIS 11.15 billion.

E. Contingent Liabilities and Other Special Commitments

On April 26, 2009, the Antitrust Commissioner issued a declaration pursuant to Section 43(A)(1) of the Restrictive Trade Practices Law, 1988, entitled "Regarding: Restrictive arrangements between Bank Hapoalim, Bank Leumi, Discount Bank, Mizrahi Bank, and FIBI concerning the transfer of information pertaining to fees" (hereinafter: the "Declaration"). For details and information regarding the Declaration, see Note 19C(11) to the Financial Statements as at December 31, 2013.

On March 27, 2014, a consensual order was signed by the five banks referenced in the Declaration, in which the parties reached an agreement pursuant to which the Declaration would be canceled and the Bank would pay a total of approximately NIS 21.5 million to the state treasury; however, the Bank has the option of paying this amount as compensation in settlement agreements with claimants in various petitions to certify class actions filed against the banks on matters related to the Declaration of the Commissioner. In accordance with Section 50B(D)(1) of the Restrictive Trade Practices Law, at least thirty days prior to filing the petition, the Commissioner must publish a notice in two daily newspapers regarding his intention to submit a consensual order for approval by the court. In this notice, any person who may be harmed by the consensual order, as well as any consumer organization or business organization, should be invited to present their arguments in connection with the order to the Commissioner. Accordingly, a notice has been posted on the website of the Antitrust Authority.

F. 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, 2014, amounted to NIS 174 million (USD 50 million), similar to the balance at the end of 2013. No withdrawals were performed on any of these lines up to March 31, 2014. 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.

NIS millions

Note 7 Deposits from the Public

A. Item composition:

	March 31		December 31,
	2014	2013**	2013
	Unaudited		Audited
In Israel			
On demand			
Non-interest bearing	**35,768**	28,836	35,784
Interest bearing	**62,425**	47,943	57,972
Total on demand	**98,193**	76,779	93,756
Fixed term	**152,465**	163,906	159,440
Total deposits from the public in Israel*	**250,658**	240,685	253,196
Outside Israel			
On demand			
Non-interest bearing	**8,078**	6,703	7,999
Interest bearing	**8,097**	6,617	6,920
Total on demand	**16,175**	13,320	14,919
Fixed term	**9,181**	11,292	8,410
Total deposits from the public outside Israel	**25,356**	24,612	23,329
Total deposits from the public	**276,014**	265,297	276,525
* Of which:			
Deposits of private individuals	**129,689**	138,215	135,139
Deposits of institutional entities	**17,304**	14,728	21,880
Deposits of corporations and others	**103,665**	87,742	96,177

B. Deposits from the public by size

	March 31		December 31,
	2014	2013**	2013
	Unaudited		Audited
Deposit ceiling			
Up to 1	**97,488**	98,740	98,342
Over 1 up to 10	**69,744**	71,875	70,755
Over 10 up to 100	**43,405**	41,449	42,254
Over 100 up to 500	**31,809**	29,197	27,344
Over 500	**33,568**	24,036	37,830
Total	**276,014**	265,297	276,525

** Beginning December 31, 2013, the Bank has implemented the circular of the Supervisor of Banks concerning disclosure of deposits, with the exception of the requirements regarding disclosure of deposits of institutional entities taken in Israel, which the Bank has implemented beginning January 1, 2013. Among other matters, the directive stipulates separate disclosure of deposits taken in Israel and deposits taken overseas, as well as a new requirement for disclosure by size. The Bank implemented the directive retroactively.

NIS millions

Note 8 Activity in Derivative Instruments - Volume, Credit Risks and Maturity Dates

A. Nominal amount of derivative instruments

	March 31, 2014					
	Interest contracts		Foreign currency contracts	Share-related contracts	Commodity and other contracts	Total
	NIS-CPI	Other				
1. Hedging derivatives*						
Forward contracts	**-**	**-**	**3,082**	**-**	**-**	**3,082**
Swaps	**-**	**8,507**	**-**	**-**	**-**	**8,507**
Total hedging derivatives	**-**	**8,507**	**3,082**	**-**	**-**	**11,589**
Of which: interest-rate swap contracts in which the banking corporation has agreed to pay a fixed interest rate	**-**	**4,832**	**-**	**-**	**-**	**4,832**
2. ALM derivatives*,**						
Future contracts	**-**	**16,148**	**7,904**	**-**	**-**	**24,052**
Forward contracts	**10,670**	**81,183**	**139,274**		**217**	**231,344**
Option contracts traded on the stock exchange:						
Options bought	**-**	**-**	**679**	**-**	**-**	**679**
Other option contracts:						
Options written	**-**	**24,475**	**23,425**	**4,341**	**247**	**52,488**
Options bought	**-**	**21,220**	**25,003**	**760**	**236**	**47,219**
Swaps	**3,766**	**316,916**	**35,547**	**623**		**356,852**
Total ALM derivatives	**14,436**	**459,942**	**231,832**	**5,724**	**700**	**712,634**
Of which: interest-rate swap contracts in which the banking corporation has agreed to pay a fixed interest rate	**2,593**	**148,929**	**-**	**-**	**-**	**151,522**
3. Other derivatives*						
Option contracts traded on the stock exchange:						
Options written	**-**	**-**	**4,018**	**12,327**	**-**	**16,345**
Options bought	**-**	**-**	**4,018**	**12,383**	**-**	**16,401**
Total other derivatives	**-**	**-**	**8,036**	**24,710**	**-**	**32,746**
4. Credit derivatives and foreign currency spot swap contracts						
Credit derivatives for which the banking corporation is a guarantor	**-**	**-**	**-**	**-**	**471**	**471**
Foreign currency spot swap contracts	**-**	**-**	**23,151**	**-**	**-**	**23,151**
Total nominal amount	**14,436**	**468,449**	**266,101**	**30,434**	**1,171**	**780,591**

* Excluding credit derivatives and foreign currency spot swap contracts.
** Derivatives constituting part of the asset and liability management system of the Bank, which are not designated for hedging.

NIS millions

Note 8 Activity in Derivative Instruments - Volume, Credit Risks and Maturity Dates (continued)

B. Gross fair value of derivative instruments

	March 31, 2014					
	Interest contracts		Foreign currency contracts	Share-related contracts	Commodity and other contracts	Total
	NIS-CPI	Other				
1. Hedging derivatives*						
Positive gross fair value	-	56	2	-	-	58
Negative gross fair value	-	203	17	-	-	220
2. ALM derivatives*,**						
Positive gross fair value	221	6,411	3,390	70	16	10,108
Negative gross fair value	507	6,595	3,860	64	16	11,042
3. Other derivatives*						-
Positive gross fair value	-	-	72	321	-	393
Negative gross fair value	-	-	72	314	-	386
4. Credit derivatives						
Credit derivatives for which the banking corporation is a guarantor:						
Positive gross fair value	-	-	-	-	5	5
Total positive gross fair value(3)	221	6,467	3,464	391	21	10,564
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets in respect of derivative instruments(1)	221	6,467	3,464	391	21	10,564
(1) Of which: balance sheet balance of assets in respect of derivative instruments not subject to a netting arrangement or similar arrangements***	-	789	2,138	349	9	3,285
Total negative gross fair value(4)	507	6,798	3,949	378	16	11,648
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities in respect of derivative instruments(2)	507	6,798	3,949	378	16	11,648
(2) Of which: balance sheet balance of liabilities in respect of derivative instruments not subject to a netting arrangement or similar arrangements***	11	692	2,360	345	4	3,412

* Excluding credit derivatives.
** Derivatives constituting part of the asset and liability management system of the Bank, which are not 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.
(3) Of which, positive gross fair value of embedded derivative instruments in the amount of NIS 17 million.
(4) Of which, negative gross fair value of embedded derivative instruments in the amount of NIS 25 million.

NIS millions

Note 8 Activity in Derivative Instruments - Volume, Credit Risks and Maturity Dates (continued)

A. Nominal amount of derivative instruments

	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

* Excluding credit derivatives and foreign currency spot swap contracts.
** Derivatives constituting part of the asset and liability management system of the Bank, which are not designated for hedging.

NIS millions

Note 8 Activity in Derivative Instruments - Volume, Credit Risks and Maturity Dates (continued)

B. Gross fair value of derivative instruments

	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(3)	163	5,984	3,009	335	39	9,530
Fair value amounts 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(4)	450	6,660	5,129	233	25	12,497
Fair value amounts 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

* Excluding credit derivatives.
** Derivatives constituting part of the asset and liability management system of the Bank, which are not 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.
(3) Of which, positive gross fair value of embedded derivative instruments in the amount of NIS 15 million.
(4) Of which, negative gross fair value of embedded derivative instruments in the amount of NIS 43 million.

Audited
NIS millions

Note 8 Activity in Derivative Instruments - Volume, Credit Risks and Maturity Dates (continued)

A. Nominal amount of derivative instruments

	December 31, 2013					
	Interest contracts		Foreign currency contracts	Share-related contracts	Commodity and other contracts	Total
	NIS-CPI	Other				
1. Hedging derivatives*						
Forward contracts	-	-	3,054	-	-	3,054
Swaps	-	7,988	-	-	-	7,988
Total hedging derivatives	-	7,988	3,054	-	-	11,042
Of which: interest-rate swap contracts in which the banking corporation has agreed to pay a fixed interest rate	-	3,991	-	-	-	3,991
2. ALM derivatives*,**						
Future contracts	-	12,968	-	-	-	12,968
Forward contracts	10,578	18,506	125,419	-	686	155,189
Other option contracts:						
Options written	-	19,272	20,984	3,419	364	44,039
Options bought	-	20,974	20,642	802	363	42,781
Swaps	3,725	282,593	35,050	619	-	321,987
Total ALM derivatives	14,303	354,313	202,095	4,840	1,413	576,964
Of which: interest-rate swap contracts in which the banking corporation has agreed to pay a fixed interest rate	2,611	131,018	-	-	-	133,629
3. Other derivatives*						
Future contracts	-	30	-	-	59	89
Option contracts traded on the stock exchange:						
Options written	-	-	4,589	13,858	-	18,447
Options bought	-	-	4,589	13,860	-	18,449
Other option contracts:						
Options bought	-	-	-	57	-	57
Total other derivatives	-	30	9,178	27,775	59	37,042
4. Credit derivatives and foreign currency spot swap contracts						
Credit derivatives for which the banking corporation is a guarantor	-	-	-	-	451	451
Foreign currency spot swap contracts	-	-	11,495	-	-	11,495
Total nominal amount	14,303	362,331	225,822	32,615	1,923	636,994

* Excluding credit derivatives and foreign currency spot swap contracts.
** Derivatives constituting part of the asset and liability management system of the Bank, which are not designated for hedging.

Audited
NIS millions

Note 8 Activity in Derivative Instruments - Volume, Credit Risks and Maturity Dates (continued)

B. Gross fair value of derivative instruments

	December 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	-	88	59	-	-	147
Negative gross fair value	-	201	30	-	-	231
2. ALM derivatives*,**						
Positive gross fair value	170	5,891	3,749	43	40	9,893
Negative gross fair value	511	6,188	4,504	33	40	11,276
3. Other derivatives*						
Positive gross fair value	-	-	89	556	-	645
Negative gross fair value	-	-	89	546	-	635
4. Credit derivatives						
Credit derivatives for which the banking corporation is a guarantor:						
Positive gross fair value	-	-	-	-	4	4
Total positive gross fair value(3)	170	5,979	3,897	599	44	10,689
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets in respect of derivative instruments(1)	170	5,979	3,897	599	44	10,689
(1) Of which: balance sheet balance of assets in respect of derivative instruments not subject to a netting arrangement or similar arrangements***	51	174	2,344	599	21	3,189
Total negative gross fair value(4)	511	6,389	4,623	579	40	12,142
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities in respect of derivative instruments(2)	511	6,389	4,623	579	40	12,142
(2) Of which: balance sheet balance of liabilities in respect of derivative instruments not subject to a netting arrangement or similar arrangements***	2	292	2,964	579	14	3,851

* Excluding credit derivatives.
** Derivatives constituting part of the asset and liability management system of the Bank, which are not 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.
(3) Of which, positive gross fair value of embedded derivative instruments in the amount of NIS 17 million.
(4) Of which, negative gross fair value of embedded derivative instruments in the amount of NIS 13 million.

NIS millions

Note 8 Activity in Derivative Instruments - Volume, Credit Risks and Maturity Dates (continued)

C. Credit risk in respect of derivative instruments, by contract counterparty

	March 31, 2014					
	Stock exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
Positive gross fair value of derivative instruments(1)	**388**	**6,086**	**1,084**	**78**	**2,928**	**10,564**
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	**-**	**(5,345)**	**(1,124)**	**-**	**(488)**	**(6,957)**
Net total assets in respect of derivative instruments	**388**	**741**	**(40)**	**78**	**2,440**	**3,607**
Off-balance sheet credit risk in respect of derivative instruments(2)	**4**	**3,204**	**638**	**76**	**3,828**	**7,750**
Total credit risk in respect of derivative instruments	**392**	**9,290**	**1,722**	**154**	**6,756**	**18,314**
Balance sheet balance of liabilities in respect of derivative instruments(3)	**227**	**6,495**	**1,614**	**44**	**3,268**	**11,648**
Gross amounts not offset in the balance sheet:						
Financial instruments	**-**	**(5,345)**	**(1,124)**	**-**	**(488)**	**(6,957)**
Net total liabilities in respect of derivative instruments	**227**	**1,150**	**490**	**44**	**2,780**	**4,691**

	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

(1) Of which positive gross fair value of embedded derivative instruments in the amount of NIS 17 million (March 31, 2013: NIS 15 million; December 31, 2013: 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. The method of calculation of credit risk in respect of derivative instruments in the context of the limits on borrower indebtedness changed beginnig January 1, 2014. The change was implemented prospectively; comparative figures were not restated.
(3) Of which negative gross fair value of embedded derivative instruments in the amount of NIS 25 million (March 31, 2013: NIS 43 million; December 31, 2013: NIS 13 million).

NIS millions

Note 8 Activity in Derivative Instruments - Volume, Credit Risks and Maturity Dates (continued)

C. Credit risk in respect of derivative instruments, by contract counterparty (continued)

	December 31, 2013					
	Stock exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
Positive gross fair value of derivative instruments(1)	604	6,030	972	65	3,018	10,689
Net of offsetting agreements						
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(4,900)	(943)	-	(494)	(6,337)
Net total assets in respect of derivative instruments	604	1,130	29	65	2,524	4,352
Off-balance sheet credit risk in respect of derivative instruments(2)	2	8,699	1,587	341	8,899	19,528
Total credit risk in respect of derivative instruments	606	14,729	2,559	406	11,917	30,217
Balance sheet balance of liabilities in respect of derivative instruments(3)	603	5,851	1,541	7	4,140	12,142
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(4,900)	(943)	-	(494)	(6,337)
Net total liabilities in respect of derivative instruments	603	951	598	7	3,646	5,805

(1) Of which positive gross fair value of embedded derivative instruments in the amount of NIS 17 million (March 31, 2013: NIS 15 million; December 31, 2013: 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 in the amount of NIS 25 million (March 31, 2013: NIS 43 million; December 31, 2013: NIS 13 million).

NIS millions

Note 8 Activity in Derivative Instruments - Volume Credit Risks and Maturity Dates (continued)

D. Details of maturity dates (nominal value amounts)

	March 31, 2014				
	Up to 3 months	Over 3 months up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
	Unaudited				
Interest contracts:					
NIS-CPI	**1,611**	**3,673**	**6,220**	**2,932**	**14,436**
Other	**87,812**	**132,238**	**168,213**	**80,186**	**468,449**
Foreign currency contracts	**156,538**	**65,743**	**24,495**	**19,325**	**266,101**
Share-related contracts	**24,692**	**705**	**4,522**	**515**	**30,434**
Commodity and other contracts (including credit derivatives)	**537**	**487**	**147**	**-**	**1,171**
Total	**271,190**	**202,846**	**203,597**	**102,958**	**780,591**

	March 31, 2013				
	Unaudited				
Total	219,510	175,283	132,738	82,817	610,348

	December 31, 2013				
	Audited				
Total	230,529	146,265	161,715	98,485	636,994

NIS millions

Note 9 Balances and Fair Value Estimates of Financial Instruments

A. Balances and fair value estimates of financial instruments

	March 31, 2014				
	Balance sheet balance	Fair value(1)			Total
		Level 1	Level 2	Level 3	
Financial assets					
Cash on hand and deposits with banks	**39,467**	**2,173**	**-**	**37,300**	**39,473**
Securities*	**65,333**	**54,669**	**9,607**	**1,100**	**65,376**
Securities borrowed or bought under agreements to resell	**50**	**-**	**-**	**50**	**50**
Net credit to the public***	**250,232**	**2,244**	**-**	**250,077**	**252,321**
Credit to governments	**1,380**	**-**	**-**	**1,384**	**1,384**
Assets in respect of derivative instruments	**10,547**	**386**	**7,718**	**2,443**	**10,547**
Other financial assets	**2,294**	**1,274**	**-**	**1,020**	**2,294**
Total financial assets	****369,303**	**60,746**	**17,325**	**293,374**	**371,445**
Financial liabilities					
Deposits from the public***	**276,014**	**2,244**	**-**	**275,056**	**277,300**
Deposits from banks	**4,849**	**-**	**-**	**4,925**	**4,925**
Deposits from the government	**504**	**-**	**-**	**554**	**554**
Securities lent or sold under agreements to repurchase	**188**	**-**	**-**	**188**	**188**
Bonds and subordinated notes	**31,314**	**27,474**	**2,119**	**5,062**	**34,655**
Liabilities in respect of derivative instruments	**11,623**	**386**	**10,766**	**471**	**11,623**
Other financial liabilities	**17,316**	**1,424**	**352**	**15,495**	**17,271**
Total financial liabilities	****341,808**	**31,528**	**13,237**	**301,751**	**346,516**

* Includes shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 595 million.
** Of which: assets and liabilities in the amount of NIS 81,551 million and in the amount of NIS 17,658 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 25 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 quoted prices 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 Estimates of Financial Instruments (continued)

A. Balances and fair value estimates of financial instruments (continued)

	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 borrowed or bought under agreements to resell	31	-	-	31	31
Net credit to the public****	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 lent or sold under agreements to repurchase	639	-	-	639	639
Bonds and subordinated notes	36,222	*31,231	*2,094	*5,886	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	*34,089	*13,739	*295,688	343,516

* Reclassified.
** Includes shares and options for which no fair value is available, which are 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 quoted prices 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 Estimates of Financial Instruments (continued)

A. Balances and fair value estimates of financial instruments (continued)

	December 31, 2013				
	Balance sheet balance	Fair value(1)			Total
		Level 1	Level 2	Level 3	
Financial assets					
Cash on hand and deposits with banks	45,709	2,435	-	43,259	45,694
Securities*	60,912	51,462	8,417	1,078	60,957
Securities borrowed or bought under agreements to resell	65	-	-	65	65
Net credit to the public***	251,600	1,796	-	252,344	254,140
Credit to governments	1,169	-	-	1,175	1,175
Assets in respect of derivative instruments	10,672	635	7,443	2,594	10,672
Other financial assets	2,596	1,550	-	1,046	2,596
Total financial assets	**372,723	57,878	15,860	301,561	375,299
Financial liabilities					
Deposits from the public***	276,525	1,796	-	276,232	278,028
Deposits from banks	5,303	-	-	5,378	5,378
Deposits from the government	613	-	-	663	663
Securities lent or sold under agreements to repurchase	242	-	-	242	242
Bonds and subordinated notes	33,980	30,022	2,134	4,780	36,936
Liabilities in respect of derivative instruments	12,129	635	11,071	423	12,129
Other financial liabilities	17,418	1,729	267	15,368	17,364
Total financial liabilities	**346,210	34,182	13,472	303,086	350,740

* Includes shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 562 million.
** Of which: assets and liabilities in the amount of NIS 77,395 million and in the amount of NIS 17,665 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 13 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 quoted prices 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 Estimates 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 are insufficient to indicate the value of the banking corporation as a going concern. In addition, due to the broad spectrum of assessment techniques and estimates that can be applied in assessing fair value, caution should be exercised when comparing fair values between different banks.

Principal Methods and Assumptions Used to Estimate the Fair Value of Financial Instruments

Deposits with banks, nontradable bonds and loans, and credit to the government – By discounting future cash flows according to the interest rates at which the Bank executed similar transactions at the reporting date.

Marketable securities – According to market value in the primary market.

Credit to the public – The fair value of the balance of credit to the public is estimated using the method of the present value of future cash flows discounted by a suitable discounting rate. The balance of credit was segmented into homogenous categories. In each category, the flow of future receipts (principal and interest) was calculated. These receipts were discounted by an interest rate reflecting the level of risk inherent in the credit in that category. This interest rate was usually determined according to the interest rate at which similar transactions were executed at the Bank at the reporting date.

The fair value of impaired debts was calculated using discounting interest rates reflecting the high credit risk inherent in such debts. In any case, these discounting rates were not lower than the highest interest rate used by the Bank in its transactions at the reporting date.

Future cash flows for impaired debts and other debts were calculated after the deduction of the effects of charge-offs and of allowances for credit losses in respect of the debts.

Note 9 Balances and Fair Value Estimates 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 these 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 calculation of fair value includes assumptions regarding early repayment of housing loans, in accordance with the estimates of the Bank, based on an examination of the historical data regarding early repayment in relation to parameters that explain such repayment. The effect of these assumptions on fair value amounts to a reduction of the fair value by NIS 15 million.

Deposits, bonds and subordinated notes – By discounting future cash flows according to the interest rates at which the corporation raises similar deposits or the Bank issues similar bonds and notes (if a price quoted in an active market is not available) on the reporting date. With regard to bonds and subordinated notes traded as an asset in an active market, fair value is based on quoted market prices or on quotes from traders for an identical liability traded as an asset in an active market.

Inter-client lending – Presented as credit and deposits, and measured according to the value of the loaned securities on the stock market.

Derivative instruments – Derivative financial instruments that have an active market were assessed at the market value established in the primary market.

Derivative financial instruments not traded in an active market were assessed on the basis of models used by the Bank in its routine operations, taking into account the risks inherent in the financial instrument.

The measurement of the fair value of derivative instruments takes the credit risk inherent in such transactions into account, among other factors.

Estimates of the fair value of assets in respect of derivative instruments also reflect the credit risk of the counterparty, and estimates of the fair value of liabilities in respect of derivative instruments also reflect the credit risk of the Bank.

Assets and liabilities for which fair value is measured based on Level 3 data – Items for which fair value is determined based on an indicative price from an independent entity; indicative price of a counterparty to the transaction; evaluation models in which some of the significant inputs are unobservable; and items for which fair value is determined based on internal calculators or service bureaus in which some of the inputs are unobservable.

NIS millions

Note 9 Balances and Fair Value Estimates of Financial Instruments (continued)

B. Items measured at fair value on a recurring basis

	March 31, 2014			
	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	**45,675**	**4,400**	**-**	**50,075**
Government bonds - foreign governments	**1,560**	**1,079**	**-**	**2,639**
Bonds of financial institutions in Israel	**589**	**100**	**-**	**689**
Bonds of foreign financial institutions	**838**	**2,165**	**-**	**3,003**
Bonds of others in Israel	**1,218**	**473**	**-**	**1,691**
Bonds of foreign others	**1,321**	**1,390**	**-**	**2,711**
Tradable shares	**1,746**	**-**	**-**	**1,746**
Securities held for trading:				
Government bonds - Israeli government	**820**	**-**	**-**	**820**
Government bonds - foreign governments	**41**	**-**	**-**	**41**
Bonds of foreign financial institutions	**541**	**-**	**-**	**541**
Bonds of others in Israel	**18**	**-**	**-**	**18**
Bonds of foreign others	**255**	**-**	**-**	**255**
Tradable shares	**47**	**-**	**-**	**47**
Total securities measured at fair value	**54,669**	**9,607**	**-**	**64,276**
Assets in respect of derivative instruments:				
NIS-CPI contracts	**-**	**130**	**91**	**221**
Other interest contracts	**-**	**5,982**	**485**	**6,467**
Foreign-currency contracts	**72**	**1,572**	**1,803**	**3,447**
Share contracts	**314**	**27**	**50**	**391**
Commodity and other contracts	**-**	**7**	**14**	**21**
Assets in respect of embedded derivatives	**-**	**-**	**17**	**17**
Credit in respect of inter-customer lending	**2,244**	**-**	**-**	**2,244**
Assets in respect of activity in the Maof market	**1,274**	**-**	**-**	**1,274**
Total assets	**58,573**	**17,325**	**2,460**	**78,358**

NIS millions

Note 9 Balances and Fair Value Estimates of Financial Instruments (continued)

B. Items measured at fair value on a recurring basis (continued)

	March 31, 2014			
	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	**-**	**497**	**10**	**507**
Other interest contracts	**-**	**6,450**	**355**	**6,805**
Foreign-currency contracts	**72**	**3,781**	**96**	**3,949**
Share contracts	**314**	**25**	**7**	**346**
Commodity and other contracts	**-**	**13**	**3**	**16**
Liabilities in respect of embedded derivatives	**-**	**-**	**25**	**25**
Deposits in respect of inter-customer lending	**2,244**	**-**	**-**	**2,244**
Liabilities in respect of activity in the Maof market	**1,274**	**-**	**-**	**1,274**
Liabilities in respect of securities lending	**150**	**352**	**-**	**502**
Total liabilities	**4,054**	**11,118**	**496**	**15,668**

NIS millions

Note 9 Balances and Fair Value Estimates of Financial Instruments (continued)

B. Items measured at fair value on a recurring 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)	
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 Estimates of Financial Instruments (continued)

B. Items measured at fair value on a recurring 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

Audited
NIS millions

Note 9 Balances and Fair Value Estimates of Financial Instruments (continued)

B. Items measured at fair value on a recurring basis (continued)

	December 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	42,917	4,067	-	46,984
Government bonds - foreign governments	1,672	1,140	-	2,812
Bonds of financial institutions in Israel	306	98	-	404
Bonds of foreign financial institutions	560	1,802	-	2,362
Bonds of others in Israel	1,131	428	-	1,559
Bonds of foreign others	1,084	882	-	1,966
Tradable shares	1,659	-	-	1,659
Securities held for trading:				
Government bonds - Israeli government	1,502	-	-	1,502
Government bonds - foreign governments	33	-	-	33
Bonds of foreign financial institutions	315	-	-	315
Bonds of others in Israel	11	-	-	11
Bonds of foreign others	239	-	-	239
Tradable shares	33	-	-	33
Total securities measured at fair value	51,462	8,417	-	59,879
Assets in respect of derivative instruments:				
NIS-CPI contracts	-	118	52	170
Other interest contracts	-	5,443	536	5,979
Foreign-currency contracts	89	1,868	1,923	3,880
Share contracts	546	-	53	599
Commodity and other contracts	-	14	30	44
Assets in respect of embedded derivatives	-	-	17	17
Credit in respect of inter-customer lending	1,796	-	-	1,796
Assets in respect of activity in the Maof market	1,550	-	-	1,550
Total assets	55,443	15,860	2,611	73,914

Audited
NIS millions

Note 9 Balances and Fair Value Estimates of Financial Instruments (continued)

B. Items measured at fair value on a recurring basis (continued)

	December 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	-	511	-	511
Other interest contracts	-	6,102	299	6,401
Foreign-currency contracts	89	4,431	104	4,624
Share contracts	546	-	7	553
Commodity and other contracts	-	27	13	40
Liabilities in respect of embedded derivatives	-	(1)	14	13
Deposits in respect of inter-customer lending	1,796	-	-	1,796
Liabilities in respect of activity in the Maof market	1,550	-	-	1,550
Liabilities in respect of securities lending	179	267	-	446
Total liabilities	4,160	11,337	437	15,934

NIS millions

Note 9 Balances and Fair Value Estimates of Financial Instruments (continued)

C. Items measured at fair value on a nonrecurring basis

	March 31, 2014				
	Fair value measurements using –			Total fair value	Total profit (loss) in the period ended March 31, 2014
	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 nonrecurring basis					
Impaired credit the collection of which is contingent on collateral	**-**	**-**	**2,988**	**2,988**	**[(1)]44**
Bonds held to maturity	**-**	**-**	**-**	**-**	**[(2)]-**
Investments in shares	**-**	**-**	**1**	**1**	**[(2)](4)**
Total	**-**	**-**	**2,989**	**2,989**	**40**

	March 31, 2013				
	Fair value measurements using –			Total fair value	Total profit (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 nonrecurring 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)

	December 31, 2013				
	Fair value measurements using –			Total fair value	Total loss in the year ended December 31, 2013
	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 nonrecurring basis					
Impaired credit the collection of which is contingent on collateral*	-	-	3,171	3,171	[(1)](24)
Investments in shares	-	-	114	114	[(2)](31)
Total	-	-	3,285	3,285	(55)

* Reclassified.
(1) Gains (losses) included in the statement of profit and loss under the item "provision for credit losses."
(2) Losses included in the statement of profit and loss under the item "non-interest financing income."

NIS millions

Note 9 Balances and Fair Value Estimates of Financial Instruments (continued)

D. Changes in items measured at fair value on a recurring basis included in level 3

	March 31, 2014									
	Fair value as at Dec. 31, 2013	Gains (losses) included in statement of profit and loss[1][3]	Gains (losses) included in equity[2]	Acquisitions	Issuance	Extinguishment	Transfers to level 3	Transfers from level 3	Fair value as at March 31, 2014	Unrealized gains (losses) in respect of instruments held as at March 31, 2014
Assets										
Net balances in respect of derivative instruments:										
NIS-CPI contracts	**52**	**29**	**-**	**-**	**-**	**(8)**	**8**	**-**	**81**	**[3]29**
Other interest contracts	**237**	**(96)**	**-**	**67**	**-**	**(42)**	**(24)**	**(12)**	**130**	**[3][1](47)**
Foreign-currency contracts	**1,819**	**126**	**-**	**80**	**-**	**(300)**	**(23)**	**5**	**1,707**	**[3]214**
Share contracts	**46**	**9**	**-**	**4**	**-**	**(16)**	**-**	**-**	**43**	**[3]2**
Commodity and other contracts	**17**	**(5)**	**-**	**6**	**-**	**(7)**	**-**	**-**	**11**	**[3](2)**
Embedded derivatives	**3**	**(10)**	**-**	**-**	**(4)**	**3**	**-**	**-**	**(8)**	**[3](9)**
Total	**2,174**	**53**	**-**	**157**	**(4)**	**(370)**	**(39)**	**(7)**	**1,964**	**187**

(1) Gains (losses) included in the statement of profit and loss under the item "interest income."
(2) Gains (losses) included in equity under the item "adjustments for presentation of securities available for sale at fair value."
(3) Gains (losses) included in the statement of profit and loss under the item "non-interest financing income."

NIS millions

Note 9 Balances and Fair Value Estimates of Financial Instruments (continued)

D. Changes in items measured at fair value on a recurring basis included in level 3 (continued):

	March 31, 2013									
	Fair value as at Dec. 31, 2012	Gains (losses) included in statement of profit and loss(1)(3)	Gains (losses) included in equity(2)	Acquisitions	Issuance	Extinguishment	Transfers to level 3	Transfers from level 3	Fair value as at March 31, 2013	Unrealized gains (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)	(6)
Total	1,506	360	-	122	(6)	(722)	(3)	323	1,580	406

(1) Gains (losses) included in the statement of profit and loss under the item "interest income."
(2) Gains (losses) included in equity under the item "adjustments for presentation of securities available for sale at fair value."
(3) Gains (losses) included in the statement of profit and loss under the item "non-interest financing income."

Audited
NIS millions

Note 9 Balances and Fair Value Estimates of Financial Instruments (continued)

D. Changes in items measured at fair value on a recurring basis included in level 3 (continued)

	December 31, 2013									
	Fair value as at Dec. 31, 2012	Gains (losses) included in statement of profit and loss(1)(3)	Gains (losses) included in equity(2)	Acquisitions	Issuance	Extinguishment	Transfers to level 3	Transfers from level 3	Fair value as at Dec. 31, 2013	Unrealized gains (losses) in respect of instruments held as at Dec. 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	4	-	-	-	(32)	1	(1)	52	(3)7
Other interest contracts	454	(76)	-	52	(2)	(203)	-	12	237	(3)(1)(63)
Foreign-currency contracts	801	1,266	-	119	-	(625)	61	197	1,819	(3)1,298
Share contracts	131	30	-	18	-	(133)	-	-	46	(3)(5)
Commodity and other contracts	36	6	-	13	-	(36)	-	(2)	17	(3)4
Embedded derivatives	(39)	24	-	-	(16)	34	-	-	3	(3)14
Total	1,506	1,254	-	202	(18)	(1,038)	62	206	2,174	1,255

(1) Gains (losses) included in the statement of profit and loss under the item "interest income."
(2) Gains (losses) included in equity under the item "adjustments for presentation of securities available for sale at fair value."
(3) Gains (losses) 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. There were no transfers of items measured at fair value from Level 3 measurement to Level 2 measurement during the period, other than transfers arising from counterparty risk.

NIS millions

Note 9 Balances and Fair Value Estimates 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, 2014			
	Fair value	Assessment technique	Unobservable inputs	Range (weighted average)
Assets				
Investment in non-tradable shares	**1**	Valuation		
Impaired credit the collection of which is contingent on collateral	**2,988**	Tradable assets – market value less an appropriate safety coefficient		
		Non-tradable assets – discounted cash flow less an appropriate safety coefficient		
Net balances in respect of derivative instruments:				
NIS-CPI contracts	**81**	Currency and interest-rate derivatives pricing model	Transaction counterparty risk	0.48%-4.77% (2.60%)
Other interest contracts	**151**	Interest-rate derivatives pricing model	Transaction counterparty risk	0.48%-4.32% (2.89%)
Foreign-currency contracts	**1,707**	Option pricing model	Transaction counterparty risk	0.48%-5.21% (2.17%)
Commodity and other contracts	**11**	Currency derivatives pricing model	Transaction counterparty risk	0.48%-4.32% (3.92%)
Share contracts(1)	**13**	Option pricing model	Standard deviation	26.62%-68.50% (29.34%)
			Dividend yield	2.00%-10.56% (4.74%)
			Unlinked NIS interest rate	2.34%-2.68% (2.57%)
Embedded derivatives(2)	**17**	Option pricing model	Unlinked NIS interest rate	0.68%-7.39% (2.64%)

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 9 Balances and Fair Value Estimates 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 (continued)

	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 less an appropriate safety coefficient		
		Non-tradable assets – discounted cash flow less 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%)
Commodity and other contracts	9	Currency derivatives pricing model	Transaction counterparty risk	1.95%-4.61% (3.53%)
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%)
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.

Audited
NIS millions

Note 9 Balances and Fair Value Estimates 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 (continued)

	December 31, 2013			
	Fair value	Assessment technique	Unobservable inputs	Range (weighted average)
Assets				
Investment in non-tradable shares	98	Our share of the balance sheet value		
Investment in non-tradable shares	16	Valuation		
Impaired credit the collection of which is contingent on collateral*	3,171	Tradable assets – market value less an appropriate safety coefficient		
		Non-tradable assets – discounted cash flow less an appropriate safety coefficient		
Net balances in respect of derivative instruments:				
NIS-CPI contracts	52	Currency and interest-rate derivatives pricing model	Transaction counterparty risk	1.59%-5.15% (3.35%)
Other interest contracts	269	Interest-rate derivatives pricing model	Transaction counterparty risk	0.68%-4.31% (3.18%)
Foreign-currency contracts	1,819	Option pricing model	Transaction counterparty risk	0.58%-5.53% (2.45%)
Commodity and other contracts	17	Currency derivatives pricing model	Transaction counterparty risk	0.68%-4.31% (3.58%)
Share contracts(1)	17	Option pricing model	Standard deviation	26.50%-68.50% (30.32%)
			Dividend yield	2.00%-10.56% (4.05%)
			Unlinked NIS interest rate	2.87%-3.20% (3.08%)
Embedded derivatives(2)	17	Option pricing model	Unlinked NIS interest rate	0.77%-8.10% (2.67%)

* Restated.
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	
	2014	2013
A. Interest income*		
From credit to the public	**2,154**	2,668
From credit to the government	**7**	4
From deposits with banks	**25**	24
From deposits with the Bank of Israel and from cash	**32**	70
From bonds	**219**	309
From other assets	**2**	14
Total interest income	**2,439**	3,089
B. Interest expenses*		
On deposits from the public	**(368)**	(727)
On deposits from the government	**(3)**	(6)
On deposits from banks	**(26)**	(40)
On securities lent or sold under agreements to repurchase	**(5)**	(2)
On bonds and subordinated notes	**(187)**	(394)
On other liabilities	**(1)**	(6)
Total interest expenses	**(590)**	(1,175)
Total net interest income	**1,849**	1,914
C. Details of net effect of hedging derivative instruments on interest income and expenses**		
Interest income	**(49)**	(37)
Interest expenses	**2**	(5)
D. Details of interest income from bonds on a cumulative basis		
Held to maturity	**5**	10
Available for sale	**209**	286
Held for trading	**5**	13
Total included in interest income	**219**	309

* Including the effective component in hedges.
** Details of the 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	
	2014	2013
1. From activity in derivative instruments		
Non-effective part of hedges (see C below)(1)	**(5)**	7
Net income (expenses) in respect of ALM derivative instruments(2)	**186**	(502)
Total from activity in derivative instruments	**181**	(495)
2. From investment in bonds		
Gains from sale of bonds available for sale(3)	**73**	114
Losses from sale of bonds available for sale(3)	**-**	(1)
Total from investment in bonds	**73**	113
3. Net exchange rate differences	**(139)**	454
4. Gains (losses) from investment in shares		
Gains from sale of shares available for sale(3)	**71**	50
Provision for impairment of shares available for sale(3)	**(5)**	(11)
Dividend from shares available for sale	**4**	12
Total from investment in shares	**70**	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	**185**	123

(1) Excluding the effective component of hedges.
(2) Derivative instruments constituting part of the asset and liability management system of the Bank, which are not designated for hedging.
(3) Reclassified from cumulative other comprehensive income.

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	
	2014	2013
Net income in respect of other derivative instruments	**1**	8
Net realized and unrealized gains from adjustments to fair value of bonds held for trading(1)	**20**	11
Net realized and unrealized gains from adjustments to fair value of shares held for trading	**1**	1
Total non-interest financing income from trading activities**	**22**	20
Total non-interest financing income	**207**	143
Details of non-interest financing income in respect of trading activities, by risk exposure:		
Interest-rate exposure	**20**	11
Share exposure	**2**	9
Total	**22**	20

C. Non-effective part of hedges – further details***		
1. Fair value hedges		
Non-effectiveness of hedges	**(9)**	(1)
Gain component in respect of derivative instruments excluded for the evaluation of the effectiveness of the hedge	**1**	1
2. Cash flow hedges		
Gain (loss) component in respect of derivative instruments excluded for the evaluation of the effectiveness of the hedge	**3**	7

* Includes exchange-rate 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 17 million (March 31, 2013: NIS 1 million).

NIS millions

Note 12 Operating Segments

	For the three months ended March 31, 2014							
	Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Financial Management Segment	Others and adjustments	Total
Net interest income:								
From externals	**592**	**12**	**315**	**295**	**688**	**(53)**	**-**	**1,849**
Inter-segmental	**(73)**	**219**	**(23)**	**(78)**	**(246)**	**201**	**-**	**-**
Non-interest income:								
Non-interest financing income	**-**	**8**	**-**	**2**	**27**	**170**	**-**	**207**
Fees and other income	**290**	**399**	**145**	**80**	**140**	**92**	**153**	**1,299**
Total income	**809**	**638**	**437**	**299**	**609**	**410**	**153**	**3,355**
Provision (income) for credit losses	**10**	**7**	**24**	**8**	**(64)**	**-**	**-**	**(15)**
Net profit attributed to shareholders of the Bank	**89**	**41**	**81**	**85**	**299**	**143**	**15**	**753**
Return on equity (net profit attributed to shareholders of the Bank as a percentage of average equity)(1)	**7.1%**	**5.3%**	**14.8%**	**8.7%**	**10.1%**	**28.1%**	**-**	**10.7%**

(1) Calculated based on the capital allocated to the segment, according to the risk assets, which were attributed to it by Basel 3 directives.

NIS millions

Note 12 Operating Segments (continued)

	For the three months ended March 31, 2013*							
	Households 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	930	(196)	-	1,914
Inter-segmental	(189)	389	(14)	(90)	(424)	328	-	-
Non-interest income:								
Non-interest financing income	-	9	-	1	20	113	-	143
Fees and other income	295	365	153	94	147	86	147	1,287
Total income	830	648	429	286	673	331	147	3,344
Provision for credit losses	91	26	28	33	79	-	-	257
Net profit attributed to shareholders of the Bank	36	43	97	69	283	82	11	621
Return on equity (net profit attributed to shareholders of the Bank as a percentage of average equity)(1)	3.2%	6.3%	20.5%	8.3%	9.7%	17.7%	-	9.5%

* Reclassified, as detailed in Note 31 to the annual financial statements for 2013.

** Activity arising from customers of management companies of provident funds (other than management companies of provident funds managed within insurance companies) and mutual funds was reclassified from the Corporate Segment to the Financial Management Segment, due to the implementation of an organizational change.

(1) Calculated based on the capital allocated to the segment, according to the risk assets, which were attributed to it by Basel 2 directives.

Audited
NIS millions

Note 12 Operating Segments (continued)

	For the year ended December 31, 2013							
	Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment*	Financial Management Segment*	Others and adjustments	Total
Net interest income:								
From externals	3,381	(249)	1,252	1,210	3,871	(1,522)	-	7,943
Inter-segmental	(1,257)	1,239	(143)	(396)	(1,893)	2,450	-	-
Non-interest income:								
Non-interest financing income	2	31	-	6	74	367	-	480
Fees and other income	1,194	1,478	648	333	598	358	632	5,241
Total income	3,320	2,499	1,757	1,153	2,650	1,653	632	13,664
Provision for credit losses	229	53	143	14	446	(11)	-	874
Net profit attributed to shareholders of the Bank	177	41	305	379	1,035	606	37	2,580
Return on equity (net profit attributed to shareholders of the Bank as a percentage of average equity)(1)	3.7%	1.4%	14.1%	10.7%	8.5%	30.2%	-	9.3%

* Activity arising from customers of management companies of provident funds (other than management companies of provident funds managed within insurance companies) and mutual funds was reclassified from the Corporate Segment to the Financial Management Segment, due to the implementation of an organizational change.

(1) Calculated based on the capital allocated to the segment, according to the risk assets, which were attributed to it by Basel 2 directives.

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, 2014 and 2013

	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 gains (losses) in respect of cash-flow hedges	Total		
	Unaudited					
Balance as at December 31, 2013	**702**	**(17)**	**(9)**	**676**	**1**	**675**
Net change during the period	**132**	**8**	**1**	**141**	**1**	**140**
Balance as at March 31, 2014	**834**	**(9)**	**(8)**	**817**	**2**	**815**
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

2. Changes in cumulative other comprehensive income (loss) in 2013

	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 gains (losses) in respect of cash-flow hedges	Total		
	Audited					
Balance as at December 31, 2012	646	9	(16)	639	3	636
Net change during the year	56	(26)	7	37	(2)	39
Balance as at December 31, 2013	702	(17)	(9)	676	1	675

* Adjustments from the translation of financial statements of a foreign operation whose functional currency differs from the functional currency of the Bank.
** Net gains (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, 2014 and 2013

	For the three months ended					
	March 31, 2014			March 31, 2013		
	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 from adjustments to fair value	**273**	**(108)**	**165**	27	(11)	16
Gains in respect of securities available for sale reclassified to the statement of profit and loss	**(57)**	**24**	**(33)**	(125)	42	(83)
Net change during the period	**216**	**(84)**	**132**	(98)	31	(67)
Adjustments from translation*:						
Adjustments from translation of financial statements	**21**	**-**	**21**	(95)	-	(95)
Hedges**	**(20)**	**7**	**(13)**	97	(35)	62
Net change during the period	**1**	**7**	**8**	2	(35)	(33)
Cash-flow hedges:						
Net losses in respect of cash-flow hedges reclassified to the statement of profit and loss	**2**	**(1)**	**1**	3	(1)	2
Net change during the period	**2**	**(1)**	**1**	3	(1)	2
Total net change during the period	**219**	**(78)**	**141**	(93)	(5)	(98)
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	**218**	**(78)**	**140**	(92)	(5)	(97)

* Adjustments from the translation of financial statements of a foreign operation whose functional currency differs from the functional currency of the Bank.
** Net gains (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, 2013

	For the year ended December 31, 2013		
	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 from adjustments to fair value	372	(122)	250
Losses in respect of securities available for sale reclassified to the statement of profit and loss	(291)	97	(194)
Net change during the year	81	(25)	56
Adjustments from translation*:			
Adjustments from translation of financial statements	(69)	-	(69)
Hedges**	68	(25)	43
Net change during the year	(1)	(25)	(26)
Cash-flow hedges:			
Net losses in respect of cash-flow hedges reclassified to the statement of profit and loss	10	(3)	7
Net change during the year	10	(3)	7
Total net change during the year	90	(53)	37
Changes in components of other comprehensive loss attributed to non-controlling interests:			
Total net change during the year	(2)	-	(2)
Changes in components of other comprehensive income attributed to shareholders of the Bank:			
Total net change during the year	92	(53)	39

* Adjustments from the translation of financial statements of a foreign operation whose functional currency differs from the functional currency of the Bank.
** Net gains (losses) in respect of hedging of investments, net, in foreign currency.

Note 14 Remuneration Plan

On January 5, 2014, the Bank published its remuneration policy for officers pursuant to Amendment 20 to the Companies Law, 1999 (the "Companies Law"), and in accordance with Proper Conduct of Banking Business Directive 301A of the Supervisor of Banks of November 19, 2013 ("Directive on Remuneration Policy at Banking Corporations") and the additional comments received from the Supervisor of Banks. The Remuneration Policy was adopted by the general meeting of shareholders of the Bank on February 11, 2014. The Bank is currently preparing a remuneration plan for its officers, in accordance with the Remuneration Policy, as well as a remuneration policy and remuneration plan for other "key employees" of the Bank (as defined in the Directive on Remuneration Policy at Banking Corporations) and for its employees who are not "key employees." In general, in accordance with the Remuneration Policy, executives will be entitled to a risk-adjusted performance-based annual bonus, based on a mechanism similar to the mechanism currently in use at the Bank; 50% of the bonus will be paid to the executives in the form of contingent (performance-based) RSU, which will vest over 3 years, subject to the Bank's performance during those years.

Note 15 Regulation updates due to 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 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. The directives in the Banking Rules concerning minimum management fees and the fee for a single transaction by a clerk have been implemented as of April 1, 2014; the current account tracks also took effect on that date. Supervision has also been applied to the price of the basic track. The maximum price for this track has been set at NIS 10.

An amendment to the Banking Rules was issued on September 9, 2013, addressing the maintenance of an addition to or subtraction from the basic interest rate established at the creation of a deposit throughout the entire duration of the deposit. It was further established that the mechanism for determining the interest rate should be objective and external, and the banking corporation should not have the ability to influence this determination. These directives will take effect on July 1, 2014.

A circular concerning disclosure of the cost of securities services was issued on April 2, 2014. The changes will take effect on January 1, 2015.

A draft directive of the Bank of Israel concerning opening of accounts over the Internet was issued on April 30, 2014. The draft was discussed by the advisory committee on May 12, 2014.

The Bank is currently reviewing the overall implications for the Bank's revenues as well as additional long-term business and operational implications. Based on mapping and examination of the other recommendations of the report which have not yet been implemented, the Bank's estimates indicate that implementation of these recommendations is likely to have a negative impact on the results of its operations; however, these effects cannot be quantified at this stage, and depend on customers' behavior, additional regulatory changes, and the activity of competitors, among other factors.