Annual Periodic Report for 2013
Bank Hapoalim B.M.

Company Number (Registrar)	:	520000118
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Balance Sheet Date	:	December 31, 2013
Report Date	:	March 20, 2014

2013

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The Bank Hapoalim Group Major Subsidiaries & Affiliates

Commercial Banks
Bank Hapoalim B.M.
Bank Hapoalim (Switzerland) Ltd.
Bank Hapoalim (Luxembourg) S.A.
Hapoalim (Latin America) S.A.
Bank Hapoalim (Cayman) Ltd.
Bank Pozitif Kredi Ve Kalkinma Bankasi a.s.
JSC Bank Pozitiv Kazakhstan[(1)]

Investment House
Poalim Capital Markets - Investment House Ltd.

Trust Companies
Poalim Trust Services Ltd.

Underwriting Companies
Poalim I.B.I. Managing and Underwriting Ltd.

Portfolio Management
Peilim – Portfolio Management Company Ltd.
Hapoalim Securities USA, Inc.

Asset Management
Poalim Sahar Ltd.
PAM - Poalim Asset Management (UK) Ltd.
Poalim Asset Management (Ireland) Ltd.

Financial Companies
Isracard Ltd.
Poalim Express Ltd.

(1) 100% owned by Bank Pozitif

Consolidated Financial Highlights

	2013	2012	**2013**	2012
	NIS millions		USD millions*	
Total Assets	**380,246**	376,388	**109,549**	108,438
Net Profit	**2,580**	2,543	**743**	733
Credit to the Public	**251,600**	249,182	**72,486**	71,790
Deposits from the Public	**276,525**	271,411	**79,667**	78,194
Shareholders' Equity	**29,060**	26,755	**8,372**	7,708

* US dollar figures have been converted at the representative exchange rate prevailing on December 31, 2013, NIS 3.471= USD 1.00

Group Profile
Israel's leading financial institution

Since its founding in 1921, Bank Hapoalim has played a pivotal role in the rapid growth of Israel's economy. Today Hapoalim continues to be the leading financial institution in Israel. The bank maintains a global presence, operating in 24 locations throughout the world.

Bank Hapoalim is a universal bank in structure and operations.
The bank boasts a very strong retail banking business with the largest distribution network in the country. Through a wide range of banking offerings it caters to consumers, SMEs and corporations across Israel.

Bank Hapoalim is the lender of choice to Israel's largest corporations and is active in financing industrial and commercial enterprises, as well as major infrastructure projects.

The bank runs a thriving foreign trade, foreign exchange, and brokerage & custody business and maintains a global private banking arm serving private clients across the globe.

In Israel, Bank Hapoalim operates about 270 full-service branches, focusing on households, private (affluent) banking & small businesses.
The bank offers a deep shelf of banking and payments products, capital market and foreign trade facilities and a full gamut of financial planning advisory services including pension and retirement planning.

Through its celebrated direct banking platform and state-of-the-art 24/7 call centers; the Bank promotes convenient, interpersonal interaction, providing customers the ability to bank through whichever technological channel they choose.

Commercial and corporate clients are professionally served through seven regional business centers, business branches and specialized industry desks for major corporate clients. The Bank, which has long been the favored financial address for Israel's leading corporations, is now strengthening its middle market activities.
A network of 22 business branches makes services more convenient and diversified, as this sector plays an expanding role in the domestic economy.

Internationally, Bank Hapoalim operates through a network of subsidiaries, branches and representative offices in the United States, Europe, South America and Asia. The Bank's thriving Global Private Banking services, led by Bank Hapoalim (Switzerland), serves high net-worth clients from around the world, with offices in Zurich, Geneva, Luxembourg, Tel Aviv, Miami and Hong Kong. In this competitive market, clients are attracted to the Bank's very extensive wealth management expertise, stellar reputation and global spread. Global Private Banking activities are supported by PAM, a fully-owned subsidiary in London, which provides investment products through the world's leading investment firms.

Building on its experience in structuring complex trade packages, the Bank is promoting its overseas corporate services, primarily targeting Israeli companies establishing or strengthening their presence in established and growth markets.

The Bank Hapoalim Group includes Isracard Ltd, Israel's leading credit card company, as well as financial companies involved in investment banking, trust services and portfolio management.

The Bank plays an active role in the community, contributing generously to educational, social and cultural projects, and encouraging personal volunteering among its employees.

Bank Hapoalim is one of the most actively traded stocks on the Tel Aviv Stock Exchange. In addition, a Level-1 ADR is traded "over-the -counter" in New York, under ticker BKHYY.
The Bank is rated by Moody's, S&P and Fitch.

Letter from the Chairman of the Board and the CEO

Dear Stakeholders,

On behalf of the Board of Directors and the Board of Management, we are proud to present the annual financial statements of the Bank Hapoalim Group for 2013. During the year, Bank Hapoalim began implementing our three-year strategic plan for the years 2013-2015, recording impressive business achievements and yielding 9.3% return on shareholders' equity, in line with our stated goals.

A New Three-Year Strategic Plan

In 2013, Bank Hapoalim successfully carried out its multi-year strategic plan – a continuation of the bank's 2009 strategic plan which positioned us as market leaders in the Israeli banking system.
Our new three-year strategic plan, for the period covering 2013 to 2015 is based on a thorough analysis of the economic, regulatory and business environment and incorporates a sound vision of the changes in the banking industry in Israel and around the world.
The plan is built on three strategic pillars: operational efficiency, earnings growth and technological leadership
In 2013, Management continued to focus on earnings quality while strengthening the divisions' growth engines.
Early this year, the bank signed a wage agreement with our Employees' Union which positioned us ahead of the industry. In addition, management launched a deep cost cutting effort with the view of enhancing our competitive position in the market.

It is noteworthy to mention the recognition Bank Hapoalim received as the leading financial institution in Israel. Especially from prestigious industry publications such as Euromoney and Global Finance, who selected Bank Hapoalim as the Best Bank in Israel for 2013, and Strategic Management Journal which singled out Bank Hapoalim as an exemplar for excellent strategic planning and management.
In 2013, return on equity stood at 9.3% and net profit totaled NIS 2,580 million. These results reflect the Bank's deep commitment to produce a suitable return to stockholders in line with the Bank's risk appetite as well as the macro–economic conditions inside and outside of Israel.

The Global Economy

In 2013 global economic activity expanded moderately: developed economies grew at a 1.3% growth rate while emerging markets grew at 4.7%. Altogether, financial risk levels were lower than previous year in particular among developed economies. Emerging markets economies experienced slowdown in economic activity and in some cases a surge in political risk.
Central banks worldwide continued their efforts to stimulate growth, maintaining expansionary monetary policies, which were also made possible by relatively low rates of inflation. In our opinion, the use of low-interest rates for prolonged periods of time can potentially exhaust certain countries ability to spur their economies and contributes to asset price imbalances.
Growth in the United States accelerated slightly over the last year, mainly due to improvements in private consumption and a rebound in the real-estate market. Growth in the United States totaled 1.9%.

Euro zone countries continued rebalancing their economies to the applause of financial markets while growth slowed slightly in the emerging markets, most notably in China, India, and Brazil.

Israel's Economic Environment

The Israeli economy expanded by 3.3% in 2013, a notch above the 3.2% growth of 2012. Natural gas production contributed up to 0.9% of total growth according to the Bank of Israel. The stagnation in exports, primarily due to moderation of the global economy remained the main cause of the timid economic growth. Domestically, on the other hand, private consumption grew at a healthy 4% clip. The Bank of Israel continued lowering the interest rate to encourage growth. At the same time, housing prices continued to rise. The labor market in Israel remained strong in 2013, with the average unemployment stable at 6.2%, including a 2.7% increase in the number of employed persons.

Growth and Stability

When we entered our roles almost five years ago, we set a strategic direction for the Bank based on two essential principles - growth and stability. The strategic plan that we presented to the markets and our stakeholders, called for growth based on Bank Hapoalim's historical engines for expansion: core banking and organizational capabilities. Our strategic focus in 2013 helped us to overcome a difficult interest rate environment, withering demand for credit among the large corporations, fierce competition in every line of commercial banking and a heavy-handed regulatory regime. Responsive and dedicated management led the bank to maintain the same level of earnings despite adverse business conditions.

The Bank's **Retail Banking Division** continued to lead the industry in maintaining and attracting customers, taking deposits, providing credit to households and strengthening the bank's competitive advantage in technology and especially mobile banking.
In 2013, the Bank continued to emphasize the small-sized businesses sector, a core basis of job creation in the Israeli economy. This focus led to a large number of activities, including the second annual Israeli "Small Business Day", an innovative initiative of Bank Hapoalim centered around encouraging the public to shop at local small businesses on that day. The Arab-Israeli community is another growth sector targeted with great success by the retail division.
The **Corporate Division** continued to serve as lead financer of the Israeli economy even in complex and challenging times for some of our customers. During the year, the division improved the quality of the credit portfolio while tightening risk management and successfully reducing the portfolio's concentration. In 2013 we made great advances in our strategic thrust to gain market share, while increasing business profitability among medium-sized companies, a growing and important sector in the Israeli economy.
The **Financial Markets Division** launched in 2013 a modern, state-of-the-art trading room and support systems, while launching new products and services in order to further establish Bank Hapoalim's position as a leader in the Israeli capital market.
The **International Banking Division** focused its activities during 2013 in two main areas, expanding Global Private Banking activities based on the strong platform of Bank Hapoalim Switzerland, and expanding our commercial banking activity among middle-market companies in New York.

In 2013, Bank Hapoalim continued to increase its capital base, according to a capital increase trajectory as directed by the Bank of Israel. At the end of the year, the Bank's core Tier 1 capital ratio stood at 9.37%.
2013 saw the bank's business divisions operating effectively and efficiently to achieve their overall business objectives. At the end of the year, the Bank's profits reached 2,580 million shekels.

Looking to the Future

With the successful conclusion of the 2013 fiscal year, we look to the future and to continuing fruitful business activities.
In the coming years, Bank Hapoalim will leverage its advantage in retail banking to further reduce its funding cost, while strengthening its core revenue engines and searching for new revenue sources in Israel as well as internationally. The Bank remains dedicated to working with small and medium size companies, reinforcing its status among corporate customers and increasing activity among retail customers.
Central to the Bank's growth strategy will be a continued focus on fast-growing customer segments such as Israel's Arab population, the ultra-orthodox sector, technology companies and small businesses.
We will further strengthen our activities in financial markets, and with institutional investors, while maintaining capital market leadership.

Cultivation of Human Resources

Bank Hapoalim continued to promote and develop our most important resource: our employees. The Bank nurtures employee relations, which for years has been one of the Bank's key strategic advantages. The Employees' Union is a full partner in driving the Bank's success.
We are confident that this partnership will continue to nourish the Bank's success in the future as well.

Corporate Social Responsibility as a Leading Value

The Bank Hapoalim Group remains the leader in Israel's banking sector in terms of contribution to the community. The Bank focuses on activities related to education, with a particular emphasis on responsible financial behavior, as a key to promoting financial freedom.
About half of the "Poalim in the Community" budget is allocated to support educational activities. The remainder is distributed among non-profit organizations active in social welfare, healthcare, and other areas.
This is also the fifth consecutive year that the Bank published a comprehensive Sustainability and Corporate Responsibility Report. Similar to previous reports, the 2013 document received the highest rating from the international Global Reporting Initiative (GRI) organization. Furthermore, the Bank was included in the FTSE4GOOD global index, considered the world's leading index for sustainability and investments based on social responsibility.

Ongoing Commitment to Markets and Stakeholders

In 2013 the bank reinstated a quarterly dividend payout to our shareholders. We remain committed to creating value for our shareholders. We believe we can produce a double-digit return on equity for shareholders over the long-term. This target reflects the Bank's risk appetite in light of changes in the economic environment and ever-increasing competition.

As Israel's leading bank, it is important for us to maintain an ongoing dialogue with all stakeholders across all the markets in which we operate. We place special emphasis on our relationship with the capital markets and the investment community, and we pride ourselves on being the leading Israeli bank in the field of investor relations. We will continue to develop and deepen this dialogue in the future.

We stand committed to a wide universe of stakeholders, including our shareholders, our customers (from individual households to the largest corporations), the employees of Bank Hapoalim as well as the Israeli people. We draw our strength from the communities within which we operate and which we continue to contribute to through the active promotion of a wide range of social and environmental initiatives.

We would like to take this opportunity to express our deepest gratitude to our colleagues on the Board of Management and Board of Directors, our loyal customers who continue to express their confidence in us every day and of course a big thank you to all our employees, who are our most important asset. The professionalism and dedication of the entire Bank Hapoalim team is the basis of the excellent results that we present herewith.

Sincerely yours,

Yair Seroussi
Chairman of the Board of Directors

Zion Kenan
President and Chief Executive Officer

Board of Management

Zion Kenan

President and Chief Executive Officer

Zion Kenan was named President and CEO in August 2009. Mr. Kenan has been with Bank Hapoalim since 1979 and joined the Board of Management in 2001. Before his appointment, he was Deputy CEO and Head of Corporate Banking (2007-2009); Head of Retail Banking (2003-2007), and Head of Human Resources and Logistics (2001-2003). Prior to that, Mr. Kenan fulfilled many senior executive positions in the Retail and Human Resources and Logistics Areas including Southern Regional Manager (1998-2000).
Mr Kenan has a BA from the Open University and a Master's degree from Tel Aviv University, both in Social Sciences.

Yadin Antebi

Chief Financial Officer

Mr. Antebi joined Bank Hapoalim in July 2013 upon his appointment to the Board of Management as CFO of the Bank. Before joining the Bank, he served as CEO at DS Investment House (2011-2012) and as Commissioner of Capital Markets, Insurance & Savings at the Ministry of Finance (2005-2009).
Mr. Antebi is a Certified Accountant and has a BA in Economics and Accounting and a Master's degree in Business and Management from the Hebrew University of Jerusalem.

Amir Aviv

Head of International Banking

Mr. Aviv was appointed to the Board of Management on December 1, 2013. Before joining the Board, he served as CEO of Poalim Capital Markets Ltd., the investment-banking arm of Bank Hapoalim (2009-2013), and as Managing Director, responsible for Investment Banking in Israel and abroad (2003-2009).
Mr. Aviv has a BA in Business from the Cardiff Business School at the University of Wales and a Master's degree from the London Business School.

Tsahi Cohen

Chief Risk Officer

Mr. Cohen joined Bank Hapoalim in 1994 and was appointed to the Board of Management in July 2012. Before his current appointment, he fulfilled several senior positions including Head of Credit Analysis and Project Finance in the Corporate Banking Division.
Mr. Cohen has a B.Sc. in Aeronautical Engineering from the Technion in Haifa and a Master's degree in Business Administration from Tel Aviv University.

Shimon Gal

Head of Coporate Banking

Mr. Gal joined Bank Hapoalim in November 2009 upon his appointment to the Board of Management of the Bank. Before joining the Bank, he served as Head of Corporate Banking (2008-2009) and as Head of the Comptroller, Planning and Operations Division (2004-2007) at Mizrahi-Tefahot Bank Ltd.
Mr. Gal has a BA in Economics and Statistics from the Hebrew University of Jerusalem.

Dan Koller

Head of Financial Markets

Mr. Koller joined Bank Hapoalim in 1999 and was appointed to the Board of Management in 2008. Before his current appointment on December 1, 2013, Mr. Koller served as Head of International Banking (2012-2013) and Chief Risk Officer (2008-2012).
Prior to joining the Board, he served as ALM Division Manager (2003-2007).
Mr. Koller has a BA and a Master's degree in Economics and Business Administration from the Hebrew University of Jerusalem.

Ofer Levy

Chief Accountant

Mr. Levy joined Bank Hapoalim in 1981 and was appointed to the Board of Management in 2006. Prior to that, he served as Manager of the Comptrolling Division for ten years.
Mr. Levy is a Certified Public Accountant and has a BA in Accounting and Economics from Tel Aviv University.

Ilan Mazur

Chief Legal Advisor

Mr. Mazur joined Bank Hapoalim in 1981 and was appointed to his current position in 2003. From 1995-2003 he served as General Counsel to the Corporate Area. Prior to that, he was General Counsel for the International Activity. Before joining the Bank, he worked in private law firms.
Mr Mazur has a degree in Law from the Hebrew University of Jerusalem. He is a member of the Israeli Bar Association.

Zvi Naggan

Head of Information Technology

Mr. Naggan joined Bank Hapoalim in March 2011 upon his appointment to the Board of Management of the Bank. Before joining the Bank, he was President of the Product Business Group and a Member of Senior Management at Amdocs (Israel) Ltd. Mr. Naggan has a B.Sc. in Industrial Engineering from the Technion in Haifa and a Master's degree in Business Administration from Tel- Aviv University.

Jacob Orbach

Chief Internal Auditor

Mr. Orbach joined Bank Hapoalim in 1980 and was appointed to his current position in 2010. Prior to that, he fulfilled several senior positions including Manager of the Corporate Banking Division (2006-2009) and Manager of the Commercial Banking Division (2002-2006). Mr. Orbach has a BA in Economics from Tel Aviv University.

Ari Pinto

Head of Retail Banking

Mr. Pinto has been with Bank Hapoalim since 1980 and was appointed to the Board of Management in 2009 as Head of Corporate Strategy. He assumed his current position on November 1, 2013. Prior to joining the Board, he served as Retail Credit and Mortgages Division Manager (2007-2009), and as Human Resources Division Manager (2002-2007). Mr. Pinto has a BA in Business Administration from New England College in New Hampshire and a Master's degree in Public Administration from Clark University in Boston.

Ron Weksler

Head of Corporate Strategy

Dr. Weksler has been with Bank Hapoalim since 2002 and was appointed to the Board of Management in November 2013. Before his current appointment, he fulfilled several senior positions including Head of Commerce and Sales at Isracard Group (2011-2013) and Southern Regional Manager (2007-2011). Dr. Weksler is a Doctor of Philosophy and Ph.D. in Public Administration from Bar Ilan University; and also has an M.B.A. from Bar Ilan University; and a Bachelor degree in Law and Accounting from Tel Aviv University.

Efrat Yavetz

Head of Human Capital, Advising and Resources

Ms. Yavetz has been with Bank Hapoalim since 1988 and was appointed to the Board of Management in 2009. Before her current appointment, she served as Securities and Financial Assets Division Manager (2006-2009), and as Retail Sales Management Department Manager (2004-2006). Ms. Yavetz has a BA in Biochemistry from the Hebrew University of Jerusalem and a Master's degree in Business Administration from Tel Aviv University.

Board of Directors

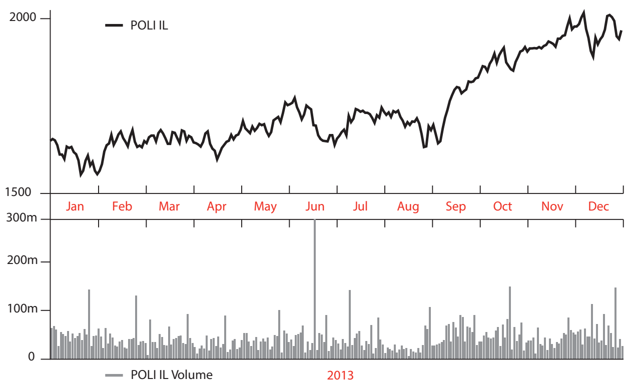
Yair Seroussi
Chairman of the Board of Directors

Mali Baron
Amnon Dick
Irit Izakson
Moshe Koren
Yacov Peer
Efrat Peled
Nehama Ronen
Dafna Schwartz
Ido Stern
Yair Tauman
Imri Tov
Meir Wietchner
Yosef Yarom
Nir Zichlinskey

Information for Shareholders

Listing Information

Bank Hapoalim's ordinary shares are listed on the Tel Aviv Stock Exchange and trade under the ticker symbol POLI.
As of December 31, 2013 1,320,575,890 ordinary shares were outstanding.



The following table presents, the highest and lowest prices for Bank Hapoalim's ordinary shares. The prices are those recorded at the close of business on the Tel Aviv Stock Exchange.

	Tel Aviv	
	High	Low
	(NIS)	(NIS)
2013	1,995	1,532
2012	1,680	1,091
2011	1,866	1,171

Past share price performance should not be regarded as a guide to future performance.
In mid-2006, Bank Hapoalim Level-1 ADR shares were launched on the OTC market in New York under the following information:

Symbol: BKHYY
CUSIP: 062510300
Ratio: 1:5
Country: Israel Industry: Banks
Depositary: Bank of NY (Sponsored)
Underlying SEDOL: 6075808
Underlying ISIN: IL0006625771
US ISIN: US0625103009

Earnings per Share (EPS) in NIS

	EPS
2013	1.96
2012	1.92
2011	2.07

Dividend Policy

Bank Hapoalim's dividend policy is to distribute up to 30% of annual net operating profit to its shareholders.
In 2013, the Board of Directors approved a quarterly dividend payout of 15% of net profit.
The dividends paid over the last three years were:

	Dividend Per Share	Total Paid NIS Millions
2013	0.29	382
2012	-	-
2011	0.204	270

The dividend distribution is subject to the provisions of the law, including limitations specified in the directives of the Supervisor of Banks.

Credit Ratings

Bank Hapoalim is rated by the three major credit rating agencies: Moody's, Standard and Poors and Fitch.

	Rating
Moody's	
Long-Term Deposits	A2
Short-Term Deposits	P-1
Standard & Poor's	
Long-Term	BBB+
Short-Term	A2
Fitch	
Long-Term	A-
Short-Term	F2

Shareholder Structure:

Shareholders as of December 31, 2013 were:

Public	78.5%
Controlling stake	21.5% of which:
Arison Holdings (1998)	20.2%
Salt of the Earth	1.3%

Institutional Investors Information

For additional copies of this report, other investor materials or questions, please visit our website at: www.bankhapoalim.com

or contact us at:
Bank Hapoalim
Investor Relations Dept
Yehuda Halevy 63, Tel Aviv
Tel. 972-3-5673440
Fax. 972-3-5673470

Bank Hapoalim Worldwide

Israel
The Bank is a recognized leader in Israel's capital markets.
In Israel, Bank Hapoalim has hundreds of full-service branches organized into customer lines, such as retail, private banking, small businesses and business branches for the mid-market and large corporate clients. Direct banking channels now play an increasingly important role in serving both retail and corporate customers. A trading room, part of a global trading network, offers advanced services. A Global Private Banking Center provides personalized service and portfolio management.

United States
The Miami branch provides private banking services mainly to non-US citizens, serving Latin American clients.

The New York branch is focused on providing comprehensive banking services to Israeli and local companies operating in the United States, corporate credit and treasury activities. In addition, the branch offers investment services to private and corporate clients, including trading in derivatives and brokerage services. The Bank operates an advanced trading room in New York.

United Kingdom
Poalim Asset Management, a fully owned subsidiary of Bank Hapoalim, based in London, is the research and product arm behind the Global Private Banking, offering tailored advisory services, discretionary portfolio management and general advice to our Relationship Managers around the world.

The London branch is currently refocusing its local strategy and will concentrate on representing the Bank's interests in the UK and on limited trading services.

Switzerland
Bank Hapoalim (Switzerland) Ltd, is a wholly owned subsidiary headquartered in Zurich, with branches in Zurich, Geneva and Luxembourg and representative offices in Moscow, Hong Kong and Tel Aviv. The Swiss bank is engaged primarily in private banking services, including global portfolio management.

Luxembourg
Bank Hapoalim (Switzerland) Ltd maintains a branch in Luxembourg for private banking business. In addition, Bank Hapoalim BM operates in Luxembourg through a fully owned banking subsidiary.

Hong Kong
BHI Investment Advisors (Asia) Limited
A wholly owned subsidiary of Bank Hapoalim (Switzerland) Ltd. The company aims to deliver advisory services to high net worth individuals, focusing primarily on local Asian markets.

Turkey
Bank Pozitif is headquartered in Istanbul. The Bank is active mainly in corporate banking.

Kazakhstan
Bank Pozitiv, headquartered in Almaty, is a wholly owned subsidiary of Bank Pozitif. The Bank maintains 3 branches in Kazakhstan.

Uruguay
Focused on private banking, Hapoalim (Latin America) S.A. is a wholly owned subsidiary of Bank Hapoalim BM. The Bank is based in Montevideo and has branches in Colonia and Punta del Este.

Representative Offices
Bank Hapoalim has representative offices in major financial centers worldwide. The offices assist the Global Private Banking branches in new client acquisitions, provide personalized service and support in maintaining existing clients, and are active in upholding strong community relations. Representative offices do not engage in banking activities.

Main Locations of Representative Offices

- **Toronto**
- **Montreal**
- **Paris**
- **Frankfurt**
- **Mexico City**
- **Panama City**
- **Santiago**

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The Bank has received approval from the Supervisor of Banks to publish its annual financial statements on a consolidated basis only. Note 33 to the Financial Statements contains the condensed financial statements of the Bank alone. Data concerning the Bank alone is available in hard copy upon request, or at the Bank's website at www.bankhapoalim.co.il.

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

Board of Directors' Report for 2013

At the meeting of the Board of Directors held on March 19, 2014, it was resolved to approve and publish the consolidated financial statements of Bank Hapoalim B.M. for the year ended December 31, 2013.

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

Activities of the Bank Group and Description of Business Developments

General

- The Bank was founded in 1921 by the central institutions of the Jewish Settlement (the Yishuv) at the time, the Zionist Histadrut and the Histadrut General Federation of Hebrew Workers in Eretz Yisrael, and incorporated as a limited company under the Companies Ordinance. The Bank is a "banking corporation" and holds a "bank" license under the directives of the Banking Law. In 1983, within an arrangement formulated between the Israeli government and the banks, the shares of the Bank were brought under the control of the state. The Bank was privatized in 1997, with the controlling interest transferred to the current controlling shareholders and others.
- The Bank Group operates in Israel in all of the various areas of banking through two main units: the Corporate Banking Area and the Retail Banking Area. The Corporate Banking Area provides service to most of the Bank's business customers; activities with large corporate clients are conducted through sectors specializing in specific industries, which operate within the Head Office, while middle-market clients are served through seven Business Centers located throughout Israel. The various banking services are provided to all customers of this Area through the network of business branches, consisting of 22 branches offering the full range of services required by business clients. In addition, other branches of the Bank provide operational services to the clients of the Area. The Retail Banking Area, through the network of branches, serves customers including households, private banking clients, and small businesses; is responsible for operating direct-channel services: Internet services, Poalim by Telephone, and mobile services; and also oversees consumer credit and mortgage activities. The Retail Banking Area operates through 264 branches, which provide the full range of banking services.
- The Bank Group operates in global financial markets through the Financial Markets Area and through specialized units at the Bank's overseas branches and at its subsidiaries. The Group's activity is focused on enabling its clients to trade in a range of financial products on the various markets, and on the management of the Nostro investments of the Bank and its subsidiaries. In addition to trading activities, the Group offers securities custody services and provides operational services to financial asset managers.
- In addition to its banking business, the Bank Group also engages in related activities, mainly in the areas of credit cards and the capital market. In the credit-card sector, the Bank Group, through a subsidiary (the "Isracard Group"), issues, operates, and markets credit cards, within and outside the Bank, for use in Israel and overseas, and clears transactions executed using its credit cards as well as credit cards issued by others. The Bank Group's capital-market activity includes the provision of services for the execution of trading transactions in securities (brokerage), securities custody services, research and consulting, services for financial asset managers, investment portfolio management, and issuance underwriting and management.

- Alongside its activities in Israel, the Bank Group also operates overseas, in the private-banking sector and in the corporate sector. This activity encompasses Israel, Europe, the United States, Canada, Latin America, and Asia, by means of branches, representative offices, banking subsidiaries, and asset-management subsidiaries. The Bank Group also operates in the households sector and in the commercial sector in Turkey and Kazakhstan. In its private-banking activity, the Bank Group provides its high-net-worth customers abroad with advanced professional products and services, including investment products and global asset management. Corporate sector activity abroad includes the provision of credit to local and foreign borrowers, including through the acquisition of participation in credit organized by leading banks abroad; the provision of credit to borrowers with an affinity to Israel; and investments in bonds. As part of its international activity, the Bank maintains relations with foreign banks around the world (hereinafter: "correspondent banks"). The main focus of the Bank's strategy is the development and expansion of its Global Private Banking activity and of its commercial banking (middle market) business in New York. The Bank aims to continue to expand its service package and improve its capabilities in the areas of products, marketing, and customer service.

The principal developments and changes that occurred during 2013 are detailed below.

Development of the Bank Group's Business

Net profit of the Bank Group attributed to shareholders of the Bank totaled approximately NIS 2,580 million in 2013, compared with profit in the amount of approximately NIS 2,543 million in 2012.

Net return on equity attributed to shareholders of the Bank was 9.3% in 2013, compared with 10.1% in 2012.

Basic net profit per share of par value NIS 1 amounted to NIS 1.96 in 2013, compared with NIS 1.92 in 2012.

Total assets of the Bank Group as at December 31, 2013 amounted to approximately NIS 380.2 billion, compared with approximately NIS 376.4 billion at the end of 2012, an increase of 1.0%.

Net total credit to the public amounted to NIS 251.6 billion as at December 31, 2013, compared with NIS 249.2 billion at the end of 2012, an increase of 1.0%.

Total deposits from the public amounted to NIS 276.5 billion as at December 31, 2013, compared with NIS 271.4 billion at the end of 2012, an increase of 1.9%.

Total shareholders' equity amounted to NIS 29.1 billion as at December 31, 2013, compared with NIS 26.8 billion at the end of 2012, an increase of 8.6%.

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

The Core Tier 1 capital ratio as at December 31, 2013 was 9.37%, compared with 8.87% at the end of 2012.

Principal Data of the Bank Hapoalim Group

	For the year ended December 31			Change vs.	
	2013	2012	2011	2012	2011
	NIS millions				
Profit and Profitability					
Net financing income**	**8,423**	8,415	7,884	0.1%	6.8%
Fees and other income	**5,241**	5,222	5,204	0.4%	0.7%
Total income	**13,664**	13,637	13,088	0.2%	4.4%
Provision for credit losses	**874**	987	1,202	(11.4%)	(27.3%)
Operating and other expenses	**8,965**	8,825	8,365	1.6%	7.2%
Net profit attributed to shareholders of the Bank	**2,580**	2,543	2,746	1.5%	(6.0%)

	December 31			Change vs.	
	2013	2012	2011	2012	2011
	NIS millions				
Balance Sheet – Principal Data					
Total balance sheet	**380,246**	376,388	356,662	1.0%	6.6%
Net credit to the public	**251,600**	249,182	246,495	1.0%	2.1%
Securities	**60,912**	52,070	34,411	17.0%	77.0%
Deposits from the public	**276,525**	271,411	256,417	1.9%	7.8%
Bonds and subordinated notes	**33,980**	35,677	32,933	(4.8%)	3.2%
Shareholders' equity	**29,060**	26,755	23,819	8.6%	22.0%
Net total problematic credit risk*	**16,279**	13,284	12,354	22.5%	31.8%
Of which: net impaired balance sheet debts*	**6,817**	6,701	7,044	1.7%	(3.2%)

	2013	2012	2011
Main Financial Ratios			
Net loan to deposit ratio	**91.0%**	91.8%	96.1%
Net loan to deposit ratio including bonds and subordinated notes	**81.0%**	81.1%	85.2%
Shareholders' equity to total assets	**7.6%**	7.1%	6.7%
Core Tier 1 capital to risk-adjusted assets	**9.4%**	8.9%	7.9%
Total capital to risk-adjusted assets	**15.6%**	15.7%	14.1%
Financing margin from regular activity(1)	**2.12%**	2.31%	2.47%
Cost-income ratio(4)	**62.4%**	63.4%	63.9%
Total income to assets(2)	**3.7%**	3.8%	4.0%
Total expenses to assets(3)	**2.4%**	2.5%	2.6%
Provision for credit losses as a percentage of the average recorded balance of credit to the public	**0.34%**	0.39%	0.50%
Net return of profit attributed to shareholders of the Bank on equity	**9.3%**	10.1%	12.0%
Basic net earnings per share in NIS attributed to shareholders of the Bank	**1.96**	1.92	2.07

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

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

(1) 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.
(2) Total income divided by the average balance of total assets.
(3) Total operating and other expenses, divided by the average balance of total assets.
(4) Excludes expenses for efficiency plans. Comparative figures have been restated.

Principal Data of the Bank Hapoalim Group (continued)

	For the three months ended				
	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	March 31, 2013	Dec. 31, 2012
	NIS millions				
Profit and Profitability					
Net financing income**	**2,073**	2,117	2,176	2,057	2,111
Fees and other income	**1,394**	1,278	1,282	1,287	1,314
Total income	**3,467**	3,395	3,458	3,344	3,425
Provision for credit losses	**(59)**	375	301	257	54
Operating and other expenses	**2,562**	2,133	2,135	2,135	2,354
Net profit attributed to shareholders of the Bank	**651**	653	655	621	652

	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	March 31, 2013	Dec. 31, 2012
	NIS millions				
Balance Sheet – Principal Data					
Total balance sheet	**380,246**	374,216	378,483	370,317	376,388
Net credit to the public	**251,600**	249,341	247,120	247,782	249,182
Securities	**60,912**	60,998	61,137	59,461	52,070
Deposits from the public	**276,525**	269,632	274,601	265,297	271,411
Bonds and subordinated notes	**33,980**	34,819	35,874	36,222	35,677
Shareholders' equity	**29,060**	28,391	27,808	27,279	26,755
Total net problematic credit risk*	**16,279**	13,870	13,264	13,561	13,284
Of which: net impaired balance sheet debts*	**6,817**	6,624	7,030	6,856	6,701

	For the three months ended				
	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	March 31, 2013	Dec. 31, 2012
	%				
Main Financial Ratios					
Net loan to deposit ratio	**91.0%**	92.5%	90.0%	93.4%	91.8%
Net loan to deposit ratio including bonds and subordinated notes	**81.0%**	81.9%	79.6%	82.2%	81.1%
Shareholders' equity to total assets	**7.6%**	7.6%	7.3%	7.4%	7.1%
Core Tier 1 capital to risk-adjusted assets	**9.4%**	9.3%	9.2%	9.1%	8.9%
Total capital to risk-adjusted assets	**15.6%**	15.7%	15.7%	15.6%	15.7%
Financing margin from regular activity(1)(2)	**2.13%**	2.20%	2.16%	2.07%	2.07%
Cost-income ratio(5)	**61.2%**	62.8%	61.7%	63.8%	65.8%
Total income to assets(3)	**3.8%**	3.6%	3.7%	3.7%	3.8%
Total expenses to assets(4)	**2.8%**	2.3%	2.3%	2.3%	2.6%
Provision for credit losses as a percentage of the average recorded balance of credit to the public(1)	**(0.09%)**	0.59%	0.48%	0.41%	0.09%
Net return of profit attributed to shareholders of the Bank on equity(1)	**9.4%**	9.6%	9.9%	9.5%	10.3%
Basic net earnings per share in NIS attributed to shareholders of the Bank	**0.49**	0.50	0.50	0.47	0.49

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

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

(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 average balance of total assets.
(5) Excludes expenses for efficiency plans. Comparative figures have been restated.

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 among others, changes in capital markets in Israel and globally, macro-economic changes, changes in geopolitical conditions, regulatory changes, and other changes not under the Bank's control, which may lead to the failure of estimates to materialize and/or changes in the Bank's business plans.

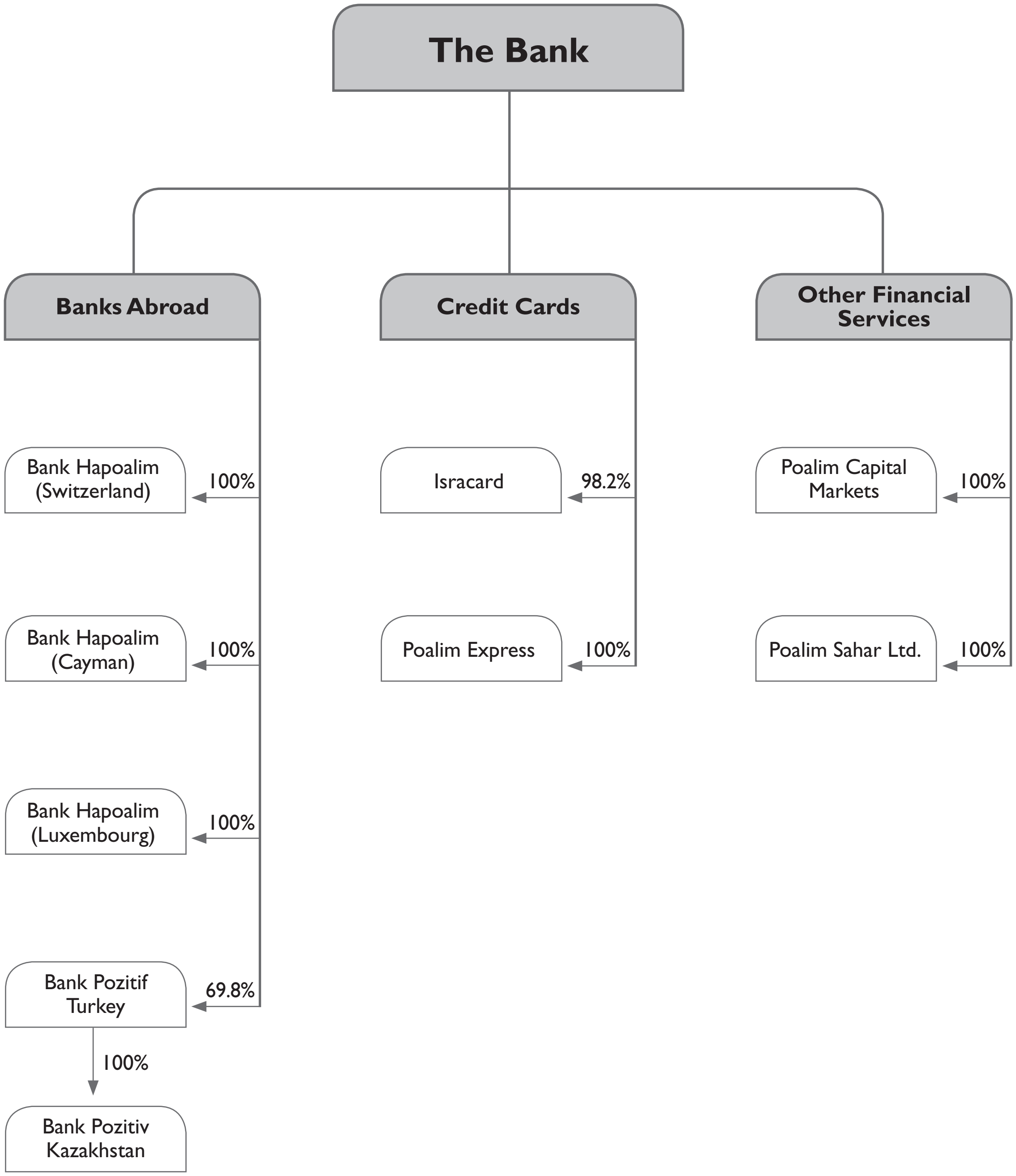
Forward-looking information is marked by words or phrases such as "we believe," "expect," "forecast," "estimate," "intend," "plan," "aim," "may change," and similar expressions, as well as words such as "plan," "target," "wish," "should," "can," or "will". Such forward-looking information and expressions involve risk and uncertainty, because they are based on management's estimates regarding future events, which include changes in the following parameters, among others: economic conditions, public tastes, interest rates in Israel and overseas, inflation rates, new legislation and regulation in the area of banking and the capital market, exposure to financial risks, the financial stability of borrowers, the behavior of competitors, aspects related to the Bank's image, technological developments, and manpower-related matters, and other areas that affect the activity of the Bank and the environment in which it operates, the materialization of which is uncertain by nature.

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

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

Chart of Holdings

Set out below is a chart of the Bank's main holdings*:



* The chart includes the principal companies held directly by the Bank or indirectly through private subsidiaries under the full ownership of the Bank. The wholly-owned subsidiaries through which the companies in the above chart are held do not appear in the chart. For the purposes of this chart, a principal company is a company engaged in business operations which in the opinion of the Board of Management of the Bank is a principal company in the Group, and in which the Bank's investment is at least 1% of the shareholders' equity of the Bank, or the Bank's share of whose net profit (loss) attributed to shareholders of the Bank exceeds 5% of the net profit (or loss) attributed to shareholders of the Bank (similar to the criterion established in Public Reporting Directive No. 662 of the Supervisor of Banks regarding the statement of data on principal subsidiaries in financial statements of banking corporations).

Ratings of the Bank

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

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

	Rating agency	Long-term foreign currency	Short-term foreign currency	Rating outlook	Last update
Israel – sovereign rating:					
	Moody's	A1	P-1	Stable	August 2013
	S&P	A+	A-1	Stable	September 2013
	Fitch Ratings	A	F1	Positive	December 2013
Bank Hapoalim:					
	Moody's	A2	P-1	Stable	December 2013
	S&P	BBB+	A-2	Stable	August 2013
	Fitch Ratings	A-	F2	Stable	May 2013

In January 2013, Moody's confirmed that it had assigned the Bank's New York branch a rating identical to the rating of the Bank.
In May 2013 the rating agency Fitch reaffirmed the Bank's rating, with no change.
In May 2013 the rating agency S&P reduced the local currency sovereign rating to A+/A-1 and reaffirmed the foreign currency rating at the same level. The rating outlook remains stable.
In August 2013 the rating agency S&P reaffirmed the Bank's rating, with no change.
In December 2013 the rating agency Fitch reaffirmed the sovereign foreign currency rating and raised the outlook to positive (from stable).
In December 2013 the rating agency Moody's reaffirmed the Bank's rating, with no change.
In March 2014 the local rating agency Midroog reaffirmed the Bank's rating, with no change and raised the outlook to stable (from negative).

Control of the Bank

The holder of the permit for control of the Bank, near the date of publication of the Financial Statements, is Ms. Shari Arison. Her stake in the Bank is held through several trusts that have holdings in the Israeli companies noted below, which own shares of the Bank.

Arison Holdings (1998) Ltd. (hereinafter: **"Arison Holdings"**) holds shares comprising approximately 20.24% of the Bank's share capital near the date of publication of the Financial Statements, which constitute the "controlling interest" of the Bank (as defined in the control permit issued by the Governor of the Bank of Israel).

Arison Investments Ltd. (a sister company of Arison Holdings; hereinafter: **"Arison Investments"**), through a wholly-owned subsidiary, holds the entire share capital of Salt of the Earth Ltd., which holds shares comprising approximately 1.30% of the share capital of the Bank.

Near the date of publication of the Financial Statements, the Arison Group (through Arison Holdings and Arison Investments) holds a total of approximately 21.54% (21.29% fully diluted) of the share capital of the Bank.

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

The issued and paid-up share capital of the Bank, as at December 31, 2013, is NIS 1,320,575,890 par value, composed of 1,320,575,890 ordinary shares of par value NIS 1 each. This is the issued capital following the subtraction of 16,801,221 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 1,322,084,548 par value, following the subtraction of the balance of 15,292,563 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:

Sale of Shares by an Interested Party of the Bank

On June 20, 2013, Salt of the Earth Ltd. sold 14,619,883 shares of the Bank in consideration for a total of NIS 250 million, in an off-market transaction. The quantity sold constitutes 1.1% of the capital of the Bank.

Buybacks of Shares of the Bank

On November 11, 2010, the Supervisor of Banks approved a buyback of 12,750,000 shares for the purpose of employee compensation under the 2010-2012 Plan (see Note 16(A)(1)(b) to the Annual Financial Statements for 2012), as well as a buyback of up to 14,000,000 shares for the purpose of the senior executives' compensation plan (see Note 15 to the Annual Financial Statements for 2012). On August 5, 2013, the Supervisor of Banks approved the purchase of an additional quantity of 12,500,000 shares for the purposes of the compensation plan for senior executives for the coming years. Near the date of publication of the Financial Statements, the Bank had purchased 20,903,853 shares, at a cost of approximately NIS 323 million.

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

Up to the date of publication of the Financial Statements, a decrease of 7,450,000 ordinary shares occurred in the issued and paid-up capital of the Bank, as a result of Treasury Shares purchased for the pool of shares, offset by shares issued due to the conversion of options granted to employees and the transfer of shares from the pool for the compensation plan as a result of the exercise of RSU.

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

The remainder of the 2010-2012 series issued to employees of the Bank, in the amount of 11,116,107 option units, to be converted into shares from the pool of shares purchased by the Bank for that purpose.

The remaining restricted stock units (RSU) issued to senior executives, in the amount of 8,230,909 RSU and contingent RSU, to be exercised from a pool of shares purchased by the Bank for that purpose.

For further details regarding share-based payments 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.

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.

The circular of the Bank of Israel dated March 28, 2012, concerning minimum Core Tier 1 capital ratios under Basel 3, requires banking corporations, including the Bank, to attain a minimum Core Tier 1 capital ratio of 9% by January 1, 2015. In addition, a large banking corporation whose total consolidated balance sheet assets constitute at least 20% of the total balance sheet assets in the banking system in Israel will be required to attain a minimum Core Tier 1 capital ratio of 10% by January 1, 2017. This additional directive applies to the Bank.

Pursuant to the position of the Supervisor of Banks dated October 28, 2012, dividend distribution by the Bank will be possible only after the Bank has ensured its compliance with the trajectory established for the development of its 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 approved a buyback of the Bank's shares for the Bank's compensation plan. For further information, 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 December 31, 2013 totaled NIS 20,177 million, of which a total of approximately NIS 2,734 million cannot be distributed as dividends, as mentioned.

Details regarding dividend distribution in 2013:

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 March 19, 2014, to distribute a dividend in respect of the profits of the fourth quarter of 2013, 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 March 27, 2014 and the date of payment at April 10, 2014.

Details of dividends paid:

Date of declaration	Date of payment	Dividend per share in agorot	Dividend paid in cash 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

Capital and Capital Adequacy

On May 30, 2013, the Supervisor of Banks issued a circular to all banking corporations regarding minimum capital ratios, as well as circulars updating Directives 201-211 concerning capital measurement and adequacy, which adopt the Basel 3 directives as part of the Proper Conduct of Banking Business Directives. The initial implementation date of the aforesaid directives was set at January 1, 2014. Pursuant to the circular, all banking corporations will be required to maintain a minimum Core Tier 1 capital ratio of 9% by January 1, 2015. In addition, banking corporations of significant importance whose total balance sheet assets on a consolidated basis constitute at least 20% of the total balance sheet assets of the banking system in Israel will be required to maintain a minimum Core Tier 1 capital ratio of 10%, by January 1, 2017.

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 Core 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 that were 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.

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. The amendments to the aforesaid directives are in effect as of January 1, 2014. Implementation will be gradual, in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299, "Capital Measurement and Adequacy – Supervisory Capital – Transitional Directives."

A circular of the Supervisor of Banks entitled "Basel Disclosure Requirements Concerning the Composition of Capital" was published on August 29, 2013. This circular establishes updated disclosure requirements which banks will be required to include as part of the adoption of Basel 3. The disclosure requirements are in effect as of January 1, 2014, forward. However, in the financial statements for 2013, banks are required to include disclosure regarding the expected effect of the implementation of the Basel 3 directives. The expected effect of the adoption of the Basel 3 directives on January 1, 2014, is presented below, based on the data of the Bank as at December 31, 2013. The calculation of the expected effect of the adoption of the Basel 3 directives on January 1, 2014, takes the transitional directives noted above into consideration.

	Dec. 31, 2013	Dec. 31, 2012
	NIS millions	
1. Capital for the calculation of the capital ratio		
Core Tier 1 capital	***28,421**	26,323
Tier 1 capital, after deductions	***30,890**	28,745
Tier 2 capital, after deductions	**16,341**	17,801
Total overall capital	***47,231**	46,546
2. Weighted balances of risk-adjusted assets		
Credit risk	**276,763**	269,948
Market risks	**4,748**	5,557
Operational risk	**21,769**	21,302
Total weighted balances of risk-adjusted assets	**303,280**	296,807
	%	
3. Ratio of capital to risk-adjusted assets		
Ratio of Core Tier 1 capital to risk-adjusted assets	**9.37%**	8.87%
Ratio of Tier 1 capital to risk-adjusted assets	**10.19%**	9.68%
Ratio of total capital to risk-adjusted assets	**15.57%**	15.68%
Minimum total capital ratio required by the Supervisor of Banks	**9.00%**	9.00%

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

The Core Tier 1 capital ratio as at December 31, 2013 was 9.37%, compared with a Core Tier 1 capital ratio of 8.87% as at December 31, 2012.

The ratio of total capital to risk-adjusted assets as at December 31, 2013 was 15.57%, compared with a capital ratio of 15.68% as at December 31, 2012.

Total capital for the purpose of the calculation of the capital ratio as at December 31, 2013 amounted to approximately NIS 47,231 million, compared with NIS 46,546 million as at December 31, 2012. The increase in the capital base mainly resulted from net profit, offset by dividends and a decrease in subordinated notes.

Risk-adjusted assets as at December 31, 2013 amounted to NIS 303.3 billion, compared with NIS 296.8 billion as at December 31, 2012.

Expected Effect of the Adoption of the Basel 3 Directives on January 1, 2014, on the Financial Statements as at December 31, 2013

	According to the instructions of the Supervisor of Banks applicable December 31, 2013 (Basel 2)	Expected effect of Basel 3 implementation	According to Basel 3 directives*
		NIS millions	
Core Tier 1 capital	**28,421**	**-**	**-**
Tier 1 capital **	**-**	**-**	**29,223**
Total overall capital	**47,231**	**(357)**	**46,874**
Total weighted balances of risk-adjusted assets	**303,280**	**16,051**	**319,331**
		%	
Ratio of Core Tier 1 capital to risk-adjusted assets	**9.37%**	**-**	**-**
Ratio of Tier 1 capital to risk-adjusted assets	**-**	**-**	**9.15%**
Ratio of total capital to risk-adjusted assets	**15.57%**	**(0.89%)**	**14.68%**
Minimum Core Tier 1 capital ratio required by the Supervisor of Banks	**7.50%**		**-**
Minimum Tier 1 capital ratio required by the Supervisor of Banks	**-**	**-**	*****9.00%**
Minimum total capital ratio required by the Supervisor of Banks	**9.00%**	**-**	*****12.50%**

* The definitions of Tier 1 capital, total capital, and the supervisory adjustments (deductions from capital) established by the Supervisor of Banks as part of the adoption of the Basel 3 directives, are significantly different from the definitions included in the Basel 2 directives.
** After supervisory adjustments and deductions.
*** Minimum capital ratio required according to the directives of the Supervisor of Banks from January 1, 2015 until December 31, 2016.

For further information, see the section "Capital Adequacy" below.

Economic and Financial Review

Developments in the Global Economy

Worldwide economic activity showed moderate improvement in 2013, with acceleration in the developed economies growth alongside deterioration in the state of emerging economies. Looking ahead, the global recovery is threatened by further worsening in the emerging economies. As noted, most of the developed economies experienced accelerating activity accompanied by more moderate financial risks – the risk premiums of the countries that were at the focus of the crisis in Europe fell to a relatively low level, and some stock markets broke historical records. The deterioration in the emerging economies took the form of a decline in the pace of growth and an increase in the risk level. Overall for the year, according to estimates by the International Monetary Fund, the global economy grew at a rate of 3.0%, similar to the growth rate in 2012. The developed economies saw moderate 1.3% growth. Despite the deceleration, developing economies were the main contributors to global growth, with a 4.7% growth rate. The improvement in economic activity in the developed countries was not accompanied by a genuine improvement in labor markets. The unemployment rate in the United States fell to 6.7% in December 2013, but there was a worrying decrease in workforce participation; Eurozone unemployment remained high, at 12.0%, with a far higher rate among young people. Due to labor market conditions and low inflation environment, monetary policies in the developed countries remained highly expansionary. In the United States, the Fed began to taper bond purchases in December 2013, but reiterated a commitment to keep the interest rate low for a long period. In the Eurozone, the interest rate was lowered to 0.25% in November, and the President of the European Central Bank hinted at the possible use of additional expansionary measures available to the bank. In Japan, the quantitative easing plan continues. The economic recovery in the United States continued, and GDP continued to grow, though at a more moderate pace than in 2012. Growth in 2013 totaled 1.9%. Private consumption and industrial activity continued to expand, and prices of homes continued to trend up. The improvement in economic activity and in the labor market led the central bank to announce a tapering of bond purchases in December 2013. Although the steps taken by the American administration significantly reduced the budget deficit this year, the disagreements between Democrats and Republicans over the national budget led to a shutdown of federal services in October 2013 and caused a failure to raise the debt ceiling on time, which damaged economic activity and investors' confidence. In the Eurozone, Germany remained a positive standout; growth expanded to the peripheral countries as well, and most resumed a growth trajectory towards the end of 2013, although it remains fragile. Overall in 2013, the Eurozone GDP contracted by approximately 0.4%. Despite the structural changes and the fiscal restraint applied by the Eurozone countries, their heavy debts are still a severe burden for the economy. The approach to the implementation of austerity policies changed somewhat in 2013; fiscal policies are now more growth-supporting. Growth in the emerging economies slowed, and growth forecasts were adjusted downward. The growth of the Chinese economy slowed and the government is attempting to promote reforms designed to encourage sustainable growth in the future. Brazil and India experienced significant deceleration of economic activity, also accompanied by an outflow of foreign capital and significant depreciation of their currencies against the US dollar. In addition to the damage sustained by the emerging economies as a result of the global crisis, several – such as Turkey, Ukraine, and Thailand – are undergoing crises sparked by internal issues.

Economic Activity in Israel

The Israeli economy grew by 3.3% in 2013, according to estimates by the Central Bureau of Statistics, similar to the growth rate in 2012. The economy has maintained a stable rate of growth for two years, although it is important to note that in 2013 this growth was attained partly due to the contribution of natural gas from the Tamar reservoir, which began to produce in the second quarter of 2013. The Bank of Israel estimates the contribution of production of natural gas at 0.4-0.9 GDP percentage points. Exports of goods and services remained stagnant, for the second year, likely due to the slowdown in global demand and the appreciation of the NIS; this was the main cause of the relatively low growth, excluding the effect of natural gas. However, private consumption expanded by approximately 4%, despite tax increases and budget cutbacks performed in mid-2013. Investments in the sectors of the economy stabilized in 2013, on average, and trended up during the year. Despite the relatively slow growth, the labor market remained robust – unemployment fell to an average level of 6.2%, from 6.9% in 2012, along with a 2.7% increase in the number of employed persons, although most of these were in the public sector. Residential construction starts remained stable compared to the preceding year, at about 44,000 units; sales of new homes continued to increase. Prices of homes rose by 8.0%, according to a survey by the Central Bureau of Statistics. The Supervisor of Banks imposed further limits on the mortgage market, pursuant to which mortgage payments cannot exceed 50% of the household's income.

Several geopolitical developments during the second half of 2013, reduced risk for the Israeli economy, at least for the short term. Syria reached an agreement with the Western powers over the removal of chemical weapons from its territory, and a dialogue began between the United States and Iran regarding the development of nuclear weapons. Israel's risk premiums in the financial markets decreased.

Fiscal and Monetary Policy

The budget deficit for 2013 reached 3.2% of GDP, versus a target of 4.65%. The large gap between these two figures mainly resulted from high tax revenues, partly of a nonrecurring nature, such as tax revenues with respect to "trapped profits" or major deals in which companies were sold to foreign investors. The expense side also showed underperformance. The Central Bureau of Statistics changed its method of measuring GDP, causing an increase in the recorded GDP, which also had the effect of reducing the ratio of the deficit to the GDP. In July 2013, the Knesset approved a budget plan encompassing an increase in indirect and direct taxes and a broad cutback in expenses. In view of the improvement in the status of the budget, a decision was made not to raise income-tax rates at the beginning of 2014, as had been approved by the Knesset.

During 2013, the Bank of Israel interest rate gradually decreased from 1.75% in January to 1.0% in December; it remained at that level in January and February 2014. The interest rate was cut again to 0.75% in March 2014. The absence of inflationary pressures made this expansionary policy possible. It was also supported by expansionary policies in the United States and in Europe. The interest-rate cuts were also designed to help halt the appreciation of the NIS and to support economic growth.

Inflation and Exchange Rates

The consumer price index rose by 1.9% in 2013. Housing item in the CPI (measured by rental prices) rose by 3.0%, and food prices rose by 3.3%. By contrast, prices of energy and communications decreased. Inflation was low in most of the developed countries over the last year, and prices of agricultural commodities fell. These conditions, as well as the appreciation of the NIS, served to curb price increases.

The NIS appreciated by 7.0% against the US dollar and by 7.7% against the effective currency basket in 2013. Appreciation pressures stemmed from the improvement in the current account of the balance of payments, following the arrival of natural gas from the Tamar reservoir, expectations of further improvement in the coming years, and a very high volume of foreign direct investments in Israel. During the year, the Bank of Israel purchased USD 5.3 billion, of which USD 2.1 billion within a plan to offset the impact of the natural-gas discovery on the exchange rate. The central bank announced that it would purchase an additional USD 3.5 billion under this plan during 2014.

Financial and Capital Markets

Equity markets in the developed economies posted gains, but performance in developing economies' equity markets was disappointing, with most showing declines. Overall for the year, the TA-100 index rose by 15.1%, reaching a record level near the end of the year. Changes in the stock index on the TASE were aligned with the trend in the developed markets during most of the year, with the exception of August and September 2013, apparently due to the increase in geopolitical risk in Israel. The S&P 500 index gained 20% for the year, while the MSCI EM (emerging markets) index lost 12% (in terms of NIS). Turnovers in shares in Tel Aviv increased during the last quarter of the year, to NIS 1,344 million on average; the annual daily average was NIS 1,172 million, versus NIS 1.077 million in 2012.

The bond market saw gains, influenced by the decrease in the interest rate and by the decrease in inflation expectations. The CPI-linked government bond index rose by 3.0%, and the unlinked bond index rose by 4.0%. The corporate bond index was up by 8.9%, and yield spreads against government bonds remained low. The corporate sector (excluding banks and insurance companies) raised capital in the bond market in the amount of NIS 30 billion, about NIS 2 billion more than in 2012.

Data regarding representative exchange rates, the consumer price index, and their rates of change are set out below:

				Rate of change	
	2013	2012	2011	**2013**	2012
		Points			
Consumer price index:					
November ("known")	**102.2**	100.3	98.9	**1.9%**	1.4%
		In NIS			
Exchange rate as at December 31:					
USD exchange rate	**3.471**	3.733	3.821	**(7.0%)**	(2.3%)
EUR exchange rate	**4.782**	4.921	4.938	**(2.8%)**	(0.4%)
CHF exchange rate	**3.897**	4.077	4.062	**(4.4%)**	0.4%
GBP exchange rate	**5.742**	6.037	5.892	**(4.9%)**	2.5%
TRY exchange rate	**1.606**	2.088	1.989	**(23.1%)**	5.0%

	2013	2012	2011
As at December 31:			
Bank of Israel Interest rate	**1.00%**	2.00%	2.75%

Critical Accounting Policies and Critical Accounting Estimates

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 the Financial Statements. In implementing the accounting principles, 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 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.

Allowance for Credit Losses

Pursuant to the directives of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risk, and allowance for credit losses, the Bank has implemented the US accounting standards in this area (ASC 310) and the position statements of the banking supervision agencies in the United States and of the Securities and Exchange Commission in the United States, as adopted in the Public Reporting Directives.

The allowance to cover estimated credit losses with respect to the credit portfolio is assessed by one of two methods: "individual allowance" and "collective allowance." The Bank also examines the overall suitability of the allowance for credit losses.

The individual allowance for credit losses is made on the basis of the Board of Management's estimate of the losses inherent in the credit portfolio, including debts in off-balance sheet items. The Board of Management bases the evaluation process on numerous considerations and estimates.

For each individually examined borrower, when indications exist of a possible problem in the borrower's ability to repay credit granted, the Bank performs an evaluation of the amount that can be collected from the borrower, according to the relevant sources of repayment, which include sources of repayment from the borrower's business activities, sources of repayment from the borrower's private resources, the expected realizable value of collateral provided to the Bank, and the expected realizable value of external guarantees that were given to support repayment of the credit, taking into consideration the relevant repayment and realization dates. The suitability of the classification of the debt and the collectible amount are approved by an officer one level above the officer authorized to grant the credit to the customer, with the necessary adjustments.

After determining the collectible amount, an individual allowance for credit losses is recorded, in every reporting period, representing the difference between the amount of credit given to the borrower and the total amount that can be collected from the borrower, discounted by the original interest rate of the debt, or the net fair value of the collateral provided against the debt.

In addition, the Bank is required to estimate the volume of debt that cannot be collected via prolonged collection efforts (defined in most cases as a period exceeding two years), and perform charge-offs in respect of such debt.

The collectible amount is based on various parameters, including expected cash flows from the borrower's business activities; the net realizable value of real-estate properties, production equipment, securities, and other assets of the borrower; the realizable value of third-party guarantees; and the realization dates of such amounts. Such information, which is based on estimates and evaluations, is naturally dependent upon economic variables that are not under the Bank's control, such as the condition of the Israeli economy and global markets, markets for companies' operations and products, interest rates, conditions in the capital market, prices of real estate and other assets, demand in the industry in Israel and worldwide, and more.

In determining the collectible amount, safety margins are taken into account in order to address cases of uncertainty regarding the ability to repay the debt and the value of collateral. However, because economic and other variables are involved, there is no certainty that the amounts actually received will be identical to the estimates established.

The collective allowance for credit losses is calculated in order to reflect allowances for impairment in respect of credit losses not individually identified inherent in large groups of small debts with similar risk attributes, and in respect of debts examined individually and found to be unimpaired. The allowance for credit losses in respect of balance sheet and off-balance sheet credit risk evaluated on a collective basis is calculated based on historical rates of loss in the various sectors of the economy, with a division between problematic and non-problematic credit, as well as on actual rates of net charge-offs starting January 1, 2011. This calculation also takes additional data into consideration, including trends in the volume of credit in each sector, conditions in the sector, macro-economic data, evaluation of the overall quality of credit in the economic sector, changes in volumes and trends of balances in arrears and impaired balances, and the effects of changes in credit concentration. The rates of collective allowances are established using a methodology established in congruence with the directives of the Supervisor of Banks, taking the factors noted above into consideration.

As the volume and rate of the collective allowance are based, among other factors, on the classification of the debt as problematic, in itself, and on the timing of this classification, in determining the amount of the collective allowance the Bank relies on the same estimates regarding the financial stability and repayment capability of the borrower that are the basis for the classification of the debt as problematic and for the timing of the classification.

The Bank has established procedures for the classification of credit and measurement of the allowance for credit losses, in order to maintain an allowance at an appropriate level to cover estimated credit losses with respect to its credit portfolio. In addition, the Bank has established the necessary procedures in order to maintain an allowance in a separate liability account at an appropriate level to cover estimated credit losses related to off-balance sheet credit instruments, such as contractual engagements to provide credit, unutilized credit facilities, and guarantees.

Fair Value Measurements

Some of the financial instruments in which the Bank operates, including most of the securities in the available-for-sale portfolio, securities in the portfolio held for trading, and derivative financial instruments, are measured in the financial statements at fair value. The fair value of a financial instrument is defined as the price that would be obtained from the sale of an asset, or that would be paid to transfer a liability, in a routine transaction between willing participants in the market, i.e. in a transaction that is not a forced sale or a sale in the course of liquidation. Maximum use is made of observable inputs in assessing fair value. Observable inputs represent information available in the market and received from independent sources. When no observable inputs are available for the measurement of fair value, unobservable inputs are used. These data reflect the assumptions of the Bank, and include models that take the risk inherent in the financial instrument into consideration (market risk, credit risk, etc.).

These types of inputs form the following fair-value hierarchy:

- Level 1 data: Prices quoted (unadjusted) in active markets for identical assets or liabilities.
- Level 2 data: Prices quoted in active markets for similar assets or liabilities; prices quoted in inactive markets for identical assets or liabilities; prices derived from evaluation models in which all significant inputs are observed in the market or supported by observed market data.
- Level 3 data: Unobservable inputs regarding the asset or liability, arising from evaluation models in which one or more of the significant inputs is unobservable.

The hierarchy requires the use of observable market inputs when such information is available. When possible, the Bank considers relevant observable market information in its evaluation. The volume and frequency of transactions, ask-bid spread, and size of the adjustment necessary in comparing similar transactions are all factors taken into consideration when determining the liquidity of markets and the relevance of prices observed in such markets.

The Bank exercises appropriate professional judgment in establishing fair values. Towards that end, the Bank has formulated a plan for the definition of a structured, orderly process for the establishment of fair value. The process encompasses four independent functions:

(1) The business function – The party responsible for the management of the financial instrument.

(2) The validation function – The party responsible for validating the models for the fair value calculation and validating the data and assumptions used in the calculation.

(3) The control function – The party responsible for applying routine controls to the process of establishing fair value.

(4) The supervision function – The party responsible for supervising the proper implementation of the process of establishing fair value.

In addition, the Bank routinely assesses and examines the risks involved in the process of establishing fair value. Within the aforesaid plan, the Bank defined a limit according to which the Bank shall not enter into a new type of financial instrument in a material amount, or increase the amount of an existing type, if no structured procedure exists for establishing its fair value at a reasonable degree of confidence (hereinafter: "**Exceptional Instruments**"). It was further established that in cases in which the volume of the Exceptional Instruments reaches 75% of the limit that has been set, the Board of Directors and the Board of Management Committee on Risk Management will be notified, and the committee will formulate a plan to reduce the volume of the Exceptional Instruments.

Due to the implementation of FAS 157 (ASC 820-10), Fair Value Measurements, the Bank is required to reflect credit risk and nonperformance risk in assessing the fair value of debt, including derivative instruments, measured at fair value. Nonperformance risk includes the credit risk of the Bank, but is not limited to this risk alone. The Bank assesses credit risk in derivative instruments in the following manner:

- When sufficient liquid collateral exists in respect of the exposure, specifically securing the derivative instrument at a high degree of legal certainty, the Bank assumes that the credit risk inherent in the instrument is zero, and does not perform adjustments to fair value in respect of the quality of credit of the counterparty.
- When exposure in respect of the counterparty on a consolidated basis is material, the Bank performs a fair-value assessment based on indications of the quality of credit of the counterparty from transactions in an active market, insofar as such indications are available with reasonable effort. The Bank derives these indications, among other things, from prices of debt instruments of the counterparty traded in an active market, and from prices of credit derivatives the basis for which is the quality of credit of the counterparty. If no such indications exist, the Bank calculates the adjustments based on internal ratings (e.g. estimates of expected default rates and rates of credit losses in the event of default).

In addition, the Bank performs a feasibility test on the results obtained in the internal evaluation with respect to changes in spreads in the market, and performs necessary adjustments, as relevant.

Employee Benefit Obligations

Some of the provisions in respect of the Bank's obligations in connection with employer-employee relationships are based, among other considerations, on actuarial calculations. This refers to the obligation to pay the 25-year service grant that each employee is entitled to receive at the end of 25 years of employment at the Bank, the obligation to pay compensation for unutilized sick days, post-retirement benefits, pension obligations for payments to employees who retire earlier than the legal retirement age, and pension obligations for payments to active employees who are expected to retire under preferred retirement terms earlier than the legal retirement age, as well as obligations for severance pay.

Total obligations, calculated based on actuarial estimates, amounted to approximately NIS 2,918 million as at December 31, 2013. The obligations are discounted at a real factor of 4% per year, as stipulated by the Supervisor of Banks, net of the real rate of increase of wages.

Most actuarial calculations are based on assumptions and estimates, which are based on estimates and decisions by management, past experience, and various statistics such as mortality rates, employee departure rates, the real rate of change in salaries over time, etc. These estimates and assumptions are reviewed regularly.

The estimates used to calculate employee benefit obligations were adjusted during the year ended on December 31, 2013, due to the wage agreement for 2013-2017 signed by the Board of Management of the Bank and the Employee Union, and due to an efficiency plan involving early retirement, as follows:

- Rate of increase in wages – adjusted from a real rate of 1.5% for all active employees to a range of 0.5% to 7.5% in real terms, according to the employee's age.
- Routine departure rates were updated based on a study of departures of Bank employees. In addition, rates of early departure with preferred terms were adjusted to take into account management's expectations regarding employee retirement in 2014-2017 and from 2018 forward.

The effect of the changes in these estimates led to an increase of approximately NIS 40 million in employee benefit obligations, which was recognized in the statement of profit and loss.

Changes in the various actuarial parameters would lead to results different from those obtained today. Thus, for example, an increase of 1% and 2% in the discount rate would result in a reduction of the obligations by a total of approximately NIS 217 and 403 million, respectively. A reduction of 1% and 2% in the discount rate would increase the aforesaid obligations by a total of approximately NIS 255 and 560 million, respectively. An increase of 0.5% in the estimated annual rate of increase in wages would cause these obligations to grow by a total of approximately NIS 70 million. An increase of 0.5% in the estimated annual rate of employee departures due to early retirement would cause the aforesaid obligations to increase by approximately NIS 84 million, while a decrease of 0.5% in the estimated annual rate of departure due to early retirement would cause the obligations to decrease by a total of approximately NIS 86 million.

The actuarial assessment of the obligations for employee benefits for the period ended on December 31, 2013, is available at the Magna website of the Israel Securities Authority at www.magna.isa.gov.il.

For details regarding the draft of the Supervisor of Banks concerning the adoption of generally accepted accounting principles in the United States, with regard to employee benefits and share-based compensation, see Note 1(D) to the financial statements.

Deferred Taxes

Deferred taxes are recorded for temporary differences and in respect of losses carried forward, only if it is more likely than not that tax savings will be generated in respect thereof at the reversal date. Accordingly, when recording deferred taxes receivable, the Bank is required to carry out evaluations and estimates regarding their possible realization in the future.

As at December 31, 2013, the amount of temporary differences for which deferred taxes receivable were recorded amounted to NIS 8,589 million; the amount of losses carried forward for which no deferred taxes receivable were recorded amounted to NIS 502 million; and the amount of losses carried forward for which deferred taxes receivable were recorded amounted to NIS 180 million.

Contingent Liabilities

The Bank Group is a party to legal proceedings taken against it by customers, by former customers, and by various third parties who believe they have suffered harm or damages resulting from the Bank Group's activity.

The Bank's Board of Management has included sufficient provisions in the financial statements to cover possible damages resulting from all such claims, based on legal opinions. In most legal proceedings, opinions are obtained from legal advisors external to the Bank Group, and reviewed by legal counsels employed by the Bank.

These evaluations are based on the best judgment of the legal advisors, taking into consideration the stage at which the proceedings are at present and the legal experience accumulated on these matters in Israel and worldwide. However, it should be taken into account that no "certain" or "near certain" assessments can be made with regard to legal matters – not only in the initial stages of a claim, but until the verdict is handed down; the outcome of the proceedings may therefore differ from prior estimates. This is especially true in the case of class-action suits, due to factors including the lack of accumulated legal experience regarding the outcome of such suits in Israel. The Bank and its legal advisors therefore face greater difficulty than usual when estimating the outcome of legal proceedings involving class-action suits, most notably during the stage in which the court has not yet decided whether to accept or deny the petition to recognize the claim as a class action.

Impairment of Securities Available for Sale and of Securities Held to Maturity

Each reporting period, the Board of Management of the Bank determines whether declines in the fair value of securities classified into the available-for-sale portfolio and the held-to-maturity portfolio are other than temporary. This examination includes several stages and principles, in accordance with the policy established at the Bank, primarily the following:

(1) Formulation of a watch list – A quantitative and qualitative examination is performed in order to identify and evaluate securities whose value has declined, where the impairment may be other than temporary.

(2) Individual examination – Each security in the watch list is examined individually. This examination is based on considerations including the following:

- The Bank's ability and intention to hold the security for a sufficient period to allow the value of the security to return to the level of its cost.
- The value of collateral and safety cushions backing the security.
- The rating of the security by international and local rating agencies, including developments in these ratings after the balance sheet date.
- The rate of impairment of the security relative to its total cost.
- The amount of time for which the fair value of the security is lower than its cost.
- The financial condition of the issuer and changes in its business environment, including an examination of whether the impairment reflects circumstances unique to the issuer or general market conditions.
- Events after the balance sheet date.

(3) Documentation of the results of the examination, as required pursuant to the rules established at the Bank.

The Bank has established several principles in order to determine whether impairment is other than temporary, and the amount of such impairment, as follows:

- Securities which at the balance sheet date the Bank does not intend to hold, or securities sold after the balance sheet date, constitute securities in which other-than-temporary impairment has occurred.
- Securities whose value has declined by 40% or more of the cost of the security, at or after the balance sheet date, constitute securities in which other-than-temporary impairment has occurred, unless it can be proven that special circumstances existed.
- Debt instruments that have sustained a significant downgrade of ratings, or have been classified as problematic by the Bank, or in which a default on payments has occurred after the purchase, are considered to be securities in which other-than-temporary impairment has occurred.

When other-than-temporary impairment occurs in a security, the cost of the security is written down to its fair value at the balance sheet date and used as the new cost base. The amount of the write-down is charged to the statement of profit and loss.

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 on 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 December 31, 2013, as necessary. The Audit Committee presented its recommendations to the plenum of the Board of Directors prior to the discussion of the Financial Statements by the Board of Directors.

Profit and Profitability

Net profit attributed to the shareholders of the Bank totaled NIS 2,580 million in 2013, compared with profit in the amount of NIS 2,543 million in 2012.

Net return on shareholders' equity was approximately 9.3% in 2013, compared with approximately 10.1% in 2012.

Set out below is the condensed statement of profit and loss for the years 2013 and 2012:

	For the year ended December 31		Change
	2013	2012	
	NIS millions		
Interest income	**12,961**	14,346	(9.7%)
Interest expenses	**(5,018)**	(6,186)	(18.9%)
Net interest income	**7,943**	8,160	(2.7%)
Non-interest financing income (expenses)	**480**	255	
Net financing profit*	**8,423**	8,415	0.1%
Provision for credit losses	**874**	987	(11.4%)
Net financing profit after provision for credit losses	**7,549**	7,428	1.6%
Fees and other income*	**5,241**	5,222	0.4%
Operating and other expenses	**8,965**	8,825	1.6%
Profit before taxes	**3,825**	3,825	0.0%
Provision for taxes on profit	**1,298**	1,254	3.5%
The Bank's share in profits of equity-basis investees, after taxes	**9**	6	50.0%
Net profit:			
Before attribution to non-controlling interests	**2,536**	2,577	(1.6%)
Loss (profit) attributed to non-controlling interests	**44**	(34)	
Attributed to shareholders of the Bank	**2,580**	2,543	1.5%
Return of net profit on equity attributed to shareholders of the Bank	**9.3%**	10.1%	

* 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 (expenses) to the item of net financing profit.

Developments in Income and Expenses

Net financing profit:

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

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

	For the year ended December 31		Change
	2013	2012	
	NIS millions		
Interest income	**12,961**	14,346	(9.7%)
Interest expenses	**(5,018)**	(6,186)	(18.9%)
Net interest income	**7,943**	8,160	(2.7%)
Non-interest financing income	**480**	255	
Total net financing profit	**8,423**	8,415	0.1%

	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	NIS millions							
Interest income	**2,755**	**3,694**	**3,423**	**3,089**	2,897	3,929	4,146	3,374
Interest expenses	**(815)**	**(1,613)**	**(1,415)**	**(1,175)**	(953)	(1,821)	(2,000)	(1,412)
Net interest income	**1,940**	**2,081**	**2,008**	**1,914**	1,944	2,108	2,146	1,962
Non-interest financing income (expenses)	**133**	**36**	**168**	**143**	167	7	(105)	186
Total net financing profit	**2,073**	**2,117**	**2,176**	**2,057**	2,111	2,115	2,041	2,148

Net financing profit totaled NIS 8,423 million in 2013, compared with NIS 8,415 million in 2012. Financing profit was influenced by profits from the realization of bonds and shares, adjustments to fair value of derivative financial instruments, an increase in previously unrecorded income on problematic debts, and an increase in financing income from tax hedges in respect of investments in subsidiaries overseas. By contrast, profit from regular financing activity decreased, mainly as a result of a decrease in the interest rate in Israel and its effect on financial spreads in deposits and on financial capital.

Developments in total net financing profit are set out below:

	For the year ended December 31		Change
	2013	2012	
	NIS millions		
Profit from regular financing activity[(1)]	**7,397**	7,733	(4.3%)
Income from realization and adjustments to fair value of bonds	**469**	347	35.2%
Gains from investments in shares	**140**	90	55.6%
Adjustments to fair value of derivative instruments[(2)]	**165**	114	44.7%
Interest income on problematic debts not previously recorded	**153**	118	29.7%
Financing income from hedging for taxes in respect of investments overseas[(3)]	**99**	13	
Reported profit	**8,423**	8,415	0.1%

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

	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	NIS millions							
Profit from regular financing activity[(1)]	**1,838**	**1,922**	**1,864**	**1,773**	1,755	2,024	2,025	1,929
Income from realization and adjustments to fair value of bonds	**81**	**50**	**214**	**124**	190	49	59	49
Gains from investments in shares	**32**	**55**	**1**	**52**	30	4	-	56
Adjustments to fair value of derivative instruments[(2)]	**47**	**21**	**34**	**63**	27	8	2	77
Interest income on problematic debts not previously recorded	**49**	**43**	**40**	**21**	36	32	31	19
Financing income (expenses) from hedging for taxes in respect of investments overseas[(3)]	**26**	**26**	**23**	**24**	73	(2)	(76)	18
Reported profit	**2,073**	**2,117**	**2,176**	**2,057**	2,111	2,115	2,041	2,148

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

In accordance with the directives of the Supervisor of Banks, beginning in 2013, the reporting format of "Appendix 3 – Rates of Interest Income and Expenses" was adjusted to the new format of the statement of profit and loss. Comparative figures were readjusted. The following are the principal changes:

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

4. Analysis of changes in rates of income and expenses – In the new format, changes in interest income and expenses are reported with a distinction between changes referring to quantities (volumes) and changes referring to prices.

Set out below are principal rates of interest income and expenses:

	For the year ended December 31		
	2013	2012	2011
Rate of income on interest-bearing assets	**3.86%**	4.44%	5.04%
Rate of expense on interest-bearing liabilities	**1.82%**	2.28%	2.70%
Overall interest spread	**2.04%**	2.16%	2.34%
Net interest income as a percentage of the balance of interest-bearing assets	**2.37%**	2.52%	2.76%

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 decrease in the interest spread resulted from a decrease in financial spreads in deposits. As a result, the ratio of total net interest income to the balance of interest-bearing assets also decreased.
An analysis of the changes in interest income and expenses, in a comparison of 2013 to 2012, indicates that changes in the volume of average balance sheet balances caused an increase in the amount of NIS 233 million, and changes in interest rates caused a decrease in the amount of NIS 450 million in net interest income.

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

	For the year ended December 31		Change
	2013	*2012	
	NIS millions		
Households Segment	**2,126**	2,217	(4.1%)
Private Banking Segment	**1,021**	1,253	(18.5%)
Small Business Segment	**1,109**	1,110	(0.1%)
Commercial Segment	**820**	756	8.5%
Corporate Segment	**2,064**	2,208	(6.5%)
Financial Management Segment	**1,283**	871	47.3%
Total net financing profit	**8,423**	8,415	0.1%

* Reclassified. For further details, see the section "General – The Segments and Customer Assignment Criteria," 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 2013, in comparison to 2012, mainly resulted from a decrease in the interest rate in Israel and its influence on the financial spread on deposits. This decrease was offset by an increase in the volume of credit in the segments.
The decrease in financing profit in the Corporate Segment resulted from a decrease in the volume of credit activity. This decrease was offset by an increase in the financial spread. In the Commercial Segment, financing profit increased due to an increase in the volume of credit activity.
The increase in financing profit in the Financial Management Segment resulted from an increase in income from realization of bonds and shares, an increase in financing income from tax hedging in respect of investments overseas, and an increase in adjustments to fair value of derivative instruments.

The provision for credit losses totaled NIS 874 million in 2013. The provision in 2012 totaled NIS 987 million. A net provision in the amount of NIS 222 million was recorded in respect of debts examined on an individual basis in 2013. The provision resulted from allowances recorded in the amount of NIS 971 million, mainly due to a reevaluation of customers' debt collection capabilities, mainly offset by debt recovery. The net provision in respect of the collective allowance amounted to approximately NIS 652 million, and mainly resulted from automatic charge-offs of substandard debts in arrears of 150 days or more, as well as an update of the minimum collective allowance for credit losses in respect of housing loans, in the amount of approximately NIS 84 million, in accordance with the letter of the Supervisor of Banks concerning updated guidelines on residential real estate.

In 2012, the individual provision for credit losses amounted to NIS 659 million. Most of the provision stemmed from the commerce and financial services sectors; a provision was also recorded due to an increase in the collective allowance in the amount of NIS 328 million.

With regard to the components of the provision for credit losses, see Note 4 to the Financial Statements.

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

	For the year ended December 31	
	2013	2012
	NIS millions	
Provision for credit losses in respect of debts examined on an individual basis	**971**	1,624
Decrease in individual allowance for credit losses and recovery of charged off debts	**(749)**	(965)
Net provision for credit losses in respect of debts examined on an individual basis	**222**	659
Net provision in respect of the collective allowance for credit losses and net charge-offs of debts examined on a collective basis	**652**	328
Total provision for credit losses*	**874**	987
* Of which:		
Net provision for credit losses in respect of commercial credit risk	**635**	673
Net provision for credit losses in respect of housing credit risk	**108**	29
Net provision for credit losses in respect of other private credit risk	**130**	284
Net provision for credit losses in respect of risk of credit to banks and governments	**1**	1
Total provision for credit losses	**874**	987
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	**0.34%**	0.39%
Net charge-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public	**0.38%**	0.38%
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	**24.70%**	23.47%

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

Set out below are details of the provision for credit losses as a percentage of the average recorded balance of credit to the public, by principal segment of activity:

	For the year ended December 31				Change
	2013		2012		
	NIS millions		NIS millions		
Households Segment	**229**	**0.35%**	257	0.41%	(10.9%)
Private Banking Segment	**53**	**0.16%**	38	0.13%	39.5%
Small Business Segment	**143**	**0.56%**	133	0.56%	7.5%
Commercial Segment	**14**	**0.05%**	90	0.34%	(84.4%)
Corporate Segment	**446**	**0.47%**	481	0.48%	(7.3%)
Financial Management Segment	**(11)**		(12)		
Total	**874**	**0.34%**	987	0.39%	(11.4%)

Fees and other income totaled NIS 5,241 million in 2013, compared with NIS 5,222 million in 2012 an increase of approximately 0.4%, mainly due to an increase in the volume of activity, fees from financing transactions, distribution fees of financial products, and other income. This increase was offset by an erosion of income from fees, due to a change in the fee list following the amendment of the Banking Rules (Service to Customers), which led to the cancellation and change of several fees.

Details of fees and other income are set out below:

	For the year ended December 31		Change
	2013	2012	
	NIS millions		
Fees:			
Account management fees	**968**	974	(0.6%)
Securities activity	**911**	988	(7.8%)
Financial product distribution fees(1)	**188**	174	8.0%
Management, operations, and trust services for institutional entities(2)	**50**	55	(9.1%)
Credit cards, net	**1,597**	1,590	0.4%
Credit handling	**342**	337	1.5%
Financing transaction fees	**529**	453	16.8%
Conversion differences	**275**	263	4.6%
Foreign trade activity	**116**	126	(7.9%)
Net income from credit portfolio services	**33**	37	(10.8%)
Life insurance and home insurance fees	**49**	48	2.1%
Other fees	**57**	60	(5.0%)
Total fees	**5,115**	5,105	0.2%
Other income	**126**	117	7.7%
Total fees and other income	**5,241**	5,222	0.4%

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

Details of fees and other income by quarter are set out below:

	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	NIS millions							
Fees:								
Account management fees	**254**	**241**	**236**	**237**	246	246	240	242
Securities activity	**239**	**214**	**226**	**232**	232	257	230	269
Financial product distribution fees(1)	**48**	**43**	**49**	**48**	50	38	44	42
Management, operations, and trust services for institutional entities(2)	**12**	**12**	**13**	**13**	13	14	14	14
Credit cards, net	**429**	**408**	**376**	**384**	396	418	395	381
Credit handling	**95**	**69**	**88**	**90**	81	84	86	86
Financing transaction fees	**147**	**130**	**131**	**121**	124	117	108	104
Conversion differences	**72**	**70**	**69**	**64**	64	69	66	64
Foreign trade activity	**31**	**30**	**29**	**26**	30	29	29	38
Net income from credit portfolio services	**7**	**8**	**9**	**9**	9	9	9	10
Life insurance and home insurance fees	**13**	**12**	**12**	**12**	12	13	11	12
Other fees	**10**	**17**	**16**	**14**	16	17	15	12
Total operating fees	**1,357**	**1,254**	**1,254**	**1,250**	1,273	1,311	1,247	1,274
Other income	**37**	**24**	**28**	**37**	41	24	19	33
Total fees and other income	**1,394**	**1,278**	**1,282**	**1,287**	1,314	1,335	1,266	1,307

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

Operating and other expenses totaled NIS 8,965 million in 2013, compared with NIS 8,825 million in 2012, an increase of approximately 1.6%.

Details of operating and other expenses are set out below:

	For the year ended December 31		Change
	2013	2012	
	NIS millions		
Salary expenses:			
Wages	**4,790**	4,483	6.8%
Bonuses and share-based compensation	**520**	529	(1.7%)
Total salaries	**5,310**	5,012	5.9%
Maintenance and depreciation of buildings and equipment	**1,609**	1,673	(3.8%)
Amortization and impairment of intangible assets and goodwill	**12**	11	9.1%
Other expenses	**2,034**	2,129	(4.5%)
Total operating and other expenses	**8,965**	8,825	1.6%

Details of operating and other expenses by quarter are set out below:

	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	NIS millions							
Salary expenses:								
Wages	**1,490**	**1,073**	**1,078**	**1,149**	1,177	1,131	1,116	1,059
Bonuses and share-based compensation	**130**	**142**	**153**	**95**	103	172	106	148
Total salaries	**1,620**	**1,215**	**1,231**	**1,244**	1,280	1,303	1,222	1,207
Maintenance and depreciation of buildings and equipment	**400**	**427**	**394**	**388**	476	419	397	381
Amortization and impairment of intangible assets and goodwill	**3**	**3**	**3**	**3**	3	3	2	3
Other expenses	**539**	**488**	**507**	**500**	595	524	497	513
Total operating and other expenses	**2,562**	**2,133**	**2,135**	**2,135**	2,354	2,249	2,118	2,104

Salary expenses totaled NIS 5,310 million in 2013, compared with NIS 5,012 million in 2012, an increase of 5.9%. Salary expenses in 2013 include the effect of the efficiency plan, which is primarily based on early retirement, in the amount of approximately NIS 440 million compared with NIS 185 million in 2012.

The increase in wages in 2013 as compared to 2012 mainly resulted from a change in provisions for the efficiency plan from year to year, changes in estimates used to calculate liabilities for employee benefits, the effects of the wage agreement for 2013, and an increase in VAT rates, which influenced the increase in wage tax. By contrast, a decrease occurred as a result of cost savings due to the efficiency processes.

For further details, see the section "Human Capital."

Expenses for maintenance and depreciation of buildings and equipment totaled NIS 1,609 million in 2013, compared with NIS 1,673 million in 2012, a decrease of 3.8%. The decrease mainly resulted from a decrease in municipal tax expenses, depreciation expenses, and building maintenance, offset by an increase in security expenses.

Other operating expenses totaled NIS 2,034 million in 2013, compared with NIS 2,129 million in 2012, a decrease of 4.5%. The decrease mainly resulted from a decrease in marketing and advertising expenses and in office expenses, offset by an increase in IT expenses.

The provision for taxes on profit amounted to NIS 1,298 million in 2013, compared with a total of NIS 1,254 million in 2012.

The effective tax rate for the Bank in 2013 reached 33.9%, compared with a statutory tax rate of 36.2%. The difference mainly resulted from different statutory tax rates at consolidated subsidiaries, the effect of changes in exchange rates on recorded investments in consolidated subsidiaries overseas that are not included in the tax base and an increase in the value-added tax rate and from the expected change in corporate tax in 2014 which led to an increase in the balance of net deferred taxes receivable. For further details, see Note 29 to the Financial Statements.

The Bank's share in profits of equity-basis investees after taxes amounted to profit in the amount of NIS 9 million in 2013, compared with NIS 6 million in 2012.

Non-controlling interests' share in net results of consolidated companies totaled a share in loss in the amount of NIS 44 million in 2013, mainly due to changes in currency exchange rates, compared with a share in profit in the amount of NIS 34 million in 2012.

Net profit attributed to shareholders of the Bank of the Bank Group totaled NIS 2,580 million in 2013, compared with NIS 2,543 million in 2012.

Basic net profit per share of par value NIS 1 amounted to NIS 1.96 in 2013, compared with NIS 1.92 in 2012.

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

The consolidated balance sheet as at December 31, 2013 totaled NIS 380.2 billion, compared with NIS 376.4 billion at the end of 2012.

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

	Balance as at December 31		Change
	2013	2012	
	NIS millions		
Total assets	**380,246**	376,388	1.0%
Net credit to the public	**251,600**	249,182	1.0%
Cash on hand and deposits with banks	**45,709**	55,301	(17.3%)
Securities	**60,912**	52,070	17.0%
Deposits from the public	**276,525**	271,411	1.9%
Bonds and subordinated notes	**33,980**	35,677	(4.8%)
Shareholders' equity	**29,060**	26,755	8.6%

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

	Balance as at December 31		Change
	2013	2012	
	NIS millions		
1. Off-balance sheet financial instruments, excluding derivatives:			
Documentary credit	**1,270**	1,460	(13.0%)
Guarantees and other commitments	**42,593**	40,694	4.7%
Unutilized credit-card credit facilities under the Bank's responsibility	**31,066**	32,343	(3.9%)
Unutilized credit-card credit facilities under other banks' responsibility	**10,011**	10,279	(2.6%)
Unutilized revolving overdraft and other credit facilities in on-demand accounts	**37,214**	36,090	3.1%
Irrevocable commitments to grant credit approved but not yet provided, and commitments to provide guarantees	**50,879**	46,861	8.6%
2. Derivative instruments (notional value amounts):			
Interest contracts	**376,634**	361,689	4.1%
Currency contracts	**225,822**	206,635	9.3%
Contracts in respect of shares	**32,615**	26,425	23.4%
Commodity and service contracts (including credit derivatives)	**1,923**	3,820	(49.7%)
Total notional value of derivatives	**636,994**	598,569	6.4%

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, management, operational, advisory:

	Balance as at December 31		Change
	2013	2012	
	NIS millions		
Securities[(1)]	**840,070**	742,565	13.1%
Assets of provident funds receiving operational services	**83,399**	79,444	5.0%
Mutual funds assets[(2)]	**89,400**	51,500	73.6%
Pension Advisory balances[(3)]	**18,523**	13,100	41.4%

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

Credit to the Public

Net credit to the public as at December 31, 2013 amounted to NIS 251.6 billion, compared with NIS 249.2 billion at the end of 2012, an increase of approximately 1.0%. The growth mainly resulted from an increase in retail credit, housing credit and commercial credit. The increase was offset by a decrease in corporate credit.

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

	Balance as at December 31		Change		The segment's share of total credit to the public as at December 31	
	2013	2012			**2013**	2012
	NIS millions					
Israeli currency unlinked	**157,885**	148,633	9,252	6.2%	**62.7%**	59.6%
Israeli currency CPI-linked	**55,560**	56,878	(1,318)	(2.3%)	**22.1%**	22.8%
Foreign currency (including f. c. linked)	**37,965**	43,523	(5,558)	(12.8%)	**15.1%**	17.5%
Non-monetary items	**190**	148	42	28.4%	**0.1%**	0.1%
Total	**251,600**	249,182	2,418	1.0%	**100.0%**	100.0%

Credit in the unlinked shekel segment increased by NIS 9.3 billion in 2013, an increase of approximately 6.2%, mainly resulting from a low interest-rate environment. Most of the increase occurred in retail credit and housing loans.

Credit in the CPI-linked shekel segment decreased by NIS 1.3 billion in 2013, a decrease of approximately 2.3%. The decrease was recorded in corporate credit and was offset by an increase in housing loans.

Credit in the foreign currency (including foreign currency linked) segment decreased by NIS 5.6 billion in 2013, a decrease of approximately 12.8%. Excluding the effects of changes in the NIS against the major currencies, a decrease of 9.5% occurred.

Net credit to the public by segment of activity:

	December 31		Change	
	2013	*2012		
	NIS millions			
Households Segment	**66,123**	63,509	2,614	4.1%
Private Banking Segment	**34,302**	31,528	2,774	8.8%
Small Business Segment	**26,242**	24,217	2,025	8.4%
Commercial Segment	**31,131**	27,056	4,075	15.1%
Corporate Segment	**89,149**	98,397	(9,248)	(9.4%)
Others and Adjustments	**4,653**	4,475	178	4.0%
Total	**251,600**	249,182	2,418	1.0%
Of which, consumer credit in Israel excluding housing loans and credit cards:				
Households Segment	**22,588**	21,145	1,443	6.8%
Private Banking Segment	**8,859**	8,283	576	7.0%
Small Business Segment	**20,392**	18,736	1,656	8.8%
Total	**51,839**	48,164	3,675	7.6%
Housing loans in Israel:				
Households Segment	**37,273**	36,099	1,174	3.3%
Private Banking Segment	**15,940**	13,328	2,612	19.6%
Small Business Segment	**4,663**	4,296	367	8.5%
Total	**57,876**	53,723	4,153	7.7%

* Reclassified. For further details, see the section "General – The Segments and Customer Assignment Criteria," above.

Housing loans:

	As at December 31	
	2013	2012
	NIS millions	
Credit balances		
Loans from Bank funds	**58,294**	54,060
Loans from Finance Ministry funds*	**3,613**	4,365
Grants from Finance Ministry funds*	**255**	301
Total	**62,162**	58,726

	For the year ended December 31	
	2013	2012
	NIS millions	
Execution		
Loans from Finance Ministry funds:		
Loans	**32**	35
Grants	**24**	9
Total from Finance Ministry funds	**56**	44
Total loans from Bank funds	**11,748**	11,541
Total new loans	**11,804**	11,585
Old loans refinanced from Bank funds	**2,449**	1,863
Total loans extended	**14,253**	13,448

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

Developments in balances of housing credit:

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

	Unlinked segment				CPI-linked segment				Foreign currency segment		Total	Rate of change during the period
	Fixed interest rate		Floating interest rate		Fixed interest rate		Floating interest rate		Floating interest rate		Recorded debt balance in NIS millions	
	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %		
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%**
Dec. 31, 2012**	1,109	2.1%	17,378	32.1%	13,345	24.7%	21,086	39.0%	1,142	2.1%	54,060	9.8%
Dec. 31, 2011	431	0.9%	16,403	33.3%	13,642	27.7%	17,464	35.4%	1,310	2.7%	49,250	13.7%
Dec. 31, 2010	298	0.7%	14,870	34.3%	13,837	31.9%	13,361	30.9%	943	2.2%	43,309	17.1%

* Excluding balances in respect of subsidiaries overseas (as at December 31 2013, a recorded debt balance in the amount of NIS 38 million, as at December 31 2012 a recorded debt balance in the amount of NIS 66 million).

** Reclassified.

Volume of Problematic Debt

Set out below development of amounts in arrears in housing loans and allowance for credit losses (excluding collective allowance)*:

	Recorded debt balance (NIS millions)	Amount in arrears of more than 90 days	Rate of arrears	Allowance for credit losses based on extent of arrears (NIS millions)	Rate of allowance for credit losses based on extent of arrears	Problematic debt (NIS millions)	Rate of problematic debt
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%
December 31, 2010	43,309	157	0.4%	306	0.7%	1,028	2.4%

* Excluding balances in respect of subsidiaries overseas (as at December 31 2013, a recorded debt balance in the amount of NIS 38 million, as at December 31 2012 a recorded debt balance in the amount of NIS 66 million).

Risk Quantification and Measurement – Housing Credit Execution

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

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

Housing loan data – percentage of total new loans executed

	For the three months ended				
	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	March 31, 2013	Dec. 31, 2012
Characteristics					
Financing rate over 60%	**36.3%**	36.9%	36.6%	36.9%	45.3%
Ratio of repayment to income greater than 40% (for acquisition and in monthly payments)	**10.7%**	12.5%	11.6%	12.9%	15.1%
Financing rate over 60% and repayment rate over 40%	**3.5%**	4.2%	4.4%	4.7%	6.7%
Percentage of execution of floating-rate loans with interest varying at a frequency of less than 5 years (Bank of Israel limitation 33.3%)	**32.0%**	31.0%	31.0%	30.0%	30.0%
Percentage of all-purpose loans	**5.8%**	5.2%	4.9%	6.8%	8.3%
Loans for investment purposes as a percentage of acquisition	**15.6%**	14.7%	15.7%	12.6%	12.3%
Bullet and balloon loans as a percentage of acquisition	**1.3%**	2.1%	1.6%	1.1%	1.9%
Average loan per acquisition (in NIS thousands)	**621**	625	643	618	614
Average original term to maturity for acquisition, in years	**18.3**	18.4	17.8	18.1	18.3

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. These scenarios include steep declines in prices of homes, increases in the interest rate, and increases in the unemployment rate.

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

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

Monthly Discussion of Housing Credit Risks

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

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

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

Main points of the guidelines:

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

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

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

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

The changes in the capital requirements set forth in the directive apply to housing loans executed from January 1, 2013, forward. The rate of the collective allowance in respect of housing loans is required to be no lower than the aforesaid rate, beginning with the financial statements as at June 30, 2013, for the balance of housing loans (the Bank included this allowance in its financial statements for the first quarter of 2013). See also Note 1(D)(6) to the Financial Statements.

The directive of the Supervisor of Banks concerning limits on housing loans (mortgages) took effect on September 1, 2013. Main points of the instructions:

A. A banking corporation shall not approve a housing loan (mortgage) where the monthly payment on the mortgage exceeds 50% of the borrower's monthly income. Housing loans where the rate of the monthly payment as a percentage of income is 40% to 50% shall be weighted at 100% for the calculation of the capital-adequacy ratio.

B. A banking corporation shall not approve a housing loan where the part of the housing loan bearing a floating rate of interest as a percentage of the total loan exceeds 66.7% (two thirds). This limit shall apply to floating-rate loans of any duration, and is in addition to the existing limit, pursuant to which the part of a housing loan at a floating rate of interest for a period shorter than five years is limited to one third.

C. A banking corporation shall not approve a housing loan with a final maturity period of more than 30 years.

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 5 to the Management's Review.

Overall credit risk as at December 31, 2013 totaled NIS 512.4 billion compared with NIS 498.6 billion at the end of 2012.

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

	December 31, 2013		December 31, 2012**	
	Total credit risk****	Percent of total	Total credit risk****	Percent of total
	NIS millions		NIS millions	
Economic sector				
Agriculture	**2,927**	**0.6%**	2,920	0.6%
Industry	**47,876**	**9.3%**	*46,776	9.4%
Construction and real estate - construction*****	**51,413**	**10.0%**	50,998	10.2%
Construction and real estate - real-estate activities	**30,029**	**6.0%**	32,775	6.5%
Electricity and water	**12,615**	**2.5%**	11,694	2.3%
Commerce	**33,761**	**6.6%**	30,861	6.2%
Hotels, hospitality, and food services	**9,957**	**1.9%**	9,838	2.0%
Transportation and storage	**8,876**	**1.7%**	8,334	1.7%
Communications and computer services	**8,946**	**1.7%**	10,418	2.1%
Financial services	**45,470**	**8.9%**	***,*45,640	9.2%
Other business services	**15,508**	**3.0%**	14,605	2.9%
Public and community services	**9,260**	**1.8%**	9,232	1.9%
Total commercial	**276,638**	**54.0%**	***274,091	55.0%
Private individuals - housing loans	**55,898**	**10.9%**	51,864	10.4%
Private individuals - others	**84,052**	**16.4%**	83,116	16.6%
Total credit risk to the public	**416,588**	**81.3%**	***409,071	82.0%
Total banks******	**40,332**	**7.9%**	42,417	8.5%
Total governments	**55,477**	**10.8%**	47,154	9.5%
Total	**512,397**	**100.0%**	***498,642	100.0%

* Reclassified.

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

*** 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."

**** Excluding unutilized credit facilities in credit cards under the responsibility of other banks in the amount of approximately NIS 10,011 million (December 31, 2012: NIS 10,279 million).

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

****** Excluding cash balances of the Bank and deposits with the Bank of Israel; before deduction of the allowance for credit losses.

(1) Data regarding total credit risk are presented before deduction of the allowances for credit losses (individual and collective).

Construction and Real Estate

Overall credit risk in the construction and real-estate sectors totaled NIS 81.4 billion as at December 31, 2013.

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

	Balance as at December 31, 2013		
	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
	NIS millions		
Construction for commerce and services	**1,601**	**1,120**	**2,721**
Construction for industry	**461**	**132**	**593**
Housing construction	**9,983**	**23,238**	**33,221**
Yield-generating properties	**23,316**	**6,081**	**29,397**
Other	**8,514**	**6,996**	**15,510**
Total construction and real-estate sectors	**43,875**	**37,567**	**81,442**

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

	Number of borrowers	Balance sheet credit	Off-balance sheet credit risk	Total
		NIS millions		
Economic sector				
Industry	**5**	**1,947**	**8,709**	**10,656**
Construction and real estate - real-estate activities	**2**	**1,994**	**1,464**	**3,458**
Electricity and water	**1**	**3,583**	**1,827**	**5,410**
Commerce	**2**	**445**	**2,512**	**2,957**
Communications and computer services	**1**	**2,155**	**26**	**2,181**
Financial services	**3**	**3,096**	**3,144**	**6,240**
Total	**14**	**13,220**	**17,682**	**30,902**

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 December 31, 2013:

	Balance sheet credit	Off-balance sheet credit risk	Total
	NIS millions		
Economic sector			
Electricity and water	**3,583**	**1,827**	**5,410**
Industry	**13**	**4,279**	**4,292**
Financial services	**1,412**	**904**	**2,316**
Communications and computer services	**2,155**	**26**	**2,181**
Financial services	**1,591**	**515**	**2,106**
Industry	**1**	**1,952**	**1,953**
Total	**8,755**	**9,503**	**18,258**

Credit Risk in Respect of Exposure to Borrower Groups

Set out below are details of credit risk balances for each group of borrowers whose net indebtedness on a consolidated basis, in accordance with Proper Conduct of Banking Business Directive 313, "Limits on the Indebtedness of Borrowers and Groups of Borrowers" (hereinafter: Directive 313), exceeds 15% of the capital of the banking corporation (as defined in Directive 313), as at December 31, 2013:

	Balance sheet credit risk(1)	Off-balance sheet credit risk(1)	Of which: Off-balance sheet credit risk in respect of derivative instruments(2)	Gross indebtedness(3)	Deductions(4)	Net indebtedness(5)	Percentage of regulatory capital
	NIS millions						
Borrower group A	**5,540**	**2,739**	**239**	**8,300**	**326**	**7,974**	**16.88%**
Borrower group B	**4,631**	**3,112**	**587**	**7,764**	**107**	**7,657**	**16.21%**
Borrower group C	**5,163**	**2,285**	**668**	**7,585**	**41**	**7,544**	**15.97%**

In the two years ended December 31, 2013, the total indebtedness of the groups of borrowers exposure to which exceeds 15% of the regulatory capital of the Bank decreased from NIS 27.5 billion to NIS 23.2 billion; accordingly, this indebtedness as a percentage of regulatory capital decreased from 64.8% to 49.1%, a decrease of 24.2%.
In addition, the cumulative percentage of total credit risk composed of borrowers with indebtedness of more than NIS 1.2 billion each decreased from 8.4% at the end of 2011 to 7.4% at the end of 2013, a decrease of approximately 12%.

(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

	December 31, 2013			December 31, 2012		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
	NIS millions					
Impaired credit risk	**7,855**	**746**	**8,601**	8,241	975	9,216
Substandard credit risk	**3,522**	**277**	**3,799**	2,429	362	2,791
Credit risk under special supervision	**4,529**	**1,577**	**6,106**	2,808	897	3,705
Total problematic credit risk*	**15,906**	**2,600**	**18,506**	13,478	2,234	15,712
Problematic credit risk net of allowance for credit losses	**13,834**	**2,445**	**16,279**	11,174	2,110	13,284
* Of which, unimpaired debts in arrears of 90 days or more	**1,251**	**-**	**1,251**	1,433	-	1,433

B. Nonperforming assets*

	Balance as at	
	Dec. 31, 2013	Dec. 31, 2012
	NIS millions	
Impaired credit to the public not accruing interest income (NPL)	**7,240**	7,538
Assets received upon settlement of debts	**151**	223
Total nonperforming assets	**7,391**	7,761

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

C. Performing impaired assets

	Balance as at	
	Dec. 31, 2013	Dec. 31, 2012
	NIS millions	
Impaired debts in troubled debt restructuring, accruing interest income	**553**	640
Impaired bonds accruing interest income	**43**	49
Total	**596**	689

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

D. Risk indices

	As at	
	Dec. 31, 2013	Dec. 31, 2012
Balance of impaired credit to the public, as a percentage of the balance of credit to the public*	**3.05%**	3.23%
Balance of unimpaired credit to the public, in arrears of 90 days or more, as a percentage of the balance of credit to the public*	**0.49%**	0.57%
Balance of allowance for credit losses in respect of credit to the public, as a percentage of the balance of credit to the public*	**1.54%**	1.61%
Balance of collective allowance for credit losses, as a percentage of the balance of credit to the public*	**1.24%**	1.09%
Balance of allowance for credit losses in respect of credit to the public, as a percentage of the balance of impaired credit to the public*	**50.60%**	49.99%
Problematic commercial credit risk in respect of the public, as a percentage of total credit risk in respect of the public*	**3.94%**	3.33%
Problematic credit risk in respect of the public, as a percentage of total credit risk in respect of the public*	**4.44%**	3.84%

* Before deduction of 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 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**
Composition of the allowance as at December 31, 2012				
In respect of credit to the public	1,538	293	2,255	4,086
In respect of debts other than credit to the public	-	-	7	7
In respect of off-balance sheet credit instruments (included in the item "other liabilities")	97	-	498	595
Allowance for credit losses as at December 31, 2012	1,635	293	2,760	4,688

* Including a collective allowance in respect of debts examined individually and found to be unimpaired.

Cash on Hand and Deposits with Banks

Cash on hand and deposits with banks totaled NIS 45.7 billion at the end of 2013, compared with NIS 55.3 billion at the end of 2012, a decrease of approximately 17.3%.

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

	Balance as at December 31		Change
	2013	2012	
	NIS millions		
Cash	**2,435**	2,376	2.5%
Deposits with the Bank of Israel	**22,446**	28,757	(21.9%)
Deposits with central banks abroad	**15,341**	19,834	(22.7%)
Deposits with commercial banks in Israel	**115**	59	94.9%
Deposits with commercial banks abroad	**5,372**	4,275	25.7%
Total	**45,709**	55,301	(17.3%)

Securities

Securities totaled NIS 60.9 billion as at December 31, 2013, compared with NIS 52.1 billion at the end of 2012, an increase of approximately 17.0%, which mainly resulted from purchases of government bonds.

For further details, see Note 3 to the Financial Statements.

For details regarding liens, see Note 14 to the Financial Statements.

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

	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.

	December 31, 2012				
	Depreciated cost	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value	Balance sheet value
	NIS millions				
Bonds:					
Held to maturity	749	59	-	808	749
Available for sale	45,057	633	(26)	45,664	45,664
For trading	3,934	*29	*(3)	3,960	3,960
Total bonds	49,740	721	(29)	50,432	50,373
Shares:					
Available for sale	1,346	308	-	1,654	1,654
For trading	52	*-	*(9)	43	43
Total shares	1,398	308	(9)	1,697	1,697
Total securities	51,138	1,029	(38)	52,129	52,070

* Charged to the statement of profit and loss.

For details of the unrealized loss from adjustments to fair value in respect of securities in the available-for-sale portfolio, see Note 3(5) to the Financial Statements.

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 December 31, 2013 (in NIS millions):

	Balance sheet value	Total balance sheet value
Government bonds:		
Israeli government	**48,486**	
US government	**139**	
Governments of developed countries	**2,205**	
Governments of developing countries	**501**	
		51,331
Bonds of banks and financial institutions:		
Banks in Israel		**268**
Banks in developed countries:		
US	**552**	
Australia	**203**	
Netherlands	**442**	
Sweden	**362**	
China	**112**	
South Korea	**194**	
UK	**238**	
Others*	**220**	
		2,323
Banks - developing countries		**52**
Financial institutions (other than banks):		
Israel	**136**	
US**	**291**	
Others	**11**	
		438
		3,081
Bonds of corporations, other than banks and financial institutions, by economic sector:		
Industry	**874**	
Real-estate activities	**533**	
Electricity and water	**568**	
Commerce	**253**	
Transportation	**76**	
Communication and computer services	**670**	
Financial services	**458**	
Public services	**130**	
Other business services	**213**	
		3,775
Total bonds		**58,187**

* Includes 12 countries; the highest balance is approximately NIS 64 million.
** Includes 13 issuers; the highest balance of one issuer is approximately NIS 170 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 2,254 million as at December 31, 2013, compared with NIS 1,697 million at the end of 2012.

Deposits

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

	Balance as at December 31		Change
	2013	2012	
	NIS millions		
Deposits from the public	**276,525**	271,411	1.9%
Deposits from banks	**5,303**	6,015	(11.8%)
Government deposits	**613**	629	(2.5%)
Total	**282,441**	278,055	1.6%

Deposits from the public as at December 31, 2013 totaled NIS 276.5 billion, compared with NIS 271.4 billion at the end of 2012, an increase of approximately 1.9%. This increase mainly resulted from an increase of NIS 6.6 billion in deposits in the Financial Management Segment, mainly due to an increase in deposits from large institutional and corporate clients; an increase of NIS 2.3 billion in deposits in the Commercial Segment; and an increase of NIS 1.4 billion in deposits in the Corporate Segment. This increase was offset by a decrease of NIS 5.2 billion in retail deposits (of which, a decrease of NIS 5.9 billion in deposits in the Private Banking Segment, offset by an increase in the Small Business Segment), reflecting customers' transition from investment in deposits to investment in the capital market.

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

	Balance as at December 31		Change		Share of segment in total deposits from the public as at December 31	
	2013	2012			**2013**	2012
	NIS millions					
Israeli currency unlinked	**175,886**	167,651	8,235	4.9%	**63.6%**	61.7%
Israeli currency CPI-linked	**18,368**	20,350	(1,982)	(9.7%)	**6.6%**	7.5%
Foreign currency (including f. c. linked)	**82,081**	83,262	(1,181)	(1.4%)	**29.7%**	30.7%
Non-monetary items	**190**	148	42	28.4%	**0.1%**	0.1%
Total	**276,525**	271,411	5,114	1.9%	**100.0%**	100.0%

Unlinked shekel deposits from the public totaled NIS 175.9 billion as at December 31, 2013, compared with NIS 167.7 billion on December 31, 2012, an increase of approximately 4.9%. This increase mainly resulted from an increase in deposits from major institutional and corporate clients.

CPI-linked shekel deposits from the public totaled NIS 18.4 billion as at December 31, 2013, compared with NIS 20.4 billion as at December 31, 2012, a decrease of approximately 9.7%. This decrease resulted from a decrease in deposits in the retail and corporate areas.

Deposits from the public in foreign currency (including linked to foreign currency) totaled NIS 82.1 billion as at December 31, 2013, compared with NIS 83.3 billion on December 31, 2012, a decrease of approximately 1.4%. This decrease resulted from a decrease in balances from the Bank's activity overseas, which was offset by an increase in deposits from large institutional and corporate clients.

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

	December 31	
	2013	2012
	NIS millions	
Deposit ceiling		
Up to 1	**98,342**	99,003
Over 1 up to 10	**70,755**	73,379
Over 10 up to 100	**42,254**	41,834
Over 100 up to 500	**27,344**	29,489
Over 500	**37,830**	27,706
Total	**276,525**	271,411

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

	2013	2012
	NIS millions	
Group A	**9,879**	5,560
Group B	**3,730**	3,830
Group C	**3,491**	2,342

* "Group" – A depositor, including a controlling party thereof (including others under its control), and a party under its control.
** The three largest depositor groups in that year.

Deposits from the public by segment of activity:

	December 31		Change	
	2013	*2012		
	NIS millions			
Households Segment	**36,561**	37,636	(1,075)	(2.9%)
Private Banking Segment	**123,315**	129,197	(5,882)	(4.6%)
Small Business Segment	**27,622**	25,869	1,753	6.8%
Commercial Segment	**19,329**	17,011	2,318	13.6%
Corporate Segment	**26,625**	25,193	1,432	5.7%
Financial Management Segment	**43,073**	36,505	6,568	18.0%
Total	**276,525**	271,411	5,114	1.9%

* Reclassified. For further details, see the section "General – The Segments and Customer Assignment Criteria," below.

Bonds and subordinated notes totaled NIS 34.0 billion as at December 31, 2013, compared with NIS 35.7 billion at the end of 2012, a decrease of approximately 4.8%. During 2013, bonds in the amount of approximately NIS 1.6 billion were issued by the Bank Group, and bonds and subordinated notes in the amount of approximately NIS 3.1 billion matured.

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

General – The Segments and Customer Assignment Criteria

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.

Criteria for Assignment of Customers to the Segments

Households Segment – Provides a range of banking services and financial products to households. Customers assigned to this segment are customers with a monthly income of up to NIS 9,000.

Private Banking Segment – Provides a range of advanced banking services, through various channels, and financial products, including investment advisory services, to private customers of medium to high net worth in Israel and abroad. Customers assigned to this segment are customers with a monthly income higher than NIS 9,000 and/or who hold investments at the Bank in an amount greater than NIS 100,000 and also young customers with a monthly income higher than NIS 7,000, or who hold investments at the Bank in an amount greater than NIS 75,000.

Small Business Segment – Customers included in this segment are those with a revenue turnover of less than NIS 30 million, with indebtedness to the Bank of up to NIS 6 million.

Commercial Segment – Customers included in this segment are customers with a revenue turnover of over NIS 30 million and up to NIS 400 million annually, or with indebtedness to the Bank of more than NIS 6 million and up to NIS 100 million, or customers whose total indebtedness (to the Bank or to other lenders) is more than NIS 6 million, up to a total of NIS 250 million. For customers in the construction and real-estate sector, total indebtedness is over NIS 6 million and up to NIS 200 million to the Bank or total indebtedness (to the Bank or to other lenders) is over NIS 6 million and up to NIS 400 million.

Corporate Segment – Customers included in this segment are customers with a revenue turnover (sales) of over NIS 400 million, with indebtedness to the Bank of more than NIS 100 million, or customers with total indebtedness (to the Bank or to other lenders) of more than NIS 250 million. For customers in the construction and real-estate sector, total indebtedness is over NIS 200 million to the Bank or total indebtedness (to the Bank or to other lenders) is over NIS 400 million.

Financial Management Segment – Responsible for the management of the Bank's assets and liabilities, management of the Nostro portfolio, activity of the dealing rooms (foreign currency and securities), contact and administration of activity with financial entities (in Israel and overseas), and provision of operational services to financial-asset managers and operational services in securities to all customers of the Bank. The segment is responsible for the management of market and liquidity risks, performed through proactive management of the Nostro portfolio and through the use of financial instruments, such as issuance of various securities, deposits, interest and foreign-currency derivatives, and more.

Others and Adjustments – Includes all other activities of the Bank Group, each of which does not form a reportable segment. This segment also includes activity in credit cards under the responsibility of other banks that do not belong to the Bank Group.

It should be clarified that the assignment of the results of operations in the manner described above is occasionally performed based on criteria in addition to those listed above. For example, a private customer or a company with a profile and potential for future activity that justify an assignment to the Private Banking Segment or the Corporate Segment, as relevant, may be assigned to that segment despite the fact that when joining the Bank they do not meet the criteria established for the segment.

The results of operations of the principal subsidiaries and of the Bank's main offices overseas were assigned to the segments of activity as follows: results of operations of Poalim Sahar Ltd., Poalim Capital Markets Investment House Ltd., Peilim Investment Portfolio Management Ltd., and Hapoalim Securities USA Inc. (hereinafter: "Hapoalim Securities") were assigned to the Financial Management Segment; customers of Bank Hapoalim (Switzerland) Ltd. and of Banque Hapoalim (Luxembourg) S.A. – Private Banking Segment; customers of the US and UK branches – Private Banking, Commercial, and Corporate Segment; Bank Pozitif and its subsidiary JSC Bank Pozitiv – Households and Commercial Banking Segment.

Rules for the Distribution of Results of Operations among the Segments

The following are the main rules applied in dividing the results of operations among the different segments:

Net interest income – Includes among others: (1) the spread between the interest received from the segment's customers and the wholesale interest which the segment is charged in respect of the resource used to provide the loan to the customer; (2) the spread between the wholesale interest at which the segment is credited in respect of resources which it makes available to the Bank, and the interest rate paid to the segment's customers in respect of such resources; (3) the un-indexed wholesale interest on the weighted capital calculated for the return on equity attributed to the segment, calculated based on the risk-adjusted assets allocated to each segment; and (4) surplus cost in respect of subordinated debt notes issuance.

Provision for credit losses – A provision for credit losses is charged to the segment to which the borrower against whose debt the provision is recorded belongs.

Non-interest financing income – Attributed to the segment to which the customer belongs. Income recorded in the Financial Management Segment includes income from realization and adjustment to fair value of bonds, profits from investment in shares, results of activity in derivative instruments, net profit from exchange-rate differences, and financing expenses arising from hedging of investments overseas. Income recorded in the other segments includes profits from the dealing room.

Fees and other income – Attributed to the segment to which the customer belongs. Income in respect of computer services provided by the Bank to external entities is attributed to the Others and Adjustments Segment.

Operating and other expenses – Expenses are attributed to each segment of activity, according to predetermined rules and standard prices, either as an expense identified directly with the activity of the segment, or according to charging formulas. Standard prices are determined similarly to the establishment of transfer prices, as described above. Differences formed in calculations between the actual expense calculation of units that are not profit units and the income attributed to these units based on standard prices are allocated as income or expenses, as relevant, to the Others and Adjustments Segment. Attribution rules are based on the volumes of activity relevant to the types of costs in each segment.

Debiting for inter-segmental services – The assigned segment of a customer receiving services from another segment is charged with an inter-segmental expense, based on standard prices for services provided by other segments to its customers, or based on a transfer price for the service provided to the customer. The costs of the segment providing the service are reduced accordingly, and the costs are concurrently charged to the segment to which the customer belongs. Transfer prices are set by the Bank based, among other factors, on market prices for the service, internal cost estimates, and participation in income derived directly or indirectly from the said service.

Taxes on income – The provision for tax on the results of operation of each segment was calculated according to the annual effective tax rate, excluding the effects of translation differences in respect of consolidated companies overseas (attributed to the Financial Management Segment).

Return on equity – Reflects the ratio of the net profit attributed to shareholders of the Bank in each segment to the capital allocated to that segment.

Capital allocated to the segment – The balance of risk-adjusted assets in each segment, which represents each segment's relative share of the total risk-adjusted assets of the Group, as calculated for the purposes of capital adequacy pursuant to the Basel 2 directives, multiplied by the ratio of weighted capital (as calculated for the purposes of calculating return on equity) to the total balance of risk-adjusted assets.

Reclassification of Segment Data

Comparative figures for 2012 were reclassified as follows:

1. The balance of deposits taken from large institutional and corporate clients and the results of operations in respect of this activity were reclassified from the Corporate Segment to the Financial Management Segment. The reclassification was performed following the implementation of an organizational change in which responsibility for this activity was transferred to the Financial Markets Area.
2. Credit balances as at December 31, 2012, were reclassified due to the redistribution of collective allowance balances among the segments of activity.
3. Results of operations in construction and real estate in the Small Business Segment and balances related to this activity were reclassified from the subsegment of banking and financial services to the subsegment of construction and real estate.
4. Surplus cost in respect of subordinated debt notes issuance was attributed to the various segments in proportion to the risk-adjusted assets associated with each segment.
5. Average balances of risk-adjusted assets were reclassified in order to reflect the effect of the changes described above, and to appropriately reflect the allocation of risk-adjusted assets based on balances of credit risk (balance sheet and off-balance sheet) and operational risk attributed to various customers.
6. Tax expenses in respect of previous years in the amount of NIS 45 million, which were allocated to the Others and Adjustments Segment, were reclassified and allocated in full to the various segments of activity.

Condensed Financial Information on Segments of Activity

2013 was marked by a significant impact of the decrease in the interest rate in Israel on financing income; the effect of the Competition Committee on income from fees; and the effect of the provision for the efficiency plan. These effects were primarily apparent in the retail banking segments.

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 (loss) attributed to shareholders of the Bank

	For the year ended December 31		Change
	2013	*2012	
	NIS millions		
Households Segment	**177**	343	(48.4%)
Private Banking Segment	**41**	244	(83.2%)
Small Business Segment	**305**	371	(17.8%)
Commercial Segment	**379**	259	46.3%
Corporate Segment	**1,058**	1,007	5.1%
Financial Management Segment	**583**	281	107.5%
Others and Adjustments	**37**	38	(2.6%)
Total	**2,580**	2,543	1.5%

* Reclassified. For further details, see the section "General – The Segments and Customer Assignment Criteria," above.

B. Net Credit to the Public by Segment of Activity

	December 31		Change	
	2013	*2012		
	NIS millions			
Households Segment	**66,123**	63,509	2,614	4.1%
Private Banking Segment	**34,302**	31,528	2,774	8.8%
Small Business Segment	**26,242**	24,217	2,025	8.4%
Commercial Segment	**31,131**	27,056	4,075	15.1%
Corporate Segment	**89,149**	98,397	(9,248)	(9.4%)
Others and Adjustments	**4,653**	4,475	178	4.0%
Total	**251,600**	249,182	2,418	1.0%
Of which, consumer credit in Israel excluding housing loans and credit cards:				
Households Segment	**22,588**	21,145	1,443	6.8%
Private Banking Segment	**8,859**	8,283	576	7.0%
Small Business Segment	**20,392**	18,736	1,656	8.8%
Total	**51,839**	48,164	3,675	7.6%
Housing loans in Israel:				
Households Segment	**37,273**	36,099	1,174	3.3%
Private Banking Segment	**15,940**	13,328	2,612	19.6%
Small Business Segment	**4,663**	4,296	367	8.5%
Total	**57,876**	53,723	4,153	7.7%

* Reclassified. For further details, see the section "General – The Segments and Customer Assignment Criteria," above.

C. Deposits from the Public by Segment of Activity

	December 31		Change	
	2013	*2012		
	NIS millions			
Households Segment	**36,561**	37,636	(1,075)	(2.9%)
Private Banking Segment	**123,315**	129,197	(5,882)	(4.6%)
Small Business Segment	**27,622**	25,869	1,753	6.8%
Commercial Segment	**19,329**	17,011	2,318	13.6%
Corporate Segment	**26,625**	25,193	1,432	5.7%
Financial Management Segment	**43,073**	36,505	6,568	18.0%
Total	**276,525**	271,411	5,114	1.9%

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 year ended December 31		Change	For the year ended December 31		Change
	2013	*2012		**2013**	*2012	
	NIS millions			NIS millions		
Households Segment	**64,782**	62,228	4.1%	**36,838**	35,973	2.4%
Private Banking Segment	**32,829**	29,285	12.1%	**125,651**	125,019	0.5%
Small Business Segment	**24,807**	23,176	7.0%	**26,874**	24,456	9.9%
Commercial Segment	**28,322**	26,471	7.0%	**17,640**	15,928	10.7%
Corporate Segment	**92,885**	100,881	(7.9%)	**25,426**	22,803	11.5%
Financial Management Segment	**-**	-	-	**38,622**	34,244	12.8%
Others and Adjustments Segment	**4,535**	4,431	2.3%	**-**	-	
Total	**248,160**	246,472	0.7%	**271,051**	258,423	4.9%

* Reclassified. For further details, see the section "General – The Segments and Customer Assignment Criteria," above.

Set out below are details of the capital attributed to each segment of activity, for the calculation of return on equity[(1)]:

	For the year ended December 31		Change
	2013	*2012	
	NIS millions		
Households Segment	**4,771**	4,131	15.5%
Private Banking Segment	**2,930**	2,553	14.8%
Small Business Segment	**2,163**	1,848	17.0%
Commercial Segment	**3,557**	2,874	23.8%
Corporate Segment	**12,275**	11,771	4.3%
Financial Management Segment	**1,918**	1,849	3.7%
Others and Adjustments Segment	**168**	151	11.3%
Total	**27,782**	25,177	10.3%

* Reclassified. For further details, see the section "General – The Segments and Customer Assignment Criteria," above.

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

Off-Balance Sheet Activity

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

	For the year ended December 31		Change	
	2013	2012		
	NIS millions			
Households Segment	**4,288**	4,177	111	2.7%
Private Banking Segment	**165,740**	151,906	13,834	9.1%
Small Business Segment	**11,213**	10,255	958	9.3%
Commercial Segment	**15,091**	13,392	1,699	12.7%
Corporate Segment	**294,862**	236,152	58,710	24.9%
Financial Management Segment	**432,275**	406,127	26,148	6.4%
Total	**923,469**	822,009	101,460	12.3%

(1) Securities, including balances of securities of provident funds and mutual funds for which the Bank Group provides custody services, as well as assets of provident funds that receive operational services from the Bank.

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 264 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; 13 branches were merged. The Bank plans to open 5 new branches serving the Arab-Israeli sector in 2014, while mergers of approximately 15 branches will be under consideration.

Activities

The principal activities in this segment are banking and financial services, credit cards, the capital market, and housing loans. Services offered to customers of the segment in the area of "banking and financial services" include current-account management services, granting of credit for various purposes, deposits, and savings plans. For details regarding the services provided by the Bank within "credit card" and "capital market" activities, see the section "Additional Information Concerning Activity in Certain Products," below.

Legislative Restrictions, Regulations, and Special Constraints Applicable to the Segment

The Bank operates within the framework of laws, regulations, and regulatory directives that apply to the banking system in Israel, under the authority of entities such as the Supervisor of Banks; the Supervisor of the Capital Market, Insurance, and Savings at the Ministry of Finance; the Antitrust Commissioner; the Israel Securities Authority; and others.

Regulatory Changes

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

The directive of the Supervisor of Banks, "Limits on Housing Loans," took effect on September 1, 2013. The directive sets limits in the following areas:

1. Mortgage payments as a percentage of income – a maximum of 50%; if the payment exceeds 40% of income, the loan shall be assigned a risk weight of 100%.
2. The percentage of the loan with a floating rate of interest – the part of the loan at a floating rate of interest shall not exceed 66.66% of the total loan; the part of the loan at a floating rate of interest varying at a frequency of less than five years shall not exceed 33.3% of the total.
3. Repayment period – the maximum period is 30 years.

A private bill submitted on November 11, 2013, the Banking Ordinance Amendment Bill (Early Repayment Fees), 2013, proposes to obligate banks to offer borrowers the option of choosing a loan track for the purchase and mortgage of a residence allowing early repayment without fees. The bill was not discussed; it was rejected by the Ministers' Committee on Legislation.

The Law for Facilitation and Encouragement of Capital Market Activity (Legislative Amendments), 2013, was published on January 27, 2014. The law authorizes the Minister of Finance to determine types of financial assets for which investment advice can be provided without an investment advisor's license.

Within proposed legislation for the implementation of a trajectory for facilitation and development of the capital market, draft regulations were published on September 16, 2013, pursuant to which a deposit and loan fund ("Kapam") would be defined as a financial asset for which investment advice or marketing does not require a license. The terms, composition, and method of publishing estimated annual returns for deposit and loan funds are also specified, all subject to approval by the Knesset Finance Committee. A deposit and loan fund is a financial asset constituting a development of an unlinked shekel money-market fund. The fund's returns reflect the implied returns of jumbo deposits and short-term notes (up to one year to maturity).

On October 31, 2013, as part of the implementation of the recommendations of the Committee for the Examination of Increasing Competition in the Banking Industry (the "Zaken Committee"), the Supervisor of Banks issued draft directives concerning "Annual Reports for Customers of Banking Corporations". The directives are aimed at regularizing banking corporations' duty to report to their customers on all of the customers' assets and liabilities with the banking corporation, including total income and expenses during the year in respect of assets, liabilities, and current account activity. According to the preamble to the draft directive, the goal of the annual report is to improve customers' ability to monitor the activity in their accounts, and to improve the ability to compare different banking products and services. The periodic report is also intended to provide information to customers with regard to their credit rating, as determined by the rating model of the banking corporation.

Proper Conduct of Banking Business Directive 421, Reductions or Additions to Interest Rates (the "Directive"), was issued on September 9, 2013. According to the Supervisor of Banks, the Directive is aimed at making it easier for customers to compare and effectively negotiate interest rates on loans or limited-duration deposits.

The Directive states that in loans where the interest rate is not fixed and known over the entire period of the loan, and in loans executed in several parts, at the date of a change in the interest rate on the loan, the same reduction from or addition to the baseline interest rate that applied when the loan was granted shall apply, with permitted exceptions pertaining to the LIBOR rate, as detailed in the directive. For the purposes of the Directive, "loans" also include approved credit limits in accounts and credit limits of charge cards.

The Directive further states that in deposits where the interest rate is not fixed and known over the entire period of the deposit, and in deposits renewed from time to time according to the customer's instructions, at the date of a change in the interest rate on the deposit or renewal thereof, the same reduction from or addition to the baseline interest rate that applied at the deposit date shall apply.

The directive took effect on January 1, 2014, except with regard to deposits; the inception date for deposits has been postponed to July 1, 2014, in accordance with the directive of December 31, 2013.

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

There were no changes in the profile of the segment's customers in 2013, and until near the date of the financial statements. For further details, see the subheading "General - The Segments and Customer Assignment Criteria" above. However, there is an ongoing trend of an increase in banking activity through direct channels (automatic teller machines, "Poalim by Telephone," and "Poalim Online").

For details regarding risk in housing loans, see the section "Composition and Developments of the Bank Group's Assets and Liabilities," above.

Technological Changes that May Have a Material Impact on the Segment

The increase in the volume of customers' activity using direct channels continued in 2013, along with continued solidification of the bank's leadership in various areas of direct banking.

Maintaining Mobile Leadership

After three years and over 300,000 active customers on its applications, the Bank launched an advanced smart application for mobile account management, offering a unique, customized banking experience for customers' account activity. The new initiative is designed to enlarge the group of users of this channel and improve the customer experience, while adjusting to innovative trends in this field and making use of the capabilities of new smartphones. Following the launch, the number of mobile users increased significantly; there are approximately 350,000 active users, as at the end of 2013.

At the end of the year, the Bank upgraded its mobile account management application, which allows its customers to deposit checks via mobile devices. Customers who use the application can deposit checks from anywhere, without visiting a branch or a self-service station. Checks are deposited using advanced technology, and customers receive guidance and instructions during the deposit process until it is complete.

Tools for Sensible Financial Conduct

- Walk Me – A guidance tool assisting customers with selected actions on the website, step by step, until the action is complete.
- Digital voice chat – Presents customers with extensive, comprehensive information regarding their credit-card activity; presents information based on customers' behavior, historical information, and past queries.
- Activation of new credit cards via the Bank's website.
- Presentation of customer-focused personalized messages, based on account status, on the website's current-account screen.

Poalim Voice

An innovative service launched in 2013 allows account management through voice identification alone, without the need to enter a password – a leap forward in customers' ability to conduct dialogue with the bank comfortably and intuitively. The service is currently in an extensive pilot phase, and is under examination ahead of a rollout to all customers.

Critical Success Factors in the Segment

- Management and development of an available, accessible, advanced retail distribution system, tailored to the needs of various customer groups, in branches and direct channels as well as cross-channel services.
- Continuous development of value offers suited to customers' needs and tastes in the various content areas.
- Development of a range of credit solutions, including new loan and mortgage products, suited to market conditions and customers' needs, as well as all-purpose loans, loans granted against liens of assets, and multi-channel loans.
- Definition of risk policy and appetite, along with strict, rational risk management and the development of decision-supporting models and tools.
- Development of long-term savings products and short-term investment products that address customers' needs, such as the group of "Dan the Saver" products, the Product of the Month, and additional products according to changing market conditions.
- Flexibility and sensitivity to changes in the market, including trends in the competitive and consumer environment as well as changes required under regulatory directives.
- Service and continual, proactive contact with customers, while ensuring the provision of a comprehensive financial solution differentially matched to the customer's needs, as well as a high level of customer satisfaction over time.
- Maintaining operational efficiency while continuing to provide optimal service to customers.
- Skilled professional personnel.

Main Barriers to Entry and Exit in the Segment

- Establishment and maintenance of a wide-ranging system of branches deployed throughout the country, or joining with a retail entity that has an existing network.
- Training skilled personnel in the various banking products and activities, including housing loans.
- Maintaining personal, continuous relationships with customers.
- A large allocation of regulatory capital for the provision of the various types of credit.
- Continuous information management allowing customers' risk level to be determined.
- Investments in setup, maintenance, and upgrades of advanced technological means.
- Building a strong, leading, credible retail brand.

Alternatives to the Segment's Products and Services, and Changes Therein

Current accounts can be maintained only with banks; other products and services can also be purchased from international banking institutions, other financial institutions, and retail chains.

Competition

The majority of the segment's customers maintain one account, at only one bank. These customers are consumers of credit, and mainly invest in basic investment products (shekel deposits and savings plans). However, the number of customers maintaining accounts with an additional bank is rising, as the segment is subject to increasing competition over customers, with some of these banks focusing on specific sub-sectors within the segment (housing loans, public-sector employees, employee groups, and consumer clubs).

Further to the trend of recent years, competition in 2013 remained centered on salary earning customers, as banks introduced special value offers for this target audience. Competition continued to gain momentum as a result of the changes in the market in the previous years, such as the lowering of barriers to transfers between banks; activity of credit companies and non-bank financial entities in the credit industry; the entry of insurance companies and private brokers into the mutual- and provident-fund market (with regard to the capital market reform, see the section "Additional Information Concerning Activity in Certain Products" below); increased activity in the households area by other banks; and the entry of money-market funds into competition in early 2008. In 2014, the launch of the Deposit and Loan Fund ("Kapam") is expected to strengthen competition, mainly over deposits.

In the area of credit, competition is intensifying; alongside traditional competitors, the market share of non-bank credit is growing. Competition is reflected in the development of new unique products and services, and value offers designed to recruit new customers and to enlarge or preserve the volume of activity of existing customers. Recently, institutional entities have also entered the consumer credit field; government agencies are seeking to encourage more extensive activity by these entities in the future.

Technological developments and growing maturity of customer groups create potential for increased competition in the market, including the removal of entry barriers for new players and reinforcement of small players.

The Committee on Competitiveness

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

The committee's recommendations were published in its final report on March 19, 2013. The main recommendations of the report in the area of fees were implemented in the recent amendment of the Banking Rules, issued on November 28, 2012, and applied in two phases, on January 1 and March 1, 2013. A statement concerning the implementation of current-account tracks and changes in minimum fees was released on July 8, 2013. On March 5, 2014, the Bank of Israel announced its intention to impose supervision on the price of the basic track, and to set a maximum price of NIS 10 for this track.

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.

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.

In the area of credit cards, competition is high in the various customer segments: card-holding customers (including competition over contracts with customer clubs), banks that distribute credit cards, and businesses that accept credit cards. This competition is expressed in the development of new, unique products and services and in marketing value offers aimed at recruiting new customers and expanding or maintaining a share in the activity of existing customers. In the credit-card market, competition is reflected in initiatives established with leading retail chains to distribute joint credit cards, including the granting of consumer credit. For further details, see the section "Additional Information Concerning Activity in Certain Products" below.

In the area of housing loans, the main competitors are banking corporations: Mizrahi-Tefahot Bank Ltd. (hereinafter: "Mizrahi-Tefahot Bank"), Bank Leumi LeIsrael Ltd. (hereinafter: "Bank Leumi"), and Israel Discount Bank Ltd. (hereinafter: "Discount Bank"). Credit policy in the area of housing loans is adjusted and updated according to developments and trends in markets globally and in Israel, and their effect on the real-estate sector, on households in Israel, and on customers' needs. From customers' perspective mortgages are a "price seekers' product," characterized by a lack of borrower loyalty to a "home bank," whereas banks view mortgages as an "anchor product" used in the effort to recruit and retain customers. The Bank therefore applies a policy of creating unique value for customers of the Bank, based on the strategy "Take Your Mortgage at Home." In view of the mounting competition in the area of housing credit in recent years, the Bank has continued to maintain a conservative policy. The Bank's share in total housing credit extended to customers (executed) in 2011, 2012, and 2013 stood at approximately 22.5%, 22.3%, and 21.2%, respectively (according to the Bank of Israel's reports; including purchasing groups).

Main Methods of Coping with Competition

- Carefully considered development of the network of branches according to the needs of the various population segments in areas with potential, while selecting the most suitable concept for the surroundings, target audience, and business potential of the branch.
- Continuous development of a range of products in all content areas of banking, in accordance with market and consumer trends, along with value-added services conferring a competitive advantage for the customers of the Bank, such as the foreign-currency service at the airport, which allows customers to order foreign currency in advance over the Internet or by telephone and receive it at the Bank's counter before boarding their flights.
- A comprehensive view of the customer: risk management and repayment-capability analysis, integration of mortgages with other banking products, and the creation of product baskets, with an emphasis on offers suited to the customer's needs, such as "Zakaut (Entitlement) Poalim" and others.
- Reinforcing personal connections and relationships with customers through an emphasis on service and the launch of unique services designed to promote customers' empowerment and growth and provide tools for sensible financial conduct.
- Use and implementation of DWH tools, CRM systems, and management and optimization systems allowing the development and absorption of advanced work processes aimed at customer retention and expanding activity with customers.
- Improving work processes, including the multi-channel perspective, and managing and investing in advanced systems.
- Reinforcement and development of the direct channels – Poalim by Telephone, Poalim Online, and Poalim Mobile – in order to improve the value-added services offered to customers. This includes the introduction and upgrade of the online budget management tool, which is well matched to the needs of this segment, as well as the capital market website, specialized applications for account management and capital market activity for a variety of platforms (iPad, iPhone, personal computer), launch of the Mobile Wallet application, and the Maof simulator designed for customers with greater interest and activity in the capital market.
- Leveraging the Bank's technological power to provide a multi-channel service package to customers, such as the "Multi-Channel Loan" service, in which customers can apply for a loan via Poalim Online and receive approval via voice message, to a telephone number of their choice; "Instant Credit," which offers loan applications via smartphone (iPhone and Android); cash withdrawal via text message, allowing customers to withdraw or transfer cash using a code sent to their phones; and the "With You in the Moment" service, which allows customers to place an online request for a telephone call from a banker through the Bank's website, and informs the customer of the estimated wait time (usually a few seconds).
- Preparing for various market scenarios by building flexible infrastructures that allow for an appropriate, rapid response to changes in the competitive environment.

Products and Services

Dan the Saver – In late 2009, the Bank relaunched the familiar and well-loved brand from the 1950s, Dan the Saver. The brand and the related activities were given a new look and adapted to the 2000s and the current generation of children, and the Bank is working to encourage savings for children by parents and to increase children's awareness of sensible financial conduct and savings. As part of this effort, the Bank created a website for children that teaches the values of savings and banking terminology through games; held workshops for children at community centers and summer camps; and distributed over half a million coin banks for children. The Bank recently launched automated machines in which children can deposit their savings, in coins and bills, to a special fee-exempt Dan the Saver account, and continued to expand the Dan the Saver group of savings products for parents.

Poalim Cash Back – The Cash Back 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.

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 creation of new differentiated current-account tracks for customers. The services and the tracks will be launched during 2014.

Personal Financial Planning – In 2012, the Bank launched a unique new service, offering customers a personal meeting with a qualified banker, to examine the customer's overall financial conduct and formulate individually tailored recommendations for future choices. The recommendations are matched to the customer's profile, plans, and preferences. The service is provided by bankers trained for this purpose, at all branches of the Bank.

Customers

The segment's customers mainly include households with low to medium financial wealth, as well as small business clients. Customers are divided into sub-segments based on parameters of age, financial wealth and/or income level, debt balances, and growth potential. Segment customers also include customers who take out a loan that involves mortgaging a home as their only activity at the Bank.

Marketing and Distribution

The segment's marketing and distribution is conducted through advertising campaigns in newspapers, on television, on the Internet, on the radio, and on billboards. The Bank identifies itself publicly as a professional provider in the financial field, leading its customers towards financial freedom through guidance and through the continual development of innovative tools for sensible financial conduct and the encouragement of savings. Customers also receive marketing messages through the various channels they use at the Bank, both reactively and proactively – face to face or over the telephone at the branches, at Poalim by Telephone, on the Poalim Online website, and through Poalim Mobile. Marketing messages are also delivered through direct mailings to customers (account statements, designated direct mail); self-service stations (ATMs and Adcan machines); and marketing e-mails – in a project completed in January 2013, a system has been implemented for the distribution of marketing e-mails and newsletters, in compliance with the Spam Law (Amendment to Section 30 of the Communications Law (Telecommunications and Broadcasting), 2008). This is an inexpensive, quick, effective channel for distribution to our customers, which creates the opportunity for business club partners to present non-banking value offers and later banking offers as well to the Bank's customers. Other channels include information presented on screens, informational pamphlets, and postcards at the branches.

Human Capital

The average number of positions of employees of the segment in 2013 was 5,127 (2012: 5,347 positions), of which 631 direct managerial positions (2012: 645 direct managerial positions). The decrease in the number of positions mainly resulted from the implementation of the standardization process at the Head Office units, in accordance with the "Poalim the Right Way" (LEAN Banking) methodology, and from optimization of the deployment of the branch network.

Permanent workers trained for various roles, according to the customers' banking needs, are employed at the branches. In addition, external workers are employed in basic positions (tellers), after receiving appropriate training. The Bank's policy is to hire academic degree holding employees as necessary, and there is an ongoing upward trend in the percentage of degree holders. The Bank also encourages employees to study towards undergraduate and graduate level degrees, both through assistance in financing their studies and through added vacation days for exams. The Poalim by Telephone call centers employ Bank employees and external employees who have undergone designated training, including admission examinations for call-center service providers.

Collaboration Agreements

Collaboration agreements with insurance companies: In order to sell building insurance and life insurance in the course of granting housing loans, as described above, the Bank Group has contracted with several leading insurance companies; customers are offered the option of buying policies from the said insurance companies through presentation of the insurance offers of each of the companies. Customers are free to select the most suitable proposal or purchase insurance elsewhere.

Taxation

With regard to taxation, see the section "Taxation Status," below.

Legal Proceedings

See Note 19 to the Financial Statements.

Proper Conduct of Banking Business Directive 311

See the section "Risk Management," below.

Objectives and Business Strategy

The Bank aims to improve its profitability by expanding activities with the segment's customers, recruiting new customers, and streamlining and improving supporting processes. The following measures are planned in order to realize this strategy:

- Prudent management of the retail network based on a multi-channel approach and on potential, with the construction of advanced solutions based both on the branch network and on the accessibility and availability of transactions and information through a variety of direct channels.
- Continued development of advanced infrastructures for understanding of customers' needs, as a basis for the development of tailored, differentiated value offers for the different segments.
- Preserving the Bank's leadership and competitive advantage through the continued development of its advanced service philosophy and increase of customer satisfaction.
- Development of activities in the area of housing loans as an anchor product, with a focus on Bank customers, alongside improvements in sales and marketing processes.

- "Poalim the Right Way" (LEAN Banking) – Implementation of new resource management methods and work processes at the Bank's branches, aimed at creating conditions leading to operational excellence while improving branch workers' professional skills in sales and service processes. As part of this framework (as well as in independent frameworks), operational core processes that do not require direct contact with customers are being transferred from the branches to central back offices, which specialize and are professionally skilled in operational processes, to separate these processes from face-to-face customer service and sales processes in the branches' activity. The first center opened in July 2008. As at the date of the financial statements, six centers (in Beit Dagan, Nesher, Givat Olga, Hatzor, Beer Sheba, and Jerusalem) handle a broad range of core processes, including currency transfers in foreign and Israeli currency, handling guarantees in general and Sale Law guarantees in particular, addressing deviations from credit facilities in customers' accounts and collection, check discounting, subtraction of checks submitted for deferred deposit and check cancellation, check deposits by machine, check truncation, debit authorizations, foreclosures, various services provided to provident funds, and more. The centers also provide operational support for the Express Branches and Business Branches. The Bank estimates that the cultivation of operational expertise and skill at the centers alongside the implementation of advanced control processes, some of which are automated, will allow a reduction of the level of operational risk associated with these processes (including survivability and disaster recovery) to which the Bank was exposed in the work structure prior to the transfer of these activities to the centers. In light of the success of this process, the effort was also expanded to Poalim by Telephone and the central bank offices, where processes with potential for improvements in services along with improved efficiency are examined.
- The Bank is completing preparations for the provision of pension advisory services at its branches. These preparations include training dozens of financial and pension advisors who specialize in a comprehensive view of customers' needs and in the provision of comprehensive, objective advice, and the implementation of an advanced, unique advisory system allowing convenient processing and presentation of information through all channels. Concurrently, the Bank is developing knowledge and professional expertise centers in the area of pensions, in order to make professional service accessible to a broad audience.

Outlook for Development in the Coming Year

Retail network deployment – The Bank will continue the prudent deployment of its branches in areas with regional potential and populations with potential, matching the format of the branch to the needs of the target population.

Pension advising – The Bank has been permitted to engage in pension advising, subject to the provisions of the legal arrangement and the derived permits and directives. At this stage, pension advising services are offered only at some branches of the Bank, and only to some customers; this service will gradually be expanded in the future. The expansion of this activity depends on factors some of which do not depend on the Bank, including: successful operation of the central pension clearing house, which was established to transfer information regarding customers' holdings in pension products between institutional entities and pension advisors and marketers, as well as the enactment of regulations establishing the rates of distribution fees for the distribution of insurance products. For further details regarding the Bank's preparations for the provision of pension advisory services, see the section "Additional Information Concerning Activity in Certain Products."

Condensed operating results and principal data of the Households Segment:

	For the year ended December 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	**1,615**	**87**	**-**	**1,632**	**43**	**4**	**3,381**
Inter-segmental	**188**	**-**	**-**	**(1,420)**	**(22)**	**(3)**	**(1,257)**
Non-interest financing income	**2**	**-**	**-**	**-**	**-**	**-**	**2**
Total net financing profit	**1,805**	**87**	**-**	**212**	**21**	**1**	**2,126**
Fees and other income	**501**	**576**	**32**	**85**	**-**	**-**	**1,194**
Total income	**2,306**	**663**	**32**	**297**	**21**	**1**	**3,320**
Provision for credit losses	**138**	**4**	**-**	**81**	**6**	**-**	**229**
Operating and other expenses:							
From externals	**2,153**	**473**	**61**	**184**	**40**	**2**	**2,913**
Inter-segmental	**(46)**	**-**	**9**	**(31)**	**-**	**-**	**(68)**
Profit (loss) before taxes	**61**	**186**	**(38)**	**63**	**(25)**	**(1)**	**246**
Provision for taxes (tax benefit) on profit (loss)	**20**	**51**	**(12)**	**20**	**(8)**	**-**	**71**
Net profit (loss):							
Before attribution to non-controlling interests	**41**	**135**	**(26)**	**43**	**(17)**	**(1)**	**175**
Attributed to non-controlling interests	**-**	**(4)**	**-**	**-**	**6**	**-**	**2**
Attributed to shareholders of the Bank	**41**	**131**	**(26)**	**43**	**(11)**	**(1)**	**177**
Return on equity	**1.9%**	**16.8%**		**2.4%**			**3.7%**
Average balance of assets	**22,407**	**6,771**	**-**	**36,373**	**288**	**41**	**65,880**
Average balance of liabilities	**36,803**	**-**	**-**	**-**	**35**	**-**	**36,838**
Average balance of risk-adjusted assets	**23,047**	**8,335**	**127**	**19,316**	**437**	**25**	**51,287**
Average balance of mutual funds[2]	**-**	**-**	**2,365**	**-**	**-**	**-**	**2,365**
Average balance of securities	**-**	**-**	**1,900**	**-**	**-**	**-**	**1,900**
Average number of employee positions	**3,797**	**731**	**125**	**397**	**41**	**36**	**5,127**
Balance of net credit to the public	**22,588**	**5,933**	**-**	**37,273**	**291**	**38**	**66,123**
Balance of deposits from the public	**36,519**	**-**	**-**	**-**	**42**	**-**	**36,561**
Spread from credit granting activity	**1,434**	**87**	**-**	**177**	**20**	**1**	**1,719**
Spread from deposit taking activity	**354**	**-**	**-**	**-**	**-**	**-**	**354**
Other	**15**	**-**	**-**	**35**	**1**	**-**	**51**
Total net interest income	**1,803**	**87**		**212**	**21**	**1**	**2,124**

(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 year ended December 31, 2012*						
	Activity in Israel				Activity abroad		Total
	Banking and financial services	Credit cards	Capital market(1)	Housing loans	Banking and financial services	Housing loans	
	NIS millions						
Net interest income:							
From externals	1,480	95	-	1,629	56	7	3,267
Inter-segmental	402	-	-	(1,412)	(30)	(12)	(1,052)
Non-interest financing income	2	-	-	-	-	-	2
Total net financing profit	1,884	95	-	217	26	(5)	2,217
Fees and other income	535	580	40	93	4	-	1,252
Total income	2,419	675	40	310	30	(5)	3,469
Provision for credit losses	202	25	-	25	1	4	257
Operating and other expenses:							
From externals	1,970	475	58	212	36	3	2,754
Inter-segmental	(29)	-	11	(27)	-	-	(45)
Profit (loss) before taxes	276	175	(29)	100	(7)	(12)	503
Provision for taxes (tax benefit) on profit (loss)	93	49	(10)	34	(2)	(3)	161
Net profit (loss):							
Before attribution to non-controlling interests	183	126	(19)	66	(5)	(9)	342
Attributed to non-controlling interests	-	(3)	-	-	2	2	1
Attributed to shareholders of the Bank	183	123	(19)	66	(3)	(7)	343
Return on equity	9.7%	18.1%		4.3%	(8.5%)		8.3%
Average balance of assets	22,121	6,238	-	35,074	343	94	63,870
Average balance of liabilities	35,946	-	-	-	27	-	35,973
Average balance of risk-adjusted assets	22,387	8,083	137	18,305	422	8	49,342
Average balance of mutual funds(2)	-	-	2,060	-	-	-	2,060
Average balance of securities	-	-	1,960	-	-	-	1,960
Average number of employee positions	3,952	761	132	418	44	40	5,347
Balance of net credit to the public	21,145	5,927	-	36,099	296	42	63,509
Balance of deposits from the public	37,601	-	-	-	35	-	37,636
Spread from credit granting activity	1,356	95	-	175	24	(5)	1,645
Spread from deposit taking activity	492	-	-	-	-	-	492
Other	34	-	-	42	2	-	78
Total net interest income	1,882	95	-	217	26	(5)	2,215

* Reclassified. For further details, see the section "General – The Segments and Customer Assignment Criteria," above.
(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 177 million in 2013, compared with NIS 343 million in the preceding year. The decrease in profit mainly resulted from an increase in operating expenses, a decrease in net financing profit, and a decrease in fees and other income.

Net financing profit in 2013 totaled NIS 2,126 million, compared with NIS 2,217 million in the preceding year. The 4.1% decrease resulted from the decrease in the interest rate in Israel which influenced the financial spreads on deposits. The decrease was partially offset by an increase in the volume of credit in this segment.

Fees and other income in 2013 totaled NIS 1,194 million, compared with NIS 1,252 million in the preceding year. The decrease mainly resulted from a change in the fee list, due to the amendment of the Banking Rules (Service to Customers), which led to the cancellation and change of several fees. An increase in the volume of activity offset this decrease.

The provision for credit losses totaled NIS 229 million in 2013, compared with NIS 257 million in the preceding year. A collective allowance in the amount of NIS 59 million was recorded in 2013 due to the initial implementation of the Supervisor's directive updating the guidelines concerning residential property, as detailed in Note 1(D)(6) to the Financial Statements.

The segment's operating and other expenses totaled NIS 2,845 million in 2013, compared with NIS 2,709 million in the preceding year. The increase mainly resulted from a change in provisions for efficiency plans from year to year, changes in estimates used to calculate liabilities for employee benefits, the effects of the wage agreement for 2013, and an increase in VAT rates, which influenced the increase in wage tax. By contrast, a decrease occurred as a result of cost savings due to the efficiency processes.

Net credit to the public totaled approximately NIS 66.1 billion as at December 31, 2013, compared with approximately NIS 63.5 billion as at December 31, 2012. The increase mainly resulted from an increase in consumer credit in israel and also in housing loans.

Housing loans in Israel totaled approximately NIS 37.3 billion as at December 31, 2013, compared with approximately NIS 36.1 billion as at December 31, 2012.

Deposits from the public totaled approximately NIS 36.6 billion as at December 31, 2013, compared with approximately NIS 37.6 billion as at December 31, 2012.

The Private Banking Segment

General and Segment Structure

The Private Banking Segment serves mid-range to high-net-worth customers in Israel and abroad. The Bank offers financial services and solutions to customers in this segment with complex financial needs, through advanced products, global asset management, and a special professional service package, which includes meetings and telephone calls initiated by the bankers and an advanced advisory system aided by decision support tools. In providing service to customers in this segment, special emphasis is placed on the formation of close long-term customer relationships.

The segment's activity in Israel, for customers who keep accounts with the Bank's branches in Israel (with the exception of one branch, which is assigned to international activity, as detailed below), is conducted through the Bank's nationwide chain of branches, at differentiated Private Banking Units within the branches and at "Boutique Branches" (which are targeted to the segment's customers in Israel), as well as through the direct channels (see the section "The Households Segment" above). Global Private Banking (GPB) services are provided both in Israel, at the GPB Center in Tel Aviv, and in a wide range of locations overseas, including in Europe, the United States, Latin America, Canada, and Asia. These services are provided through activity centers including banking subsidiaries, branches, asset-management subsidiaries (for further details regarding the activity of the Bank Group abroad, see the section "Activity of the Bank Group Abroad" below), and representative offices engaged solely in public relations.

Activities

The principal activities in this segment are banking and financial services, credit cards, the capital market, and housing loans. Services offered to customers of the segment in Israel and to GPB customers in the area of "banking and financial services" include current-account management services, granting of credit for various purposes (in this context, note that the Retail Banking Area and the International Banking Area are authorized to grant credit in larger amounts to customers of the Private Banking Segment, taking into consideration the customer's needs and net worth), deposits, and savings plans. For details regarding the services provided by the Bank within "credit card" and "capital market" activities, see the section "Additional Information Concerning Activity in Certain Products," below.

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

In Israel:

2013 concluded with gains. The TA-100 stock index was up by 15%. Government bond indices rose, by 4% for unlinked bonds and 3% for CPI-linked bonds. The various Tel Bond indices also rose by up to 8%. Advisors and clients worked during the year to optimize risk components in portfolios, as reflected in continued rechanneling to foreign shares, as well as reduction and optimization of the corporate bond portfolio. Optimization of the corporate segment of the portfolio was achieved by advisors mostly through debt analysis executed by GSE, and through the use of mutual funds, the use of which increased significantly during 2013.

Overseas:

The Bank emphasized increasing the assets of GPB customers held at the Bank Group, defining a strategic objective of increasing the percentage of customers with an asset portfolio of over one million dollars.

Technological Changes that May Have a Material Impact on the Segment

In Israel:

Main Launches in 2013

Changes to Poalim Advisor Systems

- Savings plans were added to the return calculation model; the data on returns presented in the advisory systems and on the website for customers is now comprehensive. This marks the completion of the development aimed at achieving a calculation of return on a complete investment portfolio, including all components thereof (securities, deposits, and savings plans). The presentation of returns creates transparency with regard to the performance of the investment portfolio, and enables customers and advisors to conduct a mutual dialogue aimed at sensible and responsible financial conduct over time, thereby contributing to customers' financial freedom, in line with the Bank's vision.
- Changes and adjustments were applied in the Poalim Advisor due to regulatory requirements, primarily the following:
  - Presentation of data on exposure to corporate bonds in the customer's portfolio, with a distinction between direct holdings and indirect holdings through mutual funds.
  - Definition of an investment policy for the customer's portfolio suited to the customer's risk level and characteristics.
- Upgrade of the investment portfolio analysis report – lateral design and expanded information on assets held in the customer's investment portfolio.

Critical Success Factors in the Segment

In Israel:

- High professional quality of employees.
- Investment advising at a high professional level, aided by advanced decision-support systems. As part of the development of advanced tools, an interface was launched for trading in foreign securities, for the benefit of customers who trade on the capital market.
- Customer-focused personal service, with a strong emphasis on personal relationships, availability, high-quality service, and tailoring to customers' needs.
- A proactive service package tailored to the customer, including meetings with the banker and/or advisor according to the customer's needs.
- Highly flexible service, according to changing market conditions in Israel and worldwide.
- An advanced, available, accessible branch network suited to customers' needs.
- A range of advanced direct communication channels (Internet, "Poalim by Telephone," "Poalim Mobile," and automated devices). In the mobile space, the Bank offers various services to its customers, including Poalim HD, a unique application for account management via iPad; a specialized application for capital-market trading via iPad; an account management application for various smartphones; the On Time service for information and alerts delivered by cell phone; a specialized capital market application; and a mobile wallet.
- In multi-channel banking, a two-way e-mail system was launched this year, providing customers with direct personal access to bankers through the secure website.

Overseas:

- High professional quality of employees.
- Personal service, focused on customers' needs.
- A wide variety of products, carefully selected from the world's best producers in accordance with the open-architecture policy (i.e., offering banking products produced by others), implemented through PAM Companies (see the section "Activity of the Bank Group Abroad" below), while tailoring the supply of products to customers' tastes and to prevalent international standards in the industry.

Main Barriers to Entry and Exit in the Segment

In Israel:

- Establishment of a broadly deployed nationwide system of branches, while differentiating service to these customers.
- Development of advanced direct services offering accessible service and the execution of financial activity.
- Training skilled personnel to provide financial advice to customers, in accordance with the provisions of the Advising Law.
- Continual development of a varied, differentiated range of products and services with added value, adapted to customers' needs and tastes.
- Maintaining personal, continuous relationships with customers.
- Investments in setup, maintenance, and upgrades of advanced technological means and management tools.
- High investment in the construction of a strong, leading, credible brand.

Overseas:

The activity of the Private Banking Segment involves long-term relationships with its customers. In order to be a significant competitor in this segment, financial institutions must meet several criteria:

- Broad geographical deployment, including offices and branches around the world.
- Employment of professional, skilled personnel.
- Investments in setup, maintenance, and upgrades of infrastructures.
- A system of product initiation and distribution.
- Compliance with regulatory restrictions.

Alternatives to the Segment's Products and Services, and Changes Therein

There are no alternatives for the majority of the segment's products and services, although there is competition between banking and financial institutions, in Israel and internationally. The Bank and the Bank Group principally work to improve processes and introduce technological improvements, with the aim of improving service and expanding the offering of banking products.

Customers

Private Banking customers in Israel have high net worth and/or future growth potential. Customers (including foreign residents) are assigned based on criteria of age, financial wealth, and/or income level.

Global Private Banking customers are high-net-worth private customers who are foreign residents, usually with a Jewish/Israeli affinity.

Marketing and Distribution

In Israel, marketing and distribution are performed through private-banking units at branches, face to face and by telephone, and via "Poalim by Telephone," both through initiated contacts and in response to customers' calls. Marketing and distribution activities are also conducted through "Poalim Online." Marketing and distribution to private-banking customers in Israel are also carried out through advertising campaigns in newspapers, on television, on the radio, and on billboards. Marketing messages are also communicated through direct mailings to customers (account statements, enclosures, designated direct mail); self-service stations (ATMs and "Adcan" self-service machines); the "Poalim Online" website; e-mail; and signs, videos, informational pamphlets, and postcards at the branches. In addition, mass marketing channels such as television, newspapers, radio, and the Internet are occasionally used to market value offers of the Bank to customers.

Marketing to customers abroad is conducted via the Bank's various representative offices, subject to the relevant laws in Israel and in the countries where the activity is conducted.

Another marketing means is the Platinum and Preferred clubs, which are targeted to high-net-worth customers. Service centers for these customers are located in Tel Aviv, Herzliya, Haifa, and Nazareth. Customers receive one-on-one service individually tailored to each client according to the client's needs. These customers receive a unique marketing and professional service package adapted to their needs and preferences.

- The clubs emphasize open architecture and individually tailored products.
- Customers are offered international investment portfolio management services based on globally prevalent models through the international desk at Peilim.

Exclusive services for Platinum Club members:

- Meetings with customers are held at the customer's preferred location, using secure mobile banking that allows transactions to be executed outside the Bank's offices.
- Platinum customers are offered the Centurion card – the world's most prestigious credit card, which allows members to enjoy international concierge services and provides benefits and upgrades in various areas of travel and tourism.
- The Platinum Club supports leading cultural and artistic institutions, and customers benefit from unique cultural events and experiences.

Competition

Some 40% of Private Banking customers in Israel maintain accounts with more than one bank. The entrance of insurance companies and private brokers into the mutual and provident-fund market, specifically, and into sales of financial products in general, as well as the removal of barriers to switching from bank to bank, have increased competition over customers in this segment. As a result, competition over these customers within the banking system is highly aggressive, as expressed in benefits in account management terms, price levels, advertising campaigns, an emphasis on personalized service and service packages tailored to customers, investment advisement at an exceptionally high level, and innovation in products and technology in order to provide leading services. The competitors in this segment are the four other major banking groups, as well as other banks operating in Israel, foreign banks, and investment houses. However, following the outbreak of the financial crisis, a decrease in the pace of competition was apparent, as some non-bank financial institutions and foreign banks outside Israel were perceived as less stable. With regard to competition in the area of housing loans, see the section "The Households Segment" above.

Anticipated amendments to the directives of the Bank of Israel will permit independent trading in mutual funds, with reduced distribution fees, through a specialized system, with no dependence on the terms of the account at the bank. Smaller banks and investment firms are expected to adopt this platform and make it available to customers of the major banks. This process is likely to have some impact on the level of competition in this segment.

Overseas, Global Private Banking is characterized by a high level of competition, which is increasing over time, as the high-net-worth customer segment is attractive to many financial institutions. The main competitors in this area are Swiss banks specializing in private banking, and Israeli banks operating overseas. Competition is primarily focused on providing a high level of personalized, professional service; a range of products and services not inferior to those offered by competitors; and the ability to respond rapidly to changes in the market and in customers' tastes.

The Committee on Competitiveness

See the "Households Segment" section above.

Human Capital

The average number of positions of employees of the segment in 2013 was 3,251 (2012: 3,334 positions), of which 629 direct managerial positions (2012: 638 direct managerial positions). The decrease in the number of positions mainly resulted from the implementation of the standardization process at the Head Office units, in accordance with the "Poalim the Right Way" (LEAN Banking) methodology, and from optimization of the deployment of the branch network.

The private-banking units in Israel employ personnel trained for various positions, according to customers' banking needs. The units also employ workers trained as investment advisors, who provide advisory services and banking services tailored to customers' needs.

The Bank's employees abroad are experts in private banking or in international credit products. Many of them hold academic degrees. In order to comply with the standards dictated by the global market, employees receive training and enrichment in the areas of their work as well as in local regulatory requirements. These employees are also familiar with customers' needs and preferences, and speak their language.

Legal Proceedings

See Note 19 to the Financial Statements.

Regulatory Changes

See the "Households Segment" section, above.

Proper Conduct of Banking Business Directive 311

See the section "Risk Management," below.

Collaboration Agreements

The Bank has collaboration agreements with international financial entities that are leaders in the area of global investments. Under these agreements, the Bank Group offers Global Private Banking customers a range of funds managed based on an analytical portfolio manager selection model, designed to select the best portfolio managers operating in each sector and market.

Objectives and Business Strategy

The Bank aims to improve its profitability by expanding its activity with the customers of this segment, recruiting new customers, and streamlining and improving the supporting processes.

In Israel:

- Strengthening personal relationships with and knowledge of customers, in order to retain and extend activities with existing customers and recruit potential customers.
- Continued deployment of the retail system in areas with potential, in formats matched to the needs of the customer segment.
- Continued development of advanced tools in the direct channels.
- Creation of a unique value offer suited to customers' differentiated needs.
- Improvement of the quality of customer service and enhancement of customer satisfaction and loyalty.

Overseas:

Growth while focusing on customers, matching business strategy to the competitive environment, developing the capabilities of customer relationship managers, expanding the volume of activity and assets of foreign-resident customers and Israeli customers operating abroad, including through expansion of the service package and the range of products offered to customers, and expansion of the customer base.

Outlook for Development in the Coming Year

Over the last few years, a new approach was formulated and implemented in the Private Banking Segment, in view of the changing competitive environment in which the Bank operates, where competition for private-banking customers is intensifying. The goal of the new approach is to create an innovative experience for customers, solidifying the Bank's competitive advantage and preserving its status as the leader in this market. This approach is based on key change catalysts such as providing differential service packages tailored to customers' different needs, formulating a service philosophy, defining an organizational structure compatible with customers' needs, transitioning to planned and proactive service, improving the appearance of branches, improving response in the direct channels, including the telephone call center, and empowering the unit's bankers and advisors.

Note that it is possible that the Bank may not succeed in realizing the plans described above, due to causes including legislative and/or regulatory directives, especially including all matters related to the training of a sufficient number of financial advisors and/or the intense competition over customers in this segment.

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

	For the year ended December 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	**(827)**	**19**	**-**	**496**	**63**	**-**	**(249)**
Inter-segmental	**1,634**	**-**	**-**	**(456)**	**61**	**-**	**1,239**
Non-interest financing income	**28**	**-**	**-**	**-**	**3**	**-**	**31**
Total net financing profit	**835**	**19**	**-**	**40**	**127**	**-**	**1,021**
Fees and other income	**264**	**326**	**534**	**9**	**145**	**200**	**1,478**
Total income	**1,099**	**345**	**534**	**49**	**272**	**200**	**2,499**
Provision for credit losses	**24**	**3**	**-**	**28**	**(2)**	**-**	**53**
Operating and other expenses:							
From externals	**1,150**	**237**	**301**	**27**	**258**	**203**	**2,176**
Inter-segmental	**53**	**-**	**154**	**(4)**	**-**	**13**	**216**
Profit (loss) before taxes	**(128)**	**105**	**79**	**(2)**	**16**	**(16)**	**54**
Provision for taxes (tax benefit) on profit (loss)	**(42)**	**29**	**26**	**(1)**	**5**	**(5)**	**12**
Net profit (loss):							
Before attribution to non-controlling interests	**(86)**	**76**	**53**	**(1)**	**11**	**(11)**	**42**
Attributed to non-controlling interests	**-**	**(1)**	**-**	**-**	**-**	**-**	**(1)**
Attributed to shareholders of the Bank	**(86)**	**75**	**53**	**(1)**	**11**	**(11)**	**41**
Return on equity	**(9.0%)**	**15.8%**		**(0.1%)**	**1.6%**		**1.4%**
Average balance of assets	**8,695**	**3,569**	**-**	**14,710**	**6,129**	**-**	**33,103**
Average balance of liabilities	**106,917**	**-**	**-**	**-**	**18,734**	**-**	**125,651**
Average balance of risk-adjusted assets	**10,318**	**5,118**	**1,115**	**7,459**	**7,200**	**278**	**31,488**
Average balance of mutual funds[2]	**-**	**-**	**44,459**	**-**	**-**	**600**	**45,059**
Average balance of other assets under management	**-**	**-**	**-**	**-**	**-**	**837**	**837**
Average balance of securities	**-**	**-**	**76,192**	**-**	**-**	**29,750**	**105,942**
Average number of employee positions	**1,908**	**347**	**496**	**55**	**255**	**190**	**3,251**
Balance of net credit to the public	**8,859**	**3,345**	**-**	**15,940**	**6,158**	**-**	**34,302**
Balance of deposits from the public	**104,778**	**-**	**-**	**-**	**18,537**	**-**	**123,315**
Spread from credit granting activity	**231**	**19**	**-**	**33**	**65**	**-**	**348**
Spread from deposit taking activity	**558**	**-**	**-**	**-**	**52**	**-**	**610**
Other	**18**	**-**	**-**	**7**	**7**	**-**	**32**
Total net interest income	**807**	**19**	**-**	**40**	**124**	**-**	**990**

(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 year ended December 31, 2012*						
	Activity in Israel				Activity abroad		Total
	Banking and financial services	Credit cards	Capital market(1)	Housing loans	Banking and financial services	Capital market(1)	
	NIS millions						
Net interest income:							
From externals	(1,357)	22	-	429	56	-	(850)
Inter-segmental	2,339	-	-	(385)	112	-	2,066
Non-interest financing income	34	-	-	-	3	-	37
Total net financing profit	1,016	22	-	44	171	-	1,253
Fees and other income	267	328	541	8	168	179	1,491
Total income	1,283	350	541	52	339	179	2,744
Provision for credit losses	18	14	-	3	3	-	38
Operating and other expenses:							
From externals	1,034	241	277	31	345	202	2,130
Inter-segmental	46	-	154	(4)	-	18	214
Profit (loss) before taxes	185	95	110	22	(9)	(41)	362
Provision for taxes (tax benefit) on profit (loss)	62	26	37	7	(1)	(14)	117
Net profit (loss):							
Before attribution to non-controlling interests	123	69	73	15	(8)	(27)	245
Attributed to non-controlling interests	-	(1)	-	-	-	-	(1)
Attributed to shareholders of the Bank	123	68	73	15	(8)	(27)	244
Return on equity	13.7%	15.3%		2.9%	(1.2%)		9.6%
Average balance of assets	8,050	3,497	-	11,858	6,699	-	30,104
Average balance of liabilities	105,031	-	-	-	19,988	-	125,019
Average balance of risk-adjusted assets	9,991	4,923	1,138	6,227	7,957	257	30,493
Average balance of mutual funds(2)	-	-	30,648	-	-	556	31,204
Average balance of other assets under management	-	-	-	-	-	915	915
Average balance of securities	-	-	80,179	-	-	30,103	110,282
Average number of employee positions	1,931	350	515	57	298	183	3,334
Balance of net credit to the public	8,283	3,341	-	13,328	6,576	-	31,528
Balance of deposits from the public	108,720	-	-	-	20,477	-	129,197
Spread from credit granting activity	208	22	-	35	75	-	340
Spread from deposit taking activity	760	-	-	-	83	-	843
Other	14	-	-	9	10	-	33
Total net interest income	982	22	-	44	168	-	1,216

* Reclassified. For further details, see the section "General – The Segments and Customer Assignment Criteria," above.
(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 41million in 2013, compared with NIS 244 million in the preceding year. The decrease mainly resulted from a decrease in net financing profit and an increase in operating expenses.

Net financing profit in 2013 totaled NIS 1,021 million, compared with NIS 1,253 million in the preceding year. The decrease resulted from the decrease in the interest rate in Israel which influenced the financial spread on deposits. This decrease was partially offset by an increase in the volume of credit in the segment.

Fees and other income of the segment totaled NIS 1,478 million in 2013, compared with NIS 1,491 million in the preceding year. The decrease mainly resulted from a change in the fee list, due to the amendment of the Banking Rules (Service to Customers), which led to the cancellation and change of several fees. An increase in the volume of activity offset this decrease.

The provision for credit losses totaled NIS 53 million in 2013, compared with NIS 38 million in the preceding year. The increase resulted from a collective allowance in the amount of NIS 20 million recorded in 2013 due to the initial implementation of the Supervisor's directive updating the guidelines concerning residential property, as detailed in Note 1(D)(6) to the Financial Statements.

The segment's operating and other expenses totaled NIS 2,392 million in 2013, compared with NIS 2,344 million in the preceding year. The increase mainly resulted from a change in provisions for efficiency plans from year to year, changes in estimates used to calculate liabilities for employee benefits, the effects of the wage agreement for 2013, and an increase in VAT rates, which influenced the increase in wage tax. By contrast, a decrease occurred as a result of cost savings due to the efficiency processes.

Net credit to the public totaled approximately NIS 34.3 billion as at December 31, 2013, compared with approximately NIS 31.5 billion as at December 31, 2012. The increase mainly resulted from an increase in housing loans.

Housing credit in Israel totaled approximately NIS 15.9 billion as at December 31, 2013, compared with approximately NIS 13.3 billion as at December 31, 2012.

Deposits from the public totaled approximately NIS 123.3 billion as at December 31, 2013, compared with approximately NIS 129.2 billion as at December 31, 2012. The decrease was mainly reflected in customers' transition from investment in deposits to investment in the capital market.

The balance of off-balance sheet monetary assets of the customers of the Bank Group attributed to this segment as at December 31, 2013 totaled approximately NIS 165.7 billion, compared with approximately NIS 151.9 billion as at December 31, 2012. This balance includes customers' holdings in securities portfolios and mutual funds.

The Small Business Segment

General

The Bank provides a range of banking services and financial products to small businesses. The segment's activities are conducted through the Bank's nationwide branch network and through the direct channels (see the section "The Households Segment" above). The segment also provides necessary services to business customers of the Corporate and Commercial Segments.

Activities

This year was declared the Second Year of Small Businesses at the Bank. In 2013, the Bank focused on the Small Business Segment; accordingly, extensive initiatives were launched to support and develop this sector, including specialized credit offered through a variety of funds – among others the Bank's specialized Poalim for Growth fund, a small and mid-sized businesses fund backed by the state, and sector-based funds established by the Bank in cooperation with leading market players.

The principal activities in this segment are banking and financial services, credit cards, the capital market, and housing loans. Services offered to customers of the segment in the area of "banking and financial services" include current-account management services, granting of credit for various purposes (the maximum credit that the segment's employees may authorize, taking into account customers' needs, financial condition, and financial wealth, is up to a total of NIS 6 million), deposits, and savings plans. Services provided to the segment's customers include basic transactions similar to those offered to private customers in the Households Segment, as well as more complex transactions such as check discounting, foreign currency, foreign trade, and other financing transactions. For details regarding the services provided in the areas of "credit card" and "capital market" activities, see the section "Additional Information Concerning Activity in Certain Products," below.

Regulatory Changes

See the "Households Segment" section, above.

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

There were no material changes in the profile of the segment's customers in 2013. However, competition in this sector is increasing, reflected in the development of targeted value offers for recruiting and expanding activity with customers. Concurrently, the trend of transition to direct banking channels, such as the Business Online service and check and cash deposit machines, continues.

Technological Changes that May Have a Material Impact on the Segment

Updates of authorizations for online activity by businesses – The Bank's business website continues to serve as a venue for accessible, convenient online management of business accounts. This year, the option of updating authorizations was added to the Bank's website. The simple interactive online update procedure enables business clients to benefit from control over activity in their accounts.

Expansion of Poalim for Business application – An option for authorizing and signing foreign-trade transactions was added to the application this year. The new service is designed to serve exporters and importers, turning their smartphones into a working tool for the management of their banking activity.

Main Barriers to Entry and Exit in the Segment

- Establishment of a broadly deployed nationwide system of branches.
- Investments in setup, maintenance, and upgrades of direct channels and advanced technological means.
- Maintaining personal, continuous relationships with customers.
- A diverse product range suited to customers' needs.
- Training skilled personnel in the various banking products and activities.
- High investment in the construction of a strong, leading, credible brand.

Alternatives to the Segment's Products and Services

There are no alternatives for the majority of banking products, although there is competition between other financial institutions in some products and services, and from other banks over all services to customers. The Bank principally works to improve processes and introduce technological improvements, with the aim of improving service and expanding the offering of banking products.

Activity of the Segment in 2013

The emphasis on activity in the Small Business Segment was reinforced in 2013. The Bank accords high importance to this sector, both in view of its general contribution to the development of the Israeli economy, and from a business perspective, as a growth driver for the Retail Banking Area. The Bank therefore continues to focus on this sector, expanding the service offering and developing a range of value offers, services, and unique financial tools to help guide the businesses to growth and create a complete package tailored to the needs of the business.

- Development of business tools and guidance to enhance the ability of small businesses to grow and thrive; development of various tools to increase the accessibility of banking services through the various channels, in order to provide optimal solutions for the financial needs of the businesses.
- Granting various benefits in account management to small businesses in general, and to newly established businesses in particular, to assist the business in its first year of life.
- Establishment of specialized loan funds targeted to this segment, such as the Poalim for Growth fund, whose aim is to support and promote small businesses as the foundation for the growth of the Israeli economy as a whole; the Poalim New Business Growth Fund, which is focused on businesses in the setup stage at an age of up to two years; the Bank's win of the tender for the Small and Mid-Sized Business Fund backed by the state, aimed at encouraging the activity of small and mid-sized businesses with the potential to develop and create new jobs in Israel; a fund backed by the Manufacturers' Association; and micro-finance loans backed by the Korat fund.
- Establishment of the Cash Back club – The Poalim Cash Back club, established in September 2012, includes all customers of the Bank who hold an Isracard Group bank credit card. The club grants customers a benefit in the form of a rebate to their bank accounts on purchases from each participating business. The club was launched with a focus on small businesses throughout Israel; within four months, not only major chains joined, but also thousands of small businesses, throughout Israel, across all sectors of B2C activity. Participating businesses enjoy a range of marketing platforms made available by the Bank for the promotion of their business.
- Leadership of Small Business Day – To raise general public awareness of the importance of small businesses to the Israeli economy, and to encourage business activity in the small business sector, the Bank created Small Business Day, which was held for the second time on January 2-3, 2014. During this event, the public was asked to deliberately prefer and buy from small businesses. The Bank's initiative was joined by local government leaders and municipalities, leading organizations in the Israeli economy, and commercial firms. Tens of thousands of businesses chose to register and join the activity, and benefitted from opportunities for advertising and promotion of their businesses, which also included the small businesses involved in the Cash Back Club, providing a marketing catalyst for the club.

Customers

The Small Business Segment serves customers from a wide range of economic sectors with a low volume of business activity, with a low to medium level of complexity.

New Products

In May 2013, the Bank launched the Compusafe system, marketed in collaboration with Brinks. Compusafe is a system for depositing and managing cash at the customer's place of business, offering an alternative to cash deposits by customers of the Bank using "document pouches." The system is a welcome innovation for the business sector, especially small businesses, while also reducing the resources invested by the Bank in processing cash and reducing the related security risks.

Marketing and Distribution

Marketing and distribution in Israel are conducted face-to-face or over the telephone at the Bank's branches, and at Poalim by Telephone, both proactively and in response to customers' calls. Marketing and distribution activities are also carried out through the Poalim Online website.

Competition

Competition in this segment is primarily with the four other major banking groups as well as other banks in the banking system. Activity in this segment requires expertise and in-depth knowledge of the customer in order to manage credit risks; competition in this segment is therefore primarily among banks only, for overall activity with customers. However, competition in this sector is intensifying, both on the part of the chief competitors (major local banks) as well as on the part of institutional entities who have recently begun to operate in the area of credit for small businesses; government agencies are seeking to encourage increased activity by these entities in the future.

The Committee on Competitiveness

An amendment to the Banking Rules issued on July 31, 2013, changed the definition of a small business from a corporation with a business turnover of up to NIS 1 million to a corporation with a business turnover of up to NIS 5 million. Concurrently, the Supervisor of Banks required the price list to be adjusted such that prices set for an individual or small business are lower than the prices set for large businesses, or at most identical to these prices, for the same services. These directives took effect on August 1, 2013.

For further details, see the section "The Households Segment," above.

Human Capital

The average number of positions of employees of the segment in 2013 was 1,650 (2012: 1,687 positions), of which 340 direct managerial positions (2012: 335 direct managerial positions). The decrease in the number of positions mainly resulted from the implementation of the standardization process at the Head Office units, in accordance with the "Poalim the Right Way" (LEAN Banking) methodology, and from optimization of the deployment of the branch network.

The business units employ specially trained corporate-credit professionals, according to the banking needs of business customers. The Bank's policy is to recruit mainly academic degree holding employees, and there is an ongoing upward trend in the percentage of degree holders. The Bank also encourages employees to advance their education, and provides assistance for undergraduate and graduate level studies.

Legal Proceedings

See Note 19 to the Financial Statements.

Proper Conduct of Banking Business Directive 311

See the section "Risk Management," below.

Regulatory Changes

See the section "The Households Segment," above.

Objectives and Business Strategy

- Expand the customer base and increase activity with existing customers.
- Provide financial solutions individually tailored to customers.
- Adapt distribution network to suit customers' needs.
- Strengthen relationships with and knowledge of customers.
- Achieve an optimal mix of personal service and technological means.

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

	For the year ended December 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	**877**	**58**	**-**	**157**	**160**	**1,252**
Inter-segmental	**12**	**-**	**-**	**(128)**	**(27)**	**(143)**
Total net financing profit	**889**	**58**	**-**	**29**	**133**	**1,109**
Fees and other income	**440**	**113**	**39**	**4**	**52**	**648**
Total income	**1,329**	**171**	**39**	**33**	**185**	**1,757**
Provision for credit losses	**122**	**1**	**-**	**8**	**12**	**143**
Operating and other expenses:						
From externals	**880**	**80**	**40**	**15**	**69**	**1,084**
Inter-segmental	**47**	**-**	**12**	**(2)**	**29**	**86**
Profit (loss) before taxes	**280**	**90**	**(13)**	**12**	**75**	**444**
Provision for taxes (tax benefit) on profit (loss)	**91**	**24**	**(4)**	**4**	**24**	**139**
Net profit (loss):						
Attributed to shareholders of the Bank	**189**	**66**	**(9)**	**8**	**51**	**305**
Return on equity	**13.7%**	**24.3%**		**3.3%**	**19.8%**	**14.1%**
Average balance of assets	**16,183**	**1,263**	**-**	**4,469**	**3,039**	**24,954**
Average balance of liabilities	**24,561**	**2,278**	**-**	**-**	**2,335**	**29,174**
Average balance of risk-adjusted assets	**15,403**	**2,356**	**94**	**2,630**	**2,770**	**23,253**
Average balance of mutual funds[2]	**-**	**-**	**3,639**	**-**	**-**	**3,639**
Average balance of securities	**-**	**-**	**7,153**	**-**	**-**	**7,153**
Average number of employee positions	**1,309**	**111**	**61**	**30**	**139**	**1,650**
Balance of net credit to the public	**17,072**	**1,187**	**-**	**4,663**	**3,320**	**26,242**
Balance of deposits from the public	**25,214**	**-**	**-**	**-**	**2,408**	**27,622**
Spread from credit granting activity	**736**	**58**	**-**	**22**	**121**	**937**
Spread from deposit taking activity	**137**	**-**	**-**	**-**	**17**	**154**
Other	**16**	**-**	**-**	**7**	**(5)**	**18**
Total net interest income	**889**	**58**	**-**	**29**	**133**	**1,109**

(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 year ended December 31, 2012*					
	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	829	59	-	149	159	1,196
Inter-segmental	66	-	-	(118)	(34)	(86)
Total net financing profit	895	59	-	31	125	1,110
Fees and other income	426	113	39	4	46	628
Total income	1,321	172	39	35	171	1,738
Provision for credit losses	121	4	-	1	7	133
Operating and other expenses:						
From externals	791	80	38	18	75	1,002
Inter-segmental	12	-	11	(2)	30	51
Profit (loss) before taxes	397	88	(10)	18	59	552
Provision for taxes (tax benefit) on profit (loss)	134	24	(3)	6	20	181
Net profit (loss):						
Attributed to shareholders of the Bank	263	64	(7)	12	39	371
Return on equity	22.2%	25.9%		6.1%	18.1%	20.1%
Average balance of assets	15,355	1,238	-	3,957	2,994	23,544
Average balance of liabilities	22,214	2,228	-	-	2,242	26,684
Average balance of risk-adjusted assets	14,746	2,283	96	2,364	2,577	22,066
Average balance of mutual funds(2)	-	-	2,633	-	-	2,633
Average balance of securities	-	-	7,606	-	-	7,606
Average number of employee positions	1,341	113	63	30	140	1,687
Balance of net credit to the public	15,408	1,185	-	4,296	3,328	24,217
Balance of deposits from the public	23,559	-	-	-	2,310	25,869
Spread from credit granting activity	670	59	-	21	107	857
Spread from deposit taking activity	201	-	-	-	20	221
Other	24	-	-	10	(2)	32
Total net interest income	895	59	-	31	125	1,110

* Reclassified. For further details, see the section "General – The Segments and Customer Assignment Criteria," above.
(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 2013 totaled NIS 305 million, compared with NIS 371 million in the preceding year. The decrease mainly resulted from an increase in operating expenses attributed to this segment.

Net financing profit in 2013 totaled NIS 1,109 million, compared to NIS 1,110 million in the preceding year.

Fees and other income of the segment in 2013 totaled NIS 648 million, compared with NIS 628 million in the preceding year. The increase mainly resulted from an increase in credit handling fees, an increase in credit and an increase in other fees due to an increase in the volume of activity in the segment.

The provision for credit losses totaled NIS143 million in 2013, compared with NIS 133 million in the preceding year.

The segment's operating and other expenses totaled NIS 1,170 million in 2013, compared with NIS 1,053 million in the preceding year. The increase mainly resulted from a change in provisions for efficiency plans from year to year, changes in estimates used to calculate liabilities for employee benefits, the effects of the wage agreement for 2013, and an increase in VAT rates, which influenced the increase in wage tax. By contrast, a decrease occurred as a result of cost savings due to the efficiency processes.

Net credit to the public as at December 31, 2013 totaled approximately NIS 26.2 billion, compared with approximately NIS 24.2 billion as at December 31, 2012.

Deposits from the public as at December 31, 2013 totaled approximately NIS 27.6 billion, compared with approximately NIS 25.9 billion as at December 31, 2012.

The Commercial Segment

General and Segment Structure

The Commercial Segment provides a range of banking services to middle-market business customers. The main sectors of the economy in which the segment operates are industry, commerce, and construction and real estate. Most of the segment's customers operate in the local market, while some are engaged in imports and exports. The segment operates through seven Business Centers deployed throughout Israel. Several work teams operate within each Business Center, and are responsible for managing routine business relationships with customers. Each team is headed by a Customer Relationship Manager whose main banking specialization is in the area of business credit. In addition, each Business Center has a legal advisor to guide its activity. Segment customers' accounts are managed through a network of 22 Business Branches, which provide the full range of required business banking services. In addition, other branches of the Bank provide the segment's customers with operational services.

The headquarters of the Corporate Banking Area contains a department engaged in analyzing credit applications of customers of this segment. Part of the department's activity is carried out by credit analysts at the Corporate Banking Area headquarters, while part of the activity is conducted by credit analysts at the Business Centers, who report in terms of management to the headquarters of the Corporate Banking Area. The department's role is to analyze credit applications and provide an independent recommendation to the authorized party. These units are external to the Commercial Division.

The Bank's activity in the Commercial Segment abroad also includes the activity in this area of Bank Pozitif in Turkey, which provides credit and banking services.

Activities

The principal activities in this segment are banking and financial services, and construction and real estate. Services offered by the Bank to customers of the segment in the area of "banking and financial services" include credit for routine operations and investment financing, guarantees, letters of credit, foreign trade, and transactions in financial and derivative instruments, in accordance with a credit policy validated annually. Investment services are also provided, in the various channels: foreign currency, shekels, securities, etc.

In January 2009, the Bank signed a two-year agreement with the Accountant General of the Ministry of Finance, which was later extended for an additional eighteen months. A new four-year agreement was signed with the Ministry of Finance in December 2012. Under this agreement, the Bank provides loans to customers of the segment who meet the criteria established. The Bank also signed a four-year agreement with the Manufacturers' Association of Israel, under which the Employers' Reciprocal Fund of the Manufacturers' Association provides a deposit serving as collateral for medium-sized businesses that are members of the Manufacturers' Association, as a substitute for the collateral required of the customer.

The Commercial Segment also provides banking services to clients who operate in the construction and real-estate sector. These banking services include the provision of credit to customers, as well as the issuance of guarantees of various types, including guarantees to buyers of homes pursuant to the Sale Law.

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

2013 was marked by a continued slowdown in business activity in Israel, influenced by the recession in global growth. The segment's customers were affected by the slow growth rate and the moderate GDP growth, the low interest rates in Israel, and the decline in exports of goods and services, which was influenced by the weakness in global demand and the appreciation of the shekel. In view of the conditions in the global financial markets and the mixed trends in growth rates in these markets, the improvement in the American economy, developments in regional geopolitical conditions, and expectations of a relatively moderate growth rate in the local market, there are still risks to continued growth.

The activity of Bank Pozitif in Turkey is affected by the changes in the local market; it is too early to determine the extent of this effect.

Technological Changes that May Have a Material Impact on the Segment

The segment makes use of technological systems to manage processes of analysis of customers' condition, control, and marketing. The Bank applies an ongoing process of improvement in these systems. This process also includes components relevant to handling the segment's customers. The enhancement of the quality and sophistication of the Bank's systems is an important factor in improving the level of service for the segment's customers and in creating additional possibilities for expanding activities with them.

Critical Success Factors in the Segment

- Identification of customers' needs and adaptation of banking services to such needs – correctly identifying the customer's full range of banking needs, correctly matching banking products to customer's business needs, and providing them in real time.
- The ability to provide comprehensive service suited to each customer – reducing the gap between the customer's expectations of the service provided and the actual quality of service (response time, professionalism, etc.), based, among other things, on technological capabilities for service delivery.
- The ability to manage and control risks (primarily credit risks) in real time – credit risk is the most significant risk factor in the segment's operations. Management of these risks and an appropriate control system are essential to the minimization of risks, to the extent possible, and to attaining adequate profitability in the segment's operations.
- Establishment of a credit policy congruent with the Bank's approach to risk and customers' financing means, while monitoring performance.

Main Barriers to Entry and Exit in the Segment

- Establishment of a broadly deployed nationwide system of branches.
- Training skilled personnel in the various banking products and activities.
- Investments in setup, maintenance, and upgrades of advanced technological means.
- The segment's activity, wherein risk-adjusted assets are a significant part of the mix, requires capital to be locked in on a substantial scale.

Alternatives to the Segment's Products and Services, and Changes Therein

Alternatives to bank credit for some of the segment's customers are public and private issues, and credit granted by non-bank financial institutions. 2013 was characterized by a slightly higher level of issues than in 2012, on average, and by expansion of private loans granted by institutional entities.

Customers

For details regarding the manner of assignment of customers to this segment, see the section "General – The Segments and Customer Assignment Criteria" above.

Marketing and Distribution

Marketing of banking products and services and distribution to customers are conducted through the Sales Management Department in the headquarters of the Commercial Division, sales managers at the Business Centers, and the network of Business Branches. In the future, this will be carried out in collaboration with an area-level administrative unit, which will begin to operate in 2014.

The communication channels commonly used in local banking are available to customers, such as branches, "Poalim by Telephone," Internet, etc. Marketing activities are conducted via unmediated contact between Bank employees and customers, without material dependence on entities external to the Bank.

Competition

The level of competition in the segment is high, encompassing the four major banking groups as well as medium-sized banks. In the area of credit, competition is reflected both in interest rates and fees offered to customers by the competing banks, and in related terms such as the financing rates which the competitors are willing to approve.
In line with the strategic plan, the Bank increased its market share among customers of this segment in 2013.

Human Capital

The average number of positions of employees of the segment in 2013 was 1,050 (2012: 984 positions on average), of which 242 direct managerial positions (2012: 213 direct managerial positions). The increase in the number of positions mainly resulted from the opening of the Business Branches, in response to the business needs of the customers of the Commercial Segment and the Corporate Segment. By contrast, a decrease in the number of employee positions occurred mainly as a result of the implementation of the standardization process at the Head Office units, in accordance with the "Poalim the Right Way" (LEAN Banking) methodology, and optimization of the deployment of the branch network.
High professional skill in the area of business, particularly credit and investments, is required of most employees in the Commercial Segment. Employees of the Bank trained for various roles, according to the Bank's needs, are employed at the Business Branches. In addition, external workers are employed in basic positions (tellers), after receiving appropriate training.

Objectives and Strategy

The strategic objectives of the Bank in this segment are focused on several areas:

- Providing comprehensive service and solutions for customers' needs, while tailoring new products for their activities.
- Rational management of the credit portfolio and monitoring of the risk profile.
- Increasing the Bank's market share in this segment.
- Meeting the targets for profitability and risk-adjusted return on equity in the segment's banking activity.
- Continued improvement of the technological infrastructures that support the processes of analysis, control, and marketing; development of alternative and complementary products to traditional credit.

In accordance with the strategy approved for the New York branch, the branch is developing activity in the middle market segment in the United States, by cultivating relationships and granting direct credit to local commercial clients, with a clear focus on business in specific geographical regions and areas of activity.

Legal Proceedings

See Note 19 to the Financial Statements.

Proper Conduct of Banking Business Directive 311

See the section "Risk Management," below.

Condensed operating results and principal data of the Commercial Segment:

	For the year ended December 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	**578**	**365**	**187**	**80**	**1,210**
Inter-segmental	**(145)**	**(118)**	**(93)**	**(40)**	**(396)**
Non-interest financing income	**6**				**6**
Total net financing profit	**439**	**247**	**94**	**40**	**820**
Fees and other income	**174**	**105**	**45**	**9**	**333**
Total income	**613**	**352**	**139**	**49**	**1,153**
Provision for credit losses	**44**	**(63)**	**27**	**6**	**14**
Operating and other expenses:					
From externals	**378**	**76**	**51**	**49**	**554**
Inter-segmental	**(1)**	**8**			**7**
Profit (loss) before taxes	**192**	**331**	**61**	**(6)**	**578**
Provision for taxes (tax benefit) on profit (loss)	**62**	**108**	**20**	**(2)**	**188**
Net profit (loss):					
Before attribution to non-controlling interests	**130**	**223**	**41**	**(4)**	**390**
Attributed to non-controlling interests			**(10)**	**(1)**	**(11)**
Attributed to shareholders of the Bank	**130**	**223**	**31**	**(5)**	**379**
Return on equity	**7.6%**	**16.5%**	**7.9%**	**(4.3%)**	**10.7%**
Average balance of assets	**15,591**	**8,800**	**3,157**	**1,428**	**28,976**
Average balance of liabilities	**14,981**	**2,305**	**2,866**	**14**	**20,166**
Average balance of risk-adjusted assets	**18,291**	**14,493**	**4,196**	**1,255**	**38,235**
Average balance of mutual funds[(2)]	**2,086**	**-**	**-**	**-**	**2,086**
Average balance of securities	**11,980**	**-**	**-**	**-**	**11,980**
Average number of employee positions	**710**	**133**	**153**	**54**	**1,050**
Balance of net credit to the public	**16,126**	**9,488**	**3,862**	**1,655**	**31,131**
Balance of deposits from the public	**13,285**	**2,573**	**3,461**	**10**	**19,329**
Spread from credit granting activity	**379**	**224**	**91**	**37**	**731**
Spread from deposit taking activity	**34**	**10**		**1**	**45**
Other	**20**	**13**	**3**	**2**	**38**
Total net interest income	**433**	**247**	**94**	**40**	**814**

(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 year ended December 31, 2012*				
	Activity in Israel		Activity abroad		Total
	Banking and financial services(1)	Construction and real estate	Banking and financial services(1)	Construction and real estate	
	NIS millions				
Net interest income:					
From externals	603	358	192	65	1,218
Inter-segmental	(181)	(139)	(112)	(36)	(468)
Non-interest financing income	6	-	-	-	6
Total net financing profit	428	219	80	29	756
Fees and other income	168	89	20	7	284
Total income	596	308	100	36	1,040
Provision for credit losses	146	(68)	9	3	90
Operating and other expenses:					
From externals	361	67	57	38	523
Inter-segmental	19	4	-	-	23
Profit (loss) before taxes	70	305	34	(5)	404
Provision for taxes (tax benefit) on profit (loss)	22	103	15	(1)	139
Net profit (loss):					
Before attribution to non-controlling interests	48	202	19	(4)	265
Attributed to non-controlling interests	-	-	(5)	(1)	(6)
Attributed to shareholders of the Bank	48	202	14	(5)	259
Return on equity	3.3%	18.6%	5.4%	(5.4%)	9.0%
Average balance of assets	14,507	8,423	2,909	1,033	26,872
Average balance of liabilities	13,909	1,950	2,432	39	18,330
Average balance of risk-adjusted assets	17,191	12,949	3,185	1,002	34,327
Average balance of mutual funds(2)	1,446	-	-	-	1,446
Average balance of securities	10,555	-	-	-	10,555
Average number of employee positions	698	130	127	29	984
Balance of net credit to the public	14,219	8,455	3,177	1,205	27,056
Balance of deposits from the public	12,506	2,081	2,405	19	17,011
Spread from credit granting activity	352	189	74	26	641
Spread from deposit taking activity	42	12	1	1	56
Other	28	18	5	2	53
Total net interest income	422	219	80	29	750

* Reclassified. For further details, see the section "General – The Segments and Customer Assignment Criteria," 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 Commercial Segment in 2013 totaled NIS 379 million, compared with NIS 259 million in the preceding year. The increase resulted from a decrease in the provision for credit losses, an increase in net financing profit, and an increase in fees and other income.

Net financing profit of the segment in 2013 totaled NIS 820 million, compared with NIS 756 million in the preceding year. The increase mainly resulted from an increase in the volume of credit activity in Israel, and an increase in the volume of activity in the middle-market sector at the New York branch.

Fees and other income of the segment totaled NIS 333 million in 2013, compared with NIS 284 million in the preceding year. The increase mainly resulted from an increase in income from fees in respect of financing transactions.

The provision for credit losses totaled NIS 14 million in 2013, compared with NIS 90 million in the preceding year. The decrease mainly resulted from a decrease in allowances recorded on an individual basis.

The segment's operating and other expenses totaled NIS 561 million in 2013, compared with NIS 546 million in the preceding year. The increase mainly resulted from a change in provisions for efficiency plans from year to year, changes in estimates used to calculate liabilities for employee benefits, the effects of the wage agreement for 2013, and an increase in VAT rates, which influenced the increase in wage tax. By contrast, a decrease occurred as a result of cost savings due to the efficiency processes.

Net credit to the public totaled approximately NIS 31.1 billion as at December 31, 2013, compared with approximately NIS 27.1 billion as at December 31, 2012. The increase resulted mainly from an increase in the volume of activity in Israel and an increase of approximately NIS 1.1 billion due to an increase in activity in the middle-market sector at the New York branch.

Deposits from the public totaled approximately NIS 19.3 billion as at December 31, 2013, compared with approximately NIS 17.0 billion as at December 31, 2012.

The Corporate Segment

General and Segment Structure

The Corporate Segment specializes in the provision of financial services to large corporations in Israel and abroad, with the granting of credit constituting the principal area of activity. The Bank's Corporate Segment mainly operates through the Corporate Division within the Corporate Banking Area, and through banking subsidiaries and the branches in the United States, which report to the International Banking Area. The segment also includes activity with foreign banks and financial institutions.

The Corporate Division is divided into four sectors, in each of which Customer Relationship Managers (CRMs) specialize in specific areas. A Credit Management Operations Unit for each sector provides services to all customers in that sector. The Corporate Division also includes a unit responsible for financing and monitoring infrastructure projects, which contains a department specializing in complex foreign-trade transactions, which provides services to all customers of the Area engaged in this activity, and a department that handles debt restructuring, syndication, and risk sales.

The Corporate Banking Area contains the Corporate Credit headquarters, which includes two departments responsible for analyzing and assessing credit risks: one for customers of this segment, and one for customers of the Commercial Segment. The Corporate Credit headquarters also contains a department engaged in business planning and control and in formulating credit policy for the segment's customers in Israel and overseas, and for customers of the Commercial Segment, in collaboration with the Risk Management Area.

Also operating within the Corporate Banking Area is the Special Credit Division, which coordinates the handling of customers in financial difficulties in the Corporate and Commercial Segments and endeavors to assist them in restructuring by providing business support. This division also handles the collection of debts from customers in financial difficulties when restructuring is not possible.

Activities

The principal activities in this segment are banking and financial services, and construction and real estate. Services offered to customers of the segment in the area of "banking and financial services" include financing of routine operations, financing of investments, financing of infrastructure projects based on the PFI/BOT method, financial services, foreign trade transactions, and transactions in financial derivatives. In addition, through the branch network, the segment provides various banking services such as foreign trade, investments, and dealing-room services. The segment's activity overseas is conducted through banking subsidiaries and the branches in the United States.

The Corporate Segment also provides banking services to customers operating in the construction and real-estate sector. Among other things, these banking services include financing of construction projects, granting credit to customers, and issuing various types of guarantees, including guarantees to buyers of homes pursuant to the Sale Law. The various banking services are provided to all customers of this segment through a network of 22 Business Branches. In addition, the Bank's general branch network provides the segment's customers with operational services. For further details regarding "construction and real estate" activity, see the section "Composition and Development of the Assets and Liabilities of the Bank Group" above.

Legal Proceedings

See Note 19 to the Financial Statements.

Proper Conduct of Banking Business Directive 311

See the section "Risk Management," below.

Legislative Restrictions, Regulations, and Special Constraints Applicable to the Segment

The Bank operates within the framework of laws, regulations, and regulatory directives that apply to the banking system in Israel, under the authority of entities such as the Supervisor of Banks; the Supervisor of the Capital Market, Insurance, and Savings at the Ministry of Finance; the Antitrust Commissioner; the Israel Securities Authority; and others. Set out below is a description of several such directives that have, or had at the time of their publication, material implications for the segment:

Credit Limit for Certain Customers

Under the Proper Conduct of Banking Business Directives, the following limits apply to volumes of credit:

Transactions with related parties – Proper Conduct of Banking Business Directive 312, "Business of a Banking Corporation with Related Parties," imposes a limit on the Bank, among other matters, according to which total "debts to the banking corporation," as this term is defined in the aforesaid directive, excluding certain amounts, for all "related parties" of the Bank, as defined in the directive, shall not exceed a total amount equal to 10% of the capital of the Bank (as defined in Proper Conduct of Banking Business Directive 202). As at the reporting date, the Bank is in compliance with this limit.

Limits on debt of a borrower and a group of borrowers – Pursuant to Proper Conduct of Banking Business Directive 313, "Limits on Indebtedness of a Borrower and of a Group of Borrowers," the rate of "indebtedness" of a "borrower" and of a "group of borrowers," as defined in the directive, after subtracting 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 202, "Capital Components" (for details, see the section "Capital and Capital Adequacy" above). 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. As at the reporting date, the Bank is in compliance with this limit.

Financing the acquisition of means of control – Proper Conduct of Banking Business 323, "Financing of the Acquisition of Means of Control of Corporations," limits the balance of credit extended for the acquisition of means of control of corporations, in cases in which the rate of financing for the acquisition of the means of control of the corporation is greater than 50% of the cost of the acquisition, to 70% of the capital of the Bank. The directive also sets a limit on the rate of financing for the acquisition of means of control of other banking corporations. As at the reporting date, the Bank is in compliance with this limit.

Sectoral limit – Proper Conduct of Banking Business Directive 315, "Supplementary Allowance for Doubtful Debts," states, among other matters, that when the total indebtedness ("indebtedness" as defined in the directive, after subtracting the amounts permitted in the directive) of a particular sector to the banking corporation exceeds 20% of the total indebtedness of the public to the banking corporation, the surplus shall be considered exceptional indebtedness in respect of which the bank must record an allowance within the supplementary allowance for doubtful debts, constituting the lower threshold for the collective allowance for credit losses. Note that this limit is examined on a non-consolidated basis. The construction and real-estate sector is approaching a weight of 20% of the total indebtedness of the public to the banking corporation.

In addition to the limits described above, pursuant to the Proper Conduct of Banking Business Directives, the Board of Directors of the Bank establishes additional limits, from time to time, on the concentration of credit. As at the reporting date, the Bank is in compliance with the established limits.

In addition, the Bank has implemented a policy of reducing its exposure to areas of concentration in the credit portfolio, which led to a decrease in concentration in 2013.

Type Exemption – Borrower Consortium

On February 28, 2011, the Antitrust Commissioner announced a change in the terms she had established in the past with regard to consortium arrangements. The current terms for consortium arrangements acceptable to the Commissioner primarily include the following:

A. The formation of the credit consortium is consented to by the client, in advance and in writing, on a separate form;
B. The client is given the opportunity to negotiate the terms of the credit with any of the members of the consortium, including through another person acting on the client's behalf;
C. When both Bank Hapoalim B.M. and Bank Leumi LeIsrael Ltd. are members of the consortium, the formation of the consortium shall be permitted only if the aggregate amount of credit which both banks are required to grant exceeds NIS 300 million. The limit established in this section shall not apply to consortium arrangements involving the repayment of a debt arising from credit granted by Bank Hapoalim B.M. and Bank Leumi LeIsrael Ltd. prior to August 18, 2002, to the same person;
D. No information shall be transferred among the parties that is not necessary for the formation of the specific consortium under discussion. Without prejudice to the foregoing, any such transfer of information shall be performed in a manner that minimizes any threat of damage to competition between the parties.
E. According to the requirements of the Commissioner, meetings or talks of the participants in the consortium must be documented, in accordance with the details required in the Commissioner's letter.

These terms are in effect until June 30, 2014.

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

2013 was marked by a continued slowdown in business activity in Israel, influenced by the recession in global growth. The segment's customers were affected by the slow growth rate and the moderate GDP growth, the low interest rates in Israel, and the decline in exports of goods and services, which was influenced by the weakness in global demand and the appreciation of the shekel. The segment's customers were also affected by competition in the non-bank market and the decrease in demand for business credit in Israel. In view of the conditions in the global financial markets and the mixed trends in growth rates in these markets, the improvement in the American economy, developments in regional geopolitical conditions, and expectations of a relatively moderate growth rate in the local market, there are still risks to continued growth.

Technological Changes that May Have a Material Impact on the Segment

The information systems used by the Corporate Segment are designed to assist analysis, control, and marketing processes. The Corporate Segment continually works to improve and update the technological systems it uses. In addition, the use of the "Matbea" system has been expanded, with the aim of improving work processes, information management, and monitoring of segment customers' activity.

Critical Success Factors in the Segment

- Correctly identifying customers' overall banking needs, and suitably adapting banking products to their business needs.
- The ability to provide comprehensive service suited to customers – tailoring banking services and improving service quality (response time, professionalism, etc.), based, among other things, on technological capabilities for service delivery.
- Ability to conduct risk management and control in real time (primarily credit risks) – credit risk is the most significant risk factor in the segment's activity.

- Management of risks and maintenance of an adequate control system are essential in order to minimize the risks inherent in the segment's activity to the extent possible, and attain adequate profitability in its activity.
- Establishment of credit policies in line with the Bank's risk perception and methods of financing customers while monitoring performance.

Main Barriers to Entry and Exit in the Segment

Activity in the Corporate Segment involves long-term relationships with its customers, including familiarity with their financial data and the collateral they have provided to the Bank, monitoring and control of the different risks and exposures, as well as appropriate capital allocation and compliance with the regulatory restrictions that apply to the segment. Risk-adjusted assets constitute a significant part of the mix of activity in this segment, necessitating locked in capital on a significant scale. This requires training high-quality, skilled personnel and acquiring a high level of technological capability in order to cope with the complexity of the segment.

Alternatives to the Segment's Products and Services, and Changes Therein

Bond offerings in 2013 were mainly performed by large industry-leading corporations, while also expanding to corporations with an average level of credit risk. Some clients of the Corporate Segment use bond issuance or credit from non-bank sources as a partial or full substitute for bank credit.

Customers

For details regarding criteria for the assignment of customers to this segment, see the section "General – The Segments and Customer Assignment Criteria" above.

Marketing and Distribution

Banking products and services are marketed and distributed to customers through the Sales and Business Development Department in the Corporate Division. The department focuses on support for Customer Relationship Managers. As a key element of this sales platform, product experts, working closely with the CRMs, are at the disposal of the segment's customers, in the areas of the dealing room, investment advising, foreign trade, current accounts, and more. In the future, this will be carried out in collaboration with an area-level administrative unit, which will begin to operate in 2014.

CRMs are in continuous contact with the customers they serve, in order to respond to their banking needs, market the Bank's products, and tailor financing solutions to various transactions.

Competition

There is a high level of competition in this area from banking entities (with regard to non-bank financing options, see above). Competition is reflected in service, prices, financing terms, and rapid response. The Bank Group competes in this area mainly against the four other major banking groups in Israel, as well as foreign banks with representative offices in Israel. The Bank's activity through banking subsidiaries and through branches in the United States is conducted in a highly competitive environment dominated by global financial institutions.

Human Capital

The average number of positions of employees of the segment in 2013 was 694 (2012: 782 positions on average), of which 156 direct managerial positions (2012: 177 direct managerial positions). The decrease in the number of positions mainly resulted from the implementation of the standardization process at the Head Office units, in accordance with the "Poalim the Right Way" (LEAN Banking) methodology, and from optimization of the deployment of the branch network.

The Corporate Segment employs employees trained in the area of credit, at various levels. Most employees are required to have strong professional skills in the area of business and credit as well as relevant academic qualifications.

Objectives and Strategy

The Corporate Segment's business objectives are focused in several areas:

In Israel:

- Provide service and respond to customers' needs, while tailoring new products for their activities.
- Prudently manage the credit portfolio and monitor the risk profile, including through the sale of credit assets.
- Strengthen the Bank's leadership with the segment's customers.
- Organize and lead complex financing arrangements, including financing of infrastructure projects and collaboration with other financers through syndication.
- Meet the targets for profitability and risk-adjusted return on equity in the segment's banking activity.
- Continue to improve the technological infrastructure supporting analysis, control, and marketing processes.
- Develop products that offer alternatives and supplements to traditional credit.

Overseas:

- Provide full banking services to Israeli companies and Israeli institutional investors operating abroad.
- Support Israeli companies or companies with an affinity to Israel operating overseas.

Legal Proceedings

See Note 19 to the Financial Statements.

Condensed operating results and principal data of the Corporate Segment:

	For the year ended December 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	**2,308**	**1,169**	**189**	**145**	**3,811**
Inter-segmental	**(1,123)**	**(538)**	**(91)**	**(72)**	**(1,824)**
Non-interest financing income	**39**		**37**	**1**	**77**
Total net financing profit	**1,224**	**631**	**135**	**74**	**2,064**
Fees and other income	**384**	**220**	**17**	**5**	**626**
Total income	**1,608**	**851**	**152**	**79**	**2,690**
Provision for credit losses	**284**	**189**	**(25)**	**(2)**	**446**
Operating and other expenses:					
From externals	**426**	**114**	**43**	**23**	**606**
Inter-segmental	**63**	**8**			**71**
Profit before taxes	**835**	**540**	**134**	**58**	**1,567**
Provision for taxes on profit	**271**	**175**	**44**	**19**	**509**
Net profit:					
Attributed to shareholders of the Bank	**564**	**365**	**90**	**39**	**1,058**
Return on equity	**7.8%**	**9.1%**	**10.8%**	**20.5%**	**8.6%**
Average balance of assets	**59,369**	**27,109**	**4,443**	**3,133**	**94,054**
Average balance of liabilities	**30,335**	**6,435**	**567**	**5**	**37,342**
Average balance of risk-adjusted assets	**77,958**	**42,938**	**8,997**	**2,042**	**131,935**
Average balance of mutual funds(2)	**3,456**	**-**	**-**	**-**	**3,456**
Average balance of securities	**254,115**	**-**	**-**	**-**	**254,115**
Average number of employee positions	**517**	**127**	**36**	**14**	**694**
Balance of net credit to the public	**57,898**	**24,921**	**3,788**	**2,542**	**89,149**
Balance of deposits from the public	**20,608**	**5,851**	**166**	**-**	**26,625**
Spread from credit granting activity	**1,058**	**574**	**92**	**64**	**1,788**
Spread from deposit taking activity	**35**	**17**	**2**	**1**	**55**
Other	**92**	**40**	**4**	**8**	**144**
Total net interest income	**1,185**	**631**	**98**	**73**	**1,987**

(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 year ended December 31, 2012*				
	Activity in Israel		Activity abroad		Total
	Banking and financial services(1)	Construction and real estate	Banking and financial services(1)	Construction and real estate	
	NIS millions				
Net interest income:					
From externals	2,567	1,293	222	122	4,204
Inter-segmental	(1,304)	(635)	(89)	(65)	(2,093)
Non-interest financing income	89	-	8	-	97
Total net financing profit	1,352	658	141	57	2,208
Fees and other income	358	177	22	3	560
Total income	1,710	835	163	60	2,768
Provision for credit losses	629	(129)	(18)	(1)	481
Operating and other expenses:					
From externals	469	116	85	19	689
Inter-segmental	59	15	-	-	74
Profit before taxes	553	833	96	42	1,524
Provision for taxes on profit	186	280	36	15	517
Net profit:					
Attributed to shareholders of the Bank	367	553	60	27	1,007
Return on equity	5.2%	14.6%	8.4%	10.5%	8.6%
Average balance of assets	59,717	32,852	5,289	3,766	101,624
Average balance of liabilities	26,059	6,728	960	21	33,768
Average balance of risk-adjusted assets	84,016	45,290	8,528	2,768	140,602
Average balance of mutual funds(2)	2,315	-	-	-	2,315
Average balance of securities	213,315	-	-	-	213,315
Average number of employee positions	560	137	64	21	782
Balance of net credit to the public	58,644	30,715	5,458	3,580	98,397
Balance of deposits from the public	16,200	7,831	1,124	38	25,193
Spread from credit granting activity	1,074	574	110	51	1,809
Spread from deposit taking activity	38	19	6	1	64
Other	151	65	17	5	238
Total net interest income	1,263	658	133	57	2,111

* Reclassified. For further details, see the section "General – The Segments and Customer Assignment Criteria," 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 2013 totaled NIS 1,058 million, compared with NIS 1,007 million in the preceding year. The increase in net profit resulted from a decrease in operating expenses overseas, an increase in fees and other income and from a decrease in the provision for credit losses. This trend was offset by a decrease in net financing profit.

Net financing income of the segment totaled NIS 2,064 million in 2013, compared with NIS 2,208 million in the preceding year. The 6.5% decrease mainly resulted from a decrease in the average credit balance compared to the same period last year and from the decrease in the interest rate in Israel.

Fees and other income totaled NIS 626 million in 2013, compared with NIS 560 million in the preceding year. The increase resulted from an increase in fees from financing transactions and an increase in fees from credit handling. Income from credit handling amounted to NIS 94 million in 2013, compared with NIS 78 million in the preceding year.

The provision for credit losses in 2013 totaled NIS 446 million, compared with NIS 481 million in the preceding year. The decrease mainly resulted from a decrease in allowances recorded on an individual basis. An increase in allowances recorded on a collective basis offset the decrease.

The segment's operating and other expenses totaled NIS 677 million in 2013, compared with NIS 763 million in the preceding year. The decrease mainly resulted from a decrease in the segment's expenses overseas, and as a result of cost savings due to the efficiency processes. By contrast, a change in provisions for efficiency plans from year to year, changes in estimates used to calculate liabilities for employee benefits, the effects of the wage agreement for 2013, and an increase in VAT rates, which influenced the increase in wage tax offset the decrease.

Net credit to the public totaled approximately NIS 89.1 billion as at December 31, 2013, compared with approximately NIS 98.4 billion as at December 31, 2012. The decrease mainly resulted from a decrease in credit for construction and real estate.

Deposits from the public totaled approximately NIS 26.6 billion as at December 31, 2013, compared with approximately NIS 25.2 billion as at December 31, 2012.

The balance of off-balance sheet monetary assets of customers of the Bank Group attributed to this segment as at December 31, 2013 totaled approximately NIS 294.9 billion, compared with approximately NIS 236.2 billion as at December 31, 2012. This balance includes customers' holdings in securities portfolios and mutual funds.

The Financial Management Segment

General and Structure

The activity of the Bank in the area of the capital market and treasury management is centralized under the Financial Markets Area. The activity of this segment includes activity in the banking book and trading activity. Activity in the banking book primarily includes the management of assets and liabilities, alongside management of market and liquidity risks (for details regarding these risks, see the section "Risk Management," below), through the establishment of internal transfer prices (see below), investment portfolio management, bank deposits, bond issuance, and the execution of transactions in derivative financial instruments. The segment's activity in the banking book is mostly conducted through the Asset and Liability Management (ALM) units in Israel and abroad, and through units responsible for management of the Nostro investment portfolio, which are responsible for managing the portfolio of government and corporate bonds and investment in shares at the Group level. Trading activity and position management are mainly conducted through the dealing rooms, which offer services for the Bank's customers for the execution of transactions in Israeli and foreign securities, financial instruments in Israeli Shekels, foreign currency, and interest rates, as well as support for the development and pricing of sophisticated financial products.

Most of the income of the segment derives from exposure management in the banking book and in the trading book, and from spreads and fees in the dealing rooms' activity and operational services for customers. In addition, the segment includes the results of investments in shares and investments in equity-basis investee companies in calculating its income.

The segment's business activity, with the exception of investments in equity-basis investee companies (in this context, note the under Section 23A of the Banking Law, the Bank is subject to limits on its rate of holding in non-financial corporations, and on the volume of capital which it is permitted to invest in such corporations), is centralized under the authority of the Member of the Board of Management who heads the Financial Markets Area. Treasury activities include the Asset and Liability Management Division in Israel, as well as units responsible for asset and liability management at the Bank's branches overseas. Treasury activity also encompasses the coordination of management of the financial assets and liabilities of the Bank Group (including foreign subsidiaries) in foreign currency on a global level, and coordination of trading activity in foreign currency and derivatives at the overseas branches.

The activity of this segment includes the results of the subsidiaries Poalim Sahar Ltd., which specializes in brokerage services in Israel and overseas, research services, custody services, and other related services; Poalim Capital Markets Investment House Ltd., which mainly operates in the area of investments in Israel and overseas, investments in private-equity funds, and direct investments, including funds that invest in the technology sector; and Peilim Investment Portfolio Management Ltd., which manages investment portfolios for private clients, business organizations, non-profit associations, and others. The segment also maintains relationships with banks and financial institutions around the world, and is responsible for providing services to customers operating in Israel in a range of areas, including the capital and money markets.

The Banking Portfolio – Management of Assets and Liabilities

The Financial Management Segment, through the Asset and Liability Division of the Bank, is responsible for managing the assets and liabilities of the Bank, over the range of activities of the various segments. The segment receives and allocates resources for the use of the various segments and establishes the internal transfer prices for such resources ("wholesale rates" – for further details, see below). Wholesale prices constitute the basis for the activity of the various segments with the Bank's customers and also serve as a means for market and liquidity risk management.

The Bank has varied sources of financing, primarily fixed-term deposits from the public. The deposits are taken from a very large number of depositors, with no reliance on any single depositor or group of depositors. Most of the Bank's resources are raised from the public in Israel, particularly private customers. Resources in unlinked shekels mainly derive from these customers, though also to some extent from large institutional and business clients (some of which work directly with the Financial Management Segment). Resources in linked shekels are raised both from the general public and from institutional clients who invest in deposits with the Bank and in bonds and secondary capital issued by the Bank Group. The Bank accords high importance to raising resources that are stable and highly diversified. Note that the balance in money-market funds has increased significantly over the last year; this increase has led to greater concentration of banks' resources.

Resources in foreign currency include deposits of private customers and business customers in Israel, non-residents, Global Private Banking customers, Israeli companies abroad, issues of CDs secured by the FDIC in the United States, and issues of bonds abroad (through the subsidiary Hapoalim International). In addition, as part of market and liquidity risk management, the Financial Markets Area maintains a bond portfolio, consisting of government bonds and corporate bonds. The portfolio is managed by a professional team aided by operational, control, and research teams.

Resources raised by the various segments are "transferred" from the segment to which the customer belongs to the Financial Management Segment, and in return, the Financial Management Segment credits the relevant segment at the wholesale interest rate determined by the ALM Division for that resource, according to the characteristics of the resource (i.e. according to the duration and linkage segment; for further details regarding the manner of setting the wholesale interest rate, see below). The aforesaid resources, as well as resources raised by the segment, as described above, are allocated by the Financial Management Segment for the use of the various segments. In return, the segment is debited at the wholesale rate (according to the linkage segment and duration of usage) determined by the ALM Division. Note that in certain cases the ALM Division sets a different wholesale rate for assets and liabilities with identical characteristics (duration and linkage segment) in order to price specific market risks and conditions for raising resources in the markets.

Wholesale rates are set by the ALM Division, and reported and discussed routinely on a weekly basis by the ALM Committee. In addition to routine discussion and analysis by ALM Division committees, a committee of the Board of Management receives a report each month, and the Board of Management and Board of Directors of the Bank receive a report on this matter each quarter.

Wholesale rates are set taking the following factors into consideration, among other matters: market prices of comparable resources (by linkage segment and duration); cost of issuing bonds and cost of issuing notes of the Bank and similar banking corporations; government bond yields; the Bank of Israel interest rate; and macro-economic data. In addition, ALM committees examine information concerning principal and interest flows (gap reports) of the Bank by dates of interest-rate changes and by maturity dates; interest-rate exposures of the Bank (sensitivity of value and sensitivity of income); overall VaR of the Bank; expected transactions; daily balances and performance; and more. The committees also discuss limits and the desired position, in line with the Bank's policy.

The wholesale rate is set in a uniform manner according to duration and linkage segment for all transactions executed at the Bank. In other words, the rate is not set for a specific asset or liability, other than in exceptional cases in which a specific cost is established for a particular transaction (mainly for large-scale transactions). The wholesale rate is used, among other things, as one of the tools for asset and liability management in the banking book.

In order to improve analysis, planning, and management capabilities of the Bank's assets and liabilities, the Bank uses an automated ALM system. Analysis performed on this system is based on the capture of data on financial transactions at the Bank and processing that provides users with the ability to perform broad and in-depth analysis of the market risks in the Bank's balance sheet, especially interest-rate risk and liquidity risk.

Trading Activity – Foreign Currency Dealing Room (OTC)

The Bank provides comprehensive services to its customers through its dealing rooms, for hedging against risks involved in fluctuations in exchange rates and interest rates, on one hand, and for investment and profiting from such fluctuations, on the other hand. The dealing room in Tel Aviv provides customers with services related to the various financial instruments (spot, forwards, options, exotic options, swaps, and structured products) and various underlying assets (foreign-currency/foreign-currency and foreign-currency/shekel exchange rates, shekel and foreign currency interest rates, consumer price index, stock indices, commodities, etc.).

Transactions with the Bank's customers are conducted in accordance with the credit limits allocated to them by the credit authorities at the Bank, and on the basis of the Bank's internal models that define credit exposures in transactions executed in the dealing room. Awareness of the activities offered by the dealing room has grown steadily in recent years, leading to demand for a broader range of products with a higher level of sophistication. In response to these needs, and in order to preserve the Bank's standing as a leader and innovator, complex products have been added to the product range in Israel, including derivatives (which include interest-rate options in shekels), exotic options, credit derivatives, and sophisticated interest-rate products. In addition, in recent years customers have increasingly used structured products, which include deposits or bonds whose interest terms are determined according to the terms of a particular derivative embedded in the debt instrument.

The Bank serves as one of the primary market makers in government bonds. The dealing room is a market maker in most of the products in which it has activity; in other words, the Bank acts as a party to the transaction with the customer, rather than as an intermediary between the customer and a third party.

Brokerage Services

In addition to the foreign currency dealing room, the Financial Markets Area contains two securities dealing rooms: a dealing room for Israeli securities and a dealing room for foreign securities. 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 selected private customers, and provides backup for trading activity to 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.

Services for Financial Asset Managers

The Financial Asset Manager Services Unit encompasses activities related to the provision of various services to financial-asset managers: managers of provident funds, study funds, and pension funds, mutual-fund managers, and investment-portfolio managers. The activity of the unit encompasses the operation of the financial assets noted above and the provision of banking services to entities that manage these assets. Services include asset revaluation, production of control reports, production of reports to government agencies, bookkeeping, management of accounts and rights of provident-fund members, and calculation of returns.

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

Further to a resolution of the Board of Management of the Bank, on January 1, 2014, overall responsibility for management companies of provident funds (with the exception of insurance companies) and mutual funds was transferred from the Corporate Banking Area to the Financial Markets Area.

At the end of 2013, the volume of assets of provident funds, study funds, and pension funds for which the Bank supplies operational services totaled approximately NIS 83.4 billion. The value of assets of mutual funds for which the unit provides services related to account management, at various volumes, totaled approximately NIS 89.4 billion.

The Bank's activity with foreign banks and financial institutions also includes sub-custody services for leading foreign custodian banks active in Israel in the area of securities.

Regulatory Changes with an Impact on the Segment

The Financial Management Segment is subject to extensive regulation and continually influenced by local and global regulatory changes. For example, the agreements regarding reform of the global derivatives market reached by the G20 leaders, notable implementations of which include the Dodd Frank regulations in the United States and the EMIR regulations in Europe. These regulations may affect work processes related to OTC derivatives. The Bank studies such regulation and monitors developments therein. At this stage, these regulations are not expected to have a material impact on the activity of the segment.

Technological Changes that May Have a Material Impact on the Segment

The Financial Management Segment is technology-intensive. Accordingly, technological changes influencing the segment occur routinely. In recent years, several such processes may be noted, such as the widespread distribution of financial information in real time and the ability to execute transactions instantly, regardless of geographical location. The principal investments carried out by the segment are in information systems.

Critical Success Factors in the Segment

The most important success factor in the area of financial management is the quality of human resources; employees in this area must have excellent professional knowledge and analytical skills. Another critical success factor is high-quality computerized systems, both in the area of transaction execution and in the area of information and analytics. Financial management interacts extensively with most of the areas of the Bank's business activity. Naturally, therefore, the success of this activity depends on the level of inter-segmental cooperation within the Bank.

Main Barriers to Entry and Exit in the Segment

The main entry barriers in the Financial Management Segment stem from the need for large investments in information systems and the ability to recruit high-quality professional personnel. In addition, the ability to provide services to large-scale customers is also derived from the Bank's relative size and its ability to supply liquidity in the various areas of activity. Accordingly, size is an advantage in certain areas of activity and in certain types of transactions.

Alternatives to the Segment's Products and Services, and Changes Therein

In recent years, Israel's financial markets have grown progressively more sophisticated. This is particularly notable in the broader range of products available to investors and market players. Various types of tradable instruments as well as derivative instruments are becoming more accessible. Examples of these instruments include ETFs, structured deposits, exotic options, Maof options, and more.

Competition

Intense, extensive competition exists in all areas of dealing-room activity. The principal competitors are the four major banking groups in Israel, and in recent years also foreign banks, as well as other financial companies specializing in this area.

Customers

The segment provides diverse services to all customers of the other segments at the Bank, both through the Bank's branches and CRMs, and through direct contact with large customers. The dealing room conducts marketing activity with foreign financial institutions, which has led to substantial expansion of the volume of activity with these customers (in the range of products for which the Bank serves as a market maker).

Human Capital

The average number of positions of employees of the segment in 2013 was 854 (2012: 897 positions on average), of which 284 direct managerial positions (2012: 285 direct managerial positions).

The decrease in the number of employee positions mainly resulted from the implementation of the standardization process at the Head Office units, in accordance with the "Poalim the Right Way" (LEAN Banking) methodology.

The Financial Management Segment is oriented towards professional personnel. Accordingly, there is considerable competition for the services of high-quality employees, from local banks, foreign banks, other financial entities, and business concerns. This is particularly apparent in the area of dealing rooms.

Collaboration Agreements

During the routine course of business, the Bank, and within it the Financial Management Segment, maintain extensive ties with the world's leading financial institutions. Business relations between the Bank and these entities in the different capital markets are based, among other things, on standard international arrangements, such as: framework agreements supporting the activity of dealing rooms, special agreements to minimize credit risks aimed at limiting credit risk in derivatives (credit support annex), or activity via an international clearinghouse (CLS) to minimize settlement risks in foreign-currency swap transactions.

Objectives and Business Strategy

The segment's key objectives are the development of financial activity in the local and international markets, as well as continued growth of local activity. The strategic plan for 2014 includes work plans addressing infrastructures, work processes, and quantitative objectives. The plan is based on expanding the range of products, enlarging the customer base, increasing activity with existing customers, and developing global activity, both in the area of trading and in the area of brokerage.

The strategic plan is based on estimates and reflects the Bank's current viewpoint; it therefore constitutes forward-looking information. There is a possibility that the plan may not materialize, or may not materialize in full.

Condensed operating results of the Financial Management Segment:

	For the year ended December 31	
	2013	2012*
	NIS millions	
Net interest income:		
From externals	**(1,462)**	(875)
Inter-segmental	**2,381**	1,633
Non-interest financing income	**364**	113
Total net financing profit	**1,283**	871
Fees and other income	**330**	370
Total income	**1,613**	1,241
Provision for credit losses	**(11)**	(12)
Operating and other expenses:		
From externals	**728**	814
Inter-segmental	**9**	12
Profit before taxes	**887**	427
Provision for taxes on profit	**367**	124
Profit after taxes	**520**	303
The Bank's share in profits of equity-basis investees, after taxes	**9**	6
Net profit (loss):		
Before attribution to non-controlling interests	**529**	309
Attributed to non-controlling interests	**54**	(28)
Attributed to shareholders of the Bank	**583**	281

* Reclassified. For further details, see the section "General – The Segments and Customer Assignment Criteria," above.

Principal Changes in Net Profit and Balance Sheet Balances

Net profit attributed to shareholders of the Bank in the Financial Management Segment in 2013 totaled NIS 583 million, compared with profit in the amount of NIS 281 million in the preceding year.

Net financing profit attributed to this segment totaled NIS 1,283 million in 2013, compared with NIS 871 million in the preceding year. The increase mainly resulted from an increase in income from realization of bonds and shares, an increase in financing income from hedging of taxes with respect to investments overseas, and an increase in adjustments to fair value of derivative instruments.

Fees and other income of the segment in 2013 totaled NIS 330 million, compared with NIS 370 million in the preceding year. The decrease mainly resulted from a decrease in income from activity in securities overseas, as well as a decrease in income from management fees in respect of management and operational services provided to provident funds, attributed to this segment.

Operating and other expenses of the segment in 2013 totaled NIS 737 million, compared with NIS 826 million in the preceding year. The decrease mainly resulted from a decrease in the segment's expenses overseas, and as a result of cost savings due to the efficiency processes. By contrast, a change in provisions for efficiency plans from year to year, changes in estimates used to calculate liabilities for employee benefits, the effects of the wage agreement for 2013, and an increase in VAT rates, which influenced the increase in wage tax, offset this decrease.

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, and income from computer services for companies consolidated in the past. In addition, adjustments of inter-segmental activities are allocated to this section.

The profit attributed to shareholders of the Bank under this section in 2013 amounted to NIS 37 million, compared with profit in the amount of NIS 38 million in the preceding year.

Profit from credit cards in respect of the activity of customers of banks outside the Group and incoming tourism totaled NIS 35 million in 2013, compared with profit in the amount of NIS 32 million in the preceding 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 December 31, 2013, totaled approximately NIS 4.7 billion, compared with NIS 4.5 billion as at December 31, 2012.

Additional Information Concerning Activity in Certain Products

Credit Cards

General

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

Credit Card Issuance

The Isracard Group issues credit cards to customers of banks that have entered into arrangements with the Isracard Group, including the Bank, Mizrahi Tefahot Bank, First International Bank, Bank Yahav, Bank Otsar Hahayal, Bank Massad, Bank Poaley Agudat Israel, Bank of Jerusalem, and Union Bank. 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 Isracard 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 December 31, 2013 is 3.8 million, compared with 3.6 million cards as at December 31, 2012.

In 2013, the volume of activity in Isracard Group cards reached NIS 110.9 billion, compared with NIS 104.3 billion in 2012.

Credit Card Clearing

In agreements signed for the purpose of providing clearing services, the clearing credit-card company undertakes a commitment to the merchant, subject to fulfillment of the terms of the agreement, to settle the debits to the merchant undertaken by holders of the cards which it clears when purchasing goods or services from the merchant. The Isracard Group also offers merchants a range of additional financial services, such as loans, advances (advancement of payments in respect of transactions executed), advance payments, sales-slip discounting, and marketing and operational services, including options for payment in installments, flexible crediting dates, targeted information, and sales promotion campaigns.

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 for cross-clearing of Isracard brand cards has been open since May 15, 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 Isracard Group, the two credit-card companies controlled by banks listed above operate in the area of clearing in Israel.

Additional Activities

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

Contribution of Income from Credit Cards

The contribution of income from credit cards to income from fees, included within operating income (before deducting related expenses), totaled NIS 1,597 million in 2013, compared with NIS 1,590 million in 2012, an increase of approximately 0.4%.

Legal Proceedings

For details regarding various regulatory issues, see Note 19(C) to the 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 year ended December 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	**87**	**19**	**58**	**18**	**-**	**6**	**-**	**188**
Non-interest financing income	**-**	**-**	**-**	**-**	**-**	**80**	**-**	**80**
Net financing profit	**87**	**19**	**58**	**18**	**-**	**86**	**-**	**268**
Provision for credit losses	**4**	**3**	**1**	**-**	**-**	**-**	**-**	**8**
Net financing profit after provision for credit losses	**83**	**16**	**57**	**18**	**-**	**86**	**-**	**260**
Income from fees	**576**	**326**	**113**	**12**	**9**	**-**	**561**	**1,597**
Operating and other expenses	**473**	**237**	**80**	**8**	**5**	**-**	**514**	**1,317**
Profit before taxes	**186**	**105**	**90**	**22**	**4**	**86**	**47**	**540**
Provision for taxes on profit	**51**	**29**	**24**	**6**	**1**	**23**	**12**	**146**
Net profit:								
Before attribution to non-controlling interests	**135**	**76**	**66**	**16**	**3**	**63**	**35**	**394**
Attributed to non-controlling interests	**(4)**	**(1)**	**-**	**-**	**-**	**-**	**-**	**(5)**
Attributed to shareholders of the Bank	**131**	**75**	**66**	**16**	**3**	**63**	**35**	**389**
Average balances								
Average balance of assets	**6,771**	**3,569**	**1,263**	**228**	**114**	**-**	**4,536**	**16,481**
Average balance of liabilities	**-**	**-**	**2,278**	**2,136**	**9,824**	**-**	**399**	**14,637**
Average balance of risk-adjusted assets	**8,335**	**5,118**	**2,356**	**143**	**126**	**-**	**-**	**16,078**
Average number of employee positions	**731**	**347**	**111**	**12**	**7**	**-**	**571**	**1,779**

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

	For the year ended December 31, 2012*							
	Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Financial Management Segment	Incoming tourism and others	Total
	NIS millions							
Net interest income:								
From externals	95	22	59	18	-	10	-	204
Non-interest financing income	-	-	-	-	-	55	-	55
Net financing profit	95	22	59	18	-	65	-	259
Provision for credit losses	25	14	4	-	-	-	-	43
Net financing profit after provision for credit losses	70	8	55	18	-	65	-	216
Income from fees	580	328	113	12	9	-	548	1,590
Operating and other expenses	475	241	80	8	4	-	504	1,312
Profit before taxes	175	95	88	22	5	65	44	494
Provision for taxes on profit	49	26	24	6	1	17	12	135
Net profit:								
Before attribution to non-controlling interests	126	69	64	16	4	48	32	359
Attributed to non-controlling interests	(3)	(1)	-	-	-	-	-	(4)
Attributed to shareholders of the Bank	123	68	64	16	4	48	32	355
Average balances								
Average balance of assets	6,238	3,497	1,238	223	112	-	4,314	15,622
Average balance of liabilities	-	-	2,228	2,089	9,608	-	304	14,229
Average balance of risk-adjusted assets	8,083	4,923	2,283	126	166	-	-	15,581
Average number of employee positions	761	350	113	11	6	-	591	1,832

* Reclassified. For further details, see the section "General – The Segments and Customer Assignment Criteria", above.

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 (the number of agreements decreased relative to the preceding quarter due to mergers of management companies).
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.
A pension clearing house has been established; in December 2013, it became mandatory to use the clearing house for transfers of advance information regarding customers' holdings in pension products from institutional entities to pension advisors and marketers. Difficulties still 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 types 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.

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 December 31, 2013, the company manages portfolios at a monetary value of NIS 12.5 billion, compared with NIS 10.6 billion at the end of 2012.

Services for Financial Asset Managers

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

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

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

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 (with the exception of insurance companies) and with mutual funds was transferred from the Corporate Banking Area to the Financial Markets Area.

At the end of 2013, the volume of assets of provident funds, study funds, and pension funds for which the Bank supplies operational services totaled approximately NIS 83.4 billion. The value of assets of mutual funds for which the unit provides services related to account management, at various volumes, totaled approximately NIS 89.4 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 year ended December 31, 2013						
	Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Financial Management Segment	Total
	NIS millions						
Fees and other income	**32**	**734**	**39**	**18**	**72**	**254**	**1,149**
Operating and other expenses:							
From externals	**61**	**504**	**40**	**-**	**-**	**271**	**876**
Inter-segmental	**9**	**167**	**12**	**7**	**18**	**-**	**213**
Profit (loss) before taxes	**(38)**	**63**	**(13)**	**11**	**54**	**(17)**	**60**
Provision for taxes (tax benefit) on profit (loss)	**(12)**	**21**	**(4)**	**4**	**18**	**(6)**	**21**
Net profit (loss):							
Attributed to shareholders of the Bank	**(26)**	**42**	**(9)**	**7**	**36**	**(11)**	**39**
Average balances							
Average balance of assets of provident funds and mutual funds(1)	**2,365**	**45,059**	**3,639**	**2,086**	**3,456**	**82,132**	**138,737**
Average balance of other assets under management	**-**	**837**	**-**	**-**	**-**	**-**	**837**
Average balance of securities	**1,900**	**105,942**	**7,153**	**11,980**	**254,115**	**338,469**	**719,559**

	For the year ended December 31, 2012*						
	Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Financial Management Segment	Total
	NIS millions						
Fees and other income	40	720	39	16	59	343	1,217
Operating and other expenses:							
From externals	58	479	38	-	-	323	898
Inter-segmental	11	172	11	5	15	-	214
Profit (loss) before taxes	(29)	69	(10)	11	44	20	105
Provision for taxes (tax benefit) on profit (loss)	(10)	23	(3)	4	15	7	36
Net profit (loss):							
Attributed to shareholders of the Bank	(19)	46	(7)	7	29	13	69
Average balances							
Average balance of assets of provident funds and mutual funds(1)	2,060	31,204	2,633	1,446	2,315	77,724	117,382
Average balance of other assets under management	-	915	-	-	-	-	915
Average balance of securities	1,960	110,282	7,606	10,555	213,315	320,361	664,079

* Reclassified. For further details, see the section "General – The Segments and Customer Assignment Criteria", 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 2013, excluding exchange-rate differences of the subsidiaries overseas, totaled NIS 794 million, compared with NIS 760 million in 2012.

The Bank's investment in subsidiary and affiliated companies totaled NIS 16.0 billion as at December 31, 2013, compared with NIS 15.8 billion at the end of 2012.

Subsidiaries in Israel

The principal companies are reviewed below:

The Isracard Group

The Group includes the following companies: Isracard Ltd., Poalim Express Ltd., 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.

On July 1, 2013, Isracard acquired the Bank's full holdings in Aminit. The consideration for the acquisition, in the amount of NIS 69 million, reflects the total capital of Aminit at the acquisition date. Following the acquisition, Isracard holds 100% of the capital of Aminit. Aminit was merged into Isracard in October 2013, and the subordinated notes issued to the Bank by Aminit in the past, in the amount of NIS 31 million, were settled.

The core activity of the Isracard Group is issuance, clearing, and financing in Isracard credit cards, a private brand under its ownership, as well as MasterCard, Visa, and American Express credit cards under licensing agreements. The Group also has activities in the following areas: granting consumer credit other than through credit cards, check payment guarantees and check discounting, direct sales-slip discounting, and factoring (receivables discounting).

Net profit of the Isracard Group totaled NIS 328 million in 2013, compared with NIS 277 million in 2012, an increase of 18.4%. Net profit of the Isracard Group, excluding profit from the sale of MasterCard shares, totaled NIS 299 million in 2013, compared with NIS 261 million in 2012, an increase of 14.7%. The contribution of the Isracard Group to the Bank's operating results after taxes amounted to NIS 339 million in 2013, compared with NIS 286 million in 2012. The Bank's investment in the Isracard Group totaled NIS 2,155 million on December 31, 2013, compared with NIS 1,916 million at the end of 2012.

Pursuant to a draft bill for increasing competition in credit, submitted to Knesset in February 2014, banking corporations would be required to gradually sell any means of control which they hold 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, for rapid crediting of businesses in charge-card transactions.

In December 2013, the Bank of Israel published criteria and general conditions for a controlling party and for a holder of means of control in an applicant for a clearing license, as well as the procedure for obtaining a clearing license.

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

Poalim Capital Markets – 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 2013 amounted to NIS 6 million, compared with a contribution in the amount of NIS 38 million in 2012.

The Bank's investment in Poalim Capital Markets totaled NIS 818 million on December 31, 2013, compared with NIS 814 million at the end of 2012.

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 14 million in 2013, compared with NIS 20 million in 2012.

The Bank's investment in Poalim Sahar totaled NIS 291 million on December 31, 2013, compared with NIS 277 million at the end of 2012.

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.

Regulatory Supervision – Miami Branch

An agreement (called a "Written Agreement") between the Bank and the Miami branch of the Bank, on one side, and the Federal Reserve of New York, the Federal Reserve of Atlanta, and the Office of Financial Regulation of the State of Florida, on the other side, took effect on July 8, 2009. The agreement signed essentially concerns the reinforcement of the compliance, risk management, and audit functions of the Bank at its Miami branch, with the aim of correcting flaws that were discovered. The agreement did not create or impose any limitations on the Bank's business activity, in the US or in general. On October 4, 2013, the Federal Reserve of Atlanta gave notice of the termination of the Written Agreement. In its notification, the Federal Reserve stated that the agreement had been terminated due to improvements observed at the most recent regulatory audit at the Miami branch and due to the Bank's compliance with the terms of the agreement.

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 December 31	
	2013	2012
	USD millions	
Assets		
Cash on hand and deposits with banks	**7,648**	8,699
Securities	**2,169**	1,891
Securities borrowed or bought under agreements to resell	**8**	
Net credit to the public	**5,282**	5,447
Buildings and equipment	**26**	24
Assets in respect of derivative instruments	**74**	69
Other assets	**171**	133
Total assets	**15,378**	16,263

Liabilities and Capital		
Deposits from the public	**8,147**	8,582
Deposits from banks	**5,063**	5,414
Securities lent or sold under agreements to repurchase	**70**	148
Bonds and subordinated notes	**600**	567
Liabilities in respect of derivative instruments	**143**	234
Other liabilities	**272**	293
Total liabilities	**14,295**	15,238
Non-controlling interests	**61**	74
Capital means**	**1,022**	951
Total liabilities and capital	**15,378**	16,263

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

** Includes calculated capital in the amount of USD 283 million (December 31, 2012: USD 207 million) for branches of the Bank that are not companies. The calculated capital includes the amounts of the original deposits deposited with the branches of the Bank, with the addition of profits or subtraction of losses recorded up to the balance sheet date, including adjustments from the presentation of securities available for sale at fair value.

B. Client Assets

	Balance as at December 31	
	2013	2012
	USD millions	
Deposits from the public, bonds, and subordinated notes	**8,747**	9,149
Client assets (off-balance sheet)	**9,421**	8,542
Total	**18,168**	17,691

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

	For the year ended December 31	
	2013	2012
	USD millions	
Net financing profit	**212**	203
Provision for credit losses	**3**	3
Net financing profit after provision for credit losses	**209**	200
Fees and other income	**152**	155
Operating and other expenses	**255**	294
Profit before taxes	**106**	61
Provision for taxes on profit	**39**	19
Net profit:		
Before attribution to non-controlling interests	**67**	42
Attributed to non-controlling interests	**(3)**	(4)
Attributed to shareholders of the Bank	**64**	38

* 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:

December 31, 2013

	Balance as at December 31, 2013(1)	Contribution in 2013 excluding exchange-rate differences(2)	Return in 2013(3)	Exchange-rate differences in respect of the investment allocated to the statement of profit and loss in 2013*	Contribution in 2013 including exchange-rate differences
	NIS millions			NIS millions	
Company					
US branches(4)	**640**	**118**	**20.0%**	**-**	**118**
London branch(4)	**259**	**32**	**13.5%**	**-**	**32**
Bank Hapoalim (Switzerland) LTD.	**1,537**	**41**	**2.6%**	**-**	**41**
Pozitif Group	**513**	**29**	**5.1%**	**(144)**	**(115)**
Hapoalim Securities USA Inc.	**119**	**(3)**	**(2.4%)**	**(6)**	**(9)**
Banque Hapoalim (Luxembourg) S.A.	**44**	**(9)**	**(18.9%)**	**(2)**	**(11)**
Others	**355**	**15**	**4.1%**	**(28)**	**(13)**
Total	**3,467**	**223**	**6.4%**	**(180)**	**43**

December 31, 2012

	Balance as at December 31, 2012(1)	Contribution in 2012 excluding exchange-rate differences(2)	Return in 2012(3)	Exchange-rate differences in respect of the investment allocated to the statement of profit and loss in 2012*	Contribution in 2012 including exchange-rate differences
	NIS millions			NIS millions	
Company					
US branches(4)	510	41	8.9%	-	41
London branch(4)	219	(4)	(1.8%)	-	(4)
Bank Hapoalim (Switzerland) Ltd.	1,564	46	3.0%	-	46
Pozitif Group	648	29	4.7%	26	55
Hapoalim Securities USA Inc.	128	15	12.0%	(8)	7
Banque Hapoalim (Luxembourg) S.A.	51	4	8.6%	-	4
Others	370	11	2.9%	(6)	5
Total	3,490	142	4.1%	12	154

* The functional currency of consolidated subsidiaries overseas is defined in accordance with the directives of the Supervisor of Banks (see also Note 1(E)1 to the Financial Statements). Beginning January 1, 2012, 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 23 million (in the same period last year: NIS 30 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 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.

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 year ended December 31		
	2013	2012	Change
	Millions		
US branches – USD*	**53.5**	17.1	36.4
London branch – GBP*	**8.8**	(1.0)	9.8
Bank Hapoalim (Switzerland) Ltd. – CHF	**14.9**	13.7	1.2
Bank Pozitif Group – TRY	**17.8**	26.5	(8.7)
Hapoalim Securities U.S.A. Inc. – USD	**-**	3.5	(3.5)
Banque Hapoalim (Luxembourg) S.A. – USD	**(2.5)**	0.9	(3.4)
Other offices – USD	**4.4**	4.5	(0.1)

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

Global Private Banking Activity of the Bank Group

Within this framework, the Bank Group provides private customers with accounts at the Bank Group's overseas branches and at the Global Private Banking Center in Tel Aviv with advanced professional services and products, including investment products and global asset management. This activity currently encompasses Israel, Europe, the United States, Latin America, Canada, and Asia, by means of sites including banking subsidiaries, branches, 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 14.9 million in 2013, compared with approximately CHF 13.7 million in 2012. The profit in 2012 includes an expense in the amount of CHF 4.1 million for the closure of the Singapore branch. Excluding this expense, profit in 2013 would have been lower by approximately CHF 3 million than profit in 2012. The decrease in profit resulted from the effects of changes in the fair value of derivatives used to economically hedge balance sheet activity, in the amount of CHF 5.1 million, partially offset by an increase in income from fees, in the amount of approximately CHF 2.5 million, mainly fees from customers' activity in the capital market.

The contribution of Hapoalim Switzerland, excluding exchange-rate differences and after supplementary taxes in Israel, to the Bank's operating results in 2013 totaled NIS 41 million, compared with NIS 46 million in 2012.

Total capital of Hapoalim Switzerland amounted to approximately CHF 395 million as at December 31, 2013, compared with approximately CHF 386 million at the end of 2012.

The total balance sheet of Hapoalim Switzerland amounted to approximately CHF 3,419 million as at December 31, 2013, compared with approximately CHF 3,232 million at the end of 2012.

The total credit of Hapoalim Switzerland totaled approximately CHF 1,403 million as at December 31, 2013, compared with approximately CHF 1,376 million at the end of 2012.

Total deposits from the public of Hapoalim Switzerland totaled approximately CHF 2,890 million as at December 31, 2013, compared with approximately CHF 2,638 million at the end of 2012.

During the second half of 2011, Hapoalim Switzerland was notified that talks were underway between government agencies in Switzerland and in the United States in connection with the Double Taxation Treaty between these countries. The Swiss authorities informed Hapoalim Switzerland that several Swiss banks, including Hapoalim Switzerland, were under investigation by US authorities. No details or circumstances concerning Hapoalim Switzerland specifically were provided in connection with this investigation. Pursuant to a request by the Swiss authorities, 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 is absorbing clients which were previously in the London branch.

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 December 31, 2013, the Bank Group's customers have holdings in funds of international financial entities with which PAM collaborates totaling approximately USD 2.5 billion, compared with USD 2.2 billion on December 31, 2012. PAM Companies also develop, plan, and provide professional support for other investment products, such as structured products, in accordance with international standards, including through collaboration with leading global financial entities. In addition, PAM Companies offer consulting and research services to the Bank's subsidiaries and branches abroad.

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

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

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

A bank, wholly owned by Bank Hapoalim (Cayman), provides private-banking services to the Bank's customers in South America. Hapoalim Latin America operates in Uruguay through three branches, in Montevideo, Punta del Este, and Colonia.

US Branches

The New York Branch – Activity in the Corporate Segment

Most of the Bank Group's international 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 Bank allows Israeli companies as well as American companies with assets in Israel to use collateral held in Israel in order to open credit lines at the New York branch. The New York branch also offers its customers FDIC deposit insurance, similar to American banks.

Granting corporate credit to large companies in the US economy by participating in 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 December 31, 2013, compared with approximately USD 1.9 billion at the end of 2012. Of the total credit, total credit to middle-market clients amounted to approximately USD 0.9 billion, compared with USD 0.55 billion at the end of 2012. The branch also provided unutilized credit facilities and backup lines in the amount of approximately USD 1.9 billion as at December 31, 2013, compared with approximately USD 1.8 billion at the end of 2012.

In addition, as at December 31, 2013, a total of approximately USD 3.8 billion was deposited with the Federal Reserve Bank, compared with approximately USD 4.9 billion on December 31, 2012.

Private Banking in the United States

The Miami branch and the Private Banking Department at the New York branch offer private-banking services to GPB customers. Private banking in the United States primarily focuses on customers from Latin America.

The profit of the US branches before local taxes totaled approximately USD 53 million in 2013, compared with approximately USD 17 million in 2012. The increase in profit resulted from recovery in the amount of approximately USD 20 million of MBS and SIV bonds written down in previous years, an increase in net interest income, and change of actuarial provisions for pensions.

Total capital means of the US branches amounted to approximately USD 209 million as at December 31, 2013, compared with approximately USD 148 million on December 31, 2012.

The total balance sheet of the US branches as at December 31, 2013, totaled approximately USD 7.5 billion, compared with approximately USD 8.4 billion on December 31, 2012. The decrease resulted from a reduction of deposits with the Federal Reserve by approximately USD 1.1 billion.

The total credit of the US branches totaled approximately USD 2.2 billion as at December 31, 2013, compared with approximately USD 2.1 billion at the end of 2012.

Total deposits of the US branches totaled approximately USD 3.4 billion as at December 31, 2013, compared with approximately USD 3.5 billion at the end of 2012.

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

A broker-dealer 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.

The profit of the London branch before local taxes totaled approximately GBP 9 million in 2013, compared with a loss in the amount of approximately GBP 1 million in 2012. The loss in 2012 resulted from provisions in the amount of GBP 5.9 billion recorded due to the reduction of the branch's activity.

Total capital means of the London branch as at December 31, 2013 amounted to approximately GBP 45 million, compared with approximately GBP 36 million on December 31, 2012.

The total balance sheet of the London branch amounted to approximately GBP 523 million as at December 31, 2013, compared with approximately GBP 844 million on December 31, 2012.

The total credit of the London branch totaled approximately GBP 374 million as at December 31, 2013, compared with approximately GBP 644 million at the end of 2012.

Total deposits of the London branch totaled approximately GBP 69 million as at December 31, 2013, compared with approximately GBP 451 million at the end of 2012.

The decrease in the balance of loans and deposits resulted from the downsizing of the activity of the branch. Some of the balances, both of loans and of deposits, were transferred to other offices of the Bank.

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:

Profit of the Bank Pozitif Group totaled approximately TRY 17.8 million (approximately USD 8.2 million) in 2013, compared with profit of TRY 26.5 million (approximately USD 14.8 million) in 2012. The decrease in profit was a result of an increase in the allowance for credit losses, in the amount of approximately TRY 17 million, which was offset by profit from the realization of assets seized by the bank. Weakening of the Turkish lira against the various currencies also contributed to the decrease in profit.

The Bank Pozitif Group's contribution to the Bank's operating results, excluding exchange-rate differences and after supplementary taxes in Israel, amounted to approximately NIS 29 million in 2013, similar to the contribution in 2012.

Total equity of the Bank Pozitif Group amounted to TRY 435 million (approximately USD 201 million) as at December 31, 2013, compared with approximately TRY 435 million (approximately USD 243 million) at the end of 2012.

Total assets of the Bank Pozitif Group amounted to approximately TRY 2,293 million (approximately USD 1.06 billion) as at December 31, 2013, compared with approximately TRY 1,800 million (approximately USD 1.01 billion) at the end of 2012.

Total net credit to the public of the Bank Pozitif Group amounted to approximately TRY 1,676 million (approximately USD 776 million) as at December 31, 2013, compared with approximately TRY 1,274 million (approximately USD 713 million) at the end of 2012. Part of the credit is denominated in currencies other than the Turkish lira. The weakening of the Turkish lira against these currencies therefore contributed to an increase in the balance of credit, in addition to an actual increase in the balances of credit to the public.

The increase in credit was financed by bond issuance during 2013, in the amount of approximately TRY 330 million. Most of the increase resulted from the issuance of Eurobonds denominated in US dollars, in the amount of USD 150 million. Total bonds issued by Bank Pozitif as at December 31, 2013, amounted to approximately TRY 580 million (approximately USD 270 million).

Total deposits from the public of the Bank Pozitif Group amounted to approximately TRY 188 million (approximately USD 87 million) as at December 31, 2013, compared with approximately TRY 111 million (approximately USD 62 million) at the end of 2012.

The Bank's investment in the Bank Pozitif Group totaled NIS 513 million as at December 31, 2013, compared with approximately NIS 648 million at the end of 2012. The decrease mainly resulted from the weakening of the Turkish lira at a rate of approximately 23% against the NIS.

Fixed Assets and Facilities

	December 31			
	2013			2012
	Cost	Accrued depreciation	Balance	Balance
	NIS millions			
Buildings and land (including installations and improvements to rented properties)	**3,891**	**1,960**	**1,931**	1,901
Equipment, including computers, furniture, and vehicles	**2,009**	**1,499**	**510**	549
Software	**4,218**	**2,868**	**1,350**	1,276
Total	**10,118**	**6,327**	**3,791**	3,726

The buildings in which the Bank's business is conducted in Israel are under its ownership or under the ownership of its asset companies, or rented for various rental periods. Most of the properties in which the Bank Group's business is conducted overseas are rented.

The Bank owns 218 properties with an area of 187 thousand sq. meters, of which 158 buildings with an area of 104 thousand sq. meters used as branches, and 60 buildings with an area of 83 thousand sq. meters used as management offices and auxiliary space. In addition to the buildings under its ownership, the Bank rents 202 buildings with an area of 144 thousand sq. meters. Data referring to the area of Head Office buildings also include parking lots and storage facilities.

As part of the work plan for 2011, the Board of Directors passed a resolution to work to consolidate Head Office offices and units at a future central site to be built outside central Tel Aviv. Among other matters, a decision was taken to buy suitable land reserves with a large area, and to transfer the units in stages. It was further resolved that the central site would be planned based on green construction principles. The planning and construction of the first stage of the central site are expected to take several years.

For further data regarding buildings and equipment, see Note 7 to the Financial Statements.

IT Infrastructures

General

The Bank has two central IT sites: a main production site and a backup and development site, to ensure maximum survivability. The Bank's core system, located at the production site, is installed on an IBM mainframe computer. As part of the process of improving the availability and survivability of the system of mainframe computers, in 2010 the Bank purchased an additional mainframe computer for the production site, which has been linked in a cluster formation to the existing computer at that site, with data sharing and full mutual backup (PSDS). The two computers have aggregate power of more than 14,000 MIPS (million instructions per second). A mainframe computer operates at the backup site in a minimal format. When necessary, this computer will be expanded to the required power.

Additional systems operate alongside the core system (Linux, Unix, and Windows-based systems – hereinafter: the "Open Systems"), for specific needs, using a platform that allows dynamic distribution and optimal utilization of resources. The Bank uses advanced methodologies and systems to streamline development and production processes, including via SOA architecture and automated process management (BPM).

The Bank Group's branches, regional administrations, business centers, and Head Office units are computerized and connected online to the computer centers of the Information Technology Area. 567 automated teller machines and 800 information and check deposit machines are available to customers (480 are inside branches and 320 are on the external walls of branches).

Information Backup and Storage

As noted above, the Bank has two central IT sites, a main production site and a backup site. The total storage volume on the central computer at all three sites is approximately 300 TB. The total storage volume on the Open Systems at both sites is approximately 2.4 PB. The data of the central computer and the Open Systems are backed up on magnetic media. The total backup volume for the central computer at the three sites is 1.6 PB. Three robotic systems, made by IBM, are used to back up the data of the central computer, one at each site. Data of the Open Systems are backed up by writing to disks with a total volume of 1 PB at the three sites, and two robotic systems made by Quantum, one at each main IT site, with a total volume of approximately 10 PB. Information backups are saved in two identical copies, one at each site. In addition, the Bank has databases that store copies of paper documents, mortgage documents, etc., for everyday use in data retrieval and in order to retain an accessible historical copy of these data.

Every action executed on the Bank's computers is simultaneously updated at the production site and the backup site, so that in case of disaster or physical malfunction, a backup exists for the Bank's critical systems, and damage to the hardware at one of the sites would not cause information loss. In the event of an emergency switch to the backup site, the Bank has the capability to immediately increase the power of the backup computer (MF) to the power level of the production computer, by operating dormant engines; in other words, the backup site has the capacity for the computer power required for all of the Bank's routine business activity.

Communications

The Bank has an advanced data and voice communications network, with high data transmission speeds. The communications network has high survivability and includes backups that allow work with both of the Bank's IT centers. The Bank's communication network also connects the Bank's branches and offices worldwide and transmits data services, speech, and video conferences.

Subsidiaries

The IT and operational systems of the Bank's overseas offices and of its other subsidiaries, including Isracard, rely on independent systems; managerial responsibility rests with the managements and boards of directors of the subsidiaries. Corporate governance rules serve as the basis for the interaction between the IT Area and the subsidiaries.

Suppliers

From time to time the Bank enters into contractual engagements with suppliers from Israel and elsewhere to receive the various services it requires in the area of information systems, including agreements for the purchase and maintenance of equipment, implementation of information systems, and purchase of software; as there are services based on technologies regarding which knowledge is concentrated with a small number of service providers, and sometimes with a service provider with exclusive expertise and knowledge in the specific technology. The Bank has contracted with an outsourcing services supplier, at this stage mostly for testing.

Information Security

Investment in information security in data systems is an integral, inseparable part of the development of modern information systems. In the Bank's systems, information security is implemented on several levels and circuits, in order to ensure that the Bank's systems are well protected against penetration, unauthorized access, or damage. Information-related projects at the Bank are accompanied from their inception by an information-security team that ensures strict compliance with information-security rules, protection of the privacy of information, and the restriction of access to information to authorized personnel only. Security events in IT systems are referred in real time to an expert center of information-security personnel, and addressed and documented from the initial stage of the event to its completion. Relevant events are also referred to the Audit Department. Material incidents are reported to the Board of Management and the Board of Directors. The Bank routinely conducts resilience tests and information-security surveys of its systems, in order to ensure that information security is maintained at all times and complies with the strict rules established in this area.

Main Projects in Progress

MESER (General Ledger System) – Computerization of the general ledger of the Bank; based on the Bank Analyzer product by SAP. The system includes an accounting information infrastructure based on detailed business events and contractual attributes derived from operational systems.

The system will provide business and managerial insights for the Bank's management and provide the capability to flexibly generate reports, bringing the Bank to the forefront of the field of comptrolling on an international level, on a par with the tier of major global banks.

Mobile banking – Development and expansion of mobile applications for Bank Hapoalim customers. The applications offer business capabilities in a wide range of areas and customer segments, through an innovative and unique interface and user experience, with an emphasis on business and technological leadership and adaptation to the customer.

Rotem project – The Bank is planning to establish a new Data Center. The planned structure will be characterized by high availability and a high level of protection, in order to provide a solution for the need for continuity of the Bank's IT systems. The construction of the structure is in progress, and the process of migration to the new facility is being planned.

Syndication project – A credit syndication transaction is business collaboration by several financial corporations to finance investment-intensive projects. The goal of the project is to create an infrastructure for the Bank's management of syndication transactions and automation of the relevant manual processes.

Project for liens on financial assets in accounts – Allows current liens to be applied to NIS/foreign-currency deposits in an account, and permanent liens to be applied to securities accounts, under certain conditions, offering better service to business clients along with more effective management.

Internet and mobile leadership project – Planning and development of the Bank's future Internet and mobile system, as the first application in the business technology leadership project, which is designed to preserve and solidify the business technology leadership of the Bank. This project reflects an advanced approach to visibility and customer service as well as multi-channel integration and the architecture supporting the application.

ATM of the Future project – The goal of this project is to replace and upgrade the core of the ATM system, reduce operational risks, and create a technological foundation for future advanced services.

Poalim UP – An innovative project in the banking industry, creating a leap forward in bank-account management, by offering customers choices and the ability to customize the account for their specific needs. Tools are also provided to help customers manage their accounts better, make the right financial decisions, and maintain control over the activity in their accounts, with transparency, fairness, and choice.

Scope of Investment

The Bank has implemented International Accounting Standard No. 38, "Intangible Assets." In accordance with the standard, costs of the information-technology system are recorded as assets in the financial statements only during the development stage of the IT system. The development stage begins only after the project has been approved and budgeted, and its technological feasibility has been demonstrated. Costs recognized as assets include direct costs of hardware, services, and labor. Other costs, such as pre-project costs, absorption and training costs, routine maintenance costs, administrative costs, and other costs that cannot be attributed directly to software development are recognized as an expense in the statement of profit and loss upon formation.

Details of expenses and investments in information systems carried out in 2013 are set out below:

Additions to assets in respect of the information technology system not charged as expenses in 2013

	Software	Hardware(2)	Other	Total
	NIS millions			
Costs in respect of wages and related expenses	**216**	**-**	**-**	**216**
Outsourcing costs, including consultants' fees	**173**	**-**	**-**	**173**
Costs of acquisitions or usage licenses(3)(4)	**101**	**79**	**1**	**181**
Costs of equipment, buildings, and land	**-**	**-**	**16**	**16**
Total	**490**	**79**	**17**	**586**

Balances of assets(1) in respect of the information technology system as at December 31, 2013

	Software	Hardware(2)	Other	Total
	NIS millions			
Total depreciated cost	**1,441**	**256**	**69**	**1,766**
Of which: in respect of wages and related expenses	**730**	**-**	**-**	**730**

Expenses in respect of the information technology system as included in the statement of profit and loss in 2013

	Software	Hardware(2)	Other	Total
	NIS millions			
Expenses in respect of wages and related expenses	**306**	**82**	**4**	**392**
Expenses in respect of acquisitions or usage licenses not discounted to assets	**177**	**63**	**14**	**254**
Outsourcing expenses, including consultants' fees	**44**	**6**	**2**	**52**
Depreciation expenses	**416**	**125**	**14**	**555**
Other expenses	**104**	**37**	**(5)79**	**220**
Total expenses	**1,047**	**313**	**113**	**1,473**

(1) Including prepaid expenses in respect of the information technology system in the amount of NIS 128 million (December 31, 2012: NIS 196 million).
(2) Including communications infrastructures.
(3) Costs of acquisition or usage licenses in respect of the information technology system which were classified in the financial statements as prepaid expenses, rather than as fixed assets (costs of equipment, buildings, and land).
(4) Including acquisitions and usage licenses of software and hardware for all divisions of the banking corporation.
(5) Includes amounts expended by the information technology system, including routine expenses for communications and telephones, mail, rent, taxes, electricity, etc.

Additions to assets[1] in respect of the information technology system not charged as expenses in 2012

	Software	Hardware[2]	Other	Total
	NIS millions			
Costs in respect of wages and related expenses	258	-	-	258
Outsourcing costs, including consultants' fees	131	-	-	131
Costs of acquisitions or usage licenses[3][4]	209	149	7	365
Costs of equipment, buildings, and land	-	-	21	21
Total	598	149	28	775

Balances of assets[1] in respect of the information technology system as at December 31, 2012

	Software	Hardware[2]	Other	Total
	NIS millions			
Total depreciated cost	1,410	323	60	1,793
Of which: in respect of wages and related expenses	728	-	-	728

Expenses in respect of the information technology system as included in the statement of profit and loss in 2012

	Software	Hardware[2]	Other	Total
	NIS millions			
Expenses in respect of wages and related expenses	290	74	32	396
Expenses in respect of acquisitions or usage licenses not discounted to assets	169	52	19	240
Outsourcing expenses, including consultants' fees	34	3	2	39
Depreciation expenses	459	114	13	586
Other expenses	115	30	[5]99	244
Total expenses	1,067	273	165	1,505

(1) Including prepaid expenses in respect of the information technology system in the amount of NIS 128 million (December 31, 2012: NIS 196 million).
(2) Including communications infrastructures.
(3) Costs of acquisition or usage licenses in respect of the information technology system which were classified in the financial statements as prepaid expenses, rather than as fixed assets (costs of equipment, buildings, and land).
(4) Including acquisitions and usage licenses of software and hardware for all divisions of the banking corporation.
(5) Includes amounts expended by the information technology system, including routine expenses for communications and telephones, mail, rent, taxes, electricity, etc.

Human Capital

Human Resources Strategy

Human resources strategy is formulated in congruence with the Bank's strategy, the derived business needs, and trends in the area of human resources. Accordingly, the Human Capital, Advising, and Resources Area has set itself the mission of serving as a strategic partner supporting the achievement of the Bank's business objectives, with an emphasis on the development and cultivation of human resources, while continually striving for excellence and making optimal use of resources.

The strategic plan encompasses four main areas of activity:

- **Human resources planning –** Formulating and implementing plans and processes according to the work plans of the Areas of the Bank, in all matters related to human capital, including mix, education, and training, while adjusting to labor-market trends and changing regulation.
- **Cultivating and developing people and culture –** Solidifying the Bank's vision, ethical code, and values; cultivating professional and managerial excellence among Bank employees; motivating and encouraging employees. The Bank continually cultivates a culture of learning among its employees and invests substantial resources in professional and management training.
- **Operational excellence –** Managing resources and continually examining work processes and cost generators in order to achieve optimal resource utilization and savings.
- **Excellence in service –** Setting standards for a high level of service; proactively providing service to Bank units; matching the service package to the unique needs of internal clients.

Set out below are data regarding the headcount of the Bank Group, in terms of positions[(1)]:

	2013		2012	
	Annual average	Year-end balance	Annual average	Year-end balance
The Bank:				
In Israel	**10,587**	**10,280**	10,920	10,744
Abroad	**319**	**302**	372	372
Bank total	**10,906**	**10,582**	11,292	11,116
Subsidiaries:				
In Israel	**1,649**	**1,658**	1,689	1,705
Abroad	**647**	**651**	648	663
Subsidiaries total	**2,296**	**2,309**	2,337	2,368
Bank Group total	**13,202**	**12,891**	13,629	13,484

(1) The number of positions also includes equivalents of overtime costs in terms of positions, plus positions of external personnel who are not Bank employees but provide work services to the Bank as required for the adjustment of manpower needs in the course of routine operations and for the introduction of projects, less positions of employees whose wages are capitalized as fixed assets.

Principal changes in the headcount of the Bank Group at year-end 2013 in comparison to the end of 2012 are set out below.

The number of positions in the Bank Group decreased by 593 at year-end 2013, in comparison to the number of positions at year-end 2012, as follows:

- The number of positions in Israel decreased by 464. The decrease mainly resulted from the implementation of the headcount standardization at the Head Office units, based on the "Poalim the Right Way" (LEAN Banking) methodology, and from optimization of the deployment of the branch network.

- The number of positions at branches overseas decreased by 70, due to cutbacks in the number of positions at branches and closure of representative offices.
- The number of positions at subsidiaries decreased by 47, mainly at Isracard.

Set out below is the distribution of the average number of employee positions in the Bank Group by segment of activity[(1)]:

	2013	*2012
Households	**5,127**	5,347
Private Banking	**3,251**	3,334
Small Businesses	**1,650**	1,687
Commercial	**1,050**	984
Corporate	**694**	782
Financial Management	**854**	897
Others and Adjustments	**576**	598
Total	**13,202**	13,629

* Reclassified. For further details, see the section "General – The Segments and Customer Assignment Criteria," above.
(1) Includes positions of Head Office employees whose cost of employment was charged to the segments.

Human Resource Characteristics

The policy of the Bank is to employ, promote, and make decisions concerning employees based on material considerations such as skills and performance, without discrimination on the basis of religion, race, sex, age, views, sexual orientation, disability, etc. The Bank encourages the hiring of employees belonging to segments underrepresented in the labor market, as part of its hiring policy, in recognition of the advantages inherent in a diverse workforce in terms of a better understanding of various segments of customers, and the encouragement of innovation and creativity in an open and diverse work environment.

The average seniority of the Bank's employees was 17.9 years in 2013, compared with 17.5 years in 2012. The average age of employees was 43.7 in 2013, compared with 43.3 in 2012.

In 2013, approximately 65% of all employees of the Bank were women, compared with 65.6% in 2012. In the Bank's senior management (department heads at the Head Office, branch managers, and above), the percentage of women in 2013 was 39.2%, compared with 39.6% in 2012 (the percentage of women in senior management in 2006 was 29%).

The Bank's policy is to hire employees holding academic degrees, as necessary; accordingly, the percentage of these employees out of total employees of the Bank has risen steadily, from 28.1% in 1998 to 59.5% in 2013 (57.1% in 2012). This increase resulted from degree-holding employees hired, and from the completion of academic studies by employees of the Bank.

Increasing Efficiency

Employee Retirement due to Head Office Standardization

In 2012, the Bank launched several processes aimed at increasing efficiency, including in the structure of its Head Office units, in order to create an optimized organizational structure aligned with the Bank's current needs, as well as general standardization of the volume of manpower and of managerial positions.

The goal of this process is to support the strategy of the Bank and to provide an optimal response to customers' needs while reducing expenses. Following this decision, the Board of Management of the Bank resolved to update the actuarial provision included in the financial statements for 2012.

Efficiency

The efficiency plan aimed at supporting the Bank's multi-year strategy will continue in 2014. Over the coming years, the plan will lead to savings on manpower costs as well as other costs, as a result of reduced square footage at the Head Office and branches of the Bank.

Among other elements, the efficiency plan encompasses structural changes, a reduction in the number of positions, and training for employees assigned to new business activities initiated by the Bank. The new business initiatives include expansion of the Bank's activity in certain sectors where the Bank has identified potential for growth and expansion. Permanent employees in positions cut back under the plan who do not join the new business initiatives will be able to take one of the retirement tracks.

The Bank's Remuneration System

The Bank's policy is to link the Bank's performance to the remuneration of its employees, in accordance with the agreement with the Employees' Union. Wage and remuneration systems are based on congruence between the level of remuneration and the employee's role and contribution to the organization. Employees' remuneration is usually based on three components: routine wages, annual bonuses, and long-term remuneration derived from the increase in value of the Bank's shares.

Employees of the Bank are entitled to various benefits, including participation in health insurance, participation in tuition fees, participation in costs of membership of sports centers and cultural institutions, gifts on holidays and personal occasions, and a bonus after 25 years of work.

For further details, see Notes 15 and 16 to the Financial Statements.

Cost and Wages per Employee Position

Set out below are details of cost per employee position and wages per employee position at the Bank (in NIS thousands):

	2013	*2012
Cost per employee post, excluding bonuses	**340**	321
Cost per employee post, including bonuses	**382**	362
Salary** per employee post, excluding bonuses	**197**	189
Salary** per employee post, including bonuses	**231**	222

* Not including expenses for the efficiency plans. Comparative figures have been restated.

** Salary – calculated according to gross salary as paid to the employee.

Senior Executives' Wages

On March 6, 2013, the Remuneration Committee and the Board of Directors resolved to approve the request by the Chairman of the Board, the Chief Executive Officer, and the members of the Board of Management of the Bank to waive 5% of their wages. In addition, all members of the Board of Directors waived 5% of their annual remuneration and of the participation remuneration paid to them for participation in meetings of the Board of Directors and in meetings of the committees of the Board of Directors. Senior employees (who are not officers of the Bank) also waived 2.5% of their wages.

Wage Agreement

A wage agreement for 2013-2017 was signed by the Board of Management of the Bank and the Employee Union of the Bank in March 2013. Pursuant to the agreement, the Bank paid its employees a one-time bonus in the amount of one monthly salary; in addition, employees' combined wages increased, differentially, according to the various wage levels. Under the agreement, along with the adjustment of certain related terms, certain post-retirement benefits were canceled. The Bank continues to grant share-based payment to its employees. For that purpose, it has adopted a plan for grants of phantom shares to its employees, under similar terms to those of the share-based payment customary in recent years. The method and volume of ranking of Bank employees, the seniority mechanism, and the annual bonus will remain similar to the format currently in use.

On December 25, 2013, the Isracard Group signed a special collective agreement, in effect until December 31, 2017. The agreement encompasses organizational and financial matters, including wage increases and related terms to apply to the employees of the Isracard Group.

Remuneration Policy

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 and the additional comments received from the Supervisor of Banks (the "Remuneration Policy"). The Remuneration Policy was adopted by the general meeting of shareholders of the Bank on February 11, 2014. With regard to the application of the Remuneration Policy to agreements with officers of the Bank, and with regard to transitional directives, see Section 7 of the Remuneration Policy, as published in the Immediate Report dated January 5, 2014, reference no. 2014-01-003661. 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 Proper Conduct of Banking Business Directive 301A of the Supervisor of Banks of November 19, 2013) 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.

Cultivation and Development of Human Capital

The Bank routinely cultivates a culture of learning among its employees, and invests substantial resources in professional and managerial training, based on the view that continual improvement in employees' abilities supports the achievement of the Bank's strategic objectives and is in line with the Bank's vision. The Bank hires employees with academic degrees, and encourages its existing employees to obtain undergraduate and graduate degrees by providing tuition aid and adding vacation days for examinations.

Poalim Campus

Poalim Campus is a key arena for instilling the strategy and vision of the Bank through continual learning. Learning is seen as a catalyst for change, leading to personal, organizational, and business growth and ensuring professional and managerial excellence for the employees and executives of the Bank. Learning takes place in Campus classrooms, at regional administrations, and at each employee's workstation.

In 2013, approximately 51,500 training days were held at the Poalim Campus, in about 600 courses. These included banking coaching days, management coaching days, courses for senior executives, banking management training, and three sessions of preparatory courses on economics and finance.

The Campus continued its afternoon activities in 2013, in collaboration with the Employee Union, to offer personal enrichment to employees in the areas of knowledge about the Land of Israel, languages, coaching, mediation, and Adler Institute courses for adolescents. During the school summer vacation, the Campus participated in a volunteering project for employees' children. About 1,200 children of employees attended an experienced-based day addressing topics such as financial management and safe driving, in collaboration with the Green Light foundation.

Banking training – The Banking School is responsible for training bankers in the area of professional knowledge and for imparting business skills in a manner adapted to each position holder, the needs of the position, and the strategic changes within the organization. In addition, the school has the role of preserving and reinforcing all employees' professional preparedness to fulfill their duties. In 2013, short, focused training sessions on a variety of topics in banking were developed and conducted. 15 sessions of courses for senior executives in various areas of banking were conducted. A training course on banking management opened in late 2013.

New learning system – A learning system was developed during 2012 to allow continuous learning at the banker's workstation. The system contains a personal menu for each employee, according to position, based on an identification of needs and ongoing mapping of knowledge gaps in the field. The learning system was launched in 2013 in the branch network and at the Central Back Office.

Executive training and development – The School of Management and Leadership at the Poalim Campus serves as a base for the creation and operation of development tracks for Bank executives, in order to empower and cultivate a core group of managers, in line with the Bank's strategic goals, objectives, and values. The School of Management and Leadership currently conducts basic and advanced training programs in management for all ranks of managers within the Bank. In 2013, over 1,000 executives at various levels participated in training days and executive development programs. An innovative program for executives was launched in 2013, emphasizing team management, empowerment of individuals, and development.

Organizational Culture and Climate

Ethical Code

The Bank considers the ethical code to be a foundation of its organizational culture. The ethical and behavioral code of the Bank encompasses standards, morals, relationships among colleagues, relationships with customers and suppliers, contribution to the community, and social and environmental responsibility. The ethical code serves as a compass guiding proper behavior, and is known as the ethical and behavioral code. The ethical code has been in place at the Bank since 2004. Due to the importance accorded to the code by the Bank, the Head of Human Capital, Advising and Resources has been assigned responsibility for ethics at the Bank and for the promotion of this area at the Bank. The Bank's ethical code was updated in the area of the prevention of bribery and corruption in 2013. In order to instill the change, a video was developed and presented via the learning system. Ethical aspects of the work environment at the Bank were addressed in a position survey held in December 2013.

Vision of the Bank

Over the last three years, a process has been underway to instill the vision of the Bank, with the aim of expressing the desired future of Bank Hapoalim at its best. The vision declares the Bank's commitment to its employees, its customers, and all of its stakeholders; it imbues the objectives set and the processes led by the Bank with significance in terms of values. The values of the vision are integrated into learning and training systems in courses on banking, management, and conduct.

Performance Evaluation Process

An annual process conducted in the form of an open dialogue, with full transparency, supporting employee empowerment and cultivation through coordination of expectations, growth, and development. This process was renewed and refreshed during 2013 through more current tools and short, focused evaluation forms.

Intra-Organizational Communication

Bank Hapoalim views its employees as full partners in its business and organizational processes. In order to maintain employees' sense of identification and high commitment, many initiatives are conducted with the aim of strengthening connections and dialogue through organization-wide communication: between management and employees, between executives and employees, and among the various units. The Bank operates through various channels for this purpose, and the organizational portal serves as a central, advanced communications channel supporting the sharing of information with employees and the absorption of intra-organizational change processes.

Liquidity and Raising of Sources of Funds at the Bank

Monetary Tools of the Bank of Israel

There are several means available to the Bank of Israel in order to establish the liquidity level of the banking system. The monetary activity of the Bank of Israel is divided into two types:

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

The monetary interest rate of the Bank of Israel, which stood at an annual rate of 1.75% at the beginning of 2013, was lowered to 1.50% on May 17, 1.25% at the end of May, and 1.0% at the end of September 2013. At the end of February 2014 the interest rate was lowered 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 126 billion. By decreasing or increasing this balance it changes the liquidity position of the banking system.
- Intervention in the foreign-currency market – The Bank of Israel buys or sells foreign currency from or to the banking system.
- Intervention in the government bond market – The Bank of Israel buys or sells government bonds.
- Operation of repo auctions – Activity of the Bank of Israel with the banks and institutional entities.

At the end of 2013, the liquidity surpluses of the banking system totaled approximately NIS 104 billion, compared with NIS 106 billion at the end of 2012, a decrease of NIS 2 billion.

The following actions decreased liquidity:

The Bank of Israel increased Makam issues by a total of approximately NIS 6 billion during this period.

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 2 billion.

The banks' liquidity requirement increased by a total of approximately NIS 3 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 NIS 19 billion (USD 5.3 billion, of which USD 2.1 billion to offset the effects of natural-gas production).

The Bank of Israel also announced its intention to buy US dollars on the market in the amount of approximately USD 3.5 billion in 2014, in order to offset the effect 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 34.0 billion as at December 31, 2013, compared with NIS 35.7 billion as at December 31, 2012. For further details regarding bonds and subordinated notes issued by the aforesaid entities, see Note 11 to the Financial Statements.

As at December 31, 2013 the balance of subordinated notes raised by the Bank stood at 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 regulatory capital of the Bank), and deposits the proceeds of the issuance with the Bank.

As at December 31, 2013, the balance of notes issued by the Bank Group is approximately NIS 17.7 billion, and the balance of bonds is approximately NIS 10.7 billion.

During 2013, bonds in the amount of approximately NIS 1.6 billion were issued by the Bank Group, and bonds and subordinated notes in the amount of approximately NIS 3.1 million matured.

Taxation Status

A. Tax Laws Applicable to Group Companies

Income Tax

The rate of corporation tax stood at 25% in 2013. The Law for Change in National Priorities (Legislative Amendments for Achievement of the Budget Objectives for 2013-2014), 2013, was published in the Official Gazette of the Israeli Government on August 5, 2013. Pursuant to this law, corporation tax will rise, and will stand at 26.5% from 2014 forward. The effect of the change in the rate of corporation tax was reflected in the financial statements as at December 31, 2013 in an increase in the balance of deferred taxes in the amount of approximately NIS 103 million, and a concurrent decrease of the provision for taxes in the same amount.

Value Added Tax Law, 1975

- The Bank is defined as a financial institution for the purposes of the Value Added Tax Law, which imposes a payroll tax and a profit tax on such institutions. Profit is defined as taxable income, as defined in the Income Tax Ordinance, before offsetting losses from tax years preceding the tax year in which the income was received, and after deducting payroll tax, excluding income from dividends received from a financial institution, and including income from interest or dividends or the sale or redemption of a unit or profit distribution to a unit owner for which an exemption from income tax has been granted under any law.
- The Value Added Tax Order was published in the Official Gazette of the Israeli Government on May 28, 2013. The order amends the rate of value-added tax for transactions and for imports of goods to 18%, beginning June 2, 2013. The Value Added Tax Order (Rate of Tax for Non-Profit Organizations and Financial Institutions) published on June 3, 2013, amends the rate of profit tax and wage tax applicable to financial institutions to 18% beginning June 2, 2013. The effect of the aforesaid change in the rate of profit tax is reflected beginning with the financial statements for the second quarter of 2013. As a result of this change, the statutory rate of tax applicable to the Bank changed, as shown in the table below.

In addition, the rate of wage tax applicable to the Bank rose from 17% to 18%, with respect to wages paid from June 2013 forward.

As a result of this change, the Bank included an increase in the balance of deferred taxes in the amount of approximately NIS 39 million, and an increase in the balance of liabilities in respect of employee benefits in the amount of approximately NIS 21 million, before related tax effects, in its financial statements for 2013.

Combined Tax Rates

Taxes on profits of banking corporations include a corporate tax imposed pursuant to the Income Tax Ordinance, and a profit tax imposed pursuant to the Value Added Tax Law, as explained above. Accordingly, the combined tax rates are as follows:

	Profit tax rate	Income tax rate	Combined tax rate
Year			
2011	16.00%	24.00%	34.48%
2012	16.33%	25.00%	35.53%
2013*	17.58%	25.00%	36.22%
2014 forward**	18.00%	26.50%	37.71%

* As a result of the increase in value-added tax as of June 2, 2013.
** As a result of the increase in corporation tax as of January 1, 2014.

Consolidated companies incorporated outside Israel are taxed according to the tax laws in the countries in which they are located

On May 13, 1986, an agreement was signed between the Bank and the Tax Assessment Officer for Large Enterprises regulating tax payments in Israel in respect of profits of the Bank's subsidiaries abroad. Under the terms of the agreement, as of 1978, the Bank's share of the profits of its subsidiaries abroad is included in the Bank's tax assessment. The agreement stipulates that this does not indicate that these companies are liable for taxes in Israel or that the laws of the State of Israel apply to them, and that the agreement does not create a precedent. The agreement signed was in effect until 1988. However, based on an understanding between the Bank and the Tax Assessment Officer for Large Enterprises, the agreement remains in effect until either of the parties gives notification of its cancellation.

Set out below are the foreign statutory tax rates applicable to the principal subsidiaries abroad:

United States:	35.0%
Switzerland:	21.4%
United Kingdom:	24.0%
Turkey:	20.0%

Provision for Credit Losses

On January 1, 2011, the banking system adopted the new directive of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risk, and allowance for credit losses. As a result, agreements were signed between the banking industry, including the Bank, and the Tax Authority, to establish rules with regard to the manner of recognition of provisions for credit losses for tax purposes. An agreement of principles was signed on February 29, 2012, between the Bank and the Tax Assessment Officer, concerning the method of recognition for tax purposes of the allowance for credit losses in respect of allowances for impaired debts recorded as of January 1, 2011. For additional data see Note 29 to the Financial Statements.

B. Additional Information

For additional data concerning the allowance for taxes in the Bank Group, final tax assessments, a tax assessment in dispute, losses accrued for tax purposes, and the difference between statutory tax rates and effective tax rates, see Note 29 to the Financial Statements.

Restrictions and Supervision of the Activity of the Banking Corporation

General

The Bank operates under laws, regulations, and directives, some of which are unique to the banking system, and some of which, even if not unique, affect material parts of its activity. The Banking Ordinance, the various banking laws, and the Proper Conduct of Banking Business Directives issued from time to time by the Supervisor of Banks constitute the central legal foundation for the Bank Group's activity. Among other matters, they define the boundaries of the activities permitted to the Bank, the activities permitted to the subsidiaries and related companies of the Bank Group, the terms of control and ownership of such companies, the relationships between the Bank and its customers, the usage of the Bank's assets, and the manner of reporting such activity to the Supervisor of Banks and to the public.
In addition, the Bank is subject to extensive legislation regulating its activity in the capital market, both on behalf of its customers and on its own behalf (e.g. in the areas of investment advising and customer portfolio management, pension advising, securities laws, and restrictions on insurance activity).
Other laws on specific topics impose specific duties and rules on banks, including the Bank. Examples include the legislation related to the prohibition of money laundering and terrorism financing, the Credit Data Law, legislation related to housing loans, guarantee laws, etc.
Additional legislation related to the Bank's activity has a strong influence on its conduct. Noteworthy in this area are execution laws, liquidation and receivership laws, laws referring to specific segments (local authorities, mortgage takers, home buyers, the agricultural sector), and various tax laws.
The Bank's activity is subject to supervision and auditing by the Supervisor of Banks as well as other supervisory agencies in specific areas of activity, such as the Israel Securities Authority; the Supervisor of the Capital Market, Insurance, and Savings at the Ministry of Finance; and the Antitrust Commissioner. These agencies carry out audits at the Bank, from time to time, concerning the various areas of activity. The Bank and its subsidiaries work to comply with the duties imposed upon them under the said legal provisions.

The legislation passed following the recommendations of an Inter-Ministerial Committee headed by the Deputy General of the Ministry of Finance (the Bachar Committee) establishes the possibility, for most of the laws applicable to the activity of the Bank, to impose monetary sanctions for violations of the provisions of the laws and the secondary legislation (including circulars and guidelines) issued in the past or future under such laws.

The following is a concise list of the changes in legislation relevant to the reported period, which have or may have a significant effect on the activity of the Bank:

Banks in the Palestinian Authority

The Bank's activity with banks located in the Palestinian Authority created uncertainty with regard to the Bank's compliance with regulatory requirements concerning money laundering and the prevention of terrorism financing, with an emphasis on the Bank's ability to monitor and prevent money transfers to and from residents of the Palestinian Authority that could be used to encourage and/or finance terrorist activity. Consequently, the Bank decided in June 2006 to terminate services to banks operating within the Palestinian Authority. Following this decision and similar decisions by other banks, the Governor of the Bank of Israel and representatives of the Ministry of Finance asked for a postponement of the date of termination of services to the Palestinian banks, and the continued provision of certain services under certain restrictions established by the Bank of Israel and by the Bank. In November 2006, the Minister of Finance granted the Bank a permit under Section 9(B) of the Prohibition of Terrorism Financing Law, pursuant to which the provisions of the Prohibition of Terrorism Financing Law concerning the "prohibition of transactions in terrorism property" shall not apply to the transactions listed in the permit. Among other things, the permit allows the Bank to continue to conduct activity with banks in the Palestinian Authority without violating the provisions of the Prohibition of Terrorism Financing Law. On January 1, 2009, the Bank ceased banking activity with banks and branches located in the Gaza Strip, after the government declared Gaza a hostile entity.

Draft Securities Regulations (Manner of Offering Securities to the Public) (Amendment), 2011

On September 25, 2011, the Israel Securities Authority issued a draft for comments by the public of the amendment Securities Regulations (Manner of Offering Securities to the Public) (Amendment), 2011. In the draft, the ISA seeks to narrow the definition of "institutional investors" permitted to participate in the institutional auction stage of purchases of securities and buy securities by early commitment, so that only entities "that manage the money of others" remain within the definition of institutional investors permitted to participate in the institutional auctions. The amended definition would not permit banking corporations and their auxiliary corporations to participate in the institutional auction stage. If passed, this draft may have negative consequences for the capital market, the banking system in general, and the Bank, both as an issuer seeking to raise capital from the public and as a participant in the capital market and in institutional auctions.

Limit on Investment in a Single Corporation and in a Group of Corporations – Draft Directive

On February 14, 2012, the Supervisor of the Capital Market, Insurance, and Savings issued a third draft of the Supervision of Financial Services Regulations (Provident Funds) (Investment Rules Applicable to Management Companies and Insurers), 2012. The draft, which is targeted to institutional entities, aims among other matters to reduce the volume of exposure of institutional entities to a single corporation and to groups of corporations. However, the draft does not distinguish between different types of corporations. According to the proposal, an institutional investor would be permitted to hold securities of a particular corporation, make deposits with that corporation, or grant loans to the corporation of up to 5% of the value of its assets (instead of the maximum rate of 10% that has applied until now). The proposal further states that an institutional investor may make deposits with a particular bank of up to an additional 2.5% of the value of its assets. In addition to the foregoing, an aggregate limit has been added to apply to the five largest corporations of an institutional entity, such that the rate of the total permitted investment in these corporations does not exceed 20%.

It was similarly determined that an institutional entity would be permitted to hold securities of a group of corporations, make deposits with that group, or grant loans to the group of up to 10% of the value of its assets (instead of the maximum rate of 15% that has applied until now). The proposal further states that an institutional investor may make deposits with a bank controlled by a single controlling party at a rate of up to an additional 5% of the value of its assets. In addition to the foregoing, an aggregate limit has been added to apply to the five largest corporation groups of an institutional entity, such that the rate of the total permitted investment in these groups does not exceed 40%.
If passed, this draft may have negative consequences for the Bank, as well as for the banking system as a whole. Restriction of the ability of institutional entities to execute investments in banking corporations could prevent institutional entities, or some such entities, from investing in offerings of capital and securities issued by the Bank Group.
Such a development may impair the Bank's ability to extend credit; if and as it pertains to additional banking corporations, it may damage the ability of the banking system (as a whole or in part) to properly meet the credit needs of the economy.

Conditional Exemption for Restrictive Arrangement Regarding Joint Holdings of Banks in Automatic Bank Services Ltd. and in Bank Settlement Center Ltd.

On September 20, 2012, the Antitrust Commissioner decided to grant a six-month extension for the exemption with conditions of May 22, 2012, with respect to the arrangement concerning joint holdings of the banks in ABS – Automatic Bank Services Ltd. (hereinafter: "ABS"). The exemption granted on May 22, 2012 was the fourth exemption granted to ABS. The Antitrust Commissioner set stricter conditions for the exemption, and established a series of conditions that essentially prohibit the payment of dividends or the provision of any other benefit, of any type whatsoever, directly or indirectly, to banks, in respect of their holdings in ABS; prohibit the appointment of officers and certain other position holders at the banks to the board of directors of ABS; mandate the provision of services identical to those provided by ABS to the banks to any other party, under the same terms given to the banks, with ABS entitled to charge parties requesting its services in such manner solely those costs entailed in connection to its network of services (rather than imposing part of the past costs on them); set a ceiling of USD 0.20 per transaction for the fee for inter-bank withdrawal transactions; determine that the rate of the fee for inter-bank withdrawal transactions paid by the banks to a non-banking corporation shall be identical to the rate of the fee paid to a banking corporation; set a limit on payments collected by ABS from the distributor of credit software, from the date of notification by the distributor of termination of its contractual engagement with the business; and require ABS to sell all ATMs under its ownership within eight months (by May 12, 2013), with all ATM sale transactions to be submitted to the Commissioner for approval. On December 17, 2012, the Commissioner announced that no enforcement measures would be applied with regard to the distribution of the proceeds received from the sale of the ATMs to ABS's shareholders. On January 30, 2013, the Deputy Supervisor of Banks approved the distribution by ABS of a dividend from the proceeds of the sale of the ATMs. The Antitrust Commissioner stated that the continued activity of ABS in the area of the collection and approval of transactions and interface services for clearers and issuers was under review. If the Commissioner decides to terminate this activity, ABS will continue to operate in the area of ATM switching and Bank of Israel auctions only.
On December 20, 2012, the Antitrust Commissioner decided to grant a three-month extension for the exemption with conditions of September 20, 2012, with respect to the arrangement concerning the joint holdings of banks in BSC – Bank Settlement Center Ltd. (hereinafter: "BSC"). This was the fourth exemption granted to BSC. The Antitrust Commissioner clarified that during the period of the exemption granted to BSC, he would conduct a comprehensive examination of the activity of BSC in the area of clearing of debits and credits. The Antitrust Commissioner set stricter conditions for the exemption, and established a series of conditions that essentially prohibit the payment of dividends or the provision of any other benefit, of any type whatsoever, directly or indirectly, to banks, in respect of their holdings in BSC; prohibit the appointment of officers and certain other position holders at the banks to the board of directors of BSC; mandate the provision of services identical to those provided by BSC to the banks to any other party, under the same terms given to the banks; and prohibit BSC from charging any payment, including for costs incurred in the past, from anyone seeking to connect to BSC system services, with the exception of incremental costs.

ABS and BSC are companies owned by the five major banks: Bank Leumi, Discount Bank, Mizrahi Tefahot Bank, First International Bank, and the Bank. ABS mainly collects credit-card transactions, provides clearer-issuer interface services, and operates automatic teller machines. BSC is mainly engaged in the settlement of electronic credits and debits between banks. The system allows money to be transferred from bank to bank, and essentially ensures connectivity between the banks.

Legal Proceedings

For material legal proceedings to which the Bank is a party, see Note 19D to the Financial Statements.

Restrictive Arrangement Concerning Fees

A. On November 29, 2004, investigators from the Antitrust Authority arrived at the Bank's Head Office and seized various documents. The Antitrust Authority did not disclose to the Bank the reason for the seizure of the documents or the subject of its investigation. As published in the press, investigators from the Antitrust Authority also seized documents at the headquarters of Bank Leumi on the same day. Soon after, similar operations were carried out at the headquarters of Discount Bank and Mizrahi Tefahot Bank. In July 2005, and subsequently, the Bank was asked to provide the Authority with additional materials. Several Bank employees were also called into the Authority's offices for questioning.

On March 19, 2008, the Bank received notification from the Antitrust Authority that the Antitrust Commissioner was considering the possibility of exercising her authority under Section 43(A)(1) of the Restrictive Trade Practices Law, 1988 (hereinafter: the "Restrictive Trade Practices Law") to determine that restrictive arrangements existed between the Bank and Bank Leumi, Discount Bank, Mizrahi Tefahot Bank, and First International Bank, with regard to the transfer of information concerning fees. The Bank submitted its position to the Commissioner, backed by an economic opinion, in which it stressed that there is no cause to ascribe restrictive arrangements with other banks to the Bank. After the Bank submitted its arguments in writing, a discussion was held between the representatives of all of the banks referenced in the aforesaid letter and the Commissioner, during which the Commissioner proposed that the banks pay an aggregate sum of NIS 290 million (of which NIS 80 million by the Bank), and that future rules of conduct be anchored in a consensual order pursuant to Article 50A or 50B of the Restrictive Trade Practices Law. The Bank rejected this proposal, and to the best of its knowledge, the other banks responded in the same manner.

On April 26, 2009, the Antitrust Commissioner issued a declaration, within her authority under Section 43(A)(1) of the Restrictive Trade Practices Law, stating that restrictive arrangements existed between the Bank and Bank Leumi, Discount Bank, Mizrahi Tefahot Bank, and First International Bank until 2004. The Commissioner's declaration states that information transfers among the banks, as detailed in the declaration, constitute a restrictive arrangement. The Bank intends to file an appeal of this declaration with the Antitrust Tribunal. Pursuant to the provisions of Section 43 of the Restrictive Trade Practices Law, this declaration may serve as alleged evidence in any other legal proceeding.

In March 2010, the Bank, as well as the other banks referenced in the declaration, filed an appeal with the Antitrust Tribunal to cancel the declaration. The Antitrust Commissioner filed a response to the Bank's appeal, in February 2011, containing additional factual claims other than those detailed in the declaration. Following petitions filed by the appellants with regard to the inclusion of these facts, they were expunged from the Commissioner's response, according to a ruling by the Antitrust Tribunal. Subsequent to this ruling, the Commissioner issued an additional letter for a hearing prior to the issuance of a supplementary declaration.

In view of the foregoing, the banks referenced in the declaration held talks with the Antitrust Commissioner in order to conclude all of the proceedings through a consensual order under Section 50B of the Restrictive Trade Practices Law. These talks have not yet led to a final agreement, but are in a very advanced stage. According to the agreement being formulated between the parties, the declaration will be cancelled; the Bank will pay approximately NIS 21 million to the state under the consensual order, but the Bank will have the option of paying this sum as compensation in settlement agreements with petitioners in various petitions to certify class-action suits filed against the Bank on matters related to the Commissioner's declaration.

B. The Bank received two letters of demand pursuant to Section 194 of the Companies Law, 1999 (hereinafter: the "Demands"), in connection with the contractual engagement of Tarshish Holdings and Investments Hapoalim Ltd. (hereinafter: "Tarshish"), a wholly owned subsidiary of the Bank, in 2005, in an agreement (hereinafter: the "Acquisition Agreement") to acquire control of the Turkish bank currently known as Bank Pozitif Kredi Ve Kalkinma Bankasi A.S. (hereinafter: "Bank Pozitif"). Pursuant to the Acquisition Agreement, the foreign investment fund RP Explorer Master Fund (hereinafter: "RP") was also entitled to invest in the capital of Bank Pozitif, at a price identical to the price of the investment by Tarshish, and to receive an allocation of 7.45% of its allocated share capital. Under an additional agreement between the Bank and RP, RP received an option from the Bank to purchase additional shares of Bank Pozitif from the Bank, at agreed terms and dates, up to a ceiling of approximately an additional 7.45% of the capital of Bank Pozitif, provided that the holdings of Tarshish in Bank Pozitif would not fall below 50.1% of its issued capital.

The RP fund did not execute any investment in Bank Pozitif, also taking into account later understandings reached with RP. Further to these understandings, in 2008 the Board of Directors approved a payment in the amount of USD 25 million to RP settle all of its claims.

According to the parties filing the Demands, the aforesaid payment to RP was inappropriate and tainted with personal interests of Mr. Dan Dankner, who served on all of the relevant dates as a director of the Bank, was part of the controlling group of the Bank in 2005, and served as Chairman of the Board of Directors of the Bank in 2008. According to the first argument, the personal interest of Mr. Dankner fundamentally invalidates the Acquisition Agreement; according to the second argument, the personal interest of Mr. Dankner invalidates the payment decided upon in 2008.

In the Demands, the Bank is required to claim reimbursement of the aforesaid sum of USD 25 million, plus interest, from RP, Mr. Dan Dankner, and additional directors of the Bank (some of whom have resigned from the Board of Directors in the interim).

The Board of Directors of the Bank held discussions of the two Demands and resolved to deny them, after determining, among other matters, that conceding to each of the Demands would not be in the best interests of the Bank, also taking into account that it is doubtful whether there is a strong probability of winning such a claim.

After the first Demand was denied, the shareholder who had filed the Demand filed with the court for permission to file a derived claim on behalf of the Bank against Mr. Dan Dankner, against those serving as members of the Board of Directors of the Bank in December 2005, and against RP (hereinafter, jointly, the "Defendants").

In the petition to approve the derived claim, the applicant claims that the Defendants, jointly and separately, caused the Bank to incur damage in the amount of NIS 88 million, and that they should compensate the Bank for this amount. Against Mr. Dan Dankner, the claimant claims that the Acquisition Agreement and the aforesaid payment to RP were tainted by his personal interest and were not approved lawfully. Against RP, the claimant claims that it knew of the personal interest of Mr. Dankner and the lack of approval. Against the other directors, the claim is that they failed to fulfill their duty of care towards the Bank.

On July 11, 2010, a derived claim was filed with the District Court of the Central District, with a petition to certify the claim as an additional derived claim against Mr. Dan Dankner; members of the Board of Directors of the Bank who served as directors in February 2008; Tarshish Hapoalim Holdings and Investments Ltd. (hereinafter: "Tarshish"), which is a subsidiary of the Bank; and RP (hereinafter, jointly, the "Respondents"), and against the Bank as a formal respondent, in which the claimant petitions the court for permission to file a derived claim on behalf of the Bank against the Respondents, and to obligate them, jointly and separately, to pay the Bank the sum of approximately NIS 72 million. This claim and the petition to certify it as a derived claim concern the aforesaid Acquisition Agreement and the compensation granted to RP, which according to the claimant was higher by USD 20 million than the compensation agreed upon in the Acquisition Agreement. The claimant claims that the payment to RP was performed by the Bank in violation of the duty of loyalty of some of the Respondents, and in violation of the duty of care of the other Respondents.

On October 19, 2010, the President of the Supreme Court ruled to unify the proceedings in the two Demands. In a hearing held before the District Court on February 10, 2011, the court ordered an amended claim to be filed, unifying the two claims (hereinafter, jointly: the "Unified Claims").

On September 15, 2011, the Bank received an additional letter of demand, pursuant to Section 194 of the Companies Law, 1999, in connection with the contractual engagement of Tarshish in the Acquisition Agreement. The demand alleges that Mr. Shlomo Nehama, who served as Chairman of the Board of the Bank and was one of the controlling parties of the Bank at the date of the acquisition of control of Bank Pozitif and during the negotiations with RP, invested a total of approximately USD 1 million in the RP fund at that time, and was therefore tainted with personal interest in the Acquisition Agreement and in the aforesaid negotiations.

On October 31, 2011, prior to the discussion of this demand by the Board of Directors of the Bank, a claim was filed with the Economic Department of the District Court of Tel Aviv, with a petition to certify the claim as a derived claim against Mr. Shlomo Nehama, regarding this matter (hereinafter: the "Third Claim"). The Third Claim alleges that the conduct of Mr. Nehama caused damage to the Bank in the amount of NIS 88 million.

In a pretrial proceeding held for the Unified Claims on November 16, 2011, the parties reached a procedural arrangement pursuant to which, among other matters: (a) the Unified Claims will be amended such that the matters described in the Third Claim are added to them; (b) the members of the Board of Directors of the Bank who served in 2005, with the exception of Mr. Shlomo Nehama, will be expunged from the claims; and (c) the Third Claim will be consensually expunged.

In October 2012, the State's Attorney filed an indictment of Mr. Dan Dankner, who served as Chairman of the Board of the Bank until August 1, 2009, with regard to actions performed during his term of service on the Board of Directors. The offenses attributed to Mr. Dankner in the indictment concern damage to property, the prohibition of money laundering, and damage to the proper management of a banking corporation.

On October 17, 2013, the State's Attorney and Mr. Dankner announced that they had reached an agreement regarding a plea arrangement, under which the aforesaid indictment would be amended, and Mr. Dankner would confess to the facts in the amended indictment and would be convicted of the offenses attributed to him therein. Accordingly, Mr. Dankner was convicted of the offenses of breach of trust harmful to a corporation, fraud in receiving a loan from a Dutch bank, and fraud in receiving credit from the Bank. Following this conviction, on December 19, 2013, the court sentenced Mr. Dankner to one year in prison and a fine of NIS 1 million. Mr. Dankner has appealed the sentence concerning the prison term.

Objectives and Business Strategy

The Bank operates in accordance with the three-year (2013-2015) strategic plan approved at the end of 2012 and updated at the end of 2013. In the process of constructing the strategic plan, 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 was formulated and approved as a continuation of the previous strategic plan launched in early 2010, which guided the Bank's delineation 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 the Bank's 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, issued at the end of the first quarter of 2012, regarding higher total capital targets; these directives were taken into consideration in the formulation of the strategic plan for 2013-2015.

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

The multi-year strategic plan is focused on five main 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 customer experience, through constant improvement and addition of advanced technological transactions and services via a range of channels: mobile devices, Internet, self-service stations, and more. The Bank 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, which was formed as a result of the consolidation of brokerage activities, securities clearing and operation, and services for financial asset managers from the Client Asset Management Area with the activity of the Global Treasury Area in a single unit. The emphasis in these activities will be placed on adapting the Bank's alignment to the needs of its customers, in Israel and overseas, and to the changes in the capital and currency markets. The Bank will continue to work to leverage the synergies gained by centralizing these activities. The Bank will work to develop its leadership in the capital market, while strengthening its cooperation with institutional entities and developing new products, trading channels, and market-making arenas.

In overseas operations, led by the International Banking Area, the Bank will work to continue the development of Global Private Banking, while tightening the global cooperation among its international units. In this area of activity, the Bank aims to continue to improve the value offer and expand the service package offered to its customers, in order to strengthen the platform for the organic growth of its asset portfolio, with a focus on high-net-worth clients. The Bank will continue to develop its activity in the commercial segment in the United States, strengthening its value offer and solidifying its brand in the local market.

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

Another key theme of the Bank's strategy is 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. The member of the Board of Management responsible for the Risk Management Area is Mr. T. Cohen, Chief Risk Officer. A regulatory requirement of capital adequacy applies to credit risk and market risks. Other non-financial risks are mainly legal risk and operational risks. Legal risk is managed by the Chief Legal Advisor, Attorney I. Mazur. Operational risk, excluding legal risk, is managed by each member of the Board of Management in the area of activity for which he or she is responsible. Operational risk is defined as the risk of losses that may be caused by failed or faulty internal processes, human actions, system malfunctions, or external events. A regulatory requirement of capital adequacy also applies to operational risk.
Other risks to which the Bank is exposed are handled directly as part of the management of its business: reputation risk, competitive risk, regulatory and legislative risk, economic risk, and political/security-related risk.
The Supervisor of Banks has set forth guidelines concerning risk management in the Proper Conduct of Banking Business Directives. The directives detail the risks to which a banking corporation is exposed and stipulate various basic principles for the management and control of risks, including suitable involvement in and thorough understanding of risk management by the board of directors of the banking corporation, the management of risks by a risk manager who is a member of the board of management, the employment of tools for the assessment and measurement of risks, and the creation of means for supervision and control, including the existence of an independent risk-control function. The Bank operates in accordance with the guidelines of the Supervisor of Banks concerning the chief risk officer and the risk-management function. In addition, the Bank has established methodologies and working procedures for the implementation of the directives of the Supervisor of Banks concerning exposure to environmental risks and 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 between credit granting and credit operations in the Corporate 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 can have an adverse effect on the Group's asset value and profitability. In order to manage credit risks, a credit-risk management policy, credit policy, and exposure limits for borrowers and/or sectors and/or products in the various segments of activity have been defined for the Group.

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 procedure for new products, which specifies the policies and 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.

Leveraged Financing

From time to time the Bank provides leveraged financing to its customers.

Leveraged financing includes transactions for the financing of means of control of corporations at high financing rates, as reported in the past; holding companies, at high financing rates relative to the value of their holdings; financing of substandard (mezzanine) debt; and financing of the acquisition of operations, when the credit is provided at the acquired company and is at a high financing rate, and exceeds the sector policy for the acquired company. In addition, a limit applies to leveraged financing as a percentage of the total capital of the Bank.

Reports on developments in leveraged financing and on compliance with the established limit are submitted each quarter to the Board of Management and the Board of Directors of the Bank, for monitoring of the risks inherent in this type of financing.

The following table details the Bank's exposures to leveraged financing as at December 31, 2013, by economic sector of the borrower:

	Number of borrowers	Balance of balance sheet credit	Balance of off-balance sheet credit	Total*
		NIS millions		
Economic sector of the borrower				
Construction and real estate - construction	**11**	**299**	**252**	**551**
Construction and real estate - real-estate activities	**11**	**1,278**	**1,531**	**2,809**
Financial services	**44**	**5,698**	**323**	**6,021**
Other business services	**5**	**118**	**1**	**119**
Commerce	**8**	**1,603**	**21**	**1,624**
Industry	**5**	**1,223**	**153**	**1,376**
Communications and computer services	**4**	**1,301**	**-**	**1,301**
Hotels, hospitality, and food services	**2**	**93**	**4**	**97**
Transportation and storage	**1**	**-**	**3**	**3**
Public services	**1**	**20**	**-**	**20**
Total	**92**	**11,633**	**2,288**	**13,921**

* Net of an individual allowance for credit losses in the amount of approximately NIS 475 million.

The following table details the Bank's exposures to leveraged financing as at December 31, 2012, by economic sector of the borrower:

	Number of borrowers	Balance of balance sheet credit	Balance of off-balance sheet credit	Total*
		NIS millions		
Economic sector of the borrower				
Construction and real estate - construction	10	715	181	896
Construction and real estate - real-estate activities	12	1,259	1,541	2,800
Financial services	46	7,846	516	8,362
Other business services	4	107	2	109
Commerce	10	2,117	122	2,239
Industry	5	1,318	218	1,536
Communications and computer services	4	1,601	3	1,604
Electricity and water	1	186	-	186
Hotels, hospitality, and food services	2	102	5	107
Transportation and storage	1	27	3	30
Public services	1	23	-	23
Total	96	15,301	2,591	17,892

* Net of an individual allowance for credit losses in the amount of approximately NIS 565 million.

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 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**

* The balances include the exposure of the Bank Group to financial institutions in the following countries: Spain – Total exposure of approximately NIS 136 million, of which a total of approximately NIS 53 million rated BBB, approximately NIS 81 million rated BBB-, and the remainder NIS 2 million rated BB (total exposure at the end of 2012 was approximately NIS 99 million of which approximately NIS 55 million rated BBB, NIS 44 million rated BBB-).
Ireland – Total exposure of approximately NIS 27 million, of which a total of approximately NIS 3 million rated AA-, and the remaining NIS 24 million unrated (total exposure at the end of 2012 was approximately NIS 15 million, of which a total of approximately NIS 14 million rated AA-, and the remaining NIS 1 million unrated).
Italy – Total exposure of approximately NIS 52 million, of which approximately NIS 41 million rated BBB, approximately NIS 10 million rated BBB- and the remaining NIS 1 million rated B (total exposure at the end of 2012 was approximately NIS 19 million of which NIS 16 million rated BBB and approximately NIS 3 million rated BB+).
In Greece and Portugal, exposure to financial institutions is minimal, in the amount of less than NIS 1 million.

** Of which, clearing houses overseas constitute 12% of the balance. The remaining amount is distributed among a long list of banks and financial institutions (December 31, 2012: 34% of the balance).

(1) Foreign financial institutions include: banks, investment banks, broker-dealers, insurance companies, institutional entities, and entities controlled by such entities.

(2) Deposits with banks, credit to the public, investments in bonds, securities borrowed or bought in resale agreements, and other assets in respect of derivative instruments.

(3) Mainly guarantees and commitments to grant credit. Does not include credit risk in off-balance sheet financial instruments, as calculated for the purposes of the limits on indebtedness of a borrower.

(4) The risk of credit that is impaired, substandard, or under special supervision.

(5) According to the lowest of the long-term foreign-currency credit ratings assigned by any of the major rating agencies: S&P, Moody's, and Fitch. Ratings are current as at February 5, 2014 (December 31, 2012: ratings current as at February 28, 2013).

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

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

* The balances include the exposure of the Bank Group to financial institutions in the following countries: Spain – Total exposure of approximately NIS 136 million, of which a total of approximately NIS 53 million rated BBB, approximately NIS 81 million rated BBB-, and the remainder NIS 2 million rated BB (total exposure at the end of 2012 was approximately NIS 99 million of which approximately NIS 55 million rated BBB, NIS 44 million rated BBB-).
Ireland – Total exposure of approximately NIS 27 million, of which a total of approximately NIS 3 million rated AA-, and the remaining NIS 24 million unrated (total exposure at the end of 2012 was approximately NIS 15 million, of which a total of approximately NIS 14 million rated AA-, and the remaining NIS 1 million unrated).
Italy – Total exposure of approximately NIS 52 million, of which approximately NIS 41 million rated BBB, approximately NIS 10 million rated BBB- and the remaining NIS 1 million rated B (total exposure at the end of 2012 was approximately NIS 19 million of which NIS 16 million rated BBB and approximately NIS 3 million rated BB+).
In Greece and Portugal, exposure to financial institutions is minimal, in the amount of less than NIS 1 million.

** Of which, clearing houses overseas constitute 12% of the balance. The remaining amount is distributed among a long list of banks and financial institutions (December 31, 2012: 34% of the balance).

(1) Foreign financial institutions include: banks, investment banks, broker-dealers, insurance companies, institutional entities, and entities controlled by such entities.
(2) Deposits with banks, credit to the public, investments in bonds, securities borrowed or bought in resale agreements, and other assets in respect of derivative instruments.
(3) Mainly guarantees and commitments to grant credit. Does not include credit risk in off-balance sheet financial instruments, as calculated for the purposes of the limits on indebtedness of a borrower.
(4) The risk of credit that is impaired, substandard, or under special supervision.
(5) According to the lowest of the long-term foreign-currency credit ratings assigned by any of the major rating agencies: S&P, Moody's, and Fitch. Ratings are current as at February 5, 2014 (December 31, 2012: ratings current as at February 28, 2013).

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

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

The exposure of the Bank Group to foreign financial institutions totaled approximately NIS 17.0 billion on December 31, 2013, an increase of approximately NIS 2 billion compared with approximately NIS 15.0 billion at the end of 2012. This increase resulted from an increase in balance sheet exposure, in the amount of approximately NIS 2.5 billion, and a decrease in off-balance sheet exposure, in the amount of approximately NIS 0.5 billion. The increase in balance sheet exposure mainly resulted from the renewal of credit, deposits and from purchases of bonds of foreign banks rated A- or higher. Credit ratings of many leading banks and financial institutions were downgraded by rating agencies during 2013, from A- to BBB+; as a result, exposure to these institutions moved from the second rating tier to the third rating tier, leading to an increase in exposures in the third tier by approximately NIS 2 billion. Approximately 80% 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: 85% in banks and banking holding companies, 13% in other financial institutions, 1% in pension funds, and 1% in insurance companies. Most of the Bank Group's exposure is to foreign financial institutions operating in the United States (39%) and in Western European countries (51%).

The sector "banks abroad" in Appendix 5 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 5 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 December 31, 2013 (in NIS millions):

	Credit rating			Total
	AAA to AA-	A+ to A-	BBB+	
Banks outside Israel:				
United States[1]	**5**	**1,020**		**1,025**
England	**263**	**608**	**8**	**879**
Germany		**793**	**71**	**864**
France		**874**		**874**
Switzerland	**2**	**209**		**211**
Other	**20**	**4**	**59**	**83**
Eurozone – other		**4**	**87**	**91**
Total banks outside Israel	**290**	**3,512**	**225**	**4,027**
Banks in Israel				**2,003**
Stock exchanges				**604**
Governments and central banks				**65**
Brokers/dealers[2]				**972**
Corporate clients by economic sector:				
Financial services				**971**
Transportation and storage				**139**
Electricity and water				**1,124**
Construction and real estate				**29**
Other				**755**
Total corporate clients by economic sector				**3,018**
Total				**10,689**

(1) Of which: JPMorgan Chase – balance in the amount of NIS 836 million.
(2) Of which: Goldman Sachs – balance in the amount of NIS 590 million.

Exposure of the Bank to Securitization

The current volume of the exposure 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 6 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 December 31, 2013 amounted to NIS 45.6 billion, compared with NIS 48.1 billion at the end of 2012.

Off-balance sheet exposure to foreign countries as at December 31, 2013 amounted to NIS 18.5 billion, compared with NIS 17.4 billion at the end of 2012.

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

Country	Total balance sheet exposure(1)	Total off-balance sheet exposure	Total exposure	Percentage of balance sheet exposure
United States*	**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**	**-**
Italy	**70**	**37**	**107**	**0.2%**
Other developed countries(2)	**9,715**	**1,604**	**11,319**	**21.3%**
Turkey	**1,972**	**1,558**	**3,530**	**4.3%**
Other less developed countries (LDCs)(3)	**1,312**	**331**	**1,643**	**2.9%**
Total exposures to foreign countries	**45,624**	**18,451**	**64,075**	**100%**

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

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

* The decrease in the exposure to the United States in comparison to the end of 2012 mainly resulted from a decrease in deposits with the Federal Reserve in the United States.

** The exposure in Ireland includes NIS 4 million to banks in Ireland and NIS 363 million to customers. Of the total exposure to customers, approximately NIS 174 million stems 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 194 million to banks, and NIS 11 million to customers. Of the total exposure to banks, approximately NIS 60 million constitutes off-balance sheet credit risk in respect of derivatives, as calculated for the purposes of the limits on indebtedness of borrowers. 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 (LDCs) – according to definitions of the World Bank, based on national per-capita income. The main exposures arise from Kazakhstan and Russia.

Identification and Treatment of Borrowers in Distress

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

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

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

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 include 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 would be 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 2,221 million, and approximately NIS 33 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 dealing rooms at the Bank's branches in New York and London, which are professionally subordinate to the head of the Financial Markets Area, as relevant. Routine control and monitoring of activity at the branches abroad are performed by local units, in full coordination and with regular reports to the corresponding Head Office units, in accordance with the control approach (the spheres of control).

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

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

The Board of Directors and the Risk Management and Control Committee receive reports on activity, exposures, results of operations, and execution of approved policy, at least once each quarter. These reports include: a review of topics discussed and reported in committees, including main resolutions; 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. Market Risks in the Banking Book

Exposures in the banking book mainly arise in the course of routine banking activity, as a result of the provision of services to customers of the Bank, to subsidiaries, or to the dealing rooms, or due to other activities. Changes in positions are usually gradual. Tools for the management of the exposure in the banking book include pricing policy, Nostro portfolio management, issuance of debt instruments, hedging through off-balance sheet transactions, and more. The Bank's management of non-trade exposures is based, among other things, on forecasts and working assumptions regarding expected developments in financial and capital markets in Israel and worldwide. The use of derivative instruments as part of the management of the Bank's assets and liabilities (not for trading purposes) is aimed at achieving objectives and taking positions, subject to compliance with limits as approved by the Board of Directors (linkage-base, currency, and interest-rate exposures).

Linkage-base exposure – Defined as the exposure of active financial capital to three linkage segments: unlinked shekel; CPI-linked shekel; and foreign currency, including foreign-currency-linked shekel. This refers to global exposure, balance sheet and off-balance sheet, arising from activity at all of the Bank's units, at its branches, and at its Head Office, in Israel and abroad. The "active financial capital" of the Bank has been defined as equity attributed to shareholders of the Bank plus the collective allowance for credit losses and the individual allowance for credit losses, less investments in affiliates (with the exception of subsidiaries abroad under the full control of the Bank and subsidiaries whose financial management is handled by the Bank), and less fixed assets and other non-monetary assets, net. For the purposes of exposure management, the Bank treats active financial capital as an unlinked shekel resource.

Interest-rate risk in the banking book – Refers to the potential effect of changes in the various interest-rate curves on the economic value of capital, i.e. the change in the present value of assets and liabilities, and/or on net interest income ("accounting sensitivity"). The risk arises from differences in the structure of assets and liabilities – segment, duration, interest base, interest-rate renewal date, and more. Limits apply to the sensitivity of the economic value of the capital of the Bank (including financial subsidiaries under its management) to scenarios of change in the shekel, CPI-linked, and dollar interest-rate curves. In order to calculate the exposure to changes in interest rates in the unlinked shekel segment, the Bank treats part of the balances of current-account deposits of the public as a long-term liability (up to three years). Assumptions regarding early settlement of mortgages are also used. Interest-rate exposure management policy is aimed, in congruence with the objectives of the Bank, at achieving the desired structure of exposures in each segment (unlinked shekel; CPI-linked shekel; foreign currency and foreign-currency-linked), in accordance with estimates concerning market variables, and subject to limits. In addition, the sensitivity of annual income to changes in interest-rate curves is measured. Sensitivity to interest rates is measured at least once each month.

In the management of its Nostro portfolio, in addition to market and liquidity risks, the Bank is also exposed to credit risks and credit spread risks. Diversification limits and other limits have been set for such exposures, as well as a risk capacity in terms of extreme scenarios. This activity is managed by specialized units established for this purpose. The Board of Management's Committee on Investments, established for this purpose, is responsible for monitoring this activity.

B. Market Risks in the Trading Book

Market risks in the trading book arise from the Bank's activity as a market maker, trader, and manager of Nostro positions. This activity is based on dynamic management of positions, usually by means of tradable, liquid financial instruments. Changes in the size of exposures may be rapid, based on the liquidity and tradability of instruments in the markets, the nature of customers' activity, and the desired position. Trading exposures are carried out under the responsibility of the dealing rooms in Israel and abroad. 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 also measured using the Algorithmics system.

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 January 2013, the Bank of Israel issued an amendment of Proper Conduct of Banking Business Directive No. 342. According to the circular accompanying this directive, the Bank of Israel intends to adopt the Basel 3 directives on liquidity risk, with the necessary changes, at a date to be determined following study of the Basel 3 recommendations and their implications for the banking system.

In February 2014, the Bank of Israel asked the banks to perform a survey to examine the quantitative effect of the implementation of the Basel 3 directives on liquidity. The Bank is preparing to perform this survey.

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.

Limitations of the Methodology for Assessing Risk in Trading Activity at the Bank

1. The Monte Carlo simulation assumes a normal distribution of risk factors. This assumption does not always apply in reality.
2. The historical simulation assumes that the historical behavior of the risk factors will recur in the future, which may not be the case.
3. It is not possible to forecast a sudden change in a risk factor using either of the two methods.
4. With the use of a 99% significance level, losses that could occur beyond that level are ignored.
5. The use of a horizon of ten business days assumes that it is possible to hedge and sell positions within ten business days. In special products, at large market volumes, or during crisis periods, liquidity problems in the market may make it impossible to close or fully hedge positions within this timeframe.
6. The risk estimate is calculated on positions only a few times in the course of the business day.

To mitigate the effect of the said limitations, in addition, stress scenarios are applied in order to examine the potential loss in extreme cases, for all areas of trading activity, as detailed below.

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. Three deviations were reported in 2013, the highest of which was in the amount of approximately NIS 3 million. According to the results of the test, the model meets the acceptance criteria established by the Basel Committee.

Limitations of the Methodology for Assessment of Risk in the Banking Book

1. In general, the credit risk inherent in assets does not constitute a parameter in the calculations made, as their purpose is to focus on quantifying the market risks alone.
2. The information used for the risk estimates is assembled from various automated systems.
3. A small part of the options embedded in various deposits and saving plans offered to the public were only partially taken into account, on a "delta" basis. Under this method, there may be a deviation from the sensitivity estimates noted above, especially in sharp movements in risk factors. Nevertheless, virtually all options are fully revalued under various scenarios on the market risk management system.

To mitigate the effect of the said limitations, in addition, stress scenarios are applied in order to examine the potential loss in extreme cases, as detailed below.

Methodology for Application of Stress Tests

The market risk assessment methodology of the Bank 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:

A. Sensitivity analysis – The sensitivity of the portfolio to the various risk factors is tested by running scenarios involving one risk factor while the other risk factors are held constant. This allows an examination of the effect of the major risk factors on the portfolio.

B. Worst historical scenario – Based on the history of the last five years. The calculation is performed with a horizon of ten business days for the trading book and one month for the Bank in general.

C. Macro-economic scenarios – Subjective scenarios developed in collaboration with the Economics Department of the Bank.

D. Fixed interest-rate scenarios – A set of scenarios in which the principal interest rates to which the Bank is exposed are run through parallel and non-parallel changes.

E. Extreme scenarios based on a methodology similar to that used to create VaR scenarios, based on the volatility of risk factors during periods of stress in the markets.

The principles guiding the establishment and application of the scenarios have been approved by the Board of Management Committee.

Overall Exposures 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 December 31, 2013:

	As at December 31, 2013	Maximum in 2013	Minimum in 2013
	NIS millions		
Scenario			
1% decrease in CPI	**(78)**	**(84)**	**(69)**

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 December 31, 2013:

	10% appreciation	5% appreciation	5% depreciation	10% depreciation
	NIS millions			
Currency				
USD	**97**	**29**	**(24)**	**(70)**
EUR	**(2)**	**-**	**11**	**36**
JPY	**(6)**	**(1)**	**6**	**13**
CAD	**2**	**2**	**1**	**3**
GBP	**15**	**6**	**1**	**8**
CHF	**6**	**2**	**2**	**7**

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 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)**	**-**

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, 2012:

	December 31, 2012			Maximum in 2012		Minimum in 2012	
	1% increase	1% decrease	0.1% increase	1% increase	1% decrease	1% increase	1% decrease
	NIS millions						
Scenario							
Shift in CPI-linked interest rate:							
Bank	(78)	106	(9)	(148)	184	(14)	(31)
Of which: Banking book	(79)	107	(9)	(149)	185	(15)	(31)
Trading book	1	(1)	-	1	(2)	-	-
Shift in unlinked interest rate:							
Bank	281	(230)	27	288	285	127	(120)
Of which: Banking book	270	(276)	27	287	(287)	125	(118)
Trading book	11	46	-	19	46	(15)	(14)
Shift in foreign-currency interest rates:							
Bank	12	(10)	1	34	(41)	-	(1)
Of which: Banking book	7	(14)	1	39	(38)	(1)	(4)
Trading book	5	4	-	(12)	14	(5)	(2)

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

The examination of extreme scenarios includes a test of the sensitivity of the Bank's economic value to the worst historical scenario of the last five years, including changes in the various risk factors in a one-month range. Note that since the beginning of 2013, this sensitivity has not exceeded NIS 681 million.

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**

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

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

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

** Includes foreign-currency-linked Israeli currency.

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

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

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%**

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

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

* Includes foreign-currency-linked Israeli currency.

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

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

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

- **Interest-Rate 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 December 31, 2013:

	As at December 31, 2013	Average in 2013	Maximum in 2013	Minimum in 2013
	NIS millions			
Total trading in dealing rooms	**34**	**16**	**41**	**5**

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 December 31, 2013:

	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	**180**	
	Unlinked NIS	**150**	
	Linkage-base exposures by segment:		
	CPI-linked NIS		**+/-100**
	Foreign currency, including foreign-currency linked		**+/-30**
	Sensitivity to 10% change in NIS/USD exchange rate	**500**	
	Risk capacity – theoretical loss in an extreme scenario in the investment portfolio	***2700**	
	Volume of total proprietary investment	****14,500**	
	Of which: Volume of investment in shares	**3,000**	
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.

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 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 methodological infrastructure has been defined for the management of operational risks in material IT processes.

Information security and cyber incidents risks – Activity in the area of information security is conducted as required in the directives of the Bank of Israel, the Protection of Privacy Law, 1981, and other laws, as relevant, with the aim of protecting the information-technology system and minimizing information-security risks.

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

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

The frequency and severity of cyber incidents to which the Bank is exposed has increased in recent years. There is a possibility that the Bank may incur costs and suffer negative consequences as a result of cyber attacks, such as disruption of the Bank's operations, theft of financial assets of the Bank or of its customers, or damage to reputation, affecting the confidence of customers or of investors. The Bank invests extensive human and technological resources to minimize and prevent this risk, but absolute protection cannot be ensured.

Emergency preparedness – In order to preserve business continuity, survivability, and the continuous activity of the Bank 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 group 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 Israeli standard BS 25999. The system is in the process of certification under 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

In late 2010, the Bank appointed a Chief Compliance Officer, whose responsibilities include the areas of responsibility of the Compliance Officer of the Bank pursuant to Proper Conduct of Banking Business Directive 308, and of the Supervisor of the Prohibition of Money Laundering pursuant to the Prohibition of Money Laundering Law, the Prohibition of Terrorism Financing Law, and Proper Conduct of Banking Business Directive 411. As part of this process, the Bank established the Chief Compliance Officer Unit, which encompasses the Bank's existing Compliance Unit and Anti-Money Laundering Unit.

The Chief Compliance Officer Unit includes four additional units, working alongside the Compliance Unit and the Anti-Money Laundering and Prohibition of Terrorism Financing Unit. The first is the International Unit, which is responsible for ensuring compliance and the prohibition of money laundering and prevention of terrorism financing at the Bank's offices outside Israel. Compliance staff at the Bank's overseas branches now report directly to this unit, on both the professional and the managerial level. The second unit is an administrative unit (Operations, Coordination, and Control), which assists the Chief Compliance Officer with the execution of systemic and operational assignments. In addition to these units, a support team for American clients has been established; this team is responsible for responding to inquiries by the branches and other business units on matters related to American clients and for processing forms signed by American clients.

In early 2012, the Board of Directors appointed the Chief Compliance Officer to the additional position of Head of Internal Enforcement for Securities. This role entails the implementation of legal and regulatory directives concerning securities. Subsequently, the Securities Internal Enforcement Unit was established within the Chief Compliance Officer Unit. The process of mapping processes and procedures at the Bank relevant to securities, in order to identify and close gaps and construct appropriate absorption and enforcement procedures, which began in 2011, continued during 2013.

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

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

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

The activity of the Chief Compliance Officer 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 was updated several times since then. Towards the end of 2012, the Board of Directors approved an internal enforcement policy for securities, and extensive processes were initiated in order to instill this policy at the Bank.

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

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

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; however, the level of economic risk remains high, as reflected in low or even negative growth rates in some of the peripheral European countries, high unemployment rates, and social unrest. 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.

Risk Factor Table

Pursuant to the directive of the Bank of Israel, the principal risk factors to which the Group is exposed in respect of its banking activity have been mapped. The risk factors and the Board of Management's estimates regarding the risk level of each factor are listed in the following table. The severity of the risk factors is determined with reference to the risk appetite defined by the Bank, and is rated on a scale of low, medium, and high.

In order to quantify the various risk factors that may affect the Bank, different possible risk scenarios were examined for most of the risk factors and the extent of the potential effect of each scenario on the Bank's stability and profitability was estimated.

Each risk factor listed in the table below was tested in its own right, under an assumption of independence of each risk factor relative to the other risk factors listed in the table. However, for several risk factors in the table, scenarios were tested to estimate the effect of the combination of a number of risk factors.

Note that the risk scenarios simulate a situation in which unexpected damages materialize beyond the expected level of damage events in the regular course of the Group's business.

Number	Risk factor	Risk effect		
		Low	Medium	High
Financial risks				
1.	Credit risk		×	
1.1.	Risk in respect of the quality of borrowers and/or collateral		×	
1.2.	Risk in respect of sectoral concentration		×	
1.3.	Risk in respect of concentration of borrowers/borrower groups		×	
2.	Market risk	×		
2.1.	Interest-rate risk	×		
2.2.	Inflation risk/exchange-rate risk	×		
2.3.	Share price risk	×		
3.	Liquidity risk	×		
Operational and legal risks				
4.	Operational risk	×		
5.	Legal risk	×		
Other risks				
6.	Reputation risk	×		
7.	Competition risk	×		
8.	Regulation and legislation risk	×		
9.	Economic risk – condition of the Israeli economy		×	
10.	Economic risk – condition of the global economy		×	
11.	Political/security risk		×	
12.	General risk – dissolution of the Eurozone		×	

Capital Adequacy

Beginning on December 31, 2009, the Bank has implemented the directives on capital measurement and adequacy based on the Basel 2 directives (hereinafter: "Basel 2"), as published by the Supervisor of Banks and as integrated into Proper Conduct of Banking Business Directives 201-211.

The Basel 2 framework is a set of guidelines and basic procedures published during 2004-2006 by the Basel Committee, which coordinates the activity of the central banks in the industrialized countries with respect to numerous matters. The objectives of these directives are, among other things, to define capital-adequacy requirements, with reference to risk appetite and the actual risk level to which the banking corporation is exposed, and its ability to implement a comprehensive system of rational treatment of risk identification, evaluation, management, and control, while expanding the disclosure requirements in this area.

The Basel 2 directives consist of three pillars:

- Pillar 1 – Includes the manner of calculation of the supervisory minimum capital requirements in respect of credit risks, operational risk, and market risk.
- Pillar 2 – Sets forth internal processes (ICAAP – Internal Capital Adequacy Assessment Process) to be used by banks to assess the required capital in respect of risks in aggregate, including those not covered by Pillar 1 (such as credit concentration, interest-rate risk in the banking book, liquidity risks, settlement risks, and strategic risks), as well as a review process to be performed by the Supervisor of Banks.
- Pillar 3 – Market discipline; establishes the type and extent of information to be presented in reporting to the public on the risks to which banks are exposed. This pillar requires the disclosure of both quantitative and qualitative information, in order to enable the market to estimate the extent of the bank's exposure to risk factors.

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

1. Basel 3

1.1. Preparation for Adoption of the 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. The amendments to the aforesaid directives are in effect as of January 1, 2014. Implementation will be gradual, in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299, "Capital Measurement and Adequacy – Supervisory Capital – Transitional Directives."

A circular of the Supervisor of Banks entitled "Basel Disclosure Requirements Concerning the Composition of Capital" was published on August 29, 2013. This circular establishes updated disclosure requirements which banks will be required to include as part of the adoption of Basel 3. The disclosure requirements are in effect from January 1, 2014, forward. However, in the financial statements for 2013, banks are required to include disclosure regarding the expected effect of the implementation of the Basel 3 directives. The expected effect of the adoption of the Basel 3 directives on January 1, 2014, is presented below, based on the data of the Bank as at December 31, 2013. The calculation of the expected effect of the adoption of the Basel 3 directives on January 1, 2014, takes the transitional directives noted above into consideration.

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.

1.2. 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 asked the banks to perform a survey to examine the quantitative effect of the implementation of the Basel 3 directives on liquidity. The Bank is preparing to perform this survey. For further information on liquidity risk management at the Bank, see the section "Risk Management" in this report.

1.3. 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 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 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 Tier 1 capital ratio of 10% and a minimum total capital ratio of 13.5% as of January 1, 2017.

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

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

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

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

On August 29, 2013, the Supervisor of Banks issued a letter concerning limits on housing credit. Among other matters, the letter states that in cases in which the monthly payment as a percentage of income is between 40% and 50%, the loan should be assigned a risk weight of 100%. This is applied to housing loans granted approval in principle from September 1, 2013, forward.

Pillar 3 Disclosure

The objective of Pillar 3 is to encourage market discipline by allowing market participants to publish key information concerning the capital adequacy of banks, through a mechanism of disclosure requirements.

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

	Qualitative disclosure	Quantitative disclosure
	Page number	
Subject		
Implementation of Pillar 1	195	
Implementation of Pillar 2 and the Bank's approach to assessing its capital adequacy	196	
Applicability of implementation	200	
Structure of regulatory capital and composition of capital	200	201
Capital adequacy	202	203
Credit risk	158, 204	203
Credit risk mitigation	207	208
Credit risk in respect of derivative financial instruments	165, 211	212
Securitization exposures	167, 212	213
Market risks	173	213
Operational risks	183	-
Positions in shares in the banking book		213
Interest rate risk in the banking book	173	178

Implementation of Basel 2

Implementation of Pillar 1

The implementation of the directives of Pillar 1 includes measurement of the risk exposures used to calculate the required allocation of regulatory capital for these risks.

The following table lists the methods used by the Bank to calculate regulatory capital for each of the major risk categories.

Category	Method used by the Bank
Credit risk	Standardized approach
Market risks	Standardized approach
Operational risk	Standardized approach
Counterparty credit risk	Current exposure approach
Securitization exposures	Standardized approach
Other assets	Based on risk weighting set forth in the Proper Conduct of Banking Business Directives

Implementation of Pillar 2 and the Bank's Approach to the Assessment of its Capital Adequacy

Under the second pillar of Basel 2, the Bank is required to carry out an internal process to assess capital adequacy and establish strategy for ensuring capital adequacy: the Internal Capital Adequacy Assessment Process (hereinafter: "ICAAP"). This process is aimed at ensuring an adequate level of capital in order to support all risks inherent in the Bank's activity and in its future plans for development and growth, while developing and applying appropriate risk-management processes. Elements of the process include establishing risk appetite, capital objectives, and capital planning and management processes under a variety of scenarios, including extreme scenarios.

Concurrently, the Supervisor of Banks is required to review and evaluate the ICAAP of the banking corporations, within the Supervisory Review and Evaluation Process (SREP), in order to determine whether the capital and capital objectives are adequate and to require corrective measures where necessary, including through strengthening of corporate governance, risk management, and internal controls. Within this review, the Supervisor may also require corporations to add capital. The regulatory minimum capital ratio required of the bank is established as part of the SREP. The examination of the ICAAP by the Supervisor of Banks constitutes part of the Risk Based Supervision (RBS) working framework, in which the risk profile and quality of risk management at banking corporations are assessed, among other matters.

The Bank submitted its ICAAP document for 2012 to the Bank of Israel at the end of April 2013. In this document, the Bank defined its risk appetite, evaluated risks and the potential effect of its asset mix on its risk profile, and set capital objectives based on these evaluations. The ICAAP document for 2013 will be submitted at the end of April 2014.

The Bank routinely examines its ability to meet the capital targets that have been set while developing its business. Towards that end, planning of balances of risk-adjusted assets and capital movements (including a net profit forecast, a dividend distribution forecast, and a plan for the issuance of various capital instruments) is performed each year, for a three-year range. This planning takes the business objectives of the Bank into consideration, and includes an examination of several economic scenarios. To the best of the Bank's judgment, the Bank is capable of meeting the capital targets that have been established while enlarging its risk-adjusted assets as needed for its business objectives. Each quarter, the Bank performs an evaluation of the changes in the various parameters that affect its ability to comply with its capital targets in the long term, and carries out changes as necessary.

Risk Appetite

The Board of Directors of the Bank defines risk appetite as well as risk capacity, in line with the strategy and future business plans of the Bank. Risk appetite reflects and defines the risk level to which the Bank is willing to be exposed, or which it is willing to undertake or sustain, during the ordinary course of business. Risk appetite serves as the basis for the allocation of resources and capital.

Risk capacity reflects the risk level which the Bank will not exceed even in the event of the materialization of extreme scenarios. In light of the above, the maximum risk level undertaken by the Bank during the ordinary course of business (its risk appetite) is lower than its risk capacity.

The Board of Management of the Bank is responsible for everyday actions, and ensures through the definition and enforcement of appropriate risk limits that the Bank operates within its declaration regarding risk appetite and risk capacity, as defined, through the use of risk limits, among other means.

Capital Management

The objective of capital management is to optimize return on equity while complying with the detailed risk-appetite definitions established by the Board of Directors of the Bank, subject to regulatory directives. Accordingly, effective capital management ensures:

- Efficient allocation of capital during the ordinary course of business of the Bank.
- A robust capital base serving as a cushion against unexpected risks to which the Bank is exposed, supporting business strategy, and allowing compliance at all times with the regulatory minimum capital requirement.
- For this purpose, the Bank takes into account not only the current status of capital but also future developments in the capital base and in capital requirements.

Guiding Principles in Capital Management

Capital management is an annual process with a rolling planning horizon of three years. Capital management is considered an integral part of the Bank's strategic and financial plan. Capital management is based on the growth plans of the various business units, with the aim of assessing capital requirements during the period of the plan, and is used in the strategic planning process, in connection with feasibility and capital allocation to units.

Capital Management Committee

The Bank has a senior management committee, headed by the CFO, with the participation of the heads of the Financial Markets, Corporate Banking, Strategy, Comptrolling, and Risk Management Areas, and other senior officers. Objectives of the committee:

1) To supervise the definition of methodology and construction of infrastructure for advanced capital management at the Bank. The committee formulates methodology and methods of action, and serves as a steering committee for the various initiatives involved in the Bank's transition to advanced capital management. The committee also receives routine updates on the progress of these initiatives and resolves decisions regarding the manner of implementation of advanced capital management concepts at the Bank. Pursuant to the advanced capital management approach, the Bank will:

- Plan for the long term and make decisions regarding the quantity of capital, structure of capital, and manner of capital allocation and usage.
- Strive to maximize economic profit and return on equity over time, subject to its strategy, business needs, and risk appetite, taking into consideration the requirements of the various stakeholders.

2) To routinely monitor the capital adequacy status of the Bank and formulate recommendations for action as necessary. The committee holds regular discussions of the capital adequacy status and the outlook for the coming months. Periodically, the committee also discusses long-term forecasts. In view of current and long-term needs, the committee formulates recommendations for courses of action for the Board of Management and the Board of Directors in the area of capital raising, optimization of capital usage, and adjustment of the quantity of risk-adjusted assets due to capital limits.

In order to create a thorough and effective capital-management process at the Bank, a specialized department was established to manage the Bank's capital, reporting to the CFO. The department oversees routine administration and control of all matters related to the management and planning of capital at the Bank. Within this role, the department's responsibilities include capital planning, control over capital adequacy and compliance with risk-adjusted asset objectives, contingency plans for extreme scenarios, and proactive capital management according to needs. For that purpose, the department is responsible for monitoring developments in regulation in connection with capital management, in Israel and globally, and advanced capital-management methods at banks worldwide. The unit is also responsible for the implementation of methodologies for the measurement of economic capital and economic profitability. These methodologies are used to make decisions according to risk-adjusted returns at the various levels of management at the Bank.

Capital Adequacy Target

In 2010, the Board of Directors of the Bank resolved that the Core Tier 1 capital ratio of the Bank would be no less than 7.5%, and the target total capital ratio of the Bank would be no less than 12.5%. In accordance with the Basel 3 directives, the Bank will be required to comply with a minimum Tier 1 capital ratio of 9% and a minimum total capital ratio of 12.5%, by January 1, 2015. The Bank meets the criteria for a banking corporation of significant importance; it will therefore be required to comply with a minimum Tier 1 capital ratio of 10% and a minimum total capital ratio of 13.5% beginning January 1, 2017. The Board of Directors of the Bank approved the target minimum capital ratios on December 25, 2013 as described above.

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

	December 31, 2013	December 31, 2012
	NIS millions	
1. Capital for the calculation of the capital ratio		
Core Tier 1 capital	***28,421**	26,323
Tier 1 capital, after deductions	***30,890**	28,745
Tier 2 capital, after deductions	**16,341**	17,801
Total overall capital	***47,231**	46,546
2. Weighted balances of risk-adjusted assets		
Credit risk	**276,763**	269,948
Market risks	**4,748**	5,557
Operational risk	**21,769**	21,302
Total weighted balances of risk-adjusted assets	**303,280**	296,807
3. Ratio of capital to risk-adjusted assets	%	
Ratio of Core Tier 1 capital to risk-adjusted assets	**9.37%**	8.87%
Ratio of Tier 1 capital to risk-adjusted assets	**10.19%**	9.68%
Ratio of total capital to risk-adjusted assets	**15.57%**	15.68%
Minimum total capital ratio required by the Supervisor of Banks	**9.00%**	9.00%
4. Significant subsidiaries		
Isracard		
Ratio of Tier 1 capital to risk-adjusted assets	**17.60%**	**15.30%
Ratio of total capital to risk-adjusted assets	**17.70%**	**15.80%
Minimum total capital ratio required by the Supervisor of Banks	**9.00%**	9.00%
Bank Hapoalim Switzerland		
Ratio of Tier 1 capital to risk-adjusted assets	*****26.56%**	28.37%
Ratio of total capital to risk-adjusted assets	*****27.13%**	28.37%
Minimum total capital ratio required by local regulation	**11.20%**	11.20%
Bank Pozitif		
Ratio of Tier 1 capital to risk-adjusted assets	**15.56%**	20.69%
Ratio of total capital to risk-adjusted assets	**16.51%**	21.47%
Minimum total capital ratio required by local regulation	**12.00%**	12.00%

* Excluding a dividend declared after the balance sheet date, in the amount of NIS 106 million.
** Restated as a result of the acquisition and merger of a sister company at Isracard.
*** Bank Hapoalim Switzerland has implemented the Basel 3 directives as of the first quarter of 2013.

Expected Effect of the Adoption of the Basel 3 Directives on January 1, 2014 on the financial statement as at December 31, 2013.

The transitional directives established in Proper Conduct of Banking Business Directive 299 were taken into consideration in calculating the expected effect of the adoption of the Basel 3 directives as at January 1, 2014. The transitional directives establish the method of gradual implementation of the supervisory adjustments, deductions from capital, and calculation of minority interests ineligible for inclusion in supervisory capital. In accordance with these transitional directives, beginning January 1, 2014, the Bank will apply deductions in equal increments of 20%, until the end of the transitional period on January 1, 2018. In addition, transitional directives have been established with regard to a gradual reduction of the inventory of subordinated notes ineligible for inclusion in supervisory capital, beginning with a permitted 80% ceiling recognized on January 1, 2014, to be reduced in 10% increments until January 1, 2022.

It is hereby emphasized that the data presented as an estimate of the expected effect of the implementation of the Basel 3 directives were prepared in accordance with the best understanding of the instructions of the Supervisor of Banks with regard to the manner of implementation of the directives concerning the calculation of deductions from capital, supervisory adjustments, calculation of minority interests eligible for recognition as part of supervisory capital, and implementation of other rules, including rules concerning the transitional directives. In light of the complexity of the directive and the publication of the position statements of the Supervisor with regard to its implementation, changes may occur in the interpretation of the directive or in the policy applied in implementation in 2014 and subsequently.

	According to the instructions of the Supervisor of Banks applicable December 31, 2013 (Basel 2)	Expected effect of Basel 3 implementation	According to Basel 3 directives*
		NIS millions	
Core Tier 1 capital	**28,421**	**-**	**-**
Tier 1 capital**	**-**	**-**	**29,223**
Total overall capital	**47,231**	**(357)**	**46,874**
Total weighted balances of risk-adjusted assets	**303,280**	**16,051**	**319,331**
		%	
Ratio of Core Tier 1 capital to risk-adjusted assets	**9.37%**	**-**	**-**
Ratio of Tier 1 capital to risk-adjusted assets	**-**	**-**	**9.15%**
Ratio of total capital to risk-adjusted assets	**15.57%**	**(0.89%)**	**14.68%**
Minimum Core Tier 1 capital ratio required by the Supervisor of Banks	**7.50%**		
Minimum Tier 1 capital ratio required by the Supervisor of Banks			*****9.00%**
Minimum total capital ratio required by the Supervisor of Banks	**9.00%**		*****12.50%**

* The definitions of Tier 1 capital and total capital, and the supervisory adjustments (deductions from capital) established by the Supervisor of Banks as part of the adoption of the Basel 3 directives, are significantly different from the definitions included in the Basel 2 directives.

** After supervisory adjustments and deductions.

*** Minimum capital ratio required according to the directives of the Supervisor of Banks as of January 1, 2015 until December 31, 2016.

Factors in which change is expected due to the adoption of the Basel 3 directives

	NIS millions
Changes in Total Capital	
Adjustments of securities available for sale to fair value(1)	256
Hybrid capital instruments(2)	(1,089)
Subordinated notes(2)	(2,507)
Collective allowance for credit losses, net of the general allowance(3)	2,767
Dividend declared after the balance sheet date	106
Other	110
Total	(357)
Changes in weighted balances of risk-adjusted assets	
CVA risk(4)	7,075
Net deferred taxes receivable in respect of timing differences(5)	4,364
Collective allowance for credit losses, net of the general allowance(3)	2,767
Loan classified as impaired debt not accruing interest income(6)	1,653
Investments in financial corporations	192
Total	16,051

(1) Unrealized profits or losses from adjustments of securities available for sale to fair value, after the related tax effect, with the deduction of 45% of the total net profits, before the related tax effect, in respect of adjustments to fair value of securities available for sale recognized in capital according to Basel 2.
(2) Deduction of 20% from the balance of capital instruments and subordinated notes as at December 31, 2013, in accordance with the transitional directives.
(3) The collective allowance recognized as Tier 2 capital, up to a ceiling of 1.25% of credit risk assets. In addition, the amount of the allowance is added to credit risk assets. Under Basel 2, only the general allowance was recognized in capital and in credit risk assets.
(4) The addition to risk-adjusted assets in respect of potential losses that may arise from the revaluation to market value of over-the-counter derivatives.
(5) Deferred taxes arising from timing differences and up to 10% of Tier 1 capital are weighted at a risk weight of 250%, versus 100% under Basel 2.
(6) Expansion of the group of impaired debts, pursuant to the Basel 3 definition.

Applicability of Implementation

In general, the capital requirements of the Bank are based on its consolidated financial statements, which are prepared according to Israeli GAAP and the directives and guidelines of the Supervisor of Banks. According to Israeli GAAP, subsidiaries controlled directly or indirectly by the Bank are consolidated in the financial statements, but different consolidation rules sometimes apply for the purposes of the supervision of capital. However, as at December 31, 2013, there are no differences between the consolidation base according to GAAP and the supervisory consolidation base for the purposes of capital adequacy.

There are no significant prohibitions or restrictions on the transfer of funds or supervisory capital within the Group, with the exception of Bank Pozitif, for which any capital beyond the Pillar 1 requirements is not available at the level of the Group, and against which capital is therefore allocated within Pillar 2 calculations. With regard to the limits established in the Bank of Israel's permit for the acquisition of control of the Bank in connection with the distribution of retained earnings, see the section "Dividend Distribution" above.

For further details regarding the principal subsidiary and affiliated companies of the Bank, see Note 6C to the Financial Statements.

Structure of Regulatory Capital and Composition of Capital

Pursuant to the Basel 2 directives, banking corporations must maintain a ratio of capital to risk-adjusted assets of no less than 9%. Capital measurement for the purposes of this directive is based on the division of capital into Tier 1, Tier 2, and Tier 3 capital (held against market risks).

Core capital, which is part of Tier 1 capital, includes most of the components of shareholders' equity (excluding net profits from adjustments to fair value of securities available for sale) and minority interests in the capital of consolidated companies, net of intangible assets and goodwill, and net of 50% of investments in financial corporations in which the Bank has substantial influence.

Tier 1 capital consists of core capital plus non-innovative and innovative hybrid capital instruments. Non-innovative capital instruments have characteristics such as: a maturity date of no less than 49 years; not secured by any form of collateral; rights under the instruments are subordinated relative to all creditors of the Bank; the instruments include mechanisms for the absorption of losses on a current basis (suspension of interest and principal payments, and forced conversion into shares under circumstances established for those instruments); and they do not accrue interest and principal not paid on time, in any way (except in the case of payment in the form of shares), including in cases in which interest and principal payments are suspended. Innovative capital instruments are those that meet the definition of non-innovative capital instruments but also include an incentive for the Bank to carry out redemptions, such as a mechanism for an increase in the interest rate after a certain number of years. The Bank has innovative capital instruments only.

Tier 2 capital of the Bank includes Upper Tier 2 capital, which consists of innovative hybrid capital instruments, 45% of total net profits before the effect of related taxes in respect of adjustments to fair value of securities available for sale, and the general allowance. Innovative hybrid capital instruments recognized as Upper Tier 2 capital are instruments that have the characteristics of innovative capital instruments included in Tier 1 capital, with the following exceptions: they can be cumulative; there is no requirement to convert them into shares; and the rights arising from the instruments are subordinated to all creditors of the Bank except holders of Tier 1 capital instruments.

Lower Tier 2 capital consists of subordinated notes with the following main characteristics: a term to maturity of no less than five years; issued without collateral; rights under the instruments are subordinated to the claims of other creditors of the Bank, except creditors holding Tier 1 capital and Upper Tier 2 capital; and of the amount thereof recognized as Tier 2 capital, as noted, 20% shall be deducted at the beginning of each year in the last five years before their maturity date (in the event of a subordinated note settled in installments, such a deduction shall be made from each installment).

Hybrid capital instruments issued before the implementation of the directive were approved by the Supervisor of Banks for inclusion in the various tiers of capital.

50% of investments in financial corporations in which the Bank has substantial influence are deducted from Tier 2 capital.

Tier 3 capital includes subordinated notes that meet the criteria established in the directives of the Supervisor of Banks. The Bank has no subordinated notes classified as Tier 3 capital.

Limits on the Capital Mix

The directive establishes limits on the capital mix in the various tiers, primarily the following:

- Total Core Tier 1 capital shall constitute at least 70% of Tier 1 capital, after the required deductions from the capital in this tier only.
- Total innovative hybrid capital instruments, as detailed above, shall not exceed 15% of total Tier 1 capital, after the required deductions from the capital in this tier only.
- Total Tier 2 capital and Tier 3 capital shall not exceed 100% of Tier 1 capital, after the required deductions from the capital in this tier only.
- Lower Tier 2 capital, as detailed above, shall not exceed 50% of the Tier 1 capital not allocated against market risks (with regard to capital allocated against market risk, see below).
- Tier 3 capital held against market risks shall not exceed 250% of the Tier 1 capital held against this risk.

Hybrid capital instruments recognized as Tier 1 capital are issued by the Bank. Capital instruments recognized as Tier 2 capital are issued by the Bank and through its wholly-owned subsidiaries Hapoalim Hanpakot and Hapoalim International N.V. For details regarding subordinated notes, see Note 11 to the Financial Statements.

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

	December 31, 2013	December 31, 2012
	NIS millions	
Tier 1 capital		
Paid-up common share capital and premium	**7,984**	8,010
Retained earnings	***20,071**	**17,873
Non-controlling interests in equity of consolidated subsidiaries	**250**	302
Other capital instruments	**207**	**245
Amounts deducted from Tier 1 capital	**(91)**	(107)
Total Core Tier 1 capital	***28,421**	26,323
Innovative hybrid instruments	**2,469**	2,422
Total Tier 1 capital	***30,890**	28,745
Tier 2 capital		
Upper Tier 2 capital	**3,872**	3,801
Lower Tier 2 capital	**12,532**	14,059
Amounts deducted from Tier 2 capital	**(63)**	(59)
Total Tier 2 capital	**16,341**	17,801
Total eligible capital	***47,231**	46,546

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

** Reclassified due to the initial adoption of the directives of the Supervisor of Banks concerning the statement of comprehensive income. See Notes 1(C)(5) and 1(D)(1) to the Financial Statements.
For further details, see Note 13 to the Financial Statements.

Capital Adequacy

Measurement of Risk Exposures and Capital Requirements

The measurement of the exposures to the various risks may change depending on the definition of the exposure: financial reporting according to GAAP, establishment of regulatory (supervisory) capital, or the Bank's internal exposure management needs. Risk exposures presented below are based on the rules defined for the calculation of the regulatory capital required in order to support these risks.

Implementation of External Credit Ratings

According to the external rating based standardized approach implemented at the Bank, credit risk weightings are determined by methods including the attribution of exposure to the counterparty to a transaction, as stated in the directive, taking into account the external credit ratings established by external credit assessment institutions (ECAI), which are used for standardized measurement of credit risk.

ECAI ratings are used to determine the risk weight of the following counterparties:

- Sovereigns;
- The public sector;
- Corporations;
- Banking corporations;
- Securitizations.

For this purpose, the Bank uses data from two rating agencies: Moody's Investor Service and Standard & Poor's Rating Group. The following table maps the ratings of the major international rating agencies:

	Ratings by rating agencies		Risk weight		
	Moody's	S&P	Corporations	Banks	Sovereign
1	Aaa to Aa3	AAA to AA-	20%	20%	0%
2	A1 to A3	A+ to A-	50%	50%	20%
3	Baa1 to Baa3	BBB+ to BBB-	100%	100%	50%
4	Ba1 to Ba3	BB+ to BB-	100%	100%	100%
5	B1 to B3	B+ to B-	150%	100%	100%
6	Caa1 or lower	CCC+ or lower	150%	150%	150%

During the rating process, customers are identified and the appropriate rating is determined by matching the files of the ECAIs with the data of the counterparties. The data are entered into the calculation system, and the appropriate risk weight is assigned based on the rules established by the Supervisor of Banks. Accordingly, the lower of the credit ratings assigned by either of the two rating agencies noted above is selected.

If there is no rating for the counterparty, the risk weight is calculated according to the defaults defined in the directives of the Bank of Israel. The risk weight for debts of Israeli banks with an original term to maturity of three months or less, denominated and financed in NIS, is 20%. The risk weight for banks is determined by the risk weight of the country in which the bank is incorporated, and is one level below the risk weight derived from the country's rating. For investments in issuances that have a specific issuance rating, the risk weight of the debt is based on such rating, except when the issuer is a banking corporation or a public-sector entity. In these cases, the risk weight is based on the issuer rating, rather than on the specific issuance rating.

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

	December 31, 2013		December 31, 2012	
	Risk-adjusted assets	Capital requirements	Risk-adjusted assets	Capital requirements
	NIS millions			
Credit risk				
Sovereign debt	**2,426**	**218**	2,113	190
Debts of public-sector entities	**4,175**	**376**	3,709	334
Debts of banking corporations	**6,268**	**564**	5,257	473
Debts of corporations	**124,625**	**11,216**	125,122	11,261
Debts secured by commercial real estate	**54,028**	**4,863**	55,765	5,019
Retail exposures to individuals	**37,235**	**3,351**	34,676	3,121
Loans to small businesses	**5,499**	**495**	5,211	469
Housing loans	**29,940**	**2,695**	27,044	2,434
Securitization	**87**	**8**	19	2
Other assets	**12,480**	**1,123**	11,032	993
Total in respect of credit risk	**276,763**	**24,909**	269,948	24,296
Market risk	**4,748**	**427**	5,557	500
Operational risk	**21,769**	**1,959**	21,302	1,917
Total risk-adjusted assets in respect of the various risks	**303,280**	**27,295**	296,807	26,713
Total capital	***47,231**		46,546	
Minimum total capital ratio required by the Supervisor of Banks	**9.00%**		9.00%	
Ratio of Core Tier 1 capital to risk-adjusted assets	**9.37%**		8.87%	
Ratio of Tier 1 capital to risk-adjusted assets	**10.19%**		9.68%	
Ratio of total capital to risk adjusted assets	**15.57%**		15.68%	

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

Credit Risk

Credit risk is the risk that a borrower or debtor may default on obligations to the Bank under an agreement. The credit portfolio is a major component of the Bank's asset portfolio; deterioration in the stability of the various borrowers may therefore have an adverse effect on the value of assets and on the profitability of the Bank. Within credit risk management, credit policies and exposure limits for borrowers and sectors in the various segments of activity are defined at the Bank. The Group has credit policies and exposure limits for different types of borrowers in the various activity segments and products, and compliance with these limits is monitored routinely.

For details regarding the management of credit risks and the manner of establishing the allowance for credit losses (the individual allowance and the collective allowance), see the section "Risk Management," above.

Credit Risk Exposures

Set out below is the segmentation of credit-risk exposures by counterparty and by main types of credit exposures, before the allowance forcredit losses(1):

	December 31, 2013											
	Sovereign	Public sector	Banking corporations	Corporations	Secured by commercial real estate	Retail to individuals	Small businesses	Housing loans	Securitization	Others	Gross credit exposure(2)	Average gross credit exposure
	NIS millions											
Loans(3)	**38,960**	**5,895**	**6,795**	**97,831**	**35,079**	**50,580**	**7,613**	**57,961**	**-**	**-**	**300,714**	**299,373**
Bonds(4)	**48,631**	**1,157**	**2,543**	**3,879**	**348**	**-**	**-**	**-**	**-**	**-**	**56,558**	**52,970**
Derivatives(5)	**172**	**1,774**	**2,852**	**3,151**	**204**	**99**	**14**	**17**	**-**	**-**	**8,283**	**7,670**
Other off-balance sheet exposures	**1,928**	**837**	**1,791**	**68,182**	**47,604**	**47,166**	**3,394**	**2,112**	**174**	**-**	**173,188**	**171,167**
Other assets(6)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**14,815**	**14,815**	**14,333**
Total	**89,691**	**9,663**	**13,981**	**173,043**	**83,235**	**97,845**	**11,021**	**60,090**	**174**	**14,815**	**553,558**	**545,513**

	December 31, 2012											
	Sovereign	Public sector	Banking corporations	Corporations	Secured by commercial real estate	Retail to individuals	Small businesses	Housing loans	Securitization	Others	Gross credit exposure(2)	Average gross credit exposure
	NIS millions											
Loans(3)	49,051	5,139	5,873	99,267	40,338	47,219	7,249	53,566	-	-	307,702	303,535
Bonds(4)	39,023	2,871	1,301	2,950	268	-	-	-	-	-	46,413	38,002
Derivatives(5)	27	898	2,573	3,173	223	18	2	15	-	-	6,929	13,453
Other off-balance sheet exposures	1,486	829	1,588	68,838	41,959	47,948	3,167	2,351	187	-	168,353	167,350
Other assets(6)	-	-	-	-	-	-	-	-	-	13,498	13,498	12,777
Total	89,587	9,737	11,335	174,228	82,788	95,185	10,418	55,932	187	13,498	542,895	535,117

(1) After deduction of charge-offs, and before deduction of the allowance for credit losses on an individual and collective basis.
(2) Before conversion to credit of off-balance sheet components, as required in the Basel 2 directives (e.g. weighting of unutilized credit facilities as credit), before credit risk mitigation as a result of the execution of certain actions (e.g. use of guarantees), and after offsetting of transactions in derivatives (netting).
(3) Including credit to the public, credit to the government, and deposits with central banks.
(4) Not including bonds held for trading.
(5) Positive fair value of derivatives, including the add-on established in the Basel 2 directive reflecting the amount of the future potential exposure to credit in respect of the balance of the face value of derivative instruments, after offsetting of transactions in derivatives (netting).
(6) Including cash, advance payments to tax authorities, shares, and other assets with no counterparty such as buildings and equipment.

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

Gross credit exposures as at December 31, 2013 totaled approximately NIS 553.6 billion, compared with NIS 542.9 billion as at December 31, 2012, an increase of approximately NIS 10.7 billion. The increase mainly resulted from an increase in government bonds, in the amount of approximately NIS 9.6 billion; an increase in credit exposures in respect of housing loans, in the amount of approximately NIS 4.2 billion; an increase in exposure to banking corporations, in the amount of approximately NIS 2.6 billion, an increase in exposures in respect of other assets, in the amount of approximately NIS 1.3 billion; and an increase in retail exposure to individuals (including small businesses), in the amount of approximately NIS 3.3 billion; This increase was mainly offset by a decrease in deposits with central banks and credit to governments, in the amount of approximately NIS 10.1 billion and a decrease in credit exposures in respect of corporations in the amount of approximately NIS 1.2 billion.

Approximately 31% of the gross credit exposure of the Bank derives from exposure to corporations handled by the Corporate Banking Area, or other clients each of whose total balance of credit, calculated in accordance with the directive, exceeds NIS 5 million. Risk-adjusted assets in respect of such customers are weighted according to ratings by international rating agencies or at 100% in the absence of such ratings.

Approximately 20% of the gross credit exposure of the Bank derives from retail exposure to customers each of whose total balance of credit, calculated in accordance with the directive, does not exceed NIS 5 million (including small businesses). Subject to compliance with certain conditions, the directive permits weighting of risk-adjusted assets in respect of such exposures at 75%.

Sovereign credit exposures, constituting approximately 16% of the gross credit exposure of the Bank, primarily include deposits with central banks in Israel and in the United States, and investments in bonds issued by the Israeli government and the United States government.

Credit exposure in respect of housing loans, constituting approximately 11% of the gross credit exposure of the Bank, includes credit granted for the purchase of homes where the ratio of the loan to the value of the asset at the date of granting of the loan (LTV) does not exceed 60%. Subject to compliance with certain conditions, the directive permits weighting of risk-adjusted assets in respect of such exposures at 35%-50%. Housing loans with a financing rate of more than 60% are weighted at 75%, the risk weight applied to the supervisory retail portfolio, subject to compliance with the terms for eligibility for this portfolio.

Approximately 15% of the gross credit exposure of the Bank derives from exposure to debts secured by commercial real estate, including credit granted for the purchase of income-bearing commercial real estate.

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

	December 31, 2013					
	Up to 1 year	1 year to 5 years	Over 5 years	Other	Effect of netting agreements	Gross credit exposure[(2)]
	NIS millions					
Loans[(3)]	**135,325**	**74,842**	**90,547**	**-**	**-**	**300,714**
Bonds[(4)]	**26,336**	**16,369**	**13,853**	**-**	**-**	**56,558**
Derivatives[(5)]	**4,227**	**5,560**	**6,716**	**-**	**(8,220)**	**8,283**
Other off-balance sheet exposures	**27,398**	**141,853**	**3,937**	**-**	**-**	**173,188**
Other assets[(6)]	**2,435**	**-**	**-**	**12,380**	**-**	**14,815**
Total	**195,721**	**238,624**	**115,053**	**12,380**	**(8,220)**	**553,558**

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

(1) After deduction of charge-offs, and before deduction of the allowance for credit losses on an individual and collective basis.
(2) Before conversion to credit of off-balance sheet components, as required in the Basel 2 directives (e.g. weighting of unutilized credit facilities as credit), before credit risk mitigation as a result of the execution of certain actions (e.g. use of guarantees), and after offsetting of transactions in derivatives (netting).
(3) Including credit to the public, credit to the government, and deposits with central banks.
(4) Not including bonds held for trading.
(5) Positive fair value of derivatives, including the add-on reflecting the amount of the future potential exposure to credit in respect of the balance of the face value of derivative instruments, after offsetting of transactions in derivatives (netting).
(6) Including cash, advance payments to tax authorities, shares, and other assets with no counterparty such as buildings and equipment.

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

	December 31, 2013			
	Impaired loans	Loans in arrears	Allowance on an individual basis	Allowance on a collective basis
	NIS millions			
Public sector	**-**	**-**	**-**	**27**
Banking corporations	**-**	**-**	**-**	**6**
Corporations	**4,857**	**1,153**	**831**	**1,359**
Secured by commercial real estate	**2,007**	**854**	**139**	**1,060**
Retail to individuals	**794**	**271**	**131**	**499**
Small businesses	**135**	**59**	**45**	**68**
Housing loans	**-**	**867**	**-**	**422**
Total	**7,793**	**3,204**	**1,146**	**3,441**

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

For the distribution of the balance of problematic debts by economic sector, see Appendix 5 to the Management Review regarding credit risk by economic sector.

For the distribution of credit exposures by geographical region, see Appendix 6 to the Management Review regarding exposure to foreign countries.

For further information regarding problematic loans and the allowance for credit losses, see Notes 1 and 4 to the Financial Statements.

Credit Risk Mitigation

The Bank applies the comprehensive standardized approach in order to determine risk weightings to apply to the counterparty. The standardized approach requires the use of independent ratings prepared by international rating agencies.

The following tables present details of gross credit exposure (after deducting the allowance for credit losses on an individual and collective basis) by risk weightings, with segmentation of the exposure by counterparty (segments), before and after credit risk mitigation in respect of recognized collateral.

Before Credit Risk Mitigation

	December 31, 2013							
	0%	20%	35%	50%	75%	100%	150%	Gross credit exposure(1)
	NIS millions							
Sovereign	**81,305**	**5,401**	**-**	**546**	**-**	**2,439**	**-**	**89,691**
Public sector	**-**	**571**	**-**	**9,060**	**-**	**5**	**-**	**9,636**
Banking corporations	**-**	**8,526**	**-**	**4,942**	**-**	**507**	**-**	**13,975**
Corporations	**-**	**1,345**	**-**	**2,756**	**-**	**165,479**	**1,273**	**170,853**
Secured by commercial real estate	**-**	**-**	**-**	**-**	**-**	**81,351**	**685**	**82,036**
Retail to individuals	**-**	**-**	**-**	**-**	**96,962**	**181**	**72**	**97,215**
Small businesses	**-**	**-**	**-**	**-**	**10,869**	**23**	**16**	**10,908**
Housing loans	**-**	**-**	**35,188**	**4,142**	**12,226**	**7,957**	**155**	**59,668**
Securitization	**-**	**-**	**-**	**-**	**-**	**174**	**-**	**174**
Others	**2,481**	**-**	**-**	**-**	**-**	**11,765**	**569**	**14,815**
Total	**83,786**	**15,843**	**35,188**	**21,446**	**120,057**	**269,881**	**2,770**	**548,971**

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

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

After Credit Risk Mitigation

	December 31, 2013							
	0%	20%	35%	50%	75%	100%	150%	Net credit exposure[1]
	NIS millions							
Sovereign	**82,055**	**5,401**	**-**	**546**	**-**	**1,963**	**-**	**89,965**
Public sector	**757**	**571**	**-**	**8,311**	**-**	**5**	**-**	**9,644**
Banking corporations	**-**	**11,031**	**-**	**17,058**	**-**	**506**	**-**	**28,595**
Corporations	**-**	**1,345**	**-**	**2,756**	**-**	**161,668**	**1,272**	**167,041**
Secured by commercial real estate	**-**	**-**	**-**	**-**	**-**	**79,741**	**682**	**80,423**
Retail to individuals	**-**	**-**	**-**	**-**	**81,700**	**181**	**72**	**81,953**
Small businesses	**-**	**-**	**-**	**-**	**9,587**	**23**	**15**	**9,625**
Housing loans	**-**	**-**	**35,188**	**4,142**	**12,226**	**7,957**	**155**	**59,668**
Securitization	**-**	**-**	**-**	**-**	**-**	**174**	**-**	**174**
Others	**2,481**	**-**	**-**	**-**	**-**	**11,765**	**569**	**14,815**
Total	**85,293**	**18,348**	**35,188**	**32,813**	**103,513**	**263,983**	**2,765**	**541,903**

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

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

Use of Eligible Collateral for Credit Risk Mitigation

As part of its credit-risk management, the Bank receives collateral from its customers to secure credit. This collateral includes financial assets, real-estate assets, and other assets. Against credit granted to companies, the Bank also receives collateral in the form of a general floating lien on the company's assets. Under the Basel 2 directives, under certain conditions, certain collateral such as guarantees, credit derivatives, and financial instruments held as collateral can be deducted from risk-adjusted assets for the purpose of calculating the capital-adequacy ratio.

The deduction of collateral for the calculation of the capital ratio is performed after using safety margins established in the directive. These margins take into account factors including the term to maturity of the collateral, any lack of congruity between the linkage terms of the collateral and of the credit that it secures, and volatility in the value of the collateral.

The eligible financial collateral used by the Bank to calculate capital adequacy and risk mitigation includes deposits that constitute collateral by way of liens, as well as bonds of banking corporations and governments under permanent liens. In addition, the Bank uses guarantees of banking corporations, which transfer the exposure from the segment of the guaranteed party to exposure to banking corporations.

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

	December 31, 2013						
	Gross credit exposure[(1)]	Exposure covered by guarantees	Exposure covered by derivatives	Total amounts subtracted	Total amounts added[(2)]	Exposure covered by financial collateral[(3)]	Net credit exposure[(4)]
	NIS millions						
Sovereign	**89,691**	**(476)**	**-**	**(476)**	**750**	**-**	**89,965**
Public sector	**9,636**	**(750)**	**-**	**(750)**	**758**	**-**	**9,644**
Banking corporations	**13,975**	**(281)**	**-**	**(281)**	**14,901**	**-**	**28,595**
Corporations	**170,853**	**(1,131)**	**-**	**(1,131)**	**-**	**(2,681)**	**167,041**
Secured by commercial real estate	**82,036**	**(91)**	**-**	**(91)**	**-**	**(1,522)**	**80,423**
Retail to individuals	**97,215**	**(13,479)**	**-**	**(13,479)**	**-**	**(1,783)**	**81,953**
Small businesses	**10,908**	**(201)**	**-**	**(201)**	**-**	**(1,082)**	**9,625**
Housing loans	**59,668**	**-**	**-**	**-**	**-**	**-**	**59,668**
Securitization	**174**	**-**	**-**	**-**	**-**	**-**	**174**
Others	**14,815**	**-**	**-**	**-**	**-**	**-**	**14,815**
Total	**548,971**	**(16,409)**	**-**	**(16,409)**	**16,409**	**(7,068)**	**541,903**

	December 31, 2012						
	Gross credit exposure[(1)]	Exposure covered by guarantees	Exposure covered by derivatives	Total amounts subtracted	Total amounts added[(2)]	Exposure covered by financial collateral[(3)]	Net credit exposure[(4)]
	NIS millions						
Sovereign	89,587	(166)	-	(166)	1,761	-	91,182
Public sector	9,713	(1,761)	-	(1,761)	666	-	8,618
Banking corporations	11,330	(266)	-	(266)	14,903	-	25,967
Corporations	171,990	(1,153)	-	(1,153)	-	(2,716)	168,121
Secured by commercial real estate	81,701	(28)	-	(28)	-	(2,415)	79,258
Retail to individuals	94,350	(13,564)	-	(13,564)	-	(1,750)	79,036
Small businesses	10,279	(210)	-	(210)	-	(1,018)	9,051
Housing loans	55,574	-	-	-	-	-	55,574
Securitization	187	-	-	-	-	-	187
Others	13,496	-	-	-	-	-	13,496
Total	538,207	(17,148)	-	(17,148)	17,330	(7,899)	530,490

(1) Before conversion to credit of off-balance sheet components, as required in the Basel 2 directives (e.g. weighting of unutilized credit facilities as credit), before credit risk mitigation, and after offsetting of transactions in derivatives (netting).
(2) Including exposures added in respect of repurchase transactions.
(3) After taking safety coefficients into account.
(4) Before conversion to credit of off-balance sheet components, as required in the Basel 2 directives (e.g. weighting of unutilized credit facilities as credit), after credit risk mitigation, and after offsetting of transactions in derivatives (netting).

The use of eligible collateral led to a decrease in credit exposures assigned risk weightings of 75% and 100%. Credit exposures in the amount of approximately NIS 16.4 billion were assigned reduced risk weightings, mainly due to the use of guarantees of banking corporations. In addition, the use of eligible financial collateral, mainly including pledged deposits and government bonds, led to a reduction of the overall credit exposure by a total of approximately NIS 7.1 billion.

Credit Risk in Respect of Derivative Financial Instruments

Credit risk arising from transactions in derivative financial instruments in respect of the counterparty to the transaction is measured by applying the coefficients stipulated in the directive to the face value of the transactions, according to the risk weight of the counterparty.

In order to calculate credit risk exposure in respect of derivative financial instruments, the Bank implements the present exposure method, as established in the directive. In this method, credit risk in respect of derivative financial instruments includes the amounts of the positive fair value of derivatives in the balance sheet, plus add-on values in respect of potential credit risk, calculated by multiplying the face values of the derivatives by the coefficients stated in the directive, taking into account the underlying asset and term to maturity of the instrument.

Pursuant to the directive, transactions in derivatives can be offset for capital-adequacy purposes, provided that the following conditions are fulfilled, among others:

- Existence of a netting contract or agreement with the counterparty creating a single legal obligation covering all of the included transactions, such that the banking corporation has the right to receive, or the obligation to pay, only the net amount of the positive and negative values, revalued to the market, of the single transactions included, in the event that the counterparty fails to meet its obligations due to one of the following reasons: default, bankruptcy, liquidation, or similar circumstances.
- Existence of written, reasoned legal opinions according to which, if the matter were brought to a legal test, the courts and the relevant administrative agencies would find that the banking corporation's exposure is a net amount, based on:
    - The law in the jurisdiction in which the counterparty is registered, and in the case of involvement of a foreign office of the counterparty, also the law in the jurisdiction in which the office is located;
    - The law applicable to the individual transactions; and
    - The law applicable to any contract or agreement necessary in order to execute the actual offset.
- Existence of internal procedures aimed at ensuring that the legal characteristics of netting arrangements are examined in light of the possibility of changes in the relevant law. Among other matters, the procedures shall ensure the performance of recurring legal reviews.
- Existence of internal procedures aimed at ensuring that before the transaction is included in the netting system, the transaction is covered by legal opinions that fulfill the criteria established above.

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

The following table lists credit exposures of the Bank arising from derivatives:

	December 31, 2013					
	Interest-rate derivatives	Foreign-currency and gold derivatives	Share derivatives	Precious metals	Commodity derivatives	Total
	NIS millions					
Positive gross fair value	**6,149**	**3,809**	**75**	**28**	**11**	**10,072**
Add-on values	**2,020**	**4,225**	**105**	**4**	**77**	**6,431**
Effect of netting agreements	**-**	**-**	**-**	**-**	**-**	**(8,220)**
Net credit exposure	**8,169**	**8,034**	**180**	**32**	**88**	**8,283**

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

* Reclassified. Gross fair value is presented after attribution of the effects of the implementation of FAS157, Fair Value Measurement.

The following table details the face value of the Bank's credit-derivatives portfolio, used for risk management in the Bank's credit portfolio (the Bank is not a party to CDS transactions originating in mediation activities):

	December 31, 2013		
	Face value in NIS millions		
	Banking book		Total face value of credit derivatives
	Protection acquired	Protection sold	
Credit derivatives	**-**	**451**	**451**

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

Securitization Exposures

The volume of the Bank's exposure in respect of securitization is approximately NIS 174 million, arising from liquidity lines.

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 December 31, 2013 amounted to NIS 174 million (approximately USD 50 million), compared with NIS 187 million (approximately USD 50 million) at the end of 2012. No withdrawals were executed on any of these lines up to December 31, 2013.

The Bank uses the lower of the ratings assigned by two international credit rating agencies, Standard and Poor's Rating Group and Moody's Investor Service, to assign the relevant risk weights to these exposures.

The following table details securitization exposures acquired by the Bank and the relevant capital requirements:

		December 31, 2013		December 31, 2012	
	Risk weight	Amount of exposure(1)	Capital requirement	Amount of exposure(1)	Capital requirement
		NIS millions			
AAA to AA-	20%	**-**	**-**	-	-
A+ to A-	50%	**-**	**-**	-	-
BBB+ to BBB-	100%	**87**	**8**	93	8
BB+ to BB-	350%	**-**	**-**	-	-
B+ or lower or unrated	Deducted from capital	**-**	**-**	-	-
Total		**87**	**8**	93	8

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

Capital Requirements in Respect of Market Risks

	December 31, 2013			December 31, 2012		
	Specific risk	General risk	Total	Specific risk	General risk	Total
	NIS millions					
Interest-rate risk	**54**	**223**	**277**	83	247	330
Share risk	**3**	**3**	**6**	4	4	8
Foreign currency exchange-rate risk	**-**	**60**	**60**	-	115	115
Option risk	**-**	**84**	**84**	-	47	47
Total	**57**	**370**	**427**	87	413	500

Positions in Shares in the Banking Book

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

	December 31, 2013		December 31, 2012	
	Balance sheet value and fair value	Capital requirements	Balance sheet value and fair value	Capital requirements
	NIS millions			
Investments classified into the trading portfolio	**33**	**(1)6**	43	(1)8
Investments classified into the available-for-sale portfolio	**2,221**	**200**	1,654	149
Total investments in shares	**2,254**	**206**	1,697	157
Of which: Traded on the stock exchange	**1,692**	**-**	1,133	-
Privately held	**562**	**-**	564	-
Unrealized gains included in Tier 2 capital	**213**	**-**	139	-

(1) Including capital allocation with respect to specific market risk and general market risk.

Disclosure Regarding the Internal Auditor

Information regarding the Internal Auditor – Mr. Jacob Orbach has served as Chief Internal Auditor of the Bank as of January 1, 2010. Mr. Orbach has worked at the Bank Hapoalim Group since 1980, and is employed full-time, with the rank of a Member of the Board of Management. He holds a B.A. degree in Economics from Tel Aviv University and has experience in the areas of banking and auditing. Mr. Orbach meets the conditions stipulated in Section 3(A) of the Internal Audit Law, 1992 (hereinafter: the "Internal Audit Law"). The Internal Auditor is not an interested party in the Bank or its subsidiaries, and holds no other office in addition to his position as Chief Internal Auditor of the Bank and Internal Auditor of some of the subsidiaries in the Group, as required under Section 146(B) of the Companies Law and Section 8 of the Internal Audit Law. The appointment and termination of internal audit employees are subject to approval by the Chief Internal Auditor; audit employees receive instructions on audit-related matters only from the Chief Internal Auditor or from internal audit executives authorized by him; in general, internal audit employees do not hold other positions in addition to internal auditing; employees of the Internal Auditor Bureau are authorized to sign on behalf of the Bank only documents related to audit work, as required under Proper Conduct of Banking Business Directive 307, "The Internal Audit Function."

Appointment method – The appointment of the Internal Auditor was approved by the Board of Directors of the Bank on November 18, 2009, following the recommendation and approval of the Audit Committee on November 18, 2009, which cited considerations including Mr. Orbach's extensive professional experience in the area of business and his familiarity with the Bank and with its managerial and organizational culture, as well as his professional skills and personal qualities.

Superior officer of the Internal Auditor – The Chief Internal Auditor reports organizationally to the Chairman of the Board of Directors.

Work plan – Internal auditing is conducted in accordance with an annual work plan and a three-year long-term work plan. The work plan for 2013 was derived from the multi-year plan, which is based on the following, among other matters: risk assessment at audited units; an operational risk survey; the current organizational structure of the Bank; audit rounds at various units; and findings discovered in previous audits. In order to formulate the work plan, the audit team held discussions and consultations with the Bank's senior managers and other management functionaries, as well as the external auditors. The audit work plan at the Bank's subsidiaries was established in a similar manner; the Bank's Internal Audit unit provides auditing services to most subsidiaries. The audit work plan also includes examination of the approval processes of material transactions, all based on a comprehensive perspective with a focus on risks.

Following the formulation of the audit work plan by Internal Audit, the plan was submitted for discussion by the Audit Committee; subsequently, taking the committee's recommendations into consideration, the plan was discussed and approved by the Board of Directors.

The Chief Internal Auditor has the discretion to diverge from the work plan in response to changing, unexpected needs. Among other matters, the work plan includes resource allocation for audits of special events and unplanned audits, including audits by demand of authorized parties, such as the Board of Directors, the Audit Committee, Bank management officials, and regulators. Material changes to the work plan are discussed and approved by the Audit Committee and by the Board of Directors.

The Internal Audit work plan also addresses the Bank's activity overseas through branches and representative offices, and the Bank's subsidiaries in Israel and abroad. The principal subsidiaries abroad have local internal auditors. Internal Audit in Israel performs controls to ensure that the internal auditing is performed at an adequate professional level, as required under Proper Conduct of Banking Business Directive 307, "The Internal Audit Function." In general, subsidiaries in Israel receive internal audit services from Internal Audit at the Bank.

Manpower – The number of positions in Internal Audit was determined in accordance with the multi-year work plan, based on a risk survey. The internal audit team at the Bank, its subsidiaries, and its overseas offices numbered an average of approximately 129 employee positions in 2013, as detailed below:

	Average number of employee positions in 2013		
	Bank	Subsidiaries	Total
Activity in Israel	**99**	**6**	**105**
Activity abroad	**11**	**13**	**24**
Total	**110**	**19**	**129**

In addition, approximately 3 positions were invested in outsourcing.

Performing audits – Internal Audit at the Bank operates under laws; regulations; directives and guidelines of the Supervisor of Banks, including Proper Conduct of Banking Business Directive 307, "The Internal Audit Function," which took effect on July 1, 2012, and replaced the Banking Rules implemented until its inception; professional standards; professional guidelines of the Institute of Internal Auditors in Israel; and guidelines of the Audit Committee and of the Board of Directors.

Having examined the Internal Audit work plan and the actual execution of said plan, the Board of Directors and the Audit Committee believe that the Bank's internal auditing complies with the requirements established in the professional standards and in the directives of the Supervisor of Banks.

Access to information – Internal Audit has unrestricted access to all information at the Bank, including continuous unmediated access to the Bank's information systems, including financial data, as necessary to perform its duties. This authority is anchored in the audit charter and procedures. This policy is in place in the Bank's activity in Israel and abroad and at its subsidiaries.

Internal Auditor's report – Internal audit reports, including periodic reports, are submitted in writing. A list of all audit reports published during the preceding month is presented to the Board of Directors' Audit Committee each month, after being submitted to the Chairman of the Audit Committee. Audit reports are presented to the Chairman of the Board of Directors, the Chairman of the Audit Committee, and the CEO of the Bank. Most of the reports are also distributed to members of the Audit Committee. Substantial audit reports are discussed by the Audit Committee each month.

In 2013, semiannual and annual summaries were presented to the Board of Directors' Audit Committee and discussed by the committee, reviewing internal audit activities during the reported period. A summary of audit activities for 2012 was submitted on March 5, 2013, and discussed by the Audit Committee on March 11, 2013. A summary of audit activities in the first half of 2013 was submitted on August 19, 2013, and discussed by the Audit Committee on August 27, 2013. A summary of audit activities in 2013 was submitted to the Audit Committee on February 20, 2014 and discussed by the Committee on March 2, 2014.

Evaluation of the activity of the Internal Auditor by the Board of Directors – In the opinion of the Board of Directors and of the Audit Committee, the volume, nature, continuity of activity, and work plan of Internal Audit are reasonable under the circumstances, and are sufficient to realize the Bank's internal auditing objectives.

Remuneration – Details of the wages, compensation, value of benefits, employer contributions, and provisions paid to the Chief Internal Auditor, or for which a provision was recorded, in 2013: Wages in the amount of NIS 1,425 thousand; a bonus in the amount of NIS 446 thousand; a benefit in respect of share-based payment in the amount of NIS 1,926 thousand; value of additional benefits in the amount of NIS 218 thousand; and employer contributions in the amount of NIS 397 thousand. The balance of loans granted under benefit terms, as at the end of 2013, amounted to NIS 24 thousand. The average term to maturity of the loans is 2 years, and the benefit granted in the loans amounted to NIS 1 thousand in 2013. The balance of loans granted under ordinary terms amounted to NIS 65 thousand.

The salary, salary terms, and terms of employment of the Internal Auditor are approved by the Board of Directors, based on the recommendations of the Audit Committee. The remuneration of the Auditor is appropriate to his office and based on the prevalent principles also used for the remuneration of Members of the Board of Management (defined as a control function). In the opinion of the Board of Directors, the remuneration of the Internal Auditor is not such that would bias his professional judgment.

Poalim in the Community – Social Involvement and Contribution to the Community

Strategy and Vision

As part of the Bank Hapoalim Group's vision, strategy, and corporate values, the Bank is committed to an active, leading role in the community, alongside its business leadership and economic initiatives. This involvement, implemented through "Poalim for the Community," is part of an advanced managerial approach stating that an organization that operates within the community, and draws both its employees and customers from it, is an integral part of that community, and as a business leader, should strengthen the community and take a leading role in the advancement and improvement of conditions for all members of the community, especially those who are underprivileged.

In the spirit of this business philosophy, the Bank conducts a varied and extensive range of community-oriented activities that take the form of social involvement, monetary donations, and large-scale volunteer activities in which both members of management and employees participate. Activity on behalf of the community is an important factor in cultivating employees' sense of pride and cohesion.

Ongoing Activities

All of the Bank's community-oriented activity is organized within the framework of "Poalim for the Community"; part of the activity is conducted through the "Poalim for the Community Foundation (Registered Non-Profit Organization)," and the rest is conducted through other channels, described below.

Poalim for the Community devotes special attention to work with children and adolescents, with the aim of advancing the generation of the future. However, the activity of Poalim for the Community is extensive and varied, and includes other target groups as well.

In 2013, Poalim for the Community focused on projects in the area of education, aimed at children, adolescents, and specific population groups, with special emphasis on teaching sensible financial behavior. Poalim for the Community devotes approximately half of its budget to the area of education.

Through the areas of activity described below, and through the various projects promoted by the Bank Group, the Group's involvement in the community in 2013 was expressed in a financial expenditure of approximately NIS 46 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 2013, as in previous years, the Poalim for the Community Foundation contributed to a large number of causes, including assistance for children and youth, strengthening disadvantaged population groups, and support for educational, culture, welfare, health care, and science institutions. Through the Foundation, the Bank contributes to higher-education institutions, to scholarships for university students and underprivileged schoolchildren, and to the realization of educational initiatives and enrichment programs for children and youth, as well as for children who are hospitalized and need special assistance in order to progress in their studies.

The Poalim for the Community Foundation contributes to the advancement of culture and the arts, and makes donations to various activities throughout Israel, focusing on enrichment programs for children and youth via innovative educational projects. The Foundation helps to run workshops in Jewish and Arab schools throughout Israel in order to promote understanding and coexistence among the peoples and encourage tolerance and democracy.

Another important area in which the Poalim for the Community Foundation is a regular donor is health care. The Poalim for the Community Foundation supports several medical centers, with donations intended mainly to improve conditions of patients' treatment and hospitalization. The Foundation also promotes projects aimed at integrating persons with disabilities into community life. In addition, the Foundation contributes to organizations that help realize wishes of children suffering from cancer.

"Read & Succeed" community project – Poalim for the Community is committed to changing the reading habits of Israeli children and youth. In addition to its ongoing community activities, the Foundation decided in 2004 to initiate a focused effort to bring about fundamental changes in the reading habits of Israeli children and youth. The project has continued during 2005-2013. The 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 2013, the Bank donated approximately 1,062 computer systems as well as additional accompanying equipment.

"Poalim for Culture and Nature in Israel" – The Bank believes that closeness to our heritage and culture is of the utmost importance, and has therefore resolved to make it possible for parents and children throughout Israel to tour during holidays and enjoy a variety of sites all over the country, without it resulting in a heavy financial burden for the families. During Passover 2005, the Bank launched a special project in which all Israelis were invited to visit sites throughout Israel free of charge during the holiday week. Since then, this project has become an annual tradition, which continued during Passover in 2013.

Support for culture and arts – Each year, the Bank contributes to the promotion of culture and the arts through donations and sponsorships; for example, the Bank provides support to museums throughout Israel. Likewise, 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 at its Head Office building and 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 apply CSR principles to all levels of its activity, encompassing environmental issues, partnership with employees, service to customers, and contribution to the community.

Extensive details of sustainability and CSR activities are provided in the Bank's CSR report, which is available on its website, 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 CSR report for 2012, the Bank's sixth, was submitted to the international organization GRI for scoring in June 2013, and earned the top grade of A+ again. The report was prepared based on the GRI voluntary advanced format (version 3.1). The full CSR reports of the Bank for 2012, in Hebrew and in English, were released to the public on October 3, 2013. A full, current report in English has also been posted on the UN Global Compact website, along with a statement from the Bank's CEO, Mr. Zion Kenan, committing to the ten sustainability and CSR principles of the Global Compact.

In April 2011, Bank Hapoalim was added to the global FTSE4Good index, considered the world's leading index for sustainability and responsible investment. The FTSE4Good index, launched in London thirteen years ago, evaluates companies listed on the FTSE All World Index (which also includes the large-cap companies on the TASE) and selects those companies that meet threshold requirements in the management of environmental, social, and corporate governance issues. In the latest update of the FTSE4Good, in September 2013, Bank Hapoalim was assigned a relative score of 99 in the banking industry – the industry's highest score. The Bank leads the group of banks in the index, along with two other banks, and is ranked a Super Leader in its sector.

The Board of Directors and the Discharge of its Functions

During 2013, the Board of Directors of the Bank continued its work of formulating strategy, policy, and fundamental principles for the activity of the Bank in Israel and overseas, while establishing guidelines on various matters, in accordance with the requirements of updates in legislation and in accordance with the new Directive 301 of the Bank of Israel. As part of this process, the Board of Directors set forth policy for the activities of subsidiaries in Israel and abroad, limits for exposure to various risks, bond issuance, share capital issuance, execution and realization of fixed investments, and the execution of buyout offers and mergers. The Board of Directors addressed the approval of the quarterly and annual financial statements; dividend distribution policy; the organizational structure of the Bank; establishment of policy on manpower, salaries, retirement terms, and the remuneration system for employees and senior executives; and supervision and control over ongoing business operations executed by the Board of Management and the congruence of these operations with the policies of the Bank.

The Board in plenary session and its committees – the Credit Committee; the Transactions with Related Parties Committee; the Audit Committee; the Human Resources - Salaries and Remuneration Committee; the Risk Management and Control Committee; the Overseas Banking and International Activity Committee; the New Products Committee; the Corporate Governance Committee; the Investment Approval Committee; the Information Technology Committee; the Finance and Prospectus Committee; and the Remuneration Committee – held detailed discussions on various aspects of the Bank's activities.

In the course of 2013, the Board of Directors held 40 meetings in plenary session and 198 meetings of its committees, as detailed in this section.

The Credit Committee

The committee held discussions on matters of principle and made recommendations to the Board of Directors regarding the Bank's credit policy in Israel and abroad and regarding procedures in the area of credit and credit control. The committee held discussions and made recommendations to the Board of Directors regarding the approval of credit transactions, in accordance with the hierarchy of authorizations approved by the Board of Directors. The committee held discussions and made recommendations to the Board of Directors regarding business objectives and target markets for credit, and regarding policies concerning credit granted to finance means of control over other corporations; received comprehensive reviews of borrowers whose indebtedness exceeds a certain monetary volume established by the Board of Directors; held discussions and made recommendations to the Board of Directors regarding policy on credit to employees and related parties; and held discussions and made recommendations to the Board of Directors regarding risk tolerance and the desirable limits on the exposure to risks in the credit portfolio, including exposure in respect of sectoral concentration, exposure in respect of large borrowers and large borrower groups, rating and hedging of credit risks, exposure to concentration of collateral, and exposure to foreign countries and foreign financial institutions.

The committee discussed significant debt-rescheduling arrangements and substantial debts that are difficult to collect, and made recommendations to the Board of Directors regarding the approval of debt-rescheduling arrangements and the manner of addressing substantial debts that are difficult to collect, in accordance with the hierarchy of authorizations established by the Board of Directors. The committee held discussions and made recommendations to the Board of Directors regarding policy on collateral and safety margins and the hierarchy of credit authorizations in Israel and overseas, and held discussions and recommended approval by the Board of Directors of the annual and multi-year work plans for credit control in Israel and abroad.

The committee received sector reviews, reports on loans and deposits in foreign currency given to the Bank, and quarterly reports on developments in the Bank's credit portfolio, and on the indebtedness of individual borrowers and large borrowers reported to the Bank of Israel.

The Credit Committee held 38 meetings in the course of the year.

Members of the committee are: Y. Seroussi – Chairperson, I. Izakson, M. Baron, I. Tov, and M. Koren.

The Transactions with Related Parties Committee

The committee discussed transactions with "related parties" of the Bank, in Israel and overseas, as defined by the Supervisor of Banks. The committee also discussed transactions, including allowances or write-offs of debts of the Bank, with others who are not "related parties," in which an officer of the Bank has a "personal interest," as defined in the Companies Law, 1999, at amounts determined in the Supervisor of Banks' Proper Conduct of Banking Business Directives, in accordance with the hierarchy of authorizations approved by the Board of Directors. The committee also received routine reviews of the economic and financial condition of entities whose transactions with the Bank are presented to the committee for discussion, and whose indebtedness exceeds the amounts determined by the Board of Directors. The committee monitored problematic borrowers who are "related parties" and received periodic reports on the indebtedness of the "related parties," as required in the Proper Conduct of Banking Business Directives of the Supervisor of Banks.

The Transactions with Related Parties Committee held 34 meetings in the course of the year.

Members of the committee are: M. Baron – Chairperson, I. Tov, M. Koren, and D. Schwartz.

The Audit Committee

The committee discussed the work plan of the Bank's Internal Auditor, made recommendations regarding the approval of the work plan to the plenum of the Board of Directors, and monitored its implementation, including setting the desired outline for audits at subsidiaries in Israel and abroad. Semiannual summaries of internal audit activity and of the activity of the Audit Committee were presented to the committee. Through the Internal Auditor, the committee carried out control of the Board of Directors' working procedures and the execution of the resolutions of the Board of Directors and its committees. The committee also carried out control of compliance with the procedure regarding required utilization of continuous vacation time.

The committee discussed the quarterly and annual financial statements and presented its recommendations regarding the approval of the financial statements to the Board of Directors. As part of this process, the committee discussed the estimates and evaluations performed in connection with the financial statements, including with regard to problematic debts and allowances for credit losses; internal controls related to financial reporting; the completeness and suitability of the disclosure in the financial statements; the accounting policies adopted and accounting treatment applied to material matters; and valuations. The Audit Committee discussed problematic debts at the Bank and the allowances for credit losses required in respect of such debts, and discussed the classification of securities defined as problematic and the examination of the need for provisions for other-than-temporary impairment of securities held by the Bank.

The committee received semiannual reports regarding audits performed at the subsidiaries in Israel and abroad and ascertained the existence of an adequate audit system at these companies. Material audit findings or findings posing a material risk in relation to subsidiaries discovered in reports on audits performed at the Bank's subsidiaries were reported by the internal auditors of the subsidiaries, following discussion by the audit committee of the subsidiary.

The committee discussed Bank of Israel audit reports received during the year, the audit report by the external auditors, and material and/or prominent Internal Audit reports, and monitored the processing of these reports. In addition, the committee received reports on periodic summaries of audit findings, including reports related to audit mechanisms at corporations under the Bank's control.

The committee also addressed the authorization of operations and transactions related to officers and/or interested parties (as defined in the Companies Law) and/or related parties (as defined in the Bank of Israel's Proper Conduct of Banking Business Directives), and the approval of material and/or "extraordinary" transactions, as required under the provisions of the Companies Law, 1999 (the "Companies Law"). In this context, the committee also established criteria for the classification of transactions as extraordinary.

The committee also held discussions on various subjects, as required by the Bank of Israel's Proper Conduct of Banking Business Directives, including a discussion of the appointment of the external auditors; held discussions with the external auditors regarding the auditors' initial and supplementary reports on the financial statements; and held discussions with the Chief Internal Auditor alone, with the Chief Legal Advisor alone, with the Chief Accountant alone, with the Chief Risk Officer alone, with the Compliance Officer and Anti-Money Laundering Officer alone, and with the external auditors alone.

The Audit Committee held 29 meetings in the course of the year.

Members of the committee are: D. Schwartz – Chairperson, M. Baron, N. Zichlinskey, I. Tov, Y. Yarom, and Y. Peer.

The Risk Management and Control Committee

The committee held discussions and made recommendations to the Board of Directors regarding overall group risk strategy, including the risk appetite and the manner of implementation of risk strategy by the Board of Management of the Bank as required in the Proper Conduct of Banking Business Directives of the Supervisor of Banks. The committee also discussed the Bank's organizational preparations for the management, control and assessment of risks; and the quality and adequacy of the tools and means used by the Bank to manage and control various risks and to manage and control the Bank's overall exposure to the various risks. The committee received appropriate annual and quarterly reports in order to monitor, control, and assess the risks, as required in the Proper Conduct of Banking Business Directives.

The committee also approved the methodology for the assessment of the different risks, and discussed the Bank's preparations and progress towards implementation of plans to adopt the Basel directives. The committee also discussed and recommended approval by the Board of Directors of the ICAAP (Internal Capital Adequacy Assessment Process) report of the Bank for 2012. The committee received annual reports on the subjects of the prohibition of money laundering, the prohibition of terrorism financing, compliance with regulatory directives, and internal enforcement with regard to securities, and annual reports on risk management in the various areas by the Bank's subsidiaries in Israel and abroad and on the implementation of risk-management policy in the Bank Group.

The committee discussed new activities of the Bank, new products, significant changes in existing activities, and entry into new markets, and examined the risks involved therein and the tools to be used to manage, assess, and control such risks. The committee also received routine reports on material and/or special events in the Bank's activity with an impact on the Bank's risk management that may have a material effect on the Bank's capital, results, management, and/or reputation, in the various areas, as well as reports on the mapping and assessment of operational risks in the Group, including the processing of the findings of the Embezzlement and Fraud Survey. The committee presented its recommendations to the Board of Directors.

The Risk Management and Control Committee held 16 meetings during the course of the year.

Members of the committee are: I. Izakson – Chairperson, M. Baron, I. Tov, Y. Seroussi, E. Peled, and M. Koren.

The Overseas Banking and International Activity Committee

The committee discussed periodic reports on the Bank's activity abroad, including through the Bank's overseas branches and offices, as well as through its subsidiaries overseas.

The committee also discussed and made recommendations to the Board of Directors on policies in the area of non-transparent activity, as required by the Bank of Israel's Proper Conduct of Banking Business Directives, and on the following matters: periodic reviews of the environment of these operations (business, economic, regulatory, legal, political, etc.) in countries in which the Bank operates through branches and offices; periodic developments at the overseas branches and offices, on the level of individual branches and offices and on the aggregate level – activities, exposure to risks, and business results; periodic reviews of internal audit, control, and supervision units in relation to overseas offices and branches; compliance with exposure limits at overseas offices and branches of the Bank; periodic examination of the adequacy of human resources at all units of the Bank engaged in supervision, control, and auditing, and in the system of reporting and accounting records related to overseas offices; and reports of special events at overseas offices.

The Overseas Banking and International Activity Committee held 9 meetings during the course of the year.

Members of the committee are: Y. Seroussi – Chairperson, A. Dick, M. Wietchner, I. Tov, E. Peled, and I. Stern.

The New Products Committee

The committee discussed and made recommendations to the Risk Management and Control Committee and to the Board of Directors on all new activities and/or entry into new markets and/or new products and/or new derivative financial instruments that are significantly different from existing instruments at the Bank, and/or that lead to the creation of exposures of a new type, and/or market making, including through the Bank's subsidiaries or branches overseas, which require approval by the Board of Directors pursuant to the policy of the Bank.

The New Products Committee held 5 meetings during the course of the year.

Members of the committee are: Y. Seroussi – Chairperson, I. Izakson, A. Dick, Y. Yarom, and M. Koren.

The Corporate Governance Committee

The committee discussed and made recommendations to the Board of Directors regarding policies, procedures, and guidelines for instilling the principles of corporate governance in the work of the Board of Directors and its committees, and for the Bank's compliance with the principles of proper corporate governance, and the adjustment thereof to legal directives, including the establishment of the Bank's policy and supervision of the Board of Management and of the Bank's subsidiaries, as required by the Bank of Israel's Proper Conduct of Banking Business Directives.

The Corporate Governance Committee held 5 meetings during the course of the year.

Members of the committee are: Y. Seroussi – Chairperson, M. Baron, I. Tov, E. Peled, N. Ronen, and I. Stern.

The Investment Approval Committee

The committee meets on an ad hoc basis to discuss the recommendations of the Board of Management with regard to investments, acquisitions, and/or realizations of non-financial investments in Israel and abroad, and to discuss the recommendations of the Board of Management with regard to the execution and/or realization of fixed assets in Israel and abroad, to be made by the Bank itself or by its wholly-owned subsidiaries, in amounts from NIS 150 million to NIS 300 million. Investments in amounts greater than NIS 300 million are discussed by the committee, and its recommendations are submitted to the Board of Directors, following approval by the Board of Management of the Bank. The committee also received reports on investment decisions in amounts up to USD 25 million executed by Poalim Capital Markets and approved by the Board of Management of the Bank; discussed and approved investments in an amount between USD 25 million and USD 60 million, after receiving recommendations from the Board of Management of the Bank and reporting to the Board of Directors; and discussed and recommended approval by the Board of Directors of investment decisions in amounts greater than USD 60 million.

Resolutions of the committee are reported to the Board of Directors.

The Investment Approval Committee held 2 meetings in the course of the year.

Members of the Committee are: Y. Seroussi – Chairperson, A. Dick, Y. Tauman, I. Tov, and I. Stern.

The Information Technology Committee

The committee discussed and made recommendations to the Board of Directors regarding the work plans of the Information Technology Area, including technology and computer-related matters at the Bank, backup and survivability of the Bank's technological systems, and management of information technology, as required under Directive 357 of the Bank of Israel. The committee also discussed quarterly progress reports on significant technological projects.

The Information Technology Committee held 5 meetings during the course of the year.

Members of the Committee are: M. Wietchner – Chairperson, A. Dick, and N. Zichlinskey.

The Finance and Prospectus Committee

The committee reviewed the business performance of the Bank, as indicated by drafts of the quarterly and annual financial statements, and discussed the economic implications thereof; discussed accounting policies adopted on material matters in the financial statements, and the implications thereof; and discussed the evaluation of estimates regarding impaired debts and material valuations in the financial statements, while examining implications and courses of action on the business level. In its discussions, the committee received reports on problematic borrowers in Israel and at the overseas branches. The committee also discussed dividend distribution, according to the policy established by the Board of Directors, and made recommendations for approval by the Board of Directors; and discussed prospectuses of the Bank, including shelf prospectuses and shelf offer reports, and presented its recommendations regarding the approval thereof to the Board of Directors.

The Finance and Prospectus Committee held 5 meetings during the course of the year.

Members of the committee are: I. Izakson – Chairperson, I. Tov, Y. Seroussi, Y. Peer, E. Peled, and M. Koren.

The Human Resources – Salaries and Remuneration Committee

Until the establishment of the Remuneration Committee, pursuant to Amendment 20 to the Companies Law, this committee handled all matters related to salary policy for employees and executives of the Bank Group, including the terms of service and employment of the officers of the Bank. In this context, the committee also addressed the establishment of the annual bonus budget for all employees, including officers and key employees. The committee also discussed the terms of service and employment of the chairpersons and chief executive officers of the material subsidiaries of the Bank, in Israel and overseas.

Following the establishment of the Remuneration Committee, on December 26, 2012, the committee ceased to address the terms of service and employment of officers of the Bank. Its responsibilities were updated and approved by the Board of Directors on February 17, 2013, to adjust for changes required pursuant to Amendment 20 to the Companies Law.

After the Supervisor of Banks amended the Proper Conduct of Banking Business Directive concerning the board of directors in December 2013, and allowed the formation of an expanded format of the Remuneration Committee, the Board of Directors resolved on January 29, 2014, to dissolve this committee and transfer its authority to the Remuneration Committee in its expanded format.

The Human Resources - Salaries and Remuneration Committee held 17 meetings in the course of the year.

The members of the committee were: Y. Seroussi – Chairperson, A. Dick, I. Tov, E. Peled, and M. Koren.

The Remuneration Committee

The Remuneration Committee was established pursuant to the directives of the Companies Law (Amendment 20), 2012. The committee is engaged in the roles assigned to it by the aforesaid amendment to the Companies Law, as well as the roles established for it in the Proper Conduct of Banking Business Directives of the Supervisor of Banks. As such, the committee held discussions to establish the Bank's policy with regard to the terms of service and employment of the officers of the Bank. The committee submitted its recommendations regarding this policy to the Board of Directors of the Bank; following approval by the Board of Directors, the policy will also be presented to the general meeting of shareholders of the Bank for approval. (The policy established by the committee was approved at the general meeting held on February 11, 2014).

The committee also discussed the terms of the Bank's contractual engagements with some of its officers, in accordance with the remuneration policy in effect, and to the extent necessary, in congruence with the remuneration policy which is subject to approval by the general meeting of shareholders of the Bank. The committee's recommendations on these matters were submitted to the Board of Directors for approval.

The committee is also responsible for establishing remuneration policy for "key employees" of the Bank (as this term is defined in Proper Conduct of Banking Business Directive 301A of the Supervisor of Banks), even if they are not considered "officers" under the definition in the Companies Law.

In accordance with the amendment to the Proper Conduct of Banking Business Directive of the Supervisor of Banks of December 2013, the Board of Directors of the Bank resolved on January 29, 2014, that the Remuneration Committee established as described above, pursuant to Amendment 20 to the Companies Law, would operate in an expanded format to discuss remuneration policy and remuneration agreements of all of the employees of the Bank, with the exception of officers and key employees of the Bank. The Board of Directors further resolved to transfer all other matters previously under the responsibility of the Human Resources – Salaries and Remuneration Committee, which was dissolved at that time, to the responsibility of the Remuneration Committee in its expanded format.

The Remuneration Committee held 33 meetings during the course of the year.

Members of the committee are: I. Tov – Chairperson, D. Schwartz, and N. Ronen. The expanded format of the Remuneration Committee also includes: Y. Seroussi, A. Dick, E. Peled, and M. Koren.

The description of the activity, composition, and authority of the plenum of the Board of Directors and its committees is current as at the date of publication of the annual financial statements for 2013.

Report on Directors with Accounting and Financial Expertise and Professional Qualification

The Companies Law, 1999 (hereinafter: the "Companies Law") states that the board of directors of a public company must determine the minimum required number of directors on the board of directors who must be "accounting and financial experts," taking into account factors including the type and size of the company and the scope and complexity of its activity. This directive applies to the Bank, as a public company. The Companies Law further states that an external director appointed to a public company must have "professional qualification" or "accounting and financial expertise."

The Companies Regulations (Conditions and Tests for a Director with Accounting and Financial Expertise and for a Director with Professional Qualification), 2005, stipulate the conditions required in order for a director to be considered a director with "accounting and financial expertise" or a director with "professional qualification."

Pursuant to the Companies Regulations, a **"director with accounting and financial expertise"** is "a director who due to education, experience, and skills has a high level of proficiency and understanding of business and accounting matters and of financial statements, such that he or she is able to understand the company's financial statements in depth and prompt discussion regarding the manner of presentation of financial data." It is further stipulated that the accounting and financial proficiency of directors is to be assessed by the board of directors, taking into account considerations including the director's education, experience, and knowledge on the following subjects:

A. Accounting issues and accounting control issues characteristic of the industry in which the company operates and of companies of the size and complexity of the company;
B. The responsibilities and duties of auditors;
C. The preparation and approval of financial statements in accordance with the law and the Securities Law.

A **"director with professional qualification"** is a director who meets one of the following conditions:

A. Holds an academic degree in one of the following subjects: economics, business, accounting, law, public administration;
B. Holds another academic degree or has completed other higher-education studies in the company's main area of activity or in an area relevant to the position;
C. Has at least five years' experience in one of the following, or cumulative experience of at least five years in two or more of the following:
   (1) A senior position in business management of a corporation with a significant volume of business;
   (2) Senior public office or a senior position in the public service;
   (3) A senior position in the area of the company's main activities.

The Regulations state that professional qualification of a candidate for service as a professionally qualified director, as noted, is to be assessed by the board of directors.

The Board of Directors of the Bank has determined that the minimum adequate number of directors having "accounting and financial expertise" is two, like the number of external directors to be appointed to a public company under the Companies Law.

In addition, the Supervisor of Banks determined in Public Reporting Directive 630 (hereinafter: "Directive 630") that a banking corporation must specify in its periodic report, as part of the board of directors' report, the minimum number of directors with "accounting and financial expertise" that the banking corporation has determined should be members of the board of directors' audit committee and of any other board of directors' committees which are authorized to discuss the banking corporation's financial statements.

Directive 630 also stipulates that the board of directors' report should specify the number of directors at the reporting date who have "accounting and financial expertise," noting the number of such directors who are members of the board of directors' audit committee, as well as of any other board of directors' committees which are authorized to discuss the banking corporation's financial statements.

The Board of Directors of the Bank has determined that the minimum adequate number of directors with "accounting and financial expertise" who should be members of the Board of Directors' Audit Committee is two, and that the minimum adequate number of directors with "accounting and financial expertise" who should be members of the Board of Directors' Finance and Prospectus Committee, which is authorized to discuss the Bank's financial statements, is two, based on the considerations used by the Board of Directors in determining the minimum adequate number of directors with "accounting and financial expertise" to serve on the Bank's Board of Directors.
Note that at the reporting date, there are 14 directors with "accounting and financial expertise" and "professional qualification," based on their education, skills, and experience, in accordance with the requirements of the Companies Regulations, and one director with "professional qualification" who due to his education, experience, and qualifications is highly skilled and has a deep understanding of the key areas of activity of the Bank. Six directors with "accounting and financial expertise" and "professional qualification" are members of the Board of Directors' Audit Committee.

Members of the Board of Directors who have "accounting and financial expertise" and/or "professional qualification" based on their education, skills, and experience, in accordance with the requirements of the Companies Regulations, as at the date of publication of the Financial Statements for 2013, are the following:

1. Yair Seroussi – B.A., Economics and Political Science, Hebrew University of Jerusalem.
Chairman of the Board of Directors of the Bank as of August 1, 2009. Chairman of the following Board Committees at the Bank: the Credit Committee; the Investment Approval Committee; the Overseas Banking and International Activity Committee; the New Products Committee; and the Corporate Governance Committee. Member of the following Board Committees: the Finance and Prospectus Committee, the Risk Management and Control Committee; the Remuneration Committee in expanded format.
Served as Vice Chairman of the Board of Directors of the Bank from June 4, 2009 to July 31, 2009.
Serves as a director of the Bank as of June 4, 2009.
Chairman of the Administrative Committee of the Poalim for the Community Foundation and of the Peretz Naftali Fund.
Member of the Board of Trustees of the Hebrew University.
Member of the Board of Directors of the following companies: DSP Group Ltd., Amdeal Y.S. Ltd., and Amdeal Holdings (1999) Ltd.
Served as senior advisor at the investment bank Morgan Stanley (Israel) Ltd.; Chairman of the Board of the following companies: Poalim Capital Markets and Investment Holdings Ltd., Poalim Capital Markets Ltd., Poalim Capital Markets - Investment House Ltd., Eyal Microgal Ltd., Diur B.P. Ltd., Diur B.P. Investments (1992) Ltd., and Diur B.P. Assets (1993) Ltd.; and director at the following companies: Israel Corp. Ltd. (external director), Vintegra Ltd. (external director), City Investment, Aspen Construction and Development Ltd. (external director), Mustang Mezzanine Investments Ltd., Mustang Fund Management Ltd., Frutarom Industries Ltd., Europort Ltd., Poalim Capital Markets and Investment Holdings Ltd., Poalim Capital Markets Ltd., and Poalim Capital Markets - Investment House Ltd.; however, he no longer serves at these companies. Also served as Chairman of the Investment Committee of Mivtachim – Established Pension Fund, and as a member of the Asset Investment Committee of the Hebrew University; however, he no longer serves in these positions. Also served as Chairman of the fund Mustang Mezzanine Investments Ltd., as a member of the investment committee of the Sky 1 fund (private equity), and as a member of the Advisory Board of the Caesarea Center; however, he no longer serves in these positions.
The Board of Directors has determined that the director has "accounting and financial expertise" and "professional qualification," based on his declaration.

2. Irit Izakson – B.A. in Economics, Tel Aviv University; MSc. in Operational Research, School of Business Administration, Tel Aviv University.

Member of the Board of Directors of the Bank as of December 27, 1999. Chairperson of the following Board Committees: the Finance and Prospectus Committee, and the Risk Management and Control Committee. Member of the following Board Committees: the Credit Committee and the New Products Committee.

Director at the following companies: Arison Holdings (1998) Ltd., Arison Investments Ltd., and Shikun & Binui Ltd. Member of the Executive Board of the Association of Public Companies; member of the Board of Trustees of Ben-Gurion University.

Served as Chairperson of the Board of Directors of the following companies: Isracard Ltd., Europay (Eurocard) Israel Ltd., Aminit Ltd., and Poalim Express Ltd. Served as a director at the following companies: Israel Corp. Ltd., Israel Chemicals Ltd., Dead Sea Bromine Company Ltd., Bromine Compounds Ltd., and I.D.B. Development Company Ltd.; however, she no longer serves at these companies. Served as a member of the Board of Trustees of the Van Leer Jerusalem Institute, however, she no longer serves there.

Previously held a number of positions in the course of her 17-year employment at Bank Leumi Le-Israel Ltd. These positions included Manager of Shekel Assets and Liabilities. In her last position at Bank Leumi Le-Israel Ltd., served as Head of the Industrial Sector in the Corporate Area.

From October 2008 to December 2013, served as Chairperson of the Board of Directors of the following companies: Isracard Ltd., Europay (Eurocard) Israel Ltd., Aminit Ltd., and Poalim Express Ltd.

The Board of Directors has determined that the director has "accounting and financial expertise" and "professional qualification," based on her declaration.

3. Mali Baron – B.A. in Economics and Developing Nations, Tel Aviv University; M.B.A. (Specialized in Finance), Hebrew University of Jerusalem.

Serves as an external director of the Bank under Proper Conduct of Banking Business Directive 301 of the Bank of Israel as of September 10, 2007. Chairperson of the Transactions with Related Parties Committee, and member of the following Board Committees: the Credit Committee, the Audit Committee, the Corporate Governance Committee, and the Risk Management and Control Committee.

Member of the Board of Directors of Maliba Ltd. Member of the Investment Committee of Tel Aviv University.

Served as a director at ECTel Ltd. (external director) and as a member (internal) of the Profit-Participatory Investment Committee at The Phoenix Investment and Finance Ltd.; however, she no longer serves at these companies. Served as Chairperson of the Board of Directors of Marbit Insurance Agency, a subsidiary of Mercantile Discount Bank (a banking auxiliary corporation), until December 31, 2006 however, she no longer serves there.

In 1975-1985, served in various positions at the Budget Division of the Ministry of Finance, of which five years as Deputy Head of Budgets. In 1986-2006, served in various positions in the banking system. Most recently served as Senior Deputy General Manager at Mercantile Discount Bank Ltd., Head of the Branches Administration, and Head of Mortgages.

The Board of Directors has determined that the director has "accounting and financial expertise" and "professional qualification," based on her declaration.

4. Amnon Dick – B.A. in Economics, Tel Aviv University; M.B.A., Tel Aviv University.

Serves as an external director of the Bank under Proper Conduct of Banking Business Directive 301 of the Bank of Israel as of March 24, 2010. Member of the following Board Committees: the Investment Approval Committee; the Information Technology Committee; the New Products Committee; the Overseas Banking and International Activity Committee; and the Remuneration Committee in its expanded format.

Businessman, partner in communications companies, consultant and director. CEO of Adsensory Ltd. Member of the board of directors of the following companies: Non Stop Radio Ltd., The Northern Radio Holdings Ltd., Radio Eco 99 Ltd., and Habima National Theater Ltd. (Public Benefit Company). President of the Association of Friends of Tel Aviv University.

In the past, served as CEO of the Bezeq Group, Chairman and CEO of Elite International and in other senior management positions. Served as a director at MIRS Communications Ltd. and at East West Innovations; however, he no longer serves at these companies.

The Board of Directors has determined that the director has "accounting and financial expertise" and "professional qualification," based on his declaration.

5. Meir Wietchner – B.A. in Political Science and Computer Science, Bar Ilan University, Ramat Gan; M.B.A., Northwestern University, Chicago.

Member of the Board of Directors of the Bank as of November 24, 2009. Chairman of the Information Technology Committee of the Board of Directors, and member of the Overseas Banking and International Activity Committee.

Head of Global Strategy for the Arison Group and Chairman of the Miya Group. Member of the board of directors of the following companies: Miya S.a.r.L., Miya Bahamas Ltd., Miya Water Holdings Ltd., Dorot Management Ltd., Control Valves Ltd., Miya Water (Proprietary) SA, Miya Water Mexico, V.DEC S.A., Miya NL Holdings BV, Miya NL Projects BV, Miya Manila Water Projects Inc., Miya Water Projects Ltd, WRP Consulting Engineers (Proprietary) Ltd., Miya Lux Holdings S.a.r.L., Swiss IP Branch, Miya Australia Holdings PTY Ltd.,4Water Supplies (Pty) Ltd, Romiya (subsidiary of Miya Water S.R.L.), D.O.O. Miya Columbia S.A.S., Miya Puerto Rico LLC., Miya Voda.

Served as a director at Eyal Microgal Ltd.; however, he no longer serves there. Also served as a director at the following companies: Storwize Ltd., Storwize Inc. (Delaware-US), and Veritec Consulting Inc.; Miya Brasil Soluções em Engenharia Hidráulica Ltda however, he no longer serves there.

From 1989 to 1998, self-employed in the areas of consulting, management, and investments (fund raising, locating investments and leverage for high-tech companies, management and membership of boards of directors, consulting for organizations on strategy and technology management). From 1998 to 2003, served as Vice President and President of the Messaging Division at Comverse.

The Board of Directors has determined that the director has "accounting and financial expertise" and "professional qualification," based on his declaration.

6. Nir Zichlinskey – B.A. in Business Administration (Specialized in Accounting and Finance), Management College, Rishon Lezion; M.B.A. (Specialized in Finance), Ben Gurion University; CPA.

Member of the Board of Directors of the Bank as of September 10, 2007. Member of the following Board Committees: the Audit Committee and the Information Technology Committee.

Owner of the SRI Global Group, a business group in Israel leading the area of investments based on the SRI (Socially Responsible Investment) model. The group operates through four main sectors: SRI Investment, SRI Funds, SRI Consulting, and SRI Training. CEO of the following companies: Socially Responsible Investments (SRI) Ltd., and Zichlinskey Ltd. Chairman of the Board of Directors of the following companies: S.R.I. Global Finance Group, S.R.I. Master.

Member of the Board of Directors at the following companies: Shikun & Binui Ltd., Shikun & Binui - SBI Infrastructures Ltd., Shikun & Binui Real Estate Ventures Ltd., Shikun & Binui Renewable Energy Ltd., Shikun & Binui Solel Boneh Construction and Infrastructure Ltd., Shikun & Binui - Solel Boneh - Infrastructures Ltd., Shikun & Binui Water Ltd., Socially Responsible Investment (SRI) Consulting Ltd., Migdalor Investments (SRI) 2009 Ltd., Jerusalem Technology Investments (JTI) Ltd., Paz Training Ltd., and Central Company for Social Finance Services (SRI) Ltd.

Member of the governing board of the Friends of Rabin Medical Center Foundation, member of the presidency of the charitable association Yad B'Yad, member of the board of trustees and the finance committee of the College of Management Rishon Lezion, social business partner of Matan – Investing in the Community, and trustee of WIZO – Women's International Zionist Organization.

Founder and president of the Israel Directors' Union Ltd. President of the Nova Project – management in the service of the community. Member of the steering committee of the Social Initiative Center of the town of Savyon. Chairman of the Student Pioneers for Israel Foundation.

Lecturer in Business Administration and Accounting Departments for undergraduate and graduate studies at Tel Aviv, Hebrew, and Bar Ilan Universities, the Interdisciplinary Center Herzliya, the College of Management, the Academic College, and the Lander Institute, for eighteen years.

Served for ten years as Senior Partner and Head of the Professional Department, Head of Business Development and the Social Reporting Department, and Head of Training at BDO Ziv Haft Certified Public Accountants.

Served as Deputy General Manager, Finance Manager, and Head of Business Development at companies in the controlling shareholders' group: Arison Investments Ltd., Arison Holdings (1998) Ltd., Arison Sustainability Ltd., Arzaf Ltd., Arzaf B (97) Ltd., Arzaf C Ltd., Arzaf D Ltd., and Arshav Holdings Ltd.

Served as a director at the following companies: Stone and Limestone Industries Ltd., Israel Salt Industries Ltd., and Gaon Holdings Ltd.; however, he no longer serves at these companies.

Has comprehensive financial understanding both in practice and in methodologies passed on to the general public, as evidenced by authorship and editing of dozens of books (including two encyclopedias), articles, and studies in the areas of economics, business, accounting, control, auditing, law, and corporate social responsibility.

The Board of Directors has determined that the director has "accounting and financial expertise" and "professional qualification," based on his declaration.

7. Yair Tauman – B.Sc. in Mathematics and Statistics, Hebrew University of Jerusalem; M.Sc. in Mathematics, Hebrew University of Jerusalem; Ph.D. in Mathematics, Hebrew University of Jerusalem.

Serves as an external director of the Bank under Proper Conduct of Banking Business Directive 301 of the Bank of Israel as of December 1, 2011. Member of the Investment Approval Committee of the Board of Directors.

Professor at the Interdisciplinary Center Herzliya and at the State University of New York at Stony Brook. Academic Director of the Zell entrepreneurship program at the Interdisciplinary Center Herzliya. Director of the Center for Game Theory in the Department of Economics, State University of New York at Stony Brook. Dean of the Edelson School for Entrepreneurship at the Interdisciplinary Center Herzliya.

Member of the Board of Directors at the following companies: Radware, ADVFN (London), Bidorbuy, Expobee (chairman), Digiblock, Bizzabo Ltd., A.T. Kerem in Har Hanegev Ltd., and Lemon Grass Global Ltd.; director at Acting Studio – Theater Arts Promotion Foundation (non-profit).

From 1984 to 2008 served as a Professor at the Faculty of Management, Tel Aviv University. From 2010 to 2011 served as Dean of the Arison School of Business at the Interdisciplinary Center Herzliya.

The Board of Directors has determined that the director has "accounting and financial expertise" and "professional qualification," based on his declaration.

8. Imri Tov – B.A. in Economics and Political Science, Hebrew University of Jerusalem; M.A. in Economics and Business Administration, Hebrew University of Jerusalem.

Serves as an external director of the Bank (as defined in Section 240 of the Companies Law) as of February 5, 2009. Chairman of the Remuneration Committee and of the Remuneration Committee in expanded format, and member of the following Board Committees: the Credit Committee; the Transactions with Related Parties Committee; the Audit Committee; the Finance and Prospectus Committee; the Investment Approval Committee; the Risk Management and Control Committee; the Overseas Banking and International Activity Committee; and the Corporate Governance Committee.

Director of companies; business consultant; consultant and researcher in defense economics. Member of the Board of Directors of the following companies: MTA Holdings Ltd., IC Green Energy (ICG) Ltd., Amanet Management and Systems Ltd. (external director), and Plasan Sasa Ltd.

Member of the Paratrooper Veterans of the Liberation of Jerusalem and Crossing of the Canal Foundation (Registered Non-Profit Association), the Paratrooper Heritage Foundation, and the Executive Board of HaGesher Theater.

From 2000 to 2006 served as an external director on the Board of Directors of Bank Hapoalim B.M., Chairman of the Audit Committee, and member of the following Board Committees: the Credit Committee, the Transactions with Interested and Related Parties Committee, the Business and Budget Committee, the Salaries and Human Resources Committee, the Prospectus Committee, the Balance Sheet Committee, the Expense Control and Streamlining Committee, the Investment Approval Committee, and the Repricing Committee.

Served in the past as a researcher at the Research Department of the Bank of Israel, as a manager at the Credit and Foreign Currency Supervision Department, and as a consultant to the Governor of the Bank of Israel. Also served as Chief Economist of the Defense System until June 2000.

Served as a director at the following companies: Golden Wings Ltd., Elisra Electronic Systems Ltd., Opterisity Ltd., Shufersal Ltd. (external director), and Granit Hacarmel Investments Ltd. (external director); as an external director of the Provident Fund of State Employee Physicians (Aram) and as a member of the provident fund's investment committee; and as a research fellow at the Center for Strategic Studies at Tel Aviv University and at the Institute for National Security Studies (INSS) however, he no longer serves at these companies.

The Board of Directors has determined that the director has "accounting and financial expertise" and "professional qualification," based on his declaration.

9. Yosef Yarom – M.A. in Law and Social Sciences, National University of Cordoba, Argentina.

Licensed to practice law in Israel.

Serves as an external director of the Bank, under Proper Conduct of Banking Business Directive 301 of the Bank of Israel, as of March 21, 2011. Member of the following Board Committees: the Audit Committee and the New Products Committee.

Lecturer on auditing in the business sector at Haifa University. Member of the Board of Directors of the ORT Hermelin Netanya Academic College of Engineering and Technology Ltd.

From 1994 to 2004, served as Chief Internal Auditor of the Bank, Head of Internal Audit in Israel and overseas, and internal auditor of companies in the Bank Group, with the rank of a Member of the Board of Management. From 2004 to 2006, served as Head of Risk Management at the Bank. From 2006 to 2008, served as Chairman of the Board of Directors of Bank Massad Ltd.

Served as a director at the following companies: Bank Massad Ltd., UBank Ltd., and Clarity Family Office; however, he no longer serves at these companies. Also served as a member of the audit committee of the Movement for Quality Government in Israel, and as a member of the credit committee of Dash Provident Funds Management Ltd. however, he no longer serves there.

The Board of Directors has determined that the director has "accounting and financial expertise" and "professional qualification," based on his declaration.

10. Yacov Peer – B.A. in Economics, Ben-Gurion University; M.B.A., Industrial Engineering and Management, Ben-Gurion University.

Serves as an external director of the Bank under Proper Conduct of Banking Business Directive 301 of the Bank of Israel as of October 6, 2010. Member of the following Board Committees: the Finance and Prospectus Committee, and the Audit Committee.

Financial and management consultant for small businesses. Does not serve on boards of directors of other companies. From 1996 to 2002, CEO of Shargad Orchanim Ltd.; from 2003 to the present, owner of a business providing financial and managerial consulting for small businesses. From 1988 to 1995, Head of the Economic Department at Nitsba.

The Board of Directors has determined that the director has "accounting and financial expertise" and "professional qualification," based on his declaration.

11. Efrat Peled – B.A. in Economics and Accounting, Tel Aviv University; M.B.A., EMBA Kellogg Recanati International Program, Tel Aviv University; Certificate in Land Assessment, Tel Aviv University.

Member of the Board of Directors of the Bank as of January 24, 2007. Member of the following Board Committees: the Overseas Banking and International Activity Committee; the Finance and Prospectus Committee; the Risk Management and Control Committee; the Corporate Governance Committee; and the Remuneration Committee in expanded format.

Serves as Chairperson and CEO of the Board of Directors of the following companies: Arison Holdings (1998) Ltd., Arison Investments Ltd., Arison Sustainability Ltd., Arzaf Ltd., Arzaf B (97) Ltd., and Arzaf C Ltd. As of September 2004, serves as CEO of SAFO LLC.

Serves as a director at the following companies: Shikun & Binui Ltd., Salt of the Earth Ltd., Av-Ar Capital Investments 1997 Ltd., Arshav Holdings Ltd. Arison Investments USA LLC, Miya S.a.r.L., and Miya Luxembourg S.a.r.L., 4 Integrity Group LLC.

Member of the Board of Directors and the Investment Committee of the Weizmann Institute of Science.

Served as a director at Biomedical Investments (1997) Ltd., however, she no longer serves there. Extensive managerial experience accumulated in recent years at the Arison Group, in the areas of business and philanthropy in the Israeli and international markets, including management in various financial and operational sectors and specialization in the management of global financial fund systems, investment portfolios, financial and operational holdings, Israeli and international taxation, real estate, and extensive work with top-tier international investment banks and financial institutions.

12. Moshe Koren – B.A. in Economics and Statistics, Hebrew University; graduate of courses on financial statement analysis. Banking and financial consultant.

Member of the Board of Directors of the Bank as of August 3, 1992. Member of the following Board Committees: the Credit Committee; the Transactions with Related Parties Committee; the Finance and Prospectus Committee; the Risk Management and Control Committee; the New Products Committee; and the Remuneration Committee in expanded format.

Served as a director at the following companies: Psagot Investment House Ltd. and Psagot Securities Ltd.; however, he no longer serves at these companies.

The Board of Directors has determined that the director has "accounting and financial expertise" and "professional qualification," based on his declaration.

13. Nehama Ronen – B.A. in Education and History, Tel Aviv University and Beit Berl; M.A. in Public Administration, Haifa University.

Member of the Board of Directors of the Bank as of February 3, 2010. Member of the following Board Committees: the Corporate Governance Committee, the Remuneration Committee, and the Remuneration Committee in expanded format.

Chairperson of the Board of Directors of the following companies: Maman Cargo Terminals Ltd., and Recycling Corporation (ELA). Member of the Board of Directors of Shachal Telemedicine Ltd. (external director). Member of the Board of Trustees of the Academic College of Tel Aviv.

Served as a director at the following companies: Israel Salt Industries Ltd., Kaman Holdings Ltd., Kamur Ltd., and Oil Refineries Ltd. (member of the board of directors and chairperson of the environment committee of the board of directors); however, she no longer serves at these companies. Also served as Director-General of the Ministry of the Environment in 1996-1999, and as a Member of Knesset in 2001-2003. Served as a member of the Board of Trustees of Ruppin College however, she no longer serves there.

The Board of Directors has determined that the director has "accounting and financial expertise" and "professional qualification," based on her declaration.

14. Dafna Schwartz – B.A. in Economics, Tel Aviv University; M.A. in Agricultural Economics and Administration, Hebrew University of Jerusalem; Ph.D. in Economics, Hebrew University of Jerusalem; Professor at Ben Gurion University.

Serves as an external director of the Bank (as defined in Section 240 of the Companies Law) as of April 6, 2012. Chairperson of the Audit Committee of the Board of Directors; member of the following Board Committees: the Transactions with Related Parties Committee, the Remuneration Committee, and the Remuneration Committee in expanded format.

Serves as a staff member at the Department of Business Administration, Faculty of Management, Ben Gurion University of the Negev; Head of the High-Tech Entrepreneurship and Management course of study in the Department of Business Administration (MBA program) and Head of the Bengis Center for Entrepreneurship and High-Tech Management, Faculty of Management, Ben Gurion University. Practices as an economic and business consultant in Israel and overseas (Prof. Dafna Schwartz Economic and Business Development Ltd.).

Member of the National Council for Research and Development. Member of the expert group on: "Policy relevant research on entrepreneurship and SME's" (EU), European Commission, Enterprise and Industry, Director General. Member of the general assembly of the Achva Academic College of Education (non-profit). Member of the boards of directors of the following companies: Teva Pharmaceutical Industries (external director), Strauss Group Ltd. (external director).

Served as a director at the following companies: Oil Refineries Ltd. (external director), Rotem Industries Ltd., Albaad Massuot Yitzhak Ltd., Discount Bank, Giron Development and Construction Ltd. (external director), The Phoenix Insurance Company Ltd., The Phoenix Holdings Ltd., Orda Print Industries Ltd. (external director), Leumi Securities and Investments (Psagot Ofek Investment House Ltd.); however, she no longer serves at these companies.

The Board of Directors has determined that the director has "accounting and financial expertise" and "professional qualification," based on her declaration.

15. Ido Stern – L.L.B., Hebrew University of Jerusalem; Graduated the Program for Leadership Development, School of Business Administration, Harvard University, Boston.

Member of the Board of Directors of the Bank as of September 24, 2012. Member of the following Board Committees: the Investment Approval Committee; the Corporate Governance Committee; and the Overseas Banking and International Activity Committee.

Deputy General Manager and legal counsel at Arison Holdings (1998) Ltd., and at Arison Investments Ltd., Arison Sustainability Ltd., Arzaf Ltd., Arzaf B (97) Ltd. Member of the boards of directors of the following companies: Shikun & Binui Ltd., Salt of the Earth Ltd.

In 2005-2007, practiced as an attorney at Gornitzky law offices.

The Board of Directors has determined that the director is a "director with professional qualification" who due to his education, experience, and qualifications is highly skilled and has a deep understanding of the key areas of activity of the Bank, based on his declaration.

Board of Directors of the Bank

Yair Seroussi	Chairman of the Board of Directors of the Bank as of August 1, 2009. Serves as a director of the Bank as of June 4, 2009.
Mali Baron	Director of companies. Serves as an external director (as defined in the Bank of Israel's Proper Conduct of Banking Business Directive 301) as of September 10, 2007.
Amnon Dick	Businessman, partner in communications companies, consultant, and director. CEO of Adsensory Ltd. Serves as an external director (as defined in the Bank of Israel's Proper Conduct of Banking Business Directive 301) as of March 24, 2010.
Irit Izakson	Director of companies. Serves as a director of the Bank as of December 27, 1999.
Moshe Koren	Banking and financial consultant. Serves as a director of the Bank as of August 3, 1992.
Yacov Peer	Financial and managerial consultant for small businesses. Serves as an external director (as defined in the Bank of Israel's Proper Conduct of Banking Business Directive 301) as of October 6, 2010.
Efrat Peled	Chairperson of the Boards of Directors and CEO of the following companies: Arison Holdings (1998) Ltd., Arison Investments Ltd., Arison Sustainability Ltd., Arzaf Ltd., Arzaf B (97) Ltd., and Arzaf C Ltd.; and CEO of SAFO LLC. Serves as a director of the Bank as of January 24, 2007.
Nehama Ronen	Chairperson of the Board of Directors of Maman Cargo Terminals Ltd. and of Recycling Corporation (ELA). Serves as a director of the Bank as of February 3, 2010.

Dafna Schwartz	Professor and member of staff at the Department of Business Administration, Faculty of Management, Ben Gurion University of the Negev; Head of the High-Tech Entrepreneurship and Management course of study in the Department of Business Administration (MBA program) and Head of the Bengis Center for Entrepreneurship and High-Tech Management, Faculty of Management, Ben Gurion University. Economic and business consultant in Israel and overseas (Prof. Dafna Schwartz Economic and Business Development Ltd.). Serves as an external director (as defined in Section 240 of the Companies Law) as of April 6, 2012.
Ido Stern	Deputy General Manager and legal counsel at Arison Holdings (1998) Ltd., Arison Investments Ltd., Arison Sustainibility Ltd. Arzaf B (97) Ltd and Arzaf Ltd. Serves as a director of the Bank as of September 24, 2012.
Yair Tauman	Professor at the Interdisciplinary Center Herzliya and at the State University of New York at Stony Brook. Serves as an external director of the Bank (as defined in the Bank of Israel's Proper Conduct of Banking Business Directive 301) as of December 1, 2011.
Imri Tov	Director of companies; business consultant; consultant and researcher in defense economics. Serves as an external director (as defined in Section 240 of the Companies Law) as of February 5, 2009.
Meir Wietchner	Head of Global Strategy for the Arison Group and Chairman of the Miya Group. Serves as a director of the Bank as of November 24, 2009.
Yosef Yarom	Lecturer on auditing in the business sector at Haifa University. Serves as an external director (as defined in the Bank of Israel's Proper Conduct of Banking Business Directive 301) as of March 21, 2011.
Nir Zichlinskey	President and CEO of SRI Global Group. Serves as a director of the Bank as of September 10, 2007.

Additional details regarding the Members of the Board of Directors of the Bank are presented in the Periodic Report of the Bank for 2013, and on the Magna website of the Israel Securities Authority at http://www.magna.isa.gov.il.

Board of Management of the Bank

Zion Kenan	President and Chief Executive Officer
Yadin Antebi(1)	Chief Financial Officer (CFO)
Amir Aviv(2)	Head of International Banking
Tsahi Cohen	Chief Risk Officer
Shimon Gal	Head of Corporate Banking
Dan Koller	Head of Financial Markets(3)
Ofer Levy	Chief Accountant
Ilan Mazur	Chief Legal Advisor
Zvi Naggan	Head of Information Technology
Ari Pinto	Head of Retail Banking(4)
Ron Weksler(5)	Head of Corporate Strategy
Efrat Yavetz	Head of Human Capital, Advising, and Resources
Chief Internal Auditor	Jacob Orbach – Head of Internal Audit in Israel and Abroad
Ran Oz(6)	Chief Financial Officer (CFO)
Lilach Asher-Topilsky(7)	Head of Retail Banking
Anath Levin(8)	Head of Financial Markets
Corporate Secretary	Yoram Weissbrem
Bank Spokesperson	Ofra Preuss
External Auditors	Ziv Haft, Certified Public Accountants (Isr.)
	Somekh Chaikin, Certified Public Accountants (Isr.)

(1) As of July 23, 2013.
(2) As of December 1, 2013.
(3) As of December 1, 2013. Until November 30, 2013, Head of International Banking.
(4) As of November 1, 2013. Until October 31, 2013, Head of Corporate Strategy.
(5) As of November 1, 2013.
(6) Ceased to serve as a Member of the Board of Management on July 22, 2013.
(7) Ceased to serve as a Member of the Board of Management on October 31, 2013.
(8) Ceased to serve as a Member of the Board of Management on November 30, 2013.

Additional details regarding the Members of the Board of Management of the Bank are presented in the Periodic Report of the Bank for 2013, and on the Magna website of the Israel Securities Authority at http://www.magna.isa.gov.il.

Other Matters

An annual general meeting of shareholders of the Bank convened on March 24, 2013. The shareholders discussed the financial statements and board of directors' report of the Bank for 2011; approved the appointment of the Bank's external auditors; approved the extension of the service of Mr. Ido Stern as a director of the Bank, for a period of three years, beginning March 24, 2013; and approved the extension of the service of Mr. Amnon Dick as a director of the Bank for an additional period of three years, beginning March 24, 2013. Mr. Dick is considered an "external director," as defined in Proper Conduct of Banking Business Directive 301 of the Supervisor of Banks ("External Director Under Directive 301").

An additional annual general meeting of shareholders of the Bank convened on September 12, 2013. The shareholders discussed the financial statements and board of directors' report of the Bank for 2012; approved the appointment of the Bank's external auditors; approved the extension of the service of Ms. Mali Baron as a director of the Bank for an additional period of three years, beginning September 12, 2013, as an External Director Under Directive 301; and approved the extension of the service of Mr. Yacov Peer as a director of the Bank for an additional period of three years, beginning October 6, 2013, as an External Director Under Directive 301.

A special general meeting of shareholders of the Bank convened on February 11, 2014.
The shareholders approved the remuneration policy for 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 service of Mr. Yosef Yarom as a director of the Bank, for an additional period of three years, beginning March 21, 2014, as an External Director under Directive 301.

Transactions with Controlling Parties

Pursuant to the Securities Regulations (Periodic and Immediate Reports), 1970 (hereinafter: the "Reporting Regulations"), corporations required to report according to the regulations must report, immediately and in their annual periodic reports, any transaction with a controlling party, or any transaction in which a controlling party has a personal interest (whether the transaction is exceptional, i.e. outside the ordinary course of business of the bank, not at market terms, or such that it may have a material effect on the bank's profitability, property, or liabilities; or non-exceptional), including main points of the transaction or contractual engagement, the details of the organ that approved the transaction, and a summary of its reasons for such approval. An exception to this rule is provided for transactions determined in the financial statements of the bank to be "negligible transactions," as defined in Regulation 41(A)6(a) of the Securities Regulations (Annual Financial Statements), 2010 (hereinafter: the "Financial Statements Regulations").
Because the Financial Statements Regulations do not apply to banks, the Association of Banks asked the Israel Securities Authority to establish the reporting format applicable to banks in this regard. Following the request by the Association of Banks and the subsequent discussions, principles were established with regard to the manner of reporting of transactions of banks with their controlling party, or transactions with another person in which the controlling party has a personal interest. In accordance with these principles, the Bank is required to establish criteria for the classification of exceptional banking transactions in connection with controlling parties.
Accordingly, the Audit Committee established criteria for negligible transactions and exceptional transactions with respect to transactions with controlling parties or transactions in which controlling parties have a personal interest. These criteria were published, including in the Board of Directors' Report of the Bank as at December 31, 2012. Similar criteria were also established by other banks.

Set out below are details of the types of transactions and the criteria established in connection with approval and reporting of transactions of the Bank with its controlling party, or transactions with another person in which the controlling party has a personal interest:

"Exceptional" Banking Transactions

Pursuant to the aforesaid criteria established by the Bank, banking transactions meeting the following criteria shall be considered exceptional transactions:

A. Any transaction involving the granting of credit by the Bank, as a result of the execution of which the total indebtedness of the controlling party exceeds 10% of the regulatory capital, or as a result of which the increase in the indebtedness of the controlling party, or of the party in which the controlling party has a personal interest, exceeds 2% of the regulatory capital at the date of execution of the transaction. In this subsection (A), several transactions executed consecutively with the same person shall be considered one transaction, such that for the purpose of classifying the said transactions, the cumulative amount of the said transactions shall be examined;

B. Transactions of the deposit of funds in any type of deposit, if as a result of the transaction the total deposits of the controlling shareholder exceed 2% of total deposits from the public, as reported in the most recent consolidated balance sheet of the Bank released to the public prior to the date of the deposit of the funds;

C. Transactions of deposit and/or purchase and/or sale of securities, participatory units in mutual funds and/or other funds, and any other investment held by the Bank as an asset of the customer (rather than as a balance sheet liability), where the amount of the transaction exceeds 0.5% of the total balance of off-balance sheet monetary assets of customers in the Bank Group, as reported in the most recent consolidated balance sheet of the Bank released to the public at the date of execution of the transaction;

D. Any other banking transaction of the type of transactions that the Bank usually performs with the public, provided that it does not involve the granting of credit by the Bank, where the amount of the transaction exceeds 0.5% of the total consolidated balance sheet of the Bank at the date of execution of the transaction;

E. Any other transaction of the Bank not covered by the previous items, if it is not in the ordinary course of business of the Bank or at market terms, or if the amount of the transaction exceeds NIS 300 million. For this purpose, transactions in the "ordinary course of business" are transactions that the Bank executes from time to time in order to conduct its routine operations (such as renting assets, purchasing products, and receiving services), and transactions of the same type can be found which the Bank executed during the twelve-month period preceding the approval of the transaction.

Along with the establishment of the aforesaid criteria, the Audit Committee determined that any transaction, of any type and volume, between the Bank and the controlling shareholder of the Bank, and/or in the approval of which the controlling shareholder of the Bank has a personal interest, shall be executed in accordance with market conditions and in such a manner that the Bank shall not grant any preference in the transaction or any benefit in its terms relative to the terms at which similar transactions would be executed with others not considered "related parties" of the Bank (as defined in Proper Conduct of Banking Business 312 of the Supervisor of Banks). Pursuant to the directives of the Companies Law, a transaction other than at market terms is an exceptional transaction.

For the purpose of determining whether a transaction is exceptional, "market terms" are: (1) when the transaction requires approval by the Board of Directors' Committee for Approval of Transactions with Related Parties, terms that the committee has found to be "market terms," pursuant to Proper Conduct of Banking Business Directive 312, according to the tests it customarily uses, and according to the materials presented to it; or (2) transaction terms similar to the terms of at least two transactions with similar characteristics (such as type of customer or counterparty to the transactions, and characteristics thereof; volume of the transaction; and other characteristics relevant to market terms, such as collateral or volume of the customer's activity with the Bank) executed by the Bank in the period near the date of the contractual engagement in the transaction under review, provided that such transactions were executed with a party unrelated to the Bank and the controlling shareholder of the Bank had no personal interest therein; or (3) transaction terms similar to the terms of at least two transactions in the relevant market known to the Bank and similar in characteristics (such as type of customer or counterparty to the transactions, and characteristics thereof; volume of the transaction; and other characteristics relevant to market terms, such as collateral) executed during the period close to the date of the contractual engagement in the transaction under review, provided that they were executed between unrelated parties; or (4) a price set in an orderly market of buyers and sellers, such as prices of marketable securities or prices of commodities, provided that sufficient tradability exists in that market with respect to the relevant asset or product or service.

"Negligible" Transactions

It was further established by the Bank that the following transactions shall be considered negligible transactions:

(1) A transaction for the acquisition of services from a controlling party, or in which a controlling party has a personal interest, provided that it is not a contractual engagement with the controlling party or with a relative thereof with regard to terms of service and employment, and that it is in the ordinary course of business and at market terms, and the volume of which does not exceed a total of NIS 2.5 million, and provided that total transactions of its type in one calendar year do not exceed 0.1% of the regulatory capital. This total shall not include single transactions the volume of each of which is less than NIS 25,000.

(2) Transactions for the rental of land from a controlling party, or in which a controlling party has a personal interest, approved in one calendar year, in the ordinary course of business and at market terms, the total volume of which does not exceed 0.1% of the regulatory capital.

(3) Any other transaction in the ordinary course of business and at market terms, the volume of which is up to a total of NIS 250,000, provided that total transactions of its type in one calendar year do not exceed 0.1% of the regulatory capital. This total shall not include single transactions the volume of each of which is less than NIS 25,000.

Definitions

For this purpose, the following terms shall have the meanings listed below:

(1) **"Credit" –** As defined in the Banking Law (Licensing), 1981.

(2) **"Indebtedness" –** As defined in Proper Conduct of Banking Business Directive 312 of the Supervisor of Banks.

(3) **"Market terms" –** Terms that are not preferable to the terms at which the Bank executes similar transactions of the same type with persons or corporations that are not controlling parties of the Bank, or with persons in whose transactions a controlling party has no personal interest. Market terms with respect to banking transactions are examined in comparison to the terms of transactions of the same type, at similar volumes, as is customary in examining transactions with related persons, pursuant to Proper Conduct of Banking Business Directive 312, with customers of the Bank who are not related persons or parties in whose transactions the controlling parties have a personal interest. Market terms in respect of non-banking transactions are examined in comparison to transactions of the same type executed by the Bank with suppliers and/or in comparison to proposals of other suppliers examined prior to the decision concerning the contractual engagement. In cases in which the Bank has no transactions of the same type, market terms shall be examined in relation to transactions of the same type in the economy, provided that the transaction is in the ordinary course of business and that there is a market for transactions of its type in which similar transactions are executed.

(4) **"Controlling party" –** Together with her related private and public companies, as the term "related person" is defined in Proper Conduct of Banking Business Directive 312, and together with her relatives and their related private companies, including family members residing with her or supported financially by her; the definition of a "relative" under the provisions of the Banking (Licensing) Law includes siblings, parents, offspring, spouse's offspring, and spouses of each of the foregoing.

Set out below are details of the balances of the controlling party of the Bank and of others in whose transactions with the Bank the controlling party has a personal interest, as at December 31, 2013 (in NIS thousands):

	Balance as at December 31, 2013	Highest balance in 2013
Shikun & Binui Ltd. Group[(1)]:		
Balance sheet credit	**507,903**	**628,472**
Commitments to grant credit	**664,750**	**844,000**
Sale guarantees, guarantees to secure credit, and others	**296,810**	**344,055**
Balance sheet and off-balance sheet credit in respect of transactions in derivatives[(2)]	**8,302**	**8,302**
Guarantees to third parties	**41,378**	**41,378**
Deposits from the public (balance sheet)	**164,229**	**258,362**
Expenses in respect of non-banking activity	**719**	**-**
Derech Eretz Highways Ltd. Group[(3)]:		
Balance sheet credit	**-**	**786,936**
Commitments to grant credit	**-**	**18,665**
Sale guarantees, guarantees to secure credit, and others	**-**	**163,426**
Deductions	**-**	**-**
Deposits from the public (balance sheet)	**-**	**730,074**
Miya Holdings[(4)]:		
Balance sheet credit	**-**	**50,163**
Commitments to grant credit	**-**	**10**
Sale guarantees, guarantees to secure credit, and others	**-**	**3,486**
Balance sheet and off-balance sheet credit in respect of transactions in derivatives	**-**	**-**
Guarantees to third parties	**-**	**-**
Deposits from the public (balance sheet)	**6**	**1,698**
Ruach Tova Foundation[(5)]:		
Donations	**950**	**-**
Shari Arison:		
Commitments to grant credit	**35**	**77**
Sale guarantees, guarantees to secure credit, and others	**180**	**180**
Deposits from the public (balance sheet)	**18,091**	**19,425**
Arison Holdings Ltd.:		
Balance sheet credit	**-**	**19**
Deposits from the public	**14**	**20,471**

(1) Mrs. Shari Arison is the controlling shareholder of Shikun & Binui Ltd.(hereinafter: "Shikun & Binui"), and is considered to be the controlling shareholder of the companies in this group. The information presented regarding the Bank's business (balance sheet credit, off-balance sheet credit, and monetary deposits) with the Shikun & Binui Group refers to the accounts of Shikun & Binui itself, as well as to all of the corporations under its control, excluding the accounts of Derech Eretz Highways (1997) Ltd. (see footnote 3 below) and of a corporation under its control, which are reported separately. Note that because the information refers to the group as a whole, it includes data which would be considered negligible for each company in its own right, and which would not be reported at all if the report referred to each corporation individually.

(2) Off-balance sheet credit as calculated for the purpose of the limits on borrower indebtedness, pursuant to the amended Proper Conduct of Banking Business Directive No. 313. The balance as at December 31, 2013 includes an off-balance sheet balance in the amount of approximately NIS 8,302 thousand.

(3) This company was an affiliate (50%) of Shikun & Binui, and consequently was considered to be a company in whose business Mrs. Shari Arison has a personal interest. This company was sold during 2013. Due to the relatively large volume of this company's business with the Bank, its business relationships with the Bank are presented separately from the aggregate business of the Shikun & Binui Group.

(4) The credit was repaid during 2013.

(5) The Bank, through the Poalim for the Community Foundation, which serves as the Bank's channel for donations to public institutions, performed the aforesaid donation within its participation in financing the activities of Good Deeds Day.

Set out below are details of the balances of the controlling party of the Bank and of others in whose transactions with the Bank the controlling party has a personal interest, as at December 31, 2012 (in NIS thousands):

	Balance as at December 31, 2012	Highest balance in 2012
Shikun & Binui Ltd. Group[1]:		
Balance sheet credit	628,472	741,846
Commitments to grant credit	598,024	640,213
Sale guarantees, guarantees to secure credit, and others	270,268	277,283
Balance sheet and off-balance sheet credit in respect of transactions in derivatives[2]	1,461	2,759
Guarantees to third parties	38,096	38,186
Deposits from the public (balance sheet)	136,241	312,539
Expenses in respect of non-banking activity	651	-
Derech Eretz Highways Ltd. Group[3]:		
Balance sheet credit	759,952	782,315
Commitments to grant credit	18,665	18,665
Sale guarantees, guarantees to secure credit, and others	162,269	163,346
Deductions	-	(164,326)
Deposits from the public (balance sheet)	557,467	843,084
Miya Holdings:		
Balance sheet credit	50,163	53,961
Commitments to grant credit	10	972
Sale guarantees, guarantees to secure credit, and others	3,486	4,004
Balance sheet and off-balance sheet credit in respect of transactions in derivatives	-	499
Guarantees to third parties	-	2,620
Deposits from the public (balance sheet)	1,698	1,698
Ruach Tova Foundation[4]:		
Donations	950	-
Shari Arison:		
Commitments to grant credit	77	109
Deposits from the public (balance sheet)	19,425	20,992
Arison Holdings Ltd.:		
Deposits from the public	130	7,216

(1) Mrs. Shari Arison is the controlling shareholder of Shikun & Binui Ltd.(hereinafter: "Shikun & Binui"), and is considered to be the controlling shareholder of the companies in this group. The information presented regarding the Bank's business (balance sheet credit, off-balance sheet credit, and monetary deposits) with the Shikun & Binui Group refers to the accounts of Shikun & Binui itself, as well as to all of the corporations under its control, excluding the accounts of Derech Eretz Highways (1997) Ltd. (see footnote 3 below) and of a corporation under its control, which are reported separately. Note that because the information refers to the group as a whole, it includes data which would be considered negligible for each company in its own right, and which would not be reported at all if the report referred to each corporation individually.

(2) Off-balance sheet credit as calculated for the purpose of the limits on borrower indebtedness, pursuant to the amended Proper Conduct of Banking Business Directive No. 313, which took effect on December 31, 2011. The balance as of December 31, 2012 includes an off-balance sheet balance in the amount of approximately NIS 1,461 thousand.

(3) This company is an affiliate (50%) of Shikun & Binui, and consequently is considered to be a company in whose business Mrs. Shari Arison has a personal interest. Due to the relatively large volume of this company's business with the Bank, its business relationships with the Bank are presented separately from the aggregate business of the Shikun & Binui Group.

(4) The Bank, through the Poalim for the Community Foundation, which serves as the Bank's channel for donations to public institutions, performed the aforesaid donation within its participation in financing the activities of "Good Deeds Day".

Note: The directors' remuneration paid by the Bank to Ms. Efrat Peled and Mr. Moshe Luhmany, which amounted to approximately NIS 856 thousand until September 2012, was transferred to the Arison Group, in accordance with their instructions.

Remuneration for Interested Parties and Senior Officers NIS thousands

Set out below are the salaries, compensation, value of benefits, and employer payments and provisions for the senior office-holders of the Bank Group, as well as for Ms. Irit Izakson, who is an interested party that received in 2013 remuneration in connection with her service as a director of the Bank and as active Chairperson of the Board of all of the companies in the Isracard Group:

		2013							Loans granted with benefits in terms[5]			
Name	Title	Rate of holdings in the capital of the Bank	Salary	Bonuses	Share-based payments[1]	Value of additional benefits[2]	Employer payments and provisions[3]	Total[4]	Balance	Average term to maturity (in years)	Benefit granted during the year	Balance of loans granted without benefits in terms
Yair Seroussi	Chairman of the Board of the Bank	**0.02**	**1,906**	**2,820**	**3,443**	**471**	**860**	**9,500**	**-**	**-**	**-**	**41**
Zion Kenan	President and CEO of the Bank	**0.02**	**2,091**	**2,825**	**3,316**	**584**	**1,034**	**9,850**	**-**	**-**	**-**	**134**
Orit Lerer	General Manager, Bank Hapoalim (Switzerland)	**-**	**2,390**	**398**	**2,418**	**973**	**814**	**6,993**	**-**	**-**	**-**	**171**
Ari Pinto	Head of Retail Banking	**0.01**	**1,577**	**522**	**1,374**	**78**	**1,647**	**5,198**	**-**	**-**	**-**	**44**
Dov Kotler[6]	CEO of Isracard	**0.01**	**1,295**	**1,610**	**944**	**133**	**456**	**4,438**	**-**	**-**	**-**	**20**
Efrat Yavetz	Head of Human Capital, Advising and Resources	**0.01**	**1,400**	**463**	**1,374**	**255**	**920**	**4,412**	**90**	**2**	**7**	**318**
Jacob Orbach	Chief Internal Auditor	**0.01**	**1,425**	**446**	**1,926**	**218**	**397**	**4,412**	**24**	**2**	**1**	**65**
Irit Izakson*[6]	Chairperson of the Board of the Isracard Group and a director of the Bank	**0.01**	**1,239**	**1,361**	**86**	**170**	**628**	**3,484**	**-**	**-**	**-**	**54**

* On December 31, 2013 Ms. Izakson resigned from her position as active Chairperson of the Isracard Group.

Remuneration for Interested Parties and Senior Officers (continued) NIS thousands

										Loans granted with benefits in terms[5]			
		2012											
Name	Title	Rate of holdings in the capital of the Bank	Salary	Bonuses	Share-based payments[1]	Value of additional benefits[2]	Employer payments and provisions[3]	Total[4]	Balance	Average term to maturity (in years)	Benefit granted during the year	Balance of loans granted without benefits in terms
Yair Seroussi	Chairman of the Board of the Bank	0.01%	1,951	3,761	1,146	457	1,083	8,398	-	-	-	35
Zion Kenan	President and CEO of the Bank	0.01%	2,135	3,763	1,499	578	143	8,118	-	-	-	141
Hanna Pri-Zan	Former Head of Client Assets	0.00%	1,411	611	478	408	*3,612	6,520	-	-	-	50
Ilan Mazur	Chief Legal Advisor of the Bank	0.00%	1,415	676	2,245	361	723	5,420	17	2	-	12
Dov Kotler[6]	CEO of Isracard	0.00%	1,322	1,587	1,870	111	430	5,320	-	-	-	26
Orit Lerer	General Manager, Bank Hapoalim (Switzerland)	0.00%	2,978	678	758	380	362	5,156	-	-	-	304
Moshe Allouche	Deputy General Manager, Bank Hapoalim (Switzerland)	0.00%	2,242	2,038	-	13	401	4,694	-	-	-	-
Ran Oz	Former CFO of the Bank	0.00%	1,421	691	1,848	252	384	4,596	-	-	-	2,359
Irit Izakson[1]	Chairperson of the Board of the Isracard Group and a director of the Bank	0.00%	1,261	1,362	1,415	139	339	4,516	-	-	-	33

* Due to her resignation from the bank.

General Notes:

The recipients of the remuneration are employed in full-time (100%) positions.

All employees of the Bank, including officers of the Bank, enjoy various benefits in the management of their bank accounts. The benefits mainly refer to an exemption from fixed account-management fees, fees for recording transactions in accounts, information printouts, checkbooks, securities custody, cash withdrawals, money transfers to other accounts, and credit-card membership fees. In addition, there are benefits in the form of reduced fee rates for buying and selling securities and foreign currency, standing instructions for payments executed through the account, and safe-deposit box rentals. Further, like all other employees of the Bank, the officers enjoy preferred interest rates on credit and debit balances in current accounts. The entire range of benefits given to officers totals negligible amounts, which do not exceed a total of NIS 50 thousand per year for each officer.

For further details regarding lateral remuneration components (including share-based payment) to which all members of the Board of Management of the Bank and the Chairman of the Board of Directors of the Bank are entitled, including retirement terms, bonuses, etc., see Notes 15 and 16 to the Financial Statements.

On November 19, 2013, the Supervisor of Banks issued Directive 301A, Remuneration Policy for Banking Corporations (the "**Banking Corporation Remuneration Policy Directive**"). Pursuant to the Banking Corporation Remuneration Policy Directive, additional comments received from the Supervisor of Banks, and Amendment 20 to the Companies Law, 1999 ("**Amendment 20**"), on January 5, 2014, the Bank published its remuneration policy for officers in an Immediate Report, reference no. 2014-01-003661 ("**Remuneration Policy**"). The Remuneration Policy was approved by the general meeting of shareholders of the Bank on February 11, 2014.

The Bank will work to adjust the remuneration of its officers and employees to its Remuneration Policy (in accordance with the inception and application directives in Section 7 of the Remuneration Policy) and to the Banking Corporation Remuneration Policy Directive (in accordance with the transitional directives therein). Accordingly, and because the agreements with the officers and executives noted in the tables above were signed prior to the publication of the Banking Corporation Remuneration Policy Directive, these agreements remained in effect in 2013, and are subject to the terms of the Remuneration Plan (2010), including its appendices (as revised), and as detailed in the Immediate Report dated August 31, 2010, reference no. 2010-01-608787 (**"Remuneration Plan Report (2010)"** and **"Remuneration Plan (2010)"**).

As detailed in Section F(A)1.4 and F(C)1.4 of Note 15 to the Financial Statements, pursuant to the terms of the Remuneration Plan (2010) and the Remuneration Plan Report (2010), the amount of the annual bonus will be added to or subtracted from the bonus account of each executive, each year. The bonus account is a notional personal bank account reflecting the positive or negative bonus balance of the executive at any time. Each year, subject to the fulfillment of certain conditions established in the Remuneration Plan (2010), a relative payment out of the balance in the bonus account will be executed, and the unpaid balance will remain in the bonus account. The ROE difference of the Bank for 2013, for the purpose of setting bonuses pursuant to the Remuneration Plan (2010), was approximately 0.63%.

(1) The value of the benefit in respect of share-based payment for the members of the Board of Management of the Bank and for the Chairman of the Board of Directors of the Bank includes a benefit in respect of the restricted stock units (RSU) and contingent RSU granted under the Remuneration Plan (2010). The value of the benefit in respect of the restricted phantom shares, restricted stock units, and contingent restricted stock units, under the Remuneration Plan (2010), is measured at the date of the grant, and the fair value of phantom units granted under the previous plans is measured at each reporting date, based on the Black-Scholes model. As a rule, the remuneration in respect of the restricted stock units granted according to the terms of the Remuneration Plan (2010) will vest in three equal installments, in accordance with the period of the employment agreement of the executive (subject to adjustments for employment agreements for periods exceeding three years). The value of the benefit listed in the table above includes the non-linear spreading of the accounting expenses in respect thereof, according to the packets method, under which the full expense for the first packet, half of the expense for the second packet, and one-third of the expense for the third packet are charged in the first year, such that the total expense in the first year amounts to approximately 60% of the overall expense for the plan, the expense in the second year amounts to approximately 30% of the overall expense, and the expense in the third year amounts to approximately 10% of the overall expense.

(2) Amounts listed in the column of the table with the heading "additional benefits" include net payments for vehicle expenses, daily allowances, and gross-up.

(3) The payments in the column with the heading "employer payments and provisions" include provisions for severance pay, compensation, pensions, study funds, vacation, National Insurance, sick days, and 25-year service grants.

(4) Excluding wage tax.

(5) Loans granted under terms similar to those granted to all employees of the Bank, amounts of which were determined based on uniform criteria.

(6) The remuneration of Ms. Izakson and Mr. Kotler is paid by the companies in the Isracard Group, with the exception of directors' pay (annual remuneration) paid to Ms. Izakson by the Bank for her service as a member of the Board of Directors of the Bank.

Additional information regarding the salary and benefits of the senior officers and interested parties listed in the table above for 2013 is set out below.

Mr. Yair Seroussi

Mr. Seroussi is employed by the Bank in the position of active Chairman of the Bank as of August 1, 2009. With regard to the terms of employment of Mr. Seroussi, including the period of his employment, the terms for termination of the contractual engagement, the advance notice period and adjustment period, severance pay and pensions, study fund, and related terms, see the Immediate Reports of the Bank dated September 13, 2012 and October 19, 2012 (reference no. 2012-01-237483 and 2012-01-259701, respectively), included herein by reference (jointly: "**Seroussi Remuneration Report**"). The amount noted in the bonuses column of the table includes the following components:

(1) A risk-adjusted, performance-dependent annual bonus – See Section F(C)1 of Note 15 to the Financial Statements.

(2) A grant for the purchase of shares – See Section F(C)2 of Note 15 to the Financial Statements.

The amount noted in the share-based payment column of the table includes the following components:

Restricted stock units – see Section F(C)3 of Note 15 to the Financial Statements.

As described above, in accordance with generally accepted accounting principles, despite the fact that the vesting period of the restricted shares allocated is equally distributed over the three years beginning on the date of approval of the plan, the accounting records determine that the main part of the total expense (approximately 60%) in respect of the entire three years of the plan is charged as an expense in the first year of the plan. As a result, an addition to the benefit recorded in respect of share-based payment was recorded in 2013, in the amount of NIS 1.8 million.
With regard to the effect of the end of service on compensation, see Section F(C)1.6, and Section F(A)2.5 of the aforesaid Note 15.
For further details regarding share-based payment and bonuses for Mr. Seroussi, see the Seroussi Remuneration Report.

Mr. Zion Kenan

Mr. Kenan is employed by the Bank in the position of Chief Executive Officer of the Bank as of August 27, 2009. With regard to the terms of employment of Mr. Kenan, including the period of his employment, the terms for termination of the contractual engagement, the advance notice period and adjustment period, severance pay and pensions, study fund, and related terms, see the Immediate Report of the Bank dated September 13, 2012 (reference no. 2012-01-237483), included herein by reference (**"Kenan Remuneration Report"**). The amount noted in the bonuses column of the table includes the following components:
(1) A risk-adjusted, performance-dependent annual bonus – See Section F(C)1 of Note 15 to the Financial Statements.
(2) A grant for the purchase of shares – See Section F(C)2 of Note 15 to the Financial Statements.
The amount noted in the share-based payment column of the table includes the following components:
Restricted stock units – See Section F(C)3 of Note 15 to the Financial Statements.
As described above, in accordance with generally accepted accounting principles, despite the fact that the vesting period of the restricted shares allocated is equally distributed over the five years beginning on the date of approval of the plan, the accounting records determine that the main part of the total expense (approximately 50%) in respect of the entire five years of the plan is charged as an expense in the first year of the plan. As a result, an addition to the benefit recorded in respect of share-based payment was recorded in 2013, in the amount of NIS 2.2 million.
With regard to the effect of the end of service on compensation, see Section F(C)1.6, and Section F(A)2.5 of the aforesaid Note 15.
For further details regarding share-based payment and bonuses for Mr. Kenan, see the Kenan Remuneration Report.

Ms. Orit Lerer

Ms. Lerer serves as CEO of Bank Hapoalim (Switzerland) as of August 8, 2012. The employment agreement of Ms. Lerer covers a period of four years. Ms. Lerer is entitled to a monthly salary of CHF 50 thousand, as well are related terms including reimbursement of rent expenses, health insurance, a pension, etc. Ms. Lerer is entitled to share-based payment at an annual value of CHF 180 thousand.

Ms. Orit Lerer served as Head of International Banking at the Bank until August 1, 2012, and as a member of the Board of Management of the Bank until August 7, 2012.

Mr. Ari Pinto

Mr. Pinto serves as Head of Retail Banking. The employment agreement of Mr. Pinto covers a period of three years, from September 8, 2012 to September 30, 2015. Notwithstanding the aforesaid, the contractual engagement may be terminated earlier by either of the parties, with 90 days' advance notice. Mr. Pinto's monthly salary is linked to increases in the consumer price index. For details of the other terms of employment of the members of the Board of Management of the Bank, which also apply to the employment of Mr. Pinto, see Sections C, D, and E(4) of Note 15 to the Financial Statements of the Bank.

For details of the bonuses noted in the bonuses column of the table above, see Section F(A)1 of Note 15 to the Financial Statements of the Bank.

The amount noted in the share-based payment column of the table includes: restricted stock units – see Section F(A)2 of Note 15 to the Financial Statements.

For further details regarding share-based payment and bonuses for Mr. Pinto, also see the Remuneration Plan Report (2010).

Mr. Dov Kotler

Mr. Kotler serves as Chief Executive Officer of Isracard Ltd. (and of the companies in the Isracard Group: Europay (Eurocard) Israel Ltd., Aminit Ltd., and Poalim Express Ltd.) ("Isracard") as of February 1, 2009 (his employment agreement with Isracard is in effect until January 31, 2015). (The companies in the Isracard Group bear the full cost of the wages of Mr. Kotler.)

Pursuant to the current employment agreement of Mr. Kotler, which began February 1, 2012, notwithstanding the aforesaid, Isracard may terminate the contractual engagement pursuant to the employment contract at any time, including before the end of the period of the agreement, with six months' advance notice in writing; and Mr. Kotler may terminate the contractual engagement pursuant to the employment contract with three months' advance notice. In the event of the termination of Mr. Kotler's employment at Isracard, whether at his initiative or at the initiative of Isracard, under circumstances that entitle him to severance pay, Mr. Kotler shall be entitled to a supplement of the amount of severance pay based on his last monthly salary. In the event of the termination of Mr. Kotler's employment at Isracard, he shall be obligated to a cooling-off period of twelve months (unpaid). If he is dismissed by Isracard, at the end of the cooling-off period Mr. Kotler will be entitled to an adjustment bonus with the value of six monthly salaries.

A bonus plan applicable to Mr. Kotler was established within the aforesaid employment agreement, pursuant to which a positive or negative personal budget will be established for Mr. Kotler each year, based on the difference between the aggregate net accounting profit/loss of all of the companies in Isracard Group in a given year (as it appears in the annual financial statements of the group of companies, excluding provisions made for bonuses for the senior management of Isracard), and the threshold profit for remuneration, which is the minimum net operating profit for the payment of bonuses under the plan, as established in advance, and in any event no less than NIS 174 million in any year. Pursuant to the employment agreement, Mr. Kotler was granted 189,695 ordinary RSU exercisable into shares of the Bank, under terms identical to those established for the senior executives of the Bank in the Remuneration Plan (2010). The RSU shall vest over the three years of Mr. Kotler's employment agreement, and shall be restricted for twelve additional months after the vesting date. In addition to the RSU, Mr. Kotler was granted 60,000 contingent RSU, in accordance with the terms of the Remuneration Plan (2010). The contingent RSU granted for 2013 have expired.

Ms. Efrat Yavetz

Ms. Yavetz serves as Head of Human Capital, Advising, and Resources. The employment agreement of Ms. Yavetz covers a period of three years, from September 8, 2012 to September 30, 2015. Notwithstanding the aforesaid, the contractual engagement may be terminated earlier by either of the parties, with 90 days' advance notice. Ms. Yavetz's monthly salary is linked to increases in the consumer price index. For details of the other terms of employment of the members of the Board of Management of the Bank, which also apply to the employment of Ms. Yavetz, see Sections C, D, and E(4) of Note 15 to the Financial Statements of the Bank.

For details of the bonuses noted in the bonuses column of the table above, see Section F(A)1 of Note 15 to the Financial Statements of the Bank.

The amount noted in the share-based payment column of the table includes: restricted stock units – see Section F(A)2 of Note 15 to the Financial Statements.

For further details regarding share-based payment and bonuses for Ms. Yavetz, also see the Remuneration Plan Report (2010).

Mr. Jacob Orbach

Mr. Orbach serves as Chief Internal Auditor, in Israel and overseas. The current employment agreement of Mr. Orbach covers a period of three years, beginning January 1, 2013. Notwithstanding the aforesaid, the contractual engagement may be terminated earlier by either of the parties, with 90 days' advance notice. Mr. Orbach's monthly salary is linked to increases in the consumer price index. For details of the other terms of employment of the members of the Board of Management of the Bank, which also apply to the employment of Mr. Orbach, see Sections C, D, and E(4) of Note 15 to the Financial Statements of the Bank.

For details of the bonuses noted in the bonuses column of the table above, see Section F(A)1 of Note 15 to the Financial Statements of the Bank.

The amount noted in the share-based payment column of the table includes: restricted stock units – see Section F(A)2 of Note 15 to the Financial Statements.

For further details regarding share-based payment and bonuses for Mr. Orbach, also see the Remuneration Plan Report (2010).

Ms. Irit Izakson

Ms. Irit Izakson serves as a director of the Bank. Ms. Izakson served as Chairperson of the Board of Directors of Isracard and of Europay (Eurocard) Israel Ltd. and as active Chairperson of the Board of Directors of Aminit Ltd. and of Poalim Express Ltd. until December 31, 2013. The contractual engagement with Ms. Izakson was terminated on December 31, 2013, following the refusal of the Supervisor of Banks to approve the continued service of Ms. Izakson in 2014. Due to the termination of her employment, Ms. Izakson is entitled to severance pay, in accordance with the law, and a full supplement of the amount of the severance pay to 250% based on her last monthly salary.

A bonus plan applicable to Ms. Izakson was established within the employment agreement, which is similar in its main terms to the description above with regard to Mr. Dov Kotler, CEO of Isracard.

Pursuant to the employment agreement, Ms. Izakson was granted 161,241 ordinary RSU exercisable into shares of the Bank, under terms identical to those established in the Remuneration Plan (2010). A total of 40,494 RSU expired upon the termination of Ms. Izakson's employment. In addition, Ms. Izakson was granted 51,000 contingent RSU, in accordance with the terms of the Remuneration Plan (2010), some of which also expired upon the termination of her employment.

Members of the Board of Directors

The directors of the Bank are entitled to annual remuneration and participation remuneration, which does not deviate from the common practice, and which is paid in accordance with the Companies Regulations (Rules Regarding Remuneration and Expenses for External Directors), 2000. The cost of the remuneration of the directors for 2013 totaled approximately NIS 10,442 thousand (the cost of the remuneration of the directors for 2012 totaled approximately NIS 10,683 thousand). Note that the Chairman of the Board is not entitled to annual remuneration or participation remuneration, and that Ms. Izakson was entitled to annual remuneration only in 2013 (during which she also served as Chairperson of the Board of Directors of Isracard, Europay (Eurocard) Israel Ltd., Aminit Ltd., and Poalim Express Ltd.).

The connection between the remuneration granted in 2013 to the senior officers listed in the above table for 2013 and the contribution of the recipients to the corporation:

As part of the approval process of the Annual Financial Statements of the Bank for 2013, on March 11 and March 19, 2014, the Board of Directors held extensive discussions of the terms of service and employment of the officers and interested parties of the Bank, which are detailed above, in accordance with Regulation 21 of the Securities Regulations (Periodic and Immediate Reports), 1970 (the **"Senior Officers Under Regulation 21"** and the **"Periodic and Immediate Reports Regulations"**, respectively), separately for each officer and interested party, after receiving full information regarding their terms of service and employment.

Bonuses in respect of 2013, which were approved by the Remuneration Committee of the Bank, established pursuant to Amendment 20 to the Companies Law, and by the Board of Directors, were determined mostly in accordance with measurable criteria established in advance in the Remuneration Plan (2010) (as defined below). Judgment exercised in connection with the bonuses for officers in respect of 2013 was in accordance with the directives of Amendment 20 to the Companies Law.

The discussions of the Board of Directors on March 11 and March 19, 2014 were preceded by preliminary discussions of this matter by the Remuneration Committee. In discussions held by the Remuneration Committee and the Board of Directors, as noted, specific criteria established in advance for each officer and interested party were examined, separately for each officer and interested party (with regard to this matter, see the Remuneration Plan Report (2010)), as well as the officer or interested party's fulfillment of the criteria established for him or her, as detailed below, and the connection between the remuneration he or she receives and his or her contribution to the Bank. The specific criteria established for each officer and interested party correspond to each officer's position.

For the purpose of this examination, and for the purpose of the examination of the fairness and reasonableness of the remuneration for each officer and interested party, the Board of Directors examined additional criteria, including: (1) the contribution of the officer to the Bank's business, the achievement of its objectives, and its financial results; (2) promotion of the Bank's goals, including fulfilling the work plan established by the Board of Directors for the reporting year; (3) the Bank's need to retain an officer with unique skills, knowledge, or expertise; (4) the officer's professional and managerial skills, education, expertise, experience, and achievements, and the degree of responsibility borne by the officer; (5) special challenges of importance to the Bank with which the officer coped during the year; (6) the evaluation of the officer's performance by the superior of the officer; (7) the effect of the remuneration on wage gaps at the Bank; (8) the ratio of fixed components of the remuneration to variable components; and (9) consideration of the remuneration in view of the size of the Bank and the nature of its activity (the reasonableness of the remuneration is also examined through a comparative survey, as described below), and in light of the existing market conditions with regard to corresponding officers at similar banks and companies.

In order to examine the remuneration and compliance with the aforesaid criteria, and in order to examine the overall reasonableness of the terms of remuneration of the Senior Officers Under Regulation 21, as required under Regulation 10(B)(4) of the Periodic and Immediate Reports Regulations, the Board of Directors examined the Remuneration Policy of the Bank and the principles thereof; data regarding the remuneration approved for each officer in the past; a comparative survey, prepared by an external consultant, of the terms of remuneration at similar companies in the industry and at companies on a similar scale as the Bank; the Remuneration Plan (2010) (as amended) and the criteria established in relation thereto; the Bank's performance in 2013; and data regarding the fulfillment of the aforesaid criteria, including the activity and contribution of each officer to the Bank in 2013, and the relationship of these factors with the total remuneration proposed for approval for that officer, as noted.

The Board of Directors of the Bank conducted its examination and determined that the remuneration of officers at the Bank is congruent with the transitional directives in the Banking Corporation Remuneration Policy Directive and with the Remuneration Policy of the Bank, pursuant to which individual agreements signed prior to the publication of the draft of the Banking Corporation Remuneration Policy Directive shall be valid until their conclusion, no later than December 31, 2016. With regard to the terms of service and employment, the Board of Directors noted that the terms are congruent with the remuneration plan of the Bank that was in effect in 2013, and with Amendment 20. The terms of service and employment differ from the Remuneration Policy in three main respects: (a) the equity remuneration granted to the officers of the Bank ("Restricted Stock Units") is not aligned with the "permanent remuneration component" or the "variable remuneration component" in the Remuneration Policy; (b) the bonus formula differs from the formula established in the Remuneration Policy; (c) a performance-dependent component in the form of a grant for the purchase of shares restricted for four years, in the amount of NIS 2 million (net of tax), has been established for Mr. Yair Seroussi, Chairman of the Board of Directors of the Bank, and for Mr. Zion Kenan, Chief Executive Officer of the Bank; this remuneration is not established in the Remuneration Policy.

It is further noted that the total remuneration for the officers noted above in 2013 does not exceed the cumulative ceilings in the Remuneration Policy, in accordance with the remuneration plan of the Bank that was in effect in 2013, and in accordance with Amendment 20.

Following the discussion of the remuneration of the Senior Officers Under Regulation 21, and in light of the materials presented to the Board of Directors of the Bank, the members of the Board of Directors expressed their position that the remuneration in question is fair and reasonable under the circumstances, and that the remuneration of each officer and interested party is congruent with his or her contribution to the Bank.

For further details regarding the Remuneration Plan (2010) and the remuneration of officers and interested parties, see Notes 15 and 16 to the Financial Statements.

Board of Directors' Report to the Annual General Meeting on the Remuneration of the Auditors(1)(2)(3)

	Consolidated		Bank	
	2013	2012	**2013**	2012
	NIS thousands			
For auditing activity(4):				
Joint auditors	**21,439**	23,236	**11,695**	11,713
Other auditors	**1,872**	1,676	**1,180**	1,176
Total	**23,311**	24,912	**12,875**	12,889
For audit-related services(5):				
Joint auditors	**10,976**	8,061	**10,647**	7,311
Other auditors	**155**	-	**-**	-
For tax services(6):				
Joint auditors	**1,645**	1,770	**1,071**	836
Other auditors	**484**	388	**258**	302
For other services(7):				
Joint auditors	**2,665**	2,316	**1,092**	1,093
Other auditors	**87**	-	**-**	-
Total	**16,012**	12,535	**13,068**	9,542
Total	**39,323**	37,447	**25,943**	22,431

(1) Report of the Board of Directors to the annual general meeting on the remuneration of the external auditors for audit activity and for services in addition to the audit, under Paragraphs 165 and 167 of the Companies Law, 1999.
(2) The remuneration of the external auditors includes payments to partnerships and corporations under their control, as well as payments in accordance with the Value Added Tax Law.
(3) Including remuneration paid and accrued remuneration.
(4) Audit of the annual financial statements, review of interim reports, including an audit of the internal control of financial reporting (SOX 404), and a review of the Bank's overseas branches.
(5) Audit-related fees mainly include prospectuses, special approvals, comfort letters, and audit activities related to compliance with money laundering prohibition directives.
(6) Mainly includes tax adjustment reports, tax assessment discussions, and tax consulting in Israel and abroad.
(7) Mainly includes assistance with preparation of the Corporate Social Responsibility Report, and consulting on employee remuneration.

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 (COSO) of the Treadway Commission in 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 2013, the Bank updated the documentation of the material control processes, with the assistance of a consulting firm, according to the prevalent methodologies. The Bank also performed a current examination of the effectiveness of the procedures for the internal control of financial reporting, through a renewed examination of the main controls for 2012, with adjustment of test samples to the outputs of the annually updated risk map.

Evaluations 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 December 31, 2013. 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 December 31, 2013, there was no change in the Bank's internal control of financial reporting that had a material impact, or could reasonably be expected to have a material impact, on the Bank's internal control of financial reporting.

Yair Seroussi	**Zion Kenan**
Chairman of the Board of Directors	President & Chief Executive Officer

Tel-Aviv, March 19, 2014

2013

Consolidated Balance Sheet for the years 2009-2013
Multi-Period Data
Appendix 1

NIS millions

	as at December 31				
	2013	2012	2011	2010	2009
Assets					
Cash on hand and deposits with banks	**45,709**	55,301	55,790	50,331	53,115
Securities	**60,912**	52,070	34,411	31,604	28,055
Securities which were borrowed or bought under agreements to resell	**65**	47	-	16	-
Credit to the public	**255,543**	253,268	250,592	236,671	227,126
Allowance for credit losses	**(3,943)**	(4,086)	(4,097)	(11,383)	(11,338)
Net credit to the public	**251,600**	249,182	246,495	225,288	215,788
Credit to governments	**1,169**	798	616	339	218
Investments in equity-basis investees	**137**	127	125	132	114
Buildings and equipment	**3,791**	3,726	3,720	3,803	3,845
Intangible assets and goodwill	**19**	33	44	65	206
Assets in respect of derivative instruments	**10,672**	9,624	10,799	6,472	5,201
Other assets	**6,172**	5,480	4,662	3,013	3,189
Total assets	**380,246**	376,388	356,662	321,063	309,731
Liabilities and Equity					
Deposits from the public	**276,525**	271,411	256,417	233,965	231,993
Deposits from banks	**5,303**	6,015	7,001	4,834	6,455
Deposits from the Government	**613**	629	1,085	1,335	1,551
Securities which were lent or sold under agreements to repurchase	**242**	1,116	1,305	386	794
Bonds and subordinated notes	**33,980**	35,677	32,933	27,608	23,112
Liabilities in respect of derivative instruments	**12,129**	12,718	13,421	10,249	7,457
Other liabilities	**22,144**	21,765	20,399	19,814	17,948
Total liabilities	**350,936**	349,331	332,561	298,191	289,310
Shareholders' equity	**29,060**	26,755	23,819	22,535	20,071
Non-controlling interests	**250**	302	282	337	350
Total equity	**29,310**	27,057	24,101	22,872	20,421
Total liabilities and equity	**380,246**	376,388	356,662	321,063	309,731

Consolidated Statement of Profit and Loss for the years 2009-2013 - Multi-Period Data
Appendix 2

NIS millions

	For the year ended December 31				
	2013	2012	2011	2010	2009
Interest income	**12,961**	14,346	14,793	12,806	12,859
Interest expenses	**(5,018)**	(6,186)	(6,696)	(4,853)	(5,339)
Net interest income	**7,943**	8,160	8,097	7,953	7,520
Provision for credit losses	**874**	987	1,202	1,030	2,017
Net interest income after provision for credit losses	**7,069**	7,173	6,895	6,923	5,503
Non-interest income					
Non-interest financing income (expenses)	**480**	255	(213)	(457)	(711)
Fees	**5,115**	5,105	5,098	5,167	4,829
Other income	**126**	117	106	180	161
Total non-interest income	**5,721**	5,477	4,991	4,890	4,279
Operating and other expenses					
Salaries and related expenses	**5,310**	5,012	4,759	4,631	4,016
Maintenance and depreciation of buildings and equipment	**1,609**	1,673	1,535	1,518	1,432
Depreciation and impairment of intangible assets and goodwill	**12**	11	21	141	93
Other expenses	**2,034**	2,129	2,050	2,001	1,916
Total operating and other expenses	**8,965**	8,825	8,365	8,291	7,457
Profit before taxes	**3,825**	3,825	3,521	3,522	2,325
Provision for taxes on profit	**1,298**	1,254	809	1,342	1,004
Profit after taxes	**2,527**	2,571	2,712	2,180	1,321
The Bank's share in profits (losses) of equity-basis investees, after taxes	**9**	6	(5)	3	(15)
Net profit (loss):					
Before attribution to non-controlling interests	**2,536**	2,577	2,707	2,183	1,306
Loss (profit) attributed to non-controlling interests	**44**	(34)	39	18	(6)
Attributed to shareholders of the Bank	**2,580**	2,543	2,746	2,201	1,300
Earnings per ordinary share in NIS:					
Basic earnings					
Net profit attributed to shareholders of the Bank	**1.96**	1.92	2.07	1.66	0.99
Diluted earnings					
Net profit attributed to shareholders of the Bank	**1.94**	1.91	2.05	1.65	0.98

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

Appendix 3

A. Average balances and interest rates

	For the year ended December 31								
	2013			2012*			2011*		
	Average balance[2]	Interest income	Rate of income	Average balance[2]	Interest income	Rate of income	Average balance[2]	Interest income	Rate of income
	NIS millions		%	NIS millions		%	NIS millions		%
Interest-bearing assets									
Credit to the public[3]:									
In Israel	**219,512**	**10,674**	**4.86%**	216,945	11,588	5.34%	207,296	12,325	5.95%
Outside Israel	**18,975**	**716**	**3.77%**	20,253	787	3.89%	18,266	738	4.04%
Total	**238,487**	**11,390**	**4.78%**	237,198	(4) 12,375	5.22%	225,562	(4) 13,063	5.79%
Credit to governments:									
In Israel	**927**	**21**	**2.27%**	794	18	2.27%	391	10	2.56%
Deposits with banks:									
In Israel	**2,634**	**42**	**1.59%**	3,019	60	1.99%	2,946	44	1.49%
Outside Israel	**2,373**	**19**	**0.80%**	2,312	24	1.04%	1,759	14	0.80%
Total	**5,007**	**61**	**1.22%**	5,331	84	1.58%	4,705	58	1.23%
Deposits with central banks:									
In Israel	**14,095**	**192**	**1.36%**	24,476	565	2.31%	26,453	761	2.88%
Outside Israel	**18,393**	**44**	**0.24%**	14,303	34	0.24%	8,928	23	0.26%
Total	**32,488**	**236**	**0.73%**	38,779	599	1.54%	35,381	784	2.22%
Securities borrowed or bought under agreements to resell:									
In Israel	**73**	**1**	**1.37%**	19	-	-	31	2	6.45%
Outside Israel	**6**	**-**	**-**	-	-	-	7	-	-
Total	**79**	**1**	**1.27%**	19	-	-	38	2	5.26%

* The Bank implemented the directives of the Supervisor of Banks concerning the disclosure format of Appendix C – Rates of Income and Expenses for the first time in 2013. Comparative figures for 2012 and 2011 were reclassified to adjust them to the format required in the aforesaid directives.

(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 357 million were included in interest income from credit to the public in the year ended December 31, 2013 (December 31, 2012: NIS 352 million, December 31, 2011: NIS 337 million).

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

Appendix 3 (continued)

A. Average balances and interest rates (continued)

	For the year ended December 31								
	2013			2012*			2011*		
	Average balance[(2)]	Interest income	Rate of income	Average balance[(2)]	Interest income	Rate of income	Average balance[(2)]	Interest income	Rate of income
	NIS millions		%	NIS millions		%	NIS millions		%
Interest-bearing assets (continued)									
Bonds held to maturity and available for sale[(3)]:									
In Israel	**47,532**	**1,054**	**2.22%**	31,421	1,020	3.25%	18,205	638	3.50%
Outside Israel	**6,008**	**123**	**2.05%**	6,124	154	2.51%	6,882	188	2.73%
Total	**53,540**	**1,177**	**2.20%**	37,545	1,174	3.13%	25,087	826	3.29%
Bonds held for trading[(3)]:									
In Israel	**3,044**	**55**	**1.81%**	2,506	78	3.11%	1,249	38	3.04%
Outside Israel	**1,198**	**4**	**0.33%**	821	5	0.61%	670	2	0.30%
Total	**4,242**	**59**	**1.39%**	3,327	83	2.49%	1,919	40	2.08%
Other assets:									
In Israel	**603**	**6**	**1.00%**	327	11	3.36%	476	10	2.10%
Outside Israel	**110**	**10**	**9.09%**	118	2	1.69%	59		
Total	**713**	**16**	**2.24%**	445	13	2.92%	535	10	1.87%
Total interest-bearing assets	**335,483**	**12,961**	**3.86%**	323,438	14,346	4.44%	293,618	14,793	5.04%
Non-interest-bearing debtors in respect of credit cards	**13,765**			13,314			12,630		
Other non-interest-bearing assets[(4)]	**25,417**			22,984			20,353		
Total assets	**374,665**			359,736			326,601		
Total interest-bearing assets attributed to activities outside Israel	**47,063**	**916**	**1.95%**	43,931	1,006	2.29%	36,571	965	2.64%

* The Bank implemented the directives of the Supervisor of Banks concerning the disclosure format of Appendix C – Rates of Income and Expenses for the first time in 2013. Comparative figures for 2012 and 2011 were reclassified to adjust them to the format required in the aforesaid directives.

(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 493 million for the year ended December 31, 2013 (December 31, 2012: NIS 286 million, December 31, 2011: NIS 153 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 3 (continued)

A. Average balances and interest rates (continued)

	For the year ended December 31								
	2013			2012*			2011*		
	Average balance(2)	Interest expenses	Rate of expense	Average balance(2)	Interest expenses	Rate of expense	Average balance(2)	Interest expenses	Rate of expense
	NIS millions		%	NIS millions		%	NIS millions		%
Interest-bearing liabilities									
Deposits from the public:									
In Israel	**217,053**	**2,710**	**1.25%**	209,495	3,843	1.83%	190,222	4,196	2.21%
On demand	**53,936**	**388**	**0.72%**	43,794	572	1.31%	41,866	662	1.58%
Fixed term	**163,117**	**2,322**	**1.42%**	165,701	3,271	1.97%	148,356	3,534	2.38%
Outside Israel	**16,373**	**82**	**0.50%**	17,941	122	0.68%	18,671	170	0.91%
On demand	**6,182**	**22**	**0.36%**	6,526	31	0.48%	6,186	38	0.61%
Fixed term	**10,191**	**60**	**0.59%**	11,415	91	0.80%	12,485	132	1.06%
Total	**233,426**	**2,792**	**1.20%**	227,436	3,965	1.74%	208,893	4,366	2.09%
Government deposits:									
In Israel	**596**	**23**	**3.86%**	852	38	4.46%	1,200	62	5.17%
Deposits from central banks:									
In Israel	**5**	**-**	**-**	-	-	-	-	-	-
Deposits from banks:									
In Israel	**3,608**	**36**	**1.00%**	3,855	64	1.66%	4,051	90	2.22%
Outside Israel	**1,668**	**80**	**4.80%**	2,610	155	5.94%	2,512	192	7.64%
Total	**5,276**	**116**	**2.20%**	6,465	219	3.39%	6,563	282	4.30%
Securities lent or sold under agreements to repurchase:									
In Israel	**367**	**4**	**1.09%**	863	13	1.51%	278	6	2.16%
Outside Israel	**297**	**11**	**3.70%**	352	21	5.97%	423	4	0.95%
Total	**664**	**15**	**2.26%**	1,215	34	2.80%	701	10	1.43%

* The Bank implemented the directives of the Supervisor of Banks concerning the disclosure format of Appendix C – Rates of Income and Expenses for the first time in 2013. Comparative figures for 2012 and 2011 were reclassified to adjust them to the format required in the aforesaid directives.

(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 3 (continued)

A. Average balances and interest rates (continued)

	For the year ended December 31								
	2013			2012*			2011*		
	Average balance(2)	Interest expenses	Rate of expense	Average balance(2)	Interest expenses	Rate of expense	Average balance(2)	Interest expenses	Rate of expense
	NIS millions		%	NIS millions		%	NIS millions		%
Interest-bearing liabilities (continued)									
Bonds:									
In Israel	**32,889**	**1,948**	**5.92%**	32,988	1,836	5.57%	28,385	1,886	6.64%
Outside Israel	**2,454**	**117**	**4.77%**	1,895	89	4.70%	1,717	70	4.08%
Total	**35,343**	**2,065**	**5.84%**	34,883	1,925	5.52%	30,102	1,956	6.50%
Other liabilities:									
In Israel	**73**	**3**	**4.11%**	41	4	9.76%	53	20	37.74%
Outside Israel	**16**	**4**	**25.00%**	170	1	0.59%	172	-	-
Total	**89**	**7**	**7.87%**	211	5	2.37%	225	20	8.89%
Total interest-bearing liabilities	**275,399**	**5,018**	**1.82%**	271,062	6,186	2.28%	247,684	6,696	2.70%
Non-interest-bearing deposits from the public	**37,625**			30,987			25,429		
Non-interest-bearing creditors in respect of credit cards	**14,032**			13,906			13,100		
Other non-interest-bearing liabilities(3)	**20,034**			18,587			17,405		
Total liabilities	**347,090**			334,542			303,618		
Total capital means	**27,575**			25,194			22,983		
Total liabilities and capital means	**374,665**			359,736			326,601		
Interest spread			**2.04%**			2.16%			2.34%
Net return on interest-bearing assets(4):									
In Israel	**288,420**	**7,321**	**2.54%**	279,507	7,542	2.70%	257,047	7,568	2.94%
Outside Israel	**47,063**	**622**	**1.32%**	43,931	618	1.41%	36,571	529	1.45%
Total	**335,483**	**7,943**	**2.37%**	323,438	8,160	2.52%	293,618	8,097	2.76%

Total interest-bearing liabilities attributed to activities outside Israel	**20,808**	**294**	**1.41%**	22,968	388	1.69%	23,495	436	1.86%

* The Bank implemented the directives of the Supervisor of Banks concerning the disclosure format of Appendix C – Rates of Income and Expenses for the first time in 2013. Comparative figures for 2012 and 2011 were reclassified to adjust them to the format required in the aforesaid directives.
(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 3 (continued)

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

	For the year ended December 31								
	2013			2012*			2011*		
	Average balance(2)	Interest income/ (expenses)	Rate of income/ (expense)	Average balance(2)	Interest income/ (expenses)	Rate of income/ (expense)	Average balance(2)	Interest income/ (expenses)	Rate of income/ (expense)
	NIS millions		%	NIS millions		%	NIS millions		%
Unlinked Israeli currency									
Total interest-bearing assets	**199,815**	**8,040**	**4.02%**	186,948	9,180	4.91%	169,014	9,215	5.45%
Total interest-bearing liabilities	**150,242**	**(1,967)**	**(1.31%)**	145,358	(2,964)	(2.04%)	130,894	(3,109)	(2.38%)
Interest spread			**2.71%**			2.87%			3.07%
CPI-linked Israeli currency									
Total interest-bearing assets	**59,354**	**3,180**	**5.36%**	60,163	3,177	5.28%	57,663	3,766	6.53%
Total interest-bearing liabilities	**46,907**	**(2,566)**	**(5.47%)**	48,242	(2,488)	(5.16%)	44,032	(2,815)	(6.39%)
Interest spread			**(0.11%)**			0.12%			0.14%
Foreign currency (includes foreign-currency-linked Israeli currency)									
Total interest-bearing assets	**29,251**	**825**	**2.82%**	32,396	983	3.03%	30,370	847	2.79%
Total interest-bearing liabilities	**57,442**	**(191)**	**(0.33%)**	54,494	(346)	(0.63%)	49,263	(336)	(0.68%)
Interest spread			**2.49%**			2.40%			2.11%
Total activity in Israel									
Total interest-bearing assets	**288,420**	**12,045**	**4.18%**	279,507	13,340	4.77%	257,047	13,828	5.38%
Total interest-bearing liabilities	**254,591**	**(4,724)**	**(1.86%)**	248,094	(5,798)	(2.34%)	224,189	(6,260)	(2.79%)
Interest spread			**2.32%**			2.43%			2.59%

* The Bank implemented the directives of the Supervisor of Banks concerning the disclosure format of Appendix C – Rates of Income and Expenses for the first time in 2013. Comparative figures for 2012 and 2011 were reclassified to adjust them to the format required in the aforesaid directives.

(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 3 (continued)

C. Analysis of changes in interest income and expenses*

	Year ended December 31, 2013, versus year ended December 31, 2012			Year ended December 31, 2012, versus year ended December 31, 2011		
	Increase (decrease) due to change(2)		**Net change**	Increase (decrease) due to change(2)		Net change
	Quantity	**Price**		Quantity	Price	
	NIS millions					
Interest-bearing assets						
Credit to the public:						
In Israel	**125**	**(1,039)**	**(914)**	515	(1,252)	(737)
Outside Israel	**(48)**	**(23)**	**(71)**	77	(28)	49
Total	**77**	**(1,062)**	**(985)**	592	(1,280)	(688)
Other interest-bearing assets:						
In Israel	**126**	**(507)**	**(381)**	359	(110)	249
Outside Israel	**31**	**(50)**	**(19)**	50	(58)	(8)
Total	**157**	**(557)**	**(400)**	409	(168)	241
Total interest income	**234**	**(1,619)**	**(1,385)**	1,001	(1,448)	(447)
Interest-bearing liabilities						
Deposits from the public:						
In Israel	**94**	**(1,227)**	**(1,133)**	354	(707)	(353)
Outside Israel	**(8)**	**(32)**	**(40)**	(5)	(43)	(48)
Total	**86**	**(1,259)**	**(1,173)**	349	(750)	(401)
Other interest-bearing liabilities:						
In Israel	**(57)**	**116**	**59**	235	(344)	(109)
Outside Israel	**(28)**	**(26)**	**(54)**	11	(11)	
Total	**(85)**	**90**	**5**	246	(355)	(109)
Total interest expenses	**1**	**(1,169)**	**(1,168)**	595	(1,105)	(510)
Total interest income less interest expenses	**233**	**(450)**	**(217)**	406	(343)	63

* The Bank implemented the directives of the Supervisor of Banks concerning the disclosure format of Appendix C – Rates of Income and Expenses for the first time in 2013. Comparative figures for 2012 and 2011 were reclassified to adjust them to the format required in the aforesaid directives.

(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 December 31, 2013

Appendix 4

	On demand up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	From 5 to 10 years
	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)	**164,148**	**13,734**	**25,564**	**13,408**	**3,638**	**3,739**
Derivative financial instruments (except options)	**52,656**	**90,334**	**49,997**	**37,926**	**19,506**	**20,447**
Options (in terms of the underlying asset)	**1,294**	**1,270**	**2,686**	**30**	**600**	**369**
Total Fair value	**218,098**	**105,338**	**78,247**	**51,364**	**23,744**	**24,555**
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)	**143,947**	**10,840**	**15,792**	**22,389**	**3,957**	**2,683**
Derivative financial instruments (except options)	**51,262**	**101,571**	**53,846**	**34,953**	**22,422**	**20,151**
Options (in terms of the underlying asset)	**2,092**	**1,292**	**1,766**	**15**	**61**	**-**
Total fair value	**197,301**	**113,703**	**71,404**	**57,357**	**26,440**	**22,834**
Financial instruments, net						
Exposure to changes in interest rates in the segment	**20,797**	**(8,365)**	**6,843**	**(5,993)**	**(2,696)**	**1,721**
Cumulative exposure in the segment	**20,797**	**12,432**	**19,275**	**13,282**	**10,586**	**12,307**

* Reclassified after attribution of the effects of the implementation of FAS 157, Fair Value Measurement.
(1) With the exception of balance sheet balances of derivative financial instruments, fair value of off-balance sheet financial instruments and fair value of complex financial instruments.
(2) Average weighted by fair value of effective average duration.
(3) The data include assumptions regarding early repayment in respect of housing loans. The effect of these assumptions is negligible.

General Notes:

A. Further details regarding the exposure to changes in interest rates in each segment of the financial assets and financial liabilities, according to the different balance sheet items, will be provided upon request.

B. In this table, data by periods reflect the current value of future cash flows of each financial instrument, capitalized by the interest rate used for deduction to the fair value included in respect of the financial instrument in Note 21 in the Financial Statements, in consistency with the assumptions used to calculate the fair value of the financial instrument. For further details regarding the assumptions used in the calculation of the fair value of the financial instruments, see Note 21 in the Financial Statements.

C. The internal return rate is the interest rate for the deduction of the expected cash flows from the financial instrument to the fair value included in respect thereof in Note 21 in the Financial Statements.

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.

From 10 to 20 years	Over 20 years	With no repayment period	Total fair value	Internal rate of return	Effective average duration	December 31, 2012 Total fair value	Internal rate of return	Effective average duration
NIS millions				%	years	NIS millions	%	years
1,040	**5**	**2,751**	**228,027**	**3.04**	**0.47**	218,916	3.80	0.38
288	**-**	**-**	**271,154**		**1.08**	*230,521		*0.99
-	**-**	**-**	**6,249**		**1.21**	4,826		1.05
1,328	**5**	**2,751**	**505,430**		**(2)0.81**	*454,263		(2)*0.69
250	**-**	**85**	**199,943**	**2.08**	**0.53**	193,893	2.76	0.35
307	**-**	**-**	**284,512**		**1.06**	*241,924		*0.98
-	**-**	**-**	**5,226**		**0.75**	5,018		1.51
557	**-**	**85**	**489,681**		**(2)0.84**	*440,835		(2)*0.71
771	**5**	**2,666**	**15,749**			*13,428		
13,078	**13,083**	**15,749**						

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

as at December 31, 2013

Appendix 4 (continued)

	On demand up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	From 5 to 10 years
	NIS millions					
Israeli currency - Linked to the CPI						
Financial assets, amounts receivable in respect of derivative instruments and in respect of off-balance sheet financial instruments and complex financial assets						
Financial assets(1)(3)	**2,036**	**2,008**	**10,001**	**21,196**	**14,924**	**7,624**
Derivative financial instruments (except options)	**394**	**121**	**1,709**	**2,731**	**2,992**	**6,175**
Total Fair value	**2,430**	**2,129**	**11,710**	**23,927**	**17,916**	**13,799**
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)	**2,009**	**3,731**	**5,287**	**13,648**	**7,119**	**15,578**
Derivative financial instruments (except options)	**585**	**590**	**3,772**	**4,471**	**4,607**	**4,821**
Total fair value	**2,594**	**4,321**	**9,059**	**18,119**	**11,726**	**20,399**
Financial instruments, net						
Exposure to changes in interest rates in the segment	**(164)**	**(2,192)**	**2,651**	**5,808**	**6,190**	**(6,600)**
Cumulative exposure in the segment	**(164)**	**(2,356)**	**295**	**6,103**	**12,293**	**5,693**

(1) With the exception of balance sheet balances of derivative financial instruments, fair value of off-balance sheet financial instruments and fair value of complex financial instruments.

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

(3) The data include assumptions regarding early repayment in respect of housing loans. The effect of these assumptions on fair value is a reduction of the fair value by NIS 29 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 different balance sheet items, will be provided upon request.

B. In this table, data by periods reflect the current value of future cash flows of each financial instrument, capitalized by the interest rate used for deduction to the fair value included in respect of the financial instrument in Note 21 in the Financial Statements, in consistency with the assumptions used to calculate the fair value of the financial instrument. For further details regarding the assumptions used in the calculation of the fair value of the financial instruments, see Note 21 in the Financial Statements.

C. The internal return rate is the interest rate for the deduction of the expected cash flows from the financial instrument to the fair value included in respect thereof in Note 21 in the Financial Statements.

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.

From 10 to 20 years	Over 20 years	With no repayment period	Total fair value	Internal rate of return	Effective average duration	December 31, 2012 Total fair value	Internal rate of return	Effective average duration
NIS millions				%	years	NIS millions	%	years
1,985	**362**	**268**	**60,404**	**2.42**	**3.24**	62,442	2.69	3.41
254	**-**	**-**	**14,376**		**4.10**	15,216		3.98
2,239	**362**	**268**	**74,780**		**(2)3.40**	77,658		(2)3.52
1,312	**45**	**-**	**48,729**	**1.45**	**3.70**	53,021	1.69	3.92
261	**-**	**-**	**19,107**		**3.22**	18,752		3.47
1,573	**45**	**-**	**67,836**		**(2)3.57**	71,773		(2)3.80
666	**317**	**268**	**6,944**			5,885		
6,359	**6,676**	**6,944**						

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

as at December 31, 2013

Appendix 4 (continued)

	On demand up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	From 5 to 10 years
	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]	**37,662**	**11,444**	**8,086**	**5,923**	**3,869**	**5,424**
Derivative financial instruments (except options)	**48,525**	**74,381**	**44,648**	**18,266**	**6,978**	**16,308**
Options (in terms of the underlying asset)	**3,309**	**2,000**	**3,539**	**50**	**76**	**-**
Total Fair value	**89,496**	**87,825**	**56,273**	**24,239**	**10,923**	**21,732**
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]	**57,159**	**13,950**	**14,027**	**2,962**	**1,067**	**338**
Derivative financial instruments (except options)	**48,917**	**53,454**	**43,130**	**17,688**	**8,995**	**20,182**
Options (in terms of the underlying asset)	**2,534**	**1,950**	**4,425**	**48**	**587**	**340**
Total fair value	**108,610**	**69,354**	**61,582**	**20,698**	**10,649**	**20,860**
Financial instruments, net						
Exposure to changes in interest rates in the segment	**(19,114)**	**18,471**	**(5,309)**	**3,541**	**274**	**872**
Cumulative exposure in the segment	**(19,114)**	**(643)**	**(5,952)**	**(2,411)**	**(2,137)**	**(1,265)**

(1) With the exception of balance sheet balances of derivative financial instruments, fair value of off-balance sheet financial instruments and fair value of complex financial instruments.
(2) Average weighted by fair value of effective average duration.
(3) Including Israeli currency linked to foreign currency.
(4) The data include assumptions regarding early repayment in respect of housing loans. The effect of these assumptions is negligible.

General Notes:

A. Further details regarding the exposure to changes in interest rates in each segment of the financial assets and financial liabilities, according to the different balance sheet items, will be provided upon request.
B. In this table, data by periods reflect the current value of future cash flows of each financial instrument, capitalized by the interest rate used for deduction to the fair value included in respect of the financial instrument in Note 21 in the Financial Statements, in consistency with the assumptions used to calculate the fair value of the financial instrument. For further details regarding the assumptions used in the calculation of the fair value of the financial instruments, see Note 21 in the Financial Statements.
C. The internal return rate is the interest rate for the deduction of the expected cash flows from the financial instrument to the fair value included in respect thereof in Note 21 in the Financial Statements.
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.

From 10 to 20 years	Over 20 years	With no repayment period	Total fair value	Internal rate of return	Effective average duration	December 31, 2012 Total fair value	Internal rate of return	Effective average duration
	NIS millions			%	years	NIS millions	%	years
358	**174**	**794**	**73,734**	**3.08**	**1.11**	78,924	3.36	0.84
585	**-**	**-**	**209,691**		**0.99**	212,787		0.97
-	**-**	**-**	**8,974**		**0.27**	8,508		0.21
943	**174**	**794**	**292,399**		**(2)1.00**	300,219		(2)0.91
183	**35**	**15**	**89,736**	**1.92**	**0.24**	90,865	1.27	0.26
743	**79**	**-**	**193,188**		**1.26**	201,057		1.22
-	**-**	**-**	**9,884**		**0.74**	8,269		0.26
926	**114**	**15**	**292,808**		**(2)0.93**	300,191		(2)0.90
17	**60**	**779**	**(409)**			28		
(1,248)	**(1,188)**	**(409)**						

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

as at December 31, 2013

Appendix 4 (continued)

	On demand up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	From 5 to 10 years
	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)]	**203,846**	**27,186**	**43,651**	**40,527**	**22,431**	**16,787**
Derivative financial instruments (except options)	**101,575**	**164,836**	**96,354**	**58,923**	**29,476**	**42,930**
Options (in terms of the underlying asset)	**4,603**	**3,270**	**6,225**	**80**	**676**	**369**
Total Fair value	**310,024**	**195,292**	**146,230**	**99,530**	**52,583**	**60,086**
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)]	**203,115**	**28,521**	**35,106**	**38,999**	**12,143**	**18,599**
Derivative financial instruments (except options)	**100,764**	**155,615**	**100,748**	**57,112**	**36,024**	**45,154**
Options (in terms of the underlying asset)	**4,626**	**3,242**	**6,191**	**63**	**648**	**340**
Total fair value	**308,505**	**187,378**	**142,045**	**96,174**	**48,815**	**64,093**
Financial instruments, net						
Exposure to changes in interest rates in the segment	**1,519**	**7,914**	**4,185**	**3,356**	**3,768**	**(4,007)**
Cumulative exposure in the segment	**1,519**	**9,433**	**13,618**	**16,974**	**20,742**	**16,735**

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

(1) With the exception of balance sheet balances of derivative financial instruments, fair value of off-balance sheet financial instruments and fair value of complex financial instruments.

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

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

(4) The data include assumptions regarding early repayment in respect of housing loans. In the unlinked and foreign-currency segments: the effect of these assumptions is negligible. In the CPI-linked segment: the effect of these assumptions on fair value is a reduction of the fair value by NIS 29 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 different balance sheet items, will be provided upon request.

B. In this table, data by periods reflect the current value of future cash flows of each financial instrument, capitalized by the interest rate used for deduction to the fair value included in respect of the financial instrument in Note 21 in the Financial Statements, in consistency with the assumptions used to calculate the fair value of the financial instrument. For further details regarding the assumptions used in the calculation of the fair value of the financial instruments, see Note 21 in the Financial Statements.

C. The internal return rate is the interest rate for the deduction of the expected cash flows from the financial instrument to the fair value included in respect thereof in Note 21 in the Financial Statements.

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.

From 10 to 20 years	Over 20 years	With no repayment period	Total fair value	Internal rate of return	Effective average duration	December 31, 2012 Total fair value	Internal rate of return	Effective average duration
	NIS millions			%	years	NIS millions	%	years
3,383	**541**	**6,067**	**364,419**	**3.28**	**1.06**	361,979	3.82	0.99
1,127	**-**	**-**	**495,221**		**1.13**	*458,524		1.07
-	**-**	**-**	**15,223**		**0.65**	13,334		0.51
4,510	**541**	**6,067**	**874,863**		**(2) 1.09**	*833,837		(2) 1.03
1,745	**80**	**100**	**338,408**	**1.72**	**0.91**	337,779	2.11	0.89
1,311	**79**	**-**	**496,807**		**1.22**	*461,733		1.19
-	**-**	**-**	**15,110**		**0.74**	13,287		0.73
3,056	**159**	**100**	**850,325**		**(2) 1.09**	*812,799		(2) 1.05
1,454	**382**	**5,967**	**24,538**			*21,038		
18,189	**18,571**	**24,538**						

Credit Risk by Economic Sector

Appendix 5

1. In respect of borrower activity in Israel

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

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

as at 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
2,780	66	2,767	2,127	66	40	(15)	(8)	16
42,291	4,912	40,335	21,250	4,580	1,624	190	118	675
49,576	2,221	49,277	18,283	2,178	1,352	42	(111)	660
23,168	1,636	22,963	18,886	1,636	929	93	21	482
10,923	77	7,951	5,309	77	77	(1)	3	8
31,660	1,916	31,078	20,707	1,915	1,137	146	153	513
8,055	577	8,012	7,067	577	555	3	23	98
8,613	844	8,366	6,405	748	45	(11)	25	81
8,161	1,081	7,649	5,385	1,014	226	136	95	134
30,204	1,660	23,906	13,064	1,283	874	4	(33)	431
14,717	431	14,595	10,557	429	340	51	252	99
8,157	143	8,143	6,545	143	54	(19)	1	50
238,305	15,564	225,042	135,585	14,646	7,253	619	539	3,247
55,278	1,042	55,278	53,309	1,042	-	109	44	417
80,643	917	80,612	43,659	917	710	125	367	685
374,226	17,523	360,932	232,553	16,605	7,963	853	950	4,349
6,712	-	1,481	115	-	-	-	-	-
50,392	-	1,464	314	-	-	-	-	-
(1)431,330	17,523	363,877	232,982	16,605	7,963	853	950	4,349

Credit Risk by Economic Sector

Appendix 5 (continued)

2. In respect of borrower activity abroad

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

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts(2), bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 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 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 in respect of derivative instruments.
(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").
(5) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.
(6) Excluding cash balances in the Bank's funds and before deducting the allowance for credit losses.

NIS millions

as at 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
147	-	147	120	-	-	1	-	1
5,585	99	4,706	2,952	99	50	8	14	21
8,698	340	8,088	6,148	340	340	(8)	(6)	57
1,692	-	1,482	373	-	-	1	-	6
2,101	35	2,055	1,242	35	35	5	11	18
1,902	152	1,867	1,648	152	1	(2)	-	9
263	27	187	162	27	27	(2)	9	1
785	183	515	205	183	-	15	-	18
15,266	56	11,297	6,083	56	56	(14)	(42)	41
791	8	657	507	8	4	(3)	36	4
1,103	11	972	790	11	4	15	-	7
38,333	911	31,973	20,230	911	517	16	22	183
620	7	620	590	7	-	(1)	-	5
3,409	65	3,328	2,170	65	46	5	2	44
42,362	983	35,921	22,990	983	563	20	24	232
33,620	-	21,450	20,719	-	-	1	-	6
5,085	-	2,240	855	-	-	-	-	-
[1]81,067	983	59,611	44,564	983	563	21	24	238
512,397	18,506	423,488	277,546	17,588	8,526	874	974	4,587

Credit Risk by Economic Sector

Appendix 5 (continued)

1. In respect of borrower activity in Israel

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

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

*** 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 228,185, 44,952, 47, 4,377, and 137,687 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 10,279 million), excluding in respect of derivative instruments.

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

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

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

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

NIS millions

as at December 31, 2012								
Total credit risk[1]		Debts[2] and off-balance sheet credit risk (excluding derivatives)[3]						
Total**	Problematic[5]	Total*	* Of which: Debts[2]	Problematic[5]	Impaired	Credit losses for the year ended December 31, 2012[4]		
						Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
2,791	103	2,776	2,200	103	73	(13)	(62)	22
41,421	3,691	39,706	20,697	3,519	1,661	(71)	113	618
48,939	2,660	48,685	18,367	2,619	1,770	81	62	572
24,567	1,037	24,333	21,056	1,037	994	(280)	157	439
10,274	88	6,328	3,647	88	84	(20)	9	10
28,767	1,099	28,479	19,877	1,098	583	296	210	439
7,706	565	7,676	6,778	565	483	55	(29)	117
7,988	1,049	7,682	6,172	979	80	72	4	94
9,566	523	9,274	6,358	515	337	13	(4)	77
30,579	1,532	25,126	15,681	1,368	1,241	460	91	551
13,909	218	13,674	9,654	218	111	28	18	95
8,336	168	8,307	6,563	168	99	40	14	70
234,843	12,733	222,046	137,050	12,277	7,516	661	583	3,104
51,161	823	51,161	49,017	823	-	27	18	352
79,661	1,192	79,631	42,013	1,192	965	277	250	908
365,665	14,748	352,838	228,080	14,292	8,481	965	851	4,364
6,628	-	1,521	59	-	-	-	-	-
42,955	-	1,532	46	-	-	-	-	-
[1]415,248	14,748	355,891	228,185	14,292	8,481	965	851	4,364

Credit Risk by Economic Sector

Appendix 5 (continued)

2. In respect of borrower activity abroad

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

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

*** 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 50,176, 5,421, 0, 5,223, and 22,574 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 in respect of derivative instruments.

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

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

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

NIS millions

as at December 31, 2012								
Total credit risk[(1)]		Debts[(2)] and off-balance sheet credit risk (excluding derivatives)[(3)]						
Total**	Problematic[(5)]	Total*	* Of which: Debts[(2)]	Problematic[(5)]	Impaired	Credit losses for the year ended December 31, 2012[(4)]		
						Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
129	-	129	72	-	-	1	-	1
5,355	40	4,836	2,960	40	40	24	59	23
10,267	393	9,659	7,945	393	375	(21)	16	76
1,420	-	1,211	410	-	-	1	-	3
2,094	25	2,072	1,135	25	13	-	1	30
2,132	148	2,045	1,811	148	1	(7)	-	15
346	78	327	196	78	-	10	-	7
852	-	787	527	-	-	-	-	2
15,061	119	11,673	6,431	119	53	33	14	64
696	16	615	394	16	-	(10)	-	8
896	71	792	643	71	46	(19)	3	23
39,248	890	34,146	22,524	890	528	12	93	252
703	12	703	653	12	-	2	4	6
3,455	62	3,416	2,133	62	60	7	11	61
43,406	964	38,265	25,310	964	588	21	108	319
35,789	-	24,667	24,114	-	-	1	-	5
4,199	-	2,058	752	-	-	-	-	-
[(1)]83,394	964	64,990	50,176	964	588	22	108	324
498,642	15,712	420,881	278,361	15,256	9,069	987	959	4,688

Exposure to Foreign Countries (On a Consolidated Basis)[(1)]

Appendix 6

Part A – Information regarding total exposures to foreign countries and exposures to countries where total exposure to each country is greater than 1% of total consolidated assets or greater than 20% of capital, whichever is lower:

	as at 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 exposure to foreign countries	**1,416**	**11,485**	**13,042**
Of which: Total exposure to LDC	**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 Provisions for Doubtful Debts". This amount includes data for Turkey, as detailed in the table above.

The balance sheet exposure to a foreign country includes cross-border balance sheet exposure and balance sheet exposure of the offices of the banking corporation in the foreign country to local residents. Cross-border balance sheet exposure includes balance sheet exposure of the offices of the banking corporation in Israel to residents of the foreign country, and balance sheet exposure of the overseas offices of the banking corporation to non-residents of the country in which the office is located.

Balance sheet exposure of the banking corporation's offices in a foreign country to local residents includes balance sheet exposure of the offices of the banking corporation in that foreign country to the residents of the country, less liabilities of those offices (the deduction is performed up to the level of the exposure).

(1) Based on the final risk, taking into account guarantees, liquid collateral and credit derivatives.
(2) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limits on indebtedness of a borrower, according to the Proper Conduct of Banking Business Directive No. 313.
(3) Governments, Official institutions and Central Banks.
(4) Balance sheet and off-balance sheet credit risk, problematic commercial credit risk, and impaired debts are presented before the effect of the allowance for credit losses, and before the effect of collateral permitted for deduction for the purpose of the indebtedness of a borrower and borrowers group.

NIS millions

as at December 31, 2013

Balance Sheet exposure(4): Balance Sheet exposure of the Bank's overseas offices to local residents: Balance Sheet exposure, before deduction for local liabilities	Deduction for local liabilities	Balance Sheet exposure, net of local liabilities	Total Balance Sheet exposure	Problematic Balance Sheet credit risk(4)	Impaired debts(4)	Off-Balance Sheet exposure(2)(4): Total Off-Balance Sheet exposure	Of which: Problematic Off-Balance Sheet credit risk(4)	Cross-Border Balance Sheet exposure: 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**

Exposure to Foreign Countries (On a Consolidated Basis)[(1)]

Appendix 6 (continued)

Part A – Information regarding total exposures to foreign countries and exposures to countries where total exposure to each country is greater than 1% of total consolidated assets or greater than 20% of capital, whichever is lower (continued):

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

The line "total LDCs" includes the total exposure to countries defined as Less Developed Countries (LDCs) in Proper Conduct of Banking Business Directive No. 315, "Supplementary Provisions for Doubtful Debts". This amount includes data for Turkey, as detailed in the table above.

The balance sheet exposure to a foreign country includes cross-border balance sheet exposure and balance sheet exposure of the offices of the banking corporation in the foreign country to local residents. Cross-border balance sheet exposure includes balance sheet exposure of the offices of the banking corporation in Israel to residents of the foreign country, and balance sheet exposure of the overseas offices of the banking corporation to non-residents of the country in which the office is located.

Balance sheet exposure of the banking corporation's offices in a foreign country to local residents includes balance sheet exposure of the offices of the banking corporation in that foreign country to the residents of the country, less liabilities of those offices (the deduction is performed up to the level of the exposure).

(1) Based on the final risk, taking into account guarantees, liquid collateral and credit derivatives.
(2) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limits on indebtedness of a borrower, according to the Proper Conduct of Banking Business Directive No. 313.
(3) Governments, Official institutions and Central Banks.
(4) Balance sheet and off-balance sheet credit risk, problematic commercial credit risk, and impaired debts are presented before the effect of the allowance for credit losses, and before the effect of collateral permitted for deduction for the purpose of the indebtedness of a borrower and borrowers group.

NIS millions

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

NIS millions

Exposure to Foreign Countries (On a Consolidated Basis)[(1)]

Appendix 6 (continued)

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

Name of Country:
Canada
The aggregate balance sheet exposures to foreign countries detailed in this section total NIS 1,346 million as at December 31, 2013 (December 31, 2012: NIS 2,311 million).

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

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

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

	For the year 2013					
	Greece	Ireland	Portugal	Italy	Spain	Total
Total exposure at beginning of the period	**-**	**67**	**2**	**54**	**133**	**256**
Net changes in amount of short-term exposure	**-**	**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**

	For the year 2012					
	Greece	Ireland	Portugal	Italy	Spain	Total
Total exposure at beginning of the period	1	110	1	49	124	285
Net changes in amount of short-term exposure	(1)	(39)	1	(6)	(14)	(59)
Changes in other exposures:						
Added exposures	-	1	2	20	42	65
Accrued interest income	-	-	-	2	4	6
Amounts collected	-	(5)	(2)	(11)	(23)	(41)
Total exposure at the end of the period	-	67	2	54	133	256

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

Quarterly consolidated Balance Sheet for the years 2012-2013 - Multi-Quarterly Data

Appendix 7

NIS millions

	For the year 2013			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1
Assets				
Cash on hand and deposits with banks	**45,709**	**43,361**	**48,818**	**43,272**
Securities	**60,912**	**60,998**	**61,137**	**59,461**
Securities which were borrowed or bought under agreements to resell	**65**	**169**	**47**	**31**
Credit to the public	**255,543**	**253,518**	**251,105**	**251,599**
Allowance for credit losses	**(3,943)**	**(4,177)**	**(3,985)**	**(3,817)**
Net credit to the public	**251,600**	**249,341**	**247,120**	**247,782**
Credit to governments	**1,169**	**1,069**	**979**	**767**
Investments in equity-basis investees	**137**	**133**	**134**	**134**
Buildings and equipment	**3,791**	**3,635**	**3,664**	**3,673**
Intangible assets and goodwill	**19**	**22**	**25**	**28**
Assets in respect of derivative instruments	**10,672**	**9,588**	**10,175**	**9,515**
Other assets	**6,172**	**5,900**	**6,384**	**5,654**
Total assets	**380,246**	**374,216**	**378,483**	**370,317**
Liabilities and Equity				
Deposits from the public	**276,525**	**269,632**	**274,601**	**265,297**
Deposits from banks	**5,303**	**6,783**	**4,174**	**4,893**
Deposits from the Government	**613**	**569**	**602**	**678**
Securities which were lent or sold under agreements to repurchase	**242**	**331**	**810**	**639**
Bonds and subordinated notes	**33,980**	**34,819**	**35,874**	**36,222**
Liabilities in respect of derivative instruments	**12,129**	**11,823**	**12,355**	**12,454**
Other liabilities	**22,144**	**21,604**	**21,981**	**22,556**
Total liabilities	**350,936**	**345,561**	**350,397**	**342,739**
Shareholders' equity	**29,060**	**28,391**	**27,808**	**27,279**
Non-controlling interests	**250**	**264**	**278**	**299**
Total equity	**29,310**	**28,655**	**28,086**	**27,578**
Total liabilities and equity	**380,246**	**374,216**	**378,483**	**370,317**

Quarterly consolidated Balance Sheet for the years 2012-2013 - Multi-Quarterly Data

Appendix 7 (continued)

NIS millions

	For the year 2012			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1
Assets				
Cash on hand and deposits with banks	55,301	45,558	53,751	52,270
Securities	52,070	53,076	40,728	36,903
Securities which were borrowed or bought under agreements to resell	47	38	-	70
Credit to the public	253,268	254,144	252,606	248,817
Allowance for credit losses	(4,086)	(4,240)	(3,992)	(4,013)
Net credit to the public	249,182	249,904	248,614	244,804
Credit to governments	798	837	884	743
Investments in equity-basis investees	127	123	128	127
Buildings and equipment	3,726	3,630	3,659	3,709
Intangible assets and goodwill	33	37	39	42
Assets in respect of derivative instruments	9,624	8,814	9,547	7,245
Other assets	5,480	5,348	4,755	4,437
Total assets	376,388	367,365	362,105	350,350
Liabilities and Equity				
Deposits from the public	271,411	264,490	259,668	251,576
Deposits from banks	6,015	5,385	6,434	6,624
Deposits from the Government	629	988	883	906
Securities which were lent or sold under agreements to repurchase	1,116	836	1,116	1,393
Bonds and subordinated notes	35,677	36,051	35,679	34,422
Liabilities in respect of derivative instruments	12,718	12,087	12,672	10,180
Other liabilities	21,765	21,458	20,430	20,505
Total liabilities	349,331	341,295	336,882	325,606
Shareholders' equity	26,755	25,759	24,907	24,440
Non-controlling interests	302	311	316	304
Total equity	27,057	26,070	25,223	24,744
Total liabilities and equity	376,388	367,365	362,105	350,350

Quarterly consolidated Statement of Profit and Loss for the years 2012-2013 - Multi-Quarterly Data

Appendix 8

NIS millions

	For the year 2013				For the year 2012			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
Interest income	**2,755**	**3,694**	**3,423**	**3,089**	2,897	3,929	4,146	3,374
Interest expenses	**(815)**	**(1,613)**	**(1,415)**	**(1,175)**	(953)	(1,821)	(2,000)	(1,412)
Net interest income	**1,940**	**2,081**	**2,008**	**1,914**	1,944	2,108	2,146	1,962
Provision for credit losses	**(59)**	**375**	**301**	**257**	54	286	344	303
Net interest income after provision for credit losses	**1,999**	**1,706**	**1,707**	**1,657**	1,890	1,822	1,802	1,659
Non-interest income								
Non-interest financing income (expenses)	**133**	**36**	**168**	**143**	167	7	(105)	186
Fees	**1,357**	**1,254**	**1,254**	**1,250**	1,273	1,311	1,247	1,274
Other income	**37**	**24**	**28**	**37**	41	24	19	33
Total non-interest income	**1,527**	**1,314**	**1,450**	**1,430**	1,481	1,342	1,161	1,493
Operating and other expenses								
Salaries and related expenses	**1,620**	**1,215**	**1,231**	**1,244**	1,280	1,303	1,222	1,207
Maintenance and depreciation of buildings and equipment	**400**	**427**	**394**	**388**	476	419	397	381
Depreciation and impairment of intangible assets and goodwill	**3**	**3**	**3**	**3**	3	3	2	3
Other expenses	**539**	**488**	**507**	**500**	595	524	497	513
Total operating and other expenses	**2,562**	**2,133**	**2,135**	**2,135**	2,354	2,249	2,118	2,104
Profit before taxes	**964**	**887**	**1,022**	**952**	1,017	915	845	1,048
Provision for taxes on profit	**333**	**248**	**380**	**337**	378	281	227	368
Profit after taxes	**631**	**639**	**642**	**615**	639	634	618	680
The Bank's share in profits (losses) of equity-basis investees, after taxes	**5**	**(1)**	**1**	**4**	4	2	2	(2)
Net profit:								
Before attribution to non-controlling interests	**636**	**638**	**643**	**619**	643	636	620	678
Loss (profit) attributed to non-controlling interests	**15**	**15**	**12**	**2**	9	(11)	(13)	(19)
Attributed to shareholders of the Bank	**651**	**653**	**655**	**621**	652	625	607	659
Earnings per ordinary share in NIS:								
Basic earnings								
Net profit attributed to shareholders of the Bank	**0.49**	**0.50**	**0.50**	**0.47**	0.49	0.47	0.46	0.50
Diluted earnings								
Net profit attributed to shareholders of the Bank	**0.49**	**0.49**	**0.49**	**0.47**	0.49	0.47	0.46	0.49

CEO Declaration

I, Zion Kenan, declare that:

1. I have reviewed the annual report of Bank Hapoalim B.M. (hereinafter: the "Bank") for the year 2013 (hereinafter: the "Report").
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included in the Report fairly reflect the financial 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 fourth 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, March 19, 2014

CFO Declaration

I, Yadin Antebi, declare that:

1. I have reviewed the annual report of Bank Hapoalim B.M. (hereinafter: the "Bank") for the year 2013 (hereinafter: the "Report").
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included in the Report fairly reflect the financial 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 fourth 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, March 19, 2014

Chief Accountant Declaration

I, Ofer Levy, declare that:

1. I have reviewed the annual report of Bank Hapoalim B.M. (hereinafter: the "Bank") for the year 2013 (hereinafter: the "Report").
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included in the Report fairly reflect the financial 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 fourth 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, March 19, 2014

Report of the Board of Directors and the Board of Management on the Internal Control of Financial Reporting

The Board of Directors and the Board of Management of Bank Hapoalim B.M. (hereinafter: the "Bank") are responsible for the establishment and application of adequate internal control of financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"). The system of internal control at the Bank was designed to provide a reasonable degree of confidence to the Board of Directors and the Board of Management of the Bank with regard to the adequate preparation and presentation of financial reports published in accordance with generally accepted accounting principles and the directives and guidelines of the Supervisor of Banks. Regardless of the quality of planning of the internal control systems, any such system has inherent limitations. Thus, even if these systems are found to be effective, such systems can provide only a reasonable degree of confidence with regard to the preparation and presentation of the financial reports.

The Board of Management, under the supervision of the Board of Directors, maintains a comprehensive system of controls aimed at ensuring that transactions are executed in accordance with the Board of Management's authorizations, that assets are protected, and that accounting records are reliable. In addition, the Board of Management, under the supervision of the Board of Directors, applies measures to ensure that information and communication channels are effective and monitor performance, including the performance of internal control procedures.

The Board of Management of the Bank, under the supervision of the Board of Directors, assessed the effectiveness of the Bank's internal control of financial reporting as at December 31, 2013, based on the criteria established in the internal control model of the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on this assessment, the Board of Management believes that as at December 31, 2013, the Bank's internal control of financial reporting is effective.

The effectiveness of the Bank's internal control of financial reporting as at December 31, 2013 was audited by the Bank's external auditors, Ziv Haft Certified Public Accountants (Isr.) and Somekh Chaikin Certified Public Accountants (Isr.), as noted in their report on page 294. The auditors' report includes an unqualified opinion with regard to the effectiveness of the Bank's internal control of financial reporting as at December 31, 2013.

Yair Seroussi	**Zion Kenan**	**Yadin Antebi**	**Ofer Levy**
Chairman of the Board of Directors	President and Chief Executive Officer	Senior Deputy Managing Director, Chief Financial Officer	Senior Deputy Managing Director, Chief Accountant

Tel Aviv, March 19, 2014

2013

Bank Hapoalim | Financial Statements 2013

Auditors' Report to the Shareholders of Bank Hapoalim B.M. according to Public Reporting Directives of the Supervisor of Banks regarding Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Bank Hapoalim B.M. and its subsidiaries (hereinafter together: "the Bank") as at December 31, 2013, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Bank's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of internal control over financial reporting, included in the accompanying Directors' and Management's reports on internal control over financial reporting. Our responsibility is to express an opinion on the Bank's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) in United States, regarding audit of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material aspects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A bank's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and in accordance with directives and guidelines of the Supervisor of Banks. The internal control over financial reporting of a bank includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and transfers of the assets of the bank (including their removal from its possession); (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Israeli GAAP and in accordance with directives and guidelines of the Supervisor of Banks, and that receipts and expenditures of the bank are being made only in accordance with authorizations of management and directors of the bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition (including removal from its possession) of the bank's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Bank maintained, in all material aspects, effective control over financial reporting as at December 31, 2013, based on criteria established in Internal Control – Integrated Framework issued by the COSO.

We also have audited, in accordance with accepted auditing standards in Israel, and certain auditing standards applied in the audit of banking corporations as determined by directives and guidelines of the Supervisor of Banks, the consolidated balance sheets of the Bank as at December 31, 2013 and 2012 and the consolidated statements of profit and loss, comprehensive income, changes in equity and cash flows, for each of the years in the three-year period ended December 31, 2013, and our report dated March 19, 2014, expressed an unqualified opinion on the said financial statements as well as drawing attention to Note 19D(b) 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, March 19, 2014

Auditors' Report to the Shareholders of Bank Hapoalim B.M.

We have audited the accompanying consolidated balance sheets of Bank Hapoalim B.M. (hereinafter: "the Bank") as at December 31, 2013 and 2012 and the related consolidated statements of profit and loss, comprehensive income, changes in equity and cash flows, for each of the years in the three-year period ended December 31, 2013. These financial statements are the responsibility of the Bank's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance), 1973 and certain auditing standards that their application in the audit of banking corporations was prescribed in directives and guidelines of the Supervisor of Banks. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by the Management of the Bank, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material aspects, the financial position of the Bank and its subsidiaries as at December 31, 2013 and 2012 and the results of operations, changes in equity and cash flows of the Bank and its subsidiaries for each of the years in the three-year period ended December 31, 2013, in conformity with generally accepted accounting principles in Israel (Israeli GAAP). Furthermore, in our opinion, these financial statements have been prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our opinion, we draw attention to Note 19D(b) regarding exposure to class actions that were filed against the Bank's Group.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) in United States, regarding audit of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the Bank's internal control over financial reporting as at December 31, 2013, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report, dated March 19, 2014 expressed an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting.

Somekh Chaikin
Certified Public Accountants (Isr.)

Ziv Haft
Certified Public Accountants (Isr.)

Tel-Aviv, March 19, 2014

Consolidated Balance Sheet

as at December 31, 2013

NIS millions

	Note	December 31 2013	2012
Assets			
Cash on hand and deposits with banks	2	**45,709**	55,301
Securities[(1)(2)]	3 ,14	**60,912**	52,070
Securities which were borrowed or bought under agreements to resell		**65**	47
Credit to the public		**255,543**	253,268
Allowance for credit losses		**(3,943)**	(4,086)
Net credit to the public	4	**251,600**	249,182
Credit to governments	5	**1,169**	798
Investments in equity-basis investees	6	**137**	127
Buildings and equipment	7	**3,791**	3,726
Intangible assets and goodwill	7A	**19**	33
Assets in respect of derivative instruments	20	**10,672**	9,624
Other assets	8	**6,172**	5,480
Total assets		**380,246**	376,388
Liabilities and Equity			
Deposits from the public	9	**276,525**	271,411
Deposits from banks	10	**5,303**	6,015
Deposits from the Government		**613**	629
Securities which were lent or sold under agreements to repurchase		**242**	1,116
Bonds and subordinated notes	11	**33,980**	35,677
Liabilities in respect of derivative instruments	20	**12,129**	12,718
Other liabilities (of which, 638; 595 respectively, allowance for credit losses in respect of off-balance sheet credit instruments)	12	**22,144**	21,765
Total liabilities		**350,936**	349,331
Shareholders' equity	13	**29,060**	26,755
Non-controlling interests		**250**	302
Total equity		**29,310**	27,057
Total liabilities and equity		**380,246**	376,388

(1) With regard to amounts measured at fair value, see Note 3.
(2) For details regarding securities pledged to lenders, see Note 14.

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

Yair Seroussi	**Zion Kenan**	**Yadin Antebi**	**Ofer Levy**
Chairman of the Board of Directors	President and Chief Executive Officer	Senior Deputy Managing Director, Chief Financial Officer	Senior Deputy Managing Director, Chief Accountant

Tel-Aviv, March 19, 2014

Consolidated Statement of Profit and Loss

For the year ended December 31, 2013

NIS millions

	Note	2013	2012	2011
Interest income	23	**12,961**	14,346	14,793
Interest expenses	23	**(5,018)**	(6,186)	(6,696)
Net interest income		**7,943**	8,160	8,097
Provision for credit losses	4(A)(1)	**874**	987	1,202
Net interest income after provision for credit losses		**7,069**	7,173	6,895
Non-interest income				
Non-interest financing income (expenses)	24	**480**	255	(213)
Fees	25	**5,115**	5,105	5,098
Other income	26	**126**	117	106
Total non-interest income		**5,721**	5,477	4,991
Operating and other expenses				
Salaries and related expenses	27	**5,310**	5,012	4,759
Maintenance and depreciation of buildings and equipment		**1,609**	1,673	1,535
Amortization and impairment of intangible assets and goodwill		**12**	11	21
Other expenses	28	**2,034**	2,129	2,050
Total operating and other expenses		**8,965**	8,825	8,365
Profit before taxes		**3,825**	3,825	3,521
Provision for taxes on profit	29	**1,298**	1,254	809
Profit after taxes		**2,527**	2,571	2,712
The Bank's share in profits (losses) of equity-basis investees, after taxes	6B	**9**	6	(5)
Net profit:				
Before attribution to non-controlling interests		**2,536**	2,577	2,707
Loss (profit) attributed to non-controlling interests		**44**	(34)	39
Attributed to shareholders of the Bank		**2,580**	2,543	2,746
Earnings per ordinary share in NIS:	1(E)(23), 30			
Basic earnings				
Net profit attributed to shareholders of the Bank		**1.96**	1.92	2.07
Diluted earnings				
Net profit attributed to shareholders of the Bank		**1.94**	1.91	2.05

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

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2013

NIS millions

	2013	*2012	*2011
Net profit before attribution to non-controlling interests	**2,536**	2,577	2,707
Net loss (profit) attributed to non-controlling interests	**44**	(34)	39
Net profit attributed to shareholders of the Bank	**2,580**	2,543	2,746
Other comprehensive income (loss) before taxes:			
Net adjustments for presentation of securities available for sale at fair value	**81**	550	(438)
Net adjustments from translation of financial statements**, after hedge effects***	**(1)**	12	110
Net gains in respect of cash-flow hedges	**10**	7	17
Other comprehensive income (loss) before taxes	**90**	569	(311)
Effect of related tax	**(53)**	(150)	108
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	**37**	419	(203)
Net of other comprehensive loss (income) attributed to non-controlling interests	**2**	(3)	4
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes	**39**	416	(199)
Comprehensive income before attribution to non-controlling interests	**2,573**	2,996	2,504
Comprehensive loss (income) attributed to non-controlling interests	**46**	(37)	43
Comprehensive income attributed to shareholders of the Bank	**2,619**	2,959	2,547

* The Bank adopted the directives of the Supervisor of Banks concerning the statement of comprehensive income for the first time on January 1, 2013. The directive was adopted retroactively. Accordingly, data on other comprehensive income for the years 2011 and 2012 were reclassified, and are no longer presented as part of the statement of changes in equity; instead, they are presented in the consolidated statement of comprehensive income. See also Note 1(C)(5) and 1(D). In addition, Note 34, Cumulative Other Comprehensive Income (Loss), includes details of changes in the components of other comprehensive income.

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

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

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

Statement of Changes in Equity

For the year ended December 31, 2013

NIS millions

	Share capital and premium*	Capital Reserves from benefit due to share-based payment transactions	Total capital and capital reserves	Cumulative other comprehensive income**	Retained earnings	Total shareholders' equity	Non-controlling interests	Total equity
Balance as at January 1, 2011	8,147	217	8,364	419	**13,752	22,535	337	22,872
Cumulative effect, net of tax, of the initial implementation on January 1, 2011 of the directive on the measurement of impaired debts and allowance for credit losses	-	-	-	-	(807)	(807)	(9)	(816)
Cumulative effect, net of tax, of the initial implementation on January 1, 2011 of certain IFRS	(45)	(5)	(50)	-	(97)	(147)	(3)	(150)
Net profit (loss) for the year	-	-	-	-	2,746	2,746	(39)	2,707
Dividend paid	-	-	-	-	(270)	(270)	-	(270)
Buyback of shares	(74)	-	(74)	-	-	(74)	-	(74)
Adjustments and changes from:								
Benefits due to share-based payment transactions	-	31	31	-	-	31	6	37
Realization of options to shares	38	(34)	4	-	-	4	-	4
Net other comprehensive loss after tax effect**	-	-	-	(199)	-	(199)	(4)	(203)
Dividend for non-controlling interests in a consolidated company	-	-	-	-	-	-	(6)	(6)
Balance as at January 1, 2012	8,066	209	8,275	220	**15,324	23,819	282	24,101
Net profit for the year	-	-	-	-	2,543	2,543	34	2,577
Buyback of shares	(113)	-	(113)	-	-	(113)	-	(113)
Adjustments and changes from:								
Benefits due to share-based payment transactions	-	82	82	-	6	88	(14)	74
Realization of options to shares	57	(55)	2	-	-	2	-	2
Net other comprehensive income after tax effect**	-	-	-	416	-	416	3	419
Dividend for non-controlling interests in a consolidated company	-	-	-	-	-	-	(3)	(3)
Balance as at January 1, 2013	8,010	236	8,246	636	**17,873	26,755	302	27,057

* Deducting a balance of 16,801,221 treasury shares (December 31, 2012: Deducting a balance of 13,453,853 treasury shares, December 31, 2011: Deducting a balance of 5,183,853 treasury shares).

** The Bank adopted the directives of the Supervisor of Banks concerning the statement of comprehensive income for the first time on January 1, 2013. Among other matters, the directive states that changes in the statement of changes in equity referring to items included in cumulative other comprehensive income should be presented as a single amount. Details of the composition of and changes in cumulative other comprehensive income are presented in the consolidated statement of comprehensive income and in Note 34, "Cumulative Other Comprehensive Income (loss)". The directive was implemented retroactively; comparative figures were reclassified to match the new presentation method. See also Note 1(C)(5) and 1(D).

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

NIS millions

Statement of Changes in Equity

For the year ended December 31, 2013 (continued)

	Share capital and premium*	Capital Reserves from benefit due to share-based payment transactions	Total capital and capital reserves	Cumulative other comprehensive income**	Retained earnings	Total shareholders' equity	Non-controlling interests	Total equity
Balance as at January 1, 2013	**8,010**	**236**	**8,246**	**636**	****17,873**	**26,755**	**302**	**27,057**
Net profit (loss) for the year	**-**	**-**	**-**	**-**	**2,580**	**2,580**	**(44)**	**2,536**
Dividend paid	**-**	**-**	**-**	**-**	**(276)**	**(276)**	**-**	**(276)**
Buyback of shares	**(127)**	**-**	**(127)**	**-**	**-**	**(127)**	**-**	**(127)**
Adjustments and changes from:								
Benefits due to share-based payment transactions	**-**	**102**	**102**	**-**	**-**	**102**	**-**	**102**
Realization of options to 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**

* Deducting a balance of 16,801,221 treasury shares (December 31, 2012: Deducting a balance of 13,453,853 treasury shares, December 31, 2011: Deducting a balance of 5,183,853 treasury shares).

** The Bank adopted the directives of the Supervisor of Banks concerning the statement of comprehensive income for the first time on January 1, 2013. Among other matters, the directive states that changes in the statement of changes in equity referring to items included in cumulative other comprehensive income should be presented as a single amount. Details of the composition of and changes in cumulative other comprehensive income are presented in the consolidated statement of comprehensive income and in Note 34, "Cumulative Other Comprehensive Income (loss)". The directive was implemented retroactively; comparative figures were reclassified to match the new presentation method. See also Note 1(C)(5) and 1(D).

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

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

Consolidated Statements of Cash Flows

NIS millions

For the year ended December 31, 2013

	2013	2012	2011
Cash flows generated by (for) operating activity			
Net profit for the year	**2,536**	2,577	2,707
Adjustments necessary to present cash flows by (for) operating activity:			
The bank's share in losses (profits) of equity basis investees	**(9)**	(6)	5
Depreciation of buildings and equipment	**739**	769	718
Amortizations	**31**	30	38
Provision for credit losses	**874**	987	1,202
Gain from realization of securities available for sale and held to maturity	**(541)**	(333)	(1,410)
Realized and unrealized gain from adjustments to fair value of securities held for trading	**(30)**	(48)	(29)
Gain from realization of buildings and equipment	**(11)**	(7)	-
Change in benefit due to in share-based transactions	**100**	*42	2
Net change in liabilities in respect of employee benefits	**345**	130	209
Deferred taxes, net	**512**	232	(383)
Gain from sale of credit portfolios	**(2)**	(19)	(11)
Adjustments in respect of exchange-rate differences	**2,115**	404	(1,016)
Accumulation differentials included in investment and financing activities	**(737)**	(723)	649
Net change in current assets:			
Deposits with banks	**(457)**	453	(762)
Credit to the public	**(3,631)**	*(4,036)	(24,479)
Credit to governments	**(371)**	(182)	(277)
Securities which were borrowed or bought under agreements to resell	**(18)**	(47)	16
Assets in respect of derivative instruments	**(1,043)**	1,175	(4,327)
Securities held for trading	**1,900**	(364)	(1,143)
Other assets	**(1,259)**	(1,211)	(369)
Net change in current liabilities:			
Deposits from banks	**(694)**	(993)	2,167
Deposits from the public	**5,591**	14,942	22,452
Deposits from the Government	**(16)**	(456)	(250)
Securities which were lent or sold under agreements to repurchase	**(865)**	(186)	919
Liabilities in respect of derivative instruments	**(511)**	(689)	3,172
Other liabilities	**(58)**	1,224	116
Net cash generated by (for) operating activity	**4,490**	*13,665	(84)

* Reclassified.

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

Consolidated Statements of Cash Flows

NIS millions

For the year ended December 31, 2013 (continued)

	2013	2012	2011
Cash flows generated for investment activity			
Acquisition of bonds held to maturity	**(39)**	-	(283)
Proceeds from redemption of bonds held to maturity	**237**	109	218
Acquisition of securities available for sale	**(64,848)**	(44,758)	(19,008)
Proceeds from sale of securities available for sale	**28,342**	19,410	10,285
Proceeds from redemption of securities available for sale	**26,877**	10,001	8,125
Acquisition of credit portfolios	**(49)**	-	-
Proceeds from sale of credit portfolios	**203**	*459	772
Dividends received from equity-basis investees	**5**	-	5
Acquisition of rights in equity basis investees	**-**	-	(5)
Investment in equity-basis investees	**(6)**	(4)	-
Proceeds from realization of investment and repayment of loans in equity-basis investees	**-**	8	2
Acquisition of buildings and equipment	**(824)**	(782)	(673)
Proceeds from realization of buildings and equipment	**30**	14	1
Net cash generated for investment activity	**(10,072)**	*(15,543)	(561)

	2013	2012	2011
Cash flows generated by (for) financing activity			
Issuance of bonds and subordinated notes	**1,834**	4,079	5,961
Redemption of bonds and subordinated notes	**(3,561)**	(1,724)	(1,285)
Issuance of shares and options	**4**	*4	4
Additional acquisition of shares in consolidated companies	**-**	(8)	-
Dividend paid to shareholders of the Bank	**(276)**	-	(270)
Buyback of shares	**(127)**	(113)	(74)
Dividend paid to minority shareholders of consolidated companies	**(8)**	(3)	(6)
Net cash generated by (for) financing activity	**(2,134)**	*2,235	4,330
Increase (decrease) in cash	**(7,716)**	357	3,685
Balance of cash at beginning of year	**53,937**	53,975	49,274
Effect of changes in exchange rates on cash balances	**(2,288)**	(395)	1,016
Balance of cash at end of year	**43,933**	53,937	53,975

	2013	2012	2011
Interest and taxes paid and/or received:			
Interest received	**13,861**	15,990	15,903
Interest paid	**(5,679)**	(6,865)	(5,679)
Dividends received	**43**	56	33
Income tax paid	**(1,697)**	(1,442)	(1,951)
Income tax received	**46**	212	174

* Reclassified.

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

Note 1 Significant Accounting Policies

A. General

Bank Hapoalim B.M. (hereinafter: the "Bank") is a corporation incorporated in Israel. The financial statements of the Bank were prepared in accordance with the directives and guidelines of the Supervisor of Banks with regard to the preparation of annual financial statements of banking corporations and in accordance with generally accepted accounting principles in Israel (Israeli GAAP).

The Bank has received approval from the Supervisor of Banks to publish the annual financial statements on a consolidated basis only. Note 33 presents the condensed stand-alone financial statements of the Bank, including the balance sheet, statement of profit and loss, and statement of cash flows.

The financial statements were approved for publication by the Board of Directors of the Bank on March 19, 2014.

B. Definitions

In these financial statements:

GAAP for US banks – Accounting principles that American banks traded in the United States are required to implement, in accordance with the hierarchy established in ASC 105-10 (FAS 168) (Codification) and in accordance with the guidelines and position statements of the bank supervision agencies in the United States.

International Financial Reporting Standards (IFRS) – Standards and interpretations adopted by the International Accounting Standards Board (IASB), including International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), as well as interpretations of these standards established by the International Financial Reporting Interpretations Committee (IFRIC) or interpretations established by the Standing Interpretations Committee (SIC), respectively.

Subsidiaries – Companies controlled by the Bank.

Equity-basis investees – Companies in which the Bank has substantial influence, excluding subsidiaries.

Affiliates – Subsidiaries and equity-basis investees of the Group.

Overseas offices – Representative offices, agencies, branches, or subsidiaries of the Bank outside Israel.

Functional currency – The currency of the principal economic environment of the Bank's operations.

CPI – The consumer price index published by the Central Bureau of Statistics in Israel.

Adjusted amount – Nominal historical amount adjusted to the CPI for December 2003, in accordance with directives in the standards of the Institute of Certified Public Accountants in Israel.

Reported amount – Amount adjusted to December 31, 2003 (the "transition date"), as defined in Accounting Standard 12 (as amended) of the Israel Accounting Standards Board, Cessation of Adjustment of Financial Statements, plus amounts in nominal values added after the transition date, less amounts subtracted after the transition date.

Related parties – As defined in IAS 24, Related Party Disclosures, excluding interested parties.

Interested parties – As defined in the Securities Law, 1968 and as defined in Section 80B of the Public Reporting Directives.

Note 1 Significant Accounting Policies (continued)

C. Basis for Preparation of the Financial Statements

(1) Reporting Principles

The financial statements of the Bank are prepared in accordance with the Public Reporting Directives and guidelines of the Supervisor of Banks. In preparing the financial statements, the Bank implements, among other matters, certain IFRS and GAAP for US banks, in the following manner:

On matters related to the core business of banking – The Bank implements the directives and guidelines of the Supervisor of Banks, and among other matters, in certain areas, also GAAP for US banks that have been adopted as part of the Public Reporting Directives of the Supervisor of Banks.

On matters not related to the core business of banking – Accounting treatment is in accordance with IFRS, as established in the Public Reporting Directives, and in accordance with Israeli GAAP.

International standards are implemented according to the following principles:

- In cases in which there is no specific reference to material matters in the standards or interpretations, or there are several alternatives for the treatment of a material matter, the Bank acts according to specific implementation guidelines established by the Supervisor;
- In cases in which a material issue arises that is not resolved in IFRS or in implementation instructions of the Supervisor, the Bank treats the issue according to GAAP for US banks specifically applicable to these matters;
- Where an IFRS that has been adopted contains a reference to another IFRS adopted in the Public Reporting Directives, the Bank acts in accordance with the IFRS;
- Where an IFRS that has been adopted contains a reference to another IFRS that has not been adopted in the Public Reporting Directives, the Bank acts in accordance with the Reporting Directives and with Israeli GAAP;
- Where an IFRS that has been adopted contains a reference to a definition of a term defined in the Public Reporting Directives, a reference to the definition in the Directives shall replace the original reference.

(2) Functional Currency and Presentation Currency

The New Israeli Shekel (NIS) is the currency representing the primary economic environment in which the Bank operates. The financial statements are presented in NIS and rounded to the nearest million, unless otherwise noted.

(3) Measurement Base

The financial statements were prepared on the basis of historical cost, with the exception of the assets and liabilities listed below:

- Derivative financial instruments and other financial instruments measured at fair value through profit and loss;
- Financial instruments classified as available for sale;
- Liabilities in respect of share-based payment to be settled in cash;
- Deferred tax assets and liabilities;
- Provisions;
- Assets and liabilities in respect of employee benefits;
- Investments in equity-basis investees.

Note 1 Significant Accounting Policies (continued)

The value of non-monetary assets and items of capital measured on the basis of historical cost was adjusted to changes in the CPI up to December 31, 2003, because the Israeli economy was considered a hyper-inflationary economy until that date. As of January 1, 2004, the Bank has prepared its financial statements in reported amounts.

(4) Use of Estimates

The preparation of the financial statements in conformity with Israeli GAAP and the directives and guidelines of the Supervisor of Banks requires the Board of Management of the Bank to exercise judgment and to use estimates, evaluations, and assumptions that affect the application of policies and the amounts of assets, liabilities, income, and expenses. It is hereby clarified that actual results may differ from such estimates.

In formulating the accounting estimates used in the preparation of the financial statements of the Bank, the Board of Management of the Bank is required to make assumptions with regard to circumstances and events that involve significant uncertainty. The Board of Management of the Bank bases its judgment in establishing these estimates on past experience, various facts, external factors, and reasonable assumptions, according to the circumstances, as appropriate for each estimate. The estimates and the underlying assumptions are reviewed routinely. Changes in accounting estimates are recognized in the period in which the estimates are amended and in every affected future period.

In light of the wage agreement signed by the Board of Management of the Bank and the Employee Union of the Bank for 2013-2017, and in light of the efficiency plan involving early retirement, estimates used to calculate employee benefit obligations were updated during the year ended December 31, 2013, as follows:

- Rate of increase in wages – updated from a real rate of 1.5% for all active employees to a rate ranging from 0.5% to 7.5% in real terms, based on the employee's age.
- Routine departure rates were updated according to a study of departures of Bank employees. In addition, rates of early departure with preferred terms were adjusted to take into consideration management's expectations regarding employee retirement in 2014-2017 and from 2018 forward.

The effect of the change in estimates led to an increase in the amount of approximately NIS 40 million, in the balance of employee benefit obligations and in expenses for salaries and related expenses.

(5) Reclassification

Due to the first-time implementation of certain accounting standards and directives of the Supervisor of Banks (see Sections D and E below), certain items in the financial statements and certain comparative figures were reclassified, in order to match the item headings and reporting requirements for the current period. Specifically, the following items were reclassified:

Note 1 Significant Accounting Policies (continued)

Presentation of Items of Other Comprehensive Income

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

D. First-Time Implementation of Accounting Standards, Updates of Accounting Standards, and Directives of the Supervisor of Banks

The Bank has implemented the accounting standards and directives described below, as of January 1, 2013:

1. Directive concerning the "statement of comprehensive income."
2. Directive concerning "netting of assets and liabilities."
3. Directive concerning "disclosure of deposits."
4. Disclosure pursuant to the directives of the Supervisor of Banks concerning the update of the disclosure of credit quality of debts and the allowance for credit losses, for the adoption of ASU 2010-20, initial implementation of which was required as of January 1, 2013.
5. A new system of IFRS concerning the consolidation of financial statements and related matters.
6. Letter of the Supervisor of Banks concerning the "update of guidelines for residential real estate."
7. Updates of the note on securities set forth in the circular of the Supervisor concerning the integration of the Supervisor's letters with the Reporting Directives.
8. Updates concerning the presentation of the note on assets and liabilities by linkage base and by term to maturity (see Note 18, Assets and Liabilities by Linkage Base and by Term to Maturity).

The accounting policies of the Group, as detailed in Section E below, include the new accounting policies derived from the implementation of the aforesaid accounting standards, accounting standard updates, and directives of the Supervisor of Banks, and present the manner and effect, if any, of the initial implementation thereof.

Note 1 Significant Accounting Policies (continued)

E. Accounting Policies Implemented in the Preparation of the Financial Statements

(1) Foreign Currency and Linkage

Transactions in Foreign Currency

Transactions in foreign currency are translated according to the exchange rate in effect at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency at the reporting date are translated according to the exchange rate in effect at that date.

Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency according to the exchange rate in effect on the date on which the fair value is determined. Exchange-rate differences arising from translation are recognized in profit and loss, with the exception of differences arising from translation into the functional currency of non-monetary equity financial instruments classified as available for sale, or hedges of cash flows, which are recognized in other comprehensive income. Non-monetary items denominated in foreign currency and measured at historical cost are translated according to the exchange rate in effect on the date of the transaction.

Overseas Banking Offices

Until 2011, pursuant to the instructions of the Supervisor of Banks, overseas banking offices were classified as a "long arm" (foreign operations whose functional currency is the same as the functional currency of the Bank). In January 2011, upon the initial implementation of IFRS, among other matters, the Bank examined its overseas banking offices in accordance with IFRS rules and instructions of the Supervisor of Banks. Pursuant to instructions of the Supervisor of Banks, changing the classification of a banking office as a foreign operation with a functional currency other than the NIS requires advance guidance from the Head of the Financial Reporting Unit of the Supervisor of Banks. Accordingly, until such advance guidance is received, the Bank continued to treat the overseas banking offices as foreign operations whose functional currency is the same as the functional currency of the Bank.

A circular of the Supervisor of Banks issued in February 2012 contains criteria established by the Supervisor of Banks for determining the functional currency of an overseas banking office. In determining the functional currency, the Bank is required to examine the fulfillment/non-fulfillment of each of the following criteria:

- The primary environment in which the office generates and expends cash is foreign currency, whereas the office's activity in NIS is marginal;
- Autonomous recruitment of customers by the office – The activity of the office with customers of the Bank and/or closely affiliated parties thereof and/or parties referred to the office by the Bank is not significant;
- The activity of the office with the Bank and/or with its related parties is not significant. In addition, the office is not significantly dependent upon financing sources from the Bank and/or its related parties;
- The activity of the office is independent in essence and stands in its own right, and is not an extension or supplement to the local activity of the Group. In addition, the office conducts its activities with a significant degree of autonomy.

Note 1 Significant Accounting Policies (continued)

Clear non-fulfillment of one of the aforesaid criteria is an indication that the office should be treated as a foreign operation whose functional currency is the NIS. In other situations, the determination shall be made based on an examination of the criteria in aggregate. The Bank has examined the classification of its overseas banking offices based on the new criteria. In light of this examination, the Bank classified Bank Hapoalim Switzerland as a foreign operation with a functional currency other than the NIS, as of January 1, 2012. The change in classification was performed prospectively, such that exchange-rate differences in respect of translation were recognized as of January 1, 2012 in other comprehensive income, and presented under "translation adjustments of financial statements".

Foreign Operations

Assets and liabilities of foreign operations, including goodwill and adjustments to fair value created in an acquisition, were translated into NIS at the exchange rates in effect at the reporting date. Income and expenses of foreign operations were translated into NIS at the average monthly exchange rate according to the date of execution of the transactions. Exchange-rate differences in respect of translation are recognized in other comprehensive income, as of January 1, 2012, and presented in equity under "translation adjustments of financial statements".

Upon the realization of a foreign operation leading to a loss of control, material influence, or joint control, the amount accumulated in the translation reserve arising from the foreign operation is reclassified to profit and loss, as part of the profit or loss from the realization.

Hedge of Net Investment in a Foreign Operation

The Bank applies hedge accounting to exchange-rate differences between the functional currency of Bank Hapoalim Switzerland and the functional currency of the Bank (NIS). Exchange-rate differences in respect of the effective part of the hedge resulting from the translation of the financial liability hedging the net investment in Bank Hapoalim Switzerland are allocated to other comprehensive income and presented in equity under "translation adjustments of financial statements ". The non-effective part of the hedge is allocated to profit and loss.

CPI-Linked Assets and Liabilities Not Measured at Fair Value

Assets and liabilities linked to the CPI are included according to the linkage terms established for each balance.

Note 1 Significant Accounting Policies (continued)

CPI and Exchange Rates

Set out below are details regarding the CPI and representative exchange rates of the major currencies, and their rates of change:

	December 31			Change for the year	
	2013	2012	2011	**2013**	2012
November CPI (in points)	**102.2**	100.3	98.9	**1.9%**	1.4%
	In NIS				
USD exchange rate (in NIS per USD 1)	**3.471**	3.733	3.821	**(7.0%)**	(2.3%)
GBP exchange rate (in NIS per GBP 1)	**5.742**	6.037	5.892	**(4.9%)**	2.5%
EUR exchange rate (in NIS per EUR 1)	**4.782**	4.921	4.938	**(2.8%)**	(0.4%)
CHF exchange rate (in NIS per CHF 1)	**3.897**	4.077	4.062	**(4.4%)**	0.4%
TRY exchange rate	**1.606**	2.088	1.989	**(23.1%)**	5.0%

(2) Investments in Affiliates

(A) Consolidated Financial Statements and Non-controlling Interests:

When the Bank is exposed to or owns rights to variable returns as a result of its involvement in an investee entity, and it has the ability to affect such returns using its influence, the Bank has control of the entity and it is classified as a subsidiary. Tangible interests held by the Bank and by others are taken into consideration in determining control.

Consolidated financial statements present the financial statements of the Group as a single economic entity, from the date of attainment of control to the date of cessation of control. Accordingly, mutual balances and transactions between these entities and unrealized profits from sales between the entities are cancelled in full.

Accounting policies of consolidated companies were changed when necessary for congruence with the accounting policies adopted by the Bank.

Non-controlling interests represent the share of the capital of a subsidiary that cannot be directly or indirectly attributed to the Bank. Non-controlling interests are presented as a separate item within the capital of the Bank.

Non-controlling interests that are instruments granting a current ownership interest, and that grant the holder a share of the net assets in the event of liquidation (e.g. common shares), are measured at the date of the business combination at fair value. Other instruments that meet the definition of non-controlling interests (e.g. common share options) are measured at fair value or according to the directives of other relevant IFRS.

Profit or loss and any component of other comprehensive income are attributed to the owners of the Bank and to non-controlling interests. Total profit and other comprehensive income are attributed to the owners of the Bank and to non-controlling interests, even if as a result the balance of non-controlling interests is negative.

Transactions between the Group and non-controlling interests that do not lead to a loss of control are treated as equity-level transactions.

Note 1 Significant Accounting Policies (continued)

(B) Treatment of Variable Interest Entities:

An entity is a VIE if it complies with the tests detailed in FIN 46(R) as amended by FAS 167 – Consolidation of Variable Interest Entities (ASC 810-10): (1) the equity investment at risk is not sufficient to permit the entity to finance its activities without needing additional subordinated financial support provided by involved parties, including shareholders; or (2) the investors in the equity at risk, as a group, do not have the power to direct activities with a highly significant effect on the economic performance of the entity, or do not absorb their proportional share of the expected losses, or of the expected residual profits of the entity.

A VIE shall be consolidated in the financial statements if the Bank has the power to direct activities with a highly significant effect on the economic performance of the VIE, and the Bank has the right to receive benefits from the VIE or an obligation to absorb its losses, which could potentially be significant for the VIE. The Bank has variable interests in other VIEs which are not consolidated because the Bank is not the primary beneficiary of the VIE.

The Bank monitors all VIEs in order to determine whether an event has occurred that may cause a change in the identity of the primary beneficiary. Such events include, among others:

- Additional acquisitions or sales of variable interests by the Bank or by an unrelated third party, causing the overall ownership of variable interests of the Bank to change;
- Changes in contractual arrangements that redesignate expected losses or residual profits among the holders of the variable interests; and
- The provision of support to the entity leading to a significant variable interest.

For further details regarding variable interest entities, see Note 19E.

(C) Investment in Equity-Basis Investees:

Equity-basis investees are entities in which the Bank has material influence over financial and operational policy, but has not attained control. The assumption is that a stake of 20% to 50% in an affiliate grants material influence. In examining the existence of material influence, potential voting rights available for immediate realization or conversion into shares of the affiliate are taken into consideration.

Investments in equity-basis investees are treated using the equity method, and are recognized for the first time at cost. The cost of the investment includes transaction costs. When the Bank obtains material influence, for the first time, in an investment treated as an asset available for sale until the date of attainment of material influence, the equity method is applied retroactively, pursuant to rules established on this matter in GAAP for US banks. The financial statements include the Bank's share of income and expenses, profit or loss, and other comprehensive income of affiliated entities accounted for using the equity method, after adjustments required in order to adjust the entity's accounting policy to the policy of the Bank, from the date on which material influence is obtained until the date on which material influence no longer exists. It is hereby clarified that the Bank does not carry out adjustments to accounting policies referring to the core business of banking (on matters regarding which IFRS have not yet been adopted in the Public Reporting Directives) implemented by a non-financial equity-basis investee.

Note 1 Significant Accounting Policies (continued)

Loss of Material Influence

The Bank discontinues the use of the equity method as of the date of the loss of its material influence, and treats the investment as a financial asset or as a subsidiary, as relevant. At that date, the Bank measures any remaining investment in the former equity-basis investee, at fair value, and recognizes, in profit or loss, under the item "non-interest financing income," any difference between the fair value of any remaining investment and any consideration from the realization of part of the investment in the equity-basis investee, and the book value of the investment at that date. Amounts recognized in capital reserves through other comprehensive income in respect to that equity-basis investee are reclassified into profit and loss or retained earnings.

Change in Rates of Holdings in Equity-Basis Investees with the Retention of Material Influence

In an increase in the rate of holdings in an equity-basis investee accounted for using the equity method, when material influence is retained, the Bank applies the acquisition method only in respect of the additional percentage of holdings, with no change to the preexisting holding. In a decrease in the rate of holdings in an equity-basis investee accounted for using the equity method, when material influence is retained, the Bank subtracts a relative share of its investment, and recognizes profit or loss from the sale in the item "non-interest financing income." The cost of the interests sold for the purpose of the calculation of profit or loss from the sale is established according to a weighted average.

New System of IFRS Concerning Consolidation of Financial Statements and Related Matters

Pursuant to circular H-2354-06 of the Supervisor of Banks, applicable as of January 1, 2013, banks are required to implement the new system of standards concerning consolidation of financial statements and related matters, as adopted in the Public Reporting Directives. Among other matters, IFRS 10, Consolidated Financial Statements, was adopted, with the exception of the rules addressing the treatment of variable interest entities (VIEs), which will continue to be treated in accordance with ASC 810-10. Also adopted were IAS 28 (2011), Investments in Associates and Joint Ventures, and IFRS 12, Disclosure of Interests in Other Entities, with the exception of requirements included therein with regard to unconsolidated structured entities. Such entities will continue to be subject to the disclosure requirements established in ASC 810 (FAS 167), as integrated into Section 22 of the Public Reporting Directives concerning disclosure of variable interest entities.

The Bank has implemented the system of standards, for interim and annual periods beginning January 1, 2013, or later, retroactively (with the exception of certain reliefs in the transitional directives).

The implementation of the system of standards had no effect on the financial statements of the Bank.

(D) Business Combinations:

The Bank applies the acquisition method to all business combinations. The acquisition date is the date on which the acquirer obtains control over the acquiree. The Bank recognizes goodwill at the acquisition date according to the fair value of the consideration transferred, including amounts recognized in respect of any interests that do not grant control of the acquiree, and the fair value at the acquisition date of equity interests in the acquiree previously held by the acquirer, with the deduction of the net amount attributed in the acquisition to identifiable assets acquired and liabilities undertaken.

Note 1 Significant Accounting Policies (continued)

(3) Basis for Recognition of Revenues and Expenses

(A) Interest income and expenses are included on an accrual basis, with the following exceptions:

- Interest accrued on problematic debts classified as nonperforming debts is recognized as income on a cash basis, when there is no doubt regarding the collection of the remaining recorded balance of impaired debt. In such situations, the amount collected at the expense of the interest to be recognized as interest income is limited to the amount that would have accrued during the reporting period on the remaining recorded balance of the debt, at the contractual interest rate. Interest income on a cash basis is classified in the statement of profit and loss within interest income under the relevant item. When the collection of the remaining recorded balance is in doubt, all payments collected are used to reduce the principal of the loan. In addition, interest on amounts in arrears in respect of housing loans is recognized in the statement of profit and loss based on actual collection.
- Income from early repayment fees on loans, after deduction of the proportional share referring to financial capital, is included in the statement of profit and loss, at equal annual rates over the remaining maturity period of the credit, or over three years from the early repayment date, whichever is shorter.
- Credit allocation fees are recognized in profit and loss in proportion to the periods of the transactions.

(B) Operational fees in respect of the delivery of services are recognized in profit and loss when the Bank gains the entitlement to receive them. Fees from financing transactions are recognized in proportion to the period of the transactions.

(C) Securities – see Section E(5) below.

(D) Derivative financial instruments – see Section E(6) below.

(E) Other income and expenses – recognized on an accrual basis.

(4) Impaired Debts, Credit Risk, and Allowance for Credit Losses

Pursuant to the directive of the Supervisor of Banks regarding the measurement and disclosure of impaired debts, credit risk, and allowance for credit losses, as of January 1, 2011, the Bank has implemented the American accounting standard ASC 310 and the positions of the bank supervision agencies in the United States and the Securities and Exchange Commission in the United States, as adopted in the Public Reporting Directives and in the position statements and guidelines of the Supervisor of Banks. In addition, as of that date, the Bank has implemented the directives of the Supervisor of Banks regarding the treatment of problematic debts. As of January 1, 2012, the Bank has also implemented the directives of the Supervisor of Banks concerning the update of the disclosure of credit quality of debts and of the allowance for credit losses.

Note 1 Significant Accounting Policies (continued)

Application of the Directive

The directive applies to all debt balances, such as deposits with banks, bonds, securities borrowed or bought in agreements to resell, credit to the public, credit to the government, etc. Credit to the public and other debt balances for which no specific rules have been established in the Public Reporting Directives regarding the measurement of the allowance for credit losses (such as credit to the government, deposits with banks, etc.) are reported in the books of the Bank according to the recorded debt balance. The recorded debt balance is defined as the balance of the debt, after deducting charge-offs, but before deducting the allowance for credit losses in respect of that debt. The recorded debt balance does not include unrecognized accrued interest, or interest recognized in the past and later cancelled. With regard to other debt balances, for which specific rules exist with regard to the measurement and recognition of the impairment (such as bonds and derivatives), the Bank continues to implement such measurement rules.

Classification of Problematic Credit

Pursuant to the directives of the Bank of Israel, the Bank has established procedures for the identification of problematic credit, and for the classification of debts and of items of off-balance sheet credit as impaired, substandard, or under special supervision.

Credit risk is classified as impaired when, based on current information and events, the Bank expects to be unable to collect the full amount owed to it according to the original contractual terms agreed upon with the client. The decision to classify credit as impaired is based, among other factors, on the arrears of the debt; an assessment of the financial condition and repayment capability of the borrower; the existence and condition of collateral; the financial condition of guarantors, if any, and their commitment to support the debt; and the borrower's ability to obtain third-party financing. In any case, debt assessed on an individual basis is classified as impaired when the principal or interest in respect of the debt is in arrears of 90 days or more. In addition, any debt the terms of which have been changed in the course of troubled debt restructuring is classified as impaired debt, unless a minimum allowance for credit losses was recorded before and after the restructuring, according to the method of the extent of arrears, pursuant to the appendix to Proper Conduct of Banking Business 314 concerning proper assessment of credit risks and proper measurement of debts.

Impaired debts return to unimpaired status only when there are no components of principal or interest in respect of the debt that have become due but have not yet been paid, and the Bank expects repayment of the remaining principal and interest, in their entirety, in accordance with the terms of the contract.

Substandard credit risk includes balance sheet and off-balance sheet credit risk that is insufficiently protected by the current established value and repayment capability of the debtor or of the collateral pledged, if any. The classification of credit risk in this category requires the presence of well-defined weaknesses that jeopardize the realization of the debt, such that there is a clear possibility that the Bank may incur a certain loss if the deficiencies are not remedied. Off-balance sheet credit risk is classified as substandard if there is at least a possibility that the contingent liability in respect of the off-balance sheet item will be realized, and in addition, the debts that may be acquired as a result of the realization of the contingent liability fit the classification of substandard debts. Credit not examined individually, in respect of which an allowance for credit losses on a collective basis has been recognized, is classified as substandard when it becomes a debt in arrears of 90 days or more.

Note 1 Significant Accounting Policies (continued)

Credit risk under special supervision includes balance sheet and off-balance sheet credit risk with potential weaknesses that should be given special attention by management. If not addressed, these potential weaknesses could result in deterioration of the probability of settlement of the credit or of the status of the Bank as a creditor at a certain future date. Off-balance sheet credit risk is classified as under special supervision if there is at least a possibility that the contingent liability in respect of the off-balance sheet item will be realized, and in addition, the debts that may be acquired as a result of the realization of the contingent liability fit the classification of debts under special supervision.

Allowance for Credit Losses

The Bank is required to maintain an allowance for credit losses at an appropriate level in order to cover estimated credit losses with respect to its credit portfolio. In addition, the Bank is required to maintain an allowance at an appropriate level to cover estimated credit losses related to off-balance sheet credit instruments, such as contractual engagements to provide credit, unutilized credit facilities, and guarantees.

The allowance to cover estimated credit losses with respect to the credit portfolio is assessed by one of two methods: "individual allowance" and "collective allowance." The Bank also examines the overall fairness of the allowance for credit losses.

Individual allowance for credit losses – The Bank has chosen to identify debts for individual examination in which the total contractual balance (without deducting charge-offs, unrecognized interest, allowance for credit losses, or collateral) aggregated at the customer level is more than NIS 1 million (at the consolidated credit-card company – more than NIS 500 thousand). In addition, the Bank identifies certain debts with other problematic characteristics for individual examination, as well as debts of customers undergoing troubled debt restructuring, the allowance for impairment in respect of which is not included in the allowance for credit losses assessed on a collective basis. Individual allowances for credit losses are considered for all debts classified as impaired.

The individual allowance for credit losses is assessed based on expected future cash flows, discounted at the original interest rate of the debt. When it has been determined that repayment of the debt is contingent upon collateral, or when the Bank determines that seizure of an asset is expected, the individual allowance is assessed based on the fair value of the collateral pledged to secure the debt, following the application of cautious, consistent coefficients that reflect, among other factors, the volatility of the fair value of the collateral, the time that will elapse until the actual date of realization, and the expected costs of selling the collateral. The individual allowance required in respect of off-balance sheet credit instruments is assessed in accordance with the rules established in ASC 450, Contingencies

Note 1 Significant Accounting Policies (continued)

The collective allowance for credit losses is calculated in order to reflect impairment in respect of credit losses not individually identified inherent in large groups of small debts with similar risk attributes, and in respect of debts examined individually and found to be unimpaired. The allowance for credit losses in respect of debts evaluated on a collective basis, with the exception of housing loans, for which a minimum allowance is calculated according to the method of the extent of arrears, is calculated in accordance with the rules stipulated in ASC 450, and in accordance with the directive of the Supervisor of Banks, based on historical rates of loss in the various sectors of the economy, with a division between problematic and non-problematic credit, in 2008, 2009, and 2010, as well as on actual rates of net charge-offs during periods subsequent to the initial implementation date. The establishment of the rates of loss used to calculate the allowance also takes additional data into consideration, including trends in the volume of credit in each sector, conditions in the sector, macro-economic data, evaluation of the overall quality of credit in the economic sector, changes in volumes and trends of balances in arrears and impaired balances, and the effects of changes in credit concentration, all taking into consideration uncertainties arising from flaws in credit underwriting processes and in the processes of executing allowances for credit losses and establishing charge-offs. Pursuant to directives of the Supervisor of Banks, the amount of the collective allowance at the end of each reporting period shall not be less than the amount of the general and supplementary provision that would have been calculated at that date under Proper Conduct of Banking Business Directive 315, grossed up by the tax rate.

A minimum allowance in respect of housing loans is calculated according to a formula established by the Supervisor of Banks, taking the extent of arrears into consideration, such that the rate of the allowance increases with greater arrears. Pursuant to directives in the appendix to Proper Conduct of Banking Business Directive 314 concerning proper assessment of credit risks and proper measurement of debts, calculation of the allowance according to the formula based on the extent of arrears is to be performed, if necessary, for all housing loans, with the exception of loans not repaid in periodic installments and loans used to finance activities of a business nature.

In addition, the Bank has implemented the directives in the letter of the Supervisor of Banks concerning the update of guidelines for residential real estate.

The Bank has formulated a policy designed to ensure that it complies with the new requirements, and that beginning March 31, 2013, the balance of its collective allowance for credit losses in respect of housing loans does not fall below 0.35% of the balance of such loans at the reporting date.

The Bank implemented the guidelines set forth in the letter of the Supervisor of Banks in the financial statements prospectively. As a result of the implementation of these directives, an increase occurred in the allowance for housing loans for which no allowance exists based on the method of the extent of arrears, and no specific allowance assessed on an individual basis exists. The increase in the balance of the allowance, in the amount of approximately NIS 84 million before tax, was allocated to profit and loss.

Note 1 Significant Accounting Policies (continued)

In accordance with the guidelines of the Supervisor of Banks, the collective allowance required in respect of off-balance sheet credit risk is based on the rates of allowance established for balance sheet credit (as detailed above), taking into consideration the expected rate of realization as credit of the off-balance sheet credit risk. The rate of realization as credit is calculated based on credit conversion coefficients, as detailed in Proper Conduct of Banking Business Directive 203, Capital Measurement and Adequacy – Credit Risk – The Standardized Approach, with certain adjustments. The balance of this allowance is not deducted from the item "credit to the public," and is included in the item "other liabilities" in the balance sheet.
The Bank examines the overall fairness of its allowance for credit losses. This evaluation of fairness is based on the judgment of the Board of Management, which takes the risks inherent in the credit portfolio into consideration.
On June 18, 2013, a draft circular updating the Public Reporting Directives concerning the collective allowance for credit losses was submitted for discussion by the advisory committee. For further details, see section F(2) below.

Revenue Recognition

Upon classification of a debt as impaired, the Bank stops accruing interest income in respect of the debt (including CPI linkage differentials for debts classified as impaired, as of January 1, 2012). In addition, upon classification of the debt as impaired, the Bank cancels all uncollected accrued interest income that has been recognized as income in the statement of profit and loss. The debt continues to be classified as debt that does not accrue interest income, as long as its classification as an impaired debt is not cancelled. However, when a debt has undergone formal troubled debt restructuring, and following the restructuring there is a reasonable degree of confidence that the debt will be repaid in accordance with its new terms, the debt is treated as an impaired debt accruing interest income. In addition, in the event of collection in cash, when the recorded balance of the debt is expected to be settled in full, financing income can be recognized in the amount of the interest income that would have accrued, during the reporting period, on the remaining recorded balance of the debt according to the contractual rate. Any balance received in cash beyond this amount that is not recorded as a reduction of the remaining recorded balance shall be recorded as recovery of previous charge-offs. When the collection of the remaining recorded balance of an impaired debt is doubtful, all payments received shall be used to reduce the recorded balance, to the extent necessary in order to remove such doubt.
With regard to debts in arrears of 90 days or more, not examined individually, for which allowances have been made on a collective basis, the Bank does not stop accruing interest income until a charge-off is performed.

Troubled Debt Restructuring

A debt that has undergone formal troubled debt restructuring is defined as a debt in respect of which, for economic or legal reasons related to financial difficulties of the borrower, the Bank has granted a concession, in the form of a change in the terms of the debt, in order to ease the burden of cash payments for the borrower in the near term (reduction or postponement of cash payments required of the borrower), or in the form of the receipt of other assets as partial or full settlement of the debt.

Note 1 Significant Accounting Policies (continued)

In order to determine whether a debt arrangement executed by the Bank constitutes troubled debt restructuring, the Bank performs a qualitative examination of all of the terms of the arrangement and the circumstances under which it was executed, with the aim of determining whether the debtor is in financial difficulties and whether the Bank granted the debtor a concession within the arrangement. In order to make this determination, the Bank examines the ability to collect from the customer and considers whether there are signs indicating that the borrower is in difficulties at the time of the arrangement, or that there is a reasonable probability that the borrower would fall into financial difficulties without the arrangement.

The Bank does not classify debt as having undergone troubled debt restructuring if the debtor is granted a postponement of payments within the arrangement that is not material considering the frequency of payments, the contractual term to maturity, and the expected average lifetime of the original debt. In this context, if several arrangements involving changes in the terms of the debt have been executed, the Bank takes the cumulative effect of the previous arrangements into consideration in order to determine whether the postponement of payments is immaterial.

Restructured debts, including those which prior to the restructuring were not examined on an individual basis, are classified as impaired debt, and are evaluated on an individual basis, in order to record an allowance for credit losses or a charge-off. Because debts that have undergone troubled debt restructuring are not repaid according to their original contractual terms, the debts continue to be classified as impaired debts, even after the debtor resumes repayment under the new terms.

Charge-Offs

The Bank performs charge-offs for any debt or part of a debt evaluated on an individual basis which is thought to be uncollectible and is of such low value that its retention as an asset is unjustified, or debt in respect of which the Bank has carried out prolonged collection efforts (defined in most cases as a period exceeding two years). In cases of debts contingent upon collateral in respect of which the individual allowance is assessed based on the fair value of the collateral, the Bank performs a charge-off for any debt balance exceeding the fair value of the collateral, deducting a safety margin taking realization costs into consideration, among other factors. With regard to debts not evaluated on an individual basis, charge-off rules were established based on the period of arrears (in most cases more than 150 consecutive days) and other problematic parameters. It is hereby clarified that charge-offs do not entail a legal waiver, and serve to reduce the reported balance of the debt for accounting purposes only, while creating a new cost base for the debt in the Bank's books.

Note 1 Significant Accounting Policies (continued)

Foreclosed Assets

In cases of troubled debt restructuring in which the Bank receives assets as full or partial settlement of the debt, such as rights to capital, third-party receivables, or other assets to be sold at a later date, these assets shall be recognized, at the fair value of the assets, at the date of the foreclosure. If the assets received constitute full settlement of the debt, and at the foreclosure date the recorded debt balance exceeds the fair value of the assets, the Bank recognizes an allowance for credit losses. In any event, if the assets received are sold a short time after the foreclosure (usually up to 90 days), as long as no material change has occurred in the estimated fair value, the Bank replaces the estimated fair value with the price received in the sale, deducting selling costs, and adjusts the allowance for credit losses.

Policy on Provisions for Doubtful Debts Before the Implementation of the Directives on Impaired Debts, Credit Risk, and Allowance for Credit Losses

Prior to January 1, 2011, the provision for doubtful debts was determined on a specific basis. In addition, a general provision and a supplementary provision were included, in accordance with the directives of the Supervisor of Banks. The specific provision for doubtful debts was made on the basis of a cautious estimate by the Board of Management of the losses inherent in the credit portfolio, including debts in off-balance sheet items. In the aforesaid estimate, the Board of Management took into account, among other considerations, the extent of the risks related to the financial stability of borrowers, based on its information regarding their financial condition; their business operations; their compliance with their obligations; and an evaluation of collateral received from them. The recording of interest income in respect of a debt declared as doubtful ceased as of the beginning of the quarter in which the debt was declared doubtful. Upon collection of the interest, the interest income was recorded in the item "other financing income."

The specific provision for housing loans granted by the Bank was calculated according to the directives of the Supervisor of Banks, taking into account the extent of the arrears, such that the percentage of the provision increased as the period of the arrears lengthened.

The supplementary provision for doubtful debts was based on the quality of the customer debt portfolio, in accordance with risk attributes defined in the directives of the Supervisor of Banks. Different provision rates were determined for each such risk attribute.

The general provision was in values adjusted for the end of 2004, in an amount constituting 1% of the total indebtedness under the responsibility of the Bank as at December 31, 1991. At the end of 2010, the total provision stood at NIS 674 million.

Write-offs of bad debts were carried out when the Bank determined that the debt was uncollectible, following legal proceedings undertaken or as a result of agreements or arrangements, usually in cases in which no legal proceedings were undertaken, and the debts were not collectible, or due to other reasons for which the debts were uncollectible.

Note 1 Significant Accounting Policies (continued)

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

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

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

The Bank has implemented these directives, beginning January 1, 2012, prospectively. Some of the new disclosure requirements concerning troubled debt restructuring have been implemented by the Bank as of January 1, 2013. With regard to these new disclosures, the Bank is not required to include comparative information.

The initial implementation of the directives had no effect other than the update of the format of the disclosure in Note 4, "Credit Risk, Credit to the Public, and Allowance for Credit Losses."

(5) Securities

A. Securities in which the Bank invests are classified into the following three portfolios:

- Bonds held to maturity – Bonds that the Bank has the intention and ability to hold until their maturity date, with the exception of bonds that allow early repayment or settlement in another manner such that the Bank does not cover substantially all of its recorded investment. Bonds held to maturity are stated in the balance sheet at cost, plus interest and accrued linkage and exchange-rate differentials, taking into account the proportional part of the premium or discount, less losses in respect of other-than-temporary impairment.
- Securities held for trading – Securities acquired and held with the aim of selling them in the near future, with the exception of shares for which no fair value is available. Securities held for trading are stated in the balance sheet at fair value on the recording date. Profits and losses from adjustments to fair value are allocated to the statement of profit and loss.
- Securities available for sale – Securities not classified as bonds held to maturity or as securities held for trading. Shares for which a fair value is available and bonds are included in the balance sheet at their fair value on the reporting date. Shares for which no fair value is available are measured in the balance sheet at cost. Unrealized profits or losses from adjustments to fair value are not included in the statement of profit and loss, and are reported net, deducting an appropriate reserve for tax, in a separate item of equity within cumulative other comprehensive income.

Note 1 Significant Accounting Policies (continued)

B. Income from dividends, interest accrual, linkage and exchange-rate differentials, premium reduction or discounts (according to the effective interest-rate method), and losses from other-than-temporary impairment are allocated to the statement of profit and loss.

C. The Bank's investments in venture-capital funds are accounted for at cost, net of losses from other-than-temporary impairment. Profit from venture-capital investments is allocated to the statement of profit and loss upon realization of the investment.

D. The cost of securities that have been realized is calculated on a "first in - first out" basis.

E. With regard to the calculation of fair value, see Section E(7) below.

F. With regard to the treatment of other-than-temporary impairment, see Section E(8) below.

(6) Derivative Financial Instruments, Including Hedge Accounting

A. The Bank holds derivative financial instruments for the purpose of hedging foreign-currency risks and interest-rate risks, and executes activity in derivatives. Embedded derivative instruments are separated from the host contract and treated separately if: (a) there is no clear and close connection between the economic characteristics and risks of the host contract and of the embedded derivative instrument, including credit risks arising from certain embedded credit derivatives; (b) a separate instrument with the same terms as the embedded derivative instrument would fulfill the definition of a derivative; and (c) the hybrid instrument is not measured at fair value through profit and loss.

B. At the date of creation of the hedge, the Bank formally documents the hedging relationship between the hedging instrument and the hedged item, including the risk-management goal and strategy of the Bank in performing the hedge, and the manner in which the Bank plans to evaluate the effectiveness of the hedging relationship. The Bank evaluates the effectiveness of the hedging relationship both at the beginning of the hedge and on an ongoing basis, in accordance with its risk management policy.

C. Hedges of cash flows

When a derivative is designated as a hedging instrument for exposure to changes in expected future cash flows, which can be attributed to a particular risk attributed to a recognized asset or liability or to a probable expected transaction that may affect profit and loss, changes in its fair value in respect of the effective hedging part are allocated directly to other comprehensive income. Changes in fair value in respect of the non-effective part are allocated to profit and loss.

The amount recognized in other comprehensive income shall be reclassified to the statement of profit and loss in the period in which the cash flows affect the statement of profit and loss, and shall be presented within the same section of the statement of profit and loss as the hedged item.

Note 1 Significant Accounting Policies (continued)

If the hedged instrument no longer fulfills the criteria for an accounting hedge, or if it expires or is sold, cancelled, or realized, or the Bank cancels the designation of the cash flow hedge, treatment according to hedge accounting is discontinued. Profit or loss accumulated in other comprehensive income and previously presented in capital remains in capital until the expected transaction is executed or until it is almost certain that the expected transaction will not take place. If it is almost certain that the expected transaction will not take place, the cumulative profit or loss in respect of the hedging instrument recognized in other comprehensive income shall be reclassified to profit and loss.

D. Hedges of fair value

Changes in the fair value of a derivative financial instrument designated for hedging fair value are allocated to the statement of profit and loss. The hedged item is also presented at fair value, with reference to the hedged risks, and the changes in fair value are allocated to the statement of profit and loss.

If the hedged instrument no longer fulfills the criteria for an accounting hedge, or if it expires or is sold, cancelled, or realized, or the Bank cancels the designation of the fair value hedge, treatment according to hedge accounting is discontinued. When a hedged firm commitment no longer fulfills the definition of a firm commitment, any asset or liability recorded according to the recognition of the firm commitment shall be cancelled and recognized concurrently in the statement of profit and loss, in a current manner, in loss or profit.

E. Economic hedges

Hedge accounting is not applied to derivative instruments used as part of the asset and liability management (ALM) system of the Bank. Changes in the fair value of these derivatives are recognized in profit and loss upon formation.

Hedging of the net investment in a foreign operation – see Section E(1) above.

F. Derivatives not used for hedging

Changes in the fair value of derivatives not used for hedging are allocated immediately to profit and loss.

G. Embedded derivatives

An embedded derivative that has been separated is presented in the balance sheet together with the host contract. Changes in the fair value of embedded derivatives that have been separated are allocated immediately to profit and loss.

In certain cases (such as cases in which the Bank is unable to separate an embedded derivative from its host contract), in accordance with ASC 815-15 (FAS 155), Accounting for Certain Hybrid Financial Instruments, the Bank chooses not to separate the embedded derivative, and to measure the hybrid financial instrument as a whole at fair value, while reporting changes in fair value in the statement of profit and loss upon formation. This choice is made at the time of acquisition of the hybrid instrument, or when certain events occur in which the instrument is subject to remeasurement (remeasurement events), e.g. as a result of business combinations or material changes in the debt instruments. The choice of such fair value is irreversible.

Note 1 Significant Accounting Policies (continued)

(7) Establishing the Fair Value of Financial Instruments

Pursuant to ASC 820-10 (FAS 157), fair value is defined as the price that would be obtained from the sale of an asset, or that would be paid to extinguish a liability, in an ordinary transaction between market participants at the date of measurement. In order to assess fair value, the standard requires the maximum possible use of observable inputs, and minimum use of unobservable inputs. Observable inputs represent information available in the market and received from independent sources, whereas unobservable inputs reflect the assumptions of the Bank. FAS 157 specifies a hierarchy of measurement techniques, based on the question whether the inputs used to establish fair value are observable or unobservable. These types of inputs form the following fair-value hierarchy:

- Level 1 data: Prices quoted (unadjusted) in active markets for identical assets or liabilities, accessible to the Bank at the measurement date.
- Level 2 data: Prices quoted in active markets for similar assets or liabilities; prices quoted in inactive markets for identical assets or liabilities; prices derived from evaluation models in which all significant inputs are observed in the market or supported by observed market data.
- Level 3 data: Unobservable inputs regarding the asset or liability, arising from evaluation models in which one or more of the significant inputs is unobservable.

The hierarchy requires the use of observable market inputs, when such information is available. When possible, the Bank considers relevant observable market information in its evaluation. The volume and frequency of transactions, ask-bid spread, and size of the adjustment necessary in comparing similar transactions are all factors taken into consideration when determining the liquidity of markets and the relevance of prices observed in such markets.

Fair-value measurements of financial instruments are performed without taking a blockage factor into consideration, both for financial instruments evaluated according to Level 1 data and for financial instruments evaluated according to Level 2 or 3 data, with the exception of situations in which a premium or discount would be taken into account in the fair value measurement by market participants in the absence of Level 1 data.

Securities

The fair value of securities held for trading and of securities available for sale is determined based on market prices quoted in the primary market. When the security is traded in several markets, the evaluation is performed according to the market price quoted in the most beneficial market. In such cases, the fair value of the Bank's investment in the securities is the number of units multiplied by the quoted market price. The quoted price used to determine fair value is not adjusted for the size of the Bank's holding or for the size of the position relative to the trading volume (the blockage factor). If no quoted market price is available, the fair-value estimate is based on the best available information, with maximum use of observable inputs, taking into consideration the risks inherent in the financial instrument (market risk, credit risk, non-tradability, etc.).

Note 1 Significant Accounting Policies (continued)

Derivative Financial Instruments

Derivative financial instruments with an active market were evaluated according to the market value established in the primary market, or in the absence of a primary market, according to the market price quoted on the most beneficial market. Derivative financial instruments that are not traded were evaluated using models that take the risks inherent in the derivative instrument into consideration (market risk, credit risk, etc.). For further details, see the methodology for assessment of credit risk and nonperformance risk, below.

Assessment of Credit Risk and Nonperformance Risk

FAS 157 requires the Bank to reflect credit risk and nonperformance risk in measuring the fair value of debt, including derivative instruments, issued by the Bank and measured at fair value. Nonperformance risk includes the credit risk of the Bank, but is not limited to this risk alone. The Bank assesses credit risk in derivative instruments in the following manner:

- When sufficient liquid collateral exists in respect of the exposure, specifically securing the derivative instrument at a high degree of legal certainty, the Bank assumes that the credit risk inherent in the instrument is zero, and does not record adjustments to fair value in respect of the quality of credit of the counterparty.
- When exposure in respect of the counterparty on a consolidated basis is material, the Bank performs a fair-value assessment based on indications from transactions in an active market of the quality of credit of the counterparty, insofar as such indications are available with reasonable effort. The Bank derives these indications, among other things, from prices of debt instruments of the counterparty traded in an active market, and from prices of credit derivatives the basis for which is the quality of credit of the counterparty. If no such indications exist, the Bank calculates the adjustments based on internal ratings.
- When the exposure in respect of the counterparty on a consolidated basis is immaterial, the Bank calculates the aforesaid adjustment based on internal ratings.

For further details regarding the main methods and assumptions used to estimate the fair value of financial instruments, see Note 21 below concerning balances and fair-value estimates of financial instruments.

(8) Impairment of Financial Assets

Each reporting period, the Bank examines whether impairments in the fair value of securities classified into the available-for-sale portfolio and the held-to-maturity portfolio are of an other-than-temporary nature. This examination includes several stages and principles, according to the policy established by the Bank.

The Bank recognizes other-than-temporary impairment for the reporting period at least in respect of the impairment of any securities meeting one or more of the following conditions:

- Securities that have been sold by the date of publication of the report to the public for the period;
- Securities that, near the date of publication of the report to the public for the period, the Bank intends to sell within a short time;
- Bonds that have undergone a significant downgrade in rating, from the rating at the date of acquisition by the Bank to the rating at the date of publication of the report for the period;

Note 1 Significant Accounting Policies (continued)

- Bonds classified as problematic by the Bank after acquisition;
- Bonds where a default has occurred after acquisition;
- Securities whose fair value at the end of the reporting period and near the date of publication of the financial statements is significantly lower than their cost (with regard to bonds – depreciated cost), unless the Bank has solid objective evidence and a cautious analysis of all relevant factors proving at a high degree of confidence that the impairment is of a temporary nature.

In addition, the examination of the presence of other-than-temporary impairment is based on the following considerations:

- The rate of loss relative to the cost of the security (for bonds – the depreciated cost);
- The amount of time for which the fair value of the security is lower than its cost;
- A change for the worse in the condition of the issuer or in the general condition of the market;
- The Bank's intention and ability to hold the security for a sufficient period to allow the fair value of the security to rise, or to maturity;
- In the case of bonds – the rate of yield to maturity;
- In the case of shares – reduction or cancellation of dividend distribution.

When other-than-temporary impairment has occurred, the cost of the security is written down to its fair value and used as the new cost base. The cumulative loss referring to a security classified as available for sale, previously allocated to a separate item in capital within other comprehensive income, is transferred to profit and loss when other-than-temporary impairment has occurred. Appreciation in value during subsequent reporting periods is recognized in a separate item of capital within cumulative other comprehensive income, and is not allocated to profit and loss.

(9) Offsetting Financial Assets and Liabilities

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

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

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

Note 1 Significant Accounting Policies (continued)

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

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

In addition, the Bank has updated the disclosure in Note 20, "Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates," in accordance with the new disclosure requirements in the directive.

The Bank has applied the rules in the directive retroactively. The initial implementation had no material effect on the Bank's financial statements, other than the update of the format of the disclosure in Note 20, "Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates," as required by the directive.

(10) Transfers and Servicing of Financial Assets and Extinguishment of Liabilities

The Bank implements the measurement and disclosure rules set forth in the American accounting standard ASC 860-10 (FAS 140), Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, as amended by ASC 860-10 (FAS 166), Accounting for Transfers of Financial Assets, with regard to the accounting treatment of transfers of financial assets and extinguishment of liabilities.

Pursuant to these rules, transfers of financial assets are accounted for as sales if and only if all of the following conditions are met: (1) the financial asset transferred is isolated from the transferring party, including in situations of bankruptcy or other receivership; (2) any recipient (or, if the recipient is an entity whose sole purpose is to engage in securitization or in asset-backed financing activity, and that entity is barred from pledging or exchanging the financial assets which it receives – any third party holding beneficiary rights) may pledge or exchange the assets (or the beneficiary rights) received, and there is no term that also restricts the recipient (or the third party holding beneficiary rights) from exercising the right to pledge or exchange, and grants the transferring party a benefit that is more than trivial; (3) the transferring party, or consolidated companies included in its financial statements, or its agents, do not retain effective control of the financial assets or of the beneficiary rights referring to the transferred assets.

The assessment of effective control focuses on contractual rights and contractual obligations of the transferor, and therefore does not take into consideration: (1) a criterion requiring the transferor to have the ability to acquire the transferred securities even in the event of default by the transferee, or (2) instructions regarding collateral requirements in connection with the aforesaid criterion.

Note 1 Significant Accounting Policies (continued)

In transactions for the transfer of financial assets, the Bank determines that the transferor retains effective control of the transferred assets (and the transfer of the assets will therefore be treated as a secured debt) if all of the following conditions are fulfilled:

- The assets to be repurchased or redeemed are identical or essentially identical to the assets transferred;
- The agreement is to repurchase or redeem the assets before the maturity date, at a fixed or fixable price; and
- The agreement is executed simultaneously with the transfer.

In addition, in order for the transfer of part of a financial asset to be considered a sale, the transferred part must comply with the definition of participatory rights. Participatory rights must meet the following criteria: the right must represent proportional rights relative to the full financial asset; all cash flows obtained from the assets are distributed between the participatory rights in a manner proportional to their share of the ownership; the rights are not subordinated to other rights; there is no right of return to the transferring party or to other holders of participatory rights (except in cases of the breach of representations or commitments, current contractual commitments to service a financial asset in its entirety and manage the transfer contract, and contractual commitments to share the offsets of any benefits received by any holder of participatory rights); and the transferring party and the holder of participatory rights have no right to pledge or exchange the financial asset in its entirety, unless all of the holders of participatory rights agree to pledge or exchange the financial asset in its entirety.

If the transaction complies with the conditions for treatment of a transaction as a sale, the transferred financial assets or the participatory right are subtracted from the balance sheet of the Bank. If the conditions for a sale are not met, the transfer is considered a secured debt. The sale of part of a financial asset that is not a participatory right is treated as a secured debt; i.e., the transferred assets continue to be recorded in the balance sheet of the Bank, and the consideration from the sale is recognized as a liability of the Bank.

Securities sold under repurchase conditions or purchased under reselling conditions, where the Bank has not lost control of the transferred asset or has not gained control of the asset received, are treated as secured debt.

Pursuant to the guidelines of the Supervisor of Banks, certain securities sold to the Bank of Israel under repurchase agreements are treated as secured debt. Financial instruments transferred in such transactions are measured according to the same measurement principles implemented prior to the transfer. Thus, such securities are not subtracted from the balance sheet, and the deposit for the return of which the securities were pledged is presented against them, under the item "securities lent or sold under agreements to repurchase." Securities received in such transactions are recorded according to the amount of cash received by the Bank, under the item "securities borrowed or bought under agreements to resell." The Bank monitors the fair value of securities borrowed and lent, and of securities transferred in repurchase and resale agreements, and issues a demand for supplementary collateral in relevant cases.

The Bank implements specific directives established in the Public Reporting Directives for the treatment of securities lending or borrowing transactions in which the loan is executed against the general credit quality and the general collateral of the borrower, when the borrower does not transfer liquid instruments, which the lender is entitled to sell or pledge, to the lender, as collateral referring specifically to the securities lending transaction. Such lending and borrowing are treated as credit or deposits measured at the fair value of the relevant security.

Note 1 Significant Accounting Policies (continued)

(11) Fixed Assets (Buildings and Equipment)

Recognition and Measurement

Fixed-asset items are measured at cost, with the deduction of accrued depreciation and losses from impairment. Cost includes expenses directly attributable to the acquisition of the asset. The cost of assets created in-house includes cost of materials and direct labor wages, as well as any additional cost directly attributable to bringing the asset to the location and condition necessary in order for it to operate in the manner intended by management.

Costs of acquired software that constitute an integral part of the operation of the related equipment is recognized as part of the cost of such equipment. In addition, pursuant to the Public Reporting Directives, the Bank classifies costs in respect of software assets acquired or costs capitalized as an asset in respect of software developed in-house for internal use under the item "buildings and equipment." With regard to the accounting treatment of software costs, see Section E(13) below.

When significant parts of a fixed asset (including costs of significant periodic tests) have different lifetimes, they are treated as separate items (significant components) of the fixed asset.

Profit or loss from the subtraction of a fixed-asset item are determined by comparing the consideration from the subtraction of the asset with its book value, and recognized as a net amount under the item "other income" in the statement of profit and loss.

Depreciation

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of the asset, or another amount substituted for the cost, with the deduction of the residual value of the asset.

Depreciation is allocated to the statement of profit and loss using the straight-line method, over the estimated useful life of each part of the fixed-asset items, because this method best reflects the forecast pattern of consumption of the future economic benefits inherent in the asset. Leased assets are depreciated over the shorter of the period of the lease and the period of use of the assets. Land owned by the Bank is not depreciated.

Estimates related to the depreciation method, useful life, and residual value are reexamined at least at the end of each fiscal year, and adjusted when necessary.

(12) Leases

Leases, including leases of land from the Israel Land Administration or from other third parties, in which the Bank materially bears all of the risks and rewards from the asset, are classified as financing leases. At initial recognition, leased assets are measured at an amount equal to the lower of the fair value and the present value of the minimum future leasing fees. Future payments for the exercise of an option to extend the term of the lease from the Israel Land Administration are not recognized as part of the asset and the related liability, as they constitute contingent leasing fees, which are derived from the fair value of the land at the future renewal dates of the leasing agreement. After initial recognition, the asset is treated in accordance with the accounting policy customarily applied to that asset. Other leases are classified as operational leases. The leased assets are not recognized in the balance sheet of the Bank.

Note 1 Significant Accounting Policies (continued)

Payments in operational leases are allocated to profit and loss using the straight-line method, over the period of the lease. Leasing incentives received are recognized as an inseparable part of the total leasing expenses, using the straight-line method, over the period of the lease.

(13) Intangible Assets

Goodwill

For information regarding the measurement of goodwill upon initial recognition, see section E(2) above. In subsequent periods, goodwill is measured at cost, with the deduction of accrued losses from impairment.

Software Costs

Software acquired by the Bank is measured at cost, with the deduction of accrued depreciation and losses from impairment.

Costs related to software development or adaptation for in-house use are capitalized if and only if: the development costs can be measured reliably; the software is technically and commercially feasible; future economic benefits are expected; and the Bank has the intention and sufficient resources to complete the development and use the software. Costs recognized as an intangible asset include direct costs of materials and services and direct labor wages for workers. Overhead costs that cannot be directly attributed to the development of the software and research costs are recognized as expenses when incurred.

Depreciation

Depreciation is allocated to the statement of profit and loss, using the straight-line method, over the estimated useful life of intangible assets, including software assets, starting on the date when the assets are available for use.

Goodwill and intangible assets with an indeterminate lifetime are not depreciated systematically, but are examined for impairment at least once a year.

Intangible assets created at the Bank (such as software under development) are not depreciated systematically as long as they are not available for use. Accordingly, these intangible assets are examined for impairment at least once a year until they become available for use.

Subsequent Costs

Subsequent costs are recognized as intangible assets only when they increase the future economic benefit inherent in the asset in respect of which they were expended. Other costs are allocated to the statement of profit and loss when incurred.

Note 1 Significant Accounting Policies (continued)

(14) Investment Property

Investment property is property (land or buildings, or part of a building, or both) held (by the Bank as an owner or through a financing lease) for the purpose of generating rent income or for equity appreciation or both, and not for the purpose of:

1. Use in manufacturing or delivery of goods or services for administrative purposes; or
2. Sale during the ordinary course of business.

Investment property is measured for the first time at acquisition cost, plus transaction costs. In subsequent periods, investment property is measured at cost, with the deduction of accrued depreciation and losses from impairment.

(15) Impairment of Non-Financial Assets

The book value of the non-financial assets of the Bank, excluding deferred tax assets and including investments accounted for using the equity method, is examined at each reporting date in order to determine whether indications of impairment exist. If such indications exist, an estimate of the recoverable amount of the asset is calculated. In periods subsequent to the initial recognition date, an estimate of the recoverable amount of goodwill and intangible assets with an indeterminate lifetime or unavailable for use is performed once annually, on a fixed date for each asset, or more frequently if indications of impairment exist.

The recoverable amount of an asset or of a cash-generating unit is the higher of the use value and the net sale value (fair value net of selling expenses).

In determining use value, the Bank discounts the estimated future cash flows according to a pretax discounting rate reflecting market estimates regarding the time value of the money and the specific risks related to the asset. For the purpose of examining impairment, assets that cannot be examined individually are aggregated into the smallest group of assets that generates cash flows from ongoing use, which are essentially non-dependent on other assets and groups (a "cash-generating unit"). For the purposes of examining impairment of goodwill, cash-generating units to which goodwill is allocated are aggregated such that the level at which the impairment is examined reflects the lowest level at which goodwill is monitored for internal reporting purposes, but is not larger than a segment of activity (before the aggregation of similar segments).

Assets of the headquarters of the Bank do not generate separate cash flows, and serve more than one cash-generating unit. Some assets of headquarters are allocated to cash-generating units, on a reasonable and consistent basis, and are examined for impairment as part of the examination of impairment in respect of the cash-generating units to which they are allocated.

Other headquarters assets that cannot be allocated to cash-generating units in a reasonable and consistent manner are allocated to a group of cash-generating units, if there are indications that impairment has occurred in an asset belonging to the headquarters of the Bank, or when there are indications of impairment in the group of cash-generating units. In such cases, the recoverable amount of the group of cash-generating units served by headquarters is determined.

Note 1 Significant Accounting Policies (continued)

Losses from impairment are recognized when the book value of the asset or of the cash-generating unit to which the asset belongs exceeds the recoverable amount, and are charged to profit and loss. Losses from impairment recognized with regard to cash-generating units are first allocated to the depreciation of the book value of the goodwill attributed to such units, and subsequently to the depreciation of the book value of the other assets in the cash-generating unit, proportionally.

With regard to cash-generating units that include goodwill, loss from impairment is recognized when the book value of the cash-generating unit, after inclusion of the goodwill, exceeds its recoverable amount.

Loss from impairment is allocated between owners of the company and non-controlling interests, according to the same basis of allocation as profit or loss.

Loss from the impairment of goodwill is not cancelled. With regard to other assets, losses from impairment recognized in previous periods are reexamined each reporting period, in order to test for signs that the losses have decreased or no longer exist. Losses from impairment are cancelled if a change has occurred in the estimates used to determine the recoverable amount, only if the book value of the asset, after cancellation of the loss from impairment, does not exceed the book value net of amortization or depreciation that would have been determined if no loss from impairment had been recognized.

Impairment of In-House Software Development Costs

In addition to the indications of impairment established in IAS 36, Impairment of Assets, tests of impairment of in-house software development costs shall also be performed when the signs listed in GAAP for US banks, SOP 98-1: Accounting for the Costs of Computer Software Developed or Obtained for Internal Use (ASC 350-40), are present:

(1) The software is not expected to provide significant potential services;

(2) The manner or volume of use or expected use of the software has changed substantially;

(3) The software has been or will be substantially changed;

(4) Costs of the development or conversion of the software designated for internal use significantly exceed the expected amounts;

(5) It is no longer expected that development will be completed and the software will be used.

If one or more of the signs listed above exists, an examination for impairment must be performed, in accordance with the rules set forth in IAS 36, Impairment of Assets.

(16) Non-Current Assets Held for Sale and Discontinued Operations

Non-current assets (or realization groups consisting of assets and liabilities) expected to be recovered primarily through sale or distribution, rather than through ongoing use (except assets seized in respect of impaired debts), are classified as assets held for sale or distribution.

Immediately before classification as held for sale or distribution, the assets are measured in accordance with the accounting policies of the Bank. Subsequently, the assets are measured according to the lower of the book value and the fair value, net of selling costs.

In subsequent periods, depreciable assets classified as held for sale or distribution are not depreciated periodically, and investments in equity-basis investees classified as held for sale are not accounted for using the equity method.

Note 1 Significant Accounting Policies (continued)

(17) Employee Benefits

The Bank's obligations in respect of post-employment benefits or other long-term benefits, according to law, agreement, custom, and management expectations, are calculated on an actuarial basis, taking into consideration probabilities based on past experience. The capitalization rate taken into account is 4%, in accordance with directives of the Supervisor of Banks. The mortality rate is based on current directives of the Supervisor of the Capital Market, Insurance, and Savings, including the draft position statement on this matter issued by the Supervisor of the Capital Market, Insurance, and Savings at the Ministry of Finance. The future rate of increase in wages is estimated by the Board of Management.

Short-term employee benefits (such as labor wages, vacations, and bonuses) are measured on an uncapitalized basis, and the expense is allocated when the related service is rendered.

In addition, pursuant to directives of the Supervisor of Banks, a banking corporation that expects a group of employees to be paid benefits beyond their contractual terms should take into account the percentage of employees expected to depart (including employees expected to depart under voluntary retirement programs or upon receiving other preferred terms) and the benefits that they are expected to receive upon departure. Following implementation of the Supervisor's instructions, the liability in respect of severance pay for the group of employees is presented in the financial statements according to the amount calculated on an actuarial basis, taking into account the additional cost expected to be incurred by the Bank in respect of the aforesaid benefits.

The Supervisor of Banks issued a draft circular on January 30, 2014, concerning the accounting treatment of employee benefits. For further details, see section F(4) below.

(18) Share-Based Payment

The fair value at the date of the grant of share-based payments to employees is allocated as a wage expense, in parallel to the increase in equity, over the period in which the unconditional eligibility for the grant is attained. The amount allocated as an expense in respect of share-based payment grants contingent upon vesting conditions, which are service conditions or execution conditions that are not market conditions, is adjusted to reflect the number of grants expected to vest. For share-based payment grants contingent upon conditions that are not vesting conditions or on vesting conditions that are execution conditions constituting market conditions, the Bank takes such conditions into consideration when estimating the fair value of the equity instruments granted. The Bank therefore recognizes the expense in respect of such grants regardless of whether the conditions are fulfilled.

The fair value of the amount owed to employees in respect of rights to the increase in value of shares settled in cash is allocated as an expense, against a corresponding increase in liabilities, over the period in which the employees' unconditional eligibility for the payment is attained. The liability is remeasured at every reporting date, until the date of settlement. Any change in the fair value of the liabilities is allocated as an expense under "salaries and related expenses" in profit and loss.

The Supervisor of Banks issued a draft circular on January 30, 2014, concerning the accounting treatment of share-based payment. For further details, see section F(4) below.

Note 1 Significant Accounting Policies (continued)

(19) Shares in Treasury

When the Bank buys its own shares, the amount of the consideration paid, including direct costs, is deducted from equity. The shares that have been bought back are classified as shares in treasury. When shares in treasury are sold or reissued, the amount of the consideration received is recognized as an increase in equity, and the surplus or deficit arising from the transaction is allocated to the balance of the premium.

(20) Contingent Liabilities

The financial statements include sufficient provisions for legal claims, according to the assessment of the Board of Management and based on the opinions of its legal advisors. The disclosure is in the format set forth in the directives of the Supervisor of Banks, so that the claims filed against the Bank Group are classified into three groups:

1. Probable risk – the probability of realization of the exposure to risk is over 70%. Provisions are included in the financial statements in respect of claims in this risk group.
2. Reasonably possible risk – the probability of realization of the exposure to risk is between 20% and 70%. No provision is included in the financial statements in respect of claims in this risk group, but disclosure is given.
3. Remote risk – the probability of realization of the exposure to risk is under 20%. No provision is included in the financial statements in respect of claims in this risk group and no disclosure is given.

Legal claims regarding which the Supervisor of Banks has determined that the Bank is required to pay reimbursement are classified as probable, and a provision is made in respect of the claim commensurate with the amount that the Bank is required to reimburse.

In rare cases, the Bank has determined that in the opinion of the Bank's Board of Management, based on the opinion of its legal advisors, the probability of realization of the exposure to risk in respect of an ordinary claim or in respect of a claim certified as a class action cannot be estimated. In cases where the Bank has not yet published four financial statements since the first inclusion of the claim, no provision was made.

Note 19(D) contains disclosure of every claim in an amount greater than 1% of the capital of the Bank. With regard to claims the outcome of which cannot be estimated at this stage, disclosure is given for every claim in an amount greater than 0.5% of capital.

(21) Expenses for Taxes on Income

Expenses for taxes on income include current and deferred taxes. Current and deferred taxes are allocated to the statement of profit and loss, unless the tax arises from a transaction or event recognized directly in equity. In such cases, the expense for taxes on income is allocated to equity. Current tax is the amount of tax expected to be paid (or received) on the taxable income for the year, calculated according to the applicable tax rates under enacted laws or substantively enacted at the balance sheet date, including changes in tax payments referring to previous years.

The provision for taxes on the income of the Bank and its consolidated companies which are financial institutions for the purposes of value-added tax includes a profit tax imposed on income under the Value Added Tax Law. The value-added tax applied to wages at financial institutions is included in the statement of profit and loss under the item, "salaries and related expenses."

Note 1 Significant Accounting Policies (continued)

The Bank recognizes deferred taxes with reference to temporary differences between the book value of assets and liabilities for the purposes of financial reporting and their value for tax purposes. However, the Bank does not recognize deferred taxes with respect to the following temporary differences: first-time recognition of goodwill; first-time recognition of assets and liabilities in a transaction that does not constitute a business combination and does not affect accounting profit or profit for tax purposes; and differences arising from investments in subsidiaries, entities under joint control, and equity-basis investees, if they are not expected to be reversed in the foreseeable future. The deferred taxes are measured according to the tax rates expected to apply to the temporary differences at the date when they are realized, based on laws enacted or substantively enacted at the balance sheet date. The Bank offsets deferred-tax assets and liabilities in the event that an enforceable legal right exists for the offsetting of current tax assets and liabilities, and they are attributed to the same taxable income item taxed by the same tax authority for the same taxed company, or in different companies in the Group that intend to settle current tax assets and liabilities on a net basis, or the tax assets and liabilities are settled simultaneously.

A deferred-tax asset shall be recognized in respect of losses carried forward and in respect of temporary differences when it is more likely than not that tax savings will be created in respect thereof at the reversal date. The creation of net deferred tax assets shall not exceed the current taxes in the accounting period, except in special cases in which taxable income is expected to exist in the future against which they can be used.

The Bank may be obligated to add taxes in the case of dividend distribution in respect of affiliates. This added tax is not included in the financial statements, due to the policy of the affiliates not to cause dividend distribution involving added taxes for the Bank in the foreseeable future. In cases in which an affiliate is expected to distribute dividends from profits involving added taxes for the Bank, the Bank creates a reserve for tax in respect of the added tax which it is likely to incur.

Deferred taxes in respect of intercompany transactions in the consolidated report are recorded according to the tax rate applicable to the acquiring company.

The Bank recognizes the effect of tax positions only if it is more likely than not that the positions will be accepted by the tax authorities or by the court. Recognized tax positions are measured according to the maximum amount with a probability of realization greater than 50%. Changes in recognition or measurement are reflected in the period during which the changes in circumstances occurred that led to the change in the decision.

Note 1 Significant Accounting Policies (continued)

(22) Capitalization of Borrowing Costs

IAS 23, Borrowing Costs, requires the capitalization of borrowing costs attributable directly to the acquisition, construction, or production of a qualifying asset. A qualifying asset is an asset that requires a substantial period of time to prepare for its designated use or sale, including, among other matters, fixed assets, software assets, and other assets where a long period is necessary in order to bring the assets to a condition in which they can fulfill their designated function or be sold.

However, it has been clarified in the directives of the Supervisor of Banks that banking corporations shall not capitalize borrowing costs unless they have established clear policy, procedures, and controls with regard to the criteria for recognition of qualifying assets and of capitalized borrowing costs.

Accordingly, the Bank does not capitalize borrowing costs of qualifying assets.

(23) Earnings Per Share

The Bank presents data on basic and diluted earnings per share with respect to its ordinary share capital. Basic earnings per share are calculated by dividing the profit or loss attributed to holders of the ordinary shares of the Bank by the weighted average number of ordinary shares outstanding during the period, after adjustment for shares in treasury. Diluted earnings per share are determined by adjusting the profit or loss (such as adjustments in respect of the effect of dividends after tax, any financing costs, and other changes) attributed to the holders of ordinary shares and adjusting the weighted average of ordinary shares in circulation, after adjustment for shares in treasury and for the effects of all potentially dilutive ordinary shares, which include share options and share options granted to employees.

(24) Reporting on Activity Segments

A segment of activity is a component of the Bank engaged in activities from which it is likely to derive income and bear expenses, the results of operations of which are regularly examined by the Board of Management and the Board of Directors in order to make decisions regarding resource allocation and performance evaluation, and with regard to which separate financial information exists. The format for reporting on the segments of activity of the Bank is established in the Public Reporting Directives of the Supervisor of Banks.

The division into segments at the Bank is based on characteristics of customer segments. These segments also include banking products. The results of products that cannot be attributed to the relevant customer segments are included in "Others and Adjustments."

(25) Related Party Disclosures

IAS 24, Related Party Disclosures, establishes the disclosure required of entities with regard to their relationships with related parties and with regard to unsettled transactions and balances with related parties. In addition, disclosure of remuneration of key executives is required. Key executives are defined as persons with the authority and responsibility to plan the activity of the entity, or to directly or indirectly guide and control the entity, including any director (active or inactive) of the entity.

Note 1 Significant Accounting Policies (continued)

(26) Transactions with Controlling Parties

The Bank implements US GAAP for accounting for transactions between a banking corporation and its controlling party or a company controlled by the bank. In situations where these rules do not address the treatment method, the Bank applies the rules established in Standard 23 of the Israel Accounting Standards Board, Accounting Treatment of Transactions between an Entity and its Controlling Party.

Assets and liabilities regarding which a transaction has been executed with a controlling party are measured at fair value at the date of the transaction. Because a transaction on the equity level is involved, the Group allocates the difference between the fair value and the consideration from the transaction to equity.

Loans, Including Deposits

At the first recognition date, the loan granted to the controlling party or the deposit received from the controlling party is presented in the financial statements of the Bank at its fair value as an asset or liability, as relevant. The difference between the amount of the loan granted or deposit received and the fair value thereof at the first recognition date is allocated to equity.

In reporting periods subsequent to the first recognition date, the aforesaid loans or deposits are presented in the financial statements of the Bank at their depreciated cost, with implementation of the effective interest method.

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

(1) Directives Concerning the Format of the Statement of Profit and Loss of a Banking Corporation and the Adoption of GAAP for US Banks on Interest Income Measurement

A circular of the Supervisor of Banks was issued on December 29, 2011, with the aim of adjusting the Public Reporting Directives for the purpose of adoption of the rules established in US GAAP regarding nonrefundable fees and other costs. The directive establishes rules for the treatment of loan origination fees and direct loan origination costs. The eligible fees and costs, according to the criteria established in the directive, shall not be recognized immediately in the statement of profit and loss, but shall be taken into account in calculating the effective interest rate of the loan. In addition, the directive changes the treatment of credit allocation commitment fees and costs, including credit-card transactions. The directive also sets forth rules regarding the treatment of changes in the terms of debt that do not constitute troubled debt restructuring, treatment of early repayment of debts, and treatment of other credit granting transactions, such as syndication transactions. It was further clarified that banking corporations cannot defer internal loan origination costs without advance approval of the Supervisor of Banks.

The directive will be implemented prospectively, for transactions originated or renewed from January 1, 2014, forward. Among other matters, the implementation of the standard led to the classification of certain fees related to credit granting as interest income, and to the deferral of recognition of these fees over the term of the credit.

Note 1 Significant Accounting Policies (continued)

(2) Collective Allowance for Credit Losses

A draft circular updating the Public Reporting Directives, entitled "Collective Allowance for Credit Losses," was submitted for discussion by the advisory committee on June 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 required reporting to management and to the board of directors.

The expected effect of the implementation of the instructions in connection with 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) Adoption of Certain IFRS Standards

In June 2009, the Supervisor of Banks issued a letter concerning reporting by banking corporations and credit-card companies in Israel in accordance with IFRS, which establishes the expected manner of adoption of IFRS by banking corporations. In accordance with the circular, IFRS concerning matters not related to the core business of banking were adopted gradually during 2011 and 2012, with the exception of IAS 19, Employee Benefits, the implementation of which has been postponed. With regard to matters related to the core business of banking, the Supervisor of Banks has clarified that a final decision will be reached, taking into consideration the schedule to be established in the United States and the progress of the convergence process between international and American standards.

Note 1 Significant Accounting Policies (continued)

(4) Employee Benefits and Share-Based Payment

The Supervisor of Banks issued a draft on January 30, 2014, concerning the adoption of US GAAP regarding employee benefits. The draft updates recognition, measurement, and disclosure requirements concerning employee benefits in the Public Reporting Directives, in accordance with GAAP for US banks.

The draft states that the amendments to the Public Reporting Directives will apply from January 1, 2015, forward. Upon initial implementation, comparative figures for periods beginning January 1, 2013, or later will be revised retroactively.

Among other matters, the draft states that:

- The capitalization rate for the calculation of employee benefit obligations shall be based on market yields of government bonds in Israel. As a result, the temporary order in the current directives, which establishes the capitalization rate for the calculation of provisions to cover employee benefits, will be cancelled.
- Banking corporations shall implement GAAP for US banks concerning share-based payments, as specified in ASC 718 – Compensation – Stock Compensation.

The Bank is examining the effect of this draft. According to the Bank's estimates, the expected effect of the Bank, if the directives of the draft had been implemented on December 31, 2013, with respect to the change in the capitalization rate only, would be an increase in employee benefit obligations in the amount of approximately NIS 651 million, and a decrease in shareholders' equity, in the amount of approximately NIS 409 million, after tax effect. It is emphasized that the adoption of US GAAP concerning employee benefits may have additional effects on the Bank, including effects on shareholders' equity. The effect noted above does not take such additional effects into consideration; it refers only to the use of the capitalization rates noted above. It is emphasized that for the purpose of the calculation of capital requirements pursuant to the Basel 3 directives, according to the transitional directives set forth in Proper Conduct of Banking Business 299, cumulative profit or loss balances in respect of 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 in equal installments of 20%, until full implementation beginning January 1, 2018.

NIS millions

Note 2 Cash on Hand and Deposits with Banks

Composition:

	as at December 31	
	2013	2012
Cash on hand and deposits with central banks	**40,222**	50,967
Deposits with commercial banks	**5,487**	4,334
Total*,**	**45,709**	55,301
* Of which: cash, deposits with banks and central banks for an original period of up to three months	**43,933**	53,937
** Excluding collective allowance for credit losses in the amount of	**6**	5

Note:
With regard to liens, see note 14.

NIS millions

Note 3 Securities

	as at December 31, 2013				
	Book 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**

	Book 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 is usually based on stock exchange prices, which do not necessarily reflect the price which will be obtained from a large-volume sale of securities.
(1) Including shares and options for which no fair value is available, which are stated at cost, amounting to NIS 562 million.
(2) Included in the item "Net 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 23 and 24 below.
b. Israeli bonds and foreign bonds are differentiated according to the country of residence of the Issuer entity.

NIS millions

Note 3 Securities (continued)

	as at December 31, 2013				
	Book 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 governmen	**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**

	as at December 31, 2013
4) Data regarding impaired bonds	
Set out below are the recorded debt balances of:	
Impaired bonds accruing interest income	**43**

* Fair value data is usually based on stock exchange prices, which do not necessarily reflect the price which will be obtained from a large-volume sale of securities.
(1) Including shares and options for which no fair value is available, which are stated at cost, amounting to NIS 562 million.
(2) Attributed to the Statement of Profit and Loss.
(3) Of which: Securities in the amount of approximately NIS 8.0 billion were pledged to lenders - see Note 14.

Notes:
a. For details of the results of activity in investments in bonds and in shares - see Notes 23 and 24 below.
b. Israeli bonds and foreign bonds are differentiated according to the country of residence of the Issuer entity.

NIS millions

Note 3 Securities (continued)

	as at December 31, 2012				
	Book 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	56	56	-	-	56
Financial institutions in Israel	693	693	59	-	752
Total bonds held to maturity	749	749	59	-	808

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

* Fair value data is usually based on stock exchange prices, which do not necessarily reflect the price which will be obtained from a large-volume sale of securities.
(1) Including shares and options for which no fair value is available, which are stated at cost, amounting to NIS 564 million.
(2) Included in the item "Net 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 23 and 24 below.
b. Israeli bonds and foreign bonds are differentiated according to the country of residence of the Issuer entity.

NIS millions

Note 3 Securities (continued)

	as at December 31, 2012				
	Book 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	2,993	2,969	25	(1)	2,993
Foreign governments	79	79	-	-	79
Foreign financial institutions	608	608	1	(1)	608
Others in Israel	8	8	-	-	8
Foreign others	272	270	3	(1)	272
Total bonds and debentures held for trading	3,960	3,934	29	(3)	3,960
Shares:					
Others	43	52	-	(9)	43
Total securities held for trading	4,003	3,986	(2)29	(2)(12)	4,003
Total securities(3)	52,070	51,138	1,029	(38)	(1)52,129

	as at December 31, 2012
4) Data regarding impaired bonds:	
Set out below are the recorded debt balances of:	
Impaired bonds accruing interest income	49

* Fair value data is usually based on stock exchange prices, which do not necessarily reflect the price which will be obtained from a large-volume sale of securities.
(1) Including shares and options for which no fair value is available, which are stated at cost, amounting to NIS 564 million.
(2) Attributed to the Statement of Profit and Loss.
(3) Of which: Securities in the amount of approximately NIS 7.3 billion were pledged to lenders - see Note 14.

Notes:
a. For details of the results of activity in investments in bonds and in shares - see Notes 23 and 24 below.
b. Israeli bonds and foreign bonds are differentiated according to the country of residence of the Issuer entity.

NIS millions

Note 3 Securities (continued)

5) Fair value and unrealized losses, by duration and rate of impairment, of securities available for sale in an unrealized loss position*

	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%	
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)**

	December 31, 2012							
	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	3,849	(2)	-	(2)	272	(17)	-	(17)
Foreign governments	-	-	-	-	48	(1)	-	(1)
Foreign financial institutions	44	(1)	-	(1)	58	(2)	-	(2)
Others in Israel	356	(3)	-	(3)	-	-	-	-
Total securities available for sale	4,249	(6)	-	(6)	378	(20)	-	(20)

* 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 circular contains new disclosure requirements with regard to fair value and unrealized losses of securities available for sale, with a breakdown by duration and rate of impairment as a percentage of the total depreciated cost. The Bank implemented the directive retroactively. See Note 1(D).

NIS millions

Note 4 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

	as at December 2013					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Allowance for credit losses at beginning of year	**3,356**	**358**	**969**	**4,683**	**5**	**4,688**
Provision for credit losses(1)	**635**	**108**	**130**	**873**	**1**	**874**
Charge-offs	**(892)**	**(44)**	**(544)**	**(1,480)**	**-**	**(1,480)**
Recoveries of debts charged-off in previous years	**331**	**-**	**175**	**506**	**-**	**506**
Net charge-offs	**(561)**	**(44)**	**(369)**	**(974)**	**-**	**(974)**
Adjustments from translation of financial statements	**-**	**-**	**(1)**	**(1)**	**-**	**(1)**
Allowance for credit losses at end of year(2)(3)	**3,430**	**422**	**729**	**4,581**	**6**	**4,587**
(1) Of which: In respect of off-balance sheet credit instruments	**61**	**-**	**(18)**	**43**	**-**	**43**
(2) Of which: In respect of off-balance sheet credit instruments	**563**	**-**	**75**	**638**	**-**	**638**
(3) Of which: In respect of other debt instruments	**-**	**-**	**-**	**-**	**-**	**-**

	as at December 2012					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Allowance for credit losses at beginning of year	3,359	351	946	4,656	4	4,660
Provision for credit losses(1)	673	29	284	986	1	987
Charge-offs	(986)	(22)	(443)	(1,451)	-	(1,451)
Recoveries of debts charged-off in previous years	310	-	182	492	-	492
Net charge-offs	(676)	(22)	(261)	(959)	-	(959)
Allowance for credit losses at end of year(2)(3)	3,356	358	969	4,683	5	4,688
(1) Of which: In respect of off-balance sheet credit instruments	54	-	(16)	38	-	38
(2) Of which: In respect of off-balance sheet credit instruments	502	-	93	595	-	595
(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 4 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)

1. Change in allowance for credit losses (continued)

	as at December 2011					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Allowance for credit losses at beginning of year	10,346	230	1,013	11,589	-	11,589
Net charge-offs recognized as at January 1, 2011	(7,517)	-	(195)	(7,712)	-	(7,712)
Other changes in the allowance as at January 1, 2011 (allocated to equity)	1,495	99	78	1,672	5	1,677
Provision (income) for credit losses(1)	914	45	244	1,203	(1)	1,202
Charge-offs	(2,060)	(23)	(259)	(2,342)	-	(2,342)
Recoveries of debts charged-off in previous years	181	-	65	246	-	246
Net charge-offs	(1,879)	(23)	(194)	(2,096)	-	(2,096)
Allowance for credit losses at end of year(2)(3)	3,359	351	946	4,656	4	4,660
(1) Of which: In respect of off-balance sheet credit instruments	19	-	2	21	-	21
(2) Of which: In respect of off-balance sheet credit instruments	448	-	109	557	-	557
(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 4 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*

	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 201 million (December 31, 2012: NIS 102 million).

*** Includes the allowance beyond the amount required according to the method of the extent of arrears, in the amount of approximately NIS 18 million (December 31, 2012: NIS 21 million).

NIS millions

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

* Credit to the public, credit to governments 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 201 million (December 31, 2012: NIS 102 million).

*** Includes the allowance beyond the amount required according to the method of the extent of arrears, in the amount of approximately NIS 18 million (December 31, 2012: NIS 21 million).

NIS millions

Note 4 Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts**

1. Credit quality and arrears

	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 - other	**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 4(B)(2)(c) below.

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

(4) Accruing interest income. Debts in arrears of 30 to 89 days, in the amount of approximately NIS 269 million (December 31, 2012: NIS 110 million) were classified as unimpaired problematic debts.

(5) Includes a balance of housing loans, in the amount of approximately NIS 100 million (December 31, 2012: NIS 89 million) with allowance based on the extent of arrears, for which an arrangement has been signed for the borrower's repayment of the amounts in arrears, where a change has been made in the repayment schedule with regard to the balance of the loan not yet due for repayment.

NIS millions

Note 4 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 abroad						
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 abroad	**22,025**	**402**	**563**	**22,990**	**12**	**148**
Banks abroad	**20,719**	**-**	**-**	**20,719**	**-**	**-**
Governments abroad	**855**	**-**	**-**	**855**	**-**	**-**
Total activity abroad	**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 4(B)(2)(c) below.

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

(4) Accruing interest income. Debts in arrears of 30 to 89 days, in the amount of approximately NIS 269 million (December 31, 2012: NIS 110 million) were classified as unimpaired problematic debts.

NIS millions

Note 4 Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts**** (continued)

1. Credit quality and arrears (continued)

	December 31, 2012					
	Non-problematic	Problematic(1)		Total	Unimpaired debts*** – additional information	
		Unimpaired	Impaired(2)		In arrears of 90 days or more**(3)	In arrears of 30 to 89 days(4)
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	16,439	502	1,426	18,367	76	30
Construction and real estate - real estate activities	20,150	40	866	21,056	40	25
Financial services	*14,198	124	1,237	*15,559	6	16
Commercial - other	*75,671	3,172	*3,103	*81,946	116	119
Total commercial	126,458	3,838	*6,632	*136,928	238	190
Private individuals - housing loans(5)	48,194	823	-	49,017	1,023	885
Private individuals - other	40,829	226	958	42,013	102	284
Total public – activity in Israel	215,481	4,887	*7,590	*227,958	1,363	1,359
Banks in Israel	59	-	-	59	-	-
Israeli government	46	-	-	46	-	-
Total activity in Israel	215,586	4,887	*7,590	*228,063	1,363	1,359

* Reclassified.
** Restated.
*** 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 4(B)(2)(c) below.
(3) Classified as unimpaired problematic debts. Accruing interest income, with the exception of housing loans in arrears of up to 3 months.
(4) Accruing interest income. Debts in arrears of 30 to 89 days, in the amount of approximately NIS 269 million (December 31, 2012: NIS 110 million) were classified as unimpaired problematic debts.
(5) Includes a balance of housing loans, in the amount of approximately NIS 100 million (December 31, 2012: NIS 89 million) with allowance based on the extent of arrears, for which an arrangement has been signed for the borrower's repayment of the amounts in arrears, where a change has been made in the repayment schedule with regard to the balance of the loan not yet due for repayment.

NIS millions

Note 4 Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts**** (continued)

1. Credit quality and arrears (continued)

	December 31, 2012					
	Non-problematic	Problematic(1)		Total	Unimpaired debts*** – additional information	
		Unimpaired	Impaired(2)		In arrears of 90 days or more**(3)	In arrears of 30 to 89 days(4)
Borrower activity abroad						
Public - commercial						
Construction and real estate	7,570	-	375	7,945	-	63
Commercial - other	14,123	303	*153	*14,579	58	70
Total commercial	21,693	303	*528	*22,524	58	133
Private individuals	2,712	14	60	2,786	12	63
Total public – activity abroad	24,405	317	*588	*25,310	70	196
Banks abroad	24,114	-	-	24,114	-	14
Governments abroad	752	-	-	752	-	-
Total activity abroad	49,271	317	*588	*50,176	70	210
Total public	239,886	5,204	8,178	253,268	1,433	1,555
Total banks	24,173	-	-	24,173	-	14
Total governments	798	-	-	798	-	-
Total	264,857	5,204	8,178	278,239	1,433	1,569

* Reclassified.
** Restated.
*** 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 4(B)(2)(c) below.
(3) Classified as unimpaired problematic debts. Accruing interest income, with the exception of housing loans in arrears of up to 3 months.
(4) Accruing interest income. Debts in arrears of 30 to 89 days, in the amount of approximately NIS 269 million (December 31, 2012: NIS 110 million) were classified as unimpaired problematic debts.

Credit Quality – The Status of Debts in Arrears

The status of debts in arrears is monitored routinely, and serves as one of the key indicators of credit quality. The status of debts in arrears is determined based on actual days of arrears. Debts are treated as nonperforming debts (debts not accruing interest income) after 90 days of arrears, as is any debt that has undergone troubled debt restructuring and has resumed accruing interest when it is 30 days in arrears relative to the new terms of the debt. With regard to debts evaluated on a collective basis, the status of arrears affects the classification of the debt (the classification is more severe for more extensive arrears). After 150 days of arrears, the Bank usually 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 4 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

	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 - other	**428**	**127**	**276**	**704**	**1,147**
Total public – activity in Israel	**4,562**	**942**	**2,668**	**7,230**	**16,759**
Borrower activity abroad					
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 public – activity abroad	**351**	**96**	**212**	**563**	**893**
Total public*	**4,913**	**1,038**	**2,880**	**7,793**	**17,652**
* Of which:					
Measured at the present value of cash flows	**3,111**	**802**	**1,740**	**4,851**	
Debts in troubled debt restructuring	**1,170**	**215**	**2,114**	**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) Recorded debt balance.

(2) Individual allowance for credit losses.

NIS millions

Note 4 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, 2012				
	Balance[1] of impaired debts for which an individual allowance exists[2]	Individual allowance[2]	Balance[1] of impaired debts for which no individual allowance exists[2]	Total balance[1] of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	580	56	846	1,426	5,033
Construction and real estate - real estate activities	240	20	626	866	2,032
Financial services	1,160	461	77	1,237	2,046
Commercial - other	2,164	552	**939	**3,103	**6,649
Total commercial	4,144	1,089	**2,488	**6,632	**15,760
Private individuals - other	529	308	429	958	1,182
Total public – activity in Israel	4,673	1,397	**2,917	**7,590	**16,942
Borrower activity abroad					
Public - commercial					
Construction and real estate	300	21	75	375	603
Commercial - other	122	75	**31	**153	**311
Total commercial	422	96	**106	**528	**914
Private individuals	52	45	8	60	65
Total public – activity abroad	474	141	**114	**588	**979
Total public*	5,147	1,538	3,031	8,178	17,921
* Of which:					
Measured at the present value of cash flows	4,234	1,245	1,681	5,915	
Debts in troubled debt restructuring	1,021	428	2,205	3,226	

** 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 4 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

	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	**1,346**	**36**	**26**
Construction and real estate - real estate activities	**801**	**39**	**34**
Financial services	**1,006**	**4**	**3**
Commercial - other	**3,393**	**73**	**59**
Total commercial	**6,546**	**152**	**122**
Private individuals - other	**763**	**49**	**22**
Total public – activity in Israel	**7,309**	**201**	**144**
Borrower activity abroad			
Public - commercial			
Construction and real estate	**352**	**7**	**5**
Commercial - other	**194**	**2**	**2**
Total commercial	**546**	**9**	**7**
Private individuals	**67**	**3**	**2**
Total public – activity abroad	**613**	**12**	**9**
Total public	**7,922**	**213**	**153**

	2012	2011
Average recorded debt balance of impaired credit to the public in the reported period	8,487	9,867
Total interest income recorded in the reported period in respect of this credit, during the period of time in which it was classified as impaired*	182	171
Total interest income that would have been recorded in the reported period, if this credit had accrued interest according to its original terms	692	887
* Of which: Interest income recorded according to the cash base accounting method	118	139

** 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").

*** If the impaired debts had accrued interest according to the original terms, interest income would be recorded in the amount of NIS 684 million for the year ended December 31, 2013.

NIS millions

Note 4 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

	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 - other	**370**	**252**	**622**
Total public – activity in Israel	**2,501**	**552**	**3,053**
Borrower activity abroad			
Public - commercial			
Construction and real estate	**223**	**-**	**223**
Commercial - other	**1**	**-**	**1**
Total commercial	**224**	**-**	**224**
Private individuals	**6**	**1**	**7**
Total public – activity abroad	**230**	**1**	**231**
Total public	**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.

Commitments to grant additional credit to debtors who have undergone troubled debt restructuring with changes to the terms of the credit totaled approximately NIS 132 million as at December 31, 2013 (December 31, 2012: NIS 128 million).

NIS millions

Note 4 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, 2012		
	Recorded debt balance		
	Not accruing interest income	Accruing[1] not in arrears	Total[2]
Borrower activity in Israel			
Public - commercial			
Construction and real estate - construction	388	200	588
Construction and real estate - real estate activities	265	72	337
Financial services	211	6	217
Commercial - other	*883	92	*975
Total commercial	*1,747	370	*2,117
Private individuals - other	579	268	847
Total public – activity in Israel	*2,326	638	*2,964
Borrower activity abroad			
Public - commercial			
Construction and real estate	255	-	255
Commercial - other	*3	1	*4
Total commercial	*258	1	*259
Private individuals	2	1	3
Total public – activity abroad	*260	2	*262
Total public	2,586	640	3,226

* 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.

NIS millions

Note 4 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 year ended December 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	**100**	**265**	**261**
Construction and real estate - real estate activities	**14**	**11**	**10**
Financial services	**5**	**5**	**3**
Commercial - other	**578**	**944**	**912**
Total commercial	**697**	**1,225**	**1,186**
Private individuals - other	**7,626**	**335**	**304**
Total public – activity in Israel	**8,323**	**1,560**	**1,490**
Borrower activity abroad			
Public - commercial			
Commercial - other	**13**	**1**	**1**
Private individuals	**141**	**5**	**5**
Total public – activity abroad	**154**	**6**	**6**
Total public	**8,477**	**1,566**	**1,496**

* 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").

as at December 31, 2013 NIS millions

Note 4 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 year ended December 31, 2013**	
	Number of contracts	Recorded debt balance
Borrower activity in Israel		
Public - commercial		
Construction and real estate - construction	**43**	**10**
Construction and real estate - real estate activities	**7**	**20**
Financial services	**2**	**1**
Commercial - other	**247**	**53**
Total commercial	**299**	**84**
Private individuals - other	**3,246**	**109**
Total public – activity in Israel	**3,545**	**193**
Borrower activity abroad		
Public - commercial		
Commercial - other	**1**	**-**
Total commercial	**1**	**-**
Private individuals	**6**	**-**
Total public – activity abroad	**7**	**-**
Total public	**3,552**	**193**

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

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

*** 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 4 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**

		December 31, 2013			
		Balance of housing loans			Off-balance sheet credit risk
		Total	Of which: bullet and balloon	Of which: floating interest rate	Total
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**

		December 31, 2012			
		Balance of housing loans			Off-balance sheet credit risk*
		Total	Of which: bullet and balloon	Of which: floating interest rate*	Total
First lien: financing rate	Up to 60%	28,035	157	19,774	963
	Over 60%	25,654	108	19,491	655
Secondary lien or no lien		437	-	341	1,238
Total		54,126	265	39,606	2,856

* Restated.

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

*** 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").

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 4.B.3 presents balances of debt in respect of housing loans, segmented by ranges of LTV ratios and levels of liens.

Note 4 Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

C. Balances of credit to the public[1] and of off-balance sheet credit risk[1][2] according to the size of credit per borrower

	December 31, 2013		
	Number of borrowers[3]	Credit*[1]	Off-Balance sheet credit risk[1][2]
Credit per borrower (in thousands of NIS)		NIS millions	
Up to 10	**1,935,724**	**2,690**	**2,404**
From 10 to 20	**513,100**	**3,168**	**3,905**
From 20 to 40	**475,640**	**5,722**	**7,747**
From 40 to 80	**290,356**	**9,144**	**7,189**
From 80 to 150	**165,656**	**11,421**	**6,505**
From 150 to 300	**102,131**	**14,681**	**6,846**
From 300 to 600	**63,364**	**22,178**	**4,978**
From 600 to 1,200	**42,319**	**30,374**	**4,551**
From 1,200 to 2,000	**10,720**	**13,685**	**2,410**
From 2,000 to 4,000	**4,903**	**10,655**	**2,502**
From 4,000 to 8,000	**2,053**	**8,543**	**2,750**
From 8,000 to 20,000	**1,465**	**12,749**	**5,452**
From 20,000 to 40,000	**736**	**13,176**	**6,990**
From 40,000 to 200,000	**861**	**42,497**	**30,082**
From 200,000 to 400,000	**143**	**21,359**	**17,798**
From 400,000 to 800,000	**63**	**17,703**	**17,679**
From 800,000 to 1,200,000	**16**	**11,825**	**4,328**
From 1,200,000 to 1,600,000	**4**	**3,567**	**1,948**
From 1,600,000 to 2,000,000	**5**	**899**	**8,183**
From 2,000,000 to 3,200,000	**3**	**5,158**	**1,445**
Over 3,200,000	**2**	**3,596**	**6,106**
Total	**3,609,264**	**264,790**	**151,798**

* Credit to the public, investments in corporate bonds, other assets in respect of derivative instruments against the public, at a total of NIS 255,543, 4,684, and 4,563 million, respectively.
(1) Credit and off-balance sheet credit risk are presented before the effect of the allowance for credit losses, and before the effect of deductible collateral for the purposes of the indebtedness of a borrower and borrowers group.
(2) Credit risk in respect of off-balance sheet financial instruments as calculated for purposes of borrower debt limitations (Excluding unutilized credit-card credit facilities under the responsibility of other banks in the amount of approximately NIS 10,011 million).
(3) The number of borrowers is calculated according to total credit and off-balance sheet credit risk.

Note:
The figures of credit and off-balance sheet credit risk (hereinafter - "the credit") in the credit brackets up to NIS 8,000 thousand, including the number of borrowers, were calcualted by aggregating the data in each credit bracket of each subsidiary (consolidation on the basis of layers), whereas the data on the credit over NIS 8,000 thousand, including the number of borrowers, was calculated by aggregating the credit of each borrower throughout the Bank Hapoalim Group and classified in the respective credit bracket (specific consolidation).

Note 4 Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

C. Balances of credit to the public(1) and of off-balance sheet credit risk(1)(2) according to the size of credit per borrower (continued)

	December 31, 2012		
	Number of borrowers(3)	Credit*,***(1)	Off-Balance sheet credit risk(1)(2)
Credit per borrower (in thousands of NIS)		NIS millions	
Up to 10	1,831,708	2,533	2,641
From 10 to 20	475,992	3,029	3,525
From 20 to 40	474,754	5,500	8,087
From 40 to 80	314,877	9,411	8,115
From 80 to 150	164,170	10,966	6,703
From 150 to 300	96,455	13,871	6,474
From 300 to 600	60,741	21,291	4,686
From 600 to 1,200	37,912	26,820	4,356
From 1,200 to 2,000	9,636	12,196	2,303
From 2,000 to 4,000	4,896	10,405	2,767
From 4,000 to 8,000	2,006	8,332	2,741
From 8,000 to 20,000	1,448	12,708	5,236
From 20,000 to 40,000	707	12,439	6,842
From 40,000 to 200,000	836	**41,870	28,617
From 200,000 to 400,000	142	**22,100	16,772
From 400,000 to 800,000	68	**21,337	14,392
From 800,000 to 1,200,000	15	9,727	4,870
From 1,200,000 to 1,600,000	7	5,039	4,432
From 1,600,000 to 2,000,000	6	4,892	5,851
From 2,000,000 to 3,200,000	2	3,954	1,023
Over 3,200,000	2	3,869	6,349
Total	3,476,380	*,**262,289	146,782

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

** 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."

*** Credit to the public, investments in corporate bonds, other debts of the public, other assets in respect of derivative instruments against the public, at a total of NIS 253,268, 5,389, 122 and 3,510 million, respectively.

(1) Credit and off-balance sheet credit risk are presented before the effect of the allowance for credit losses, and before the effect of deductible collateral for the purposes of the indebtedness of a borrower and borrowers group.

(2) Credit risk in respect of off-balance sheet financial instruments as calculated for purposes of borrower debt limitations (Excluding unutilized credit-card credit facilities under the responsibility of other banks in the amount of approximately NIS 10,279 million).

(3) The number of borrowers is calculated according to total credit and off-balance sheet credit risk.

Note:
The figures of credit and off-balance sheet credit risk (hereinafter - "the credit") in the credit brackets up to NIS 8,000 thousand, including the number of borrowers, were calcualted by aggregating the data in each credit bracket of each subsidiary (consolidation on the basis of layers), whereas the data on the credit over NIS 8,000 thousand, including the number of borrowers, was calculated by aggregating the credit of each borrower throughout the Bank Hapoalim Group and classified in the respective credit bracket (specific consolidation).

NIS millions

Note 4 Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

D. Information regarding sales of debt

The following table details the proceeds paid or received for purchases or sales of loans:**

	December 31, 2013			
	Commercial	Housing	Other	Total
Loans purchased	**49**	**-**	**-**	**49**
Loans sold	**201**	**-**	**2**	**203**

	December 31, 2012			
	Commercial	Housing	Other	Total
Loans sold	*459	-	-	459

* Restated.
** For further information regarding loan sale transactions, see Note 19(C)(4) below.

Note 5 Credit to Governments

Composition:

	December 31	
	2013	2012
Credit to the Government of Israel	**314**	46
Credit to foreign governments	**855**	752
Total credit to governments	**1,169**	798

as at December 31, 2013 NIS millions

Note 6 Investments in Equity-Basis Investees

A. Composition:

	December 31	
	2013	2012
	Equity-Basis Investees	
Investment in shares stated on the equity-basis	**111**	105
Other investments		
Shareholders' loans	**26**	22
Total investments	**137**	127
Of which:		
Accrued post-acquisition profits, net	**74**	65
Details of the book value and market value of marketable investments:		
Book value	**22**	22
Market value	**36**	27

B. Share in the profits of equity-basis investees, net

	2013	2012	2011
The Bank's share in net operating profits (losses) of equity-basis investees, after tax	**9**	6	(5)

Note 6 Investments in Equity-Basis Investees (continued)

C. Details of principal subsidiary and affiliated companies

	December 31					
	2013	2012	**2013**	2012	**2013**	2012
	Share in capital granting the right to receive profits		Share in voting rights		Investment in shares on equity basis(1)	
					NIS millions	
Consolidated companies:						
Bank Hapoalim (Switzerland) Ltd., Commercial bank in Switzerland	**100%**	100%	**100%**	100%	**1,537**	1,564
Bank Pozitif Kredi ve Kalkinma Bankasi Anonim Sirketi, Commercial bank in Turkey	**69.8%**	69.8%	**69.8%**	69.8%	**513**	648
Isracard Ltd., Credit card services	**98.2%**	98.2%	**98.2%**	98.2%	**1,913**	1,648
Poalim Capital Markets Investment Bank Ltd.	**100%**	100%	**100%**	100%	**818**	814
Diur B.P. Ltd. - Asset management	**100%**	100%	**100%**	100%	**607**	608
Tarshish Holdings and Investments Poalim Ltd., Financial company	**100%**	100%	**100%**	100%	**4,470**	4,206
Opaz Ltd., Investments and holdings	**100%**	100%	**100%**	100%	**370**	358
Continental Poalim Ltd. Financial company	**100%**	100%	**100%**	100%	**592**	588
Pkaot Poalim Ltd. Financial company	**100%**	100%	**100%**	100%	**295**	292
Hapoalim Nechasim (Menayot) Ltd. Holding company	**100%**	100%	**100%**	100%	**1,224**	1,145
Poalim Sahar Ltd. - Operation and trading of securities	**100%**	100%	**100%**	100%	**541**	527
Zohar Hashemesh Investments Ltd.	**100%**	100%	**100%**	100%	**1,589**	1,555

(1) Including the balance of distinguished surplus costs, goodwill, capital notes, net of cumulative losses for decline in value.
(2) Including adjustments in respect of the presentation of certain securities of affiliates at fair value.

December 31									
2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Goodwill balance and other intangible assets		Contribution to net profit attributed to shareholders of the Bank		Dividend recorded		Other items accumulated in equity[(2)]		Guarantees for the company in favor of bodies outside the Group	
NIS millions									
19	33	**57**	64	-	-	**(84)**	(6)	**-**	-
-	-	**(110)**	61	(20)	-	**(5)**	6	**-**	-
-	-	**296**	247	-	-	**(31)**	(1)	**-**	-
-	-	**5**	38	-	-	**(1)**	80	**-**	-
-	-	**-**	(9)	-	-	**(1)**	2	**-**	-
-	-	**201**	120	-	-	**63**	117	**-**	-
-	-	**11**	6	-	-	**1**	5	**-**	-
-	-	**5**	10	-	-	**(1)**	1	**-**	-
-	-	**3**	6	-	-	**-**	-	**-**	-
-	-	**25**	88	-	-	**54**	42	**-**	-
-	-	**14**	20	-	-	**-**	-	**-**	-
-	-	**31**	-	-	-	**3**	(45)	**-**	-

NIS millions

Note 7 Buildings and Equipment

A. Composition:

	Buildings and land (including installations and improvements to rented properties)	Equipment, including computers, furniture and vehicles	Software[1]	Total
Cost of assets:				
Balance as at December 31, 2011	3,658	1,746	3,301	8,705
Additions	140	178	464	782
Subtractions	(46)	(27)	(33)	(106)
Balance as at December 31, 2012	3,752	1,897	3,732	9,381
Additions	206	128	490	824
Subtractions	(67)	(12)	(2)	(81)
Translation financial statements adjustments	-	(4)	(2)	(6)
Balance as at December 31, 2013*	**3,891**	**2,009**	**4,218**	**10,118**
Depreciation and losses from impairment:				
Balance as at December 31, 2011	1,736	1,219	2,030	4,985
Annual depreciation	154	156	459	769
Subtractions	(39)	(27)	(33)	(99)
Balance as at December 31, 2012	1,851	1,348	2,456	5,655
Annual depreciation	158	165	416	739
Subtractions	(49)	(11)	(2)	(62)
Translation financial statements adjustments	-	(3)	(2)	(5)
Balance as at December 31, 2013	**1,960**	**1,499**	**2,868**	**6,327**
Book value				
Balance as at December 31, 2011	1,922	527	1,271	3,720
Balance as at December 31, 2012	1,901	549	1,276	3,726
Balance as at December 31, 2013	**1,931**	**510**	**1,350**	3,791
Weighted average depreciation rate, in %, as at December 31, 2012	4.2	17.3	20.0	
Weighted average depreciation rate, in %, as at December 31, 2013	**4.4**	**16.1**	**20.0**	

* Balance of fully depreciated assets included in balance of cost of assets: Buildings and land, including installations and improvements to rented properties: NIS 1,041 million. Equipment, including computers, furniture, and vehicles: NIS 952 million; costs of software: NIS 2,404 million.

(1) Of which: Capitalized costs of software developed in house with a net balance sheet balance in the amount of NIS 1,186 million (December 31, 2012: NIS 1,031 million; December 31, 2011: NIS 977 million).

Note 7 Buildings and Equipment (continued)

B. Additional details regarding depreciation:

The depreciation method and the main depreciation rates implemented by the Bank for the various groups of assets are set out below:

Buildings - 2% per year in a straight line.

Land leased from the Israel Land Administration - according to the term of the lease.

Installations and improvements to rental properties - according to the rental period, taking into consideration the Bank's intention to exercise the option to extend the rental period, if such an option exists.

Computers - 20% per year in a straight line.

Office equipment and furniture - 6-15% per year in a straight line.

Software - 20% per year in a straight line.

C. The Bank holds rights in the form of rental or lease in buildings and equipment, for a period not exceeding 49 years from the balance sheet date, in the amount of NIS 181 million (December 31, 2012: NIS 186 million).

D. The balance sheet balance of buildings available for sale, in the amount of NIS 16 million (December 31, 2012: NIS 23 million), is presented after deduction of the provision for impairment.

E. Rights to land in the amount of NIS 98 million (December 31, 2012: NIS 97 million) have not yet been recorded at the Israel Land Registry Bureau, mainly due to delay in the unification of lots, or the rights are in the process of being recorded.

F. The balance sheet balance of buildings not in use by the Bank, mainly rented buildings, totaled NIS 6 million (December 31, 2012: NIS 7 million), representing investment property rented to others, in both periods.

G. The balance sheet balance of buildings and equipment under construction totaled NIS 61 million (December 31, 2012: NIS 9 million).

Costs recorded in the books as additions to the cost of a building totaled NIS 52 million.

NIS millions

Note 7A Intangible Assets and Goodwill

	Goodwill	Customer relationships	Total
Cost			
Balance for 2011-2013	**237**	**134**	**371**
Depreciation and losses from impairment			
Balance as at December 31, 2011	237	90	327
Annual depreciation	-	11	11
Balance as at December 31, 2012	237	101	338
Annual depreciation	-	12	12
Translation financial statements adjustments	-	2	2
Balance as at December 31, 2013	**237**	**115**	**352**
Book value			
Balance as at December 31, 2011	-	44	44
Balance as at December 31, 2012	-	33	33
Balance as at December 31, 2013	**-**	**19**	**19**

Note 8 Other Assets

Composition:

	December 31	
	2013	2012
Deferred tax assets, net**	**3,030**	2,503
Current taxes - excess of advances paid over current liability for income tax	**46**	225
Assets received in respect of credit that was settled	**63**	40
Expenses of issue of debentures and subordinated notes	**82**	101
Accrued income	**239**	203
Prepaid expenses***	**225**	297
Assets in respect of activity in the Maof market(1)	**1,550**	*1,234
Other receivables	**937**	*877
Total other assets	**6,172**	5,480

* Reclassified.

** See also Note 29D.

*** Includes prepaid expenses in the amount of NIS 18 million in respect of operating leases in which the Bank Group is the lessee (2012: NIS 18 million).

(1) Stated at fair value.

NIS millions

Note 9 Deposits from the Public

A. Types of deposits, by location of deposit taking and by type of depositor

	December 31	
	2013	2012**
In Israel		
On demand		
Non-interest bearing	**35,784**	29,035
Interest bearing	**57,972**	45,406
Total on demand	**93,756**	74,441
Fixed term	**159,440**	172,072
Total deposits from the public in Israel*	**253,196**	246,513
Outside Israel		
On demand		
Non-interest bearing	**7,999**	6,567
Interest bearing	**6,920**	6,685
Total on demand	**14,919**	13,252
Fixed term	**8,410**	11,646
Total deposits from the public outside Israel	**23,329**	24,898
Total deposits from the public	**276,525**	271,411
* Of which:		
Deposits of private individuals	**135,139**	139,904
Deposits of institutional entities	**21,880**	15,983
Deposits of corporations and others	**96,177**	90,626

B. Deposits from the public by size

	December 31	
	2013	2012**
Deposit ceiling		
Up to 1	**98,342**	99,003
Over 1 up to 10	**70,755**	73,379
Over 10 up to 100	**42,254**	41,834
Over 100 up to 500	**27,344**	29,489
Over 500	**37,830**	27,706
Total	**276,525**	271,411

** Beginning December 31, 2013, the Bank has implemented the circular of the Supervisor of Banks concerning disclosure of deposits. 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. See Note 1(D).

NIS millions

Note 10 Deposits from Banks

Composition:

	December 31	
	2013	2012*
In Israel		
Commercial banks:		
On demand deposits	**2,334**	2,816
Fixed term deposits	**624**	740
Acceptances	**894**	512
Outside Israel		
Commercial banks:		
On demand deposits	**68**	69
Fixed term deposits	**1,383**	1,878
Total deposits from banks	**5,303**	6,015

* Beginning December 31, 2013, the Bank has implemented the circular of the Supervisor of Banks concerning disclosure of deposits. Among other matters, the directive stipulates separate disclosure of deposits taken in Israel and deposits taken overseas. The Bank implemented the directive retroactively. See Note 1(D).

Note 11 Bonds and Subordinated Notes

A. Composition:

	December 31			
	2013			2012
	Average duration(1)	Internal rate of return(2)	NIS millions	
In Israeli currency(3)				
Unlinked	**2.7**	**5.5%**	**6,119**	6,852
Linked to the CPI	**3.9**	**4.6%**	**25,776**	27,120
In foreign currency(4)	**2.7**	**4.8%**	**2,085**	1,705
Total bonds and subordinated notes*	**3.6**	**4.8%**	**33,980**	35,677
Of which: subordinated notes				
Included in Tier 1 capital			**2,469**	2,422
Included in Upper Tier 2 capital			**2,753**	2,715
Included in Lower Tier 2 capital			**12,532**	14,059
Others not included in capital			**5,581**	4,785
Total subordinated notes	**4.3**	**5.1%**	**23,335**	23,981

* According to the conditions of the issue, under certain circumstances, the notes are eligible for early redemption.
In order to guarantee bonds issued by consolidated companies, liens were recorded on those company's assets. For further details, see Note 14 below.

(1) The average duration is the weighted average of maturity periods, taking into account the future cash flows discounted at the internal rate of return.

(2) The internal rate of return represents the interest rate which equates the amount presented in the balance sheet with the present value of the future cash flows.

(3) Of which: listed on the Tel-Aviv Stock Exchange in the amount of NIS 27,172 million (December 31, 2012: NIS 28,412 million) and the remaining are not listed.

(4) Listed in stock exchanges abroad.

B. Additional details regarding subordinated notes:

(1) Subordinated capital notes (Series B) that were issued in 2004 and subordinated capital notes (Series C) that were issued in November 2007 and September 2008 for a period of 99 years, and that can be redeemed early with effect from the fifteenth year from their issue. Subordinated capital notes (Series D) that were issued in September 2009 for a period of 49 years, and that can be redeemed early with effect from the tenth year from their issue. In accordance with the terms of the issue, when certain events occur, the capital notes will be converted to ordinary shares of the Bank. The subordinated capital notes have been approved by the Supervisor of Banks as "hybrid capital instruments" that are included in the Bank's tier 1 capital.

(2) Subordinated capital notes (Series A) that were issued in 2001 for a period of 99 years, and that can be redeemed early with effect from the fifteenth year from their issue. Subordinated capital notes Series 1 that were issued in June 2009 for a period of 50 years, and that can be redeemed early with effect from the eleventh year from their issue. In accordance with the terms of the issue, when certain events occur, the capital notes will be converted to ordinary shares of the Bank. The subordinated capital notes have been approved by the Supervisor of Banks as "hybrid capital instruments" that are included in the Bank's upper tier 2 capital. The aforementioned capital notes are listed for trading on the Tel Aviv Stock Exchange.

Note 12 Other Liabilitites

Composition:

	December 31	
	2013	2012
	NIS millions	
Deferred tax liability, net**	**131**	118
Current taxes - excess of current liability for income tax over advances paid	**59**	40
Deferred income	**493**	430
Employees, in respect of salaries	**946**	1,112
Severance pay, retirement compensation, and pensions reserve***	**3,057**	2,712
Accrued expenses	**444**	483
Creditors in respect of activities in credit cards	**13,691**	13,840
Allowance for credit losses with respect to off-balance sheet credit risk	**638**	595
Liabilities in respect of activity in the Maof market(1)	**1,550**	*1,234
Other creditors and credit balances	**1,135**	*1,201
Total other liabilities	**22,144**	21,765

* Reclassified.
** See also Note 29D.
*** See also Note 15.
(1) Stated at fair value.

Note 13 Capital and Capital Adequacy

A. Share Capital

	December 31			
	2013	2012	**2013**	2012
	Registered		Issued and paid-up*	
	Amount in NIS			
Ordinary shares of NIS 1 par value	**4,000,000,000**	4,000,000,000	**1,320,575,890**	1,319,693,645

* Issued capital after the deduction of 16,801,221 ordinary shares (December 31, 2012: 13,453,853 ordinary shares) purchased by the Bank, as detailed below.

The shares are registered for trading on the Tel Aviv Stock Exchange.

Note 13 Capital and Capital Adequacy (continued)

B. Transactions in the Capital of the Corporation

On November 11, 2010, the Supervisor of Banks approved a buyback of 12,750,000 shares for the purposes of employee compensation, under the extension plan of September 2009 (see Note 16(A)(1) to the Financial Statements), as well as a buyback of up to 14,000,000 shares for the purposes of the senior executives' compensation plan (see Note 15 to the Financial Statements). The Board of Directors of the Bank approved a buyback plan on March 30, 2011. An additional buyback of 12,500,000 shares for the purposes of the senior executives' compensation plan was approved on August 5, 2013.

As at December 31, 2013, the net balance of shares acquired amounts to 16,801,221 shares, at a cost of approximately NIS 260 million.

For details regarding share-based payment transactions for employees, see Note 16 below.

C. 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 Payouts

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 March 19, 2014, to distribute a dividend in respect of the profits of the fourth quarter of 2013, 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 March 27, 2014 and the date of payment at April 10, 2014.

Details of dividends paid:

Date of declaration	Date of payment	Dividend per share in agorot	Dividend paid in cash 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

Note 13 Capital and Capital Adequacy (continued)

D. Capital Adequacy

Regulatory capital and capital adequacy as at December 31, 2013, are calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, "Capital Measurement and Adequacy" (the Basel 2 directives).

In consolidated data

	December 31	
	2013	2012
	NIS millions	
1. Capital for the purpose of calculating the capital ratio		
Core Tier 1 capital	***28,421**	26,323
Tier 1 capital, after deductions	***30,890**	28,745
Tier 2 capital, after deductions	**16,341**	17,801
Total overall capital	***47,231**	46,546
2. Weighted balances of risk-adjusted assets		
Credit risk	**276,763**	269,948
Market risks	**4,748**	5,557
Operational risk	**21,769**	21,302
Total weighted balances of risk-adjusted assets	**303,280**	296,807
	%	
3. Ratio of capital to risk-adjusted assets		
Ratio of Core Tier 1 capital to risk-adjusted assets	**9.37%**	8.87%
Ratio of Tier 1 capital to risk-adjusted assets	**10.19%**	9.68%
Ratio of Total capital to risk-adjusted assets	**15.57%**	15.68%
Minimum ratio of Total capital as required by the Supervisor of Banks	**9.00%**	9.00%
4. Significant Subsidiaries		
Isracard		
Ratio of Tier 1 capital to risk-adjusted assets	**17.60%**	**15.30%
Ratio of Total capital to risk-adjusted assets	**17.70%**	**15.80%
Minimum ratio of Total capital as required by the Supervisor of Banks	**9.00%**	9.00%
Bank Hapoalim Switzerland		
Ratio of Tier 1 capital to risk-adjusted assets	*****26.56%**	28.37%
Ratio of Total capital to risk-adjusted assets	*****27.13%**	28.37%
Minimum ratio of Total capital as required by the local regulation	**11.20%**	11.20%
Bank Pozitif		
Ratio of Tier 1 capital to risk-adjusted assets	**15.56%**	20.69%
Ratio of Total capital to risk-adjusted assets	**16.51%**	21.47%
Minimum ratio of Total capital as required by the local regulation	**12.00%**	12.00%

* Excluding dividends declared after the balance sheet date, in the amount of NIS 106 million.
** Restated as a result of the acquisition and merger of a sister company of Isracard.
*** Bank Hapoalim Switzerland has implemented the Basel 3 directives, beginning in the first quarter of 2013.

NIS millions

Note 13 Capital and Capital Adequacy (continued)

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

	December 31	
	2013	2012
1. Tier 1 capital		
Capital	***29,204**	27,057
Hybrid capital instruments	**2,469**	2,422
Less: Intangible assets and goodwill	**(19)**	(33)
Less: net gains in respect of adjustments to fair value of securities available for sale	**(701)**	(643)
Less: Investments in financial companies in which the Bank has material influence	**(63)**	(58)
Total Tier 1 capital	***30,890**	28,745

2. Tier 2 capital		
A. 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**	412
General provision for doubtful debts	**674**	674
Hybrid capital instruments	**2,753**	2,715
B. Lower Tier 2 capital		
Subordinated notes	**12,532**	14,059
C. Tier 2 capital deductions		
Investments in financial companies in which the Bank has material influence	**(63)**	(59)
Total Tier 2 capital	**16,341**	17,801
Total overall capital	***47,231**	46,546

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

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

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

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

Note 13 Capital and Capital Adequacy (continued)

In addition, the capital allocation required in respect of guarantees under the Sale Law, in cases in which the residence has already been handed over to the resident, has been reduced. These guarantees are weighted at a credit conversion coefficient of 10%, instead of 20%. This amendment applies retroactively. Accordingly, the Bank reduced its risk-adjusted assets by a total of NIS 187 million; as a result, the ratio of total capital to risk-adjusted assets increased by 0.01% as at December 31, 2012.

On August 29, 2013, the Supervisor of Banks issued a letter concerning limits on granting housing credit. Among other matters, the letter states that in cases in which the monthly payment as a percentage of income is between 40% and 50%, the loan should be assigned a risk weight of 100%. This applies to housing loans granted approval in principle from September 1, 2013, forward.

G. Expected Effect of Adoption of Basel 3 Directives on January 1, 2014

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. The amendments to the aforesaid directives are in effect as of January 1, 2014. Implementation will be gradual, in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299, "Capital Measurement and Adequacy – Supervisory Capital – Transitional Directives."

A circular of the Supervisor of Banks entitled "Basel Disclosure Requirements Concerning the Composition of Capital" was published on August 29, 2013. This circular establishes updated disclosure requirements which banks will be required to include as part of the adoption of the Basel 3 directives. The disclosure requirements are in effect as of January 1, 2014, forward. However, in the financial statements for 2013, banks are required to include disclosure regarding the expected effect of the implementation of the Basel 3 directives. The expected effect of the adoption of the Basel 3 directives on January 1, 2014, is presented below, based on the data of the Bank as at December 31, 2013. The transitional directives established in Proper Conduct of Banking Business Directive 299 were taken into consideration in calculating the expected effect of the adoption of the Basel 3 directives as at January 1, 2014. The transitional directives establish the method of gradual implementation of the supervisory adjustments, deductions from capital, and calculation of minority interests ineligible for inclusion in supervisory capital. In accordance with these transitional directives, beginning January 1, 2014, the Bank will apply deductions in equal increments of 20%, until the end of the transitional period on January 1, 2018. In addition, transitional directives have been established with regard to a gradual reduction of the inventory of subordinated notes ineligible for inclusion in supervisory capital, beginning with a permitted 80% ceiling recognized on January 1, 2014, to be reduced in 10% increments until January 1, 2022. It is hereby emphasized that the data presented as an estimate of the expected effect of the implementation of the Basel 3 directives were prepared in accordance with the best understanding of the instructions of the Supervisor of Banks with regard to the manner of implementation of the directives concerning the calculation of deductions from capital, supervisory adjustments, calculation of minority interests eligible for recognition as part of supervisory capital, and implementation of other rules, including rules concerning the transitional directives. In light of the complexity of the directive and the publication of the position statements of the Supervisor with regard to its implementation, changes may occur in the interpretation of the directive or in the policy applied in implementation in 2014 and subsequently.

Note 13 Capital and Capital Adequacy (continued)

	According to the instructions of the Supervisor of Banks applicable December 31, 2013 (Basel 2)	Expected effect of Basel 3 implementation	According to Basel 3 directives*
	NIS millions		
Core Tier I capital	**28,421**	**-**	**-**
Tier I capital**	**-**	**-**	**29,223**
Total overall capital	**47,231**	**(357)**	**46,874**
Total weighted balances of risk-adjusted assets	**303,280**	**16,051**	**319,331**
	%		
Ratio of Core Tier I capital to risk-adjusted assets	**9.37%**	**-**	**-**
Ratio of Tier I capital to risk-adjusted assets	**-**	**-**	**9.15%**
Ratio of Total capital to risk-adjusted assets	**15.57%**	**(0.89%)**	**14.68%**
Minimum ratio of Core Tier I capital as required by the Supervisor of Banks	**7.50%**	**-**	**-**
Minimum ratio of Tier I capital as required by the Supervisor of Banks	**-**	**-**	*****9.00%**
Minimum ratio of Total capital as required by the Supervisor of Banks	**9.00%**	**-**	*****12.50%**

* The definitions of Tier I capital and total capital and the supervisory adjustments (deductions from capital) established by the Supervisor of Banks as part of the adoption of the Basel 3 directives are significantly different from the definitions included in the Basel 2 directives.
** After supervisory adjustments and deductions.
*** Minimum capital ratio required according to the directives of the Supervisor of Banks as of January 1, 2015 until December 31, 2016.

H. 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 Tier I 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 Tier I 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 Tier I capital ratio of 10% and a minimum total capital ratio of 13.5% as of January 1, 2017. These minimum capital ratios will be calculated according to 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.

Note that the definitions of Tier I capital, total capital, and supervisory adjustments (deductions from capital) established by the Supervisor of Banks within the adoption of the Basel 3 directives are significantly different from the definitions included in the Basel 2 directives.

Note 14 Liens

A. Under an arrangement for the receipt of credit from the Bank of Israel (net credit, after deduction of the balance of banks' deposits with the Bank of Israel), Israeli banks are required to provide the Bank of Israel with appropriate collateral for such credit.

To secure the credit provided by the Bank of Israel, starting July 25, 2007, the Bank pledged Israeli government bonds in a floating lien in an account in the name of the Bank of Israel at the TASE Clearing House (until that date, the floating lien was on an account at the Bank).

As at December 31, 2013, government bonds at a total of NIS 0 billion were placed under lien (an average balance of NIS 0.4 billion and maximum balance of NIS 0.7 billion).

As at December 31, 2012, government bonds at a total of NIS 0.7 billion were placed under lien (an average balance of NIS 1.0 billion and maximum balance of NIS 1.4 billion).

In addition, to secure this credit, all assets and rights in the collateral account maintained by the Bank with Euroclear were pledged on December 27, 2010.

B. Bonds and subordinated notes issued by consolidated companies, totaling NIS 4,938 million as at December 31, 2013 (December 31, 2012: NIS 5,040 million), are secured mainly by current liens on the companies' assets.

C. Deposits and securities in foreign currency held by the Bank Group abroad, with a balance in the amount of NIS 2,676 million as at December 31, 2013 (December 31, 2012: NIS 2,642 million), were pledged mainly to secure deposits from the public (through the FDIC) in accordance with the directives of government authorities in the US, and in respect of monetary loans received from central banks in those countries.

D. The Bank is a member of the Euroclear clearing house, which is a clearing system for securities traded in international markets. For its security activities through this clearing house and as collateral for a credit line established by the clearing house operator in the Bank's favor, the Bank pledged cash and securities with a total balance of USD 60 million (NIS 208 million) as at December 31, 2013 (December 31, 2012: approximately USD 60 million (NIS 224 million)).

E. Bonds with a balance in the amount of NIS 242 million as at December 31, 2013 (December 31, 2012: NIS 1,116 million) were pledged to secure deposits received within sale transactions of assets under repurchase agreements.

F. The Bank is a member of the Maof Clearing House Ltd. and the TASE Clearing House Ltd. For the purpose of the operation of these clearing houses in securing transactions under the Bank's responsibility, the Bank has pledged bonds in accounts opened for that purpose at these clearing houses.

The balance of bonds pledged as at December 31, 2013 totaled NIS 4.4 billion (maximum balance NIS 4.4 billion).

The balance of bonds pledged as at December 31, 2012 totaled NIS 3.2 billion (maximum balance NIS 3.2 billion).

In addition to the collateral detailed above, the Bank deposited collateral in cash in the amount of NIS 19 million (December 31, 2012: NIS 15 million) in favor of the risk fund of the TASE Clearing House, and in the amount of NIS 156 million (December 31, 2012: NIS 76 million) in favor of the risk fund of the Maof Clearing House.

The amount of collateral that clearing house members are required to deposit is updated from time to time, in accordance with the clearing houses' code of rules.

NIS millions

Note 14 Liens (continued)

G. The Bank and its consolidated companies have CSA (Credit Support Annex) agreements with foreign banks, aimed at minimizing the mutual credit risks that arise between banks in the course of derivatives trading. Under these agreements, the value of the inventory of derivatives transactions executed between the parties is periodically measured, and if the net exposure of one of the parties exceeds a predetermined threshold, that party provides deposits to the other party, through liens, until the date of the next measurement.

As at December 31, 2013, the Bank Group provided deposits to foreign banks at a value of USD 599 million (December 31, 2012: USD 613 million).

H. In July 2008, an agreement was signed between the Bank and the Bank of Israel in which the Bank of Israel made a commitment to provide the Bank with a credit line of up to a total amount of NIS 1 billion, for the purpose of fulfilling the Bank's commitment as a liquidity supplier in NIS for CLS Bank International.

As a condition for the provision of the loans, the Bank signed a bond in which it applied a first-rank floating lien in favor of the Bank of Israel on its rights to receive monetary amounts and charges in NIS owed at present and/or owed to the Bank in the future from time to time by its customers that are corporations incorporated under the laws of the State of Israel (hereinafter: the "Indebted Customers") and whose repayments to the Bank of any credit received from the Bank are not in arrears, in respect of credit in NIS, where the average duration of each credit does not exceed three years, granted and/or to be granted by the Bank to the Indebted Customers, up to a total amount of NIS 1.1 billion.

I. Sources of securities received as at December 31, 2013 which the Bank is permitted to sell or pledge, at fair value, before the effect of offsets:

	December 31, 2013	December 31, 2012
Sources of securities received which the Bank is permitted to sell or pledge, at fair value, before the effect of offsets:		
Securities bought under agreements to resell	**65**	47
Applications of securities received as collateral and securities of the Bank, at fair value, before the effect of offsets:		
Securities sold under repurchase agreements	**242**	1,116
Details of securities pledged to lenders:		
Securities available for sale	**921**	1,479

These securities were provided as collateral to lenders, who are entitled to sell or pledge them.

J. Bonds under lien as detailed above, which the lenders are not permitted to sell or pledge:

	December 31, 2013	December 31, 2012
Portfolio available for sale	**7,098**	*5,771

* Restated.

Note 15 Employee Benefits

The employees of the Bank include:

- Permanent and temporary employees – Employees whose terms of employment are established in a collective manner, in collective agreements and arrangements formulated from time to time between the Bank and the employees' union at the Bank;
- Employees under personal contract – Employees whose terms of employment are established in personal contracts, such that the collective agreements and arrangements do not apply to them;
- Employees under executive personal contract – Certain employees within the management stratum of the Bank (including members of the Board of Management), whose terms of employment are established in personal contracts such that the collective agreements and arrangements do not apply to them.

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 and the additional comments received from the Supervisor of Banks (the "Remuneration Policy"). 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 Proper Conduct of Banking Business Directive 301A of the Supervisor of Banks of November 19, 2013) 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, as detailed in Section F below. 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. The required rate of return on equity established for 2014, in accordance with the Remuneration Policy, is 7.89%.

The terms of employment of the employees of the Bank are set out below:

A. Terms of Employment of Permanent and Temporary Employees

The principal benefits, beyond the regular salary components, to which the aforesaid employees of the Bank are entitled are set out below:

1. Annual bonuses

The annual bonus is determined by the rate of return of net profit on equity. The basic threshold for the distribution of this bonus is a rate of return of 7.5%. The annual bonus is in the amount of up to three monthly salaries; part of the bonus is distributed uniformly to all employees, while the remainder is distributed differentially, based on employee performance.

Note 15 Employee Benefits (continued)

2. Share-based compensation

Pursuant to the wage agreement signed in March 2013 by the Board of Management of the Bank and the Employee Union of the Bank for 2013-2017, on March 6, 2013, the Bank adopted a plan for the allocation of phantom shares to employees, to be exercised into cash during the period 2013-2017, at terms similar to those of the option notes allocated to permanent employees of the Bank under the collective agreement that was in effect until 2013. The Board of Directors of the Bank approved the aforesaid wage agreement on March 6, 2013. For further details regarding the terms of the phantom shares, see Note 16 below.

3. Wage agreement

Pursuant to the wage agreement, among other matters: (1) the Bank paid its employees a one-time bonus in the amount of one monthly salary; (2) employees' combined wages increased, differentially, based on pay grades; (3) along with the adjustment of certain related terms, certain post-employment benefits were canceled; (4) the Bank granted phantom shares to its employees, as noted above; and (5) the method and volume of ranking of Bank employees, the seniority mechanism, and the annual bonus will remain similar to the format used until the wage agreement was signed.

B. Terms of Employment of Employees under Personal Contracts

The customary terms of remuneration for these employees usually include a basic salary, share-based compensation (see below), employer contributions to a pension arrangement and study fund, an annual bonus, convalescence pay, and other benefits.

C. Terms of Employment of Employees under Executive Personal Contracts

On March 6, 2013, the Remuneration Committee and the Board of Directors resolved to approve the request by the Chairman of the Board, the Chief Executive Officer, and the members of the Board of Management of the Bank to reduce their wages by 5%. In addition, at the request of certain senior employees (who are not officers of the Bank), their wages were reduced by 2.5%.

The following are the main benefits, in addition to regular salary components, to which employees under executive personal contracts are entitled during the period of their employment, for 2013, subject to the directives of the Remuneration Policy of the Bank, including the directives regarding the inception and application of the Remuneration Policy:

1. Signing bonus

Employees of the Bank employed under executive personal contracts are entitled to an annual signing bonus throughout the period of their employment. This bonus is paid once annually. In cases in which the bonus is not conditional upon continued employment, the liability is calculated based on the current value of the payments over the term of the agreement, and the expense is recorded upon signing the contract.

Note 15 Employee Benefits (continued)

2. Risk-adjusted performance-based annual bonus and share-based compensation

Employees of the Bank employed under executive personal contracts are entitled to an annual bonus and to share-based compensation, as detailed in Section F below. Until the approval of the aforesaid plan, the Bank granted employees employed under executive personal contracts phantom options ("phantom units") entitling the employee to a monetary grant, at the exercise date, based on the difference between the price of the Bank's share on the TASE at that date and the baseline price established for that employee at the date of the grant. As at December 31, 2013, no such phantom units exist.

With regard to retirement compensation and pensions, see Section E below.

D. Other Benefits

In addition to the benefits described above, employees of the Bank are entitled to additional benefits, during and after the period of their employment, primarily the following:

1. Vacation

Bank employees are entitled, by law and according to labor agreements, to annual vacation days. The provision was calculated based on employees' most recent salaries and the number of vacation days accumulated, with the addition of the required related expenses. The balance of the provision as at the balance sheet date totals NIS 90 million (December 31, 2012: NIS 103 million).

2. 25 year service grant

Employees are entitled to a grant at the end of 25 years of employment at the Bank. These obligations are calculated based on actuarial calculations, taking into account real salary gains at a rate of 0.5% to 7.5% per year for active employees, depending on the employee's age, capitalized at an annual discount rate of 4%.

3. Other post-employment benefits

After retirement, Bank employees are entitled to a grant in respect of unutilized sick days, benefits for holiday gifts, convalescence pay, and participation in well-being costs. As noted, under the New Wage Agreement, along with the adjustment of various related terms, it was agreed that the Bank would not pay convalescence pay and other additional post-employment benefits to employees who retire from the Bank after June 2014.

These obligations are calculated based on actuarial calculations that take into account, as relevant, among other things, a real salary increment, capitalized at an annual discount rate of 4%.

Note 15 Employee Benefits (continued)

E. Retirement Compensation and Pensions

1. General

The pension rights of employees reaching retirement age are covered by the amounts accumulated in allowance-based provident funds. In addition, the Bank deposits additional amounts in provident funds to cover severance pay for entitled employees. When an employee retires, the Bank is exempt from payment of severance pay.

2. Pensions for employees taking early retirement

Employees who retire on an allowance-based track are entitled to a monthly pension, until the date established in the retirement agreement or until legal retirement age, whichever is earlier.

The provision is based on an actuarial calculation and is capitalized at an annual real discount rate of 4%.

3. Early retirement of active employees

In addition to the rights described above, in its actuarial calculation of the liability in respect of employee benefits, the Bank includes a liability in respect of employees who the Board of Management of the Bank expects to take early retirement or to depart with other preferred terms.

The provision for early retirement is calculated according to the higher of an actuarial calculation taking into account the additional cost expected to be incurred by the Bank due to the aforesaid benefits, and the amount of the liability calculated as required by Opinion Statement 20 of the Institute of Certified Public Accountants in Israel.

The liability was calculated based on an actuarial calculation taking the following into consideration, among other factors:

(1) A real wage increment of 0.5%-7.5% per year for active employees, according to the employee's age.

(2) Rates of departure with enlarged severance pay and early retirement, according to the experience of the Bank, taking into consideration factors including the age and gender of the employee. These rates reflect the expectations of the Board of Management.

(3) A real discounting rate of 4%, in accordance with the directives of the Supervisor of Banks.

(4) A mortality and disability rate based on current mortality tables published by the Chief Actuary of the Ministry of Finance.

4. Personal contracts – employees of the bank

(A) Members of the Board of Management, including the CEO, and a group of senior employees (hereinafter: the "Senior Employees") are employed under personal contracts, according to which in the event that the Bank decides on its own initiative to dismiss one of the Senior Employees or to terminate his/her employment at the end of the period of the agreement, the Senior Employee shall be entitled to severance pay at a rate of 250%.

Note 15 Employee Benefits (continued)

In addition, regarding some of the Senior Employees, in cases in which the Bank decides on its own initiative to dismiss one of them, or when the Senior Employee reaches the date on which the sum of his/her age and his/her period of employment at the Bank exceeds 75 years (for a member of the Board of Management serving at least seven years in his/her position, the number of years of service on the Board of Management shall be added as additional years of employment for the purpose of the accrual of 75 years, as described above), the member of the Board of Management or the Senior Employee shall be entitled to early retirement, and may choose between enlarged severance compensation at a rate of 250% of his/her last monthly salary multiplied by the number of years of employment at the Bank, or a monthly pension at varying rates, to be paid from the date of his/her early retirement until he/she reaches the retirement age specified by law. The rate of the pension for a member of the Board of Management is 2.67% per year for the first 15 years of work, 2% per year for each additional year in which he/she did not serve as a member of the Board of Management, and 2.5% for each year in which he/she served as a member of the Board of Management, up to a maximum rate of 70% of the salary that entitles him/her to the pension. With regard to Senior Employees, as noted above, who are not members of the Board of Management, the rate of the pension is 2.55% for the first 15 years of work, 1.5% per year for each additional year until the date of the signing of the start of their employment under personal contract, and 2% per year for each additional year, up to a maximum rate of 70% of the salary that entitles the employee to the pension. A member of the Board of Management or a Senior Employee who has reached the age of 62 may only choose a budget-based pension.

(B) The Chairman of the Board of Directors is entitled to receive severance pay, in any event, at a rate of 250%. In addition, at the end of his term of service, he is entitled to receive payment from the Bank of his full wages and all payments, provisions, and rights to which he was entitled during his service, for an adjustment period of six months. The Bank has recorded a full provision for this obligation.

(C) A director of the Bank who also served until December 31, 2013, as chairperson of the board of directors of the credit-card companies in the Isracard Group is entitled to receive severance pay at a rate of 250% for termination of employment at the end of the period of her employment at the Isracard Group, which occurred on December 31, 2013. The Bank's books contain a full provision for this obligation.

5. Employee retirement due to new standardization at Head Office

In 2012, the Bank launched several efficiency processes, including in the structure of the Head Office units, in order to create an optimized organizational structure aligned with the Bank's current needs, and comprehensive standards for the volume of manpower and of management positions. As a result of this process, the Board of Management of the Bank resolved to approve a retirement program for employees. The effect of the retirement program was reflected in the financial statements for 2012.

NIS millions

Note 15 Employee Benefits (continued)

6. Efficiency plan – continuation plan

The efficiency plan aimed at supporting the Bank's multi-year strategy will continue in 2014.

Over the coming years, the plan will lead to savings on manpower costs as well as other costs, as a result of reduced square footage at the Head Office and branches of the Bank.

Among other elements, the efficiency plan encompasses structural changes, a reduction in the number of positions, and training for employees assigned to new business activities initiated by the Bank.

The new business initiatives include expansion of the Bank's activity in certain sectors where the Bank has identified potential for growth and expansion.

Permanent employees in positions cut back under the plan who do not join the new business initiatives will be able to take one of the retirement tracks.

The effect of the efficiency plan was reflected in the financial statements for 2013, in a total amount of NIS 440 million.

Set out below are details of net long-term and post-employment liabilities in respect of employee benefits*:

	As at December 31	
	2013	**2012
Severance pay and early retirement for active employees	**1,240**	1,281
Pensions for employees who take early retirement***	**1,067**	696
25-year service grant	**28**	29
Provision for grant in respect of unutilized sick days, net of the reserve for sick days	**312**	312
Other post-employment benefits	**438**	423
Total	**3,085**	2,741

* Includes wage tax.
** Reclassified.
*** Includes a provision for the efficiency plans.

F. Senior Employee Compensation Plan – Bonuses and Equity Compensation

In August 2010, the Audit Committee and the Board of Directors of the Bank approved a compensation plan (as amended from time to time) for the Chairman of the Board, the CEO of the Bank, the members of the Board of Management of the Bank (who are officers of the Bank), and the group of senior executives at the Bank (who are not officers of the Bank) (jointly, the "Executives"), applicable from January 1, 2010 forward (subject to adjustments in special cases) (the "Plan").

The Plan encompasses two methods of compensation (in addition to wages and other benefits at the Bank): a risk-adjusted performance-based annual bonus, and equity compensation in the form of a restricted phantom share plan, which was replaced in 2012 by a secondary plan for the grant of restricted stock units (RSU).

The following are the main points of the Plan:

Note 15 Employee Benefits (continued)

(A) Members of management

1. Risk-adjusted performance-based annual bonus

1.1. Establishment of the bonus budget for members of management (excluding the Chief Internal Auditor, the Chief Risk Officer, and the Chief Accountant ("**Control and Supervision Functions**"))

The bonus budget for members of management in any given year (the "Management Members' Bonus Budget") is based on the difference between net return on equity in that year (as it appears in the annual financial statements), net of the following amounts: (a) profit/loss arising from a change in holdings in a subsidiary or equity-basis investee, or sale of buildings in a cumulative amount exceeding NIS ten (10) million annually; and (b) amounts allocated as bonuses for the senior officers of the Bank (i.e. officers and executives who have signed a personal employment contract considered a senior contract by the Board of Management of the Bank) (the "Actual ROE") and the required cost of capital (the "ROE Difference"). The required cost of capital refers to the cost of capital of the Bank (in terms of the ROE rate) for the purposes of payment of bonuses according to the Plan (the "Required Cost of Capital") (the Required Cost of Capital was set at 8.74% for 2012, 8.745% for 2013, and a rate of 7.89%, subject to a capital price floor of 8%, for 2014).

Positive bonus budget – In a year in which the actual ROE Difference is positive, the total positive bonus budget for members of management shall be calculated in accordance with the ROE Difference, the average shareholders' equity of the Bank, and the average monthly salary of a member of management. The bonus budget is calculated according to a progressively rising scale of the ROE Difference, from an ROE Difference of 0.5% to a ceiling of 6%. The aforesaid notwithstanding, in a year in which the actual ROE Difference is in the range of 0% to 0.5%, the Board of Directors may, at its sole discretion, according to the recommendation of the Bank's CEO, approve an annual bonus in a positive amount for a member of management, equal to up to two (2) monthly salaries of the member of management.

Negative bonus budget – With the exception of the first year of a member of management who joins the Bank after the adoption of the Plan, in a year in which the ROE Difference is negative, the total negative bonus budget for the members of management shall be calculated as a negative amount, in accordance with the ROE Difference, the average shareholders' equity of the Bank, and the average monthly salary of a member of management, from a negative ROE Difference of 0.5% to a negative ceiling of 6.5%.

The Board of Directors is authorized to increase or reduce the (positive or negative) Management Members' Bonus Budget by up to 10%. In the event that the Management Members' Bonus Budget in respect of a certain year is negative due to special external circumstances that affect the entire banking system in Israel in that year, the Board of Directors may reduce or cancel the management members' negative bonus budget in respect of that year.

Note 15 Employee Benefits (continued)

1.2. Distribution of the bonus budget among the members of management (excluding Control and Supervision Functions)

Each year, the (positive or negative) bonus budget shall be distributed to the members of management in respect of the previous year, proportionally to the personal grade of each management member (which shall be adjusted to the salary of the member of management relative to the salaries of the other members of management). Part of the personal grade shall be fixed and shall be assigned to each member of management. Part of the personal grade shall be assigned to each member of management according to the assessment by the Bank's CEO of the management member's achievement of predefined performance targets. Part of the personal grade shall be assigned to each member of management according to the recommendation of the Bank's CEO, based on his judgment. The division of the bonus budget among the members of management and the establishment of the annual bonus for each member of management shall in any event be subject to approval by the Board of Directors (and any committee of the Board of Directors as required by law).

The positive annual bonus for an individual member of management shall in any event not exceed an amount equal to eighteen monthly salaries of that member of management. The negative annual bonus for a member of management shall in any event not exceed an amount equal to ten monthly salaries of the member of management. In any event, a management member's bonus account shall not have a negative balance in an amount exceeding three monthly salaries of the member of management.

1.3. Annual bonus for the members of management responsible for Control and Supervision Functions

The (positive or negative) annual bonus of each member of management in the Control and Supervision Functions shall comprise the following amounts:

(1) A sum (positive or negative, as relevant) constituting a certain percentage of the representative budget for members of management (this rate was set at 30% for 2013), adjusted to the salary of the member of management belonging to the Control and Supervision Functions relative to the average salary of all members of management.

(2) An additional sum in the amount of up to two monthly salaries of the member of management, which shall be determined proportionally to the personal grade assigned to the member of management according to the achievement of performance targets.

(3) An additional sum in the amount of up to two monthly salaries of the member of management, to be determined according to an opinion of the supervisors of the member of management.

The components of the bonus listed above may be offset against one another. The establishment of the annual bonus for members of management responsible for Control and Supervision Functions shall in any event be subject to approval by the Board of Directors (and any committee of the Board of Directors as required by law). The positive annual bonus of a member of management as aforesaid shall in any event not exceed an amount equal to thirteen monthly salaries of the member of management, while the negative annual bonus of a member of management shall in any event not exceed an amount equal to eight monthly salaries of the member of management. In any event, a management member's bonus account shall not have a negative balance in an amount exceeding three monthly salaries of the member of management.

Note 15 Employee Benefits (continued)

The annual bonus for members of management is subject to the directives of Amendment 20 to the Companies Law, including with regard to the judgment component in determining the bonus.

1.4. Payment mechanism – spreading of the annual bonus and the annual payment

Each year, the amount of the (positive or negative) annual bonus determined in respect of the previous year shall be added to or subtracted from the bonus account of each member of management (the **"Annual Deposit"**), and a payment shall be made in an amount equal to 50% of the balance in the bonus account after the Annual Deposit in respect of the previous year (assuming that the bonus account balance is positive) (the **"Annual Payment"**). If, in a certain year, the Bank has a net loss for the year or a material deviation from the required capital-adequacy ratios, the subsequent Annual Payment shall be performed only after the release of annual financial statements of the Bank (or quarterly financial statements, pursuant to a decision by the Board of Directors) presenting a net profit, or the cessation of the material deviation from the required capital-adequacy ratios, as relevant.

1.5. Termination of employment

For the year in which the day of termination of employment occurs, the proportional share of the (positive or negative) annual bonus for that year shall be added to or subtracted from the bonus account (as relevant).

In the following year, except in certain cases (such as death or disability), as a substitute for the Annual Payment, shares of the Bank shall be purchased for the member of management (by a trustee appointed for that purpose) on the stock exchange in the amount of the balance of the bonus account, after deduction at source of income tax and other mandatory payments applicable by law, and provided that the aforesaid balance is positive. Shares purchased in the aforesaid manner shall be restricted and cannot be sold or transferred for a period of 24 months from the date of the termination of employment.

1.6. Bonus in respect of special profits

In respect of any year in which special profits are generated (as detailed in the Remuneration Plan), an additional amount shall be determined, which shall be added to the representative budget established for the entire group of members of management (the **"Additional Budget Amount"**). The amount of the additional budget shall be determined by the Remuneration Committee and the Board of Directors, and in any event shall not exceed an amount equal to four monthly salaries of the member of management for a given year.

1.7. With regard to members of management in the Control and Supervision Functions, an amount equal to the Additional Budget Amount shall be added to the average annual bonus of the executives in respect of the bonus year in which the special profits were generated.

1.8. Reimbursement of bonus amounts in the event of revision of financial statements

In the event of revision of the audited financial statements of the Bank for any year, such that the executive would have received an annual bonus in a different amount based on the revision, the executive shall return the difference in the amount of the bonus to the Bank, provided that, if the executive has left the Bank, no more than three years have elapsed from the date of termination of the executive's employment.

Note 15 Employee Benefits (continued)

2. Equity compensation – restricted stock units (RSU)

Executives of the Bank are granted restricted stock units ("RSU"), under the "Bank Hapoalim B.M. Secondary Plan for the Grant of Restricted Stock Units (RSU) to Senior Executives 2011" (as amended), which represents the implementation of certain directives of the Plan and is an integral part thereof. RSU are units of restricted shares, which upon fulfillment of the appropriate vesting conditions are automatically exercised into ordinary shares of the Bank, which are held by the Bank as dormant shares, without the payment of any exercise price. The RSU are allocated according to the capital gains track pursuant to Section 102(B)(2) of the Income Tax Ordinance [New Version], 1961.

2.1. Grant of RSU – Each member of management is granted a number of non-contingent RSU, based on the result obtained by dividing the amount of the benefit established in the Plan (NIS 3.3 million for a member of management at the highest rank other than CEO, for an employment contract period of three years) by the average closing price of the Bank's share in the last 90 days of the calendar year preceding the year in which the RSU are granted. Adjustments shall be performed in the case of an employment contract for a period other than three years.

Vesting dates – The RSU shall vest in three equal installments, after 12, 24, and 36 months respectively from the commencement date of the agreement of the member of management. These dates shall be adjusted to the actual term of the contract.

2.2. Grant of contingent RSU – Each member of management is granted a number of contingent RSU (according to the rank of the management member; up to 60,000 RSU in respect of an employment contract period of three years for the highest rank that currently exists at the Bank, other than the CEO), at the date of the commencement of the employment contract of the management member, in respect of the three years of the employment contract of the management member at the Bank. Shortly following the publication of the annual financial statements of the Bank in respect of each of the years of the Plan, a quantity of contingent RSU shall vest, out of the installment of RSU assigned to that year, to be calculated in a proportional manner, based on the attainment of an Actual ROE Difference over the cost of capital in the relevant grant year in the range of 0.5% to 2%, such that in the event of an Actual ROE Difference of 0.5%, one-quarter of the installment of contingent RSU relevant to that grant year will vest, and in the event of an Actual ROE Difference of 2%, the entire installment of contingent RSU relevant to that grant year will vest (with the exception of 2013, when the range of the Actual ROE Difference over the cost of capital was set at 0.75% to 2%, with half of the contingent RSU to vest at an Actual ROE Difference of 0.75%). In 2013, the Actual ROE Difference did not surpass the minimum threshold; the contingent RSU for the year were therefore forfeited. If, in the Bank's annual financial statements for a given year, the Bank has a net operating loss and/or the Bank is in material deviation from the required capital-adequacy ratios, the contingent RSU in respect of that grant year shall not vest, the RSU in respect of that grant year shall not be granted, and the contingent RSU in respect of the relevant grant year shall be forfeited.

Note 15 Employee Benefits (continued)

2.3. Exercise method and consideration – If all of the conditions for the exercise of the RSU are fulfilled, the RSU shall be exercised automatically by the Bank into shares of the Bank, and shall be transferred to the trustee, with no need for any notification by the executive, provided that: (a) at the vesting date, the Bank holds dormant shares acquired for the purposes of the Plan (which will be transferred to the trustee, as noted), for at least 18 months from the acquisition date, subject to the directives of the taxation decision received by the Bank from the Israel Tax Authority on this matter; and (b) there are no other regulatory restrictions (such as legal restrictions on holdings of securities by the holder of an investment advisor's license) that restrict the ability of the executive to hold shares of the Bank (or of the trustee to hold the shares on behalf of the executive) (the "Exercise Date"). If, at the vesting date of the RSU, the Bank has not held the exercise shares for at least 18 months from the date of the acquisition thereof by the Bank, or if other regulatory restrictions apply, as noted above, the Exercise Date of the RSU shall be postponed, until the aforesaid 18-month period has elapsed, or until the restriction period has ended, as relevant.

2.4. Restriction period and expiration in certain cases – The ordinary RSU in each installment shall be restricted for an additional period of 12 months from the vesting date of that installment. The contingent RSU shall be restricted for a period of four years from the end of the relevant grant year.

2.5. Termination of employment – Upon termination of the management member's employment at the Bank, the RSU not yet vested shall be cancelled, proportionally to the period of employment.

2.6. Dividend distribution – In the event that the Bank distributes a dividend prior to the exercise date of the RSU, the member of management shall be entitled to a payment in cash in an amount (gross) equal to the amount of the dividend that would have been paid to the member of management, had the member of management held, on the date of distribution of the dividend, a number of ordinary shares of the Bank equal to the number of RSU as aforesaid, less the applicable tax.

2.7. Adjustments – The Plan includes directives regarding adjustments to be made to the exercise shares upon changes to the Bank's share capital or upon changes to the Bank's structure due to a merger or sale of the Bank.

(B) Senior executives

The Plan shall also apply to the Bank's senior executives (who are not officers, as noted above) according to principles similar to those specified above, but at different volumes, including with regard to the identity of the officials who set targets and assess the attainment thereof, the weight of each factor in calculating the final grade for the senior executive, and the identity of the officials who approve the bonus distribution budget and the bonus for each executive. In addition, senior executives who are on assignment overseas for the Bank shall be granted restricted phantom shares instead of RSU, at similar terms to those of the RSU, which will be settled in cash.

Note 15 Employee Benefits (continued)

(C) Chairman of the Board and CEO of the Bank

The Plan was adopted by the Audit Committee and the Board of Directors separately in relation to the Chairman of the Board and in relation to the CEO of the Bank. As noted above, the compensation for the Bank's Chairman of the Board was also approved by the general meeting of shareholders of the Bank.

1. Risk-adjusted performance-based annual bonus

1.1. Determination of the bonus budget – The bonus budget shall be calculated each year (separately for each executive), as follows:

Positive bonus budget – In a bonus year in which the ROE Difference is positive, the bonus budget shall be calculated according to the ROE Difference and the average shareholders' equity of the Bank. The bonus budget shall be calculated in a linear manner, in the range from an ROE Difference of 0.5% to an ROE Difference of 4%.

Negative bonus budget – In a bonus year in which the ROE Difference is negative, the bonus budget shall be determined as a negative amount and shall be calculated in a linear manner, in the range from a negative ROE Difference of 0.5% to a negative ROE Difference of 6.5%. The aforesaid notwithstanding, the Board of Directors shall be entitled to reduce or cancel the negative bonus budget in respect of a particular bonus year, due to special external circumstances, following approval by the Audit Committee.

1.2. Determination of the amount of the bonus for each executive – Each year, the bonus amount shall be determined, for each executive, out of their bonus budget in respect of the bonus year, so that 65% of the bonus budget shall be granted/deducted (as the case may be), for each executive, and up to 35% of the bonus budget shall be granted/deducted (as the case may be), for each executive, at the discretion of the Board of Directors, to be determined according to the executive's achievement of the formulation and/or establishment and/or leadership of the implementation of the Bank's work plan, as well as development, implementation, and promotion of the Bank's short-term and long-term vision and strategy.

1.3. Bonus ceiling – The positive annual bonus added to the bonus account of an executive in respect of any bonus year shall in any event not exceed an amount equal to NIS 4 million. The negative annual bonus deducted from the bonus account of an executive in respect of any bonus year shall in any event not exceed an amount equal to NIS 3.3 million. The aforesaid notwithstanding, the bonus account of an executive shall in any event not have a negative balance in an amount exceeding NIS 1.3 million.

1.4. Payment mechanism – The annual bonus and the annual payment shall be spread in a manner similar to the provisions of Section F(A)1.4 above concerning the Plan for members of management (mutatis mutandis), but a payment shall be made to each executive each year in an amount equal to 45% of the balance in the bonus account after the Annual Deposit in respect of the previous year.

1.5. Bonus in respect of special profits – The Board of Directors shall be entitled to establish, in respect of any year, at its sole discretion, a bonus in respect of special profits in an amount equal to up to eight monthly salaries of the executive.

1.6. Termination of employment – Similar principles to those applicable to the termination of employment of a member of management, as explained above, shall apply.

Note 15 Employee Benefits (continued)

2. Share purchase bonus

For each bonus year, the executive shall be entitled to a bonus in the sum of NIS 2 million, which shall be used for the purchase of shares of the Bank for the executive on the stock exchange (the **"Share Purchase Bonus"**), provided that the actual return in the year for which the bonus is granted is at least equal to the Required Cost of Capital. The shares purchased for the executive shall be restricted for a period commencing on January 1 of the year in which the shares are purchased and ending when two years have elapsed from that date (in this section, the **"Restriction Period"**). This period was extended when the employment agreements were signed, as detailed in Sections F(C)4 and F(C)5 below. In addition to the aforesaid, in certain cases the Restriction Period shall be extended, as described in Section F(A)2.3 above with regard to the compensation for members of management.

In the event of termination of employment, shares of the Bank shall be purchased in respect of the year in which the termination of employment occurs, representing the proportional share of the Share Purchase Bonus according to the period of employment of the executive out of that year.

3. Equity compensation – restricted stock units

3.1. The terms of the RSU are similar to the directives applicable to members of management, as described above, with the exceptions detailed below.

3.2. Granting of contingent RSU – Each executive, separately, shall be granted a quantity of contingent RSU in respect of each year, out of a maximum quantity equal to: (a) NIS 2 million divided by (b) the average closing price of the Bank's share on the stock exchange in the last sixty trading days of the relevant year; the quantity of contingent RSU granted, subject to the provisions specified below, shall be calculated on a proportional and linear basis according to the achievement of an ROE Difference between 4% and 6%, such that at an ROE Difference of 4% the executive shall be granted 1,250 contingent RSU, and at an ROE Difference of 6% the entire quantity of contingent RSU relevant to that grant year shall vest (the "Contingent RSU").

Out of the Contingent RSU, 65% shall be granted to the executive in any event, and up to 35% shall be granted to the executive according to the decision of the Board of Directors. The Contingent RSU shall be vested at the date of the grant.

3.3. Loss or deviation from capital-adequacy ratios – If in the Bank's annual financial statements published immediately after the vesting date of the relevant installment, the Bank has a net loss and/or the Bank is in material deviation from the required capital-adequacy ratios, the RSU and the Contingent RSU of that installment shall be forfeited. In 2013, the Actual ROE Difference did not surpass the minimum threshold; the Contingent RSU for the year therefore will not be granted.

Note 15 Employee Benefits (continued)

4. Employment Agreement – CEO of the Bank

An employment agreement with the CEO for a period of five years, beginning January 1, 2013, was approved by the Audit Committee on September 2, 2012, and by the Board of Directors of the Bank on September 12, 2012 and on October 18, 2012. The employment agreement with the CEO took effect on January 1, 2013, replacing the previous employment agreement, which was executed for a period of three years, ended December 31, 2012. No material changes were made to the terms of remuneration for the CEO in the employment agreement, relative to the employment agreement that was in effect until the end of 2012, with the exception of the addition of a ceiling on the total remuneration for each year of the new employment agreement, such that the expense recorded in the books of the Bank in respect of the total remuneration in any calendar year shall not exceed NIS 11 million (linked to the consumer price index). Reduction of the annual remuneration due to this limit shall not exceed the amount of NIS 2 million annually. In addition, the restriction period of the shares to be purchased using the bonus for share purchases has been extended from two years to four years.

5. Employment Agreement – Chairman of the Bank

An employment agreement with the Chairman of the Board for a period of five years, beginning January 1, 2013, was approved by the Audit Committee on September 2, 2012; by the Board of Directors of the Bank on September 12, 2012 and October 18, 2012; and by the special general meeting of shareholders of the Bank on October 25, 2012. The employment agreement with the Chairman of the Board took effect on January 1, 2013, replacing the previous employment agreement, which was executed for a period of three years, ended December 31, 2012. No material changes were made to the terms of remuneration for the Chairman of the Board in the employment agreement, relative to the employment agreement that was in effect until the end of 2012, with the exception of the addition of a ceiling on the total remuneration for each year of the new employment agreement, such that the expense recorded in the books of the Bank in respect of the total remuneration in any calendar year shall not exceed NIS 10 million (linked to the consumer price index). Reduction of the annual remuneration due to this limit shall not exceed the amount of NIS 2 million annually. In addition, the restriction period of the shares to be purchased using the bonus for share purchases has been extended from two years to four years. Although the employment agreement covers a period of five years, the equity compensation and bonuses to which the Chairman of the Board of Directors is entitled, out of the total remuneration pursuant to the new employment agreement, were approved by the general meeting for the first three years only, until December 31, 2015. The equity compensation and bonuses for 2016-2017 shall be presented for further approval by the general meeting in late 2015.

6. Employment Agreement of Chairperson of Isracard, Ended December 31, 2013

On April 30, 2012, further to approval by the Wage and Remuneration Committee and the Audit Committee of Isracard, the Board of Directors of Isracard approved a new employment agreement with Ms. Izakson, the Chairperson of Isracard. The employment agreement was approved by the Human Resources - Salaries and Remuneration Committee, the Audit Committee of the Bank, and the Board of Directors of the Bank. The employment agreement was approved by the general meeting of shareholders of Isracard, and was approved by the general meeting of the Bank on July 25, 2012.

Note 15 Employee Benefits (continued)

The employment agreement covered a period of three years, beginning January 1, 2012. The continued contractual engagement with the Chairperson of Isracard in the third year of the agreement (2014) was subject to approval by the Supervisor of Banks. The employment agreement stated that in the event that the Supervisor of Banks did not approve the continued service of Ms. Izakson as Chairperson of the Board of Directors of Isracard, it would be considered a termination of the contractual engagement, which would entitle her to receive the full supplement of the amount of severance pay to 250% of her last salary, if the amount of severance pay accumulated in the provident funds is lower. Under the employment agreement, the Chairperson of Isracard was entitled to a monthly salary in a total amount of NIS 92,126, linked to the CPI for December 2011. The employment agreement also included related terms, such as a vehicle, telephone, etc., and employer contributions to compensation, severance pay, and a study fund. The Chairperson of Isracard was also entitled to an annual bonus, in accordance with a bonus plan essentially similar to the bonus plan for senior executives at Isracard (which is structured based on the bonus plan for senior executives at the Bank). The annual bonus was paid to the Chairperson of Isracard was derived from the difference between the aggregated annual net profit of the Isracard Group and the threshold profit for compensation established in the bonus plan (under certain conditions, the compensation threshold will be updated by the Board of Directors of Isracard, subject to approval by the organs of the Bank, as required by law). Part of the annual bonus was determined according to a personal score assigned to the Chairperson of Isracard each year, based on achievement of objectives. The payment of the annual bonus amount was spread over several years. In addition, a negative bonus amount could be established in years in which the aggregated annual net profit of the Isracard Group was lower than the threshold profit for compensation established in the bonus plan. In any event, pursuant to the bonus plan, the amount of the positive annual bonus for the Chairperson of Isracard in any given year shall not exceed 18 monthly salaries of the Chairperson of Isracard, while the amount of the negative annual bonus in any given year shall not exceed 10 monthly salaries of the Chairperson of Isracard. Upon termination of employment, the balance of the bonuses the payment of which was deferred shall be deposited in a bonus account for a period of 24 months.

In addition, the Chairperson of Isracard was granted RSU, exercisable into shares of the Bank, as follows: 161,241 ordinary RSU and 51,000 contingent RSU, under the terms detailed in the "Secondary Plan for the Grant of Restricted Stock Units (RSU) to Senior Executives 2011" of the Bank (for further details, see Note 15F(A)(2) above). The term of service of Ms. Izakson as Chairperson of the Board of Directors of Isracard ended on December 31, 2013. Due to the termination of employment of the Chairperson of Isracard, in accordance with the terms of the RSU, the ordinary RSU and the contingent RSU that had not yet vested at the termination of employment were forfeited.

Note 16 Share Based Payment Transactions

A. Details of Share-Based Payment Transactions

Set out below are details regarding share-based payment arrangements that existed at the Bank during the period ended December 31, 2013.

(1) Share-Based Payment for Employees of the Bank

(A) 2004-2009 Plan

In May 2004, the Board of Directors of the Bank approved a plan to allocate 24 million nontradable option notes, at no cost, to permanent Bank employees, exercisable into 24 million shares of the Bank. The option notes were allocated each year, at no cost, over the six years from 2004 to 2009, in installments of approximately 4 million options notes each year, with an exercise supplement of NIS 1 (unindexed). The quantity of shares allocated is subject to the customary adjustments (except in the case of dividend distribution). Each allocation of options had a vesting period of four years from the beginning of the year in which the options were allocated, and each allocation could be exercised for a period of one year after the end of the vesting period.

In addition, in December 2005, the Board of Directors of the Bank approved an additional option plan for Bank employees under personal (non-senior) employment contracts. The plan stipulated that four annual allocations would be granted, in each of the years from 2006 to 2009. The number of option notes to be granted under this plan in each of the years of its existence would be determined by the Board of Directors of the Bank, at its sole discretion. The option notes granted to permanent employees and to employees under personal employment contracts are exercisable within one year, beginning when 48 months have elapsed from January 1 of the year in which the option notes were allocated. 2013 was the last year for the exercise of options under these plans; therefore, as at December 31, 2013, options under these plans no longer exist.

(B) 2010-2012 Plan

On September 30, 2009, as part of the wage agreement signed between the Employee Union and the Bank, the Board of Directors of the Bank approved an allocation to permanent employees of the Bank and employees under non-executive personal employment contracts of options to purchase shares of the Bank, at a price of NIS 1 per option. The aforesaid option notes were allocated, at no cost, in three allocations, in each of the years from 2010 to 2012, at a total volume of approximately 12.7 million options. The terms of the plan are similar to those of the option plan for employees for 2004-2009, as noted above. The option notes will be converted into shares from a pool of shares to be purchased by the Bank for that purpose.

The allocation of all option notes under this plan was completed in February 2012. The remaining balance of option notes allocated to employees of the Bank under the plan and not yet exercised as at December 31, 2013 amounted to 12,401,308 option notes.

(C) 2013-2017 Plan

Further to the wage agreement described in Note 15, on March 6, 2013, the Board of Directors of the Bank approved a plan for the grant of phantom shares. Under the plan approved, employees of the Bank will be granted 22.5 million phantom shares, with no exercise price. The phantom shares will be granted in five equal annual allocations of 4.5 million phantom shares each, starting in 2013.

All of the phantom shares will be automatically exercised into cash by the Bank following a vesting period of four years.

Note 16 Share Based Payment Transactions (continued)

(2) Restricted Phantom Shares and Contingent Restricted Phantom Shares for Senior Executives

The Bank granted restricted phantom shares to members of management and senior executives, at no cost, which were exercised automatically, in equal installments each year, over the term of the agreement (usually three years), upon fulfillment of the conditions for such exercise. The quantity of units granted to each employee was derived from the employee's position and rank.

In addition to the restricted phantom shares, the Bank granted contingent restricted phantom shares, which in addition to the vesting terms, also included execution terms pursuant to which the quantity of shares was adjusted as a function of the difference between the return on equity of the Bank and its cost of capital.

Restricted phantom shares and contingent restricted phantom shares granted to senior executives are settled in cash.

(3) Restricted Stock Units

The Bank grants members of management and senior executives restricted stock units ("RSU") (for details, see Note 15F(A)2). RSU are units of restricted shares, which upon fulfillment of the appropriate vesting conditions are automatically exercised into ordinary shares of the Bank, which will be held by the Bank as dormant shares, without the payment of any exercise price. The RSU are allocated according to the capital gains track pursuant to Section 102(B)(2) of the Income Tax Ordinance [New Version], 1961. Restricted phantom shares are no longer granted to members of management and senior employees (other than in exceptional cases).

(4) Restricted Phantom Shares and Contingent Restricted Phantom Shares for the Chairman of the Board and the CEO of the Bank

Under the remuneration plan for 2010 (see Note 15F above), the Bank granted 400,000 restricted phantom shares to the Chairman of the Board and the CEO of the Bank, separately for each executive, for the years 2010-2012. The restricted phantom shares were granted at no cost, and will vest in three equal installments, after 12, 24, and 36 months. The shares will be restricted for an additional year from the end of the vesting period of each allocation, and will be exercised automatically, in equal installments each year, when the conditions for such exercise are fulfilled.

In addition, the Bank granted contingent restricted phantom shares to the Chairman of the Board and the CEO of the Bank, in respect of each of the years from 2010 to 2012. In addition to the vesting terms, the contingent restricted phantom shares also carry a non-market-related condition for execution, under which the number of shares granted is adjusted as a function of the difference between the Bank's return on equity and its cost of capital. In the relevant years, the ROE difference of the Bank did not surpass the minimum threshold, and the contingent restricted phantom shares were therefore forfeited.

(5) RSU and Contingent RSU for the Chairman of the Board of Directors of the Bank and the CEO of the Bank

Pursuant to the resolution of the Board of Directors of February 28, 2012, the Bank granted 133,332 RSU under the RSU Plan to the Chairman of the Board and the CEO, separately for each executive, as a replacement for restricted phantom shares. The RSU were granted at no cost. The shares arising from the vested RSU shall be restricted for one additional year from the end of the relevant vesting period (see Note 16A(3) above).

Additional RSU have been granted as part of the employment agreement of the Chairman of the Board of Directors and of the CEO of the Bank. For details, see Note 15F(C).

Note 16 Share Based Payment Transactions (continued)

B. Estimates of Fair Value of Capital Instruments Granted

(1) Option Notes for Employees of the Bank:

The fair value of option notes granted to employees of the Bank under the plan for 2010-2012 is measured as a liability, up to the date of approval of the buyback by the Supervisor of Banks; after that date, it is measured as a grant settled in capital instruments.

The fair value is calculated using the Black-Scholes model. The expected exercise date used to calculate fair value is the end of the vesting period, because, given the minimal exercise supplement and the lack of a mechanism for adjustment for dividends, it is likely that employees will tend to exercise the options as early as possible in order to receive the dividends distributed to the shares.

Set out below are the details of the central assumptions used to estimate the fair value of grants to employees:

	Options granted in		
	2012	2011	2010
Risk-free interest rate(1) (%)	3.7%	3.4%	3.1%
Expected lifetime (years)	5.1	4.1	3.1
Expected volatility(2) (%)	35.0%	36.1%	39.3%
Dividend yield per share (%)	4.7%	4.6%	4.1%
Exercise price (NIS)	1	1	1
Share price on date of grant (NIS)	16.9	16.9	16.9
Fair value per option note (NIS)	12.4	13.1	13.9

(1) The risk-free interest rate was estimated using a forecast NIS yield curve based on unlinked government bonds.
(2) The expected volatility of the share was estimated by examining the historical volatility of daily prices of the share over a period equivalent to the period of the grant.

(2) Share-Based Payment Transactions Settled in Capital Instruments Granted to Senior Executives as at December 31, 2013:

The fair value of restricted phantom shares, contingent restricted phantom shares, RSU, and contingent RSU that have been granted and are to be settled in capital instruments is equal to the price of the Bank's share on the day of the grant, due to the fact that the exercise increment in respect thereof is equal to zero, and they include adjustments for dividend distribution. The Bank has adjusted the quantity of contingent restricted phantom shares expected to vest, according to the forecast ROE difference over the cost of capital.

Note 16 Share Based Payment Transactions (continued)

C. Additional Information Regarding Share-Based Payment Transactions Settled in Capital Instruments:

1. Share-based payment transactions – options for shares of the Bank granted to employees:

	December 31					
	2013		2012		2011	
	Number of options	Weighted average exercise price (in NIS)	Number of options	Weighted average exercise price (in NIS)	Number of options	Weighted average exercise price (in NIS)
In circulation at start of year	**16,705,915**	**1**	20,853,232	1	25,296,048	1
Granted during the year(1)	**-**	**1**	-	1	-	1
Forfeited during the year	**(74,994)**	**1**	(72,405)	1	(398,038)	1
Exercised during the year(2)	**(4,229,613)**	**1**	(4,074,912)	1	(4,044,778)	1
In circulation at year end(3)	**12,401,308**	**1**	16,705,915	1	20,853,232	1

(1) The weighted average fair value of the share options granted during 2012 at the measurement date was NIS 12.38 per option note (2011: NIS 13.09, 2010: NIS 13.90).
(2) The weighted average share price at the exercise date of the share options exercised during the year was NIS 17.90 (2012: NIS 13.73, 2011: NIS 15.74).
(3) Options for shares in circulation at year end are divided into sections by exercise price*:

	December 31		
	2013	2012	2011
Exercise price range in NIS	**1**	1	1
Number of options	**12,401,308**	16,705,915	20,853,232
Weighted average exercise price (NIS)	**1**	1	1
Weighted average balance of contractual lifetime (years)	**2.0**	2.5	3.0
Of which exercisable:			
Number of options	**-**	-	-
Weighted average exercise price (NIS)	**1**	1	1

* The exercise price of all options issued within the plans is NIS 1.

Note 16 Share Based Payment Transactions (continued)

C. Additional Information Regarding Share-Based Payment Transactions Settled in Capital Instruments (continued):

2. Share-based payment transactions settled in capital instruments granted to senior executives as at December 31, 2013:

	Number of units							
	Senior executives		Members of management		CEO		Chairman	
	Restricted	Contingent	Restricted	Contingent	Restricted	Contingent	Restricted	Contingent
In circulation at start of year	**3,590,624**	**1,055,710**	**2,440,544**	**597,213**	**799,999**	**-**	**533,332**	**-**
Granted during the year[1]	**2,453,529**	**736,257**	**1,135,007**	**319,865**	**-**	**-**	**-**	**-**
Forfeited during the year	**(113,516)**	**(650,084)**	**-**	**(280,315)**	**-**	**-**	**-**	**-**
Exercised during the year[2]	**(2,374,435)**	**(318,659)**	**(1,497,352)**	**(126,011)**	**(133,332)**	**-**	**(133,332)**	**-**
Expired during the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
In circulation at year end[3]	**3,556,202**	**823,224**	**2,078,199**	**510,752**	**666,667**	**-**	**400,000**	**-**
(1) Average weighted fair value of shares granted during the year at the date of measurement, in NIS	**16.73**		**16.53**		**-**		**-**	
(2) Average weighted share price at the exercise date of the units exercised during the year, in NIS	**16.05**		**14.74**		**15.57**		**16.35**	
(3) Shares in circulation at year end:								
Exercise price range (NIS)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Number of shares	**3,556,202**	**823,224**	**2,078,199**	**510,752**	**666,667**	**-**	**400,000**	**-**
Weighted average exercise price (NIS)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Weighted average balance of contractual lifetime (years)	**2.19**	**5.58**	**2.23**	**5.43**	**3.00**	**-**	**2.00**	**-**
Of which exercisable:								
Number of shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Weighted average exercise price (NIS)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Note 16 Share Based Payment Transactions (continued)

C. Additional Information Regarding Share-Based Payment Transactions Settled in Capital Instruments (continued):

Share-based payment transactions settled in capital instruments granted to senior executives as at December 31, 2012:

	Number of units							
	Senior executives		Members of management		CEO		Chairman	
	Restricted	Contingent	Restricted	Contingent	Restricted	Contingent	Restricted	Contingent
In circulation at start of year	2,289,417	903,288	1,497,543	379,540	266,666	128,453	266,666	122,325
Granted during the year(1)	1,361,920	473,659	1,506,740	514,302	666,667	-	400,000	-
Forfeited during the year	(60,713)	(321,237)	(37,076)	(130,640)	-	(128,453)	-	(122,325)
Exercised during the year(2)	-	-	(526,663)	(165,989)	(133,334)	-	(133,334)	-
Expired during the year	-	-	-	-	-	-	-	-
In circulation at year end(3)	3,590,624	1,055,710	2,440,544	597,213	799,999	-	533,332	-
(1) Average weighted fair value of shares granted during the year at the date of measurement, in NIS	13.55		12.85		12.65		15.75	
(2) Average weighted share price at the exercise date of the units exercised during the year, in NIS	-		14.12		16.36		16.36	
(3) Shares in circulation at year end:								
Exercise price range (NIS)	-	-	-	-	-	-	-	-
Number of shares	3,590,624	1,055,710	2,440,544	597,213	799,999	-	533,332	-
Weighted average exercise price (NIS)	-	-	-	-	-	-	-	-
Weighted average balance of contractual lifetime (years)	1.95	2.06	1.87	2.38	3.50	-	2.50	-
Of which exercisable:								
Number of shares	-	-	-	-	-	-	-	-
Weighted average exercise price (NIS)	-	-	-	-	-	-	-	-

Note 16 Share Based Payment Transactions (continued)

D. Liabilities Arising from Share-Based Payment Transactions Settled in Cash:

1. Further details regarding phantom shares granted to employees as at December 31, 2013, are set out below:

Exercise price range in NIS	**-**
Number of phantom units granted but not yet exercised	**22,312,278**
Of which: exercisable	**-**
Average years to expiration	**5**

2. Further details regarding restricted phantom shares and contingent restricted phantom shares to senior executives settled in cash as at December 31, 2013, are set out below:

	Restricted	Contingent	Total
Exercise price range in NIS	**-**	**-**	**-**
Number of phantom units granted but not yet exercised	**149,729**	**26,209**	**175,938**
Of which: exercisable	**-**	**-**	**-**
Average years to expiration	**1.70**	**5.41**	**2.25**

Further details regarding restricted phantom shares and contingent restricted phantom shares to senior executives settled in cash as at December 31, 2012, are set out below:

	Restricted	Contingent	Total
Exercise price range in NIS	-	-	-
Number of phantom units granted but not yet exercised	1,697,914	-	1,697,914
Of which: exercisable	-	-	-
Average years to expiration	0.38	-	0.38

3. Additional details regarding the total liability arising from share-based payment transactions and regarding the internal value of liabilities in respect of which the counterparty's right to cash vested by the end of the year:

	December 31	
	2013	2012
	NIS millions	
Total liabilities arising from share-based payment transactions	**71**	44
Internal value of liabilities in respect of which the counterparty's right to cash or other assets vested by the end of the year	**3**	42

NIS millions

Note 17 Assets and Liabilities According to Linkage Basis

	as at December 31, 2013						
	Israeli Currency		Foreign Currency[1]				
	Unlinked	Linked to the CPI	US Dollar	Euro	Other	Non-monetary items*	Total
Assets							
Cash on hand and deposits with banks	**24,363**	**-**	**17,789**	**455**	**3,102**	**-**	**45,709**
Securities	**44,100**	**2,570**	**8,840**	**922**	**2,226**	**2,254**	**60,912**
Securities which were borrowed or bought under agreements to resell	**36**	**-**	**-**	**-**	**29**	**-**	**65**
Credit to the public, net[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 which were 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**
Excess of assets (liabilities)	**26,555**	**12,961**	**(15,599)**	**(5,015)**	**4,215**	**6,193**	**29,310**
Effect of hedging derivatives:							
Derivative instruments (not including options)	**1,498**	**-**	**-**	**-**	**(1,498)**		
Effect of non-hedging derivatives:							
Derivative instruments (not including 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 relates to a non-monetary item.
(1) Including linked to foreign currency.
(2) After the deduction of allowances for credit losses attributed to the linkage bases.
(3) The Bank has implemented the directives of FAS 157 concerning fair value measurements as of January 1, 2011. Balances of assets and liabilities presented in this note are net amounts, after the attribution of the effects of the implementation of the standard, in the amount of NIS (128) million, these effects were presented in the unlinked segment.

NIS millions

Note 17 Assets and Liabilities According to Linkage Basis (continued)

	as at December 31, 2012						
	Israeli Currency		Foreign Currency[1]				
	Unlinked	Linked to the CPI	US Dollar	Euro	Other	Non-monetary items*	Total
Assets							
Cash on hand and deposits with banks	30,739	-	21,768	499	2,295	-	55,301
Securities	37,767	3,219	6,295	1,199	1,893	1,697	52,070
Securities which were borrowed or bought under agreements to resell	47	-	-	-	-	-	47
Credit to the public, net[2]	148,633	56,878	27,731	6,805	8,987	148	249,182
Credit to governments	47	-	488	263	-	-	798
Investments in equity basis investees	-	-	-	-	-	127	127
Buildings and equipment	-	-	-	-	-	3,726	3,726
Intangible assets and goodwill	-	-	-	-	-	33	33
Assets in respect of derivative instruments[3]	5,181	469	3,262	352	333	27	9,624
Other assets	4,247	214	76	283	78	582	5,480
Total assets	226,661	60,780	59,620	9,401	13,586	6,340	376,388
Liabilities							
Deposits from the public	167,651	20,350	62,492	13,465	7,305	148	271,411
Deposits from banks	2,496	346	2,531	534	108	-	6,015
Deposits from the Government	171	328	130	-	-	-	629
Securities which were lent or sold under agreements to repurchase	-	-	561	-	555	-	1,116
Bonds and subordinated notes	6,852	27,120	1,062	64	579	-	35,677
Liabilities in respect of derivative instruments[3]	5,941	2,203	3,592	597	385	-	12,718
Other liabilities	19,691	192	1,172	197	46	467	21,765
Total liabilities	202,802	50,539	71,540	14,857	8,978	615	349,331
Excess of assets (liabilities)	23,859	10,241	(11,920)	(5,456)	4,608	5,725	27,057
Effect of hedging derivatives:							
Derivative instruments (not including options)	1,525	-	-	-	(1,525)		
Effect of non-hedging derivatives:							
Derivative instruments (not including options)	(12,239)	(1,802)	11,490	5,208	(2,657)		
Options in the money, net (in terms of underlying asset)	(376)	-	167	110	99		
Options out of the money, net (in terms of underlying asset)	239	-	(301)	141	(79)		
Total	13,008	8,439	(564)	3	446	5,725	
Options in the money, net (nominal present value)	(736)	-	186	367	183		
Options out of the money, net (nominal present value)	(1,428)	-	416	1,069	(57)		

* Including derivative instruments whose underlying asset relates to a non-monetary item.
(1) Including linked to foreign currency.
(2) After the deduction of allowances for credit losses attributed to the linkage bases.
(3) The Bank has implemented the directives of FAS 157 concerning fair value measurements as of January 1, 2011. Balances of assets and liabilities presented in this note are net amounts, after the attribution of the effects of the implementation of the standard, in the amount of NIS (61) million, these effects were presented in the unlinked segment.

Note 18 Assets and Liabilities by Currency and by Term to Maturity(5)(6)

	Future expected contractual cash flows*		
	Demand to 1 month	From 1 to 3 months	From 3 months to 1 year
as at December 31, 2013			
Israeli currency (including foreign currency linked):			
Assets	**65,618**	**18,022**	**64,298**
Liabilities	**162,316**	**16,391**	**24,264**
Difference	**(96,698)**	**1,631**	**40,034**
Derivative instruments (excluding options)	**(4,075)**	**(7,373)**	**(2,018)**
Options (in terms of underlying asset)	**(261)**	**(36)**	**917**
Difference after effect of derivative instruments	**(101,034)**	**(5,778)**	**38,933**
Foreign currency:**			
Assets	**28,904**	**8,399**	**9,091**
Liabilities	**56,825**	**11,613**	**16,127**
Difference	**(27,921)**	**(3,214)**	**(7,036)**
Of which: difference in USD	**(18,230)**	**(3,818)**	**(7,667)**
Of which: difference in respect of foreign operations	**3,422**	**910**	**(80)**
Derivative instruments (excluding options)	**4,075**	**7,455**	**1,936**
Options (in terms of underlying asset)	**261**	**36**	**(917)**
Difference after effect of derivative instruments	**(23,585)**	**4,277**	**(6,017)**
Total as at December 31, 2013			
Assets***	**94,522**	**26,421**	**73,389**
Liabilities****	**219,141**	**28,004**	**40,391**
Difference	**(124,619)**	**(1,583)**	**32,998**
*** Of which: credit to the public	**40,282**	**21,851**	**48,981**
**** Of which: deposits from the public	**201,346**	**20,600**	**31,584**
Derivative instruments (excluding options)	**-**	**82**	**(82)**
Options (in terms of underlying asset)	**-**	**-**	**-**

* This note presents future expected contractual cash flows in respect of assets and liabilities by currency, according to the outstanding expected maturity periods of each cash flow. The data is presented less the affect of charge-offs and of allowance for credit losses.

** Excluding Israeli currency linked to foreign currency.

(1) Assets without a repayment period, including assets in the sum of NIS 3,838 million, which are past due.

(2) As included in Note 17 "Assets and Liabilities according to Linkage Basis", including off-balance sheet amount in respect of derivatives.

(3) The contractual return rate is the interest rate deducting the expected future contractual cash flows presented in this note in respect of a monetary item to its balance sheet balance.

(4) Including revolving credit in the amount of NIS 15,875 million, of which amounts in excess of revolving credit facilities in the amount of NIS 2,601 million.

(5) The Bank has implemented the directive of the Supervisor of Banks concerning disclosure of deposits, beginning on December 31, 2013. Among other matters, the directive includes disclosure requirements with regard to contractual maturity dates of credit to the public and deposits from the public. The Bank implemented the directive retroactively – see Note 1(C). Comparative figures for the preceding year were reclassified according to the new directives.

(6) The format of the disclosure in the note on assets and liabilities according to linkage basis and by term to maturity has been revised, in accordance with the directives set forth in the circular of the Supervisor of Banks, "Assets and Liabilities by Linkage Base and by Term to Maturity," of September 30, 2013. The circular revised the differentiation required between assets and liabilities in Israeli currency (including Israeli currency linked to foreign currency) and foreign currency. In addition, cash flows in respect of derivative instruments settled on a net basis are to be classified as Israeli currency or foreign currency, based on the currency in which they will be settled (a report of off-balance sheet amounts shall not be performed in respect of such derivative instruments). For further information, see Note 1C. The Bank implemented the directive retroactively. Comparative figures for 2012 were reclassified according to the new directives.

NIS millions

Future expected contractual cash flows*								Balance-sheet balance[2]		Contractual return rate[3] In %
From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	From 5 to 10 years	From10 to 20 years	Over 20 years	Total Cash flows	With no fixed repayment period[1]	Total	
37,475	**31,611**	**21,751**	**12,487**	**39,234**	**24,219**	**5,713**	**320,428**	**6,010**	**297,862**	**2.8%**
14,713	**8,950**	**7,438**	**6,848**	**21,155**	**2,891**	**969**	**265,935**	**433**	**257,659**	**3.2%**
22,762	**22,661**	**14,313**	**5,639**	**18,079**	**21,328**	**4,744**	**54,493**	**5,577**	**40,203**	**-**
(230)	**(583)**	**1,032**	**471**	**2,330**	**(13)**	**-**	**(10,459)**	**-**	**(12,070)**	**-**
5	**-**	**-**	**534**	**398**	**-**	**-**	**1,557**	**-**	**1,437**	**-**
22,537	**22,078**	**15,345**	**6,644**	**20,807**	**21,315**	**4,744**	**45,591**	**5,577**	**29,570**	**-**
6,540	**6,297**	**3,861**	**4,584**	**9,631**	**1,118**	**300**	**78,725**	**795**	**75,474**	**2.1%**
3,289	**1,286**	**554**	**1,116**	**1,737**	**589**	**104**	**93,240**	**24**	**92,560**	**1.4%**
3,251	**5,011**	**3,307**	**3,468**	**7,894**	**529**	**196**	**(14,515)**	**771**	**(17,086)**	**-**
1,948	**3,347**	**2,263**	**2,639**	**6,334**	**57**	**196**	**(12,931)**	**475**	**(16,096)**	**-**
1,962	**3,427**	**1,430**	**1,363**	**4,060**	**203**	**196**	**16,893**	**-**	**15,808**	**-**
143	**542**	**(1,124)**	**(490)**	**(2,088)**	**10**	**-**	**10,459**	**-**	**12,070**	**-**
(5)	**-**	**-**	**(534)**	**(398)**	**-**	**-**	**(1,557)**	**-**	**(1,437)**	**-**
3,389	**5,553**	**2,183**	**2,444**	**5,408**	**539**	**196**	**(5,613)**	**771**	**(6,453)**	**-**
44,015	**37,908**	**25,612**	**17,071**	**48,865**	**25,337**	**6,013**	**399,153**	**6,805**	**[4]373,336**	**2.7%**
18,002	**10,236**	**7,992**	**7,964**	**22,892**	**3,480**	**1,073**	**359,175**	**457**	**350,219**	**2.7%**
26,013	**27,672**	**17,620**	**9,107**	**25,973**	**21,857**	**4,940**	**39,978**	**6,348**	**23,117**	**-**
40,346	**27,870**	**19,746**	**14,066**	**34,141**	**23,541**	**5,226**	**276,050**	**3,818**	**251,410**	**3.4%**
9,721	**4,258**	**2,334**	**2,942**	**4,723**	**1,889**	**184**	**279,581**	**-**	**276,335**	**2.7%**
(87)	**(41)**	**(92)**	**(19)**	**242**	**(3)**	**-**	**-**	**-**	**-**	**-**
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Note 18 Assets and Liabilities by Currency and by Term to Maturity(5)(6) (continued)

	Future expected contractual cash flows*		
	Demand to 1 month	From 1 to 3 months	From 3 months to 1 year
Total as at December 31, 2012			
Assets	103,622	22,766	75,894
Liabilities	205,648	28,385	50,705
Difference	(102,026)	(5,619)	25,189
Derivative instruments (excluding options)	(20)	(19)	(71)

* This note presents future expected contractual cash flows in respect of assets and liabilities by currency, according to the outstanding expected maturity periods of each cash flow. The data is presented less the affect of charge-offs and of allowance for credit losses.
Unlinked deposits, at interest rates derived from the prime rate, with an option for early redemptions, were included under the first period of option realization after balance sheet date.
Interest on contracts in which interest is variable (on fixed dates in advance or with dates not fixed in advance), was calculated according to interest rates amounts on December 31, 2012.

(1) Assets without a repayment period, including assets in the sum of NIS 4,015 million, which are past due.
(2) As included in Note 17 "Assets and Liabilities according to Linkage Basis", including off-balance sheet amounts in respect of derivatives.
(3) The contractual return rate is the interest rate deducting the expected future contractual cash flows presented in this note in respect of a monetary item to its balance sheet balance.
(4) Including revolving credit in the amount of NIS 16,905 million, of which amounts in excess of revolving credit facilities in the amount of NIS 2,246 million.
(5) The Bank has implemented the directive of the Supervisor of Banks concerning disclosure of deposits, beginning on December 31, 2013. Among other matters, the directive includes disclosure requirements with regard to contractual maturity dates of credit to the public and deposits from the public. The Bank implemented the directive retroactively – see Note 1C. Comparative figures for the preceding year were reclassified according to the new directives.
(6) The format of the disclosure in the note on assets and liabilities according to linkage basis and by term to maturity has been revised, in accordance with the directives set forth in the circular of the Supervisor of Banks, "Assets and Liabilities by Linkage Base and by Term to Maturity," of September 30, 2013. The circular revised the differentiation required between assets and liabilities in Israeli currency (including Israeli currency linked to foreign currency) and foreign currency. In addition, cash flows in respect of derivative instruments settled on a net basis are to be classified as Israeli currency or foreign currency, based on the currency in which they will be settled (a report of off-balance sheet amounts shall not be performed in respect of such derivative instruments). For further information, see Note 1C. The Bank implemented the directive retroactively. Comparative figures for 2012 were reclassified according to the new directives.

NIS millions

Future expected contractual cash flows*								Balance sheet balance[2]		Contractual
From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	From 5 to 10 years	From10 to 20 years	Over 20 years	Total Cash flows	With no fixed repayment period[1]	Total	return rate[3] In %
48,583	30,653	22,758	19,542	41,832	25,434	5,990	397,074	6,546	[4]370,048	3.2%
19,105	12,236	8,053	7,520	25,999	3,709	833	362,193	589	348,716	2.9%
29,478	18,417	14,705	12,022	15,833	21,725	5,157	34,881	5,957	21,332	-
(91)	(39)	3	32	197	8	-	-	-	-	-

NIS millions

Note 19 Contingent Liabilities and Special Commitments

	December 31			
	2013	2012	**2013**	2012
	Contract balances*		Allowance for credit losses	
A. Off-balance sheet financial instruments:				
Contract balances or nominal amounts for year-end - Transactions, the balance of which represents a credit risk:				
(1) Documentary credit	**1,270**	1,460	**11**	3
(2) Credit guarantees	**6,748**	6,605	**22**	20
(3) Guarantees to purchasers of apartments	**16,330**	15,085	**76**	66
(4) Other guarantees and liabilities	**19,515**	19,004	**199**	191
(5) Unutilized credit facilities for credit cards under the responsibility of the bank	**31,066**	32,343	**55**	69
(6) Unutilized credit facilities for credit cards under the responsibility of other banks	**10,011**	10,279	**-**	-
(7) Unutilized revolving debitory and other on-demand credit facilities	**37,214**	36,090	**101**	96
(8) Irrevocable obligations to grant credit, which has been approved but is yet undrawn**	**29,417**	26,591	**78**	64
(9) Obligations to issue guarantees	**21,462**	20,270	**96**	86

* Contract balances or nominal amounts for year-end, before the affect of allowance for credit losses.
** Includes commitments to grant credit given to customers in loans "approved in principle with a hold on the interest rate", under Proper Conduct of Banking Business Directive 451, Procedures for Granting Housing Loans.

	December 31	
	2013	2012
B. Off-balance sheet commitment regarding activity per the extent of collection(1) for year-end		
Credit balance from deposits as per extent of collection(2)		
Israeli currency - unlinked	**38**	40
Israeli currency - linked to the CPI	**3,682**	4,452
Foreign currency	**69**	51
Total	**3,789**	4,543

(1) Credit and deposits from deposits which their repayment to the depositor is dependant on the collection of the credit (or deposits) with margin or collection fee (instead of margin).
(2) Standing loans and deposits from the Government which were granted on their behalf, in the amount of NIS 255 million (2012: NIS 301 million) were not included in this table.

NIS millions

Note 19 Contingent Liabilities and Special Commitments (continued)

B. Off-balance sheet commitment regarding activity per the extent of collection[(1)] for year-end (continued):

Future flows of collection fees and interest margin as per extent of collection activity[(1)]

	December 31, 2013							December 31, 2012
	Up to 1 year	From 1 to 3 years	From 3 to 5 years	From 5 to 10 years	From 10 to 20 years	Over 20 years	Total	Total
Linked to the CPI[(2)]								
Future contractual flows	**26**	**49**	**45**	**67**	**20**	**1**	**208**	251
Expected future flows after management's estimate of early repayments	**27**	**44**	**35**	**43**	**9**	**-**	**158**	185
Capitalized future flows after management's estimate of early repayments[(3)]	**26**	**44**	**34**	**40**	**8**	**-**	**152**	179

Information on loans granted during the year in mortgage banks:

	December 31	
	2013	2012
Loans from deposits as per extent of collection	**32**	35
Standing loans	**24**	9

(1) Credit and deposits from deposits which their repayment to the depositor is dependant on the collection of the credit (or deposits) with margin or collection fee (instead of margin).
(2) Including foreign currency segment.
(3) The future flows were capitalized at a rate of 0.86% (2012: 0.78%).

NIS millions

Note 19 Contingent Liabilities and Special Commitments (continued)

C. Contingent liabilities and other special commitments:

	December 31	
	2013	2012
(1) Liability to purchase securities	**185**	250
(2) Construction and purchase of buildings and equipment	**126**	21
(3) Long-term rental contracts - Rent payable in future years for buildings and equipment in respect of commitments*:		
First year	**174**	166
Second year	**168**	163
Third year	**155**	156
Fourth year	**143**	144
Fifth year	**136**	132
Over five years	**712**	777
Total rent for buildings and equipment	**1,488**	1,538

* Restated.

(4) Credit selling activity

The following table summarizes the credit selling activity of the Bank:

	For the year ended December 31		
	2013	2012	2011
Book value of credit sold	**201**	*440	761
Consideration received in cash	**203**	*459	772
Total net profit from sale of credit	**2**	19	11

* Restated.

(5) The Bank guarantees, to some members of provident funds that were formerly under its management and have been sold to investment houses, the payment on the date of entitlement of at least the nominal amount of the fund's receipts in the member's account, less deductions permitted by law to cover the fund's expenses, tax deductions, and any amount that the fund is obligated to repay to the member's employer, all subject to the relevant item in the approved articles of association of each fund. The balance of those nominal amounts as at the balance sheet date amounted to NIS 3,050 million (December 31, 2012: NIS 3,439 million).

The accrual of sums to these members' credit in the aforesaid funds usually substantially exceeds the amounts for which the Bank is a guarantor. The "fair value" of the Bank's liabilities in this respect as at December 31, 2013 is immaterial.

Note 19 Contingent Liabilities and Special Commitments (continued)

It has been agreed that for some of the members of the provident funds, the Bank's guarantee covers only the balance accrued until seven years have elapsed from the date of completion of the sale of the provident fund.

- The buyers undertook a commitment to transfer the Bank's guarantee to an insurer or other party approved by the Supervisor of the Capital Market, Insurance and savings (hereinafter: the "supervisior") when seven years have elapsed, in a manner such as to grant the Bank final and absolute release from its guarantee.
- The sale agreement between the Bank and Prisma states that if the guarantee is exercised, the buyer shall compensate and indemnify the Bank, at its first demand in writing, in respect of any amount paid by the Bank, provided that the aggregate amount in respect of each calendar year does not exceed NIS 22 million. At the balance sheet date, the balance of the guarantees is zero. When the provident funds of Prisma were sold to Psagot, Psagot undertook this liability towards the Bank. Indemnification and compensation in the amount of up to NIS 7 million have been established with Dash as well.

The trajectory described above is regularized in the articles of the funds, which have been approved by the Supervisor. The articles of the funds state that as long as the Supervisor has not approved the replacement or assignment of the Bank's guarantee, the Bank's guarantee shall remain in effect.

(6) The Bank has undertaken to indemnify officers who are directors of the Bank and who are regarded or are likely to be regarded as controlling parties of the Bank, as defined in Paragraph 268 of the Companies Law, 1999.

The amount of the indemnity to be provided by the Bank under the aforesaid commitment to each of its officers, in aggregate, in respect of one or more of the indemnity events shall not exceed 25% of the Bank's shareholders' equity according to its most recent financial statements published prior to the date of the actual indemnity. In addition, the Bank has undertaken a commitment to indemnify subsidiaries, in order to comply with Proper Conduct of Banking Business limits (the ratio of capital to risk-adjusted assets, and the limits on the indebtedness of a single borrower and of related parties), and in order to receive an exemption from the implementation of Proper Conduct of Banking Business Directives 201-211, "Capital Measurement and Adequacy." The indemnification expires automatically without the need for any action by any of the parties on the date on which the Bank ceases to hold any means of control in the company, either on its own or through companies under its full ownership.

Note 19 Contingent Liabilities and Special Commitments (continued)

(7) Hapoalim Hanpakot Ltd., a consolidated company that engages in the issuance of subordinated notes and bonds to the public based on prospectuses, for the purpose of depositing the proceeds at the Bank, has undertaken to indemnify directors, officers, and lawyers (hereinafter: "Indemnification Recipients") in connection with various prospectuses published since 1998 in respect of monetary indebtedness to be imposed upon them due to actions they performed in the capacity of providing services to the company; and with regard to subordinated notes and bonds issued as of 2001, also due to monetary indebtedness imposed upon them to the benefit of another person in accordance with a court ruling, including a ruling issued in a compromise or an arbitrator's ruling approved by a court, and in respect of reasonable litigation expenses, including lawyers' fees, expended by them or charged to them by a court in a proceeding filed against them by the company or on its behalf or by another person, or in a criminal indictment in which they are acquitted, or in a criminal indictment in which they are convicted of an offense that does not require proof of mens rea; and with regard to Subordinated Notes (Series I-P) and Subordinated Capital Notes (Series 1) issued based on prospectuses dated from December 21, 2005 to May 23, 2011, also for reasonable litigation expenses, including lawyers' fees, expended by the Indemnification Recipients due to an investigation or proceeding conducted against them by the government agency authorized to conduct the investigation or proceeding, and which concluded without an indictment, and without any financial obligation imposed as a substitute for a criminal proceeding, or which concluded without an indictment, but with the imposition of a financial obligation as a substitute for a criminal proceeding, for an offense that does not require proof of mens rea, as these terms are defined in the Companies Law, 1999, all provided that the financial obligation and/or expenses are not covered in practice by an insurance policy.The cumulative indemnification ceiling for all Indemnification Recipients was established as a maximum amount not to exceed the amount of the overall limit stipulated in each prospectus; with respect to Subordinated Notes (Series I-P), a maximum amount not to exceed 10% of the total limit established for the issue under the aforesaid prospectus.

(8) Under an agreement, a contingent liability exists between the TASE Clearing House and the members of the Tel-Aviv Stock Exchange Ltd. (including the Bank) with regard to mutual indemnification among the members of the TASE Clearing House to pay money, in full or in part, or securities cleared, in full or in part, which one of the members of the TASE is obligated to pay or deliver, or if the Clearing House has paid the said unpaid moneys or purchased the undelivered cleared securities and delivered them to the designated recipient to which they are owed.

Each member's share of the indemnification is equivalent to the ratio of the member's financial turnover to the total financial turnover of all of the members responsible for payment to the Clearing House for the loss, for a period of twelve months ending on the last day of the month preceding the month in which the event that caused the loss occurred.

(9) Consolidated companies of the Bank act as trustees for holders of bonds, and are required to monitor compliance with the terms of the bonds as undertaken by the issuing companies and by law.These companies also engage in trust services for the benefit of various beneficiaries who own money, rights, and other assets, to be held and managed in accordance with the instructions of the owners.

Note 19 Contingent Liabilities and Special Commitments (continued)

(10) (A) Isracard has undertaken a commitment to indemnify directors and other officers of the company, as they were from time to time; the cumulative amount of the indemnification to be provided by Isracard under this obligation to all insured parties of the company in respect of one or more indemnification events shall not exceed 30% of its equity according to its most recent (annual or quarterly) known financial statements prior to the actual payment. The company has undertaken to indemnify consolidated companies in respect of all of their liabilities, in an unlimited amount, in accordance with Proper Conduct of Banking Business Directive 313 (Limits on the Indebtedness of an Individual Borrower) and Proper Conduct of Banking Business Directives 201-211 (Capital Measurement and Adequacy).

(B) Poalim Express has undertaken a commitment to indemnify directors and other officers of the company, as they were from time to time; the cumulative amount of the indemnification to be provided by the company under this obligation to all insured parties of the company in respect of one or more indemnification events shall not exceed 50% of its shareholders' equity according to its most recent (annual or quarterly) known financial statements prior to the actual payment.

(C) Europay has undertaken a commitment to indemnify directors and other officers of the company, as they were from time to time; the cumulative amount of the indemnification to be provided by Isracard under this obligation to all insured parties of the company in respect of one or more indemnification events shall not exceed 30% of its equity according to its most recent (annual or quarterly) known financial statements prior to the actual payment.

(D) Pursuant to an arrangement between the company 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, and the average issuer fee will stand at 0.7% from July 1, 2014, to the end of the period of the Arrangement (December 31, 2018). The agreement signed by the parties, detailing the terms for the operation of the joint technical interface, has been submitted to the Commissioner in order to obtain an exemption from approval of a restrictive arrangement.

The reduction of the issuer fee approved by the Antitrust Tribunal is likely to have a material adverse effects on the financial statements of the company in the future; however, the company cannot estimate the actual volume of this effect.

(E) An agreement between Isracard and Leumi Card was signed in April 2012, and an agreement between Isracard and CAL was signed in May 2012, both in connection with the implementation of Amendment 18 to the Banking (Licensing) Law, 1981 (hereinafter: the "Agreements"). Pursuant to the Agreements, Leumi Card and CAL were granted licenses to clear Isracard brand charge cards, under the terms agreed upon by the parties. Isracard estimates that license granting in accordance with this law will have a material negative effect on Isracard; however, at this stage Isracard cannot estimate the actual extent of this effect.

On September 13, 2012, the Commissioner granted an exemption for a restrictive arrangement permitting Leumi Card and CAL to clear Isracard brand cards, with the payment of an issuer fee, a one-time licensing fee, and an additional amount, the content and extent of which has been deemed confidential by the Antitrust Tribunal. Following the Commissioner's refusal to permit the collection of a licensing fee as agreed upon by the parties, on February 6, 2013, Isracard petitioned the Antitrust Tribunal for approval of the Agreements. The position of the Commissioner, objecting to the approval of the Agreements as they stand, was submitted in June 2013. Discussions on this matter are being conducted by the Antitrust Tribunal.

Note 19 Contingent Liabilities and Special Commitments (continued)

(11) On March 19, 2008, the Bank received notification from the Antitrust Authority that the Antitrust Commissioner was considering the possibility of exercising her authority under Section 43(A)(1) of the Restrictive Trade Practices Law, 1988 (hereinafter: the "Restrictive Trade Practices Law") to determine that restrictive arrangements existed between the Bank and Bank Leumi, Discount Bank, Mizrahi-Tefahot Bank, and FIBI with regard to the transfer of information concerning fees. The Bank submitted its position to the Commissioner, backed by an economic opinion, emphasizing that there is no cause to allege that the Bank had restrictive arrangements with other banks.

After the Bank submitted its arguments in writing, a discussion was held between the representatives of all of the banks referenced in the aforesaid letter and the Commissioner, during which the Commissioner proposed that the banks pay an aggregate sum of NIS 290 million (of which NIS 80 million by the Bank), and that future rules of conduct be anchored in a consensual order pursuant to Article 50A or 50B of the Restrictive Trade Practices Law. The Bank rejected this proposal, and to the best of its knowledge, the other banks responded in the same manner.

On April 26, 2009, the Antitrust Commissioner issued a determination, within her authority under Section 43(A)(1) of the Restrictive Trade Practices Law, stating that restrictive arrangements existed between the Bank and Bank Leumi, Discount Bank, Mizrahi-Tefahot Bank, and FIBI until 2004. The Commissioner's determination states that information transferred among the banks, as detailed in the determination, constitutes a restrictive arrangement. The Bank intends to file an appeal of this declaration with the Antitrust Tribunal.

Pursuant to the provisions of Section 43 of the Restrictive Trade Practices Law, this determination may serve as alleged evidence in any other legal proceeding.

In March 2010, the Bank, as well as the other banks referenced in the determination, filed an appeal with the Antitrust Tribunal to cancel the determination. The Commissioner filed a response to the Bank's appeal, in February 2011, containing additional factual claims other than those detailed in the determination. Following petitions filed by the appellants with regard to the inclusion of these facts, they were expunged from the Commissioner's response, according to a ruling by the Antitrust Tribunal. Subsequent to this ruling, the Commissioner issued an additional letter for a hearing prior to the issuance of a supplementary determination.

In view of the foregoing, the banks referenced in the determination held talks with the Antitrust Commissioner in order to conclude all of the proceedings through a consensual order under Section 50B of the Restrictive Trade Practices Law. These talks have not yet led to a final agreement, but are in a very advanced stage. According to the agreement being formulated between the parties, the determination will be cancelled; the Bank will pay approximately NIS 21 million to the state under the consensual order, but the Bank will have the option of paying this sum as compensation in settlement agreements with petitioners in various petitions to certify class-action suits filed against the Bank on matters related to the Commissioner's determination.

D. Legal Claims

The Bank Group (the Bank and its consolidated subsidiaries) is 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.

Note 19 Contingent Liabilities and Special Commitments (continued)

The additional exposure in respect of claims filed against the Bank Group on various matters that have a "reasonably possible" probability of materialization amounts to approximately NIS 76 million as at December 31, 2013.

(A) Set out below are details of the claims, including petitions to certify and administer claims as class actions, in material amounts, as at the date of filing (claim amounts listed below are the amounts noted in the claim statements). In the opinion of the Bank's Board of Management, based on legal opinions with regard to the likely outcome of these claims, the financial statements include sufficient provisions, where necessary, in accordance with generally accepted accounting principles, to cover possible damages resulting from all of the claims:

1. A claim and a petition to certify and administer the claim as a class action against the Bank and others were filed with the District Court of Tel-Aviv-Jaffa on November 26, 2012. The amount of the claim has been set in the claim statement at approximately NIS 2.284 billion. The claim and the petition concern cash withdrawals from automated teller machines operated by Automated Banking Services Ltd. and by Casponet Ltd. According to the claimant, the Bank and others cause overcharging of a fee allegedly caused by the splitting of cash withdrawals from automated teller machines into several withdrawals, due to the limit on withdrawal amounts at these automated teller machines, and by charging a fee for each withdrawal.

The claimant petitioned to withdraw from the claim; the court approved this request on January 29, 2014, and the petition to certify the claim as a class action was dismissed, as well as the personal claim, with no expenses ordered.

2. A claim statement and a petition to certify and administer the claim as a class action against the Bank were filed with the District Court of Tel-Aviv-Jaffa on July 16, 2012. The amount of the class action stated in the claim statement is NIS 18 billion. The claim and the petition concern an allegation that the Bank conceals the existence of a "transaction permit" from its customers who take out loans, and charges them arrears interest, not in accordance with this permit.

Near the filing date of this claim and petition, the petitioners filed several petitions for certification against other banks, concerning allegations similar or identical to the allegations in the proceeding described herein. Petitions to consolidate the hearings, in accordance with Section 7(A) of the Class Actions Law, were submitted to the various courts.

Pursuant to a ruling of the District Court of Beer Sheba, the proceedings in all of the petitions were transferred to the District Court of Tel-Aviv-Jaffa.

The claimants petitioned to withdraw from all of the claims with no expenses ordered; the court approved this request on January 15, 2014.

3. A claim statement and a petition to certify and administer the claim as a class action were filed with the District Court of the Central District against the Bank and against two additional banks (hereinafter: the "Respondent Banks") on September 21, 2011. The claim against all of the Respondent Banks is in a total amount of NIS 927 million, while the share of the Bank is in the amount of NIS 280 million.

The cause of the claim, according to the petitioners, is excessive collection allegedly deriving from prohibited collection of "compound interest" in housing loans taken by the petitioners from the Respondent Banks, and the Respondent Banks' interest calculations that disregard the fact that the interest has already been paid and that previous payments also repaid part of the principal.

Note 19 Contingent Liabilities and Special Commitments (continued)

The position submitted by the Supervisor of Banks at the request of the court supported the banks' position, according to which in cases where the interest rate in a housing loan agreement is established in annual terms and the loan is repaid in monthly payments, the annual interest established in the loan agreement should be divided by 12.

4. On August 16, 2010, a claim was filed with the US Bankruptcy Court of the Southern District of New York (hereinafter: the "Bankruptcy Court") against Bank Hapoalim (Switzerland) Ltd., a wholly-owned subsidiary of the Bank (hereinafter: "BHS"), and against others. The claimant, Fairfield Sentry Limited, through its liquidators (hereinafter: the "Fund"), was a feeder fund in which customers of BHS invested. This claim has been amended and expanded. The amount of the claim stands at approximately USD 27 million.

The claim against BHS is one of many similar claims that the Fund filed in which various defendants are required to return to the Fund all redemptions that they withdrew from the Fund in the years preceding its liquidation (hereinafter: the "Fairfield Claims").

A ruling of the court in the British Virgin Islands (where the Fund is incorporated) in September 2011 determined that the Fund received fair consideration for redemptions withdrawn from the Fund at the time. An appeal of this decision filed with the Eastern Caribbean Court of Appeals was denied. A petition for permission to appeal, filed by the Fund with the Privy Council in England, is pending. Until this matter is clarified, the discussion of the Fairfield Claims before the Bankruptcy Court has been delayed.

In addition, in September 2011, the Federal Court of New York ruled that the Bankruptcy Court does not have material jurisdiction to discuss the Fairfield Claims. However, in a discussion of a similar recovery claim related to the Madoff affair, the Federal Court of New York ruled in January 2013 that the Bankruptcy Court has the authority to recommend proposed factual findings and juridical conclusions.

In addition to the aforesaid claim, on March 29, 2012, Attorney Irving Pickard, liquidator of Bernard L. Madoff Investment Securities LLC (hereinafter: "Madoff"), filed a claim with the Bankruptcy Court against the Bank and against BHS. The claim is in the amount of approximately USD 27.5 million, of which approximately USD 26 million against BHS. The claim demands that the defendants reimburse the Madoff liquidation fund for redemptions withdrawn from the Fund and from the Kingate Fund during the period preceding Madoff's bankruptcy. This refers to funds in which customers of the Bank and of BHS invested at the time, which in turn invested in Madoff.

It should be noted that a substantial part of the amount of the reimbursement demanded in this claim (approximately USD 22 million of the total USD 27.5 million) corresponds to the amounts claimed by the Fund in the claim described above; therefore, there does not seem to be a risk of duplicate payment in respect of the corresponding amounts.

5. On April 27, 2009, a claim statement and a petition to certify and administer the claim as a class action were filed with the District Court of Tel-Aviv-Jaffa against the Bank and against four additional banks (hereinafter: the "Respondent Banks"), in the amount of NIS 1 billion.

The claimants, who claim to be customers of the Respondent Banks, are attempting to attribute a restrictive arrangement concerning fee rates to the respondents. According to the claimants, due to the coordinated policies of the Respondent Banks, which they allege were characterized by prohibited cooperation between them and by the intentional, systematic exchange of information, competition in the market was allegedly impaired, and the Respondent Banks were able to maintain a uniform (and high) level of fees, such that the claimants and the members of the group which they seek to represent paid excessive prices for the services they received.

Note 19 Contingent Liabilities and Special Commitments (continued)

The claim is based on a declaration pursuant to Section 43(A)(1) of the Restrictive Trade Practices Law, 1988, issued by the Antitrust Commissioner on April 26, 2009, 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"). The Bank has filed an appeal of the Declaration.

According to the claimants, the amount of the claim was determined according to an estimated calculation only, for the purpose of placing it within the material jurisdiction of the District Court.

The hearing of this claim has been unified with the hearing of the claim described in Section 6 below.

In a ruling dated November 29, 2009, the court suspended the discussion of this claim for two years, in order to examine the outcome of the appeal of the Declaration mentioned above. In March 2012, a ruling was given to suspend the proceedings until after the aforesaid appeal is concluded.

6. On June 30, 2008, a claim and a petition to certify and administer the claim as a class action were filed with the District Court of Tel-Aviv-Jaffa against the Bank and against two other banks (hereinafter: the "Respondent Banks"), in the amount of NIS 3 billion.

The cause of the claim, according to the claimants, is restrictive arrangements allegedly made by the Respondent Banks over a consecutive period of approximately ten years, or more, allegedly based on coordination of prices of various operational fees collected by the Respondent Banks from their private customers during the period relevant to the claim. The claim statement alleges that the Respondent Banks coordinated the timing of increases and/or reductions of fee prices as well as the rates of the fees, and that as a result, the claimants and the members of the group which they seek to represent paid an unfair, unreasonable, uneconomic price that was substantially higher than the price which they would have paid under conditions of free competition. The claimants allege that the Respondent Banks thereby obtained unjust enrichment at the expense of their customers.

The hearing of this claim has been unified with the hearing of the claim described in Section 5 above.

In a ruling dated November 29, 2009, the court suspended the discussion of this claim for two years, in order to examine the outcome of the appeal of the Declaration mentioned in Section 5 above. On January 25, 2012, a ruling was given to suspend the proceedings until after the aforesaid appeal is concluded.

7. On April 1, 2007, a claim and a petition to certify and administer the claim as a class action were filed with the District Court of Tel-Aviv-Jaffa against the Bank and against Bank Leumi. The amount stated in the claim statement is approximately NIS 386 million.

According to the claimants, the claim concerns losses caused to themselves and to the other members of the group as a result of the fact that the defendants, who are TASE members, unlawfully charged mutual-fund managers brokerage fees at a higher rate than should have been charged, thereby increasing economic costs, reducing the value of the fund's assets, reducing the value of each participatory unit, and, as a consequence of all of the above, reducing the profit (or increasing the loss) of each investor.

Note 19 Contingent Liabilities and Special Commitments (continued)

8. On December 13, 2006, a claim and a petition to certify and administer the claim as a class action against the Bank and against additional banks (hereinafter: the "Respondent Banks") were filed with the District Court of Jerusalem. The aggregate amount of the class-action suit against all of the Respondent Banks, as specified in the claim statement, is approximately NIS 5.6 billion. The claimants note in their claim that according to a different method of calculation, the amount claimed is at least NIS 5.2 billion.

The claimants, who present themselves as citizens who maintain households and who received credit from the Respondent Banks, allege in the claim that they were charged excessive interest payments without economic or commercial justification. The claimants further allege that the interest rate was determined while exploiting the Respondent Banks' standing in the households banking market, while reducing competition and causing damage to the public and/or while creating an illegal restrictive arrangement. The claimants further allege that the interest rate was determined while misinforming them with regard to the usual price of credit services for the households sector, in violation of the Consumer Protection Law, 1981. The claimants allege that this resulted in damage to the claimants and to the other customers of the Respondent Banks comprising the households sector.

In May 2008, the court ruled to delay proceedings in this claim until a ruling is given in the claim described in Section 9 below.

9. On September 12, 2006, a claim statement and a petition to certify and administer the claim as a class action were filed with the District Court of Tel-Aviv-Jaffa against the Bank and against additional banks (hereinafter: the "Respondent Banks"). The amount of the claim noted in the claim statement against all of the Respondent Banks in aggregate is NIS 7 billion; the claimant notes that she reserves the right to amend the amount of the claim.

The claimant alleges that she was charged excessive and unreasonable interest payments by the Bank, as well as payments for added risk, credit allocation fees, and account management fees in a current drawing business account which, she claims, were uniform among all of the Respondent Banks. According to the claimant, the Bank acted in coordination with the other respondents, under a restrictive arrangement among them, and as a result of the uniformity in interest rates competition among them was averted or reduced, thereby increasing the interest spread in the unlinked shekel segment in current accounts, and allegedly creating substantial profits for the Respondent Banks while causing damage to the public and to the economy.

On January 21, 2008, the court approved the hearing of the claim as a class action. The Bank filed for permission to appeal this ruling.

According to a directive of the Supreme Court, the Attorney General has been asked to present a response to the arguments in this petition.

In early June 2010, the Supreme Court received the opinion of the Attorney General, according to which the District Court's decision to approve the hearing of the claim as a class action was erroneous. On November 21, 2011, the Attorney General submitted an additional notification to the Supreme Court, stating that he had reversed his position and believes that the petition should be heard as a class-action suit, given the existence of the Declaration mentioned in Section 5 above, which according to the Attorney General's later notification he considers judicially relevant to this claim.

Note 19 Contingent Liabilities and Special Commitments (continued)

On July 28, 2013, a ruling was given in which the Supreme Court accepted the Bank's appeal, dismissed the District Court's ruling to certify the claim as a class action, and ordered the return of the petition for certification for a renewed hearing before the District Court.

(B) Also pending against the Bank Group are claims, including petitions to certify class actions, as detailed below. In the opinion of the Bank's Board of Management, based on legal opinions, at this stage it is not possible to assess the probability of success of these legal proceedings; accordingly, no provision has been made in respect thereof.

1. A claim and a petition to certify 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.

2. 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.

3. 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.

4. 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 19 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.

E. Variable Interest Entities (VIE)

The Bank supplies liquidity lines to securitization entities in which third parties serve as the sponsors. The lines supplied by the Bank constitute a relatively small share of the total liquidity lines of these securitization entities. The Bank does not supply credit reinforcement to these entities. The total liquidity lines supplied to securitization entities, as described above, as at December 31, 2013, amounted to NIS 174 million (USD 50 million), compared with NIS 187 million (USD 50 million) at the end of 2012. No withdrawals were performed on any of these lines up to December 31, 2013. Taking into consideration the fact that the Bank usually supplies a relatively small share of the total liquidity lines to these securitization entities and does not provide them with other types of support, the Bank has determined that it does not hold variable interests that would make it the primary beneficiary in any VIE of these securitization entities.

F. The Bank has received two letters of demand pursuant to Section 194 of the Companies Law, 1999 (hereinafter: the "Demands"), in connection with the contractual engagement of Tarshish Holdings and Investments Hapoalim Ltd. (hereinafter: "Tarshish"), a wholly owned subsidiary of the Bank, in 2005, in an agreement (hereinafter: the "Acquisition Agreement") to acquire control of the Turkish bank currently known as Bank Pozitif Kredi Ve Kalkinma Bankasi A.S. (hereinafter: "Bank Pozitif"). Pursuant to the Acquisition Agreement, the foreign investment fund RP Explorer Master Fund (hereinafter: "RP") was also entitled to invest in the capital of Bank Pozitif, at a price identical to the price of the investment by Tarshish, and to receive an allocation of 7.45% of its allocated share capital. Under an additional agreement between the Bank and RP, RP received an option from the Bank to purchase additional shares of Bank Pozitif from the Bank, at agreed terms and dates, up to a ceiling of approximately an additional 7.45% of the capital of Bank Pozitif, provided that the holdings of Tarshish in Bank Pozitif would not fall below 50.1% of its issued capital. The RP fund did not execute any investment in Bank Pozitif, also taking into account later understandings reached with RP. Further to these understandings, in 2008 the Board of Directors approved a payment in the amount of USD 25 million to RP settle all of its claims.

Note 19 Contingent Liabilities and Special Commitments (continued)

According to the parties filing the Demands, the aforesaid payment to RP was inappropriate and tainted with personal interests of Mr. Dan Dankner, who served on all of the relevant dates as a director of the Bank, was part of the controlling group of the Bank in 2005, and served as Chairman of the Board of Directors of the Bank in 2008. According to the first contention, the personal interest of Mr. Dankner fundamentally invalidates the Acquisition Agreement; according to the second contention, the personal interest of Mr. Dankner invalidates the payment decided upon in 2008.

In the Demands, the Bank is required to claim reimbursement of the aforesaid sum of USD 25 million, plus interest, from RP, Mr. Dan Dankner, and additional directors of the Bank (some of whom have resigned from the Board of Directors in the interim).

The Board of Directors of the Bank held discussions relating to the two Demands and resolved to deny them, after determining, among other matters, that conceding to each of the Demands would not be in the best interests of the Bank, also taking into account that it is doubtful whether there is a strong probability of winning such a claim.

After the first Demand was denied, the shareholder who had filed the Demand filed with the court for permission to file a derivative claim on behalf of the Bank against Mr. Dan Dankner, against those serving as members of the Board of Directors of the Bank in December 2005, and against RP (hereinafter, jointly: the "Defendants").

In the petition to approve the derivative claim, the applicant claims that the Defendants, jointly and separately, caused the Bank to incur damage in the amount of NIS 88 million, and that they should compensate the Bank for this amount. Against Mr. Dan Dankner, the claimant claims that the amount of the acquisition and the aforesaid payment to RP were tainted by his personal interest and were not approved lawfully. Against RP, the claimant claims that it knew of the personal interest of Mr. Dankner and the lack of approval. Against the other directors, the claim is that they failed to fulfill their duty of care towards the Bank.

On July 11, 2010, a derivative claim was filed with the District Court of the Central District, with a petition to certify the claim as an additional derivative claim against Mr. Dan Dankner; members of the Board of Directors of the Bank who served as directors in February 2008; Tarshish Holdings and Investments Hapoalim Ltd. (hereinafter: "Tarshish"), which is a subsidiary of the Bank; and RP (hereinafter, jointly, the "Respondents"), and against the Bank as a formal respondent, in which the claimant petitions the court for permission to file a derivative claim on behalf of the Bank against the Respondents, and to obligate them, jointly and separately, to pay the Bank the sum of approximately NIS 72 million. This claim and the petition to certify it as a derivative claim concern the aforesaid Acquisition Agreement and the compensation granted to RP, which, according to the claimant, was higher by USD 20 million than the compensation agreed upon in the Acquisition Agreement. The claimant claims that the payment to RP was performed by the Bank in violation of the duty of loyalty of some of the Respondents, and in violation of the duty of care of the other Respondents.

On October 19, 2010, the President of the Supreme Court ruled to unify the proceedings in the two Demands.

On February 10, 2011, a hearing was held at the District Court which ordered an amended claim to be filed, unifying the two claims (hereinafter, jointly: the "Unified Claims").

Note 19 Contingent Liabilities and Special Commitments (continued)

On September 15, 2011, the Bank received an additional letter of demand, pursuant to Section 194 of the Companies Law, 1999, in connection with the contractual engagement of Tarshish in the Acquisition Agreement. The demand alleges that Mr. Shlomo Nehama, who served as Chairman of the Board of the Bank and was one of the controlling parties of the Bank at the date of the acquisition of control of Bank Pozitif and during the negotiations with RP, invested a total of approximately USD 1 million in the RP fund at that time, and was therefore tainted with personal interest in the Acquisition Agreement and in the aforesaid negotiations.

On October 31, 2011, prior to the discussion of this demand by the Board of Directors of the Bank, a claim was filed with the Economic Department of the District Court of Tel Aviv, with a petition to certify the claim as a derivative claim against Mr. Shlomo Nehama, regarding this matter (hereinafter: the "Third Claim"). The Third Claim alleges that the conduct of Mr. Nehama caused damage to the Bank in the amount of NIS 88 million.

In a pretrial proceeding held for the Unified Claims on November 16, 2011, the parties reached a procedural arrangement pursuant to which, among other matters: (a) the Unified Claims will be amended such that the matters described in the Third Claim are added to them; (b) the members of the Board of Directors of the Bank who served in 2005, with the exception of Mr. Shlomo Nehama, will be expunged from the claims; and (c) the Third Claim will be consensually expunged.

In October 2012, the State's Attorney indicted Mr. Dan Dankner, who served as Chairman of the Board of Directors until August 1, 2009, for actions carried out during his term of service on the Board of Directors. The offenses attributed to Mr. Dankner in the indictment concern damage to property, the prohibition of money laundering, and damage to the proper management of a banking corporation.

On October 17, 2013, the State's Attorney and Mr. Dankner announced that they had reached an agreement regarding a plea arrangement, under which the aforesaid indictment would be amended, and Mr. Dankner would confess to the facts in the amended indictment and would be convicted of the offenses attributed to him therein. Accordingly, Mr. Dankner was convicted of the offenses of breach of trust harmful to a corporation, fraud in receiving a loan from a Dutch bank, and fraud in receiving credit from the Bank. Following this conviction, on December 19, 2013, the court sentenced Mr. Dankner to one year in prison and a fine of NIS 1 million.

Mr. Dankner has appealed the sentence concerning the prison term.

NIS millions

Note 20 Derivative Instruments Activity - volume, credit risks and maturity dates

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**

* Except for credit derivatives and foreign currency spot swap contracts.
** Derivatives constituting part of the Bank's assets and liabilities management network, that have not been designated for hedging.

NIS millions

Note 20 Derivative Instruments Activity - volume, credit risks and maturity dates (continued)

A. Nominal amount of derivative instruments (continued)

	December 31, 2012					
	Interest contracts		Foreign currency contracts	Share related contracts	Commodity and other contracts	Total
	NIS-CPI	Other				
1. Hedging derivatives*						
Forward contracts	-	-	3,108	-	-	3,108
Swaps	-	8,956	-	-	-	8,956
Total hedging derivatives	-	8,956	3,108	-	-	12,064
Of which interest rate swap contracts in which the banking corporation has agreed to pay a fixed interest rate	-	1,670	-	-	-	1,670
2. ALM derivatives*,**						
Future contracts	-	14,185	-	-	-	14,185
Forward contracts	10,053	42,177	113,922	-	1,658	167,810
Option contracts traded on the stock exchange:						
Options written	-	-	629	-	-	629
Options bought	-	-	631	-	-	631
Other option contracts:						
Options written	-	28,485	18,286	4,456	961	52,188
Options bought	-	33,916	19,827	886	798	55,427
Swaps	2,953	220,964	35,566	1,786	-	261,269
Total ALM derivatives	13,006	339,727	188,861	7,128	3,417	552,139
Of which interest rate swap contracts in which the banking corporation has agreed to pay a fixed interest rate	2,247	104,972	-	-	-	107,219
3. Other derivatives*						
Option contracts traded on the stock exchange:						
Options written	-	-	2,020	9,594	-	11,614
Options bought	-	-	2,020	9,594	-	11,614
Other option contracts:						
Options bought	-	-	-	109	-	109
Total other derivatives	-	-	4,040	19,297	-	23,337
4. Credit derivatives and foreign currency spot swap contracts						
Credit derivatives for which the banking corporation is a guarantor	-	-	-	-	373	373
Credit derivatives for which the banking corporation is a beneficiary	-	-	-	-	30	30
Foreign currency spot swap contracts	-	-	10,626	-	-	10,626
Total nominal amount	13,006	348,683	206,635	26,425	3,820	598,569

* Except for credit derivatives and foreign currency spot swap contracts.
** Derivatives constituting part of the Bank's assets and liabilities management network, that have not been designated for hedging.

NIS millions

Note 20 Derivative Instruments Activity - 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
Amounts of fair value 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
Amounts of fair value 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

* The Bank has implemented the directive of the Supervisor of Banks concerning offsetting of assets and liabilities, beginning on January 1, 2013. This directive includes new disclosure requirements with regard to offsets of derivative instruments, including with regard to collateral received in cash referring to assets in respect of derivative instruments. The Bank implemented the directive retroactively. Also see Note 1(D).

** Except for credit derivatives.

*** Derivatives constituting part of the Bank's assets and liabilities management network, that have not been designated for hedging.

**** For this purpose, a netting arrangement is an arrangement that meets the legal and operational conditions established with regard to offsets in Appendix C to Proper Conduct of Banking Business Directive 203, Capital Measurement and Adequacy.

(3) Of which positive gross fair value of embedded derivative instruments is NIS 17 million.

(4) Of which negative gross fair value of embedded derivative instruments is NIS 13 million.

NIS millions

Note 20 Derivative Instruments Activity - volume, credit risks and maturity dates (continued)

B. Gross fair value of derivative instruments*,**** (continued)

	December 31, 2012					
	Interest contracts		Foreign currency contracts	Share related contracts	Commodity and other contracts	Total
	NIS-CPI	Other				
1. Hedging derivatives**						
Positive gross fair value	-	31	57	-	-	88
Negative gross fair value	-	549	20	-	-	569
2. ALM derivatives,*****						
Positive gross fair value	175	6,416	2,451	104	47	9,193
Negative gross fair value	490	6,719	4,582	55	47	11,893
3. Other derivatives**						
Positive gross fair value	-	-	39	298	-	337
Negative gross fair value	-	-	39	271	-	310
4. Credit derivatives						
Credit derivatives for which the banking corporation is a guarantor:						
Positive gross fair value	-	-	-	-	2	2
Credit derivatives for which the banking corporation is a beneficiary:						
Positive gross fair value	-	-	-	-	19	19
Total positive gross fair value(3)	175	6,447	2,547	402	68	9,639
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets in respect of derivative instruments(1)	175	6,447	2,547	402	68	9,639
(1) Of which: balance sheet balance of assets in respect of derivative instruments not subject to a netting arrangement or similar arrangements*****	78	469	1,257	402	27	2,233
Total negative gross fair value(4)	490	7,268	4,641	326	47	12,772
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities in respect of derivative instruments(2)	490	7,268	4,641	326	47	12,772
(2) Of which: balance sheet balance of liabilities in respect of derivative instruments not subject to a netting arrangement or similar arrangements*****	2	194	3,013	326	17	3,552

* The Bank has implemented the directive of the Supervisor of Banks concerning offsetting of assets and liabilities, beginning on January 1, 2013. This directive includes new disclosure requirements with regard to offsets of derivative instruments, including with regard to collateral received in cash referring to assets in respect of derivative instruments. The Bank implemented the directive retroactively. Also see Note 1(D).

** Except for credit derivatives.

*** Derivatives constituting part of the Bank's assets and liabilities management network, that have not been designated for hedging.

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

***** For this purpose, a netting arrangement is an arrangement that meets the legal and operational conditions established with regard to offsets in Appendix C to Proper Conduct of Banking Business Directive 203, Capital Measurement and Adequacy.

(3) Of which positive gross fair value of embedded derivative instruments is NIS 15 million.

(4) Of which negative gross fair value of embedded derivative instruments is NIS 54 million.

NIS millions

Note 20 Derivative Instruments Activity - volume, credit risks and maturity dates (continued)

C. Credit risk in respect of derivative instruments, according to contract counterparty*

	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**
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**

	December 31, 2012					
	Stock Exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Positive gross fair value of derivative instruments(1)	310	**6,090	1,038	-	**2,201	**9,639
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(5,490)	(877)	-	(437)	(6,804)
Net total assets in respect of derivative instruments	310	600	161	-	1,764	2,835
Off-balance sheet credit risk in respect of derivative instruments(2)	-	8,468	1,493	204	7,577	17,742
Total credit risk in respect of derivative instruments	310	**14,558	2,531	204	**9,778	**27,381
Balance sheet balance of liabilities in respect of derivative instruments(3)	310	7,266	1,767	69	3,360	12,772
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(5,490)	(877)	-	(437)	(6,804)
Net total liabilities in respect of derivative instruments	310	1,776	890	69	2,923	5,968

* The Bank has implemented the directive of the Supervisor of Banks concerning offsetting of assets and liabilities, beginning on January 1, 2013. This directive includes new disclosure requirements with regard to offsets of derivative instruments, including with regard to collateral received in cash referring to assets in respect of derivative instruments. The Bank implemented the directive retroactively. Also see Note 1(D).

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

(1) Of which positive gross fair value of embedded derivative instruments is NIS 17 million (December 31, 2012: NIS 15 million).

(2) Off-balance sheet credit risk in respect of derivative instruments (including derivative instruments with negative fair value) as calculated for the purpose of restrictions on the liability of a borrower.

(3) Of which negative gross fair value of embedded derivative instruments is NIS 13 million (December 31, 2012: NIS 54 million).

NIS millions

Note 20 Derivative Instruments Activity - volume, credit risks and maturity dates (continued)

D. Details of maturity dates (nominal value amounts):

	December 31, 2013				
	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Interest rate contracts:					
NIS-CPI	**1,043**	**3,914**	**6,441**	**2,905**	**14,303**
Other	**72,028**	**85,397**	**130,404**	**74,502**	**362,331**
Foreign currency contracts	**129,057**	**55,159**	**21,004**	**20,602**	**225,822**
Share related contracts	**27,712**	**678**	**3,749**	**476**	**32,615**
Commodity and other contracts (including credit derivatives)	**689**	**1,117**	**117**	**-**	**1,923**
Total	**230,529**	**146,265**	**161,715**	**98,485**	**636,994**

	December 31, 2012				
	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Total	220,989	161,724	133,067	82,789	598,569

E. Derivative Financial Instruments – Risk Control

(1) The Bank executes transactions in derivative financial instruments as part of its financial risk management (linkage base, interest rate, and liquidity exposures) and as a service to its customers. From time to time, the Bank designates some of the derivative instruments as hedging instruments in fair value hedges or cash flow hedges. The hedging derivative instruments are measured according to the rules detailed in Note 1(E)(6).

(2) The principal types of transactions in which the Bank operates are:

- Forwards

A contract between two parties for the purchase and sale of a defined quantity of commodities, currencies, interest rates, or other financial instruments (hereinafter: underlying assets), to be transacted at a future date and at a predefined price.

- Futures

Future contracts traded on stock markets, for the purchase or sale of a quantity of standard units of underlying assets, to be transacted at a future date and at a predefined price.

- Swaps

A contract for the exchange at the time of the transaction of a defined quantity of underlying assets, with a mutual obligation to re-exchange the exchanged items at a future date.

- Options

A contract that confers, for the payment of a premium, the right to purchase (call) or sell (put) underlying assets at a price, quantity, and time denoted in advance.

Note 20 Derivative Instruments Activity - volume, credit risks and maturity dates (continued)

- Spots

An exchange transaction between two currencies on the basis of a pre-agreed rate, for transaction within two days.

(3) Activity in derivative financial instruments involves a number of risks, as detailed below:

Credit risk – The maximum amount of loss to the Bank if the counterparty does not fulfill the terms of the contract.

Market risk – Risk arising due to fluctuations in the value of a derivative financial instrument as a result of a change in market prices, such as exchange rates, interest rates, etc.

Liquidity risk – Risk deriving from the inability to close a position rapidly by clearing in cash or by creating a reverse position.

Operational risk – Risk deriving from the erroneous operation of transactions from the time that they are formed until the end of account settlement in respect thereof, due to human error or as a result of a mechanical failure in operation.

Market and liquidity risks arising from this activity are managed and measured routinely in specialized automated systems known in the international markets for these purposes, such as Summit, Devon, and Algorithmics, and in automated systems developed by the Bank.

Credit risk arising from transactions in derivative financial instruments with respect to the counterparty to the transactions is usually measured by applying conservative coefficients to the nominal amounts of the transactions, and using the scenarios approach.

The operational issues deriving from this activity are examined and controlled routinely by a specialized unit.

The use of derivative instruments as part of the management of the Bank's current (non-trading) activity is aimed at achieving objectives and complying with limits approved by the Board of Directors (linkage base, interest rate, and liquidity exposures).

The Bank provides comprehensive service to its customers for hedging and investing in derivative financial instruments via the dealing rooms.

Activity in financial instruments in the areas of trading is designed to respond to customers' needs while undertaking limited and controlled risk in accordance with authorizations.

The authorizations for activity and risk are measured, as relevant, in terms of sensitivity to risk factors (such as vega); theoretical loss in different scenarios, including an extreme scenario; in terms of VaR; and in terms of nominal amounts. In certain cases, procedure also prescribes limiting losses by means of a stop-loss order.

Note 21 Balances and Fair Value Estimates of Financial Instruments

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 other 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. An increase of 1% in discounting interest rates of impaired debts reduces their fair value by NIS 32 million.

Note 21 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 repayments in relation to parameters that explain such repayments. The effect of these assumptions on fair value amounts to a reduction of the fair value by NIS 29 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 21 Balances and Fair Value Estimates of Financial Instruments (continued)

A. Balances and fair value estimations of financial instruments

	as at 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 which were borrowed or bought under agreements to resell	65	-	-	65	65
Credit to the public, net***	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 which were 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, 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.

NIS millions

Note 21 Balances and Fair Value Estimates of Financial Instruments (continued)

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

	as at December 31, 2012				
	Balance sheet balance	Fair Value[(1)]			Total
		Level 1	Level 2	Level 3	
Financial Assets					
Cash on hand and deposits with banks	55,301	2,376	-	52,934	55,310
Securities**	52,070	44,976	5,738	1,415	52,129
Securities which were borrowed or bought under agreements to resell	47	-	-	47	47
Credit to the public, net****	249,182	1,009	-	*250,673	*251,682
Credit to governments	798	-	-	800	800
Assets in respect of derivative instruments	9,624	309	*7,797	*1,518	*9,624
Other financial assets	2,177	1,234	-	943	2,177
Total financial assets	***369,199	49,904	*13,535	*308,330	*371,769
Financial Liabilities					
Deposits from the public****	271,411	1,009	-	*272,977	*273,986
Deposits from banks	6,015	-	-	6,169	6,169
Deposits from the Government	629	-	-	698	698
Securities which were lent or sold under agreements to repurchase	1,116	-	-	1,116	1,116
Bonds and subordinated notes	35,677	*31,449	*2,094	*5,208	38,751
Liabilities in respect of derivative instruments	12,718	309	*12,393	*16	*12,718
Other financial liabilities	17,313	1,234	-	16,030	17,264
Total financial liabilities	***344,879	*34,001	*14,487	*302,214	*350,702

* Reclassified.

** Includes shares and options for which no fair value is available, stated at cost in the amount of NIS 564 million.

*** Of which: Assets and liabilities in the amount of NIS 66,522 million and in the amount of NIS 17,254 million, respectively, whose balance sheet balance is identical to their fair value (instruments presented at fair value in the balance sheet). For further information regarding instruments measured at fair value on a recurring basis and on a nonrecurring basis, see Sections B-F.

**** Of which, amounts of NIS 15 million and NIS 54 million, respectively, were included in the balance of credit to the public and in the balance of deposits from the public, in respect of embedded derivative instruments.

(1) Level 1 - Fair value measurements using 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 21 Balances and Fair Value Estimates of Financial Instruments (continued)

B. Items measured at fair value on a recurrent basis

	as at December 31, 2013			
	Fair value measurements using –			Total fair value
	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**

NIS millions

Note 21 Balances and Fair Value Estimates of Financial Instruments (continued)

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

	as at December 31, 2013			
	Fair value measurements using –			Total fair value
	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 21 Balances and Fair Value Estimates of Financial Instruments (continued)

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

	as at December 31, 2012			
	Fair value measurements using –			Total fair value
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	
Assets				
Securities available for sale:				
Government bonds - Israeli government	34,343	3,780	-	38,123
Government bonds - Foreign governments	1,625	437	-	2,062
Bonds of financial institutions in Israel	181	95	-	276
Bonds of foreign financial institutions	268	1,034	43	1,345
Bonds of others in Israel	2,534	368	-	2,902
Bonds of foreign others	932	24	-	956
Tradable shares	1,090	-	-	1,090
Securities held for trading:				
Government bonds - Israeli government	2,993	-	-	2,993
Government bonds - Foreign governments	79	-	-	79
Bonds of foreign financial institutions	608	-	-	608
Bonds of others in Israel	8	-	-	8
Bonds of foreign others	272	-	-	272
Tradable shares	43	-	-	43
Total securities measured at fair value	44,976	5,738	43	50,757
Assets in respect of derivative instruments*:				
NIS-CPI contracts	-	95	80	175
Other interest contracts	-	5,989	458	6,447
Foreign-currency contracts	39	1,681	812	2,532
Share contracts	270	-	132	402
Commodity and other contracts	-	32	36	68
Assets in respect of embedded derivatives	-	-	15	15
Credit in respect of inter-customer lending	1,009	-	-	1,009
Assets in respect of activity in the Maof market	1,234	-	-	1,234
Total Assets	47,528	13,535	1,576	62,639

* Restated. Fair value measurements of assets and liabilities in respect of derivative instruments are after attribution of the effects of the implementation of FAS 157, Fair Value Measurement.

NIS millions

Note 21 Balances and Fair Value Estimates of Financial Instruments (continued)

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

	as at December 31, 2012			
	Fair value measurements using –			Total fair value
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	
Liabilities				
Liabilities in respect of derivative instruments*:				
NIS-CPI contracts	-	490	-	490
Other interest contracts	-	7,265	4	7,269
Foreign-currency contracts	39	4,591	11	4,641
Share contracts	270	-	1	271
Commodity and other contracts	-	47	-	47
Liabilities in respect of embedded derivatives	-	-	54	54
Deposits in respect of inter-customer lending	1,009	-	-	1,009
Liabilities in respect of activity in the Maof market	1,234	-	-	1,234
Total Liabilities	2,552	12,393	70	15,015

* Restated. Fair value measurements of assets and liabilities in respect of derivative instruments are after attribution of the effects of the implementation of FAS 157, Fair Value Measurement.

NIS millions

Note 21 Balances and Fair Value Estimates of Financial Instruments (continued)

C. Items measured at fair value on a nonrecurrent basis

	as at December 31, 2013				
	Fair value measurements using –				Total profit (loss) in respect of changes in value in the period ended Dec. 31, 2013
	Quoted prices in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Total fair value	
Assets measured at fair value on a nonrecurrent basis					
Impaired credit the collection of which is contingent on collateral	**-**	**-**	**2,942**	**2,942**	**(1)(24)**
Investments in Shares	**-**	**-**	**114**	**114**	**(2)(31)**
Total	**-**	**-**	**3,056**	**3,056**	**(55)**

	As at December 31, 2012				
	Fair value measurements using –				Total profit (loss) in respect of changes in value in the period ended Dec. 31, 2012
	Quoted prices in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Total fair value	
Assets measured at fair value on a nonrecurrent basis					
Impaired credit the collection of which is contingent on collateral	-	-	2,263	2,263	(1)(145)
Investments in Shares	-	-	13	13	(2)(1)
Total	-	-	2,276	2,276	(146)

(1) 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 21 Balances and Fair Value Estimates of Financial Instruments (continued)

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

	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 in respect of the 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 21 Balances and Fair Value Estimates of Financial Instruments (continued)

D. Changes in items measured at fair value on a recurrent basis included in level 3 (continued):

	Fair value as at Dec. 31, 2011	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, 2012	Unrealized gains (losses) in respect of instruments held as at Dec. 31, 2012
Assets										
Securities available for sale:										
Bonds of foreign financial institutions	63	13	(8)	-	-	(25)	-	-	43	(2)(1) 1
Asset backed securities (ABS)	7	(2)	-	-	-	(5)	-	-	-	(2)(1) -
Net balances in respect of derivative instruments*:										
NIS-CPI contracts	53	81	-	-	-	(54)	-	-	80	(3) 38
Other interest contracts	1,285	(1,200)	-	62	-	307	-	-	454	(3)(1) (85)
Foreign currency contracts	1,486	(2)	-	152	-	(984)	131	18	801	(3) 553
Share contracts	22	113	-	11	-	(15)	-	-	131	(3) 64
Commodity and other contracts	82	(9)	-	19	-	(56)	-	-	36	(3) 22
Embedded derivatives	(28)	(13)	-	-	(6)	8	-	-	(39)	(3) (11)
Total	2,970	(1,019)	(8)	244	(6)	(824)	131	18	1,506	582

* Restated. Fair value measurements of assets and liabilities in respect of derivative instruments are after attribution of the effects of the implementation of FAS 157, Fair Value Measurement.
(1) Gains (losses) included in the statement of profit and loss under the item "Interest income".
(2) Gains (losses) included in equity under the item "Adjustments in respect of the 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. The Bank transferred net assets in respect of interest-rate derivatives in the amount of NIS 1 million and net assets in respect of commodity contracts in the amount of NIS 2 million from Level 3 measurement to Level 2 measurement during the period, which prior to the transfer were measured using unobservable inputs.

NIS millions

Note 21 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

	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**	Value assessment		
Impaired credit the collection of which is contingent on collateral	**2,942**	Tradable assets – market value net of an appropriate safety coefficient		
		Non-tradable assets – discounted cash flow net of an appropriate safety coefficient		
Net balances in respect of derivative instruments:				
NIS-CPI contracts	**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%)

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 21 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, 2012			
	Fair value	Assessment technique	Unobservable inputs	Range (weighted average)
Assets				
Securities - Investment in Shares(1)	13	Discounted cash flow	Weighted average cost of capital (WACC)	14.6%
Impaired credit the collection of which is contingent on collateral	2,263	Tradable assets - market value net of an appropriate safety coefficient	-	
		Non-tradable assets - discounted cash flow net of an appropriate safety coefficient		
Net balances in respect of derivative instruments:				
NIS-CPI contracts	82	Currency and interest-rate derivatives pricing model	Transaction counterparty risk	1.68%-5.20% (3.27%)
Other interest contracts	893	Interest-rate derivatives pricing model	Transaction counterparty risk	1.68%-5.20% (2.63%)
Foreign currency contracts(2)	1,101	Option pricing model	Unlinked NIS interest rate	1.40%-4.76% (2.72%)
			Transaction counterparty risk	1.68%-5.37% (2.81%)
Share contracts(3)	26	Option pricing model	Standard deviation	25.66%-57.11% (34.09%)
			Dividend yield	2.00%-10.56% (2.31%)
			Unlinked NIS interest rate	3.65%-3.95% (3.89%)
			Transaction counterparty risk	2.99%-2.99% (2.99%)
Commodity and other contracts	19	Currency derivatives pricing model	Transaction counterparty risk	1.68%-4.19% (2.86%)

Sensitivity analysis of fair value measurements classified as Level 3:
(1) An increase (decrease) in the rate of return on equity would lead to a higher (lower) fair value measurement.
(2) An increase (decrease) in the discounting interest rate would lead to a significantly lower (higher) fair value measurement.
(3) An increase (decrease) in the standard deviation would lead to a significantly higher (lower) fair value measurement. Conversely, an increase (decrease) in the dividend yield or in the discounting interest rate would lead to a significantly lower (higher) fair value measurement.

as at December 31, 2013 NIS millions

Note 22 Interested and Related Parties

Parent companies, controlling shareholder, and subsidiaries

All interested party and related party transactions were carried out in the ordinary course of business, on terms similar to terms of transactions with entities unrelated to the Bank. Income or expenses deriving from such transactions are included in the appropriate items of the statement of profit and loss.

A. Balance sheet balances

	December 31, 2013					
	Interested Parties[(3)]					
	Controlling shareholders		Key management personnel*		Others	
	Balance as at end of year	Highest balance during the year**	Balance as at end of year	Highest balance during the year**	Balance as at end of year	Highest balance during the year**
Assets						
Credit to the public	-	-	11	12	[(1)]1,357	[(1)]1,621
Allowance for credit losses	-	-	-	-	(13)	(19)
Net credit to the public	-	-	11	12	1,344	1,602
Other assets	-	-	-	-	1	1
Liabilities						
Deposits from the public	18	40	57	57	166	989
Other liabilities	-	-	42	56	5	31
Shares (included in equity)	6,264	6,586	31	31	-	-
Credit risk in off-balance sheet financial instruments* **	-	-	17	[(2)]23	[(1)]1,154	[(1)]1,589

* Including their immediate family members, as defined in IAS 24.
** Based on the balance at the end of each month.
*** As calculated for the purpose of per borrower debt limitations.
(1) Including NIS 850 million in credit to the public and NIS 187 million in credit risk in respect of off-balance sheet financial instruments (the highest balance during 2013: NIS 948 million and NIS 207 million, respectively), in respect of who was an interested party when the transactions were conducted and ceased to be an interested party.
(2) The highest balance during 2013: NIS 1 million in credit risk in respect of financial instruments, in respect of who was an interested party when the transactions were conducted and ceased to be an interested party.
(3) Excludes balances of the Phoenix group which holds more than 5% through provident funds and mutual funds.

NIS millions

Note 22 Interested and Related Parties (continued)

A. Balance sheet balances (continued)

	December 31, 2013					
	Related parties held by the Bank and its consolidated companies					
	Unconsolidated subsidiaries		Equity-basis investees		Others	
	Balance as at end of year	Highest balance during the year*	Balance as at end of year	Highest balance during the year*	Balance as at end of year	Highest balance during the year*
Assets						
Credit to the public	**2**	**2**	**176**	**198**	**-**	**-**
Allowance for credit losses	**-**	**-**	**(8)**	**(9)**	**-**	**-**
Net credit to the public	**2**	**2**	**168**	**189**	**-**	**-**
Investments in equity-basis investees(1)	**2**	**4**	**135**	**135**	**-**	**-**
Other assets	**-**	**-**	**1**	**1**	**-**	**-**
Liabilities						
Deposits from the public	**4**	**4**	**144**	**146**	**6**	**6**
Other liabilities	**-**	**-**	**-**	**-**	**1**	**1**
Credit risk in off-balance sheet financial instruments**	**-**	**-**	**196**	**199**	**-**	**-**

* Based on the balance at the end of each month.
** As calculated for the purpose of per borrower debt limitations.
(1) Details of this item is also included in Note 6.

NIS millions

Note 22 Interested and Related Parties (continued)

A. Balance sheet balances (continued)

	December 31, 2012					
	Interested Parties[3]					
	Controlling shareholders		Key management personnel*		Others	
	Balance as at end of year	Highest balance during the year**	Balance as at end of year	Highest balance during the year**	Balance as at end of year	Highest balance during the year**
Assets						
Credit to the public	-	-	2	4	(1) 1,620	(1) 1,791
Allowance for credit losses	-	-	-	-	(14)	(14)
Net credit to the public	-	-	2	4	1,606	1,777
Other assets	-	-	-	-	-	1
Liabilities						
Deposits from the public	20	28	46	49	697	1,176
Other liabilities	-	-	56	56	4	25
Shares (included in equity)	6,068	6,068	****12	****12	-	-
Credit risk in off-balance sheet financial instruments* **	-	-	23	(2) 23	(1) 1,077	(1) 1,137

* Including their immediate family members, as defined in IAS 24.
** Based on the balance at the end of each month.
*** As calculated for the purpose of per borrower debt limitations.
**** Reclassified.

(1) Including NIS 184 million in credit to the public and NIS 21 million in credit risk in respect of off-balance sheet financial instruments (the highest balance during 2012: NIS 213 million and NIS 30 million, respectively), in respect of who was an interested party when the transactions were conducted and ceased to be an interested party.
(2) The highest balance during 2012: NIS 0 million in credit risk in respect of financial instruments, in respect of who was an interested party when the transactions were conducted and ceased to be an interested party.
(3) Excludes balances of the Phoenix group which holds more than 5% through provident funds and mutual funds.

NIS millions

Note 22 Interested and Related Parties (continued)

A. Balance sheet balances (continued)

	December 31, 2012					
	Related parties held by the Bank and its consolidated companies					
	Unconsolidated subsidiaries		Equity-basis investees		Others	
	Balance as at end of year	Highest balance during the year*	Balance as at end of year	Highest balance during the year*	Balance as at end of year	Highest balance during the year*
Assets						
Securities	-	-	***-	***-	-	-
Credit to the public	1	2	195	196	-	16
Allowance for credit losses	-	-	(6)	(6)	-	(1)
Net credit to the public	1	2	189	190	-	15
Investments in equity-basis investees(1)	4	9	123	123	-	-
Other assets	-	-	1	1	-	-
Liabilities						
Deposits from the public	3	5	144	161	5	9
Other liabilities	-	-	-	-	1	1
Credit risk in off-balance sheet financial instruments**	-	-	188	218	-	11

* Based on the balance at the end of each month.
** As calculated for the purpose of per borrower debt limitations.
*** Reclassified.
(1) Details of this item is also included in Note 6.

NIS millions

Note 22 Interested and Related Parties (continued)

B. Income and expenses in the statement of profit and loss

	For the year ended December 31, 2013						
	Interested Parties			Related parties held by the Bank and its consolidated companies			Total
	Controlling shareholders	Key management personnel**	Others	Unconsolidated subsidiaries	Equity-basis investees	Others***	
Net interest income*	**-**	**-**	**51**	**-**	**7**	**-**	**58**
Provision for credit losses	**-**	**-**	**(2)**	**-**	**-**	**-**	**(2)**
Non-interest income	**-**	**-**	**7**	**-**	**2**	**-**	**9**
Operating and other expenses****	**-**	(1)**(83)**	**(1)**	**-**	**(8)**	**-**	**(92)**
Of which: Interested party employed by or on behalf of the corporation: 19	**-**	**(73)**	**-**	**-**	**-**	**-**	**(73)**
Benefits to directors not employed by the Bank or on its behalf - number of beneficiaries:14	**-**	**(10)**	**-**	**-**	**-**	**-**	**(10)**
Total	**-**	**(83)**	**55**	**-**	**1**	**-**	**(27)**

* Details are provided in C below.
** Including their immediate family members, as defined in IAS 24, and including those who retired during the year.
*** Parties meeting the definition of a related party pursuant to IAS 24, who were not included in other columns, and a party on whose business the activity of the Bank and of its consolidated companies depends to a significant extent.
**** Includes NIS 0 million in respect of the value of a share-based payment to the Chairman of the Board of Directors of Isracard, who is a director of the Bank.
(1) Short-term employee benefits – NIS 42 million, post-employment benefits – NIS 0 million, severance benefits – NIS 0 million, other long-term benefits – NIS 8 million, share-based payment – NIS 23 million.

NIS millions

Note 22 Interested and Related Parties (continued)

B. Income and expenses in the statement of profit and loss (continued)

	For the year ended December 31, 2012						
	Interested Parties			Related parties held by the Bank and its consolidated companies			Total
	Controlling shareholders	Key management personnel**	Others	Unconsolidated subsidiaries	Equity-basis investees	Others***	
Net interest income*	-	-	82	-	7	-	89
Non-interest income	4	-	11	-	3	-	18
Of which: Management and services fees	-	-	2	-	-	-	2
Operating and other expenses****	-	(1)(91)	(3)	-	(8)	-	(102)
Of which: Interested party employed by or on behalf of the corporation: 18	-	(80)	-	-	-	-	(80)
Benefits to directors not employed by the Bank or on its behalf - number of beneficiaries:14	-	(11)	-	-	-	-	(11)
Total	4	(91)	90	-	2	-	5

* Details are provided in C below.
** Including their immediate family members, as defined in IAS 24, and including those who retired during the year.
*** Parties meeting the definition of a related party pursuant to IAS 24, who were not included in other columns, and a party on whose business the activity of the Bank and of its consolidated companies depends to a significant extent.
**** Includes NIS 1 million in respect of the value of a share-based payment to the Chairman of the Board of Directors of Isracard, who is a director of the Bank.
(1) Short-term employee benefits – NIS 51 million, post-employment benefits – NIS 0 million, severance benefits – NIS 0 million, other long-term benefits – NIS 11 million, share-based payment – NIS 18 million.

NIS millions

Note 22 Interested and Related Parties (continued)

B. Income and expenses in the statement of profit and loss (continued)

	For the year ended December 31, 2011						
	Interested Parties			Related parties held by the Bank and its consolidated companies			Total
	Controlling shareholders	Directors and Chief Executive Officer of the Bank**	Others	Unconsolidated subsidiaries	Equity basis investees	Others	
Net interest income*	-	(1)	99	-	10	1	109
Non-interest income	-	-	2	-	-	-	2
Of which: Management and services fees	-	-	2	-	-	-	2
Operating and other expenses***	-	(33)	(1)	-	(8)	(54)	(96)
Of which: Benefits to directors not employed by the Bank or on its behalf - number of beneficiaries: 13	-	(11)	-	-	-	-	(11)
Total	-	(34)	100	-	2	(53)	15

* Details are provided in C below.
** Including those who retired during the year.
*** Includes NIS 1 million in respect of the value of a share-based payment to the Chairman of the Board of Directors of Isracard, who is a director of the Bank.

C. Net interest income in respect of transactions with interested and related parties:

	Consolidated			Of which: equity basis investee companies		
	2013	2012	2011	**2013**	2012	2011
Income (expenses)						
In respect of assets:						
From credit to the public	**67**	110	132	**8**	10	13
In respect of liabilities:						
On deposits from the public	**(9)**	(21)	(23)	**(1)**	(3)	(3)
Total	**58**	89	109	**7**	7	10

D. Information regarding terms of transactions and balances with related and interested parties

(1) Transactions and balances with interested and related parties were all executed during the ordinary course of business, at terms similar to the terms of transactions with entities unrelated to the Bank. Interest charged and interest paid in respect of balances with interested and related parties are at the usual rates for transactions during the ordinary course of business with parties unrelated to the Bank.

NIS millions

Note 23 Interest Income and Expenses

	2013	2012	2011
A. Interest income**			
From credit to the public	**11,390**	12,375	13,063
From credit to government	**21**	18	10
From deposits with banks	**105**	*118	*81
From deposits with Bank of Israel and from cash	**192**	565	761
From securities which were borrowed or bought under agreements to resell	**1**	-	2
From bonds	**1,236**	*1,257	*866
From other assets	**16**	13	10
Total interest income	**12,961**	14,346	14,793
B. Interest expenses**			
On deposits from the public	**(2,792)**	(3,965)	(4,366)
On deposits from Government	**(23)**	(38)	(62)
On deposits from banks	**(116)**	*(219)	*(282)
On securities which were lent or sold under agreements to repurchase	**(15)**	*(34)	*(10)
On bonds and subordinated notes	**(2,065)**	(1,925)	(1,956)
On other liabilities	**(7)**	(5)	(20)
Total interest expenses	**(5,018)**	(6,186)	(6,696)
Total interest income, net	**7,943**	8,160	8,097
C. Details of net effect of hedging derivative instruments on interest income and expenses***			
Interest income	**(154)**	(136)	(510)
Interest expenses	**13**	(17)	466
D. Details of interest income from bonds on a cumulative basis			
Held to maturity	**46**	58	69
Available for sale	**1,131**	*1,116	*757
Held for trading	**59**	83	40
Total included in interest income	**1,236**	*1,257	*866

* Reclassified.
** Including effective component in hedging ratios.
*** Details of effect of hedging derivative instruments on subsections (A) and (B).

NIS millions

Note 24 Non-Interest Financing Income

A. Non-interest financing income (expenses) in respect of non-trading activities

	2013	2012	2011
1. From activity in derivative instruments			
Non-effective part of hedging ratios (see C below)(1)	**27**	34	4
Net income (expenses) in respect of ALM derivative instruments(2)	**(993)**	(380)	354
Total from activity in derivative instruments	**(966)**	(346)	358
2. From investment in bonds			
Gains from sale of bonds available for sale(3)	**449**	319	145
Losses from sale of bonds available for sale(3)(4)	**(4)**	(18)	(38)
Total from investment in bonds	**445**	301	107
3. Net exchange differences	**818**	114	(799)
4. Gains (losses) from investment in shares			
Gains from sale of shares available for sale(3)	**172**	92	99
Losses from sale of shares available for sale(3)(5)	**(76)**	(60)	(77)
Dividend from shares available for sale	**38**	56	33
Total from investment in shares	**134**	88	55
5. Net gains (losses) in respect of securitization transactions	**-**	-	-
6. Net gains in respect of loans sold	**2**	19	11
Total non-interest financing income (expenses) in respect of non-trading activities	**433**	176	(268)

(1) Excluding the effective component of hedging ratios.
(2) Derivative instruments constituting part of the asset and liability management network of the Bank, which are not designated for hedging ratios.
(3) Reclassified from cumulative other comprehensive income.
(4) Including a provision for impairment in the amount of approximately NIS 0 million for the year ended December 31, 2013 (2012: NIS 8 million; 2011: NIS 15 million).
(5) Including a provision for impairment in the amount of approximately NIS 75 million for the year ended December 31, 2013 (2012: NIS 60 million; 2011: NIS 74 million).

NIS millions

Note 24 Non-Interest Financing Income (continued)

B. Non-interest financing income in respect of trading activities*

	2013	2012	2011
Net income in respect of other derivative instruments	**17**	31	26
Net realized and unrealized gains from adjustments to fair value of bonds held for trading(1)	**24**	46	29
Net realized and unrealized gains from adjustments to fair value of shares held for trading(2)	**6**	2	-
Total non-interest financing income from trading activities**	**47**	79	55
Total non-interest financing income (expenses)	**480**	255	(213)
Details of non-interest financing income in respect of trading activities, by risk exposure			
Interest-rate exposure	**24**	46	28
Foreign-currency exposure	**2**	2	2
Share exposure	**21**	31	25
Total	**47**	79	55

C. Non-effective part of hedging ratios – further details* **			
1. Fair value hedges			
Non-effectiveness of hedges	**2**	(3)	4
Gain component in respect of derivative instruments excluded for the evaluation of the effectiveness of the hedge	**4**	3	-
2. Cash flow hedges			
Gain component in respect of derivative instruments excluded for the evaluation of the effectiveness of the hedge	**21**	34	-
Total	**27**	34	4

* Including exchange differences arising from trading activity.
** With regard to interest income from investment in bonds held for trading, see Note 23.
*** For a disclosure of the net effect of hedging derivative instruments on interest income and expenses, see Note 23.
(1) Of which, the part of gains associated with bonds held for trading still held at the balance sheet date, in the amount of approximately NIS 6 million (2012: NIS 5 million; 2011: NIS 24 million).
(2) Of which, the part of gains (losses) associated with shares held for trading still held at the balance sheet date, in the amount of approximately NIS 0 million (2012: NIS(1) million; 2011: NIS(5) million).

NIS millions

Note 25 Fees

Composition:

	2013	2012	2011
Account management	**968**	974	952
Credit cards	**1,597**	1,590	1,549
Securities activity	**911**	988	1,054
Financial products distribution fees[(1)]	**188**	174	182
Management, operation and trust to institutional entities[(2)]	**50**	55	67
Credit handling	**342**	337	361
Conversion differences	**275**	263	258
Foreign trade activity	**116**	126	109
Net income from credit portfolios services	**33**	37	45
Management fees and fees from life insurance and home insurance	**49**	48	52
Financing transaction fees	**529**	453	402
Other fees	**57**	60	67
Total fees	**5,115**	5,105	5,098

(1) Mainly mutual funds.
(2) Mainly management and operation fees given to provident funds.

The Committee on Competitiveness

In December 2011, the Committee for the Examination of Increasing Competitiveness 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 an interim report on July 16, 2012.

Further to the publication of the interim report, on November 28, 2012, the Supervisor of Banks issued the Amendment to the Banking Rules (Service to Customers) (Fees), 2008, which reflected the main points of the recommendations in the interim report concerning fees.

The amendment took effect in two phases:

- On January 1, 2013, several fees in the areas of securities, information cards and cash withdrawal cards, credit, account management, and other fees were cancelled or changed under the amendment.
- On March 1, 2013, banks were required to apply the following measures: reprice fees for securities activity, taking into consideration the changes in the fee structure under the first amendment (on January 1, 2013) and the need to adjust the fees, to the extent possible, to the price collected in practice; and change the contractual engagement with customers with regard to discounts on fees for securities activity, such that the discount is based on the rate or amount of the fee, rather than on a percent discount of the listed fee.

Based on mapping and examination of the overall implications for the Bank's revenues, in the opinion of the Bank, the implementation of the changes in the amendment to the Banking Rules, and of additional items included in the interim report but not yet put into practice, is likely to have a negative impact on the results of its operations.

NIS millions

Note 26 Other Income

Composition:

	2013	2012	2011
Income from computer services to companies that was consolidated in the past	**36**	36	42
Capital gains from the sale of buildings and equipment	**11**	7	-
Others	**79**	74	64
Total other income	**126**	117	106

Note 27 Salaries and Related Expenses

Composition:

	2013	2012	2011
Salaries(1)	**3,153**	3,172	3,270
Expense incurred from share based payment transactions(2)	**159**	96	37
Severance payments, benefits, pension, study fund and vacation	**970**	804	574
National insurance and VAT on salaries	**780**	703	648
Other related expenses	**248**	237	230
Total salaries and related expenses(1)	**5,310**	5,012	4,759
(1) Of which: salaries and related expenses abroad	**461**	568	493
(2) Of which: expenses arising from transactions treated as share-based payment transactions settled in capital instruments	**90**	71	62

NIS millions

Note 28 Other Expenses

Composition:

	2013	2012	2011
Marketing and advertising	**308**	363	348
Communication	**226**	224	217
Computers*	**352**	341	301
Office	**138**	164	164
Insurance	**24**	21	23
Professional services	**216**	218	203
Wages and reimbursement of expenses to members of the Board of Directors	**15**	17	16
Training and further education	**39**	42	50
Fees	**228**	237	256
Contribution to the community	**46**	48	47
Others	**442**	454	425
Total other expenses	**2,034**	2,129	2,050

* Excluding salaries, depreciation and deductions.

NIS millions

Note 29 Provision for Taxes (Tax Benefit) on Profit

A. Composition:

	2013	2012	2011
Current taxes:			
In respect of current year	**1,773**	1,390	1,386
In respect of previous years	**37**	96	(194)
Total current taxes	**1,810**	1,486	1,192
Add (deduct):			
Deferred taxes:			
In respect of current year	**(511)**	(181)	(452)
In respect of previous years	**(1)**	(51)	69
Total deferred taxes	**(512)**	(232)	(383)
Total provision for taxes(1)	**1,298**	1,254	809
(1) Of which: provision for taxes for tax authorities abroad	**41**	30	10

B. Change in deferred taxes:

	2013	2012	2011
Creation and reversal of temporary differences	**370**	185	204
Change in the tax rate	**142**	47	179
Total change in deferred tax	**512**	232	383

Note 29 Provision for Taxes (Tax Benefit) on Profit (continued)

C. Reconciliation between the theoretical amount of tax, for which the Bank would have been liable at the statutory tax rate, and the provision for taxes on profit, as recorded in the statement of profit and loss:

	2013	2012	2011
Rate of tax applicable to the Bank in Israel (%)	**36.22**	35.53	34.48
Amount of tax based on statutory tax rate	**1,385**	1,359	1,214
Add (deduct) tax expenses (tax savings) in respect of:			
Different statutory tax rate	**(113)**	(101)	(66)
Non-deductible other expenses	**41**	22	60
Income of consolidated companies abroad	**29**	32	16
Translation differences in respect of consolidated companies abroad	**88**	2	(62)
Adjustment differences for depreciation and capital gain	**(1)**	2	(4)
Exempt income and income taxable at preferential rates	**(24)**	(36)	(13)
Timing differences for which deferred taxes were not recorded	**-**	7	1
Loss for tax in respect of which no deferred taxes were recorded	**(1)**	(31)	(33)
Taxes in respect of previous years	**36**	45	(125)
Change in the balance of deferred taxes due to the change in the tax rate	**(142)**	(47)	(179)
Provision for taxes on profit	**1,298**	1,254	809

D.1. Balances of deferred tax assets and deferred tax liability:

	December 31			
	2013	2012	**2013**	2012
	Balance NIS millions		Average tax rate %	
Deferred tax assets:				
From allowance for credit losses	**1,595**	1,321	**36.9**	35.1
Surplus funding for severance payments and retirement	**1,144**	970	**37.4**	35.6
From the provision for vacation and grants	**326**	258	**36.3**	35.1
From losses and deductions carried forward for tax purposes	**50**	69	**27.8**	26.0
From other monetary items	**108**	95	**35.0**	33.9
Total deferred tax assets	**3,223**	2,713	**36.8**	34.9
Deferred tax liability:				
From investments in affiliates	**33**	31	**11.4**	10.5
From other monetary items	**69**	59	**27.8**	28.1
From the adjustment of depreciable non-monetary assets	**222**	238	**31.6**	30.4
Total deferred tax liability	**324**	328	**26.1**	25.5

Utilization of the balance of deferred tax assets, net, is contingent upon the existence of taxable income in future years.
Deferred tax is computed on the basis of the expected future tax rate.

NIS millions

Note 29 Provision for Taxes (Tax Benefit) on Profit (continued)

D.2. Change in deferred tax assets and liabilities:

	Allowance for credit losses and interest on credit	Interest and securities	Investments in affiliates	Adjustment of depreciable non-monetary assets	Employee benefits	Losses for tax and deductions carried forward	Total
Deferred tax as at December 31, 2011	1,255	15	(22)	(261)	1,130	51	2,168
Change:							
Changes allocated to profit and loss	99	(14)	(9)	29	62	18	185
Changes allocated to equity	-	(26)	-	-	11	-	(15)
Effect of change in tax rate	26	2	-	(6)	25	-	47
Deferred tax as at December 31, 2012	1,380	(23)	(31)	(238)	1,228	69	2,385
Change:							
Changes allocated to profit and loss	217	(17)	(2)	22	169	(19)	370
Changes allocated to equity	(4)	(4)	-	-	10	-	2
Effect of change in tax rate	76	9	-	(6)	63	-	142
Deferred tax as at December 31, 2013	**1,669**	**(35)**	**(33)**	**(222)**	**1,470**	**50**	**2,899**
Deferred tax asset as at December 31, 2013	**1,669**	**34**	**-**	**-**	**1,470**	**50**	**3,223**
Deferred tax liability as at December 31, 2013	**-**	**(69)**	**(33)**	**(222)**	**-**	**-**	**(324)**

D.3. Taxes on income recognized directly in equity:

	2013			2012			2011		
	Before tax	Tax expenses (benefit)	Net of tax	Before tax	Tax expenses (benefit)	Net of tax	Before tax	Tax expenses (benefit)	Net of tax
Net profits in respect of net hedges of investments in foreign currency	**68**	**25**	**43**	7	3	4	-	-	-
Cash flow hedges	**10**	**3**	**7**	7	10	(3)	17	6	11
Financial assets available for sale	**83**	**25**	**58**	547	137	410	(433)	(113)	(320)
Cumulative effect of the implementation of the directive on the measurement of impaired debts and allowance for credit losses and the implementation of certain IFRS	**-**	**-**	**-**	-	-	-	(2,612)	(861)	(1,751)
Share-based payments	**(26)**	**(11)**	**(15)**	(64)	(22)	(42)	25	8	17
Total taxes recognized in equity	**135**	**42**	**93**	497	128	369	(3,003)	(960)	(2,043)

Note 29 Provision for Taxes (Tax Benefit) on Profit (continued)

E. Tax Assessments:

The Bank has final tax assessments up to and including 2009. Its subsidiaries have final tax assessments for 2008-2010. In December 2013, the Tax Assessment Officer issued a wage tax assessment for the Bank in respect of 2008-2009, charging the Bank wage tax in respect of salaries and benefits paid by the Bank to local employees at the Bank's overseas branches. The tax assessments are in the amount of approximately NIS 50 million, excluding interest and linkage. The Bank disputes these tax assessments and has therefore filed an objection. The tax authorities have obtained orders with regard to the tax assessments disputed by the Bank in the District Court. If the Bank's position is not accepted, the Bank will be exposed to similar demands with regard to the subsequent years. In the opinion of the legal advisors of the Bank, it is reasonably possible that the claim will materialize.

F. Losses in Respect of Which No Deferred Tax Assets Were Included:

The Bank and certain consolidated companies have losses and other deductions established for tax purposes, in respect of which no deferred-tax assets were included, in the amount of approximately NIS 502 million (December 31, 2012: approximately NIS 399 million). It will be possible to use these amounts in the future, if the companies in respect of which the amounts were recorded have taxable income.

G. Legislative Amendments:

Income Tax

The rate of corporation tax in 2013 was 25%.

The Law for Change in National Priorities (Legislative Amendments for Achievement of Budget Targets in 2013-2014), 2013 was published in the Official Gazette of the Israeli Government on August 5, 2013. The law raises the rate of corporation tax to 26.5% from 2014 forward.

The effect of the change in the rate of corporation tax was reflected in the financial statements as at December 31, 2013, as an increase in the amount of approximately NIS 103 million in the balance of deferred taxes, and a concurrent decrease in the provision for taxes in the same amount.

Value Added Tax Law, 1975

The Bank is defined as a financial institution for the purposes of the Value Added Tax Law, which imposes wage tax and profit tax on such institutions. Profit is defined as taxable income, as defined in the Income Tax Ordinance, before offsetting losses from earlier tax years with the tax year in which the income was received, after deducting wage tax, excluding income from dividends received from financial institutions, and including income from interest or dividends or from the sale or redemption of a unit or from profit distribution to an owner of a unit granted an exemption from income tax under any law.

Note 29 Provision for Taxes (Tax Benefit) on Profit (continued)

The Value Added Tax Order was published in the Official Gazette of the Israeli Government on May 28, 2013. The order amends the rate of value-added tax for transactions and for imports of goods to 18%, beginning June 2, 2013. The Value Added Tax Order (Rate of Tax for Non-Profit Organizations and Financial Institutions) published on June 3, 2013, amends the rate of profit tax and wage tax applicable to financial institutions to 18% beginning June 2, 2013. The effects of the aforesaid change in the rate of profit tax are reflected beginning with the financial statements for the second quarter of 2013. As a result of this change, the statutory rate of tax applicable to the Bank changed, as shown in the table below.

In addition, the rate of wage tax applicable to the Bank rose from 17% to 18%, with respect to wages paid from July 2013 forward.

As a result of this change, the Bank included an increase in the balance of deferred taxes in the amount of approximately NIS 39 million, and an increase in the balance of liabilities in respect of employee benefits in the amount of approximately NIS 21 million, before related tax effects, in its financial statements for the year 2013.

Expected Combined Tax Rates

Taxes paid on profits of banking corporations include corporation tax, pursuant to the Income Tax Ordinance, and profit tax, pursuant to the Value Added Tax Law, as explained above. Accordingly, the combined tax rates are as follows:

	Profit tax rate	Income tax rate	Combined tax rate
Tax year			
2011	16.00%	24.00%	34.48%
2012	16.33%	25.00%	35.53%
2013*	17.58%	25.00%	36.22%
2014 forward**	18.00%	26.50%	37.71%

* As a result of the increase in value-added tax on June 2, 2013.
** As a result of the increase in corporation tax beginning January 1, 2014.

H. Provision for Credit Losses:

On January 1, 2011, the banking system adopted the new directive of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risk, and allowance for credit losses. As a result, agreements were signed between the banking industry, including the Bank, and the Tax Authority, to establish rules with regard to the manner of recognition of provisions for credit losses for tax purposes.

An agreement of principles was signed on February 29, 2012, between the Bank and the Tax Assessment Officer, concerning the method of recognition for tax purposes of the allowance for credit losses in respect of allowances for impaired debts recorded as of January 1, 2011. With respect to allowances recorded and permitted up to December 31, 2010, the calculation according to the arrangement that was in effect until that date shall apply.

Note 29 Provision for Taxes (Tax Benefit) on Profit (continued)

Main points of the agreement:

Large impaired debts examined individually (customer debts greater than NIS 1 million)

Allowances for individually examined impaired debts shall be deductible as an expense for tax purposes in the year in which the provision is recorded in the financial statements of the Bank. In a tax year in which the balance of the allowance for impaired debts is reduced (other than as a result of "charge-offs" or "debt forgiveness"), an additional tax shall be added to the Bank's tax indebtedness, leading to collection of the additional tax that would have been collected if the deductible allowance had not been recognized originally.

Impaired debts not examined individually for tax purposes (customer debts less than NIS 1 million)

Allowances for impaired debts not examined individually shall not be deductible as an expense for tax purposes in the year in which the provision is included in the financial statements of the Bank. Expenses in respect of such allowances shall be deductible for tax purposes in the amount of the net "charge-off" (offset by recoveries in the same year), half of which shall be deductible for tax purposes in the first tax year following the year in which the charge-off is recorded, and half of which shall be deductible in the second tax year following the year in which the charge-off is recorded. This directive applies to expenses recorded beginning January 1, 2011.

Special transitional directives

Certain differences allocated to the capital of the Bank as at January 1, 2011, in respect of the opening balance of impaired debts as a result of the transition to the new measurement method, which reduced the balance of retained earnings as at January 1, 2011, and which were derived from expenses not recorded in the accounts in the past, were not tax deductible, were not to be recorded again in the future as an expense in the books, and were not in respect of collective allowances, as well as allowances in respect of "retail debts" which were not deductible until December 31, 2010, shall be tax deductible in five equal annual installments beginning in the tax year 2011.

NIS millions

Note 30 Earnings per ordinary share

Composition:

	For the year ended December 31		
	2013	2012	2011
Basic earnings			
Net profit attributed to the ordinary shareholders of the bank	**2,580**	2,543	2,746
Weighted average of amount of ordinary shares			
In shares of par value NIS 1			
Balance as at January 1 of issued and paid-up share capital	**1,319,693,645**	1,323,805,735	1,324,290,957
Effect of options exercised into shares	**1,850,709**	1,966,108	2,070,602
Effect of shares purchased during the period	**(2,324,263)**	(4,250,254)	(2,246,191)
Weighted average of amount of ordinary shares used in the calculation of basic earnings per share as at December 31	**1,319,220,091**	1,321,521,589	1,324,115,368
Diluted earnings			
Net profit attributed to the ordinary shareholders of the bank	**2,580**	2,543	2,746
Weighted average of amount of ordinary shares (diluted)			
In shares of par value NIS 1			
Weighted average amount of ordinary shares used in the calculation of basic earnings per share	**1,319,220,091**	1,321,521,589	1,324,115,368
Effect of share options	**12,655,301**	10,136,848	10,398,596
Weighted average of amount of ordinary shares used in the calculation of diluted earnings per share as at December 31	**1,331,875,392**	1,331,658,437	1,334,513,964
Earnings per ordinary share in NIS			
Basic earnings			
Net earnings per share	**1.96**	1.92	2.07
Diluted earnings			
Net earnings per share	**1.94**	1.91	2.05

Note 31 Segments of Activity and Geographical Regions

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

General – The Segments and Customer Assignment Criteria

The Bank Group operates in Israel and abroad through the Bank, subsidiaries, branches, and representative offices, in all areas of banking, 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 and served by 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.

Criteria for Assignment of Customers to the Segments

Households Segment – Provides a range of banking services and financial products to households. Customers assigned to this segment are customers with a monthly income of up to NIS 9,000.

Private Banking Segment – Provides a range of advanced banking services, through various channels, and financial products, including investment advisory services, to private customers of medium to high net worth in Israel and abroad. Customers assigned to this segment are customers with a monthly income higher than NIS 9,000 and/or who hold investments at the Bank in an amount greater than NIS 100,000 and young customers with a monthly income higher than NIS 7,000, or who hold investments at the Bank in an amount greater than NIS 75,000.

Small Business Segment – Customers included in this segment are those with a revenue turnover of less than NIS 30 million, with indebtedness to the Bank of up to NIS 6 million.

Commercial Segment – Customers included in this segment are customers with a revenue turnover of over NIS 30 million and up to NIS 400 million annually, or with indebtedness to the Bank of more than NIS 6 million and up to NIS 100 million, or customers whose total indebtedness (to the Bank or to other lenders) is more than NIS 6 million, up to a total of NIS 250 million. For customers in the construction and real-estate sector, total indebtedness is over NIS 6 million and up to NIS 200 million to the Bank, or total indebtedness (to the Bank or to other lenders) is over NIS 6 million and up to NIS 400 million.

Corporate Segment – Customers included in this segment are customers with a revenue turnover (sales) of over NIS 400 million, with indebtedness to the Bank of more than NIS 100 million, or customers with total indebtedness (to the Bank or to other lenders) of more than NIS 250 million. For customers in the construction and real-estate sector, total indebtedness is over NIS 200 million to the Bank, or total indebtedness (to the Bank or to other lenders) is over NIS 400 million.

Financial Management Segment – Responsible for the management of the Bank's resources and applications, management of the Nostro portfolio, activity of the dealing rooms (foreign currency and securities), contact and administration of activity with financial entities (in Israel and abroad), and provision of operational services to financial-asset managers and operational services in securities to all customers of the Bank.

The segment is responsible for the management of market and liquidity risks, performed through proactive management of the Nostro portfolio and through the use of financial instruments, such as issuance of various securities, deposits, interest and foreign-currency derivatives, and more.

Note 31 Segments of Activity and Geographical Regions (continued)

Others and Adjustments – Includes all other activities of the Bank Group, each of which does not form a reportable segment. In addition, this segment includes activity in credit cards under the responsibility of other banks that do not belong to the Bank Group.

It is hereby clarified that the assignment of the results of operations in the manner described above is occasionally performed based on criteria in addition to those listed above. For example, a private customer or a company with a profile and potential for future activity that justify assignment to the Private Banking Segment or the Corporate Segment, as relevant, may be assigned to that segment despite the fact that when joining the Bank they do not meet the criteria established for the segment.

The results of operations of the principal subsidiaries and of the Bank's principal overseas offices were assigned to the segments of activity as follows:

Results of operations of Poalim Sahar Ltd., Poalim Capital Markets Investment House Ltd., Peilim Investment Portfolio Management Ltd., and Hapoalim Securities USA Inc. were assigned to the Financial Management Segment;

Customers of Bank Hapoalim (Switzerland) Ltd. and of Banque Hapoalim (Luxembourg) S.A. – Private Banking Segment; customers of the US and UK branches – Private Banking, Commercial Segment, and Corporate Segment; Bank Pozitif and its subsidiary JSC Bank Pozitiv – Households and Commercial Banking Segment.

Rules for Dividing Results of Operations Among the Segments

The following are the main rules applied in dividing the results of operations among the different segments:

Net interest income – Includes among others: (1) the spread between the interest received from the segment's customers and the wholesale interest which the segment is charged in respect of the resource used to provide the loan to the customer; (2) the spread between the wholesale interest at which the segment is credited in respect of resources which it makes available to the Bank, and the interest rate paid to the segment's customers in respect of such resources; (3) the unindexed wholesale interest on the weighted capital calculated for the return on equity attributed to the segment, calculated based on the risk-adjusted assets allocated to each segment; and (4) surplus cost for the issuance of subordinated notes.

Provision for credit losses – A provision for credit losses is charged to the segment to which the borrower against whose debt the provision is recorded belongs.

Non-interest financing income – Attributed to the segment to which the customer belongs. Income recorded in the Financial Management Segment includes income from realization and adjustment to fair value of bonds, profits from investment in shares, results of activity in derivatives, net profit from exchange-rate differences, and financing expenses arising from hedging of investments overseas. Income recorded in the other segments includes profits from the dealing room.

Fees and other income – Attributed to the segment to which the customer belongs. Income in respect of computer services provided by the Bank to external entities is attributed to the Others and Adjustments Segment.

Note 31 Segments of Activity and Geographical Regions (continued)

Operating and other expenses – Expenses are attributed to each segment of activity, according to predetermined rules and standard prices, either as an expense identified directly with the activity of the segment, or according to charging formulas. Standard prices are determined similarly to the establishment of transfer prices, as described above. Differences formed in calculations between the actual expense calculation of units that are not profit units and the income attributed to these units based on standard prices are allocated as income or expenses, as relevant, to the Others and Adjustments Segment. Attribution rules are based on the volumes of activity relevant to the types of costs in each segment.

Debiting for intersegmental services – The assigned segment of a customer receiving services from another segment is charged with an intersegmental expense, based on standard prices for services provided by other segments to its customers, or based on a transfer price for the service provided to the customer. The costs of the segment providing the service are reduced accordingly, and the costs are concurrently charged to the segment to which the customer belongs. Transfer prices are set by the Bank based, among other factors, on market prices for the service, internal cost estimates, and participation in income derived directly or indirectly from the aforesaid service.

Taxes on income – The provision for tax on the results of operation of each segment was calculated according to the annual effective tax rate, excluding the effects of translation differences in respect of consolidated companies overseas (attributed to the Financial Management Segment).

Return on equity – Reflects the ratio of the net profit attributed to shareholders of the Bank in each segment to the capital allocated to that segment.

Capital allocated to the segment – The balance of risk-adjusted assets in each segment, which represents each segment's relative share of the total risk-adjusted assets of the Group, as calculated for the purposes of capital adequacy pursuant to the Basel 2 directives, multiplied by the ratio of weighted capital (as calculated for the purposes of calculating return on equity) to the total balance of risk-adjusted assets.

Reclassification of Segment Data:

Comparative figures for 2011 and 2012 were reclassified as follows:

1. The balance of deposits taken from large institutional and corporate clients, and results of operations in respect of this activity, were reclassified from the Corporate Segment to the Financial Management Segment. This reclassification was performed due to the implementation of an organizational change, in which responsibility for this activity was transferred to the Financial Markets Area.
2. Surplus cost for the issuance of subordinated notes was attributed to the various segments in proportion to the risk-adjusted assets assigned to each segment.
3. Average balances of risk-adjusted assets were reclassified in order to reflect the effect of the changes described above, and in order to appropriately reflect the allocation of risk-adjusted assets based on balances of credit risk (balance sheet and off-balance sheet) and operational risk attributed to various customers.
4. Balance of tax expenses in respect of previous years for the year 2012 amounted to NIS 45 million and for the year 2011: tax income in the amount of NIS (125) million, which were allocated to the Others and Adjustments Segment, were reclassified and assigned in full to the various segments of activity.

Note 31 Operating segments and geographic areas (continued)

A. Information on operating segments

Net interest income:
from externals
inter-segmental
Non-interest financing income
Total net financing profit
Fees and other income
Total income
Provision for credit losses
Operating and other expenses
from externals
inter-segmental
Profit before taxes
Provision for taxes on profit
Profit after taxes
The Bank's share in losses of equity-basis investees after taxes
Net profit (loss):
Before attribution to non-controlling interests
Attributed to non-controlling interests
Attributed to the shareholders of the banking corporation
Return on equity(1)
Average balance of assets
Of which: Investment in equity-basis investees
Average balance of liabilities
Average balance of risk assets(1)
Average balance of provident fund and mutual fund assets(2)
Average balance of securities
Average balance of other assets under management
Average number of job positions
The component of net interest income:
Margin from credit granting activity
Margin from deposit taking activity
Other
Total net interest income

(1) Calculated based on the capital allocated to the segment, according to the risk assets, which were attributed to it by Basel 2 directives.
(2) Provident funds receiving operational services, and mutual funds for which the Bank Group provides custody services.

NIS millions

December 31, 2013							
Households segment	Private banking segment	Small business segment	Commercial segment	Corporate segment	Financial Management segment	Others and adjustments	Total
3,381	**(249)**	**1,252**	**1,210**	**3,811**	**(1,462)**	**-**	**7,943**
(1,257)	**1,239**	**(143)**	**(396)**	**(1,824)**	**2,381**	**-**	**-**
2	**31**	**-**	**6**	**77**	**364**	**-**	**480**
2,126	**1,021**	**1,109**	**820**	**2,064**	**1,283**	**-**	**8,423**
1,194	**1,478**	**648**	**333**	**626**	**330**	**632**	**5,241**
3,320	**2,499**	**1,757**	**1,153**	**2,690**	**1,613**	**632**	**13,664**
229	**53**	**143**	**14**	**446**	**(11)**	**-**	**874**
2,913	**2,176**	**1,084**	**554**	**606**	**728**	**904**	**8,965**
(68)	**216**	**86**	**7**	**71**	**9**	**(321)**	**-**
246	**54**	**444**	**578**	**1,567**	**887**	**49**	**3,825**
71	**12**	**139**	**188**	**509**	**367**	**12**	**1,298**
175	**42**	**305**	**390**	**1,058**	**520**	**37**	**2,527**
-	**-**	**-**	**-**	**-**	**9**	**-**	**9**
175	**42**	**305**	**390**	**1,058**	**529**	**37**	**2,536**
2	**(1)**	**-**	**(11)**	**-**	**54**	**-**	**44**
177	**41**	**305**	**379**	**1,058**	**583**	**37**	**2,580**
3.7%	**1.4%**	**14.1%**	**10.7%**	**8.6%**	**30.4%**	**-**	**9.3%**
65,880	**33,103**	**24,954**	**28,976**	**94,054**	**120,807**	**6,891**	**374,665**
-	**-**	**-**	**-**	**-**	**132**	**-**	**132**
36,838	**125,651**	**29,174**	**20,166**	**37,342**	**97,064**	**855**	**347,090**
51,287	**31,488**	**23,253**	**38,235**	**131,935**	**20,612**	**1,816**	**298,626**
2,365	**45,059**	**3,639**	**2,086**	**3,456**	**82,132**	**-**	**138,737**
1,900	**105,942**	**7,153**	**11,980**	**254,115**	**338,469**	**-**	**719,559**
-	**837**	**-**	**-**	**-**	**-**	**-**	**837**
5,127	**3,251**	**1,650**	**1,050**	**694**	**854**	**576**	**13,202**
1,719	**348**	**937**	**731**	**1,788**	**5,888**	**-**	**11,411**
354	**610**	**154**	**45**	**55**	**(4,149)**	**-**	**(2,931)**
51	**32**	**18**	**38**	**144**	**(820)**	**-**	**(537)**
2,124	**990**	**1,109**	**814**	**1,987**	**919**	**-**	**7,943**

Note 31 Operating segments and geographic areas (continued)

A. Information on operating segments (continued):

Net interest income:
from externals
inter-segmental
Non-interest financing income
Total net financing profit
Fees and other income
Total income
provision for credit losses
Operating and other expenses
from externals
inter-segmental
Profit before taxes
Provision for taxes on profit
Profit after taxes
The Bank's share in profits of equity-basis investees after taxes
Net profit (loss):
Before attribution to non-controlling interests
Attributed to non-controlling interests
Attributed to the shareholders of the banking corporation
Return on equity(1)
Average balance of assets
Of which: Investment in equity-basis investees
Average balance of liabilities
Average balance of risk assets(1)
Average balance of provident fund and mutual fund assets(2)
Average balance of securities
Average balance of other assets under management
Average number of job positions
The component of net interest income:
Margin from credit granting activity
Margin from deposit taking activity
Other
Total net interest income

* Reclassified - For further details, see the section "General – The Segments and Customer Assignment Criteria".
(1) Calculated based on the capital allocated to the segment, according to the risk assets, which were attributed to it by Basel 2 directives.
(2) Provident funds receiving operational services, and mutual funds for which the Bank Group provides custody services.

NIS millions

	December 31, 2012*							
	Households segment	Private banking segment	Small business segment	Commercial segment	Corporate segment	Financial Management segment	Others and adjustments	Total
	3,267	(850)	1,196	1,218	4,204	(875)	-	8,160
	(1,052)	2,066	(86)	(468)	(2,093)	1,633	-	-
	2	37	-	6	97	113	-	255
	2,217	1,253	1,110	756	2,208	871		8,415
	1,252	1,491	628	284	560	370	637	5,222
	3,469	2,744	1,738	1,040	2,768	1,241	637	13,637
	257	38	133	90	481	(12)	-	987
	2,754	2,130	1,002	523	689	814	913	8,825
	(45)	214	51	23	74	12	(329)	-
	503	362	552	404	1,524	427	53	3,825
	161	117	181	139	517	124	15	1,254
	342	245	371	265	1,007	303	38	2,571
	-	-	-	-	-	6	-	6
	342	245	371	265	1,007	309	38	2,577
	1	(1)	-	(6)	-	(28)	-	(34)
	343	244	371	259	1,007	281	38	2,543
	8.3%	9.6%	20.1%	9.0%	8.6%	15.2%	-	10.1%
	63,870	30,104	23,544	26,872	101,624	108,384	5,338	359,736
	-	-	-	-	-	126	-	126
	35,973	125,019	26,684	18,330	33,768	93,685	1,083	334,542
	49,342	30,493	22,066	34,327	140,602	22,077	1,818	300,725
	2,060	31,204	2,633	1,446	2,315	77,724	-	117,382
	1,960	110,282	7,606	10,555	213,315	320,361	-	664,079
	-	915	-	-	-	-	-	915
	5,347	3,334	1,687	984	782	897	598	13,629
	1,645	340	857	641	1,809	7,101	-	12,393
	492	843	221	56	64	(5,898)	-	(4,222)
	78	33	32	53	238	(445)	-	(11)
	2,215	1,216	1,110	750	2,111	758	-	8,160

Note 31 Operating segments and geographic areas (continued)

A. Information on operating segments (continued):

Net interest income:
from externals
inter-segmental
Non-interest financing income
Total net financing profit
Fees and other income
Total income
provision for credit losses
Operating and other expenses
from externals
inter-segmental
Profit (loss) before taxes
Provision for taxes (tax benefit) on profit (loss)
Profit after taxes
The Bank's share in profits of equity-basis investees after taxes
Net profit (loss):
Before attribution to non-controlling interests
Attributed to non-controlling interests
Attributed to the shareholders of the banking corporation
Return on equity(1)
Average balance of assets
Of which: Investment in equity-basis investees
Average balance of liabilities
Average balance of risk assets(1)
Average balance of provident fund and mutual fund assets(2)
Average balance of securities
Average balance of other assets under management
Average number of job positions
The component of net interest income:
Margin from credit granting activity
Margin from deposit taking activity
Other
Total net interest income

* Reclassified - For further details, see the section "General – The Segments and Customer Assignment Criteria".
(1) Calculated based on the capital allocated to the segment, according to the risk assets, which were attributed to it by Basel 2 directives.
(2) Provident funds receiving operational services, and mutual funds for which the Bank Group provides custody services.

NIS millions

December 31, 2011*							
Households segment	Private banking segment	Small business segment	Commercial segment	Corporate segment	Financial Management segment	Others and adjustments	Total
3,288	(829)	1,149	1,209	4,339	(1,059)	-	8,097
(1,031)	2,090	(27)	(489)	(2,320)	1,777	-	-
4	33	1	7	74	(332)	-	(213)
2,261	1,294	1,123	727	2,093	386	-	7,884
1,254	1,496	625	254	528	420	627	5,204
3,515	2,790	1,748	981	2,621	806	627	13,088
261	56	130	130	603	22	-	1,202
2,702	2,064	972	382	544	784	917	8,365
2	210	16	45	76	6	(355)	-
550	460	630	424	1,398	(6)	65	3,521
137	120	164	117	379	(123)	15	809
413	340	466	307	1,019	117	50	2,712
-	-	-	-	-	(5)	-	(5)
413	340	466	307	1,019	112	50	2,707
5	(1)	-	(11)	-	46	-	39
418	339	466	296	1,019	158	50	2,746
11.4%	14.7%	28.3%	11.9%	9.3%	9.5%	-	12.0%
61,573	27,014	22,450	24,881	100,351	85,066	5,266	326,601
-	-	-	-	-	128	-	128
33,308	116,408	23,616	15,523	34,060	79,749	954	303,618
46,657	29,001	20,848	31,589	138,449	21,179	1,652	289,375
2,403	32,309	2,877	1,631	2,268	83,531	-	125,019
2,426	109,862	8,790	9,567	214,476	312,248	-	657,369
-	1,131	-	-	-	-	-	1,131
5,526	3,335	1,783	921	764	884	614	13,827
1,664	364	856	576	1,584	8,029	-	13,073
510	873	216	63	72	(6,444)	-	(4,710)
83	24	50	81	363	(867)	-	(266)
2,257	1,261	1,122	720	2,019	718	-	8,097

NIS millions

Note 31 Operating segments and geographic areas (continued)

B. Information on geographic areas[1]

	For the year ended December 31			For the year ended December 31			as at December 31	
	2013	2012	2011	**2013**	2012	2011	**2013**	2012
	Income[2]			Net Profit attributed to shareholders of the Bank			Total assets	
Israel	**12,458**	12,293	11,843	**2,412**	2,443	2,667	**326,465**	315,382
North America	**522**	555	552	**105**	60	53	**29,077**	34,437
Europe	**683**	767	671	**66**	37	23	**24,412**	26,259
Other	**1**	22	22	**(3)**	3	3	**292**	310
Total outside Israel	**1,206**	1,344	1,245	**168**	100	79	**53,781**	61,006
Total consolidated	**13,664**	13,637	13,088	**2,580**	2,543	2,746	**380,246**	376,388

(1) The division into geographical areas was performed according to the location of the assets. The Global Private Banking Center in Tel Aviv, which is an integral part of the GPB network, was also assigned to activity outside Israel.
(2) Income: Net interest income before provision for credit losses, and non-interest income.

Note 32 Legislative Initiatives

Several laws enacted recently, as well as government or private initiatives or bills currently in various stages of preparation which may also become legislation, may encumber the Bank and may expose it to nuisance claims, or restrict its activities, and thereby exert an adverse effect on its future profitability. The Bank cannot assess the future impact of the aforesaid on the Bank Group.

NIS millions

Note 33 Condensed Financial Statements - The Bank

A. Condensed Balance Sheet

	December 31	
	2013	2012
Assets		
Cash on hand and deposits with banks	**41,982**	51,805
Securities	**48,351**	42,266
Securities which were borrowed or bought under agreements to resell	**36**	47
Credit to the public	**231,399**	229,772
Allowance for credit losses	**(3,745)**	(3,893)
Net credit to the public	**227,654**	225,879
Credit to governments	**1,169**	798
Investments in subsidiary and affiliated companies	**15,951**	15,774
Buildings and equipment	**3,327**	3,346
Assets in respect of derivative instruments	**10,404**	9,488
Other assets	**5,212**	4,529
Total assets	**354,086**	353,932
Liabilities and Equity		
Deposits from the public	**278,067**	277,585
Deposits from banks	**4,623**	5,893
Deposits from the Government	**613**	629
Securities which were lent or sold under agreements to repurchase	**-**	561
Subordinated notes	**22,783**	23,386
Liabilities in respect of derivative instruments	**11,808**	12,532
Other liabilities	**7,132**	6,591
Total liabilities	**325,026**	327,177
Equity	**29,060**	26,755
Total liabilities and equity	**354,086**	353,932

NIS millions

Note 33 Condensed Financial Statements - The Bank (continued)

B. Condensed Statement of profit and loss

	2013	2012	2011
Interest income	**12,251**	13,540	14,007
Interest expenses	**(4,906)**	(6,081)	(6,546)
Net interest income	**7,345**	7,459	7,461
Provision for credit losses	**844**	920	1,150
Net interest income after provision for credit losses	**6,501**	6,539	6,311
Non-interest income:			
Non-interest financing income (expenses)	**425**	43	(484)
Fees	**3,258**	3,185	3,243
Other income	**75**	69	64
Total non-interest income	**3,758**	3,297	2,823
Operating and other expenses:			
Salaries and related expenses	**4,609**	4,269	4,060
Maintenance and depreciation of buildings and equipment	**1,399**	1,463	1,335
Other expenses	**1,195**	1,198	1,086
Total operating and other expenses	**7,203**	6,930	6,481
Profit before taxes	**3,056**	2,906	2,653
Provision for taxes on profit	**1,069**	1,092	690
Profit after taxes	**1,987**	1,814	1,963
The Bank's share in profits of subsidiary and affiliated companies, after taxes	**593**	729	783
Net profit:			
Attributed to shareholders of the Bank	**2,580**	2,543	2,746

NIS millions

Note 33 Condensed Financial Statements - The Bank (continued)

C. Condensed Statement of cash flows

	2013	2012	2011
Cash flows generated by (for) operating activity			
Net profit for the year	**2,580**	2,543	2,746
Adjustments necessary to present cash flows by (for) operating activity:			
The bank's share in undistributed profits of subsidiary and affiliated companies	**(593)**	(729)	(783)
Depreciation of buildings and equipment	**615**	645	597
Amortizations	**19**	19	17
Provision for credit losses	**844**	920	1,150
Gain from realization of securities available for sale and held to maturity	**(296)**	(235)	(1,052)
Realized and unrealized gain from adjustments to fair value of securities held for trading	**-**	(26)	(26)
Gain from realization of buildings and equipment	**(11)**	(5)	-
Change in benefit inherent in share based transactions	**101**	31	3
Change in net liabilities in respect of employee benefits	**340**	119	192
Deferred taxes, net	**(517)**	(191)	(323)
Gain from sale of credit portfolios	**(1)**	(19)	(11)
Adjustments in respect of exchange-rate differences	**1,372**	402	(1,016)
Accumulation differentials included in investment and financing activities	**(307)**	(814)	399
Net change in current assets:			
Deposits in banks	**(527)**	1,036	(863)
Credit to the public	**(2,728)**	(4,207)	(21,942)
Credit to governments	**(371)**	(182)	(277)
Securities which were borrowed or bought under agreements to resell	**11**	(47)	-
Assets in respect of derivative instruments	**(916)**	967	(4,061)
Securities held for trading	**1,420**	(229)	(1,143)
Other assets	**(225)**	(717)	(362)
Net change in current liabilities:			
Deposits from banks	**(1,270)**	(126)	2,291
Deposits from the public	**482**	15,030	24,262
Deposits from the Government	**(16)**	(456)	(250)
Securities which were lent or sold under agreements to repurchase	**(561)**	(587)	1,148
Liabilities in respect of derivative instruments	**(647)**	(447)	2,865
Other liabilities	**135**	789	(294)
Net cash generated by (for) operating activity	**(1,067)**	13,484	3,267

as at December 31, 2013 NIS millions

Note 33 Condensed Financial Statements - The Bank (continued)

C. Condensed Statement of cash flows (continued)

	2013	2012	2011
Cash flows generated for investment activity			
Acquisition of bonds held to maturity	**(39)**	-	(279)
Proceeds from redemption of bonds held to maturity	**237**	102	218
Acquisition of securities available for sale	**(55,603)**	(39,572)	(16,070)
Proceeds from sale of securities available for sale	**23,795**	14,830	7,677
Proceeds from redemption of securities available for sale	**25,198**	9,313	5,879
Acquisition of credit portfolios	**(49)**	-	-
Proceeds from sale of credit portfolios	**201**	486	772
Dividends received from equity-basis investees	**95**	5	378
Investments in subsidiary and affiliated companies	**(4)**	(20)	(147)
Proceeds from realization of subsidiary and affiliated companies and redemption of capital notes	**103**	38	37
Acquisition of buildings and equipment	**(615)**	(649)	(570)
Proceeds from realization of buildings and equipment	**30**	13	1
Net cash generated for investment activity	**(6,651)**	(15,454)	(2,104)
Cash flows generated by (for) financing activity			
Issuance of bonds and subordinated notes	**-**	2,831	3,349
Redemption of bonds and subordinated notes	**(860)**	(760)	(928)
Issue of shares and options	**4**	15	4
Dividend paid to shareholders of the Bank	**(276)**	-	(270)
Buyback of shares	**(127)**	(113)	(74)
Net cash generated by (for) financing activity	**(1,259)**	1,973	2,081
Increase (decrease) in cash	**(8,977)**	3	3,244
Balance of cash at beginning of year	**51,097**	51,496	47,236
Effect of changes in exchange rates on cash balances	**(1,372)**	(402)	1,016
Balance of cash at end of year	**40,748**	51,097	51,496
Interest and taxes paid and/or received:			
Interest received	**13,217**	15,115	15,050
Interest paid	**(5,478)**	(6,194)	(5,462)
Dividends received	**1**	1	3
Income tax paid	**(1,502)**	(1,215)	(1,752)
Income tax received	**-**	167	153

NIS millions

Note 34 Cumulative Other Comprehensive Income (Loss)

A. Changes in cumulative other comprehensive income (loss), after tax effect

	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		
Balance as at January 1, 2011	557	(110)	(24)	423	4	419
Net change during the year	(324)	110	11	(203)	(4)	(199)
Balance as at January 1, 2012	233	-	(13)	220	-	220
Net change during the year	413	9	(3)	419	3	416
Balance as at January 1, 2013	**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 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 34 Cumulative Other Comprehensive Income (Loss) (continued)

B. Changes in components of cumulative other comprehensive income (loss), before and after tax effect

	For the year ended								
	December 31, 2013			December 31, 2012			December 31, 2011		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Changes in components of other comprehensive income (loss) before attribution to non-controlling interests:									
Adjustments for presentation of securities available for sale at fair value									
Net unrealized gains (losses) from adjustments to fair value	**372**	**(122)**	**250**	644	(168)	476	(383)	100	(283)
(Gains) losses in respect of securities available for sale reclassified to the statement of profit and loss	**(291)**	**97**	**(194)**	(94)	31	(63)	(55)	14	(41)
Net change during the year	**81**	**(25)**	**56**	550	(137)	413	(438)	114	(324)
Adjustments from translation*									
Adjustments from translation of financial statements	**(69)**	**-**	**(69)**	5	-	5	110	-	110
Hedges**	**68**	**(25)**	**43**	7	(3)	4	-	-	-
Net change during the year	**(1)**	**(25)**	**(26)**	12	(3)	9	110	-	110
Cash-flow hedges									
Net (gains) losses in respect of cash-flow hedges reclassified to the statement of profit and loss	**10**	**(3)**	**7**	7	(10)	(3)	17	(6)	11
Net change during the year	**10**	**(3)**	**7**	7	(10)	(3)	17	(6)	11
Total net change during the year	**90**	**(53)**	**37**	569	(150)	419	(311)	108	(203)
Changes in components of other comprehensive income (loss) attributed to non-controlling interests:									
Total net change during the year	**(2)**	**-**	**(2)**	3	-	3	(5)	1	(4)
Changes in components of other comprehensive income (loss) attributed to shareholders of the Bank:									
Total net change during the year	**92**	**(53)**	**39**	566	(150)	416	(306)	107	(199)

* Adjustments from the translation of financial statements of 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 35 Information on the Basis of Nominal Historical Data for tax purposes - The Bank

	December 31	
	2013	2012
Total assets	**353,958**	353,759
Total liabilities	**325,026**	327,177
Shareholders' equity	**28,932**	26,582

	2013	2012	2011
Net profit	**2,625**	2,574	2,772

Annual Periodic Report for

2013

Standard 9: Financial Statements

The audited annual financial statements, with the attached Auditors' Review, are enclosed and constitute an integral part of this report.

Standard 10C: None.

Standard 11: List of investments in subsidiaries and related companies as at the date of the report on financial position

A. In shares and convertible securities

	Share type						Holding rate			
Company name	Name of share	Par value per share	Currency	Number of shares	Total par value	Balance-sheet value (in NIS m.)	In securities	In capital	In voting	In authority to appoint directors
Avuka Hevra Lehashkaot. Ltd.	Ordinary shares	0.001	NIS	5,000	5		100%	100%	100%	100%
Agam Hevra Finansit Ltd.	Ordinary shares	1	NIS	1,250,000	1,250,000	3	100%	100%	100%	100%
Igarot Hevra Lehanpakot shel Bank Hapoalim Ltd.	Ordinary shares	0.0001	NIS	1,000,000,000	100,000	6	100%	100%	100%	100%
Opaz Ltd.	Ordinary shares	0.01	NIS	1,000,770	10,007.7	370	100%	100%	100%	100%
Otsar Bavel Ltd.	Ordinary shares	1	NIS	200,000	200,000	1	100%	100%	100%	100%
Aminit Ltd.								100%	100%	100%
BAMI Nechasim Ltd.								100%	100%	100%
BHI Investment Advisors Asia								100%	100%	100%
Bitzur Ltd.	Ordinary shares	0.0005	NIS	69,640,000	34,820	-169	100%	100%	100%	100%
Bitan Investments and Mortgages Co. Ltd.	Ordinary shares	0.001	NIS	5,999,916	5,999.916		100%	100%	100%	100%
Bank Hapoalim (Luxembourg) S.A.	Ordinary shares	100	USD	449,900	44,990,000	44	100%	100%	100%	100%
Bank Hapoalim (Cayman) Ltd.	Common	1	USD	13,579,143	13,579,143	198	100%	100%	100%	100%
Bank Hapoalim (Switzerland) Ltd.	Founding shares	100	CHF	650,000	65,000,000	1,537	100%	100%	100%	100%
Bank Pozitif Kredi Ve Kalkinma Bankasi A.S.						513		70%	70%	70%
Gadid Poalim	Ordinary shares	1	NIS	1,000,000	1,000,000	3	100%	100%	100%	100%
JSC Bank Pozitiv								100%	100%	100%
Global Factoring Ltd.								100%	100%	100%
Diur B.P. Ltd.						606		100%	100%	100%
Diur B.P. Investments (1992) Ltd.								100%	100%	100%
Diur B.P. Properties (1993) Ltd.								100%	100%	100%
The Administration of the Kibbutzim Agreement Ltd.	Ordinary shares	1	NIS	3	3		38%	38%	38%	38%
Hapoalim (Latin America) S.A.						31		100%	100%	100%
Hapoalim Holdings (Switzerland) Ltd.								100%	100%	100%
Hapoalim International N.V.	Common	1,000	USD	250	250,000	11	100%	100%	100%	100%

Standard 11: List of investments in subsidiaries and related companies as at the date of the report on financial position (cont.)

A. In shares and convertible securities (cont.)

	Share type						Holding rate			
Company name	Name of share	Par value per share	Currency	Number of shares	Total par value	Balance-sheet value (in NIS m.)	In securities	In capital	In voting	In authority to appoint directors
Hapoalim American Israeli Ltd.	Ordinary shares	0.001	NIS	93,076,887	93,076.887	109	100%	100%	100%	100%
Hapoalim Hanpakot Ltd.	Ordinary shares	1	NIS	18,150,001	18,150,001	41	100%	100%	100%	100%
Hapoalim Nechasim (Menayot) Ltd.						1,203		100%	100%	100%
Hapoalim Securities U.S.A. Inc.						119		100%	100%	100%
Zohar Hashemesh Lehashkaot Ltd.	Ordinary shares	0.0001	NIS	19,999	1.9999	739	100%	100%	100%	100%
Nominees Company of Bank Hapoalim Ltd.	Ordinary shares	0.01	NIS	100,000	1,000		100%	100%	100%	100%
Hevrat Nemanut Aseret Alafim Veachat Ltd.								100%	100%	100%
Hevrat Nemanut Aseret Alafim Veshtaim Ltd.								100%	100%	100%
Hanyon Allenby 115 Tel-Aviv Ltd.	Ordinary shares	0.001	NIS	42	0.042		42%	42%	42%	42%
Chatzron Hevra Lehashkaot Ltd.								33%	33%	33%
Hermesh Poalim Ltd.	Ordinary shares	1,000	NIS	3,420	3,420,000	5	100%	100%	100%	100%
Trinel Trading And Investment Ltd.								100%	100%	100%
Europay (Eurocard) Israel Ltd.								100%	100%	100%
Isracard (Nechasim) 1994 Ltd.								100%	100%	100%
Isracard Ltd.	Ordinary shares	0.0001	NIS	721,925	72.1925	1,908	98%	98%	99%	99%
Isracard Ltd.	Special shares	0.0001	NIS	1	0.0001		100%	98%	99%	99%
Isracard Mimun Ltd.								100%	100%	100%
Mivnim Vetsiud Ltd.	Ordinary shares	0.1	NIS	95	9.5		95%	100%	100%	100%
Meitavit Maayan for Research and Development Ltd.								100%	100%	100%
May-Oz Ltd.						1		100%	100%	100%
Mishor Poalim Ltd.	A ordinary shares	0.0001	NIS	1	0.0001		100%	50%	50%	50%
Mesik Poalim Ltd.	Ordinary shares	0.0001	NIS	20,000	2		100%	100%	100%	100%
Mesik Poalim Ltd.	A ordinary shares	1,000	NIS	1,500	1,500,000		100%	100%	100%	100%
Bank Clearing Center Ltd.	Ordinary shares	0.001	NIS	6,250,000	6,250	21	25%	25%	25%	25%
Nichsei Bavel Ltd.	Ordinary shares	1	NIS	100,000	100,000		100%	100%	0%	0%
C Bilisim Teknolojileri								100%	100%	100%
Maritime - Investments Ltd.	Ordinary shares	1	NIS	108	108	30	99%	100%	100%	100%
Maritime Nechasim Ltd.	Ordinary shares	1	NIS	99	99		99%	100%	100%	100%

Standard 11: List of investments in subsidiaries and related companies as at the date of the report on financial position (cont.)

A. In shares and convertible securities (cont.)

	Share type						Holding rate			
Company name	Name of share	Par value per share	Currency	Number of shares	Total par value	Balance-sheet value (in NIS m.)	In securities	In capital	In voting	In authority to appoint directors
Maritime Trust Services Ltd.	Ordinary shares	1	NIS	30,000	30,000		100%	100%	100%	100%
Einat (Nechasim) Ltd.	Ordinary shares	0.0001	NIS	19,999	1.9999		100%	100%	100%	100%
Alzur Property Development Company Ltd.	Ordinary shares	0.0001	NIS	100,000	10		100%	100%	100%	100%
PAM Holdings Ltd.						115		100%	100%	100%
Poalim - Financial Holdings (1993) Ltd.	Ordinary shares	1	NIS	3,070	3,070	8	100%	100%	100%	100%
Poalim (Gishur) Trustees Ltd	Ordinary shares	0.001	NIS	5,000	5		100%	100%	100%	100%
Poalim Ofakim Ltd.								100%	100%	100%
Poalim Asset Management (Ireland) Ltd.								100%	100%	100%
Poalim Asset Management (UK) Ltd.								100%	100%	100%
Poalim Express Ltd.	Ordinary shares	1	NIS	139,326	139,326	247	100%	100%	100%	100%
Poalim Self Service Ltd.	Ordinary shares	0.0001	NIS	10,000,000	1,000	13	100%	100%	100%	100%
Poalim Betevuna Ltd.	Ordinary shares	1	NIS	9,999	9,999	-14	100%	100%	100%	100%
Poalim Delta Fund L.P.								99%	99%	99%
Poalim Ventures - Fund Management Ltd.								100%	100%	100%
Poalim Ventures I Ltd.								54%	54%	100%
Poalim Ventures II L.P.								0%	0%	100%
Poalim Ventures Ltd.								100%	100%	100%
Poalim Venture Services Israel Ltd.						4		100%	100%	100%
Poalim Mortgages Insurance Agency (2005) Ltd.						16		100%	100%	100%
Poalim Sahar Ltd.						291		100%	100%	100%
Poalim Capital Markets - Investment House Ltd.	Ordinary shares	1	NIS	40,017	40,017	675	0%	100%	100%	100%
Poalim Capital Markets Ltd.								100%	100%	100%
Poalim Financial Markets -Financial Applications & Research Ltd.								100%	100%	100%
Poalim Capital Markets (Euro) Ltd.								100%	100%	100%
Poalim Capital Markets & Investments - Holdings Ltd.	A ordinary shares	0.0001	NIS	183,613	18.3613		5%	100%	100%	100%
Poalim Capital Markets & Investments - Holdings Ltd.	B ordinary shares	0.0001	NIS	280,695	28.0695		5%	100%	100%	100%
Poalim Shaked Hevra Finansit Ltd.								100%	100%	100%

Standard 11: List of investments in subsidiaries and related companies as at the date of the report on financial position (cont.)

A. In shares and convertible securities (cont.)

	Share type						Holding rate			
Company name	Name of share	Par value per share	Currency	Number of shares	Total par value	Balance-sheet value (in NIS m.)	In securities	In capital	In voting	In authority to appoint directors
Poalim Trust Services Ltd.	Ordinary shares	1	NIS	200,005	200,005	31	100%	100%	100%	100%
Poalim Egoz Hevra Finansit Ltd.								100%	100%	100%
Poalit Ltd.	Ordinary shares	0.0001	NIS	129,050,000	12,905		100%	100%	100%	100%
PCM – HSU Holdings Inc.								100%	100%	100%
PCM Hudson Holdings LLC								100%	100%	100%
PCM Hudson Management Company Holdings L.P.								100%	100%	100%
Peilim - Portfolio Management Company Ltd.	Ordinary shares	1	NIS	50,000	50,000	45	100%	100%	100%	100%
Peilim - Portfolio Management Company Ltd.	0.001 ordinary shares	0.001	NIS	5,000	5	45	100%	100%	100%	100%
Pekaot Poalim Ltd.	Ordinary shares	100	NIS	370,214	37,021,400	295	100%	100%	100%	100%
P.C.H. Venture Capital Limited Partnership								100%	100%	100%
Tzadit Ltd.	Ordinary shares	0.0001	NIS	1	0.0001		0%	100%	100%	100%
Tzameret Mimunim Ltd.								100%	100%	100%
Continental Poalim Ltd.	A management shares	0.0001	NIS	20	0.002	592	100%	100%	100%	100%
Continental Poalim Ltd.	B management shares	0.0001	NIS	20	0.002		100%	100%	100%	100%
Continental Poalim Ltd.	Ordinary shares	0.0001	NIS	58,351,356,354	5,835,135.635		100%	100%	100%	100%
Clarity Family Office A.J.								100%	100%	100%
Clarity Family Office Ltd.								100%	100%	100%
Revadim (Nechasim) Ltd.	Ordinary shares	0.0001	NIS	20,000	2		100%	100%	100%	100%
Ramchal Poalim Ltd.	Ordinary shares	0.0001	NIS	32	0.0032		100%	100%	100%	100%
Sure-Ha International Ltd.	Ordinary shares	0.0001	USD	1	1	277	0%	100%	100%	100%
Shoresh Poalim Ltd.	Founding shares	0.0001	NIS	1	0.0001		50%	50%	50%	50%
Automatic Bank Services Ltd.	Ordinary shares	0.0001	NIS	13,800,000	1,380	84	35%	34%	34%	34%
Tevuat Poalim Ltd.	A ordinary shares	0.0001	NIS	1	0.0001		100%	50%	50%	50%
Tmura Hevra Finansit Ltd.	Ordinary shares	0.0001	NIS	4,949,997	494.9997		99%	100%	100%	100%
Teuda Hevra Finansit Ltd.	Ordinary shares	0.0001	NIS	59,999,995	5999.9995	-35	100%	100%	100%	100%
Tarshish Hapoalim Holdings and Investments Ltd.	Ordinary shares	0.0001	NIS	2,991	0.2991	4,470	68%	100%	100%	100%

Standard 11: <u>List of investments in subsidiaries and related companies as at the date of the report on financial position (cont.)</u>

A. In shares and convertible securities (cont.)

Standard 11: List of investments in subsidiaries and related companies as at the date of the report on financial position (cont.)

B. In bonds and capital notes

Company name	Linkage terms	Balance sheet balance	Interest rate	Final settlement date
		NIS millions	%	
Bitzur Ltd.	Unlinked	200	-	2013
Hapoalim Hanpakot Ltd.[(1)]	CPI-linked	51		2015
Zohar Hashemesh Lehashkaot Ltd.	Unlinked	850	-	2013
Poalim Betevuna Ltd.	Unlinked	29	-	2013
Alzur Property Development Company Ltd.	Unlinked	3	-	2013
Teuda Hevra Finansit Ltd.	Unlinked	286	-	2013

(1) Traded on the Tel Aviv Stock Exchange.

Series	Rate	Market value in NIS millions
22	130.75	51

Standard 11: List of investments in subsidiaries and related companies as at the date of the report on financial position (cont.)

C. Balance of loans as at December 31, 2013

Company name	Balance of loans as at Dec. 31, 2013	Interest rate of unlinked loans	Interest rate of foreign-currency loans	Interest rate of CPI-linked loans	Interest rate of foreign-currency-linked loans	Final settlement date
	NIS millions	%	%	%	%	
Bank Hapoalim (Luxembourg) Ltd..	407		3.789-5.704			2018
Bank Hapoalim (Switzerland) Ltd.	83					No settlement date
Bank Pozitif Kredi Ve Kalkinma	4					No settlement date
Hapoalim Securities U.S.A. Inc.	87		0.96-1.43			2014
Zohar Hashemesh Lehashkaot Ltd.	850					No settlement date
Isracard Ltd.	18					No settlement date
Poalim Express Ltd.	56					No settlement date
Poalim Express Ltd.	3					No settlement date
Poalim Betevuna Ltd.	29					No settlement date
Poalim Sahar Ltd.	250					No settlement date
Teuda Hevra Finansit Ltd.	286					No settlement date

Standard 11: List of investments in subsidiaries and related companies as at the date of the report on financial position (cont.)

D. List of inactive companies

AMI Trustees Ltd.	
Binyaney Zibur Ltd.	
Hasneh Israel Insurance Company Ltd.	
Hapoalim Holdings (Latin America) Ltd.	In voluntary liquidation
Hapoalim Sheirutei Nihul (Latin America) Ltd.	
Hevra Lepitouh Ashkelon Barnea Ltd.	
The Rest Village Ashkelon Ltd.	In voluntary liquidation
Hevrat Nemanut Aseret Alafim Veachat Ltd.	
Hevrat Nemanut Aseret Alafim Veshtaim Lavan Ltd.	
Teus Trust Company Ltd.	In voluntary liquidation
Hevrat Odar Ltd.	
Japhet Rishumim Ltd.	In voluntary liquidation
Mishor Poalim Ltd.	
Matai Ramatim Ltd.	
Poalim (Romema) Trustees Ltd.	
Pardes A.D.S. Ltd.	
P.C.H. Venture Capital Limited Partnership	
Kamur Finance and Investments Ltd.	
Karkaot Beguosim 7123 7124 7128 Ltd.	
Rotesa Ltd.	In voluntary liquidation
Shoresh Poalim Ltd.	
Tevuat Poalim Ltd.	
Tot Tiyur Vetiyul Ltd.	
Teus Development Areas Industrialization Ltd.	In voluntary liquidation

Standard 12: Changes in the Bank's investments in subsidiary and related companies during the reported period

	Type of share						
Company name	Share name	Par value per share	Currency	Date of change	Nature of change	Total par value	Cost (NIS millions)
Otsar Bavel Ltd.	Share	1	NIS	Nov. 14, 13	Investment	200,000	1
Aminit Ltd.	Share	1	NIS	June 26, 13	Investment	1,041	4
Aminit Ltd.	Share	1	NIS	July 1, 13	Sale	17,861	69

Companies liquidated during the year:

Clarity Family Office A.J.

Clarity Family Office Ltd.

Hapoalim Holdings (Switzerland) Ltd.

Hapoalim USA Holding Company

Tuval Hevra LeHashkaot Ltd.

Standard 13: Income of subsidiary and related companies and the Bank's income from such companies as at the date of the report on financial position*

Company name	Profit (loss) reported by the company		Bank income		
	Net profit	Other	Interest	Management fees	Dividend
	NIS millions		NIS millions		
Opaz Ltd.	13				
Bitan Investments and Mortgages Co. Ltd.	5				
Bank Hapoalim (Luxembourg) S.A.	9		1		
Bank Hapoalim (Cayman) Ltd.	3				
Bank Hapoalim (Switzerland) Ltd.	70			16	
Bank Pozitif Kredi Ve Kalkinma Bankasi A.S.	37	6	2	2	20
JSC Bank Pozitiv	5				
Global Factoring Ltd.	2				
Diur B.P. Ltd.	3				
Hapoalim International N.V.	1				
Hapoalim American Israeli Ltd.	2				
Hapoalim Nechasim (Menayot) Ltd.	24				
Hapoalim Securities U.S.A. Inc	13		3		
Zohar Hashemesh Lehashkaot Ltd.	34				
Europay (Eurocard) Israel Ltd.	(5)				
Isracard (Nechasim) 1994 Ltd.	7				
Isracard Ltd.	242	41	4	189	
Isracard Mimun Ltd.	31				
Bank Clearing Center Ltd.	6				
C Bilisim Teknolojileri	2				
Alzur Property Development Company Ltd.	1				
Poalim Asset Management (UK) Ltd.	8				
Poalim Express Ltd.	43		2	48	
Poalim Ventures Ltd.	7				
Poalim Mortgages Insurance Agency (2005) Ltd.	12				10
Poalim Sahar Ltd.	14				
Poalim Capital Markets - Investment House Ltd.	7				
Poalim Capital Markets Ltd.	8				
Poalim Capital Markets (Euro) Ltd.	(2)				
Poalim Capital Markets & Investments - Holdings Ltd.	15				
Poalim Trust Services Ltd.	1				
Poalit Ltd.	4				
Peilim - Portfolio Management Company Ltd.	19				95
Pekaot Poalim Ltd.	3				
Tzadit Ltd.	1				

* Companies that had no profits (losses) during the accounting period, and from which the Bank derived no income during the accounting period, are not included in this list. Companies overseas – In local currency, translated according to the exchange rate as at December 31, 2013.

Standard 13: Income of subsidiary and related companies and the Bank's income from such companies as at the date of the report on financial position* (cont.)

Company name	Profit (loss) reported by the company		Bank income		
	Net profit	Other	Interest	Management fees	Dividend
	NIS millions		NIS millions		
Tzameret Mimunim Ltd.	8				
Continental Poalim Ltd.	5				
Revadim (Nechasim) Ltd.	22		4		
Ramchal Poalim Ltd.	2				
Automatic Bank Services Ltd.	33				
Tarshish Hapoalim Holdings and Investments Ltd.	148				

* Companies that had no profits (losses) during the accounting period, and from which the Bank derived no income during the accounting period, are not included in this list. Companies overseas – In local currency, translated according to the exchange rate as at December 31, 2013.

Standard 14: List of groups of balances of loans granted as at the date of the report on financial position, if loan granting was one of the corporation's main activities

The list is included in Note 4D to the Financial Statements.

Standard 20: Trading on the stock exchange – securities listed for trading – dates and reasons for halt of trading

Trading in the Bank's shares on the stock exchange was not halted during 2013.

Standard 21: Remuneration of interested parties and senior officers

Details regarding the salaries and benefits of the recipients of the highest wages among the officers at the Bank Group are included in the Board of Directors' Report, p. 243.

Remuneration paid to directors, with the exception of the Chairman of the Board, not exceeding commonly accepted levels, paid pursuant to Regulations 4 and 5 of the Companies Regulations (Rules Concerning Remuneration and Expenses for External Directors), 2000, amounted to a total of NIS 10,442 thousand in 2013.

Standard 21A: Control of the corporation

Details regarding the control of the Bank are included in the Board of Directors' Report, p. 22.

Standard 22: Transactions with controlling shareholders

1. For details regarding transactions with controlling shareholders, see the section "Other Matters" in the Board of Directors' Report.

2. Transactions listed in Article 270(4) of the law –

   The annual general meeting of shareholders of the Bank held on January 3, 2012 (the "General Meeting") approved, by special majority, the replacement of Article 24 of the Articles of the Bank, concerning indemnification and insurance for officers of the Bank, including officers in whose indemnification letters the controlling shareholders of the Bank may be considered to have a personal interest, as detailed in the immediate report concerning a transaction between a company and its controlling shareholder, which includes a report on the annual general meeting convened on January 3, 2012 (the "General Meeting"), issued by the Bank through the electronic reporting system to the Israel Securities Authority and the Tel Aviv Stock Exchange on November 28, 2011, reference no. 2011-01-341340, and the immediate report concerning the outcomes of the meeting for the approval of a transaction with a controlling shareholder, issued by the Bank through the electronic reporting system to the Israel Securities Authority and the Tel Aviv Stock Exchange on January 3, 2012, reference no. 2012-01-006000 (the "Immediate Reports on the Publication of the Resolutions of the Annual General Meeting of the Bank").

   The General Meeting also approved, by special majority, the granting of a letter of indemnification to the officers of the Bank, including officers in whose indemnification letters the controlling shareholders of the Bank may be considered to have a personal interest, who serve or have served or will serve at the Bank from time to time, as well as such officers who serve or will serve, at the request of the Bank, as officers in any other company in which the Bank directly or indirectly holds shares, or in which the Bank has any interest, in the format attached to the Immediate Reports on the Publication of the Resolutions of the Annual General Meeting of the Bank, which includes, *inter alia*, directives concerning the indemnification of officers in connection with the Administrative Enforcement Law and its adjustment to legislative amendments to the Companies Law, and which includes the possibilities permitted by law for the indemnification of officers.

Standard 24: Shares and convertible securities held by interested parties and senior officers of a corporation, subsidiary, or related company near the date of the report on financial position

A. Holdings of Bank shares by interested parties

Name of interested party	Corporation number	Par value shares in NIS[2]	Rate of holdings in capital	Rate of holdings in voting[1]	Rate of holdings in capital after dilution	Rate of holdings in voting after dilution
Arison Holdings (1998) Ltd.	512705153	267,543,761	20.01%	20.24%	20.01%	20.24%
Salt of the Earth Ltd.	520037573	17,132,105	1.28%	1.30%	1.28%	1.30%
Controlling shareholders total		284,675,866	21.29%	21.54%	21.29%	21.54%
Excellence Investments Ltd.	520041989	53,445,777	3.99%	4.04%	3.99%	4.04%
The Phoenix Holdings Ltd.	520017450	34,290,619	2.56%	2.59%	2.56%	2.59%
Delek Group Ltd. total holdings		87,736,396	6.55%	6.63%	6.55%	6.63%
Psagot Investment House Ltd.						
Psagot Exchange Traded Notes Ltd.	512894510	44,743,506	3.35%	3.38%	3.35%	3.38%
Psagot Provident Funds Ltd.	513765347	24,170,218	1.81%	1.83%	1.81%	1.83%
Psagot Mutual Funds Ltd.	513765339	3,163,298	0.24%	0.24%	0.24%	0.24%
Psagot Investment House total holdings		72,077,022	5.40%	5.45%	5.40%	5.45%

1 The Bank holds 15,292,563 dormant shares; this holding constitutes 100% of the dormant shares.

2 Par value NIS 1.0 for one ordinary share.

B. Holdings of shares of the Bank by directors

Yair Seroussi	053654927	Ordinary shares	268,270	0.02%	0.02%	0.02%	0.02%
		RSU	400,000			0.03%	0.03%
Moshe Koren	1228998	Ordinary shares	13,000	0.00%	0.00%	0.00%	0.00%
Yosef Yarom	12017539	Ordinary shares	29,920	0.00%	0.00%	0.00%	0.00%
Irit Izakson	050709286	Ordinary shares	116,221	0.01%	0.01%	0.01%	0.01%
		RSU	87,747			0.01%	0.01%

Standard 24: Shares and convertible securities held by interested parties and senior officers of a corporation, subsidiary, or related company near the date of the report on financial position (cont.)

Holdings of shares of the Bank by senior officers

Zion Kenan	053508594	Ordinary shares	268,270	0.02%	0.02%	0.02%	0.02%
		RSU	666,667			0.05%	0.05%
Ilan Mazur	007447386	Ordinary shares	70,543	0.01%	0.01%	0.01%	0.01%
		RSU	184,899			0.01%	0.01%
Efrat Yavetz	058677881	Ordinary shares	67,446	0.01%	0.01%	0.01%	0.01%
		RSU	184,899			0.01%	0.01%
Ron Wexler	024218422	Ordinary shares	34,453	0.00%	0.00%	0.00%	0.00%
		RSU	41,868			0.00%	0.00%
Tzahi Cohen	022007587	Ordinary shares	76,300	0.01%	0.01%	0.01%	0.01%
		RSU	171,963			0.01%	0.01%
Shimon Gal	54903869	Ordinary shares	79,471	0.01%	0.01%	0.01%	0.01%
		RSU	189,940			0.01%	0.01%
Jacob Orbach	053906467	Ordinary shares	118,546	0.01%	0.01%	0.01%	0.01%
		RSU	189,940			0.01%	0.01%
Dan Alexander Koller	028051910	Ordinary shares	65,822	0.00%	0.00%	0.00%	0.00%
		RSU	272,245			0.02%	0.02%
Zvi Naggan	055486872	Ordinary shares	76,934	0.01%	0.01%	0.01%	0.01%
		RSU	89,405			0.01%	0.01%
Ari Pinto	069042505	Ordinary shares	67,446	0.01%	0.01%	0.01%	0.01%
		RSU	184,899			0.01%	0.01%
Ofer Levy	052222577	Ordinary shares	74,106	0.01%	0.01%	0.01%	0.01%
		RSU	179,231			0.01%	0.01%
Yoram Weissbrem	007041809	Ordinary shares	36,063			0.00%	0.00%
		RSU	93,038			0.01%	0.01%
Eli Cohen	027760628	Ordinary shares	68,341	0.01%	0.01%	0.01%	0.01%
		RSU	10,172			0.00%	0.00%
Yadin Antebi	028078525	RSU	256,097			0.02%	0.02%

Holdings of convertible notes of the Bank by interested parties and officers

Name of interested party	Corporation/ ID number	Name of security	Notes par value
Excellence Investments Ltd.	520041989	Poalim A	30,091,614
		Poalim B	18,000,000
		Poalim C	22,193,810
The Phoenix Holdings Ltd.	520017450	Poalim A	458,695
		Poalim B	40,000,000
		Poalim C	50,956,188
Psagot Investment House Ltd.:			
Psagot Exchange Traded Notes Ltd.	512894510	Poalim A	6,880,425
Psagot Provident Funds Ltd.	513765347	Poalim A	4,997,707
Psagot Mutual Funds Ltd.	513765339	Poalim A	4,368,168

Standard 24: Shares and convertible securities held by interested parties and senior officers of a corporation, subsidiary, or related company near the date of the report on financial position (cont.)

C. Holdings of securities of Hapoalim Hanpakot by interested parties and senior officers

Name of interested party	Corporation/ID number	Name of security	Quantity
Bank Hapoalim B.M.	52000118	POALIM HAN 22	39,153,850
Excellence Investments Ltd.	520041989	POALIM HAN B2	5,810,230.17
		POALIM HAN B4	4,742,186.00
		POALIM HAN 22	25,024,561.00
		POALIM HAN B8	54,121,978.00
		POALIM HAN 23	10,161,096.00
		POALIM HAN 25	49,329,654.44
		POALIM HAN B9	13,920,615.19
		POALIM HAN B10	140,436,073.00
		POALIM HAN B11	37,182,377.00
		POALIM HAN B12	15,365,760.00
		POALIM HAN B13	2,247,905.00
		POALIM B1	82,085,255.89
		POALIM HAN 26	1,584,911.00
		POALIM HAN 29	28,294,019.00
		POALIM HAN B14	109,977,837.00
		POALIM HAN 31	6,555,791.00
		POALIM HAN 32	26,204,306.00
		POALIM HAN 15	29,343,977.00
		POALIM HAN 16	4,247,957.00
The Phoenix Holdings Ltd.	520017450	POALIM HAN B2	0.32
		POALIM HAN 4	5,324,673.00
		POALIM HAN 22	60,367,587.00
		POALIM HAN B8	12,925,216.00
		POALIM HAN 23	39,496,121.00
		POALIM HAN 25	71,304,870.00
		POALIM HAN B9	16,367,742.92
		POALIM HAN B10	148,438,328.00
		POALIM HAN B11	14,450,224.00
		POALIM HAN B12	26,315,436.00
		POALIM HAN 13	2,123,364.00
		POALIM B1	4,390,093.00
		POALIM HAN 26	1,073,979.00
		POALIM HAN 29	105,844,588.00
		POALIM HAN B14	36,518,011.00
		POALIM HAN 31	92,205,578.00
		POALIM HAN 32	14,201,952.00
		POALIM HAN 15	14,928,749.00
		POALIM HAN 16	1,156,039,00

Standard 24: **Shares and convertible securities held by interested parties and senior officers of a corporation, subsidiary, or related company near the date of the report on financial position (cont.)**

Tel Bond 20 Partnership		POALIM HAN 10	35,789,891
		POALIM HAN 14	20,015,463
Unlinked Tel Bond Partnership		POALIM HAN 11	8,718,595
		POALIM HAN 29	8,236,471
		POALIM HAN 16	1,156,039
Psagot Exchange Traded Notes Ltd.	512894510	POALIM HAN B4	1,247,000
		POALIM HAN B8	21,383,655
		POALIM HAN 25	35,410,359
		POALIM HAN B9	2,375,240
		POALIM HAN B10	121,112,904
		POALIM HAN B11	39,737,372
		POALIM HAN B12	2,548,693
		POALIM B1	37,165,826
		POALIM HAN 26	300,000
		POALIM HAN 29	36,962,956
		POALIM HAN B14	97,025,931
		POALIM HAN 31	2,678,385
		POALIM HAN 32	3,258,285
		POALIM HAN 15	24,684,210
		POALIM HAN 16	5,437,082
Psagot Provident Funds Ltd.	513765347	POALIM HAN B2	241,658
		POALIM HAN B4	8,323,777
		POALIM HAN 22	3,257,832
		POALIM HAN B8	10,428,607
		POALIM HAN 23	1,519,992
		POALIM HAN 25	2,956,149
		POALIM HAN B9	15,318,531
		POALIM HAN B10	79,953,512
		POALIM HAN B11	104,037,952
		POALIM HAN B12	10,950,679
		POALIM HAN B13	22,614,745
		POALIM B1	35,318,769
		POALIM HAN 29	35,827,926
		POALIM HAN B14	91,263,753
		POALIM HAN 30	479,372
		POALIM HAN 31	52,060,139
		POALIM HAN 32	74,666,922
		POALIM HAN 15	35,518,349
		POALIM HAN 16	400,000
Psagot Mutual Funds Ltd.	513765339	POALIM HAN B2	4,423,838
		POALIM HAN B4	13,142,988
		POALIM HAN 22	35,292,554

Standard 24: Shares and convertible securities held by interested parties and senior officers of a corporation, subsidiary, or related company near the date of the report on financial position (cont.)

		POALIM HAN B8	48,084,213
		POALIM HAN 23	13,836,361
		POALIM HAN 25	16,790,007
		POALIM HAN B9	7,764,308.18
		POALIM HAN B10	20,848,529
		POALIM HAN B11	13,395,219
		POALIM HAN B12	14,306,649
		POALIM HAN B13	450,000
		POALIM B1	6,944,026
		POALIM HAN 29	13,237,926
		POALIM HAN B14	9,882,222
		POALIM HAN 31	4,789,624
		POALIM HAN 32	1,770,440
		POALIM HAN 15	947,070
		POALIM HAN 16	1,011,873
Yosef Yarom	12017539	POALIM HAN B12	171,140.00
		POALIM HAN B13	449,182.00
		POALIM B1	90,000.00
Irit Izakson	050709286	POALIM HAN 23	42,000
Bonds held in an account in the name of her daughter, Margalit Izakson		POALIM HAN 22	23,758
Yoram Weissbrem	007041809	POALIM HAN B13	137,800

Holdings of interested party – Bank Hapoalim B.M.: **See Standard 11A.**

Standard 24: Shares and convertible securities held by interested parties and senior officers of a corporation, subsidiary, or related company near the date of the report on financial position (cont.)

Additional details regarding principal holders:

1. Controlling shareholders of Arison Holdings (1998) Ltd.

	Rate of holding of capital
Eternity Holdings One Trust[1]	30.00%
Eternity Four-A Trust[1]	70.00%
Total	100.00%

2. Controlling shareholders of Salt of the Earth Ltd. (formerly Israel Salt Industries Ltd.)

Arison Investments Ltd. holds 100% of the shares of Salt of the Earth Ltd. Arison Investments Ltd. is wholly held by Arison Sustainability Ltd., which is held by Eternity Holdings One Trust (3.7%) and Eternity Four-A Trust (96.3%).

3. The Delek Group

The Phoenix Holdings Ltd.

The Phoenix Holdings Ltd. is the only shareholder of The Phoenix Insurance Company Ltd. (100%) and of The Phoenix Investments and Finance Ltd. (100%). The Phoenix Insurance Company is the only shareholder of The Phoenix Pension and Provident Funds Ltd. (100%).

The proprietary holdings of The Phoenix Insurance are reported in part as proprietary holdings of The Phoenix Holdings. Holdings derived from profit-participatory policy portfolios of The Phoenix Insurance Company Ltd. are reported as member investments.

Proprietary holdings of The Phoenix Investments and Finances Ltd., holdings of The Phoenix Holdings, and holdings of the management company The Phoenix Pension and Provident Funds Ltd. and of The Phoenix Pension and Provident Fund Management Ltd.

The Delek Group Ltd. (the “Delek Group”) holds approximately 52.32% of the share capital of The Phoenix Holdings. Mr. Itzhak Sharon (Tshuva) is the controlling shareholder of the Delek Group (concatenated).

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[1] Shari Arison is the principal beneficiary of the Eternity Holdings One Trust and of the Eternity Four-A Trust. Trustees of each of the aforesaid trusts, respectively, are: The Northern Trust Company of Delaware; and JP Morgan Trust Company along with The Northern Trust Company of Delaware. The Bank was informed that the aforesaid beneficiary shall have exclusive discretion to vote at shareholders’ meetings of Arison Holdings (1998) Ltd., under a power of attorney granted to her by the trustees, respectively, under the conditions established by the Bank of Israel, with respect to which the aforesaid trustees have affirmed their awareness and their willingness to act accordingly. The aforesaid powers of attorney were granted without the intention to revoke them at any point; should such a revocation of power of attorney occur with regard to any of the beneficiaries, they are obligated to notify the Bank of Israel immediately, no later than at the end of 7 days from receipt of notification of the revocation.

Standard 24: Shares and convertible securities held by interested parties and senior officers of a corporation, subsidiary, or related company near the date of the report on financial position (cont.)

Excellence Investments Ltd.

The Phoenix Investments and Finance Ltd. holds approximately 89.81% of the issued and paid-up share capital of Excellence Investments Ltd. The Phoenix Investments and Finance Ltd. is a wholly owned subsidiary of The Phoenix Holdings Ltd., which is the controlling shareholder of Excellence Investments Ltd.

The Delek Group Ltd.

Holds approximately 52.32% of the share capital of The Phoenix Holdings. Delek Investments Ltd. is a public company whose shares are listed on the Tel Aviv Stock Exchange.

Mr. Itzhak Sharon (Tshuva) is the controlling shareholder of the Delek Group (concatenated).

Psagot Ltd.

AP. PS. Acquisition Ltd. (“Apax”) holds 76.8% of the share capital of Psagot Investment House Ltd. (“Psagot Investment House”). Phenomenal Holdings Ltd. (formerly Prisma Provident Funds Ltd.) and Phenomenal New Holdings Ltd. (formerly Prisma New Provident Funds Ltd.) together hold 23.2% of the share capital of Psagot Investment House.

The funds Apax Europe VII-A L.P., Apax Europe VII-B L.P., and Apax Europe VII-1 L.P. (hereinafter, together: “Apax Europe VII Funds”), which are foreign investment funds, indirectly hold 76.8% of the share capital of Psagot Investment House, through Apax and various holding companies, which are indirectly controlled, managed, or advised by Apax Partners Europe Managers Ltd. (“APEM”) under management agreements between the Apax Europe VII Funds and APEM. APEM has been appointed the investment manager of the Apax Europe VII Funds with respect to various investments, including Psagot. The shareholders of APEM are Martin Halusa, Michael Phillips, and Nico Hansen (who also serve as the board of directors of APEM) as well as Ian Jones (together: the “Controlling Shareholders”), each of which holds 25% of the share capital and voting rights in APEM in connection with Psagot Investment House. The controlling shareholders, through APEM and the aforesaid management structure of the Apax Europe VII Funds, are entitled to make all decisions regarding the management of the aforesaid investments on behalf of the Apax Europe VII Funds. Note that the holding and management structure described above is governed, in essence, by a system of various agreements between APEM, the Apax Europe VII Funds, and various holding companies of the Apax Europe VII Funds.

Standard 24: Shares and convertible securities held by an interested party of a corporation, subsidiary, or related company near the date of the report on financial position (cont.)

D. Holdings of subsidiaries in shares of subsidiary or related companies

Name of company held by interested party	Name of interested party	Number at Companies Registrar	Name of security	Number of shares	Par value per share	Currency	Par value held at balance sheet date	Rate of holding: Of capital	Rate of holding: Of voting	Rate of holding: Of authority to appoint directors
Aminit Ltd.	Isracard Ltd.	510820020	Ordinary shares	21,767	1	NIS	21,767	100%	100%	100%
Bami Nechasim Ltd.	AMI Trustees Ltd.	511584781	Ordinary shares	1	1	NIS	1	1%	1%	1%
Bami Nechasim Ltd.	Hapoalim American Israeli Ltd.	511584781	Ordinary shares	99	1	NIS	99	99%	99%	99%
BHI Investment Advisors Asia	Bank Hapoalim (Switzerland) Ltd.	1465245	Ordinary shares	5,000,000	1	Other	5,000,000	100%	100%	100%
Bank Hapoalim (Luxembourg) S.A.	Poalim Capital Markets & Investments - Holdings Ltd.	774163448	Ordinary shares	100	100	USD	10,000	0%	0%	0%
Bank Pozitif Kredi Ve Kalkinma Bankasi A.S.	Tarshish Hapoalim Holdings and Investments Ltd.	774483903	Ordinary shares	2,355,146,874	0.1	Other	235,514,687.4	70%	70%	70%
JSC Bank Pozitiv	Bank Pozitif Kredi Ve Kalkinma Bankasi A.S.	036551800	Ordinary shares	48,861	50,000	Other	2,443,050,000	100%	100%	100%
Global Factoring Ltd.	Isracard Ltd.	513634394	Ordinary shares	2,000,000	1	NIS	2,000,000	100%	100%	100%
Diur B.P. Ltd.	Opaz Ltd.	510237878	Ordinary shares	1,066	0.1	NIS	106.6	100%	100%	100%
Diur B.P. Investments (1992) ltd.	Diur B.P. Ltd.	511727232	Ordinary shares	100	1	NIS	100	100%	100%	100%
Diur B.P. Properties (1993) ltd.	Diur B.P. Ltd.	511895773	Ordinary shares	100	1	NIS	100	100%	100%	100%
Hapoalim (Latin America) S.A.	Bank Hapoalim (Cayman) Ltd.	774177877	Bearer	379,246,083	1	UYU	379,246,083	100%	100%	100%
Hapoalim Nechasim (Menayot) Ltd.	Opaz Ltd.	511391278	Ordinary shares	100	1	NIS	100	100%	100%	100%
Hapoalim Securities U.S.A. Inc.	PCM – HSU Holdings Inc	133732556	Common	10	0.1	USD	1	100%	100%	100%
Hevrat Nemanut Aseret Alafim Veachat Ltd.	Poalim Trust Services Ltd.	510729205	Ordinary shares	10	0.0001	NIS	0.001	100%	100%	100%

Standard 24: Shares and convertible securities held by interested parties and senior officers of a corporation, subsidiary, or related company near the date of the report on financial position (cont.)

Name of company held by interested party	Name of interested party	Number at Companies Registrar	Name of security	Number of shares	Par value per share	Currency	Par value held at balance sheet date	Rate of holding: Of capital	Rate of holding: Of voting	Rate of holding: Of authority to appoint directors
Hevrat Nemanut Aseret Alafim Veshtaim Lavan Ltd.	Poalim Trust Services Ltd.	510729742	Ordinary shares	10	0.0001	NIS	0.001	100%	100%	100%
Hetzron Hevra Lehashkaot Ltd.	Revadim (Nechasim) Ltd.	510364508	Ordinary shares	335,880	0.1	NIS	33,588	33%	33%	33%
Trinel Trading and Investment Ltd.	Bank Hapoalim (Switzerland) Ltd.	900000606	Ordinary shares	1,500	100	CHF	150,000	100%	100%	100%
Europay (Eurocard) Israel Ltd.	Isracard Ltd.	510595036	Ordinary shares	427,699	0.0001	NIS	42.7699	100%	49%	49%
Europay (Eurocard) Israel Ltd.	Isracard Ltd.	510595036	Special shares	1	0.0001	NIS	0.0001	0%	51%	51%
Isracard (Nechasim) 1994 Ltd.	Isracard Ltd.	512053513	Ordinary shares	9,999	1	NIS	9,999	100%	100%	100%
Isracard Mimun Ltd.	Isracard Ltd.	513497628	Ordinary shares	10,000	1	NIS	10,000	100%	100%	100%
Mivnim Vetsiud Ltd.	Bitzur Ltd.	510439284	Ordinary shares	5	0.1	NIS	0.5	5%	5%	5%
Meitavit Maayan for Research and Development Ltd.	Hapoalim Nechasim (Menayot) Ltd.	513256487	Ordinary shares	100	1	NIS	100	100%	100%	100%
May-Oz Ltd.	Diur B.P. Ltd.	511470999	Ordinary shares	100	1	NIS	100	100%	100%	100%
C Bilisim Teknolojileri	Bank Pozitif Kredi Ve Kalkinma Bankasi A.S.	500422084	Ordinary shares	3,986,850	1	Other	3,986,850	100%	100%	100%
C Bilisim Teknolojileri	Agam Hevra Finansit Ltd.	500422084	Ordinary shares	4,375	1	Other	4,375	0%	0%	0%
C Bilisim Teknolojileri	Igarot Hevra Lehanpakot shel Bank Hapoalim Ltd.	500422084	Ordinary shares	4,375	1	Other	4,375	0%	0%	0%
C Bilisim Teknolojileri	Teuda Hevra Finansit Ltd.	500422084	Ordinary shares	4,375	1	Other	4,375	0%	0%	0%
Maritime - Investments Ltd.	Maritime Trust Services Ltd.	511643553	Ordinary shares	1	1	NIS	1	1%	1%	1%
Maritime Nechasim Ltd.	Maritime Trust Services Ltd.	511481269	Ordinary shares	1	1	NIS	1	1%	1%	1%
PAM Holdings Ltd.	Poalim Betevuna Ltd.	740001433	Ordinary shares	771,739	1	GBP	771,739	100%	100%	100%
Poalim Ofakim Ltd.	Hapoalim Nechasim (Menayot) Ltd.	513624338	Ordinary shares	1,000	1	NIS	1,000	100%	100%	100%

Standard 24: Shares and convertible securities held by interested parties and senior officers of a corporation, subsidiary, or related company near the date of the report on financial position (cont.)

Name of company held by interested party	Name of interested party	Number at Companies Registrar	Name of security	Number of shares	Par value per share	Currency	Par value held at balance sheet date	Rate of holding: Of capital	Rate of holding: Of voting	Rate of holding: Of authority to appoint directors
Poalim Asset Management (Ireland) Ltd.	PAM Holdings Ltd.	740001458	Ordinary shares	120,000	1	USD	120,000	100%	100%	100%
Poalim Asset Management (UK) Ltd.	PAM Holdings Ltd.	740001441	Ordinary shares	1,000,000	1	GBP	1,000,000	100%	100%	100%
Poalim Delta Fund L.P	Poalim Ventures Ltd.	550019012	No share capital	99	1	NIS	99	99%	99%	99%
Poalim Ventures Fund Management Ltd.	Poalim Ventures Ltd.	512433194	Ordinary shares	999	1	NIS	999	100%	100%	100%
Poalim Ventures Fund Management Ltd.	Poalim Capital Markets & Investments - Holdings Ltd.	512433194	Ordinary shares	1	1	NIS	1	0%	0%	0%
Poalim Ventures I Ltd.	Poalim Ventures Ltd.	512882317	Ordinary shares	110,000	0.01	NIS	1,100	6%	6%	0%
Poalim Ventures I Ltd.	Poalim Ventures Fund Management Ltd.	512882317	No share capital	1	1	NIS	1	0%	0%	100%
Poalim Ventures I Ltd.	Poalim Capital Markets Ltd.	512882317	Ordinary shares	951,330	0.01	NIS	9,513.3	48%	48%	0%
Poalim Ventures II L.P	Poalim Ventures Fund Management Ltd.	530205905	No share capital	100	1	NIS	100	0%	0%	100%
Poalim Ventures Ltd.	Poalim Capital Markets & Investments - Holdings Ltd.	510820046	Ordinary shares	151,660,886	0.01	NIS	1,516,608.86	100%	100%	100%
Poalim Ventures Services Israel Ltd.	Hapoalim Nechasim (Menayot) Ltd.	510464795	A ordinary shares	2,698	0.1	NIS	269.8	100%	100%	100%
Poalim Mortgages Insurance Agency (2005) Ltd.	Poalim Ofakim Ltd.	513661025	Ordinary shares	1,000	1	NIS	1,000	100%	100%	100%
Poalim Sahar Ltd.	Teuda Hevra Finansit Ltd.	512199381	Ordinary shares	16,108	1	NIS	16,108	100%	100%	100%
Poalim Capital Markets - Investment House Ltd.	Bitzur Ltd.	520032541	Ordinary shares	180,628,882	1	NIS	180,628,882	100%	100%	100%
Poalim Capital Markets Ltd.	Poalim Capital Markets & Investments - Holdings Ltd.	511465593	Ordinary shares	21,801,000	1	NIS	21,801,000	100%	100%	100%

Standard 24: Shares and convertible securities held by interested parties and senior officers of a corporation, subsidiary, or related company near the date of the report on financial position (cont.)

Name of company held by interested party	Name of interested party	Number at Companies Registrar	Name of security	Number of shares	Par value per share	Currency	Par value held at balance sheet date	Rate of holding: Of capital	Rate of holding: Of voting	Rate of holding: Of authority to appoint directors
Poalim Financial Markets - Financial Applications & Research Ltd.	Poalim Capital Markets & Investments - Holdings Ltd.	511735185	Ordinary shares	99	1	NIS	99	99%	99%	99%
Poalim Financial Markets - Financial Applications & Research Ltd.	Poalim Capital Markets Ltd.	511735185	Ordinary shares	1	1	NIS	1	1%	1%	1%
Poalim Capital Markets (Euro) Ltd.	Poalim Capital Markets & Investments - Holdings Ltd.	512693441	Ordinary shares	1	1	NIS	1	0%	0%	0%
Poalim Capital Markets (Euro) Ltd.	Poalim Capital Markets Ltd.	512693441	Ordinary shares	999	1	NIS	999	100%	100%	100%
Poalim Capital Markets & Investments - Holdings Ltd.	Poalim Capital Markets - Investment House Ltd.	520043290	A ordinary shares	1,855,445	0.0001	NIS	185.5445	20%	48%	48%
Poalim Capital Markets & Investments - Holdings Ltd.	Poalim Capital Markets - Investment House Ltd.	520043290	B ordinary shares	2,836,485	0.0001	NIS	283.6485	28%	0%	0%
Poalim Capital Markets & Investments - Holdings Ltd.	Tarshish Hapoalim Holdings and Investments Ltd.	520043290	A ordinary shares	1,829,935	0.0001	NIS	182.9935	19%	47%	47%
Poalim Capital Markets & Investments - Holdings Ltd.	Tarshish Hapoalim Holdings and Investments Ltd.	520043290	B ordinary shares	2,797,487	0.0001	NIS	279.7487	28%	0%	0%
Poalim Shaked Hevra Finansit Ltd.	Hapoalim American Israeli Ltd.	510956386	Ordinary shares	8,250,000	0.01	NIS	82,500	15%	15%	15%
Poalim Shaked Hevra Finansit Ltd.	Poalim – Financial Holdings (1993) Ltd.	510956386	Ordinary shares	46,750,000	0.01	NIS	467,500	85%	85%	85%
Poalim – Egoz Hevra Finansit Ltd.	Poalim – Financial Holdings (1993) Ltd.	510366008	Ordinary shares	588,235	0.0001	NIS	58.8235	100%	100%	100%
PCM – HSU Holdings Inc.	Poalim Capital Markets (Euro) Ltd.	290000000	Ordinary shares	100	1	USD	100	100%	100%	100%

Standard 24: **Shares and convertible securities held by interested parties and senior officers of a corporation, subsidiary, or related company near the date of the report on financial position (cont.)**

Name of company held by interested party	Name of interested party	Number at Companies Registrar	Name of security	Number of shares	Par value per share	Currency	Par value held at balance sheet date	Rate of holding: Of capital	Rate of holding: Of voting	Rate of holding: Of authority to appoint directors
PCM Hudson Holdings LLC	Poalim Ventures Ltd.	980582800	Ordinary shares	100	1	NIS	100	100%	100%	100%
PCM Hudson Management Company Holdings L.P.	Poalim Ventures Ltd.	980582799	Ordinary shares	99	1	NIS	99	99%	99%	99%
PCM Hudson Management Company Holdings L.P.	PCM Hudson Holdings LLC	980582799	Ordinary shares	1	1	NIS	1	1%	1%	1%
Tzadit Ltd.	Revadim (Nechasim) Ltd.	510437494	Ordinary shares	114,799	0.0001	NIS	11.4799	100%	100%	100%
Tzameret Mimunim Ltd.	Isracard Ltd.	512834896	Ordinary shares	3,000	1	NIS	3,000	100%	100%	100%
Sure-Ha International Ltd.	Opaz Ltd.	740000401	Ordinary shares	4,999,999	1	USD	4,999,999	100%	100%	100%
Tmura Hevra Finansit Ltd.	Igarot Hevra Lehanpakot shel Bank Hapoalim Ltd.	520012568	Ordinary shares	10,000	0.0001	NIS	1	0%	0%	0%
Tmura Hevra Finansit Ltd.	Opaz Ltd.	520012568	Ordinary shares	10,000	0.0001	NIS	1	0%	0%	0%
Tmura Hevra Finansit Ltd.	Bitzur Ltd.	520012568	Ordinary shares	10,000	0.0001	NIS	1	0%	0%	0%
Tmura Hevra Finansit Ltd.	Einat (Nechasim) Ltd.	520012568	Ordinary shares	10,000	0.0001	NIS	1	0%	0%	0%
Tmura Hevra Finansit Ltd.	Teuda Hevra Finansit Ltd.	520012568	Ordinary shares	10,000	0.0001	NIS	1	0%	0%	0%
Tmura Hevra Finansit Ltd.	Poalim Self Service Ltd.	520012568	Ordinary shares	10,000	0.0001	NIS	1	0%	0%	0%
Tarshish Hapoalim Holdings and Investments Ltd.	Igarot Hevra Lehanpakot shel Bank Hapoalim Ltd.	520037029	Ordinary shares	420	0.0001	NIS	0.042	10%	10%	10%
Tarshish Hapoalim Holdings and Investments Ltd.	Opaz Ltd.	520037029	Ordinary shares	1	0.0001	NIS	0.0001	0%	0%	0%
Tarshish Hapoalim Holdings and Investments Ltd.	Bitzur Ltd.	520037029	Ordinary shares	645	0.0001	NIS	0.0645	15%	15%	15%
Tarshish Hapoalim Holdings and Investments Ltd.	Tmura Hevra Finansit Ltd.	520037029	Ordinary shares	31	0.0001	NIS	0.0031	1%	1%	1%
Tarshish Hapoalim Holdings and Investments Ltd.	Teuda Hevra Finansit Ltd.	520037029	Ordinary shares	332	0.0001	NIS	0.0332	8%	8%	8%

Standard 24A

Share capital	Amount in NIS	
	Registered	Issued and paid-up
Ordinary shares of NIS 1	4,000,000,000	1,337,377,111

Dormant Shares

Bank Hapoalim B.M. 15,292,563 dormant shares; this holding constitutes 100% of the dormant shares. The number of shares included in issued share capital, excluding the dormant shares that confer no rights, is 1,322,084,548. The shares are listed for trading on the Tel Aviv Stock Exchange.

Standard 24B

Registry of Shareholders

Book of shareholders – Bank Hapoalim B.M.	Number of shares
Bank Hapoalim Nominee Company Ltd.*	1,069,758,774
A. Controlling interest shares	
Arison Holdings (1998) Ltd.	267,543,761
B. Freestanding shares	
Savion Tal	35,800
Tzitzian Avraham	31,680
Don Maxwell	2,450
Florsheim Mark and Zippora	1,640
Vardi Rachel	780
Agmon Eliahu	700
Berkner Albert	603
Levy Victoria	544
Mindel Shira Milca	122
Geva Arieh	100
Pentzer Natan	75
Zachs Eran	40
Yehuda Bar-Lev	10
Neuman David	10
Aharon Elias	10
Caleb Victoria	5
IMM C. Investments and Finance Ltd.	2
Zaktzar Ram	1
Tal Erez	1
Kramer Moshe	1
Feldman Avi	1
Livnat Raz	1
Total	**1,337,377,111**

* The quantity of shares at the Nominee Company as at February 28, 2014 includes 15,292,563 dormant shares owned by Bank Hapoalim.

Standard 26: Board of Directors of the Bank

Name and personal details	Occupation in the last five years
Yair Seroussi Identification Number: 053654927 Date of Birth: Nov. 27, 1955 Citizenship: Israeli Address: Gideon 10, Ramat Gan	Chairman of the Board of Directors of the Bank as of August 1, 2009. Chairman of the following Board Committees: the Credit Committee; the Investment Approval Committee; the Overseas Banking and International Activity Committee; the New Products Committee; and the Corporate Governance Committee. Member of the following Board Committees: the Finance and Prospectus Committee; the Risk Management and Control Committee; and the Remuneration Committee in its expanded format. Serves as a director of the Bank as of June 4, 2009. Served as Vice Chairman of the Board of Directors of the Bank from June 4, 2009 to July 31, 2009. B.A., Economics and Political Science, Hebrew University of Jerusalem. Chairman of the administrative committee of the Poalim for the Community Foundation and the Peretz Naftali Fund. Member of the board of trustees of the Hebrew University. Member of the board of directors of the following companies: DSP Group Ltd., Amdeal Y.S. Ltd., and Amdeal Holdings (1999) Ltd. From 1993 to July 2009 served as senior advisor at the investment bank Morgan Stanley (Israel) Ltd. Served as chairman of the board at the following companies: Poalim Capital Markets and Investment Holdings Ltd., Poalim Capital Markets Ltd., Poalim Capital Markets - Investment House Ltd., Diur B.P. Ltd., Diur B.P. Investments (1992) Ltd., Diur B.P. Assets (1993) Ltd., and Eyal Microgal Ltd.; and as a director at the following companies: Poalim Capital Markets and Investment Holdings Ltd., Poalim Capital Markets Ltd., Poalim Capital Markets - Investment House Ltd., Israel Corp. Ltd. (external director), Vintegra Ltd. (external director), City Investment, Aspen Construction and Development Ltd. (external director), Mustang Mezzanine Investments Ltd., Mustang Fund Management Ltd., Frutarom Industries Ltd., and Europort Ltd.; however, he no longer serves at these companies. Also served as chairman of the investment committee of Mivtachim – Established Pension Fund, and as a member of the asset investment committee of the Hebrew University; however, he no longer serves in these positions. Served as chairman of the fund Mustang Mezzanine Investments Ltd., as a member of the investment committee of the Sky 1 private equity fund, and as a member of the advisory board of the Caesarea Center; however, he no longer serves in these positions. The director is an “accounting and financial expert” for the purposes of attaining the “minimum number” of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and the regulations.

Standard 26: Board of Directors of the Bank (cont.)

Name and personal details	Occupation in the last five years
Irit Izakson Identification Number: 050709286 Date of Birth: Jul. 22, 1951 Citizenship: Israeli Address: Matityahu Cohen 15, Tel Aviv	Chairperson of the following Board Committees: the Finance and Prospectus Committee and the Risk Management and Control Committee. Member of the following Board Committees: the Credit Committee and the New Products Committee. Member of the Board of Directors of the Bank as of December 27, 1999. B.A. in Economics, Tel Aviv University; MSc. in Operational Research, School of Business Administration, Tel Aviv University. Member of the board of directors of the following companies: Arison Holdings (1998) Ltd., Arison Investments Ltd., and Shikun & Binui Ltd. Member of the executive board of the Association of Public Companies; member of the board of trustees of Ben-Gurion University. Served as a director at the following companies: Israel Corp. Ltd., Israel Chemicals Ltd., Dead Sea Bromine Company Ltd., Bromine Compounds Ltd., and I.D.B. Development Company Ltd.; however, she no longer serves at these companies. Also served as chairperson of the board of directors of the following companies: Isracard Ltd., Europay (Eurocard) Israel Ltd., Aminit Ltd., and Poalim Express Ltd.; however she no longer serves at these companies. Served as a member of the board of trustees of the Van Leer Jerusalem Institute. The director is an “accounting and financial expert” for the purposes of attaining the “minimum number” of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and the regulations.

Standard 26: Board of Directors of the Bank (cont.)

Name and personal details	Occupation in the last five years
Mali Baron Identification Number: 003462181 Date of Birth: Sep. 17, 1948 Citizenship: Israeli Address: Beeri 12/8, Tel Aviv	Chairperson of the Transactions with Related Parties Committee of the Board of Directors. Member of the following Board Committees: the Credit Committee, the Corporate Governance Committee, the Risk Management and Control Committee, and the Audit Committee. Serves as an external director (as defined in Proper Conduct of Banking Business Directive No. 301 of the Bank of Israel; eligibility terms for her election are similar to the eligibility terms for the election of external directors as required under the Companies Law, 1999 (hereinafter: the "Companies Law")); has accounting and financial expertise and professional qualification (as defined in Section 240(A1) of the Companies Law). The director is not an employee of the Bank, or of a subsidiary, related company, or interested party of the Bank. Serves as a director of the Bank as of September 10, 2007. The six-year term of service of Ms. Mali Baron as an external director of the Bank ended on September 10, 2013. The election of Ms. Mali Baron for an additional three-year term of service as a director of the Bank was approved by the annual general meeting of shareholders of the Bank on September 12, 2013. B.A. in Economics and Developing Nations, Tel Aviv University; M.B.A. (specialized in Finance), Hebrew University of Jerusalem. Director of companies. Member of the board of directors of Maliba Ltd. Member of the investment committee of Tel Aviv University. Served as a member of the board of directors of ECtel Ltd. (external director) and as a member (internal) of the profit-participatory investment committee at The Phoenix Investment and Finance Ltd.; however, she no longer serves at these companies. The director is an "accounting and financial expert" for the purposes of attaining the "minimum number" of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and the regulations.

Standard 26: Board of Directors of the Bank (cont.)

Name and personal details	Occupation in the last five years
Amnon Dick Identification Number: 051770568 Date of Birth: Nov. 20, 1952 Citizenship: Israeli and Austrian Address: Romanelli 20, Tel Aviv	Member of the following Board Committees: the Investment Approval Committee, the Overseas Banking and International Activity Committee, the Information Technology Committee, the New Products Committee; and the Remuneration Committee in its expanded format. Serves as an external director (as defined in Proper Conduct of Banking Business Directive No. 301 of the Bank of Israel; eligibility terms for his election are similar to the eligibility terms for the election of external directors as required under the Companies Law, 1999 (hereinafter: the "Companies Law")); has accounting and financial expertise and professional qualification (as defined in Section 240(A1) of the Companies Law). The director is not an employee of the Bank, or of a subsidiary, related company, or interested party of the Bank. Serves as a director of the Bank as of March 24, 2010. The three-year term of service of Mr. Amnon Dick as an external director of the Bank ended on March 24, 2013. The election of Mr. Amnon Dick for an additional three-year term of service as a director of the Bank was approved by the annual general meeting of shareholders of the Bank on March 24, 2013. B.A. in Economics, Tel Aviv University; M.B.A., Tel Aviv University. Businessman, partner in communications companies, consultant, and director. CEO of Adsensory Ltd. Member of the board of directors of the following companies: Non Stop Radio Ltd., Northern Radio Ltd., Radio Eco 99 Ltd., and Habima National Theater Ltd. (public benefit company). President of the Association of Friends of Tel Aviv University. In the past served as CEO of the Bezeq Group, Chairman and CEO of Elite International, and in other senior management positions. Served as a director at MIRS Communications Ltd. and at East West Innovations; however, he no longer serves at these companies. The director is an "accounting and financial expert" for the purposes of attaining the "minimum number" of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and the regulations.

Standard 26: Board of Directors of the Bank (cont.)

Name and personal details	Occupation in the last five years
Meir Wietchner Identification Number: 059681593 Date of birth: May 2, 1965 Citizenship: Israeli Address: Margoa 12, Tel Aviv	Chairman of the Information Technology Committee of the Board of Directors. Member of the Overseas Banking and International Activity Committee of the Board of Directors. Serves as a director of the Bank as of November 24, 2009. B.A. in Political Science and Computer Science, Bar Ilan University, Ramat Gan; M.B.A., Northwestern University, Chicago. Serves as Head of Global Strategy for the Arison Group and as Chairman of the Miya Group. Member of the board of directors of the following companies: Miya S.a.r.L., Miya Bahamas Ltd., Miya Lux Holdings S.a.r.L., Miya Water Holdings Ltd., Miya Water Projects Ltd., Dorot Management Control Valves Ltd., Miya Water (Proprietary) SA, Miya Water Mexico, V.DEC S.A., Miya NL Holdings BV, Miya NL Projects BV, Miya Manila Water Projects Inc., WRP Consulting Engineers (Proprietary) Ltd., Miya Australia Holdings PTY Ltd., Miya Lux Holdings S.a.r.L., Swiss IP Branch, Miya Voda D.O.O., Romiya (subsidiary of Miya Water S.R.L.), Miya Columbia S.A.S., 4Water Supplies (Pty) Ltd., Miya Puerto Rico LLC. Served as chairman of the board of directors at Eyal Microwave Ltd.; however, he no longer serves there. Also served as a director at the following companies: Storwize Ltd., Storwize Inc. (Delaware-US), Veritec Consulting Inc., Miya Brasil Soluções em Engenharia Hidráulica Ltda, and Four Integrity Group Ltd.; however, he no longer serves at these companies. The director is an “accounting and financial expert” for the purposes of attaining the “minimum number” of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and the regulations.

Standard 26: Board of Directors of the Bank (cont.)

Name and personal details	Occupation in the last five years
Nir Zichlinskey Identification Number: 022085468 Date of birth: Oct. 8, 1965 Citizenship: Israeli Address: P.O.B. 2303, Savyon	Member of the following Board Committees: the Audit Committee and the Information Technology Committee. The director is not an employee of the Bank, or of a subsidiary, related company, or interested party of the Bank. Member of the Board of Directors of the Bank as of September 10, 2007. B.A. in Business Administration (specialized in Accounting and Finance), Management College, Rishon Lezion; M.B.A. (specialized in Finance), Ben Gurion University. CPA. Owner of the SRI Global Group, a leading business group in Israel in the area of investments based on the SRI (Socially Responsible Investment) model. The group operates through four main sectors: SRI Investment, SRI Funds, SRI Consulting, and SRI Training. CEO of the following companies: Socially Responsible Investments (SRI) Ltd. and Zichlinskey Ltd. Chairman of the board of directors of the following companies: S.R.I. Finance Global Group Ltd. and S.R.I. Master. Member of the board of directors at the following companies: Shikun & Binui Ltd., Shikun & Binui - SBI Infrastructures Ltd., Shikun & Binui Real Estate Ventures Ltd., Shikun & Binui Renewable Energy Ltd., Shikun & Binui Solel Boneh Construction and Infrastructure Ltd., Shikun & Binui - Solel Boneh - Infrastructures Ltd., Shikun & Binui Water Ltd., Socially Responsible Investment (SRI) Consulting Ltd., Migdalor Investments (SRI) 2009 Ltd., Central Company for Social Finance Services (SRI) Ltd., Jerusalem Technology Investments (JTI) Ltd., and Paz Training Ltd. Member of the governing board of the Friends of Rabin Medical Center Foundation, member of the presidency of the charitable association Yad B'Yad, member of the board of trustees and the finance committee of the College of Management Rishon Lezion, social business partner in Matan Community Investments, and trustee of WIZO – Women's International Zionist Organization. Founder and president of the Israel Directors' Union. President of the Nova Project – management in the service of the community. Member of the leading committee of the Social Initiative Center of the town of Savyon. Chairman of the Pioneer Students for Israel Foundation. Served for three years as deputy general manager, head of finance, and head of business development at companies in the group of the controlling shareholders: Arison Investments Ltd., Arison Holdings (1998) Ltd., Arison Sustainability Ltd., Arzaf Ltd., Arzaf B (97) Ltd., Arzaf C Ltd., Arzaf D Ltd., and Arshav Holdings Ltd. Served for ten years as senior partner and head of the professional department, head of business development and the social reporting department, and head of training at BDO Ziv Haft Certified Public Accountants. For eighteen years, lecturer at the business administration and accounting departments for undergraduate and graduate studies at Tel Aviv, Hebrew, and Bar Ilan Universities, the Interdisciplinary Center Herzliya, the College of Management, the Academic College, and the Lander Institute. Served as a director at the following companies: Stone and Limestone Industries Ltd., Gaon Holdings Ltd., and Israel Salt Industries Ltd.; however, he no longer serves at these companies. The director is an "accounting and financial expert" for the purposes of attaining the "minimum number" of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and the regulations.

Standard 26: Board of Directors of the Bank (cont.)

Name and personal details	Occupation in the last five years
Yair Tauman Identification Number: 003945623 Date of birth: Jan. 20, 1948 Citizenship: Israeli Address: Revivim 34, Tel Aviv	Member of the Investment Approval Committee of the Board of Directors. Serves as an external director (as defined in Proper Conduct of Banking Business Directive No. 301 of the Bank of Israel; eligibility terms for his election are similar to the eligibility terms for the election of external directors as required under the Companies Law, 1999 (hereinafter: the "Companies Law")); has accounting and financial expertise and professional qualification (as defined in Section 240(A1) of the Companies Law). The director is not an employee of the Bank, or of a subsidiary, related company, or interested party of the Bank. Serves as a director of the Bank as of December 1, 2011. B.Sc. in Mathematics and Statistics, Hebrew University of Jerusalem; M.Sc. in Mathematics, Hebrew University of Jerusalem; Ph.D. in Mathematics, Hebrew University of Jerusalem. Professor at the Interdisciplinary Center Herzliya and at the State University of New York at Stony Brook. Academic Director of the Zell entrepreneurship program at the Interdisciplinary Center Herzliya. Dean of the Adelson School of Entrepreneurship at the Interdisciplinary Center Herzliya. Director of the Center for Game Theory in Economics, State University of New York at Stony Brook. Member of the board of directors at the following companies: Radware, ADVFN (London), Bidorbuy, Expobee (chairman), Digiblock, Bizzabo Ltd., A.T. Kerem in Har Hanegev Ltd., and Lemon Grass Global Ltd.; director at Acting Studio – Theater Arts Promotion Foundation (Registered Non-Profit Association). From 1984 to 2008 served as a professor at the Faculty of Management, Tel Aviv University. From 2010 to 2011 served as dean of the Arison School of Business at the Interdisciplinary Center Herzliya. The director is an "accounting and financial expert" for the purposes of attaining the "minimum number" of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and the regulations.

Standard 26: Board of Directors of the Bank (cont.)

Name and personal details	Occupation in the last five years
Imri Tov Identification Number: 005018155 Date of birth: Nov. 24, 1939 Citizenship: Israeli Address: Adam Hacohen 3, Tel Aviv	Chairman of the Remuneration Committee of the Board of Directors and of the Remuneration Committee in its expanded format. Member of the following Board Committees: the Credit Committee; the Transactions with Related Parties Committee; the Audit Committee; the Finance and Prospectus Committee; the Investment Approval Committee; the Risk Management and Control Committee; the Overseas Banking and International Activity Committee; and the Corporate Governance Committee. Serves as an external director, as defined in Section 240 of the Companies Law; has accounting and financial expertise and professional qualification (as defined in Section 240(A1) of the Companies Law). The director is not an employee of the Bank, or of a subsidiary, related company, or interested party of the Bank. Serves as a director of the Bank as of February 5, 2009. The three-year term of service of Mr. Imri Tov as an external director of the Bank ended on February 5, 2012. The election of Mr. Imri Tov for an additional three-year term of service as an external director of the Bank was approved by the annual general meeting of shareholders of the Bank on January 3, 2012. B.A. in Economics and Political Science, Hebrew University of Jerusalem; M.A. in Economics and Business Administration, Hebrew University of Jerusalem. Director of companies; business consultant; consultant and researcher in defense economics. Member of the board of directors of the following companies: MTA Holdings Ltd., IC Green Energy (ICG) Ltd., Amanet Management and Systems Ltd. (external director), and Plasan Sasa Ltd. Member of the Paratrooper Veterans of the Liberation of Jerusalem and Crossing of the Canal Foundation (Registered Non-Profit Association), the Paratrooper Heritage Foundation, and the executive board of HaGesher Theater. In 2000-2006 served as an external director on the Board of Directors of Bank Hapoalim B.M., Chairman of the Audit Committee, and member of the following Board Committees: the Credit Committee, the Transactions with Interested and Related Parties Committee, the Business and Budget Committee, the Salaries and Human Resources Committee, the Prospectus Committee, the Balance Sheet Committee, the Expense Control and Streamlining Committee, and the Investment Approval Committee. Also served in the last five years as a director at the following companies: Golden Wings Ltd., Elisra Electronic Systems Ltd., Opterisity Ltd., Shufersal Ltd. (external director), and Granit Hacarmel Investments Ltd. (external director); as an external director of the Provident Fund of State Employee Physicians (Aram) and as a member of the provident fund's investment committee; and as a research fellow at the Center for Strategic Studies at Tel Aviv University and at the Institute for National Security Studies (INSS); however, he no longer serves there. The director is an "accounting and financial expert" for the purposes of attaining the "minimum number" of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and the regulations.

Standard 26: Board of Directors of the Bank (cont.)

Name and personal details	Occupation in the last five years
Yosef Yarom Identification Number: 12017539 Date of birth: Mar. 6, 1941 Citizenship: Israeli and Argentinian Address: Brenner 48, Kiryat Ono	Member of the following Board Committees: the Audit Committee and the New Products Committee. Serves as an external director (as defined in Proper Conduct of Banking Business Directive No. 301 of the Bank of Israel; eligibility terms for his election are similar to the eligibility terms for the election of external directors as required under the Companies Law, 1999 (hereinafter: the "Companies Law")); has accounting and financial expertise and professional qualification (as defined in Section 240(A1) of the Companies Law). The director is not an employee of the Bank, or of a subsidiary, related company, or interested party of the Bank. Serves as a director of the Bank as of March 21, 2011. The three-year term of service of Mr. Yosef Yarom as an external director of the Bank ended on March 21, 2014. The election of Mr. Yosef Yarom for an additional three-year term of service as a director of the Bank was approved by the annual general meeting of shareholders of the Bank on March 12, 2014. M.A. in Law, Faculty of Law and Social Sciences, National University of Cordoba, Argentina. Licensed to practice law in Israel. Lecturer on auditing in the business sector at Haifa University. Member of the board of directors of the ORT Hermelin Netanya Academic College of Engineering and Technology Ltd. In 1994-2004, served as Chief Internal Auditor of the Bank, Head of Internal Audit in Israel and overseas, and internal auditor of companies in the Bank Group, with the rank of a Member of the Board of Management. In 2004-2006, served as Head of Risk Management at the Bank. In 2006-2008, served as Chairman of the Board of Directors of Bank Massad Ltd. Served as a director at the following companies: Bank Massad Ltd., UBank Ltd., and Clarity Family Office; however, he no longer serves at these companies. Also served as a member of the audit committee of the Movement for Quality Government in Israel and as a member of the credit committee of Dash Provident Funds Management Ltd. The director is an "accounting and financial expert" for the purposes of attaining the "minimum number" of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and the regulations.

Standard 26: Board of Directors of the Bank (cont.)

Name and personal details	Occupation in the last five years
Yacov Peer Identification Number: 052242609 Date of birth: Apr. 16, 1954 Citizenship: Israeli Address: Rimalt Elimelech 4, Ramat Gan	Member of the following Board Committees: the Finance and Prospectus Committee and the Audit Committee. Serves as an external director (as defined in Proper Conduct of Banking Business Directive No. 301 of the Bank of Israel; eligibility terms for his election are similar to the eligibility terms for the election of external directors as required under the Companies Law, 1999 (hereinafter: the "Companies Law")); has accounting and financial expertise and professional qualification (as defined in Section 240(A1) of the Companies Law). The director is not an employee of the Bank, or of a subsidiary, related company, or interested party of the Bank. Serves as a director of the Bank as of October 6, 2010. The three-year term of service of Mr. Yacov Peer as an external director of the Bank ended on October 6, 2013. The election of Mr. Yacov Peer for an additional three-year term of service as a director of the Bank was approved by the annual general meeting of shareholders of the Bank on September 12, 2013. B.A. in Economics, Ben-Gurion University; M.B.A., Industrial Engineering and Management, Ben-Gurion University. Financial and management consultant for small businesses. The director is an "accounting and financial expert" for the purposes of attaining the "minimum number" of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and the regulations.

Standard 26: Board of Directors of the Bank (cont.)

Name and personal details	Occupation in the last five years
Efrat Peled Identification Number: 027224773 Date of Birth: May 16, 1974 Citizenship: Israeli Address: Hanarkisim 19, Ramat Gan	Member of the following Board Committees: the Overseas Banking and International Activity Committee; the Finance and Prospectus Committee; the Risk Management and Control Committee; the Corporate Governance Committee; and the Remuneration Committee in its expanded format. Serves as chairperson of the board of directors and CEO of the following companies: Arison Holdings (1998) Ltd., Arison Investments Ltd., Arison Sustainability Ltd., Arzaf Ltd., and Arzaf B (97) Ltd.; and as CEO of SAFO LLC and Arzaf C Ltd. Member of the Board of Directors of the Bank as of January 24, 2007. B.A. in Economics and Accounting, Tel Aviv University; M.B.A., EMBA Kellogg Recanati International Program, Tel Aviv University and Northwestern University; Certificate in Land Assessment, Tel Aviv University. Chairperson of the board of directors and CEO of the following companies: Arison Holdings (1998) Ltd., Arison Investments Ltd., Arison Sustainability Ltd., Arzaf Ltd., Arzaf B (97) Ltd., and Arzaf C Ltd.; and CEO of SAFO LLC. Member of the board of directors of the following companies: Shikun & Binui Ltd., Av-Ar Capital Investments 1997 Ltd., Salt of the Earth Ltd., Arison Investments USA LLC, Miya S.a.r.L., Miya Luxembourg S.a.r.L., Arshav Holdings Ltd., and 4Integrity Group LLC. Member of the board of directors and the investment committee of the Weizmann Institute of Science. Served as a director at Biomedical Investments (1997) Ltd.; however, she no longer serves there. The director is an “accounting and financial expert” for the purposes of attaining the “minimum number” of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and the regulations.
Moshe Koren Identification Number: 1228998 Date of Birth: Jul. 8, 1938 Citizenship: Israeli Address: Ben Yehuda 5, Kiryat Ono	Member of the following Board Committees: the Credit Committee; the Transactions with Related Parties Committee; the Finance and Prospectus Committee; the Risk Management and Control Committee; the New Products Committee; and the Remuneration Committee in its expanded format. The director is not an employee of the Bank, or of a subsidiary, related company, or interested party of the Bank. Member of the Board of Directors of the Bank as of August 3, 1992. B.A. in Economics and Statistics, Hebrew University; graduate of Financial Statement Analysis courses. Banking and financial advisor. Served as a member of the board of directors of the following companies: Psagot Investment House Ltd. and Psagot Securities Ltd.; however, he no longer serves there. The director is an “accounting and financial expert” for the purposes of attaining the “minimum number” of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and the regulations.

Standard 26: Board of Directors of the Bank (cont.)

Name and personal details	Occupation in the last five years
Nehama Ronen Identification Number: 057238479 Date of Birth: Sep. 15, 1961 Citizenship: Israeli Address: Harishonim 37, Beit Herut	Member of the following Board Committees: the Corporate Governance Committee; the Remuneration Committee; and the Remuneration Committee in its expanded format. Member of the Board of Directors of the Bank as of February 3, 2010. The director is not an employee of the Bank, or of a subsidiary, related company, or interested party of the Bank. B.A. in Education and History, Tel Aviv University and Beit Berl; M.A. in Public Administration, Haifa University. Chairperson of the board of directors of the following companies: Maman Cargo Terminals Ltd. and Recycling Corporation (ELA). Member of the board of directors of Shachal Telemedicine Ltd. (external director). Member of the board of trustees of the Academic College of Tel Aviv. In the past five years or during part of that period, served as a director at the following companies: Israel Salt Industries Ltd., Kaman Holdings Ltd., Kamur Ltd., and Oil Refineries Ltd. (member of the board of directors and chairperson of the environment committee of the board of directors); however, she no longer serves at these companies. The director is an “accounting and financial expert” for the purposes of attaining the “minimum number” of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and the regulations.

Standard 26: Board of Directors of the Bank (cont.)

Name and personal details	Occupation in the last five years
Dafna Schwartz Identification Number: 050172667 Date of Birth: Aug. 8, 1950 Citizenship: Israeli Address: Hasavyon 4, Rehovot	Chairperson of the Audit Committee of the Board of Directors. Member of the following Board Committees: the Transactions with Related Parties Committee; the Remuneration Committee; and the Remuneration Committee in its expanded format. Serves as an external director, as defined in Section 240 of the Companies Law; has accounting and financial expertise and professional qualification (as defined in Section 240(A1) of the Companies Law). The director is not an employee of the Bank, or of a subsidiary, related company, or interested party of the Bank. Member of the Board of Directors of the Bank as of April 6, 2012. B.A. in Economics, Tel Aviv University; M.A. in Agricultural Economics and Administration, Hebrew University of Jerusalem; Ph.D. in Economics, Hebrew University of Jerusalem. Serves as a member of staff at the Department of Business Administration, Faculty of Management, Ben Gurion University of the Negev; head of the High-Tech Entrepreneurship and Management section in the Department of Business Administration (MBA program) and head of the Bengis Center for Entrepreneurship and High-Tech Management, Faculty of Management, Ben Gurion University. Practices as an economic and business consultant in Israel and overseas (Prof. Dafna Schwartz Economic and Business Development Ltd.). Member of the National Council for Research and Development. Member of the Expert Group on: "Policy relevant research on entrepreneurship and SME's," European Commission (EU), Enterprise and Industry Director General. Member of the general assembly of the Achva Academic College of Education (Registered Non-Profit Association). Member of the boards of directors of the following companies: Teva Pharmaceutical Industries (external director), Strauss Group Ltd. (external director). During the last five years or part of that period, served as a director at the following companies: Oil Refineries Ltd. (external director), Rotem Industries Ltd., Albaad Massuot Yitzhak Ltd., Discount Bank, Giron Development and Construction Ltd. (external director); however, she no longer serves at these companies. The director is an “accounting and financial expert” for the purposes of attaining the “minimum number” of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and the regulations.

Standard 26: Board of Directors of the Bank (cont.)

Name and personal details	Occupation in the last five years
Ido Stern Identification Number: 031571904 Date of Birth: Mar. 19, 1978 Citizenship: Israeli Address: Pinkas 76, Tel Aviv	Member of the following Board Committees: the Investment Approval Committee; the Corporate Governance Committee; and the Overseas Banking and International Activity Committee. Deputy general manager and legal counsel at Arison Holdings (1998) Ltd., Arison Investments Ltd., Arison Sustainability Ltd., Arzaf B 97 Ltd., and Arzaf Ltd., which are controlled by the holder of the permit for control of the Bank. Member of the Board of Directors of the Bank as of September 24, 2012. L.L.B., Hebrew University of Jerusalem; Program for Leadership Development (PLD), Harvard Business School, Boston. Member of the boards of directors of the following companies: Shikun & Binui Ltd. and Salt of the Earth Ltd. In 2005-2007, practiced as an attorney at Gornitzky law offices.

Standard 26A: <u>Senior Officers of the Bank</u>

Name and personal details	Occupation in the last five years
Zion Kenan Identification Number: 053508594 Address: Haogen 4, Herzliya Date of Birth: Sep. 3, 1955 Citizenship: Israeli	President and CEO as of August 27, 2009. Member of the Board of Management as of September 30, 2001. B.A. in Social Sciences and Humanities, Open University; M.A. in Social Sciences and Humanities, Tel Aviv University. From June 10, 2009 to August 27, 2009, Acting Deputy CEO and Head of Corporate Banking. From January 2008 to June 10, 2009, Deputy CEO and Head of Corporate Banking. From January 2006 to December 2007, Deputy CEO and Head of Retail Banking. Served as a director of the following companies: Isracard Ltd., Europay (Eurocard) Israel Ltd., Poalim Express Ltd., and Bank Pozitif Kredi Ve Kalkinma Bankasi Anonim Sirketi; however, he no longer serves at these companies.
Amir Aviv Identification Number: 029443264 Address: Hadekel 218, Galia Date of Birth: Mar. 30, 1972 Citizenship: Israeli	Member of the Board of Management as of December 1, 2013. Head of International Banking. B.A. in Business, Cardiff University, England; M.B.A., London Business School, England. From August 2003 to November 2009, Deputy CEO of Poalim Capital Markets Ltd. and Head of the Investment Banking Department. From November 2009 to November 2013, CEO of Poalim Capital Markets. Chairman of the boards of directors of the following companies: Hapoalim Securities USA Inc., PAM Holdings Ltd., Poalim Asset Management (UK) Ltd. Member of the boards of directors of the following companies: Poalim Capital Markets and Investment Holdings Ltd., Poalim Capital Markets Ltd., Poalim Capital Markets - Investment House Ltd., Poalim I.B.I. Management and Underwriting Ltd., Poalim Ventures Ltd., Poalim Ventures - Fund Management Ltd., Poalim Capital Markets (Euro) Ltd., Poalim Capital Markets - Financial Applications and Research Ltd., Diur B.P. Ltd., PCM-HSU Holdings Inc., Bank Hapoalim (Switzerland) Ltd., Bank Pozitif Kredi Ve Kalkinma Bankasi Anonim Sirketi, and the Center for Educational Technology (Public Benefit Company). Served as chairman of the board of directors of the following companies: Poalim Capital Markets and Investment Holdings Ltd., Poalim Capital Markets Ltd., and Poalim Capital Markets - Investment House Ltd.; however, he no longer serves as chairman at these companies.

Standard 26A: <u>Senior Officers of the Bank (cont.)</u>

Name and personal details	Occupation in the last five years
Shimon Gal Identification Number: 54903869 Address: Hazait 13, Aseret Date of Birth: Aug. 7, 1957 Citizenship: Israeli	Member of the Board of Management as of November 8, 2009. Head of Corporate Banking. B.A. in Economics and Statistics, Hebrew University, Jerusalem. From May 2004 to 2007, VP, Head of Comptrolling Planning and Operations Division, Mizrahi-Tefahot Bank Ltd. From 2007 to September 2009, VP, Head of Corporate Division, Mizrahi-Tefahot Bank Ltd. Chairman of the board of directors of the following companies: Poalim Trust Services Ltd., Diur B.P. Ltd., Diur B.P. Investments (1992) Ltd., Diur B.P. Properties (1993) Ltd., Isracard Ltd., Europay (Eurocard) Israel Ltd., and Poalim Express Ltd. Served as a director at the following companies: Adanim Mortgage Bank Ltd., United Mizrahi Overseas Holdings, Netzivim Properties and Equipment Ltd., T.A.M. Information Systems Ltd., Hamizrahi Land Development Company Ltd., Bank Pozitif Kredi Ve Kalkinma Bankasi Anonim Sirketi, and Mizrahi Tefahot Factoring Ltd.; however, he no longer serves at these companies.
Ron Wexler Identification Number: 024218422 Address: Avishai 6, Tel Aviv Date of Birth: Jul. 5, 1969 Citizenship: Israeli	Member of the Board of Management as of November 1, 2013. Head of Corporate Strategy. B.A. in Accounting and Law, Tel Aviv University; M.B.A., Bar Ilan University; Ph.D. in Public Administration, Bar Ilan University. From September 2007 to September 2011, Head of Retail Banking in the Southern Region. From October 2011 to October 2013, VP of Commerce and Sales, Isracard Group. Served as a director and member of the audit committee at Isracard, and as a director at Global Factoring; however, he no longer serves at these companies.
Efrat Yavetz Identification Number: 058677881 Address: Havradim 71, Yehud Date of Birth: Apr. 4, 1964 Citizenship: Israeli	Member of the Board of Management as of October 1, 2009. Head of Human Capital, Consulting, and Resources. B.Sc. in Biochemistry and Human Nutrition, Hebrew University of Jerusalem; M.B.A., Tel Aviv University. Until September 2009, Head of Financial Securities Division. Chairperson of the board of directors of the following companies: Avuka Hevra le Hashkaot Ltd., Otsar Bavel Ltd., Nichsei Bavel Ltd., Mivnim Vetsiud Ltd., Alzur Property Development Company Ltd., Tzadit Ltd., Revadim (Nechasim) Ltd., Ramchal Poalim Ltd., BAMI Nechasim Ltd., and Bitan Investments and Mortgages Ltd. Member of the Administrative Committee of the Poalim for the Community Foundation. Served as a director at the following companies: the Tel Aviv Stock Exchange Ltd., Bank Hapoalim Nominee Company Ltd., PAM Holdings Ltd., Poalim Asset Management (UK) Ltd., and Maritime Nechasim Ltd.; however, she no longer serves at these companies.

Standard 26A: Senior Officers of the Bank (cont.)

Name and personal details	Occupation in the last five years
Tzahi Cohen Identification Number: 022007587 Address: Ahimeir 13, Ramat Gan Date of Birth: Sep. 29, 1965 Citizenship: Israeli	Member of the Board of Management as of July 1, 2012. Chief Risk Officer. B.Sc. in Aeronautical Engineering, Technion, Haifa; M.B.A., Tel Aviv University. Head of the Corporate Headquarters in the Corporate Banking Area at Bank Hapoalim from 2004 to June 2012.
Ofer Levy Identification Number: 052222577 Address: Carmeli 5, Ramat Gan Date of Birth: Feb. 15, 1954 Citizenship: Israeli	Member of the Board of Management as of May 1, 2006. Chief Accountant. B.A. in Accounting and Economics, Tel Aviv University. CPA. Member of the board of directors of the following companies: Poalim Express Ltd., AMI Trustees Ltd., Yefet Nominees Ltd.
Ilan Mazur Identification Number: 007447386 Address: Arnon 22, Tel Aviv Date of Birth: Oct. 31, 1946 Citizenship: Israeli	Member of the Board of Management as of August 31, 2003. Chief Legal Advisor of the Bank. LL.B., Hebrew University of Jerusalem. Member of the board of directors of Bank Hapoalim (Switzerland).
Zvi Naggan Identification Number: 055486872 Address: Har Dalton 591, Maccabim Date of Birth: Sep. 17, 1958 Citizenship: Israeli	Member of the Board of Management as of April 1, 2011. Head of Information Technology. B.Sc. in Industrial Engineering and Management, Technion, Haifa; M.B.A., Tel Aviv University. Member of the IT committee of the TASE. From 2005 to the beginning of 2011, served in several senior positions at Amdocs, most recently as head of the products division and member of management.

Standard 26A: Senior Officers of the Bank (cont.)

Name and personal details	Occupation in the last five years
Yadin Antebi Identification Number: 028078525 Address: Moshe Sharet 58, Tel Aviv Date of Birth: Oct. 31, 1970 Citizenship: Israeli	Member of the Board of Management as of July 23, 2013. Head of Finance, CFO. B.A. in Accounting and Economics, Hebrew University of Jerusalem; M.B.A. (specialized in Finance), Hebrew University of Jerusalem. CPA. From September 2005 to December 2009, Head of the Capital Market, Insurance, and Savings and Supervisor of Insurance at the Ministry of Finance. From February 2011 to July 2012, CEO of Dash Investment House. Chairman of the board of directors of the following companies: Poalim Mortgages Insurance Agency (2005) Ltd., Poalim Ofakim Ltd., and Yadin Antebi Consulting Ltd.; member of the board of directors of Sure-Ha International Ltd.; member of the executive board of A Different Lesson (Registered Non-Profit Association). Served as a member of the board of directors of the following companies: Dash Provident Funds Ltd., Tachlit Exchange Traded Notes Ltd., and Nechasim M.I. Ltd.; however, he no longer serves at these companies.
Ari Pinto Identification Number: 069042505 Address: Anna Frank 46, Rishon Lezion Date of Birth: Dec. 22, 1961 Citizenship: Israeli	Member of the Board of Management as of September 8, 2009. Head of Retail Banking. B.A. in Business Administration, New England College, Henniker, US; M.A. in Public Administration, Clark University, Boston, US. Certificate in Applied Roles of Directors, Israel Management Center; certificate in General Management, Bar Ilan University. Serves as a member of the board of directors of the following companies: Isracard Ltd. and Europay (Eurocard) Ltd. From November 2007 to September 2009, Head of Retail Credit and Mortgages Division. From December 2002 to August 2007, Head of Human Resources Division. From September 2009 to October 2013, Head of Corporate Strategy.

Standard 26A: Senior Officers of the Bank (cont.)

Name and personal details	Occupation in the last five years
Dan Alexander Koller Identification Number: 028051910 Address: Antokolsky 7, Tel Aviv Date of Birth: Sep. 8, 1970 Citizenship: Israeli	Member of the Board of Management as of January 1, 2008. Head of Financial Markets. B.A. in Economics and Business Administration, Hebrew University; M.A. in Economics and Business Administration, Hebrew University. From April 2003 to December 2007, Head of Asset and Liability Management Division. From January 2008 to June 2012, Head of Risk Management. From March 2012 to November 2013, Head of International Banking. Chairman of the board of directors of the following companies: Poalim Capital Markets and Investment Holdings Ltd., Poalim Capital Markets -Investment House Ltd., Poalim Capital Markets Ltd., Bank Hapoalim Nominee Company Ltd., Poalim Financial Holdings Ltd., Hapoalim Hanpakot Ltd., Tarshish Hapoalim Holdings and Investments Ltd., Hapoalim Nechasim (Menayot) Ltd., Opaz Ltd., Continental Poalim Ltd., Hapoalim American Israeli Ltd., Pekaot Poalim Ltd., and Bank Hapoalim (Switzerland) Ltd.; member of the board of directors of Hapoalim International N.V. Served as a director of the following companies: Poalim Asset Management (UK) Ltd., PAM Holdings Ltd., Hapoalim Nechasim (Menayot) Ltd., Pekaot Poalim Ltd., Continental Poalim Ltd., Hapoalim USA Holding Company Inc., Igarot Hevra Lehanpakot shel Bank Hapoalim Ltd., Bitzur Ltd., Hapoalim American Israeli Ltd., Tmura Hevra Finansit Ltd., Teuda Hevra Finansit Ltd., Tarshish Hapoalim Holdings and Investments Ltd., Agam Hevra Finansit Ltd, Opaz Ltd., Atad Hevra Lehashkaot Ltd., Zohar Hashemesh Lehashkaot Ltd., Einat (Nechasim) Ltd., Poalim Betevuona Ltd., Poalim Venture Services Israel Ltd., Investment Company of Continental Ltd., Maritime Investments Ltd., Maritime Poalim Nihul Ltd., Kadima Poalim Hevra Finansit Ltd., Bannad Hevra LeHashkaot Ltd., Tuval Hevra LeHashkaot Ltd., Maritime Hevra Finansit Ltd., Maritime Nyarot Erech Ltd., Bank Otsar Hahayal Ltd.; however, he no longer serves at these companies. Served as deputy chairman of the board of directors of Bank Pozitif Kredi Ve Kalkinma Bankasi Anonim Sirketi; however, he no longer serves there. Also served as CEO of Mitar Hevra Lehanpakot Ltd.; however, he no longer serves there.
Jacob Orbach Identification Number: 053906467 Address: Haim Barlev 13, Kiryat Ono Date of Birth: Apr. 2, 1956 Citizenship: Israeli	Serves as Chief Internal Auditor as of January 1, 2010. Chief Internal Auditor, Head of Internal Audit in Israel and Abroad. B.A. in Economics, Tel Aviv University. From February 2006 to December 2009, Head of Corporate Division. From October 2002 to February 2006, Head of Commercial Banking Division. Serves as chief internal auditor of the following companies: Isracard Ltd., Aminit Ltd., Europay (Eurocard) Israel Ltd., Poalim Express Ltd., Peilim - Portfolio Management Company Ltd., Poalim Sahar Ltd., Poalim Capital Markets and Investment Holdings Ltd., Poalim Capital Markets Ltd., Poalim Ventures – Fund Management Ltd., and Poalim Capital Markets – Investment House Ltd.

Standard 26A: Senior Officers of the Bank (cont.)

Name and personal details	Occupation in the last five years
Yoram Weissbrem Identification Number: 007041809 Address: Sokolov 7, Tel Aviv Date of Birth: Jun. 14, 1948 Citizenship: Israeli	Serves as Secretary of the Bank as of April 4, 1995. Serves as a director of the following companies: Bitzur Ltd., Opaz Ltd., Hapoalim Nechasim (Menayot) Ltd., Tarshish Hapoalim Holdings and Investments Ltd., Tmura Hevra Finansit Ltd., Teuda Hevra Finansit Ltd., Igarot Hevra Lehanpakot shel Bank Hapoalim Ltd., Poalim Betevouna Ltd., Zohar Hashemesh Lehashkaot Ltd., and Bannad Hevra Lehashkaot Ltd. Member of the management committee of the Poalim for the Community Foundation (Registered Non-Profit Association); the Tovah Family and Eliyahu Margalit Scholarship Foundation (Registered Non-Profit Association); the Y. Apter, Y. Bareli, S. Goren, A. Zabersky, Y. Horin, R. Shenkar Founders Foundation (Registered Non-Profit Association); and the Klachkin EMI Stage Artists' Fund (Registered Non-Profit Association). Served as a director at the following companies: Shirion Hevra Lehashkaot Ltd. and Tuval Hevra Lehashkaot Ltd.; however, he no longer serves at these companies.
Eli Cohen Identification Number: 027760628 Address: Tshernichovsky 31, Tel Aviv Date of Birth: Jul. 6, 1970 Citizenship: Israeli	Head of Marketing Strategy, Service, and CSR as of January 15, 2011. B.A. in Communications and Political Science, Bar Ilan University; M.A. in Public Administration, Bar Ilan University. Member of the Green Light Council, the Foundation for Changing Driving Culture in Israel. Director and representative of the city of Tel Aviv on behalf of the public at the Hacameri Building 1961 Ltd. corporation (manager of Global City). Member of the governing board and representative of the city of Tel Aviv on behalf of the public at the Tourism Foundation (manager of Global and Tourism City). Member of the marketing and business development committee at the Tel Aviv Stock Exchange. In 2004-2006, served as director general of the Ministry of Tourism. In 2006-2008, served as head of wages and labor agreements at the Ministry of Finance. In 2009-2010, served as VP of commerce and aviation relationships at El Al.

Standard 26B: <u>Independent Authorized Signatories</u>

None.

Standard 27: <u>Accountants of the Bank</u>

Ziv Haft, Certified Public Accountants, 48 Menachem Begin Rd., Tel-Aviv.
Somekh Chaikin, Certified Public Accountants, 17 Ha'arba'ah St., Tel Aviv.

Standard 28: <u>Details of Changes in the Memorandum and Articles of the Bank</u>

None.

Standard 29

A. Recommendations of the board of directors to the general meeting, and resolutions that do not require approval by the general meeting:

1. Dividend distribution –

   (A) On July 10, 2013, the Board of Directors of the Bank resolved to update the dividend distribution policy of the Bank. Pursuant to the approved updated policy, up to thirty percent (30%) of net operating profit will be distributed each year. The Board of Directors further resolved that this policy will be in effect until the Bank meets the capital targets established by the Supervisor of Banks, which have been adopted by the Board of Directors.

   (B) On July 10, 2013, the Board of Directors of the Bank resolved to distribute a dividend in the amount of approximately NIS 92.2 million, constituting 0.7% of the issued and paid-up capital of the Bank.

   (C) On August 28, 2013, the Board of Directors of the Bank resolved to distribute a dividend in the amount of approximately NIS 92.2 million, constituting 0.7% of the issued and paid-up capital of the Bank.

   (D) On November 26, 2013, the Board of Directors of the Bank resolved to distribute a dividend in the amount of approximately Nis 92 million, constituting 15% of the net profit for the third quarter of 2013.

   (E) On March 19, 2014, the Board of Directors of the Bank resolved to distribute a dividend in the amount of approximately NIS 106 million, constituting 15% of the net profit for the fourth quarter of 2013.

2. Changes in capital – None.
3. Changes in the Memorandum and Articles of the Bank – None.
4. Redemption of shares – None.
5. Early redemption of bonds – None.
6. Transactions not at market conditions between the Bank and an interested party of the Bank – None.

B. Resolutions of the general meeting passed in contradiction of the recommendations of the Board of Directors – None.

C. Resolutions of the special general meeting:

1. With regard to the resolutions of the special general meeting of February 11, 2014, note the immediate report regarding the special general meeting convened on February 11, 2014, issued by the Bank through the electronic reporting system to the Israel Securities Authority and the Tel Aviv Stock Exchange on January 5, 2014, reference no. 2014-01-003661. Also note the immediate report regarding the results of the meeting, issued by the Bank through the electronic reporting system to the Israel Securities Authority and the Tel Aviv Stock Exchange on February 11, 2014, reference no. 2014-01-036925.
2. With regard to the resolutions of the special general meeting of March 12, 2014, note the immediate report regarding the special general meeting convened on March 12, 2014, issued by the Bank through the electronic reporting system to the Israel Securities Authority and the Tel Aviv Stock Exchange on February 3, 2014, reference no. 2014-01-029638. Also note the immediate report regarding the results of the meeting, issued by the Bank through the electronic reporting system to the Israel Securities Authority and the Tel Aviv Stock Exchange on March 12, 2014, reference no. 2014-01-012249.

Standard 29A

1. Approval of actions under Section 255 of the Companies Law, specifying the name and position of the officer, the date and details of the action, the date of approval of the action, a description of the processes by which the action was approved, and the arguments for its approval:

   On February 25, 2013, the Board of Directors accepted the updated declarations of the directors and officers and resolved to affirm that despite the fact that the duplicate service of the directors and/or officers listed below and/or of their spouses and/or relatives as a director or a general manager or an interested party of the companies listed beside their names below is considered a situation in which a conflict of interest apparently exists, the Board of Directors has established that this does not harm the best interests of the Bank:

   A. Amnon Dick – Association of Friends of Tel Aviv University.

   B. Meir Wietchner – Miya Colombia S.A.S., Miya Puerto Rico LLC.

   C. Nir Zichlinskey – Shikun & Binui Renewable Energy Ltd., Shikun & Binui Water Ltd., Friends of Rabin Medical Center Foundation, Nova Project – management in the service of the community, charitable association Yad B'Yad Lod (Registered Non-Profit Association), College of Management Rishon Lezion, WIZO – Women's International Zionist Organization, Savyon Social Initiative Center, National Union of Israeli Students – Lod Project, Matan Community Investments.

   D. Eli Cohen – Tel Aviv Tourism Foundation, Tel Aviv Stock Exchange Ltd.

   E. Yair Seroussi (relative of the officer – brother) – Hishtil Afula 1989 Ltd., Hishtil Ltd., Rotility, Tomaisins International, Hishtil Investments 1991.

   F. Dafna Schwartz (relative of the officer – son-in-law) – Avi Raz, licensed dealer.

   G. Ido Stern (relatives of the officer – father and brother-in-law) – Odcanit Ltd., A. Shtern and Partners Law Office and Notary, Dea (LM) Ltd., Sprint Motors Ltd.

   In addition, on September 10, 2013, the Board of Directors accepted the updated declarations of the directors and officers and resolved to affirm that despite the fact that the duplicate service of the directors and/or officers listed below and/or of their spouses and/or relatives as a director or a general manager or an interested party of the companies listed beside their names below is considered a situation in which a conflict of interest apparently exists, the Board of Directors has established that this does not harm the best interests of the Bank:

   A. Nehama Ronen – Archive 2000 Ltd., Laufer Aviation – GHI Ltd., LogistiCare Ltd., Tal Limousine Service Ltd., Gav-Yam Maman Properties Lod Ltd., Maman Cargo and Security Ltd., Maman Aviation Ltd., MEL (logistics – Europe).

   B. Nehama Ronen (relative of the officer – spouse) – MGH Agricultural Technologies Ltd., Sphera Green Solutions Ltd., Top Level Technologies Lowering Systems Ltd.

   C. Dafna Schwartz – Achva Academic College of Education (Registered Non-Profit Association).

   D. Dafna Schwartz (relatives of the officer – daughter's spouse and husband) – Roy Berkovich, licensed dealer; Hebrew University.

   E. Yair Tauman – Bizzabo Ltd.

   F. Yadin Antebi – Yadin Antebi Consulting Ltd.; Quality Choices – online sales overseas only.

   G. Yadin Antebi (relative of the officer – spouse's father) – Carasso Motors Ltd.

   H. Ilan Mazur – Bank Hapoalim (Switzerland) Ltd.

Standard 29A (cont.)

In accordance with the aforesaid determination by the Board of Directors that the duplicate service does not harm the best interests of the Bank, the Board of Directors approved their continued service at the Bank, under Section 255 of the Companies Law.

The Board of Directors also approved the transactions and actions performed in the past between the aforesaid companies and the Bank prior to the appointment of the aforesaid directors and/or officers, and before they and/or their spouse and/or their relative had a personal interest in transactions and/or actions in the ordinary course of business.

The Board of Directors also affirmed that it finds no fault in the Bank's continuing to supply the aforesaid companies with banking services which it customarily provides to its customers in the ordinary course of its business, provided that these are services that do not involve credit exposures and/or benefits and/or discounts not in accordance with the Bank's price list; "banking services" include opening accounts, receiving deposits, credit cards, and transactions in foreign currency and securities (the "**Banking Services**").

The required approval under Section 255 of the Companies Law was granted under the condition that the Banking Services supplied by the Bank to those companies are in accordance with the Bank's procedures and within and according to the authority and the procedures of the Board of Directors. This approval constitutes an update of previous approvals resolved by the Board of Directors at various times.

2. Approval of actions under Section 254(A) of the Companies Law which were not approved – None.

3. Exceptional transactions that require approval under Section 270(1) of the Companies Law – None.

4. Exemption, insurance, or commitment to indemnify officers, as defined in the Companies Law, in effect at the reporting date –

   A. With regard to the ratification of the contractual engagement for the officers' insurance policy, as defined in the Companies Law, in effect at the report date – note the immediate report concerning a transaction between a company and its controlling shareholder, which includes a report regarding the general meeting convened on October 26, 2010, issued by the Bank through the electronic reporting system to the Israel Securities Authority and the Tel Aviv Stock Exchange on September 1, 2010, reference no. 2010-01-609039, and the supplementary report issued by the Bank on October 11, 2010, reference no. 2010-01-642297. Also note the immediate report on the outcomes of the meeting for the approval of a transaction with a controlling shareholder issued by the Bank through the electronic reporting system to the Israel Securities Authority and the Tel Aviv Stock Exchange on October 26, 2010, reference no. 2010-01-659109 (hereinafter: the "**Immediate Reports**"). The aforesaid meeting approved the contractual engagements for the officers' insurance policies described in the aforesaid Immediate Reports, including approval of the existing policy, all under the terms detailed in the aforesaid Immediate Reports.

      On May 19, 2013, the Board of Directors of the Bank, at the recommendation of the Audit Committee, approved the renewal of the directors' and officers' liability insurance for the period from June 1, 2013 to May 31, 2014, under the same terms described in the Immediate Reports.

   B. With regard to the commitment to indemnify officers, as defined in the Companies Law, in effect at the report date – As detailed in Standard 22 above.

Standard 29A (cont.)

Ofer Levy	Yoram Weissbrem
Chief Accountant	Secretary of the Bank

Tel Aviv, March 19, 2014

ADDITIONAL INFORMATION REGARDING THE CORPORATION PURSUANT TO THE INSTRUCTIONS IN SECTION 36A OF THE SECURITIES LAW, 1968 (AS AT DECEMBER 31, 2013)

INDEPENDENCE OF THE BOARD OF DIRECTORS

1. In every reporting year, two or more external directors served on the board of directors: **True**

2. A. The number of independent directors serving at the corporation as at the date of publication of this questionnaire: A total of 7 directors (2 external directors appointed pursuant to the Companies Law, and 5 directors appointed pursuant to Directive 301 of the Bank of Israel, who fulfill the definition of an 'independent director," and fulfill the terms of qualification for the appointment of an external director set forth in Sections 240(B)-(F) of the Companies Law; the Audit Committee affirmed the directors' independence on January 24, 2011 and on July 28, 2013).

   B. As at the date of publication of this questionnaire: At a corporation that has a controlling party or a holder of a controlling block (in this section: a **Controlling Party**), at least one-third of the members of the board of directors are independent.

   C. The corporation **has not** established a minimum rate/number of independent directors in its articles.

3. An examination conducted in the reporting year found that the external directors (the independent directors) fulfilled the directives of Section 240(B) and (F) of the Companies Law, in the reporting year, with regard to the lack of affinity of the external (and independent) directors serving at the corporation, and that they fulfill the required conditions for service as external (or independent) directors: **True**.

   This examination was conducted by: The board of directors, through the secretariat of the Bank.

4. None of the directors who served at the corporation during the reported year report to the general manager, directly or indirectly (with the exception of a director who is a representative of the employees, if the corporation has employee representation): **True.**

5. The members of the board of directors were required to inform the board of directors of any matter on the agenda in which they have a personal interest. A director who gave notice of the existence of a personal interest in a particular matter did not participate in the discussion of that matter: **True.**

6. 1. During the reporting year, the board of directors **did not refuse** to provide professional consulting services, at the expense of the corporation, at the request of a director, pursuant to Section 266(A) of the Companies Law, inasmuch as it received such a request.

7. 2. The Controlling Party (including a relative thereof and/or a person acting on behalf thereof), who is not a director or other senior officer of the corporation, was not present at the meetings of the board of directors held during the reporting year: **True.**

QUALIFICATION AND SKILLS OF DIRECTORS

8. The articles of the corporation **do not** contain a directive restricting its ability to immediately terminate the service of any directors of the corporation who are not external directors: **True.**

9. All of the directors who served at the corporation during the reporting year declared, as at the date when the general meeting whose agenda addressed their appointment was convened, that they possessed the necessary qualifications (with details) and the ability to devote the appropriate time in order to carry out their duties, and that the restrictions set forth in Sections 226 and 227 of the Companies Law did not apply to them, and, in the case of independent directors, that they also fulfilled the statements in Paragraphs (1) and (2) of the definition of an "independent director" in Section 1 of the Companies Law: **True.**

10. The corporation has a training program for new directors in the area of the business of the corporation and in the area of the law applicable to the corporation and to the directors, as well as a program for continued training of serving directors, adapted, among other matters, to the position held by the director at the corporation: **True.**
    This program was operational during the reporting year.

11. The chairperson of the board of directors (or another person appointed by the board of directors) is responsible for the implementation of the corporate-governance directives applicable to the corporation, and acted to inform the directors on matters related to corporate governance during the reporting year: **True.**

12. A. A minimum required number of directors on the board of directors who must have accounting and financial expertise has been established at the corporation: **True.**
The minimum number established: **2**

B. Throughout the reporting year, in addition to the external director with accounting and financial expertise, additional directors with accounting and financial expertise in the number established by the board of directors served at the corporation: **True.**

C. The number of directors who served at the corporation during the reporting year:
Directors with accounting and financial qualification: **14.**
Directors with professional qualification: **1.**

13. A. At the date of appointment of the external director during the reporting year, the directive in Section 239(D) of the Companies Law regarding the gender diversity of the composition of the board of directors was fulfilled: **True.**

B. The composition of the board of directors included members of both genders throughout the reporting year: **True.**

C. The number of directors of each gender serving on the board of directors of the corporation as at the date of publication of this questionnaire:
Men: **10**; Women: **5**.

MEETINGS OF THE BOARD OF DIRECTORS (AND CONVENING OF THE GENERAL MEETING)

14. A. The number of meetings of the board of directors held during each quarter of the reporting year:
First quarter 2013: **11**
Second quarter 2013: **5**
Third quarter 2013: **10**
Fourth quarter 2013: **14**

B. Beside each of the names of the directors who served at the corporation during the reporting year, note the percentage of meetings of the board of directors in which he or she participated (in this subsection, including meetings of the committees of the board of directors of which he or she is a member, as noted below), which were held during the reporting year (in reference to the term of his or her service):

Director's name	Percent participation in meetings of the board of directors	Percent participation in meetings of the audit committee (for directors who are members of that committee)	Percent participation in meetings of the committee for the examination of financial statements (for directors who are members of that committee)	Percent participation in meetings of additional committees of the board of directors in which the director is a member (note the name of the committee)
Yair Seroussi	100%	Not a member of the committee	Not a member of the committee	Credit committee – 89% Human resources - salaries and remuneration committee – 100% Investment approval committee – 100% Overseas banking and international activity committee – 100% New products committee – 100% Corporate governance committee – 100% Finance and prospectus committee – 100% Risk management and control committee – 94%

Irit Izakson	95%	Not a member of the committee	Not a member of the committee	Finance and prospectus committee – 100% Risk management and control committee – 100% Credit committee – 95% New products committee – 100%
Mali Baron	100%	100%	100%	Transactions with related parties committee – 100% Credit committee – 100% Corporate governance committee – 100% Risk management and control committee – 100%
Amnon Dick	97%	Not a member of the committee	Not a member of the committee	Investment approval committee – 100% Overseas banking and international activity committee – 100% Information technology committee – 100% Human resources - salaries and remuneration committee – 100% New products committee – 100%
Meir Wietchner	90%	Not a member of the committee	Not a member of the committee	Information technology committee – 100% Overseas banking and international activity committee – 89%
Nir Zichlinskey	97%	93%	93%	Information technology committee – 100%
Yair Tauman	90%	Not a member of the committee	Not a member of the committee	Investment approval committee – 100%
Imri Tov	100%	100%	100%	Remuneration committee – 100% Credit committee – 100% Transactions with related parties committee – 97% Human resources - salaries and remuneration committee – 100% Finance and prospectus committee – 100% Investment approval committee – 100% Risk management and control committee – 100% Overseas banking and international activity committee – 100% Corporate governance committee – 100%
Yosef Yarom	100%	100%	100%	New products committee – 100%
Yacov Peer	95%	100%	100%	Finance and prospectus committee – 100%
Efrat Peled	97%	Not a member of the committee	Not a member of the committee	Human resources - salaries and remuneration committee – 94% Overseas banking and international activity committee –

				100% Finance and prospectus committee – 100% Risk management and control committee – 100% Corporate governance committee – 100%
Moshe Koren	100%	Not a member of the committee	Not a member of the committee	Credit committee – 100% Transactions with related parties committee – 100% Finance and prospectus committee – 100% Risk management and control committee – 100% New products committee – 100% Human resources - salaries and remuneration committee – 100%
Nehama Ronen	97%	Not a member of the committee	Not a member of the committee	Corporate governance committee – 100% Remuneration committee – 100%
Dafna Schwartz	90%	100%	100%	Transactions with related parties committee – 85% Remuneration committee – 100%
Ido Stern	100%	Not a member of the committee	Not a member of the committee	Investment approval committee – 100% Overseas banking and international activity committee – 100% Corporate governance committee – 100%

15. The board of directors held at least one discussion during the reporting year regarding the management of the business of the corporation by the general manager and the officers who report to the general manager, when they were not present, after giving them the opportunity to express their position: **True.**
16. An annual meeting was convened during the reporting year (no later than fifteen months after the last annual meeting): **True.**

SEPARATION BETWEEN THE DUTIES OF THE GENERAL MANAGER AND THE CHAIRPERSON OF THE BOARD OF DIRECTORS

17. A chairperson of the board of directors served at the corporation throughout the reporting year: **True.**
18. A general manager served at the corporation throughout the reporting year: **True.**
19. In a corporation where the chairperson of the board of directors also serves as the general manager of the corporation and/or exercises the authority of the general manager, the double service has been approved in accordance with the directives of Section 121(C) of the Companies Law.
☒Not relevant.
20. The general manager is not a relative of the chairperson of the board of directors: **True.**
21. A controlling party or a relative thereof does not serve as the general manager or as a senior officer of the corporation, except as a director: **True.**

THE AUDIT COMMITTEE

22. All of the external directors were members of the audit committee during the reporting year: **True.**
23. The chairperson of the audit committee is an external director: **True.**
24. The following persons did not serve on the audit committee during the reporting year:

A. A controlling party or a relative thereof: **True.**

B. The chairperson of the board of directors: **True.**

C. A director employed by the corporation or by a controlling party of the corporation or by a corporation under the controlling party's control: **True.**

D. A director who regularly provides services to the corporation or to a controlling party of the corporation or to a corporation under the controlling party's control: **True.**

E. A director whose primary livelihood depends on the controlling party: **True.**

25. No person not permitted to be a member of the audit committee, including a controlling party or a relative thereof, was present at the meetings of the audit committee during the reporting year, except in accordance with the directives of section 115(E) of the Companies Law: **True.**

26. The legal quorum for discussion and for the passing of resolutions at all meetings of the audit committee held during the reporting year was a majority of the members of the committee, where the majority of those present were independent directors, and at least one of those present was an external director: **True.**

27. The audit committee held at least one meeting during the reporting year in the presence of the internal auditor and the external auditor, as relevant, without the presence of officers of the corporation who are not members of the committee, with regard to flaws in the business management of the corporation: **True.**

28. For all meetings of the audit committee attended by a person not authorized to be a committee member, such attendance was approved by the chairperson of the committee and/or was at the request of the committee (with regard to the legal counsel and secretary of the corporation who is not a controlling party or a relative thereof): **True.**

29. Procedures established by the audit committee were in place during the reporting year with regard to the processing of complaints of employees of the corporation concerning flaws in the management of its business and with regard to the protection granted to employees who submit such complaints: **True.**

DUTIES OF THE COMMITTEE FOR THE EXAMINATION OF THE FINANCIAL STATEMENTS (HEREINAFTER: THE COMMITTEE) IN ITS PRELIMINARY WORK PRIOR TO THE APPROVAL OF THE FINANCIAL STATEMENTS

30. A. The recommendations submitted by the Committee with regard to the financial statements during the reporting year were brought before the board of directors a reasonable amount of time before the discussion of the board of directors, and any flaw or problem discovered during the examination were reported to the board of directors: **True.**

B. The period of time (in days) established by the board of directors as a reasonable period for the submission of recommendations in advance of the meeting of the board of directors in which the periodic or quarterly statements will be approved: **3 days.**

C. The number of actual days elapsed from the submission of the recommendations to the board of directors to the date of approval of the financial statements:
Report for the first quarter of 2013: **5 days.**
Report for the second quarter of 2013: **8 days.**
Report for the third quarter of 2013: **7 days.**
Report for the fourth quarter of 2013: **7 days.**

31. The external auditor of the corporation was invited to all meetings of the Committee and of the board of directors, and the internal auditor was notified of such meetings, in which the financial statements of the corporation for the periods included in the reporting year were discussed: **True.**

32. All of the following conditions were fulfilled by the Committee during the entire reporting year:

A. The number of members did not fall below three (at the date of the discussion by the Committee and the approval of the financial statements, as noted): **True.**

B. All of the conditions set forth in Section 115(B) and (C) of the Companies Law (with regard to the service of members of the audit committee) were fulfilled: **True.**

C. The chairperson of the Committee is an external director: **True.**

D. All of the members are directors and the majority of members are independent directors: **True.**

E. All of the members have the ability to read and understand financial statements, and at least one of the independent directors has accounting and financial expertise: **True.**

F. The members of the Committee made a declaration prior to their appointment: **True.**

G. The legal quorum for discussions and for passing of resolutions in the Committee is a majority of its members, provided that the majority of those present are independent directors, including at least one external director: **True.**

EXTERNAL AUDITOR

33. The audit committee (and/or the committee for the examination of the financial statements) has assured itself that the volume of work of the external auditor with respect to auditing services in the reporting year and the external auditor's fee in relation to the volume of auditing hours in the reporting year are appropriate in order to carry out adequate auditing: **True.**

34. Before appointing the auditor, the audit committee (and/or the committee for the examination of the financial statements) submitted its recommendations to the relevant organ of the corporation, in connection with the volume of work and the fee of the auditor: **True.**
The relevant organ of the corporation acted in accordance with the recommendations of the audit committee (and/or the committee for the examination of the financial statements): **Yes.**

35. The audit committee (and/or the committee for the examination of the financial statements) determined, in the reporting year, that there was no restriction on the work of the external auditor: **True.**

36. The audit committee (and/or the committee for the examination of the financial statements) discussed the audit findings and the implications thereof with the external auditor in the reporting year: **True.**

37. The audit committee (and/or the committee for the examination of the financial statements) assured itself, prior to the appointment of the external auditor, of the external auditor's qualification to audit the corporation, in light of the nature and complexity of the corporation's activity: **True.**

38. Number of years for which the partner responsible for the corporation has served in his or her position at the external auditing firm (as an external auditor of the corporation): Zvi Schiff, Ziv Haft – as of 2012; Itay Korem, Somekh Chaikin – as of June 2013 (Doron Debby, Somekh Chaikin, until June 2013).

39. The external auditor attended all meetings of the committee for the examination of the financial statements to which he or she was invited during the reporting year: **True.**

TRANSACTIONS WITH CONTROLLING PARTIES

40. The corporation has adopted a procedure, which has been approved by the audit committee, concerning transactions with controlling parties, in order to ensure that such transactions are lawfully approved: **True.**

41. The controlling party or a relative thereof (including a company under the control thereof) is not employed by the corporation and does not provide the corporation with management services: **True.**

42. To the best of the corporation's knowledge, the controlling party does not have additional business in the area of activity of the corporation (in one or more areas): **True.**

Chairperson of the board of directors **Mr. Yair Seroussi**	**Chairperson of the audit committee*** **Ms. Dafna Schwartz**

* The committee also serves as the committee for the examination of the financial statements.