BANK LEUMI LE-ISRAEL B.M. AND INVESTEE COMPANIES

Condensed Financial Statements
as at 31 March 2012

(unaudited)

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A. General Developments in the Group's Business

The Directors' Report has been prepared in accordance with the Public Reporting Directives of the Supervisor of Banks. The principles applied in preparing the interim reports are consistent with the principles used in preparing the Annual Report as at 31 December 2011. In addition to that stated in Note 1c to the financial statements as at 31 March 2012, the interim reports should be read in conjunction with the Annual Report for 2011.

Description of Leumi Group's Business Activities and their General Development

Total assets under the management of the Group (balance sheet items and off-balance sheet items*) amounted to some NIS 891 billion at the end of March 2012, as compared with NIS 898 billion at the end of 2011, a decrease of some 0.8%, which was primarily attributable to a decrease in securities portfolios, offset by an increase in the value of provident funds and training funds and a decrease in the Bank's total assets.

* Total balance sheet items plus securities portfolios of customers, the value of securities held in custody of mutual funds, provident funds, pension funds and supplementary training funds for which operational management, custody services and pension counseling are provided.

Net profit attributable to shareholders in the banking corporation (hereinafter – the net profit) in the first quarter of 2012 amounted to NIS 431 million, compared with NIS 554 million in the corresponding period in 2011, a decrease of 22.2%.

The decrease in the net profit is explained mainly by an increase in credit loss expenses amounting to NIS 327 million, a net impairment of a nature which was other than temporary, in respect of the investment the shares of Partner amounting to NIS 59 million and by a decrease in income from commissions amounting to NIS 66 million. On the other hand, the increase in non-interest financial income (after canceling the effect of the write-down of the Partner shares) amounting to NIS 156 million and a decrease in other operating expenses amounting to NIS 91 million partly offset the abovementioned effects.

Net profit per share attributable to shareholders in the banking corporation during the first quarter of 2012 was NIS 0.29 compared with NIS 0.38 in the corresponding period in 2011 and NIS 1.28 for the whole of 2011.

Based on data of the banking system as at 30 December 2011, as published by the Bank of Israel, Leumi Group's share of the total banking system was as follows:

	31.12.2011	31.12.2010	31.12.2009	31.12.2008	31.12.2007
	In %				
Total assets	**29.6**	29.3	29.6	29.3	30.0
Credit to the public, net	**29.2**	28.9	28.3	29.1	29.7
Deposits of the public	**29.9**	29.5	29.9	29.8	30.2
Net profit attributable to shareholders of the banking corporation	**26.0**	34.5	36.6	7.3 (1)	36.5

(1) Excluding the losses of Bank Hapoalim.

Control of the Bank

Bank without a controlling core

On 19 March 2012, the Banking Law (Legislative Amendments), 2012 was published in the Government Gazette. The law amended the Banking Law (Licensing), the Banking Ordinance and Section 37 of the Securities Law (hereinafter "**the Amendment**"). The main purpose of the Amendment is the adaptation of the law to the supervisory framework required in the case of a banking corporation where all the holders of the means of control are not subject to a permit under the Banking Law, so as to regulate, *inter alia*, the proposal, appointments and term of office of the directors in a banking corporation without a controlling core.

On 23 March 2012, the term of office of the Bank Shares Committee, established by virtue of the Bank Shares in the Arrangement (Temporary Provision), 1993 (hereinafter "**the Bank Shares Law**"), was terminated. The said committee had been authorized to use, for and on behalf of the State, the voting rights accorded by the State's holdings in the Bank. In light of the Amendment, effective 24 March 2012, the Bank is defined, pursuant to the provisions of the law, as a bank without a controlling core and with no shareholder specified as the controlling shareholder in the Bank.

The Bank, having become a bank without a controlling core, the only people entitled to propose candidates for election as director to a general meeting are the following: a statutory committee set up within the framework of the amendment for the appointment of directors in a banking corporation; and a shareholder holding more than 2.5% of a certain class of the means of control in the bank or a "body of holders" of shareholders (as defined in the Amendment). A candidate for the office of director in a bank must comply with a number of conditions, restrictions and limitations stipulated in the law and guarantee that he has no attachment to the bank or to shareholders holding more than 2.5% of the means of control in the bank. In addition, a shareholder who holds more than 1% of a certain class of the means of control in a bank must report his holdings to the bank and to the Supervisor of Banks, and the bank must report to the public on every shareholder who holds more than 2.5% of a certain class of the means of control in the bank. The obligation to report to the public will also apply with regard to a shareholder who holds between 1% and 2.5% of the means of control in the bank, if the said shareholder consents to the publication to the public as aforesaid, and if he does not so consent, he will not be entitled to join a body of members for the purpose of proposing candidates for the office of director to the general meeting.

For further details regarding the Amendment and the implications of the Bank being a bank without a controlling core, see the chapter "Economic Environment and Effect of External Factors on Activity, Banking Legislation" below.

For further information, see the chapter "Control of the Bank", page 18, in the Bank's 2011 Annual Report.

The State of Israel's holding in the shares of the Bank

On 31 October 1993, the State of Israel became a shareholder of the Bank, under the Bank Shares Arrangement and the Bank Shares Law, 1993. As provided in the Bank Shares Law, the transfer of the shares in the Bank to the State and the exercise of the rights by virtue of the shares under this Law do not require a permit under the Banking (Licensing) Law, 1981.

On 31 March 2012 and on 15 May 2012, the State of Israel held 6.028% of the issued share capital and 6.46% of the voting rights in the Bank.

Pursuant to the provisions of an outline prospectus dated 6 April 2011 regarding the sale of 0.43% of the Bank's issued capital by the State to its employees, during the period when the shares sold to the Group's employees are blocked, and as long as the State's shareholding percentage in the Bank exceeds 5%, an irrevocable power of attorney may be granted to the State to vote by virtue of the shares sold to the Group's employees as aforesaid, and to use the right to appoint directors by virtue of the shares.

Capital Resources, Capital Adequacy and Transactions in the Shares of the Bank

Capital Attributable to the Shareholders of the Banking Corporation (hereinafter: capital) of the Group as at 31 March 2012 amounted to NIS 24,118 million, compared with NIS 23,374 million as at the end of 2011, an increase of 3.2%. The increase is attributable to an increase in the value of the available-for-trade securities portfolio which was carried to a capital reserve and the income for the first quarter of the year.

The securities portfolio (nostro) is mainly comprised of bonds issued by governments, bonds of banks and foreign financial institutions, which generally represent the use of funds raised and available capital. Most of the securities portfolio is classified as available-for-sale securities, and is included in the balance sheet on the basis of fair value. The income is recorded in the profit and loss statement on an accrual basis, with the difference between the value on an accrual basis with regard to bonds, and on a cost basis with regard to shares, and the fair value being recorded directly as a separate item in capital, after a deduction for the effect of related taxes.

In the first quarter of the year, an increase of NIS 390 million, net, in capital was recorded in this item, compared with a net impairment of NIS 216 million, net, in the corresponding period in 2011. (All of the amounts are net, after the related tax effect.)

The total net accrued balance of adjustments of securities held in the available-for-sale portfolio to fair value as of 31 March 2012 amounted to a positive sum of NIS 172 million (after the effect of tax).

Pursuant to the rules for computing capital adequacy – Basel II, the balance in respect of the adjustment of securities to fair value is brought into account in the computation of capital for the purposes of the minimum capital ratio.

Capital relative to total assets reached 6.7% on 31 March 2012, compared with 6.4% on 31 December 2011.

Total capital relative to risk components according to Basel II reached 14.69% as of 31 March 2012, compared with 14.34% on 31 December 2011. This ratio is higher than the minimum ratio of 9% set by the Supervisor of Banks. Tier 1 capital reached 8.28% as of 31 March 2012. This ratio reflects the actual core capital according the definition of the Bank of Israel, compared with 8.07% at the end of 2011.

For a detailed explanation, see pages 26-33 in the 2011 Annual Report.

Capital Adequacy Target

The Group’s policy, as approved by the Board of Directors, which expresses its risk appetite, is to maintain a level of capital adequacy that is higher than the threshold defined from time to time by the Bank of Israel and higher than the rate required according to the results of the ICAAP.

Following an analysis of the ICAAP risk map, the Board of Directors of the Bank decided to change the Leumi Group's overall long-term capital adequacy target to be not less than 13.5% over the long term. This compares with the previous target of 14.0%-14.5%, which was in effect until 31 March 2012. According to our assessment, this target is higher than the overall capital adequacy ratio required to comply with the regulatory directives.

In a circular dated, 30 June 2010, the Supervisor of Banks gave notice that the banks must adopt capital policy for the interim period including a target for a core capital ratio (First Tier capital excluding complex capital instruments). The target rate determined must not be less than 7.5%.

On 28 March 2012, the Supervisor of Banks sent a directive to all banking corporations outlining its intention to set a higher minimum core capital ratio than that currently required. According to this draft, all banking corporations will be required to comply with a minimum core capital ratio of 9%, until 1 January 2015.

In addition, a large banking corporation, whose total balance sheet assets on a consolidated basis constitutes at least 20% of the total balance sheet assets in the banking system in Israel will be required to comply with a minimum core capital ratio of 10%, until 1 January 2017. This additional directive applies to the Bank.

Leumi Group intends to reach these core capital adequacy targets gradually, in accordance with the outline determined.

For further information regarding the Basel III directive, see the section "Basel directions and preparation in Leumi" in the chapter "Risk Exposure and Risk Management" below.

The Bank's core capital ratio at 31 March 2012 is 8.28%.

The abovementioned capital adequacy ratio policy relates to future transactions of the Bank, and comes within the definition of "forward-looking information". For the meaning of this term, see the section, "Description of the Banking Corporation's Business and Forward-Looking Information" below.

Structure of capital components for the purpose of computing the capital ratio (Table 2 - Basel II)

	31 March 2012	31 March 2011	31 December 2011
	NIS millions		
Tier 1 capital:			
Share capital	**7,059**	7,059	7,059
Premium	**1,129**	1,129	1,129
Reserves (1)	**15,811**	14,129	15,406
Capital reserves from share-based transactions and other capital reserves	**63**	51	50
Adjustments from translation of financial statements of companies included on equity basis	**(72)**	(131)	(21)
Loans to employees for the purchase of Bank's shares	**(44)**	(1)	(31)
Non-controlling interests	**257**	314	254
Amounts deducted from Tier 1 capital, including goodwill, investments and other intangible assets	**(399)**	(318)	(403)
Unrealized losses, net, from adjustments to fair value of available-for-sale securities	**-**	-	(218)
Total Tier 1 capital	**23,804**	22,232	23,225
Tier 2 capital:			
45% of the amount of net profits, before the effect of relevant tax in respect of adjustments to fair value of available-for-sale securities	**118**	168	-
General provision for doubtful debts	**428**	428	428
Innovative and non-innovative hybrid capital instruments	**6,012**	5,946	6,012
Subordinated notes	**11,937**	9,665	11,646
Amounts deducted from Tier 2 capital	**(69)**	(139)	(66)
Total Tier 2 capital	**18,426**	16,068	18,020
Total capital base for purposes of capital adequacy	**42,230**	38,300	41,245

(1) Figures for 31 March 2011 have been restated in accordance with the directives of the Supervisor of Banks, See Note 1b.

Capital adequacy - (Table 3 - Basel II):

	31 March 2012		31 March 2011		31 December 2010	
Risk assets and capital requirements in respect of credit risk deriving from exposures to:	Risk assets	Capital require-ments (3)	Risk assets	Capital require-ments (3)	Risk assets	Capital require-ments (3)
	NIS million					
Sovereign debts	**919**	**83**	727	65	855	77
Debts of public sector entities	**1,847**	**166**	1,843	166	1,859	167
Debts of banking corporations	**5,308**	**478**	6,631	597	5,130	462
Debts of corporations	**154,790**	**13,931**	147,856	13,307	158,015	14,221
Debts collateralized by commercial real estate	**19,890**	**1,790**	18,153	1,634	19,002	1,710
Retail exposures to individuals	**22,655**	**2,039**	20,432	1,839	21,893	1,970
Loans to small businesses	**9,311**	**838**	10,450	941	9,716	874
Housing loans	**30,416**	**2,737**	26,645	2,398	29,831	2,685
Securitization	**301**	**27**	321	29	271	24
Other assets	**12,222**	**1,100**	11,276	1,015	12,029	1,083
Total in respect of credit risk (1)	**257,659**	**23,189**	244,334	21,991	258,601	23,273
Risk assets and capital requirements in respect of market risk (1)	**9,517**	**857**	9,184	827	9,011	811
Risk assets and capital requirements in respect of operational risk (2)	**20,294**	**1,826**	20,826	1,874	20,095	1,809
Total risk assets and capital requirements (4)	**287,470**	**25,872**	274,344	24,692	287,707	25,893
Total capital base for capital adequacy (5)	**42,230**		38,300		41,245	
Total capital ratio (5)	**14.69%**		13.96%		14.34%	
Tier 1 capital ratio (5)	**8.28%**		8.10%		8.07%	

(1) According to the standardized approach, First Pillar only.
(2) According to the standardized approach. (Figures for March 2011 are according to the basic indicator approach.)
(3) According to the 9% minimum requirement.
(4) Additional capital buffers were calculated in respect of the Second Pillar.
(5) Figures for 31 March 2011 have been restated in accordance with the directives of the Supervisor of Banks, See Note 1b.

Below is the capital adequacy ratio on consolidated basis and for principal subsidiaries according to Basel II:

	31 March 2012	31 December 2011
	%	
Leumi – on consolidated basis	**14.69**	14.34
Leumi Mortgage Bank	**12.61**	12.88
Arab Israel Bank	**15.96**	15.60
Leumi Card	**15.00**	14.80
Bank Leumi USA (1)	**13.20**	13.26
Bank Leumi Switzerland	**28.44**	31.82

(1) The branch in the USA is not obliged to compute the capital adequacy ratio in accordance with Basel II. Accordingly, the ratios presented are according to Basel I.

Issue of Subordinated Capital Notes and Subordinated Notes

Pursuant to a shelf prospectus dated 26 January 2012, Leumi Finance Ltd issued a total of some NIS 2.3 billion of subordinated notes in an expansion of Series M and an expansion of Series N as follows:

Subordinated notes in the expansion of Series M amounting to NIS 1,280,000,000 par value (proceeds of NIS 1,324,800,000) are due to be repaid in one installment on 10 September 2017, are not linked (principal and interest) to the any index and bear nominal interest at 5.4% per annum, payable on 10 September of each year from 2012 to 2017 (inclusive). (The effective interest rate at issue was 5.09%.)

Subordinated notes in the expansion of Series N amounting to NIS 1,010,000,000 par value (proceeds of NIS 1,021,110,000) are due to be repaid in one installment on 10 November 2020, are linked (principal and interest) to the consumer price index for September 2011 and bear nominal interest at 3.4% per annum, payable on 10 November of each year from 2012 to 2020 (inclusive). (The effective interest rate at issue was 3.35%.)

The subordinated notes have been approved by the Bank of Israel as lower Tier 2 capital.

Bank Leumi le-Israel B.M. and its Investee Companies
Principal Data of Leumi Group

	Jan. - Mar. 2012	Jan. - Mar. 2011*	Year 2011*
Income, expenses and profits (in NIS millions):			
Net interest income	**1,822**	1,811	7,107
Expenses (income) in respect of credit losses	**225**	(102)	734
Total non-interest income	**1,183**	1,151	4,175
Of which: commissions	**1,020**	1,086	4,116
Total operating and other expenses (f)	**1,995**	2,086	8,341
Of which: costs of privatization (issue of shares and options to employees)	**-**	-	13
Profit before taxes (f)	**785**	978	2,207
Provision for taxes	**306**	372	418
Net profit for the period attributable to shareholders of the banking corporation (f)	**431**	554	1,891
Net profit per share attributable to shareholders of the banking corporation (in NIS) (f)	**0.29**	0.38	1.28
Assets and liabilities at end of period (NIS millions):			
Total assets (total balance sheet)	**359,268**	328,667	365,854
Credit to the public, net	**240,500**	225,071	241,320
Securities	**49,757**	47,090	47,936
Deposits of the public	**277,642**	248,258	279,404
Debentures, notes, and subordinated notes	**27,873**	26,985	29,999
Equity attributable to shareholders of the banking corporation (f)	**24,118**	22,488	23,374
Major financial ratios (in %):			
Credit to the public, net, to total balance sheet	**66.9**	68.5	66.0
Securities to total balance sheet	**13.8**	14.3	13.1
Deposits of the public to total balance sheet	**77.3**	75.5	76.4
Deposits of the public to credit to the public, net	**115.4**	110.3	115.8
Total capital to risk assets according to Basel II (a)	**14.69**	13.96	14.34
Tier I capital to risk assets according to Basel II	**8.28**	8.10	8.07
Capital (excluding minority interest) to total balance sheet	**6.7**	6.8	6.4
Net profit to average capital (excluding minority interest) (c)	**7.5**	10.1	8.3
Rate of provision for tax on the operating profit	**39.0**	38.0	18.9
Expenses (income) in respect of credit losses to credit to the public, net (c)	**0.37**	(0.18)	0.30
Expenses (income) in respect of credit losses to total risk of credit to the public (c)	**0.25**	(0.12)	0.20
Net interest income to total balance sheet (c)	**2.04**	2.22	1.94
Total income to total assets (b) (c)	**3.39**	3.65	3.08
Total income to total assets managed by the Group (b) (c) (d)	**1.36**	1.31	1.26
Total operating and other expenses to total balance sheet (c) (f)	**2.24**	2.56	2.28
Total expenses to total assets managed by the Group (c) (d) (f)	**0.90**	0.92	0.93
Net profit to average total assets (c) (e) (f)	**0.48**	0.68	0.56
Interest margin including income and expenses from derivative financial instruments	**1.45**	1.26	1.00
Operating and other expenses to total income (b) (f)	**66.4**	70.4	73.9
Non-interest income to operating and other expenses	**59.3**	55.2	50.1
Non-interest income to total income (b)	**39.4**	38.9	37.0

* Figures for December and March 2011 have been reclassified in accordance with the directives of the Supervisor of Banks, see Note 1c

(a) Capital – after adding the interests of external shareholders and after deducting investments in the equity of companies included on equity basis and various adjustments.
(b) Total income - net interest income and non-interest income.
(c) On an annual basis.
(d) Includes off-balance sheet activities.
(e) Average assets represent the total of income-bearing balance sheet assets and other assets.
(f) Figures for March 2011 have been restated in accordance with the directives of the Supervisor of Banks, see Note 1c.

B. Other Information

Principal Developments in the Economy(*)

General

In the first quarter of 2012, the Israeli economy grew at an annual rate of some 3.0%, compared with a growth rate of 3.2% in the last quarter of 2011. This marks a continuation of the trend of slowdown in growth which persisted last year, mainly against the background of a slowdown in economic activity around the world, in particular in the Eurozone. The slowdown in economic activity during the past year led to a shortfall in tax collections in comparison to the planned amount, and as a consequence. The deficit in the State Budget grew, and in the whole of 2012, it is expected to significantly exceed the deficit appearing in the Budget.

The Israeli Consumer Price Index ("index for the month") increased during the first quarter of the year by 0.4%, with the annual rate of increase at March 2012 amounting to 1.9%. This rate is within the price stability target of 1-3%. In April 2012, the index rose by 0.9%. The Bank of Israel lowered interest rates in February 2012 by 0.25 percentage points and has retained this level since then, including the interest rate decision for May 2012. The lowering of the interest rate is explained by the negative reversal in the world economy and the desire to support growth in Israel.

The share and convertible securities index increased during the first quarter of the year by some 4.7%, following a fall of some 22.1% in 2011. The main explanations for the increase in rates relate to the state of the world economy, a certain improvement in the American economy and the European handing of the crisis.

Committee for Increasing Competition in the Economy

On 13 March 2012, the Government published the Memorandum Law for Promoting Competition and Reducing Concentrations, 2012. The first two parts of the Memorandum Law, which deal with the allocation of assets of the public and pyramidal shareholding structures, are mostly new legislation, while the third part, which deals with joint holdings in non-bank and financial assets, makes indirect amendments to existing regulations.

For further information on the subject of the Committee for Increasing Competition in the Economy and the Committee for Socio-Economic Change, see pages 36-37 to the Annual Report.

Team examining Increasing Competition in the Banking Sector

On 7 December 2011, the Minister of Finance and the Bank of Israel Governor announced the establishment of a team to examine increasing competition within the banking sector, headed by the Supervisor of Banks. This team was set up as a consequence of the Trajtenberg Committee.

The team is required to examine and recommend various means and ways of increasing competitiveness in the Israeli banking market, render its opinion to simplify the banking product, to increase customers' bargaining power and improve and perfect the area of credit data service in the household and small business segments.

* Data sources: publications of the Central Bureau of Statistics, the Bank of Israel, the Ministry of Finance and the Tel Aviv Stock Exchange.

The Global Economy

In April 2012, the International Monetary Fund revised its forecast for world growth for 2012 upwards, compared with the previous forecast published in January 2012. Against the background of its revision stood the improvement in economic activity in the United States in the second half of 2011 and the taking of better policy measures in the Eurozone in response to the deepening economic crisis in the region. According to the Fund’s revised forecasts, growth in the United States and the Eurozone in 2012 is expected to be between 2.1% and (0.3%), respectively, compared with 1.7% and 1.4%, respectively, in 2011.

Business Product and Economic Sectors

The business sector product expanded in the first quarter of 2012 by a real rate of 2.8%, in annual terms, compared with the last quarter of 2011. This reflects a slowdown in the growth of economic activity in Israel, *inter alia*, as a result of the slowdown in activity in the world economy, particularly, in Europe. After canceling the effect of activity among start-up companies, the growth rate of the business sector was slower, amounting to 1.4%, in annual terms.
On the other hand, the Bank of Israel's survey of companies and businesses for the first quarter of 2012 indicated an acceleration of activity in the business sector, with expectations for the second quarter being positive, mainly in the trade and business services sectors.

The State Budget and its Financing

During the first quarter of the year, the State budget deficit, excluding the net provision of credit, amounted to some NIS 1.0 billion, in comparison to the surplus of NIS 1.1 billion in the corresponding period last year. This compared with the planned deficit for the whole of 2012, which was set at NIS 18.4 billion (about 2.0% of GDP). However, this deficit was determined on the basis of a tax forecast which was higher than the revised forecast of the Finance Ministry. Accordingly, the shortfall arising from the revised tax forecast, amounting to NIS 11.3 billion, may be added to this deficit.

The main explanation for exceeding the planned deficit beyond the revision in the tax forecast, as aforesaid, following the slowdown in economic activity, is the budget performance rate, which was higher by 1.5 percentage points than the performance rate in 2011.

Foreign Trade and Capital Movements

Israel’s aggregate trade deficit in the first quarter of 2012 amounted to some US$ 5.5 billion, an increase of some 90% in comparison to the deficit for the corresponding period last year. A substantial part of this increase in the deficit stems from an increase in expenditure on the import of energy products, although the "basic" deficit (after canceling the effect of ships, planes, diamond and energy products) expanded. The increase in the trade deficit is due to a reduction in exports, against the background of a slowdown in global demand for goods from Israel, as well as because of an increase in imports, which is partly attributable to an increase in oil prices worldwide.

Foreign currency capital inflows to Israel in the first quarter of the year were characterized by a significant amount of direct investments by foreign residents (around US$ 1.5 billion, through banks in Israel) while, on the other hand, there was a significant level of sales of financial investments, around US$ 1.3 billion. This was mainly against a background of sales of unlinked government debentures. In contrast, the volume of investments by Israeli residents abroad was relatively moderate in the first quarter of the year, with financial investments abroad amounting to US$ 0.6 billion (mainly in shares), compared with sales of direct investments amounting to US$ 0.1 billion.

Bank of Israel data indicate that the percentage of foreign investors' holdings of T-Bills in the market, which ranged in the first half of 2011 from 33.4% to 35.7%, in December 2011, fell to 12.2% and in February 2012, to 7.0%. This came in the wake of a change in the taxation rules. On the other hand, the percentage in the government marketable bond market reached some 6.6% in December 2011, almost double their weight in June 2011. This level was also maintained in February 2012.

Exchange Rates and Foreign Currency Reserves

In the first three months of 2012, the exchange rate of the shekel appreciated by 2.8% against the dollar, while against the euro, the shekel depreciated by 0.3%. During this period, the rate of the shekel against the dollar moved within a relatively narrow range, without a prominent trend reflecting significant economic processes.

Foreign currency balances in the Bank of Israel at the end of March 2012 amounted to some US$ 77.0 billion. This compared with US$ 74.9 billion at the end of December 2011. During this period, the Bank of Israel did not purchase foreign currency on the market.

Inflation and Monetary Policy

During the first quarter of the year, the Israeli consumer price index ("index for the month") increased by some 0.4%, while in the twelve months ended March 2012, it increased by some 1.9%. This rate is in the range of the Government's price stability target of between 1% and 3%. The largest contribution to the increase in the index in the past year was in the housing sector, which increased by some 4.4% and contributed more than half of its increase. In April 2012, the index increased by 0.9%.

In the first quarter of the year, the Bank of Israel lowered interest rates by 0.25 percentage points (in the interest rate decision in February 2012) to 2.5%. The Bank of Israel explained this, at the time, as a negative turning point in the world economy and a desire to support growth. This interest rate has been retained since that date, including in the interest rate decision for May 2012, which was received at the end of April 2012.

Capital Market

The shares and convertible securities index rose by some 4.7% in the first quarter of the year, following a fall of some 22.1% in 2011. The main reasons for the increase in prices relate to the state of the world economy, a certain improvement in the American economy and the European handling of the crisis. During April-May (up to 15 May), the index fell by 3.1%.

Average daily trading volumes of shares and convertible securities fell by some 34% in the first quarter of 2012, compared to the average for 2011, and amounted to some NIS 1,135 million. This fall was the outcome of the continuing reduction in trading volumes which started last year.

The Government bond market in the first three months of 2012 was characterized by price rises, in both index-linked and unlinked bonds. The price of index-linked Government bonds increased by some 1.2%, while unlinked bonds rose by some 0.6% (the fixed interest (*Shahar*) bond indices rose by some 0.5% and the variable interest (*Gilon*) *bond* index increased by some 1.7%). In April and May (up to 15 May), the index-linked Government bond index continued to rise by 1.1%, while the unlinked shekel Government bond index increased by 1.0%.

In the index-linked non-government debenture market (corporate bonds), there were increases in price of some 3.9% in the first quarter of the year. This was against a backdrop of the fear of the state of the world economy on companies in the Israel market (see summary in paragraph "The Global Economy" in this section). During the months of April – May (up until 15 May), the index fell by 0.1%, but with high volatility, with increases being recorded in April and decreases, during May.

Financial Assets held by the Public

In the first three months of the year, the value of the portfolio of financial assets held by the public increased by some 1.9% to some NIS 2,569 billion. This increase in the value of the portfolio derived from an increase in its components – unlinked, linked and the share component. The weight of shares (in Israel and abroad) in the financial assets portfolio of the Israeli public reached some 22.1% at the end of March 2012, compared with 21.6% in December 2011.

Total financial assets of the public managed by **the Group** (deposits of the public, debentures and capital notes, securities portfolios, including securities in the custody of mutual funds, provident and pension funds, and supplementary training funds for which operational management and custodial services, as well as pension counseling, are provided) amounted to some NIS 837 billion at the end of March 2012, compared to some NIS 842 billion at the end of December 2011, a decrease of 0.6%.

Bank credit

Bank credit in the economy granted to the private sector (before allowances for credit losses) increased in the first three months of the year by 0.4%. This is the result of an increase in credit to households, particularly in non-housing credit which expanded by 1.9%, while housing credit grew by 1.5%. On the other hand, credit granted to the business sector contracted by 0.5%.

Net credit to the public in **the Bank** at the end of March 2012 amounted to NIS 150.7 billion, compared with NIS 151.6 billion at the end of December 2011, a decrease of 0.6%. Housing credit in Leumi Mortgage increased by 1.42% in the first quarter of 2012, an increase of NIS 0.8 billion.

Credit ratings of the foreign and local rating companies

On 8 May 2012, Moody's credit rating agency announced that it was lowering the credit rating forecast of the Israeli banking system from "stable" to "negative".
". This is not a question of a change in the rating or rating forecast of an individual bank (Leumi included). The announcement reflects the expected slowdown in economic activity and the geopolitical tension prevailing in the region, as well as the moderate capital levels, which limit the system's ability to absorb losses.

The table below shows Israel's and the Bank's credit ratings as at 22 May 2012:

	Rating agency	Short-term rating	Long-term rating	Long-term ratings outlook
State of Israel's rating in foreign currency	Moody's	P-1	A1	stable
	S&P	A-1	A+	stable
	Fitch	F1	A	stable
Leumi's rating in foreign currency	Moody's	P-1	A2	stable
	S&P	A-2	BBB+	stable
	Fitch	F2	A-	stable
Leumi's rating in local currency	Moody's	P-1	A2	stable
Leumi's rating in local currency for debentures and standard deposits	Ma'alot	-*	AA+	stable
	Midroog	P-1	Aaa	stable
Leumi's rating in local currency for subordinated capital notes	Ma'alot	-*	AA	stable
	Midroog	-*	Aa1	stable
Leumi's rating in local currency for subordinated capital notes (Upper Tier II)	Ma'alot	-*	(A, AA-)**	stable
	Midroog	-*	Aa2	stable

* Not relevant

** A: Upper Tier II capital with compulsory conversion of principal into shares of the fund (The rating was updated in November 2011).
AA: "New" Upper Tier II capital, not convertible into shares (The rating was updated in November 2011).

Developments in Leumi Share Price

From the beginning of the year until 31 March 2012, the price of Leumi shares rose from some 1,091 points to 1,168 points, a rate change of some 7.06%, compared with Bank index, which increased by 7.38%. During this period, the Bank's market value increased from NIS 16.1 billion to NIS 17.2 billion.

From the end of March 2012 to 23 May 2012, the share price fell by 13.4% to a price of 1.011 points, and the market value reached NIS 14.9 billion.

The following table sets out details of changes in the CPI and in exchange rates:

	For the three months ended 31 March		For the year
	2012	2011	2011
	(in percentages)		
Rate of increase of the "known" CPI	**-**	0.9	2.6
Rate of (decrease) in the rate of the U.S. dollar	**(2.8)**	(1.9)	7.7
Rate of increase in the rate of the euro	**0.3**	4.5	4.2
Rate of increase in the rate of the pound sterling	**0.8**	1.9	7.3
Rate of increase in the rate of the Swiss franc	**1.2**	0.4	7.2

The following table sets out the principal representative exchange rates:

	31 March		31 December	
	2012	2011	2011	2010
	In NIS			
U.S. dollar	**3.715**	3.481	3.821	3.549
Euro	**4.953**	4.950	4.938	4.738
Pound sterling	**5.939**	5.599	5.892	5.493
Swiss franc	**4.111**	3.804	4.062	3.788

The following table sets out the quarterly changes in the consumer price index and exchange rates:

	2012	2011			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	(in percentages)				
Rate of increase (decrease) in Israeli Consumer Price Index ("known" index)	**-**	(0.2)	0.6	1.3	0.9
Rate of increase (decrease) of the U.S. dollar exchange rate	**(2.8)**	2.9	8.7	(1.9)	(1.9)
Rate of increase (decrease) of the euro exchange rate	**0.3**	(2.1)	2.0	(0.1)	4.5
Rate of increase (decrease) of the pound sterling exchange rate	**0.8**	1.6	6.1	(2.4)	1.9
Rate of increase (decrease) of the Swiss franc exchange rate	**1.2**	(1.5)	0.8	7.6	0.4

General Environment and Effect of External Factors on Activities

Description of the Banking Corporation's Business and Forward-Looking Information in the Directors' Report

The Directors' Report includes, in addition to data relating to the past, information that relates to the future, which is defined in the Securities Law, 1968 as "forward-looking information." Forward-looking information relates to a future event or matter, the realization of which is not certain and is not within the exclusive control of the Bank.

Forward-looking information is generally drafted using words or phrases such as "the Bank believes", "the Bank foresees", "the Bank expects", "the Bank intends", "the Bank plans", "the Bank estimates", "the Bank's policy", "the Bank's plans", "the Bank's forecast", "expected", "strategy", "aims", "likely to affect" and additional phrases testifying to the fact that the matter in question is a forecast of the future and not past facts.

Forward-looking information included in the Directors' Report is based, *inter alia*, on forecasts of the future regarding various matters related to economic developments in Israel and abroad, and especially to the foreign exchange and capital markets, legislation, directives of regulatory bodies, the behavior of competitors, technological developments and personnel issues.

As a result of the inability to foresee with certainty that these forecasts will be realized, and the fact that, in reality, events may turn out differently from those forecast, readers of the Report should relate to information defined as "forward-looking" with caution, since reliance on such information involves risks and uncertainty and the future financial and business results of Leumi Group are likely to be materially different.

The Bank does not undertake to publish updates of the forward-looking information included in this Report.

This does not detract from the Bank's reporting obligations pursuant to any relevant law.

Banking legislation

Legislation and regulation in the field of pension counseling

Further to the details set out in the 2011 Annual Report, on 3 April, 2012, the Supervisor of the Capital Market, Insurance and Savings Division in the Ministry of Finance published an amended version of a computerized graphic signature circular including directives for obtaining the signature of employers on pension counseling documents of their employees, and on 18 April 2012, he announced his intention to defer the effective date of the Adapted Monetary Saving Model for one year.

On 10 May 2012, the Supervisor of Banks published draft regulations including, *inter alia*, a revision of distribution commission rates in respect of the three types of pension products: provident funds, pension funds and managers insurance, such that the rate will be comprised of an annual rate of 0.20% of the total assets accrued to the credit of a customer in a pension product and a rate of 1.6% of current deposits. The draft regulations also include a proposal that the amount payable in respect of each of the components of the aforesaid distribution commission will be limited to the lower of the distribution commission permitted in each component and 40% of the amount of the management fees actually collected. (The draft regulations do not include any change with regard to distribution commission for counseling in respect of a training fund). It is further proposed in the draft regulations to provide that an institutional body which manages more than one pension product will be able to enter into a distribution agreement with a pension consultant, only if the distribution agreement includes all of the pension products of the institutional body, and that no distribution commission will be paid for a member or for a policy-holder where the connection with them has been discontinued.

Legislation relating to the Banking System

Banking Law (Legislative Amendments), 2012

On 19 March 2012, the Banking Law (Legislative Amendments), 2012, was published in Government Gazette. The law complements the arrangements which were added to the Banking Law (Licensing) and the Banking Ordinance within the context of Amendment 13 to the Banking Law (Licensing) from 2004 (following the recommendations of the Marani Committee) and which were intended, *inter alia*, to enable the State to sell the balance of its holdings in banks that were in the shares arrangement.

The law includes amendments to the Banking Law (Licensing), the Banking Ordinance and Section 37 of the Securities Law.

The law's main purpose is a further adaptation of the Banking Law (Licensing) and the Banking Ordinance to the supervisory framework required for the case of a banking corporation all of the holders of the means of control of which do not require a permit pursuant to Section 34(b) to the said law (hereinafter – a banking corporation without a controlling core), and the law is mainly focused on the way in which directors in a bank are proposed and elected, as aforesaid, balancing the right of the holders of the means of control to propose candidates for office as directors and take steps for their election and the desire to prevent actual control in the banking corporation without obtaining a permit from the Bank of Israel.

- Pursuant to the law, a statutory committee is to be set up to appoint directors in a banking corporation and to propose candidates for the office of director in a banking corporation without a controlling core in a new composition as detailed below, in lieu of the existing committee. This committee will appoint directors in each banking corporation, in which the number of directors has fallen below the number stipulated by the Supervisor of Banks as the appropriate number of directors in that banking corporation and in each banking corporation in which the composition of the board of directors does not comply with legal requirements, and after the general meeting of that banking corporation has not managed to appoint directors as required, as aforesaid, in the context of two attempts. In a banking corporation without a controlling core, the committee will propose at each general meeting, a number of candidates for the office of director equal to the number of vacant positions on the board of directors plus a further 75% of the vacant positions rounded downwards.
- In a banking corporation without a controlling core, they will be entitled to propose to the general meeting a number of candidates for election as director only the following: the committee which will propose candidates equal to the number of vacant positions in the board of directors of that banking corporation plus another 75% of the number of positions rounded downwards, and anyone holding more that 2½% of a certain class of the means of control in the corporation, and a body of holders which will appoint two or three holders, each of whom holds more than 1% and no more than 2½%, and together, not less than 2½% and not more than 5%, of a certain class of the means of control (hereinafter – body of holders), which will be entitled to cooperate only for this purpose. A holder of more than 2½% of a certain class of the means of control will be entitled to propose one candidate for the office of director, and as long as a director serves according to his proposal, he will not be entitled to propose another candidate (except for proposing a candidate to replace a director serving according to his proposal), unless he has received a permit from the Governor of the Bank of Israel after consultation in the Licenses Committee. The aforesaid will also apply with regard to a body of holders, including a member of a body of holders.

- The composition of the statutory committee is as follows: The chairman of the committee will be a retired judge from the Supreme Court or the District Court, who will be appointed at the proposal of the Minister of Justice, after consultation with the President of the Supreme Court; two members will be businessmen and economists (in respect of which conditions of fitness similar to those applicable to a director in government corporation will be required) or senior academics in institutes of higher education (or someone who has been a member of staff as aforesaid) who have been proposed by the chairman of the committee after consultation with the chairman of the Securities Authority; and two members will be directors who are serving on the board of directors of the relevant bank as external directors (as the term "external director" is defined in the Companies Law or in the Proper Conduct of Banking Business Regulations of the Bank of Israel), who will be proposed by the other members of the committee, in consultation with the Supervisor of Banks. A member of a committee who is an external director in a banking corporation will be appointed as aforesaid for the period of office of two years and as long as he serves as an external director in that banking corporation, and he may be re-appointed, providing that he does not serve on the committee continually for a period exceeding three years.
- The law provides transitional provisions according to which until the date that the abovementioned statutory committee is appointed, the authorities of the committee will be accorded to a temporary committee whose members will include the chairman of the public committee pursuant to the Bank Shares in the Arrangement Law (Temporary Provisions), 1993 (hereinafter – the Bank Shares in the Arrangement Law), who will chairman the committee, two members to be appointed by the chair of the committee out of the additional members on the public committee pursuant to the Bank Shares in the Arrangement Law, and two directors serving as external directors in the banking corporation regarding which the committee has discussed (as the term "external director" is defined in the Companies Law or in the Proper Conduct of Banking Business Regulations of the Bank of Israel), which will propose a temporary chairman of the committee and the members of the temporary committee who were appointed as aforesaid, in consultation with the Supervisor of Banks. Alongside the abovementioned transitional provisions, the definition of the term "banking corporation without a controlling core" in the Banking Law (Licensing) was amended to include a banking corporation to which the provisions of the Bank Shares in the Arrangement Law apply, and in respect of which the shares committee does not serve pursuant to said law.
- In a banking corporation without a controlling core, regulations similar to those applicable to an external director pursuant to the Companies Law with regard to the prohibition of a relationship apply to a candidate for the office of director, with some changes (*inter alia*, the appointment and term of office of a director who has an interest by way of a holding of the means of control at a rate not exceeding a ¼% in a banking corporation or in a shareholder who is entitled to propose candidates for the office of director in a corporation as aforesaid, as outlined above; the appointment and term of office of a director is prohibited for a director who has a relationship with an officer in the banking corporation); a candidate for the office of director who the committee proposes must comply with the restrictions and other limitations for office applicable to the members of the committee, and in addition, they must have professional standing or accounting and financial expertise, as required from an external director pursuant to the Companies Law.
- A shareholder holding more than 1% of a certain class of the means of control in a banking corporation without a controlling core is obliged to report his holdings to the banking corporation and the Supervisor of Banks, and the banking corporation will be obliged to report to the public on any shareholder holding more than 2½% of a certain class of the means of control in a banking corporation. The obligation of reporting to the public will also apply to a shareholder holding between 1% and 2½% of a certain class of the means of control in the banking corporation if the said shareholder has agreed to the publication to public as aforesaid, and if he has not agreed to this, he will not be entitled to join a body of holders for the purpose of prosing candidates for the office of director to the general meeting. Notwithstanding the aforesaid, the Supervisor of Banks will have authority to determine that the obligatory publication to the public will also be with respect to a holder of a percentage between 1% and 2½%m for the reasons outlined.

- The tests to be used by the Supervisor of Banks when he considers the suitability of a candidate for a position in a banking corporation have been expanded, in particular, the tests that will be employed in the examination of candidates for the office of director. In addition, the regulation requiring the preliminary receipt of approval of Supervisor of Banks for office as an officer in the banking corporation has been expanded, so that it will also apply to office as the legal advisor of the banking corporation, and the Supervisor of Banks has authorized to determine up to seven office-holders in each banking corporation, to which the provision requiring approval procedure applies.

- Regulations have been provided that will apply to banking corporations which are public companies (banking corporations with or without a controlling core), notwithstanding any other legal provision. *Inter alia*, there is a regulation providing that, except for the appointment of a director for a short interim period in certain cases, the board of directors will not be entitled to appoint directors to the board of directors or to propose candidates for the office of director to the statutory committee (it is clarified that the board of directors of a banking corporation without a controlling core will not be entitled to appoint directors, even for an interim period as aforesaid). There is a further provision requiring preliminary notice of at least 21 days with regard to the convening of a general meeting, on the agenda of which is the appointment of directors, and other regulations regarding the appointment or the cessation of the term of office of directors at the meeting.

- Additional special regulations are provided regarding the appointment of directors, their term of office and the cessation of their term of office, which will apply to a banking corporation without a controlling core, notwithstanding any other legal provision. *Inter alia*, there is a regulation providing that the voting on the appointment of directors will only be at the annual meeting or at a meeting convened with the approval of the Supervisor of Banks, a regulation limiting the term of office of a director, who is not an external director, to three years, and his cumulative period of office to nine years, and a regulation, providing that the number of directors to be replaced each year must not exceed half of the serving directors.

- In addition, according to the law, the Supervisor of Banks, or an employee whom he has authorized for this purpose, is authorized to give a permit for opening a branch of the Bank of Israel (instead of the Governor) and to cancel the said permit. However, for the purpose of canceling a branch permit, the authority is granted only to the supervisor, and he cannot authorize another employee of the Bank of Israel for this purpose.

- The law further updates the maximum number of customers in a bank or a foreign bank in its branches in Israel, to which the prohibitions and restrictions for the purpose of ownership and management of the assets of provident funds and mutual funds will apply, from 1,000 to 5,000. Accordingly, a bank or a foreign bank with immaterial retail activity will be a bank that has up to 5,000 customers, and it will be entitled, subject to conditions laid down in the law, to be owners and manage provident funds and mutual funds, in contrast to a bank with material retail activity.

  In addition, the Supervisor of Banks is authorized to approve the appointment of an internal auditor in a banking corporation who does not comply with the requirements provided in Section 3(a)(5) of the Internal Audit Law. It is clarified that this mechanism also applies with regard to a banking corporation which is a public company.

Antitrust Law (Amendment no. 13) (Monetary Sanction), 2012

On 8 May 2012, the Antitrust Law (Amendment no. 13) (Monetary Sanction), 2012, which deals with the introduction of a mechanism for monetary sanction to the Antitrust Law was approved in its second and third reading in the Knesset.

According to the Law, the Antitrust Commissioner will be authorized to impose a monetary sanction of up to NIS 24,000,000 on a person who breaches any of the main provisions of the Antitrust Law, 1988. Before a monetary sanction is imposed, a notice of intention to charge will be sent to the violator. The right of appeal will be accorded to him, and thereafter, the Commissioner will decide whether to impose a monetary sanction on the violator, and will send him a notice of the decision together with explanations. The decision regarding the imposition of a monetary sanction will be notified to the public. A violator will be entitled to submit an appeal to the Antitrust Tribunal regarding the payment of a monetary sanction.

The payment of a monetary sanction will not derogate from the criminal liability of a person due to a breach of the provisions of the law that constitutes an offense. However, if an indictment for the breach is served against a person, he will not be subject to a monetary sanction.

The law prohibits the making of arrangements for indemnification and insurance of potential violators in respect of a monetary sanction that may be levied pursuant thereto.

Proposed Law for Uniform Contracts (Amendment – Determination of Minimum Rate for Linkage to Discriminatory Condition), 2009

The proposed law adds a condition to those which, according to the Uniform Contracts Law, 1983, are presumed to be discriminatory conditions, and provides that there is a presumption that a condition in a uniform contract is a discriminatory condition, if it provides that the payments of the contract are linked to a certain index, and a minimum rate is fixed for this index. With regard to the said discriminatory condition, the relevant provisions in the Uniform Contracts Law will apply.

Foreign Account Tax Compliance Act– FATCA

In March 2010, the Internal Revenue Code in the United States (the U.S. Income Tax Law) was amended such that it brings into effect a reporting regime which aims to compel foreign financial institutions (FFI) to transfer information regarding accounts held by U.S. customers. Thus, the law considerably expands the disclosure and reporting requirements imposed on FFI in relation to U.S. accounts. In February 2012, proposals for regulations were published by the United States Internal Revenue Service ("IRS"), which provide operative directives for implementing the law. According to the IRS, final regulations are expected to be published by the end of the summer of 2012.

Pursuant to the law and proposed regulations, an FFI is obliged to enter into an agreement with the IRS, whereby it will undertake, *inter alia*, to locate U.S. accounts, to report on them to the IRS and to deduct tax from customers who refuse to furnish the required information and documents. An FFI who does not sign an agreement with the IRS will be charged a deduction of tax in respect of income from U.S. sources.

In order to be prepared for the implementation of the law in Leumi Group, the Bank has set up a steering committee which is studying and monitoring developments in the law and regulations. Under its guidance, the Bank is taking steps to implement working procedures and to develop a system for complying with the FATCA requirements, in accordance with what is presently known regarding the IRS requirements. To date, the Bank has carried out a demarcation of the project, an examination of the Group companies relevant to FATCA and an impact analysis with regard to the FATCA requirements. It has also taken steps to analyze the impact of the aforesaid in the relevant subsidiaries.

In recent years, working procedures for dealing with American customers have been prescribed in the Bank and in the subsidiaries. In September 2011, a letter was sent to managers regarding the Bank's policies with regard to the FATCA, reiterating the Bank policy of not advising customers on taxation matters, particularly American tax, and not assisting them in hiding their identity. In December 2011, a comprehensive procedure was issued regulating the area of identifying, locating and handling American customers, which complements the procedures previously issued.

Accounting Policy on Critical Subjects

The financial statements have been prepared in accordance with generally accepted accounting principles and the directives of the Supervisor of Banks and his guidelines relating to the preparation of the annual and quarterly financial statements of a banking corporation, as detailed in Note 1 to the annual financial statements as at 31 December 2011 and in addition to that stated in Note 1c to the quarterly report.

The preparation of the consolidated financial statements in accordance with generally accepted accounting principles and the directives of the Supervisor of Banks requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the amounts of income and expenses.

The actual results relating to these estimates may differ from the estimates and/or the assumptions.

The estimates and assumptions are generally based on economic forecasts, assumptions regarding the various markets and past experience, following due consideration, which management believes to be reasonable at the time of signature of the financial statements.

The principal critical accounting subjects referred to in the Annual Report as at 31 December 2011 were as follows: allowance for credit losses and the classification of problem debts, derivative financial instruments, securities, obligations regarding employee rights, obligations in respect of legal claims, buildings and equipment, taxes on income.

Taxes on income

With effect from 1 January 2012, the Bank implements International Accounting Standard No. 12, "Taxes on Income" (the "Standard"). The Standard determines rules for recognition, measurement, presentation and disclosure with regard to taxes on income and deferred taxes in the financial statements. The Standard provides, *inter alia*, that a deferred tax liability must be recognized in respect of all taxable temporary provisions, and that a deferred tax asset must be recognized in respect of all temporary differences that can be deducted, losses for tax purposes and tax benefits that have not yet been utilized, if it is anticipated that there will be taxable income against which it will be possible to utilize them, except for a limited number of exceptions.

The deferred taxes are calculated pursuant to the tax rates expected to apply at the time of utilization or realization of the benefit, based on the tax rates legislated or whose legislation was virtually completed by the balance sheet date. The initial implementation of the provisions of the Standard had an effect on reduction of the opening balance of capital amounting to NIS 42 million.

Procedure for the Approval of the Financial Statements

The Bank's Board of Directors is the entity ultimately responsible for supervision within the Bank and for the approval of the Bank's financial statements. All of the members of the Board of Directors possess accounting and financial expertise.

The Board of Directors has established a Financial Statements Review Committee, composed of members of the Board, the function of which is to discuss the financial statements and recommend their approval to the Board of Directors.

Before the financial statements are submitted to the Financial Statements Review Committee for discussion, the Bank's financial statements are discussed by the Disclosure Committee. The Disclosure Committee is a management committee comprised of all the members of the Bank's Management, and a member of the committee acts as Secretary of the Bank and the Group. The Chief Internal Auditor and additional senior managers of the Bank participate in the discussions of the Committee. The Disclosure Committee checks, *inter alia*, that the information in the financial statements is accurate, complete and presented fairly. (The Disclosure Committee was set up as part of the implementation of the Bank Supervision Department directive, which is based on Section 302 of the SOX Law. See "Controls and Procedures with regard to Disclosure in the Financial Statements" below.)

Prior to the discussion of the financial statements by the full Board of Directors, discussions are held by the Financial Statements Review Committee, with the participation of the President and Chief Executive Officer, the Deputy Chief Executive Officer, the Chief Accounting Officer, the Chief Internal Auditor and others.

The background material sent to the members of the Financial Statements Review Committee for discussion includes the minutes of discussions in the Disclosure Committee and its decisions, the draft Board of Directors' Report, the draft of the Financial Statements, information regarding the Bank's exposure to legal claims and a description of the new legal claims and background material for discussion on the appropriateness of the classification of problematic customers. The members of the committee also receive details of new disclosure requirements (if any) applicable to the Bank.

As part of the deliberations, the committee discusses the appropriateness of the provisions and the classification of the Bank's problem debts, after the Chief Executive Officer has presented to the committee the extent of the provisions and the classification for problem debts and the changes and the trends in this area, and after the senior managers have presented the extent of the provisions and classifications for which they are responsible and have detailed the main factors of change in these areas. The subject of the legal claims and of the Bank's exposure in this regard is presented by the Bank's Chief Legal Advisor. The subject of the impairment of securities is presented by the senior manager from the Capital Markets Division. The Chief Accountant presents to the Committee the main and material matters in the Directors' Report and Financial Statements, the changes in critical accounting policies, if any, and the main matters discussed by the Disclosure Committee. The Committee also discusses these matters.

The Financial Statements Review Committee submits its recommendations regarding the financial statements to the Board of Directors. The committee's recommendations relate, *inter alia*, (in accordance with the provisions of the Companies Regulations (Directives and Conditions Regarding the Process for Approving the Financial Statements), 2010) ("**the Companies Regulations**") to assessments and estimates made in connection with the statements; internal controls related to financial reporting, completeness and fairness of disclosure in the statements; the accounting policy adopted and the accounting treatment applied on the Bank's material interests; valuations, including assumptions and estimates on which they are based, which support the data in the financial statements.

Following the discussions of the Committee, there is discussion on the final draft of the Financial Statements in the full Board of Directors, attended by the President and Chief Executive Officer, the Chief Accounting Officer, the Chief Internal Auditor, and when the discussion concerns the approval of the annual Financial Statements, all the other members of the Bank's Management in addition. As background material for the discussion, the Directors receive the draft Financial Statements together with extensive accompanying background material, including in-depth comprehensive analyses of the Bank's activities in its various areas of business.

In the context of this discussion, the Bank's President and Chief Executive Officer reviews the results of Leumi Group's operations and the Chief Accountant presents and analyzes the results of the Group's operations in Israel and abroad, including a description of risk exposure and compliance with the limits established with regard to such risks. Thereafter, the full Board of Directors discusses and accordingly approves the financial statements.

All the discussions of the Board of Directors, the Financial Statements Review Committee and the Committee for Disclosure regarding the financial statements are attended by representatives of the Bank’s joint auditors, who are available to the participants to answer questions and provide clarifications. The financial statements are approved by the Board of Directors following their presentation to the joint auditors to the Financial Statements Review Committee and the Audit Committee of the Board of Directors of any material weaknesses that may have arisen during the audit processes that they carried out, and after the Board is presented with the representations of the President and Chief Executive Officer and of the Chief Accountant regarding evaluation of the Bank's disclosure controls and procedures for the financial statements.

The composition of the Financial Statement Review Committee is as stipulated by the Companies Law Regulations. The committee includes seven directors, including, pursuant to the Companies Law, one external director who serves in the Bank and chairs the committee. A further three committee members are external directors as stipulated by the Banking Supervision Department, and all of the abovementioned external directors (both pursuant to the Companies Law and pursuant to the Banking Supervision Department) are independent directors. In addition, all committee members have financial and accounting expertise.

Disclosure Policy

Pursuant to Bank of Israel directives, the reporting requirements in Pillar 3 of the Basel II directives oblige the Bank to determine a formal disclosure policy. The policy is to refer to the banking corporation's approach to determining what disclosure is made, including the internal controls on the process.

Leumi has determined its disclosure policy, which has been approved by the Board of Directors.

The disclosure policy is based on the Directives for Reporting to the Public of the Supervisor of Banks and the provisional directives of the Israel Securities Authority, which have been adopted by the Supervisor of Banks.

In accordance with the said disclosure policy, Leumi aims to provide all material information necessary to understand its statements, which will be reported clearly and in detail.

Information given in the Directors' Report is prepared in accordance with directives for Reporting to the Public, particularly with regard to "Temporary Order concerning the Description of the Banking Corporation's Business and Forward-Looking Information in the Directors' Report". In accordance with the directive, the directors' report is to include information in the Bank's business, the operating segments in which it operates, the general environment in which it operates and its effect on the Bank, the control structure of the Bank and its organizational structure, legal proceedings, material agreements, and detailed information on other matters.

With regard to information which can be quantified monetarily, quantitative data is given, and with regard to other information, qualitative data is given.

The general principle according to which information is given in the report is the principle of materiality. The Bank's business and its activities are examined according to their scope and nature, and at the end of the examination, disclosure is made regarding matters of material monetary size in relation to the annual profit of the Bank, its assets or its capital. In addition, disclosure is made of matters of public interest or of special sensitivity, such as matters connected with the structure of the Bank, its management, legislation affecting the bank and so on.

For the purposes of complying with this policy, every material subject is brought for discussion to the Disclosure Committee, (see above chapter of the Procedure for Approval of the Financial Statements), which decides, in all dubious cases, whether to make the necessary disclosure. Minutes of the Disclosure Committee are sent for perusal by the members of the Financial Statements Review Committee of the Board of Directors.

See also the chapter, "Controls and Procedures regarding Disclosure in the Financial Statements", below.

C. Description of the Group's Business according to Segments and Areas of Activity

Development of Income, Expenses and Tax Provision

In accordance with the Public Reporting Directives of Banking Supervision Department of the Bank of Israel, the classification of statement of profit and loss items was changed with effect from 1 January 2012. The main changes are as follows:

- Net interest income includes interest income and expenses, including index linkage differentials on the principal, but not including exchange rate difference on a principal in foreign currency or linked to foreign currency.

- Non-interest income includes:

  - Non-interest financial income: income (expenses) from activity in derivative instruments, profit (loss) from investments in available-for-sale debentures (not including interest), net exchange rate differentials, profit (loss) from investments in shares (including the sale of shares of investee companies), profit (loss) from the sale of loans, and profit (loss) from the sale of tradable debentures (not including interest).

  - Commissions

  - Other income, including profit (loss) from the sale of buildings and equipment.

Comparative figures have been reclassified.

The net profit attributable to the shareholders of the banking corporation of Leumi Group for the first quarter of 2012 was NIS 431 million, compared with NIS 554 million in the corresponding period in 2011, a decrease of 22.2%.

The decrease in the net profit attributable to the shareholders of the Group in the first quarter of 2012, as compared with the corresponding period in 2011, is explained as follows:

	For the first three months ended			
	31 March 2012	31 March 2011	Change	
	NIS millions		NIS millions	%
Net income interest	**1,822**	1,811	11	0.6
Income (expenses) in respect of credit losses	**(225)**	102	(327)	-
Non-interest income	**1,183**	1,151	32	2.8
Other operating expenses	**(1,995)**	(2,086)	91	+
Profit before taxes	**785**	978	(193)	(19.7)
Provision for tax	**(306)**	(372)	66	+
The Bank's share in companies included on equity basis	**(39)**	(42)	3	+
Net profit attributed to non-controlling interests	**(9)**	(10)	1	+
Net profit attributed to shareholders in the banking corporation	**431**	554	(123)	(22.2)

* The symbols are in accordance with their effect on the net profit.

Details on the changes - see below.

Interest income net of Leumi Group amounted in the first quarter of 2012 to NIS 1,822 million, compared with NIS 1,811 million in the corresponding period in 2011, an increase of NIS 11 million or 0.6%.

The ratio of interest income, net, to the average balance of income-bearing monetary balance sheet assets is 2.18% (in annual terms) compared to 2.36% in the corresponding period in 2011.

The following table sets out the development of net interest income according to the principal operating segments:

	For the first three months of		
	2012	2011	Change
	NIS millions		%
Households	**681**	600	13.5
Small businesses	**229**	222	3.2
Corporate banking	**381**	410	(7.1)
Commercial banking	**344**	327	5.2
Private banking	**99**	100	(1.0)
Financial management – capital markets	**83**	148	(43.9)
Other	**5**	4	25.0
Total	**1,822**	1,811	0.6

Total **Interest Margin** (excluding transactions in financial derivatives) in the first quarter of 2012 was 2.76%, compared with 2.32% in the corresponding period in 2011. The interest margin including transactions in derivatives was 1.45% in the first quarter of 2012, compared with 1.26% during the corresponding period in 2011, and 1.00% for the whole of 2011. Pursuant to a directive of the Bank of Israel, the computation of the interest margin is carried out in accordance with rules that were in force until December 2011, i.e., the interest includes exchange rate differentials.

The interest margin in the unlinked shekel sector, including derivatives, during the period was 1.81%, compared with 1.60% last year, due to an increase in the average monetary interest of 0.3%, compared with the corresponding period last year. The interest margin in the foreign currency segment decreased from 0.94% to 0.89%. In the index sector, the interest margin for the period was 0.37%, compared to 0.62% in the corresponding period in 2011.

Expenses in respect of credit losses in the Leumi Group for the first quarter of 2012 amounted to expenses of NIS 225 million, compared with income of NIS 102 million in the corresponding period in 2011.

The overall rate of the expense for credit losses for the first quarter of 2012 was 0.37% of total credit to the public (in annual terms), compared with a rate of (0.18%) in the corresponding period in 2011, and compared with 0.30% for the whole of 2011. The overall rate of the expense for credit losses in relation to overall credit risk (balance sheet and off-balance sheet) was 0.25%, (0.12%) and 0.20%, respectively.

The individual rate of expense for credit losses in the first quarter of 2012 was 0.27% of the total credit to the public (in annual terms), compared with a rate of (0.11%) in the corresponding period last year and compared with 0.16% in the whole of 2011. The individual rate of expense for credit losses in relation to overall credit risk (balance sheet and off-balance sheet) was 0.18%, 0.07% and 0.11%, respectively.

The collective allowance as at 31 March 2012 amounts to NIS 2,576 million, compared with NIS 2,570 million as at 31 December 2011. The rate of group allowance amounted to 1.07% of total credit to the public, net and 0.72% of the total overall credit risk (compared with 1.06% and 0.72% at 31 December 2011, respectively).

The following table sets out the breakdown of expenses (income) in respect of credit losses according to principal operating segments:

	First three months of 2012		First three months of 2011	
	NIS millions	% *	NIS millions	%*
Households	**8**	**-**	(29)	(0.1)
Private banking	**(1)**	**-**	(2)	(0.1)
Small businesses	**8**	**0.2**	(3)	(0.1)
Corporate banking	**211**	**1.1**	(75)	(0.4)
Commercial banking	**10**	**0.1**	(16)	(0.1)
Financial management and other	**(11)**	**(5.0)**	23	10.5
Total	**225**	**0.37**	(102)	(0.18)

* Percentage of total credit at the end of the period on an annual basis.

The following table sets out the breakdown of expenses (income) in respect of credit losses by main sector of the economy*:

	First three months of 2012	First three months of 2011
	NIS millions	
Industry	**22**	(151)
Construction and real estate	**8**	59
Trade	**(2)**	(21)
Transportation and storage	**14**	44
Communications and computer services	**(24)**	6
Financial services	**270**	16
Other business services	**13**	17
Private individuals - housing loans	**(12)**	(11)
Private individuals – other	**(23)**	(49)
Other	**(39)**	(12)
Total	**227**	(102)

* Not including collections amounting to NIS 2 million in banks.

The following is a summary of expenses (income) in respect of credit losses:

	For the three months ended	
	31 March 2012	31 March 2011
	NIS millions	
Individual allowance during the period	**228**	120
Reduction in individual allowance	**(67)**	(181)
Net increase (reduction), carried to the profit and loss statement	**161**	(61)
Increase (reduction) carried to the profit and loss statement in respect of group allowance	**64**	(41)
Total increase (reduction) of expense in respect of credit losses	**225**	(102)

The following is the breakdown of expenses (income) in respect of credit losses in the Group (the Bank and consolidated companies) charged to the statement of profit and loss:

	For the three months ended 31 March		
	2012	2011	
	NIS millions		% change
The Bank	**212**	(116)	+
Arab Israel Bank	**-**	1	-
Leumi Mortgage Bank	**(12)**	(12)	-
Leumi Card	**4**	4	-
Bank Leumi – U.S.A.	**14**	(1)	+
Bank Leumi – U.K.	**-**	8	-
Leumi Private Bank - Switzerland	**3**	-	+
Bank Leumi – Romania	**2**	13	(84.6)
Leumi Leasing and Investments	**2**	1	+
Total expenses (income)	**225**	(102)	+

Non-performing assets (*), impaired debts accruing interest income, problem commercial credit risk and unimpaired debts in arrears of 90 days or more:

(*) Impaired debts that do not accrue interest income

On a consolidated basis	**31 March 2012**	31 December 2011
	Reported amounts	
	NIS millions	
1. Non-performing assets:		
Impaired credit to the public not accruing interest income (1)		
Reviewed on an individual basis	**6,667**	6,634
Reviewed on a group basis	**7**	6
Impaired bonds not accruing interest income	**-**	-
Impaired debts not accruing interest income	**17**	25
Total impaired debts not accumulating interest income	**6,691**	6,665
Assets received in respect of cleared credit	**75**	75
Total non-performing assets	**6,766**	6,740
2. Impaired debts in the restructuring of problem debts accruing interest income	**160**	156
3. Problem commercial credit risk (2):		
Problem balance sheet credit risk in respect of the public	**10,662**	10,443
Problem off-balance sheet credit risk in respect of the public (3)	**1,158**	1,524
Total problem commercial credit risk in respect of the public	**11,820**	11,967
Balance sheet credit risk in respect of others	**72**	324
Off-balance sheet credit risk in respect of others	**-**	-
Total problem commercial credit risk in respect of others	**72**	324
Total problem commercial credit risk	**11,892**	12,291
4. Unimpaired debts in arrears of 90 days or more	**1,227**	1,556
Of which: Housing loans for which allowance has been made according to the extent of arrears	**614**	655
Housing loans for which allowance has not been made according to the extent of arrears (4)	**243**	263
Unimpaired bonds in arrears of 90 days or more	**-**	-
Others	**370**	638

Note: Balance sheet and off-balance sheet credit risk is presented before the effect of the allowance for credit losses and before the effect of deductible collateral for the purpose of a borrower and a group of borrowers.

(1) The accrual of interest in balances in 2011 does not include CPI/foreign currency linkage differentials on the principal, and in 2012 does not include foreign currency differentials.
(2) Balance sheet credit (credit, bonds, other debts recognized in the balance sheet and assets in respect of derivative instruments) and off-balance sheet credit risk that is impaired, substandard or under special mention, except for balance sheet and off-balance sheet credit risk in respect of private individuals.
(3) As calculated for the purpose of restrictions on the indebtedness of a borrower or group of borrowers, except in respect of guarantees given by a borrower to secure the indebtedness of a third party, before the effect of deductible collateral.
(4) Housing loans, the minimum allowance in respect of which is calculated according to the extent of the arrears which are in arrears of between 3 months and 6 months, and other housing loans that are not impaired, which are in arrears of 90 days or more and the minimum allowance of which is not calculated according to the extent of arrears.

Below are a number of indices for reviewing credit risk according to the new directives:

	31 March 2012	31 December 2011
	%	
Balance of impaired credit to the public not accruing interest income as a percentage of the balance of credit to the public	**2.7**	2.7
Balance of credit to the public which is not impaired in arrears of 90 days or more as a percentage of the balance of credit to the public	**0.5**	0.6
Balance of the allowance for credit losses in respect of credit to the public as a percentage of the balance of credit to the public	**1.7**	1.6
Balance of the allowance for credit losses in respect of credit to the public as a percentage of the balance of impaired credit to the public not accruing interest income	**61.1**	59.7
Problem commercial credit risk in respect of the public as a percentage of total credit risk in respect of the public	**3.3**	3.3
Expenses in respect of credit losses as a percentage of the average balance of credit to the public (in annual terms)	**0.4**	0.3
Net write-offs in respect of credit to the public as a percentage of the average balance of credit to the public (in annual terms)	**0.3**	0.9
Net write-offs in respect of credit to the public as a percentage of the balance of the allowance for credit losses in respect of credit to the public (in annual terms)	**17.6**	52.2

Non-interest income of Leumi Group in the first quarter of 2012 amounted to NIS 1,183 million, compared with NIS 1,151 million in the corresponding period last year, an increase of NIS 32 million or 2.8%.

The increase in non-interest income in the Group in the first quarter of 2012 compared with the corresponding period last year is attributable to:

	For the three months ended		
	31 March 2012	31 March 2011	Change
	NIS millions		%
Non-interest financial income	**151**	54	179.6
Commissions	**1,020**	1,086	(6.1)
Other income	**12**	11	9.1
Total	**1,183**	1,151	2.8

Non-interest financial income:

	For the three months ended		
	31 March 2012	31 March 2011	Change
	NIS millions		%
Net income in respect of derivative instruments and exchange rate differentials, net	**103**	-	+
Profits from sale of available-for-sale debentures	**58**	77	(24.7)
Gains (losses) from investments in shares including dividends *	**(14)**	28	-
Realized and unrealized gains (losses) from adjustments of tradable debentures and shares to fair value, net	**4**	(51)	+
Total	**151**	54	+

* Including the recording of an impairment of a nature other than temporary amounting to NIS 59 million in respect of the investment in the shares of Partner in the first quarter of 2012.

The main changes in the item, commissions, are as follows:

a. A decrease in the treatment of credit and the preparation of contracts amounting to NIS 37 million (30.3%).

b. A decrease in income from activity in securities amounting to NIS 27 million (11.6%).

c. A decrease in commissions from financial transactions amounting to NIS 6 million (5.8%).

d. A decrease in distribution commissions of financial products amounting to NIS 5 million (8.5%).

e. An increase in credit card income amounting to NIS 5 million (2.5%).

Income from commissions (excluding financing commissions) cover 46.2% of operating and other expenses compared with coverage of 47.1% in the corresponding period last year and compared with 44.4% for the whole of 2011.

The development of non-interest income by main activity segment is as follows:

Segment	For the first three months of		
	2012	2011	Change
	NIS millions		%
Households	**461**	500	(7.8)
Small businesses	**126**	124	1.6
Corporate banking	**147**	188	(21.8)
Commercial banking	**141**	144	(2.1)
Private banking	**158**	130	21.5
Financial management - capital markets	**161**	71	126.8
Other	**(11)**	(6)	-
Total	**1,183**	1,151	2.8

The proportion of non-interest income from all income (i.e., net interest income, and non-interest income) was 39.4%, compared with 38.9% in the corresponding period last year and 37.0% compared with the whole of 2011.

Total operating and other expenses of Leumi Group in the first quarter of 2012 amounted to NIS 1,995 million, compared with NIS 2,086 million in the corresponding period in 2011, a decrease of 4.4%.

Salary expenses in the first quarter of 2012 fell by NIS 165 million and by a rate of 12.2%, compared to the corresponding period last year.

The decrease in salary expenses is primarily attributable to the fact that in the first quarter of 2012, profits were recorded in the severance pay fund and provident fund, which are also used as a fund to cover the employees' pension liability, compared with losses in the corresponding period last year.

Operating and other expenses (maintenance of buildings and equipment, depreciation and others) increased in the first quarter of 2012 by NIS 74 million, an increase of 10.1%, compared with the corresponding period in 2011, mainly as a result of an increase in depreciation and building maintenance expenses and computer expenses, the initial consolidation of Banque Safdié and the cancelation of provisions for legal claims which were in the first quarter of 2011.

Operating expenses constitute 66.4% of total income, compared with 70.4% in the corresponding period in 2011, and compared with 73.9% for the whole of 2011.

Total operating and other expenses (in annual terms) constitute 2.24% of total balance sheet, compared with 2.56% in the corresponding period in 2011, and 2.28% for the whole of 2011.

Profit before taxes of Leumi Group for the first quarter of 2012 amounted to NIS 785 million, compared with NIS 978 million in the corresponding period in 2011, a decrease of 19.7%.

Provision for taxes on profit of Leumi Group in the first quarter of 2012 amounted to NIS 306 million, compared with NIS 372 million in the corresponding period in 2011. The rate of the provision in the first quarter of 2012 was some 39.0% of the pre-tax profit, compared with 38.0% in the corresponding period in 2011, an increase of some 1.0 percentage point.

Profit after taxes for the first quarter of 2012 amounted to NIS 479 million, compared with NIS 606 million in the corresponding period in 2011, a decrease of 21.0%.

The Group's share in profit after taxes of companies included on equity basis amounted to a negative contribution of NIS 39 million in the first quarter of 2012, compared with a negative contribution NIS 42 million in the corresponding period in 2011. For details, see the section, "Financial Management – Capital Markets" in the chapter, "Activity Sectors in the Group" below.

Net profit before attribution to holders of non-controlling interests in the first quarter of 2012 amounted to a profit of NIS 440 million, compared with a profit of NIS 564 million in the corresponding period in 2011, a decrease of 22.0%.

Net profit attributable to holders of non-controlling interests in the first quarter of 2012 amounted to NIS 9 million, compared to a profit of NIS 10 million in the corresponding period in 2011.

Net profit attributable to the shareholders in the banking corporation for the first quarter of 2012 amounted to a profit of NIS 431 million, compared with a profit of NIS 554 million in the corresponding period in 2011, a decrease of 22.2%.

Return on Capital – Average for the Period to Shareholders of the Banking Corporation in Annual Terms:

	2012	2011			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	%				
Net profit attributable to the shareholders of the banking corporation	**7.5**	11.2	2.7	10.3	10.1

Net basic profit per share attributable to shareholders of the banking corporation reached NIS 0.29 in the first quarter of 2012, compared with NIS 0.38 in the corresponding period in 2011.

Development of Profit

A. The following table is a condensed statement of operating profit and loss after taxes:

	2012	2011	
	1st Quarter	1st Quarter	Whole of 2011
	NIS millions		
Net interest income	**1,822**	1,811	7,107
Income (expenses) in respect of credit losses	**(225)**	102	(734)
Non-interest income	**1,183**	1,151	4,175
Operating and other expenses	**(1,995)**	(2,086)	(8,341)
Profit before taxes	**785**	978	2,207
Provision for taxes	**306**	372	418
Profit after taxes	**479**	606	1,789
Group's share in operating profits (losses) of companies included on equity basis after the effect of taxes	**(39)**	(42)	148
Net profit attributable to non-controlling interests	**(9)**	(10)	(46)
Net profit attributable to shareholders in the banking corporation	**431**	554	1,891

B. The following table shows the quarterly development of expenses (income) in respect of credit losses:

	2012	2011	
	1st Quarter	1st Quarter	Whole of 2011
	NIS millions		
Individual allowance	**161**	(61)	382
Group allowance	**64**	(41)	352
Total	**225**	(102)	734
Percentage of provision out of total credit to the public (on an annual basis)	**0.37**	(0.18)	0.30

C. The following table shows the quarterly development of non-interest income:

	2012	2011	
	1st Quarter	1st Quarter	Whole of 2011
	NIS millions		
Income (expenses) net in respect of derivative instruments and net exchange rate differentials	**103**	-	(418)
Profits from the sale of available-for-sale of debentures, net	**58**	77	265
Profits (losses) from investments in shares, including dividends *	**(14)**	28	(149)
Realized and unrealized gains (losses) from adjustments of tradable debentures and shares to fair value	**4**	(51)	313
Commissions	**1,020**	1,086	4,116
Other income	**12**	11	48
Total	**1,183**	1,151	4,175

* Including the recording of an impairment of a nature other than temporary amounting to NIS 59 million in respect of the investment in the shares of Partner in the first quarter of 2012.

D. The following table shows the quarterly development of salary expenses:

	2012	2011	
	1st Quarter	1st Quarter	Whole of 2011
	NIS millions		
Salary expenses, excluding special salary expenses	**1,187**	1,175	4,576
Supplement to provisions for severance pay and pension	**(1)**	176	472
Benefit in respect of sale of shares to employees	**-**	-	13
Total salary expenses	**1,186**	1,351	5,061

E. The following table shows the development of operating and other expenses and maintenance of buildings and equipment:

	2012	2011	
	1st Quarter	1st Quarter	Whole of 2011
	NIS millions		
Depreciation	**177**	167	711
Amortization of intangible assets	**6**	-	2
Maintenance of buildings and equipment	**250**	241	993
Other expenses	**376**	327	1,574
Total operating and other expenses*	**809**	735	3,280

* Excluding salary.

Structure and Development of Assets and Liabilities [1]

Total assets of Leumi Group as at 31 March 2012 amounted to NIS 359.3 billion, compared with NIS 365.9 billion at the end of 2011, a decrease of 1.8%, and an increase of 9.3% compared with 31 March 2011.

The value of the assets in the balance sheet denominated in and / or linked to foreign currency was some NIS 92.8 billion, some 25.8% of total assets. During the first quarter of 2012, the shekel appreciated against the U.S. dollar by 2.8%, and depreciated against the euro, by 0.3%. The changes in exchange rates in the first quarter of the year led to a decrease of 0.5% in total assets.

Total assets under the Group's management – the total of the balance sheet as well as customers' securities portfolios, and provident funds and supplementary training funds in respect of which operating management, custody services and pension counseling are provided - amount to some NIS 891 billion, compared with NIS 898 billion at the end of 2011 (some US$ 240 billion and US$ 235 billion, respectively), as detailed below.

The following table sets out the development of the main balance sheet items:

			Rate of change	
	31 March 2012	31 December 2011	Since December 2011	Since March 2011
	NIS millions		%	
Total assets	**359,268**	365,854	(1.8)	9.3
Cash and deposits with banks	**47,368**	53,044	(10.7)	28.7
Securities	**49,757**	47,936	3.8	5.7
Credit to the public, net	**240,500**	241,320	(0.3)	6.9
Buildings and equipment	**3,715**	3,653	1.7	1.4
Deposits of the public	**277,642**	279,404	(0.6)	11.8
Deposits from banks	**3,629**	5,056	(28.2)	(4.9)
Debentures, notes and subordinated notes	**27,873**	29,999	(7.1)	3.3

Deposits of the public amounted to NIS 277.6 billion as at 31 March 2012, compared with NIS 279.4 billion as at 31 December 2011, a decrease of 0.6%, and compared with 31 March 2011, an increase of 11.8%.

The appreciation of the shekel in relation to the dollar and the depreciation against most other foreign currencies in the first quarter of 2012 contributed in total to a 0.7% decrease in total deposits of the public.

(1) The changes in percentages were calculated according to the balances in NIS millions.

The following table sets out the development of deposits of the public by principal operating segments:

Segment	**31 March 2012**	31 December 2011	Change
	NIS millions		%
Households	**129,856**	130,276	(0.3)
Small businesses	**17,833**	18,109	(1.5)
Corporate banking	**23,896**	28,079	(14.9)
Commercial banking	**46,805**	46,527	0.6
Private banking	**38,025**	39,999	(4.9)
Financial management, capital markets and other	**21,227**	16,414	29.3
Total	**277,642**	279,404	(0.6)

Debentures, capital notes and subordinated capital notes totaled NIS 27.9 billion on 31 March 2012, compared with NIS 30.0 billion on 31 December 2011, a decrease of 7.1%, and compared with 31 March 2011, an increase of 3.3%. In the first quarter, NIS 3,703 million of debentures were repaid and NIS 2,290 million of notes were raised.

Off-balance sheet activity

The following table sets out the development of balances of the customers' (off-balance sheet) financial assets(1) managed by Leumi Group:

	31 March 2012	31 December 2011	Change	
	NIS millions		NIS millions	%
Securities portfolios	**458,015**	462,318	(4,303)	(0.9)
Of which: managed by mutual funds(2) (3)	**54,794**	52,648	(2,146)	4.1
Provident and pension funds(2) (3)	**47,441**	45,902	1,539	3.4
Supplementary training funds(2) (3)	**25,904**	24,385	1,519	6.2
Total	**531,360**	532,605	(1,245)	(0.2)

(1) Including a change in the market value of securities and in the value of securities of mutual and provident funds held in custody, for which operating management and custody services are provided.
(2) The Group in Israel does not manage any mutual funds, provident funds or supplementary training funds.
(3) Assets of customers in respect of which the Group provides operating management services, including the fund balances of customers who are counseled by Leumi.

Net credit to the public totaled NIS 240.5 billion on 31 March 2012 compared with NIS 241.3 billion on 31 December 2011, a decrease of 0.3%, and compared with 31 March 2011, an increase of 6.9%.

The appreciation of the shekel in relation to the dollar and a devaluation in relation to most foreign currencies in the first quarter of 2012 contributed in total to a 0.4% decrease in total credit to the public.

In addition to credit to the public, the Group invests in corporate debentures which, on 31 March 2012, amounted to NIS 8.9 billion, compared with NIS 8.0 billion on 31 December 2011, an increase of 10.4%.

The following table sets out the development of the overall credit risk[(1)] to the public by principal sectors of the economy:

Economy Sectors	**31 March 2012** Overall credit risk to the public	Percentage of total	31 December 2011 Overall credit risk to the public	Percentage of total	Change
	NIS millions	%	NIS millions	%	%
Agriculture	**2,235**	**0.6**	2,217	0.6	0.8
Industry	**48,012**	**13.3**	49,483	13.8	(3.0)
Construction and real estate [(2)]	**79,471**	**22.1**	79,739	22.2	(0.3)
Electricity and water	**1,815**	**0.5**	1,750	0.5	3.7
Trade	**32,323**	**9.0**	31,117	8.7	3.9
Hotels, accommodation and food	**4,860**	**1.4**	5,001	1.4	(2.8)
Transportation and storage	**6,625**	**1.8**	6,732	1.9	(1.6)
Communications and computer services	**8,377**	**2.3**	8,486	2.4	(1.3)
Financial services	**39,407**	**11.0**	37,226	10.4	5.9
Other business services	**11,118**	**3.1**	12,540	3.5	(11.3)
Public and community services	**8,309**	**2.3**	8,233	2.3	0.9
Private individuals - housing loans	**60,154**	**16.7**	59,270	16.5	1.5
Private persons – other	**57,166**	**15.9**	56,837	15.8	0.6
Total	**359,872**	**100.0**	358,631	100.0	0.3

(1) Before an allowance for credit losses and including off-balance sheet credit risk, investments in debentures of the public and other assets in respect of derivative instruments.

(2) Including housing loans extended to purchasing groups that are in the process of construction amounting to NIS 994 million and off-balance sheet credit risk amounting to NIS 2,002 million, compared to NIS 932 million and NIS 2,032 million, respectively, at 31 December 2011.

The following table shows the quarterly development of credit to the public by main activity sector:

	2012 1st Quarter	2011 4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	NIS millions				
Households*	**84,039**	83,045	81,579	79,720	77,826
Small businesses	**20,207**	20,039	19,604	19,371	19,153
Corporate banking	**77,660**	77,571	76,507	74,001	73,404
Commercial banking	**49,257**	50,536	50,108	46,376	46,116
Private banking	**8,451**	9,074	8,171	7,587	7,666
Financial management, capital markets and others	**886**	1,055	1,346	1,293	906
Total	**240,500**	241,320	237,315	228,348	225,071

* Credit to households also includes housing loans (mortgages).

Additional data on total credit is set forth below.

The following table sets out the breakdown of total credit to the public* and off-balance sheet credit risk according to the size of the credit to a single borrower:

Credit ceiling in NIS thousands		**31 March 2012** Percentage of total number of borrowers	Percentage of total balance sheet credit	Percentage of total off-balance sheet credit
From	To	%		
0	80	**83.4**	**6.1**	**18.2**
80	600	**14.0**	**17.9**	**10.9**
600	1,200	**1.6**	**9.6**	**2.7**
1,200	2,000	**0.4**	**4.6**	**1.8**
2,000	8,000	**0.4**	**8.9**	**5.3**
8,000	20,000	**0.1**	**7.1**	**5.3**
20,000	40,000	**0.05**	**7.2**	**6.5**
40,000	200,000	**0.04**	**16.3**	**18.8**
200,000	800,000	**** 0.01**	**13.5**	**20.2**
Above 800,000		***** 0.00**	**8.8**	**10.3**
Total		**100.0**	**100.0**	**100.0**

Credit ceiling in NIS thousands		31 December 2011 Percentage of total number of borrowers	Percentage of total balance sheet credit	Percentage of total off-balance sheet credit
From	To	%		
0	80	83.3	6.0	18.4
80	600	14.1	17.6	11.1
600	1,200	1.6	9.3	2.7
1,200	2,000	0.4	4.5	1.9
2,000	8,000	0.4	8.8	5.4
8,000	20,000	0.1	7.2	5.7
20,000	40,000	0.05	7.2	6.6
40,000	200,000	0.04	17.0	19.4
200,000	800,000	** 0.01	13.9	17.9
Above 800,000		*** 0.00	8.5	10.9
Total		100.0	100.0	100.0

* Before deduction of allowances in respect of credit losses.
** On 31 March 2012 - 151 borrowers and on 31 December 2011 - 143 borrowers.
*** On 31 March 2012 - 25 borrowers and on 31 December 2011 - 25 borrowers.

The following are details of the balances of credit to the public and of the off-balance sheet credit risk which exceed NIS 800 million per single borrower, based on a more detailed breakdown of credit areas and based on a breakdown of economic sectors:

1. Credit risk according to size of credit to the borrower:

		31 March 2012					
		Number of borrowers		Balance sheet credit		Off-balance sheet credit	
Credit ceiling (in NIS millions)		Total	Of which: related parties	Total	Of which: related parties	Total	Of which: related parties
From	To			In NIS millions			
800	1,200	**14**	**-**	**7,346**	**-**	**6,025**	**-**
1,200	1,600	**6**	**1**	**7,038**	**1,295**	**1,482**	**23**
1,600	2,000	**2**	**-**	**1,111**	**-**	**2,200**	**-**
2,000	2,400	**2**	**-**	**3,739**	**-**	**895**	**-**
2,400	2,589	**1**	**-**	**2,536**	**-**	**53**	**-**
Total		**25**	**1**	**21,770**	**1,295**	**10,655**	**23**

All the related parties are corporations in which the Bank holds up to 20% and they are not controlling shareholders of the Bank. The credits specified in the above table do not include any debts for which allowances were made for credit losses.

		31 December 2011					
		Number of borrowers		Balance sheet credit		Off-balance sheet credit	
Credit ceiling in NIS millions		Total	Of which, related parties	Total	Of which, related parties	Total	Of which, related parties
From	To			In NIS millions			
800	1,200	14	1	7,592	708	5,529	147
1,200	1,600	5	-	4,527	-	2,011	-
1,600	2,000	3	-	2,535	-	2,559	-
2,000	2,400	1	-	1,640	-	566	-
2,400	2,710	2	-	5,009	-	293	-
Total		25	1	21,303	708	10,958	147

2. Credit risk according to industry sectors:

	31 March 2012		
	Number of borrowers	Balance sheet credit	Off-balance sheet credit
		In NIS millions	
Industry	**8**	**6,700**	**5,375**
Construction and real estate	**7**	**5,410**	**1,640**
Public and community services	**1**	**853**	**19**
Communications and computer services	**2**	**3,064**	**683**
Financial services	**5**	**4,498**	**1,462**
Electricity and water	**1**	**1,109**	**566**
Trade	**1**	**136**	**910**
Total	**25**	**21,770**	**10,655**

	31 December 2011		
	Number of borrowers	Balance sheet credit	Off-balance sheet credit
		In NIS millions	
Industry	9	6,948	5,961
Construction and real estate	8	5,759	2,293
Public and community services	1	853	19
Communications and computer services	2	2,917	846
Financial services	3	3,686	356
Electricity and water	1	977	790
Trade	1	163	693
Total	25	21,303	10,958

3. Credit to the groups of borrowers whose indebtedness exceeds 15% of the Bank's capital (for capital adequacy purposes):

31 March 2012					
Groups of borrowers	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Of which: derivative instruments	% of capital
	In NIS millions				
1	**6,493**	**1,645**	**8,138**	**49**	**19.3**
2	**6,191**	**765**	**6,956**	**133**	**16.5**

Total debts of large borrowers, groups of borrowers and banking groups of borrowers whose debts exceeds 10% of the Bank's capital constitutes 36.0% of the Bank's capital at 31 March 2012.

Problem debts

The risk of problem credit after individual and collective allowances is set forth below:

	31 March 2012			31 December 2011		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
	In NIS millions					
Impaired debts	**5,056**	**439**	**5,495**	5,118	819	5,937
Substandard debts	**944**	**161**	**1,105**	1,118	78	1,196
Special mention debts	**3,531**	**424**	**3,955**	3,570	473	4,043
Total	**9,531**	**1,024**	**10,555**	9,806	1,370	11,176

Problem credit risk:

	31 March 2012	31 December 2011
	Problem credit risk	Problem credit risk
	In NIS millions	
Commercial problem credit risk	**11,892**	12,291
Retail problem credit risk	**1,288**	1,440
Total	**13,180**	13,731
Allowance for credit losses	**2,625**	2,555
Problem credit after allowance for credit losses	**10,555**	11,176

Credit to Governments amounted to NIS 425 million on 31 March 2012, compared with NIS 448 million on 31 December 2011, a decrease of 5.1% and, an increase of 19.0% compared with 31 March 2011.

Securities

The Group's investments in securities amounted to NIS 49.8 billion on 31 March 2012, compared with NIS 47.9 billion, an increase of 3.8%**,** compared with 31 December 2011.

The Group's securities are classified into two categories: tradable securities and available-for-sale securities.

Tradable securities are presented in the balance sheet at fair value and the difference between fair value and adjusted cost is charged to the statement of profit and loss. Available-for-sale securities are presented at fair value, where the difference between fair value and adjusted cost is presented as a separate item in capital in other comprehensive income, called "adjustments for presentation of available-for-sale securities at fair value" ("capital"), less the related tax, but whenever the decrease in value is of a non-temporary nature the difference is charged to the statement of profit and loss.

For details of the accounting policy and treatment of the valuation of the securities portfolio and the distinction between temporary impairments or those which other than temporary, see chapter, "Accounting Policy on Critical Subjects" on page 65 and Note 1 to the annual financial statements for 2011.

The following table sets out the classification of the securities item in the consolidated balance sheet as at in accordance with the rules set forth above:

	31 March 2012				
	Adjusted cost	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value	Balance sheet value
	NIS millions				
Debentures					
Available-for-sale	**37,665**	**295**	**(296)**	**37,664**	**37,664**
For trading	**9,594**	*** 120**	*** (32)**	**9,682**	**9,682**
	47,259	**415**	**(328)**	**47,346**	**47,346**
Shares and funds					
Available-for-sale	**1,849**	**405**	**(10)**	**2,244**	**2,244**
For trading	**165**	*** 3**	*** (1)**	**167**	**167**
	2,014	**408**	**(11)**	**2,411**	**2,411**
Total securities	**49,273**	**823**	**(339)**	**49,757**	**49,757**

* Carried to profit and loss

	31 December 2011				
	Adjusted cost	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value	Balance sheet value
	NIS millions				
Debentures					
Available-for-sale	36,524	227	(748)	36,003	36,003
For trading	9,369	* 78	* (66)	9,381	9,381
	45,893	305	(814)	45,384	45,384
Shares and funds					
Available-for-sale	1,876	341	(26)	2,191	2,191
For trading	363	* 4	* (6)	361	361
	2,239	345	(32)	2,552	2,552
Total securities	48,132	650	(846)	47,936	47,936

* Carried to profit and loss

As at 31 March 2012, some 80.2% of the Group's *nostro* portfolio was classified as available-for-sale securities and some 19.8% was classified as the trading portfolio. This classification allows for flexibility in the management of the securities portfolio. Some 4.8% of the value of the securities represents investments in shares of companies that are not presented on equity basis, but according to cost, or to the market value of the shares traded on the stock exchange.

The following table sets out details of the Group's activity in debentures:

	31 March 2012	31 March 2011
	NIS millions	
Debentures redeemed and/or sold (available-for-sale)	**8,960**	13,793
Purchases of debentures held to redemption and available-for-sale	**9,948**	4,424
Net profit from investments in debentures:		
Interest income	**278**	286
Net profit from sale and from impairment of available-for-sale debentures	**58**	77
Realized and/or unrealized gain (loss) from adjustments to fair value of debentures for trading	**5**	(53)

The following table sets out details of the composition of investments in debentures according to type of linkage:

	31 March 2012			31 December 2011		
	Government of Israel	Foreign governments	Other companies	Government of Israel	Foreign governments	Other companies
	NIS millions			NIS millions		
Israeli currency:						
Unlinked	**20,076**	**-**	**739**	19,227	-	619
Linked to CPI	**7,539**	**-**	**846**	7,124	-	861
Foreign currency including foreign currency-linked	**1,996**	**3,437**	**12,713**	1,577	3,858	12,118
Total debentures *	**26,911**	**3,437**	**14,298**	27,928	3,858	13,598

* As of 31 March 2012, of which NIS 1,491 million subordinated debentures.

The debenture portfolio is mostly invested in debentures if the Government of Israel and government in the OECD. In the first quarter of 2012, there was an increase of some NIS 0.7 billion, or about 5.1%, in Group investments in corporate debentures, including banks, mainly in foreign currency debentures abroad.

The following table sets out the value of securities by method of calculation in NIS millions*:

	31 March 2012	31 December 2011
Securities traded on an active market	**34,872**	34,219
Securities according to other significant observable inputs	**12,606**	11,600
Securities according to unobservable inputs or according to cost	**2,279**	2,117
Total	**49,757**	47,936

* Data calculated in accordance with FAS 157.

For further details, see note 2 to the financial statements.

Below is a table of details of investments in corporate debentures (not banks) only issued in Israel and abroad, by sector of the economy (available-for-sale and trading portfolio):

	31 March 2012	
	Issued in Israel	Issued abroad
Sector of economy	NIS million	
Industry	**193**	**409**
Construction and real estate	**57**	**132**
Electricity and water	**222**	**221**
Trade	**315**	**-**
Transportation and storage	**31**	**11**
Communications and computer services	**64**	**223**
Financial services	**548**	**6,227**
Business and other services	**58**	**27**
Public and community services	**24**	**111**
Total	**1,512**	**7,361**

The available-for-sale portfolio

The following table shows the composition of the available-for-sale portfolio:

	31 March 2012		31 December 2011		Change	
	Abroad	In Israel	Abroad	In Israel	Abroad	In Israel
	NIS millions					
Debentures	**16,868**	**20,796**	16,641	19,362	227	1,434
Shares and funds	**714**	**1,530**	724	1,467	(10)	63
Total	**17,582**	**22,326**	17,365	20,829	217	1,497

a. In the first quarter of 2012, impairment of NIS 588 million (before tax) was recorded to the available-for-sale portfolio mainly due to an increase in the value of debentures of the Government of Israel as a result of a fall in yields and an increase in value in respect of shares, compared with a decrease in value of NIS 324 million (before taxes) in the corresponding period last year.

b. In addition, profits from the sale of debentures amounting to NIS 58 million were recorded to profit and loss after setting off provisions defined as impairments of debentures of a nature other than temporary, compared with profits of NIS 77 million in the corresponding period last year.

c. The following table shows a summary of the above results in respect of the available-for-sale portfolio (including financing income):

	For the period ended		
	31 March 2012	31 March 2011	31 December 2011
	NIS millions		
Profits in respect of available-for-sale securities which were recorded to profit and loss	**245**	322	1,006
Adjustments to capital reserve of available-for sale securities in capital	**588**	(324)	(1,021)

d. The following table shows net balances in capital (net adjustments in respect of available-for-sale securities before tax):

	31 March 2012	31 December 2011	Movement 1st quarter
	NIS millions		
Shares	**395**	315	80
Israel government debentures	**142**	151	(9)
Foreign government debentures	**3**	(2)	5
Other debentures *	**(146)**	(670)	524
Other credit instruments	**(130)**	(118)	(12)
Total	**264**	(324)	588
Related tax	**(92)**	106	(198)
Net total	**172**	(218)	390

* Of which the balance of the accumulated impairment in respect of subordinated notes issued by foreign banks is NIS (97) million.

The accumulated net balance of adjustments to fair value of securities held in the available-for-sale portfolio, as at 31 March 2012, amounted to a positive amount of NIS 172 million (after the effect of tax). This amount represents a profit which had not been realized at the date of the financial statements.

From 1 April 2012 to 20 May 2012, an impairment of available-for-sale securities amounting to NIS 156 million (NIS 130 million, net, after tax) was recorded.

e. The following is the impairment in value of available-for-sale securities charged to capital as at 31 March 2012:

		Duration of impairment since its commencement*				
		Up to 6 months	6-9 months	9-12 months	More than 12 months	Total amount
		NIS millions				
Rate of impairment						
Up to 10%	Shares	**4**	**-**	**-**	**-**	**4**
	Asset-backed debentures	**-**	**5**	**-**	**25**	**30**
	Other debentures	**30**	**16**	**22**	**120**	**188**
	Total	**34**	**21**	**22**	**145**	**222**
10%- 20%	Shares	**-**	**-**	**-**	**-**	**-**
	Asset-backed debentures	**-**	**4**	**3**	**3**	**10**
	Other debentures	**-**	**2**	**-**	**30**	**32**
	Total	**-**	**6**	**3**	**33**	**42**
20%-30%	Shares	**6**	**-**	**-**	**-**	**6**
	Asset-backed debentures	**-**	**5**	**-**	**2**	**7**
	Other debentures	**-**	**-**	**2**	**27**	**29**
	Total	**6**	**5**	**2**	**29**	**42**
30%-35%	Shares	**-**	**-**	**-**	**-**	**-**
	Asset-backed debentures	**-**	**-**	**-**	**-**	**-**
	Other debentures	**-**	**-**	**-**	**-**	**-**
	Total	**-**	**-**	**-**	**-**	**-**
35%-40%	Shares	**-**	**-**	**-**	**-**	**-**
	Asset-backed debentures	**-**	**-**	**-**	**-**	**-**
	Other debentures	**-**	**-**	**-**	**-**	**-**
	Total	**-**	**-**	**-**	**-**	**-**
Above 40%	Shares	**-**	**-**	**-**	**-**	**-**
	Asset-backed debentures	**-**	**-**	**-**	**-**	**-**
	Other debentures	**-**	**-**	**-**	**-**	**-**
	Total	**-**	**-**	**-**	**-**	**-**
Total amount	Shares	**10**	**-**	**-**	**-**	**10**
	Asset-backed debentures	**-**	**14**	**3**	**30**	**47**
	Other debentures	**30**	**18**	**24**	**177**	**249**
Overall total		**40**	**32**	**27**	**207**	**306**

For the treatment of revaluing the securities and the distinction between temporary impairments and those of a non-temporary nature, see page 65 in the 2011 Financial Statements.

* The duration of the impairment since its commencement means the duration since the beginning of any impairment of the security.

Trading Portfolio

The following table shows the composition of the trading portfolio:

	31 March 2012		31 December 2011		Change	
	Abroad	In Israel	Abroad	In Israel	Abroad	In Israel
	NIS millions					
Debentures	**1,130**	**8,552**	793	8,588	337	(36)
Shares and funds	**20**	**147**	-	361	20	(214)
Total	**1,150**	**8,699**	793	8,949	357	(250)

In respect of debentures for trading, realized and unrealized profits amounting to NIS 5 million were recorded in the profit and loss statement, compared with losses of NIS 53 million in the corresponding period in 2011, and in respect of shares and funds, realized and unrealized losses were recorded amounting to NIS 1 million, compared with profits amounting to NIS 2 million in the corresponding period in 2011.

Investments in Securities Issued Abroad

The Group's securities portfolio includes some NIS 18.7 billion (some US$ 5.0 billion) of securities issued abroad, all of which (but for some 1%) are investment grade securities, of which some 92% are rated 'A-' and above, and of which some 39% are rated 'AAA'. The portfolio includes subordinated debentures issued by foreign banks having a fair value of NIS 1,491 million, some 8% of the total investment in securities issued abroad. Of the said portfolio, some NIS 17.6 billion (some US$ 4.7 billion) is classified in the available-for-sale portfolio, some NIS 1.1 billion (some US$ 0.3 billion) is classified in the securities for trading portfolio.

The following table shows the composition of investments in securities issued abroad:

	31 March 2012		31 December 2011	
	Available-for-sale portfolio	Trading portfolio	Available-for-sale portfolio	Trading portfolio
Balance sheet value	NIS millions			
Government debentures	**4,946**	**382**	5,089	251
Debentures of banks and financial institutions	**7,555**	**239**	7,854	366
Asset-backed debentures	**3,212**	**171**	2,444	120
Other debentures	**1,155**	**338**	1,254	56
Shares and funds	**714**	**20**	724	-
Total	**17,582**	**1,150**	17,365	793

Management of the Bank estimates that the impairment in the available-for-sale portfolio is mostly temporary in nature. The Bank intends and is able to continue to hold the investments the expected return of the full cost of the assets or until maturity. Therefore, this impairment is charged to capital. The net decrease in value (the offset between increase and decreases in value), which is carried to capital in respect of securities issued abroad, from the date of purchase until 31 March 2012 amounts to NIS 73 million (NIS 48 million after taxes).

The following table shows the fair value as at 31 March 2012 of asset-backed debentures of banks and financial institutions abroad (excluding asset-backed securities):

	AAA to AA-	A+	A	A-	BBB+ to BBB-	BB+ to B-	Unrated	Total
	NIS millions							
United Kingdom	**601**	**40**	**196**	**487**	**285**	**-**	**-**	**1,609**
Austria (1)	**-**	**-**	**20**	**-**	**-**	**-**	**-**	**20**
Italy (1) (5)	**309**	**-**	**34**	**-**	**-**	**-**	**-**	**343**
Germany (1)	**377**	**150**	**-**	**104**	**-**	**-**	**18**	**649**
The Netherlands (1)	**192**	**303**	**132**	**-**	**17**	**-**	**103**	**747**
Luxembourg (1)	**-**	**-**	**-**	**15**	**-**	**-**	**-**	**15**
Spain (1) (5)	**265**	**-**	**-**	**35**	**26**	**-**	**15**	**341**
France (1)	**596**	**-**	**-**	**-**	**-**	**-**	**-**	**596**
Switzerland	**18**	**-**	**-**	**-**	**-**	**-**	**-**	**18**
Australia	**562**	**-**	**-**	**-**	**-**	**-**	**-**	**562**
Sweden	**21**	**-**	**68**	**-**	**12**	**-**	**57**	**158**
New Zealand	**126**	**-**	**-**	**-**	**-**	**-**	**-**	**126**
Norway	**30**	**-**	**-**	**-**	**-**	**-**	**-**	**30**
South Korea	**-**	**39**	**-**	**-**	**-**	**-**	**19**	**58**
Denmark	**-**	**60**	**31**	**-**	**-**	**-**	**-**	**91**
United States – by bank (2)								
Citigroup Inc. NY	**-**	**-**	**-**	**390**	**-**	**-**	**-**	**390**
Bank of America (including Merrill Lynch)	**-**	**-**	**559**	**-**	**-**	**-**	**-**	**559**
Goldman, Sachs. & Co.	**224**	**168**	**-**	**-**	**-**	**-**	**-**	**392**
Morgan Stanley	**-**	**-**	**280**	**-**	**-**	**-**	**-**	**280**
Wells Fargo Bank N.A.	**-**	**289**	**-**	**-**	**-**	**-**	**-**	**289**
United States – other (3)	**87**	**128**	**198**	**21**	**32**	**-**	**55**	**521**
Total (4)	**3,408**	**1,177**	**1,518**	**1,052**	**372**	**-**	**267**	**7,794**

(1) Countries in the Eurozone bloc amounting to NIS 2,711 million.
(2) Countries in North America (United States and Canada) amounting to NIS 2,430 million,
(3) This amount includes investments in 5 banks in the United States.
(4) Including subordinated debentures, the fair value of which as at 31 March 2012 was NIS 1,491 million (including the available-for-sale and trading portfolios).
(5) For further details in connection with exposure to foreign countries, see the paragraph "Credit Risk" in the section, "Exposure to Foreign Countries".

The following table shows the fair value at 31 December 2011 of debentures of banks and financial institutions abroad (excluding asset-backed debentures):

	AAA to AA-	A+	A	A-	BBB+ to BBB-	BB+ to B-	Not rated	Total
	NIS millions							
United Kingdom	528	806	293	-	-	-	88	1,715
Austria (1)	-	-	20	-	-	-	-	20
Italy (1) (5)	-	-	359	-	-	-	-	359
Germany (1)	284	-	-	-	-	-	35	319
Denmark	-	-	88	-	-	-	-	88
The Netherlands (1)	427	320	56	-	18	-	-	821
Luxembourg (1)	-	-	-	-	-	-	14	14
Spain (1) (5)	340	-	-	-	-	-	30	370
France (1)	375	189	-	-	-	-	20	584
Switzerland	8	-	-	-	-	-	85	93
Australia	567	-	-	-	-	-	-	567
Sweden	33	67	-	-	-	-	56	156
New Zealand	253	-	-	-	-	-	-	253
Norway	29	-	-	-	-	-	-	29
Canada (2)	19	-	-	-	-	-	-	19
South Korea	-	38	-	-	-	-	19	57
U.S.A. – by bank level (2)								
Citigroup Inc NY	-	614	-	-	-	-	-	614
Chase Manhattan Bank, N.A.	241	-	-	-	-	-	-	241
Bank of America (including Merrill Lynch)	4	-	523	-	-	-	-	527
Goldman, Sachs and Co.	206	154	-	-	-	-	-	360
Morgan Stanley	-	41	239	-	-	-	-	280
Wells Fargo Bank N.A.	283	-	-	-	-	-	-	283
United States – other (3)	39	-	62	-	-	-	350	451
Total (4)	3,636	2,229	1,640	-	18	-	697	8,220

(1) Eurozone countries amounting to NIS 2,487 million.
(2) North American countries (United States and Canada) amounting to NIS 2,775 million.
(3) This amount includes investments in six banks in the United States.
(4) Including subordinated debentures with a fair value as of 31 December 2011 of NIS 1,605 million (including available portfolio and trading portfolio).
(5) For further details in connection with exposure to foreign countries, see the paragraph "Credit Risk" in the section, "Exposure to Foreign Countries".

1. Investments in foreign asset-backed securities

The Group's securities portfolio as of 31 March 2012 includes some NIS 3.4 billion (some US$ 0.9 billion) of asset-backed securities (both mortgage-backed and non-mortgage-backed), all of which (save for 1%) are rated 'A-' and above, of which some 82% are rated 'AAA'. Of the said portfolio, some NIS 3.2 billion (some US$ 0.86 billion) is classified in the available-for-sale portfolio, and the balance in the securities held for trading portfolio.

The following table shows a summary of investments in asset-backed debentures in the available-for-sale portfolio:

	31 March 2012			
	Adjusted value	Unrealized profits	Unrealized losses	Balance sheet value (fair value)
	NIS millions			
MBS - mortgage-backed debentures	**2,360**	**19**	**(6)**	**2,373**
ABS-asset-backed debentures (other than mortgage-backed):	**869**	**11**	**(41)**	**839**
Of which: CLO	**819**	**9**	**(38)**	**790**
Other	**50**	**2**	**(3)**	**49**
Total	**3,229**	**30**	**(47)**	**3,212**

	31 December 2011			
	Adjusted value	Unrealized profits	Unrealized losses	Balance sheet value (fair value)
	NIS millions			
MBS - mortgage-backed securities	1,722	23	(12)	1,733
ABS-asset-backed securities (other than mortgage-backed):	770	3	(62)	711
Of which: CLO	720	1	(60)	661
Other	50	2	(2)	50
Total	2,492	26	(74)	2,444

For the definition of asset-backed securities, see Note 3 to the 2011 Financial Statements.

Securitization Exposures

Investment in asset-backed securities by type of exposure (Table 9(f) – Basel II)

	31 March 2012	31 December 2011
	Accrued amount of exposure	
	NIS millions	
Mortgage-backed Securities (MBS):		
Pass-through securities:		
Securities guaranteed by US Government GNMA	**711**	114
Securities issued by FNMA and FHLMC	**370**	259
Other securities	**5**	5
Other mortgage-backed securities:		
Securities issued by FHLMC, FNMA, or GNMA, or guaranteed by these entities	**966**	1,017
Other mortgage-backed securities	**450**	448
Total mortgage-backed securities (MBS)	**2,502**	1,843
Asset-backed securities (ABS):		
Debtors in respect of credit cards	**39**	40
Lines of credit for any purpose secured by dwelling	**5**	5
Credit for purchase of vehicle	**23**	-
Other credit to private persons	**5**	5
Credit not to private persons	**5**	4
CLO debentures	**790**	661
Others	**14**	6
Total asset-backed (ABS)	**881**	721
Total asset-backed securities	**3,383**	2,564

Investment in asset-backed securities by risk weighting * (Table 9(g) – Basel II)

	31 March 2012	31 December 2011	**31 March 2012**	31 December 2011
	Accrued amount of exposure		Capital requirement for securitization exposure	
	NIS millions		NIS millions	
20%	**1,103**	1,001	**20**	18
50%	**124**	100	**6**	5
100%	**18**	21	**2**	2
350%	**-**	-	**-**	-
Deducted from equity	**35**	29	**-**	-
Total	**1,280**	1,151	**28**	25

* Not including GNMA, FNMA, FHLMC securities, which are presented as liability of the U.S. government.

The Group's portfolio of available-for-sale investments in foreign asset-backed securities as of 31 March 2012 includes investments in mortgage-backed securities in the total amount of some NIS 2.4 billion. 81% of the mortgage-backed securities in the available-for-sale portfolio are guaranteed or directly issued by United States federal agencies (FNMA, FHLMC, GNMA) FNMA and FHLMC have come under governmental protection under the U.S. administration's rescue plan and the GNMA debentures have government guarantees. The rest of the debentures are rated 'AAA'.

As of 31 March 2012, the cumulative net increase in value which was carried to capital deriving from the mortgage-backed debenture portfolio amounted to some NIS 13 million.

The total of the mortgage-backed securities that are not (U.S.) government guaranteed and are not backed by American federal entities in both the available-for-sale and trading portfolios, amounts to some NIS 455 million.

The forecast term to maturity for all the mortgage-backed securities portfolio is, on average, some 3.4 years.

In addition to the mortgage-backed securities, the Group's available-for-sale portfolio also includes other securities that are backed by assets other than mortgages (car financing credit and other types of credit), amounting to some NIS 839 million, of which CLO-type debentures account for some NIS 790 million. The projected term to maturity of the portfolio of securities backed by assets other than mortgages is some 3.2 years on average.

2. Investments in other (non asset-backed) securities issued abroad

The Group's securities portfolio as of 31 March 2012 includes some NIS 15.3 billion (some US$ 4.1 billion) of non-asset-backed securities, which include mainly securities issued by banks and financial institutions, including subordinated debentures, the balance being mainly securities issued by the Government of Israel. Of these securities, NIS 14.4 billion (US$ 3.9 billion) are classified in the available-for-sale portfolio, and some NIS 0.9 billion in the securities for trading portfolio. Of these securities, 91% are rated 'A-' and above, of which, some 28% are rated 'AAA'.

For further details regarding exposure to overseas banks and financial institutions, see the section "Credit Risks" in the chapter "Risk Exposure and Risk Management".

The Bank estimates that the decline in the prices of these securities is mostly of a temporary nature, and most of the decline in value was therefore charged to capital. This is on the basis of criteria set out in Note 1, "Significant Accounting Policies" in the 2011 Annual Report, taking into account other parameters, such as, the involvement and back-up, including direct investment in capital of governments and ensuring the solidity of these and other banks in their countries, and assessment of the market for the risk of failure of banks, as reflected in the prices of credit derivatives (CDS). The increase in value after the balance sheet date, high credit rating (Group A and above) and analyses of resistance in extreme scenarios.

As of 31 March 2012, the accumulated decrease in value charged to capital in respect of non-asset-backed securities, which were issued abroad and are in the available-for-sale portfolio, amounted to NIS 56 million (NIS 37 million after tax), after a decrease of NIS 499 million in the first quarter of 2012.

The debentures that are not asset-backed securities and which were issued abroad are mainly debentures issued by banks.

The Bank intends, and is able, to continue to hold these debentures until maturity or at least until the return of their value.

	Fair value		
	31 March 2012	31 December 2011	Capital reserve as at 31 March 2012
	NIS millions		
Total subordinated and available-for sale bank debentures issued abroad	**1,449**	1,534	(97)
Of which: subordinated debentures which fell by more than 35%	**-**	-	-

In addition, the available-for-sale portfolio includes securities that are non-asset backed securities also in the trading portfolio. The trading portfolio includes mainly securities of banks and financial institutions and also includes portfolios of securities under the management of external investment managers and security funds. All the securities in the trading portfolio are investment grade securities, and about 91% are rated 'A' and higher. The value of the trading portfolio which is non-asset backed as at 31 March 2012 amounted to NIS 0.9 billion (US$ 0.3 billion). The difference between the fair value and the adjusted cost, if any, is charged to the profit and loss statement.

Investments in debentures issued in Israel

Investments in debentures issued in Israel at 31 March 2012 amounted to NIS 29.3 billion, of which NIS 27.7 billion was in debentures issued by the Government of Israel, with the balance, NIS 1.6 billion, in corporate debentures. Some 57.5% of the investments in corporate debentures amounting, as of 31 March 2012, to NIS 0.9 billion are attributed to the available-for-sale portfolio, with the balance being in the trading portfolio.

Out of the total amount of NIS 0.9 billion in the corporate debenture portfolio in the available-for-sale portfolio, the positive capital reserve amounts to NIS 20 million, and the negative capital reserve amounts to NIS 21 million, with the highest rates of impairment being 29%.

3. Investments in shares and funds

Total investments in shares and funds amounted to some NIS 2,411 million as at 31 March 2012, of which some NIS 1,200 million was in quoted shares and some NIS 1,211 million in unquoted shares. Out of the total investment, NIS 2,244 million is classified as available-for-sale and NIS 167 million is classified in the trading portfolio.

The following table sets out the principal investments in shares and funds recorded in the securities item[(1)] (Table 13(B) Basel II):

	Bank's share on a consolidated basis in the paid-up capital giving the right to receive profits		Value of the investment in the consolidated balance sheet(2)		Capital adequacy requirements		Listed/ Not listed
	31 March 2012	31 December 2011	**31 March 2012**	31 December 2011	**31 March 2012**	31 December 2011	
	%		NIS millions				
Migdal Insurance and Financial Holdings Ltd.	**9.79**	9.79	**588**	534	**53**	48	Listed
Africa Israel Properties Ltd.	**2.2**	2.2	**24**	16	**2**	1	Listed
Otzar Hityashvuth Hayehudim B.M.	**8.62**	8.62	**52**	44	**5**	4	Listed
Partner Communications Co. Ltd.	**4.99**	4.99	**222**	261	**20**	23	Listed
Electra Consumer Products (1970) Ltd.	**8.98**	8.98	**62**	66	**6**	6	Listed
TSI Roads Limited Partnership	**17.82**	17.82	**103**	101	**9**	9	Not listed
Tower Semiconductor capital notes	**-**	-	**49**	49	**4**	4	Not listed
CLS Bank	**-**	-	**21**	21	**2**	2	Not listed
Funds	**-**	-	**880**	1,140	**79**	103	Of which, 736 not listed
Apax	**-**	-	**71**	69	**6**	6	Not listed
Other	**-**	-	**339**	251	**31**	24	Of which, 224 not listed
Total	**-**	-	**2,411**	2,552	**217**	230	

(1) For details of non-banking investments presented on equity basis, see the section, "Financial Management – Capital Markets" in the chapter, "Activity Sectors in the Group" below.

(2) The value of the investment in the consolidated balance sheet is equal to the fair value of the investment.

From 1 April 1 2012 to 20 May 2012, the impairment in shares amounted to NIS 102 million before tax.

The following table shows investments (positions) in shares and funds in the securities item (available-for-sale portfolio and trading portfolio) (NIS millions):

	Balance sheet amount	
	31 March 2012	31 December 2011
Quoted shares	**1,200**	1,367
Funds according to quote by counterparty	**808**	822
Unquoted shares	**403**	363
Total	**2,411**	2,552

Other assets and debit balances in respect of derivative instruments

As of 31 March 2012, other assets and debit balances in respect of derivative instruments amounted to NIS 13.7 billion, compared with NIS 15.8 billion at the end of 2011, a decrease of 13.4%. The decrease resulted mainly from a decrease in the balance of the fair value of derivative instruments carried out with and for customers amounting to some NIS 2.1 billion.

Operating Segments in the Group

The Group operates in various operating segments through the Bank and its subsidiaries, in all fields of banking and financial services. Furthermore, the Group invests in non-banking corporations that operate in various fields, including insurance, real estate, shipping, energy, industry and others.

The operating segments are defined in accordance with the characteristics determined by the Bank of Israel. A detailed description of the operating segments and the manner of their measurement is provided in the Annual Report for 2011.

Following are principal data according to operating segments of the principal balance sheet items:

	Credit to the Public			Deposits of the Public			Total Assets		
	31 March 2012	31 December 2011	Change	**31 March 2012**	31 December 2011	Change	**31 March 2012**	31 December 2011	Change
	NIS millions		%	NIS millions		%	NIS millions		%
Households (1)	**84,039**	83,045	1.2	**129,856**	130,276	(0.3)	**84,801**	83,831	1.2
Small businesses	**20,207**	20,039	0.8	**17,833**	18,109	(1.5)	**20,231**	20,068	0.8
Corporate banking	**77,660**	77,571	0.1	**23,896**	28,079	(14.9)	**79,791**	80,896	(1.4)
Commercial banking	**49,257**	50,536	(2.5)	**46,805**	46,527	0.6	**50,346**	51,431	(2.1)
Private banking	**8,451**	9,074	(6.9)	**38,025**	39,999	(4.9)	**12,690**	13,989	(9.3)
Financial management - capital markets and others	**886**	1,055	(16.0)	**21,227**	16,414	29.3	**111,409**	115,639	(3.7)
Total	**240,500**	241,320	(0.3)	**277,642**	279,404	(0.6)	**359,268**	365,854	(1.8)

(1) Credit to households also includes housing loans (mortgages). After canceling the effect of this credit, credit (banking and financial) to households rose by 1.1%. Housing loans amounted to NIS 56.6 billion at the end of March 2012, having increased by 1.3%.

Following are principal data according to operating segments of off-balance sheet items and data on customer balances in the capital market:

	Guarantees and Documentary Credits			Securities Portfolios, including Mutual Funds		
	31 March 2012	31 December 2011	Change	**31 March 2012**	31 December 2011	Change
Segment	NIS millions		%	NIS millions		%
Households	**393**	457	(14.0)	**91,627**	88,839	3.1
Small businesses	**1,406**	1,373	2.4	**6,670**	6,495	2.7
Corporate banking	**26,482**	26,297	0.7	**56,752**	72,639	(21.9)
Commercial banking	**6,603**	6,772	(2.5)	**46,902**	44,225	6.1
Private banking	**517**	469	10.2	**82,524**	80,115	3.0
Financial management – capital markets and others	**870**	883	(1.5)	**173,540**	170,005	2.1
Total	**36,271**	36,251	0.1	**458,014**	462,318	(0.9)

The following table sets out the net profit according to operating segments:

	For the three months ended		
	31 March 2012	31 March 2011	Change
Segment	NIS millions		%
Households	**121**	109	11.0
Small businesses	**92**	94	(2.1)
Corporate banking	**106**	337	(68.5)
Commercial banking	**144**	148	(2.7)
Private banking	**24**	60	(60.0)
Financial management:			
Capital markets	**73**	(128)	+
Non- bank investments	**(99)**	(42)	-
Other	**(30)**	(24)	25.0
Total	**431**	554	(22.2)

Explanations for the changes in profitability are provided below.

Return on equity according to operating segments

In accordance with directives of the Bank of Israel, it was decided to calculate the return on equity to be allocated to each of the operating segments.

The equity for the purpose of calculating the capital to risk assets ratio (Tier 1 and Tier 2 capital) was allocated to the segments according to the relative share of each segment in the total of all the weighted risk assets of the Group, and according to the allocation of Pillar 2 equity for each segment according to its characteristics and its components.

The profit of operating segments was adjusted for the risk capital in each segment. The return on risk-adjusted capital was calculated as the ratio of the adjusted profit to capital allocated to the segment, which represents a part of the allocated risk capital (Tier 1 and Tier 2).

The following table sets out the net profit return, adjusted for risk, on Tier 1 equity by operating segment calculated as described above:

	Return on capital in % of net profit		
Segment	**31 March 2012**	31 March 2011	31 December 2011
Households	**11.7**	10.5	8.7
Small businesses	**29.1**	29.1	22.8
Corporate banking	**4.7**	18.6	9.3
Commercial banking	**15.3**	15.7	11.4
Private banking	**10.6**	32.2	22.0
Financial management:			
Capital markets	**(2.8)**	(15.6)	(10.1)
Other	**(27.4)**	(25.7)	70.1

Below is the return on risk-adjusted capital (RORAC) and the economic value added (EVA) for the Bank taking into account the cost of capital according to the multi-year return determined in the work plan, by operating segment:

The figures for EVA and RORAC have been calculated according to the allocation of all of the capital of the Bank between the segments (as per the actual capital adequacy pursuant to Basel II).

Segment	**As at 31 March 2012**		As at 31 December 2011	
	Allocating all the capital		Allocating all the capital	
	RORAC	EVA	RORAC	EVA
	%	NIS millions	%	NIS millions
Households	**11.7**	**17**	8.7	(54)
Small businesses	**29.1**	**58**	22.8	178
Corporate banking	**4.7**	**(113)**	9.3	(60)
Commercial banking	**15.3**	**48**	11.4	54
Private banking	**10.6**	**1**	22.0	94
Financial management:				
Capital markets	**(2.8)**	**(114)**	(10.1)	(823)
Other	**(27.4)**	**(39)**	70.1	216
Total for net profit	**7.5**	**(142)**	8.3	(395)

The following table shows the quarterly development of the net operating profit by operating segment:

Segment	**2012**	2011			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions				
Households	**121**	25	196	34	109
Small businesses	**92**	46	93	84	94
Corporate banking	**106**	115	130	178	337
Commercial banking	**144**	100	37	154	148
Private banking	**24**	35	33	45	60
Financial management:					
Capital markets	**73**	(267)	(183)	16	(128)
Non- bank investments	**(99)**	242	(124)	72	(42)
Other	**(30)**	322	(27)	(19)	(24)
Total	**431**	618	155	564	554

1. Households

The following tables set out a summary of the profit and loss of the Households segment:

	Banking and finance	Credit cards	Capital market	Mortgages	Overseas activity: Banking and finance	Overseas activity: Mortgages	Total
	For the three months ended 31 March 2012						
	NIS millions						
Net interest income:							
From external sources	**(128)**	**63**	**2**	**457**	**(2)**	**4**	**396**
Intersegmental	**623**	**(13)**	**(1)**	**(328)**	**5**	**(1)**	**285**
Operating and other income:							
From external sources	**151**	**118**	**115**	**(10)**	**2**	**-**	**376**
Intersegmental	**-**	**45**	**-**	**40**	**-**	**-**	**85**
Total income	**646**	**213**	**116**	**159**	**5**	**3**	**1,142**
Expenses in respect of credit losses	**16**	**3**	**-**	**(13)**	**3**	**(1)**	**8**
Operating and other expenses:							
To external sources	**652**	**150**	**77**	**59**	**3**	**2**	**943**
Intersegmental	**(3)**	**(1)**	**-**	**4**	**-**	**-**	**-**
Operating profit (loss) before taxes	**(19)**	**61**	**39**	**109**	**(1)**	**2**	**191**
Provision for taxes (benefit) on operating profit	**(7)**	**19**	**13**	**38**	**-**	**-**	**63**
Operating profit (loss) after taxes	**(12)**	**42**	**26**	**71**	**(1)**	**2**	**128**
Net profit attributable to non-controlling interests	**-**	**(7)**	**-**	**-**	**-**	**-**	**(7)**
Net profit (loss)	**(12)**	**35**	**26**	**71**	**(1)**	**2**	**121**
% Return on equity							**11.7%**
Average balance of assets	**19,539**	**7,899**	**130**	**56,495**	**72**	**181**	**84,316**
of which: investments in companies included on equity basis	**-**	**4**	**-**	**-**	**-**	**-**	**4**
Average balance of liabilities	**124,991**	**953**	**-**	**7,420**	**833**	**9**	**134,206**
Average balance of risk assets	**21,110**	**7,716**	**134**	**30,654**	**167**	**63**	**59,844**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**52,232**	**-**	**-**	**-**	**52,232**
Average balance of securities	**-**	**-**	**49,170**	**-**	**171**	**-**	**49,341**
Average balance of other assets under management	**229**	**-**	**-**	**5,176**	**-**	**-**	**5,405**
Balance of credit to the public	**19,259**	**7,773**	**127**	**56,627**	**69**	**184**	**84,039**
Balance of deposits of the public	**124,737**	**45**	**-**	**4,240**	**825**	**9**	**129,856**

Households (cont.)

	Banking and finance	Credit cards	Capital market	Mortgages	Overseas activity: Banking and finance	Overseas activity: Mortgages	Total
	For the three months ended 31 March 2011						
	NIS millions						
Net interest income:							
From external sources	(169)	52	1	533	-	2	419
Intersegmental	603	(9)	(1)	(416)	5	(1)	181
Operating and other income:							
From external sources	159	115	142	15	2	-	433
Intersegmental	1	49	-	17	-	-	67
Total income	594	207	142	149	7	1	1,100
Expenses in respect of credit losses	(22)	5	-	(13)	-	1	(29)
Operating and other expenses:							
To external sources	640	152	91	61	5	1	950
Intersegmental	1	(1)	-	6	-	-	6
Operating profit (loss) before taxes	(25)	51	51	95	2	(1)	173
Provision for taxes (benefit) on operating profit	(9)	15	18	34	-	-	58
Operating profit (loss) after taxes	(16)	36	33	61	2	(1)	115
Net profit attributable to non-controlling interests	-	(6)	-	-	-	-	(6)
Net profit (loss)	(16)	30	33	61	2	(1)	109
% Return on equity							10.5%
Average balance of assets	18,044	7,309	122	52,011	118	150	77,754
Of which investments in companies included on equity basis	-	6	-	-	-	-	6
Average balance of liabilities	112,344	1,011	-	9,499	851	7	123,712
Average balance of risk assets	20,702	7,326	123	26,930	289	53	55,423
Average balance of mutual funds and supplementary training funds	-	-	54,959	-	-	-	54,959
Average balance of securities	-	-	53,013	-	166	-	53,179
Average balance of other assets under management	274	-	-	5,913	-	-	6,187
Balance of credit to the public at 31 December 2011	19,119	7,615	134	55,925	73	179	83,045
Balance of deposits of the public at 31 December 2011	124,787	32	-	4,607	842	8	130,276

Main Changes in the Scope of Operations

Total credit to the public in the households segment increased by NIS 1.0 billion, or 1.2% compared with the end of 2011. Housing loans increased by 1.3%, and credit, after cancelling out the effect of housing loans, increased by 1.1%. Deposits of the public fell by some NIS 0.4 billion.

Main Changes in Net Profit

In the first three months of 2012, net profit in the households segment amounted to NIS 121 million, compared with NIS 109 million in the corresponding period last year, an increase of NIS 12 million or 11%. The increase in profit derives from an increase in income of NIS 42 million or 3.8% due to a decrease in operating expenses amounting to NIS 13 million, which was partially offset by an increase in expenses in respect of credit losses amounting to NIS 37 million.

The return on equity of the net profit in the segment was 11.7%.

Merger of Leumi Mortgage Bank Ltd.

On 22 January 2012, the Board of Directors of the Bank approved the intention of the management to take steps towards the merger of Leumi Mortgage Bank ("Leumi Mortgage"), which is a wholly owned and controlled subsidiary of the Bank, and the Bank.

In the decision, it was determined that it is the Bank's intention that all of Leumi Mortgage's business is to be absorbed into the Bank's operations, while maintaining the organizational focus on the mortgages, at the same time, strengthening the synergy with the Bank's activity.

The process will enable the Bank to provide retail customers with a value proposal which meets all of its requirements, reducing Group expenditure and using inputs more effectively.

The mortgage activity will be concentrated in the Bank's Banking Division in a separate department which will operate on the basis of the Leumi Mortgage's existing organizational structure. 110 representative offices of Leumi Mortgage will operate within the department.

The Bank intends to complete the merger by the end of 2012.

The merger, as aforesaid, will not have a significant impact on the consolidated financial statements on the date of the merger.

It is clarified that the merger is subject to the receipt of the required approval from the authorized officials in the Bank and in Leumi Mortgage and from the relevant authorities.

Data relating to the risk features of housing loans* granted by Leumi Mortgage Bank

Disclosure on housing loans

Pursuant to a letter of the Bank of Israel dated 15 May 2011, the Bank is required to include in the Report of the Board of Directors disclosure regarding developments in credit risks in the housing loan portfolio as defined in Proper Conduct of Banking Management Directive of the Bank of Israel No. 451 (hereinafter: "housing loans"), and the activity carried out in order to manage these risks.

The data relating to the risk features of the housing loans, pursuant to the aforementioned Bank of Israel letter, developments on credit risks and the way of managing them, including reference to measures adopted by Leumi Mortgage Bank to deal with these risk features, are as follows:

* The definitions mentioned in the disclosure above (e.g., repayment ratio, rate of financing, etc.) are according to the reports of Leumi Mortgage to the Bank of Israel.

The following table presents data concerning new loans granted and loans refinanced for the purchase of a residential dwelling and for the pledge of a residential dwelling (Leumi Mortgage Bank and Leumi):

	First three months of 2012	First three months of 2011	Change
	NIS millions		%
From Bank funds	**2,688**	3,607	(25.5)
From Ministry of Finance funds:			
Loans	**5**	5	-
Standing loans	**2**	1	+
Total new loans	**2,695**	3,613	(25.4)
Refinanced loans	**318**	405	(21.5)
Total	**3,013**	4,018	(25.0)

Development of balance of housing loan net:

	Balance of credit portfolio	Annual rate of increase
	NIS millions	%
December 2008	39,344	
December 2009	42,734	8.6
December 2010 *	49,319	15.4
December 2011	54,386	10.3
March 2012	**55,102**	**1.3**

* The figures for 31 December 2010 are presented after implementing the regulations of the Supervisor of Banks regarding the measurement and disclosure of impaired debts.

The increase in the level of housing credit in recent years is attributable to demand for housing units and an increase in the prices of housing units, with the majority constituting credit for the purchase of residential dwellings.

Development of credit portfolio according to linkage basis:

	Unlinked	Percentage of credit portfolio	Index-linked	Percentage of credit portfolio	Foreign currency	Percentage of credit portfolio	Total portfolio
	NIS millions	%	NIS millions	%	NIS millions	%	NIS millions
December 2009	15,585	36.5	26,114	61.1	1,035	2.4	44,273
December 2010 *	21,552	43.7	26,619	54.0	1,148	2.3	49,319
December 2011	22,973	42.5	29,802	54.6	1,611	3.0	54,386
March 2012	**23,237**	**42.2**	**30,312**	**55.0**	**1,553**	**2.8**	**55,102**

* The figures for 31 December 2010 are presented after implementing the regulations of the Supervisor of Banks regarding the measurement and disclosure of impaired debts.

The increase in the unlinked credit portfolio during 2009-2012 was on account of the reduction in the index-linked credit portfolio. However, in the second half of 2011 and in the first quarter of 2012, there was a marked slowdown in the increase in the balance of the unlinked credit portfolio, in light of a regulation of the Supervisor of Banks relating to the extension of variable interest loans, including loans on the basis of Prime.

Development of housing credit portfolio at variable and fixed interest:

	Fixed		Variable			Total credit portfolio
	Unlinked	Index-linked	Unlinked	Index-linked	Foreign currency	
	NIS millions					
December 2010 *	766	11,309	20,786	15,310	1,148	49,319
December 2011	1,142	11,125	21,831	18,677	1,611	54,386
March 2012	**1,285**	**10,910**	**21,952**	**19,402**	**1,553**	**55,102**

* The figures for 31 December 2010 are presented after implementing the regulations of the Supervisor of Banks regarding the measurement and disclosure of impaired debts.

Development of the housing credit by type of interest:

The development of the new credit extended by variable and fixed interest is as follows (a variable interest loan is a loan where the interest borne is likely to change over the life of the loan):

	2012	2011				2010	2009
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter	Annual average	Annual average
	Percentage of loans extended						
	%						
Fixed – linked	**14.9**	15.1	14.6	5.9	6.1	6.7	6.5
Variable – every 5 years or more - linked	**45.1**	43.8	42.5	17.5	8.9	11.6	4.5
Variable – up to 5 years index-linked	**5.7**	7.3	9.4	19.2	15.3	20.5	15.0
Fixed-unlinked	**6.1**	5.3	5.4	2.1	2.8	4.3	1.2
Variable – unlinked	**27.0**	26.2	25.0	48.8	61.6	53.8	70.5
Variable – foreign currency	**1.2**	2.3	3.1	6.5	5.3	3.1	2.3

The increase in the proportion of loans at index-linked variable interest loans including loans at variable interest every five years and more was at the expense of a decline in the proportion of loans at variable interest on an unlinked basis, in light of a regulation of the Banking Supervision Department relating to the extension of variable interest loans as outlined above.

The percentage of new credit extended by the Leumi Mortgage in housing loans at variable interest during the first quarter of 2012 was 79%, compared with an average of 86% in 2011. The data relate to all types of variable interest and the different linkage segments, including loans in which the interest is variable each period of five years and more. After canceling the effect of index-linked variable interest varying each period of 5 years and more, which the regulation from the Banking Supervision Department excludes from the definition of variable interest loans, during the first quarter of 2012, 33.9% (including releases from facilities made prior to the Bank of Israel directive dated 1 May 2011) were extended, compared with 60% in the corresponding period last year.

The balance of the portfolio of the housing loan portfolio in arrears more than 90 days is as follows:

	Balance of debt	Amount of credit in arrears	Percentage of problem debt
	NIS millions		%
December 2008	40,024	1,587	4.0
December 2009	43,317	1,306	3.0
December 2010*	49,911	1,046	2.1
December 2011	54,888	918	1.7
March 2012	**55,582**	**857**	**1.5**

* Data as at 31 December 2010 are presented after application of the directives of the Supervisor of Banks regarding measurement and disclosure of impaired debts.

The total allowance for credit losses as at 31 March 2012, which includes the group allowance for housing loans (hereinafter "the overall allowance"), as required by a letter from the Bank of Israel dated 1 May 2011 is NIS 480 million, representing 0.84% of the housing balance, compared with a total of NIS 561 million in the corresponding period last year, representing 1.07% of the housing credit balance. The decrease in the allowance for credit losses is attributable to the decrease in the balance of arrears in the credit portfolio of the Leumi Mortgage and results from the improvement in economic indicators.

Data relating to new housing credit:

During the first quarter of 2012, the Leumi Mortgage extended new housing loans amounting to NIS 2.45 billion from the funds of Leumi Mortgage.

Development of rate of financing, in new credit, above 60%:

The table below presents the development of the new credit extended by Leumi Mortgage at a rate of a financing higher than 60%, (the rate of financing is the ratio between the rate of credit approved for the borrower (even if all or part thereof has not yet been actually extended) and the value of the mortgaged asset, when extending the credit facility.

	2012	2011				2010
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter	Average
	%					
From 60 to 70	**24.5**	26.2	24.0	20.9	21.7	25.3
From 70 to 80	**12.8**	12.0	11.2	10.4	15.3	19.7
Above 80	**2.5**	2.7	3.3	3.6	3.0	3.1

In the first quarter of 2012, some 39.8% of the loans made by Leumi Mortgage were above 60% financing, similar to the average financing rate in 2011.

Development of the rate of financing, balance of credit portfolio:

The average financing rate of the credit portfolio balance as at 31 March 2012 was 51.02%.

Development of new credit, where the repayment ratio is less than 2:

The rate of the new housing loan credit in the first quarter of 2012 in which the minimum repayment ratio was lower than 2 for income earners earning NIS 10,000 or less at the date of approving the credit stood at 1% of the total new credit extended, and on average, 2% for the whole of 2011. (The repayment ratio is calculated as follows: the fixed monthly income of the borrower divided by total monthly repayments in respect of the existing mortgage loans and the new loan).

This computation complies with the directives of the Bank of Israel for the purposes of reporting to Supervisor of Banks pursuant to Regulation 876.

Development of new credit, in which the maturity dates are longer than 25 years:

The percentage of new housing loans extended in the first quarter of 2012, in which the repayment schedule according to the loan contracts is longer than 25 years, stood at 28%, compared with an average of 39% of total loans extended throughout the whole of 2011. With effect from the second half of 2011, there was significant decline in the percentage loans extended for a period exceeding 25 years. In the fourth quarter, the percentage of these loans was 28% of total housing loans extended by Leumi Mortgage, compared to an average rate of 37% in 2010.

As a general rule, Leumi Mortgage does not extend new loans whose terms allow the borrower to pay back less than the interest accruing on the loan, except in exceptional cases.

Leumi Mortgage does not extend loans secured by a second charge, except in exceptional cases.

In accordance with the Leumi Mortgage's credit policy, Leumi Mortgage extends new loans when the information available regarding the borrower, or regarding the collateral, at the date of granting the loan, is complete, updated, and verified.

Development of credit risk

In recent years, against a background of strong demand for housing, both for residential purposes and for investment, there has been a marked increase in housing prices, leading to a substantial increase in the extent of housing credit. In light of this increase in prices, the risk inherent in extending loans at high rates of financing has increased, stemming from the high burden of debt on the borrower, and higher exposure when the security becomes impaired.

In addition, the low interest rates that have prevailed in the economy in recent years, mainly unlinked Prime interest, have led to a sharp increase in the proportion of unlinked variable interest loans out of total credit to the public in the mortgage market. As a consequence, in an environment of increasing interest rates, borrowers are exposed to a sharp rise in the level of mortgage payments.

As a result of economic developments occurring in the economy in recent years, as presented above, Leumi Mortgage adopted a number of measures in order to contend with the increase in the abovementioned credit risks:

- As part of the Leumi Mortgage's risk management, at the beginning of 2011, it was decided to tighten administrative restrictions for the following characteristics: high rates of financing, current monthly repayment capacity, credit ratings in accordance with the Leumi Mortgage's internal statistical model, loan products/paths, types of interest and the amounts of loans.

- As part of a stress scenario, Leumi Mortgage has examined the effect of impairment in collateral and an increase in interest rates on losses of Leumi Mortgage.

As a part of the capital planning process and its goals, Leumi Mortgage retains additional "capital buffers" to contend with higher risk characteristics, such as: a capital buffer in respect of loans at high rates of financing, a capital buffer in respect of the gap between the current rate of allowances for credit losses and the average rate over the economic cycle, and a capital buffer in respect of the possibility of a fall in real estate prices.

The average housing loan extended by Leumi Mortgage in the first quarter of 2012 was NIS 513 thousand, compared to NIS 540 thousand in 2011, NIS 665 thousand in 2010 and NIS 596 thousand in 2009.

Pension Counseling Services

The balances of the pension assets of customers receiving counseling in the Leumi Group up to the end of March 2012, including advanced training funds in respect of which counseling was provided in the framework of pension counseling and/or investment advice, amounted to some NIS 14.72 billion.

For information regarding legislation and regulations in the area of pension counseling, see the section "Banking Legislation" in the chapter, "Economic Environment and the Effect of External Factors on Activity".

2. Small Businesses

The following tables set out a summary of the profit and loss in the Small Businesses segment:

	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Overseas activity: Banking and finance	Overseas activity: Real estate	Total
	For the three months ended 31 March 2012							
	NIS millions							
Net interest income:								
From external sources	**176**	**6**	**-**	**1**	**74**	**10**	**1**	**268**
Intersegmental	**(10)**	**(2)**	**-**	**(1)**	**(24)**	**(2)**	**-**	**(39)**
Operating and other income:								
From external sources	**85**	**27**	**5**	**-**	**16**	**3**	**-**	**136**
Intersegmental	**1**	**(11)**	**-**	**-**	**-**	**-**	**-**	**(10)**
Total income	**252**	**20**	**5**	**-**	**66**	**11**	**1**	**355**
Expenses in respect of credit losses	**3**	**-**	**-**	**-**	**2**	**3**	**-**	**8**
Operating and other expenses:								
To external sources	**156**	**12**	**3**	**-**	**27**	**7**	**-**	**205**
Intersegmental	**(1)**	**1**	**-**	**-**	**-**	**-**	**-**	**-**
Profit before taxes	**94**	**7**	**2**	**-**	**37**	**1**	**1**	**142**
Provision for taxes on profit	**34**	**1**	**1**	**-**	**13**	**-**	**-**	**49**
Profit after taxes	**60**	**6**	**1**	**-**	**24**	**1**	**1**	**93**
Net profit attributable to non-controlling interests	**(1)**	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**
Net profit	**59**	**6**	**1**	**-**	**24**	**1**	**1**	**92**
% Return on equity								**29.1%**
Average balance of assets	**12,833**	**830**	**28**	**92**	**5,755**	**498**	**114**	**20,150**
Average balance of liabilities	**14,658**	**1,382**	**-**	**-**	**3,029**	**421**	**66**	**19,556**
Average balance of risk assets	**10,826**	**659**	**31**	**70**	**5,755**	**470**	**114**	**17,925**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**1,818**	**-**	**-**	**-**	**-**	**1,818**
Average balance of securities	**-**	**-**	**5,258**	**-**	**-**	**4**	**-**	**5,262**
Average balance of other assets under management	**233**	**-**	**-**	**-**	**-**	**-**	**-**	**233**
Balance of credit to the public	**12,900**	**824**	**24**	**91**	**5,754**	**508**	**106**	**20,207**
Balance of deposits of the public	**14,335**	**-**	**-**	**-**	**3,009**	**427**	**62**	**17,833**

Small Businesses (cont.)

	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Overseas activity: Banking and finance	Overseas activity: Real estate	Total
	For the three months ended 31 March 2011							
	NIS millions							
Net interest income:								
From external sources	187	5	-	1	72	8	1	274
Intersegmental	(26)	(1)	-	(1)	(22)	(2)	-	(52)
Operating and other income:								
From external sources	85	26	7	-	16	3	-	137
Intersegmental	-	(13)	-	-	-	-	-	(13)
Total income	246	17	7	-	66	9	1	346
Expenses in respect of credit losses	(10)	-	-	-	3	4	-	(3)
Operating and other expenses:								
To external sources	156	11	3	-	24	7	1	202
Intersegmental	-	1	-	-	-	-	-	1
Operating profit (loss) before taxes	100	5	4	-	39	(2)	-	146
Provision for taxes on operating profit	35	2	1	-	13	-	-	51
Operating profit (loss) after taxes	65	3	3	-	26	(2)	-	95
Net profit attributable to non-controlling interests	(1)	-	-	-	-	-	-	(1)
Net profit (loss)	64	3	3	-	26	(2)	-	94
% Return on equity								29.1%
Average balance of assets	12,257	789	37	111	5,235	578	106	19,113
Average balance of liabilities	13,488	1,398	-	-	2,812	411	78	18,187
Average balance of risk assets	10,941	623	42	86	5,240	667	106	17,705
Average balance of mutual fund and supplementary training fund assets	-	-	2,285	-	-	-	-	2,285
Average balance of securities	-	-	6,628	-	-	4	-	6,632
Average balance of other assets under management	256	-	-	-	-	-	-	256
Balance of credit to the public at 31 December 2011	12,741	814	31	93	5,750	488	122	20,039
Balance of deposits of the public at 31 December 2011	14,547	-	-	-	3,076	416	70	18,109

Small Businesses (cont.)

Main Changes in the Scope of Operations

Total credit to the public in the segment increased by NIS 0.2 billion compared with the end of 2011, an increase of 0.8%, and total deposits of the public fell by NIS 0.3 billion, a decrease of 1.5%.

Main Changes in the Net Profit

In the first three months of 2012, net profit in the small businesses segment totaled NIS 92 million, compared with NIS 94 million in the corresponding period last year, a decrease of 2.1%. This decrease in profit derives mainly from an increase in expenses in respect of credit losses amounting to NIS 11 million, partly offset by an increase in income amounting to NIS 9 million.

The return on equity of the net profit in the segment was 29.1%.

3. Corporate Banking

The following tables set out a summary of the profit and loss of the Corporate Banking segment:

					Overseas activity		
	Banking and finance	Credit cards	Capital market	Real estate	Banking and finance	Real estate	Total
	For the three months ended 31 March 2012						
	NIS millions						
Net interest income:							
From external sources	**380**	**6**	**-**	**269**	**3**	**1**	**659**
Intersegmental	**(147)**	**(3)**	**-**	**(131)**	**3**	**-**	**(278)**
Operating and other income:							
From external sources	**59**	**48**	**4**	**56**	**3**	**-**	**170**
Intersegmental	**3**	**(26)**	**-**	**-**	**-**	**-**	**(23)**
Total income	**295**	**25**	**4**	**194**	**9**	**1**	**528**
Expenses in respect of credit losses	**244**	**1**	**-**	**(34)**	**-**	**-**	**211**
Operating and other expenses:							
To external sources	**92**	**18**	**4**	**35**	**5**	**1**	**155**
Intersegmental	**(1)**	**-**	**-**	**-**	**-**	**-**	**(1)**
Profit (loss) before taxes	**(40)**	**6**	**-**	**193**	**4**	**-**	**163**
Provision for (benefit from) taxes on operating profit	**(13)**	**-**	**-**	**68**	**1**	**-**	**56**
Profit (loss) after taxes	**(27)**	**6**	**-**	**125**	**3**	**-**	**107**
Net profit attributable to non-controlling interests	**-**	**(1)**	**-**	**-**	**-**	**-**	**(1)**
Net profit (loss)	**(27)**	**5**	**-**	**125**	**3**	**-**	**106**
% Return on equity							**4.7%**
Average balance of assets	**52,462**	**400**	**163**	**26,591**	**600**	**127**	**80,343**
Average balance of liabilities	**23,061**	**2,616**	**-**	**5,639**	**629**	**169**	**32,114**
Average balance of risk assets	**78,298**	**380**	**162**	**26,902**	**890**	**127**	**106,759**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**1,424**	**-**	**-**	**-**	**1,424**
Average balance of securities	**-**	**-**	**63,168**	**-**	**104**	**-**	**63,272**
Average balance of other assets under management	**257**	**-**	**-**	**-**	**-**	**-**	**257**
Balance of credit to the public	**50,005**	**366**	**165**	**26,403**	**591**	**130**	**77,660**
Balance of deposits of the public	**17,003**	**-**	**-**	**5,585**	**1,139**	**169**	**23,896**

Corporate Banking (cont.)

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity: Banking and finance	Overseas activity: Real estate	Total
	For the three months ended 31 March 2011						
	NIS millions						
Net interest income:							
From external sources	442	6	3	320	4	(1)	774
Intersegmental	(171)	(2)	(3)	(190)	-	2	(364)
Operating and other income:							
From external sources	93	48	5	68	2	-	216
Intersegmental	-	(28)	-	-	-	-	(28)
Total income	364	24	5	198	6	1	598
Expenses in respect of credit losses	9	-	-	(84)	-	-	(75)
Operating and other expenses:							
To external sources	103	17	3	34	3	1	161
Intersegmental	-	-	-	-	-	-	-
Operating profit before taxes	252	7	2	248	3	-	512
Provision for taxes on operating profit	85	1	1	86	1	-	174
Operating profit after taxes	167	6	1	162	2	-	338
Net profit attributable to non-controlling interests	-	(1)	-	-	-	-	(1)
Net profit	167	5	1	162	2	-	337
% Return on equity							18.6%
Average balance of assets	47,511	393	156	26,463	642	-	75,165
Average balance of liabilities	25,392	2,602	116	5,913	302	287	34,612
Average balance of risk assets	66,536	405	155	26,874	923	-	94,893
Average balance of mutual funds and supplementary training funds	-	-	1,401	-	-	-	1,401
Average balance of securities	-	-	93,092	-	153	-	93,245
Average balance of other assets under management	223	-	-	-	-	-	223
Balance of credit to the public at 31 December 2011	49,899	387	162	26,389	609	125	77,571
Balance of deposits of the public at 31 December 2011	22,898	-	-	4,894	118	169	28,079

Corporate Banking (cont.)

Main Changes in the Scope of Operations

Total credit to the public in the segment increased by NIS 0.1 billion compared with the end of 2011 and total deposits of the public fell by NIS 4.1 billion, or about 14.9%.

Main Changes in Net Profit

In the first three months of 2012, net profit in the corporate banking segment totaled NIS 106 million, compared with NIS 337 million during the corresponding period in 2011, a decrease of 68.5%. The decrease in profit derives mainly from an increase in expenses in respect of credit losses amounting to NIS 286 million and a decrease in total income amounting to NIS 70 million, or 11.7%, which was partially offset by a decrease in operating expenses amounting to NIS 7 million.

The return on equity of the net profit in the segment was 4.7%.

4. Commercial Banking

The following tables set out a summary of the profit and loss of the Commercial Banking segment:

					Overseas activity			
	Banking and finance	Credit cards	Capital market	Real estate	Banking and finance	Capital market	Real estate	Total
	For the three months ended 31 March 2012							
	NIS millions							
Net interest income:								
From external sources	**114**	**3**	**-**	**90**	**137**	**-**	**35**	**379**
Intersegmental	**37**	**(1)**	**-**	**(39)**	**(20)**	**-**	**(12)**	**(35)**
Operating and other income:								
From external sources	**84**	**17**	**10**	**13**	**21**	**2**	**3**	**150**
Intersegmental	**(1)**	**(9)**	**-**	**1**	**-**	**-**	**-**	**(9)**
Total income	**234**	**10**	**10**	**65**	**138**	**2**	**26**	**485**
Expenses in respect of credit losses	**4**	**-**	**-**	**(6)**	**11**	**-**	**1**	**10**
Operating and other expenses:								
To external sources	**117**	**8**	**15**	**18**	**87**	**1**	**11**	**257**
Intersegmental	**(1)**	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**
Profit (loss) before taxes	**114**	**2**	**(5)**	**53**	**40**	**1**	**14**	**219**
Provision for (benefit from) taxes on operating profit	**42**	**1**	**(2)**	**18**	**12**	**-**	**4**	**75**
Net profit (loss)	**72**	**1**	**(3)**	**35**	**28**	**1**	**10**	**144**
Return on equity								**15.3%**
Average balance of assets	**23,527**	**326**	**400**	**8,294**	**15,037**	**-**	**3,305**	**50,889**
Average balance of liabilities	**34,125**	**937**	**77**	**2,774**	**10,973**	**-**	**401**	**49,287**
Average balance of risk assets	**26,653**	**263**	**481**	**9,264**	**13,045**	**-**	**3,305**	**53,011**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**3,619**	**-**	**-**	**149**	**-**	**3,768**
Average balance of securities	**-**	**-**	**39,773**	**-**	**-**	**2,089**	**-**	**41,862**
Average balance of other assets under management	**746**	**-**	**-**	**-**	**-**	**-**	**-**	**746**
Balance of credit to the public	**22,504**	**324**	**318**	**8,297**	**14,568**	**-**	**3,246**	**49,257**
Balance of deposits of the public	**32,868**	**-**	**154**	**2,592**	**10,797**	**-**	**394**	**46,805**

Commercial Banking (cont.)

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity: Banking and finance	Overseas activity: Capital market	Overseas activity: Real estate	Total
	For the three months ended 31 March 2011							
	NIS millions							
Net interest income:								
From external sources	138	2	-	115	111	-	33	399
Intersegmental	17	(1)	1	(62)	(18)	-	(9)	(72)
Operating and other income:								
From external sources	87	16	11	14	21	2	2	153
Intersegmental	-	(9)	-	-	-	-	-	(9)
Total income	242	8	12	67	114	2	26	471
Expenses in respect of credit losses	(44)	-	-	22	5	-	1	(16)
Operating and other expenses:								
To external sources	136	7	7	18	79	2	10	259
Intersegmental	-	-	-	-	-	-	-	-
Operating profit before taxes	150	1	5	27	30	-	15	228
Provision for taxes on operating profit	51	-	2	9	12	-	6	80
Net profit	99	1	3	18	18	-	9	148
% return on equity								15.7%
Average balance of assets	23,733	316	675	7,883	12,737	-	3,468	48,812
Average balance of liabilities	28,403	887	-	2,460	7,931	-	382	40,063
Average balance of risk assets	24,536	259	1,045	8,357	13,018	-	3,468	50,683
Average balance of mutual funds and supplementary training funds	-	-	4,030	-	-	132	-	4,162
Average balance of securities	-	-	39,151	-	-	1,882	-	41,033
Average balance of other assets under management	599	-	-	-	-	-	-	599
Balance of credit to the public at 31 December 2011	23,086	312	481	8,283	15,113	-	3,261	50,536
Balance of deposits of the public at 31 December 2011	32,684	-	-	2,676	10,770	-	397	46,527

Commercial Banking (cont.)

Main Changes in the Scope of Operations

Total credit to the public in the segment decreased by NIS 1.3 billion, a decrease of 2.5%, compared with the end of 2011, and total deposits of the public increased by NIS 0.3 billion, or 0.6%.

Main changes in net profit

In the first three months of 2012, net profit in the commercial banking segment totaled NIS 144 million, compared with NIS 148 million during the corresponding period in 2011, a decrease of NIS 4 million, or 2.7%. The fall in profit derives from an increase in expenses in respect of credit losses amounting to NIS 26 million, which was partly offset by an increase in income amounting to NIS 14 million, or 2.9%.

The return on equity of the net profit in the segment was 15.3%.

5. Private Banking

The following tables set out a summary of the profit and loss in the Private Banking segment:

						Overseas activity				
	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Banking and finance	Capital market	Mortgages	Real estate	Total
	For the three months ended 31 March 2012									
	NIS millions									
Net interest income:										
From external sources	**(53)**	**-**	**(1)**	**-**	**(1)**	**10**	**-**	**11**	**-**	**(34)**
Intersegmental	**90**	**-**	**1**	**-**	**3**	**45**	**-**	**(7)**	**1**	**133**
Operating and other income:										
From external sources	**12**	**-**	**36**	**-**	**3**	**51**	**51**	**1**	**-**	**154**
Intersegmental	**1**	**-**	**-**	**-**	**-**	**3**	**-**	**-**	**-**	**4**
Total income	**50**	**-**	**36**	**-**	**5**	**109**	**51**	**5**	**1**	**257**
Expenses in respect of credit losses	**(4)**	**-**	**-**	**-**	**-**	**3**	**-**	**-**	**-**	**(1)**
Operating and other expenses:										
To external sources	**41**	**(1)**	**16**	**-**	**3**	**103**	**53**	**3**	**1**	**219**
Intersegmental	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**1**
Profit (loss) before taxes	**13**	**1**	**20**	**-**	**2**	**2**	**(2)**	**2**	**-**	**38**
Provision for taxes on operating profit	**3**	**-**	**7**	**-**	**1**	**2**	**-**	**1**	**-**	**14**
Net profit (loss)	**10**	**1**	**13**	**-**	**1**	**-**	**(2)**	**1**	**-**	**24**
% Return on equity										**10.6%**
Average balance of assets	**1,944**	**58**	**8**	**34**	**419**	**8,323**	**-**	**1,111**	**-**	**11,897**
Average balance of liabilities	**19,746**	**-**	**18**	**-**	**1,146**	**17,440**	**-**	**14**	**212**	**38,576**
Average balance of risk assets	**2,397**	**43**	**8**	**26**	**419**	**6,887**	**-**	**389**	**-**	**10,169**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**4,650**	**-**	**-**	**-**	**1,653**	**-**	**-**	**6,303**
Average balance of securities	**-**	**-**	**38,912**	**-**	**-**	**-**	**36,453**	**-**	**-**	**75,365**
Average balance of other assets under management	**236**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**236**
Balance of credit to the public	**1,692**	**59**	**8**	**33**	**415**	**5,169**	**-**	**1,075**	**-**	**8,451**
Balance of deposits of the public	**19,096**	**-**	**35**	**-**	**1,264**	**17,423**	**-**	**14**	**193**	**38,025**

Private Banking (cont.)

	Banking and finance	Credit cards	Capital market	Real estate	Mortgages	Overseas activity: Banking and finance	Overseas activity: Capital market	Overseas activity: Mortgages	Overseas activity: Real estate	Total
	For the three months ended 31 March 2011									
	NIS millions									
Net interest income:										
From external sources	(45)	-	-	1	-	21	-	8	-	(15)
Intersegmental	78	-	-	1	-	39	-	(4)	1	115
Operating and other income:										
From external sources	13	-	41	2	-	33	37	1	-	127
Intersegmental	1	-	-	-	-	2	-	-	-	3
Total income	47	-	41	4	-	95	37	5	1	230
Expenses in respect of credit losses	(2)	-	-	1	-	(1)	-	-	-	(2)
Operating and other expenses:										
To external sources	40	(1)	16	2	-	55	30	3	-	145
Intersegmental	1	-	-	-	-	-	-	-	-	1
Operating profit before taxes	8	1	25	1	-	41	7	2	1	86
Provision for taxes on operating profit	3	-	9	-	-	11	1	1	-	25
Operating profit after taxes	5	1	16	1	-	30	6	1	1	61
Net profit attributable to non-controlling interests	-	-	-	-	-	(1)	-	-	-	(1)
Net profit	5	1	16	1	-	29	6	1	1	60
% Return on equity										32.2%
Average balance of assets	1,409	59	8	471	44	8,022	-	567	26	10,606
Average balance of liabilities	20,669	-	-	847	-	15,349	-	11	183	37,059
Average balance of risk assets	1,309	45	7	476	34	7,200	-	198	26	9,295
Average balance of mutual funds and supplementary training funds	-	-	4,715	-	-	-	1,602	-	-	6,317
Average balance of securities	-	-	38,973	-	-	-	30,292	-	-	69,265
Average balance of other assets under management	215	-	-	-	-	-	-	-	-	215
Balance of credit to the public at 31 December 2011	2,044	57	8	414	34	5,405	-	1,146	-	9,108
Balance of deposits of the public at 31 December 2011	19,676	-	-	1,212	-	18,866	-	14	231	39,999

Private Banking (cont.)

Main changes in the scope of operations

Total credit to the public in the segment decreased by NIS 0.6 billion, or 6.9%, compared with the end of 2011, and total deposits of the public decreased by some NIS 2 billion, or about 4.9%, partly as a result of the appreciation of the shekel against the dollar.

Main changes in net profit

In the first three months of 2012, net profit in the private banking segment amounted to NIS 24 million, compared with NIS 60 million in the corresponding period in 2011, a decrease of NIS 36 million or 60%. The decrease in profit derives mainly from an increase in operating expenses amounting to NIS 74 million, or 50.6%, mainly in overseas activity in the branches in the United Kingdom and Switzerland.

The return on equity of the net profit in the segment was 10.6%.

6. Financial Management – Capital Markets

	For the three months ended 31 March	
	2012	2011
	(NIS millions)	
Net interest income:		
From external sources	**153**	(41)
Intersegmental	**(70)**	189
Operating and other income:		
From external sources	**171**	56
Intersegmental	**(10)**	15
Total income	**244**	219
Provisions for doubtful debts	**(11)**	23
Operating and other expenses:		
To external sources	**215**	374
Intersegmental	**9**	7
Operating profit (loss) before taxes	**31**	(185)
Provision for taxes (benefit)	**18**	(58)
Operating profit (loss) after taxes	**13**	(127)
Group share in operating profits of companies included on equity basis after effect of tax	**(39)**	(42)
Net operating loss attributed to non-controlling interests	**-**	(1)
Net loss	**(26)**	(170)

In the first quarter of 2012, the net loss in the financial management segment amounted to NIS 26 million, compared with a loss of NIS 170 million in the corresponding period last year. The decrease in the loss is explained mainly by the following factors:

a. A decrease in operating and other expenses amounting to NIS 157 million, deriving from a decrease in operating expenses which were not loaded on other activity segments, mainly a decrease in liabilities for pension and severance pay, as a result of an increase in profits of the severance pay and provident funds, compared with the corresponding period last year.

b. An increase in income amounting to NIS 25 million.

c. An improvement in contribution of the overseas units.

Companies included on equity basis (Non-Banking) – (reported in the Financial Management Sector)

This includes the results of the Group's investment in non-banking (real) investments.

Leumi Group's total investments in companies included on equity basis amounted to NIS 2,187 million on 31 March 2012, compared with NIS 2,270 million on 31 December 2011.

Total investments in shares of companies included on equity basis (Table 13B - Basel II):

	Book value (NIS millions)			Market value (NIS millions)		Capital adequacy requirements	
Company	**31 March 2012**	31 December 2011	% change	**31 March 2012**	31 December 2011	**31 March 2012**	31 December 2011
The Israel Corporation Ltd.	**1,694**	1,748	(3.1)	3,453	3,291	**152**	157
Others *	**493**	522	(5.6)	-	-	**44**	47
Total	**2,187**	2,270	(3.7)	3,453	3,291	**196**	204

* Including investments in SuperPharm amounting to NIS 177 million.

The contribution to Group profit of companies included on equity basis in the first three months of 2012 amounted to a loss of NIS 39 million, compared with a loss of NIS 42 million in the corresponding period last year.

The following table shows the companies' contribution to the Group's net profit (in NIS millions):

	For the three months ended 31 March		
	2012	2011	% change
The Israel Corporation Ltd.	**(48)**	(32)	-
Others	**9**	(10)	+
Total	**(39)**	(42)	-

Holdings in Non-banking Holding Corporations (Conglomerates)

The Bank's holdings in non-banking corporations are subject to restrictions determined in the Banking (Licensing) Law, 1981 (the "Banking Law"). The Banking Law determines, *inter alia*, in section 24A, that a banking corporation is entitled to hold more than 1% of the means of control in only one conglomerate (a corporation whose capital exceeds some NIS 2,000 million and operates in more than three sectors of the economy). The Bank has holdings in one conglomerate - the Israel Corporation Ltd.

7. Others - This segment includes activities not allocated to the other segments.
This segment includes the other activities of the Group, none of which amounts to a profit segment according to the directives of the Bank of Israel. This activity primarily includes: part of the operations of companies that are not allocated to the other segments. During the first three months of 2012, the loss in the "Others" segment amounted to NIS 30 million, compared with a loss of NIS 24 million in the corresponding period last year.

The following table sets out details of the main changes, in NIS millions:

	For the three months ended 31 March		
	2012	2011	Change in amount
From operating activity at the Bank	**1**	3	(2)
Other companies in Israel	**2**	4	(2)
Overseas companies	**(2)**	8	(10)
Tax adjustments (1)	**(31)**	(39)	8
Total	**(30)**	(24)	(6)

(1) Tax differentials between tax calculations in the segments and the effective tax in the Consolidated Statements.

Activities in Products

A. Capital market activities - The Group's activities in the capital market include investment counseling activity, including counseling in relation to supplementary training funds, brokerage in the securities and financial instruments market, including activity carried out through the foreign currency and Israeli and foreign securities dealing rooms, brokerage and custody services, and banking and financial services for entities active in the capital market. A subsidiary company of Leumi Partners Ltd. engages in underwriting and distribution of public and private offerings.

The following tables set out details of the capital market operations as presented in the various operating segments:

	Households	Small businesses	Corporate banking	Commercial banking	Private banking	Financial management and others	Overseas activities	Total
	For the three months ended 31 March 2012							
	NIS millions							
Net interest income	**1**	**-**	**-**	**-**	**-**	**2**	**-**	**3**
Non-interest income	**115**	**5**	**4**	**10**	**36**	**23**	**54**	**247**
Total income	**116**	**5**	**4**	**10**	**36**	**25**	**54**	**250**
Operating and other expenses	**77**	**3**	**4**	**15**	**16**	**25**	**55**	**195**
Profit (loss) before taxes	**39**	**2**	**-**	**(5)**	**20**	**-**	**(1)**	**55**
Net profit (loss)	**26**	**1**	**-**	**(3)**	**13**	**1**	**(1)**	**37**

	House-holds	Small businesses	Corporate banking	Commercial banking	Private banking	Financial management and others	Overseas activities	Total
	For the three months ended 31 March 2011							
	NIS millions							
Net interest income	-	-	-	1	-	-	-	1
Non-interest income	142	7	5	11	41	35	40	281
Total income	142	7	5	12	41	35	40	282
Operating and other expenses	91	3	3	7	16	14	34	168
Profit before taxes	51	4	2	5	25	21	6	114
Net income	33	3	1	3	16	15	5	76

In the first quarter of 2012, net operating profit after taxes from capital market operations amounted to NIS 37 million, compared with NIS 76 million in the corresponding period in 2011.

B. Credit Cards - Leumi Card

This activity includes mainly the issue of credit cards to private customers and voucher clearing services for businesses.

The principal credit card activities are carried out by the subsidiary, Leumi Card, which engages in the issue of credit cards, the provision of voucher clearing services and the development of payment solutions.

Leumi Card ended the first quarter of 2012 with a net profit of NIS 45 million, compared with NIS 40 million in the corresponding period in 2011.

During the first quarter of 2012, the volume of activity by Leumi Card cardholders increased by 9% compared with the activity in the corresponding period in 2011. The number of valid cards at 31 March 2012 increased by 6%, compared with the corresponding period last year.

On 17 April 2012, a license agreement was signed by Leumi Card and Isracard, by virtue of which Leumi Card was granted a license to clear and issue and an opportunity to provide services for debit cards under the brand name of Isracard. The agreement came into force on 15 May 2012.

Further to the license agreement, the activity of clearing the cards under the Isracard brand is expected to be conducted in a similar fashion to the clearing of cards in the joint interface between credit card companies in the sector for clearing Visa and Mastercard cards.

On 14 May 2012, the Antitrust Commissioner granted a temporary exemption to the license agreement signed by the parties. The exemption is for a period of three months, and is contingent on Isracard not collecting any payment in excess of the interchange fees, in respect of clearing cards of Isracard. During this period, the Antitrust Commissioner intends to examine the justifications for the additional payments that Isracard wishes to collect within the framework of the agreement.

According to an assessment by Leumi Card, the license agreement will lead to a substantial intensification of competition in the area of clearing debit cards in Israel.

The following tables set out details of credit card activity as presented in the various operating segments:

	Households	Small businesses	Corporate banking	Commercial banking	Private banking	Total
	For the three months ended 31 March 2012					
	NIS millions					
Net interest income	**50**	**4**	**3**	**2**	**-**	**59**
Non-interest income	**163**	**16**	**22**	**8**	**-**	**209**
Total income	**213**	**20**	**25**	**10**	**-**	**268**
Expenses in respect of credit losses	**3**	**-**	**1**	**-**	**-**	**4**
Operating and other expenses	**149**	**13**	**18**	**8**	**(1)**	**187**
Profit before taxes	**61**	**7**	**6**	**2**	**1**	**77**
Minority interests	**(7)**	**-**	**(1)**	**-**	**-**	**(8)**
Net profit	**35**	**6**	**5**	**1**	**1**	**48**

	Households	Small businesses	Corporate banking	Commercial banking	Private banking	Total
	For the three months ended 31 March 2011					
	NIS millions					
Net interest income	43	4	4	1	-	52
Non-interest income	164	13	20	7	-	204
Total income	207	17	24	8	-	256
Expenses in respect of credit losses	5	-	-	-	-	5
Operating and other expenses	151	12	17	7	(1)	186
Profit before taxes	51	5	7	1	1	65
Minority interests	(6)	-	(1)	-	-	(7)
Net profit	30	3	5	1	1	40

The operating profit from credit card activities in the first quarter of 2012 amounted to NIS 48 million, as compared with NIS 40 million in the corresponding period in 2011, an increase of 20%, deriving mainly from an increase in income amounting to NIS 12 million.

C. Real Estate

	Small businesses	Corporate banking	Commercial banking	Private banking	Overseas activities	Total
	For the three months ended 31 March 2012					
	NIS millions					
Net interest income	**50**	**138**	**51**	**2**	**30**	**271**
Non-interest income	**16**	**56**	**14**	**3**	**13**	**102**
Total income	**66**	**194**	**65**	**5**	**43**	**373**
Expenses in respect of credit losses	**2**	**(34)**	**(6)**	**-**	**1**	**(37)**
Operating and other expenses	**27**	**35**	**18**	**3**	**13**	**96**
Profit before taxes	**37**	**193**	**53**	**2**	**29**	**314**
Net profit	**24**	**125**	**35**	**1**	**20**	**205**

	Small businesses	Corporate banking	Commercial banking	Private banking	Overseas activities	Total
	For the three months ended 31 March 2011					
	NIS millions					
Net interest income	50	130	53	2	32	267
Non-interest income	16	68	14	2	3	103
Total income	66	198	67	4	35	370
Expenses in respect of credit losses	3	(84)	22	1	1	(57)
Operating and other expenses	24	34	18	2	12	90
Profit before taxes	39	248	27	1	22	337
Net profit	26	162	18	1	13	220

Profit Centers in the Group

The following table sets out details of the contribution of the Group's major profit centers to net operating profit:

	For the first three months of		
	2012	2011	Change
	NIS millions		%
The Bank	**297**	378	(21.4)
Consolidated companies in Israel (1	**134**	160	(16.3)
Overseas consolidated companies (2)	**48**	48	-
Companies included on equity basis (1)	**(48)**	(32)	(50.0)
Net profit	**431**	554	(22.2)
Overseas subsidiaries' profit, in nominal terms (US$ millions) (3)	**11.4**	16.1	(29.2)

(1) Companies included on equity basis belonging to Israeli companies are included in the data of the consolidated companies in Israel.
(2) After certain adjustments to Israeli accounting principles.
(3) As reported by the overseas subsidiaries, including overseas branches and minority interests.

The following are the main changes in the contribution of the profit centers (after translation adjustments):

- The decrease in net profit at the Bank arises mainly from an increase in credit loss expenses that were offset, an increase in net interest income, an increase in non-interest income and a decrease in operating and other expenses. Most of the explanations for the abovementioned changes are presented above in the chapter "Development of Income and Expenses and Tax Provision" as part of the discussion on the Group's results and those arising mainly from the Bank's results.

- The decrease in the net profit of consolidated companies in Israel derives mainly from a decrease in the profits of Leumi Partners, as a result of recording impairment of a nature other than temporary in investments in the shares of Partner amounting to NIS 59 million, net, which was partly offset by an increase in the profits of the Leumi Mortgage and Leumi Card.

- No change in the net profit of overseas subsidiaries.

- The decrease in profit of companies included on equity basis derives from a loss of the Israel Corporation.

The operating profits of the overseas units in nominal terms, as published by them (including the Bank's overseas branches and minority interests) translated for convenience to U.S. dollars, totaled some US$ 11.4 million, a fall of US$ 4.7 million compared with the corresponding period in 2011. The contribution of the overseas units in shekels, after certain adjustments to Israeli accounting principles, amounted to a profit of NIS 48 million, similar to the amount in the corresponding period in 2011.

Activities of Major Investee Companies

General

The Bank Leumi Group operates in Israel and abroad through subsidiaries, comprising banks, a mortgage bank, finance companies and financial service companies. The Group also invests in non-banking corporations engaged in the fields of insurance, energy, chemicals, infrastructure and real estate.

Consolidated Companies in Israel

The Bank's investments in consolidated companies in Israel amounted to NIS 7,402 million on 31 March 2012, compared with NIS 7,203 million on 31 December 2011. The contribution to net profit in the first three months of 2012 was some NIS 133.8 million, compared with some NIS 160.5 million in the corresponding period in 2011, a decrease of 16.6%.

The following table sets out the contribution of the major consolidated companies in Israel to the net profit of the Group:

	Return on Group investment		Contribution to Group profit (1)		
	For the period ended 31 March				
	2012	2011	**2012**	2011	Change
	%		NIS millions		%
Leumi Mortgage Bank	**10.5**	9.3	**70.3**	59.4	18.4
Arab Israel Bank	**26.7**	31.5	**25.6**	23.8	7.6
Leumi Card	**17.6**	17.2	**36.2**	31.8	13.8
Leumi Partners (2)	**-**	16.4	**(18.0)**	21.4	-
Leumi Securities	**13.9**	2.5	**0.6**	0.5	20.0
Leumi Real Holdings	**1.9**	2.0	**4.1**	4.4	(6.8)
Leumi Leasing and Investments	**2.0**	4.2	**4.7**	9.4	(50.0)
Others	**4.1**	4.2	**10.3**	9.8	5.1
Total consolidated companies in Israel	**7.6**	9.4	**133.8**	160.5	(16.6)

(1) The profit (loss) presented is according to the Group's share in the results.
(2) Including the profit and/or loss of associate companies of Leumi Partners.

Overseas Consolidated Companies

The Bank's investments in overseas consolidated companies amounted to NIS 4,829 million on 31 March 2012, compared with NIS 4,754 million on 31 December 2011.

In the first quarter of 2012, the contribution of overseas consolidated subsidiaries to the net operating profit of the Group amounted to a profit of NIS 48 million, compared with a similar amount in the corresponding period in 2011.

The following table sets out the contribution of the principal overseas consolidated companies to the net profit of the Group:

	Return on the Group's investment		Contribution to the Group's profit		
	For the three months ended 31 March				
	2012	2011	**2012**	2011	
	%		NIS millions		% change
Leumi USA (BLC) *	**3.5**	-	**22.0**	(34.9)	+
Leumi UK	**18.4**	30.4	**29.6**	40.3	(26.6)
Leumi Private Bank *	**-**	6.7	**(7.6)**	10.2	-
Leumi Luxembourg	**17.7**	42.4	**5.4**	9.9	(45.5)
Leumi Re	**-**	43.0	**(5.3)**	6.9	-
Leumi Romania	**10.1**	29.0	**5.6**	16.4	(65.9)
Others	**-**	-	**1.2**	(0.8)	-
Total overseas consolidated companies	**4.1**	4.9	**48.5**	48.0	1.0

* In 2011, the contribution to profit includes exchange rate differentials on the investment.

The following table sets out details of the net profit (loss) of the overseas subsidiaries as reported by them:

	For the three months ended 31 March		
	2012	2011	Change
	NIS millions		%
Leumi USA (BLC) - US$	**5.9**	2.5	+
Of which: BL USA - US$	**5.8**	5.2	11.5
Leumi UK - £	**4.1**	5.4	(24.1)
Leumi Private Bank - CHF	**-**	2.5	-
Leumi Luxembourg - €	**1.0**	1.0	-
Leumi Re - US$	**0.5**	2.3	-
Leumi Romania –Ron	**6.8**	(2.3)	+
Total translated to the dollar	**16.2**	16.5	(1.8)

* 1 Ron = NIS 1.133.

The nominal profit of the overseas consolidated companies as reported by them totaled US$ 16.2 million in the first three months of 2012, compared with US$ 16.5 million in the corresponding period in 2011, a decrease of 1.8%.

For information regarding legal actions and other matters connected to consolidated companies, see Note 6 to the Financial Statements.

Non-Banking Activities of Companies included on Equity Basis

Total investments of the Group in companies included on equity basis on 31 March 2012 amounted to NIS 2,187 million, compared with NIS 2,270 million on 31 December 2011.

During the first three months of 2012, the contribution to net profit was a loss of NIS 39 million, compared with a loss of NIS 42 million in the corresponding period in 2011.

Risk Exposure and Risk Management

This section is set out in more detail in the 2011 Financial Statements (pages 207-262), and should therefore be read in conjunction with the above Annual Report.

Main changes in the risk environment

Around the world, there is still considerable uncertainty due to the continuing crisis in the Eurozone. Uncertainty in Europe is high in view of the basic problems of leading economies in the zone, for example, Spain and Italy and concern over Greece leaving the Eurozone. These are likely to be reflected, *inter alia*, in continuing fluctuations in financial markets around the world and in Israel.

In Israel, the slowdown in economic activity resulting from the crisis in the Eurozone and the crisis in the local corporate debenture market will impact the Bank's borrowers. In addition, the publication requirements of the Banking Supervision Department regarding an increase in the capital adequacy ratios by the banks is liable to lead to a contraction in the supply of sources of finance to large companies and an increase in the risk of leveraged companies.

In addition to these factors, the risk environment in which the Israeli banks operate is and will be affected in the coming year by geopolitical uncertainty, social unrest, which impacts companies in certain sectors, and an increase in legal-regulatory risks.

Leumi is monitoring the changes in the risk level of the various threats and is taking steps to minimize the risk in such a way as to continue to guarantee compliance with the risk appetite defined by the Leumi Board of Directors.

Table of risk factors

There has been no change in the classification in the severity of the risk factors in relation to the table published in the 2011 Annual Report on page 211.

Basel directives and preparations in Leumi

The financial statement data of Leumi, the calculation of the risk assets and capital adequacy ratio as of 31 March 2012 were computed and are presented in accordance with the directives required pursuant to the rules of the standardized approach in Basel II. According to the Group's assessment, the capital adequacy ratio covers the capital required in respect of the First and Second Pillars, including the stress scenarios used by the Group in its internal assessments. Details of the subject of the Basel directives, the ICAAP and Basel III appear in the Annual Report on page 215.

Basel III – Trends and forward looking information

In June 2011, the Basel III directives (published in December 2010) "Increasing the Resilience of the Banking System" were updated by the Bank for International Settlements (BIS). These directives rely on the Basel II directives and come to update several aspects learned from the lessons of the recent financial crisis. These directives are due to come into force at the beginning of 2013.

The purpose of the directives proposed by the BIS is to reinforce the standing of the banking system at a time of crisis, in view of the lessons learned from the crisis of 2008-2009, introducing improvements in the area of risk management and with an emphasis on:

- Improving the quality of capital and an increase thereof.
- Improving the liquidity ratios and determining consistent standards for measuring liquidity.
- Reducing the pro-cyclical influence of the economic position on the capital requirements.
- Increasing transparency of the risk management methods.
- Reducing risks as a result of the realization of counter-party risks.

In November 2011, a draft translation of the Basel III document was published by the Banking Supervision Department. This draft is a literal translation of the original. In March 2012, the Supervisor of Banks sent a draft directive to all banking corporations relating to his intention to determine a minimal core capital ratio higher than that currently required. According to this directive, all banking corporations will be required to comply with a minimum core capital equity ratio of 9% until 1 January 2015.

In addition, a large banking corporation, the total of whose balance sheet assets on a consolidated basis constitutes at least 20% of the total balance sheet assets of the Israeli banking system, will be required to comply with a minimum core capital ratio at the rate of 10%, by 1 January 2017. This additional directive applies to the Bank.

Core capital ratio is to be calculated in accordance with the Basel III provisions and adjustments determined by the Supervisor of Banks.

In May 2011, the Bank of Israel published a first draft amendment to Proper Conduct of Banking Business Regulation No. 342 regarding the management of liquidity risks, which has undergone a number of changes, and its last version was transferred to the banks in April 2012. The draft represents a milestone in the adoption of the international regulatory directives regarding liquidity that have been developed in light of the crisis in 2008 and 2009. The purpose in revising the regulation is gradually to begin adopting the Basel III directives for managing liquidity risks, particularly, the definition of minimum ratios between liquid assets and liabilities which, it is estimated, will materialize within a specified period of time. In particular, this involves the definition of a minimum liquidity ratio for a period of a month (a liquidity coverage ratio - LCR) and the definition of a stable funding ratio for a period of a year (a net stable funding ratio - NSFR).

In March 2012, the Bank of Israel published draft amendments to Proper Conduct of Banking Business Nos. 205, 208 and 209. These directives deal with a change in a capital allocation of securitization transactions and in respect of certain instruments in the trading portfolio and with improvements in the risk management processes and the revaluation of financial instruments with a low level of liquidity.

The Bank of Israel has set up working teams including representatives of the banks and has transferred working files for conducting quantitative influence surveys (QIS) for assessing the effect of the transition to the Basel III directives on the capital adequacy ratios and liquidity ratios of the banks in Israel.

Leumi Group is studying the impact of the abovementioned directives - if and when they are implemented in Israel - on the capital adequacy and liquidity ratios required by them.

In the Report of the Board of Directors and in the financial statements, certain required data have been expanded and/or added pursuant to the Third Pillar of Basel II, in accordance with the regulations of the Supervisor of Banks, as set forth below:

Subject	Table	Report of the Board of Directors	Financial statements
General	1		-
Capital structure (quantitative and qualitative)	2	Page 6	Note 4
Capital adequacy (quantitative and qualitative)	3	Page 7	-
Risk exposures and its assessment – general qualitative disclosure		-	-
Credit risk – qualitative disclosure	4	Pages 94	-
Credit risk exposures by main credit type	4(b)	Page 94	-
Exposures by geographical region to foreign countries	4(c)	Page 109	Exhibit D
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Credit risk

For a summary of the exposures and consideration of the credit risk management, see pages 218-243 to the 2011 Annual Report.

The Bank's credit and credit risk policy represents one of the central pillars for expressing the Bank's credit risk strategy, aside the existing procedures for identifying, measuring, monitoring, supervising and controlling credit risk. The existing procedures and credit policy relate to the credit risks in all of the Bank's activities, and apply to both the single credit and to the entire credit portfolio.

The Bank's commercial credit policy is derived from the Group credit policy which is a "supra"-document representing a framework for the Bank's policy in Israel and for the Bank's foreign subsidiaries: in the United States, the United Kingdom and Romania. The Bank's credit policy is also presented for subsidiaries in Israel, representing a recommendation and guideline for formulating credit policy in each of the subsidiaries in Israel.

The credit policy and credit risk document of the Bank in Israel is revised every year, discussed in the Bank's management and approved by the Bank's Board of Directors. The document outlines policy for the Bank's activity in Israel and gives expression to the state of the economy around the world and in Israel and to the risk environment assessed for the coming year. The credit policy for 2012 was approved by the Board of Directors in February 2012.

The guiding principles in the Bank's credit policy are based on the dispersal of risks and their controlled management. This is reflected in the decentralization of the credit portfolio between the various market sectors and over a large number of borrowers.

Management and Control Procedures

As part of the control and supervision over credit, there are directives and regulations relating to the type of credit, terms of financing, method of reliance on the various collaterals, type of transaction, and periods of credit, and in this context, the control and supervision over executing policy have been tightened. On the individual level, special emphasis has been placed on the examination of the business condition with customers in which the level of risk has risen. Control is exercised by the use of control tools and improvement in the efficiency of working procedures.

The Bank's credit policy relates to bank credit at normative risk levels as they are defined, and accordingly, general guidance is given to the desired and better risk level. Therefore, the credit authorities are valid only in respect of transactions in the "green channel" (corresponding to the Bank's up-to-date credit policy).

The Bank is in the process of setting up an advanced system for managing the loan portfolio, with the aim of upgrading its capability to control risks, in particular, the various risks of concentration, maintaining the limits of risk factors in the area of credit, directing activities with the objective of improving the ratio of return on risk, and facilitating a more accurate pricing system of credit risks.

Further to the credit policy of the Bank of Israel, principles and rules have been determined, according to which the Bank's credit portfolio will be presented, managed and audited, with the aim of estimating the risk inherent in the portfolio, improve the quality of the portfolio, and reduce the risk inherent in its management. These principles and rules relate both to the single customer and groups of borrowers, and to the level of the sectors of the economy and sectors of activity.

As aforesaid, the Board of Directors of the Bank approves the Bank's credit and collateral policy and the sector and other restrictions.

Reporting on credit risk

The Bank is meticulous in maintaining routine and up-to-date reporting to members of the Bank Management and the Banking Supervision Department. Reporting to the Banking Supervision Department includes reports on various credit matters, including credit risk by sector of the economy, financial instruments, the structure of capital and the minimum capital ratio, large individual borrowers and groups of borrowers, credit for financing the acquisition of means of control, problem loans and supplementary provision, credit exposures of subsidiaries abroad, related persons, etc.

Reports to Bank Management and/or to the Board of Directors relate to the development of credit for exceptional or major transactions, the results of quarterly reviews of the risk rating of borrowers in particular, and of the overall credit portfolio in general, quarterly reports on concentrations of credit by sector of the economy, individual borrowers and groups of borrowers, loans for financing the acquisition of means of control, countries, Israeli and foreign banks in relation to the restrictions set by the Banking Supervision Department and internal restrictions, the distribution of problem credit among the various units of the Bank, and information on customers with special sensitivity, etc.

Organizational structure and management responsibility of credit risk

Credit Risk Management Unit in the Risk Management Division

In the Risk Management Division, which is subject to the Chief Risk Officer of the Group (CRO), the credit risk unit operates with a credit risk manager at its head. The unit is responsible for credit risk management at the portfolio level, including the formulation of the credit and credit risks policy document, monitoring and analyzing risks in the entire credit portfolio, independently examining and controlling specific credit portfolios and developing quantitative models and tools for measuring and controlling credit risks.

Credit risk management (CRM) in the Corporate Division

In order to structure the decision-making process as a function of the risk entailed in financing borrowers, CRM units operate within the Corporate Division, the Construction and Real-Estate Department, the diamond sector and the Commercial Division. The purpose of the CRM units is to optimize decision-making in credit portfolios. CRM units are responsible for the in-depth analysis of credit applications from business units, validating borrowers' risk ratings, systematic credit monitoring, making recommendations on classifications and provisions, developing methodologies and financing "formats", developing control processes and implementing working procedures and rules for granting credit at Bank level. The main work of the units focuses on making an independent examination of recommendations of customer relationship managers’ for determining credit facilities for financing customers under their care, and identifying customers whose situation has deteriorated, while indicating the main risks characterizing the credit portfolio and making recommendations for the continued treatment of the customers.

In the Banking Division, the Consumer Credit Risk Management department is under the responsibility of the retail CRM sector, which is responsible for the entire retail credit portfolio, and for preparing Leumi's consumer credit policy document.

Special Loans Unit

Effective 1 May 2012, the Special Loans Unit operates under the responsibility of the Head of the Commercial Division. The unit specializes in dealing with companies in difficulties, and consists of the following two sectors:

1. **ITSC (Intensive Treatment of Sensitive Customers) Sector** – a professional unit dealing with active customers presently in difficulties, under the assumption that the company can be brought back to normative operations if it is managed and financed correctly.

2. **Collections Sector** – deals with inactive customers or those whose operations are about to be shut down.

Focus points in credit risk management

Against the background of fluctuations and financial and political crises we have witnessed in the past year including the first quarter of 2012, the Bank is increasing its efforts to identify borrowers and segments of the population that are likely to be impacted as a result, including:

- Exporters and/or entities with a high dependence on proceeds in foreign currency.
- Manufacturers dealing with competition in imports.
- Firms operating in "luxury" sectors, which are the first to suffer from a decline in demand in periods of economic slowdown.
- Borrowers raising index-linked credit in Israeli currency with the proceeds intended for investments abroad (such as real estate companies operating overseas).
- Borrowers who have raised sources of finance in recent years on the capital market, and intend to base their future sources of repayment on raising funds in the Stock Exchange and/or an exit from existing investments.
- Borrowers whose debts are based on shares that constitute a material part of their asset value and/or the collateral on which the Bank is relying.
- Borrowers in the real estate sector who are exposed to a fall in property prices as a result of a fall in demand.
- Holding companies, the value of whose assets is impaired, and as a result, the ratio between the value of holdings and the scope of leverage is worsened, making it more difficult to raise and turnover credit for repayment of earlier debts.

The Bank maintains strict control on a continuous basis over the effects of erosion and exposures created for the relevant borrowers which also derive from the volatility described above; including in-depth discussion of customers it defines as sensitive.

In view of the current uncertainty against the backdrop of financial difficulties prevailing in various countries, the Bank adopts a selective policy in expanding activity in areas in which there has been an increase in risk, while differentiating between different risk levels, and adjusting credit margins and terms accordingly.

1. Exposure and management of credit risks to the public

Credit risk exposures by main type of credit exposure (Table 4(b) – Basel II):

Type of credit exposure	**31 March 2012**	31 March 2011	31 December 2011	**31 March 2012**	31 March 2011	31 December 2011
	Gross credit risk exposure			Average gross credit risk exposure		
	NIS million			NIS million		
Credit	**290,400**	265,082	296,643	**293,522**	263,890	278,944
Debentures	**39,147**	37,592	37,229	**38,188**	41,520	35,557
Others	**14,052**	13,406	14,199	**14,126**	13,137	13,795
Guarantees and liabilities on account of customers	**116,304**	110,662	113,112	**114,704**	108,960	111,531
Transactions in derivative financial instruments	**7,001**	14,101	7,592	**7,297**	13,978	13,503
Total	**466,904**	440,843	468,775	**467,837**	441,485	453,330

Credit risk exposures by counterparty and main credit type (Table 4(d) - Basel II.

	31 March 2012					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivatives	Total
	NIS millions					
Sovereign debts	**35,419**	**26,280**	**-**	**174**	**27**	**61,900**
Debts of public-sector entities	**3,225**	**2,037**	**-**	**148**	**-**	**5,410**
Debts of banking corporations	**10,795**	**5,375**	**-**	**1,730**	**2,982**	**20,882**
Debts of corporations	**121,105**	**4,175**	**-**	**76,808**	**3,941**	**206,029**
Debts collateralized by commercial real estate	**19,910**	**-**	**-**	**1,681**	**-**	**21,591**
Retail exposures to individuals	**28,601**	**-**	**-**	**26,700**	**51**	**55,352**
Loans to small businesses	**13,395**	**-**	**-**	**3,851**	**-**	**17,246**
Housing mortgages	**57,950**	**-**	**-**	**5,212**	**-**	**63,162**
Securitization	**-**	**1,280**	**-**	**-**	**-**	**1,280**
Other assets	**-**	**-**	**14,052**	**-**	**-**	**14,052**
Total credit risk	**290,400**	**39,147**	**14,052**	**116,304**	**7,001**	**466,904**

	31 March 2011					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivatives	Total
	NIS millions					
Sovereign debts	23,944	20,780	-	2,288	17	47,029
Debts of public-sector entities	3,121	3,256	-	130	-	6,507
Debts of banking corporations	11,454	6,242	-	1,863	6,783	26,342
Debts of corporations	114,484	6,090	-	69,564	7,236	197,374
Debts collateralized by commercial real estate	18,498	-	-	1,398	-	19,896
Retail exposures to individuals	25,716	-	-	25,552	65	51,333
Loans to small businesses	14,672	-	-	4,187	-	18,859
Housing mortgages	53,193	-	-	5,680	-	58,873
Securitization	-	1,224	-	-	-	1,224
Other assets	-	-	13,406	-	-	13,406
Total credit risk	265,082	37,592	13,406	110,662	14,101	440,843

	31 December 2011					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivatives	Total
	NIS millions					
Sovereign debts	41,287	24,666	-	189	21	66,163
Debts of public-sector entities	3,299	1,398	-	180	-	4,877
Debts of banking corporations	10,485	5,331	-	1,939	2,381	20,136
Debts of corporations	123,502	4,683	-	74,603	5,146	207,934
Debts collateralized by commercial real estate	19,180	-	-	1,489	-	20,669
Retail exposures to individuals	27,688	-	-	26,702	44	54,434
Loans to small businesses	13,816	-	-	4,021	-	17,837
Housing mortgages	57,386	-	-	3,989	-	61,375
Securitization	-	1,151	-	-	-	1,151
Other assets	-	-	14,199	-	-	14,199
Total credit risk	296,643	37,229	14,199	113,112	7,592	468,775

Distribution of portfolio by repayment period and by main types of credit exposure – (Table 4(e) – Basel II):

	31 March 2012					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivatives	Total
	NIS millions					
Up to one year	**155,373**	**20,192**	**2,613**	**73,786**	**4,621**	**256,585**
From one to five years	**65,570**	**10,807**	**651**	**27,719**	**2,677**	**107,424**
More than five years	**69,357**	**8,148**	**2,421**	**14,799**	**6,264**	**100,989**
Non-monetary items	**100**	**-**	**8,367**	**-**	**1,536**	**10,003**
Benefits for offset	**-**	**-**	**-**	**-**	**(8,097)**	**(8,097)**
Total	**290,400**	**39,147**	**14,052**	**116,304**	**7,001**	**466,904**

	31 March 2011					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivatives	Total
	NIS millions					
Up to one year	137,703	12,508	2,306	67,835	5,913	226,265
From one to five years	59,566	14,179	630	28,359	1,968	104,702
More than five years	67,510	10,905	1,900	14,468	3,749	98,532
Non-monetary items	303	-	8,570	-	2,471	11,344
Benefits for offset					-	-
Total	265,082	37,592	13,406	110,662	14,101	440,843

	31 December 2011					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivatives	Total
	NIS millions					
Up to one year	162,556	16,965	2,812	70,093	6,151	258,577
From one to five years	64,748	12,502	743	28,877	2,600	109,470
More than five years	69,184	7,762	2,345	14,142	7,012	100,445
Non-monetary items	155	-	8,299	-	1,653	10,107
Benefits to be offset					(9,824)	(9,824)
Total	296,643	37,229	14,199	113,112	7,592	468,775

Credit risk according to the standardized approach (Table 5 – Basel II)*:

The tables below set forth details of gross credit exposure according to risk weighting, the exposure being distributed by the counterparty, before and after deduction of credit risk in respect of recognized collateral.

* See details below in Tables 4(b) and 4(d).

Amount of exposure before expenses in respect of credit losses and before deduction of credit risk (2):

	31 March 2012									
	0%	20%	35%	50%	75%	100%	150%	350%	Deduction from equity	Gross credit exposure (1)
	NIS millions									
Sovereign debts	**58,274**	**2,941**	**-**	**375**	**-**	**310**	**-**	**-**	**-**	**61,900**
Debts of public-sector entities	**-**	**2,016**	**-**	**3,393**	**-**	**-**	**1**	**-**	**-**	**5,410**
Debts of banking corporations	**36**	**16,677**	**-**	**3,738**	**-**	**431**	**-**	**-**	**-**	**20,882**
Debts of corporations	**-**	**401**	**-**	**1,836**	**-**	**200,497**	**3,295**	**-**	**-**	**206,029**
Debts collateralized by commercial real estate	**-**	**-**	**-**	**-**	**-**	**21,162**	**429**	**-**	**-**	**21,591**
Retail exposures to individuals	**-**	**-**	**-**	**-**	**55,087**	**134**	**131**	**-**	**-**	**55,352**
Loans to small businesses	**-**	**-**	**-**	**-**	**16,892**	**254**	**100**	**-**	**-**	**17,246**
Housing mortgages	**-**	**-**	**40,000**	**-**	**17,889**	**5,071**	**202**	**-**	**-**	**63,162**
Securitization	**-**	**1,103**	**-**	**124**	**-**	**18**	**-**	**-**	**35**	**1,280**
Other assets	**2,041**	**-**	**-**	**-**	**-**	**11,585**	**426**	**-**	**-**	**14,052**
Total	**60,351**	**23,138**	**40,000**	**9,466**	**89,868**	**239,462**	**4,584**	**-**	**35**	**466,904**

(1) Before conversion to credit of off-balance sheet components, as required in the Basel II Directives (e.g. weighting of unutilized facilities) and before reduction of credit risk as a result of performing certain transactions (e.g. by the use of guarantees).

(2) The reduction of credit risk expresses the final classification of the risk weighting between the various rates.

The above comments relate to the table in the chapter "Credit Risk according to the Standardized Approach (Table 5 – Basel II)"

Amount of exposure after expenses in respect of credit losses and before deduction of credit risk (2):

	31 March 2012									
	0%	20%	35%	50%	75%	100%	150%	350%	Deduction from equity	Gross credit exposure (1)
	NIS millions									
Sovereign debts	**58,274**	**2,941**	**-**	**375**	**-**	**310**	**-**	**-**	**-**	**61,900**
Debts of public-sector entities	**-**	**2,015**	**-**	**3,391**	**-**	**-**	**1**	**-**	**-**	**5,407**
Debts of banking corporations	**35**	**16,674**	**-**	**3,738**	**-**	**431**	**-**	**-**	**-**	**20,878**
Debts of corporations	**-**	**401**	**-**	**1,836**	**-**	**197,953**	**3,201**	**-**	**-**	**203,391**
Debts collateralized by commercial real estate	**-**	**-**	**-**	**-**	**-**	**21,022**	**395**	**-**	**-**	**21,417**
Retail exposures to individuals	**-**	**-**	**-**	**-**	**54,676**	**86**	**128**	**-**	**-**	**54,890**
Loans to small businesses	**-**	**-**	**-**	**-**	**16,714**	**105**	**99**	**-**	**-**	**16,918**
Housing mortgages	**-**	**-**	**39,915**	**-**	**17,849**	**4,723**	**191**	**-**	**-**	**62,678**
Securitization	**-**	**1,103**	**-**	**124**	**-**	**18**	**-**	**-**	**35**	**1,280**
Other assets	**2,042**	**-**	**-**	**-**	**-**	**11,584**	**426**	**-**	**-**	**14,052**
Total	**60,351**	**23,134**	**39,915**	**9,464**	**89,239**	**236,232**	**4,441**	**-**	**35**	**462,811**

Amount of exposure after expenses in respect of credit losses and after deduction of credit risk (2):

	31 March 2012									
	0%	20%	35%	50%	75%	100%	150%	350%	Deduction from equity	Gross credit exposure (1)
	NIS millions									
Sovereign debts	**59,584**	**2,941**	**-**	**375**	**-**	**230**	**-**	**-**	**-**	**63,310**
Debts of public-sector entities	**466**	**1,033**	**-**	**3,389**	**-**	**-**	**1**	**-**	**-**	**4,889**
Debts of banking corporations	**35**	**16,258**	**-**	**3,894**	**-**	**374**	**-**	**-**	**-**	**20,561**
Debts of corporations	**-**	**401**	**-**	**1,836**	**-**	**188,202**	**3,110**	**-**	**-**	**193,549**
Debts collateralized by commercial real estate	**-**	**-**	**-**	**-**	**-**	**20,154**	**395**	**-**	**-**	**20,549**
Retail exposures to individuals	**-**	**-**	**-**	**-**	**52,330**	**85**	**125**	**-**	**-**	**52,540**
Loans to small businesses	**-**	**-**	**-**	**-**	**14,617**	**103**	**97**	**-**	**-**	**14,817**
Housing mortgages	**-**	**-**	**39,912**	**-**	**17,751**	**4,712**	**190**	**-**	**-**	**62,565**
Securitization	**-**	**1,103**	**-**	**124**	**-**	**18**	**-**	**-**	**35**	**1,280**
Other assets	**2,042**	**-**	**-**	**-**	**-**	**11,584**	**426**	**-**	**-**	**14,052**
Total	**62,127**	**21,736**	**39,912**	**9,618**	**84,698**	**225,462**	**4,344**	**-**	**35**	**447,932**

Amount of exposure before expenses in respect of credit losses and before deduction of credit risk (2):

	31 March 2011									
	0%	20%	35%	50%	75%	100%	150%	350%	Deduction from equity	Gross credit exposure (1)
	NIS millions									
Sovereign debts	43,966	2,733	-	283	-	47	-	-	-	47,029
Debts of public-sector entities	-	3,212	-	3,282	-	-	13	-	-	6,507
Debts of banking corporations	-	22,057	-	3,731	-	548	6	-	-	26,342
Debts of corporations	-	795	-	6,483	-	180,063	10,033	-	-	197,374
Debts collateralized by commercial real estate	-	-	-	-	-	18,931	965	-	-	19,896
Retail exposures to individuals	-	-	-	-	50,984	178	171	-	-	51,333
Loans to small businesses	-	-	-	-	18,427	298	134	-	-	18,859
Housing mortgages	-	-	33,830	-	16,757	3,112	174	-	-	58,873
Securitization	-	829	-	112	-	99	-	-	184	1,224
Other assets	2,157	-	-	-	-	10,874	375	-	-	13,406
Total	46,123	29,626	33,830	13,891	86,168	214,150	11,871	-	184	440,843

Amount of exposure after expenses in respect of credit losses and before deduction of credit risk (2):

	31 March 2011									
	0%	20%	35%	50%	75%	100%	150%	350%	Deduction from equity	Gross credit exposure (1)
	NIS millions									
Sovereign debts	43,966	2,733	-	283	-	47	-	-	-	47,029
Debts of public-sector entities	-	3,212	-	3,275	-	-	13	-	-	6,500
Debts of banking corporations	-	22,057	-	3,731	-	548	6	-	-	26,342
Debts of corporations	-	795	-	6,483	-	177,111	9,938	-	-	194,327
Debts collateralized by commercial real estate	-	-	-	-	-	18,484	895	-	-	19,379
Retail exposures to individuals	-	-	-	-	50,630	116	169	-	-	50,915
Loans to small businesses	-	-	-	-	18,272	130	131	-	-	18,533
Housing mortgages	-	-	38,736	-	16,707	2,694	165	-	-	58,302
Securitization	-	829	-	112	-	99	-	-	184	1,224
Other assets	2,157	-	-	-	-	10,874	375	-	-	13,406
Total	46,123	29,626	38,736	13,884	85,609	210,103	11,692	-	184	435,957

Amount of exposure after expenses in respect of credit losses and after deduction of credit risk (2):

	31 March 2011									
	0%	20%	35%	50%	75%	100%	150%	350%	Deduction from equity	Gross credit exposure (1)
	NIS millions									
Sovereign debts	45,989	2,770	-	283	-	46	-	-	-	49,088
Debts of public-sector entities	-	1,187	-	3,274	-	-	12	-	-	4,473
Debts of banking corporations	-	22,215	-	3,835	-	530	7	-	-	26,587
Debts of corporations	-	795	-	6,473	-	166,421	9,791	-	-	183,480
Debts collateralized by commercial real estate	-	-	-	-	-	17,543	895	-	-	18,438
Retail exposures to individuals	-	-	-	-	48,250	116	164	-	-	48,530
Loans to small businesses	-	-	-	-	16,400	128	126	-	-	16,654
Housing mortgages	-	-	38,729	-	16,611	2,683	164	-	-	58,187
Securitization	-	829	-	112	-	99	-	-	184	1,224
Other assets	2,157	-	-	-	-	10,874	375	-	-	13,406
Total	48,146	27,796	38,729	13,977	81,261	198,440	11,534	-	184	420,067

Amount of exposure before expenses in respect of credit losses and before deduction of credit risk (2):

	31 December 2011									
	0%	20%	35%	50%	75%	100%	150%	350%	Deduction from equity	Gross credit exposure (1)
	NIS millions									
Sovereign debts	63,065	2,480	-	315	-	303	-	-	-	66,163
Debts of public-sector entities	-	1,374	-	3,499	-	-	4	-	-	4,877
Debts of banking corporations	36	16,442	-	3,095	-	563	-	-	-	20,136
Debts of corporations	-	642	-	2,093	-	201,640	3,559	-	-	207,934
Debts collateralized by commercial real estate	-	-	-	-	-	20,243	426	-	-	20,669
Retail exposures to individuals	-	-	-	-	54,170	123	141	-	-	54,434
Loans to small businesses	-	-	-	-	17,443	259	135	-	-	17,837
Housing mortgages	-	-	38,837	-	17,741	4,600	197	-	-	61,375
Securitization	-	1,001	-	100	-	21	-	-	29	1,151
Other assets	2,380	-	-	-	-	11,397	422	-	-	14,199
Total	65,481	21,939	38,837	9,102	89,354	239,149	4,884	-	29	468,775

Amount of exposure after expenses in respect of credit losses and before deduction of credit risk (2):

	31 December 2011									
	0%	20%	35%	50%	75%	100%	150%	350%	Deduction from equity	Gross credit exposure (1)
	NIS millions									
Sovereign debts	63,064	2,480	-	315	-	303	-	-	-	66,162
Debts of public-sector entities	-	1,373	-	3,497	-	-	4	-	-	4,874
Debts of banking corporations	35	16,437	-	3,095	-	563	-	-	-	20,130
Debts of corporations	-	642	-	2,093	-	199,230	3,461	-	-	205,426
Debts collateralized by commercial real estate	-	-	-	-	-	20,056	391	-	-	20,447
Retail exposures to individuals	-	-	-	-	53,773	82	139	-	-	53,994
Loans to small businesses	-	-	-	-	17,273	113	134	-	-	17,520
Housing mortgages	-	-	38,753	-	17,687	4,229	185	-	-	60,854
Securitization	-	1,001	-	100	-	21	-	-	29	1,151
Other assets	2,381	-	-	-	-	11,396	422	-	-	14,199
Total credit risk	65,480	21,933	38,753	9,100	88,733	235,993	4,736	-	29	464,757

Amount of exposure after expenses in respect of credit losses and after deduction of credit risk (2):

	31 December 2011									
	0%	20%	35%	50%	75%	100%	150%	350%	Deduction from equity	Gross credit exposure (1)
	NIS millions									
Sovereign debts	63,563	2,452	-	315	-	303	-	-	-	66,633
Debts of public-sector entities	350	876	-	3,495	-	-	4	-	-	4,725
Debts of banking corporations	35	16,273	-	3,356	-	511	-	-	-	20,175
Debts of corporations	-	642	-	2,093	-	189,146	3,286	-	-	195,167
Debts collateralized by commercial real estate	-	-	-	-	-	19,208	391	-	-	19,599
Retail exposures to individuals	-	-	-	-	51,323	82	133	-	-	51,538
Loans to small businesses	-	-	-	-	15,234	112	127	-	-	15,473
Housing mortgages	-	-	38,747	-	17,587	4,220	185	-	-	60,739
Securitization	-	1,001	-	100	-	21	-	-	29	1,151
Other assets	2,381	-	-	-	-	11,396	422	-	-	14,199
Total credit risk	66,329	21,244	38,747	9,359	84,144	224,999	4,548	-	29	449,399

Credit risk reduction

Policy and processes with regard to valuation and management of collateral

As a policy, the Bank aims to place credit against collateral. The amount of collateral required from a borrower is, *inter alia*, a consequence of the risk level in the credit. The collateral received is not the main consideration for approving the credit, but rather an additional back-up intended to reduce the loss to the Bank in the event of business /financial default by the borrower.

As part of the collateral policy for all of the market sectors, principles and rules have been established with regard to collateral and the amount thereof. The requirement for collateral and the percentage thereof are derived from the level of risk that the Bank is prepared to assume when extending the credit, but special emphasis is placed on the rating of the borrowers' risk and their repayment capacity as a criterion for granting the credit, as opposed to the weight given to the accepted collateral.

In addition, the business criteria in receiving the collateral, the method of determining the rate of reliance on the collateral, the methods of dealing with it on receipt, the way in which its value and timing is updated and the means of monitoring and control are all determined, and these are distributed through work procedures, update circulars and operating directives.

The collateral is adapted to the type of credit it secures, taking into account the time span, the type of linkage, the nature and purpose of the credit, and the speed of ability to realize them. The Bank verifies the collateral by receiving an updated assessment and/or assessor's valuations. The assessment needs to be external and independent, and must be directed to the Bank.

Reduction of credit risk (Table 7 – Basel II):

	31 March 2012					
	Gross credit exposure before allowances for credit losses	Gross credit exposure after allowance for credit losses	Total exposure covered by guarantees deducted	Total amounts added	Total exposure covered by eligible financial collateral	Net credit exposure
	NIS millions					
Sovereign debts	**61,900**	**61,900**	**(80)**	**1,310**	**-**	**63,130**
Debts of public-sector entities	**5,410**	**5,407**	**(981)**	**465**	**(2)**	**4,889**
Debts of banking corporations	**20,882**	**20,878**	**(609)**	**303**	**(11)**	**20,561**
Debts of corporations	**206,029**	**203,391**	**(356)**	**-**	**(9,486)**	**193,549**
Debts collateralized by commercial real estate	**21,591**	**21,417**	**(33)**	**-**	**(835)**	**20,549**
Retail exposures to individuals	**55,352**	**54,890**	**(3)**	**-**	**(2,347)**	**52,540**
Loans to small businesses	**17,246**	**16,918**	**(14)**	**-**	**(2,087)**	**14,817**
Housing mortgages	**63,162**	**62,678**	**(2)**	**-**	**(111)**	**62,565**
Securitization	**1,280**	**1,280**	**-**	**-**	**-**	**1,280**
Other assets	**14,052**	**14,052**	**-**	**-**	**-**	**14,052**
Total	**466,904**	**462,811**	**(2,078)**	**2,078**	**(14,879)**	**447,932**

	31 March 2011					
	Gross credit exposure before allowances for credit losses	Gross credit exposure after allowance for credit losses	Total exposure covered by guarantees deducted	Total amounts added	Total exposure covered by eligible financial collateral	Net credit exposure
	NIS millions					
Sovereign debts	47,029	47,029	-	2,060	(1)	49,088
Debts of public-sector entities	6,507	6,500	(2,023)	-	(4)	4,473
Debts of banking corporations	26,342	26,342	(17)	262	-	26,587
Debts of corporations	197,374	194,327	(260)	-	(10,587)	183,480
Debts collateralized by commercial real estate	19,896	19,379	(2)	-	(939)	18,438
Retail exposures to individuals	51,333	50,915	(2)	-	(2,383)	48,530
Loans to small businesses	18,859	18,533	(17)	-	(1,862)	16,654
Housing mortgages	58,873	58,302	(1)	-	(114)	58,187
Securitization	1,224	1,224	-	-	-	1,224
Other assets	13,406	13,406	-	-	-	13,406
Total	440,843	435,957	(2,322)	2,322	(15,890)	420,067

	31 December 2011					
	Gross credit exposure before allowance for credit losses	Gross credit exposure after allowance for credit losses	Total exposure covered by guarantees deducted	Total amounts added	Total exposure covered by eligible financial collateral	Net credit exposure
	NIS millions					
Sovereign debts	66,163	66,162	(28)	499	-	66,633
Debts of public-sector entities	4,877	4,874	(497)	349	(1)	4,725
Debts of banking corporations	20,136	20,130	(287)	376	(44)	20,175
Debts of corporations	207,934	205,426	(365)	-	(9,894)	195,167
Debts collateralized by commercial real estate	20,669	20,447	(29)	-	(819)	19,599
Retail exposures to individuals	54,434	53,994	(4)	-	(2,452)	51,538
Loans to small businesses	17,837	17,520	(11)	-	(2,036)	15,473
Housing mortgages	61,375	60,854	(3)	-	(112)	60,739
Securitization	1,151	1,151	-	-	-	1,151
Other assets	14,199	14,199	-	-	-	14,199
Total	468,775	464,757	(1,224)	1,224	(15,358)	449,399

Activity in Derivative Instruments for the purpose of reducing credit risks

1. Hedging and/or Risk Reduction Policy and Strategies and Processes for Monitoring the Continuing Efficacy of Risk-Reducing Hedging Activities

Developments in international foreign currency markets and the volatility of exchange rates of the various currencies, with their implications on those borrowers active in foreign currency, make it necessary to increase activity in monitoring, supervising and controlling customers' exposures to fluctuations in market prices (exchange rate, inflation, etc.). To this end, the Bank has updated instructions addressing the adjustment required between the currency base of the credit and the currency of the cash flow, which constitutes the source of repayment of the credit, and awareness of the subject of exposure to currency risks has been increased, with special attention being drawn to borrowers with the potential for a high degree of exposure. When necessary, the borrower’s risk rating is revised and a requirement issued to strengthen capital and collateral.

If it appears that a borrower faces exposure/sensitivity to changes in exchange rates and commodity prices, the relevant business function has to examine the degree of the borrower’s sensitivity from an overall perspective. This examination takes into account all the criteria requiring the borrower to be added to the list of sensitive customers, as well as consideration and quantification of the borrower's sensitivity to changes in the relevant exchange rates and commodity prices.

For the purpose of hedging various credit risks, the Bank recommends its customers make use of defensive mechanisms against macro-economic variables, such as the Consumer Price Index, exchange rates and commodity prices. In order to reduce the level of credit risk, the Bank suggests the borrower protect himself against sharp changes in exchange rates, *inter alia*, by the use of financial instruments. By using these instruments, it is possible to "hedge" financial exposure and, to a certain extent, also real exposure and keep risk to a minimum.

Below are credit risk balances to counterparties (Table 8 – Basel II):

	31 March 2012	
	Par value balance	Net credit exposure of derivatives
	NIS millions	
Interest contracts	**244,961**	**7,520**
Foreign currency contracts	**201,143**	**5,661**
Contracts in respect of shares	**18,826**	**1,536**
Commodities and other contracts	**1,589**	**382**
Credit derivative transactions (1)	**-**	**-**
Offset benefits (2)	**-**	**(8,097)**
Eligible collateral	**-**	**-**
Total	**466,519**	**7,002**

	31 March 2011	
	Par value balance	Net credit exposure of derivatives
	NIS millions	
Interest contracts	201,131	3,641
Foreign currency contracts	210,979	7,667
Contracts in respect of shares	26,096	2,471
Commodities and other contracts	2,222	322
Credit derivative transactions (1)	1,830	-
Offset benefits (2)	-	-
Eligible collateral	-	-
Total	442,258	14,101

	31 December 2011	
	Par value balance	Net credit exposure of derivatives
	NIS millions	
Interest contracts	230,713	8,308
Foreign currency contracts	206,179	7,236
Contracts in respect of shares	18,423	1,653
Commodities and other contracts	1,547	219
Credit derivative transactions (1)	-	-
Offset benefits (2)	-	(9,824)
Eligible collateral	-	(44)
Total	456,862	7,548

(1) As at the date of the report, there were no credit risk exposures in respect of hedging sold or purchased (NIS 741 million par value at 31 March 2011)

(2) With effect from 31 December 2011, credit risk in respect of derivatives is calculated according to Regulation 313 and includes the offset of transactions in derivatives with offsetting agreements.

2. Credit exposure in respect of the fair value of derivatives by counterparty to the contract (reported under other assets as at 31 March 2012:

	AAA to AA-	A+	A	A-	BBB to BBB-	BB+ to B-	Unrated	Total
Foreign banks	NIS millions							
Euro zone (1)	**856**	**677**	**83**	**-**	**-**	**-**	**-**	**1,616**
United Kingdom (2)	**738**	**2**	**412**	**3**	**7**	**-**	**3**	**1,165**
United States	**1,094**	**361**	**-**	**24**	**-**	**-**	**162**	**1,641**
Other	**234**	**-**	**9**	**7**	**-**	**-**	**-**	**250**
Total foreign banks	**2,922**	**1,040**	**504**	**34**	**7**	**-**	**165**	**4,672**
Israeli banks (3)	**-**	**-**	**976**	**503**	**-**	**-**	**49**	**1,528**

Corporate customers, according to sectors of the economy	
Financial services (4)	**1,780**
Industry (5)	**1,140**
Construction and real estate	**142**
Transportation and storage	**28**
Trade	**80**
Electricity and water	**1**
Business services	**10**
Private individuals	**24**
Communications and computer services	**39**
Others	**22**
Total corporate customers	**3,266**
Others*	**-**
Total exposure	**9,466**

* Reverse transactions carried out by the customers and offset for the purpose of risk according to the sectors of the economy.

(1) This amount includes transactions in 5 countries
(2) This amount includes transactions with 7 banks
(3) This amount includes transactions with 9 banks (including a central bank)
(4) This amount includes transactions with 337 customers, where the highest amount for a single customer is NIS 392 million.
(5) This amount includes transactions with 265 customers, where the highest amount for a single customer is NIS 911 million.

3. Credit exposure to foreign financial institutions

Credit exposure to foreign financial institutions (1):

	As at 31 March 2012			
	Balance sheet credit risk (2)	Securities (3)	Current off-balance sheet credit risk (4)	Current credit exposure
	NIS millions			
External credit rating (5)				
AAA to AA-	**6,646**	**3,408**	**569**	**10,623**
A+ to A-	**3,345**	**3,747**	**114**	**7,206**
BBB+ to BBB-	**167**	**372**	**-**	**539**
BB+ to B-	**3**	**-**	**10**	**13**
Below B	**53**	**-**	**44**	**97**
Unrated (5)	**1,517**	**267**	**186**	**1,970**
Total current credit exposure to foreign financial institutions	**11,731**	**7,794**	**923**	**20,448**
Problem debt balances	**6**	**66**	**-**	**72**

	As at 31 December 2011			
	Balance sheet credit risk (2)	Securities (3)	Current off-balance sheet credit risk (4)	Current credit exposure
	NIS millions			
External credit rating (5)				
AAA to AA-	8,989	3,636	649	13,274
A+ to A-	4,300	3,869	123	8,292
BBB+ to BBB-	209	18	-	227
BB+ to B-	54	-	7	61
Below B	-	-	53	53
Unrated (5)	1,564	697	123	2,384
Total current credit exposure to foreign financial institutions	15,116	8,220	955	24,291
Problem debt balances	7	316	-	323

(1) Foreign financial institutions include banks, investment banks, insurance companies and institutional bodies.
(2) Deposits in banks, credit to the public, securities that were borrowed or purchased in the context of buy-back agreements and other assets in respect of derivatives (fair value of derivatives).
(3) Including subordinated bank debentures amounting to NIS 1,491 million at March 2012 and NIS 1,605 million at December 2011.
(4) Mainly guarantees and undertakings for the provision of credit (excluding off-balance sheet derivatives).
(5) With effect from 2010, only the rating of Moody's was used to rate the foreign financial institutions to which there is a credit exposure. "Unrated" also includes foreign financial institutions with a rating from other agencies.

Notes:

a. Credit exposures do not include investments in asset-backed securities (see the details in the note on securities).
b. Some of the banks have received government support of various types, including direct investments in the bank's capital, government guarantees of certain asset portfolios of the banks, guarantees enabling the banks to raise sources of financing, etc.
c. For further information regarding the composition of the credit exposure in respect of derivatives vis-à-vis banks and broker/dealers (local and overseas), see Note 7 to the Financial Statements.

Credit exposure to foreign financial institutions refers to commercial banks, bank holding companies, investment banks, insurance companies and institutional bodies.

Exposure to overseas banks is divided as follows: United States 46%, Europe (Germany, France, Switzerland, Spain and the Benelux countries) 24%, United Kingdom 19%, and other countries 11%.

Exposure includes deposits in foreign banks, some 98.6% of which are short-term deposits of up to one week, and debentures, usually for a period of up to five years. The Bank closely monitors the condition of banks throughout the world and regularly analyses their financial solidity. The Bank maintains a summary list of quality banks with which the Bank and its overseas subsidiaries make deposits.

Additional details regarding investments in securities, mainly debentures of overseas banks, are presented in the section "Securities" in the chapter "Structure and Development of Assets and Liabilities".

Management of the exposure to and credit lines of overseas financial institutions takes into consideration, *inter alia*:

- Their size, as reflected, *inter alia*, by the size of their capital.
- Their strength, as reflected in capital adequacy ratios (particularly Tier I capital).
- The market's valuation, as reflected in the market value of their shares and their risk, as estimated with the help of their credit derivatives (CDS).
- The internal rating as computed in a unit which is independent of the business entity.
- The ratings assigned to them by the international rating agencies.
- The financial strength of the country where the bank's center of activity is located.
- Additional considerations, such as the level of support, including direct investment in the banks' capital by governments, for the purpose of ensuring the stability of these banks and other banks in their countries.
- The policy for managing the exposure to overseas financial institutions includes, *inter alia*, limits on the amounts of exposure at bank and country level by risk.

4. Exposure to foreign countries:

The exposure to foreign countries according to final risk is distributed among geographical regions and countries, the main exposure being to countries in Western Europe and in North America. For further details regarding exposure to countries overseas, see below, Exhibit D in the Management Review. (Table 4(c) Basel II):

	31 March 2012		
	Balance sheet credit risk	Off-balance sheet credit risk (1)	Total credit risk
	NIS millions		
USA	**23,216**	**6,500**	**29,716**
UK	**9,314**	**2,865**	**12,179**
France	**2,868**	**395**	**3,263**
Switzerland	**3,028**	**667**	**3,695**
Germany	**3,486**	**441**	**3,927**
Belgium	**443**	**20**	**463**
Italy	**421**	**10**	**431**
The Netherlands	**2,399**	**124**	**2,523**
Others	**7,423**	**1,060**	**8,483**
Total	**52,598**	**12,082**	**64,680**

	31 December 2011		
	Balance sheet credit risk	Off-balance sheet credit risk (1)	Total credit risk
	NIS millions		
USA	24,762	6,282	31,044
UK	10,330	3,004	13,334
France	2,935	322	3,257
Germany	3,930	304	4,234
Switzerland	2,659	770	3,429
The Netherlands	2,607	176	2,783
Belgium	554	32	586
Italy	457	15	472
Others	6,916	1,169	8,085
Total	55,150	12,074	67,224

(1) Effective 31 December 2011, credit risk in respect of derivatives is calculated according to Proper Conduct of Banking Business Regulation No. 313 including offset transactions in derivatives with offset agreements.

The following table presents the exposure to countries according to the credit rating of the countries as rated by the World Bank, in NIS millions as at 31 March 2012:

Rating	Balance sheet exposure	Off-balance-sheet exposure	Total exposure	Percentage of exposure in relation to total	Of which, problem commercial credit risk
OECD countries with high income	**48,373**	**11,199**	**59,572**	**92.2**	**1,439**
High-income countries	**1,301**	**326**	**1,627**	**2.5**	**1**
Countries with mid-high income	**2,700**	**536**	**3,236**	**4.9**	**585**
Countries with mid-low income	**212**	**21**	**233**	**0.4**	**2**
Countries with low income	**12**	**-**	**12**	**-**	**-**
Total	**52,598**	**12,082**	**64,680**	**100.0**	**2,027**

The amount of exposure to foreign countries with liquidity problems as defined by the Fitch Index and by the Bank of Israel (countries which receive financial aid from the IMF or whose obligations are rated with a credit rating of CCC or below) totals NIS 1,362 million and relates to 14 countries.

The countries are defined according to national income per capita as follows:

High income - exceeding US$ 12,276 per capita.
Medium-high income - from US$ 3,976 to US$ 12,275 per capita.
Medium-low income - from US$ 1,006 to US$ 3,975 per capita.
Low income – up to US$ 1,005 per capita.

Following are the names of the principal countries in each of the categories:

a. OECD countries, including: United States, Italy, Australia, Austria, Ireland, Belgium, Canada, the Czech Republic, Denmark, Finland, Israel, Hungary, France, United Kingdom, Japan, Spain, Switzerland, Luxembourg, Slovenia, the Netherlands, Sweden, Poland, Germany and Korea.

b. Countries with high income:

Cyprus, Hong Kong, Monaco, Singapore, Cayman Islands and Croatia.

c. Countries with mid-high income:

Argentina, Brazil, Bulgaria, Chile, Mexico, Panama, Romania, Russia, South Africa, Turkey, Venezuela, Uruguay, Columbia, Peru.

d. Countries with mid-low income:

China, Ecuador, Egypt, India, Jordan, Paraguay, the Philippines, Thailand, the Ukraine.

e. Countries with low income:

A large number of the African countries, Haiti, Nepal.

Overall exposure to certain foreign countries:

	31 March 2012				
	Credit to the public	Bonds – Banks and others	Bank deposits	Other	Total
Country	NIS millions				
Italy	**58**	**342 (1)**	**21**	**10**	**431**
Ireland	**7**	**2**	**1**	**-**	**10**
Greece	**3**	**-**	**-**	**-**	**3**
Spain	**40**	**414 (2)**	**13**	**5**	**472**
Total (3)	**108**	**758**	**35**	**15**	**916**

(1) Of which, NIS 241 million in Banca Intesa.

(2) Most of the exposure to Spain is to Santander Bank, the majority of whose revenues are from sources outside of Spain.

(3) The Group has no exposure to Portugal.

Market and Liquidity Risks

This chapter is written in great detail in the Annual Financial Statements for 2011 (pages 244-256). Accordingly, the following chapter should be read in conjunction with the Annual Report.

Market risk and nostro policy

Market risk is defined as risk of a loss in balance sheet positions and off-balance sheet positions arising from a change in the fair value of a financial instrument as a result of a change in market conditions (a change in price levels in various markets, fluctuations in interest rates, exchange rates, inflation, the prices of shares and commodities and other economic indices). Exposure to market risks is expressed in the business results, the fair value of assets and liabilities, capital, cash flows and the value of the Bank.

The policy for managing market risks is intended, on the one hand, to support the achievement of business goals by assessing the risks and the damage that can result from exposure to risks and their limitation, in comparison with the forecast profit from them, and on the other hand, to reduce the level of risk deriving from the Bank's ongoing activity, including maintaining a high liquidity level. All this is after taking into account the volume of activity, limitations, and the costs of hedging activity, the changes occurring in the business environment in Israel and throughout the world, directives and requirements of the Bank of Israel, and developments occurring worldwide with regard to measurements and methods of managing risks and adapting them to the needs of the Group and the Bank. For further information, reference may be made to page 244 of the Annual Report.

Capital requirement in respect of market risk

Below are the capital requirements in respect of market risks (Table 10 – Basel II), as required pursuant to the standard approach. These requirements reflect only a small part of the capital held by Leumi in respect of market risks (First Pillar of the Basel II framework). In addition to this capital, the Group holds additional equity in respect of market risks and nostro activity, in the framework of the Second Pillar of Basel II.

The following table sets forth the capital requirements in respect of market risks (Table 10 – Basel II):

	31 March 2012	31 March 2011	31 December 2011
	NIS millions		
Capital requirement in respect of:			
Interest risks	**641**	555	583
Share price risk	**4**	18	1
Exchange rate risk	**152**	163	170
Options	**60**	91	57
Total capital requirement in respect of market risks	**857**	827	811

Main focus points in market risks

1. Exposure to interest

Risk of a loss as a result of changes in risk-free interest rates of credit in the various currencies due to differences between the repayment date of the assets and liabilities in each of the linkage segments.

The interest exposure policy restricts the extent of exposure to possible changes in interest on the Bank's profits and on capital. Accordingly, in each sector, the exposure to an unexpected change of 1% in interest in all the periods is measured, relating to the potential erosion of economic value[1] and of the accounting profit for the year resulting from a shift in the yield curves in each of the segments and also for all segments together. Exposure to profit is heavily influenced by the activity remeasured at market prices (derivative transactions and commercial portfolios).

There are structured interest risks arising from the uncertainty in the market factors that may not be hedged, but are structured in the banking activity. The risk includes gross behavioral options in loans and deposits that may not be hedged (for example, early repayment options).

The interest risk is measured and managed on the basis of various behavioral assumptions with regard to the repayment times of the assets and liabilities. The principal assumptions are:

- In the index-linked sector, an estimate is taken into account with regard to breakages and withdrawals at exit points in savings plans. The estimate is derived from past customer behavior.
- In accordance with accumulated experience, there is a long-standing stable credit balance in non-interest bearing current accounts. Accordingly, for purposes of measuring and managing interest rate exposure, Bank policy is to regard part of the non-interest bearing current account balances as a long-term liability. Periodically, the change in the non-interest bearing current account balances is examined in order to decide how it should be spread.
- Leumi Mortgage Bank – The management of exposures takes account of assumptions with regard to early repayment of loans. Assumptions regarding CPI-linked loans at fixed rates of interest rely on a statistical model for predicting early repayments. This statistical model is checked regularly. At the same time, Leumi Mortgage Bank has developed a repayment model including all linkage segments. The model is expected to be assimilated in 2012.

The summary of exposures to unexpected changes in interest at Group level (before tax and millions of NIS)* is as follows:

	Potential erosion in economic value		Potential erosion in annual profit	
Effect of immediate parallel change of 1% on the yield curve	**31 March 2012**	31 December 2011	**31 March 2012**	31 December 2011
Actual	**495**	676	**210**	271
Limit	**1,100**	1,100	**500**	500

* In the direction that is damaging to the Bank.

In the first quarter of 2012, the potential erosion in the economic value ranged from NIS 711 million to NIS 495 million and in annual profit, from NIS 211 million to NIS 200 million.

In the first quarter of 2012, the Group complied with all of the exposure restrictions for interest prescribed by the Board of Directors.

[1] The economic value of the capital is defined as the difference between the current value of assets and liabilities. In calculating present value, cash flows are deducted from the risk-free credit yield curve and the foreign currency LIBOR flows.

Sensitivity of the fair value of assets and liabilities to interest

The effect of potential changes in interest rates on the fair value of the financial instruments of the Bank and its consolidated subsidiaries, except for non-monetary items, according to accounting principles, is as follows:

The net fair value of financial instruments, before the effect of changes in interest rates.

	31 March 2012				
	Israeli currency		Foreign currency, including Israeli currency linked to foreign currency		
	Unlinked	CPI-linked	Dollar	Euro	Others
	NIS millions				
Financial assets	**186,972**	**63,960**	**60,649**	**12,700**	**14,190**
Amounts receivable in respect of derivative financial and off-balance sheet instruments	**231,949**	**5,076**	**149,861**	**32,846**	**37,956**
Financial liabilities	**159,748**	**52,295**	**79,156**	**18,766**	**10,965**
Amounts payable in respect of derivative financial and off-balance sheet instruments	**247,253**	**10,268**	**132,943**	**26,462**	**41,870**
Net fair value of financial instruments	**11,920**	**6,473**	**(1,589)**	**308**	**(689)**

	31 December 2011				
	Israeli currency		Foreign currency, including Israeli currency linked to foreign currency		
	Unlinked	CPI-linked	Dollar	Euro	Others
	NIS millions				
Financial assets	191,767	62,776	61,472	12,608	14,032
Amounts receivable in respect of derivative financial and off-balance sheet instruments	227,619	5,641	161,654	37,432	41,543
Financial liabilities	159,044	54,294	82,937	18,298	10,830
Amounts payable in respect of derivative financial and off-balance sheet instruments	242,830	10,709	143,466	31,945	45,619
Net fair value of financial instruments	17,512	3,414	(3,277)	(203)	(874)

The effect of potential changes in interest rates on the net fair value* of financial instruments (Table 14 – Basel II):

	31 March 2012						
	Fair value, net, of financial instruments after the effect of changes in interest rates					Change in fair value	
	Israeli currency		Foreign currency, including Israeli currency linked to foreign currency				
Change in interest rates	Unlinked	CPI-linked	Dollar	Euro	Others	Total	Total
	NIS millions					NIS millions	%
Immediate corresponding increase of 1%	**11,746**	**6,643**	**(1,745)**	**308**	**(703)**	**(174)**	**(1.06)**
Immediate corresponding increase of 0.1%	**11,903**	**6,490**	**(1,605)**	**308**	**(691)**	**(18)**	**(0.11)**
Immediate corresponding decrease of 1%	**12,132**	**6,275**	**(1,511)**	**312**	**(673)**	**112**	**0.68**

	31 December 2011						
	Fair value, net, of financial instruments after the effect of changes in interest rates					Change in fair value	
	Israeli currency		Foreign currency, including Israeli currency linked to foreign currency				
Change in interest rates	Unlinked	Index linked	Dollar	Euro	Others	Total	Total
	NIS millions					NIS millions	%
Immediate corresponding increase of 1%	17,160	3,523	(3,279)	(191)	(887)	(246)	(1.48)
Immediate corresponding increase of 0.1%	17,477	3,425	(3,277)	(202)	(875)	(24)	(0.14)
Immediate corresponding decrease of 1%	17,869	3,282	(3,276)	(215)	(870)	218	1.32

* Not including estimate of the value of revenues in respect of commission for early repayment.

1.1 Exposure to interest rates and compliance with restrictions

The status of exposure to interest changes at the Group level, which is calculated according to accounting principles, is set forth below. During the first three months of 2012, the Group complied with all the exposure restrictions for interest set by the Board of Directors. For detailed data on exposure to interest, see below in Exhibit B in the Management Review.

	31 March 2012			31 December 2011		
	Unlinked	Index linked	Foreign currency and linked thereto	Unlinked	Index linked	Foreign currency and linked thereto
Average duration in years:						
Average duration of assets (1)	**0.90**	**2.81**	**0.77**	0.91	2.85	0.72
Average duration of liabilities (1)	**0.90**	**3.41**	**0.71**	0.87	3.25	0.71
Duration gap in years	**-**	**(0.60)**	**0.06**	0.04	(0.40)	0.01
Internal rate of return (IRR) gap (%)	**0.68**	**0.53**	**1.96**	0.42	0.56	2.45

(1) Including future transactions and options, and based on fair value data on financial instruments.

In calculating the duration of liabilities in the CPI-linked sector, an estimate of early repayments and withdrawals at exit points of savings plans is taken into account, on the basis of a model which estimates anticipated early repayments based on savers' behavior. The duration of liabilities, according to the original cash flow of the savings schemes is longer, reaching 3.44 years, with an internal rate of return (hereinafter: IRR) gap of 0.45%.

The data presented above take into account early repayments of CPI-linked mortgages according to a statistical model that estimates expected repayments on the basis of the borrowers' past behavior. The average duration of assets at the end of the reported period, according to the original cash flow, without taking into account early repayments, is longer, reaching 3.18 years, and an IRR gap of about 0.45%.

Current account balances are presented in Exhibit B to the Management Review, pursuant to directives of the Bank of Israel, as demand deposits for up to one month. However, for the purposes of interest exposure, a certain percentage of the current account balances in shekels and in foreign currency is spread over a repayment period of up to ten years, in accordance with a behavioral model whose basic assumptions are regularly updated. Taking into account the above assumptions, the average duration of liabilities is longer, reaching 0.95 years in unlinked shekels and 0.76 years in foreign currency, with an IRR gap of 0.67% and 1.76%, respectively.

2. Basis exposure

The exposure to basis risk is reflected in the loss that may occur due to changes in the CPI and exchange rates, as a result of the difference between the value of the assets and the value of the liabilities, including the effect of futures transactions in each of the linkage sectors.

In accordance with accounting principles, capital is defined as an unlinked shekel source, such that an investment of the capital in a sector other than the unlinked shekel sector is defined as a basis exposure. Exposure to the basis risks is measured as a percentage of the Group’s exposed capital.

The exposed capital, at the Bank level, includes capital and certain reserves, less fixed assets and investments in investee companies, excluding the investments in subsidiaries abroad, which are financed from foreign currency sources and are therefore not deducted from capital. At the Group level, the exposed capital includes capital and certain reserves, less fixed assets and investments in companies included on equity basis.

Exposure limits, approved by the Board of Directors, are determined according to considerations of expected return and risk and are allocated among the trading rooms, ALM, and the subsidiary companies.

The subsidiaries abroad and in Israel manage basis exposures in low volumes, on the basis of the policies anchored in directors' resolutions and in coordination with the Bank in Israel.

Changes in the exchange rate affect the effective tax rate, since the exchange rate differences in respect of the overseas investments are not taken into account in the income basis for calculating the tax provision, unlike exchange rate differences in respect of financing sources, thereby leading to a lack of symmetry in respect of exchange rate differences. The Bank carried out hedging transactions against the tax exposure. With effect from 2012, the accounting policy for investments in the United States and Switzerland was changed such that they were defined as units whose functional currency has changed from the shekel and the exchange rate differences, both in respect of the investment and in respect of the hedging sources, were carried to a capital reserve. The Bank decided not to renew the hedging transactions in respect of these companies.

The changes in exchange rates have an effect on current income in foreign currency. Hedging activity was carried out at the beginning of 2012 against the expected net income.

The following table sets out the actual economic exposure at Group level, compared with the limits stipulated by the Board of Directors. The data are presented in terms of percentages of the exposed capital:

	Approved limits	Actual exposure		
	Maximum excess (deficit)	**31 March 2012**	31 March 2011	31 December 2011
		%		
Unlinked	45% - (45%)	**(27.2)**	(11.7)	(17.9)
CPI-linked	30% - (30%)	**25.8**	10.6	22.4
Foreign currency *	15% - (15%)	**1.4**	1.1	(4.5)

* In addition, the Bank and subsidiaries have limits on the maximum exposure allowed for investment in each currency.

During the first quarter of 2012, the CPI-linked surplus was about 20% of the exposed capital. This rate fluctuated during the quarter between 28% and 16% of the exposed capital. A relatively low volume of capital was channeled to the foreign currency and foreign-currency-linked sector, and therefore the effect of the change in exchange rates did not materially affect pre-tax profit.

During the second quarter of the year, an expansion of the basis exposure limit was approved in the index-linked segment to a maximum surplus or deficit of 50%-(50%).

During the first quarter of 2012, the Group complied with all the basis exposure limits approved by the Board of Directors.

The following table shows the sensitivity to changes in the exchange rates of the major currencies as at 31 March 2012. The measurement relates to the effect of such changes on the capital of the Bank and includes activity in balance sheet and off-balance sheet instruments:

	US$	€	£	CHF	Yen
	NIS millions				
Increase of 5% in exchange rate	**(23)**	**47**	**7**	**10**	**13**
Increase of 10% in exchange rate	**(18)**	**86**	**18**	**17**	**27**
Decrease of 5% in exchange rate	**57**	**(31)**	**(3)**	**(5)**	**(15)**
Decrease of 10% in exchange rate	**125**	**(52)**	**(5)**	**-**	**(24)**

The above data do not take into account the effect of changes in exchange rate on the flow of income and expenses in foreign currency in respect of which hedging was also made at the beginning of the year.

3. Exposures in trading rooms

Market risks in the trading portfolio derive as a result of the Bank's activity as a market-maker and as a manager of positions in nostro:

- Market-making activity – The Bank is a leader in the level of activity in the area of derivatives and provides immediate services to customers who are active in instruments. In the foreign currency trading and derivatives room, the activity of market-making is conducted at the spot desk (in shekels and in foreign currency), and at the options desk (in shekels and in foreign currency) and at the interest desk (shekels and foreign currency). This activity exposes the Bank to market risks (exchange rate risks and interest risks) and accordingly, the activity is managed and monitored in accordance with restrictions approved by the Market Risk Management Committee. Because of the dynamic nature of the activity, these restrictions are regularly monitored at least once a day by the mid-office.
- Nostro trading activity – In the trading room, initiated activity is carried out in the context of which initiated exposures to debentures in shekels are taken. This activity is managed and regularly monitored at least once a week, in accordance with the restrictions approved and validated by the Risk Management Division.

4. Aggregate exposure to market risk – interest, basis, shares as reflected in the Value at Risk model

The VaR limits are determined, both on the economic value of the Group including overseas subsidiaries and the effects of the exposure in VaR terms, and on the components remeasured at market value (MtM) which affect the profit and loss of the Bank (including the Bank's commercial portfolios).

Below is the estimated VaR at Group level in NIS millions:

	VaR at economic value			VaR in mark-to-market portfolios		
	31 March 2012	31 March 2011	31 December 2011	**31 March 2012**	31 March 2011	31 December 2011
Actual	**181**	159	161	**50**	50	79
Limit	**500**	500	500	**400**	400	400

In the first quarter of 2012, the VaR on the economic value ranged from a maximum of NIS 189 million and a minimum of NIS 178 million, and the VaR on the portfolios revalued at fair value ranged from a maximum of NIS 57 million and a minimum of NIS 50 million, respectively.

In the first quarter of 2012, the Group complied with all the VaR restrictions prescribed by the Board of Directors.

Marketable credit nostro risks

Leumi is exposed to credit and market risks of countries, banks and financial institutions in Israel and abroad. In addition, the Bank also invests to a limited extent in asset-backed instruments (CLO, MBS and ABS).

The Group exposure policy for foreign financial institutions and countries is a part of the policy for managing market risks and marketable credit risks. This policy defines guidelines, risk limits on credit/counterparty exposures and authorities. The policy prescribes that most exposures will be to large banks that are systemically important to their country and to banks with a relatively high credit quality with an emphasis on dispersal of the portfolio.

Risk management in the exposure to financial institutions and countries is effected through credit committees headed by the Capital Market Division and in collaboration with the Risk Management Division.

- Limits Committee for activity vis-à-vis countries – which determines exposure limits for countries on the basis of economic analysis.

- Marketable Credit Risk Committee – which determines the exposure limits for financial institutions in accordance with the prescribed policy and market conditions.

The quality of the portfolio is monitored by the Risk Management Division and risk analyses and scenarios for the examination of risk focal points which are discussed in the Upper Market Risk Committee and in the Risk Management Committee of the Board of Directors.

Exposure to liquidity risk

Liquidity exposure

Liquidity risk is the risk created due to the uncertainty relating to the possibility of raising funds and/or realizing assets unexpectedly within a short period, without incurring any material loss.

Liquidity risk management policy

In accordance with Bank of Israel directives, the Bank implements an overall policy for managing liquidity risk, the purpose of which is to support the achievement of business goals, while evaluating and limiting losses that may arise from exposure to liquidity risks. The liquidity risk management policy is aimed at maintaining a high level of liquidity through investment in quality assets at a high level of liquidity and, via policy, directs the raising of stable and varied sources, with an emphasis on raising deposits from a large number of customers for various terms, including long terms. For further details, reference may be made to page 253 of the Annual Report.

Sources of financing:

The composition of the Bank's assets and liabilities continues to point to high liquidity, as a result of a policy of raising stable and varied sources and a policy of investing surplus liquid means in quality assets.

Surplus liquid means in Israeli currency are invested primarily in deposits in the Bank of Israel amounting to some NIS 30 billion and in securities, some NIS 29 billion, principally in government debentures. Surplus liquid means in foreign currency are invested primarily in debentures amounting to some NIS 18 billion, and bank deposits, some NIS 14 billion.

Most of Leumi's financing relies on raising deposits from the public.

The balance of public deposits in the Bank, not including subordinated notes, fell during the first quarter of 2012 by NIS 4 billion, or 1.5%, and after canceling the effect of exchange rate differentials, the decrease was NIS 1 billion (0.4%).

The decrease in the unlinked shekel segment amounted to NIS 2 billion (1.2%), while in the foreign currency and foreign currency linked segment, there was a decrease of NIS 2 billion, (1.9%). However, after canceling the effect of exchange rate differentials, the increase was NIS 1 billion (0.9%).

Monitoring liquidity risk

The Bank routinely monitors the liquidity position and the liquidity risk indices. Liquidity risk is measured and managed using an internal model whose purpose is to examine and monitor the liquid resources at the Bank's disposal under various scenarios. The scenarios relate to various market situations: normal course of business and extreme situations relating to the Bank and the entire banking system.

In each of the scenarios, the liquidity position is examined on the basis of two quantitative indices: the liquidity gap and the liquidity ratio. The model places the balance of the liquid assets (for example, cash, Bank of Israel deposits, realizable portfolio of bonds and credit forecast to be repaid) as a ratio of liabilities expected to materialize in the short term, in a way that examines the Bank's ability to meet all liquidity requirements.

The rate of change in the balance of deposits and credit for the whole payment period, under different scenarios, is determined in accordance with various parameters, depending on the level of severity of the scenario. Behavioral functions defined based on the judgment of business functions, assisted by historical data, take into consideration parameters such as the size and nature of the deposit for which expected cash flows are calculated.

It should be pointed out that the stress scenarios are more severe than anything the Bank has experienced in the past and the assumptions of these scenarios are therefore necessarily based more on the judgment of senior professional officials at the Bank than on any historical data.

The table below shows the liquidity gap and liquidity ratio in Israeli currency and foreign currency in each of the four types of scenario that have been defined, for a repayment period of one month, as at 31 March 2012 (regardless of interaction between the segments*).

	In Israeli currency per month		In foreign currency per month	
	Gap	Ratio	Gap	Ratio
Scenario / period	NIS billions			
Ordinary	**49.3**	**16.6**	**10.5**	**2.4**
Statistical	**36.7**	**3.3**	**7.1**	**1.6**
Stress in Leumi	**25.9**	**1.6**	**7.3**	**1.3**
Systemic stress	**30.5**	**2.0**	**13.8**	**1.8**

* Leumi assumes that in extreme cases, the foreign currency segment supports the Israeli currency segment and *vice versa*.

In addition to the model outlined above, other indices are measured to complement the liquidity position:

- In the foreign currency sector, the rate of long-term assets being financed by short-term liabilities, the "long/short" ratio, is also monitored.
- As part of the ongoing management of liquidity in Israeli currency and foreign currency, forecasts are made of the daily liquidity situation, using the Bank's existing information systems. At the end of each business day, the gap between the forecasted liquidity and the actual liquidity is measured. The gap distribution is used for updating the model, and improving the quality of forecasting of the liquidity position.
- In the Israeli currency and foreign currency sectors, trends in the liquidity position are examined (daily, monthly, etc.) over a protracted period, in order to monitor developments in deposits of the public, credit to the public, and liquidity in general, as well as for measuring margin risk.

Draft amendment of Bank of Israel Directive No. 342 regarding Management of Liquidity Risks and Preparation for Basel III.

As noted in the section dealing with the Bank's preparation for the implementation of the Basel III regulations above, the Bank is examining the implications of these regulations on the management of liquidity risk and the required method for preparation.

Operating risks

Leumi Group operates in a wide range of financial activities and therefore is exposed to operating risks, including, *inter alia*, risk of fraud and embezzlement, legal risks, compliance risk, data technology risks, business continuity and data protection.

The management of operating risks in Leumi Group is carried out with systematic vision, using a consistent and methodical collective methodology which the Operating Risk Management Division outlines adjusting for the nature, size and complexity of the activity of each organizational unit in the Group. The management of operating risks is based on a proactive process of identifying, measuring, monitoring, reporting and controlling/reducing material risks.

The control and review of operating risk management in the Group is carried out through the Board of Directors and senior management, an independent operating risk management function in the Risk Management Division and operating risks committees, divisional internal control units and a system of divisional risk coordinators.

Operating risk management in the Leumi Group is based on three lines of defence. Responsibility for operating risk management lies with the managements of the divisions and the subsidiaries (first line of defence) and includes a decision between alternatives of taking a risk, changing controls, changing the levels of activity or transferring the risk. The Operating

Risk Management, Compliance and Prohibition of Money Laundering Division and SOX represent the second line of defence. The third line of defence is the Internal Audit Division. The last two lines of defence are independent and are not involved in business decision-making.

The operating risk management policy is collective and intended to support the business objectives and strategic targets of Leumi Group, prevent and minimize losses, taking into account risk tolerance and maintain operating stability in the long term. Operating risk management is an integral part of the organizational culture and business and operating activity in the Group.

Each quarter, an operating risk management forum is convened, headed by the Operating Risk Manager, with representatives of all the business entities and subsidiaries (divisional risk controllers) taking part. The forum represents a platform for sharing knowledge, drawing conclusions from default events inside and outside the organization and discussion on strategies for risk reduction.

Risk of cyber attacks

Leumi is investing great efforts into the area of protection against the risk of data protection including cyber risk, both in specialist personnel and in infrastructure, in order to reduce exposure to this risk. Cyber events that have materialized in Israel and around the world during the past year and at the beginning of 2012, including the revelation of thousands of credit card numbers of Israeli citizens, increase the significance of the risk and the importance of preparations for minimizing exposure to the risk and for taking the requisite action in the event of an occurrence, which, in certain instances, could cause significant damage to the Bank's customers and to its systems.

Linkage Status and Liquidity Status

Linkage Status

The following sets out the linkage balance sheet status, as shown in Note 5 to the Financial Statements:

The following table sets out the linkage balance sheet status:

	As at 31 March 2012			As at 31 December 2011		
	Unlinked	CPI-linked	Foreign currency (2)	Unlinked	CPI-linked	Foreign currency (2)
	NIS millions					
Total assets (1)	**194,867**	**62,131**	**118,763**	199,656	61,163	121,590
Total liabilities (1)	**180,438**	**58,685**	**120,673**	180,099	60,966	126,136
Excess (deficit) of assets in segment	**14,429**	**3,446**	**(1,910) (3)**	19,557	197	(4,546) (3)

(1) Including forward transactions and options.
(2) Including foreign-currency-linked.
(3) The excess of liabilities in foreign currency derives mainly from a hedging transaction against the tax exposure in respect of the foreign investments, and in respect of hedging of future profits in foreign currency.

For the purposes of day-to-day management and reporting, certain changes have been made that take into account the Bank's economic approach to basis risk, in contrast to the accounting approach. The basis exposure, which is calculated using the economic approach, is set forth in the chapter on “Risk Exposure and Risk Management”.

Liquidity Position and Raising Funds by the Bank

The volume of the banking system’s balances with the Bank of Israel (current account balances and monetary deposits) at the end of March 2012 stood at some NIS 117 billion, compared with some NIS 130 billion at the end of December 2011.

The volume of these balances in the first quarter stood on average at some NIS 119 billion, compared with an average of some NIS 123 billion in the first quarter of 2011.

In the first quarter of 2012, holdings of short-term loans (T-bills) in the hands of the public increased by NIS 3.5 billion to a level of NIS 125 billion. In addition, the Bank of Israel has not made any acquisitions of foreign currency from the system, in a similar manner to the fourth quarter of 2011.

The total balances of Leumi in the Bank of Israel (current accounts and deposits as part of the monetary tenders conducted by the Bank of Israel) at the end of March 2012 stood at some NIS 30 billion, compared with some NIS 36 billion at the end of December 2011.

The total balances of Leumi in the Bank of Israel in the first quarter of the year was on average NIS 29 billion, compared with an average of some NIS 32 billion in the fourth quarter of 2011..

The structure of the Bank's assets and liabilities continues to indicate a high level of liquidity. This is the result of a deliberate policy of raising stable and diversified sources, while placing importance on the raising of deposits from a large number of customers, for varying periods, including long term.

Leumi monitors, on an ongoing basis, its liquidity status and the indices that are intended to alert it to changes in the liquidity position, *inter alia*, by using an internal model developed at the Bank pursuant to a directive of the Bank of Israel. The various assumptions forming the basis of the model are examined and updated regularly according to developments in the major relevant parameters.

Cash balances and deposits in banks, net (excluding Leumi Mortgage) at 31 March 2012 amounted to some NIS 36 billion, compared with NIS 41 billion at the end of 2011, a decrease of 10.8%.

The Bank also has a securities portfolio of some NIS 43 billion, compared with NIS 41 billion in December 2011. The portfolio is invested mainly in Government of Israel debentures, debentures of foreign countries and debentures of foreign banks.

Around 39% of the financial assets in the Bank are deposited in banks and/or invested in securities, a percentage similar to that at 31 December 2011.

The balance of credit to the public, net, as at 31 March 2012 amounted to some NIS 150.7 billion, compared with NIS 151.6 billion at the end of 2011. After canceling the effect of exchange rate differentials, there was a decrease of NIS 0.3 billion.

At the end of March 2012, the balance of deposits of the public, including subordinated notes and capital notes, amounted to NIS 264.9 billion, compared with NIS 265.2 billion at the end of 2011, a decrease of 0.1%. In the first quarter, the Bank issued subordinated notes amounting to NIS 2.3 billion through Leumi Finance.

In shekel deposits, there was an increase of NIS 0.8 billion (0.4%), while in foreign currency deposits, there was a reduction of NIS 1.2 billion (1.5%) (in dollar terms, an increase of US$ 0.1 billion).

During the period under review, the volume of customers' off-balance sheet monetary assets at the Bank increased by some NIS 11.3 billion. After canceling out the effect of the increase in market value, a negative increment amounting to some NIS 3.2 billion was recorded.

Legal Proceedings

1. Civil Proceedings

1.1 The Bank is a party to legal proceedings, including petitions for leave to approve class actions, brought against it by customers and former customers of the Bank, and various third parties considering themselves prejudiced or harmed by the Bank's activity during the ordinary course of its business.

In the opinion of the Management of the Bank, based on legal opinions, appropriate provisions have been included in the Financial Statements to cover possible damages in respect of all the claims.

The grounds for claims against the Bank are different and varied, including assertions as to the non-execution of instructions or their late execution, petitions for approval of attachments imposed by third parties on assets of debtors that according to them, are held by the Bank, assertions that interest charged is not in accordance with the interest rates agreed upon between the Bank and the customer, interest rates deviating from those permitted by law, errors in the dates of debiting and crediting accounts in respect of checks drawn on them, assertions in connection with the charging of commissions, assertions relating to securities, labor relations, drawing checks without cover, and failure to honor checks.

For details regarding claims and petitions for leave to approve class actions filed against the Bank, see Note 6 to the Financial Statements.

Claims in an amount exceeding 1% of the capital of the Bank on 31 March 2012, of about NIS 241 million, are detailed in Note 6 to the Financial Statements.

1.2 As part of measures taken to recover debts during the ordinary course of its business, the Bank, *inter alia,* initiates various legal proceedings against debtors and guarantors, and proceedings to realize collateral. The Financial Statements include allowances for credit losses made by the Bank on the basis of an assessment of all the risks involved in the credit to the various sectors of the economy and taking into account the extent of the information concerning the relevant debtor/guarantor with regard to his financial strength and the collateral given to the Bank to secure repayment of the debt.

2. Other Proceedings

2.1 On 26 April 2009, a ruling of the Antitrust Commissioner was received at the Bank, pursuant to Section 43(a) (1) of the Antitrust Law, 1988, according to which restrictive trade agreements, relating to the transfer of information regarding commissions, had existed between the Bank, Bank Hapoalim B.M., Israel Discount Bank Ltd., Mizrahi Bank Ltd. and the First International Bank of Israel Ltd., during the period from the beginning of the 1990's until the commencement of the Antitrust Authority's investigation of the matter, in November 2004. This is a civil ruling, which constitutes *prima facie* evidence of the matters therein determined in any legal proceedings. The Bank submitted an appeal against this ruling. On 22 February 2011, the Commissioner's response was submitted to the Bank. Mediation procedures were conducted between the parties, but these were not successful. At this stage, the implications of the ruling cannot be assessed.

2.2 United States authorities ("the authorities") are conducting investigations into foreign banks in connection with the banks' activities with customers who are assessed for tax in the United States ("U.S. customers"), suspecting a violation of American law. As part of their investigations, as aforesaid, which are also being conducted against the Group, various demands have been made by the authorities to companies included among the Group's customers in connection with customers who have been identified by the authorities and banking services received from the Group. The Group is cooperating with the authorities in furnishing the required information and procedures, which, it is permitted to furnish under the law. The Group is also prepared for an internal examination of the subject at the Group level. At this stage, it is not possible to reliably estimate or assess the damage to the Bank Group.

2.3 The Israel Securities Authority has been conducting administrative arbitration procedures pursuant to Section 52qq(a)(2) to the Securities Law, in connection with the publication of a profit warning by the Bank on 14 November 2011, and in connection with the issue of deferred notes by Leumi Finance pursuant to a shelf offer published 9 November 2011.

2.4 In March 2012, an indictment was served against Leumi Romania and against members of the credit committee of Leumi Romania, regarding a transaction in the account of a customer, which according to the General Prosecutor in Romania was not lawfully carried out. The indictment was submitted as a result of a complaint by a customer who alleged that he incurred damage as the result of the bank's action. (The amount of the damage is not material.)

2.5 On 22 May 2012, the Antitrust Commissioner extended the term of the exemption from the necessity of the approval of a restrictive arrangement for the activity of Bank Leumi, Bank Hapoalim, Bank Discount, First International Bank and Bank Mizrahi-Tefahot (hereinafter: "the Banks") for an arrangement concerning the Banks' joint holdings in ABS – Automatic Banking Services Ltd. ("ABS") and the Bank Clearing Center Ltd. (hereinafter: "the Clearinghouse"') for a period of four months.
Pursuant to the present exemption, most of the terms on which the previous exemptions were conditioned remained in place, and additional conditions, as applicable, were placed on ABS, the Clearinghouse and the Banks. These included, *inter alia*, restricting the ability of ABS and the Clearinghouse to grant discounts to the Banks and to companies controlled by them, and prohibiting ABS and the Clearinghouse from charging joining fees to the various systems operated by them, except for supplementary costs that will be directly related to making the adjustments required in the system for the purpose of joining.
The present exemption was granted, as aforesaid, for a period of four months, during which the Commissioner will examine the continuation of activity of ABS in the area of automated telling machines, and what, if any, percentage of costs ABS and the Clearinghouse are entitled to demand for new subscribers.

For further details regarding contingent liabilities, see Note 6 to the Financial Statements.

Significant agreements

Following the publication of a circular by the Supervisor of Banks regarding the measurement and disclosure of impaired debts, credit and allowance for credit losses (hereinafter "Bank of Israel Regulations"), the banks, including the Bank, reached an agreement with the Israel Tax Authority concerning the recognition of allowances for credit losses for tax purposes. The agreement was signed on 19 March 2012. This agreement replaces the previous agreement and is in effect with regard to impaired debts recorded from 1 January 2011.

The main points of the new agreement are as follows:

Large impaired debts on an individual basis:

An allowance is permitted for tax purposes in the year in which the expense is recorded in the financial statements. In the year in which the balance of the allowance in respect of credit losses (which is not as a result of an "accounting write-off" or "waiver") is reduced, "additional tax", plus interest and linkage differences, will be added to the bank's tax liability, which would result in tax being charged that would have been charged had the allowance that was permitted for deduction not been recognized from the outset.

For this purpose – a "large debt" is a debt of NIS 1 million and above, or a lesser amount according to the notification by the bank to the Assessing Officer and in accordance with the bank's characteristics.

Impaired debts that are not large:
Expenses in respect of "accounting write-offs", net (after offsetting collections in the same year) – one half of them will be allowed for tax purposes in the first tax year after the year in which the expense is recorded, and the other half will be allowed in the second tax year after the year in which the expenses is recorded.

Provisions for doubtful debts not recognized in the past in accordance with a previous agreement with the tax authorities ("retail debts" as defined in the previous agreement):
These will be allowed for deduction for tax purposes in five equal annual installments, commencing 2011, providing that they have not been allowed as expenses for tax purposes in previous years.

Implications of the initial application of the Bank of Israel Regulations on 1 January 2011:
Differences deducted from capital as a result of the initial application of the Bank of Israel Regulations will be allowed for deduction for tax purposes in five equal annual installments, commencing the 2011 tax year, subject to their being allowed for tax in accordance with the terms of the arrangement, and on condition that it does not involve a collective, general or supplementary allowance.

Collective allowance:
Not recognized for tax purposes.

D. Additional Matters

Leumi for the Community

"Leumi Follow Me – the Centennial Fund for Tomorrow's Generation"

"Leumi Follow Me" this year marks a decade of its activity. Since its establishment, the association has donated NIS 83 million, which has been directed to supporting educational programs and promoting equal opportunities among young people on the social and geographical periphery of the State of Israel. As part of the cooperation with the social organizations and support of other societies, the association promotes leading programs for the advancement of youth towards their optimal integration into society, increasing the number of those eligible for a matriculation certificate, increasing the number of recruits to the IDF for quality service, encouraging leadership and social involvement in the community, etc.

During March, the Leumi Board of Directors and the managing committee of "Leumi Follow Me" approved support of the Teach First Israel ("TFI") program, which operates under the umbrella of the "Teach-For-All" Association. The TFI program trains outstanding university students to be teachers and leaders in the social and geographical periphery of Israel, with the aim of reducing social and educational gaps between the periphery and the centre of the country. The financial support of the program will amount to NIS 1 million per annum for two years. As well as the financial support, further cooperative ventures between the Bank and the TFI team have been planned, including integrating of TFI teachers in a program for developing managers in the training centre and absorbing TFI graduates as Leumi employees in the future.

Before the Passover festival, the Kimcha De'Pischa campaign was held for the eighth year running. As part of the campaign, Leumi employees were invited to donate money to purchase food cards for needy families. The "Leumi Follow Me" association donated a total of NIS 250 thousand, and together with the contribution of 1,350 employees and the subsidiaries, over NIS 500 thousand was collected and 2,000 food cards were purchased. The cards were distributed to families within the social partners of the Leumi Follow Me association and the employee involvement branch of the Human Resources Division, through the social leaders and volunteer employees.

Promoting Israeli Creation

In February, Leumi held, for the sixth year in succession, its "Secret Art" exhibition and presented artwork of young creators, alongside the works of veteran and leading Israeli artists, though concealing the artist's name. The exhibition was held in the spirit of conserving the environment. The exhibition included, among other things, "green art" creations dealing with subjects of recycling, the reuse of materials, the proper utilization of natural resources, green energy, protection of the appearance of the urban environment, keeping the sea and beaches clean, etc. All of the creations were for sale and all of the sales proceeds were transferred directly and completely to the artists.

On 22 March, a third exhibition from the collections of the Israel Museum in Jerusalem was opened in Visitors' Center in Mani Leumi House. The exhibition displayed works from the Israel Museum, focusing on the modern city and the experience of living there during the past one hundred years. The exhibition will be open to the public until the end of July 2012.

Summary of Donations and Sponsorships

In the first quarter of 2012, Leumi Group made donations and provided sponsorships for social welfare and community purposes amounting to some NIS 8.14 million, of which donations totaled some NIS 4.2 million.

Internal Auditor

Details regarding Internal Audit in the Group, including the professional standards by which it operates, the annual and multi-year work plans, and the considerations used in formulating them, were included in the Annual Report for 2011.

The Internal Auditor's report for 2011 was submitted to the Audit Committee on 19 April 2012 and discussed in the committee on 24 April 2012. It was submitted to the plenum of the Board of Directors on 2 May 2012 and discussed in the plenum on 6 May 2012.

The annual reports of the internal auditors of the subsidiaries in Israel and those abroad for 2011 were submitted to the Audit Committee on 10 May 2012 and were discussed in the committee on 13 May 2012.

Controls and Procedures

Controls and Procedures Regarding Disclosure in the Financial Statements

The Management of the Bank, together with the President and Chief Executive Officer and the Chief Accounting Officer, has, as at the end of the period covered by this Report, evaluated the effectiveness of the disclosure controls and procedures of the Bank. On the basis of this evaluation, the President and Chief Executive Officer of the Bank and the Chief Accounting Officer, have concluded that, as at the end of the said period, the disclosure controls and procedures of the Bank are effective for the recording, processing, summarizing and reporting of the information that the Bank is required to disclose in its quarterly financial statements, in accordance with the Public Reporting Directives of the Supervisor of Banks and at the time required in these directives.

No material change occurred in the internal controls on financial reporting of the Bank during the quarter ended 31 March 2012 that materially affected or is reasonably anticipated to materially affect the Bank's internal control of financial reporting.

Management's Responsibility for the Internal Control of Financial Reporting (SOX Act 404)

The directives of the Supervisor of Banks subject banking corporations to the requirements of Section 404 of the SOX Act. In Section 404, the SEC, and the Public Company Accounting Oversight Board, determined provisions as to management's responsibility for the internal control over financial reporting and as to the external auditors' opinion with regard to the audit of the internal control over financial reporting.

The Supervisor's directives in the said circular prescribe that:

- Banking corporations shall apply the requirements of Section 404 and also SEC directives that have been published thereunder.

- Proper internal control requires a control system in accordance with a defined and recognized framework, and the COSO (Committee of Sponsoring Organizations of the Treadway Commission) model meets the requirements and can be used in order to assess the internal control.

The COSO model provides defined standards for the purpose of assessing the internal control system in the organization and the ways in which it can be improved, and defines internal control as a process which is influenced by the board of directors, the management and other persons within the company.

According to the COSO model, reference should be made to five components:

1. Control Environment: This component involves the examination of the management's conduct with reference to various subjects such as the existence of a code of ethics, management's aggressiveness in reporting, etc.

2. Risk Assessment: This component involves the examination of the relevant risks regarding each process and sub-process checked, which have an impact on the financial statements.

3. Control Activities: This component involves the examination of the relevant controls regarding each of the risks identified at the risk assessment stage.

4. Information and Communication: This component involves checking that the information required for the Bank's activity is available, and that there is a mechanism that processes the information received and transfers it to the appropriate functions at the Bank.

5. Monitoring: This component involves the examination of the existence of a mechanism that checks the monitoring of the correction of deficiencies. Proper supervision may be expressed in a periodic examination of the internal control system, continuous implementation of opportunities for improvement, response by the management to the internal control recommendations made by external auditors as well as internal parties, rapid adaptation to new regulatory directives, etc.

The Bank is currently implementing the directive in Leumi Group on an ongoing basis.

Organizational Structure and Appointments

Appointments and retirements

Appointments:

Ms. Rakefet Russak-Aminoach, Head of the Corporate Division, was appointed President and CEO with effect from 1 May 2012.

For the revised terms of employment of Ms. Russak-Aminoach on her election to serve as President and CEO of the Bank and Group, see Note 12 (a) below and an Immediate Report of the Bank dated 1 May 2012. (Document ref. no.: 2012-01-112527)

Ms. Einat Skornik was appointed Head of Investment Consulting Unit, with effect from 1 January 2012.

Meira Karni, Head of the Compliance and Enforcement Department was promoted to the rank of Deputy CEO, with effect from 1 April 2012.

Mr. Yaakov Haber*, Head of the Finance and Economics Division, was appointed Head of the Corporate Division. His appointment will take effect no later than 31 December 2012. Mr. Haber was appointed to the post of Chairman of the Board of Directors of Leumi Partners with effect from 1 April 2012, until he assumed his new position as head of the Corporate Division..

Mr. Yoel Mintz*, Head of the Construction and Real Estate Unit, was appointed Head of the Complex Finance and Real Estate Division and member of the Bank management, with effect from 1 May 2012.

Mr. Itzik Naor, was appointed to the position of Head of the Corporate Unit and was promoted to the rank of Deputy Vice-President, with effect from 1 May 2012.

Mr. Malkiel Shachar was appointed to the position of Head of the Credit Unit, with effect from 1 May 2012.

Mr. David Scheffner will be appointed to the position of Head of the Construction and Real Estate Unit with effect from 1 October 2012.

* The said appointments are subject to the absence of any objection by the Supervisor of Banks, as far as required.

Retirements:

Ms. Galia Maor, the President and Chief Executive Officer of the Bank, announced her intention on 1 January 2012 to retire from her position. At the request of the Board of Directors, Ms. Maor continued to act as President and Chief Executive Officer until 30 April 2012, and the advance notice will become effective on 1 May 2012, for a period of 9 months, after cessation of work.

The Board of Directors, following a resolution of the Audit Committee and Salary and Remuneration Administrative Committee of the Board of Directors, resolved that the outgoing President and CEO will undergo an additional cooling-off period. See Note 12 (b) below and an Immediate Report of the Bank dated 7 May 2012. (Document ref. no.: 2012-01-118074).

Mr. Zeev Nahari, Chairman of the Board of Directors of Leumi Partners ceased to serve in his position on 31 March 2012 and was appointed Chairman of the Board of Directors of Arab-Israel Bank, as of 1 April 2012.

Mr. Shmuel Zussman, Chairman of the Board of Directors of Arab Israel Bank, ceased to serve in this position on 31 March 2012, after seven years in office.

Mr. Zvi Itskovitch, Head of the International and Private Banking Division and a member of Management, will cease to serve in this position on 30 June 2012, and will retire after 33 years in the Bank.

Board of Directors

During the first quarter of 2012 and up until the date of publication of this Report, there were no changes in the composition of the Board of Directors.

In accordance with the provisions of Sections 11c(a)(4) and 11e(a)(2) of the Banking Ordinance, 1941, on 7 May 2012, the Bank announced that the Board of Directors of the Bank intended to convene an annual general meeting of the Bank, the date of which is expected to be 1 August 2012 ("the Annual Meeting"). The agenda of the Annual Meeting will include, inter alia, the following two subjects: (1) the election of four external directors to the Board of Directors of the Bank, in accordance with the provisions of Regulation no. 301 of the Conduct of Banking Business Regulations and (2) the election of one external director to the Board of Directors of the Bank in accordance with the provisions of the Companies Ordinance 1999.

At the meeting of the Board of Directors held on 30 May 2012, it was resolved to approve and publish the Group's condensed unaudited Consolidated Financial Statements as of 31 March 2012 and for the period ending on that date.

During the period of January to March 2012, the Board of Directors held 18 plenary meetings and 41 committee meetings.

The Bank's Board of Directors expresses its appreciation and gratitude to employees and managers of the Bank and of Group companies in Israel and overseas, for their dedicated work and their contribution to the promotion of the Group's business.

David Brodet	Rakefet Russak-Aminoach
Chairman of the Board of Directors	President and Chief Executive Officer

30 May 2012

Rates of Financing Income and Expenses (on a Consolidated Basis) (a)
Reported amounts

Exhibit A

	For the three months ended 31 March							
	2012				2011			
			Rate of income (expenses)				Rate of income (expenses)	
	Average balance (b)	Financing income (expenses)	Excluding the effect of derivatives	Including the effect of derivatives	Average balance (b)	Financing income (expenses)	Excluding the effect of derivatives	Including the effect of derivatives
	(NIS millions)		%	%	(NIS millions)		%	%
Israeli currency - unlinked								
Assets (c) (d)	188,720	2,048	4.41		163,799	1,701	4.22	
Effect of embedded and ALM derivatives (e)	64,984	(131)			72,306	59		
Total assets	253,704	1,917		3.06	236,105	1,760		3.02
Liabilities (d)	155,169	(745)	(1.93)		139,287	(557)	(1.61)	
Effect of embedded and ALM derivatives (e)	77,665	18			74,107	(194)		
Total liabilities	232,834	(727)		(1.25)	213,394	(751)		(1.42)
Interest margin			2.48	1.81			2.61	1.60
Israeli currency – linked to the CPI								
Assets (c) (d)	61,424	597	3.94		60,180	1,071	7.31	
Effect of embedded and ALM derivatives (e)	5,087	(14)			2,837	66		
Total assets	66,511	583		3.55	63,017	1,137		7.41
Liabilities (d)	49,382	(452)	(3.71)		47,416	(844)	(7.31)	
Effect of embedded and ALM derivatives (e)	9,809	(13)			10,043	(107)		
Total liabilities	59,191	(465)		(3.18)	57,459	(951)		(6.79)
Interest margin			0.23	0.37			(0.00)	0.62
Foreign currency:								
(including Israeli currency linked to foreign currency)								
Assets (c) (d)	87,207	(593)	(2.69)		85,869	388	1.82	
Effect of derivatives: (e)								
Hedging derivatives	259	-			426	-		
Embedded derivatives and ALM	152,381	(2,286)			145,237	505		
Total assets	239,847	(2,879)		(4.72)	231,532	893		1.55
Liabilities (d)	109,800	1,432	5.12		99,872	104	0.42	
Effect of derivatives: (e)								
Hedging derivatives	461	-			439	-		
Embedded derivatives and ALM	134,569	2,077			137,554	(463)		
Total liabilities	244,830	3,509		5.61	237,865	(359)		(0.61)
Interest margin			2.43	0.89			2.24	0.94

See notes on page 138.

Rates of Financing Income and Expenses (on a Consolidated Basis) (cont'd) (a)
Reported amounts

Exhibit A (cont'd)

	For the three months ended 31 March							
	2012				2011			
			Rate of income (expenses)				Rate of income (expenses)	
	Average balance (b)	Financing income (expenses)	Excluding the effect of derivatives	Including the effect of derivatives	Average balance (b)	Financing income (expenses)	Excluding the effect of derivatives	Including the effect of derivatives
	(NIS millions)		%	%	(NIS millions)		%	%
Total monetary assets generating interest income (d) (f)	337,351	2,052	2.46		309,848	3,160	4.14	
Effect of derivatives:								
Hedging derivatives	259	-			426	-		
Embedded derivatives and ALM (e)	222,452	(2,431)			220,380	630		
Total assets	560,062	(379)		(0.27)	530,654	3,790		2.89
Total monetary liabilities generating interest expenses (d)	314,351	235	0.30		286,575	(1,297)	(1.82)	
Effect of derivatives: (e)								
Hedging derivatives	461	-			439	-		
Embedded derivatives and ALM	222,043	2,082			221,704	(764)		
Total liabilities	536,855	2,317		1.72	508,718	(2,061)		(1.63)
Interest margin			2.76	1.45			2.32	1.26
In respect of options		-				10		
In respect of other derivatives (excluding options, hedging derivative instruments, ALM derivatives and embedded derivatives which have been separated) (e)		(1)				21		
Financing commissions and other financing income (g)		98				179		
Net interest income before expenses in respect of credit losses		2,035				1,939		
Expenses in respect of credit losses		(225)				102		
Net interest income after expenses in respect of credit losses		1,810				2,041		
Monetary assets generating interest income (d) (f)	337,351				309,848			
Assets derived from derivative instruments (h)	10,907				8,046			
Other monetary assets (d)	6,389				5,989			
Allowance in respect of credit losses	(4,437)				(5,507)			
Total monetary assets	350,210				318,376			
Monetary liabilities generating interest expenses (d)	314,351				286,575			
Liabilities derived from derivative instruments (h)	11,569				9,314			
Other monetary liabilities (d)	8,960				8,209			
Total monetary liabilities	334,880				304,098			
Total monetary assets exceeding monetary liabilities	15,330				14,278			
Non-monetary assets	9,108				9,010			
Non-monetary liabilities	691				591			
Total capital resources	23,747				22,697			

See notes on page 138.

Rates of Financing Income and Expenses (on a Consolidated Basis) (cont'd) (a)
Reported amounts

Exhibit A (cont'd)

Notes:

(a) The data in this exhibit is shown before and after the effect of derivative instruments (including the effect of off-balance sheet derivative instruments).

(b) Based on monthly opening balances, and quarterly opening balances in foreign consolidated companies, except for the unlinked Israeli currency sector where the average balance is based on daily figures, and before deduction of the average balance sheet balance of allowances for credit losses.

(c) The average balance of unrealized profits (losses) from adjustment to fair value of debentures held for trading and available for sale has been deducted from (added to) the average balance of the assets as follows:

In the unlinked Israeli currency sector for the three month period an amount of NIS 105 million (31 March 2011 – NIS (178) million).

In the CPI-linked Israeli currency sector for the three month period an amount of NIS 77 million (31 March 2011 – NIS 277 million).

In the foreign currency sector (which includes Israeli currency linked to foreign currency) for the three month period an amount of NIS (361) million (31 March 2011 – NIS (74) million).

(d) Excluding derivative instruments.

(e) Hedging derivative instruments (excluding options), embedded derivatives which have been separated, and ALM derivatives, which constitute part of the Bank's asset and liability management system.

(f) The average balance of unrealized profits (losses) on adjustment to fair value of debentures held for trading and available for sale has been deducted from (added to) the average balance of assets in the various sectors, for the three month period in an amount of NIS (179) million (31 March 2011 – NIS 25 million).

(g) In 2011, this includes profits and losses on sales of investments in debentures and adjustments to fair value of debentures held for trading.

(h) Average balances of derivative instruments (does not include average of off-balance sheet derivative instruments).

General note:
On 1 January 2012, the Bank implemented for the first time the directives of the Supervisor of Banks on the format of the statement of profit and loss of a banking corporation. Comparative figures for previous periods have not been restated, and so the figures for 31 March 2011 are not comparable with figures relating to financing income before allowance for credit losses

Rates of Financing Income and Expenses (on a Consolidated Basis) (cont'd) (a)
Foreign Currency: Nominal US$

Exhibit A (cont'd)

	For the three months ended 31 March							
	2012				2011			
			Rate of income (expenses)				Rate of income (expenses)	
	Average balance (b)	Financing income (expenses)	Excluding the effect of derivatives	Including the effect of derivatives	Average balance (b)	Financing income (expenses)	Excluding the effect of derivatives	Including the effect of derivatives
	(U.S.$ millions)		%	%	(U.S.$ millions)		%	%
Foreign currency: Local operations (including Israeli currency linked to foreign currency)								
Assets (c) (d)	12,651	71	2.26		14,632	79	2.18	
Effect of derivatives: (e)								
Hedging derivatives	69	-			118	-		
Embedded derivatives and ALM	40,330	25			40,024	15		
Total assets	53,050	96		0.73	54,774	94		0.69
Liabilities (d)	19,531	(40)	(0.82)		19,789	(32)	(0.65)	
Effect of derivatives: (e)								
Hedging derivatives	122	-			121	-		
Embedded derivatives and ALM	34,864	7			37,895	(15)		
Total liabilities	54,517	(33)		(0.24)	57,805	(47)		(0.33)
Interest margin			1.44	0.49			1.53	0.36
Foreign currency: Foreign operations (integrated operations)								
Assets (c) (d)	10,325	81	3.18		9,240	70	3.06	
Effect of embedded and ALM derivatives (e)	60	3			39	4		
Total assets	10,385	84		3.27	9,279	74		3.23
Liabilities (d)	9,480	(21)	(0.89)		7,942	(15)	(0.76)	
Effect of embedded and ALM derivatives (e)	806	(5)			51	(3)		
Total liabilities	10,286	(26)		(1.01)	7,993	(18)		(0.90)
Interest margin			2.29	2.26			2.30	2.33
Total								
Foreign currency assets generating financing income (c) (d)	22,976	152	2.67		23,872	149	2.52	
Effect of derivatives: (e)								
Hedging derivatives	69	-			118	-		
Embedded derivatives and ALM	40,390	28			40,063	19		
Total assets	63,435	180		1.14	64,053	168		1.05
Monetary liabilities in foreign currency generating financing expense (d)	29,011	(61)	(0.84)		27,731	(47)	(0.68)	
Effect of derivatives: (e)								
Hedging derivatives	122	-			121	-		
Embedded derivatives and ALM	35,670	2			37,946	(18)		
Total liabilities	64,803	(59)		(0.36)	65,798	(65)		(0.40)
Interest margin			1.83	0.78			1.84	0.65

See notes on page #140.

Rates of Financing Income and Expenses (on a Consolidated Basis) (cont'd) (a)
Foreign Currency: Nominal US$

Exhibit A (cont'd)

Notes:

(a) The data in this exhibit is shown before and after the effect of derivative instruments (including the effect of off-balance sheet derivative instruments).

(b) Based on monthly opening balances for the Bank and consolidated companies in Israel and on quarterly opening balances for foreign consolidated companies, and before deduction of the average balance sheet balance of allowances for credit losses.

(c) The average balance of unrealized losses on adjustment to fair value of debentures held for trading and available for sale has been deducted from (added to) the average balance of the assets for domestic and foreign operations, in the amount of US$ (97) million (31 March 2011 - US$ (20) million).

(d) Excluding derivative instruments.

(e) Hedging derivative instruments (excluding options), embedded derivatives which have been separated, and ALM derivatives, which constitute part of the Bank's asset and liability management system.

Exposure to Interest Rate Fluctuations (on Consolidated Basis)
Reported amounts

Exhibit B

	31 March 2012												31 December 2011			31 March 2011		
	On demand up to one month	One to three months	Three months to one year	One to three years	Three to five years	Five to ten years	Ten to twenty years	Over twenty years	Without fixed maturity	Total fair value	Internal rate of return	Duration (b)	Total fair value	Internal rate of return	Duration (b)	Total fair value	Internal rate of return	Duration (b)
	NIS millions										%	Years		%	Years		%	Years
Israeli currency - unlinked																		
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial assets (a)	149,886	4,641	21,800	5,792	1,949	2,324	243	7	330	186,972	4.68	0.35	191,767	4.12	0.39	162,738	5.14	0.41
Derivative financial instruments (excluding options)	38,348	77,881	45,885	25,800	17,466	19,765	301	-	-	225,446	-	1.38	221,545	-	1.38	185,060	-	1.14
Options (in terms of basis asset) (d)	1,414	2,302	2,699	58	25	5	-	-	-	6,503	-	-	6,074	-	-	8,686	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	189,648	84,824	70,384	31,650	19,440	22,094	544	7	330	418,921	4.68	0.90	419,386	4.12	0.91	356,484	5.14	0.78
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a)	129,407	6,042	11,944	9,063	1,256	2,034	1	-	1	159,748	4.00	0.33	159,044	3.70	0.27	141,544	4.23	0.28
Derivative financial instruments (excluding options)	44,810	78,818	53,153	26,304	17,086	19,029	316	18	-	239,534	-	1.32	235,982	-	1.30	187,534	-	1.08
Options (in terms of basis asset) (d)	1,361	1,649	3,596	635	18	51	148	-	-	7,458	-	-	6,805	-	-	10,983	-	-
Off-balance sheet financial instruments	-	-	261	-	-	-	-	-	-	261	-	0.50	43	-	0.50	110	-	0.50
Total fair value	175,578	86,509	68,954	36,002	18,360	21,114	465	18	1	407,001	4.00	0.90	401,874	3.70	0.87	340,171	4.23	0.71
Financial instruments, net																		
Exposure to interest rate fluctuations	14,070	(1,685)	1,430	(4,352)	1,080	980	79	(11)										
Accumulated exposure in the sector	14,070	12,385	13,815	9,463	10,543	11,523	11,602	11,591										
Israeli currency – linked to the CPI																		
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial assets (a)	2,596	4,919	15,780	18,511	12,710	7,627	1,740	40	37	63,960	2.85	2.76	62,776	3.10	2.78	62,651	3.19	2.88
Derivative financial instruments (excluding options)	412	928	646	1,010	249	1,660	171	-	-	5,076	-	3.55	5,641	-	3.61	3,466	-	3.61
Options (in terms of basis asset) (d)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	3,008	5,847	16,426	19,521	12,959	9,287	1,911	40	37	69,036	2.85	2.81	68,417	3.10	2.85	66,117	3.19	2.92
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a)	2,286	1,755	8,071	16,718	7,653	14,400	1,200	212	-	52,295	2.32	3.78	54,294	2.54	3.60	50,024	2.75	3.64
Derivative financial instruments (excluding options)	1,034	388	4,532	3,073	683	471	-	-	-	10,181	-	1.57	10,604	-	1.46	11,439	-	1.86
Options (in terms of basis asset) (d)	-	-	-	-	-	-	-	-	-	-	-	-	4	-	-	8	-	-
Off-balance sheet financial instruments	-	-	87	-	-	-	-	-	-	87	-	-	101	-	-	-	-	-
Total fair value	3,320	2,143	12,690	19,791	8,336	14,871	1,200	212	-	62,563	2.32	3.41	65,003	2.54	3.25	61,471	2.75	3.31
Financial instruments, net																		
Exposure to interest rate fluctuations	(312)	3,704	3,736	(270)	4,623	(5,584)	711	(172)										
Accumulated exposure in the sector	(312)	3,392	7,128	6,858	11,481	5,897	6,608	6,436										

See notes on page #140.

Exposure to Interest Rate Fluctuations (on Consolidated Basis) (cont'd)
Reported amounts

Exhibit B (cont'd)

	31 March 2012												31 December 2011			31 March 2011		
	On demand up to one month	One to three months	Three months to one year	One to three years	Three to five years	Five to ten years	Ten to twenty years	Over twenty years	Without fixed maturity	Total fair value	Internal rate of return	Duration (b)	Total fair value	Internal rate of return	Duration (b)	Total fair value (e)	Internal rate of return	Duration (b) (e)
	NIS millions										%	Years		%	Years			
Foreign currency and foreign currency linked																		
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial assets (a)	50,247	14,206	10,582	5,475	4,034	2,275	428	117	175	87,539	3.10	0.70	88,112	4.04	0.58	84,827	3.06	0.72
Derivative financial instruments (excluding options)	55,198	56,066	59,807	20,398	3,263	10,427	422	222	161	205,964	-	0.85	218,588	-	0.85	222,685	-	1.00
Options (in terms of basis asset) (d)	286	2,847	1,392	1,390	2,361	6,284	139	-	-	14,699	-	-	22,041	-	-	32,554	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	105,731	73,119	71,781	27,263	9,658	18,986	989	339	336	308,202	3.10	0.77	328,741	4.04	0.72	340,066	3.06	0.83
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a)	66,882	16,397	21,923	2,808	460	374	43	-	10	108,897	1.14	0.30	112,065	1.59	0.30	99,463	1.58	0.30
Derivative financial instruments (excluding options)	44,964	49,656	53,543	21,899	4,914	11,434	525	312	161	187,408	-	1.00	199,579	-	1.02	214,034	-	1.17
Options (in terms of basis asset) (d)	(279)	3,235	461	1,444	2,395	6,312	236	-	-	13,804	-	-	21,437	-	-	30,233	-	-
Off-balance sheet financial instruments	-	-	63	-	-	-	-	-	-	63	-	0.50	14	-	0.50	15	-	0.50
Total fair value	111,567	69,288	75,990	26,151	7,769	18,120	804	312	171	310,172	1.14	0.71	333,095	1.59	0.71	343,745	1.58	0.81
Financial instruments, net																		
Exposure to interest rate fluctuations	(5,836)	3,831	(4,209)	1,112	1,889	866	185	27										
Accumulated exposure in the sector	(5,836)	(2,005)	(6,214)	(5,102)	(3,213)	(2,347)	(2,162)	(2,135)										
Total exposure to interest rate fluctuations																		
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial assets (a) (c)	202,729	23,766	48,162	29,778	18,693	12,226	2,411	164	3,193	341,122	3.31	0.90	345,539	3.52	0.88	313,623	3.61	1.00
Derivative financial instruments (excluding options)	93,958	134,875	106,338	47,208	20,978	31,852	894	222	566	436,891	-	1.15	445,885	-	1.15	412,457	-	1.08
Options (in terms of basis asset) (d)	1,700	5,149	4,091	1,448	2,386	6,289	139	-	-	21,202	-	-	28,115	-	-	-	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	41,234	-	-
Total fair value	298,387	163,790	158,591	78,434	42,057	50,367	3,444	386	3,759	799,215	3.31	1.01	819,539	3.52	0.99	767,314	3.61	0.99
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a) (c)	198,575	24,194	41,938	28,589	9,369	16,808	1,244	212	256	321,185	2.51	0.88	325,737	2.62	0.84	291,365	2.86	0.86
Derivative financial instruments (excluding options)	90,808	128,862	111,228	51,276	22,683	30,934	841	330	528	437,490	-	1.19	446,250	-	1.18	414,220	-	1.15
Options (in terms of basis asset) (d)	1,082	4,884	4,057	2,079	2,413	6,363	384	-	-	21,262	-	-	28,246	-	-	41,224	-	-
Off-balance sheet financial instruments	-	-	411	-	-	-	-	-	129	540	-	0.09	279	-	0.12	253	-	0.50
Total fair value	290,465	157,940	157,634	81,944	34,465	54,105	2,469	542	913	780,477	2.51	1.03	800,512	2.62	1.00	747,062	2.86	0.97
Financial instruments, net																		
Exposure to interest rate fluctuations	7,922	5,850	957	(3,510)	7,592	(3,738)	975	(156)										
Accumulated exposure in the sector	7,922	13,772	14,729	11,219	18,811	15,073	16,048	15,892										

See notes on page #140.

Exposure to Interest Rate Fluctuations (on Consolidated Basis) (cont'd)
Reported amounts

Exhibit B (cont'd)

(a) Excluding balance-sheet balances of derivative financial instruments, fair value of off-balance sheet financial instruments, and fair value of hybrid financial instruments. The figures in the "Without fixed maturity" column are the non-discounted balance-sheet balances, including overdue balances in the amount of NIS 542 million.
(b) Weighted average as per fair value of effective duration.
(c) Including non-monetary assets shown in "Without fixed maturity" column.
(d) Duration less than 0.05 years.
(e) Reclassified.

General notes:
(1) In this table, the data by periods shows the present value of future cash flows, discounted at the internal rate of return used for discounting them to the fair value included in respect of the financial instrument, in consistency with the assumptions used to calculate the fair value of the financial instrument. For further details regarding the assumptions used in the calculation of the fair value of the financial instruments, see Note 18D in the Annual Financial Report.
(2) The internal rate of return is the interest rate for discounting the cash flows expected from a financial instrument to the fair value included in respect of it.
(3) The effective duration of a group of financial instruments constitutes an approximation of the percentage change in the fair value of the group of financial instruments that would be caused as a result of a small change (an increase of 0.1%) in the internal rate of return of each of the financial instruments.
(4) The effect of hedging transactions is included in total assets or total liabilities, as applicable.
(5) In calculating the duration of assets and liabilities in the CPI-linked segment an estimate was taken into account of early redemptions and withdrawals at exit points in savings plans, in accordance with a model estimating expected early redemptions based on the behavior of customers. The duration of total assets according to the original cash flow of the savings plans is higher and reached 3.18 years, the duration of total liabilities reaches 3.44 years, and the internal rate of return (henceforth – IRR) gap amounts to 0.45%. The change in fair value on total assets is NIS 493 million and in total liabilities NIS 7 million.

Credit to the Public - Risk by Economic Sector (on Consolidated Basis)
Reported amounts

Exhibit C

	31 March 2012							
	Risk of credit to the public					Credit losses (4)		
				Risk of credit to the public includes (3):				
	Balance sheet credit risk (*) (1)	Off-balance sheet credit risk (*) (2)	Overall credit risk (*)	Problem credit risk (*)	Impaired credit to the public (*)	Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance for credit losses
	(NIS millions)							
Activities of borrowers in Israel								
Agriculture	1,821	350	2,171	116	51	(6)	(4)	(48)
Industry	24,768	10,914	35,682	1,223	684	16	43	(497)
Construction and real estate (7)	39,770	27,207	66,977	3,988	2,262	-	38	(1,104)
Electricity and water	1,152	252	1,404	2	2	-	-	(2)
Commerce	18,697	4,785	23,482	944	399	(3)	(6)	(279)
Hotels and restaurants	3,288	236	3,524	862	700	(31)	13	(103)
Transport and storage	5,005	933	5,938	360	137	15	(1)	(96)
Communications and computer services	4,965	2,444	7,409	144	34	(23)	-	(39)
Financial services	16,400	11,178	27,578	1,530	1,156	270	30	(571)
Business and other services	5,203	1,710	6,913	239	44	14	2	(83)
Public and community services	6,245	1,047	7,292	237	47	(2)	9	(40)
Private individuals - loans for housing	57,056	1,749	58,805	884	23	(11)	9	(493)
Private individuals - other	28,388	27,047	55,435	302	32	(25)	28	(424)
Total for activities of borrowers in Israel	212,758	89,852	302,610	10,831	5,571	214	161	(3,779)
Activities of borrowers abroad	43,956	13,306	57,262	2,277	1,251	13	18	(733)
Total	256,714	103,158	359,872	13,108	6,822	227	179	(4,512)
Credit risk included within the various economic sectors:								
Settlement movements (5)	2,850	611	3,461	104	38	(6)	3	(35)
Local authorities (6)	3,194	115	3,309	3	-	-	-	(2)

(1) Credit to the public in the amount of NIS 208,814 million in respect of activity in Israel and NIS 35,761 million in respect of activity abroad, investments in debentures of the public in the amount of NIS 1,512 million in respect of activity in Israel and NIS 7,361 million in respect of activity abroad, and other assets in respect of derivative instruments corresponding to transactions with the public in the amount of NIS 2,432 million in respect of activity in Israel and NIS 834 million in respect of activity abroad.

(2) Credit risk on off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations.

(3) Balance sheet and off-balance sheet credit risk in respect of the public, which is impaired, inferior, or under special supervision.

(4) Including in respect of off-balance sheet credit instruments (appearing in the balance sheet under "Other Liabilities").

(5) Kibbutzim and moshavim, regional and national organizations and corporations controlled by settlement movement.

(6) Including corporations under their control.

(7) Including housing loans made to purchasing groups in process of construction in the amount of NIS 994 million and off-balance sheet credit risk in the amount of NIS 2,002 million.

(*) Balance sheet and off-balance sheet credit risk, problematic credit risk, and impaired credit to the public are stated before the effect of the allowance for credit losses, and before the effect of collateral eligible for deduction for purposes of the single borrower and group borrower liability.

Credit to the Public - Risk by Economic Sector (on Consolidated Basis) (cont'd)
Reported amounts

Exhibit C (cont'd)

	31 March 2011							
	Risk of credit to the public					Credit losses (4)		
				Risk of credit to the public includes (3):				
	Balance sheet credit risk (*) (1)	Off-balance sheet credit risk (*) (2)	Overall credit risk (*)	Problem credit risk (*)	Impaired credit to the public (*)	Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance for credit losses
	(NIS millions)							
Activities of borrowers in Israel								
Agriculture	1,851	349	2,200	163	120	1	4	(73)
Industry	22,992	13,370	36,362	1,756	1,076	(144)	(73)	(795)
Construction and real estate (6) (7)	39,759	26,126	65,885	4,948	3,287	53	147	(1,420)
Electricity and water	1,514	495	2,009	52	2	2	-	(7)
Commerce	16,556	4,297	20,853	1,089	558	(25)	12	(364)
Hotels and restaurants	3,620	291	3,911	796	643	(17)	39	(164)
Transport and storage	4,112	1,024	5,136	207	129	27	27	(100)
Communications and computer services	4,042	4,333	8,375	139	91	6	25	(96)
Financial services	16,210	12,026	28,236	684	595	17	130	(277)
Business and other services	4,814	1,714	6,528	99	51	16	(24)	(90)
Public and community services	6,066	945	7,011	245	96	2	(2)	(28)
Private individuals - loans for housing (7)	53,122	2,217	55,339	1,000	749	(13)	18	(573)
Private individuals - other	26,382	26,015	52,397	365	69	(53)	(38)	(443)
Total for activities of borrowers in Israel	201,040	93,202	294,242	11,543	7,466	(128)	265	(4,430)
Activities of borrowers abroad (8)	45,316	15,431	60,747	2,124	1,255	26	93	(885)
Total	246,356	108,633	354,989	13,667	8,721	(102)	358	(5,315)
Credit risk included within the various economic sectors:								
Settlement movements (4)	3,032	657	3,689	179	118	(19)	17	(73)
Local authorities (5)	3,097	120	3,217	39	-	-	-	(7)

(1) Including credit to the public in the amount of NIS 196,101 million in respect of activity in Israel and NIS 33,916 million in respect of activity abroad, investments in debentures of the public in the amount of NIS 1,435 million in respect of activity in Israel and NIS 10,695 million in respect of activity abroad, and other assets in respect of derivative instruments corresponding to transactions with the public in the amount of NIS 3,504 million in respect of activity in Israel and NIS 705 million in respect of activity abroad.
(2) Credit risk on off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations.
(3) Balances of problem debt net of credit covered by collateral allowed as a deduction for purposes of individual and group borrower limits, including off-balance sheet risk components.
(4) Kibbutzim and moshavim, regional and national organizations and corporations controlled by the settlement movement.
(5) Including corporations under their control.
(6) Including housing loans and off-balance sheet credit risk given to purchasing groups under construction amounting to NIS 928 million and off balance-sheet credit risk amounting to NIS 1,772 million.
(7) Reclassified.
(8) Restated – debentures of banking holding companies abroad that were shown in the past as debentures of banks.

(*) Balance sheet and off-balance sheet credit risk, problematic credit risk, and impaired credit to the public are stated before the effect of the allowance for credit losses, and before the effect of collateral eligible for deduction for purposes of the single borrower and group borrower liability.

Credit risk and balances of problematic debts are stated net of specific provisions for doubtful debts.

Credit to the Public - Risk by Economic Sector (on Consolidated Basis) (cont'd)
Reported amounts

Exhibit C (cont'd)

	31 December 2011							
	Risk of credit to the public					Credit losses (4)		
				Risk of credit to the public includes (3):				
	Balance sheet credit risk (*) (1)	Off-balance sheet credit risk (*) (2)	Overall credit risk (*)	Problematic credit risk (*)	Impaired credit to the public (*)	Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance for credit losses
	(NIS millions)							
Activities of borrowers in Israel								
Agriculture	1,835	327	2,162	109	53	(41)	(33)	(51)
Industry	26,203	11,973	38,176	1,362	861	68	599	(563)
Construction and real estate (6) (7)	39,863	27,081	66,944	3,803	1,956	332	871	(1,168)
Electricity and water	1,159	198	1,357	2	-	-	-	(2)
Commerce	18,274	4,499	22,773	925	384	60	(179)	(271)
Hotels and restaurants	3,437	267	3,704	946	744	(81)	(39)	(148)
Transport and storage	5,012	1,024	6,036	179	134	9	40	(77)
Communications and computer services	4,915	2,602	7,517	160	122	(19)	61	(60)
Financial services	17,903	8,914	26,817	1,393	1,053	256	137	(335)
Business and other services	5,361	1,757	7,118	94	48	(7)	14	(82)
Public and community services	6,342	929	7,271	233	49	12	(6)	(50)
Private individuals - loans for housing (7)	56,376	1,519	57,895	955	27	(15)	69	(515)
Private individuals - other	28,153	26,885	55,038	357	47	29	113	(423)
Total for activities of borrowers in Israel	214,833	87,975	302,808	10,518	5,478	603	1,647	(3,745)
Activities of borrowers abroad (8)	42,803	13,020	55,823	2,889	1,306	131	422	(690)
Total	257,636	100,995	358,631	13,407	6,784	734	2,069	(4,435)
Credit risk included within the various economic sectors:								
Settlement movements (4)	2,907	553	3,460	109	49	(70)	9	(39)
Local authorities (5)	3,254	134	3,388	13	1	(6)	-	(2)

(1) Credit to the public amounting to NIS 209,789 million in respect of activity in Israel and NIS 35,498 million in respect of activity abroad, investments in corporate debentures amounting to NIS 1,414 million in respect of activity in Israel and NIS 6,620 million in respect of activity abroad, and other assets in respect of derivative instruments made against the public amounting to NIS 3,630 million in respect of activity in Israel and NIS 685 million in respect of activity abroad.
(2) Credit risk on off-balance sheet financial instruments as calculated for the purpose of per single borrower credit limitations.
(3) Balances of problematic debt net of credit covered by collateral allowed as a deduction for purposes of individual and group borrower limits, including off-balance sheet risk components.
(4) Kibbutzim and moshavim, regional and national organizations and corporations controlled by the settlement movement.
(5) Including corporations under their control.
(6) Including housing loans given to purchasing groups under construction amounting to NIS 932 million and off balance-sheet credit risk amounting to NIS 2,032 million.
(7) Reclassified.
(8) Restated – debentures of banking holding companies abroad that were shown in the past as debentures of banks.

(*) Balance sheet and off-balance sheet credit risk, problematic credit risk, and impaired credit to the public are stated before the effect of the allowance for credit losses, and before the effect of collateral eligible for deduction for purposes of the single borrower and group borrower liability.

Country Exposure
Reported amounts

Exhibit D

Part A – Information on total country exposure and on exposure to countries whose total individual exposure exceeds 1% of total assets or exceeds 20% of equity for purposes of calculating capital ratios, whichever is the lower.

	31 March 2012					
	Balance Sheet Exposure					
	Cross-Border Balance Sheet Exposure			Net Foreign-office Claims on Local Residents		
	To governments (a)	To banks	To others	Balance sheet exposure before deducting local liabilities	Deduction for local liabilities	Balance sheet exposure net after deducting local liabilities
Country	(NIS millions)					
United States	2,447	3,102	8,866	19,155	10,354	8,801
United Kingdom	-	3,201	2,137	5,821	1,845	3,976
France	-	2,163	705	-	-	-
Switzerland	-	480	1,200	1,823	475	1,348
Germany	36	1,524	1,926	-	-	-
Belgium	-	322	121	-	-	-
Italy	-	363	58	-	-	-
The Netherlands	4	1,002	1,393	-	-	-
Others	344	2,851	3,303	1,951	1,026	925
Total country exposure	2,831	15,008	19,709	28,750	13,700	15,050
Total exposure to LDC countries	176	560	1,278	1,919	1,009	910
Total exposure to GIIPS countries (d)	-	685	216	-	-	-

	Balance sheet exposure			Off-balance sheet exposure (a) (b)			
	Total balance sheet exposure					Cross-Border Balance Sheet Exposure	
		Problematic balance sheet commercial credit risk	Of which balance of impaired debts	Total off-balance sheet exposure (d)	Of which problematic off-balance sheet credit risk	Repayment up to one year	Repayment over one year
	(NIS millions)						
Country							
United States	23,216	651	321	6,500	17	6,899	7,516
United Kingdom	9,314	626	243	2,865	4	2,151	3,187
France	2,868	1	1	395	-	1,185	1,683
Switzerland	3,028	99	99	667	-	1,214	466
Germany	3,486	3	3	441	-	1,927	1,559
Belgium	443	-	-	20	-	385	58
Italy	421	1	1	10	-	110	311
The Netherlands	2,399	35	8	124	-	1,318	1,081
Others	7,423	590	558	1,060	-	4,483	2,015
Total country exposure	52,598	2,006	1,234	12,082	21	19,672	17,876
Total exposure to LDC countries	2,924	587	570	557	-	1,711	303
Total exposure to GIIPS countries (d)	901	2	2	15	-	353	548

(a) Balance sheet and off-balance sheet credit risk, problematic commercial credit risk, and impaired debts appear before the effect of the allowance for credit losses, and before the effect of collateral eligible for deduction for purposes of the single borrower and group borrower limitation. This does not include elements of off-balance credit risk.

(b) Credit risk in off-balance sheet financial instruments as calculated for purposes of single borrower limitations.

(c) Includes governments, official institutions and central banks.

(d) Exposure to GIIPS countries includes the following countries: Portugal, Ireland, Italy, Greece and Spain.

Country Exposure
Reported amounts

Exhibit D (cont'd)

Part A – Information on total country exposure and on exposure to countries whose total individual exposure exceeds 1% of total assets or exceeds 20% of equity for purposes of calculating capital ratios, whichever is the lower.

	31 March 2011					
	Balance Sheet Exposure					
	Cross-Border Balance Sheet Exposure			Net Foreign-office Claims on Local Residents		
	To governments (a)	To banks	To others	Balance sheet exposure before deducting local liabilities	Deduction for local liabilities	Balance sheet exposure after deducting local liabilities
Country	(NIS millions)					
United States	230	2,474	11,389	15,815	7,070	8,745
United Kingdom	-	2,666	1,593	5,687	2,140	3,547
France	1,226	1,942	615	-	-	-
Switzerland	-	740	1,077	1,306	479	827
Germany	491	1,905	1,361	-	-	-
The Netherlands	375	992	1,415	-	-	-
Others	607	6,204	3,810	1,753	992	761
Total country exposure	2,929	16,923	21,260	24,561	10,681	13,880
Total exposure to LDC countries	92	114	1,241	1,695	991	704
Total exposure to GIPS countries (c)	-	387	193	-	-	-

	Balance sheet exposure			Off-balance sheet exposure (a) (b)			
	Total balance sheet exposure					Cross-Border Balance Sheet Exposure	
		Problematic balance sheet commercial credit risk	Of which balance of impaired debts	Total off-balance sheet exposure	Of which problematic off-balance sheet credit risk	Repayment up to one year	Repayment over one year
	(NIS millions)						
Country							
United States	22,838	518	371	10,426	1	6,888	7,205
United Kingdom	7,806	595	315	9,217	1	1,635	2,624
France	3,783	32	25	2,849	-	1,204	2,579
Switzerland	2,644	143	143	1,615	-	1,078	739
Germany	3,757	2	2	4,371	-	2,264	1,493
The Netherlands	2,782	20	9	522	-	859	1,923
Others	11,382	543	394	2,513	1	6,581	4,040
Total country exposure	54,992	1,853	1,259	31,513	3	20,509	20,603
Total exposure to LDC countries	2,151	481	313	567	-	1,017	430
Total exposure to GIPS countries (c)	580	10	10	58	-	108	472

(a) Includes governments, official institutions and central banks.
(b) Balances of problematic debts less debts covered by eligible collateral for purposes of per borrower or group borrowers' debt limitation. This does not include elements of off-balance credit risk.
(c) Exposure to GIPS countries includes the following countries: Portugal, Ireland, Greece and Spain.

Country Exposure
Reported amounts

Exhibit D (cont'd):

Part A – Information on total country exposure and on exposure to countries whose total individual exposure exceeds 1% of total assets or exceeds 20% of equity for purposes of calculating capital ratios, whichever is the lower.

	31 December 2011					
	Balance Sheet Exposure					
	Cross-Border Balance Sheet Exposure			Net Foreign-office Claims on Local Residents		
	To governments (a)	To banks	To others	Balance sheet exposure before deducting local liabilities	Deduction for local liabilities	Balance sheet exposure net after deducting local liabilities
Country	(NIS millions)					
United States	2,975	3,850	9,121	19,650 (d)	10,834	8,595
United Kingdom	-	3,877	2,340	6,237 (d)	2,124	3,996
France	-	2,155	780	-	-	-
Switzerland	-	380	871	1,897	489	1,408
Germany	35	2,153	1,741	1	-	1
Belgium	-	422	132	-	-	-
Italy	-	378	79	-	-	-
Holland	4	1,257	1,346 (d)	-	-	-
Others	360	2,768	2,916	1,908 (d)	1,036	704
Total country exposure	3,374	17,240	19,326	29,693	14,483	14,704
Total exposure to LDC countries	166	576	1,307	1,679	1,036	643
Total exposure to GIIPS countries (c)	-	735	236	-	-	-

	Balance sheet exposure			Off-balance sheet exposure (a) (b)			
	Total balance sheet exposure					Cross-Border Balance Sheet Exposure	
		Problematic balance sheet commercial credit risk	Of which balance of impaired debts	Total off-balance sheet exposure	Of which problematic off-balance sheet credit risk	Repayment up to one year	Repayment over one year
	(NIS millions)						
Country							
United States	24,541	609	346	6,282	19	8,138	7,808
United Kingdom	10,213	769	286	3,004	4	2,755	3,462
France	2,935	1	1	322	-	1,165	1,770
Switzerland	2,659	80	80	770	-	739	512
Germany	3,930	2	2	304	-	2,807	1,122
Belgium	554	-	-	32	-	492	62
Italy	457	1	1	15	-	72	385
Holland	2,607	57	30	176	-	1,609	991
Others	6,748	654	557	1,169	-	3,623	2,421
Total country exposure	54,644	2,173	1,303	12,074	23	21,400	18,533
Total exposure to LDC countries	2,692	649	554	629	-	1,744	305
Total exposure to GIIPS countries (c)	971	5	4	25	-	170	801

(a) Includes governments, official institutions and central banks.
(b) Balances of problematic debts less debts covered by eligible collateral for purposes of per borrower or group borrowers' debt limitation. This does not include elements of off-balance credit risk.
(c) Exposure to GIIPS countries includes the following countries: Greece, Ireland, Italy, Portugal, and Spain.
(d) Restated.

Country Exposure
Reported amounts

Exhibit D (cont'd):

In accordance with the Directive of the Supervisor of Banks, country exposure is shown on an end-risk basis, as follows:

- The accounting balance of a debt is to be dealt with as the amount of exposure to the legal country of residence of the debtor who bears the end risk after the effect of guarantees, liquid collateral and credit derivatives.
- The accounting balance of an investment in shares is to be dealt with as the amount of exposure to the country of residence of the issuer of the security.
- Off-balance sheet credit risk is shown as an off-balance sheet exposure to the country of residence of the counterparty to the transaction as it was calculated for the purposes of per borrower debt limitation.

From the aspect of determining end-risk, collateral is to be considered as follows:

- Third party guarantees according to the country of residence of the guarantor.
- Securities - The country of residence is that of the issuer of the security.
- The directive makes it clear that real estate and debtors' balances do not represent collateral for purposes of determining end-risk.

For purposes of determining end-risk only specific collaterals were taken into account.

Part B – On 31 March 2012, there was no aggregate balance sheet exposure to foreign countries, of which the individual amount of exposure was between 0.75% and 1% of total consolidated assets or 15%-20% of shareholders' equity, whichever the lower. On 31 March 2011 and 31 December 2011, there was no aggregate balance sheet exposure to foreign countries.

Part C – The exposure to foreign countries with liquidity difficulties as defined by the Bank of Israel (a country which receives financial assistance from the IMF or its liabilities have a credit rating of CCC or lower) amounts to NIS 1,362 million and relates to 14 countries.

Certification

I, Rakefet Russak-Aminoach, certify that:

1. I have reviewed the Quarterly Report of Bank Leumi le-Israel B.M. (the "Bank") for the quarter ended on 31 March 2012 (the "Report").

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

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

4. I and the Bank's other certifying officers are responsible for establishing and maintaining 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 Directors' Report"), and also:

   (a) We have established such controls and procedures, or caused such controls and procedures to be determined under our supervision, so as to ensure that material information relating to the Bank, including its consolidated corporations, is made known to us by others within the Bank and in those corporations, particularly during the period of preparation of the Report;

   (b) We have established such internal control over financial reporting, or caused such internal control to be established under our supervision, so as to provide a reasonable level of confidence regarding the reliability of financial reporting and that the financial statements for external purposes are prepared in accordance with accepted accounting principles and the directives of the Supervisor of Banks and his instructions;

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

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

5. I and the Bank's other certifying officers have disclosed to the Joint Auditors, the Board of Directors, the Audit Committee and the Financial Statements Review Committee of the Board of Directors of the Bank, based on our most recent evaluation of internal control over financial reporting:

   (a) All significant deficiencies and material weaknesses in the establishment or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether material or immaterial, in which Management was involved or in which other employees were involved who have a significant role in the Bank's internal control over financial reporting.

The above does not derogate from my responsibility or the responsibility of any other person, pursuant to any law.

30 May 2012

Rakefet Russak-Aminoach
President and Chief Executive Officer

Certification

I, Menachem Schwartz, certify that:

1. I have reviewed the Quarterly Report of Bank Leumi le-Israel B.M. (the "Bank") for the quarter ended on 31 March 2012 (the "Report").

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

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

4. I and the Bank's other certifying officers are responsible for establishing and maintaining 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 Directors' Report"), and also:

   (a) We have established such controls and procedures, or caused such controls and procedures to be determined under our supervision, so as to ensure that material information relating to the Bank, including its consolidated corporations, is made known to us by others within the Bank and in those corporations, particularly during the period of preparation of the Report;

   (b) We have established such internal control over financial reporting, or caused such internal control to be established under our supervision, so as to provide a reasonable level of confidence regarding the reliability of financial reporting and that the financial statements for external purposes are prepared in accordance with accepted accounting principles and the directives of the Supervisor of Banks and his instructions;

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

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

5. I and the Bank's other certifying officers have disclosed to the Joint Auditors, the Board of Directors, the Audit Committee and the Financial Statements Review Committee of the Board of Directors of the Bank, based on our most recent evaluation of internal control over financial reporting:

   (a) All significant deficiencies and material weaknesses in the establishment or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether material or immaterial, in which Management was involved or in which other employees were involved who have a significant role in the Bank's internal control over financial reporting.

The above does not derogate from my responsibility or the responsibility of any other person, pursuant to any law.

30 May 2012

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Menachem Schwartz
First Executive Vice President
Chief Accounting Officer
Head of Accounting Division

Joint Auditors' Review Report to the Shareholders of Bank Leumi le-Israel B.M.

Introduction
We have reviewed the accompanying financial information of Bank Leumi le-Israel B.M. (hereinafter: "the Bank") and its subsidiaries, which comprises the condensed interim consolidated balance sheet as of 31 March, 2012 and the related interim condensed consolidated statements of profit and loss, changes in shareholders' equity and cash flows for the three month period ending on that date. The Board of Directors and Management are responsible for the preparation and presentation of financial information for this interim period in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for financial reporting of interim periods and in accordance with directives and guidelines of the Supervisor of Banks. Our responsibility is to express a conclusion on financial information on this interim period based on our review.

We did not review the condensed interim financial information of consolidated companies, whose assets included on consolidation constitute approximately 2% of total consolidated assets as of 31 March, 2012 and whose net interest income before expenses for credit losses included in the consolidated statements of profit and loss constitute some 0.7% of the total consolidated net interest income before expenses for credit losses for the three month period ending on that date respectively. The condensed interim financial information of those companies was reviewed by other auditors, whose review reports have been furnished to us, and our conclusion, insofar as it relates to the financial information in respect of those companies, is based on the review reports of the other auditors.

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

Conclusion
Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information was not prepared, in all material respects, in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for financial reporting of interim periods and in accordance with directives and guidelines of the Supervisor of Banks.

Without qualifying our above conclusion**,** we draw attention to:

1. that stated in Note 6.C clauses 2 and 4 concerning claims against the Bank and against consolidated subsidiaries, including petitions for their approval as class actions.
2. that stated in Note 6.D concerning claims relating to a company included on equity basis and its investee companies.
3. that stated in Note 6.E concerning the ruling of the Antitrust Commissioner and that stated in Note 6.F. concerning investigations against the Group regarding its activities with US customers.

The Bank is unable to estimate what effect, if any, the said matters will have on the Bank, if any, on its financial condition and on its operating results, and whether or not they will be of a material nature.

Kost Forer Gabbay & Kasierer	**Somekh Chaikin**
Certified Public Accountants (Isr.)	Certified Public Accountants (Isr.)

30 May 2012

Condensed Consolidated Balance Sheet as at 31 March 2012

Reported amounts

	Note	31 March 2012 (Unaudited) (NIS millions)	31 March 2011 (Unaudited)	31 December 2011 (Audited)
Assets				
Cash and deposits with banks		**47,368**	36,802	53,044
Securities	2	**49,757**	47,090	47,936
Securities borrowed or purchased under agreements to resell		**1,485**	2,068	1,225
Credit to the public	3	**244,575**	230,017	245,287
Allowance for credit losses	3	**(4,075)**	(4,946)	(3,967)
Credit to the public, net		**240,500**	225,071	241,320
Credit to governments		**425**	357	448
Investments in companies included on equity basis		**2,187**	2,032	2,270
Buildings and equipment		**3,715**	3,665	3,653
Intangible assets and goodwill		**176**	45	181
Assets in respect of derivative instruments	7	**9,466**	8,419	11,573
Other assets		**4,189**	3,118 (a)	4,204
Total assets		**359,268**	328,667	365,854
Liabilities and equity				
Deposits of the public		**277,642**	248,258	279,404
Deposits from banks		**3,629**	3,814	5,056
Deposits from governments		**436**	721	519
Securities lent or sold under agreements to repurchase		**624**	1,533	442
Debentures, bonds and subordinated notes		**27,873**	26,985	29,999
Liabilities in respect of derivative instruments	7	**10,125**	10,170	12,069
Other liabilities		**14,564**	14,384 (a)	14,737
Total liabilities		**334,893**	305,865	342,226
Non-controlling interests		**257**	314	254
Equity attributable to shareholders of the banking corporation	4	**24,118**	22,488 (a)	23,374
Total equity		**24,375**	22,802	23,628
Total liabilities and equity		**359,268**	328,667	365,854

(a) Restated – see Note 1.B below.

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

David Brodet
Chairman of the
Board of Directors

Rakefet Russak-Aminoach
President and Chief
Executive Officer

Menachem Schwartz
First Executive Vice President,
Chief Accounting Officer,
Head of Accounting Division

Date of approval of the financial statements: 30 May 2012

Condensed Consolidated Statement of Profit and Loss – Reported Amounts for the period ended 31 March 2012

	Note	For the three months ended 31 March 2012 (Unaudited)	For the three months ended 31 March 2011 (a) (Unaudited)	For the year ended 31 December 2011 (a) (Audited)
		(NIS millions)		
Interest income	9	**3,238**	3,167	14,283
Interest expenses		**1,416**	1,356	7,176
Net interest income		**1,822**	1,811	7,107
Expenses (income) in respect of credit losses	3, 3.D	**225**	(102)	734
Net interest income, after expenses in respect of credit losses		**1,597**	1,913	6,373
Non-interest income				
Non-interest financing income	10	**151**	54	11
Commissions		**1,020**	1,086	4,116
Other income		**12**	11	48
Total non-interest income		**1,183**	1,151	4,175
Operating and other expenses				
Salaries and related expenses		**1,186**	1,351 (b)	5,061
Maintenance and depreciation of buildings and equipment		**427**	408	1,704
Amortization of intangible assets and goodwill		**6**	-	2
Other expenses		**376**	327	1,574
Total operating and other expenses		**1,995**	2,086	8,341
Profit before taxes		**785**	978	2,207
Provision for taxes on profit		**306**	372 (b)	418
Profit after taxes		**479**	606	1,789
Share of the banking corporation in profits (losses) after tax of companies included on equity basis		**(39)**	(42)	148
Net profit:				
Before attribution to non-controlling interests		**440**	564	1,937
Attributable to non-controlling interests		**(9)**	(10)	(46)
Attributable to shareholders of the banking corporation		**431**	554	1,891
Basic and diluted earnings per share				
Net profit attributable to shareholders of the banking corporation		**0.29**	0.38	1.28
Total		**0.29**	0.38	1.28

(a) Comparative figures have been reclassified in order to comply with the method of presentation in the current period - see Note 1.C.1.

(b) Restated – see Note 1.B. below.

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

Condensed Consolidated Statement of Changes in Equity for the period ended 31 March 2012

Reported Amounts

	For the three months ended 31 March 2012 (Unaudited)												
	Capital reserves				Accumulated other comprehensive profit								
	Share capital	Premium	Share-based payment transactions and others (a)	Total share capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Translation adjustments (b)	Reserves in respect of companies included on equity basis	Retained earnings	Dividend declared after balance sheet date	Loans to employees for purchase of the Bank's shares	Total	Non-controlling interests	Total equity
	NIS millions												
Balance at 31 December 2011 (Audited)	7,059	1,129	23	8,211	(218)	(21)	40	15,406	-	(44)	23,374	254	23,628
Adjustment of opening balances in respect of implementation of IFRS	-	-	-	-	-	-	-	(26)	-	-	(26)	-	(26)
Net profit for the period	-	-	-	-	-	-	-	431	-	-	431	9	440
Adjustments from translation of investments in foreign currency	-	-	-	-	-	(61)	-	-	-	-	(61)	-	(61)
Losses in respect of hedging of investments in foreign currency	-	-	-	-	-	15	-	-	-	-	15	-	15
Tax effect relating to hedging of investments in foreign currency	-	-	-	-	-	(5)	-	-	-	-	(5)	-	(5)
Adjustments in respect of companies included on equity basis, net	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	-	603	-	-	-	-	-	603	1	604
Profits in respect of securities available for sale that were realized and classified to profit and loss (d)	-	-	-	-	(15)	-	-	-	-	-	(15)	-	(15)
Tax effect relating to adjustments of securities available for sale	-	-	-	-	(198)	-	-	-	-	-	(198)	-	(198)
Dividend paid	-	-	-	-	-	-	-	-	-	-	-	(8)	(8)
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	1	1
Balance at the end of the period	7,059	1,129	23	8,211	172	(72)	40	15,811	-	(44)	24,118	257	24,375

See footnotes on page 159.

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

Condensed Consolidated Statement of Changes in Equity (cont'd)
for the period ended 31 March 2012
Reported Amounts

	For the three months ended 31 March 2011 (Unaudited)												
		Capital reserves			Accumulated other comprehensive profit (loss)								
	Share capital	Premium	Share-based payment transactions and others (a)	Total share capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Translation adjustments (b)	Reserves in respect of companies included on equity basis	Retained earnings	Dividend declared after balance sheet date	Loans to employees for purchase of the Bank's shares	Total	Non-controlling interests	Total equity
	NIS millions												
Balance at 31 December 2010 (Audited)	7,059	1,129	10	8,198	468	(460)	25	15,063	-	(1)	23,293	318	23,611
Adjustment of opening balances in respect of initial implementation of IFRS (b)(c)	-	-	-	-	-	381	-	(1,090)	-	-	(709)	(14)	(723)
Net profit for the period	-	-	-	-	-	-	-	554	-	-	554	10	564
Adjustments in respect of companies included on equity basis, net	-	-	-	-	-	(52)	16	2	-	-	(34)	-	(34)
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	-	(240)	-	-	-	-	-	(240)	-	(240)
Profits in respect of securities available for sale that were realized and classified to profit and loss (d)	-	-	-	-	(84)	-	-	-	-	-	(84)	-	(84)
Tax effect relating to adjustments of securities available for sale	-	-	-	-	108	-	-	-	-	-	108	-	108
Dividend paid	-	-	-	-	-	-	-	(400)	-	-	(400)	-	(400)
Balance at the end of the period	7,059	1,129	10	8,198	252	(131)	41	14,129	-	(1)	22,488	314	22,802

See footnotes on page 159.

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

Condensed Consolidated Statement of Changes in Equity (cont'd)
for the period ended 31 March 2012
Reported Amounts

For the year ended 31 December 2011 (Audited)

		Capital reserves			Accumulated other comprehensive profit (loss)							
	Share capital	Premium	Share-based payment transactions and others (a)	Total share capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Translation adjustments (b)	Reserves in respect of companies included on equity basis	Retained earnings	Loans to employees for purchase of the Bank's shares	Total	Non-controlling interests	Total equity
	NIS millions											
Balance as at 31 December 2010 (Audited)	7,059	1,129	10	8,198	468	(460)	25	15,063	(1)	23,293	318	23,611
Adjustment of opening balances in respect of impaired debts and IFRS (b)(c)	-	-	-	-	-	381	-	(1,090)	-	(709)	(14)	(723)
Net profit for the accounting year	-	-	-	-	-	-	-	1,891	-	1,891	46	1,937
Dividend paid	-	-	-	-	-	-	-	(400)	-	(400)	(15)	(415)
Employee benefit from share-based payment transactions	-	-	13	13	-	-	-	-	-	13	-	13
Adjustments in respect of companies included on equity basis, net	-	-	-	-	-	58	15	(11)	-	62	-	62
Adjustments in respect of presentation of securities available for sale at fair value		-	-	-	(982)	-	-	-	-	(982)	(2)	(984)
Profits in respect of securities available for sale that were realized and charged to profit and loss (d)	-	-	-	-	(39)	-	-	-	-	(39)	-	(39)
Tax effect relating to adjustments for securities available for sale	-	-	-	-	335	-	-	-	-	335	1	336
Loans to employees for purchase of shares in the Bank	-	-	-	-	-	-	-	-	(43)	(43)	-	(43)
Changes in non-controlling interests	-	-	-	-	-	-	-	(47)	-	(47)	(80)	(127)
Balance as at 31 December 2011	7,059	1,129	23	8,211	(218)	(21)	40	15,406	(44)	23,374	254	23,628

(a) Including NIS 10 million of other capital reserves.

(b) Adjustments arising from translation of the financial statements of foreign subsidiaries, whose operating currency is different from the operating currency of the Bank. In 2011, translation adjustments were transferred to retained earnings pursuant to the change in reporting according to IAS 21, in the amount of NIS 381 million.

(c) Including NIS 721 million in respect of the change to implementation of the Impaired Debts Directive (NIS 1,319 million gross). See also Note 3D in the financial statements for 31 December 2011.

(d) Including provisions for impairment.

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

Consolidated Statement of Cash Flows
for the period ended 31 March 2012
Reported amounts

	For the three months ended 31 March		For the year ended 31 December
	2012	2011 (b)	2011 (b)
	(Unaudited)		(Audited)
	(NIS millions)		
Cash flows generated by operating activities:			
Net profit for the period	**440**	564	1,937
Adjustments:			
Group share in undistributed (profits) losses of companies included on equity basis (a)	**39**	42	(72)
Depreciation of buildings and equipment	**177**	167	711
Decrease in provision for impairment of fixed assets	**-**	(4)	(4)
Amortization	**6**	-	2
Expenses in respect of credit losses	**225**	(102)	734
Provision for impairment in assets transferred to group ownership	**2**	-	11
Net gain on sale of securities available for sale (including impairment)	**(15)**	(84)	(39)
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	**(4)**	51	(218)
Loss (gain) on realization of investment in companies included on equity basis	**(24)**	-	4
Loss on realization of buildings and equipment	**-**	3	2
Expenses deriving from share-based payment transactions	**-**	-	13
Deferred taxes , net	**(210)**	55 (c)	(308)
Severance pay - increase in excess of provision over amount funded	**9**	205 (c)	620
Interest not yet received for debentures available for sale	**(2)**	(115)	(822)
Interest not yet paid for debentures and subordinated notes	**141**	189	602
Exchange-rate differences on cash balances	**94**	(10)	(607)
Other	**(5)**	-	8
Net change in current assets:			
Deposits in banks	**336**	566	(1,956)
Credit to the public	**61**	(3,003)	(19,226)
Credit to the government	**23**	22	(69)
Net increase in securities borrowed or purchased under agreements to resell	**(260)**	(878)	(35)
Assets in respect of derivative instruments	**2,104**	298	(2,848)
Securities held for trading	**(106)**	(217)	(849)
Other assets	**(76)**	(41)	(481)
Net change in current liabilities:			
Deposits from banks	**(1,386)**	1,123	2,602
Deposits from the public	**(1,385)**	(1,326)	27,055
Deposits from the government	**(80)**	61	(141)
Securities loaned or sold under agreements to repurchase	**184**	527	(564)
Liabilities in respect of derivative instruments	**(1,946)**	206	1,923
Other liabilities	**(149)**	542 (c)	670
Net cash generated by operating activities	**(1,807)**	(1,159)	8,655

(a) Net of dividend received.

(b) Comparative figures have been reclassified in order to comply with the method of presentation in the current period – see Note 1.C.2.

(c) Restated – see Note 1.B below.

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

Consolidated Statement of Cash Flows (cont'd)
for the period ended 31 March 2012
Reported amounts

	For the three months ended 31 March		For the year ended 31 December
	2012	2011 (a)	2011 (a)
	(Unaudited)		(Audited)
	(NIS millions)		
Cash flows generated by investment activities			
Acquisition of securities available for sale	**(9,997)**	(4,503)	(26,345)
Proceeds from sale of securities available for sale	**6,392**	10,461	28,907
Proceeds from redemption of securities available for sale	**2,600**	3,365	6,782
Acquisition of subsidiary consolidated for the first time (Appendix A)	**-**	-	1,848
Acquisition of shares in companies included on equity basis	**-**	(2)	(110)
Proceeds from realization of investment in companies included on equity basis	**64**	-	50
Acquisition of buildings and equipment	**(199)**	(215)	(755)
Proceeds from realization of buildings and equipment	**2**	2	6
Proceeds from realization of assets transferred to Group ownership	**-**	-	7
Repayment of shareholders' loan to company included on equity basis	**1**	-	2
Net cash used for activities in assets	**(1,137)**	9,108	10,392
Cash flows generated by financing activities			
Issue of debentures and subordinated notes	**2,410**	-	3,386
Redemption of debentures and subordinated notes	**(4,677)**	(143)	(928)
Additional purchase of shares in consolidated companies	**-**	-	(115)
Dividend paid to shareholders	**-**	(500)	(900)
Dividend paid to minority shareholders of consolidated companies	**(8)**	-	(15)
Repayment of loans to employees for purchase of the Bank's shares	**-**	-	(43)
Net cash generated by financing activities	**(2,275)**	(643)	1,385
Increase (decrease) in cash and cash equivalents	**(5,219)**	7,306	20,432
Balance of cash and cash equivalents at beginning of period	**49,736**	28,697	28,697
Effect of movements in exchange rates on cash balances	**(94)**	10	607
Balance of cash and cash equivalents at end of period	**44,423**	36,013	49,736

(a) Comparative figures have been reclassified in order to comply with the method of presentation in the current period.

Interest and taxes paid and/or received and dividends received

	For the three months ended 31 March		For the year ended 31 December
	2012	2011	2011
	(Unaudited)		(Audited)
	(NIS millions)		
Interest received	**4,400**	2,551	11,232
Interest paid	**(2,762)**	(1,185)	(5,136)
Dividends received	**5**	21	150
Taxes paid on income	**(219)**	(264)	(912)

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

Consolidated Statement of Cash Flows (cont'd)
for the period ended 31 March 2012
Reported amounts

Appendix A - Acquisition of a subsidiary consolidated for the first time:

	For the year ended 31 December 2011 (a)
	(Audited)
	(NIS millions)
Assets and liabilities of the consolidated subsidiary and cash flows for acquisition of consolidated subsidiary, at date of acquisition:	
Cash and cash equivalents acquired	2,426
Assets (excluding cash and cash equivalents)	635
Liabilities	(2,621)
Identifiable assets and liabilities	440
Goodwill and intangible assets	138
Total cost of acquisition	578
Less: non-cash proceeds for acquisition of consolidated subsidiary	-
Proceeds paid in cash	(578)
Less: cash and cash equivalents acquired	2,426
Cash flow for acquisition of subsidiary consolidated for the first time	1,848

(a) Comparative figures have been reclassified.

Appendix B – Investment and financing activities not in cash:

In the period of three months ended 31 March 2012:

(1) During the period, securities were transferred from credit to the public to the available-for-sale portfolio, in the amount of NIS 148 million, due to the conclusion of loaning of securities.
(2) During the period, fixed assets were acquired against liabilities to suppliers in the amount of NIS 44 million.

In the period of three months ended 31 March 2011:

(1) Proposed dividend in the amount of NIS 400 million.
(2) During the period, securities were transferred from credit to the public to the available-for-sale portfolio in the amount of NIS 739 million, due to the conclusion of loaning of securities.
(3) During the period, assets were transferred from credit to the public to other assets in the amount of NIS 3 million, in respect of loans that were repaid.

In 2011:

(1) During the year, securities were transferred from credit to the public to the available-for-sale portfolio in the amount of NIS 562 million, due to the conclusion of loaning of securities.
(2) During the year, assets were transferred from credit to the public to other assets in the amount of NIS 6 million, in respect of loans that were repaid.

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

Note 1 - Significant Accounting Policies

A. General

The condensed consolidated interim financial statements as at 31 March 2012 have been prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for financial reporting of interim periods and in accordance with the directives and instructions of the Supervisor of Banks regarding the preparation of quarterly financial statements of a banking corporation. The accounting principles used in preparing the interim reports are consistent with those used in preparing the audited financial statements as at 31 December 2011, except for that stated in paragraph B below. These statements should be read in conjunction with the annual financial statements as at 31 December 2011 and the accompanying notes.

B. Principles for the preparation of the financial statements:

On subjects that are a core part of the banking business – in accordance with the directives and instructions of the Supervisor of Banks and in accordance with accounting principles generally accepted by US banks that were adopted within the framework of the Public Reporting Directives of the Supervisor of Banks.

On subjects that are not a core part of the banking business –in accordance with accounting principles generally accepted in Israel (Israeli GAAP) and in accordance with certain International Financial Reporting Standards (IFRS) and interpretations of the International Reporting Standards Interpretations Committee (IFRIC) relating to them, as set out in Public Reporting Directives of the Supervisor of Banks.

International standards are implemented as follows:

- In cases where there is no specific reference in the standards or interpretations to material issues, or there are a number of alternatives for the treatment of a material issue, the Bank acts according to specific implementation instructions decided on by the Supervisor.

- In cases where a material issue arises that is not addressed in the international standards or the Supervisor's implementation instructions, the Bank treats the issue in accordance with generally accepted accounting principles in US banks that are applicable to those issues.

- In those places where an international standard that has been adopted contains a reference to another international standard which has been adopted in the Public Reporting Directives, the Bank acts in accordance with the provisions of the other international standard and the relevant instructions of the Banking Supervision Department.

- In those places where an international standard that has been adopted contains a reference to another international standard which has not been adopted in the Public Reporting Directives, the Bank acts in accordance with the Reporting Directives and with generally accepted accounting principles in Israel.

Use of estimates

When preparing the financial statements, in accordance with generally accepted accounting principles in Israel and directives and guidelines of the Supervisor of Banks, management is required to use estimates, evaluations and their discretion affecting the reported amounts of assets and liabilities, the disclosure relating to contingent assets and liabilities and amounts of income and expenses during the reporting period. It should be made clear that the actual results may differ from such estimates.
The estimates and the assumptions on which they are based are reviewed on a regular basis. Changes in accounting estimates are recognized in the period in which the estimates are amended and for each period affected in the future.

Employee Rights

During 2011, instructions were published by the Banking Supervision Department on the strengthening of internal control over financial reporting relating to employee rights that were implemented in the financial statements of the Bank as of 1 April 2011.

Below are details of the amounts that changed as a result of implementing the above directive (in NIS millions):

Item	**For the three months ended 31 March 2011**		
	Balance before restatement	Change	Balance after restatement
Salary expenses	**1,319**	**32**	**1,351**
Tax expenses	**382**	**(9)**	**371**
Net profit	**577**	**(23)**	**554**
	As at 31 March 2011		
Other assets	**2,957**	**161**	**3,118**
Other liabilities	**13,827**	**557**	**14,384**
Equity	**22,884**	**(396)**	**22,488**
Capital to risk assets adequacy ratio	**14.10%**	**(0.14%)**	**13.96%**

C. Initial Implementation of Accounting Standards, Updates to Accounting Standards, and Directives of the Banking Supervision Department

As of reporting periods commencing 1 January 2012, the Bank implemented for the first time the accounting standards and directives set out below:

1. Directives on the format of the statement of profit and loss of a banking corporation and adoption of generally accepted accounting principles in US banks on the measurement of interest income.

2. Certain International Financial Reporting Standards (IFRS) and the interpretations of the IFRIC Interpretations Committee relating to the implementation of these standards as set out below:

   IAS 7 Statement of Cash Flows
   IAS 12 Income Taxes
   IAS 23 Borrowing Costs
   IAS 24 Related Party Disclosures

3. Explanations of the Banking Supervision Department regarding the manner of implementation of certain International Financial Reporting Standards (IFRS).

4. Directives of the Banking Supervision Department regarding transactions between a banking corporation and its controlling shareholder and a company under the control of the banking corporation.

5. Accounting Standards Updates as set out below:

   - ASU 2011-03 – "Reconsideration of Effective Control for Repurchase Agreements", which constitutes an update of the principles set out in FAS 166 (ASC 860)

   - ASU 2011-04 - "Fair Value Measurements" (ASC 820): "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRS.

Below are the main changes made in accounting policy in these condensed consolidated quarterly financial statements and the effect of their first-time implementation:

1. Directives of the Banking Supervision Department regarding the format of the statement of profit and loss for a banking corporation and adoption of generally accepted accounting principles in US banks on the measurement of interest income

In December 2011, the Supervisor of Banks published a directive regarding the adoption of a new format for the statement of profit and loss intended to adapt the method of presenting the statement of profit and loss to the method of presentation generally accepted by banking corporations worldwide and in the US, while retaining the current level of details in the Public Reporting Directives.

In accordance with the directives, the Bank has adapted its method of presentation of the components of financing profit in the body of the statement of profit and loss and in the accompanying notes as follows:

The item "Financing profit before expenses in respect of credit losses" was split into three parts: "Interest income", "Interest expenses", and "Non-interest financing income". Accordingly, the gross profit of the Bank now includes only net interest income after deducting credit loss expenses.

The definition of net interest income was changed so as to include interest income and expense including index-linkage differentials on the principal.

The Bank has applied the directives concerning the format of the statement of profit and loss retroactively from 1 January 2012. Initial implementation had no effect, apart from a change in presentation.

Below are details of the reclassifications made:

a. The following components of the financing profit have been reclassified under non-interest financing income in respect of activities for purposes other than trading:

- Profits (losses) from the sale of bonds available for sale.
- Income (expense) net in respect of derivative instruments used for ALM activity.
- The ineffective part of hedging relationships.
- Exchange-rate differentials in respect of financial assets or liabilities, except for interest-rate differentials included as part of interest income or expense.
- Profits (losses) from the sale of loans.

b. The following components of the financing profit have been reclassified under non-interest financing income in respect of activities for trading purposes:

- Realized and unrealized profits (losses) from fair value adjustments of securities held for trading.
- Dividends from shares held for trading.
- Income (expense) in respect of other derivative instruments.

c. Fee income from financing business previously included under the item "Profit from financing activity" has been reclassified under the item "Commissions" (previously "Operating commissions").

d. Profits (losses) previously included under the item "Profits (losses) net from investments in shares" have been reclassified and included under the item "Non-interest financing income" as part of activities for trading purposes or as part of activities for purposes other than trading, according to the classification of the shares in the trading portfolio or in the portfolio available for sale.

e. Early repayment commissions and interest on arrears previously included in "Other financing income" have been reclassified and included in "Interest income from credit to the public".

f. The approach used in the US has been adopted regarding the classification of any event or transaction as profit from extraordinary activities, under which special items are defined as items which are “unusual" and “infrequent”. In view of this, a banking corporation is allowed to classify an event or a transaction as an extraordinary item only with the approval of the Supervisor of Banks. Profits (losses) previously included under the item "Profit (loss) from extraordinary activities, after taxes" have been reclassified as follows: Profits (losses) from the sale of shares in companies included on equity basis under the item "Non-interest financing income in respect of activities for purposes other than trading".
Profits (losses) from the realization of buildings and equipment have been reclassified under the item "Other income".

The effect of the change on the condensed consolidated interim financial statements is as follows (NIS millions):

Name of item	Name of item before change in presentation	Name of item after change in presentation	For the three months ending 31 March 2011	For the year ending 31 December 2011
Profits (losses) from the sale of bonds available for sale	Profit from financing income before credit loss expenses - other financing income (expense)	Non-interest financing income in respect of activities for purposes other than trading	**77**	**265**
Income (expenses) net in respect of ALM derivative instruments	Profit from financing income before credit loss expenses in respect of derivative financial instruments and hedging activities	Non-interest financing income in respect of activities for purposes other than trading	**(124)**	**1,055**
Exchange-rate differentials on principal in respect of assets/ liabilities	Profit from financing income before credit loss expenses in respect of assets/liabilities	Non-interest financing income in respect of activities for purposes other than trading	**97**	**(1,482)**
Profits (losses) from the sale and fair value adjustment of bonds for trading, net	Profit from financing income before credit loss expenses - other financing income (expense)	Non-interest financing income in respect of activities for trading purposes	**(52)**	**78**
Profits (losses) from the sale and fair value adjustment of shares for trading, net	Profit from financing income before credit loss expenses - other financing income (expense)	Non-interest financing income in respect of activities for trading purposes	**2**	**140**
Income (expense) in respect of other derivative instruments	Profit from financing income before credit loss expenses in respect of derivative financial instruments and hedging activities	Non-interest financing income in respect of activities for trading purposes	**21**	**7**
Commissions from financing business	Profit from financing income before credit loss expenses - commissions from financing business	Commissions	**100**	**399**
Early repayment commissions	Profit from financing income before credit loss expenses – other financing income	Interest income	**39**	**160**
Interest on arrears	Profit from financing income before credit loss expenses – other financing income	Interest income	**5**	**13**

2. Certain International Financial Reporting Standards (IFRS) and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) relating to the implementation of these standards

In accordance with the circular of the Supervisor of Banks from 30 November 2011 on the adoption of certain international financial reporting standards (IFRS), the Bank implements the following international financial reporting standards (IFRS):

a. IAS 7 – Statement of Cash Flows

The statement of cash flows presents information on the changes occurring in the reporting period in balances of cash and cash equivalents from current activities, investment activities, and financing activities.
Cash flows arising from transactions in a foreign currency shall be recorded in the functional currency of the corporation by applying to the amount in foreign currency the exchange rate between the functional currency and the foreign currency at the date of the cash flow.
The effect of changes in the exchange rate on cash and cash equivalents held in foreign currency or due in a foreign currency is shown separately from other changes in cash and cash equivalents.
Separate disclosure is to be made of cash flows from interest and dividends received or paid, and of cash flows arising from taxes on income. It is further stipulated that investment and financing transactions that do not require the use of cash and cash equivalents are not included in the statement of cash flows but only in an appendix.

The Bank applied the principles set out in the standard retroactively from 1 January 2012. Initial implementation had no effect apart from a change in presentation.

Below are details of the reclassifications made:

Net changes in cash flows in respect of current assets (such as deposits in banks, securities for trading, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, credit to the public, credit to the government, and other assets) previously included under activity in assets in the sum of NIS 3,254 million in the period of three months ending 31 March 2011, were reclassified to current activity. In addition, an amount of NIS 25,464 million was reclassified as stated in the year ending 31 December 2011.

Net changes in cash flows in respect of liabilities (such as deposits from the public, deposits from banks, deposits from the government, securities lent or sold under agreements to repurchase, net liabilities in respect of derivative instruments and other liabilities) previously included under activity in liabilities and equity in the sum of NIS 1,133 million in the period of three months ending 31 March 2011, were reclassified to current activity. In addition, an amount of NIS 31,545 million was reclassified as stated in the year ending 31 December 2011.

b. IAS 12 – Income Taxes

The Standard, as adopted by the Supervisor of Banks, is similar to the Supervisor's instructions on Israel Accounting Standard 19 – "Income Taxes", which has been applied until now in the banking system. However, together with the adoption of the international standard there were changes to specific directives set out by the Supervisor of Banks. In general, deferred tax assets are recognized in the books in respect of losses carried forward, tax credits and temporary differences eligible for deduction, when it is more likely than not that a tax saving will be generated in respect thereof when reversed and/or there will be taxable income against which they can be used.
In order that a banking corporation can determine at the reporting date that the expected deductible temporary difference in respect of a certain investment will be reversed in the foreseeable future by means of a sale transaction, it should be ascertained as at the reporting

date that the investment is classified as held for sale or as a discontinued activity in accordance with the rules set out in International Financial Reporting Standard 5 - "Non-Current Assets held for Sale and Discontinued Operations".

The Bank recognizes the effect of the tax position only if it is more likely than not that the positions will be accepted by the tax authorities or the Court. Tax positions recognized are measured by the maximum amount whose probability of realization exceeds 50%. Changes in recognition or of measurement are reflected in the period when the changes occur in circumstances that led to a change in decision.

The Bank applied the principles set out in the standard retroactively from 1 January 2012. As a result of implementing the Standard, retained earnings included in shareholders' equity were restated as at 1 January 2011 in the amount of NIS 42 million. Profit and loss figures were not restated due to immateriality.

c. IAS 23 – Borrowing Costs

The Standard prescribes that a company should capitalize borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset. A qualifying asset is an asset that takes a substantial period of time to get ready for its intended use or sale, and includes fixed assets, investment property, and inventory that require a substantial period of time to make ready for sale. However, it was explained that a banking corporation should not capitalize borrowing costs without determining a clear policy, procedures, and controls as to the criteria for recognizing qualifying assets and the borrowing costs capitalized.

Initial implementation of the Standard had no effect on the Bank's financial statements.

d. IAS 24 - Related Party Disclosures

The Standard prescribes the disclosure requirements an entity should make of its relationships with a related party, and all transactions and outstanding balances with a related party.
Furthermore, disclosure is required of compensation to key management personnel. Key management personnel are defined as those persons with authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including external directors (whether executive or otherwise) of the entity.
In the context of the adoption of the Standard by the Banking Supervision Department, the disclosure format required in the financial statements was adapted to the disclosure requirements of IAS 24, and to the disclosures required by virtue of the Securities Regulations, 2010.

Initial implementation of the Standard had no material effect on the Bank's financial statements, apart from a change in presentation.

3. Clarifications by the Banking Supervision Department on the manner of adoption of certain International Financial Reporting Standards (IFRS)

The functional currency of offices operating overseas

The Bank applies IAS 21 – "The Effects of Changes in Foreign Exchange Rates" as of 1 January 2011, except for the provisions of the Standard with regard to the classification of banking offices operating overseas as foreign operations whose functional currency is not the shekel.

On 14 February 2012, instructions were published by the Supervisor of Banks as to the manner of determining the functional currency of overseas banking offices. When determining the functional currency, the Bank is required to examine the range of criteria listed below, and document the results:

- The primary environment in which the office generates and expends cash is a foreign currency and the activity of the office in shekels is marginal.

- Recruiting customers for the office is carried out independently, such that the activity of the office vis-à-vis the customers of the banking corporation or related parties is not significant.

- The activity of the office vis-à-vis the banking corporation and/or related parties is not significant, and, *inter alia*, the office has no significant dependence on sources of funding from the banking corporation or its related parties.

- The activity of the office is essentially independent and stands alone, and is not an extension of or supplementary to the local activity of the banking corporation.

When one of the said criteria is clearly not fulfilled (for example, the transactions of the office carried out with the banking corporation's customers are so significant that they represent most of the office's transactions), this indicates that the office is to be treated as a foreign operation whose functional currency is the shekel. In any other situation, the determination is to be made according to an examination of a range of criteria.

The Bank has reexamined the classification of its overseas banking offices in accordance with the new criteria, and has reclassified the banking offices in the US and Switzerland as foreign operations whose functional currency is other than the shekel.
The change in classification was dealt with prospectively as a change in the functional currency of the offices, so that exchange rate differences from translation are recognized from 1 January 2012 as other comprehensive income, and shown under "Adjustments for translation of foreign operations".

Assets and liabilities of foreign operations, including goodwill and adjustments to fair value created on acquisition, were translated into NIS at the exchange rates in effect at the reporting date. Income and expenses of foreign operations are translated into shekels at the exchange rates in effect on the dates of the transactions.

Exchange rate differences in respect of translation are recognized in other comprehensive income as of 1 January 2012, the date of the change in the functional currency, and reported under equity in a foreign operations translation adjustments fund.

When a foreign operation is a subsidiary company not wholly owned by the Bank, the relative part of exchange rate differences in respect of the foreign operation is allocated to non-controlling interests.

Hedging a net investment in a foreign operation

The Group applies hedge accounting in respect of exchange rate differences between the functional currency of a foreign operation and the functional currency of the Bank (NIS), whether the investment in a foreign operation is held directly by the Bank or through a holding company.
Exchange rate differences in respect of the effective part of a hedge arising from translation of a financial liability hedging a net investment in a foreign operation, are charged to other comprehensive income and shown as equity under "Adjustments for translation of foreign operations". The non-effective part is charged to profit and loss.

4. Directives of the Banking Supervision Department on transactions between a banking corporation and its controlling shareholder and a company under the control of the banking corporation.

In view of the fact that no reference is made to this subject in international standards, the banking corporation is required to apply accounting principles generally accepted by US banks. If no reference is made in these, the Bank is required to apply the rules set out in Israel Accounting Standard 23 which was published in December 2006 - "The Accounting Treatment of Transactions between an Entity and its Controlling Shareholder" (hereinafter: "Standard 23"). Standard 23 provides that assets and liabilities in respect of which a transaction has been effected between the entity and the controlling shareholder shall be measured on the transaction date at fair value and the difference between the fair value and the consideration shall be included in shareholders' equity. A debit difference effectively constitutes a dividend and, accordingly, reduces retained earnings. A credit difference effectively constitutes an investment by the shareholders and should therefore be presented as a separate item under shareholders' equity, to be called "capital reserve from a transaction between an entity and its controlling shareholder". The standard discusses three issues relating to transactions between an entity and its controlling shareholder, as follows:

- The transfer of an asset to the entity by the controlling shareholder, or alternatively, the transfer of an asset from the entity to the controlling shareholder.

- The assumption by the controlling shareholder of all or part of a liability of the entity to a third party, indemnification of the entity by the controlling shareholder in respect of an expense, and the waiver by the controlling shareholder of all or part of the entity's debt to it.

- Loans that were granted to the controlling shareholder or loans that were received from the controlling shareholder.

The standard also determines the disclosure that is to be made in the financial statements regarding transactions between the entity and its controlling shareholder. Accordingly, the treatment set out in the Public Reporting Directives with regard to transactions with a controlling shareholder or with a company controlled by the banking corporation was cancelled.

The initial implementation of the Standard and the instructions of the Supervisor had no material effect.

5. Accounting Standards Updates

ASU 2011-03 – "Reconsideration of Effective Control for Repurchase Agreements"

As of 1 January 2012, the Bank applies Accounting Standard Update 2011-03 – "Reconsideration of Effective Control for Repurchase Agreements", which constitutes an update of the principles set out in FAS 166 (ASC 860).
The objective of the amendment is to simplify and improve the accounting treatment for transactions in repurchase ("repo") agreements and similar transactions, especially when the transfer of an asset is to be recognized as a sale. As mentioned above, one of the conditions required for the transfer of a financial asset to be recognized as a sale is that the transferor does not retain effective control over the asset transferred, for example by means of an agreement giving the transferor the simultaneous right and obligation to repurchase or redeem the asset at a specific or determinable date. In this situation, a mechanism is required for adjusting the collateral that secures the ability of the transferor to repurchase the asset. The amendment cancelled this requirement, so that the existence of a mechanism for adjusting the collateral became irrelevant to the determination if the transaction is to be treated as a sale for accounting purposes, and thus the determination as to whether effective control is retained is to be based on the contractual rights and obligations between the parties, provided the following conditions are fulfilled:

- The assets to be repurchased or redeemed are the same or substantially the same as those transferred.

- The agreement is to repurchase or redeem them before maturity, at a fixed or determinable price; and

- The agreement is entered into contemporaneously with the transfer.

The amendment came into effect from 1 January 2012 on transfers of assets after the date of implementation or on transactions in existence that where changed prospectively after the implementation date.

There was no material effect of the initial implementation of the amendment.

ASU 2011-04 - "Fair Value Measurement (Topic 820) -Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs".

The update sets out amendments to FAS 157 (ASC 820) required for determining a common definition of fair value measurement in US generally accepted accounting principles (U.S. GAAP) and in International Financial Reporting Standards (IFRS), as follows:

- The principal market in which measurement is carried out shall be considered the market in which most of the volume and level of activity is carried out for the asset or liability, and not the market that the entity considers as reflecting the said volume or level.

- Prohibition of use of the holding size factor will apply not only to negotiable instruments classified as Level 1 in the fair value hierarchy as currently decided, but also to the remaining instruments at Levels 2 and 3, except for situations where a premium or discount was taken into account in fair value measurement by those participating in the market in the absence of Level 1 data.

Additional disclosure requirements:

- The categorization by level of the fair value hierarchy for items that are not measured at fair value in the balance sheet, but for which disclosure is required in the notes to the balance sheet of their fair value.

- For fair value measurements categorized within Level 3 of the fair value hierarchy, information is to be provided on the valuation process used by the reporting entity, and disclosure as to the sensitivity of the fair value measurement to changes in significant unobservable inputs and the interrelationships between those unobservable inputs, if any.

- Any transfers for fair value measurement from Level 2 to Level 1 or *vice versa*, including the reasons for transfers.

The amendment came into effect prospectively as of 1 January 2012. There is no requirement to apply the new disclosure requirements with regard to financial statements for periods before initial implementation. In view of this, comparative figures have not been included in the financial statements for the new disclosures.

The initial implementation of ASU 2011-04 had no material effect on the financial statements of the Bank, apart from a change in presentation of the new disclosure requirements.

D. New accounting standards and new directives of the Supervisor of Banks in the period before their implementation

1. Directives of the Banking Supervision Department regarding the format of the statement of profit and loss for a banking corporation and adoption of generally accepted accounting principles in US banks on the measurement of interest income.

   On 29 December 2011, a circular was promulgated by the Supervisor of Banks intended to adapt the Public Reporting Directives for purposes of adopting the rules set out in the framework of generally accepted accounting standards in the US regarding “Nonrefundable Fees and Other Costs”.
   The Directive establishes rules for loan origination fees and direct loan origination costs. Eligible fees and costs according to criteria specified in the directive will not be recognized immediately in the statement of profit and loss, but will be taken into account in calculating the effective interest rate of the loan.
   In addition, the Directive changes the treatment of fees and costs associated with commitments to allocate credit, including credit card transactions. Furthermore, rules are set out in the directive regarding the treatment of changes in the terms of the debt that do not constitute a restructuring of a problem debt, the treatment of early repayments of debts, and the treatment of other transactions granting credit, such as syndicated transactions.
   On 10 May 2012, the Banking Supervision Department published a letter regarding the date of adoption of Topic 310-20 in the Accounting Standards Codification on "Nonrefundable Fees and Other Costs", and postponed implementation to 1 January 2014.

   The Standard is to be applied to transactions effected or renewed from 1 January 2014.

   The Bank is examining the effect expected from the adoption of the proposals on the financial statements, but is not able at this stage to evaluate its consequences.

2. In June 2009, the Banking Supervision Department published a circular on the subject of "Reporting of Banking Corporations and Credit Card Companies in Israel in accordance with International Financial Reporting Standards (IFRS)", which determines the expected manner of adoption of International Financial Reporting Standards (IFRS) by banking corporations.
   Pursuant to the circular, the target date for reporting of banking corporations and credit card companies according to IFRS standards is:

   Standards for subjects that are a core part of the banking business – beginning 1 January 2013.

   Standards for subjects that are not a core part of the banking business – gradual adoption during 2011-2012. However, IAS 19 – "Employee Benefits" has not yet come into effect, and will be adopted in accordance with the instructions of the Supervisor of Banks.

3. IFRS 10 – Consolidated Financial Statements

   The Standard replaces the provisions of IAS 27 – "Consolidated and Separate Financial Statements", and the provisions of SIC 12 – "Consolidation – Special Purpose Entities" with regard to consolidation of financial statements, so that IAS 27 will continue to apply only to separate financial statements.

   The main changes are as follows:

   - The Standard sets out a new control model for purposes of determining whether an investor controls an investee and must therefore consolidate the investee. This model is to be applied to all investee entities.

In accordance with the model, an investor controls an investee when the investor is exposed, or has rights, to variable returns deriving from its involvement with the investee, and has the ability to affect those returns through its power over the investee.

- Effective *de facto* control is to be taken into account for purposes of evaluating control for purposes of consolidating financial statements.

- Potential voting rights are to be taken into account when examining control, if they are exercisable immediately and are substantial in accordance with the provisions of the Standard. However, it may also be necessary to take into account rights that are not immediately exercisable.

Notwithstanding that stated above, it should be noted that the accounting treatment for entities with variable rights is defined as a core subject of the banking business, for which banks are required to apply the rules prescribed in FAS 167 (ASC 810-10).

The Standard is to be applied for financial statements for annual periods beginning 1 January 2013 or thereafter, by way of retroactive implementation in accordance with the transitional provisions in the Standard.
Early adoption is possible subject to making disclosure, and subject to early adoption of IFRS 11 – "Joint Arrangements" and IFRS 12 – "Disclosure of Interests in Other Entities".

In the opinion of the Bank, the effect of IFRS 10 on the financial statements is not expected to be material.

4. IFRS 11 – Joint Arrangements

The Standard replaces the provisions of IAS 31 – "Interests in Joint Ventures", and amends some of the provisions of IAS 28 – "Investments in Associates".

The Standard defines joint arrangements as arrangements where there is joint control and divides the said arrangements into two categories:

- Joint operations – the parties with joint control have rights to assets relating to the arrangement, and obligations to meet liabilities relating to the arrangement. Joint operations are recognized as assets and liabilities and dealt with under the relevant standards.

- Joint ventures – joint arrangements that are incorporated as a separate entity, with the parties with joint control having rights to the net assets of the joint arrangement. Joint ventures are dealt with under the equity method only.

The Standard changes the accounting treatment of loss of joint control when after the loss of joint control there still remains substantial control, i.e. cancelling the current directive requiring the fair value valuation of the investment remaining in the associate at the time of loss of joint control.

In addition, the amended IAS 28 determines that IFRS 5 applies to an investment or part of an investment in an associate company or joint venture meeting the criteria for classification as held for sale. Until the realization of that part of the investment held for sale, the equity method continues to be applied on the part of the investment not classified as held for sale.

IFRS 11 is to be implemented for financial statements for annual periods beginning on 1 January 2013 or thereafter, by way of retroactive implementation in accordance with the transitional provisions in the Standard. Early adoption is possible subject to making disclosure, and subject to early adoption of two additional standards published at the same time – IFRS 10 – "Consolidated Financial Statements" and IFRS 12 – "Disclosure of Interests in Other Entities".

The Bank is examining the potential effect of the Standard on its financial statements.

5. IFRS 12 – Disclosure of Interests in Other Entities

The Standard comprises comprehensive disclosure requirements relating to rights in subsidiaries, in joint arrangements, associate companies, and structured entities.

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. The definition of "rights" in the Standard is wide-ranging and includes contractual and non-contractual involvement that exposes the reporting corporation to changes in returns as a result of the performance of the investee entity.

The objective of the new disclosure requirements is to enable users of financial statements to evaluate the nature of, and the risks associated with, the interests of the reporting corporation in other entities, and to understand the effects of those interests on the financial condition of the reporting corporation. This objective is reflected in wide-ranging and comprehensive disclosure requirements, *inter alia*: significant judgments and assumptions reflected in determining the nature of rights in entities and arrangements, rights in subsidiaries, rights in joint arrangements and associate companies and rights in structured entities.

The Standard is to be implemented for financial statements for annual periods beginning on 1 January 2013 or thereafter. Early adoption is possible subject to early adoption of two additional standards published at the same time – IFRS 10 – "Consolidated Financial Statements" and IFRS 11 – "Joint Arrangements". However, early inclusion of the additional disclosure requirements under IFRS 12 is possible, without implementing early adoption of the additional Standards.

In the opinion of the Bank, the effect of IFRS 12 on the financial statements is not expected to be material.

Note 2 - Securities
Reported Amounts

	As at 31 March 2012 (Unaudited)				
	Balance sheet amount	Amortized cost (in shares - cost)	Accumulated other comprehensive profit (loss) Profits	Losses	Fair value (a)
	(NIS millions)				
1. Securities available for sale:					
Debentures -					
Government of Israel	21,689	21,547	151	(9)	21,689
Foreign governments	3,117	3,114	6	(3)	3,117
Financial institutions in Israel	322	317	9	(4)	322
Financial institutions abroad	7,555	7,692	66	(203)	7,555
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	3,212	3,229	30	(47)	3,212
Others in Israel	614	617	14	(17)	614
Others abroad	1,155	1,149	19	(13)	1,155
	37,664	37,665	295	(296)	37,664
Shares and mutual funds (b)	2,244	1,849	405	(10)	2,244
Total securities available for sale	39,908	39,514	700 (c)	(306) (c)	39,908

	As at 31 March 2012 (Unaudited)				
	Balance sheet amount	Amortized cost (in shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (a)
	(NIS millions)				
2. Securities held for trading:					
Debentures -					
Government of Israel	7,922	7,848	77	(3)	7,922
Foreign governments	320	328	-	(8)	320
Financial institutions in Israel	185	183	2	-	185
Financial institutions abroad	239	238	5	(4)	239
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	171	178	3	(10)	171
Others in Israel	507	512	2	(7)	507
Others abroad	338	307	31	-	338
	9,682	9,594	120	(32)	9,682
Shares and mutual funds	167	165	3	(1)	167
Total securities available for trading	9,849	9,759	123 (d)	(33) (d)	9,849
Total securities	49,757	49,273	823	(339)	49,757

See notes on page 179.

Note 2 - Securities (Cont'd)
Reported Amounts

	As at 31 March 2011 (Unaudited) (e)				
	Balance sheet amount	Amortized cost (in shares - cost)	Accumulated other comprehensive profit (loss)		Fair value (a)
			Profits	Losses	
	(NIS millions)				
1. Securities available for sale:					
Debentures -					
Government of Israel	16,273	16,384	104	(215)	16,273
Foreign governments	2,468	2,483	3	(18)	2,468
Financial institutions in Israel	392	387	13	(8)	392
Financial institutions abroad	10,143	10,312	56	(225)	10,143
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	4,365	4,293	132	(60)	4,365
Others in Israel	706	683	28	(5)	706
Others abroad	1,176	1,176	5	(5)	1,176
	35,523	35,718	341	(536)	35,523
Shares and mutual funds (b)	2,725	2,218	527	(20)	2,725
Total securities available for sale	38,248	37,936	868 (c)	(556) (c)	38,248

	As at 31 March 2011 (Unaudited) (e)				
	Balance sheet amount	Amortized cost (in shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (a)
	(NIS millions)				
2. Securities held for trading:					
Debentures -					
Government of Israel	5,610	5,630	38	(58)	5,610
Foreign governments	881	888	1	(8)	881
Financial institutions in Israel	124	126	-	(2)	124
Financial institutions abroad	554	563	5	(14)	554
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	207	214	2	(9)	207
Others in Israel	325	319	6	-	325
Others abroad	788	781	10	(3)	788
	8,489	8,521	62	(94)	8,489
Shares and mutual funds (b)	353	713	1	(361)	353
Total securities available for trading	8,842	9,234	63 (d)	(455) (d)	8,842
Total securities	47,090	47,170	931	(1,011)	47,090

See notes on page 179.

Note 2 - Securities (Cont'd)
Reported Amounts

	As at 31 December 2011 (Audited)				
	Balance sheet amount	Amortized cost (in shares - cost)	Accumulated other comprehensive profit (loss) Profits	Losses	Fair value (a)
	(NIS millions)				
1. Securities available for sale:					
Debentures -					
Government of Israel	19,775	19,624	154	(3)	19,775
Foreign governments	3,675	3,677	3	(5)	3,675
Financial institutions in Israel	397	392	8	(3)	397
Financial institutions abroad	7,854	8,436	14	(596)	7,854
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	2,444	2,492	26	(74)	2,444
Others in Israel	604	639	5	(40)	604
Others abroad	1,254	1,264	17	(27)	1,254
	36,003	36,524	227	(748)	36,003
Shares and mutual funds (b)	2,191	1,876	341	(26)	2,191
Total securities available for sale	38,194	38,400	568 (c)	(774) (c)	38,194

	As at 31 December 2011 (Audited)				
	Balance sheet amount	Amortized cost (in shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (a)
	(NIS millions)				
2. Securities held for trading:					
Debentures -					
Government of Israel	8,153	8,094	64	(5)	8,153
Foreign governments	183	180	3	-	183
Financial institutions in Israel	173	172	3	(2)	173
Financial institutions abroad	366	389	3	(26)	366
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	120	129	2	(11)	120
Others in Israel	330	352	-	(22)	330
Others abroad	56	53	3	-	56
	9,381	9,369	78	(66)	9,381
Shares and mutual funds	361	363	4	(6)	361
Total securities available for trading	9,742	9,732	82 (d)	(72) (d)	9,742
Total securities	47,936	48,132	650	(846)	47,936

See notes on page 179.

Note 2 - Securities (Cont'd)

Notes:

(a) Fair value amounts are generally based on Stock Exchange prices, which do not necessarily reflect the price which would be received for the sale of a large volume of securities.

(b) Including NIS 1,211 million with respect to shares which have no readily available fair value, which are shown at cost (31 December 2011 - NIS 1,185 million and 31 March 2011 - NIS 1,277 million).

(c) Regarding securities available for sale, total other profit – unrealized profits (losses) are included in shareholders' equity under "Adjustments in respect of presentation of securities available for sale according to fair value", except for securities intended as hedges in fair value hedging.

(d) Charged to the profit and loss statement, but not yet realized.

(e) Comparative figures have been reclassified in accordance with directives of the Supervisor of Banks.

General note:

Securities lent in the amount of NIS 500 million (31 December 2011 – NIS 648 million and at 31 March 2011 – NIS 471 million) are shown under credit to the public.

Note 2 - Securities (Cont'd)
Of which: Asset-backed securities
Reported amounts

	As at 31 March 2012 (Unaudited)				
	Balance sheet amount	Amortized cost	Accumulated other comprehensive income (loss)*		Fair value
			Profits	Losses	
	(NIS millions)				
1. Debentures available for sale:					
Pass-through securities:					
Securities guaranteed by GNMA	705	700	5	-	705
Securities issued by FNMA and FHLMC	370	364	6	-	370
Total	1,075	1,064	11	-	1,075
Other mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	856	850	7	(1)	856
Other mortgage-backed securities	442	446	1	(5)	442
Total	1,298	1,296	8	(6)	1,298
Asset-backed securities (ABS):					
Credit card receivables	39	40	-	(1)	39
Lines of credit for any purpose secured by dwelling	2	2	-	-	2
Other credit to private persons	5	5	-	-	5
CLO	790	819	9	(38)	790
Others	3	3	2	(2)	3
Total	839	869	11	(41)	839
Total asset-backed debentures available for sale	3,212	3,229	30	(47)	3,212

* Amounts charged to capital reserve as part of adjustments to fair value of available-for-sale securities.

Note 2 - Securities (Cont'd)
Of which: Asset-backed securities
Reported amounts

	As at 31 March 2012 (Unaudited)				
	Balance sheet amount	Amortized cost	Unrealized profits from adjustments to fair value*	Unrealized losses from adjustments to fair value*	Fair value
	(NIS millions)				
2. Debentures held for trading:					
Pass-through securities:					
Securities guaranteed by GNMA	6	6	-	-	6
Other securities	5	6	-	(1)	5
Total	11	12	-	(1)	11
Other mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	110	109	1	-	110
Other mortgage-backed securities	8	10	-	(2)	8
Total	118	119	1	(2)	118
Asset-backed securities (ABS):					
Lines of credit for any purpose secured by dwelling	3	3	-	-	3
Credit for purchase of vehicle	23	22	1	-	23
Credit not to private persons	5	5	-	-	5
CDO	1	6	-	(5)	1
Others	10	11	1	(2)	10
Total	42	47	2	(7)	42
Total asset-backed debentures held for trading	171	178	3	(10)	171

* These profits (losses) are charged to profit and loss.

Note 2 - Securities (Cont'd)
Of which: Asset-backed securities
Reported amounts

	As at 31 March 2011 (Unaudited)				
	Balance sheet amount	Amortized cost	Accumulated other comprehensive income (loss) *		Fair value
			Profits	Losses	
	(NIS millions)				
1. Debentures available for sale:					
Pass-through securities:					
Securities guaranteed by GNMA	1,526	1,497	38	(9)	1,526
Securities issued by FNMA and FHLMC	227	217	10	-	227
Total	1,753	1,714	48	(9)	1,753
Other mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	1,389	1,388	10	(9)	1,389
Other mortgage-backed securities	358	368	1	(11)	358
Total	1,747	1,756	11	(20)	1,747
Asset-backed securities (ABS):					
Credit card receivables	37	37	-	-	37
Lines of credit for any purpose secured by dwelling	2	3	-	(1)	2
Other credit to private persons	5	5	-	-	5
CLO	727	700	56	(29)	727
CDO	29	29	-	-	29
SCDO	61	44	17	-	61
Others	4	5	-	(1)	4
Total	865	823	73	(31)	865
Total asset-backed debentures available for sale	4,365	4,293	132	(60)	4,365

* Amounts charged to capital reserve as part of adjustments to fair value of available-for-sale securities.

Note 2 - Securities (Cont'd)
Of which: Asset-backed securities
Reported amounts

	As at 31 March 2011 (Unaudited)				
	Balance sheet amount	Amortized Cost	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value*	Fair value
	(NIS millions)				
2. Debentures held for trading:					
Pass-through securities:					
Securities issued by FNMA and FHLMC	9	9	-	-	9
Securities issued by others	7	7	-	-	7
Total	16	16	-	-	16
Other mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	24	23	1	-	24
Other mortgage-backed securities	10	12	-	(2)	10
Total	34	35	1	(2)	34
Asset-backed securities (ABS):					
Lines of credit for any purpose secured by dwelling	3	3	-	-	3
Credit for purchase of vehicle	145	145	1	(1)	145
Credit not to private persons	6	6	-	-	6
CDO	1	6	-	(5)	1
Others	2	3	-	(1)	2
Total	157	163	1	(7)	157
Total asset-backed debentures held for trading	207	214	2	(9)	207

* These profits (losses) are charged to profit and loss.

Note 2 - Securities (Cont'd)
Of which: Asset-backed securities
Reported amounts

	As at 31 December 2011 (Audited)				
	Balance sheet amount	Amortized cost	Accumulated other comprehensive income (loss) *		Fair value
			Profits	Losses	
	(NIS millions)				
1. Debentures available for sale:					
Pass-through securities:					
Securities guaranteed by GNMA	114	109	5	-	114
Securities issued by FNMA and FHLMC	258	250	8	-	258
Total	372	359	13	-	372
Other mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	921	912	10	(1)	921
Other mortgage-backed securities	440	451	-	(11)	440
Total	1,361	1,363	10	(12)	1,361
Asset-backed securities (ABS):					
Credit card receivables	40	41	-	(1)	40
Lines of credit for any purpose secured by dwelling	2	3	-	(1)	2
Other credit to private persons	5	5	-	-	5
CLO	661	720	1	(60)	661
Others	3	1	2	-	3
Total	711	770	3	(62)	711
Total asset-backed debentures available for sale	2,444	2,492	26	(74)	2,444

* Amounts charged to capital reserve as part of adjustments to fair value of available-for-sale securities.

Note 2 - Securities (Cont'd)
Of which: Asset-backed securities
Reported amounts

	As at 31 December 2011 (Audited)				
	Balance sheet amount	Amortized Cost	Unrealized profits from adjustments to fair value*	Unrealized losses from adjustments to fair value*	Fair value
	(NIS millions)				
2. Debentures held for trading:					
Pass-through securities:					
Securities issued by FNMA and FHLMC	1	1	-	-	1
Securities issued by others	5	6	-	(1)	5
Total	6	7	-	(1)	6
Other mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	96	95	1	-	96
Other mortgage-backed securities	8	11	-	(3)	8
Total	104	106	1	(3)	104
Asset-backed securities (ABS):					
Lines of credit for any purpose secured by dwelling	3	3	-	-	3
Credit not to private persons	4	4	-	-	4
CDO	1	7	-	(6)	1
Others	2	2	1	(1)	2
Total	10	16	1	(7)	10
Total asset-backed debentures held for trading	120	129	2	(11)	120

* These profits (losses) are charged to profit and loss.

Note 2 - Securities (Cont'd)

Of which: Asset-backed securities
Reported amounts

	As at 31 March 2012 (Unaudited)					
	Up to 12 months		More than 12 months		Total	
	Fair value	Unrealized losses from adjustments to fair value	Fair value	Unrealized losses from adjustments to fair value	Fair value	Unrealized losses from adjustments to fair value
	(NIS millions)					
Additional details of asset-backed securities available for sale which include unrealized losses from adjustments to fair value						
Mortgage-backed securities (MBS)	**187**	**-**	**-**	**-**	**187**	**-**
Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS)	**248**	**-**	**341**	**(6)**	**589**	**(6)**
Asset-backed securities (ABS)	**141**	**(17)**	**521**	**(24)**	**662**	**(41)**
Total	**576**	**(17)**	**862**	**(30)**	**1,438**	**(47)**

	As at 31 March 2011 (Unaudited)					
	Up to 12 months		More than 12 months		Total	
	Fair Value	Unrealized losses from adjustments to fair value	Fair Value	Unrealized losses from adjustments to fair value	Fair Value	Unrealized losses from adjustments to fair value
	(NIS millions)					
Additional details of asset-backed securities available for sale which include unrealized losses from adjustments to fair value						
Mortgage-backed securities (MBS)	220	(9)	-	-	220	(9)
Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS)	659	(8)	183	(12)	842	(20)
Asset-backed securities (ABS)	169	(6)	405	(25)	574	(31)
Total	1,048	(23)	588	(37)	1,636	(60)

	As at 31 December 2011 (Audited)					
	Up to 12 months		More than 12 months		Total	
	Fair Value	Unrealized losses from adjustments to fair value	Fair Value	Unrealized losses from adjustments to fair value	Fair Value	Unrealized losses from adjustments to fair value
	(NIS millions)					
Additional details of asset-backed securities available for sale which include unrealized losses from adjustments to fair value						
Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS)	569	(3)	224	(9)	793	(12)
Asset-backed securities (ABS)	298	(40)	390	(22)	688	(62)
Total	867	(43)	614	(31)	1,481	(74)

- Losses less than NIS 1 million.

Note 3 – Credit to the public and allowance for credit losses
Reported amounts

A. Balance of credit to the public

	31 March 2012 (Unaudited)		
	Balance of debt in the books	Allowance for credit losses	Net balance of debt
	NIS millions		
Credit to the public examined on an individual basis*	**124,441**	**2,973**	**121,468**
Credit to the public examined on a collective basis**	**120,134**	**1,102**	**119,032**
Total credit to the public	**244,575**	**4,075**	**240,500**
Of which customers' liabilities for acceptances	**677**	**5**	**672**

	31 March 2011 (Unaudited)		
	Balance of debt in the books	Allowance for credit losses	Net balance of debt
	NIS millions		
Credit to the public examined on an individual basis*	109,703	3,701	106,002
Credit to the public examined on a collective basis**	120,314	1,245	119,069
Total credit to the public	230,017	4,946	225,071
Of which customers' liabilities for acceptances	836	-	836

	31 December 2011 (Audited))		
	Balance of debt in the books	Allowance for credit losses	Net balance of debt
	NIS millions		
Credit to the public examined on an individual basis*	125,948	2,843	123,105
Credit to the public examined on a collective basis**	119,339	1,124	118,215
Total credit to the public	245,287	3,967	241,320
Of which customers' liabilities for acceptances	638	4	634

* Including credit examined on an individual basis and found to be unimpaired. The allowance for credit losses in respect of this credit was calculated on a group basis. For further details regarding credit examined on an individual basis, see Note 3.B.

** Credit for which a credit loss allowance was assessed on a collective basis by extent of arrears according to the Appendix to Proper Conduct of Banking Business Directive No. 314, and other credit not examined individually in respect of which the allowance for credit losses was calculated on a collective basis.
See further details in Note 3.C.

Note 3 – Credit to the public and allowance for credit losses (cont'd)
Reported amounts

B. Credit to the public examined on an individual basis

	31 March 2012 (Unaudited)		
	Balance of debt in the books	Allowance for credit losses	Net balance of debt
	NIS millions		
1. Credit to the public examined on an individual basis includes:			
Impaired credit to the public*	**6,815**	**1,827**	**4,988**
Unimpaired credit to the public, in arrears of 90 days or more**	**9**	**-**	**9**
Unimpaired credit to the public, in arrears of 30 to 89 days **	**284**	**6**	**278**
Other unimpaired credit to the public **	**117,333**	**1,140**	**116,193**
Total unimpaired credit to the public	**117,626**	**1,146**	**116,480**
Total credit to the public examined on an individual basis	**124,441**	**2,973**	**121,468**

	31 March 2011 (Unaudited)		
	Balance of debt in the books	Allowance for credit losses	Net balance of debt
	NIS millions		
1. Credit to the public examined on an individual basis includes:			
Impaired credit to the public*	7,989	2,872	5,117
Unimpaired credit to the public, in arrears of 90 days or more**	393	2	391
Unimpaired credit to the public, in arrears of 30 to 89 days **	259	3	256
Other unimpaired credit to the public **	101,062	824	100,238
Total unimpaired credit to the public	101,714	829	100,885
Total credit to the public examined on an individual basis	109,703	3,701	106,002

	31 December 2011 (Audited))		
	Balance of debt in the books	Allowance for credit losses	Net balance of debt
	NIS millions		
Credit to the public examined on an individual basis includes:			
Impaired credit to the public*	6,778	1,731	5,047
Unimpaired credit to the public, in arrears of 90 days or more**	-	-	-
Unimpaired credit to the public, in arrears of 30 to 89 days **	946	6	940
Other unimpaired credit to the public **	118,224	1,106	117,118
Total unimpaired credit to the public	119,170	1,112	118,058
Total credit to the public examined on an individual basis	125,948	2,843	123,105

* Impaired debt not accruing interest income, excluding certain credit under restructuring.

** Credit examined on an individual basis and found to be unimpaired. A credit loss allowance in respect of this credit was calculated on a collective basis.

Note 3 – Credit to the public and allowance for credit losses (cont'd)
Reported amounts

B. Credit to the public examined on an individual basis (cont'd)
Additional information on impaired credit to the public examined on an individual basis

	31 March 2012 (Unaudited)	31 March 2011 (Unaudited)	31 December2011 (Audited)
	NIS millions		
2. Impaired credit to the public for which there is a credit loss allowance on an individual basis	**3,539**	6,095 (a)	4,338
Impaired credit to the public in respect of which there is no allowance for credit losses on an individual basis	**3,276**	1,894 (a)	2,440
Total impaired credit	**6,815**	7,989	6,778
3. Impaired credit to the public measured according to present value of cash flows	**4,364**	7,253	4,595
Impaired credit to the public measured according to collateral value	**2,451**	736	2,183
Total impaired credit	**6,815**	7,989	6,778

	31 March 2012 (Unaudited)		
	Balance of debt in the books	Allowance for credit losses	Net balance of debt
	NIS millions		
4. Problematic credit under restructuring in which changes were made to the terms of credit:			
Not accruing interest income	**983**	**142**	**841**
Accruing interest income	**148**	**2**	**146**
Total (included in impaired credit to the public)	**1,131**	**144**	**987**

	31 March 2011 (Unaudited)		
	Balance of debt in the books	Allowance for credit losses	Net balance of debt
	NIS millions		
Problematic credit under restructuring in which changes were made to the terms of credit:			
Not accruing interest income	403	59	344
Accruing interest income, in arrears of 30 to 89 days	1	-	1
Accruing interest income	65	1	64
Total (included in impaired credit to the public)	469	60	409

	31 December 2011 (Audited)		
	Balance of debt in the books	Allowance for credit losses	Net balance of debt
	NIS millions		
Problematic credit under restructuring in which changes were made to the terms of credit:			
Not accruing interest income	692	63	629
Accruing interest income	144	1	143
Total (included in impaired credit to the public)	836	64	772

	31 March 2012 (Unaudited)	31 March 2011 (Unaudited)
	NIS millions	
5.		
Average balance of debt in the books for the reporting period of impaired credit to the public	**6,797**	8,463
Amount of interest income recorded for the reporting period in respect of this credit during the period it was classified as impaired *	**11**	43
Amount of interest income that would have been recorded for the reporting period if this credit had accrued interest in accordance with its original terms	**139**	168 (a)
* Of which: Interest income that would have been recorded under the cash-basis accounting method	**11**	42

(a) Reclassified.

Note 3 – Credit to the public and allowance for credit losses (cont'd)
Reported amounts

C. Credit to the public examined on a collective basis including:
1. Housing loans for which a minimum allowance for credit losses was made by extent of arrears:

	31 March 2012 (Unaudited)							
	Extent of arrears							
	Arrears of 30 to 90 days	Arrears of more than 90 days						
	From 1 to 3 months	From 3 to 6 months	From 6 to 15 months	From 15 to 33 months	Above 33 months	Total above 3 months	Balances in respect of refinanced past-due loans (3)	Total
	NIS millions							
Amount of arrears	**8**	**8**	**13**	**8**	**175**	**204**	**12**	**224**
Of which: Balance of provision for interest (1)	**-**	**-**	**-**	**1**	**82**	**83**	**1**	**84**
Balance of debt in the books	**712**	**187**	**131**	**41**	**188**	**547**	**310**	**1,569**
Balance of allowance for credit losses (2)	**-**	**-**	**18**	**17**	**169**	**204**	**122**	**326**
Net balance of debt	**712**	**187**	**113**	**24**	**19**	**343**	**188**	**1,243**

	31 March 2011 (Unaudited)							
	Extent of arrears							
	Arrears of 30 to 90 days	Arrears of more than 90 days						
	From 1 to 3 months	From 3 to 6 months	From 6 to 15 months	From 15 to 33 months	Above 33 months	Total above 3 months	Balances in respect of refinanced past-due loans (3)	Total
	NIS millions							
Amount of arrears	8	8	12	15	203	238	15	261
Of which: Balance of provision for interest (1)	-	-	1	2	3	4	5	9
Balance of debt in the books	712	195	132	59	225	611	363	1,686
Balance of allowance for credit losses (2)	-	-	18	27	208	253	165	418
Net balance of debt	712	195	114	32	17	358	198	1,268

	31 December 2011 (Audited)							
	Extent of arrears							
	Arrears of 30 to 90 days	Arrears of more than 90 days						
	From 1 to 3 months	From 3 to 6 months	From 6 to 15 months	From 15 to 33 months	Above 33 months	Total above 3 months	Balances in respect of refinanced past-due loans (3)	Total
	NIS millions							
Amount of arrears	9	8	11	11	180	210	14	233
Of which: Balance of provision for interest (1)	-	-	-	1	84	85	1	86
Balance of debt in the books	706	207	135	46	198	586	332	1,624
Balance of allowance for credit losses (2)	-	-	17	20	179	216	133	349
Net balance of debt	706	207	118	26	19	370	199	1,275

(1) In respect of interest on amounts in arrears.
(2) Excluding the balance of the allowance for interest.
(3) Loans in which an arrangement has been signed for repayment of arrears by a borrower, with a change made to the repayment schedule in respect of the balance of the loan not yet repayable.

Note 3 – Credit to the public and allowance for credit losses (cont'd)
Reported amounts

C. Credit to the public examined on a collective basis including:
2. Other credit not examined individually for which an allowance for credit losses was calculated on a collective basis:

	31 March 2012 (Unaudited)		
	Balance of debt in the books	Allowance for credit losses	Net balance of debt
	NIS millions		
Impaired credit to the public	**7**	**2**	**5**
Unimpaired credit to the public, in arrears of 90 days or more	**361**	**30**	**331**
Unimpaired credit to the public, in arrears of 30 to 89 days	**528**	**9**	**519**
Other unimpaired credit to the public	**117,669**	**735**	**116,934**
Total credit to the public not examined on an individual basis	**118,565**	**776**	**117,789**

	31 March 2011 (Unaudited)		
	Balance of debt in the books	Allowance for credit losses	Net balance of debt
	NIS millions		
Impaired credit to the public	11	3	8
Unimpaired credit to the public, in arrears of 90 days or more	312	21	291
Unimpaired credit to the public, in arrears of 30 to 89 days	425	6	419
Other unimpaired credit to the public	117,880	797	117,083
Total credit to the public not examined on an individual basis	118,628	827	117,801

	31 December 2011 (Audited)		
	Balance of debt in the books	Allowance for credit losses	Net balance of debt
	NIS millions		
Impaired credit to the public	6	1	5
Unimpaired credit to the public, in arrears of 90 days or more	638	36	602
Unimpaired credit to the public, in arrears of 30 to 89 days	371	8	363
Other unimpaired credit to the public	116,700	730	115,970
Total credit to the public not examined on an individual basis	117,715	775	116,940

Note 3 – Credit to the public and allowance for credit losses (cont'd)
Reported amounts

D. Allowance for credit losses in respect of debts and in respect of off-balance sheet credit instruments

	On an individual basis	On a collective basis (a)		
		By extent of arrears	Other	Total
	NIS millions			
Balance of allowance for credit losses as at 31.12.2011 (Audited)	**1,870**	**349**	**2,221**	**4,440**
Other changes in the allowance for credit losses as at 1.1.2012 (charged to equity) (c)	**24**	**-**	**12**	**36**
Balance of allowance for credit losses as at 1 January 2012	**1,894**	**349**	**2,233**	**4,476**
Expenses (income) in respect of credit losses	**161**	**(14)**	**78**	**225**
Accounting write-offs	**(139)**	**(9)**	**(144)**	**(292)**
Collection of debts written off in the accounts in previous years	**26**	**-**	**87**	**113**
Net accounting write-offs	**(113)**	**(9)**	**(57)**	**(179)**
Reserve for translation differences	**(3)**	**-**	**(4)**	**(7)**
Balance of allowance for credit losses as at 31 March 2012 (Unaudited)	**1,939**	**326**	**2,250**	**4,515**

	On an individual basis	On a collective basis (a)		
		By extent of arrears	Other	Total
	NIS millions			
Balance of allowance for credit losses as at 31.12.2010 (Audited)	9,321	450	770	10,541
Net accounting write-offs recognized at 1.1.2011 (a)	(5,835)	-	(5)	(5,840)
Other changes in the allowance for credit losses as at 1.1.2011 (charged to shareholders' equity) (a) (b)	(107)	-	1,181	1,074
Balance of allowance for credit losses as at 1 January 2011	3,379	450	1,946	5,775
Expenses in respect of credit losses	(61)	(14)	(27)	(102)
Accounting write-offs	(374)	(18)	(2)	(394)
Collection of debts written off in the accounts in previous years	36	-	-	36
Net accounting write-offs	(338)	(18)	(2)	(358)
Balance of allowance for credit losses as at 31 March 2011	2,980	418	1,917	5,315
Composition of balance of the allowance as at 31 March 2012				
In respect of credit to the public	**1,827**	**326**	**1,922**	**4,075**
In respect of debts not being credit to the public	**4**	**-**	**3**	**7**
In respect of off balance-sheet credit instruments (b)	**108**	**-**	**325**	**433**
Balance of allowance for credit losses as at 31 March 2012 (Unaudited)	**1,939**	**326**	**2,250**	**4,515**
Composition of balance of the allowance as at 31 December 2011				
In respect of credit to the public	1,731	349	1,887	3,967
In respect of debts not being credit to the public	5	-	4	9
In respect of off balance-sheet credit instruments (b)	134	-	330	464
Balance of allowance for credit losses as at 31.12.2011 (Audited)	1,870	349	2,221	4,440
Composition of balance of the provision as at 31 March 2011				
In respect of credit to the public	2,872	418	1,656	4,946
In respect of debts not being credit to the public	2	-	-	2
In respect of off balance-sheet credit instruments (b)	106	-	261	367
Balance of allowance for credit losses as at 31 March 2011 (Unaudited)	2,980	418	1,917	5,315

(a) Including an allowance on a collective basis in respect of debts examined on an individual basis and found to be unimpaired.
(b) Included under other liabilities.
(c) Initial implementation of IFRS in a subsidiary overseas.

Note 3 – Credit to the public and allowance for credit losses (cont'd)
Reported amounts

E. Additional details of housing loans and the method of calculating the allowance for credit losses

As at 31 March 2012 (Unaudited)

	Housing loans	Impaired housing loans or in arrears of more than 90 days (a)		Balance of allowance for credit losses			
					Other (e)		
	Recorded balance of debt (e) (f)	Amount in arrears (c)	Recorded balance of debt	By extent of arrears (d)	On group basis	On individual basis	Total
	(NIS millions)						
Housing loans that require calculating the allowance for credit losses according to extent of arrears (b)	**58,177**	**221**	**882**	**480**	**4**	**10**	**494**
Other housing loans	**1,341**	**18**	**36**	**-**	**5**	**14**	**19**
Total	**59,518**	**239**	**918**	**480**	**9**	**24**	**513**

As at 31 March 2011 (Unaudited)

	Housing loans	Impaired housing loans or in arrears of more than 90 days (a)		Balance of allowance for credit losses			
					Other (e)		
	Recorded balance of debt (e) (f)	Amount in arrears (c)	Recorded balance of debt	By extent of arrears (d)	On group basis	On individual basis	Total
	(NIS millions)						
Housing loans that require calculating the allowance for credit losses according to extent of arrears (b)	53,368	256	997	417	148	9	574
Other housing loans	1,302	11	23	-	2	10	12
Total	54,670	267	1,020	417	150	19	586

31 December 2011 (Audited)

	Housing loans	Impaired housing loans or in arrears of more than 90 days (a)		Balance of allowance for credit losses			
					Other (e)		
	Recorded balance of debt (e) (f)	Amount in arrears (c)	Recorded balance of debt	By extent of arrears (d)	On group basis	On individual basis	Total
	(NIS millions)						
Housing loans that require calculating the allowance for credit losses according to extent of arrears (b)	57,452	230	947	502	4	10	516
Other housing loans	1,367	15	55	-	2	14	16
Total	58,819	245	1,002	502	6	24	532

(a) Impaired housing loans and housing loans in arrears of over 90 days.
(b) Of which: loans for any purpose against a pledge of a residential dwelling in the amount of NIS 7,869 million (31 March 2011 – NIS 7,292 million and 31 December 2011 – NIS 7,744 million).
(c) Including interest on the amount in arrears.
(d) Including the balance of the provision in excess of the amount according to extent of arrears in the amount of NIS 216 million (31 March 2011 – NIS 254 million and 31 December 2011 – NIS 222 million).
(e) Of which: housing loans at variable rates of interest in the amount of NIS 44,178 million (31 March 2011 – NIS 41,192 million and 31 December 2011 – NIS 43,365 million).
(f) The balance includes credit in respect of purchasing groups shown in the construction and real estate sector in the amount of NIS 929 million (31 March 2011 – NIS 898 million and 31 December 2011 – NIS 879 million).

Note 4 - Capital Adequacy in accordance with directives of the Supervisor of Banks

Calculated pursuant to Proper Conduct of Banking Business Directives Nos. 201-211 on the subject of "Measurement and Capital Adequacy"

Reported amounts

	31 March 2012	31 March 2011	31 December 2011
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions		
A. Data			
Capital for purposes of calculating capital ratio			
Tier 1 capital, after deductions	**23,804**	22,232 (b)	23,225
Tier 2 capital, after deductions	**18,426**	16,068	18,020
Total capital	**42,230**	38,300 (b)	41,245
Weighted balance of risk assets			
Credit risk	**257,659**	244,334	258,601
Market risk	**9,517**	9,184	9,011
Operational risk (c)	**20,294**	20,826	20,095
Total weighted balance of risk assets	**287,470**	274,344	287,707
Ratio of capital to risk assets (%)			
Ratio of Tier 1 capital to risk assets	**8.28%**	8.10% (b)	8.07%
Ratio of total capital to risk assets	**14.69%**	13.96% (b)	14.34%
Ratio of total minimum capital required by the Supervisor of Banks	**9.00%**	9.00%	9.00%
B. Principal subsidiary companies			
Leumi Mortgage Bank			
Ratio of Tier 1 capital to risk assets	**8.58%**	8.81% (b)	8.58%
Ratio of total capital to risk assets	**12.61%**	12.25% (b)	12.88%
Ratio of total minimum capital required by the Supervisor of Banks	**9.00%**	9.00%	9.00%
Arab Israel Bank			
Ratio of Tier 1 capital to risk assets	**11.75%**	9.74% (b)	11.30%
Ratio of total capital to risk assets	**15.96%**	14.34% (b)	15.60%
Ratio of total minimum capital required by the Supervisor of Banks	**9.00%**	9.00%	9.00%
Leumi Card Ltd.			
Ratio of Tier 1 capital to risk assets	**15.00%**	14.10%	14.80%
Ratio of total capital to risk assets	**15.00%**	14.10%	14.80%
Ratio of total minimum capital required by the Supervisor of Banks	**9.00%**	9.00%	9.00%
Bank Leumi USA (a)			
Ratio of Tier 1 capital to risk assets	**10.80%**	10.93%	10.49%
Ratio of total capital to risk assets	**13.20%**	13.94%	13.26%
Ratio of total minimum capital required by the local authorities	**10.00%**	10.00%	10.00%

(a) The US office is not obliged to calculate the capital adequacy ratio according to Basel II, and so the ratios reported are according to Basel I.

(b) Restated due to retroactive implementation of the instructions of the Banking Supervision Department regarding the strengthening of internal control on financial reporting of employee rights - see Note 1.B.

(c) As of December 2011, the allocation of First Pillar capital in respect of operational risk is in accordance with the Basel II standardized approach. 31 March 2011 was in accordance with the basic indicator approach.

Note 5 - Assets and Liabilities Classified by Linkage Basis
as at 31 March 2012 (Unaudited)
Reported amounts

	Israeli currency		Foreign currency (a)				
	Unlinked	Linked to the CPI	In U.S. dollars	In euro	In other currencies	Non-monetary items (b)	Total
	(NIS millions)						
Assets							
Cash and deposits with banks	32,931	285	9,616	1,398	3,126	12	47,368
Securities	20,815	8,385	11,593	4,972	1,581	2,411	49,757
Securities borrowed or purchased under agreements to resell	1,485	-	-	-	-	-	1,485
Credit to the public, net	133,136	53,048	37,457	6,821	9,949	89	240,500
Credit to governments	15	256	122	32	-	-	425
Investments in associate companies	3	-	-	-	-	2,184	2,187
Buildings and equipment	-	-	-	-	-	3,715	3,715
Assets in respect of derivative instruments	4,043	153	4,332	218	315	405	9,466
Other assets (c)	2,439	4	1,169	21	71	661	4,365
Total assets	194,867	62,131	64,289	13,462	15,042	9,477	359,268
Liabilities							
Deposits of the public	145,010	26,941	75,759	18,795	11,014	123	277,642
Deposits from banks	1,220	206	1,544	472	187	-	3,629
Deposits from governments	31	167	226	12	-	-	436
Securities loaned or sold under agreements to repurchase	568	-	56	-	-	-	624
Debentures, bonds and subordinated notes	6,360	21,095	418	-	-	-	27,873
Liabilities in respect of derivative instruments	3,958	647	4,430	383	340	367	10,125
Other liabilities	8,163	5,018	591	31	184	577	14,564
Total liabilities	165,310	54,074	83,024	19,693	11,725	1,067	334,893
Difference	29,557	8,057	(18,735)	(6,231)	3,317	8,410	24,375
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	(14,148)	(4,611)	17,764	5,841	(4,846)	-	-
Options in the money, net (in terms of underlying asset)	(401)	-	(1,267)	772	896	-	-
Options out of the money, net (in terms of underlying asset)	(579)	-	697	(82)	(36)	-	-
Total	14,429	3,446	(1,541)	300	(669)	8,410	24,375
Effect of non-hedging derivative instruments:							
Options in the money, net (discounted par value)	(1,201)	-	(959)	887	1,273	-	-
Options out of the money, net (discounted par value)	(1,141)	-	1,006	194	(59)	-	-

(a) Including linked to foreign currency.
(b) Including derivative instruments whose basis refers to a non-monetary item.
(c) Including intangible assets and goodwill.

Note 5 - Assets and Liabilities Classified According to Linkage Basis (cont'd)
as at 31 March 2011 (Unaudited)
Reported amounts

	Israeli currency		Foreign currency (a)				
	Unlinked	Linked to the CPI	In U.S. dollars	In euro	In other currencies	Non-monetary items (c)	Total
	(NIS millions)						
Assets							
Cash and deposits with banks	25,576	335	7,027	1,422	2,442	-	36,802
Securities	12,910	8,665	11,780	9,232	1,425	3,078	47,090
Securities borrowed or purchased under agreements to resell	2,068	-	-	-	-	-	2,068
Credit to the public, net (b)	122,758	51,262	34,403	6,502	9,843	303	225,071
Credit to governments	-	254	103	-	-	-	357
Investments in associate companies	6	-	-	-	-	2,026	2,032
Buildings and equipment	-	-	-	-	-	3,665	3,665
Assets in respect of derivative instruments	3,847	133	2,167	505	521	1,246	8,419
Other assets (d)	1,902	18	731	26	52	434	3,163
Total assets	169,067	60,667	56,211	17,687	14,283	10,752	328,667
Liabilities							
Deposits of the public	126,659	25,077	67,706	19,531	8,951	334	248,258
Deposits from banks	2,131	251	870	214	348	-	3,814
Deposits from governments	46	307	357	11	-	-	721
Securities loaned or sold under agreements to repurchase	1,169	-	364	-	-	-	1,533
Debentures, bonds and subordinated notes	4,869	21,194	922	-	-	-	26,985
Liabilities in respect of derivative instruments	4,253	1,227	2,237	586	654	1,213	10,170
Other liabilities (d)	9,041	4,281	323	27	133	579	14,384
Total liabilities	148,168	52,337	72,779	20,369	10,086	2,126	305,865
Difference	20,899	8,330	(16,568)	(2,682)	4,197	8,626	22,802
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	(2,161)	(6,879)	12,361	2,345	(5,666)	-	-
Options in the money, net (in terms of underlying asset)	(2,299)	(8)	845	193	1,269	-	-
Options out of the money, net (in terms of underlying asset)	96	-	175	102	(373)	-	-
Total	16,535	1,443	(3,187)	(42)	(573)	8,626	22,802
Effect of non-hedging derivative instruments:							
Options in the money, net (discounted par value)	(3,126)	(16)	1,234	288	1,620	-	-
Options out of the money, net (discounted par value)	1,460	-	927	(499)	(1,888)	-	-

(a) Including linked to foreign currency.
(b) The general and supplementary provisions for doubtful debts have been deducted proportionately from the different linkage bases in this item.
(c) Including derivative instruments whose basis refers to a non-monetary item.
(d) Including intangible assets and goodwill.
(e) Restated – see Note 1.B..

Note 5 - Assets and Liabilities Classified According to Linkage Basis (cont'd)
as at 31 December 2011 (Audited)
Reported amounts

	Israeli currency		Foreign currency (a)				
	Unlinked	Linked to the CPI	In U.S. dollars	In euro	In other currencies	Non-monetary items (c)	Total
	(NIS millions)						
Assets							
Cash and deposits with banks	38,666	326	9,441	1,535	3,003	73	53,044
Securities	19,846	7,985	10,711	5,262	1,580	2,552	47,936
Securities borrowed or purchased under agreements to resell	1,225	-	-	-	-	-	1,225
Credit to the public, net (b)	132,948	52,423	38,825	6,778	10,263	83	241,320
Credit to governments	49	267	106	26	-	-	448
Investments in associate companies	4	-	-	-	-	2,266	2,270
Buildings and equipment	-	-	-	-	-	3,653	3,653
Assets in respect of derivative instruments	4,238	155	6,671	66	332	111	11,573
Other assets (d)	2,671	7	994	23	58	632	4,385
Total assets	199,647	61,163	66,748	13,690	15,236	9,370	365,854
Liabilities							
Deposits of the public	145,719	25,915	78,084	18,791	10,719	176	279,404
Deposits from banks	1,425	213	2,688	410	320	-	5,056
Deposits from governments	39	186	275	19	-	-	519
Securities loaned or sold under agreements to repurchase	385	-	57	-	-	-	442
Debentures, bonds and subordinated notes	4,987	24,582	430	-	-	-	29,999
Liabilities in respect of derivative instruments	4,086	650	6,558	339	351	85	12,069
Other liabilities	8,129	4,948	726	37	208	689	14,737
Total liabilities	164,770	56,494	88,818	19,596	11,598	950	342,226
Difference	34,877	4,669	(22,070)	(5,906)	3,638	8,420	23,628
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	(14,491)	(4,472)	18,915	5,312	(5,264)	-	-
Options in the money, net (in terms of underlying asset)	(838)	-	(527)	716	649	-	-
Options out of the money, net (in terms of underlying asset)	9	-	260	(333)	64	-	-
Total	19,557	197	(3,422)	(211)	(913)	8,420	23,628
Effect of non-hedging derivative instruments:							
Options in the money, net (discounted par value)	(1,387)	-	(273)	873	787	-	-
Options out of the money, net (discounted par value)	937	-	(393)	(582)	38	-	-

(a) Including linked to foreign currency.
(b) The general and supplementary provisions for doubtful debts have been deducted proportionately from the different linkage bases in this item.
(c) Including derivative instruments whose basis refers to a non-monetary item.
(d) Including intangible assets and goodwill.

Note 6 - Contingent Liabilities and Special Commitments
Reported Amounts

	31 March 2012		31 March 2011		31 December 2011	
	Balances of contracts	Balance of allowance for credit losses	Balances of contracts	Balance of allowance for credit losses	Balances of contracts	Balance of allowance for credit losses
	(Unaudited)		(Unaudited)		(Audited)	
	(NIS millions)					
A. Off-balance sheet financial instruments						
Balances of contracts or their stated amounts as at the end of the period						
Transactions in which the balance reflects a credit risk						
Documentary credits	2,767	6	2,578	2	2,060	5
Credit guarantees	6,998	79	6,595	82	7,360	82
Guarantees to apartment purchasers	11,539	19	11,772	21	11,461	24
Other guarantees and liabilities	15,301	231	14,503	151	15,698	219
Credit card facilities not utilized	20,664	10	19,544	22	20,519	23
Current loan account facilities and other credit facilities on demand not utilized	14,448	1	13,717	27	14,037	30
Irrevocable commitments to provide credit which has been approved and not yet granted (a) (b)	23,481	67	23,021	52	22,979	64
Commitments to issue guarantees	11,566	20	9,435	10	11,694	17
Unutilized facilities for activity in derivative instruments	5,687	-	3,574	-	4,386	-
Approval in principle to maintain the rate of interest in Leumi Mortgage Bank	3,433	-	3,184	-	2,410	-

(a) Restated
(b) Of which credit exposures in respect of liabilities to supply liquidity to securitization structures under the auspices of other parties not utilized in the amount of NIS 223 million (31 March 2011 - NIS 209 million, 31 December 2011 - NIS 229 million). The above obligation represents a relatively small part of the obligations of those securitizing entities.

	31 March 2012	31 March 2011	31 December 2011
B. Other contingent liabilities and special commitments:			
(1) Long-term rental contracts -			
Rental of buildings, equipment and vehicles and maintenance fees regarding commitments payable in the following years:			
First year	220	179	216
Second year	186	152	178
Third year	165	120	157
Fourth year	140	98	141
Fifth year	119	65	98
After five years	588	187	510
Total	1,418	801	1,300
(2) Commitments to purchase securities	224	505	-
(3) Commitments to invest in buildings, equipment and others	268	184	321
(4) Commitments to underwrite securities	-	-	-
(5) Future deposits:			
Transactions with depositors for receipt of large deposits at future dates and at fixed rates of interest determined in advance as of the date of the agreement			
Details of future deposits and deposit dates as determined by the terms of the transactions:			
First year	17	17	17
Second year	17	17	17
Third year	12	17	17
Fourth year	12	12	12
Fifth year	-	12	3
Sixth year and onwards	-	-	-
Total future deposits	58	75	66

Note 6 - Contingent Liabilities and Special Commitments (cont'd)

C. In the regular course of business, legal claims have been filed against the Bank and certain consolidated companies, including petitions for approval of class actions.

In the opinion of the Management of the Bank and the managements of the consolidated companies, and based on legal opinions regarding the chances of the claims succeeding, including the petitions for approval of class actions, appropriate provisions have been recorded in the Financial Statements, insofar as required, to cover damages resulting from the said claims.

In the opinion of the Management of the Bank and the managements of the consolidated companies, the total additional exposure arising from legal claims filed against the Bank and against the consolidated companies on various subjects, the amount of each of which exceeds NIS 2 million, and regarding which the chances of the claims succeeding are not remote, amounts to some NIS 203 million.

(1) The following are details of claims in material amounts:

A. On 12 September 2006, a petition to approve a class action was filed in the Tel Aviv-Jaffa District Court against the Bank, Bank Hapoalim B.M. and Israel Discount Bank Ltd. The amount claimed in the class action for which approval has been requested is NIS 7 billion, while in the body of the claim, it is contended that the damage to the claimant group amounts to NIS 10 billion. No specific sum of the amount of the claim has been clearly attributed to any of the respondents. According to the petitioner, the respondent banks charged their customers with interest for unlinked shekel credit, a commission for credit allotment and fixed management fees with regard to debitory current accounts at identical rates and amounts, as a result of a prohibited restrictive arrangement. On 21 January 2008, the Tel Aviv District Court approved the pursuance of the claim as a class action. The Bank submitted a petition for leave to appeal the ruling to the Supreme Court. In the context of the appeal proceedings, the Attorney General submitted his position on 27 May 2010, the essence of which is that the decision of the District Court cannot remain as is, since identical prices between banks themselves do not provide a basis for a reasonable possibility of the existence of a restrictive arrangement, and that in his opinion the matter should be returned to the District Court for the completion of clarification and the handing down of a new decision. On 21 November 2011, the Attorney-General submitted a further opinion dealing with the implications of the decision by the Anti-Trust Commissioner dated 26 April 2009, under the heading "Restrictive Arrangements between Bank Hapoalim, Bank Leumi, Bank Discount, Bank Mizrahi, and the First International Bank, concerning the Transfer of Information relating to Commissions" ("the decision"). The essence of this additional position is that in the view of the Attorney General the decision justifies the approval of a class action. It should be noted that the Attorney General also referred to the decision in the footnotes to his position of May 2010, where it stated that this decision refers to commissions, whereas the decision that is the subject of the appeal refers to interest rates. Proceedings in the District Court are suspended until the handing down of a decision on the request for approval of the appeal submitted by the Bank.

B. On 23 November 2006, a claim and a petition to approve the claim as a class action were filed in the Jerusalem District Court against the Bank and against Bank Hapoalim B.M. and Israel Discount Bank Ltd. The petitioners allege that in respect of credit to the household sector, the banks collect interest at a rate that is much higher than that collected from the commercial sector and from the corporate sector. The petitioners claim that this is exploitation of monopolistic power and that there is a real concern that the lack of competition between the respondents, regarding all matters concerning the households sector, is the result of a restrictive arrangement between the parties. It is also alleged that this is misleading consumers regarding the normal price for credit service to the household segment.

The alleged damage is NIS 5.6 billion according to one method, and NIS 5.2 billion according to a second method. The estimated damage attributed to the Bank's customers is at least NIS 1.6 billion. The Bank filed its response to the petition for the approval of the claim as a class action. The District Court granted a stay of these proceedings in this request until the Supreme Court renders a decision regarding the petition for leave to appeal filed by the Bank with respect to the decision to approve as a class action the claim described in paragraph A. above.

C. On 3 January 2008, 260 identical claims were filed in the Tel Aviv-Jaffa Magistrates' Court against the Bank and receivers who had been appointed by the court. The amount of each of the claims ranges from some NIS 787,000 to some NIS 1,350,000. Pursuant to the Court's ruling, the proceedings for all of the abovementioned claims were combined, and they will be heard as one claim. The aggregate amount of the claims is some NIS 276 million. The plaintiffs are the purchasers of vacation apartments in the Nofit Hotel in Eilat. According to the plaintiffs, the Bank and the receivers were negligent in supervising the project and refrained from financing the guarding fees, and, as a result, the plaintiffs suffered significant damages, including a decline in the value of the apartments. These claims are in addition to five other claims that were filed against the Bank on the same grounds, and are being heard separately. The total amount of all the claims in connection with this project is some NIS 288.6 million. On 10 August, 2009, the Tel Aviv-Jaffa District Court rejected one of the additional claims submitted against the Bank, which had been submitted separately by 3 purchasers and was identical to the abovementioned 260 claims. The plaintiffs appealed the ruling. The court ordered a stay of proceedings in the claims until a judgment had been given in the appeal submitted on the aforesaid ruling. On 17 June 2010, the appeal was dismissed, and following this, the Bank filed a petition to dismiss the aforesaid 260 claims. On 20 June 2010, the Court handed down a decision which determined that there were grounds for dismissing the claims, and requested the parties' response. The plaintiffs have notified the court of their desire to continue the proceedings. The plaintiffs filed petitions to amend the claims, and the Bank filed a petition to dismiss the claims outright under the finality of judgment rule. No hearing has taken place yet on these petitions. On 14 May, 2012, the Court accepted the petition of the Bank to fully dismiss the claim.

D. On 1 April, 2007, a petition to approve a class action was filed in the Tel Aviv-Jaffa District Court against the Bank, additional banks, and entities that purchased the control of the mutual fund managers from the banks. The amount claimed against the Bank is estimated by the petitioners at some NIS 131 million.

According to the petitioners, the Bank, beginning in 2004, charged the fund managers under its control, or that were under its control before it sold them to third parties, brokerage commissions with respect to the execution of securities and foreign currency transactions, at a rate higher than the rate it charged other entities, and in doing so, acted unlawfully. The Bank has filed its response to the petition for the approval of the claim as a class action.

E. On 26 June, 2007, a petition to approve a class action was filed in the Tel Aviv-Jaffa District Court against the Bank, for a claim in the amount of NIS 200 million. The plaintiff claims that, prior to the reform of bank commissions, the Bank charged its customers commissions that were higher than agreed in the list of tariffs. In those cases where a partial sale of securities was carried out during the quarter for which the minimum commission per security set out in the list of tariffs was charged, and at the end of the quarter there remained a balance of the securities bearing the same name, the Bank charged commission on them according to the rate also set out in the list of tariffs. The plaintiff also argues that the Bank's documents and announcements do not reflect the amounts of the management fee commissions that are actually charged during a single quarter, and that the Bank breached its duty of fair disclosure, and that its notices are even misleading. The Bank has filed its response to the petition for the approval of the claim as a class action. On 8 September 2011, the District Court dismissed the petition for approval of the claim as a class action. On 6 November 2011, the petitioner submitted notice of appeal to the Supreme Court against the above verdict.

F. On 25 September 2007, a petition to approve a class action was filed in the Tel Aviv-Jaffa District Court against the Bank, in the amount of some NIS 435 million, which includes 8 different causes of action. Following a petition for dismissal submitted by the Bank, the Court ruled that 7 of the 8 causes of action be stricken from the petition for approval, and ruled that the plaintiffs had to give notice of the cause of action with which they chose to continue proceedings. The plaintiffs gave notice that proceedings would continue on the cause of action relating to the method of calculating management fees at the end of the quarter. According to the claim, whenever the amount of securities management fees calculated at the end of a quarter is less than the minimum fee per deposit set out in the list of tariffs, the minimum fee per deposit should only be charged if the total amount of securities management fees charged during the quarter is less than the minimum fee per deposit. As the Bank calculated the minimum fee amount at the end of a quarter, without taking into account management fee amounts charged during the quarter, it had not acted in accordance with the tariff rules, and contrary to the manner in which they were to be interpreted. The amount attributed by the plaintiffs on these grounds amounts to some NIS 30 million. On 12 June 2011, a judgment was handed down by the Tel Aviv District Court dismissing the petition for approval as a class action. On 8 September 2011, the plaintiff filed an appeal with the Supreme Court against the above verdict.

G. On 6 May 2008, a claim and a petition to approve it as a class action were filed in the Tel Aviv-Jaffa District Court. According to the plaintiff, the Bank charges its customers' accounts with the legal expenses incurred in handling said customers' debts, without obtaining the approval of any legal tribunal, and in violation of the directives of the Supervisor of Banks – "Proper Banking Management Directives – Charging Customers for Attorneys' Fees." Additionally, when the Bank charges its customers' accounts with legal expenses (both those approved by a legal tribunal and those that have not been so approved), the Bank collects interest on such expenses at the interest rate applicable to the account (which in many cases is excess interest on arrears) and not at the interest and linkage rates which the Bank is permitted to collect in accordance with the Adjudication of Interest and Linkage Law, 1961. The requested remedy is the reimbursement of all excess amounts charged by the Bank, without an indication of the amount, although it is alleged that "this is a vast amount" and that the lawsuit is filed in the name of all the Bank's customers whose accounts were charged with legal expenses during the seven years preceding the filing of the petition to approve the class action. The Bank has submitted its response to the petition for approval of the claim as a class action. On 18 October 2009, the District Court approved the claim as a class action. On 15 November 2009, the District Court gave an order postponing the execution of its decision for approval of the claim as a class action, until the decision of the Supreme Court in the petition for leave of appeal against the said decision, filed by the Bank on 18 November 2009. On 27 July 2011, the Bank's petition to grant leave of appeal against the decision of the District Court approving the claim as a class action, was dismissed in the Supreme Court, and hearings in the claim were returned to the District Court.

H. On 28 September 2008, a petition to approve a class action was filed in the Tel Aviv-Jaffa District Court against the Bank, Bank Hapoalim, Israel Discount Bank and the Bank Otzar Hachayal in the amount of some NIS 672 million. According to the allegations, the Bank secretly collects an illegal commission from customers engaged in continuous trading of options on the Tel Aviv-25 stock index (such options consisting of a right to buy or sell the basket of shares comprising the Tel Aviv-25 Index at a given time and at a given price); the banks take advantage of the fact that the amounts pass from the stock exchange to those holding the options through the Banks, and an exercise commission of 0.5% is collected from the amounts received by customers who are the holders of expiring options which entitle their holders to a payment. The calculation of the amount due to the option holder is not simple because the expiration index is not an exact amount and is not published in any official publication, and so the customer does not know exactly what amount is due to him and cannot know that a commission has been deducted from the amount that he receives. The ground for the action is based on the fact that the Banks did not announce that they collect an exercise commission, that they did not include this commission in their agreements with the customers and that they made a false representation to the customers, according to which the only commission that they collect is the sale and purchase commission.

The banks do specify the commission that is collected in a separate notice that they send at later stages, after the transactions have been carried out, but according to the plaintiffs, customers like them do not follow these notices and are not capable of analyzing them. The defined group consists of customers who contracted with portfolio managers in connection with the trading of Tel Aviv-25 Index options. According to the plaintiffs, they used a narrow definition of this group of customers in order to argue that it is easier to hide the charging of commissions from this group (relative to the group of customers who do not trade through portfolio managers). The relief requested is the damage which is common to all the customers of the banks in respect of the amount of the exercise commissions collected during the past seven years. The Bank has submitted its response to the petition for approval of the claim as a class action. Evidentiary hearings have taken place, and summaries submitted by the plaintiffs and the Bank. On 19 April 2012, the District Court dismissed the claim.

I. On 29 October 2009, a claim for declaratory judgments was filed in the Central District Court to the effect, *inter alia*, that the seven respondent banks (the Bank, Bank Hapoalim, Israel Discount Bank, the First International Bank of Israel, Mizrahi Bank, Mercantile Discount Bank and Union Bank) are not entitled to charge the petitioners with “default” interest differentials, as defined in the claim, and that the amount of the default interest differentials must be reduced from an amount of NIS 841 million to an amount of NIS 37 million. Alternatively, they request a ruling that the banks are entitled to charge the petitioners with interest differentials in accordance with the Adjudication of Interest and Linkage Law, 1961 only, this being with regard to the petitioners’ debt that had accrued from 12 May 2003 and thereafter. The petitioners claim is, *inter alia,* that the “default interest” is nothing other than “agreed compensation” as defined in Section 15(A) of the Contracts Law (Remedies), 1970, which a court may reduce “if it finds that the compensation was determined without any reasonable relation to the damage that had been foreseeable as being the reasonable result of a breach at the time the contract was made”; that the reduction of the default interest amounts is also required in accordance with the interpretation of the loan agreement and according to the intention of the parties; that the charging of the petitioners with default interest will constitute unjustified enforcement of the loan agreement; that the banks’ insistence on charging the petitioners with default interest constitutes a lack of good faith; and that the banks’ charging of default interest will constitute unjust enrichment on their part. The claim does not make a monetary attribution of a specific claimed share of each of the banks in the amount of the default interest differentials, but details are provided of each bank’s participation in the financing, with the Bank’s share being claimed to be 24%. On 11 February 2010, a monetary claim of NIS 829 million was submitted, to replace the claim for declaratory judgments that was dismissed. A statement of defense has been submitted, preliminary statements of testimony have been submitted, and evidence is being heard in the claim.

J. On 26 November 2008, a claim and a petition to approve it as a class action were filed in the Tel Aviv District Court against the Bank, the First International Bank of Israel Ltd., Union Bank of Israel Ltd. and Bank Mizrahi Tefahot Ltd. The claim is based on damages claimed in the amount of about NIS 68,125,000 (according to the plaintiff's calculations), which was incurred by all the customers of the banks from whose profits tax was deducted at source from interest in respect of bonds and/or dividends in respect of shares, from 1 January 2003 until the day the claim was filed. According to the claim, the banks over-deducted tax, by deducting tax at source in respect of commissions collected from the income received. According to the plaintiff's calculation, the banks should have deducted the commissions from the income on which tax was deducted at source, and only then carried out the deduction at source. The plaintiff bases his claim on Section 17 of the Income Tax Ordinance, which classifies commissions as an expense incurred in the production of income during the tax year, which is to be taken into account in the calculation of taxable income. According to the plaintiff's claim, by acting as stated the banks violated their duties of caution, trust and fair disclosure towards the group, which applies to them under the Banking Law, the Consumer Protection Law and the Damages Ordinance, as well as the duty of good faith applying to them. It is also claimed that the banks caused the group damage and monetary loss and that their behavior is tantamount to negligence, breach of statutory duties and unjust enrichment.

K. On 3 May 2010, a petition for approval of a class action was filed in the Central District Court claiming an amount of some NIS 209 million as of the date the claim was filed. The plaintiff is interested in representing all those holding debentures of Heftziba Hofim Ltd. ("Heftziba Hofim"), prior to the suspension of their trading at the beginning of August 2007. The petitioner claims that during the years 2006-2007, prior to the end of each quarter, the Bank granted loans in amounts of tens of millions of shekels to a company wholly owned by Mr. Boaz Yonah. According to the petitioner's claim, these funds were transferred for a short period of time to the account of Heftziba Hofim, and helped it to make momentary false presentations to the public regarding its true financial condition. The petitioner claims that as a result of cooperation by the Bank and the false representations made to the public, the investments of those holding debentures of Heftziba Hofim were eventually written off. The Bank's response has been filed to the petition for approval of the claim as a class action.

(2) In addition, there are legal claims pending against the Bank, including petitions for the approval of class actions, as detailed below. In the opinion of the Management of the Bank, based on legal opinions with regard to the chances of these legal proceedings, it is not possible, at this stage, to estimate the chances of the claims, and therefore no provision has been recorded in respect thereof.

A. On 30 June, 2008, a petition to approve a class action was filed in the Tel Aviv-Jaffa District Court against the Bank, Israel Discount Bank and Bank Hapoalim, (hereinafter: “the banks”). It is claimed that the banks had an illegal restrictive arrangement regarding the rates of the commissions they collect from their customers, that they abused their monopolistic power (the banks constituting, it is argued, an oligopoly), and that they unlawfully enriched themselves at the expense of their customers. It is claimed, as an estimate, that had the rates not been coordinated between the Banks, the commissions would have been significantly lower, by at least 25%. The total aggregate amount of the damage is estimated in the amount of NIS 3.5 billion, with the heading of the petition indicating the amount of the claim as NIS 3 billion. No specific attribution has been made of the damage claimed from each of the banks, but the petition mentions that the Bank’s relative share of banking activity in Israel is estimated at some 30%. The Bank submitted its response to the petition for approval of the claim as a class action. The hearing in this file was incorporated with a later claim (see description of the same in paragraph B. below). On 29 November 2009, the Court decided to stay proceedings in the claim for two years (subject to the provisions set out in that decision) in view of the respondents' intention to submit a petition for leave to appeal the Commissioner’s determination of 26 April 2009 in the Restrictive Practices Court. It was also decided that after this period of time, a hearing would be held to decide whether there were grounds for extending the stay of proceedings. On 23 February 2012, the Court decided to continue the stay of proceedings until the decision of the Restrictive Practices Court on the appeal filed against the Commissioner's determination.

B. On 27 April 2009, a petition to approve a class action was filed in the Tel Aviv-Jaffa District Court against the Bank, Bank Hapoalim, Israel Discount Bank, Mizrahi Tefahot Bank and the First International Bank. The petition is based on the Antitrust Commissioner’s determination of 26 April 2009. The petitioners allege that in accordance with the determination, the banks made restrictive arrangements for the exchange of information on commissions, to the detriment of competition between them, and which caused damage to the members of the group whose representation is sought in the petition, and that such was reflected in overpayments of commissions. The petitioners estimate the amount of the class action against all the respondents at NIS 1 billion. The petition does not make any clear attribution of a specific claimed amount to each of the respondents. Proceedings in the petition for approval have been stayed for two years, as stated in the decision of 29 November 2009, described in paragraph A. above. On 23 February 2012, the Court decided to continue the stay of proceedings until the decision of the Restrictive Practices Court on the appeal filed against the Commissioner's determination.

C. On 27 March 2011, a petition for approval of a class action was filed in the Tel-Aviv District Court against the Bank. The petitioners' claim is that the Bank gave unilateral credit facilities, and charged commissions for them, and also charged interest exceeding the rate of interest stipulated for the highest band for that credit limit, contrary to Proper Conduct of Banking Business Directive No. 325. The aggregate damage, from the date that the aforementioned Directive No. 325 came into force, is estimated by the petitioner at some NIS 90 million. After the Bank submitted its response to the petition for approval as a class action, the plaintiff submitted a petition to withdraw from it. No decision has yet been made regarding the request for withdrawal. On 19 March 2012, the plaintiff submitted another petition for approval as a class action against the Bank, claiming that the Bank classifies credit unilaterally as temporary credit and by so doing charges commissions and interest that are prohibited by law. The aggregated damages claimed by the petitioners are estimated at some NIS 90 million.

D. On 13 July 2011, a petition was filed in the Tel-Aviv District Court for approval of a class action against Automatic Bank Services Ltd. (hereinafter: "ABS") and against Bank Hapoalim B.M., Bank Leumi Le-Israel B.M., First International Bank of Israel B.M., and Israel Discount Bank B.M. ABS is a service company jointly owned by the banks mentioned above, whose activities include operating an independent network of automatic teller machines (ATM). It is claimed in the petition that when withdrawing cash from an ATM operated by ABS, the user is not provided with fair disclosure that in addition to the commission charged by ABS for the withdrawal, he will be charged additional commission by the bank in which his account is held. In addition, it is claimed in the petition that the banks are not authorized to charge its customers additional commission, after they were already charged for the withdrawal by ABS. The total amount claimed in the class action, in the opinion of the petitioners, is NIS 153.3 million, with the addition of linkage differentials and interest. There are no details of the distribution between the defendants.

E. On 6 September 2011, a petition for approval as a class action was filed in the Tel Aviv District Court against the Bank regarding the non-payment of interest and linkage differentials on credit amounts due to the customer in respect of charges collected excessively by the Bank. The total damage for the group is estimated by the petitioner at an amount of about NIS 40 million, for a period of seven years preceding the date of filing the claim, based on hypothetical assumptions regarding the number of accounts held at the Bank, an average rate of the number and amounts of incorrect charges to an account per year, and the amount of interest and linkage differentials estimated in the case. On 18 March 2012, the Court approved the withdrawal of the petitioner from the petition to approve the claim as a class action.

F. On 11 December 2011**,** a petition for approval as a class action was filed in the Tel Aviv District Court against the Bank for the amount of NIS 74 million in connection with the collection of commission for handling cash when a bank employee deals with banknotes amounting to more than NIS 10 thousand. The commission amount appearing in the Bank's list of tariffs is 0.15% of the value of the transaction. The petitioner claims that the Bank is only entitled to collect commission on the amount exceeding ten thousand shekels and not from the first shekel, as practiced by the Bank.

(3) The following are details of claims and petitions for approval of class actions in material amounts that were filed against subsidiaries of the Bank (hereinafter, "the subsidiaries"). In the opinion of the Management of the Bank, and in reliance on the opinion of the management of each of the subsidiaries, which is based on the opinion of subsidiaries' legal advisors as to the chances of these proceedings, appropriate provisions have been included in the financial statements, insofar as required, to cover damages resulting from such claims:

A. On 21 June, 2000, a petition for approval of a class action was filed against Leumi Mortgage Bank Ltd. (hereinafter – "Leumi Mortgage Bank") in the Tel Aviv-Jaffa District Court. The amount of the claim for which approval as a class action has been requested is estimated by the petitioners at some NIS 100 million.

The petitioners claim that, in the context of an appraisal of the structure of a property for insurance purposes, Leumi Mortgage Bank or its representative prepared an excessive valuation of the buildings, resulting in overpayment of premiums by Leumi Mortgage Bank customers. In accordance with the decision of the District Court, the hearing on the claim has been stayed until the appeals regarding the matter reviewed in Note 4.A below are decided.

B. On 2 December 2006, a petition to approve a class action was filed against Leumi Mortgage Bank and Migdal Insurance Company Ltd. ("Migdal") regarding the partial payment of life insurance compensation. The estimated amount of the claim according to the petitioner is NIS 150 million.

According to that alleged in the petition, borrowers taking out loans from Leumi Mortgage Bank were able to join a life insurance arrangement for borrowers in which the insurer was Migdal; included in the borrowers joining the said life insurance are borrowers who, when an insurance event occurred, received partial insurance compensation at a rate lower than the amount of the insurance and of the balance of the loan; contrary to the amount promised to the borrowers. The parties reached a compromise arrangement in the suit, and on 7 September 2010, the Tel-Aviv District Court approved the arrangement with certain changes. On 28 October 2010, an appeal was filed by the representative of the plaintiff with the Supreme Court regarding professional fees for the representative of the plaintiff, and the special compensation for the plaintiff ordered by the District Court. In accordance with a decision of the court of 9 January 2011, the executed part of the arrangement will be implemented in the first stage, which will not be affected by the results of the appeal. The portion of the settlement amount borne by the plaintiffs represented that may be affected by the results of the appeal has been deposited at this stage in trust with the representative of the petitioner.

C. On 5 April 2009, a petition for approval of a class action was filed with the Tel Aviv-Jaffa District Court against Standard & Poor's Ma'alot Ltd., World Currencies Ltd., the Bank Leumi le-Israel Trust Company, Eran Fuchs, Rony Biram, Yaakov Harpaz and Excellence Investments Ltd. The amount claimed against all the respondents in the class action stands at NIS 84 million. The complaint makes no clear attribution of a specific claimed amount against any of the respondents. The petition for approval refers to debentures issued by World Currencies Ltd., backed up by notes issued by Lehman Brothers Bankhaus AG. The petitioner claims that on the collapse of Lehman Brothers, the price of the debenture collapsed and trading was suspended. Regarding the Trust Company, which served as the trustee for the holders of the debentures issued by World Currencies, the petitioner alleges that it did not take various actions to prevent or reduce, according to the petitioner, the damage he alleges was caused to the debenture-holders.

D. On 23 June 2009, a petition for approval of a class action was filed with the Tel Aviv-Jaffa District Court against Standard & Poors Ma'alot Ltd., Keshet Debentures Ltd. ("Keshet"), Bank Leumi le-Israel Trust Company ("the Trust Company"), Aaron Biram, Eran Fuchs, Moti Ma'aravi, Rami Ordan, Excellence Nessuah Underwriting (1993) Ltd. and Expert Financing Ltd. The amount claimed against all the respondents in the class action stands at some NIS 286 million. The complaint makes no clear attribution of a specific claimed amount against any of the respondents. The petition for approval refers to debentures issued by Keshet, backed up by notes issued by Lehman Brothers Bankhaus AG. The petitioner claims that on the collapse of Lehman Brothers, the price of the debenture collapsed and trading was suspended. Regarding the Trust Company, which served as the trustee for the holders of the debentures issued by World Currencies, the petitioner alleges that it did not take various actions to prevent or reduce, according to the petitioner, the damage he alleges was caused to the debenture-holders. The Trust Company has filed its response to the petition for approval of the claim as a class action.

E. On 19 January 2012, Leumi Card received a claim and a petition for approval of a class action that had been filed in the Tel-Aviv District Court against Leumi Card, IsraCard Co., and Duval Computers and Internet Co. Ltd. As alleged, Leumi Card and IsraCard showed negligence in their alleged duty to supervise the data security level of vendors clearing through them. According to the claim, as a result of a deficient level of security in certain internet sites, there was an information leak of credit card numbers. The claimants are credit card holders, whose details, they allege, were leaked and thus their privacy was compromised. The claimants estimate the amount of the claim at about NIS 75 million. Leumi Card has submitted its response to the petition for approval of the claim as a class action.

(4) In addition, claims and petitions for approval of class actions set out below are pending against the subsidiaries. In the opinion of the Management of the Bank, in reliance on the opinion of the management of each of the subsidiaries, which is based on the opinion of the legal advisors of the subsidiaries with regard to the chances of these legal proceedings, it is not possible, at this stage, to estimate their chances, and therefore no provision has been recorded (except as stated in paragraph A. below).

A. On 17 July 1997, a petition for approval of a class action in an amount exceeding NIS 1 billion was filed with the Tel Aviv-Jaffa District Court against Leumi Mortgage Bank together with other mortgage banks in connection with the collection of life insurance and property insurance commissions from borrowers. According to the petitioners, in the context of taking out the loan, they were added to life insurance or property insurance policies taken out through the respondent banks. As alleged by them, part of the insurance premiums reached the respondent banks unlawfully.

On 17 November 1997, the Court struck off the monetary claim. Nevertheless, the Court decided that a claim could be heard for declaratory relief relating to causes of action that had arisen before 10 May 1996. The Court ruled that the causes of action that could be heard in this framework related to the "restrictive arrangement and various insurance issues.” Appeals were submitted to the Supreme Court against this decision by all the parties to the claim.

Pursuant to arbitration proceedings between the parties, a compromise arrangement between the parties was filed with the court, in accordance with which all the banks responding to the petition will pay a total amount of NIS 17 million as a donation to selected public charities, and a further amount of NIS 3 million as remuneration and professional fees to the petitioners and their representatives, thus ending all legal proceedings in the claim. Leumi Mortgage's share of the payment amounts to 27.601%. Leumi Mortgage Bank made a provision in an amount covering its share in accordance with the said arrangement. The compromise arrangement was approved in the rulings of the court on 7 August 2011, 12 July 2011, and 5 December 2011. On 11 March 2012, the Court dismissed a petition to extend the period for submitting objections to the compromise arrangement. A petition to re-examine the above petition, and a petition to order publication of the compromise arrangement in the press in Hebrew were also dismissed.

B. On 6 September 2011, a petition for approval of a class action was filed in the Tel Aviv District Court concerning the rate of interchange fees in credit card settlement agreements. The claim was filed against LeumiCard and the Bank, and against C.A.L., Discount Bank, First International Bank, IsraCard, and Bank Hapoalim, with the petitioners claiming that damages could reach an amount of approximately NIS 4.8 billion against all defendants. The claim was fixed for a total of NIS 1 billion. The petitioners claim that the interchange fee in actual use was exaggerated, causing the excessive payment of settlement fees by vendors, and the loading of these excess costs on the price of products and services eventually paid by the consumer.

C. On 7 September 2011, a petition for approval of a class action was filed against Leumi Mortgage Bank, Mizrahi Tefahot Bank Ltd. and Bank Hapoalim B.M. The amount of the class action claimed against all the respondent banks is approximately NIS 927 million as at 1 January 2010, and the amount of the class action against Leumi Mortgage Bank is about NIS 327 million. The petitioners claim that the respondent banks charged housing-loan borrowers "compound interest in advance", contrary to the law and to the loan agreements, which stipulate that only the unpaid balance of principal will bear interest. The reliefs claimed are payment of compensation and/or reinstatement of damage caused to borrowers and the amounts charged unlawfully, and the granting of a court order against the respondent banks to change the way they act in all areas related to charging and collecting interest.

D. Israel Corporation Ltd.

1. Legal claims have been made against certain consolidated companies of the Israel Corporation Ltd. contending that personal and property damage suffered by the plaintiffs resulted from the pollution of the Kishon River, which the plaintiffs contend, the abovementioned consolidated companies had a part therein and also, there are legal proceedings against a consolidated company, laws have been passed and orders issued relating to the activities of this company.

   The managements of the above companies, based on the opinions of their legal advisors, cannot estimate the amount of the exposure from the said claims and demand, if any, and therefore, no provision has been made in this regard in the financial statements of the Israel Corporation Ltd. and of its consolidated companies.

2. In order to carry on its activities, a consolidated company of the Israel Corporation is dependent on receiving services from infrastructure companies and natural gas suppliers.

For further details of these matters, see the financial statements of the Israel Corporation Ltd. as at 31 March 2012.

E. On 26 April 2009, a ruling of the Antitrust General Director was received by the Bank pursuant to Section 43(A)(1) of the Antitrust Law, 1988, according to which restrictive trade agreements, relating to the transfer of information regarding commissions, had existed between the Bank, Bank Hapoalim B.M., Israel Discount Bank Ltd., Mizrahi Tefahot Bank Ltd. and the First International Bank of Israel Ltd., during the period from the beginning of the 1990s until the commencement of the Antitrust Authority's investigation of the matter, in November 2004. This is a civil ruling, which constitutes *prima facie* evidence of the matters therein determined in any legal proceedings. The Bank appealed this ruling. On 22 February 2011, the response of the Commissioner to the appeal was submitted. Mediation proceedings took place between the parties that were unsuccessful. At this stage, the implications of the ruling cannot be assessed.

F. As published, the US authorities ("the authorities") are conducting investigations against foreign banks in connection with activities of the banks with customers who are US taxpayers ("US customers"), on suspicion of a breach of US law. In the context of the said investigations, which are also being conducted against the Group, various demands have been submitted by the authorities to companies belonging to the Group in connection with customers identified by the authorities and banking services they received from the Group, and the Group is cooperating with the authorities in giving them information and in the necessary procedural steps that are permitted by law. The Group is also preparing for an internal investigation of the subject at Group level. At this stage, it is not possible to reliably estimate or evaluate the amount of damage to the Leumi Group.

G. In recent weeks, the Israel Securities Authority has conducted an administrative investigation under section 52AP(A)(2) of the Securities Law, in connection with the publication of a profit warning by the Bank on 14 November 2011 and in connection with an issue of subordinated notes by Leumi Finance in accordance with the Shelf Offer Report published on 9 November 2011.

H. In March 2012, an indictment was served on Leumi Romania and the members of the Leumi Romania Credit Committee, with regard to a transaction in a customer account, which according to the State Prosecutor's Office in Romania was made illegally. The indictment was served following a complaint by the customer that damages were incurred by him because of the Bank's action (the amount of the damages claimed is not material).

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates

Reported Amounts (Unaudited)

A. Scope of activity

	31 March 2012				
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts
	Shekel – index	Other			
	(NIS millions)				
(1) Nominal amount of derivative instruments					
a) Hedging derivatives (1)					
Forward contracts	-	-	-	-	-
Swaps	-	3,042	-	-	-
Total	-	3,042	-	-	-
Of which interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	2,875	-	-	-
b) ALM derivatives (1)(2)					
Futures contracts	-	20,658	232	74	1,057
Forward contracts	10,678	17,422	137,369	-	398
Exchange-traded options					
Options written	-	112	4,989	9,714	177
Options purchased	-	112	4,989	9,714	177
Other options					
Options written	15	18,463	31,924	1,234	62
Options purchased	-	15,520	30,233	1,241	61
Swaps	907	186,951	20,247	7,844	691
Total	11,600	259,238	229,983	29,821	2,623
Of which interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	92,866	-	-	-
c) Other derivatives (1)	-	-	-	-	-
Swaps	-	-	-	-	-
Total	-	-	-	-	-
Of which interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	-	-	-	-
d) Credit derivatives and foreign exchange spot contracts					
Credit derivatives in which the banking institution is a guarantor	-	-	-	-	-
Credit derivatives in which the banking institution is a beneficiary	-	-	-	-	-
Spot foreign exchange contracts	-	-	7,967	-	-
Total	-	-	7,967	-	-
Overall total	11,600	262,280	237,950	29,821	2,623

(1) Except credit derivatives and foreign exchange spot contracts.

(2) Derivatives constituting part of the asset and liability management function of the Bank not designated for hedging.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)

Reported Amounts (Unaudited)

A. Scope of activity (cont'd)

	31 March 2012				
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts
	Shekel – index	Other			
	(NIS millions)				
(2) Gross fair value of derivative instruments					
a) Hedging derivatives (1)					
Gross positive fair value	-	5	-	-	-
Gross negative fair value	-	593	-	-	-
b) ALM derivatives (1)(2)					
Gross positive fair value	86	6,184	2,805	349	37
Gross negative fair value	320	5,319	3,533	357	37
c) Other derivatives (1)					
Gross positive fair value	-	-	-	-	-
Gross negative fair value	-	-	-	-	-
d) Credit derivatives					
Credit derivatives in which the banking institution is a guarantor					
Gross positive fair value	-	-	-	-	-
Gross negative fair value	-	-	-	-	-
Credit derivatives in which the banking institution is a beneficiary					
Gross positive fair value	-	-	-	-	-
Gross negative fair value	-	-	-	-	-

(1) Except credit derivatives.

(2) Derivatives constituting part of the asset and liability management function of the Bank not designated for hedging.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)

Reported Amounts (Unaudited)

A. Scope of activity (cont'd)

	31 March 2011				
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts
	Shekel – index	Other			
	(NIS millions)				
(1) Nominal amount of derivative instruments					
a) Hedged instruments (1)					
Forward contracts	-	-	-	-	-
Swaps	-	2,837	-	-	-
Total	-	2,837	-	-	-
Of which interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	2,664	-	-	-
b) ALM derivatives (1)(2)					
Futures contracts	-	16,416	-	737	908
Forward contracts	8,791	15,540	139,921	-	648
Exchange-traded options					
Options written	-	-	7,916	17,724	44
Options purchased	-	-	7,732	17,724	44
Other options					
Options written	15	19,153	31,594	5,316	293
Options purchased	-	16,082	29,478	5,339	255
Swaps	973	140,492	20,497	2,297	646
Total	9,779	207,683	237,138	49,137	2,838
Of which interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	70,183	-	-	-
c) Other derivatives (1)					
Swaps	-	-	-	-	-
Total	-	-	-	-	-
d) Credit derivatives and spot contracts					
Credit derivatives in which the banking institution is a guarantor	-	-	-	-	1,089
Credit derivatives in which the banking institution is a beneficiary	-	-	-	-	741
Spot foreign exchange contracts	-	-	13,074	-	-
Total	-	-	13,074	-	1,830
Overall total	9,779	210,520	250,212	49,137	4,668

(1) Except credit derivatives and foreign exchange spot contracts.

(2) Derivatives constituting part of the asset and liability management function of the Bank not designated for hedging.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)

Reported Amounts (Unaudited)

A. Scope of activity (cont'd)

	31 March 2011				
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts
	Shekel – index	Other			
	(NIS millions)				
(2) Gross fair value of derivative instruments					
a) Hedging derivatives (1)					
Gross positive fair value	-	51	-	-	-
Gross negative fair value	-	25	-	-	-
b) ALM derivatives (1)(2)					
Gross positive fair value	7	2,362	4,637	1,262	78
Gross negative fair value	180	2,657	6,003	1,267	74
c) Other derivatives (1)					
Gross positive fair value	-	-	-	-	-
Gross negative fair value	-	-	-	-	-
d) Credit derivatives					
Credit derivatives in which the banking institution is a guarantor					
Gross positive fair value	-	-	-	-	15
Gross negative fair value	-	-	-	-	6
Credit derivatives in which the banking institution is a beneficiary					
Gross positive fair value	-	-	-	-	7
Gross negative fair value	-	-	-	-	9

(1) Except credit derivatives.

(2) Derivatives constituting part of the asset and liability management function of the Bank not designated for hedging.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)

Reported Amounts (Audited)

A. Scope of activity (cont'd)

	31 December 2011				
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts
	Shekel – index	Other			
	(NIS millions)				
(1) Nominal amount of derivative instruments					
a) Hedging instruments (1)					
Swaps	-	3,241	-	-	-
Total	-	3,241	-	-	-
Of which swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	3,078	-	-	-
b) ALM derivatives (1)(2)					
Futures contracts	-	19,030	-	463	1,175
Forward contracts	11,598	16,691	138,561	-	1,098
Exchange-traded options					
Options written	-	6	5,190	9,330	-
Options purchased	-	6	5,185	9,330	-
Other options					
Options written	15	18,127	34,910	1,023	720
Options purchased	-	14,938	30,234	1,038	681
Swaps	914	183,325	18,308	8,055	1,168
Total	12,527	252,123	232,388	29,239	4,842
Of which interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	91,476	-	-	-
c) Other derivatives (1)					
Swaps	-	-	-	-	-
Total	-	-	-	-	-
d) Credit derivatives and spot contracts					
Credit derivatives in which the banking institution is a beneficiary	-	-	-	-	-
Credit derivatives in which the banking institution is a guarantor	-	-	-	-	-
Spot foreign exchange contracts	-	-	12,490	-	-
Total	-	-	12,490	-	-
Overall total	12,527	255,364	244,878	29,239	4,842

(1) Except credit derivatives and foreign exchange spot contracts.

(2) Derivatives constituting part of the asset and liability management function of the Bank not designated for hedging.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)

Reported Amounts (Audited)

A. Scope of activity (cont'd)

	31 December 2011				
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts
	Shekel – index	Other			
	(NIS millions)				
(2) Gross fair value of derivative instruments					
a) Hedging derivatives (1)					
Gross positive fair value	-	9	-	-	-
Gross negative fair value	-	195	-	-	-
b) ALM derivatives (1)(2)					
Gross positive fair value	103	6,648	4,449	284	80
Gross negative fair value	322	6,600	4,622	289	85
c) Other derivatives (1)					
Gross positive fair value	-	-	-	-	-
Gross negative fair value	-	-	-	-	-
d) Credit derivatives					
Credit derivatives in which the banking institution is a guarantor					
Gross positive fair value	-	-	-	-	-
Gross negative fair value	-	-	-	-	-
Credit derivatives in which the banking institution is a beneficiary					
Gross positive fair value	-	-	-	-	-
Gross negative fair value	-	-	-	-	-

(1) Except credit derivatives.

(2) Derivatives constituting part of the asset and liability management function of the Bank that were not intended for hedging.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)

Reported Amounts

B. Credit Risk in Respect of Derivative Instruments According to Counterparty of the Contract

	31 March 2012					
	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	(Unaudited)					
	(NIS millions)					
Balance sheet balances of assets derived from derivative instruments (1) (2)	172	6,200	466	-	2,628	9,466
Off-balance sheet credit risk in respect of derivative instruments (3)	-	1,541	8	80	3,949	5,578
Total credit risk in respect of derivative instruments	172	7,741	474	80	6,577	15,044

	31 March 2011					
	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	(Unaudited)					
	(NIS millions)					
Balance sheet balances of assets derived from derivative instruments (1) (2)	465	3,968	452	17	3,517	8,419
Off-balance sheet credit risk in respect of derivative instruments (3)	2,024	25,214	2,383	-	10,708	40,329
Total credit risk in respect of derivative instruments	2,489	29,182	2,835	17	14,225	48,748

	31 December 2011					
	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	(Audited)					
	(NIS millions)					
Balance sheet balances of assets derived from derivative instruments (1) (2)	132	7,258	479	-	3,704	11,573
Off-balance sheet credit risk in respect of derivative instruments (3)	-	672	1	64	4,130	4,867
Total credit risk in respect of derivative instruments	132	7,930	480	64	7,834	16,440

(1) Net accounting arrangements are not carried out.
(2) Of which, balance sheet balance from stand-alone derivative instruments - NIS 9,466 million (31 March 2011 – NIS 8,419 million, 31 December 2011 – NIS 11,573 million).
(3) Off-balance credit risk of derivative instruments (including derivative instruments with negative fair value) as calculated for purposes of single borrower debt limitations.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)

Reported Amounts

C. Repayment Dates – Nominal Amounts

	31 March 2012				
	Up to three months	From three months to one year	From one year to five years	More than five years	Total
	(Unaudited)				
	(NIS millions)				
Interest contracts:					
Shekel – index	2,554	4,151	3,945	950	11,600
Other	31,179	56,549	87,327	87,225	262,280
Foreign currency contracts	140,623	77,395	7,854	12,078	237,950
Contracts in respect of shares	19,857	8,961	977	26	29,821
Commodities and other contracts	2,004	410	209	-	2,623
Total	196,217	147,466	100,312	100,279	544,274
Total March 2011 (Unaudited)	211,716	145,115	83,237	84,248	524,316
Total December 2011 (Audited)	218,062	133,672	98,453	96,663	546,850

Note 8 – Balances and Fair Value Assessments of Financial Instruments

Reported amounts

	31 March 2012 (Unaudited)			
	Value in Balance Sheet			
	(a)	(b)	Total	Fair value
	(NIS millions)			
Financial assets				
Cash and deposits with banks	12,869	34,499	47,368	47,337
Securities	49,757	-	49,757	49,757
Securities borrowed or purchased under resale agreements	1,485	-	1,485	1,485
Credit to the public, net	21,354	219,146	240,500	240,875
Credit to governments	-	425	425	451
Assets in respect of derivative instruments	9,466	-	9,466	9,466
Other financial assets	1,210	3	1,213	1,213
Total financial assets	96,141	254,073	350,214	350,584
Financial liabilities				
Deposits of the public	71,503	206,139	277,642	279,501
Deposits from banks	1,025	2,604	3,629	3,510
Deposits from governments	68	368	436	468
Securities lent or sold under repurchase agreements	568	56	624	624
Debentures, notes and subordinated notes	-	27,873	27,873	29,743
Liabilities in respect of derivative instruments	10,125	-	10,125	10,125
Other financial liabilities	1,607	5,763	7,370	7,339
Total financial liabilitiies	84,896	242,803	327,699	331,310
Off-balance sheet financial instruments				
Transactions whose balance represents credit risk	261	-	261	261

(a) Instruments are shown in the balance sheet at fair value.
(b) Other financial instruments for which fair value was calculated for disclosure purposes in this Note.

Note 8 – Balances and Fair Value Assessments of Financial Instruments (cont'd)
Reported amounts

	31 March 2011 (Unaudited)			
	Value in Balance Sheet			
	(a)	(b)	Total	Fair value
	(NIS millions)			
Financial assets				
Cash and deposits with banks	8,907	27,895	36,802	36,762
Securities	47,090	-	47,090	47,090
Securities borrowed or purchased under resale agreements	2,068	-	2,068	2,068
Credit to the public, net	24,836	200,235	225,071	226,653
Credit to governments	-	357	357	380
Assets in respect of derivative instruments	8,419	-	8,419	8,419
Other financial assets	670	-	670	670
Total financial assets	91,990	228,487	320,477	322,042
Financial liabilities				
Deposits of the public	59,038	189,220	248,258	249,181
Deposits from banks	2,682	1,132	3,814	3,814
Deposits from governments	49	672	721	751
Securities lent or sold under repurchase agreements	1,169	364	1,533	1,536
Debentures, notes and subordinated notes	-	26,985	26,985	28,793
Liabilities in respect of derivative instruments	10,170	-	10,170	10,170
Other financial liabilities	3,171	4,150	7,321	7,290
Total financial liabilitiies	76,279	222,523	298,802	301,535
Off-balance sheet financial instruments				
Transactions whose balance represents credit risk	254	-	254	254

(a) Instruments are shown in the balance sheet at fair value.
(b) Other financial instruments for which fair value was calculated for disclosure purposes in this Note.

Note 8 – Balances and Fair Value Assessments of Financial Instruments (cont'd)
Reported amounts

	31 December 2011 (Audited)			
	Value in Balance Sheet			
	(a)	(b)	Total	Fair value
	(NIS millions)			
Financial assets				
Cash and deposits with banks	16,044	37,000	53,044	52,968
Securities	47,936	-	47,936	47,936
Securities borrowed or purchased under resale agreements	1,225	-	1,225	1,225
Credit to the public, net	26,470	214,850	241,320	241,921
Credit to governments	49	399	448	478
Assets in respect of derivative instruments	11,573	-	11,573	11,573
Other financial assets	1,008	3	1,011	1,011
Total financial assets	104,305	252,252	356,557	357,112
Financial liabilities				
Deposits of the public	69,152	210,252	279,404	280,880
Deposits from banks	1,551	3,505	5,056	4,929
Deposits from governments	113	406	519	550
Securities lent or sold under repurchasee agreements	385	57	442	442
Bonds, notes and subordinated notes	-	29,999	29,999	31,520
Liabilities in respect of derivative instruments	12,069	-	12,069	12,069
Other financial liabilities	1,716	5,728	7,444	7,416
Total financial liabilitiies	84,986	249,947	334,933	337,806
Off-balance sheet financial instruments				
Transactions whose balance represents credit risk	279	-	279	279

(a) Instruments are shown in the balance sheet at fair value.
(b) Other financial instruments for which fair value was calculated for disclosure purposes in this Note.

Note 8A – Items Measured for Fair Value on a Recurring Basis

Reported amounts

	31 March 2012 (Unaudited)			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance sheet value
	(NIS millions)			
Assets:				
Securities available for sale:				
Israeli government bonds	19,860	1,829	-	21,689
Foreign government bonds	2,919	188	10	3,117
Bonds of Israeli financial institutions	257	65	-	322
Bonds of overseas financial institutions	787	6,650	118	7,555
MBS/ABS	322	2,024	866	3,212
Others in Israel	168	446	-	614
Others abroad	509	572	74	1,155
Shares available for sale	1,033	-	-	1,033
Total securities available for sale	25,855	11,774	1,068	38,697
Securities held for trading:				
Bonds held for trading	8,870	812	-	9,682
Shares held for trading	147	20	-	167
Total securities held for trading	9,017	832	-	9,849
Assets in respect of derivative instruments:				
Interest contracts	168	5,999	106	6,273
Foreign currency contracts	1	2,647	85	2,733
Share contracts	167	52	-	219
Commodity and other contracts	-	37	-	37
Activity in Maof market	204	-	-	204
Total assets in respect of derivative instruments:	540	8,735	191	9,466
Other	2,599	-	-	2,599
Total assets	38,011	21,341	1,259	60,611
Liabilities:				
Liabilities in respect of derivative instruments:				
Interest contracts	170	5,755	307	6,232
Foreign currency contracts	4	3,074	347	3,425
Share contracts	167	60	-	227
Commodity and other contracts	-	37	-	37
Activity in Maof market	204	-	-	204
Total assets in respect of derivative instruments:	545	8,926	654	10,125
Other	2,568	34	-	2,602
Total liabilities	3,113	8,960	654	12,727

Note 8A – Items Measured for Fair Value on a Recurring Basis (cont'd)

Reported amounts

	31 March 2011 (Unaudited)			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2) (a)	Significant unobservable inputs (Level 3) (a)	Balance sheet value
	(NIS millions)			
Assets:				
Securities available for sale:				
Israeli government bonds	14,552	1,721	-	16,273
Foreign government bonds	453	2,004	11	2,468
Bonds of Israeli financial institutions	317	75	-	392
Bonds of overseas financial institutions	1,153	8,990	-	10,143
MBS/ABS	333	3,206	826	4,365
Others in Israel	182	524	-	706
Others abroad	676	500	-	1,176
Shares available for sale	1,520	5	-	1,525
Total securities available for sale	19,186	17,025	837	37,048
Securities held for trading:				
Bonds held for trading	6,323	2,166	-	8,489
Shares held for trading	281	-	-	281
Total securities held for trading	6,604	2,166	-	8,770
Assets in respect of derivative instruments:				
Interest contracts	234	2,146	48	2,428
Foreign currency contracts	-	3,569	132	3,701
Share contracts	84	1,177	1	1,262
Commodity and other contracts	-	94	6	100
Activity in Maof market	928	-	-	928
Total assets in respect of derivative instruments:	1,246	6,986	187	8,419
Other	1,843	-	-	1,843
Total assets	28,879	26,177	1,024	56,080
Liabilities:				
Liabilities in respect of derivative instruments:				
Interest contracts	234	2,260	370	2,864
Foreign currency contracts	16	4,200	857	5,073
Share contracts	84	1,182	1	1,267
Commodity and other contracts	-	83	6	89
Activity in Maof market	928	-	-	928
Total assets in respect of derivative instruments:	1,262	7,725	1,234	10,221
Other	2,376	133	-	2,509
Total liabilities	3,638	7,858	1,234	12,730

(a) Reclassified.

Note 8A – Items Measured for Fair Value on a Recurring Basis (cont'd)
Reported amounts

	31 December 2011 (Audited)			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2) (a)	Significant unobservable inputs (Level 3) (a)	Balance sheet value
	(NIS millions)			
Assets:				
Securities available for sale:				
Israeli government bonds	18,361	1,414	-	19,775
Foreign government bonds	3,451	214	10	3,675
Bonds of Israeli financial institutions	335	62	-	397
Bonds of overseas financial institutions	982	6,759	113	7,854
MBS/ABS	372	1,335	737	2,444
Others in Israel	172	432	-	604
Others abroad	407	775	72	1,254
Shares available for sale	1,006	-	-	1,006
Total securities available for sale	25,086	10,991	932	37,009
Securities held for trading:				
Bonds held for trading	8,772	609	-	9,381
Shares held for trading	361	-	-	361
Total securities held for trading	9,133	609	-	9,742
Assets in respect of derivative instruments:				
Interest contracts	95	6,575	91	6,761
Foreign currency contracts	-	4,285	88	4,373
Share contracts	26	39	-	65
Commodity and other contracts	22	58	-	80
Activity in Maof market	294	-	-	294
Total assets in respect of derivative instruments:	437	10,957	179	11,573
Other	1,921	-	-	1,921
Total assets	36,577	22,557	1,111	60,245
Liabilities:				
Liabilities in respect of derivative instruments:				
Interest contracts	96	6,715	298	7,109
Foreign currency contracts	2	4,148	361	4,511
Share contracts	26	44	-	70
Commodity and other contracts	22	63	-	85
Activity in Maof market	294	-	-	294
Total assets in respect of derivative instruments:	440	10,970	659	12,069
Other	1,443	221	-	1,664
Total liabilities	1,883	11,191	659	13,733

(a) Reclassified.

Note 8B – Changes in Items Measured for Fair Value on a Recurring Basis included in Level 3

Reported amounts

	For three months ending 31 March 2012 (Unaudited)							
	Changes in items measured for fair value included in Level 3							
	Fair value at beginning of the year	Total realized and unrealized profits (losses)	Acquisitions	Sales	Extinguish-ments	Transfers to or from Level 3	Fair value at 31 March 2012	Unrealized profits (losses) in respect of instruments held at 31 March 2012
	(NIS millions)							
Assets:								
Bonds available for sale:								
Israeli government	-	-	-	-	-	-	-	-
Foreign governments	10	-	-	-	-	-	10	5
Financial institutions overseas	113	5	-	-	-	-	118	4
ABS/MBS	737	25	114	(4)	(6)	-	866	21
Others overseas	72	2	-	-	-	-	74	2
Total bonds available for sale	932	32	114	(4)	(6)	-	1,068	32
Assets in respect of derivative instruments								
Other interest contracts	92	13	-	-	-	1	106	30
Foreign currency contracts	87	(2)	-	-	-	-	85	(3)
Share contracts	-	-	-	-	-	-	-	(3)
Total assets in respect of derivative instruments	179	11	-	-	-	1	191	24
Total assets	1,111	43	114	(4)	(6)	1	1,259	56
Liabilities:								
Liabilities in respect of derivative instruments								
Shekel-CPI contracts	-	-	-	-	-	-	-	-
Other interest contracts	298	9	-	-	-	-	307	(14)
Foreign currency contracts	361	(14)	-	-	-	-	347	14
Total liabilities in respect of derivative instruments	659	(5)	-	-	-	-	654	-
Total liabilities	659	(5)	-	-	-	-	654	-

Note 8B – Changes in Items Measured for Fair Value on a Recurring Basis included in Level 3 (cont'd)

Reported amounts

	For three months ending 31 March 2011 (Unaudited)							
	Changes in items measured for fair value included in Level 3							
	Fair value at beginning of the year	Total realized and unrealized profits (losses)	Acquisitions	Sales	Extinguish-ments	Transfers to or from Level 3	Fair value at 31 March 2011	Unrealized profits (losses) in respect of instruments held at 31 March 2011
	(NIS millions)							
Assets:								
Bonds available for sale:								
Israeli government	-	-	-	-	-	-	-	-
Foreign governments	17	-	-	(6)	-	-	11	(1)
Financial institutions overseas	-	-	-	-	-	-	-	-
ABS/MBS	856	30	151	(207)	(4)	-	826	(11)
Total bonds available for sale	873	30	151	(213)	(4)	-	837	(12)
Debit balances in respect of derivative financial instruments								
Interest contracts	24	24	-	-	-	-	48	-
Foreign currency contracts	69	64	-	-	-	-	133	-
Share contracts	-	1	-	-	-	-	1	-
Commodity and other contracts	1	4	-	-	-	-	5	-
Total in respect of derivative instruments	94	93	-	-	-	-	187	-
Total assets	967	123	151	(213)	(4)	-	1,024	(12)
Liabilities:								
Liabilities in respect of derivative instruments								
Shekel-CPI contracts	310	60	-	-	-	-	370	61
Other interest contracts	762	96	-	-	-	-	858	95
Foreign currency contracts	-	1	-	-	-	-	1	1
Share contracts	1	4	-	-	-	-	5	4
Commodity and other contracts	-	-	-	-	-	-	-	-
Total in respect of derivative instruments	1,073	161	-	-	-	-	1,234	162
Total liabilities	1,073	161	-	-	-	-	1,234	162

(a) Reclassified

Note 8B – Changes in Items Measured for Fair Value on a Recurring Basis included in Level 3 (cont'd)

Reported amounts

	For year ended 31 December 2011 (Unaudited)							
	Changes in items measured for fair value included in Level 3							
	Fair value at beginning of the year	Total realized and unrealized profits (losses)	Acquisitions	Sales	Extinguish-ments	Transfers to or from Level 3	Fair value at 31 December 2011	Unrealized profits (losses) in respect of instruments held at 31 December 2011
	(NIS millions)							
Assets:								
Bonds available for sale:								
Foreign governments	18	-	-	(8)	-	-	10	(9)
overseas	112	1	-	-	-	-	113	1
ABS/MBS	856	30	376	(492)	(33)	-	737	8
Others in Israel	21	6	-	-	-	(27)	-	-
Shares available for sale	70	2	-	-	-	-	72	1
Total bonds available for sale	1,077	39	376	(500)	(33)	-	932	1
Assets in respect of derivative financial instruments								
Other interest contracts	24	64	-	-	-	4	92	66
Foreign currency contracts	69	18	-	-	-	-	87	98
Share contracts	-	-	-	-	-	-	-	-
Commodity and other contracts	1	(1)	-	-	-	-	-	-
Total assets in respect of derivative instruments	94	81	-	-	-	4	179	164
Total assets	1,171	120	376	(500)	(33)	4	1,111	165
Liabilities:								
Liabilities in respect of derivative instruments								
Shekel-CPI interest contracts	310	(13)	-	-	-	1	298	(37)
Other interest contracts	762	(401)	-	-	-	-	361	86
Foreign currency contracts	-	-	-	-	-	-	-	-
Share contracts	1	(1)	-	-	-	-	-	-
Commodity and other contracts	-	-	-	-	-	-	-	-
Total liabilities in respect of derivative instruments	1,073	(415)	-	-	-	1	659	49
Total liabilities	1,073	(415)	-	-	-	1	659	49

(a) Reclassified

Note 8C –Items Measured for Fair Value not on a Recurring Basis and Other Items (cont'd)

Reported amounts

	31 March 2012 (Unaudited)			
	Fair value measurements that make use of:			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance sheet balance
	(NIS millions)			
Assets				
Cash and deposits in banks	4,907	12,034	30,396	47,368
Securities	-	-	1,211	1,211
Securities borrowed or purchased under agreements to resell	-	1,485	-	1,485
Credit to the public, net	-	65,511	173,034	238,170
Credit to governments	-	15	436	425
Other assets	-	-	944	944
Total assets	4,907	79,045	206,021	289,603
Liabilities				
Deposits from the public	-	95,478	181,690	275,309
Deposits from banks	-	1,695	1,815	3,629
Deposits from the government	-	78	390	436
Securities loaned or sold under agreements to repurchase	-	624	-	624
Bonds and subordinated notes	20,783	5,201	3,759	27,873
Other liabilities	-	-	7,070	7,101
Total liabilities	20,783	103,076	194,724	314,972

Note 8D – Additional Information on Significant Unobservable Inputs and Assessment Techniques used in Fair Value Measurement of Items Classified in Level 3

Reported amounts

A. Quantitative information regarding Level 3 fair value measurement

	Fair value	Assessment technique	Unobservable inputs	Range	Average
Assets					
Securities available for sale					
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	866	Discounting cash flows	Margin	226-1046 bp	395 bp
			Probability of default	4%-6%	5.60%
			Rate of early repayment	15%	15%
			Loss rate	40%-80%	60%
Assets in respect of derivative instruments					
Interest contracts	106	Discounting cash flows	Inflation forecasts	0.29%-2.4%	1.35%
Foreign currency contracts	85	Discounting cash flows	Inflation forecasts	0.29%-2.4%	1.35%
Liabilities					
Liabilities in respect of derivative instruments					
Interest contracts	307	Discounting cash flows	Inflation forecasts	0.29%-2.4%	1.35%
Foreign currency contracts	347	Discounting cash flows	Inflation forecasts	0.29%-2.4%	1.35%

B. Qualitative information regarding Level 3 fair value measurement

Unobservable inputs used for the fair value measurement of asset-backed or mortgage-backed securities are margin rates, probability of default, early repayment rate, and the severity of a loss in the event of default.
The unobservable input used for the fair value measurement of derivatives is the forecast rate of inflation.

Note 9 – Interest income and expense

Reported amounts (Unaudited)

	For the three months ending 31 March	
	2012	2011 (a)
	(NIS millions)	
A. Interest income (b)		
From credit to the public	**2,746**	2,764
From credit to governments	**4**	6
From deposits with Bank of Israel and cash	**155**	72
From deposits with banks	**45**	25
From securities borrowed or purchased under agreement to resell	**10**	14
From debentures (c)	**278**	286
Total interest income	**3,238**	3,167
B. Interest expense (b)		
On deposits of the public	**(1,054)**	(843)
On deposits from governments	**(3)**	(8)
On deposits from Bank of Israel	**-**	-
On deposits from banks	**(34)**	(3)
On securities loaned or sold under agreement to repurchase	**(6)**	(10)
On debentures, bonds and subordinated notes	**(319)**	(492)
Total interest expense	**(1,416)**	(1,356)
Total interest income, net	**1,822**	1,811
C. Details of the net effect of derivative instruments hedging interest income and expense		
Interest income	**(1)**	(2)
Interest expense	**1**	3
D. Details of accumulated interest income from bonds		
Available for sale	**230**	238
For trading	**48**	48
Total included in interest income	**278**	286

(a) Reclassified pursuant to first-time implementation of the directives of the Supervisor of Banks on the format of the profit and loss statement for a banking corporation – see Note 1.C.1.
(b) Including the effective component of hedging relationships.
(c) Including interest in respect of mortgage-backed bonds (MBS) in the amount of about NIS 13 million and NIS 29 million for the three months ended 31 March 2012 and 31 March 2011 respectively.

Note 10 – Non-interest income

Reported amounts (Unaudited)

	For the three months ending 31 March	
	2012	2011 (a)
	(NIS millions)	
A. Non-interest financing income in respect of activities for purposes other than trading		
A.1. From activity in derivative instruments		
Ineffective portion of hedging relationships (see c. below) (b)	**-**	(1)
Net expense from ALM derivative instruments (c)	**(351)**	(117)
Total from activity in derivative instruments	**(351)**	(118)
A.2. From investment in bonds		
Profits from sale of bonds available for sale	**72**	80
Losses from sale of bonds available for sale (d)	**(14)**	(3)
Total from investment in bonds	**58**	77
A.3. Exchange rate differentials, net	**455**	97
A.4. Profits (losses) from investment in shares		
Profits from sale of shares available for sale	**17**	9
Losses from sale of shares available for sale (d)	**(60)**	(2)
Profit from sale of shares in companies included on equity basis	**24**	-
Dividend from shares available for sale	**3**	21
Total from investment in shares	**(16)**	28
A.5. Profits (losses) net in respect of securitization transactions	**-**	-
A.6. Profits (losses) net in respect of loans sold	**-**	-
Total non-interest financing income in respect of activities for purposes other than trading	**146**	84
B. Non-interest financing income in respect of activities for trading purposes		
Income (expense) net in respect of other derivative instruments	**(1)**	21
Realized and unrealized profits (losses) from fair value adjustments of bonds held for trading, net	**5**	(53)
Realized and unrealized profits (losses) from fair value adjustments of shares held for trading, net	**(1)**	2
Dividends received from shares held for trading	**2**	-
Total from trading activity	**5**	(30)

(a) Reclassified following initial implementation of the directives of the Supervisor of Banks on the format of the statement of profit of loss of a banking corporation – see Note 1.C.1.
(b) Excluding the effective part of hedging relationships.
(c) Derivative instruments comprising part of the Bank's asset and liability management, not designated for hedging relationships.
(d) Including provisions for impairment in the amount of NIS 59 million, and NIS 1 million for the period of three months ending 31 March 2012 and 2011 respectively.

Note 11 - Operating Segments
Reported amounts

	For the three months ending 31 March 2012 (Unaudited)							
	Household banking	Small business banking	Corporate banking	Commercial banking	Private banking	Financial management	Other	Total consolidated
	(NIS millions)							
Interest income, net - from outside entities	396	268	659	379	(34)	153	1	1,822
Non-interest income - from outside entities	376	136	170	150	154	171	26	1,183
Intersegmental income	370	(49)	(301)	(44)	137	(80)	(33)	-
Total income	1,142	355	528	485	257	244	(6)	3,005
Expenses (income) in respect of credit losses	8	8	211	10	(1)	(11)	-	225
Net profit (loss) attributable to shareholders of the banking corporation	121	92	106	144	24	(26)	(30)	431

	For the three months ending 31 March 2011 (Unaudited) (a)							
	Household banking	Small business banking	Corporate banking	Commercial banking	Private banking	Financial management	Other	Total consolidated
	(NIS millions)							
Interest income, net - from outside entities	419	274	774	399	(15)	(41)	1	1,811
Non-interest income - from outside entities	433	137	216	153	127	56	29	1,151
Other income - from outside entities	-	-	-	-	-	-	-	-
Intersegmental income	248	(65)	(392)	(81)	118	204	(32)	-
Total income	1,100	346	598	471	230	219	(2)	2,962
Expenses (income) in respect of credit losses	(29)	(3)	(75)	(16)	(2)	23	-	(102)
Net profit (loss) attributable to shareholders of the banking corporation	109	94	337	148	60	(170)	(24)	554

Note 11 - Operating Segments (cont'd)
Reported amounts

	For the year ending 31 December 2011 (Audited) (a)							
	Household banking	Small business banking	Corporate banking	Commercial banking	Private banking	Financial management	Other	Total consolidated
	(NIS millions)							
Interest income, net - from outside entities	1,614	1,098	2,802	1,595	(81)	(137)	216	7,107
Non-interest income - from outside entities	1,821	551	761	622	483	(135)	72	4,175
Other income - from outside entities	-	-	-	-	-	-	-	-
Intersegmental income	1,103	(244)	(1,466)	(283)	505	692	(307)	-
Total income	4,538	1,405	2,097	1,934	907	420	(19)	11,282
Expenses (income) in respect of credit losses	69	89	312	218	(31)	77	-	734
Net profit (loss) attributable to shareholders of the banking corporation	364	317	760	439	173	(414)	252	1,891

(a) Comparative figures have been reclassified in order to comply with the method of presentation in the current period – see Note 1.C.1.

Note 12 – Events after the Balance Sheet Date

The Board of Directors, after the decision of the Audit Committee and the Administration, Salary and Remuneration Committee of the Board of Directors, resolved to update the terms of engagement between the Bank and Ms. Rakefet Russak-Aminoach, on her election to the position of President and CEO of the Bank and the Group, by which as of the commencement of her term of office as (1 May 2012), she will receive a monthly salary in the total sum of NIS 180,000 (linked to increases in the CPI). It was further resolved that in the event of the resignation of the CEO from her position in the Bank, whereby such resignation is after 15 years and above of employment with the Bank, the CEO shall be entitled to compensation in the amount equivalent to 200% (instead of 100% according to the current employment agreement), of the last monthly salary known on the date of termination of the employee-employer relations between her and the Bank, multiplied by the number of years of her employment in the Bank, with the addition of pension deductions. Subject to the above specified, there is no change in the provisions of the current employment agreement (as explained in section B(3)B in Note 15 to the financial statements for 2011, including a pension entitlement on dismissal if the conditions set out in the employment agreement are fulfilled). As a result of the update to the terms of the engagement with the President and CEO, contributions will be made in the second quarter of 2012 for pension rights in the sum of NIS 6,247 thousand.

The Board of Directors, after the decision of the Audit Committee and the Administration, Salary and Remuneration Committee of the Board of Directors, resolved that the retiring President and CEO will be subject to an additional cooling-off period of 18 months (for a total of two years) during which she may not accept any job or other position whatsoever in a banking corporation within Israel or in such corporation's branches abroad, and during which period she may not provide any such corporation with services, either directly or indirectly, either with or without consideration, unless the Bank has given its prior written approval for such. In exchange for the retiring President and CEO's agreement to extend the cooling-off period, the retiring President and CEO will be entitled to receive a one-time compensation from the Bank in the amount of NIS 3,250 thousand. The above provisions will apply in addition to the retiring President and CEO's remaining rights and terms of retirement, as stipulated in the personal Employment Agreement between her and the Bank.