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

Condensed Financial Statements as at 30 September 2012

(unaudited)

Bank Leumi le-Israel B.M.
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28 November 2012

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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 those 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 30 September 2012, these 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 950 billion at the end of September 2012, compared with NIS 898 billion at the end of 2011, an increase of some 5.7%, which derived primarily from an increase in securities portfolios, and an increase in the value of provident funds and supplementary training funds.

* 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.

Below are principal data as at 30 September 2012:

	30 September 2012	30 June 2012	31 December 2011	30 September 2011
Balance sheet data (NIS millions):				
Total assets (total balance sheet)	**369,530**	366,082	365,854	353,175
Credit to the public, net	**241,464**	241,427	241,320	237,315
Securities	**56,183**	60,348	47,936	38,356
Cash and deposits in banks	**48,340**	39,166	53,044	54,662
Investment in companies included on equity basis	**2,303**	2,129	2,270	2,350
Deposits of the public	**285,229**	280,434	279,404	267,249
Debentures, notes, and subordinated notes	**28,189**	28,223	29,999	28,573
Equity attributable to shareholders of the banking corporation	**25,018**	24,266	23,374	22,771

Below are principal data for periods ended 30 September 2012:

	For the nine months ended 30 September		**For the three months ended 30 September**		**Year**
	2012	2011*	**2012**	2011*	2011*
Income, expenses and profits (in NIS millions):					
Net interest income	**5,624**	5,428	**1,872**	1,841	**7,107**
Expenses (income) in respect of credit losses	**850**	349	**292**	378	**734**
Total non-interest income	**3,380**	2,972	**1,208**	675	**4,175**
Of which: commissions	**3,092**	3,109	**1,050**	1,005	**4,116**
Total operating and other expenses	**6,489**	6,220	**2,294**	2,055	**8,341**
Of which: salary expenses	**3,976**	3,865	**1,434**	1,241	**5,061**
Profit before taxes	**1,665**	1,831	**494**	83	**2,207**
Provision for taxes	**578**	664	**113**	32	**418**
Net profit for the period attributable to shareholders of the banking corporation	**1,190**	1,273	**479**	155	**1,891**
Net profit per share attributable to shareholders of the banking corporation (in NIS)	**0.81**	0.86	**0.33**	0.11	**1.28**

* Figures for December and September 2011 have been reclassified in accordance with the directives of the Supervisor of Banks - see Note 1C.

Below are principal financial ratios as at 30 September 2012 (in %):

For the period ended:	**30 September 2012**	30 June 2012	31 December 2011*	30 September 2011*
Credit to the public, net, to total balance sheet	**65.3**	65.9	66.0	67.2
Securities to total balance sheet	**15.2**	16.5	13.1	10.9
Deposits of the public to total balance sheet	**77.2**	76.6	76.4	75.7
Deposits of the public to credit to the public, net	**118.1**	116.2	115.8	112.6
Total capital to risk assets according to Basel II (a)	**15.02**	14.81	14.34	13.75
Tier I capital to risk assets according to Basel II	**8.60**	8.38	8.07	7.89
Capital (excluding non-controlling interests) to total balance sheet	**6.8**	6.6	6.4	6.4
Net profit to average capital (excluding non-controlling interests) (c)	**6.6**	6.0	8.3	7.5
Rate of provision for tax on the net profit	**34.7**	39.7	18.9	36.3
Expenses (income) in respect of credit losses to credit to the public, net (c)	**0.47**	0.46	0.30	0.20
Of which: Expenses in respect of collective allowance to net credit to the public (c)	**0.18**	0.20	0.15	0.08
Expenses (income) in respect of credit losses to total risk of credit to the public (c)	**0.31**	0.31	0.20	0.13
Net interest income to total balance sheet (c)	**2.03**	2.06	1.94	2.05
Total income to total assets (b) (c)	**3.26**	3.26	3.08	3.18
Total income to total assets managed by the Group (b) (c) (d)	**1.27**	1.31	1.26	1.27
Total operating and other expenses to total balance sheet (c)	**2.35**	2.30	2.28	2.36
Total expenses to total assets managed by the Group (c) (d)	**0.91**	0.93	0.93	0.94
Net profit to average total assets (c) (e)	**0.26**	0.40	0.56	0.51
Interest margin including income and expenses from derivative financial instruments	**1.21**	1.24	1.00	0.98
Operating and other expenses to total income (b)	**72.1**	70.8	73.9	74.0
Non-interest income to operating and other expenses	**52.1**	51.8	50.1	47.8
Non-interest income to total income (b)	**37.5**	36.7	37.0	35.4

* Figures for December and September 2011 have been reclassified in accordance with the directives of the Supervisor of Banks - see Note 1C.

(a) Capital - after adding non-controlling interests 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.

Net profit attributable to shareholders in the banking corporation (hereinafter – the net profit) in the first nine months of 2012 amounted to NIS 1,190 million, compared with NIS 1,273 million in the corresponding period last year, a decrease of 6.5%.

The decrease in the net profit is explained mainly by an increase expenses in respect of credit losses of NIS 501 million and by an increase in operating and other expenses of NIS 269 million. On the other hand, an increase in interest income, net, of NIS 196 million, an increase in noninterest income (after offsetting the write-down of shares in Partner Communication Ltd.) of NIS 329 million partly offset the abovementioned effects.

Net profit during the third quarter of 2012 amounted to NIS 479 million compared with NIS 155 million in the corresponding period last year, an increase of 209%. The increase is explained mainly by an increase in interest income, net, of NIS 31 million, a decrease in credit loss expenses from NIS 378 million to NIS 292 million (a reduction of NIS 86 million), and the recording of impairment of a nature other than temporary in respect of an investment in the shares of Partner Communication Ltd. amounting to NIS 239 in the corresponding quarter in 2011. On the other hand, an increase in operating and other expenses of NIS 239 million partly offset the abovementioned effects.

Net profit per share attributable to shareholders in the banking corporation was NIS 0.81 during the first nine months of 2012 and NIS 0.86 in the corresponding period last year and NIS 0.33 in the third quarter of the year, compared with NIS 0.11 in the corresponding period last year and NIS 1.28 for the whole of 2011.

Based on data of the banking system as at 30 June 2012, as published by the Bank of Israel, Leumi Group's share of the total banking system was as follows:

	30.6.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008	31.12.2007
	In %					
Total assets	**29.4**	29.6	29.3	29.6	29.3	30.0
Credit to the public, net	**28.8**	29.2	28.9	28.3	29.1	29.7
Deposits of the public	**29.8**	29.9	29.5	29.9	29.8	30.2
Net profit attributable to shareholders of the banking corporation	**21.3**	26.0	34.5	36.6	7.3 (1)	36.5

(1) After canceling the effect of losses in 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 Official Gazette *(Reshumot)*. 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 in which all the holders of the means of control do not require a permit under the Banking Law, so as to regulate, *inter alia*, the proposal, appointment and term of office of 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 Law (Temporary Provision), 1993 (hereinafter "**the Bank Shares Law**"), ended. 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.

Since the Bank has become a bank without a controlling core, the only people entitled to propose to a general meeting candidates for election as director 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 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 that guarantee that he is not involved with the bank and/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 is obliged to 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 publication to the public as aforesaid, and if he does not so consent, he will not be entitled to join a body of holders for the purpose of proposing candidates for the office of director to the general meeting.

For further information regarding the election of directors, see the chapter "Annual General Meeting and Election of Directors" below.

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 holdings 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 30 September 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 the Bank Shares Arrangement (Temporary Provisions) (Utilization of Voting Rights Conferred by virtue of the Shares in Bank Leumi Ltd.), 2012, published in the *Official Gazette* on 6 June 2012, from the termination of the term of office of the Shares Committee mentioned above, the voting rights conferred by virtue of the Bank's shares held by M.I. Properties Ltd. will be utilized.

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.

Interested party transactions

On 18 October 2012, the Bank was notified by an interested party, Shlomo Eliahu Holdings Ltd. and Eliahu Insurance Company Ltd. (collectively, "Eliahu"), that Eliahu Insurance Company Ltd. had sold off-market 16,326,531 ordinary shares of NIS 1 par value each of the Bank. Following this sale, Eliahu held some 8.49% of the Bank's share capital ("the direct holdings in the Bank").

Further to the report received from Eliahu, published in Immediate Report by the Bank on 29 August 2012 (ref: 2012-01-222393) Mr. Shlomo Eliahu, the controlling owner of Eliahu, entered into an agreement whereby, subject to receiving various regulatory approvals, he is to acquire (on his own and/or through corporations under his control) control of Migdal Insurance and Financial Holdings Ltd. ("Migdal" and "Migdal transaction", respectively), which is an insurance corporation that has, and/or companies under its control have, holdings in the Bank directly or indirectly.

Further to a report received from Eliahu, the Bank published, in an immediate report on 21 October 2012 (ref: 2012-01-259875), details of the trust deed and irrevocable authorization whereby the direct holdings in the Bank will be put in trust or will be subject to trust, *inter alia*, subject to the completion of the Migdal transaction ("the trust deed"). In addition, further to a report received from Eliahu, the Bank published, in an Immediate Report on 24 October 2012 (ref: 2012-01-262707) the permit received by Mr. Shlomo Eliahu and Ms. Chaya Eliahu from the Bank of Israel to hold means of control in the Bank of up to 13.49% of any type of means of control, including the direct holdings in the Bank the holdings of Migdal, *inter alia*, subject to the completion of the Migdal transaction ("the Permit").

In accordance with paragraph 5 of the permit, during the two trust periods as detailed below, the direct holdings in the Bank do not confer a right to participate in General Meetings of the Bank and a right to vote therein, and do not confer a right to propose candidates to serve as directors of the Bank, and other rights granted to holders by virtue of their holdings of the relevant means of control, apart from the right to dividends to be distributed, to the extent they are distributed, by the Bank, and the right to consideration for the sale of the direct holdings in the Bank. In light of the above, the votes of other shareholders at the general meetings of the Bank will be affected, such that they will actually be relatively higher.

It is further provided in the permit and in the trust deed that, during the course of the first trust period – up until the end of a three-year period from the date of completing the Migdal transaction, the direct holdings in the Bank will be sold on the stock exchange or to one or more unrelated third parties, subject to the receipt of a permit from the Governor of the Bank of Israel, if required. As long as all of the direct holdings in the Bank have not been sold by that date, they will be sold in this way by the trustee by the end of the second trust period – one year after the end of the first trust period.

On 29 October 2012, Eliahu gave notice to the Bank of the completion of the Migdal transaction, and accordingly, the entry into effect of the permit and trust deed. In addition, on 29 October 2012, the transaction was finalized between the Bank and Eliahu to grant credit of NIS 2 billion to Eliahu for financing part of the transaction for purchasing controlling shares in Migdal. For more information, see the Bank's Immediate Reports dated 29 October 2012 (ref: 2012-01-266478 and ref: 2012-01-266487).

For updated information about the holdings of Eliahu and Migdal in the Bank, see the Bank's Immediate Report on the holdings of interested parties and senior officers, dated 5 November 2012 (ref: 2012-01-272160).

Annual General Meeting and Election of Directors

Pursuant to the Bank's Regulations, at the Annual General Meeting of the Bank, four directors, Mr. Reuven Adler (external director), Ms. Zipora Gal-Yam, Professor Arieh Gans and Professor Efraim Sadka retired by rotation.

On 1 August 2012, the Annual General Meeting of the Bank was held at which the incumbent directors, Professor Arieh Gans and Professor Efraim Sadka were elected or re-elected, and Mr. Rami Avraham Guzman and Professor Yedidya Stern were elected, all as external directors pursuant to Regulation 301 of the Supervisor of Banks for a period of three years.

In addition, Adv. Haim Samet, was elected as external director pursuant to Section 239 of the Companies Law, 1999, for a period of three years.

The abovementioned, Messrs. Gans, Sadka, and Samet were proposed for election at the Annual General Meeting by the committee appointed pursuant to Section 4 of the Banking Law (Legislative Amendments), 2012, in accordance with the provisions of sections 11D(a)(1) and (2) of the Banking Ordinance, 1941 ("the Banking Ordinance"). Professor Yedidya Stern was proposed for election at the General Meeting by Otzar Hityashvut Hayehudim Ltd., a shareholder in the Bank that is entitled to propose a candidate for the office of director in the Bank, pursuant to the provisions of Section 11D(a)(3) of the Banking Ordinance.

The Supervisor of Banks confirmed the absence of any objection on his part to the service of the directors elected at the said General Meeting.

At the said General Meeting, resolutions were passed on a number of other topics, *inter alia*:

- It was resolved to approve an increase in the Bank's authorized capital to a total of NIS 3,215,000,000 by the creation of 1 billion ordinary shares of NIS 1 par value each, to be converted into stock after being issued and paid in full, and the amendment of a resolution passed at the General Meeting on 7 October 2008, such that the 500,000,000 ordinary shares of NIS 1 par value each created in the same resolution of 7 October 2008 will be used only for the purpose of issuing hybrid deferred capital notes.
- It was resolved to amend Regulation 143 of the Bank's regulations regarding insurance, indemnification and exemption with the aim of enabling the Bank to indemnify and/or insure officers of the Bank pursuant to and subject to provisions of the Antitrust Law, 1988, as amended by the Antitrust Law (Amendment no. 13).
- It was resolved to approve an amendment to the version of the letter of indemnification granted by the Bank to the directors, pursuant to which the obligation for advance indemnification will also be in respect of expenses according to and subject to the stipulations laid down in the Antitrust Law, 1988.
- It was resolved to approve and authorize the Bank to purchase an insurance policy in respect of the "run-off" liability of directors and other officers in the Bank and in the Group without requiring additional approval of the general meeting (rather reporting at the next general meeting following the purchase of the policy, if one is so purchased), all subject to the terms set out in the resolution.
- It was resolved to approve raising the salary of the Chairman of the Board of Directors, Mr. David Brodet, by 3.7%, with effect from 1 January 2012.

For information regarding all of the resolutions passed at the General Meeting, see the Bank's Immediate Report on the results of the General Meeting of 2 August 2012 (Ref: 2012-01-200217).

Merger of Leumi Mortgage

Merger between the Bank and Leumi Mortgage Bank Ltd. ("Leumi Mortgage Bank")

On 9 September 2012, the Board of Directors of the Bank approved the merger of Leumi Mortgage Bank with the Bank. On 10 September 2012, the Board of Directors of Leumi Mortgage Bank approved the implementation of the said merger. The merger is expected to take place on 31 December 2012 ("the Merger Date"). See Immediate Reports dated 10 September 2012 (ref: 2012-01-234537 and 2012-01-234585).

According to the merger agreement, Leumi Mortgage Bank, which is wholly owned and controlled by the Bank (directly and indirectly through the Bank Leumi nominee company (*HaChevra LeRishumim*) and the Bank Leumi le-Israel Trust Co. Ltd. ("the Trust Company")), is to merge with the Bank.

Aims of the merger:

The merger serves both the business and economic purpose of enabling the Leumi Group to increase the level of group synergy between retail and mortgage operations, and to expand the potential for increasing the profit of the Leumi Group. The move will allow the Bank to provide retail customers with a value proposition appropriate to all of their needs, *inter alia*, in view of the improvement in the level of the product offered to customers, with an emphasis on providing a variety of services to the customer, while reducing Group expenses and more effective utilization of the sales floor. The Bank anticipates that the merger of Leumi Mortgage within the Bank is likely to lead, *inter alia*, to savings in operating expenses and costs.

The merger includes a restructuring to be carried out in the following two stages:

- In the first phase, the Trust Company will transfer its holdings (0.84%) in Leumi Mortgage to the Bank, without consideration and in accordance with Section 104C of the Income Tax Ordinance (New Version), 1961 ("the Ordinance").
- In the second stage, a statutory merger will take place between the Bank and Leumi Mortgage, in which Leumi Mortgage Bank will transfer its assets and liabilities to the Bank, in accordance with Section 103B of the Ordinance, by winding up Leumi Mortgage without its liquidation, in accordance with the provisions of Chapter I of Part VIII of the Companies Law, 1999, and subject to the provisions of the Chapter II of Part II of the Ordinance.

Pursuant to the merger, all the employees of Leumi Mortgage Bank will become employees of the Bank together with Leumi Mortgage Bank's liabilities in respect of employees transferred in accordance with Section 103P of the Ordinance.

As part of the restructuring, no consideration was or will be given, directly or indirectly, in money or in kind, to any of the parties involved.

The ruling of the Israel Tax Authority was as follows:

On 10 September 2012, a ruling was given by the Israel Tax Authority certifying that the details of the merger plan as submitted in the request filed with the Israel Tax Authority, and subject to the conditions specified in the Ordinance and tax ruling, meet the conditions set forth in Sections 103C and 104C of the Ordinance. The main points of the tax ruling are as follows:

1. Regarding the transfer of shares of Leumi Mortgage from the Trust Company to the Bank -

1.1 The transfer of the shares to the Bank will not be taxable at the time of restructuring, in accordance with the provisions of Section 104C of the Ordinance, and subject to the submission of forms and documents required under Section 104G of the Ordinance within 30 days of the date of the tax ruling and subject to compliance with all the conditions of Part II of the Ordinance, and the conditions set forth in the tax ruling. The forms required under Section 104G have been submitted as required.

1.2 The date of transfer of the shares will be on 31 December 2012.

1.3 The transfer of shares shall be without consideration. If it becomes apparent that any consideration was given, directly or indirectly, for the transfer of the shares, including by way of debit and credit between the companies, the tax ruling shall be rescinded retroactively.

1.4 For the first sale that is not under tax exemption of the shares belonging to the Trust Company that were in existence at the time of transfer of the shares, the original price of the shares belonging to the Trust Company will be zero, and the date of acquisition will be the date of transfer of the shares.

1.5 In respect of the transfer of shares, no loss shall be claimed by the Bank and/or any related party.

2. With regard to the merger –

2.1 The date of the merger will be 31 December 2012.

2.2 No new rights in the Bank will be allocated in respect of the merger to its shareholders and/or the nominee company of the Bank. Accordingly, on sale of shares of the Bank, there will be no addition to the original price of the said shares for the cost of investment in shares of Leumi Mortgage Bank (including for the holding of 0.84% by the Trust Company). The cost of investment will be canceled and not allowed for tax purposes in any way, directly or indirectly. Additionally, the assets transferred to the Bank as part of the merger will be subject to the provisions of Section 103E of the Ordinance, and no additional amount will be attributed to them above their original price.

2.3 No expense and/or loss will be allowed for tax purposes for the Bank and/or any related party due to the merger.

2.4 Any expense or deduction accrued by Leumi Mortgage Bank up to the date of the merger and not allowed for tax purposes by that date ("the expenses"), but would have been as a deduction if a loss had been created at the merger date, will be considered as part of the losses of Leumi Mortgage and/or the Bank, as applicable, up to the date of the merger, and shall be subject to the provisions of Section 103H of the Ordinance, if allowed as a deduction for tax purposes within two years from the date of the merger.
For this purpose, an "expense or deduction accrued" is to include any provisions and/or liabilities not allowed as a deduction for tax purposes, which if they had been deductible for tax purposes at the time of the merger, would have created a loss, except for impaired debts as stipulated in the Agreement of Principles for Impaired Debts dated 14 February 2012.

It has been clarified that this clause does not derogate from the provisions of Section 103H of the Ordinance. The abovementioned is only in respect of the allocation of losses and how they are offset, and in no way determine whether the expense, deduction or offset is allowed for tax purposes, issues that may be examined by the Assessing Officer.

2.5 If it becomes apparent that any of the conditions specified in Section 103C of the Ordinance did not take place on time, the Bank and Leumi Mortgage will be charged taxes and mandatory payments from which they were granted exemption, plus linkage differences and interest from the date of the merger until the date of payment, in accordance with the provisions of Section 103J of the Ordinance. In such a case, expert valuations of Leumi Mortgage Bank as at the date of the merger shall be submitted to the Assessing Officer immediately following the date of the violation, in accordance with the Income Tax Rules (Application for Prior Approval of a Merger Plan), 1995. Such valuations will require the approval and consent of the Assessing Officer.

2.6 The Bank undertakes to notify the Property Taxes Directorate of the provision of this tax ruling, including the transfer of real estate property owned by Leumi Mortgage Bank (at 31-37 Montefiore Street, Tel-Aviv) and pay purchase tax at the rate of 0.5%, within 40 days from the date of the merger.

2.7 The Bank and Leumi Mortgage undertake to transfer to the Property Taxes Directorate within 30 days of the date of the merger, the valuation of land property rights owned by Leumi Mortgage Bank.

2.8 The Bank undertakes to transfer, within 30 days from the end of two years from the date of the restructuring, confirmation to the Property Taxes Directorate that it has complied with all the conditions of Part II of the Ordinance, and the terms of the tax ruling.

2.9 The tax ruling is contingent upon full compliance with the other conditions stipulated in the Ordinance and the tax ruling, including conditions that relate to the period required, as defined in section 103 of the Ordinance, beginning on the date of the merger.

3. Regarding the transfer of Leumi Mortgage employees to the Bank –

3.1 The transfer of employees was approved under the provisions of Section 103P of the Ordinance.

3.2 The transfer of ownership of all funds transferred in the name of the employees transferred from Leumi Mortgage to the Bank was approved under the exemption from withholding tax at source under Regulation 2(a)(6) of the Income Tax Rules (Tax Exemption for Transfer and Change of Designation of Funds in Provident Funds), 1990.

3.3 Continuity of rights to compensation will be conferred to the employees under section 103P of the Ordinance, and upon their retirement from the Bank, will be taken into account for the purpose of calculating the exemption of severance payments for the period of work at the Bank and at Leumi Mortgage Bank.

3.4 In the event an employee who retired prior to the date of the merger, or as a result of the merger, received an exempt severance payment from Leumi Mortgage Bank under the provisions of section 9(7A) of the Ordinance, and returned to work at the Bank within six months from the date of retirement, the retirement grant received by such employee shall be deemed to be wages, and in this case the Bank will deduct tax as required.

3.5 Any payment to employees of the merging companies resulting from the said merger, will be considered income from employment and tax will be deducted in accordance with Income Tax Regulations (Deduction from Salary and Wages and Payment of Employers' Tax), 1993.

4. General explanations –

4.1 The Bank and Leumi Mortgage have undertaken to include in the financial statements and reconciliation reports for tax purposes, a note on the implementation of the restructuring, detailing the conditions of the tax ruling. The Note is to be shown commencing from the first reports published following the tax ruling.

4.2 The tax ruling is not deemed as a tax assessment and/or confirmation of the facts presented by the Bank. The said facts presented may be examined by the Assessing Officer.

4.3 It is clarified that the tax ruling was given based on the representations and documents given to the Israel Tax Authority in writing and orally, including those set forth in the tax ruling, and subject to the conditions set out in Part II of the Ordinance. The tax ruling will be canceled retroactively, if it is found that the information and facts given in the application are incorrect or incomplete in a material manner, or it appears that material details listed do not exist or that the conditions stipulated by the Israel Tax Authority in the tax ruling were not met.

4.4 No deduction will be allowed, either directly or indirectly, as a deduction or as an expense under Section 17 of the Ordinance, for the parties participating in the restructuring set forth in the tax ruling and/or to their related party, for all the expenses involved, directly and/or indirectly in the restructuring, including legal expenses, audit expenses, experts, consultants and fees of all kinds.

4.5 The Bank and Leumi Mortgage Bank undertook, jointly and severally, to confirm in writing to the Mergers and Splits Department in the Israel Tax Authority and to the Assessing Officer, within 30 days of receiving the tax ruling, that they agree to accept all terms of the tax ruling, *verbatim*, and without reservation. The said confirmations were submitted as required.

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 30 September 2012 amounted to NIS 25,018 million, compared with NIS 23,374 million as at the end of 2011, an increase of 7.0%. The increase is attributable to the profit for the first nine months of the year and an increase in the value of the available-for-trade securities portfolio which was carried to a capital reserve.

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 of bonds on an accrual basis, and of shares on a cost basis, and the fair value being recorded directly as a separate item in capital, after a deduction for the related tax effect.

In the first nine months of the year, an increase in value of NIS 448 million, net, in capital was recorded in this item, compared with net impairment of NIS 682 million 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 30 September 2012 amounted to a positive sum of NIS 230 million (after the effect of tax).

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

The **capital to total assets ratio** reached 6.8% on 30 September 2012, compared with 6.4% on 31 December 2011.

The **capital to risk components ratio** according to Basel II reached 15.02% as of 30 September 2012, compared with 14.34% on 31 December 2011. The Tier 1 capital ratio reached 8.60%, compared with 8.07% at the end of 2011 This ratio reflects the actual core capital according to the definition of the Bank of Israel.

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 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 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. This target is higher than the overall capital adequacy ratio required in order to comply with the regulatory directives, including the ICAAP.

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 his intention to set a higher minimum core capital ratio than that currently required. According to this directive, 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.

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

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)

	30 September 2012	30 September 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	**16,563**	14,840	15,406
Other capital reserves	**49**	44	50
Adjustments from translation of financial statements of investee companies	**19**	(56)	(21)
Capital reserves from share-based transactions and loans to employees for the purchase of Bank's shares	**(31)**	(31)	(31)
Non-controlling interests	**301**	343	254
Amounts deducted from Tier 1 capital, including goodwill, investments and other intangible assets	**(400)**	(274)	(403)
Unrealized losses, net, from adjustments to fair value of available-for-sale securities	**-**	(214)	(218)
Total Tier 1 capital	**24,689**	22,840	23,225
Tier 2 capital:			
45% of the amount of net profits, before the related tax effect in respect of adjustments to fair value of available-for-sale securities	**152**	-	-
General provision for doubtful debts	**428**	428	428
Innovative and non-innovative hybrid capital instruments	**6,098**	6,020	6,012
Subordinated notes	**11,839**	10,589	11,646
Amounts deducted from Tier 2 capital	**(80)**	(76)	(66)
Total Tier 2 capital	**18,437**	16,961	18,020
Total capital base for purposes of capital adequacy	**43,126**	39,801	41,245

Capital adequacy - (Table 3 - Basel II):

Risk assets and capital requirements in respect of credit risk deriving from exposures to:	**30 September 2012** Risk assets	Capital require-ments (3)	30 September 2011 Risk assets	Capital require-ments (3)	31 December 2011 Risk assets	Capital require-ments (3)
	NIS millions					
Sovereign debts	**886**	**80**	833	75	855	77
Debts of public sector entities	**1,853**	**167**	1,720	155	1,859	167
Debts of banking corporations	**5,039**	**454**	7,603	684	5,130	462
Debts of corporations	**152,384**	**13,715**	158,361	14,252	158,015	14,221
Debts collateralized by commercial real estate	**18,712**	**1,684**	18,879	1,699	19,002	1,710
Retail exposures to individuals	**22,653**	**2,039**	21,339	1,921	21,893	1,970
Loans to small businesses	**9,512**	**856**	9,661	869	9,716	874
Housing loans	**32,844**	**2,956**	29,197	2,628	29,831	2,685
Securitization	**425**	**38**	289	26	271	24
Other assets	**12,355**	**1,112**	11,743	1,057	12,029	1,083
Total in respect of credit risk (1)	**256,663**	**23,101**	259,625	23,366	258,601	23,273
Risk assets and capital requirements in respect of market risk (1)	**9,310**	**838**	9,184	827	9,011	811
Risk assets and capital requirements in respect of operational risk (2)	**21,095**	**1,899**	20,749	1,867	20,095	1,809
Total risk assets and capital requirements (4)	**287,068**	**25,838**	289,558	26,060	287,707	25,893
Total capital base for capital adequacy	**43,126**		39,801		41,245	
Total capital ratio	**15.02%**		13.75%		14.34%	
Tier 1 capital ratio	**8.60%**		7.89%		8.07%	

(1) Weighted risk assets according to the standardized approach, First Pillar only.
(2) According to the standardized approach. (Figures for September 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.

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

	30 September 2012	31 December 2011
	%	
Leumi – on consolidated basis	**15.02**	14.34
Leumi Mortgage Bank	**12.05**	12.88
Arab-Israel Bank	**16.43**	15.60
Leumi Card	**15.50**	14.80
Bank Leumi USA (1)	**14.26**	13.26
Bank Leumi Switzerland	**28.44**	31.82

(1) The subsidiary 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 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 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.

B. Other Information

Principal Developments in the Economy[(*)]

General

In the first nine months of 2012, the Israeli economy grew at al rate of some 3.2%, compared with the corresponding period last year. The weakness of economic activity around the world and the expectations of households and businesses for a continuation of the slowdown made for moderate growth. In the third quarter of the year, the growth rate was 2.9% in annual terms, compared with the second quarter. The slowdown in economic activity led to low tax collection 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 original target deficit appearing in the Budget Book. Against this backdrop, the Government decided on a number of measures intended to reduce the deficit, including, *inter alia*, an increase in direct and indirect taxes.

The Israeli consumer price index (published monthly) increased during the first nine months of the year by 2.1%, and in the twelve months ended September 2012 at September 2012, the increase was 2.1%. This rate is at the middle of the price stability target of 1-3%. During the period, the Bank of Israel lowered interest rates twice - in February and July 2012 by 0.25 percentage points each time. The interest rate reductions are explained by the negative reversal in the world economy and the desire to support growth in Israel. The interest rate, which, in July, stood at 2.25%, was lowered to 2.0% in the decision for the month of November.

The share and convertible securities index rose during the period from January to September by some 4.1%, mainly due to price increases of some 6.9% in the third quarter. In October, share prices continued to increase, and the index rose by some 2.9%.

Committee for Increasing Competition in the Economy

On 16 July 2012, the Knesset approved in First Reading the proposed Government Law for Promoting Competition and Reducing Concentrations, 2012. The first two parts of the 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.

The Global Economy

In October 2012, the International Monetary Fund revised downwards its forecast for world growth for 2012 and 2013, as a result of a deterioration in the state of the global economy. The background for this was data relating to the weakness of activity and the unemployment rate in the first six months of 2012 which did not indicate a clear improvement in the third quarter. According to the Fund's revised forecasts, growth in the United States and the Eurozone in 2012 is expected to be between 2.2% and (0.4%), respectively, compared with 1.8% and 1.4%, respectively, in 2011.

Business Product and Economic Sectors

The business sector product expanded in the first nine months of 2012 by a real rate of 3.2%, compared with the first nine months of 2011. During the third quarter, GDP expanded at an annual rate of some 2.7%, compared with the second quarter. This is reflected in a downturn

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

in the rate of growth in Israel, in a slowdown in market activity worldwide, which affects both the expectations of the public and businesses, and, as a consequence, their activities in Israel.

The State Budget and its Financing

During the months from January-September 2012, the State budget deficit, excluding the net provision of credit, amounted to some NIS 19.0 billion, compared with NIS 10.2 billion in the corresponding period in 2011. This compared with a planned deficit for the whole of 2012, which was set at NIS 18.3 billion (about 2.0% of GDP). However, this deficit was originally 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 Bank of Israel has estimated, as part of the interest decision for November, that the budget deficit for 2012 is expected to amount to 4% of GDP, meaning that an additional variance (downwards) from the updated tax forecast is expected for this year.

On 30 July 2012, the Government decided on a number of measures to reduce the deficit and contend with the implications of the crisis in the world economy on the Israeli economy and a change in the order of priorities in the budget. The measures to reduce the deficit for the current year and for 2013, which were enacted at the beginning of August 2012, included, *inter alia*, the following tax increases (the source of these data was a press release by the Knesset Finance Committee), partly during 2012 and partly in 2013:

- An increase in the rate of VAT from 16% to 17%, with effect from 1 September 2012.
- The collection of taxes on trapped profits.
- The intensification of tax-collecting measures and the war on "black money".
- An increase in income tax in respect of income in excess of NIS 14,001 per month by 1%.
- An increase in purchase tax on cigarettes and beer.
- An increase in employer's provision for national insurance in three stages: 0.6% in 2013, 0.5% in 2014 and 0.5% in 2015.
- Capital appreciation tax – 2% on income in excess of NIS 800 thousand per annum.
- A revision of the "green taxation" formula.
- Extension of a temporary provision regarding acquisition tax.
- Non-updating of the index for the three highest tax brackets.

Foreign Trade and Capital Movements

Israel's aggregate trade deficit in the first nine months of 2012 amounted to some US$ 14.1 billion, an increase of some 35% compared with the deficit for the corresponding period last year. The increase in the trade deficit is mostly due to a reduction in exports, against the background of a slowdown in economic activity around the world representing the source of demand for Israeli exports. In the third quarter of the year, there was an improvement in the trade deficit in the effect of the recovery in exports (mainly in the area of high-tech).

Foreign currency capital inflows of foreign residents were characterized in the first nine months of the year by the realization of financial investments in Israel by foreign residents in the amount of some US$ 2.5 billion, mostly from the effect of the significant realization of government debentures and T-bills. On the other hand, the direct investments in Israel, via the banking system, amounted to some US$ 4.4 billion from the beginning of the year. In comparison, the volume of investments of Israeli residents abroad (direct investments through banks in Israel and financial investments) amounted to some US$ 3.5 billion. In summary, it may be said that the level of transactions in outgoing capital increased over inflows during the report period, a situation which supported the weakening of the exchange rate of the shekel.

Exchange Rates and Foreign Currency Reserves

In the first nine months of 2012, the exchange rate of the shekel depreciated by some 2.4% against the dollar, while against the euro, the shekel depreciated by some 2.6%. The cumulative depreciation in this period amounting to some 5.6% was due to the weakness of the shekel against the dollar in the second quarter of the year, with relative stability in the shekel-dollar rate being recorded in the third quarter. Capital outflows from Israel of foreigners and Israelis also contributed to the weakness of the rate of the shekel.

Foreign currency balances in the Bank of Israel at the end of September 2012 amounted to some US$ 76.2 billion. This compared with US$ 74.9 billion at the end of December 2011. During this period (January–September 2012), the Bank of Israel did not purchase foreign currency on the market.

Inflation and Monetary Policy

During the months of January-September, the Israeli consumer price index increased by some 2.1%, while in the twelve months ended September 2012, the increase also amounted to some 2.1%. This rate is at the middle 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 2.8% and contributed around one-third of the increase. The non-energy index increased by only 1.3% in the twelve months ended September 2012. This means that, excluding the effect of supply factors (energy), the rate of price increase is moderate. In October 2012, the index fell by 0.2%.

In the first quarter of the year, the Bank of Israel lowered interest rates by 0.25 percentage points (in the interest rate decision for February 2012) to 2.5%. At the time, the Bank of Israel explained this as a negative turning point in the world economy and a desire to support growth in Israel. This interest rate was retained during the second quarter, and only in the July decision was it lowered again by 0.25 percentage points to 2.25%, a level which was also retained during the third quarter. In the interest decision taken in November, interest was lowered to 2.0%, against the background of the need to lend additional support to economic activity and the absence of inflationary pressures.

Capital Market

The shares and convertible securities index rose by some 4.1% in the first nine months of the year, following a fall of some 22.1% in 2011. The increase was mainly influenced by an increase in share prices of some 6.9% in the third quarter of the year. The main reasons for this related to the continuation of the expansive monetary policy in Israel and overseas and the continuing growth in Israel, in spite of the slowdown, at rates higher than those in advanced countries.

Average daily trading volumes of shares and convertible securities fell by some 39% in the months of January-September, compared to the average for 2011, and amounted to some NIS 1,051 million. In the third quarter, this fall continued and volumes amounted to some NIS 948 million. It appears that capital market activity remained limited against a backdrop of a slowdown in economic activity in Israel and around the world, and the expectations that the weakness would continue in the near future.

The Government bond market in the first nine months of 2012 was characterized by price rises. The price of index-linked Government bonds increased by some 6.0%, while unlinked bonds rose by some 4.2% (the fixed interest (*Shahar*) bond indices rose by some 4.5% and the variable interest (*Gilon*) bond index increased by some 3.2%).

In the index-linked non-government debenture market (corporate bonds), there were price increases of some 5.2% in the months of January–September. In the third quarter of the year, prices increased, as a part of the improvement in the capital markets in Israel and around the world and as also reflected in the share market.

Financial Assets held by the Public

In the months from January–September, the value of the portfolio of financial assets held by the public increased by some 5.1% to some NIS 2,654 billion. This increase in the value of the portfolio derived from an increase in all of its components. The weight of shares (in Israel and abroad) in the financial assets portfolio of the Israeli public reached some 22.2% at the end of September 2012, compared with some 21.5% 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 894 billion at the end of September 2012, compared to some NIS 842 billion at the end of December 2011, an increase of 6.1%.

Bank credit

Bank credit in the economy granted to the private sector (before allowances for credit losses) increased in the first nine months of the year by some 2.1%. This is the result of an increase in credit to households, particularly in housing credit which expanded by some 7.8%, while non-housing credit (consumer credit) grew by some 2.3%. On the other hand, credit granted to the business sector fell by some 1.2%.

On 29 October, 2012, the Supervisor of Banks published a draft directive on the Limitation of the Loan to Value (LTV) Ratio on Housing Loans, which will apply to loans for which approval in principle is given from 1 November 2012 and thereafter. The new directive is a continuation of previous measures taken by the Banking Supervision Department in the housing credit market. For details, see below on page 84 of the Report.

Net credit to the public in **the Bank** at the end of September 2012 amounted to some NIS 145.8 billion, compared with NIS 151.6 billion at the end of December 2011, a decrease of 3.8%. Housing credit in Leumi Mortgage increased by 8.8% in the first nine months of 2012, an increase of NIS 4.7 billion.

Credit ratings of 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". The announcement reflected the expected slowdown in economic activity and the geopolitical tension prevailing in the region, as well as the moderate capital levels, limiting the system's ability to absorb losses, and was not issued because of a change in the rating horizon or change of rating of an individual bank (including Leumi).

On 5 August 2012, the credit rating company, Midroog, announced that it was lowering the horizon of the rating of Leumi and Hapoalim from "stable" to "negative". Nevertheless, the rating for these banks did not change, remaining higher than the rating of all other Israeli banks.

According to the announcement by Midroog, the change in Leumi's rating horizon reflects Midroog's assessment that the short-term profitability "cushion", which is not expected materially to change from its level in 2011, does not merit a perfect rating, in view of a challenging business environment and regulatory changes.

The table below shows Israel's and the Bank's credit ratings as at 26 November 2012:

	Rating agency	Short-term rating	Long-term rating	Long-term rating 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	negative
Leumi's rating in local currency for subordinated capital notes	Ma'alot	-*	AA	stable
	Midroog	-*	Aa1	negative
Leumi's rating in local currency for subordinated capital notes (Upper Tier II)	Ma'alot	-*	(A, AA-)**	stable
	Midroog	-*	Aa2	negative

* Not relevant

** A: Upper Tier II capital with compulsory conversion into shares of the principal.
AA-: "New" Upper Tier II capital, not convertible into shares.

Developments in the Leumi share price

From the beginning of the year until 30 September 2012, the price of Leumi shares rose from 1,091 points to 1,095 points, an increase of just 0.37%. During this period, the Bank's market value remained at a level of some NIS 16.1 billion, compared to an equity value of NIS 25.0 billion.

Since the beginning of the year and up to 30 September 2012, the share has increased by 0.37%, compared to the Index of Banks which increased by 5.76%. In the third quarter, there was an increase of 16.61% in the price of Leumi shares, compared to an increase of 17.12% in the Index of Banks.

From the end of September 2012 to 20 November 2012, the share price rose by some 14.43% to a price of 1,253 points, and the market value reached NIS 18.46 billion.

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

	For the three months ended 30 September		For the nine months ended 30 September		For the year
	2012	2011	**2012**	2011	2011
	(in percentages)				
Rate of increase of the "known" CPI	**0.85**	0.58	**2.12**	2.75	2.6
Rate of increase (decrease) in the rate of the US dollar	**(0.28)**	8.70	**2.38**	4.59	7.7
Rate of increase in the rate of the euro	**2.70**	2.01	**2.57**	6.45	4.2
Rate of increase in the rate of the pound sterling	**3.42**	6.10	**7.69**	5.55	7.3
Rate of increase in the rate of the Swiss franc	**1.95**	0.75	**3.05**	8.87	7.2

The following table sets out the principal representative exchange rates:

	30 September		31 December	
	2012	2011	2011	2010
	In NIS			
U.S. dollar	**3.912**	3.712	3.821	3.549
Euro	**5.065**	5.044	4.938	4.738
Pound sterling	**6.345**	5.798	5.892	5.493
Swiss franc	**4.186**	4.124	4.062	3.788

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

	2012			2011			
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	(in percentages)						
Rate of increase (decrease) in Israeli Consumer Price Index ("known" index)	**0.9**	1.3	-	(0.2)	0.6	1.3	0.9
Rate of increase (decrease) of the U.S. dollar exchange rate	**(0.3)**	5.6	(2.8)	2.9	8.7	(1.9)	(1.9)
Rate of increase (decrease) of the euro exchange rate	**2.7**	(0.4)	0.3	(2.1)	2.0	(0.1)	4.5
Rate of increase (decrease) of the pound sterling exchange rate	**3.4**	3.3	0.8	1.6	6.1	(2.4)	1.9
Rate of increase (decrease) of the Swiss franc exchange rate	**1.9**	(0.1)	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 forecasts, 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 (hereinafter "the Supervisor") 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 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 with whom the connection has been discontinued.

On 25 June 2012, the Supervisor published a circular regarding management fees in pension savings instruments, which will come into force on 1 January 2013, providing, *inter alia*, rules regarding the minimum period for providing benefits in management fees (including cases wherein an institutional entity is entitled to raise management fees during this period) and provisions for increasing transparency with regard to management fees collected from members.

On 2 August 2012, the Commissioner published a draft circular on "A Uniform Structure for Transferring Data and Information in the Pension Savings Market – Amendment", pursuant to which updates were made regarding some of the interfaces and rules for the transfer of data and information.

On 15 August 2012, the Commissioner published a draft to amend the circular "Power of Attorney to a License Holder", which included among its main amendments, a revision of some of the dates published in the original circular, the granting to a banking corporation the possibility of obtaining the signature of a customer on a power of attorney form through its Internet site and the updating of the version of power of attorney forms attached to the original circular.

Further to the approval of the Supervision of Financial Services Regulations (Provident Fund) (Management Fees), 2012, ("**Management Fees Regulations**") which will come into effect from 1 January 2013, on 17 October 2012, the Commissioner published the draft Supervision of Financial Services Regulations (Provident Fund) (Management Fees) (Amendment), pursuant to which a management company is entitled to charge management fees at rates published in the Management Fees Regulations or in an amount not exceeding NIS 9 per month of the accumulated balance of the policyholder (whichever is higher). The amendment is expected to come into effect on 1 July 2013.

On 31 October 2012, the Commissioner published a draft circular of an explanatory document, which is intended to establish a focused and consistent structure for the explanatory and illustrative document, and which is expected to replace a number of circulars dealing with an explanatory document and other documents which license holders are required to forward to their customers in the course of marketing or pension consulting activity.

Legislation relating to the Banking System

Banking Law (Legislative Amendments), 2012

On 19 March 2012, the Banking Law (Legislative Amendments) 2012 was published in the *Official 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 of Israel 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 in which all holders of the means of control 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 upwards.

- In a banking corporation without a controlling core, only the following persons will be entitled to propose to the general meeting a number of candidates for election as director: 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 upwards; 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 eligibility 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 on which 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 chair 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 (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) in the banking corporation which the committee has discussed, with the chairman of the temporary committee and the members of the temporary committee who were appointed as aforesaid, will propose, 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 the 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 to report 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 of the above, and if he has not agreed to this, he will not be entitled to join a body of holders for the purpose of proposing 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% for the reasons outlined.

- The tests to be used by the Supervisor of Banks when considering 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 the Supervisor of Banks for office as an officer in the banking corporation has been expanded, so that it will also apply to the office of legal advisor of the banking corporation, and the Supervisor of Banks has been 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 have been 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 voting on the appointment of directors will only be at the annual meeting or at a meeting convened with the approval of the Supervisor; 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 bank branch (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 the branches of 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 not apply, from 1,000 to 5,000. Accordingly, a bank or a foreign bank with immaterial retail activity will be considered 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 that 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.

Cheques Without Cover Law (Amendment no. 9), 2012

On 14 May 2012, the Cheques Without Cover Law (Amendment no. 9), 2012 was published in the *Official Gazette*. Pursuant to the Law, in the event that a person makes a request to be added to an account as a joint account-holder or as a power of attorney, an existing account which is a restricted account, or an account one of whose holders is restricted, or an account in which five or more cheques have already been refused in the 12 months preceding the date he was added, the Bank is obliged to forward to him the following information on the account and on the existing holder:

1. The number of cheques refused in the account in the twelve months preceding the date he was added.

2. A restriction, which is not a special restriction, (i.e., an ordinary or serious restriction) which is imposed on the account or on its holder in the three years preceding the date he was added, and the type of restriction imposed, as applicable.

3. A special restriction imposed on the account or on its holder at the date he was added, in whole or in part.

The law is in effect from 14 September 2012, and transitional provisions have been made for the purpose of forwarding the information regarding historical restrictions on the account.

Companies Law (Amendment no. 19), 2012

On 17 July 2012, the Companies Law (Amendment no. 19), 2012, regulating the subject of the recovery of companies, was published in the *Official Gazette*. The main points of the law are:

- Relief for companies that receive an order for a stay of proceedings, including *ex parte*, and the option of extending it beyond nine months, with court approval.

- The possibility of appointing an officer in the company as the official with certain authorities, such as investigation responsibilities, examining the company's liens, delaying their realization and conversion. Due to concerns of a conflict of interests and a misuse of this appointment, the law provides that the court should appoint an outside supervisor over the officer who is a company official and allows the court to confer on him only some of the functions and authorities relevant to the officer, noting the prohibition of the conflict of interests between his function and the fact that he is an officer of the company.

- The grant of authority to the court to approve the company's receipt of new credit in connection with recovery proceedings, secured by lien, which can also be of an identical ranking or prefer the previous creditors. In addition, it will be possible to sell and pledge assets which have been pledged against "appropriate protection". The extension of new credit, as aforesaid, will be possible only as a last resort, if the court is convinced that there is a need to receive it.

- The grant of authority to the court to enforce a creditors' arrangement over a class of creditors that object, providing that conditions guaranteeing that the same class of creditors will not be impaired as a result of the approval of the arrangement are met.

- The grant of authority to the court to oblige providers of infrastructure service and other essential products and services for the company's operation, as well as parties to contracts in which the company is connected, to continue to supply the company with the product or service or to continue the performance of those contracts.

- The grant of secured creditor status to owners of an asset by virtue of an ownership preservation stipulation – the law provides that, similar to a secured creditor, who is prevented from realizing his securities and initiating proceedings during the period of the stay of proceedings, and also the owner of an asset by virtue of an ownership preservation stipulation will not be able to receive possession of the asset if the asset is required for the company's continued operation, if it is awarded "appropriate protection".

Companies Law (Amendment no 20), 2012

On 12 November 2012, Amendment no. 20 to the Companies Law was published. The main purpose of the law is to regulate the remuneration policy for officers in public companies and debenture companies, and establish a special process for its approval.

The amendment provides that the board of directors of a public company or a private company which is a debenture company is obliged to determine, within nine months of the commencement date, a policy regarding the conditions of the term of office and employment of its officers (hereinafter: "the remuneration policy"), after it has considered the recommendations of the remuneration committee.

The amendment to the law provides that the remuneration policy is subject to the approval of the general meeting and regulations with regard to this matter have been stipulated, including the required majority. It is also provided that the board of directors has authority to approve the remuneration policy, even if the general meeting objects to it, providing the remuneration committee and subsequently, the board of directors, have decided on the basis of detailed explanations, and after they have discussed the remuneration policy again, that the approval of the policy is for the good of the company, notwithstanding the general meeting's objection.

The remuneration policy will be determined in accordance with considerations, matters and regulations which must be referred to, which are set forth in the amendment to the law. The board of directors will examine the remuneration policy from time to time and adapt it to the provisions of the law, and it is obligatory to present the remuneration policy for approval at least once every three years, in the way in which the remuneration policy was determined.

The board of directors should appoint a remuneration committee whose composition is stipulated in the amendment to the law, including at least three directors, and all of the external directors pursuant to the Companies Law will be members, who will make up a majority of its members, and which will be chaired by an external director pursuant to the provisions of the Companies Law.

The committee's duties are to recommend the remuneration policy to the board of directors, update it from time to time, review its implementation and approve the continuation of its effectiveness.

The amendment to the law further provides for the approval of individual transactions with officers with regard to the conditions of their terms of office and employment, including transactions that are not in accordance with the remuneration policy.

Uniform Contracts Law (Amendment no. 4), 2012

On 9 July 2012, the Proposed Law for Uniform Contracts (Amendment no. 4), 2012 was passed. Pursuant to the amendment, the presumption of a discriminatory condition was added to the law, if it is determined that the contract payments are to be linked to a certain index and a minimum rate is fixed for this index, such that a decrease or increase in the index below the minimum rate will not be in favour of the customer. With regard to the discriminatory condition, the relevant provisions will apply. The amendment will come into effect four months after the date it is published in *Reshumot* (the Official Gazette).

Proposed Law for the Regulation of Engagement in Investment Consulting, Investment Marketing and Investment Portfolio Management (Amendment no. 19) (General Investment Consulting and General Investment Marketing), 2012

The Proposed Law for the Regulation of Engagement in Investment Consulting, Investment Marketing and Investment Portfolio Management (Amendment no. 19) (General Investment Consulting and General Investment Marketing), 2012 was approved in a first reading in the Knesset plenum on 24 July 2012.

According to the proposed law, a distinction will be made between consulting/marketing pursuant to which consulting is given to a certain customer according to his personal needs and data, and general consulting/marketing pursuant to which uniform and non-specific consulting is given to a large number of people (sometimes to an unknown number), which has not been adapted to a customer's personal needs/data.

In addition, the proposed law prescribes obligations that will apply to general investment consulting, including an obligation to include a notice that it concerns general consulting or marketing that does not constitute a substitute for investment consulting/marketing that has been adapted to a customer's personal needs/data, disclosure as to whether the provider of the general consulting/marketing has a personal interest in the subject, and identifying details on the provider of the general consulting/marketing. It is proposed to grant the Finance Minister, with the approval of the Finance Committee of the Knesset, authority to determine the required details of the disclosure obligations and the aforesaid identifying details.

The proposed law also provides that the provision of consulting or marketing services, including referral to such services or in their advertisement must not include materially incorrect information, and that no misleading item should appear in a report, notice or document submitted pursuant to the law.

In addition, it is proposed to add breaches in respect of which penal sanctions may be imposed and breaches in respect of which the Authority will be authorized to impose a monetary sanction (both on an individual and on a corporation), with regard to the provision of general investment consulting/marketing and with regard to materially incorrect information or a misleading item.

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"), providing operative directives for implementing the law. Final regulations are expected to be published by the end of 2012. The American authorities recently announced a six-month deferral of the effective date of the requirements of the law to 1 January 2014.

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, report on them to the IRS and 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. In addition, the main working processes required for application of requirements of the law in the Bank has been analyzed and a work program for implementation has been determined.

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

The IRS recently published a model of a trans-national agreement for the implementation of the FATCA regulations and issued other notices regarding special agreements for implementing the FATCA between the United States and the United Kingdom, Switzerland, and several other countries. Financial institutions and their customers located in a country, which is a signatory to the trans-national agreement for implementation of FATCA regulations, will enjoy certain reliefs within the framework of the FATCA requirements.

At the beginning of August 2012, the Finance Ministry announced the setting up of a team headed by the Commissioner of State Revue, to examine the implementation of the FATCA regulations in Israel, "including examining the possibility of implementing a bilateral agreement between the State of Israel and the United States, which is intended to give relief to the financial entities with regard to implementation". According to the announcement, the team includes representatives of the Finance Ministry, the Bank of Israel, the Securities Authority and the Justice Ministry.

Notwithstanding what is stated in the above paragraph, Bank Leumi continues to be prepared to deal with the implementation of the FATCA requirements in a format which is not an inter-country arrangement, until further notice from the relevant authorities in the State of Israel.

Value Added Tax and National Insurance

On 2 August 2012, a Value Added Tax Order was published, updating the rate of value added tax in respect of a transaction and the import of goods to 17% from 1 September 2012.

On 30 August 2012, a Value Added Tax Order was published, updating the rate of profit tax and payroll tax for financial institutions to 17% from 1 September 2012.

The rate of payroll tax applicable to financial institutions is 17% with respect to salary payable for work from September 2012 and thereafter, instead of 16% for 2012 and 15.5% for 2013 and thereafter.

As a result of the abovementioned change, the statutory tax rate applicable to banking corporations rose in 2012 from 35.34% to 35.53%, and in 2013 onwards, it will rise to 35.9%.

The effect of the above change led to an increase in deferred taxes receivable amounting to NIS 37 million in 2012. The effect on the balance of the liabilities to employees totals NIS 75 million before taxes, and NIS 48 million after taxes. The annual effect on the Bank's salary and operating expenses is some NIS 41 million before taxes and NIS 26 million after taxes.

On 13 August 2012, the Deficit Reduction and Change in Tax Burden Law (Legislative Amendment), 2012 (hereinafter: "the Law") was published. Pursuant to the Law, with effect from January 2013, the rate of National Insurance premiums collected from employers in respect of the part of the salary exceeding 60% of the average salary in the market will increase from 5.9% at present to 6.5%. In addition, this rate will increase in January 2014 and January 2015 to 7% and 7.5%, respectively. The effect on the Leumi Group is not material.

Interim Report of the Team to Examine How to Increase Competitiveness in the Banking System in Israel

On 16 July 2012, the Team to Examine How to Increase Competitiveness in the Banking System in Israel, headed by the Supervisor of Banks ("the Team"), which was appointed by the Governor of the Bank of Israel and the Finance Minister, following a recommendation of the Committee for Socioeconomic Change ("the Trajtenberg Committee"), published an interim report.

The Team examined and recommended various measures and procedures for increasing competition in the Israeli banking system, improving the power of households and small businesses, increasing customers' options, lowering the prices of services and improving service.

The Team's recommendations focused on three areas:

Increasing the number of players inside and outside the banking system, by encouraging the establishment of an Internet bank, encouraging the establishment of credit unions in Israel, examining a mechanism for financial routing of long-term savings of the public for increasing the supply of credit to households and small businesses;

Increasing competition among the existing players in the banking sector, *inter alia*, by opening accounts via the Internet and easing the process of closing a bank account, publicizing the actual existing interest rates and increasing accessibility to information sites for comparison purposes, providing a banking "identity card", including details of its assets and liabilities, yield and payments to a bank in an initiated manner for the customer, to include information regarding borrowers, changing the interest ceiling mechanism and applying it to banking corporations, etc.;

Supplementary measures – *inter alia*, imposing supervision of certain commissions and the cancelation of a number of commissions, increasing transparency in security commissions and re-pricing of the services, easing the transition between the banking system and the non-bank system in the area of securities, reducing commissions for small businesses, easing early repayment of business credit.

On 21 August 2012, the Supervisor of Banks published a draft amendment to the Banking Regulations (Service to the Customer) (Commissions), 2008 ("draft of the Regulations"), which reflects the main points of the recommendations in the area of commissions and provides, *inter alia*: canceling a commission for a data card and a cash withdrawal card; canceling a management fee charge for a small business; raising the exemption of a commission fee for dealing with credit and collateral from a ceiling of NIS 50,000 to a ceiling of NIS 100,000; canceling management fees in respect of T-bills and monetary funds; differential pricing in respect of activities in securities in various channels; maximum commission for the purchase and sale of securities; canceling minimum commissions in respect of security deposit management; expanding supervision of security deposit transfer commissions for the transfer of a customer's deposit even outside of the banking system; determining a reduced rate of commission for taking out a banking guarantee secured by a monetary deposit, etc.

If and insofar as the recommendations included in the report and set out in the draft regulations are enacted in legislation and regulations, it will be sufficient to cause a fall in the Bank's revenues from commissions and an increase in the Bank's expenses for developing and adapting the automated systems to the new requirements. In addition, there may be an indirect impact which cannot be assessed at this stage.

Joint Investment Trust (Distribution Commission) (Amendment) - 2012

Following the Bachar Committee, a remuneration model was set up in the area of mutual funds distribution, based on the payment of distribution commissions by manufacturers to distributors. As a supplementary step, regulations have been instituted with the aim of fixing the maximum distribution commissions that the distributors are allowed to charge mutual fund managers for the distribution of funds. The maximum amount of commission varies according to the type of fund.

The proposed amendment reduces the mutual fund distribution fees by approximately 20% of total fees currently paid by fund managers to the banks that distribute the units of the funds.

Outline of the regulation of the Securities Authority - Roadmap: Goals and plans for the coming years

On 4 September 2012, the Securities Authority published a roadmap, which includes its objectives and an outline of its activity for the coming years, based on three areas: regulation, deregulation and the development of the capital market.

With regard to regulation, the document includes details of major projects on the Authority's agenda, including certain areas which are currently not regulated, including - (a) trading floors (b) broker-dealer relations (c) credit rating agencies (d) advice to institutions (e) monitoring the work of the independent auditors (e) general investment consulting (analysis) (f) ETFs (g) changes in underwriting with the aim of restoring underwriting to the issues (h) amendment of legislation designed to establish determine an appropriate, professional and uniform process for applicants for a license (i) improving and shortening the financial statements (j) the prohibition of front-running (the prohibition of the unfair use of information regarding securities), etc.

With regard to the level of relief from regulation, the document includes an outline of reliefs for public comment, including, *inter alia* -

(a) Reliefs for all supervised entities: Among the many reliefs considered by the Authority, the following are noteworthy: in corporations – extending the period for offering securities pursuant to a shelf prospectus from 24 months to 36 months, canceling various disclosure directives by virtue of financial statement regulations for which there is no longer any justification following the introduction of the IFRS. In the area of the license holders (investment consultants, investment marketers and portfolio managers), reexamining the Authority's directive to clarify the needs of the customer in order to obtain more effective and concise explanation, cancelation of the obligation for immediate delivery of documentation of the process and reducing the frequency of the obligation to carry out a procedure for clarifying customer requirements, such that it will be carried out every two years instead of every year.

(b) Reliefs for small companies: The Authority has examined whether there is room to prepare a regulation hierarchy for large supervised entities and small supervised entities, beyond the one currently provided in the provisions of the law.

(c) Changes in the Authority's conduct: The expansion of the public's participation in the legislation process, determination and publication processes of rules to assist supervised entities in assimilating the new legal provisions in an orderly and efficient manner, exploring the possibility of concentrating new publications on dates fixed by it in advance, in order to facilitate the monitoring and implementation of the publications.

With regard to market development: The Authority presented a number of projects, including the promotion of investments in public companies operating in the field of research and development; a system of voting by Internet; mutual recognition of prospectuses and current reports, setting up an inter- departmental team to examine tools for promoting and developing the securitization market in Israel; the regulation of activity of a new financial instrument known as the ETF Fund; the creation of an alternative distribution system that would compete with the mutual funds distribution system in use today; increasing competition in the brokerage market, etc.

Proposed Law to Amend the Banking Law (Service to the Customer) (Amendment no. 19), 2012

On 15 October 2012, the Knesset Economic Affairs Committee approved the Proposed Law to amend the Banking Law (Service to the Customer) (Amendment no. 19), 2012 (the proposed law) for a second and third reading.

According to the proposed law, a banking corporation must not make a loan for immediate repayment and must not start legal proceedings against a customer for non-compliance with the loan terms (except for a credit facility), including due to non-repayment of the loan, in part or in full, unless the customer has been furnished with written notice, 21 business days before taking any action regarding the loan in a way that the banking corporation is accustomed deliver notices to that customer, and by personal delivery to the customer's registered address with the banking corporation. The said notice should include various details as set forth in the proposed law. Nevertheless, a banking corporation will not be obliged to furnish such a notice if its delivery presents a tangible concern for the impairment in the banking corporation's ability to collect, due to an adverse change in the customer's repayment capacity or because of other conditions requiring immediate execution of an action with regard to the loan.

Pursuant to the proposed law, the commencement of the proposed arrangement is six months from the date the law is published in *Reshumot*, and it will be effective for loans made by the banking corporation before its commencement date.

Proposed Law for the Intensification of the Collection of Taxes and the Increase in Enforcement (Legislative Amendments), 2012

On 5 November 2012, the Proposed Law for the Intensification of the Collection of Taxes and the Increase in Enforcement (Legislative Amendments), 2012 was published, which, *inter alia*, amends the first addendum to the Law for the Prohibition of Money Laundering, and adds new predicate offenses pursuant to Section 220 of the Income Tax Ordinance, Section 98 (C2) of the Real Estate Taxation Law (Sections 117(B)(1), 117(B)(3) to (8) and 117(B1) of the Value Added Tax Law.

Draft Securities Regulations (Regulation regarding the Appointment of a Commissioner and his Function, Operation, Remuneration and Expenses), 2012

The Streamlining of Enforcement Procedures in the Securities Authority (Legislative Amendments), 2011 ("Administrative Enforcement Law") allows the imposition of a range of enforcement measures on an offender. Section 27ZZB(a) of this law provides an arrangement whereby a panel of an administrative enforcement committee is authorized to require an offender to pay an additional amount called "payment to the victim of the breach" the maximum amount of which is determined in the law.

The proposed version of the regulations provides that the panel is responsible for defining the group of victims of the breach and the amount to be paid to them and to set out in its decision the general principles for entitlement to receive the payment and the way in which it is to be distributed among the victims. In addition, the proposed version provides, *inter alia*, the terms of eligibility for appointment as a commissioner, the way in which a commissioner must perform his duties, the reports that will be required to be furnished in connection with the performance of his duties to the panel and to the chairman of the Authority, the method for determining the Commissioner's salary and expenses, including the salaries of the Commissioner's employees or his office and the employment of external consultants and the method of publishing the notices to the victims of a breach.

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.

Liabilities for Employee Rights

In July 2012, the Capital Market, Insurance and Savings Department in the Ministry of Finance published a draft position paper concerning the update of demographic assumptions in pension funds and life insurance, including a possible update of mortality tables. In accordance with instructions of the Banking Supervision Department on the measurement of liabilities in respect of employee rights, assumptions regarding mortality and disability are to be updated in the statements for the second quarter of 2012, according to the best information available to the banking corporation. For this purpose, use is to be made, *inter alia*, of the draft mortality and disability tables published recently by the Ministry of Finance.

In accordance with the aforesaid, in the financial statements at 30 June 2012, the Bank updated its evaluation of demographic variables, based on the updated estimates of life expectancy included in the draft position paper. As a consequence, the Bank increased the liability for pension by some NIS 25 million before tax. The increase in provision was charged to the statement of profit and loss. It should be noted that there may be changes in the said amounts with inasmuch as the final circular from the Capital Market, Insurance and Savings Division may contain changes.

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. Most of the members of the Board of Directors currently in office have 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 other senior managers in the Bank. In addition, the Chief Internal Auditor participates in the Committee's discussions. 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 problem customers and provisions. 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 classifications 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 other 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 a 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.

It should be noted that pursuant to Regulation 301 of the Supervisor of Banks, with effect from 1 January 2013, the discussions currently underway in the Financial Statements Review Committee, as mentioned above, will take place in the Audit Committee of the Board of Directors, and the Financial Statements Review Committee will discontinue its function.

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 Disclosure Committee regarding the financial statements are attended by representatives of the Bank's joint auditors, who are available to answer questions and provide clarifications to the participants. The financial statements are approved by the Board of Directors after the joint auditors have presented any material weaknesses that may have arisen during the audit processes they have carried out to the Financial Statements Review Committee and the Audit Committee of the Board of Directors, and after the Board has been presented with the Certfications 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, a chairperson who is an external director, pursuant to the Companies Law. 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 disclosure requirements set forth in the Third Pillar 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 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 on 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 on the Procedure for Approval of the Financial Statements), which decides, in the event of any doubt, whether to make the necessary disclosure. The 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 by Segments and Areas of Activity

Development of Income, Expenses and Tax Provision

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

- Net interest income includes only 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 (hereinafter: "the net profit") of Leumi Group for the first nine months of 2012 was NIS 1,190 million, compared with NIS 1,273 million in the corresponding period in 2011, a decrease of 6.5%.

The decrease in the net profit in the first nine months of 2012, as compared with the corresponding period in 2011, is explained as follows:

	For the first nine months ended *			
	30 September 2012	30 September 2011	Change *	
	NIS millions		NIS millions	%
Net income interest	**5,624**	5,428	196	3.6
Income in respect of credit losses	**(850)**	(349)	(501)	143.6
Non-interest income	**3,380**	2,972	408	13.7
Other operating expenses	**(6,489)**	(6,220)	(269)	4.3
Profit before taxes	**1,665**	1,831	(166)	(9.1)
Provision for tax	**(578)**	(664)	86	(13.0)
The Bank's share in companies included on equity basis	**132**	145	(13)	(9.0)
Net profit attributed to non-controlling interests	**(29)**	(39)	10	(25.6)
Net profit attributed to shareholders in the banking corporation	**1,190**	1,273	(83)	(6.5)

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

The net profit of Leumi Group in the third quarter of 2012 amounted to NIS 479 million, compared with NIS 155 million in the corresponding period in 2011, an increase of 209%.

	For the three months ended *			
	30 September 2012	30 September 2011	Change	
	NIS millions		NIS millions	%
Net income interest	**1,872**	1,841	31	1.7
Income in respect of credit losses	**(292)**	(378)	86	(22.8)
Non-interest income	**1,208**	675	533	79.0
Other operating expenses	**(2,294)**	(2,055)	(239)	11.6
Profit before taxes	**494**	83	411	495.2
Provision for tax (tax benefit)	**(113)**	(32)	(81)	253.1
The Bank's share in companies included on equity basis	**108**	115	(7)	(6.1)
Net profit attributed to non-controlling interests	**(10)**	(11)	1	(9.1)
Net profit attributed to shareholders in the banking corporation	**479**	155	324	209.0

* The symbols are in accordance with their effect on the net profit.
Details on the changes - see below.

The following table is a condensed statement of operating profit and loss after taxes in the last seven quarters:

	2012			2011			
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions						
Net interest income	**1,872**	1,924	1,828	1,679	1,841	1,776	1,811
Income (expenses) in respect of credit losses	**(292)**	(333)	(225)	(385)	(378)	(73)	102
Non-interest income	**1,208**	995	1,177	1,203	675	1,146	1,151
Operating and other expenses	**(2,294)**	(2,200)	(1,995)	(2,121)	(2,055)	(2,079)	(2,086)
Profit before taxes	**494**	386	785	376	83	770	978
Provision for taxes (tax benefit)	**113**	159	306	(246)	32	260	372
Profit after taxes	**381**	227	479	622	51	510	606
Group's share in operating profits (losses) of companies included on equity basis after the effect of taxes	**108**	63	(39)	3	115	72	(42)
Net profit attributable to non-controlling interests	**(10)**	(10)	(9)	(7)	(11)	(18)	(10)
Net profit attributable to shareholders in the banking corporation	**479**	280	431	618	155	564	554

Net interest income of Leumi Group amounted in the first nine months of 2012 to NIS 5,624 million, compared with NIS 5,428 million in the corresponding period in 2011, an increase of NIS 196 million or 3.6%.

In the third quarter of 2012, net interest income amounted to NIS 1,872 million compared to NIS 1,841 million in the corresponding period in 2011, an increase of 1.7%.

The ratio of net interest income to the average balance of income-bearing monetary balance sheet assets is 2.22% (in annual terms) compared to 2.32% 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 nine months of		
	2012	2011	Change
	NIS millions		%
Households	**2,121**	1,924	10.2
Small businesses	**687**	674	1.9
Corporate banking	**1,141**	1,093	4.4
Commercial banking	**1,037**	982	5.6
Private banking	**271**	296	(8.4)
Financial management – capital markets	**356**	443	(19.6)
Other	**11**	16	(31.3)
Total	**5,624**	5,428	3.6

Total Interest Margin (excluding transactions in financial derivative instruments) in the first nine months of 2012 was 1.81%, compared with 1.50% in the corresponding period in 2011. The interest margin including transactions in financial derivatives was 1.21% in the first nine months of 2012, compared with 0.98% 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 reporting period was 1.77%, compared with 1.80% in 2011. The interest margin in the foreign currency segment increased from 0.55% to 0.83%. In the index sector, the interest margin for the period was 0.48%, compared to 0.54% in the corresponding period in 2011.

Expenses in respect of credit losses in the Leumi Group for the first nine months of 2012 amounted to some NIS 850 million, compared with NIS 349 million in the corresponding period in 2011, an increase of 143.6%.

In the third quarter, expenses in respect of credit losses amounted to NIS 292 million, compared with NIS 378 million in the corresponding period in 2011, a decrease of NIS 86 million.

The overall rate of the expense in respect of credit losses for the first nine months of 2012 was 0.47% of total credit to the public (in annual terms), compared with a rate of 0.20% in the corresponding period in 2011, and compared with 0.30% for the whole of 2011. The overall rate of the expense in respect of credit losses in relation to overall credit risk (balance sheet and off-balance sheet) was 0.31%, 0.13% and 0.20%, respectively.

The individual rate of expense in respect of credit losses in the first nine months of 2012 was 0.29% of the total credit to the public (in annual terms), compared with a rate of 0.12% in the corresponding period last year and compared with 0.15% in the whole of 2011. The individual rate of expense in respect of credit losses in relation to overall credit risk (balance sheet and off-balance sheet) was 0.19%, 0.07% and 0.11%, respectively.

In the first nine months of 2012, credit loss expenses on a collective basis amounted to NIS 318 million, compared with NIS 145 million in the corresponding period last year. The increase in expenses in respect of credit losses on a collective basis reflects the Bank's assessment of changes in the business environment in the past period.

The percentage of credit loss expenses on a collective basis in the first nine months of 2012 was 0.18% of total credit to the public (in annual terms), compared with a rate of 0.08% in the corresponding period last year and 0.15% in the whole of 2011. The percentage of expenses in respect of credit losses on a collective basis in relation to overall credit risk (balance sheet and off-balance sheet) was 0.12%, 0.05% and 0.10%, respectively.

The balance of the allowance for credit losses on a collective basis as at 30 September 2012 amounts to NIS 2,702 million, compared with NIS 2,570 million as at 31 December 2011. The rate of the allowance for credit losses on a collective basis was 1.12% of total net credit to the public, and 0.74% 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 nine months of 2012		First nine months of 2011	
	NIS millions	% *	NIS millions	%*
Households	**39**	**0.1**	28	0.0
Private banking	**-**	**-**	(25)	(0.4)
Small businesses	**49**	**0.3**	26	0.2
Corporate banking	**675**	**1.3**	148	0.3
Commercial banking	**86**	**0.2**	98	0.3
Financial management and other	**1**	**0.2**	74	7.4
Total	**850**	**0.47**	349	0.20

* 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 nine months of 2012	First nine months of 2011
	NIS millions	
Industry	**143**	22
Construction and real estate	**(62)**	255
Trade	**165**	37
Hotels, entertainment and food	**(76)**	(50)
Transportation and storage	**39**	15
Communications and computer services	**(30)**	(16)
Financial services	**580**	123
Other business services	**23**	(3)
Private individuals - housing loans	**(9)**	(4)
Private individuals – other	**50**	(45)
Others	**28**	15
Total	**851 ***	349

* Not including collections amounting to NIS 1 million in respect of banks.

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

	For the nine months ended	
	30 September 2012	30 September 2011
	NIS millions	
Individual allowance during the period	**735**	717
Collection of individual allowance	**(203)**	(513)
Net increase carried to the profit and loss statement	**532**	204
Increase carried to the profit and loss statement in respect of collective allowance	**318**	145
Total increase in expense in respect of credit losses	**850**	349

	For the three months ended	
	30 September 2012	30 September 2011
	NIS millions	
Individual allowance during the period	**278**	442
Collections of individual allowance	**(67)**	(201)
Net increase carried to the profit and loss statement	**211**	241
Increase carried to the profit and loss statement in respect of group allowance	**81**	137
Total increase in expense in respect of credit losses	**292**	378

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

	First nine months of		
	2012	2011	
	NIS millions		% change
The Bank	**780**	266	193.2
Arab Israel Bank	**7**	2	+
Leumi Mortgage Bank	**(8)**	(8)	0.0
Leumi Card	**16**	13	23.1
Bank Leumi – U.S.A.	**25**	17	47.1
Bank Leumi – U.K.	**26**	24	8.3
Leumi Private Bank - Switzerland	**4**	-	+
Bank Leumi – Romania	**(3)**	32	-
Leumi Leasing and Investments	**3**	3	0.0
Total expenses	**850**	349	143.6

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

	2012			2011			
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions						
Individual allowance	**211**	160	161	178	241	24	(61)
Collective allowance	**81**	173	64	207	137	49	(41)
Total	**292**	333	225	385	378	73	(102)
Percentage of allowance out of total credit to the public (on an annual basis)	**0.48**	0.56	0.37	0.64	0.64	0.13	(0.18)

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

	30 September 2012	31 December 2011
	Reported amounts	
On a consolidated basis	NIS millions	
1. Non-performing assets:		
Impaired credit to the public not accruing interest income (1)		
Reviewed on an individual basis	**6,965**	6,634
Reviewed on a group basis	**6**	6
Impaired bonds not accruing interest income	**-**	-
Other impaired debts not accruing interest income	**15**	25
Total impaired debts not accumulating interest income	**6,986**	6,665
Assets received in respect of cleared credit	**64**	75
Total non-performing assets	**7,050**	6,740
2. Impaired debts in the restructuring of problem debts accruing interest income	**177**	156
3. Problem commercial credit risk (2):		
Balance sheet credit risk in respect of the public	**11,589**	10,443
Off-balance sheet credit risk in respect of the public (3)	**1,265**	1,074
Total problem commercial credit risk in respect of the public	**12,854**	11,517
Balance sheet credit risk in respect of others	**6**	324
Off-balance sheet credit risk in respect of others	**-**	-
Total problem commercial credit risk in respect of others	**6**	324
Total problem commercial credit risk	**12,860**	11,841
4. Unimpaired debts in arrears of 90 days or more	**1,457**	1,556
Of which: Housing loans for which allowance has been made according to the extent of arrears	**581**	655
Housing loans for which allowance has not been made according to the extent of arrears (4)	**249**	263
Unimpaired bonds in arrears of 90 days or more	**-**	-
Others	**627**	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 on the principal.
(2) Balance sheet credit risk (credit, bonds, other debts recognized in the balance sheet and assets in respect of derivative instruments) and off-balance sheet credit risk that is impaired, substandard or under special 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 details of the credit risk metrics in accordance with the new directives:

	30 September 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	**2.8**	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	**0.6**	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	**1.6**	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	**56.6**	59.7
Balance of allowance for credit losses to the public as a percentage of total commercial balance sheet credit in respect of the public	**34.0**	38.0
Problem commercial credit risk in respect of the public as a percentage of total credit risk in respect of the public	**3.5**	3.2

	30 September 2012	30 September 2011	31 December 2011
	%		
Expenses in respect of credit losses as a percentage of the average balance of credit to the public (in annual terms)	**0.5**	0.2	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)	**0.5**	1.0	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)	**31.9**	63.4	52.2

Non-interest income of Leumi Group in the first nine months of 2012 amounted to NIS 3,380 million, compared with NIS 2,972 million in the corresponding period last year, an increase of NIS 408 million or 13.7%.

In the third quarter of the year, non-interest income amounted to NIS 1,208 million, compared with NIS 675 million in the corresponding period last year, an increase of 79.0%.

The changes in non-interest income in the Group derive from:

	For the three months ended			For the nine months ended		
	30 September 2012	30 September 2011		**30 September 2012**	30 September 2011	
	NIS millions		% Change	NIS millions		% Change
Non-interest financial income	**119**	(336)	+	**239**	(166)	+
Commissions	**1,050**	1,005	4.5	**3,092**	3,109	(0.5)
Other income	**39**	6	+	**49**	29	69.0
Total	**1,208**	675	79.0	**3,380**	2,972	13.7

	2012			2011			
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions						
Non-interest financial income	**119**	(25)	145	177	(336)	116	54
Commissions	**1,050**	1,022	1,020	1,007	1,005	1,018	1,086
Other income	**39**	(2)	12	19	6	12	11
Total	**1,208**	995	1,177	1,203	675	1,146	1,151

Details of non-interest financial income are as follows:

	For the nine months ended		
	30 September 2012	30 September 2011	Change
	NIS millions		%
Net expenses in respect of derivative instruments and net exchange rate differentials	**(152)**	(492)	+
Profits from sale of available-for-sale debentures	**263**	197	33.5
Losses from investments in shares including dividends *	**(23)**	(140)	+
Realized and unrealized gains from adjustments of tradable debentures and shares to fair value, net	**151**	269	(43.9)
Total	**239**	(166)	+

* Including the recording of an impairment of a nature other than temporary in respect of the investment in the shares of Partner Communication Ltd. amounting to NIS 160 million net in 2012, compared with NIS 239 million net in 2011.

	For the three months ended		
	30 September 2012	30 September 2011	Change
	NIS millions		%
Net expenses in respect of derivative instruments and net exchange rate differentials	**(98)**	(503)	+
Profits from sale of available-for-sale debentures	**137**	55	149.1
Gains (losses) from investments in shares including dividends *	**25**	(207)	+
Realized and unrealized gains (losses) from adjustments of tradable debentures and shares to fair value, net	**55**	319	(82.8)
Total	**119**	(336)	+

* Including the recording of an impairment of a nature other than temporary amounting to NIS 239 million, net, in the third quarter of 2011.

The following table shows the development of the main items in non-interest income:

	2012			2011			
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions						
Income (expenses) net in respect of derivative instruments	**(98)**	(157)	103	74	(503)	11	-
Profits from the sale of available-for-sale of debentures, net	**137**	68	58	68	55	65	77
Profits (losses) from investments in shares, including dividends *	**25**	(34)	(14)	(9)	(207)	39	28
Realized and unrealized gains (losses) from adjustments of tradable debentures and shares to fair value, net	**55**	98	(2)	44	319	1	(51)
Total	**119**	(25)	145	177	(336)	116	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, NIS 101 million in the second quarter of 2012 and NIS 239 million in the third quarter of 2011.

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

a. An increase in account management income amounting to NIS 19 million (3.0%).

b. An increase in credit card income amounting to NIS 11 million (1.7%).

c. An increase in income from activity in securities amounting to NIS 4 million (0.7%).

d. A decrease in income from dealing with credit and the preparation of contracts amounting to NIS 42 million (14.5%).

e. A decrease in distribution commissions of financial products amounting to NIS 13 million (7.2%).

Income from commissions (excluding financing commissions) cover 42.9% of operating and other expenses compared with coverage of 45.0% 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 nine months ended September 30		
	2012	2011	Change
	NIS millions		%
Households	**1,384**	1,464	(5.5)
Small businesses	**375**	370	1.4
Corporate banking	**451**	494	(8.7)
Commercial banking	**421**	426	(1.2)
Private banking	**442**	364	21.4
Financial management	**337**	(107)	+
Other	**(30)**	(19)	-
Total	**3,380**	2,972	13.7

The proportion of non-interest income from all income (i.e., net interest income, and non-interest income) was 37.5%, compared with 35.4% 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 nine months of 2012 amounted to NIS 6,489 million, compared with NIS 6,220 million in the corresponding period in 2011, an increase of 4.3%. Total operating and other expenses in the third quarter amounted to NIS 2,294 million, compared with NIS 2,055 million in the corresponding period in 2011, an increase of 11.6%.

Salary expenses in the first nine months of 2012 increased by NIS 111 million and by a rate of 2.9%, compared to the corresponding period last year.

The increase in salary expenses is primarily attributable to the expense of NIS 200 million in respect of bringing forward the retirement of employees as part of the program of reducing personnel in the Bank, and to the initial consolidation of Banque Safdié in Switzerland. In the first nine months 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, which partly offset the increase in salary expenses.

The following table shows the quarterly development of salary expenses:

	2012	2011					
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions						
Salary expenses, excluding special salary expenses	**1,188**	1,182	1,187	1,256	1,018	1,126	1,175
Supplement to provisions for severance pay and pension after offsetting fund profits	**246**	174	(1)	(60)	226	131	176
Benefit in respect of sale of shares to employees	**-**	-	-	-	(3)	16	-
Total salary expenses	**1,434**	1,356	1,186	1,196	1,241	1,273	1,351

Operating and other expenses (maintenance of buildings and equipment, depreciation and others) increased in the first nine months of 2012 by NIS 158 million, an increase of 6.7%, compared with the corresponding period in 2011. This increase stems from an increase in depreciation and building maintenance expenses and computer expenses, expenses in respect of professional services, the initial consolidation of Banque Safdié and the cancelation of provisions for legal claims which were recorded in the first nine months of 2011.

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

	2012	2011					
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions						
Depreciation	**184**	188	177	180	173	191	167
Amortization of intangible assets	**4**	5	6	2	-	-	-
Maintenance of buildings and equipment	**268**	258	250	262	249	241	241
Other expenses	**404**	393	376	481	392	374	327
Total operating and other expenses	**860**	844	809	925	814	806	735

* Excluding salary

Operating expenses constitute 72.1% of total income, compared to 74.0% 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 2.35% of the total balance sheet, compared with 2.36% in the corresponding period in 2011, and 2.28% for the whole of 2011.

Profit before taxes of Leumi Group for the first nine months of 2012 amounted to NIS 1,665 million, compared with NIS 1,831 million in the corresponding period in 2011, a decrease of 9.1%. In the third quarter of 2012, pre-tax profit amounted to NIS 494 million, compared with NIS 83 million in the corresponding period last year, an increase of NIS 411 million.

Provision for taxes on profit of Leumi Group in the first nine months of 2012 amounted to NIS 578 million, compared with NIS 664 million in the corresponding period in 2011. The rate of the provision in the first nine months of 2012 was some 34.7% of the pre-tax profit, compared with 36.3% in the corresponding period in 2011, a decrease of some 1.6 percentage points. The decrease in the rate of the tax provision stems mainly from an increase in deferred taxes as a result of a change in income and profit tax rates, as detailed above on page 32.

Profit after taxes for the first nine months of 2012 amounted to NIS 1,087 million, compared with NIS 1,167 million in the corresponding period in 2011, a decrease of 6.9%. Profit after taxes for the third quarter of 2012 amounted to NIS 381 million, compared with NIS 51 million in the corresponding period in 2011, an increase of NIS 330 million.

The Group share in profit after taxes of companies included on equity basis amounted to a profit of NIS 132 million in the first nine months of 2012, compared with a profit of NIS 145 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 nine months of 2012 amounted to a profit of NIS 1,219 million, compared with a profit of NIS 1,312 million in the corresponding period in 2011, a decrease of 7.1%. Net profit before attribution to holders of non-controlling interests in the third quarter amounted to NIS 489 million, compared with NIS 166 million in the corresponding period in 2011, an increase of 194.6%.

Net profit attributable to holders of non-controlling interests in the first nine months of 2012 amounted to NIS 29 million, compared to a profit of NIS 39 million in the corresponding period in 2011.

Net profit attributable to the shareholders in the banking corporation for the first nine months of 2012 amounted to NIS 1,190 million, compared with a profit of NIS 1,273 million in the corresponding period in 2011, a decrease of 6.5%. Net profit attributable to the shareholders in the banking corporation for the third quarter of 2012 amounted to NIS 479 million, compared with NIS 155 million in the corresponding period in 2011, an increase of 209.0%.

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

	First nine months of	
	2012	2011
	%	
Net profit attributable to the shareholders of the banking corporation	**6.6**	7.5

	2012			2011			
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	%						
Net profit attributable to the shareholders of the banking corporation	**8.0**	4.7	7.5	11.2	2.7	10.3	10.1

Basic earnings per share attributable to shareholders of the banking corporation reached NIS 0.81 in the first nine months of 2012, compared with NIS 0.86 in the corresponding period in 2011.

Structure and Development of Assets and Liabilities [(1)]

Total assets of Leumi Group as at 30 September 2012 amounted to NIS 369.5 billion, compared with NIS 365.9 billion at the end of 2011, an increase of 1.0%, and an increase of 4.6%, compared with 30 September 2011.

The value of the assets in the balance sheet denominated in and/or linked to foreign currency was some NIS 93.0 billion, some 25.2% of total assets. During the first nine months of 2012, the shekel depreciated against the U.S. dollar by 2.38%, and appreciated against the euro, by 2.57%. The changes in exchange rates in the first nine months of the year led to an increase of 0.7% in total assets.

Total assets under Group 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 950 billion, compared with NIS 898 billion at the end of 2011 (some US$ 243 billion and US$ 235 billion, respectively), as detailed below.

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

	30 September 2012	31 December 2011	Since December 2011	Since September 2011
	NIS millions		Change %	
Total assets	**369,530**	365,854	1.0	4.6
Cash and deposits with banks	**48,340**	53,044	(8.9)	(11.6)
Securities	**56,183**	47,936	17.2	46.5
Credit to the public, net	**241,464**	241,320	0.1	1.7
Buildings and equipment	**3,751**	3,653	2.7	3.8
Deposits of the public	**285,229**	279,404	2.1	6.7
Deposits from banks	**2,863**	5,056	(43.4)	(54.7)
Debentures, notes and subordinated notes	**28,189**	29,999	(6.0)	(1.3)

Deposits of the public amounted to NIS 285.2 billion as at 30 September 2012, compared with NIS 279.4 billion as at 31 December 2011, an increase of 2.1%, and compared with 30 September 2011, an increase of 6.7%.

The depreciation of the shekel in relation to most foreign currencies in the first nine months of 2012 contributed in total to an increase of 1.0% 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 segment:

Segment	**30 September 2012**	31 December 2011	
	NIS millions		Change %
Households	**133,435**	130,276	2.4
Small businesses	**18,950**	18,109	4.6
Corporate banking	**23,692**	28,079	(15.6)
Commercial banking	**48,973**	46,527	5.3
Private banking	**39,126**	39,999	(2.2)
Financial management, capital markets and other	**21,053**	16,414	28.3
Total	**285,229**	279,404	2.1

Debentures, capital notes and subordinated capital notes totaled NIS 28.2 billion on 30 September 2012, compared with NIS 30.0 billion as at 31 December 2011, a decrease of 6.0%, and compared with 30 September 2011, a decrease of 1.3%. In the first nine months of 2012, NIS 4,800 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:

	30 September 2012	31 December 2011	Change	
	NIS millions		NIS millions	%
Securities portfolios	**500,834**	462,318	38,516	8.3
Of which: managed by mutual funds[2] [3]	**58,505**	52,648	5,857	11.1
Provident and pension funds[2] [3]	**50,368**	45,902	4,466	9.7
Supplementary training funds[2] [3]	**29,018**	24,385	4,633	19.0
Total	**580,220**	532,605	47,615	8.9

(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 241.5 billion as at 30 September 2012, similar to 31 December 2011, and, compared with 30 September 2011, an increase of 1.7%.

The depreciation of the shekel in relation to most foreign currencies in the first nine months of 2012 contributed in total to an increase of 0.6% in total credit to the public.

In addition to credit to the public, the Group invests in corporate debentures which, as at 30 September 2012, amounted to NIS 10.5 billion, compared with NIS 8.0 billion as at 31 December 2011, an increase of 31.2%. Most of the increase derives from the purchase of asset-backed debentures (ABS and MBS).

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

Economy Sectors	**30 September 2012** Overall credit risk to the public	Percentage of total	31 December 2011 Overall credit risk to the public	Percentage of total	Rate of change
	NIS millions	%	NIS millions	%	%
Agriculture	**2,014**	**0.5**	2,217	0.6	(9.2)
Industry	**46,933**	**12.8**	49,483	13.8	(5.2)
Construction and real estate (2)	**79,700**	**21.7**	79,739	22.2	-
Electricity and water	**2,405**	**0.7**	1,750	0.5	37.4
Trade	**32,884**	**9.0**	31,117	8.7	5.7
Hotels, accommodation and food	**5,259**	**1.4**	5,001	1.4	5.2
Transportation and storage	**6,620**	**1.8**	6,732	1.9	(1.7)
Communications and computer services	**7,584**	**2.1**	8,486	2.4	(10.6)
Financial services	**39,096**	**10.6**	37,226	10.4	5.0
Other business services	**11,865**	**3.2**	12,540	3.5	(5.4)
Public and community services	**8,393**	**2.3**	8,233	2.3	1.9
Private individuals - housing loans	**64,037**	**17.4**	59,270	16.5	8.0
Private persons – other	**60,431**	**16.5**	56,837	15.8	6.3
Total	**367,221**	**100.0**	358,631	100.0	2.4

(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 1,013 million and off-balance sheet credit risk amounting to NIS 2,169 million, compared to NIS 932 million and NIS 2,032 million, respectively, as at 31 December 2011.

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

	2012			2011			
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions						
Households*	**89,084**	86,128	84,039	83,045	81,579	79,720	77,826
Small businesses	**21,014**	20,819	20,207	20,039	19,604	19,371	19,153
Corporate banking	**70,895**	74,815	77,660	77,571	76,507	74,001	73,404
Commercial banking	**51,088**	49,834	49,257	50,536	50,108	46,376	46,116
Private banking	**8,508**	8,658	8,451	9,074	8,171	7,587	7,666
Financial management, capital markets and others	**875**	1,173	886	1,055	1,346	1,293	906
Total	**241,464**	241,427	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		30 September 2012 Percentage of total number of borrowers	Percentage of total balance sheet credit	Percentage of total off-balance sheet credit
From	To	%		
0	80	**83.3**	**6.2**	**19.4**
80	600	**13.9**	**18.1**	**10.8**
600	1,200	**1.7**	**10.4**	**2.7**
1,200	2,000	**0.5**	**5.0**	**1.9**
2,000	8,000	**0.4**	**9.0**	**5.0**
8,000	20,000	**0.1**	**7.1**	**4.9**
20,000	40,000	**0.05**	**7.4**	**6.2**
40,000	200,000	**0.04**	**16.2**	**17.7**
200,000	800,000	**0.01 ****	**14.3**	**20.6**
Above 800,000		**0.00 *****	**6.3**	**10.8**
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 for credit losses.

** On 30 September 2012 - 159 borrowers and on 31 December 2011 - 143 borrowers.

*** On 30 September 2012 - 19 borrowers and on 31 December 2011 - 25 borrowers.

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

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

		30 September 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	**8**	**-**	**3,837**	**-**	**4,044**	**-**
1,200	1,600	**5**	**-**	**4,629**	**-**	**2,469**	**-**
1,600	2,000	**2**	**-**	**2,527**	**-**	**857**	**-**
2,000	2,400	**3**	**1**	**2,307**	**4**	**4,274**	**2,046 (1)**
2,400	2,470	**1**	**-**	**2,398**	**-**	**72**	**-**
Total		**19**	**1**	**15,698**	**4**	**11,716**	**2,046**

All the related parties are corporations in which the Bank holds up to 20% and/or are holders of the means of control in the Bank. The credit specified in the above table does not include any debts for which allowances were made for credit losses.

(1) On 29 October 2012, credit was extended to an interested party amounting to NIS 2 billion after meeting conditions precedent.

For further information, see the Immediate Report dated 29 October 2012 (Ref. no. 2012-01-266487).

For further details, see pages 6-7 above.

		31 December 2011					
		Number of borrowers		Balance sheet credit		Off-balance sheet credit risk	
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:

	30 September 2012		
	Number of borrowers	Balance sheet credit	Off-balance sheet credit risk
		In NIS millions	
Industry	**6**	**4,134**	**5,772**
Construction and real estate	**5**	**3,538**	**1,651**
Public and community services	**1**	**801**	**236**
Communications and computer services	**2**	**2,956**	**550**
Financial services	**3**	**2,883**	**2,165**
Electricity and water	**1**	**1,161**	**536**
Trade	**1**	**225**	**806**
Total	**19**	**15,698**	**11,716**

	31 December 2011		
	Number of borrowers	Balance sheet credit	Off-balance sheet credit risk
		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):

30 September 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	**6,003**	**1,445**	**7,448**	**45**	**17.3**

4. Total debts of large borrowers, groups of borrowers and banking groups of borrowers whose debts exceed 10% of the Bank's capital constituted 27.7% of the Bank's capital at 30 September 2012, compared with the Bank of Israel limit of 120% of capital for capital adequacy purposes.

Problem debts

The risk of problem credit in accordance with the new regulations after individual allowances:

	30 September 2012			31 December 2011		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
	In NIS millions					
Impaired debts	**5,603**	**315**	**5,918**	5,118	369	5,487
Substandard debts	**2,149**	**169**	**2,318**	1,118	78	1,196
Special mention debts	**2,872**	**641**	**3,513**	3,570	473	4,043
Total	**10,624**	**1,125**	**11,749**	9,806	920	10,726

Problem credit risk:

	30 September 2012	31 December 2011
	Problem credit risk	Problem credit risk
	In NIS millions	
Commercial problem credit risk	**12,860**	11,841
Retail problem credit risk	**1,286**	1,440
Total	**14,146**	13,281
Allowance for credit losses	**2,397**	2,555
Problem credit after allowance for credit losses	**11,749**	10,726

Credit to Governments amounted to NIS 418 million as at 30 September 2012, compared with NIS 448 million on 31 December 2011, a decrease of 6.7% and, an increase of 3.7% compared with 30 September 2011.

Securities

The Group's investments in securities amounted to NIS 56.2 billion on 30 September 2012, compared with NIS 47.9 billion, an increase of 17.2%**,** compared with 31 December 2011, and an increase of 46.5% compared with 30 September 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 equity 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 in accordance with the rules set forth above:

	30 September 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	**42,471**	**423**	**(190)**	**42,704**	**42,704**
For trading	**11,163**	**203 ***	**(23) ***	**11,343**	**11,343**
	53,634	**626**	**(213)**	**54,047**	**54,047**
Shares and funds					
Available-for-sale	**1,681**	**307**	**(15)**	**1,973**	**1,973**
For trading	**157**	**7 ***	**(1) ***	**163**	**163**
	1,838	**314**	**(16)**	**2,136**	**2,136**
Total securities	**55,472**	**940**	**(229)**	**56,183**	**56,183**

* 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 30 September 2012, some 79.5% of the Group's *nostro* portfolio was classified as available-for-sale securities and some 20.5% was classified as the trading portfolio. This classification allows for flexibility in the management of the securities portfolio. Some 3.8% 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:

	For the period ended	
	30 September 2012	30 September 2011
	NIS millions	
Debentures redeemed and/or sold (available-for-sale)	**32,451**	29,621
Purchases of available-for-sale debentures	**37,760**	11,022
Net profit from investments in debentures:		
Interest income	**1,024**	948
Net profit from sale and from impairment of available-for-sale debentures	**263**	197
Realized and/or unrealized gain from adjustments to fair value of debentures for trading	**148**	136

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

	30 September 2012			31 December 2011		
	Government of Israel	Foreign governments	Other companies	Government of Israel	Foreign governments	Other companies
	NIS millions					
Israeli currency:						
Unlinked	**28,231**	**-**	**902**	19,227	-	619
Linked to CPI	**3,683**	**-**	**1,114**	7,124	-	861
Foreign currency including foreign currency-linked	**2,269**	**4,994**	**12,854**	1,577	3,858	12,118
Total debentures	**34,183**	**4,994**	*** 14,870**	27,928	3,858	13,598 *

*Of which, subordinated notes of NIS 1,336 million as at 30 September 2012 and NIS 1,605 million as at 31 December 2011.

The debenture portfolio is mostly invested in debentures of the Government of Israel and the United States government. In the first nine months of 2012, there was an increase of some NIS 1.3 billion, or about 9.4%, in Group investments in corporate debentures, mainly in foreign currency debentures abroad.

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

	30 September 2012	31 December 2011
Securities traded on an active market	**40,689**	34,219
Securities according to other significant observable inputs	**12,735**	11,600
Securities according to unobservable inputs or according to cost	**2,759**	2,117
Total	**56,183**	47,936

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

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

	30 September 2012		31 December 2011	
	Issued in Israel	Issued abroad	Issued in Israel	Issued abroad
Sector of economy	NIS million			
Agriculture	**-**	**5**	-	-
Industry	**187**	**742**	71	313
Construction and real estate	**45**	**199**	41	92
Electricity and water	**725**	**191**	216	181
Trade	**326**	**-**	331	-
Transportation and storage	**31**	**12**	26	-
Communications and computer services	**53**	**271**	79	149
Financial services	**506**	**6,989**	610	5,776
Business and other services	**58**	**80**	16	34
Public and community services	**23**	**100**	24	75
Total	**1,954**	**8,589**	1,414	6,620

Available-for-sale portfolio

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

	30 September 2012		31 December 2011		Change	
	Abroad	In Israel	Abroad	In Israel	Abroad	In Israel
	NIS millions					
Debentures	**18,186**	**24,518**	16,641	19,362	1,545	5,156
Shares and funds	**635**	**1,338**	724	1,467	(89)	(129)
Total	**18,821**	**25,856**	17,365	20,829	1,456	5,027

a. In the first nine months of 2012, an increase in value of NIS 663 million (before tax) was charged to equity in respect of the available-for-sale portfolio, mainly due to an increase in the value of debentures of the Government of Israel and an increase in value in respect of foreign bank debentures as a result of a fall in yields. This compared with an impairment of NIS 1,008 million (before tax) in the corresponding period last year.

b. In addition, profits from the sale of debentures amounting to NIS 263 million were recorded to profit and loss, compared with profits of NIS 197 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 interest income):

	For the nine months ended		For the year ended
	30 September 2012	30 September 2011	31 December 2011
	NIS millions		
Profits in respect of available-for-sale securities which were recorded to profit and loss	**950**	754	1,006
Adjustments to capital reserve of available-for sale securities in equity	**663**	(1,008)	(1,021)

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

	30 September 2012	31 December 2011	Quarterly movement 1st quarter	2nd quarter	3rd quarter
	NIS millions				
Shares	**292**	315	80	(156)	53
Israel government debentures	**169**	151	(9)	45	(18)
Foreign government debentures	**11**	(2)	5	2	6
Other debentures *	**53**	(670)	524	(58)	257
Mainly security hedges ** and borrowings	**(187)**	(118)	(12)	(53)	(3)
Total	**338**	(324)	588	(220)	295
Related tax	**(108)**	106	(198)	67	(84)
Net total	**230**	(218)	390	(153)	211

* Of which the balance of the accumulated impairment in respect of subordinated notes issued by foreign banks is NIS 61 million.

** Charged to profit and loss corresponding with the hedged debentures, see Note 2, comment (c).

The accumulated net balance of adjustments to fair value of securities held in the available-for-sale portfolio, as at 30 September 2012, amounted to a positive amount of NIS 230 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 October 2012 to 20 November 2012, an additional increase in the value of available-for-sale securities amounting to NIS 206 million (NIS 133 million, net, after tax) was recorded.

The Bank management estimates that in the securities in the available-for-sale portfolio in which there is impairment, most of the impairment is of a temporary nature. The Bank intends and is able to continue to hold the investments until the predicted recovery of the full cost of the assets or until redemption. Accordingly, this impairment is recorded to equity, on the basis of the criteria set forth in the Significant Accounting Policies in note 1 to the 2011 Annual Report.

e. The following is the impairment in value of available-for-sale securities charged to equity as at 30 September 2012:

		Duration of decline in value since commencement of the decline*				
		Up to 6 months	6-9 months	9-12 months	More than 12 months	Total amount
		NIS millions				
Rate of decline						
Up to 10%	Shares	**1**	**-**	**-**	**-**	**1**
	Asset-backed debentures	**1**	**-**	**-**	**20**	**21**
	Other debentures	**11**	**1**	**-**	**101**	**113**
	Total	**13**	**1**	**-**	**121**	**135**
10%- 20%	Shares	**14**	**-**	**-**	**-**	**14**
	Asset-backed debentures	**-**	**-**	**-**	**3**	**3**
	Other debentures	**-**	**-**	**-**	**41**	**41**
	Total	**14**	**-**	**-**	**44**	**58**
20%-30%	Shares	**-**	**-**	**-**	**-**	**-**
	Asset-backed debentures	**-**	**-**	**-**	**-**	**-**
	Other debentures	**-**	**-**	**-**	**12**	**12**
	Total	**-**	**-**	**-**	**12**	**12**
Above 30%	Shares	**-**	**-**	**-**	**-**	**-**
	Asset-backed debentures	**-**	**-**	**-**	**-**	**-**
	Other debentures	**-**	**-**	**-**	**-**	**-**
	Total	**-**	**-**	**-**	**-**	**-**
Total amount	Shares	**15**	**-**	**-**	**-**	**15**
	Asset-backed debentures	**1**	**-**	**-**	**23**	**24**
	Other debentures	**11**	**1**	**-**	**154**	**166**
Overall total		**27**	**1**	**-**	**177**	**205**

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

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

Trading Portfolio

The following table shows the composition of the trading portfolio:

	30 September 2012		31 December 2011		Change	
	Abroad	In Israel	Abroad	In Israel	Abroad	In Israel
	NIS millions					
Debentures	**1,837**	**9,506**	793	8,588	1,044	918
Shares and funds	**13**	**150**	-	361	13	(211)
Total	**1,850**	**9,656**	793	8,949	1,057	707

In respect of debentures for trading, realized and unrealized profits amounting to NIS 148 million were recorded in the profit and loss statement in the first nine months of 2012, compared with profits of NIS 136 million in the corresponding period in 2011, and in respect of shares and funds, realized and unrealized profits were recorded amounting to NIS 3 million, compared with profits amounting to NIS 133 million in the corresponding period in 2011.

Investments in securities issued abroad

The Group’s securities portfolio includes some NIS 20.7 billion (some US$ 5.3 billion) of securities issued abroad, all of which (but for some 1.8%) are investment grade securities, of which some 81% are rated 'A-' and above, and of which some 45% are rated 'AAA'. The portfolio includes subordinated debentures issued by foreign banks having a fair value of NIS 1,336 million.

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

	30 September 2012		31 December 2011	
	Available-for-sale portfolio	Trading portfolio	Available-for-sale portfolio	Trading portfolio
Balance sheet value	NIS millions			
Government debentures	**6,869**	**346**	5,089	251
Debentures of banks and financial institutions	**5,644**	**120**	7,854	366
Asset-backed debentures	**4,365**	**522**	2,444	120
Other debentures	**1,308**	**849**	1,254	56
Shares and funds	**635**	**13**	724	-
Total	**18,821**	**1,850**	17,365	793

The net increase in value (the offset between increases and decreases in value), charged to equity in respect of securities issued abroad, as of 30 September 2012, amounts to NIS 194 million (NIS 125 million after taxes).

The following table shows the fair value as at 30 September 2012 of debentures of banks and financial institutions abroad (excluding asset-backed securities):

	AAA to AA-	A+	A	A-	BBB+ to BBB-	BB+ to B-	Not rated	Total
	NIS millions							
United States – by bank (2)								
Citigroup Inc. NY	**-**	**-**	**-**	**211**	**4**	**-**	**-**	**215**
Bank of America (including Merrill Lynch)	**-**	**-**	**259**	**14**	**-**	**-**	**-**	**273**
Goldman, Sachs. & Co.	**-**	**334**	**77**	**-**	**-**	**-**	**-**	**411**
Morgan Stanley	**-**	**-**	**163**	**-**	**50**	**-**	**-**	**213**
United States – other (2)(3)	**40**	**133**	**209**	**-**	**37**	**-**	**50**	**469**
United Kingdom	**373**	**-**	**297**	**495**	**144**	**-**	**-**	**1,309**
Austria (1)	**21**	**-**	**-**	**-**	**-**	**-**	**-**	**21**
Italy (1) (5)	**222**	**-**	**-**	**-**	**35**	**-**	**-**	**257**
Germany (1)	**419**	**155**	**25**	**112**	**-**	**-**	**-**	**711**
The Netherlands (1)	**157**	**277**	**135**	**112**	**19**	**-**	**-**	**700**
Luxembourg (1)	**-**	**-**	**-**	**-**	**15**	**-**	**-**	**15**
Spain (1) (5)	**67**	**-**	**-**	**34**	**23**	**-**	**-**	**124**
France (1)	**491**	**-**	**33**	**-**	**-**	**-**	**-**	**524**
Switzerland	**-**	**-**	**20**	**-**	**-**	**-**	**-**	**20**
Australia	**118**	**-**	**-**	**-**	**-**	**-**	**-**	**118**
Sweden	**64**	**-**	**17**	**-**	**4**	**-**	**-**	**85**
New Zealand	**119**	**-**	**-**	**-**	**-**	**-**	**-**	**119**
Norway	**-**	**31**	**-**	**-**	**-**	**-**	**-**	**31**
South Korea	**-**	**43**	**-**	**-**	**-**	**-**	**19**	**62**
Denmark	**-**	**66**	**-**	**-**	**21**	**-**	**-**	**87**
Aggregate total (4)	**2,091**	**1,039**	**1,235**	**978**	**352**	**-**	**69**	**5,764**

(1) Countries in the Eurozone bloc amounting to NIS 2,352 million.
(2) United States amounting to NIS 1,581 million.
(3) This amount includes investments in 5 banks in the United States.
(4) Including subordinated debentures, the fair value of which as at 30 September 2012 was NIS 1,336 million (including the available-for-sale and trading portfolios).
(5) For further details in connection with exposure to certain foreign countries, see the section "Credit Risk", "Exposure to Foreign Countries" in the chapter "Risk Exposure and Risk Management".

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 States – by bank (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 (2)(3)	39	-	62	-	-	-	350	451
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
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 at 31 December 2011 of NIS 1,605 million (including available portfolio and trading portfolio).
(5) For further details in connection with exposure to certain foreign countries, see the section "Credit Risk", "Exposure to Foreign Countries" in the chapter "Risk Exposure and Risk Management".

1. Investments in foreign asset-backed securities

The Group's portfolio of asset-backed securities (mortgage and non-mortgages) as at 30 September 2012, all of which is investment grade, amounted to some NIS 4.9 billion (some US$ 1.2 billion) of asset-backed securities, compared with some NIS 2.6 billion at the end of 2011. Of the said portfolio, some NIS 4.4 billion (some US$ 1.1 billion) is classified in the available-for-sale portfolio, and the balance in the trading portfolio.

The portfolio of available-for-sale investments in foreign asset-backed securities as at 30 September 2012 includes investments in mortgage-backed securities in the total amount of some NIS 3.0 billion. 94% of the mortgage-backed securities in the available-for-sale portfolio are issued directly by United States federal agencies (FNMA, FHLMC, GNMA), whose credit rating is 'AAA'. Most of the asset-backed bonds are rated 'AAA'.

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

	30 September 2012			
	Amortized cost	Unrealized profits	Unrealized losses	Balance sheet value (fair value)
	NIS millions			
MBS - mortgage-backed securities	**2,966**	**28**	**(2)**	**2,992**
ABS-asset-backed securities (other than mortgage-backed):	**1,345**	**50**	**(22)**	**1,373**
Of which: CLO	**1,293**	**50**	**(21)**	**1,322**
Other	**52**	**-**	**(1)**	**51**
Total	**4,311**	**78**	**(24)**	**4,365**

	31 December 2011			
	Amortized cost	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)

	30 September 2012	31 December 2011
	Accrued amount of exposure	
	NIS millions	
Mortgage-backed Securities (MBS):		
Pass-through securities:		
Securities guaranteed by US Government GNMA	**344**	114
Securities issued by FNMA and FHLMC	**291**	259
Other securities	**6**	5
Other mortgage-backed securities:		
Securities issued by FHLMC, FNMA, or GNMA, or guaranteed by these entities	**2,402**	1,017
Other mortgage-backed securities	**191**	448
Total mortgage-backed securities (MBS)	**3,234**	1,843
Asset-backed securities (ABS):		
Debtors in respect of credit cards	**78**	40
Lines of credit for any purpose secured by dwelling	**5**	5
Credit for purchase of vehicle	**141**	-
Other credit to private persons	**5**	5
Credit not to private persons	**2**	4
CLO debentures	**1,322**	661
Others	**100**	6
Total asset-backed (ABS)	**1,653**	721
Total asset-backed securities	**4,887**	2,564

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

	30 September 2012	31 December 2011	**30 September 2012**	31 December 2011
	Accrued amount of exposure		Capital requirement for securitization exposure	
	NIS millions		NIS millions	
20%	**1,143**	1,001	**21**	18
50%	**334**	100	**15**	5
100%	**21**	21	**2**	2
350%	**2**	-	**1**	-
Deducted from equity	**57**	29	**-**	-
Total	**1,557**	1,151	**39**	25

* Available portfolio only. Not including FNMA and FHLMC securities, which are presented as liability of the U.S. government and the weight of their risk is 20%, not including GNMA securities, guaranteed by U.S. governments, and the weight of their risk is 0%.

As of 30 September 2012, the cumulative net increase in value which was carried to equity deriving from the mortgage-backed debenture portfolio amounted to some NIS 26 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 197 million.

The forecast term to maturity for each mortgage-backed securities portfolio is, on average, some 3.7 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 1.4 billion, of which CLO-type debentures account for some NIS 1.3 billion. The projected term to maturity of the portfolio of securities backed by assets other than mortgages is some 3.4 years on average.

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

The Group's securities portfolio as at 30 September 2012 includes some NIS 15.8 billion (some US$ 4.1 billion) of non-asset-backed securities, which include mainly securities of the U.S. government, banks and financial institutions, debentures of investment-grade companies the balance being mainly securities issued by the Government of Israel.
Of these securities, NIS 14.5 billion (US$ 3.7 billion) are classified in the available-for-sale portfolio, and some NIS 1.3 billion in the securities for trading portfolio. Of these securities, 76% are rated 'A-' and above, of which, some 34% 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".

As of 30 September 2012, the balance of the accumulated increase in value included in equity in respect of non-asset-backed securities issued abroad in the available-for-sale portfolio amounted to NIS 140 million (NIS 90 million after tax). In the first nine months of 2012, there was an increase in value amounting to NIS 695 million before tax. The debentures that are not asset-backed securities and were issued abroad are mainly debentures issued by banks. The Bank intends, and is able, to continue to hold these securities until maturity or at least until their value is recovered.

	Fair value		Capital reserve as at 30 September 2012
	30 September 2012	31 December 2011	
	NIS millions		
Total subordinated available-for sale bank debentures issued abroad	**1,317**	1,534	(61)
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 government securities and securities of banks and financial institutions and 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 68% are rated 'A' and higher. The value of the trading portfolio which is non-asset backed as at 30 September 2012 amounted to some NIS 1.3 billion (US$ 0.3 billion). The difference between the fair value and the adjusted cost, if any, is carried to the profit and loss statement.

Investments in debentures issued in Israel

Investments in debentures issued in Israel at 30 September 2012 amounted to NIS 34.0 billion, of which NIS 32.0 billion was in debentures issued by the Government of Israel, with the balance, NIS 2.0 billion, in corporate debentures. Some 57.2% of the investments in corporate debentures amounting, as of 30 September 2012, to NIS 1.2 billion are attributed to the available-for-sale portfolio, with the balance being in the trading portfolio.

Out of the total amount of NIS 1.2 billion in the corporate debenture portfolio in the available-for-sale portfolio, the positive capital reserve amounts to NIS 71 million, while the negative reserve amounts to NIS 25 million.

3. Investments in shares and funds

Total investments in shares and funds amounted to some NIS 2,136 million as at 30 September 2012, of which some NIS 993 million was in quoted shares and some NIS 1,143 million in unquoted shares. Out of the total investment, NIS 1,973 million is classified as available-for-sale and NIS 163 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
	30 September 2012	31 December 2011	**30 September 2012**	31 December 2011	**30 September 2012**	31 December 2011	
	%		NIS millions				
Migdal Insurance and Financial Holdings Ltd.	**9.79**	9.79	**472**	534	**42**	48	Listed
Africa Israel Properties Ltd.	**2.2**	2.2	**17**	16	**2**	1	Listed
Otzar Hityashvuth Hayehudim B.M.	**8.62**	8.62	**45**	44	**4**	4	Listed
Partner Communications Co. Ltd.	**4.99**	4.99	**164**	261	**15**	23	Listed
Electra Consumer Products (1970) Ltd.	**8.98**	8.98	**54**	66	**5**	6	Listed
TSI Roads Limited Partnership	**17.82**	17.82	**106**	101	**10**	9	Not listed
Tower Semiconductor capital notes	**-**	-	**49**	49	**4**	4	Not listed
CLS Bank	**-**	-	**21**	21	**2**	2	Not listed
Funds	**-**	-	**853**	1,140	**76**	103	Of which, 665 not listed
Apax	**-**	-	**70**	69	**6**	6	Not listed
Other	**-**	-	**285**	251	**26**	24	Of which, 224 not listed
Total	**-**	-	**2,136**	2,552	**192**	230	

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

(2) The value of the investment in the consolidated balance sheet is equal to the fair value of the investment or the value at cost for unquoted investments.

From 1 October 2012 to 20 November 2012, the increase in value in shares amounted to NIS 90 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	
	30 September 2012	31 December 2011
Quoted shares	**993**	1,367
Funds according to quote by counterparty	**736**	822
Unquoted shares	**407**	363
Total	**2,136**	2,552

Other assets and debit balances in respect of derivative instruments

As of 30 September 2012, other assets and debit balances in respect of derivative instruments amounted to NIS 15.0 billion, compared with NIS 15.8 billion at the end of 2011, a decrease of 5.2%.

Other liabilities and credit balances in respect of derivative instruments

As of 30 September 2012, other liabilities and credit balances in respect of derivative instruments amounted to NIS 26.2 billion, compared with NIS 26.8 billion at the end of 2011, a decrease of 2.2%.

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 how they are measured is presented 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		
	30 September 2012	31 December 2011	Change	**30 September 2012**	31 December 2011	Change	**30 September 2012**	31 December 2011	Change
	NIS millions		%	NIS millions		%	NIS millions		%
Households (1)	**89,084**	83,045	7.3	**133,435**	130,276	2.4	**89,820**	83,831	7.1
Small businesses	**21,014**	20,039	4.9	**18,950**	18,109	4.6	**21,042**	20,068	4.9
Corporate banking	**70,895**	77,571	(8.6)	**23,692**	28,079	(15.6)	**72,758**	80,896	(10.1)
Commercial banking	**51,088**	50,536	1.1	**48,973**	46,527	5.3	**52,199**	51,431	1.5
Private banking	**8,508**	9,074	(6.2)	**39,126**	39,999	(2.2)	**13,815**	13,989	(1.2)
Financial management – capital markets and other	**875**	1,055	(17.1)	**21,053**	16,414	28.3	**119,896**	115,639	3.7
Total	**241,464**	241,320	0.1	**285,229**	279,404	2.1	**369,530**	365,854	1.0

(1) Credit to households also includes housing loans (mortgages). After canceling the effect of this credit, credit to households (banking and financial) rose by 4.7%. Housing loans amounted to NIS 60.7 billion at the end of September 2012, having increased by 8.5%.

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 credit			Securities portfolios, including mutual funds		
	30 September 2012	31 December 2011	Change	**30 September 2012**	31 December 2011	Change
Segment	NIS millions		%	NIS millions		%
Households	**510**	499	2.2	**92,045**	88,849	3.6
Small businesses	**1,458**	1,331	9.5	**6,292**	6,485	(3.0)
Corporate banking	**28,512**	26,297	8.4	**53,983**	72,639	(25.7) (1)
Commercial banking	**6,604**	6,772	(2.5)	**47,517**	44,225	7.4
Private banking	**444**	469	(5.3)	**85,626**	80,115	6.9
Financial management – capital markets and other	**856**	883	(3.1)	**215,371**	170,005	26.7 (1)
Total	**38,384**	36,251	5.9	**500,834**	462,318	8.3

(1) Deriving from segmentation

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

	For the three months ended			For the nine months ended		
	30 September 2012	30 September 2011	Change	**30 September 2012**	30 September 2011	Change
Segment	NIS millions		%	NIS millions		%
Households	**107**	144	(25.7)	**369**	339	8.8
Small businesses	**99**	87	13.8	**249**	271	(8.1)
Corporate banking	**75**	120	(37.5)	**288**	642	(55.1)
Commercial banking	**142**	105	35.2	**382**	339	12.7
Private banking	**(13)**	32	(140.6)	**13**	137	(90.5)
Financial management:						
Capital markets	**(80)**	(183)	+	**(84)**	(296)	+
Non- bank investments	**108**	(124)	-	**(28)**	(94)	+
Other	**41**	(26)	-	**1**	(65)	+
Total	**479**	155	+	**1,190**	1,273	(6.5)

Explanations for the changes in profitability are provided below.

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

	2012			2011			
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
Segment	NIS millions						
Households	**107**	141	121	25	144	85	110
Small businesses	**99**	58	92	46	87	88	96
Corporate banking	**75**	107	106	118	120	185	337
Commercial banking	**142**	96	144	100	105	87	147
Private banking	**(13)**	2	24	36	32	45	60
Financial management:							
Capital markets	**(80)**	(77)	73	(27)	(183)	16	(129)
Non- bank investments	**108**	(37)	(99)	3	(124)	72	(42)
Other	**41**	(10)	(30)	317	(26)	(14)	(25)
Total	**479**	280	431	618	155	564	554

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 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).

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 among the segments (as per the actual capital adequacy pursuant to Basel II).

	As at 30 September 2012		As at 30 September 2011		As at 31 December 2011	
	Allocating all the capital		Allocating all the capital		Allocating all the capital	
Segment	RORAC	EVA	RORAC	EVA	RORAC	EVA
	%	NIS millions	%	NIS millions	%	NIS millions
Households	**11.0**	**34**	10.9	28	8.7	(54)
Small businesses	**23.2**	**140**	27.0	169	22.8	178
Corporate banking	**4.2**	**(393)**	10.6	38	9.3	(60)
Commercial banking	**12.3**	**70**	11.9	54	11.4	54
Private banking	**1.8**	**(58)**	23.4	78	22.0	94
Financial management:						
Capital markets	**(4.3)**	**(367)**	(12.6)	(692)	(10.1)	(823)
Other	**0.3**	**(28)**	(24.2)	(93)	70.1	216
Total for net profit	**6.6**	**(602)**	7.5	(418)	8.3	(395)

1. Households

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

					Overseas activity		
	Banking and finance	Credit cards	Capital market	Mortgages	Banking and finance	Mortgages	Total
	For the three months ended 30 September 2012						
	NIS millions						
Net interest income:							
From external sources	**(237)**	**62**	**2**	**711**	**(2)**	**2**	**538**
Intersegmental	**730**	**(12)**	**(1)**	**(540)**	**4**	**-**	**181**
Non-interest income:							
From external sources	**148**	**130**	**111**	**36**	**2**	**-**	**427**
Intersegmental	**1**	**45**	**-**	**1**	**-**	**-**	**47**
Total income	**642**	**225**	**112**	**208**	**4**	**2**	**1,193**
Expenses in respect of credit losses	**28**	**7**	**-**	**3**	**1**	**1**	**40**
Operating and other expenses:							
To external sources	**671**	**162**	**75**	**62**	**4**	**2**	**976**
Intersegmental	**2**	**(2)**	**-**	**6**	**-**	**-**	**6**
Profit (loss) before taxes	**(59)**	**58**	**37**	**137**	**(1)**	**(1)**	**171**
Provision for taxes (benefit) on profit	**(21)**	**16**	**13**	**48**	**1**	**-**	**57**
Profit (loss) after taxes	**(38)**	**42**	**24**	**89**	**(2)**	**(1)**	**114**
Net profit attributable to non-controlling interests	**-**	**(7)**	**-**	**-**	**-**	**-**	**(7)**
Net profit (loss)	**(38)**	**35**	**24**	**89**	**(2)**	**(1)**	**107**

					Overseas activity		
	Banking and finance	Credit cards	Capital market	Mortgages	Banking and finance	Mortgages	Total
	For the three months ended 30 September 2011						
	NIS millions						
Net interest income:							
From external sources	(246)	62	2	597	(3)	2	414
Intersegmental	765	(15)	(1)	(484)	5	(1)	269
Non-interest income:							
From external sources	186	129	117	100	1	-	533
Intersegmental	(33)	53	-	(72)	-	-	(52)
Total income	672	229	118	141	3	1	1,164
Expenses in respect of credit losses	22	6	-	2	1	2	33
Operating and other expenses:							
To external sources	598	153	74	64	4	1	894
Intersegmental	1	(1)	-	5	-	-	5
Profit (loss) before taxes	51	71	44	70	(2)	(2)	232
Provision for taxes on profit	19	21	15	26	-	-	81
Profit (loss) after taxes	32	50	29	44	(2)	(2)	151
Net profit attributable to non-controlling interests	-	(7)	-	-	-	-	(7)
Net profit (loss)	32	43	29	44	(2)	(2)	144

Households (cont.)

					Overseas activity		
	Banking and finance	Credit cards	Capital market	Mortgages	Banking and finance	Mortgages	Total
	For the nine months ended 30 September 2012						
	NIS millions						
Net interest income:							
From external sources	**(665)**	**188**	**6**	**1,952**	**(8)**	**8**	**1,481**
Intersegmental	**2,153**	**(39)**	**(4)**	**(1,482)**	**13**	**(1)**	**640**
Non-interest income:							
From external sources	**434**	**372**	**340**	**120**	**5**	**-**	**1,271**
Intersegmental	**3**	**135**	**-**	**(25)**	**-**	**-**	**113**
Total income	**1,925**	**656**	**342**	**565**	**10**	**7**	**3,505**
Expenses in respect of credit losses	**32**	**14**	**-**	**(10)**	**3**	**-**	**39**
Operating and other expenses:							
To external sources	**1,976**	**462**	**229**	**185**	**11**	**5**	**2,868**
Intersegmental	**-**	**(5)**	**-**	**16**	**-**	**-**	**11**
Profit (loss) before taxes	**(83)**	**185**	**113**	**374**	**(4)**	**2**	**587**
Provision for taxes (benefit) on profit	**(31)**	**56**	**40**	**130**	**1**	**-**	**196**
Profit (loss) after taxes	**(52)**	**129**	**73**	**244**	**(5)**	**2**	**391**
Net profit attributable to non-controlling interests	**-**	**(22)**	**-**	**-**	**-**	**-**	**(22)**
Net profit (loss)	**(52)**	**107**	**73**	**244**	**(5)**	**2**	**369**
Return on equity							**11.0%**
Average balance of assets	**19,680**	**8,121**	**128**	**58,158**	**68**	**188**	**86,343**
of which: investments in companies included on equity basis	**-**	**3**	**-**	**-**	**-**	**-**	**3**
Average balance of liabilities	**126,288**	**1,048**	**-**	**6,662**	**868**	**9**	**134,875**
Average balance of risk assets	**21,306**	**7,872**	**129**	**31,539**	**215**	**66**	**61,127**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**53,081**	**-**	**-**	**-**	**53,081**
Average balance of securities	**-**	**-**	**49,018**	**-**	**175**	**-**	**49,193**
Average balance of other assets under management	**211**	**-**	**-**	**5,024**	**-**	**-**	**5,235**
Balance of credit to the public	**19,557**	**8,448**	**127**	**60,687**	**64**	**201**	**89,084**
Balance of deposits of the public	**128,439**	**44**	**-**	**4,013**	**931**	**8**	**133,435**

Households (cont.)

	Banking and finance	Credit cards	Capital market	Mortgages	Overseas activity: Banking and finance	Overseas activity: Mortgages	Total
	For the nine months ended 30 September 2011						
	NIS millions						
Net interest income:							
From external sources	(681)	173	5	1,765	(5)	7	1,264
Intersegmental	2,099	(37)	(3)	(1,411)	14	(2)	660
Non-interest income:							
From external sources	461	365	385	155	4	-	1,370
Intersegmental	2	155	-	(63)	-	-	94
Total income	1,881	656	387	446	13	5	3,388
Expenses in respect of credit losses	20	17	-	(14)	1	4	28
Operating and other expenses:							
To external sources	1,890	454	241	197	13	4	2,799
Intersegmental	5	(3)	-	15	-	-	17
Profit (loss) before taxes	(34)	188	146	248	(1)	(3)	544
Provision for taxes (benefit) on profit	(8)	54	50	88	-	-	184
Profit (loss) after taxes	(26)	134	96	160	(1)	(3)	360
Net profit attributable to non-controlling interests	-	(21)	-	-	-	-	(21)
Net profit (loss)	(26)	113	96	160	(1)	(3)	339
Return on equity							10.9%
Average balance of assets	18,411	6,629	123	53,810	115	150	79,238
Of which investments in companies included on equity basis	-	4	-	-	-	-	4
Average balance of liabilities	115,227	760	-	9,459	841	8	126,295
Average balance of risk assets	20,746	7,310	122	28,092	292	53	56,615
Average balance of mutual funds and supplementary training funds	-	-	53,992	-	-	-	53,992
Average balance of securities	-	-	51,234	-	163	-	51,397
Average balance of other assets under management	259	-	-	5,735	-	-	5,994
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 6 billion, or 7.3% compared with the end of 2011. Housing loans increased by 8.5%, and credit, after cancelling out the effect of housing loans, increased by 4.7%. Deposits of the public increased by some NIS 3.2 billion.

Main Changes in Net Profit

In the first nine months of 2012, net profit in the households segment amounted to NIS 369 million, compared with NIS 339 million in the corresponding period last year, an increase of NIS 30 million or 8.8%. The increase in profit derives from an increase in income of NIS 117 million or 3.4%, which was partly offset by an increase in expenses in respect of credit losses amounting to NIS 11 million and an increase in operating and other expenses amounting to NIS 63 million.

The return on equity of the net profit in the segment was 11.0%.

Pension Counseling Services

The balances of the pension assets of customers receiving counseling in the Leumi Group up to the end of September 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 14.92 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".

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 nine months of 2012	First nine months of 2011	Rate of change
	NIS millions		%
From Bank funds	**10,081**	9,340	7.9
From Ministry of Finance funds:			
Loans	**25**	12	108.3
Standing loans	**10**	2	+
Total new loans	**10,116**	9,354	8.1
Refinanced loans	**1,119**	902	24.1
Total loans extended	**11,235**	10,256	9.5

Data relating to risk characteristics 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 below (e.g., repayment ratio, rate of financing (LTV ratio), etc.) are according to the reports of Leumi Mortgage to the Bank of Israel.

Development of balance of housing credit, net:

	Balance of housing credit	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
September 2012	**59,171**	**8.8**

* 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	42,734
December 2010 *	21,552	43.7	26,619	54.0	1,148	2.3	49,319
December 2011	22,973	42.5	29,802	54.5	1,611	3.0	54,386
September 2012	**25,005**	**42.2**	**32,537**	**55.0**	**1,629**	**2.8**	**59,171**

* 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 from 2009 and thereafter was due to the rate of increase in the index-linked credit portfolio. However, from the third quarter of 2011, there was a marked slowdown in the increase in the balance of the unlinked credit portfolio, in view 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 the balance of the housing loan portfolio, at variable and fixed interest:

	Fixed		Variable			Total loan 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
September 2012	**1,738**	**11,076**	**23,267**	**21,461**	**1,629**	**59,171**

* 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 new housing loans by type of interest:

The development of the new loans 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
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter	Annual average	Annual average
	Percentage of loans extended								
	%								
Fixed – linked	**13.9**	14.8	14.9	15.1	14.6	5.9	6.1	6.7	6.5
Variable – every 5 years or more - linked	**38.8**	44.8	45.1	43.8	42.5	17.5	8.9	11.6	4.5
Variable – up to 5 years - linked	**4.2**	4.6	5.7	7.3	9.4	19.2	15.3	20.5	15.0
Fixed-unlinked	**8.4**	6.8	6.1	5.3	5.4	2.1	2.8	4.3	1.2
Variable – every 5 years or more - unlinked	**5.4**	-	-	-	-	-	-	-	-
Variable – up to 5 years - unlinked	**27.5**	27.6	27.0	26.2	25.0	48.8	61.6	53.8	70.5
Variable – foreign currency	**1.8**	1.4	1.2	2.3	3.1	6.5	5.3	3.1	2.3

The percentage of new credit extended by Leumi Mortgage in variable interest housing loans during the first nine months of 2012 was 77.7%, compared with an average of 85.7% 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. The percentage of new credit extended by Leumi Mortgage Bank in variable interest loans, 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 nine months of 2012, was 33.5% (including releases from facilities made prior to the Bank of Israel directive dated 1 May 2011), compared with 57.5% in the corresponding period last year.

The balance of the portfolio of housing loans 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
September 2012	**59,627**	**830**	**1.4**

* 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 allowance for credit losses as at 30 September 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 456 million, representing 0.77% of the housing balance, compared with a total of NIS 538 million in the corresponding period last year, representing 0.99% of the housing credit balance. The decrease in the allowance for credit losses is attributable to the decrease in the balance of arrears in Leumi Mortgage's credit portfolio.

Data relating to new housing credit:

During the first nine months of 2012, Leumi Mortgage extended new housing loans amounting to NIS 9.36 billion from the funds of Leumi Mortgage.

Development of rate of financing (LTV ratio), in new credit, above 60%:

The table below presents the development of new credit extended by Leumi Mortgage at a rate of 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
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter	Annual average
	%							
Between 60 and 70	**22.6**	23.2	24.5	26.2	24.0	20.9	21.7	25.3
Between 70 and 80	**13.6**	12.0	12.8	12.0	11.2	10.4	15.3	19.7
Above 80	**4.0**	3.5	2.5	2.7	3.3	3.6	3.0	3.1

In the first nine months of 2012, some 39.6% of the loans made by Leumi Mortgage were above 60% financing, compared to an average of 38.6% for the whole of 2011.

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

The average financing rate of the credit portfolio balance as at 30 September 2012 was 51.35%, compared with 51.9% as at 30 September 2011.

Development of new credit in which the repayment ratio is less than 2:

The rate of the new housing loan credit in the first nine months 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, compared with an average of 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 the Supervisor of Banks, pursuant to Regulation 876.

Development of new credit, in which repayment schedules are longer than 25 years:

The percentage of new housing loans extended in the first nine months of 2012, in which the repayment schedule according to the loan contracts is longer than 25 years, stood at 30%, compared with an average of 39% of total loans extended throughout the whole of 2011. With effect from the third quarter of 2011, there was a significant decline in the percentage loans extended for a period exceeding 25 years.

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 its 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 risks

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

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

As 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 nine months of 2012 was NIS 537 thousand, compared to NIS 540 thousand in 2011, NIS 665 thousand in 2010 and NIS 596 thousand in 2009.

On 29 October 2012, the Supervisor of Banks published a draft directive regarding the restriction of the LTV ratio for housing loans, which will apply to loans for which approval in principle has been given from 1 November 2012 and thereafter. The new directive is a continuation of previous measures taken by the Banking Supervision Department in the housing credit market.

The draft directive is in relation to housing loans for which agreement was given in principle from 1 November 2012 and thereafter. Notwithstanding the aforesaid, a banking corporation may give approval in principle to a housing loan after the effective date of the directive, without it being subject to the provisions of the directive, providing the conditions set forth in section 14 of the directive are fulfilled.

The directive provides that a banking corporation should not approve a housing loan (mortgage) with an LTV ratio higher than 70%, except for a housing loan for the purpose of purchasing a borrower's first apartment, for which a maximum LTV ratio of 75% will apply. The directive also provides that a banking corporation should not approve a loan to a borrower for the purpose of purchasing an apartment for investment at an LTV ratio higher than 50%. For this purpose, an apartment for investment is as reported to the tax authorities (second apartment), including an apartment purchased by a foreign resident, with effect from 1 November 2012.

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 30 September 2012							
	NIS millions							
Net interest income:								
From external sources	**187**	**5**	**-**	**2**	**74**	**10**	**2**	**280**
Intersegmental	**(24)**	**-**	**-**	**-**	**(21)**	**(2)**	**(1)**	**(48)**
Non-interest income:								
From external sources	**84**	**28**	**5**	**-**	**16**	**4**	**-**	**137**
Intersegmental	**-**	**(12)**	**-**	**-**	**-**	**-**	**-**	**(12)**
Total income	**247**	**21**	**5**	**2**	**69**	**12**	**1**	**357**
Expenses in respect of credit losses	**(8)**	**(1)**	**-**	**-**	**8**	**(4)**	**-**	**(5)**
Operating and other expenses:								
To external sources	**155**	**14**	**3**	**-**	**28**	**9**	**1**	**210**
Intersegmental	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**1**
Profit before taxes	**100**	**7**	**2**	**2**	**33**	**7**	**-**	**151**
Provision for taxes on profit	**35**	**2**	**1**	**1**	**11**	**1**	**-**	**51**
Profit after taxes	**65**	**5**	**1**	**1**	**22**	**6**	**-**	**100**
Profit attributable to non-controlling interests	**-**	**(1)**	**-**	**-**	**-**	**-**	**-**	**(1)**
Net profit	**65**	**4**	**1**	**1**	**22**	**6**	**-**	**99**

	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 30 September 2011							
	NIS millions							
Net interest income:								
From external sources	186	7	-	1	77	6	1	278
Intersegmental	(12)	(2)	(1)	(1)	(31)	(2)	-	(49)
Non-interest income:								
From external sources	77	26	5	-	22	3	1	134
Intersegmental	4	(14)	-	-	-	-	-	(10)
Total income	255	17	4	-	68	7	2	353
Expenses (income) in respect of credit losses	19	-	-	-	5	(4)	2	22
Operating and other expenses:								
To external sources	148	13	3	-	28	6	1	199
Intersegmental	-	1	-	-	-	-	-	1
Profit (loss) before taxes	88	3	1	-	35	5	(1)	131
Provision for taxes (benefit) on the profit	30	2	-	-	12	(1)	-	43
Profit (loss) after taxes	58	1	1	-	23	6	(1)	88
Profit attributable to non-controlling interests	-	(1)	-	-	-	-	-	(1)
Net profit (loss)	58	-	1	-	23	6	(1)	87

Small Businesses (cont.)

						Overseas activity		
	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Banking and finance	Real estate	Total
	For the nine months ended 30 September 2012							
	NIS millions							
Net interest income:								
From external sources	**548**	**18**	**1**	**4**	**228**	**26**	**5**	**830**
Intersegmental	**(56)**	**(4)**	**-**	**(2)**	**(74)**	**(5)**	**(2)**	**(143)**
Non-interest income:								
From external sources	**254**	**81**	**17**	**-**	**48**	**10**	**1**	**411**
Intersegmental	**(1)**	**(35)**	**-**	**-**	**-**	**-**	**-**	**(36)**
Total income	**745**	**60**	**18**	**2**	**202**	**31**	**4**	**1,062**
Expenses in respect of credit losses	**46**	**-**	**-**	**-**	**6**	**(3)**	**-**	**49**
Operating and other expenses:								
To external sources	**478**	**38**	**8**	**-**	**79**	**23**	**2**	**628**
Intersegmental	**-**	**3**	**-**	**-**	**-**	**-**	**-**	**3**
Profit before taxes	**221**	**19**	**10**	**2**	**117**	**11**	**2**	**382**
Provision for taxes on profit	**78**	**6**	**3**	**1**	**41**	**2**	**-**	**131**
Profit after taxes	**143**	**13**	**7**	**1**	**76**	**9**	**2**	**251**
Net profit attributable to non-controlling interests	**-**	**(2)**	**-**	**-**	**-**	**-**	**-**	**(2)**
Net profit	**143**	**11**	**7**	**1**	**76**	**9**	**2**	**249**
Return on equity								**23.2%**
Average balance of assets	**13,020**	**828**	**23**	**96**	**5,806**	**614**	**159**	**20,546**
Average balance of liabilities	**14,750**	**1,419**	**-**	**-**	**3,208**	**505**	**68**	**19,950**
Average balance of risk assets	**10,909**	**679**	**25**	**70**	**5,804**	**594**	**159**	**18,240**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**2,138**	**-**	**-**	**-**	**-**	**2,138**
Average balance of securities	**-**	**-**	**4,733**	**-**	**-**	**5**	**-**	**4,738**
Average balance of other assets under management	**227**	**-**	**-**	**-**	**-**	**-**	**-**	**227**
Balance of credit to the public	**13,308**	**766**	**15**	**104**	**5,829**	**763**	**229**	**21,014**
Balance of deposits of the public	**14,985**	**-**	**-**	**-**	**3,307**	**587**	**71**	**18,950**

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 nine months ended 30 September 2011							
	NIS millions							
Net interest income:								
From external sources	555	18	1	4	229	24	2	833
Intersegmental	(65)	(4)	(1)	(3)	(81)	(5)	-	(159)
Non-interest income:								
From external sources	251	80	19	-	48	9	1	408
Intersegmental	2	(40)	-	-	-	-	-	(38)
Total income	743	54	19	1	196	28	3	1,044
Expenses in respect of credit losses	19	(1)	-	-	-	6	2	26
Operating and other expenses:								
To external sources	454	35	10	-	78	21	2	600
Intersegmental	1	2	-	-	-	-	-	3
Profit (loss) before taxes	269	18	9	1	118	1	(1)	415
Provision for taxes (benefit) on the profit	93	6	3	-	41	(1)	-	142
Profit (loss) after taxes	176	12	6	1	77	2	(1)	273
Net profit attributable to non-controlling interests	-	(2)	-	-	-	-	-	(2)
Net profit (loss)	176	10	6	1	77	2	(1)	271
Return on equity								27.0%
Average balance of assets	12,060	755	30	107	5,403	564	113	19,032
Average balance of liabilities	14,012	1,037	-	-	2,936	411	72	18,468
Average balance of risk assets	10,722	626	33	82	5,316	663	113	17,555
Average balance of mutual fund and supplementary training fund assets	-	-	2,238	-	-	-	-	2,238
Average balance of securities	-	-	5,899	-	-	4	-	5,903
Average balance of other assets under management	245	-	-	-	-	-	-	245
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	14,747	-	-	-	2,876	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 1 billion, compared with the end of 2011, an increase of 4.9%, and total deposits of the public increased by NIS 0.8 billion, an increase of 4.6%.

Main Changes in the Net Profit

In the first nine months of 2012, net profit in the small businesses segment totaled NIS 249 million, compared with NIS 271 million in the corresponding period last year, a decrease of 8.1%. This decrease in profit derives mainly from an increase in expenses in respect of credit losses amounting to NIS 23 million, mainly due to an increase in the collective allowance for credit losses and an increase in operating and other expenses amounting to NIS 28 million, which was partly offset as a result of an increase in income amounting to NIS 18 million.

The return on equity of the net profit in the segment was 23.2%.

3. Corporate Banking

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

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity: Banking and finance	Overseas activity: Real estate	Total
	For the three months ended 30 September 2012						
	NIS millions						
Net interest income:							
From external sources	**394**	**7**	**4**	**304**	**1**	**2**	**712**
Intersegmental	**(154)**	**(2)**	**(4)**	**(185)**	**2**	**-**	**(343)**
Non-interest income:							
From external sources	**62**	**49**	**4**	**66**	**2**	**-**	**183**
Intersegmental	**(2)**	**(25)**	**-**	**-**	**-**	**-**	**(27)**
Total income	**300**	**29**	**4**	**185**	**5**	**2**	**525**
Expenses in respect of credit losses	**223**	**-**	**-**	**26**	**(1)**	**-**	**248**
Operating and other expenses:							
To external sources	**96**	**19**	**4**	**36**	**4**	**1**	**160**
Intersegmental	**1**	**-**	**-**	**-**	**-**	**-**	**1**
Profit (loss) before taxes	**(20)**	**10**	**-**	**123**	**2**	**1**	**116**
Provision for (benefit from) taxes on profit	**(9)**	**3**	**-**	**44**	**1**	**-**	**39**
Profit (loss) after taxes	**(11)**	**7**	**-**	**79**	**1**	**1**	**77**
Net profit attributable to non-controlling interests	**-**	**(2)**	**-**	**-**	**-**	**-**	**(2)**
Net profit (loss)	**(11)**	**5**	**-**	**79**	**1**	**1**	**75**

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity: Banking and finance	Overseas activity: Real estate	Total
	For the three months ended 30 September 2011						
	NIS millions						
Net interest income:							
From external sources	454	8	-	248	4	(1)	713
Intersegmental	(146)	(3)	-	(199)	(1)	2	(347)
Non-interest income:							
From external sources	(12)	46	5	139	1	-	179
Intersegmental	(1)	(29)	-	-	-	-	(30)
Total income	295	22	5	188	4	1	515
Expenses in respect of credit losses	16	(1)	-	174	-	-	189
Operating and other expenses:							
To external sources	86	20	3	30	2	-	141
Intersegmental	(1)	1	-	-	-	-	-
Profit (loss) before taxes	194	2	2	(16)	2	1	185
Provision for taxes (benefit) on profit	67	1	-	(5)	1	-	64
Profit (benefit) after taxes	127	1	2	(11)	1	1	121
Net profit attributable to non-controlling interests	-	(1)	-	-	-	-	(1)
Net profit (loss)	127	-	2	(11)	1	1	120

Corporate Banking (cont.)

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity: Banking and finance	Overseas activity: Real estate	Total
	For the nine months ended 30 September 2012						
	NIS millions						
Net interest income:							
From external sources	**1,193**	**22**	**5**	**925**	**7**	**4**	**2,156**
Intersegmental	**(474)**	**(7)**	**(5)**	**(537)**	**8**	**-**	**(1,015)**
Non-interest income:							
From external sources	**187**	**143**	**11**	**182**	**6**	**1**	**530**
Intersegmental	**(2)**	**(77)**	**-**	**-**	**-**	**-**	**(79)**
Total income	**904**	**81**	**11**	**570**	**21**	**5**	**1,592**
Expenses in respect of credit losses	**772**	**1**	**-**	**(98)**	**-**	**-**	**675**
Operating and other expenses:							
To external sources	**284**	**55**	**12**	**107**	**13**	**3**	**474**
Intersegmental	**1**	**-**	**-**	**-**	**-**	**-**	**1**
Profit (loss) before taxes	**(153)**	**25**	**(1)**	**561**	**8**	**2**	**442**
Provision for (benefit from) taxes on profit	**(57)**	**6**	**-**	**198**	**3**	**-**	**150**
Profit (loss) after taxes	**(96)**	**19**	**(1)**	**363**	**5**	**2**	**292**
Net profit attributable to non-controlling interests	**-**	**(4)**	**-**	**-**	**-**	**-**	**(4)**
Net profit (loss)	**(96)**	**15**	**(1)**	**363**	**5**	**2**	**288**
Return on equity							**4.2%**
Average balance of assets	**50,494**	**417**	**164**	**26,051**	**520**	**158**	**77,804**
Average balance of liabilities	**20,968**	**2,660**	**-**	**5,585**	**756**	**170**	**30,139**
Average balance of risk assets	**77,646**	**385**	**163**	**26,596**	**661**	**158**	**105,609**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**2,105**	**-**	**-**	**-**	**2,105**
Average balance of securities	**-**	**-**	**56,563**	**-**	**122**	**-**	**56,685**
Average balance of other assets under management	**230**	**-**	**-**	**-**	**-**	**-**	**230**
Balance of credit to the public	**44,849**	**421**	**167**	**24,837**	**427**	**194**	**70,895**
Balance of deposits of the public	**17,779**	**-**	**-**	**4,900**	**847**	**166**	**23,692**

Corporate Banking (cont.)

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity Banking and finance	Overseas activity Real estate	Total
	For the nine months ended 30 September 2011						
	NIS millions						
Net interest income:							
From external sources	1,136	22	5	991	10	(2)	2,162
Intersegmental	(449)	(8)	(5)	(612)	(1)	6	(1,069)
Non-interest income:							
From external sources	222	144	15	196	3	1	581
Intersegmental	-	(87)	-	-	-	-	(87)
Total income	909	71	15	575	12	5	1,587
Expenses in respect of credit losses	(25)	(2)	-	175	-	-	148
Operating and other expenses:							
To external sources	292	54	8	99	7	2	462
Intersegmental	-	1	-	-	-	-	1
Profit before taxes	642	18	7	301	5	3	976
Provision for taxes on profit	219	4	2	104	2	-	331
Profit after taxes	423	14	5	197	3	3	645
Net profit attributable to non-controlling interests	-	(3)	-	-	-	-	(3)
Net profit	423	11	5	197	3	3	642
Return on equity							10.6%
Average balance of assets	49,321	323	157	26,292	568	-	76,661
Average balance of liabilities	26,342	1,917	58	5,611	236	285	34,449
Average balance of risk assets	70,143	389	156	26,692	856	-	98,236
Average balance of mutual funds and supplementary training funds	-	-	1,327	-	-	-	1,327
Average balance of securities	-	-	85,336	-	155	-	85,491
Average balance of other assets under management	225	-	-	-	-	-	225
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 decreased by NIS 6.6 billion compared with the end of 2011 and total deposits of the public fell by NIS 4.4 billion, or about 15.6%, *inter alia*, as a result of transfer of customers to be dealt with in the Capital Markets Division.

Main Changes in Net Profit

In the first nine months of 2012, net profit in the corporate banking segment totaled NIS 288 million, compared with NIS 642 million during the corresponding period in 2011, a decrease of 55.1%. The decrease in profit derives mainly from an increase in expenses in respect of credit losses amounting to NIS 527 million.

The return on equity of the net profit in the segment was 4.2%.

4. Commercial Banking

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

	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 30 September 2012							
	NIS millions							
Net interest income:								
From external sources	**150**	**2**	**(2)**	**86**	**142**	**-**	**34**	**412**
Intersegmental	**5**	**(1)**	**2**	**(36)**	**(26)**	**-**	**(13)**	**(69)**
Non-interest income:								
From external sources	**77**	**20**	**11**	**13**	**23**	**2**	**5**	**151**
Intersegmental	**-**	**(8)**	**-**	**-**	**-**	**-**	**-**	**(8)**
Total income	**232**	**13**	**11**	**63**	**139**	**2**	**26**	**486**
Expenses in respect of credit losses	**(28)**	**-**	**-**	**5**	**15**	**-**	**11**	**3**
Operating and other expenses:								
To external sources	**120**	**8**	**25**	**15**	**86**	**1**	**12**	**267**
Intersegmental	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit (loss) before taxes	**140**	**5**	**(14)**	**43**	**38**	**1**	**3**	**216**
Provision for (benefit from) taxes on profit	**49**	**2**	**(5)**	**15**	**11**	**-**	**2**	**74**
Net profit (loss)	**91**	**3**	**(9)**	**28**	**27**	**1**	**1**	**142**

	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 30 September 2011							
	NIS millions							
Net interest income:								
From external sources	176	3	5	78	109	-	31	402
Intersegmental	12	(1)	(5)	(46)	(20)	-	(10)	(70)
Non-interest income:								
From external sources	54	19	10	27	38	2	6	156
Intersegmental	(2)	(9)	-	-	-	-	-	(11)
Total income	240	12	10	59	127	2	27	477
Expenses in respect of credit losses	47	(1)	-	(4)	9	-	7	58
Operating and other expenses:								
To external sources	120	6	9	16	87	1	9	248
Intersegmental	-	-	-	-	-	-	-	-
Profit before taxes	73	7	1	47	31	1	11	171
Provision for taxes on profit	27	1	1	16	15	-	6	66
Net profit	46	6	-	31	16	1	5	105

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 nine months ended 30 September 2012							
	NIS millions							
Net interest income:								
From external sources	**389**	**9**	**8**	**296**	**423**	**-**	**105**	**1,230**
Intersegmental	**66**	**(3)**	**(8)**	**(144)**	**(68)**	**-**	**(36)**	**(193)**
Non-interest income:								
From external sources	**243**	**55**	**32**	**40**	**61**	**7**	**10**	**448**
Intersegmental	**-**	**(27)**	**-**	**-**	**-**	**-**	**-**	**(27)**
Total income	**698**	**34**	**32**	**192**	**416**	**7**	**79**	**1,458**
Expenses in respect of credit losses	**39**	**-**	**-**	**4**	**32**	**-**	**11**	**86**
Operating and other expenses:								
To external sources	**363**	**22**	**54**	**49**	**261**	**4**	**36**	**789**
Intersegmental	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit (loss) before taxes	**296**	**12**	**(22)**	**139**	**123**	**3**	**32**	**583**
Provision for (benefit from) taxes on profit	**105**	**3**	**(8)**	**49**	**40**	**1**	**10**	**200**
Profit (loss) after taxes	**191**	**9**	**(14)**	**90**	**83**	**2**	**22**	**383**
Net profit attributable to non-controlling interests	**-**	**(1)**	**-**	**-**	**-**	**-**	**-**	**(1)**
Net profit (loss)	**191**	**8**	**(14)**	**90**	**83**	**2**	**22**	**382**
Return on equity								**12.3%**

Average balance of assets	**23,805**	**324**	**265**	**8,288**	**15,442**	**-**	**3,332**	**51,456**
Average balance of liabilities	**34,830**	**935**	**76**	**2,798**	**11,100**	**-**	**376**	**50,115**
Average balance of risk assets	**26,725**	**275**	**296**	**9,304**	**14,282**	**-**	**3,332**	**54,214**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**3,714**	**-**	**-**	**155**	**-**	**3,869**
Average balance of securities	**-**	**-**	**40,389**	**-**	**-**	**2,143**	**-**	**42,532**
Average balance of other assets under management	**712**	**-**	**-**	**-**	**-**	**-**	**-**	**712**
Balance of credit to the public	**23,313**	**299**	**172**	**8,248**	**15,795**	**-**	**3,261**	**51,088**
Balance of deposits of the public	**35,017**	**-**	**-**	**2,616**	**11,008**	**-**	**332**	**48,973**

Commercial Banking (cont.)

					Overseas activity			
	Banking and finance	Credit cards	Capital market	Real estate	Banking and finance	Capital market	Real estate	Total
	For the nine months ended 30 September 2011							
	NIS millions							
Net interest income:								
From external sources	420	9	1	323	351	-	97	1,201
Intersegmental	39	(3)	-	(176)	(51)	-	(28)	(219)
Non-interest income:								
From external sources	256	50	31	43	59	6	9	454
Intersegmental	-	(28)	-	-	-	-	-	(28)
Total income	715	28	32	190	359	6	78	1,408
Expenses in respect of credit losses	20	(1)	-	21	29	-	29	98
Operating and other expenses:								
To external sources	389	19	24	51	250	4	31	768
Intersegmental	1	-	-	-	-	-	-	1
Profit before taxes	305	10	8	118	80	2	18	541
Provision for taxes on profit	108	2	3	40	37	1	10	201
Profit after taxes from ordinary activities	197	8	5	78	43	1	8	340
Group's share in profits of companies included on equity basis after effect of taxes	-	(1)	-	-	-	-	-	(1)
Net profit	197	7	5	78	43	1	8	339
Return on equity								11.9%
Average balance of assets	23,952	1,233	468	7,778	13,495	-	3,304	50,230
Average balance of liabilities	30,358	2,100	-	2,454	8,565	-	366	43,843
Average balance of risk assets	24,236	261	541	8,603	13,020	-	3,304	49,965
Average balance of mutual funds and supplementary training funds	-	-	4,225	-	-	138	-	4,363
Average balance of securities	-	-	39,040	-	-	1,864	-	40,904
Average balance of other assets under management	681	-	-	-	-	-	-	681
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 increased by NIS 0.5 billion, an increase of 1.1%, compared with the end of 2011, and total deposits of the public increased by NIS 2.4 billion, or 5.3%.

Main changes in net profit

In the first nine months of 2012, net profit in the commercial banking segment totaled NIS 382 million, compared with NIS 339 million during the corresponding period in 2011, an increase of NIS 43 million, or 12.7%. The increase in profit derives mainly from an increase in income amounting to NIS 50 million, a decrease in expenses for credit losses amounting to NIS 12 million, which was partly offset by an increase in operating and other expenses amounting to NIS 20 million.

The return on equity of the net profit in the segment was 12.3%.

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 30 September 2012									
	NIS millions									
Net interest income:										
From external sources	**(60)**	**-**	**-**	**1**	**(1)**	**8**	**-**	**10**	**-**	**(42)**
Intersegmental	**89**	**-**	**-**	**-**	**5**	**39**	**-**	**(7)**	**1**	**127**
Non-interest income:										
From external sources	**8**	**-**	**41**	**-**	**4**	**31**	**43**	**1**	**1**	**129**
Intersegmental	**(1)**	**1**	**-**	**-**	**-**	**2**	**-**	**-**	**-**	**2**
Total income	**36**	**1**	**41**	**1**	**8**	**80**	**43**	**4**	**2**	**216**
Expenses in respect of credit losses	**(1)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**
Operating and other expenses:										
To external sources	**45**	**-**	**16**	**-**	**3**	**97**	**56**	**4**	**1**	**222**
Intersegmental	**1**	**-**	**-**	**-**	**-**	**(1)**	**1**	**-**	**-**	**1**
Profit (loss) before taxes	**(9)**	**1**	**25**	**1**	**5**	**(16)**	**(14)**	**-**	**1**	**(6)**
Provision for (benefit from) taxes on profit	**(3)**	**-**	**9**	**-**	**2**	**1**	**(1)**	**-**	**-**	**8**
Profit (loss) after taxes	**(6)**	**1**	**16**	**1**	**3**	**(17)**	**(13)**	**-**	**1**	**(14)**
Net profit attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**1**
Net profit (loss)	**(6)**	**1**	**16**	**1**	**3**	**(16)**	**(13)**	**-**	**1**	**(13)**

						Overseas activity				
	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Banking and finance	Capital market	Real estate	Mortgages	Total
	For the three months ended 30 September 2011									
	NIS millions									
Net interest income:										
From external sources	(29)	-	-	-	-	5	-	(1)	9	(16)
Intersegmental	75	-	-	-	2	46	-	1	(5)	119
Non-interest income:										
From external sources	4	-	35	-	3	36	31	1	2	112
Intersegmental	-	1	-	-	-	1	-	-	-	2
Total income	50	1	35	-	5	88	31	1	6	217
Expenses in respect of credit losses	2	-	-	-	(1)	-	-	-	-	1
Operating and other expenses:										
To external sources	36	-	13	-	3	83	32	1	3	171
Intersegmental	(1)	-	-	-	-	-	1	-	-	-
Profit (loss) before taxes	13	1	22	-	3	5	(2)	-	3	45
Provision for taxes (benefit) on profit	5	-	7	-	1	(1)	-	-	1	13
Net profit (loss)	8	1	15	-	2	6	(2)	-	2	32

Private Banking (cont.)

	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Overseas activity: Banking and finance	Overseas activity: Capital market	Overseas activity: Mortgages	Overseas activity: Real estate	Total
	For the nine months ended 30 September 2012									
	NIS millions									
Net interest income:										
From external sources	**(169)**	**-**	**-**	**1**	**(3)**	**36**	**-**	**31**	**(1)**	**(105)**
Intersegmental	**267**	**-**	**-**	**-**	**12**	**114**	**-**	**(20)**	**3**	**376**
Non-interest income:										
From external sources	**26**	**-**	**117**	**-**	**9**	**139**	**146**	**4**	**1**	**442**
Intersegmental	**-**	**1**	**-**	**-**	**-**	**(1)**	**-**	**-**	**-**	**-**
Total income	**124**	**1**	**117**	**1**	**18**	**288**	**146**	**15**	**3**	**713**
Expenses in respect of credit losses	**(4)**	**-**	**-**	**-**	**-**	**4**	**-**	**-**	**-**	**-**
Operating and other expenses:										
To external sources	**131**	**1**	**48**	**-**	**8**	**302**	**171**	**10**	**2**	**673**
Intersegmental	**1**	**-**	**-**	**-**	**-**	**1**	**1**	**-**	**-**	**3**
Profit (loss) before taxes	**(4)**	**-**	**69**	**1**	**10**	**(19)**	**(26)**	**5**	**1**	**37**
Provision for (benefit from) taxes on profit	**(1)**	**-**	**23**	**-**	**4**	**2**	**(4)**	**1**	**-**	**25**
Profit (loss) after taxes	**(3)**	**-**	**46**	**1**	**6**	**(21)**	**(22)**	**4**	**1**	**12**
Net profit attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**1**
Net profit (loss)	**(3)**	**-**	**46**	**1**	**6**	**(20)**	**(22)**	**4**	**1**	**13**
Return on equity										**1.8%**
Average balance of assets	**1,931**	**51**	**10**	**33**	**388**	**9,155**	**-**	**1,062**	**-**	**12,630**
Average balance of liabilities	**19,527**	**-**	**9**	**-**	**1,349**	**18,550**	**-**	**15**	**193**	**39,643**
Average balance of risk assets	**2,231**	**43**	**8**	**25**	**426**	**7,669**	**-**	**372**	**-**	**10,774**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**4,829**	**-**	**-**	**-**	**1,700**	**-**	**-**	**6,529**
Average balance of securities	**-**	**-**	**39,792**	**-**	**-**	**-**	**36,908**	**-**	**-**	**76,700**
Average balance of other assets under management	**231**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**231**
Balance of credit to the public	**1,759**	**33**	**16**	**31**	**438**	**5,210**	**-**	**1,021**	**-**	**8,508**
Balance of deposits of the public	**19,208**	**-**	**-**	**-**	**1,467**	**18,262**	**-**	**16**	**173**	**39,126**

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 nine months ended 30 September 2011									
	NIS millions									
Net interest income:										
From external sources	(125)	-	-	3	1	34	-	27	(1)	(61)
Intersegmental	230	-	-	5	-	132	-	(13)	3	357
Non-interest income:										
From external sources	32	-	117	7	-	97	98	4	1	356
Intersegmental	1	1	-	-	-	6	-	-	-	8
Total income	138	1	117	15	1	269	98	18	3	660
Expenses in respect of credit losses	(5)	-	-	1	-	(22)	-	1	-	(25)
Operating and other expenses:										
To external sources	121	1	42	7	-	211	92	10	2	486
Intersegmental	-	-	-	-	-	1	1	-	-	2
Profit before taxes	22	-	75	7	1	79	5	7	1	197
Provision for taxes on profit	10	-	24	2	-	19	1	2	-	58
Profit from ordinary activities after taxes	12	-	51	5	1	60	4	5	1	139
Net profit attributable to non-controlling interests	-	-	-	-	-	(2)	-	-	-	(2)
Net profit	12	-	51	5	1	58	4	5	1	137
Return on equity										23.4%
Average balance of assets	1,526	57	10	432	41	7,624	-	855	18	10,563
Average balance of liabilities	19,919	-	-	940	-	15,387	-	14	189	36,449
Average balance of risk assets	1,235	44	9	434	31	7,072	-	299	18	9,142
Average balance of mutual funds and supplementary training funds	-	-	4,806	-	-	-	1,641	-	-	6,447
Average balance of securities	-	-	38,260	-	-	-	28,256	-	-	66,516
Average balance of other assets under management	221	-	-	-	-	-	-	-	-	221
Balance of credit to the public at 31 December 2011	2,010	57	8	414	34	5,405	-	1,146	-	9,074
Balance of deposits of the public at 31 December 2011	19,876	-	-	1,012	-	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 0.5 billion, or 6.2%, compared with the end of 2011, and total deposits of the public decreased by some NIS 0.8 billion, or about 2.2%.

Main changes in net profit

In the first nine months of 2012, net profit in the private banking segment amounted to NIS 13 million, compared with NIS 137 million in the corresponding period in 2011, a decrease of NIS 124 million or 90.5%. The decrease in profit derives mainly from an increase in operating expenses amounting to NIS 188 million, or 38.5%, primarily attributable to the initial consolidation of Banque Safdié in the office in Switzerland and from the cancelation of allowances in respect of legal claims recorded in the first six months of 2011, which was partly offset by an increase in revenues amounting to NIS 53 million.

The return on equity of the net profit in the segment was 1.8%.

6. Financial Management – Capital Markets

	For the three months ended 30 September		For the nine months ended 30 September	
	2012	2011	**2012**	2011
	NIS millions			
Net interest income:				
From external sources	**(28)**	46	**31**	24
Intersegmental	**149**	81	**325**	419
Operating and other income:				
From external sources	**145**	(411)	**304**	(222)
Intersegmental	**39**	82	**33**	95
Total income	**305**	(202)	**693**	316
Expenses in respect of credit losses	**7**	75	**1**	74
Operating and other expenses:				
To external sources	**453**	398	**1,048**	1,099
Intersegmental	**11**	10	**32**	29
Loss before taxes	**(166)**	(685)	**(388)**	(886)
Benefit from taxes	**(87)**	(265)	**(145)**	(361)
Loss after taxes	**(79)**	(420)	**(243)**	(525)
Group share in profits of companies included on equity basis after effect of tax	**108**	115	**132**	145
Net operating loss attributed to non-controlling interests	**(1)**	(2)	**(1)**	(10)
Net profit (loss)	**28**	(307)	**(112)**	(390)

In the first nine months of 2012, the loss in the financial management segment amounted to NIS 112 million, compared with a loss of NIS 390 million in the corresponding period last year. The decrease in the loss is primarily attributable to an increase in income amounting to NIS 377 million and a decrease in operating and other expenses amounting to NIS 48 million, deriving from a decrease in expenses that were not loaded on other activity segments.

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 2,303 million on 30 September 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			Market value		Capital adequacy requirements	
	(NIS millions)			(NIS millions)			
Company	**30 September 2012**	31 December 2011	**% change**	**30 September 2012**	31 December 2011	**30 September 2012**	31 December 2011
The Israel Corporation Ltd.	**1,811**	1,748	3.6	**3,440**	3,291	**163**	157
Others *	**492**	522	(5.7)	**-**	-	**44**	47
Total	**2,303**	2,270	1.5	**3,440**	3,291	**207**	204

* Including investments in Super Pharm amounting to NIS 177 million.

The contribution of companies included on equity basis to the Group's net profit in the first nine months of 2012 amounted to a profit of NIS 132 million, compared with a profit of NIS 145 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 first nine months ended 30 September		
	2012	2011	% change
The Israel Corporation Ltd.	**103**	113	(8.8)
Others	**29**	32	(9.4)
Total	**132**	145	(9.0)

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 Group's other activities, none of which amounts to a profit segment according to the directives of the Bank of Israel. This activity primarily includes that part of the operations of companies which do not belong to other segments. During the first nine months of 2012, the profit in the "Others" segment amounted to NIS 1 million, compared with a loss of NIS 65 million in the corresponding period last year.

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

	For the first nine months ended 30 September		
	2012	2011	Change in amount
Net profit the Bank	**11**	14	(3)
Other companies in Israel	**6**	7	(1)
Overseas companies	**(1)**	13	(14)
Tax adjustments (1)	**(15)**	(99)	84
Total	**1**	(65)	66

(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, 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:

	House-holds	Small businesses	Corporate banking	Commercial banking	Private banking	Financial management and others	Overseas activities	Total
	For the three months ended 30 September 2012							
	NIS millions							
Net interest income	**1**	**-**	**-**	**-**	**-**	**1**	**-**	**2**
Non-interest income	**111**	**5**	**4**	**11**	**41**	**26**	**47**	**245**
Total income	**112**	**5**	**4**	**11**	**41**	**27**	**47**	**247**
Operating and other expenses	**75**	**3**	**4**	**25**	**16**	**28**	**59**	**210**
Profit (loss) before taxes	**37**	**2**	**-**	**(14)**	**25**	**(1)**	**(12)**	**37**
Net profit (loss)	**24**	**1**	**-**	**(9)**	**16**	**-**	**(12)**	**20**

	House-holds	Small businesses	Corporate banking	Commercial banking	Private banking	Financial management and others	Overseas activities	Total
	For the three months ended 30 September 2011							
	NIS millions							
Net interest income	1	(1)	-	-	-	2	-	2
Non-interest income	117	5	5	10	35	20	32	224
Total income	118	4	5	10	35	22	32	226
Operating and other expenses	74	3	3	9	13	15	27	144
Profit before taxes	44	1	2	1	22	7	5	82
Net profit	29	1	2	-	15	2	2	51

	House-holds	Small businesses	Corporate banking	Commercial banking	Private banking	Financial management and others	Overseas activities	Total
	For the nine months ended 30 September 2012							
	NIS millions							
Net interest income	**2**	**1**	**-**	**-**	**-**	**4**	**-**	**7**
Non-interest income	**340**	**17**	**11**	**32**	**117**	**72**	**157**	**746**
Total income	**342**	**18**	**11**	**32**	**117**	**76**	**157**	**753**
Operating and other expenses	**229**	**8**	**12**	**54**	**48**	**79**	**179**	**609**
Profit (loss) before taxes	**113**	**10**	**(1)**	**(22)**	**69**	**(3)**	**(22)**	**144**
Net profit (loss)	**73**	**7**	**(1)**	**(14)**	**46**	**(1)**	**(19)**	**91**

	House-holds	Small businesses	Corporate banking	Commercial banking	Private banking	Financial management and others	Overseas activities	Total
	For the nine months ended 30 September 2011							
	NIS millions							
Net interest income	2	-	-	1	-	4	-	7
Non-interest income	385	19	15	31	117	83	106	756
Total income	387	19	15	32	117	87	106	763
Operating and other expenses	241	10	8	24	42	44	102	471
Profit before taxes	146	9	7	8	75	43	4	292
Net profit	96	6	5	5	51	28	4	195

In the first nine months of 2012, net operating profit after taxes from capital market operations amounted to NIS 91 million, compared with NIS 195 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 nine months of 2012 with a net profit of NIS 142 million, compared with a profit of NIS 134 million in the corresponding period in 2011.

During the first nine months of 2012, the volume of activity by Leumi Card cardholders increased by 8% compared with the activity in the corresponding period in 2011. The number of valid cards at 30 September 2012 increased by 5% compared with 30 September 2011.

On 17 April 2012, a license agreement was signed by Leumi Card and Isracard Ltd., by virtue of which Leumi Card is granted a clearing and issuing license and the option for providing services for debit cards under the brand name of Isracard ("the License Agreement"). 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 13 September 2012, the Antitrust Commissioner granted a fixed exemption to the License Agreement. It was made dependent on a number of conditions, *inter alia*, it was provided that Isracard would not be able to collect the rate of license fees established between it and the company in the License Agreement, but rather a lower rate. In addition, as part of the conditions of the exemption, conditions were stipulated prohibiting the transfer of information between the companies, which is not for the purpose of implementing the agreements or which is not by virtue of the law or the exemption directive.

Like Mastercard Global, Isracard, has requested the Antitrust Court to issue an immunity injunction for the numerical data included in the Commissioner's exemption and the explanations on which it is based, and most of the rate of the license fees stipulated in the exemption. This request is pending in the Antitrust Court, which initially issued a temporary immunity injunction at the request of Isracard and Mastercard Global. In addition, Isracard announced its intention to appeal the Commissioner's decision and request a higher rate of license fees.

In the opinion of Leumi Card, the license agreement will lead to a significant increase in 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 30 September 2012					
	NIS millions					
Net interest income	**50**	**5**	**5**	**1**	**-**	**61**
Non-interest income	**175**	**16**	**24**	**12**	**1**	**228**
Total income	**225**	**21**	**29**	**13**	**1**	**289**
Expenses in respect of credit losses	**7**	**(1)**	**-**	**-**	**-**	**6**
Operating and other expenses	**160**	**15**	**19**	**8**	**-**	**202**
Profit before taxes	**58**	**7**	**10**	**5**	**1**	**81**
Share of external shareholders	**(7)**	**(1)**	**(2)**	**-**	**-**	**(10)**
Net profit	**35**	**4**	**5**	**3**	**1**	**48**

	Households	Small businesses	Corporate banking	Commercial banking	Private banking	Total
	For the three months ended 30 September 2011					
	NIS millions					
Net interest income	47	5	5	2	-	59
Non-interest income	182	12	17	10	1	222
Total income	229	17	22	12	1	281
Expenses (income) in respect of credit losses	6	-	(1)	(1)	-	4
Operating and other expenses	152	14	21	6	-	193
Profit before taxes	71	3	2	7	1	84
Share of external shareholders	(7)	(1)	(1)	-	-	(9)
Net profit	43	-	-	6	1	50

	Households	Small businesses	Corporate banking	Commercial banking	Private banking	Total
	For the nine months ended 30 September 2012					
	NIS millions					
Net interest income	**149**	**14**	**15**	**6**	**-**	**184**
Non-interest income	**507**	**46**	**66**	**28**	**1**	**648**
Total income	**656**	**60**	**81**	**34**	**1**	**832**
Expenses in respect of credit losses	**14**	**-**	**1**	**-**	**-**	**15**
Operating and other expenses	**457**	**41**	**55**	**22**	**1**	**576**
Profit before taxes	**185**	**19**	**25**	**12**	**-**	**241**
Share of external shareholders	**(22)**	**(2)**	**(4)**	**(1)**	**-**	**(29)**
Net profit	**107**	**11**	**15**	**8**	**-**	**141**

	Households	Small businesses	Corporate banking	Commercial banking	Private banking	Total
	For the nine months ended 30 September 2011					
	NIS millions					
Net interest income	136	14	14	6	-	170
Non-interest income	520	40	57	22	1	640
Total income	656	54	71	28	1	810
Expenses (income) in respect of credit losses	17	(1)	(2)	(1)	-	13
Operating and other expenses	451	37	55	19	1	563
Profit before taxes	188	18	18	10	-	234
Share of external shareholders	(21)	(2)	(3)	(1)	-	(27)
Net profit	113	10	11	7	-	141

The operating profit from credit card activities in the first nine months of 2012 amounted to NIS 141 million, similar to the profit in the corresponding period in 2011.

C. Real Estate

	Small businesses	Corporate banking	Commercial banking	Private banking	Overseas activities	Total
	For the three months ended 30 September 2012					
	NIS millions					
Net interest income	**53**	**119**	**50**	**4**	**29**	**255**
Non-interest income	**16**	**66**	**13**	**4**	**15**	**114**
Total income	**69**	**185**	**63**	**8**	**44**	**369**
Expenses in respect of credit losses	**8**	**26**	**5**	**-**	**11**	**50**
Operating and other expenses	**28**	**36**	**15**	**3**	**15**	**97**
Profit before taxes	**33**	**123**	**43**	**5**	**18**	**222**
Net profit	**22**	**79**	**28**	**3**	**12**	**144**

	Small businesses	Corporate banking	Commercial banking	Private banking	Overseas activities	Total
	For the three months ended 30 September 2011					
	NIS millions					
Net interest income	46	49	32	2	40	169
Non-interest income	22	139	27	3	9	200
Total income	68	188	59	5	49	369
Expenses (income) in respect of credit losses	5	174	(4)	(1)	9	183
Operating and other expenses	28	30	16	3	11	88
Profit (loss) before taxes	35	(16)	47	3	29	98
Net profit (loss)	23	(11)	31	2	16	61

	Small businesses	Corporate banking	Commercial banking	Private banking	Overseas activities	Total
	For the nine months ended 30 September 2012					
	NIS millions					
Net interest income	**154**	**388**	**152**	**9**	**88**	**791**
Non-interest income	**48**	**182**	**40**	**9**	**32**	**311**
Total income	**202**	**570**	**192**	**18**	**120**	**1,102**
Expenses (income) in respect of credit losses	**6**	**(98)**	**4**	**-**	**11**	**(77)**
Operating and other expenses	**79**	**107**	**49**	**8**	**43**	**286**
Profit before taxes	**117**	**561**	**139**	**10**	**66**	**893**
Net profit	**76**	**363**	**90**	**6**	**46**	**581**

	Small businesses	Corporate banking	Commercial banking	Private banking	Overseas activities	Total
	For the nine months ended 30 September 2011					
	NIS millions					
Net interest income	148	379	147	8	111	793
Non-interest income	48	196	43	7	14	308
Total income	196	575	190	15	125	1,101
Expenses in respect of credit losses	-	175	21	1	31	228
Operating and other expenses	78	99	51	7	37	272
Profit before taxes	118	301	118	7	57	601
Net profit	77	197	78	5	32	389

Net profit in real estate activity in the first nine months of 2012 amounted to NIS 581 million, compared to NIS 389 million in the corresponding period last year, the increase deriving from income in respect of credit losses in the first nine months of 2012, compared with expenses in respect of credit losses in the corresponding period last year.

Profit Centers in the Group

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

	For the first nine months of		
	2012	2011	Change
	NIS millions		%
The Bank	**464**	535	(13.3)
Consolidated companies in Israel (1)	**436**	294	48.3
Overseas consolidated companies (2)	**188**	326	(42.3)
Companies included on equity basis (1)	**102**	118	(13.6)
Net profit	**1,190**	1,273	(6.5)
Overseas subsidiaries' profit, in nominal terms (US$ millions) (3)	**40.3**	34.8	15.8

(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 minority interests.

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

- The decrease in the net profit the Bank is mainly due to an increase in expenses in respect of credit losses and an increase in other operating expenses, which was partly offset by an increase in non-interest income. Most of the explanations for the abovementioned changes, which derive mainly from the Bank's results, are presented above in the chapter "Development of Income, Expenses, and Tax Provision" as part of the discussion on the Group’s results.

- The increase in the net profit of consolidated companies in Israel derives mainly from an increase in the profits of the Leumi Mortgage Bank, the Arab-Israel Bank, Leumi Card and a decrease in the losses of Leumi Partners.

- The decrease in the net profit of overseas subsidiaries stems from a change in the exchange rate differentials in respect of foreign investments, which were charges in 2011 and recorded in profit and loss, compared with 2012 in which most of the exchange rate differentials were recorded in other comprehensive income.

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

The operating profits of the overseas units in nominal terms, as published by them, translated for convenience to US dollars, totaled some US$ 40.3 million, an increase of US$ 5.5 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 187.9 million, compared with NIS 325.7 million 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 7,738 million on 30 September 2012, compared with NIS 7,203 million on 31 December 2011. The contribution to net profit in the first nine months of 2012 was some NIS 436 million, compared with some NIS 294 million in the corresponding period in 2011, an increase of 48.3%. In the third quarter of 2012, the contribution to net profit amounted to NIS 199 million, compared with a loss of some NIS 80 million in the corresponding period last year.

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 30 September				Rate of
	2012	2011	**2012**	2011	change
	%		NIS millions		%
Leumi Mortgage Bank	**11.5**	7.9	**241.3**	156.2	54.5
Arab Israel Bank	**24.3**	29.2	**78.9**	72.5	8.8
Leumi Card	**17.4**	18.6	**113.5**	106.9	6.2
Leumi Partners (2)	**-**	-	**(68.8)**	(117.8)	(41.6)
Leumi Securities	**11.7**	5.3	**1.6**	1.5	6.7
Leumi Real Holdings	**3.3**	2.8	**22.3**	18.0	23.9
Leumi Leasing and Investments	**3.2**	4.3	**22.7**	29.1	(22.0)
Others	**3.5**	4.1	**25.0**	28.2	(11.3)
Total consolidated companies in Israel	**8.0**	5.6	**436.5**	294.6	48.3

(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 5,135 million on 30 September 2012, compared with NIS 4,754 million on 31 December 2011.

In the first nine months of 2012, the contribution of overseas consolidated subsidiaries to the net operating profit of the Group amounted to a profit of NIS 188 million, compared with NIS 326 million in the corresponding period in 2011. In the third quarter of 2012, the contribution to net profit amounted to NIS 79 million, compared with NIS 278 million in the corresponding period last year. The decrease in the third quarter derives mainly from positive exchange rate differentials charged to the statement of profit and loss in the third quarter of 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 period ended 30 September				Rate of change
	2012	2011	**2012**	2011	
	%		NIS millions		%
Leumi USA (BLC) *	**3.5**	8.4	**66.6**	142.4	(53.2)
Leumi UK	**21.3**	19.2	**118.7**	86.6	37.1
Leumi Private Bank *	**-**	13.0	**(22.4)**	61.9	(136.2)
Leumi Luxembourg	**15.7**	23.4	**15.8**	19.9	(20.6)
Leumi Re	**3.4**	30.7	**2.1**	17.4	(87.9)
Leumi Romania	**4.9**	-	**8.9**	(1.6)	+
Others	**2.0**	-	**(1.8)**	(0.9)	-
Total overseas consolidated companies	**5.2**	10.9	**187.9**	325.7	(42.3)

* 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 nine months ended 30 September		
	2012	2011	Change
	In millions		%
Leumi USA (BLC) - US$	**17.6**	11.9	47.9
Of which: BL USA - US$	**17.1**	15.2	12.5
Leumi UK - £	**10.1**	9.9	2.0
Leumi Private Bank - CHF	**(1.5)**	3.3	-
Leumi Luxembourg - €	**2.4**	2.5	(4.0)
Leumi Re - US$	**1.5**	4.7	(68.1)
Leumi Romania – ron	**12.8**	(12.3)	+
Total translated to the dollar	**40.3**	34.8	15.8

* 1 ron = NIS 1.1161.

The nominal profit of the overseas consolidated companies as reported by them totaled US$ 40.3 million in the first nine months of 2012, compared with US$ 34.8 million in the corresponding period in 2011, an increase of 15.8%.

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 30 September 2012 amounted to NIS 2,303 million, compared with NIS 2,270 million on 31 December 2011.

During the first nine months of 2012, the contribution to net profit amounted to NIS 132 million, compared with a profit of NIS 145 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

The various macro-data in Israel and around the world for the third quarter and the beginning of the fourth quarter are characterized by conflicting trends: some indicate something of an improvement and expectations of a continuation of an improvement in the Israeli and world economy, while others point to a continuation of a high-risk environment. In view of the above, one can expect that volatility in the markets will continue to be high.

In Israel, the macro-data are good compared with Europe and the United States. However, a downward revision of the growth forecast for 2013 and the expectation of continuing challenges in Europe lead Leumi to continue its close monitoring of the development of risks, while continuing calculated business development and risk pricing.

Table of severity of risk factors

There has been no change in the classification of 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 30 September 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 regarding 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 therein.
- Improving the liquidity ratios and determining consistent standards for measuring liquidity.
- Reducing the pro-cyclical influence of the economic situation on the capital requirements.
- Increasing transparency of the risk management methods.
- Reducing risks as a result of the realization of counter-party risks.

A draft translation of the Basel III document was published by the Banking Supervision Department in November 2011. This draft is a verbatim 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 November 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.

On 15 June 2012, the Bank forwarded to the Bank of Israel the results of the quantitative influence survey relating to the effect of the Basel III directives on the capital adequacy ratios, and on 31 July 2012, the Bank forwarded to the Bank of Israel the quantitative influence survey relating to effect on liquidity.

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 8	Note 4
Capital adequacy (quantitative and qualitative)	3	Page 9	-
Risk exposures and its assessment – general qualitative disclosure		-	-
Credit risk – qualitative disclosure	4	Pages 109-111	-
Credit risk exposures by main credit	4(b)	Page 112	-
Exposures to foreign countries by geographical region	4(c)	Page 127	Exhibit D
Credit risk exposures by counterparty and main credit type	4(d)	Pages 112-113	-
Credit exposures by period to maturity	4(e)	Page 114	-
Problem credit risk exposure and expenses for credit losses by market sector	4(f)	-	Exhibit C
Amount of impaired loans and provisions by geographical region	4(g)	-	Exhibit D
Change in allowance for credit loss balances	4(h)	-	Note 3D
Credit exposures by weight of risk	5	Pages 115-119	-
Reduction of credit risk (qualitative and quantitative)	7	Pages 120-121	-
Credit exposures in derivatives by counterparty (qualitative and quantitative)	8	Pages 122-123	-
Securitization (qualitative and quantitative)	9(f) 9(g)	Page 60 Page 60	Note 2
Market risk (qualitative and quantitative)	10	Page 130	-
Operational risk- qualitative disclosure	12	Page s 141-142	-
Investment in shares (qualitative and quantitative)	13(b)	Page 63	-
Investments in shares of companies included on equity basis	13(b)	Page 95	-
Interest risk	14	Pages 133	Exhibit B

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 policy for credit and credit risk, corporate risk, commercial risk and private risk 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 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 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 represents 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 improved risk level.

The Bank also manages its credit portfolio globally, including estimating and monitoring risks, in particular, the various concentration risks, maintaining the limits of risk factors in the area of credit, with the aim of directing activities to improve the ratio of return on risk, and facilitate a more accurate pricing system of credit risks.

Further to the credit policy of the Bank in Israel, principles and rules have been determined, according to which the various activities of portfolio management are carried out. 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, as well as 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 allowance, 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 for credit risk

Credit Risk Management Department in the Risk Management Division

The Credit Risk Department operates in the Risk Management Division, which is subject to the Chief Risk Officer of the Group (CRO). 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 Divisions

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 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, expressing opinions regarding 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 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.

Special Loans Unit

Effective 1 May 2012, the Special Loans Unit operates under the responsibility of the Head of the Commercial Division (formerly under the responsibility of the Corporate 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 in difficulty, 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 nine months of 2012, the Bank is increasing its efforts to identify borrowers and segments of the population likely to be impacted as a consequence, including:

- Holding companies, the value of whose assets has been impaired, and as a result, the ratio of the value of the holdings to the level of the leverage has been adversely affected, hampering the raising and recycling of credit for the payment of prior obligations.
- Exporters and/or entities highly dependent on the European market.
- Firms operating in "luxury" sectors, which are the first to suffer in periods of economic slowdown.
- Borrowers who have raised 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 communication sector whose revenues and profits were adversely affected, due to increasing competition and regulatory changes.

The Bank maintains strict day-to-day control over the effects of erosion and exposures created for the relevant borrowers, which also derive from the volatility described above, including in-depth discussion about 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 where 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	**30 September 2012**	30 September 2011	31 December 2011	**30 September 2012**	30 September 2011	31 December 2011
	Gross credit risk exposure			Average gross credit risk exposure		
	NIS million			NIS million		
Credit	**290,323**	293,837	296,643	**289,641**	274,519	278,944
Debentures	**44,651**	27,445	37,229	**42,295**	35,139	35,557
Others	**14,924**	14,183	14,199	**14,281**	13,694	13,795
Guarantees and liabilities on account of customers	**120,776**	114,161	113,112	**117,562**	111,137	111,531
Transactions in derivative financial instruments	**7,024**	18,080	7,592	**7,241**	14,981	13,503
Total	**477,698**	467,706	468,775	**471,020**	449,470	453,330

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

	30 September 2012					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivative instruments	Total
	NIS millions					
Sovereign debts	**35,186**	**32,146**	**-**	**163**	**27**	**67,522**
Debts of public-sector entities	**3,269**	**2,880**	**-**	**157**	**34**	**6,340**
Debts of banking corporations	**10,400**	**4,281**	**-**	**1,980**	**2,173**	**18,834**
Debts of corporations	**119,073**	**3,787**	**-**	**79,072**	**4,723**	**206,655**
Debts collateralized by commercial real estate	**18,504**	**-**	**-**	**1,991**	**-**	**20,495**
Retail exposures to individuals	**28,342**	**-**	**-**	**28,914**	**64**	**57,320**
Loans to small businesses	**13,663**	**-**	**-**	**4,138**	**3**	**17,804**
Housing mortgages	**61,886**	**-**	**-**	**4,361**	**-**	**66,247**
Securitization	**-**	**1,557**	**-**	**-**	**-**	**1,557**
Other assets	**-**	**-**	**14,924**	**-**	**-**	**14,924**
Total credit risk	**290,323**	**44,651**	**14,924**	**120,776**	**7,024**	**477,698**

	30 September 2011					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivative instruments	Total
	NIS millions					
Sovereign debts	41,710	14,268	-	197	56	56,231
Debts of public-sector entities	3,056	1,340	-	145	-	4,541
Debts of banking corporations	11,495	6,019	-	1,856	10,000	29,370
Debts of corporations	121,715	4,620	-	75,341	7,952	209,628
Debts collateralized by commercial real estate	18,782	-	-	1,683	-	20,465
Retail exposures to individuals	26,833	-	-	26,814	72	53,719
Loans to small businesses	13,655	-	-	4,040	-	17,695
Housing mortgages	56,591	-	-	4,085	-	60,676
Securitization	-	1,198	-	-	-	1,198
Other assets	-	-	14,183	-	-	14,183
Total credit risk	293,837	27,445	14,183	114,161	18,080	467,706

	31 December 2011					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivative instruments	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):

	30 September 2012					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivative instruments	Total
	NIS millions					
Up to one year	**153,345**	**21,587**	**3,238**	**78,546**	**4,097**	**260,813**
From one to five years	**65,088**	**13,168**	**746**	**27,204**	**4,089**	**110,295**
More than five years	**71,854**	**9,896**	**2,653**	**15,026**	**6,621**	**106,050**
Non-monetary items	**36**	**-**	**8,287**	**-**	**2,441**	**10,764**
Benefits for offset	**-**	**-**	**-**	**-**	**(10,224)**	**(10,224)**
Total	**290,323**	**44,651**	**14,924**	**120,776**	**7,024**	**477,698**

	30 September 2011					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivative instruments	Total
	NIS millions					
Up to one year	161,718	7,795	2,961	68,305	7,235	248,014
From one to five years	61,583	10,599	648	31,373	2,439	106,642
More than five years	70,394	9,051	2,025	14,483	7,037	102,990
Non-monetary items	142	-	8,549	-	1,369	10,060
Benefits for offset	-	-	-	-	-	-
Total	293,837	27,445	14,183	114,161	18,080	467,706

	31 December 2011					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivative instruments	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 for 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 above in Tables 4(b) and 4(d).

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

	30 September 2012									
	0%	20%	35%	50%	75%	100%	150%	350%	Deduction from equity	Gross credit exposure (1)
	NIS millions									
Sovereign debts	**64,255**	**2,546**	**-**	**406**	**-**	**315**	**-**	**-**	**-**	**67,522**
Debts of public-sector entities	**-**	**2,857**	**-**	**3,482**	**-**	**-**	**1**	**-**	**-**	**6,340**
Debts of banking corporations	**-**	**14,539**	**-**	**3,345**	**-**	**928**	**22**	**-**	**-**	**18,834**
Debts of corporations	**-**	**339**	**-**	**1,252**	**-**	**200,427**	**4,637**	**-**	**-**	**206,655**
Debts collateralized by commercial real estate	**-**	**-**	**-**	**-**	**-**	**20,016**	**479**	**-**	**-**	**20,495**
Retail exposures to individuals	**-**	**-**	**-**	**-**	**56,995**	**149**	**176**	**-**	**-**	**57,320**
Loans to small businesses	**-**	**-**	**-**	**-**	**17,392**	**256**	**156**	**-**	**-**	**17,804**
Housing mortgages	**-**	**-**	**41,505**	**-**	**18,158**	**6,387**	**197**	**-**	**-**	**66,247**
Securitization	**-**	**1,143**	**-**	**334**	**-**	**21**	**-**	**2**	**57**	**1,557**
Other assets	**2,787**	**-**	**-**	**-**	**-**	**11,700**	**437**	**-**	**-**	**14,924**
Total	**67,042**	**21,424**	**41,505**	**8,819**	**92,545**	**240,199**	**6,105**	**2**	**57**	**477,698**

(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):

	30 September 2012									
	0%	20%	35%	50%	75%	100%	150%	350%	Deduction from capital	Gross credit exposure (1)
	NIS millions									
Sovereign debts	**64,253**	**2,546**	**-**	**406**	**-**	**315**	**-**	**-**	**-**	**67,520**
Debts of public-sector entities	**-**	**2,856**	**-**	**3,479**	**-**	**-**	**1**	**-**	**-**	**6,336**
Debts of banking corporations	**-**	**14,536**	**-**	**3,345**	**-**	**928**	**22**	**-**	**-**	**18,831**
Debts of corporations	**-**	**339**	**-**	**1,252**	**-**	**197,781**	**4,566**	**-**	**-**	**203,938**
Debts collateralized by commercial real estate	**-**	**-**	**-**	**-**	**-**	**19,970**	**479**	**-**	**-**	**20,449**
Retail exposures to individuals	**-**	**-**	**-**	**-**	**56,658**	**96**	**173**	**-**	**-**	**56,927**
Loans to small businesses	**-**	**-**	**-**	**-**	**17,209**	**107**	**154**	**-**	**-**	**17,470**
Housing mortgages	**-**	**-**	**41,407**	**-**	**18,109**	**6,087**	**181**	**-**	**-**	**65,784**
Securitization	**-**	**1,143**	**-**	**334**	**-**	**21**	**-**	**2**	**57**	**1,557**
Other assets	**2,787**	**-**	**-**	**-**	**-**	**11,699**	**437**	**-**	**-**	**14,923**
Total	**67,040**	**21,420**	**41,407**	**8,816**	**91,976**	**237,004**	**6,013**	**2**	**57**	**473,735**

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

	30 September 2012									
	0%	20%	35%	50%	75%	100%	150%	350%	Deduction from capital	Gross credit exposure (1)
	NIS millions									
Sovereign debts	**66,928**	**2,546**	**-**	**406**	**-**	**255**	**-**	**-**	**-**	**70,135**
Debts of public-sector entities	**538**	**863**	**-**	**3,473**	**-**	**-**	**1**	**-**	**-**	**4,875**
Debts of banking corporations	**-**	**14,023**	**-**	**3,357**	**-**	**878**	**14**	**-**	**-**	**18,272**
Debts of corporations	**-**	**339**	**-**	**1,252**	**-**	**185,867**	**4,432**	**-**	**-**	**191,890**
Debts collateralized by commercial real estate	**-**	**-**	**-**	**-**	**-**	**19,154**	**418**	**-**	**-**	**19,572**
Retail exposures to individuals	**-**	**-**	**-**	**-**	**54,375**	**85**	**170**	**-**	**-**	**54,630**
Loans to small businesses	**-**	**-**	**-**	**-**	**14,991**	**104**	**148**	**-**	**-**	**15,243**
Housing mortgages	**-**	**-**	**41,403**	**-**	**18,026**	**6,085**	**181**	**-**	**-**	**65,695**
Securitization	**-**	**1,143**	**-**	**334**	**-**	**21**	**-**	**2**	**57**	**1,557**
Other assets	**2,787**	**-**	**-**	**-**	**-**	**11,699**	**437**	**-**	**-**	**14,923**
Total	**70,253**	**18,914**	**41,403**	**8,822**	**87,392**	**224,148**	**5,801**	**2**	**57**	**456,792**

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

	30 September 2011									
	0%	20%	35%	50%	75%	100%	150%	350%	Deduction from capital	Gross credit exposure (1)
	NIS millions									
Sovereign debts	52,559	3,350	-	303	-	19	-	-	-	56,231
Debts of public-sector entities	-	1,316	-	3,222	-	-	3	-	-	4,541
Debts of banking corporations	35	23,878	-	4,779	-	671	7	-	-	29,370
Debts of corporations	-	463	-	4,748	-	200,843	3,574	-	-	209,628
Debts collateralized by commercial real estate	-	-	-	-	-	19,670	795	-	-	20,465
Retail exposures to individuals	-	-	-	-	53,428	156	135	-	-	53,719
Loans to small businesses	-	-	-	-	17,283	267	145	-	-	17,695
Housing mortgages	-	-	38,440	-	17,895	4,159	182	-	-	60,676
Securitization	-	1,021	-	79	-	46	-	-	52	1,198
Other assets	2,648	-	-	-	-	11,116	419	-	-	14,183
Total	55,242	30,028	38,440	13,131	88,606	236,947	5,260	-	52	467,706

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

	30 September 2011									
	0%	20%	35%	50%	75%	100%	150%	350%	Deduction from capital	Gross credit exposure (1)
	NIS millions									
Sovereign debts	52,561	3,350	-	303	-	19	-	-	-	56,233
Debts of public-sector entities	-	1,315	-	3,220	-	-	3	-	-	4,538
Debts of banking corporations	34	23,877	-	4,779	-	670	7	-	-	29,367
Debts of corporations	-	463	-	4,748	-	198,530	3,518	-	-	207,259
Debts collateralized by commercial real estate	-	-	-	-	-	19,486	759	-	-	20,245
Retail exposures to individuals	-	-	-	-	53,050	120	133	-	-	53,303
Loans to small businesses	-	-	-	-	17,129	124	144	-	-	17,397
Housing mortgages	-	-	38,356	-	17,843	3,753	170	-	-	60,122
Securitization	-	1,021	-	79	-	46	-	-	52	1,198
Other assets	2,648	-	-	-	-	11,115	419	-	-	14,182
Total	55,243	30,026	38,356	13,129	88,022	233,863	5,153	-	52	463,844

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

	30 September 2011									
	0%	20%	35%	50%	75%	100%	150%	350%	Deduction from capital	Gross credit exposure (1)
	NIS millions									
Sovereign debts	53,084	3,419	-	303	-	18	-	-	-	56,824
Debts of public-sector entities	-	806	-	3,218	-	-	3	-	-	4,027
Debts of banking corporations	34	24,005	-	4,988	-	614	7	-	-	29,648
Debts of corporations	-	463	-	4,748	-	188,259	3,365	-	-	196,835
Debts collateralized by commercial real estate	-	-	-	-	-	18,650	759	-	-	19,409
Retail exposures to individuals	-	-	-	-	50,625	120	125	-	-	50,870
Loans to small businesses	-	-	-	-	15,148	120	137	-	-	15,405
Housing mortgages	-	-	38,350	-	17,750	3,741	170	-	-	60,011
Securitization	-	1,022	-	78	-	46	-	-	52	1,198
Other assets	2,648	-	-	-	-	11,115	419	-	-	14,182
Total	55,766	29,715	38,350	13,335	83,523	222,683	4,985	-	52	448,409

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 capital	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 capital	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	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 capital	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	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 at which they can be realized. 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):

	30 September 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	**67,522**	**67,520**	**(60)**	**2,675**	**-**	**70,135**
Debts of public-sector entities	**6,340**	**6,336**	**(1,993)**	**538**	**(6)**	**4,875**
Debts of banking corporations	**18,834**	**18,831**	**(757)**	**400**	**(202)**	**18,272**
Debts of corporations	**206,655**	**203,938**	**(690)**	**-**	**(11,358)**	**191,890**
Debts collateralized by commercial real estate	**20,495**	**20,449**	**(92)**	**-**	**(785)**	**19,572**
Retail exposures to individuals	**57,320**	**56,927**	**(5)**	**-**	**(2,292)**	**54,630**
Loans to small businesses	**17,804**	**17,470**	**(16)**	**-**	**(2,211)**	**15,243**
Housing mortgages	**66,247**	**65,784**	**-**	**-**	**(89)**	**65,695**
Securitization	**1,557**	**1,557**	**-**	**-**	**-**	**1,557**
Other assets	**14,924**	**14,923**	**-**	**-**	**-**	**14,923**
Total	**477,698**	**473,735**	**(3,613)**	**3,613**	**(16,943)**	**456,792**

	30 September 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	56,231	56,233	-	592	(1)	56,824
Debts of public-sector entities	4,541	4,538	(509)	-	(2)	4,027
Debts of banking corporations	29,370	29,367	(56)	337	-	29,648
Debts of corporations	209,628	207,259	(315)	-	(10,109)	196,835
Debts collateralized by commercial real estate	20,465	20,245	(31)	-	(805)	19,409
Retail exposures to individuals	53,719	53,303	(3)	-	(2,430)	50,870
Loans to small businesses	17,695	17,397	(12)	-	(1,980)	15,405
Housing mortgages	60,676	60,122	(3)	-	(108)	60,011
Securitization	1,198	1,198	-	-	-	1,198
Other assets	14,183	14,182	-	-	-	14,182
Total	467,706	463,844	(929)	929	(15,435)	448,409

	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

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 is 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 to keep risk to a minimum.

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

	30 September 2012	
	Par value balance	Net credit exposure of derivatives
	NIS millions	
Interest contracts	**265,363**	**9,057**
Foreign currency contracts	**194,502**	**5,504**
Contracts in respect of shares	**16,903**	**2,441**
Commodities and other contracts	**1,828**	**218**
Credit derivative transactions (1)	**-**	**28**
Offset benefits (2)	**-**	**(10,224)**
Eligible collateral	**-**	**(946)**
Total	**478,596**	**6,078**

	30 September 2011	
	Par value balance	Net credit exposure of derivatives
	NIS millions	
Interest contracts	252,069	7,867
Foreign currency contracts	228,221	8,370
Contracts in respect of shares	17,810	1,369
Commodities and other contracts	4,005	474
Credit derivative transactions (1)	-	-
Offset benefits (2)	-	-
Eligible collateral	-	-
Total	502,105	18,080

	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.

(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 as at 30 September 2012:**

	AAA to AA-	A+	A	A-	BBB to BBB-	BB+ to B-	Unrated	Total
Foreign banks	NIS millions							
Euro zone (1)	**3**	**-**	**1,835**	**130**	**-**	**-**	**-**	**1,968**
United Kingdom (2)	**393**	**68**	**431**	**267**	**322**	**-**	**246**	**1,727**
United States	**1,376**	**6**	**-**	**463**	**2**	**-**	**1**	**1,848**
Other	**9**	**20**	**250**	**-**	**11**	**-**	**1**	**291**
Total foreign banks	**1,781**	**94**	**2,516**	**860**	**335**	**-**	**248**	**5,834**
Israeli banks (3)	**-**	**-**	**971**	**533**	**-**	**-**	**19**	**1,523**
Corporate customers, according to sectors of the economy								
Financial services (4)								**1,882**
Industry (5)								**857**
Construction and real estate								**151**
Transportation and storage								**51**
Trade								**77**
Electricity and water								**1**
Business services								**11**
Private individuals								**13**
Communications and computer services								**79**
Others								**15**
Total corporate customers								**3,137**
Others*								**-**
Total exposure								**10,494**

* 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 with 4 countries.
(2) This amount includes transactions with 10 banks.
(3) This amount includes transactions with 8 banks.
(4) This amount includes transactions with 346 customers, where the highest amount for a single customer is NIS 471 million.
(5) This amount includes transactions with 275 customers, where the highest amount for a single customer is NIS 493 million.

3. Credit exposure to foreign financial institutions

Credit exposure to foreign financial institutions (1):

	As at 30 September 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-	**4,730**	**2,091**	**256**	**7,077**
A+ to A-	**8,215**	**3,252**	**445**	**11,912**
BBB+ to BBB-	**1,265**	**352**	**117**	**1,734**
BB+ to B	**24**	**-**	**30**	**54**
Below B	**72**	**-**	**24**	**96**
Unrated (5)	**941**	**69**	**49**	**1,059**
Total current credit exposure to foreign financial institutions	**15,247**	**5,764**	**921**	**21,932**
Problem debt balances	**6**	**-**	**-**	**6**

	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 1,336 million at September 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" includes, *inter alia*, 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 44%, Europe (Germany, France, Switzerland, Spain and the Benelux countries) 24%, United Kingdom 20%, and other countries 12%.

Exposure includes deposits in foreign banks, some 99.9% 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 stability. 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 Exhibit D below, in the Management Review. (Table 4(c) - Basel II):

	30 September 2012		
	Balance sheet credit risk	Off-balance sheet credit risk (1)	Total credit risk
	NIS millions		
USA	**23,930**	**6,007**	**29,937**
UK	**10,845**	**2,694**	**13,539**
France	**2,949**	**302**	**3,251**
Switzerland	**4,087**	**621**	**4,708**
Germany	**3,989**	**217**	**4,206**
Belgium	**377**	**75**	**452**
Italy	**346**	**11**	**357**
The Netherlands	**2,948**	**87**	**3,035**
Denmark	**762**	**21**	**783**
China	**474**	**184**	**658**
Sweden	**618**	**3**	**621**
Norway	**647**	**-**	**647**
Austria	**489**	**29**	**518**
Others	**5,344**	**1,003**	**6,347**
Total	**57,805**	**11,254**	**69,059**

	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
Denmark	150	11	161
China	400	154	554
Sweden	346	2	348
Norway	169	-	169
Austria	104	33	137
Others	5,747	969	6,716
Total	55,150	12,074	67,224

(1) Effective 31 December 2011, the 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, as at 30 September 2012 in NIS millions:

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	**53,719**	**10,474**	**64,193**	**93.0**	**1,361**
High-income countries	**940**	**126**	**1,066**	**1.5**	**2**
Countries with mid-high income	**2,945**	**508**	**3,453**	**5.0**	**510**
Countries with mid-low income	**190**	**146**	**336**	**0.5**	**3**
Countries with low income	**11**	**-**	**11**	**-**	**-**
Total	**57,805**	**11,254**	**69,059**	**100.0**	**1,876**

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 1,403 million and relates to 14 countries.

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

High income - exceeding US$ 12,476 per capita
Mid-high income - from US$ 4,036 to US$ 12,475 per capita
Mid-low income - from US$ 1,026 to US$ 4,035 per capita
Low income – up to US$ 1,025 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:

Country	30 September 2012				
	Credit to the public	Bonds – Banks and others	Bank deposits	Other	Total
	NIS millions				
Italy	**62**	**(1) 257**	**27**	**11**	**357**
Ireland	**5**	**2**	**-**	**-**	**7**
Greece	**3**	**-**	**-**	**-**	**3**
Spain	**119**	**(2) 196**	**2**	**6**	**323**
Total (3)	**189**	**455**	**29**	**17**	**690**

(1) The exposure is to 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 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):

	30 September 2012	30 September 2011	31 December 2011
	NIS millions		
Capital requirement in respect of:			
Interest risks	**630**	603	583
Share price risk	**3**	-	1
Exchange rate risk	**146**	157	170
Options	**59**	67	57
Total capital requirement in respect of market risks	**838**	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. In view of the low interest environment, the current account spread was changed with effect from June 2012.
- 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. A target date for assimilation of the model has not yet been determined.

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	**30 September 2012**	31 December 2011	**30 September 2012**	31 December 2011
Actual	**503**	676	**209**	271
Limit	**1,100**	1,100	**500**	500

* In the direction that is damaging to the Bank.

In the first nine months of 2012, the potential erosion in the economic value ranged from NIS 500 million to NIS 700 million and in annual profit, from NIS 170 million to NIS 240 million.

In the first nine months 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:

	30 September 2012				
	Israeli currency		Foreign currency, including Israeli currency linked to foreign currency		
	Unlinked	CPI-linked	Dollar	Euro	Others
	NIS millions				
Financial assets	**196,433**	**64,063**	**60,913**	**11,629**	**15,672**
Amounts receivable in respect of derivative financial and off-balance sheet instruments	**249,191**	**5,121**	**127,039**	**35,446**	**29,296**
Financial liabilities	**160,705**	**55,370**	**82,955**	**18,658**	**11,691**
Amounts payable in respect of derivative financial and off-balance sheet instruments	**268,356**	**10,995**	**105,881**	**28,175**	**33,601**
Net fair value of financial instruments	**16,563**	**2,819**	**(884)**	**242**	**(324)**

	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):

	30 September 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%	**16,315**	**2,943**	**(905)**	**218**	**(346)**	**(191)**	**(1.04)**
Immediate corresponding increase of 0.1%	**16,538**	**2,831**	**(886)**	**240**	**(326)**	**(19)**	**(0.10)**
Immediate corresponding decrease of 1%	**16,878**	**2,675**	**(840)**	**217**	**(306)**	**208**	**1.13**

	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 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 nine 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 Exhibit B below in the Management Review.

	30 September 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)	**1.00**	**2.87**	**0.45**	0.91	2.85	0.72
Average duration of liabilities (1)	**0.99**	**3.28**	**0.36**	0.87	3.25	0.71
Duration gap in years	**0.01**	**(0.41)**	**0.09**	0.04	(0.40)	0.01
Internal rate of return (IRR) gap (%)	**0.77**	**0.77**	**1.30**	0.42	0.56	2.45

(1) Including future transactions and options, and based on fair value data of 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 3.31 years, with an internal rate of return (hereinafter: IRR) gap of 0.69%.

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 3.26 years, and an IRR gap of about 0.69%.

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 1.05 years in unlinked shekels and 0.42 years in foreign currency, with an IRR gap of 0.82% and 1.38%, 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 influence 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. In the past, the Bank has 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 were carried to a capital reserve, both in respect of the investment and in respect of the hedging sources. 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 set by the Board of Directors. The data are presented in terms of the percentage of the exposed capital:

	Approved limits	**Actual exposure (%)**		
	Maximum surplus (deficit)	**30 September 2012**	30 September 2011	31 December 2011
Unlinked	65% - (65%)	**(5.3)**	16.2	(17.9)
CPI-linked	50% - (50%)	**4.6**	(13.5)	22.4
Foreign currency *	15% - (15%)	**0.7**	(2.7)	(4.5)

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

During the first nine months of 2012, the CPI-linked surplus was about 17% of the exposed capital. This rate fluctuated during the nine months between 28% and 5% 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 third quarter of 2012, 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 nine months 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 30 September 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	**(13)**	**31**	**7**	**6**	**3**
Increase of 10% in exchange rate	**31**	**72**	**14**	**15**	**6**
Decrease of 5% in exchange rate	**20**	**(20)**	**(3)**	**4**	**2**
Decrease of 10% in exchange rate	**22**	**(37)**	**(8)**	**10**	**4**

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 middle office.
- Nostro trading activity – In the trading room, pro-active activity is carried out in the context of which exposures are initiated in debentures and derivatives. This activity is managed and 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 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		
	30 September 2012	30 September 2011	31 December 2011	**30 September 2012**	30 September 2011	31 December 2011
Actual	**145**	138	161	**46**	62	79
Limit	**500**	500	500	**400**	400	400

In the first nine months of 2012, the VaR on the economic value ranged from a maximum of NIS 212 million and a minimum of NIS 143 million, and the VaR on the portfolios revalued at fair value ranged from a maximum of NIS 46 million to a minimum of NIS 63 million, respectively.

In the first nine months 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, etc.).

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, are carried out.

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 34 billion, principally in government debentures. Surplus liquid means in foreign currency are invested primarily in debentures amounting to some NIS 20 billion, and in 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, rose during the first nine months of 2012 by NIS 3.2 billion (1.1%), and after canceling the effect of exchange rate differentials, the increase was NIS 0.6 billion (0.2%).

The increase in the foreign currency and foreign currency linked segment amounted to NIS 3.4 billion, (3.1%), and, after canceling the effect of exchange rate differentials, an increase of NIS 0.8 billion (0.7%) and in the shekel segment, the decrease amounted to NIS 0.2 billion, (0.1%).

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 stress scenarios 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 are defined on the basis of consideration of business functions, and historical data, which take into account 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 therefore, the assumptions of these scenarios are necessarily based more on the judgment of senior professional officials at the Bank than on 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 30 September 2012:

	In Israeli currency per month		In foreign currency per month	
	Gap	Ratio	Gap	Ratio
Scenario/period	NIS billions			
Ordinary	**49.7**	**30.9**	**17.3**	**10.8**
Statistical	**37.8**	**3.8**	**14.2**	**3.9**
Stress in Leumi	**29.3**	**1.7**	**10.0**	**1.4**
Systemic stress	**31.5**	**2.1**	**16.0**	**2.1**

In addition to the model outlined above, other indices are measured to supplement 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 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 regarding the management of liquidity risk and the required method for preparation.

Linkage Status and Liquidity Position

Linkage Status

The following is a summary of the status of the linkage balance sheets, as shown in note 5 to the Financial Statements:

The following is a summary of the status of the linkage balance sheets:

	As at 30 September 2012			As at 31 December 2011		
	Unlinked	CPI-linked	Foreign currency (2)	Unlinked	CPI-linked	Foreign currency (2)
	NIS millions					
Total assets (1)	**206,992**	**61,520**	**124,300**	199,656	61,163	121,590
Total liabilities (1)	**187,656**	**62,462**	**125,701**	180,099	60,966	126,136
Excess (deficit) of assets in segment	**19,336**	**(942)**	**(1,401)** (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 are 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 in the Bank

The total of the banking system's balances with the Bank of Israel (current account balances and monetary deposits) at the end of September 2012 stood at some NIS 115 billion, compared with some NIS 130 billion at the end of December 2011.

The total of these balances in the third quarter amounted to an average some NIS 118 billion, compared with an average of some NIS 117 billion in the second quarter of 2012.

In the third quarter of 2012, the total of short-term loans (T-bills) held by the public fell by some NIS 6.9 billion to a level of about NIS 122 billion. During the third quarter, the Bank of Israel did not make any acquisitions of foreign currency from the system, similarly to the previous quarters of 2012.

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

These balances in the third quarter of the year amounted to an average of about NIS 23 billion, compared with an average of some NIS 26 billion in the second quarter of 2012.

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 funds from 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 position and the metrics 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's deposits in Leumi Mortgage) amounted to some NIS 39 billion as at 30 September 2012, compared with about NIS 41 billion at the end of 2011, a decrease of 6.1%.

The Bank also has a securities portfolio of some NIS 49 billion, compared with some NIS 41 billion in December 2011. The portfolio is invested mainly in Government of Israel debentures and debentures of governments in the OECD.

Around 42% of the financial assets in the Bank are deposited in banks and/or invested in securities, an increase of 4% compared with the level at 31 December 2011.

The balance of credit to the public, net, as at 30 September 2012 amounted to some NIS 146 billion, compared with some NIS 152 billion at the end of 2011.

The balance of deposits of the public, including subordinated notes and capital notes amounted to some NIS 272 billion at the end of September 2012, compared with some NIS 265 billion at the end of 2011, an increase of 2.6%. Of this, an increase of NIS 3.7 billion (1.9%) was recorded in shekel deposits, and an increase of NIS 3.4 billion (4.6%) was recorded in foreign currency deposits (in dollar terms, an increase of US$ 0.4 billion).

In the first nine months of 2012, the Bank issued subordinated notes amounting to NIS 2.3 billion through Leumi Finance. On the other hand, there was a repayment of subordinated notes amounting to NIS 2.2 billion.

During the period under review, the volume of customers' off-balance sheet monetary assets at the Bank rose by some NIS 36.4 billion. After deducting an estimate of the effect of the increase in market value, a positive increment amounting to some NIS 10.8 billion was recorded.

Operational risks

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

The management of operational risks in Leumi Group is carried out from a systemic perspective, using a consistent and systematic Group methodology outlined by the Operational Risk Management Division, adjusting for the nature, size and complexity of the activity of each organizational unit in the Group. The management of operational risks is based on a proactive process of identifying, measuring, monitoring, reporting and controlling/reducing material risks.

The Bank is taking steps to establish a robust culture of operational risk management among all of the Group's managers and employees. Within this framework, assimilation and training processes are carried out through special-purpose training seminars for managers and employees and the subject is integrated in a variety of banking courses.

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

Operational risk management in the Leumi Group is based on three lines of defence. Responsibility for operational 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 Operational Risk Management, the Legal Division, the Compliance and Prohibition of Money Laundering Division and the SOX represent the second line of defence. The third line of defence is the Internal Audit Division. The latter two lines of defence are independent and are not involved in business decision-making.

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

A policy document has been prepared on information technology risk management, defining the principles for technological risk management and including the organizational framework, areas of operation and responsibility of the various functions in the Group and the work processes necessary for managing technological risks. The document has been approved by management and the Board of Directors.

Risk of cyber attacks

Leumi invests substantial resources into the area of protection against data security risks including cyber risks, both in specialist personnel and in infrastructure, in an attempt to reduce exposure to this risk.

A multi-year cyber-defence project has been implemented with the aim of reinforcing the controls and defences for dealing with cyber threats, and a cyber survey has been conducted, based on an international model for locating weaknesses and exposure to cyber risk throughout all of Leumi's infrastructure and computer systems. Following the survey, action plans were drawn up to deal with the findings.

Leumi closely monitors cyber events occurring around the world and revises its preparedness accordingly.

Systemic stress scenarios – War and Earthquakes

Bank Leumi continues to strengthen its business continuity capabilities in the event of the occurrence of broad operational scenarios, such as war and earthquakes. The Bank has a back-up facility which is protected against rocket attack and earthquakes and there is an emergency plan for continuing the Bank's operations in the event of the occurrence of such a scenario. Bank Leumi has examined its preparedness and has drawn conclusions as part of the national emergency exercise – "Turning Point 6" - held at the end of October 2012.

Legal Proceedings

1. Civil Proceedings

1.1 The Bank is a party to legal proceedings, including petitions for approval of 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, and include 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, that interest rates deviate from those permitted by law, and that there are 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 exceeding 1% of the capital of the Bank on 30 September 2012 amounting to NIS 250.2 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 initiates, *inter alia,* 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 debtor/guarantor with regard to their 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 by the Bank, pursuant to Section 43(a) (1) of the Antitrust Law, 1988, according to which restrictive trade arrangements 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 into 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. On 29 July 2012, the Bank received a letter from the Antitrust Commission stating that the Commissioner was considering whether to publish a supplementary ruling with regard to the transfer of information set out in his response to the appeal. However, at the request of the banks, these restrictive arrangements were deleted from the ruling, according to which they constituted information transfers. The Bank was given the opportunity to present its position to the Commissioner, prior to the latter making a decision on whether to publish the aforesaid supplementary ruling. At this stage, the implications of the ruling cannot be assessed.

2.2 The United States authorities (the “U.S. authorities”) are conducting wide-ranging investigations against foreign banks in connection with activities of the banks with customers who are U.S. taxpayers ("U.S. customers"), on suspicion of a breach of U.S. law. In the context of the said investigations, which are also being conducted against the Group, the U.S. authorities have submitted and are continuing to submit various subpoenas for information and documents concerning U.S. customers and have summoned customers and former employees of banks which are part of the Group, to testify and provide documents in connection with U.S. customers and the banking services given to them by the Group. The Group is cooperating with the U.S. authorities, in providing information and in the procedural steps required, as allowed by law. In addition, the Group is conducting an investigation of the subject by means of outside parties hired by it for this purpose. These outside parties are continuing with their investigation. However, at this stage, the investigation has not been concluded. The outcome of the U.S. authorities' investigation may cause a significant expense to the Group due, *inter alia*, to the imposition of a monetary fine on the Group. At this stage, it is not possible to reliably estimate the damage to the Group, due to the complexity of the proceedings and the stage that the investigations are at.

2.3 In the cumulative period since the end of the reporting year, the Israel Securities Authority has been conducting administrative arbitration proceedings pursuant to section 52QQ(a)(2) of the Securities Law, 1968, in connection with the publication of a profit warning by the Bank on

14 November 2011, and in connection with the issue of subordinated notes by Leumi Finance pursuant to a shelf offer published 9 November 2011. A request for approval of an arrangement (as defined in section 54A of the Law) reached between the Bank, Leumi Finance and the Israel Securities Authority, was recently submitted to the Administrative Enforcement Committee pursuant to section 52FF of the law. As a part of the arrangement and subject to its approval, without admission of any breach and/or negligence by the Bank and/or Leumi Finance, it is proposed that each would assume a financial sanction of NIS 2 million.
Up until the publication date of the report, no decision had yet been made by the committee.

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, who, according to the General Prosecutor in Romania, was not lawfully carried out. The indictment was submitted as a result of a complaint by the 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 need for the approval of a restrictive arrangement (hereinafter, "the exemption") for the activity of Bank Leumi, Bank Hapoalim, Bank Discount, First International Bank and Bank Mizrahi-Tefahot (hereinafter: "the Banks") in an arrangement concerning the Banks' joint holdings in ABS – Automatic Banking Services Ltd. ("ABS") and the Bank Clearing Center Ltd (hereinafter: "the Clearing House"') for a period of four months.
Pursuant to the exemption of 22 May 2012, most of the terms on which the previous exemptions were conditioned remained in place, and additional conditions, as applicable, were placed on ABS, the Clearing House and the Banks. These included, *inter alia*, restricting the ability of ABS and the Clearing House to grant discounts to the Banks and to companies controlled by them, and prohibiting ABS and the Clearing House 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 22 May 2012 exemption was granted, as aforesaid, for a period of four months, during which time the Commissioner will examine the continuation of ABS's activity in the area of automated teller machines (ATMs), and what percentage of costs, if any, ABS and the Clearing House are entitled to demand for new subscribers. On 20 September 2012, the Commissioner extended the effective term of the exemption pertaining to the banks' joint holdings in ABS and the Clearing House. The exemption for ABS was extended for an additional six months, in which time the Commissioner intends to continue his comprehensive review of the pros and cons arising from the activity of ABS in the area of collection and transaction approval services and interface services for clearing companies and issuers; whereas the exemption for the Clearing House was extended for an additional three months, during which time the Commissioner intends to continue his comprehensive review of the Clearing House's activity in the area of debit and credit clearing. Furthermore, the Commissioner has required ABS to cease its activity in the area of ATMs by selling the machines within a period of eight months or, alternatively, to discontinue their operation by the end of the said period. Pursuant to the exemption, most of the conditions to which the 22 May 2012 exemptions were subject remained unchanged, without any further material changes being made.

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 risk 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 the 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 will 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 as notified 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 expense 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 were 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 were 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 Tomorrow - The Centennial Fund for Endowing Israel's Future Generation"

In September, the year's activity began for the educational programs supported by the "Leumi Tomorrow" Association. Some 20,000 youth from the geographical and social periphery and from all sectors of the population began participating in 11 programs.

During the quarter, the inter-segmental tutoring-mentoring program session initiated by "Leumi Tomorrow" came to an end. As part of the program, ten managers in the Bank tutored leaders and managers in programs in which Leumi Tomorrow is a partner, including "Youth Leading Change", the "Strive" program, the "Nirim" Association, the Department for Social Involvement at Tel Aviv University and the "Partnership for Life". The tutoring program included personal and professional support over a six-month period, during which time the managers shared their experience, professional know-how and the management tools they acquired in the Bank, with the aim of developing and promoting the organizational and administrative infrastructure in the associations. At the same time, the managers in the Bank were exposed to the activities of the associations and the challenges posed by the social world, and they too gained a great deal of knowledge from the process. A further session of the program will be opened shortly.

Leumi Promoting Israeli Creation

Mani House, Leumi's Visitors Center, hosted another exhibition displaying works from the collections of the Israel Museum. The current exhibition includes works focusing on the modern city and life within it throughout the last century. On display in the exhibition were the works of renowned artists from Israel and abroad, including Gilad Ophir, Nira Pereg, Doron Solomons, Ido Bar-El, Avshalom, Maurizio Cattelan, Philip Ramet, Tsou Pei, Hanna Starkey, Anne Lislegaard and others.

Summary of Donations and Sponsorships

In the first nine months of 2012, Leumi Group donated funds and provided sponsorships for social welfare and community purposes amounting to some NIS 26.8 million, of which donations totaled some NIS 16.5 million. In the third quarter of 2012, the Company donated and sponsored for social and community objectives a total of NIS 8.0 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 taken into account 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 committee on 24 April 2012. The report 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 subsidiaries in Israel and abroad for 2011 were submitted to the Audit Committee on 10 May 2012 and were discussed in the committee on 13 May 2012.

The Report of the Internal Auditor for the first half of 2012 was submitted to the Audit Committee on 13 September 2012 and was discussed in committee on 19 September 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.

During the quarter ended 30 September 2012, there was no material change in the internal control over the Bank's financial reporting, which had a significant impact or was reasonably expected to significantly impact the Bank's internal control over financial reporting.

As a result of deficiencies discovered in the course of auditing the proper recording of the overall risk of credit to the public by market sector, the Bank and subsidiaries took immediate steps to remedy the said deficiencies.

In this context, a work procedure for classifying a market sector has been improved, as has the area of documentation, and a broad examination of symbolization of the sector of the economy in all the business divisions has been carried out. In addition, various training and assimilation activities have been implemented. The Bank intends to remedy all the deficiencies that arose by the publication of the 2012 Annual Report.

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 to assess 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 a company.

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

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

2. Risk Assessment: This component involves examining the relevant risks regarding each checked process and sub-process that impact the financial statements.

3. Control Activities: This component involves examining 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 examining that there is a mechanism that checks the monitoring of the correction of deficiencies. Proper supervision should consist of 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 routinely implements the directive in Leumi Group.

Organizational Structure and Appointments

Appointments and retirements

Appointments:

Mr. David Brodet, Chairman of the Board of Directors of the Leumi Group, was appointed to the position of Chairman of the Board of Directors of Bank Leumi USA, with effect from 26 July 2012.

Ms. Rakefet Russak-Aminoach was appointed President and CEO of Leumi Group, 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 Immediate Report of the Bank dated 1 May 2012. (Document ref. no.: 2012-01-112527)

Mr. Yaakov Haber, Head of the Finance and Economics Division, was appointed Head of the Corporate Division, with effect from 1 January 2013. In addition, Mr. Haber served in the post of Chairman of the Board of Directors of Leumi Partners with effect from 1 April 2012 until 30 June 2012.

Mr. Yoel Mintz, Head of the Construction and Real Estate Division, was appointed Head of the Complex Finance and Real Estate Division and member of Bank management, with effect from 1 May 2012. In addition, Mr. Mintz was appointed to the post of Chairman of the Board of Directors of Leumi UK, with effect from 22 May 2012.

Mr. Ron Fainaro was appointed a member of Bank management with the title of Deputy Vice-President on 8 July 2012 and he was appointed Head of the Business and Economics Division, with effect from 1 November 2012.

Professor Danny Tsiddon, Head of the Capital Markets Division, was appointed to the position of Chairman of the Board of Directors of Leumi Partners, with effect from 1 July 2012.

Ms. Tamar Yassur, CEO of Leumi Card, was appointed Head of the Banking Division and member of Bank management with the title of Deputy Vice-President and to the post of Chairman of the Board of Directors of Leumi Card, with effect from 1 January 2013.

Mr. Dan Yerushalmi was appointed to the position of Head of Operations and Computers and member of Bank management with the rank of Deputy Vice-President, with effect from 1 March 2013. From 1 January 2013, and until he takes up his position, Mr. Moshe Wolf will be the acting Head of Operations and Computers.

Mr. Yitzhak 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.

Ms. Meira Karni, Head of the Compliance and Enforcement Division, was promoted to the rank of Deputy Vice-President with effect from 1 April 2012.

Mr. Avner Mendelson, Head of the Strategy Division, was given responsibility for International Operations Headquarters, with effect from 1 July 2012.

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

Ms. Nitza Rousso–Stauber was appointed to the position of Head of the Private Banking Division, with effect from 1 July 2012.

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

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

Mr. Haggai Heller was appointed CEO of Leumi Card, with effect from 15 October 2012.

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. The advance notice became effective on 1 May 2012 for a period of 9 months up to 31 January 2013 after cessation of work.

Mr. Zvi Itskovitch, Head of the International and Private Banking Division, ceased to serve in his position on 30 June 2012, and will retire on 31 January 2013, after 33 years of employment in the Bank.

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 the Arab-Israel Bank, as of 1 April 2012.

Mr. Baruch Lederman, Head of the Banking Division, member of Bank management and Chairman of the Board of Directors of Leumi Card, will cease to serve in his position on 31 December 2012 and will retire from the Bank on 31 July 2013, after 30 years of employment in the Bank.

Mr. Yitzhak Malach, Head of Operations and Computers and member of Bank management, will cease to serve in his position on 31 December 2012 and will retire from the Bank on 31 December 2013, after 20 years of employment in the Bank.

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

Mr. Shuki Burshtein, General Manager of Leumi Mortgage, will cease to serve in his position on 31 December 2012, and will retire in 2013, after 24 years employment in the Bank.

Organizational Structure

Corporate Division

The organizational structure of the Corporate Division was updated, to which the following units were made subject:

The Complex Finance and Real Estate Division, which is responsible for the Construction and Real Estate Unit, the Complex Finance Unit, international trade activity and diamond trade activity. In addition, the division serves as a professional authority for real estate financing activity in the Bank's offices abroad.

The Corporate Unit, which includes four business sectors: technology; energy and chemicals and holding companies; consumption and trade; and industry, transport and institutions.

- The Credit Unit, which is responsible for credit risk management and regulatory matters.

With Mr. Yaakov Haber taking up the post of Head of the Corporate Division on 1 January 2013, the Head of the Division and the heads of the abovementioned units will report directly to the President and CEO.

The Special Credit Unit, which until 1 May 2012 reported to the Head of the Corporate Division, from that date, reports to the Commercial Banking Division.

Private and International Banking

In order to address the current challenges in the field of private banking and international activity, and with a view to increasing management focus and strengthening control and review procedures, it was decided to make a structural change, in the framework of which the Private and International Banking Division was split as follows:

The Private Banking Unit in Israel and abroad will be headed by Ms. Nitza Rousso–Stauber, and, at a later date, not yet determined, will report to the Banking Division (In the transition period, it will report to the Human Resources Division).

- International Operations Headquarters will be joined with the Strategy Department, headed by Mr. Avner Mendelson.

In addition, it was decided that a division head or a unit head will be appointed for every overseas office to be directly responsible for business development and support in that office, in order to improve and reinforce the interface between business activity in Israel and abroad:

- The Head of the Complex Finance and Real Estate Division is responsible for the Bank's offices in the United Kingdom and Romania.

- The Head of the Strategy Department and International Operations Headquarters is responsible for the Bank's offices in the United States and the office in China.

- The Head of the Private Banking Division is responsible for the Bank's offices in Switzerland and Luxembourg and all the Bank's other offices overseas.

Risk Management Division

As part of the overall process of coordinating the treatment of risk management in the Group, streamlining of internal controls and the handling of implementation of various regulatory rules, the Compliance and Enforcement Unit headed by Ms. Meira Karni, will report to the Risk Management Division, with effect from the beginning of 2013.

Board of Directors

During the first nine months of 2012 and up until the date of publication of this Report, the following changes took place in the composition of the Board of Directors:

In accordance with the Bank's Regulations, at the Annual General Meeting of the Bank, four directors, Mr. Reuven Adler (external director), Ms. Tzippora Gal-Yam, Professor Aryeh Gans and Professor Ephraim Sadka retired by rotation.

On 1 August 2012, the Annual General Meeting of the Bank took place, and the incumbent directors, Professor Aryeh Gans, Professor Efraim Sadka, Mr. Rami Avraham Guzman, and Professor Yedidya Stern were elected or re-elected, as external directors pursuant to Regulation 301 of the Supervisor of Banks, for a period of three years.

In addition, Haim Samet, Adv. was elected as external director pursuant to Section 239 of the Companies Law, 1999, for a period of three years.

The Banking Supervision Department confirmed the absence of any objection to the appointment of the directors elected at the said General Meeting.

For further information, see "Annual General Meeting and Election of Directors" in the chapter "Control of the Bank", above.

At the meeting of the Board of Directors held on 28 November 2012, it was resolved to approve and publish the Group’s condensed unaudited consolidated financial statements as of 30 September 2012 and for the period ended on that date.

During the period of January to September 2012, the Board of Directors held 35 plenary meetings and 117 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

28 November 2012

Rates of Financing Income and Expenses (on a Consolidated Basis) (a)
Reported amounts

Exhibit A

	For the three months ended 30 September							
	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)	191,437	1,958	4.15		176,611	2,177	5.02	
Effect of embedded and ALM derivatives (e)	60,856	70			69,819	417		
Total assets	252,293	2,028		3.25	246,430	2,594		4.28
Liabilities (d)	156,686	(691)	(1.78)		145,093	(874)	(2.43)	
Effect of embedded and ALM derivatives (e)	72,418	(195)			77,501	(383)		
Total liabilities	229,104	(886)		(1.56)	222,594	(1,257)		(2.28)
Interest margin			2.37	1.69			2.59	2.00
Israeli currency – linked to the CPI								
Assets (c) (d)	62,157	1,066	7.04		60,744	879	5.92	
Effect of embedded and ALM derivatives (e)	4,786	118			3,322	120		
Total assets	66,943	1,184		7.26	64,066	999		6.38
Liabilities (d)	49,928	(847)	(6.96)		48,046	(739)	(6.30)	
Effect of embedded and ALM derivatives (e)	10,902	(198)			11,682	(139)		
Total liabilities	60,830	(1,045)		(7.05)	59,728	(878)		(6.01)
Interest margin			0.08	0.21			(0.38)	0.37
Foreign currency:								
(including Israeli currency linked to foreign currency)								
Assets (c) (d)	89,065	1,041	4.76		80,108	5,939	33.12	
Effect of derivatives: (e)								
Hedging derivatives	114	(2)			296	(2)		
Embedded derivatives and ALM	140,359	675			153,071	7,889		
Total assets	229,538	1,714		3.02	233,475	13,826		25.88
Liabilities (d)	109,978	(664)	(2.44)		99,898	(7,214)	(32.17)	
Effect of derivatives: (e)								
Hedging derivatives	346	-			388	-		
Embedded derivatives and ALM	121,965	(572)			137,867	(6,813)		
Total liabilities	232,289	(1,236)		(2.15)	238,153	(14,027)		(25.72)
Interest margin			2.32	0.87			0.95	0.16

See notes on page 162.

Rates of Financing Income and Expenses (on a Consolidated Basis) (cont'd) (a)
Reported amounts

Exhibit A (cont'd)

	For the three months ended 30 September							
	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)	**342,659**	**4,065**	**4.83**		317,463	8,995	11.82	
Effect of derivatives:(e)								
Hedging derivatives	**114**	**(2)**			296	(2)		
Embedded derivatives and ALM	**206,001**	**863**			226,212	8,426		
Total assets	**548,774**	**4,926**		**3.64**	543,971	17,419		13.44
Total monetary liabilities generating interest expenses (d)	**316,592**	**(2,202)**	**(2.81)**		293,037	(8,827)	(12.60)	
Effect of derivatives: (e)								
Hedging derivatives	**346**	**-**			388	-		
Embedded derivatives and ALM	**205,285**	**(965)**			227,050	(7,335)		
Total liabilities	**522,223**	**(3,167)**		**(2.45)**	520,475	(16,162)		(13.01)
Interest margin			**2.02**	**1.19**			(0.78)	0.43
In respect of options		**44**				125		
In respect of other derivatives (excluding options, hedging derivative instruments, ALM derivatives and embedded derivatives which have been separated) (e)		**(9)**				6		
Financing commissions and other financing income (g)		**110**				304		
Net interest income before expenses in respect of credit losses		**1,904**				1,692		
Expenses in respect of credit losses		**(292)**				(378)		
Net interest income after expenses in respect of credit losses		**1,612**				1,314		
Monetary assets generating interest income (d) (f)	**342,659**				317,463			
Assets derived from derivative instruments (h)	**12,215**				8,297			
Other monetary assets (d)	**4,946**				3,945			
Allowance in respect of credit losses	**(4,319)**				(4,698)			
Total monetary assets	**355,501**				325,007			
Monetary liabilities generating interest expenses (d)	**316,592**				293,037			
Liabilities derived from derivative instruments (h)	**12,563**				9,835			
Other monetary liabilities (d)	**10,010**				8,573			
Total monetary liabilities	**339,165**				311,445			
Total monetary assets exceeding monetary liabilities	**16,336**				13,562			
Non-monetary assets	**8,855**				10,968			
Non-monetary liabilities	**628**				1,759			
Total capital resources	**24,563**				22,771			

See notes on page 162.

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 are 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 and nine month period an amount of NIS 135 million and NIS 99 million (30 September 2011 – NIS (70) million and NIS (146) million respectively).

In the CPI-linked Israeli currency sector for the three and nine month period an amount of NIS 44 million and NIS 79 million (30 September 2011 – NIS 41 million and NIS 132 million respectively).

In the foreign currency sector (which includes Israeli currency linked to foreign currency) for the three and nine month period an amount of NIS 45 million and NIS (122) million (30 September 2011 – NIS (49) million and NIS (33) million respectively).

(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 and nine month period an amount of NIS 224 million and NIS 56 million (30 September 2011 – NIS (78) million and NIS (47) million respectively).

(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 30 September 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 30 September							
	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)	**12,349**	**73**	**2.39**		13,914	115	3.35	
Effect of derivatives: (e)								
Hedging derivatives	**29**	**-**			86	-		
Embedded derivatives and ALM	**35,370**	**17**			44,122	(6)		
Total assets	**47,748**	**90**		**0.76**	58,122	109		0.75
Liabilities (d)	**19,207**	**(37)**	**(0.77)**		20,441	(73)	(1.44)	
Effect of derivatives: (e)								
Hedging derivatives	**85**	**-**			109	-		
Embedded derivatives and ALM	**30,320**	**1**			39,388	(46)		
Total liabilities	**49,612**	**(36)**		**(0.29)**	59,938	(119)		(0.80)
Interest margin			**1.62**	**0.47**			1.91	(0.05)
Foreign currency: Foreign operations (integrated operations)								
Assets (c) (d)	**10,229**	**71**	**2.81**		9,358	73	3.16	
Effect of embedded and ALM derivatives (e)	**42**	**2**			54	8		
Total assets	**10,271**	**73**		**2.87**	9,412	81		3.49
Liabilities (d)	**8,619**	**(10)**	**(0.46)**		8,522	(18)	(0.85)	
Effect of embedded and ALM derivatives (e)	**456**	**(3)**			55	18		
Total liabilities	**9,075**	**(13)**		**(0.57)**	8,577	-		-
Interest margin			**2.35**	**2.30**			2.31	3.49
Total								
Foreign currency assets generating financing income (c) (d)	**22,578**	**144**	**2.58**		23,272	188	3.27	
Effect of derivatives: (e)								
Hedging derivatives	**29**	**-**			86	-		
Embedded derivatives and ALM	**35,412**	**19**			44,176	2		
Total assets	**58,019**	**163**		**1.13**	67,534	190		1.13
Monetary liabilities in foreign currency generating financing expense (d)	**27,826**	**(47)**	**(0.68)**		28,963	(91)	(1.26)	
Effect of derivatives: (e)								
Hedging derivatives	**85**	-			109	-		
Embedded derivatives and ALM	**30,776**	**(2)**			39,443	(28)		
Total liabilities	**58,687**	**(49)**		**(0.33)**	68,515	(119)		(0.70)
Interest margin			**1.90**	**0.80**			2.01	0.43

See notes on page 164.

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$ 9 million (30 September 2011 - US$ (15) 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.

Rates of Financing Income and Expenses (on a Consolidated Basis) (cont'd) (a)
Reported amounts

Exhibit A (cont'd)

	For the nine months ended 30 September							
	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)	188,906	6,008	4.26		169,365	5,823	4.61	
Effect of embedded and ALM derivatives (e)	62,282	19			69,179	500		
Total assets	251,188	6,027		3.21	238,544	6,323		3.55
Liabilities (d)	155,674	(2,198)	(1.89)		141,446	(2,222)	(2.10)	
Effect of embedded and ALM derivatives (e)	74,744	(290)			73,519	(586)		
Total liabilities	230,418	(2,488)		(1.44)	214,965	(2,808)		(1.75)
Interest margin			2.37	1.77			2.51	1.80
Israeli currency – linked to the CPI								
Assets (c) (d)	62,198	3,003	6.49		60,715	3,246	7.19	
Effect of embedded and ALM derivatives (e)	4,835	162			3,124	175		
Total assets	67,033	3,165		6.34	63,839	3,421		7.21
Liabilities (d)	49,407	(2,316)	(6.30)		47,518	(2,611)	(7.39)	
Effect of embedded and ALM derivatives (e)	10,119	(283)			11,020	(295)		
Total liabilities	59,526	(2,599)		(5.86)	58,538	(2,906)		(6.67)
Interest margin			0.19	0.48			(0.20)	0.54
Foreign currency:								
(including Israeli currency linked to foreign currency)								
Assets (c) (d)	87,699	3,556	5.44		82,835	6,029	9.82	
Effect of derivatives: (e)								
Hedging derivatives	179	(3)			371	(3)		
Embedded derivatives and ALM	145,925	3,122			145,786	6,581		
Total assets	233,803	6,675		3.82	228,992	12,607		7.41
Liabilities (d)	109,509	(2,939)	(3.59)		99,373	(5,868)	(7.95)	
Effect of derivatives: (e)								
Hedging derivatives	387	-			406	1		
Embedded derivatives and ALM	127,603	(2,376)			134,862	(6,108)		
Total liabilities	237,499	(5,315)		(2.99)	234,641	(11,975)		(6.86)
Interest margin			1.85	0.83			1.87	0.55

See notes on page 168.

Rates of Financing Income and Expenses (on a Consolidated Basis) (cont'd) (a)
Reported amounts

Exhibit A (cont'd)

	For the nine months ended 30 September							
	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)	**338,803**	**12,567**	**4.98**		312,915	15,098	6.48	
Effect of derivatives: (e)								
Hedging derivatives	**179**	**(3)**			371	(3)		
Embedded derivatives and ALM	**213,042**	**3,303**			218,089	7,256		
Total assets	**552,024**	**15,867**		**3.85**	531,375	22,351		5.65
Total monetary liabilities generating interest expenses (d)	**314,590**	**(7,453)**	**(3.17)**		288,337	(10,701)	(4.98)	
Effect of derivatives: (e)								
Hedging derivatives	**387**	**-**			406	1		
Embedded derivatives and ALM	**212,466**	**(2,949)**			219,401	(6,989)		
Total liabilities	**527,443**	**(10,402)**		**(2.64)**	508,144	(17,689)		(4.67)
Interest margin			**1.81**	**1.21**			1.50	0.98
In respect of options		**42**				201		
In respect of other derivatives (excluding options, hedging derivative instruments, ALM derivatives and embedded derivatives which have been separated) (e)		**(20)**				13		
Financing commissions and other financing income (g)		**309**				706		
Net interest income before expenses in respect of credit losses		**5,796**				5,582		
Expenses in respect of credit losses		**(850)**				(349)		
Net interest income after expenses in respect of credit losses		**4,946**				5,233		
Monetary assets generating interest income (d) (f)	**338,803**				312,915			
Assets derived from derivative instruments (h)	**11,037**				8,104			
Other monetary assets (d)	**6,236**				4,610			
Allowance in respect of credit losses	**(4,424)**				(5,173)			
Total monetary assets	**351,652**				320,456			
Monetary liabilities generating interest expenses (d)	**314,590**				288,337			
Liabilities derived from derivative instruments (h)	**11,639**				9,661			
Other monetary liabilities (d)	**9,558**				8,408			
Total monetary liabilities	**335,787**				306,406			
Total monetary assets exceeding monetary liabilities	**15,865**				14,050			
Non-monetary assets	**9,003**				9,965			
Non-monetary liabilities	**679**				1,195			
Total capital resources	**24,189**				22,820			

See notes on page 168.

Rates of Financing Income and Expenses (on a Consolidated Basis) (cont'd) (a)
Foreign Currency: Nominal US$

Exhibit A (cont'd)

	For the nine months ended 30 September							
	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)	**12,642**	**231**	**2.44**		14,273	274	2.57	
Effect of derivatives: (e)								
Hedging derivatives	**47**	**(1)**			105	(1)		
Embedded derivatives and ALM	**38,008**	**54**			41,321	4		
Total assets	**50,697**	**284**		**0.75**	55,699	277		0.66
Liabilities (d)	**19,519**	**(118)**	**(0.81)**		20,144	(143)	(0.95)	
Effect of derivatives: (e)								
Hedging derivatives	**100**	**-**			114	-		
Embedded derivatives and ALM	**32,655**	**-**			38,080	(72)		
Total liabilities	**52,274**	**(118)**		**(0.30)**	58,338	(215)		(0.49)
Interest margin			**1.63**	**0.45**			1.62	0.17
Foreign currency: Foreign operations (integrated operations)								
Assets (c) (d)	**10,248**	**228**	**2.98**		9,343	217	3.11	
Effect of embedded and ALM derivatives (e)	**48**	**14**			52	11		
Total assets	**10,296**	**242**		**3.15**	9,395	228		3.25
Liabilities (d)	**9,063**	**(47)**	**(0.69)**		8,177	(50)	(0.82)	
Effect of embedded and ALM derivatives (e)	**628**	**(9)**			180	(10)		
Total liabilities	**9,691**	**(56)**		**(0.77)**	8,357	(60)		(0.96)
Interest margin			**2.29**	**2.38**			2.29	2.29
Total								
Foreign currency assets generating financing income (c) (d)	**22,890**	**459**	**2.68**		23,616	491	2.78	
Effect of derivatives: (e)								
Hedging derivatives	**47**	**(1)**			105	(1)		
Embedded derivatives and ALM	**38,056**	**68**			41,373	15		
Total assets	**60,993**	**526**		**1.15**	65,094	505		1.04
Monetary liabilities in foreign currency generating financing expense (d)	**28,582**	**(165)**	**(0.77)**		28,321	(193)	(0.91)	
Effect of derivatives: (e)								
Hedging derivatives	**100**	-			114	-		
Embedded derivatives and ALM	**33,283**	**(9)**			38,260	(82)		
Total liabilities	**61,965**	**(174)**		**(0.37)**	66,695	(275)		(0.55)
Interest margin			**1.91**	**0.78**			1.87	0.49

See notes on page 168.

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 are 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 added to the average balance of the assets for domestic and foreign operations, in the amount of US$ 33 million (30 September 2011 - US$ 10 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

	30 September 2012												31 December 2011			30 September 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		%	Years
Israeli currency - unlinked																		
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial assets (a)	155,684	6,149	20,687	8,839	2,211	1,355	863	35	610	196,433	4.10	0.37	191,767	4.12	0.39	184,233	4.43	0.39
Derivative financial instruments (excluding options)	38,423	78,007	52,821	25,453	20,757	25,585	321	-	-	241,367	-	1.54	221,545	-	1.38	226,895	-	1.30
Options (in terms of basis asset) (d)	788	2,827	3,175	1,014	2	18	-	-	-	7,824	-	-	6,074	-	-	6,604	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	194,895	86,983	76,683	35,306	22,970	26,958	1,184	35	610	445,624	4.10	1.00	419,386	4.12	0.91	417,732	4.43	0.88
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a)	131,185	8,855	13,483	3,917	3,017	218	11	-	19	160,705	3.33	0.26	159,044	3.70	0.27	152,966	4.10	0.27
Derivative financial instruments (excluding options)	51,313	81,592	53,440	28,775	21,499	24,958	215	18	-	261,810	-	1.46	235,982	-	1.30	237,483	-	1.24
Options (in terms of basis asset) (d)	1,026	1,595	3,374	448	5	47	16	-	-	6,511	-	-	6,805	-	-	7,953	-	-
Off-balance sheet financial instruments	-	-	35	-	-	-	-	-	-	35	-	0.50	43	-	0.50	33	-	0.50
Total fair value	183,524	92,042	70,332	33,140	24,521	25,223	242	18	19	429,061	3.33	0.99	401,874	3.70	0.87	398,435	4.10	0.85
Financial instruments, net																		
Exposure to interest rate fluctuations	11,371	(5,059)	6,351	2,166	(1,551)	1,735	942	17										
Accumulated exposure in the sector	11,371	6,312	12,663	14,829	13,278	15,013	15,955	15,972										
Israeli currency – linked to the CPI																		
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial assets (a)	3,331	3,488	16,534	16,826	14,975	7,483	1,318	42	66	64,063	2.44	2.83	62,776	3.10	2.78	61,397	3.30	2.76
Derivative financial instruments (excluding options)	82	204	1,590	1,037	841	1,278	89	-	-	5,121	-	3.37	5,641	-	3.61	4,746	-	4.18
Options (in terms of basis asset) (d)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	3,413	3,692	18,124	17,863	15,816	8,761	1,407	42	66	69,184	2.44	2.87	68,417	3.10	2.85	66,143	3.30	2.87
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a)	2,944	2,626	8,646	16,481	11,493	11,779	1,175	226	-	55,370	1.67	3.59	54,294	2.54	3.60	52,591	2.69	3.56
Derivative financial instruments (excluding options)	1,056	661	3,900	3,592	804	904	-	-	-	10,917	-	1.76	10,604	-	1.46	12,537	-	1.76
Options (in terms of basis asset) (d)	-	-	-	-	-	-	-	-	-	-	-	-	4	-	-	-	-	-
Off-balance sheet financial instruments	-	-	78	-	-	-	-	-	-	78	-	-	101	-	-	123	-	0.60
Total fair value	4,000	3,287	12,624	20,073	12,297	12,683	1,175	226	-	66,365	1.67	3.28	65,003	2.54	3.25	65,251	2.69	3.20
Financial instruments, net																		
Exposure to interest rate fluctuations	(587)	405	5,500	(2,210)	3,519	(3,922)	232	(184)										
Accumulated exposure in the sector	(587)	(182)	5,318	3,108	6,627	2,705	2,937	2,753										

See notes on page 171.

Exposure to Interest Rate Fluctuations (on Consolidated Basis) (cont'd)
Reported amounts

Exhibit B (cont'd)

	30 September 2012												31 December 2011			30 September 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	Total fair value (e)	Internal rate of return	Duration (b) (e)
	NIS millions										%	Years		%	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)	50,923	16,297	7,711	6,366	3,825	2,570	72	95	355	88,214	2.76	0.70	88,112	4.04	0.58	84,386	3.86	0.57
Derivative financial instruments (excluding options)	55,486	53,829	53,735	3,567	4,348	10,010	355	26	170	181,526	-	0.35	218,588	-	0.85	244,105	-	0.98
Options (in terms of basis asset) (d)	(4,380)	2,460	4,905	1,037	3,960	2,054	219	-	-	10,255	-	-	22,041	-	-	21,431	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	102,029	72,586	66,351	10,970	12,133	14,634	646	121	525	279,995	2.76	0.45	328,741	4.04	0.72	349,922	3.86	0.82
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a)	69,000	20,801	20,330	2,064	645	407	42	-	15	113,304	1.46	0.28	112,065	1.59	0.30	107,288	2.18	0.31
Derivative financial instruments (excluding options)	43,255	43,738	45,141	5,988	5,361	12,001	363	89	170	156,106	-	0.45	199,579	-	1.02	226,828	-	1.13
Options (in terms of basis asset) (d)	(4,192)	3,678	4,822	998	3,960	2,054	219	-	-	11,539	-	-	21,437	-	-	20,130	-	-
Off-balance sheet financial instruments	-	-	12	-	-	-	-	-	-	12	-	0.50	14	-	0.50	9	-	0.50
Total fair value	108,063	68,217	70,305	9,050	9,966	14,462	624	89	185	280,961	1.46	0.36	333,095	1.59	0.71	354,255	2.18	0.82
Financial instruments, net																		
Exposure to interest rate fluctuations	(6,034)	4,369	(3,954)	1,920	2,167	172	22	32										
Accumulated exposure in the sector	(6,034)	(1,665)	(5,619)	(3,699)	(1,532)	(1,360)	(1,338)	(1,306)										
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)	209,938	25,934	44,932	32,031	21,011	11,408	2,253	172	3,340	351,019	2.90	0.90	345,539	3.52	0.88	333,037	3.68	0.88
Derivative financial instruments (excluding options)	93,991	132,040	108,146	30,057	25,946	36,873	765	26	576	428,420	-	1.06	445,885	-	1.15	475,848	-	1.17
Options (in terms of basis asset) (d)	(3,592)	5,287	8,080	2,051	3,962	2,072	219	-	-	18,079	-	-	28,115	-	-	28,035	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	300,337	163,261	161,158	64,139	50,919	50,353	3,237	198	3,916	797,518	2.90	0.97	819,539	3.52	0.99	836,920	3.68	0.71
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a) (c)	203,129	32,282	42,459	22,462	15,155	12,404	1,228	226	220	329,565	1.91	0.82	325,737	2.62	0.84	313,122	2.86	0.84
Derivative financial instruments (excluding options)	95,624	125,991	102,481	38,355	27,664	37,863	578	107	551	429,214	-	1.10	446,250	-	1.18	476,937	-	1.20
Options (in terms of basis asset) (d)	(3,166)	5,273	8,196	1,446	3,965	2,101	235	-	-	18,050	-	-	28,246	-	-	28,083	-	-
Off-balance sheet financial instruments	-	-	125	-	-	-	-	-	134	259	-	0.11	279	-	0.12	288	-	0.07
Total fair value	295,587	163,546	153,261	62,263	46,784	52,368	2,041	333	905	777,088	1.91	0.96	800,512	2.62	1.00	818,430	2.86	1.02
Financial instruments, net																		
Exposure to interest rate fluctuations	4,750	(285)	7,897	1,876	4,135	(2,015)	1,196	(135)										
Accumulated exposure in the sector	4,750	4,465	12,362	14,238	18,373	16,358	17,554	17,419										

See notes on page 171.

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 1,028 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 3.26 years, the duration of total liabilities reaches 3.31 years, and the internal rate of return (hereinafter – IRR) gap amounts to 0.69%. The change in fair value on total assets is NIS 569 million and in total liabilities NIS 3 million.

Total Credit Risk to the Public by Economic Sector (on Consolidated Basis)
Reported amounts

Exhibit C

	30 September 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	1,636	313	1,949	93	39	(13)	(10)	(40)
Industry	22,763	12,330	35,093	2,219	753	98	79	(555)
Construction and real estate (7)	39,472	28,457	67,929	3,849	2,638	(81)	286	(847)
Electricity and water	1,759	279	2,038	2	2	(1)	1	(1)
Commerce	19,570	4,630	24,200	1,287	605	163	19	(496)
Hotels and restaurants	2,855	262	3,117	398	272	(74)	(5)	(30)
Transport and storage	5,010	966	5,976	929	388	34	13	(136)
Communications and computer services	4,848	1,595	6,443	80	20	(30)	2	(39)
Financial services	14,343	12,267	26,610	914	751	585	306	(562)
Business and other services	5,948	1,661	7,609	197	152	21	1	(85)
Public and community services	6,288	1,213	7,501	203	101	32	34	(30)
Private individuals - loans for housing	61,045	1,661	62,706	855	22	(7)	36	(468)
Private individuals - other	29,154	29,515	58,669	334	44	48	112	(362)
Total for activities of borrowers in Israel	214,691	95,149	309,840	11,360	5,787	775	874	(3,651)
Activities of borrowers abroad	44,396	12,985	57,381	2,780	1,349	76	70	(734)
Total	259,087	108,134	367,221	14,140	7,136	851	944	(4,385)
Credit risk included within the various economic sectors:								
Settlement movements (5)	2,826	599	3,425	85	33	(20)	(5)	(34)
Local authorities (6)	3,245	114	3,359	6	1	-	-	(2)

(1) Credit to the public in the amount of NIS 210,503 million in respect of activity in Israel and NIS 34,904 million in respect of activity abroad, investments in debentures of the public in the amount of NIS 1,954 million in respect of activity in Israel and NIS 8,589 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 2,234 million in respect of activity in Israel and NIS 903 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 1,013 million and off-balance sheet credit risk in the amount of NIS 2,169 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.

Total Credit Risk to the Public by Economic Sector (on Consolidated Basis) (cont'd)
Reported amounts

Exhibit C (cont'd)

	30 September 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	1,767	372	2,139	115	67	(25)	(1)	(44)
Industry	25,528	15,996	41,524	1,361	797	26	584	(513)
Construction and real estate (7)	39,260	28,963	68,223	3,822	2,096	192	694	(1,103)
Electricity and water	1,202	343	1,545	54	1	3	-	(8)
Commerce	17,829	4,216	22,045	819	477	17	(165)	(315)
Hotels and restaurants	3,475	324	3,799	977	794	(51)	(41)	(177)
Transport and storage	5,106	1,154	6,260	149	95	5	38	(79)
Communications and computer services	4,717	2,914	7,631	182	140	(17)	30	(84)
Financial services	18,474	13,412	31,886	569	411	118	142	(209)
Business and other services	5,110	1,905	7,015	84	42	(8)	(13)	(78)
Public and community services	5,956	1,154	7,110	210	46	35	36	(42)
Private individuals - loans for housing	55,596	1,910	57,506	955	23	(9)	41	(550)
Private individuals - other	27,511	27,092	54,603	316	43	(24)	79	(409)
Total for activities of borrowers in Israel	211,531	99,755	311,286	9,613	5,032	262	1,424	(3,611)
Activities of borrowers abroad	42,298	17,535	59,833	2,303	1,307	87	410	(676)
Total	253,829	117,290	371,119	11,916	6,339	349	1,834	(4,287)
Credit risk included within the various economic sectors:								
Settlement movements (5)	3,102	744	3,846	119	79	(42)	26	(30)
Local authorities (6)	3,019	128	3,147	18	1	(6)	-	(2)

(1) Including credit to the public in the amount of NIS 206,331 million in respect of activity in Israel and NIS 34,840 million in respect of activity abroad, investments in debentures of the public in the amount of NIS 1,516 million in respect of activity in Israel and NIS 6,609 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 3,684 million in respect of activity in Israel and NIS 849 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 the settlement movement.
(6) Including corporations under their control.
(7) Including housing loans and off-balance sheet credit risk given to purchasing groups under construction amounting to NIS 889 million and off balance-sheet credit risk amounting to NIS 2,021 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.

Total Credit Risk to the Public 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 (*)	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	1,835	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 (7) (8)	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 (8)	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	42,803	13,020	55,823	2,439	1,306	131	422	(690)
Total	257,636	100,995	358,631	12,957	6,784	734	2,069	(4,435)
Credit risk included within the various economic sectors:								
Settlement movements (5)	2,907	553	3,460	109	49	(70)	9	(39)
Local authorities (6)	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 debentures of the public 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) 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 the settlement movement.
(6) Including corporations under their control.
(7) 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.
(8) Reclassified.

(*) 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.

	30 September 2012					
	Balance Sheet Exposure (a)					
	Cross-Border Claims			Foreign-office Claims on Local Residents		
	To governments (c)	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	3,691	3,846	8,749	17,942	10,298	7,644
United Kingdom	-	3,558	2,309	7,102	2,124	4,978
France	-	2,210	739	-	-	-
Switzerland	-	311	957	3,278	459	2,819
Germany	1	2,062	1,926	-	-	-
Belgium	-	241	136	-	-	-
Italy	-	284	62	-	-	-
The Netherlands	4	1,526	1,418	-	-	-
Others	387	3,960	2,899	2,088	1,000	1,088
Total country exposure	4,083	17,998	19,195	30,410	13,881	16,529
Total exposure to LDC countries	191	605	1,277	2,055	982	1,073
Total exposure to certain countries (d)	-	377	296	-	-	-

	Balance sheet exposure			Off-balance sheet exposure (a) (b)			
						Cross-Border Claims (b)	
						Repayment period	
	Total 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	23,930	546	308	6,007	17	7,290	8,996
United Kingdom	10,845	660	296	2,694	5	2,228	3,639
France	2,949	-	-	302	-	1,027	1,922
Switzerland	4,087	71	71	621	-	931	337
Germany	3,989	3	3	217	-	2,276	1,713
Belgium	377	-	-	75	-	359	18
Italy	346	1	1	11	-	89	257
The Netherlands	2,948	53	35	87	-	2,011	937
Others	8,334	520	498	1,240	-	5,896	1,350
Total country exposure	57,805	1,854	1,212	11,254	22	22,107	19,169
Total exposure to LDC countries	3,146	513	490	654	-	1,795	278
Total exposure to certain countries (d)	673	2	2	17	-	273	400

(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 certain countries includes the following countries: Portugal, Ireland, Italy, Greece and Spain.

Country Exposure (cont'd)
Reported amounts

Exhibit D (cont'd)

	30 September 2011					
	Balance Sheet Exposure (a)					
	Cross-Border Claims			Foreign-office Claims on Local Residents		
	To governments (c)	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	12	3,891	8,106	17,871	7,458	10,413
United Kingdom	-	3,773	2,196	5,377	1,859	3,518
France	-	2,061	682	-	-	-
Switzerland	-	812	853	746	512	234
Germany	34	2,463	1,574	-	-	-
Belgium	-	885	132	-	-	-
Italy	-	499	45	-	-	-
Netherlands	-	1,969	1,757	-	-	-
Others	358	3,621	3,108	1,996	1,016	980
Total country exposure	404	19,974	18,453	25,990	10,845	15,145
Total exposure to LDC countries	164	510	1,137	1,947	1,016	931
Total exposure to GIPS countries (d)	-	882	198	-	-	-

	Balance sheet exposure			Off-balance sheet exposure (a) (b)			
						Cross-Border Claims (b)	
						Repayment period	
	Total 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	22,422	468	315	13,767	19	5,402	6,607
United Kingdom	9,487	768	322	10,303	14	2,873	3,096
France	2,743	7	-	3,196	-	979	1,764
Switzerland	1,899	77	77	1,955	-	1,121	544
Germany	4,071	3	3	3,722	-	2,357	1,714
Belgium	1,017	-	-	424	-	783	234
Italy	544	6	6	16	-	94	450
Netherlands	3,726	39	12	361	-	2,200	1,526
Others	8,067	552	427	1,931	-	4,038	3,049
Total country exposure	53,976	1,920	1,162	35,675	33	19,847	18,984
Total exposure to LDC countries	2,742	532	406	609	-	1,521	290
Total exposure to GIPS countries (d)	1,080	15	14	44	-	172	908

(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 GIPS countries includes the following countries: Portugal, Ireland, Greece and Spain.

Country Exposure (cont'd)
Reported amounts

Exhibit D (cont'd):

	31 December 2011					
	Balance Sheet Exposure (a)					
	Cross-Border Claims			Foreign-office Claims on Local Residents		
	To governments (c)	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 (e)	10,834	8,816 (e)
United Kingdom	-	3,877	2,340	6,237 (e)	2,124	4,113 (e)
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	-	-	-
Netherlands	4	1,257	1,346	-	-	-
Others	360	2,768	2,916	1,908 (e)	1,036	872 (e)
Total country exposure	3,374	17,240	19,326	29,693	14,483	15,210
Total exposure to LDC countries	166	576	1,307	1,847 (e)	1,036	811 (e)
Total exposure to GIIPS countries (d)	-	735	236	-	-	-

	Balance sheet exposure			Off-balance sheet exposure (a) (b)			
						Cross-Border Claims(b)	
						Repayment period	
	Total 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	24,762 (e)	609	346	6,282	19	8,138	7,808
United Kingdom	10,330 (e)	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 (e)	57	30	176	-	1,616 (e)	991
Others	6,916 (e)	654	557	1,169	-	3,623	2,421
Total country exposure	55,150	2,173	1,303	12,074	23	21,407	18,533
Total exposure to LDC countries	2,860 (e)	649	554	629	-	1,744	305
Total exposure to GIIPS countries (d)	971	5	4	25	-	170	801

(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: Greece, Ireland, Italy, Portugal, and Spain.
(e) Reclassified.

Country Exposure (cont'd)
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 30 September 2012 and comparative periods 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.

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) amounted to NIS 1,403 million and related 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 30 September 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.

28 November 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 30 September 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.

28 November 2012

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 30 September, 2012 and the related interim condensed consolidated statements of profit and loss, changes in shareholders' equity and cash flows for the three and nine month periods ending on that date. The Board of Directors and Management are responsible for the preparation and presentation of financial information for these interim periods 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 2.3% of total consolidated assets as of 30 September, 2012 and whose net interest income included in the consolidated statements of profit and loss constitute some 0.7% and some 0.8% of the total consolidated net interest income for the three and nine month periods 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.
4. 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.

Somekh Chaikin
Certified Public Accountants (Isr.)

Kost Forer Gabbay & Kasierer
Certified Public Accountants (Isr.)

28 November 2012

Condensed Consolidated Balance Sheet as at 30 September 2012
Reported amounts

		30 September 2012	30 September 2011	31 December 2011
		(Unaudited)	(Unaudited)	(Audited)
	Note	(NIS millions)		
Assets				
Cash and deposits with banks		**48,340**	54,662	53,044
Securities	2	**56,183**	38,356	47,936
Securities borrowed or purchased under agreements to resell		**1,946**	1,252	1,225
Credit to the public	3	**245,407**	241,171	245,287
Allowance for credit losses	3D	**(3,943)**	(3,856)	(3,967)
Credit to the public, net		**241,464**	237,315	241,320
Credit to governments		**418**	403	448
Investments in companies included on equity basis		**2,303**	2,350	2,270
Buildings and equipment		**3,751**	3,615	3,653
Intangible assets and goodwill		**168**	45	181
Assets in respect of derivative instruments	7	**10,494**	11,496	11,573
Other assets		**4,463**	3,681	4,204
Total assets		**369,530**	353,175	365,854
Liabilities and equity				
Deposits of the public		**285,229**	267,249	279,404
Deposits from banks		**2,863**	6,327	5,056
Deposits from governments		**456**	443	519
Securities lent or sold under agreements to repurchase		**1,248**	778	442
Debentures, bonds and subordinated notes		**28,189**	28,573	29,999
Liabilities in respect of derivative instruments	7	**11,259**	12,636	12,069
Other liabilities		**14,967**	14,055	14,737
Total liabilities		**344,211**	330,061	342,226
Non-controlling interests		**301**	343	254
Equity attributable to shareholders of the banking corporation	4	**25,018**	22,771	23,374
Total equity		**25,319**	23,114	23,628
Total liabilities and equity		**369,530**	353,175	365,854

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

David Brodet	Rakefet Russak-Aminoach	Menachem Schwartz
Chairman of the Board of Directors	President and Chief Executive Officer	First Executive Vice President, Chief Accounting Officer, Head of Accounting Division

Date of approval of the financial statements: 28 November 2012

Condensed Consolidated Statement of Profit and Loss – Reported Amounts for the periods ended 30 September 2012

		For the three months ended 30 September		For the nine months ended 30 September		›r the year ended 31 December
		2012	2011 (a)	**2012**	2011 (a)	2011 (a)
		(Unaudited)		(Unaudited)		(Audited)
	Note	(NIS millions)				
Interest income	9	**3,615**	3,801	**10,793**	10,953	14,283
Interest expenses	9	**1,743**	1,960	**5,169**	5,525	7,176
Net interest income		**1,872**	1,841	**5,624**	5,428	7,107
Expenses in respect of credit losses	3, 3.D	**292**	378	**850**	349	734
Net interest income, after expenses in respect of credit losses		**1,580**	1,463	**4,774**	5,079	6,373
Non-interest income						
Non-interest financing income	10	**119**	(336)	**239**	(166)	11
Commissions		**1,050**	1,005	**3,092**	3,109	4,116
Other income		**39**	6	**49**	29	48
Total non-interest income		**1,208**	675	**3,380**	2,972	4,175
Operating and other expenses						
Salaries and related expenses		**1,434**	1,241	**3,976**	3,865	5,061
Maintenance and depreciation of buildings and equipment		**452**	422	**1,325**	1,262	1,704
Amortization of intangible assets		**4**	-	**15**	-	2
Other expenses		**404**	392	**1,173**	1,093	1,574
Total operating and other expenses		**2,294**	2,055	**6,489**	6,220	8,341
Profit before taxes		**494**	83	**1,665**	1,831	2,207
Provision for taxes on profit		**113**	32	**578**	664	418
Profit after taxes		**381**	51	**1,087**	1,167	1,789
Share of the banking corporation in profits after tax of companies included on equity basis		**108**	115	**132**	145	148
Net profit:						
Before attribution to non-controlling		**489**	166	**1,219**	1,312	1,937
Attributable to non-controlling interests		**(10)**	(11)	**(29)**	(39)	(46)
Attributable to shareholders of the banking corporation		**479**	155	**1,190**	1,273	1,891
Basic and diluted earnings per share						
Net profit attributable to shareholders of the banking corporation		**0.33**	0.11	**0.81**	0.86	1.28

(a) Reclassified pursuant to initial implementation of the directives of the Supervisor of Banks on the format of the profit and loss statement of a banking corporation - see Note 1.C.1.

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

Condensed Consolidated Statement of Changes in Equity for the periods ended 30 September 2012

Reported amounts

For the three months ended 30 September 2012 (Unaudited)

	Share capital	Premium	Capital reserves: Share-based payment transactions and others (a)	Total share capital and capital reserves	Accumulated other comprehensive profit: 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 capital
	(NIS millions)											
Balance at 30 June 2012	7,059	1,129	23	8,211	19	(50)	40	16,090	(44)	24,266	267	24,533
Net profit for the period	-	-	-	-	-	-	-	479	-	479	10	489
Adjustments from translation of investments in foreign currency	-	-	-	-	-	9	-	-	-	9	1	10
Losses in respect of hedging of investments in foreign currency	-	-	-	-	-	(9)	-	-	-	(9)	-	(9)
Tax effect relating to hedging of investments in foreign currency	-	-	-	-	-	3	-	-	-	3	-	3
Adjustments in respect of companies included on equity basis, net	-	-	-	-	-	66	(1)	(4)	-	61	-	61
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	-	441	-	-	-	-	441	-	441
Profits in respect of securities available for sale that were realized and classified to profit and loss (d)	-	-	-	-	(146)	-	-	-	-	(146)	-	(146)
Tax effect relating to adjustments of securities available for sale	-	-	-	-	(84)	-	-	-	-	(84)	-	(84)
Changes in non-controlling interests	-	-	-	-	-	-	-	(2)	-	(2)	23	21
Balance at the end of the period	7,059	1,129	23	8,211	230	19	39	16,563	(44)	25,018	301	25,319

See footnotes on page 188.

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

Condensed Consolidated Statement of Changes in Equity (cont'd) for the periods ended 30 September 2012

Reported amounts

	For the three months ended 30 September 2011 (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	Loans to employees for purchase of the Bank's shares	Total	Non-controlling interests	Total capital
	(NIS millions)											
Balance at 30 June 2011	7,059	1,129	24	8,212	74	(132)	41	14,693	(44)	22,844	333	23,177
Net profit for the period	-	-	-	-	-	-	-	155	-	155	11	166
Employee benefit from share-based payment transactions	-	-	(1)	(1)	-	-	-	-	-	(1)	-	(1)
Adjustments in respect of companies included on equity basis, net	-	-	-	-	-	76	(7)	(8)	-	61	-	61
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	-	(653)	-	-	-	-	(653)	-	(653)
Losses in respect of securities available for sale that were realized and classified to profit and loss (d)	-	-	-	-	160	-	-	-	-	160	-	160
Tax effect relating to adjustments of securities available for sale	-	-	-	-	205	-	-	-	-	205	-	205
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(1)	(1)
Balance at the end of the period	7,059	1,129	23	8,211	(214)	(56)	34	14,840	(44)	22,771	343	23,114

See footnotes on page 188.

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

Condensed Consolidated Statement of Changes in Equity (cont'd)
for the periods ended 30 September 2012
Reported amounts

For the nine months ended 30 September 2012 (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	Loans to employees for purchase of the Bank's shares	Total	Non-controlling interests	Total capital
	(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 initial implementation of IFRS	-	-	-	-	-	-	-	(26)	-	(26)	-	(26)
Net profit for the period	-	-	-	-	-	-	-	1,190	-	1,190	29	1,219
Adjustments from translation of investments in foreign currency	-	-	-	-	-	86	-	-	-	86	1	87
Losses in respect of hedging of investments in foreign currency	-	-	-	-	-	(133)	-	-	-	(133)	-	(133)
Tax effect relating to hedging of investments in foreign currency	-	-	-	-	-	47	-	-	-	47	-	47
Adjustments in respect of companies included on equity basis, net	-	-	-	-	-	40	(1)	(1)	-	38	-	38
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	-	827	-	-	-	-	827	1	828
Profits in respect of securities available for sale that were realized and classified to profit and loss (d)	-	-	-	-	(164)	-	-	-	-	(164)	-	(164)
Tax effect relating to adjustments of securities available for sale	-	-	-	-	(215)	-	-	-	-	(215)	-	(215)
Dividend paid	-	-	-	-	-	-	-	-	-	-	(8)	(8)
Changes in non-controlling interests	-	-	-	-	-	-	-	(6)	-	(6)	24	18
Balance at the end of the period	7,059	1,129	23	8,211	230	19	39	16,563	(44)	25,018	301	25,319

See footnotes on page 188.

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

Condensed Consolidated Statement of Changes in Equity (cont'd)
for the periods ended 30 September 2012
Reported amounts

	For the nine months ended 30 September 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	Loans to employees for purchase of the Bank's shares	Total	Non-controlling interests	Total capital
	(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	-	-	-	-	-	-	-	1,273	-	1,273	39	1,312
Dividend paid	-	-	-	-	-	-	-	(400)	-	(400)	-	(400)
Employee benefit from share-based payment transactions	-	-	13	13	-	-	-	-	-	13	-	13
Adjustments in respect of companies included on equity basis, net	-	-	-	-	-	23	9	(6)	-	26	-	26
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	-	(1,018)	-	-	-	-	(1,018)	-	(1,018)
Profits in respect of securities available for sale that were realized and classified to profit and loss	-	-	-	-	10	-	-	-	-	10	-	10
Tax effect relating to adjustments of securities available for sale	-	-	-	-	326	-	-	-	-	326	-	326
Loans to employees for purchase of the Bank's shares	-	-	-	-	-	-	-	-	(43)	(43)	-	(43)
Balance at the end of the period	7,059	1,129	23	8,211	(214)	(56)	34	14,840	(44)	22,771	343	23,114

See footnotes on page 188.

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 30 September 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 capital
	(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 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 classified to profit and loss	-	-	-	-	(39)	-	-	-	-	(39)	-	(39)
Tax effect relating to adjustments for securities available for sale	-	-	-	-	335	-	-	-	-	335	1	336
Loans to employees for purchase of the Bank's shares	-	-	-	-	-	-	-	-	(43)	(43)	-	(43)
Changes in non-controlling interests	-	-	-	-	-	-	-	(47)	-	(47)	(80)	(127)
Balance at 31 December 2011 (Audited)	7,059	1,129	23	8,211	(218)	(21)	40	15,406 (e)	(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 accumulated 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 3.D in the financial statements for 31 December 2011.
(d) Including provisions for impairment.
(e) Including NIS 763 million not available for distribution as a dividend. The balance of the amount for distribution is subject to Bank of Israel directives and the restrictions set out in the Proper Conduct of Banking Business Directives.

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

Consolidated Statement of Cash Flows for the periods ended 30 September 2012

Reported amounts

	For the three months ended 30 September		For the nine months ended 30 September		For the year ended 31 December
	2012	2011 (b)	**2012**	2011 (b)	2011 (b)
	(Unaudited)		(Unaudited)		(Audited)
	(NIS millions)				
Cash flows generated by operating activities:					
Net profit for the period	**489**	166	**1,219**	1,312	1,937
Adjustments:					
Group share in undistributed profits of companies included on equity basis (a)	**(88)**	(114)	**(26)**	(95)	(72)
Depreciation of buildings and equipment	**184**	173	**549**	531	711
Decrease in provision for impairment of fixed assets	**-**	-	**-**	(4)	(4)
Amortization	**4**	-	**15**	-	2
Expenses in respect of credit losses	**292**	378	**850**	349	734
Provision for impairment in assets transferred to group ownership	**6**	3	**8**	9	11
Net loss (gain) on sale of securities available for sale (including impairment)	**(146)**	160	**(164)**	10	(39)
Realized and unrealized gain from adjustment to fair value of securities held for trading	**(55)**	(319)	**(151)**	(269)	(313) (c)
Loss (gain) on realization of investment in companies included on equity basis	**-**	-	**(24)**	-	4
Loss (gain) on realization of buildings and equipment	**1**	1	**(1)**	2	2
Expenses deriving from share-based payment transactions	**-**	-	**-**	13	13
Deferred taxes , net	**(235)**	46	**(526)**	32	(308)
Severance pay and pension - increase in excess of provision over amount funded	**261**	285	**480**	678	620
Interest and exchange rate differentials not yet received for debentures available for sale	**(36)**	(626)	**(17)**	(664)	(822)
Interest not yet paid for debentures and subordinated notes	**19**	161	**586**	635	602
Exchange-rate differences on balances of cash and cash equivalents	**1**	(416)	**(190)**	(447)	(607)
Other	**-**	3	**1**	4	8
Net change in current assets:					
Deposits in banks	**571**	(67)	**870**	482	(1,956)
Credit to the public	**(220)**	(9,304)	**(859)**	(15,669)	(19,226)
Credit to the government	**(6)**	(51)	**31**	(24)	(69)
Securities borrowed or purchased under agreements to resell	**219**	78	**(721)**	(62)	(35)
Assets in respect of derivative instruments	**1,752**	(3,733)	**1,061**	(2,780)	(2,848)
Securities held for trading	**980**	(985)	**(1,610)**	(831)	(754) (c)
Other assets	**5**	140	**109**	(476)	(481)
Net change in current liabilities:					
Deposits from banks	**(1,122)**	965	**(2,241)**	3,636	2,602
Deposits from the public	**4,726**	14,545	**5,076**	17,665	27,055
Deposits from the government	**(5)**	-	**(65)**	(217)	(141)
Securities lent or sold under agreements to repurchase	**(38)**	(13)	**805**	(228)	(564)
Liabilities in respect of derivative instruments	**(1,322)**	3,068	**(874)**	2,501	1,923
Other liabilities	**34**	(337)	**(348)**	163	670
Net cash generated by operating activities	**6,271**	4,207	**3,843**	6,256	8,655

(a) Net of dividend received.

(b) Reclassified pursuant to initial implementation of the directives of the Supervisor of Banks - see Note 1.C.

(c) Reclassified

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

Consolidated Statement of Cash Flows (cont'd)
for the periods ended 30 September 2012
Reported amounts

	For the three months ended 30 September		For the nine months ended 30 September		For the year ended 31 December
	2012	2011 (a)	**2012**	2011 (a)	2011 (a)
	(Unaudited)		(Unaudited)		(Audited)
	(NIS millions)				
Cash flows generated by investment activities					
Acquisition of securities available for sale	**(11,802)**	(3,109)	**(37,833)**	(11,230)	(26,345)
Proceeds from sale of securities available for sale	**10,327**	4,943	**21,756**	24,778	28,907
Proceeds from redemption of securities available for sale	**5,108**	1,371	**10,865**	5,428	6,782
Acquisition of subsidiary consolidated for the first time (Appendix A)	**-**	-	**-**	-	1,848
Acquisition of shares in companies included on equity basis	**-**	-	**-**	(109)	(110)
Proceeds from realization of investment in companies included on equity basis	**-**	-	**67**	-	50
Acquisition of buildings and equipment	**(198)**	(178)	**(585)**	(545)	(755)
Proceeds from realization of buildings and equipment	**-**	-	**5**	6	6
Proceeds from realization of assets transferred to Group ownership	**13**	3	**14**	6	7
Repayment of shareholders' loan to company included on equity basis	**-**	-	**2**	1	2
Net cash used for activities in investments	**3,448**	3,030	**(5,709)**	18,335	10,392
Cash flows generated by financing activities					
Issue of debentures and subordinated notes	**-**	1,420	**2,410**	1,420	3,386
Redemption of debentures and subordinated notes	**(53)**	(42)	**(4,806)**	(421)	(928)
Issue of capital in consolidated companies to external shareholders	**21**	-	**21**	-	-
Additional purchase of shares in consolidated companies	**-**	-	**-**	-	(115)
Dividend paid to shareholders	**-**	-	**-**	(900)	(900)
Dividend paid to minority shareholders of consolidated companies	**-**	-	**(8)**	-	(15)
Repayment of loans to employees for purchase of the Bank's shares	**-**	-	**-**	(43)	(43)
Net cash generated by financing activities	**(32)**	1,378	**(2,383)**	56	1,385
Increase (decrease) in cash and cash equivalents	**9,687**	8,615	**(4,249)**	24,647	20,432
Balance of cash and cash equivalents at beginning of period	**35,991**	44,760	**49,736**	28,697	28,697
Effect of movements in exchange rates on cash balances	**(1)**	416	**190**	447	607
Balance of cash and cash equivalents at end of period	**45,677**	53,791	**45,677**	53,791	49,736

(a) Reclassified pursuant to initial implementation of the directives of the Supervisor of Banks - see Note 1.C.

Interest and taxes paid and/or received and dividends received

	For the three months ended 30 September		For the nine months ended 30 September		For the year ended 31 December
	2012	2011	**2012**	2011	2011
	(Unaudited)		(Unaudited)		(Audited)
	(NIS millions)		(NIS millions)		
Interest received	**3,627**	3,045	**10,606**	9,933	14,027 (a)
Interest paid	**(2,030)**	(1,885)	**(6,553)**	(5,296)	(7,222) (a)
Dividends received	**36**	9	**158**	117	153
Taxes paid on income	**(297)**	(195)	**(868)**	(901)	(963)

(a) Restated.

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

Consolidated Statement of Cash Flows (cont'd) for the periods ended 30 September 2012

Reported amounts

Appendix A - Acquisition of a subsidiary consolidated for the first time:

	For the year ended 31 December 2011 (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

Appendix B – Activities not in cash:

In the three months ended 30 September 2012:

(1) During the period, securities were transferred from the available-for-sale portfolio to credit to the public, in the amount of NIS 99 million, due to the lending of securities.

(2) During the period, assets were transferred from credit to the public to other assets in the amount of NIS 1 million, in respect of loans repaid.

In the three months ended 30 September 2011:

(1) During the period, securities were transferred from credit to the public to the available-for-sale portfolio in the amount of NIS 14 million, due to the conclusion of loaning of securities.

(2) During the period, assets were transferred from credit to the public to other assets in the amount of NIS 1 million, in respect of loans repaid.

In the nine months ended 30 September 2012:

(1) During the period, securities were transferred from credit to the public to the available-for-sale portfolio, in the amount of NIS 279 million, due to the conclusion of lending of securities.

(2) During the period, fixed assets were acquired against liabilities to suppliers in the amount of NIS 65 million.

(3) During the period, assets were transferred from credit to the public to other assets in the amount of NIS 9 million, in respect of loans repaid.

In the nine months ended 30 September 2011:

(1) During the period, securities were transferred from credit to the public to the available-for-sale portfolio, in the amount of NIS 782 million, due to the conclusion of lending of securities.

(2) During the period, assets were transferred from credit to the public to other assets in the amount of NIS 4 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 30 September 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 C 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, which 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.

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 expenses 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 nine months ended 30 September 2011	For the year ended 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	**197**	**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	**468**	**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	**(965)**	**(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	**47**	**78**
Profits (losses) from the sale and fair value adjustment of shares for trading, net	Operating and other income – profits from investment in shares, net	Non-interest financing income in respect of activities for trading purposes	**136**	**140**
Net income 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	**13**	**7**
Commissions from financing business	Profit from financing income before credit loss expenses - commissions from financing business	Commissions	**295**	**399**
Early repayment commissions	Profit from financing income before credit loss expenses – other financing income	Interest income	**121**	**160**
Interest on arrears	Profit from financing income before credit loss expenses – other financing income	Interest income	**12**	**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 are 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 received or paid and dividends received, 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, were reclassified to current activity, in the sum of NIS 19,360 million in the period of nine months ending 30 September 2011. In addition, an amount of NIS 25,369 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, liabilities in respect of derivative instruments and other liabilities) previously included under activity in liabilities and equity, an increase in the sum of NIS 23,520 million in the period of nine months ending 30 September 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 from 1 January 2012. As a result of implementing the Standard, retained earnings included in shareholders' equity were restated as at 1 January 2012 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 so as to meet the disclosure requirements of IAS 24, and 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 of the disclosure.

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 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 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".

Initial implementation of the Standard had no material effect on the Bank's financial statements, apart from a change in presentation.

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 Bank 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 on the financial statements of the Bank.

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 were 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 IFRS's".

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 determined, 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 items included under 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.

A draft circular was published on 23 August 2012 amending the Public Reporting Directives of the Supervisor of Banks on fair value measurements.

The amendment incorporates in the Public Reporting Directives the rules of fair value measurement set forth in ASU 2011-04 which are applied by the Bank as of 1 January 2012 as mentioned above. In addition, the draft circular stipulates a new uniform disclosure format with regard to certain disclosure requirements on fair value included in ASU 2011-04.
In view of this, commencing with the current quarter the Bank has amended the Notes on the subject of fair value including the reclassification of comparative figures, with the aim of adjusting them to the new disclosure format.

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 were published on 29 December 2011, in a circular 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 25 July 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 Banking Supervision Department.

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.

- Control *de facto* is to be taken into account for purposes of evaluating control in an investee company.

- 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) instead of International Accounting Standards.

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.
In the Bank's opinion, 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 material influence, i.e. cancelling the current directive requiring the fair value valuation of the investment remaining in the company included on equity basis 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 a company included on equity basis or joint venture meeting the criteria for classification as held for sale. Until the realization of that part of the investment classified as 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.

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, companies included on equity basis, 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 companies included on equity basis 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.

In June 2012, the IASB published amendments to IFRS 10 to include reliefs in connection with the transitional directives of IFRS 10, IFRS 11, and IFRS 12, and allowing the amendment of comparative figures for one year only. Amendment of comparative figures for earlier periods is possible but not compulsory. The amendments also cancelled the requirement to report comparative information for earlier periods in relation to structured entities that are not consolidated.

The amendments come into effect as of the financial statements for annual periods commencing on 1 January 2013, which is the implementation date of IFRS 10, IFRS 11, and IFRS 12.

Note 2 - Securities
Reported Amounts

	As at 30 September 2012 (Unaudited)				
	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	25,445	25,276	176	(7)	25,445
Foreign governments	4,763	4,752	12	(1)	4,763
Financial institutions in Israel	331	319	15	(3)	331
Financial institutions abroad	5,644	5,670	101	(127)	5,644
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	4,365	4,311	78	(24)	4,365
Others in Israel	848	849	14	(15)	848
Others abroad	1,308	1,294	27	(13)	1,308
	42,704	42,471	423	(190)	42,704
Shares and mutual funds (b)	1,973	1,681	307	(15)	1,973
Total securities available for sale	44,677	44,152	730 (c)	(205) (c)	44,677

	As at 30 September 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	8,738	8,634	105	(1)	8,738
Foreign governments	231	225	6	-	231
Financial institutions in Israel	145	143	3	(1)	145
Financial institutions abroad	120	120	2	(2)	120
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	522	521	10	(9)	522
Others in Israel	738	742	6	(10)	738
Others abroad	849	778	71	-	849
	11,343	11,163	203	(23)	11,343
Shares and mutual funds	163	157	7	(1)	163
Total securities available for trading	11,506	11,320	210 (d)	(24) (d)	11,506
Total securities	56,183	55,472	940	(229)	56,183

See notes on page 208.

Note 2 - Securities (Cont'd)
Reported Amounts

	As at 30 September 2011 (Unaudited) (e)				
			Accumulated other comprehensive profit (loss)		
	Balance sheet amount	Amortized cost (in shares - cost)	Profits	Losses	Fair value (a)
	(NIS millions)				
1. Securities available for sale:					
Debentures -					
Government of Israel	12,408	12,267	143	(2)	12,408
Foreign governments	619	620	3	(4)	619
Financial institutions in Israel	403	401	5	(3)	403
Financial institutions abroad	8,572	9,090	27	(545)	8,572
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	2,414	2,460	24	(70)	2,414
Others in Israel	643	672	13	(42)	643
Others abroad	1,131	1,141	13	(23)	1,131
	26,190	26,651	228	(689)	26,190
Shares and mutual funds (b)	2,391	2,130	298	(37)	2,391
Total securities available for sale	28,581	28,781	526 (c)	(726) (c)	28,581

	As at 30 September 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	8,022	7,982	53	(13)	8,022
Foreign governments	68	68	-	-	68
Financial institutions in Israel	200	199	3	(2)	200
Financial institutions abroad	595	622	1	(28)	595
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	109	118	2	(11)	109
Others in Israel	358	376	-	(18)	358
Others abroad	70	64	6	-	70
	9,422	9,429	65	(72)	9,422
Shares and mutual funds	353	355	3	(5)	353
Total securities available for trading	9,775	9,784	68 (d)	(77) (d)	9,775
Total securities	38,356	38,565	594	(803)	38,356

See notes on page 208.

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)		Fair value (a)
			Profits	Losses	
	(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 208.

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 1,143 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 30 September 2011 - NIS 1,409 million).

(c) Regarding securities available for sale, other comprehensive profit (loss) – 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 notes:

Securities lent in the amount of NIS 369 million (31 December 2011 – NIS 648 million and at 30 September 2011 – NIS 429 million) are shown under credit to the public.

Securities pledged to lenders amounted to NIS 1,888 million (31 December 2011 – NIS 2,274 million and at 30 September 2011 – NIS 2,653 million).

Note 2 - Securities (Cont'd)
Of which: Asset-backed securities
Reported amounts

	As at 30 September 2012 (Unaudited)				
	Balance sheet amount	Amortized cost	Accumulated other comprehensive income (loss)* Profits	Accumulated other comprehensive income (loss)* Losses	Fair value
	(NIS millions)				
1. Debentures available for sale:					
Pass-through securities:					
Securities guaranteed by GNMA	344	342	3	(1)	344
Securities issued by FNMA and FHLMC	83	80	3	-	83
Total	427	422	6	(1)	427
Other mortgage-backed securities (including CMO and STRIPPED MBS):					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	2,380	2,364	16	-	2,380
Other mortgage-backed securities	185	180	6	(1)	185
Total	2,565	2,544	22	(1)	2,565
Asset-backed securities (ABS):					
Credit card receivables	40	41	-	(1)	40
Lines of credit for any purpose secured by dwelling	2	2	-	-	2
Other credit to private persons	5	5	-	-	5
CLO	1,322	1,293	50	(21)	1,322
Others	4	4	-	-	4
Total	1,373	1,345	50	(22)	1,373
Total asset-backed debentures available for sale	4,365	4,311	78	(24)	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 30 September 2012 (Unaudited)				
	Balance sheet amount	Amortize 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	208	206	2	-	208
Other securities	6	6	-	-	6
Total	214	212	2	-	214
Other mortgage-backed securities (including CMO and STRIPPED MBS):					
Securities issued by FNMA, FHLMC, or guaranteed by these entities	22	20	2	-	22
Other mortgage-backed securities	6	8	-	(2)	6
Total	28	28	2	(2)	28
Asset-backed securities (ABS):					
Credit card receivables	38	38	-	-	38
Lines of credit for any purpose secured by dwelling	3	3	-	-	3
Credit for purchase of vehicle	141	138	3	-	141
Credit not to private persons	2	2	-	-	2
CDO	1	7	-	(6)	1
Others	95	93	3	(1)	95
Total	280	281	6	(7)	280
Total asset-backed debentures held for trading	522	521	10	(9)	522

* These profits (losses) were charged to profit and loss.

Note 2 - Securities (Cont'd)
Of which: Asset-backed securities
Reported amounts

	As at 30 September 2011 (Unaudited)				
	Balance sheet amount	Amortized cost	Accumulated other comprehensive income (loss) Profits	Losses	Fair value
	(NIS millions)				
1. Debentures available for sale:					
Pass-through securities:					
Securities guaranteed by GNMA	116	111	5	-	116
Securities issued by FNMA and FHLMC	127	120	7	-	127
Total	243	231	12	-	243
Other mortgage-backed securities (including CMO and STRIPPED MBS):					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	974	965	11	(2)	974
Other mortgage-backed securities	453	464	-	(11)	453
Total	1,427	1,429	11	(13)	1,427
Asset-backed securities (ABS):					
Credit card receivables	39	39	-	-	39
Lines of credit for any purpose secured by dwelling	2	3	-	(1)	2
Other credit to private persons	5	5	-	-	5
CLO	679	734	1	(56)	679
CDO	15	15	-	-	15
SCDO	1	1	-	-	1
Others	3	3	-	-	3
Total	744	800	1	(57)	744
Total asset-backed debentures available for sale	2,414	2,460	24	(70)	2,414

* 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 30 September 2011 (Unaudited)				
	Balance sheet amount	Amortize 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	6	7	-	(1)	6
Total	7	8	-	(1)	7
Other mortgage-backed securities (including CMO and STRIPPED MBS):					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	83	81	2	-	83
Other mortgage-backed securities	8	11	-	(3)	8
Total	91	92	2	(3)	91
Asset-backed securities (ABS):					
Lines of credit for any purpose secured by dwelling	3	3	-	-	3
Credit for purchase of vehicle	-	-	-	-	-
Credit not to private persons	5	5	-	-	5
CDO	1	7	-	(6)	1
Others	2	3	-	(1)	2
Total	11	18	-	(7)	11
Total asset-backed debentures held for trading	109	118	2	(11)	109

* These profits (losses) were 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) Profits	Accumulated other comprehensive income (loss) Losses	Fair value
	(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	Amortize 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) were charged to profit and loss.

Note 2 - Securities (Cont'd)
Of which: Asset-backed securities
Reported amounts

	As at 30 September 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)	**69**	**(1)**	**-**	**-**	**69**	**(1)**
Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS)	**202**	**-**	**18**	**(1)**	**220**	**(1)**
Asset-backed securities (ABS)	**-**	**-**	**569**	**(22)**	**569**	**(22)**
Total	**271**	**(1)**	**587**	**(23)**	**858**	**(24)**

	As at 30 September 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						
Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS)	660	(4)	172	(9)	832	(13)
Asset-backed securities (ABS)	348	(33)	363	(24)	711	(57)
Total	1,008	(37)	535	(33)	1,543	(70)

	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

	30 September 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*	**118,655**	**2,891**	**115,764**
Credit to the public examined on a collective basis**	**126,752**	**1,052**	**125,700**
Total credit to the public	**245,407**	**3,943**	**241,464**
Of which customers' liabilities for acceptances	**629**	**7**	**622**

	30 September 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*	123,922	2,714	121,208
Credit to the public examined on a collective basis**	117,249	1,142	116,107
Total credit to the public	241,171	3,856	237,315
Of which customers' liabilities for acceptances	1,134	4	1,130

	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

	30 September 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*	**7,130**	**1,580**	**5,550**
Unimpaired credit to the public, in arrears of 90 days or more**	**6**	**-**	**6**
Unimpaired credit to the public, in arrears of 30 to 89 days **	**88**	**4**	**84**
Other unimpaired credit to the public **	**111,431**	**1,307**	**110,124**
Total unimpaired credit to the public	**111,525**	**1,311**	**110,214**
Total credit to the public examined on an individual basis	**118,655**	**2,891**	**115,764**

	30 September 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 includes:			
Impaired credit to the public*	6,334	1,647	4,687
Unimpaired credit to the public, in arrears of 90 days or more**	2	-	2
Unimpaired credit to the public, in arrears of 30 to 89 days **	423	4	419
Other unimpaired credit to the public **	117,163	1,063	116,100
Total unimpaired credit to the public	117,588	1,067	116,521
Total credit to the public examined on an individual basis	123,922	2,714	121,208

	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 as stated in paragraph 4 below.

** Credit examined on an individual basis and found to be unimpaired. The 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

	30 September 2012 (Unaudited)	30 September 2011 (Unaudited)	31 December 2011 (Audited)
	(NIS millions)		
2. Impaired credit to the public for which there is a credit loss allowance on an individual basis	**3,183**	4,353	4,338
Impaired credit to the public in respect of which there is no allowance for credit losses on an individual basis	**3,947**	1,981	2,440
Total impaired credit	**7,130**	6,334	6,778
3. Impaired credit to the public measured according to present value of cash flows	**4,435**	4,088	4,595
Impaired credit to the public measured according to collateral value (a)	**2,695**	2,246	2,183
Total impaired credit	**7,130**	6,334	6,778

	30 September 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	**1,577**	**76**	**1,501**
Accruing interest income	**165**	**2**	**163**
Total (included in impaired credit to the public)	**1,742**	**78**	**1,664**

	30 September 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	633	67	566
Accruing interest income	143	1	142
Total (included in impaired credit to the public)	776	68	708

	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

	30 September 2012 (Unaudited)	30 September 2011 (Unaudited)
	(NIS millions)	
5.		
Average balance of debt in the books for the reporting period of impaired credit to the public	**6,984**	6,974
Amount of interest income recorded for the reporting period in respect of this credit during the period it was classified as impaired * (a)	**11**	9
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 (a)	**434**	465
* Of which: Interest income that would have been recorded under the cash-basis accounting method (a)	**11**	8

(a) Restated.

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 in accordance with the format of Proper Conduct of Banking Business Directive No. 314:

	30 September 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	**9**	**10**	**12**	**11**	**156**	**189**	**14**	**212**
Of which: Balance of provision for interest (1)	**-**	**-**	**-**	**1**	**75**	**76**	**1**	**77**
Balance of debt in the books	**707**	**196**	**138**	**45**	**162**	**541**	**289**	**1,537**
Balance of allowance for credit losses (2)	**-**	**-**	**17**	**19**	**139**	**175**	**117**	**292**
Net balance of debt	**707**	**196**	**121**	**26**	**23**	**366**	**172**	**1,245**

	30 September 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	7	7	13	11	194	225	15	247
Of which: Balance of provision for interest (1)	-	-	-	1	90	91	1	92
Balance of debt in the books	727	189	137	46	214	586	340	1,653
Balance of allowance for credit losses (2)	-	-	18	22	200	240	147	387
Net balance of debt	727	189	119	24	14	346	193	1,266

	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 (cont'd):

2. Other credit not examined individually for which an allowance for credit losses was calculated on a collective basis:

	30 September 2012 (Unaudited)		
	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	**621**	**48**	**573**
Unimpaired credit to the public, in arrears of 30 to 89 days	**683**	**14**	**669**
Other unimpaired credit to the public	**123,905**	**697**	**123,208**
Total credit to the public not examined on an individual basis	**125,215**	**760**	**124,455**

	30 September 2011 (Unaudited)		
	Balance of debt in the books	Allowance for credit losses	Net balance of debt
	(NIS millions)		
Impaired credit to the public	5	1	4
Unimpaired credit to the public, in arrears of 90 days or more	571	34	537
Unimpaired credit to the public, in arrears of 30 to 89 days	724	12	712
Other unimpaired credit to the public	114,296	708	113,588
Total credit to the public not examined on an individual basis	115,596	755	114,841

	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	**532**	**(21)**	**339**	**850**
Accounting write-offs	**(785)**	**(36)**	**(429)**	**(1,250)**
Collection of debts written off in the accounts in previous years	**43**	**-**	**263**	**306**
Net accounting write-offs	**(742)**	**(36)**	**(166)**	**(944)**
Reserve for translation differences	**3**	**-**	**4**	**7**
Balance of allowance for credit losses as at 30 September 2012 (Unaudited)	**1,687**	**292**	**2,410**	**4,389**

	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	(5,835)	-	(5)	(5,840)
Other changes in the allowance for credit losses as at 1.1.2011 (charged to shareholders' equity)	(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	204	(22)	167	349
Accounting write-offs	(1,921)	(41)	(4)	(1,966)
Collection of debts written off in the accounts in previous years	132	-	-	132
Net accounting write-offs	(1,789)	(41)	(4)	(1,834)
Balance of allowance for credit losses as at 30 September 2011 (Unaudited)	1,794	387	2,109	4,290
Composition of balance of the allowance as at 30 September 2012				
In respect of credit to the public	**1,580**	**292**	**2,071**	**3,943**
In respect of debts not being credit to the public	**4**	**-**	**4**	**8**
In respect of off balance-sheet credit instruments (b)	**103**	**-**	**335**	**438**
Balance of allowance for credit losses as at 30 September 2012 (Unaudited)	**1,687**	**292**	**2,410**	**4,389**
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 allowance as at 30 September 2011				
In respect of credit to the public	1,647	387	1,822	3,856
In respect of debts not being credit to the public	3	-	2	5
In respect of off balance-sheet credit instruments (b)	144	-	285	429
Balance of allowance for credit losses as at 30 September 2011 (Unaudited)	1,794	387	2,109	4,290

(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

D. Allowance for credit losses in respect of debts and in respect of off-balance sheet credit instruments (cont'd)

	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 30 June 2012 (Unaudited)	**1,623**	**308**	**2,386**	**4,317**
Expenses (income) in respect of credit losses	**211**	**(1)**	**82**	**292**
Accounting write-offs	**(163)**	**(15)**	**(141)**	**(319)**
Collection of debts written off in the accounts in previous years	**16**	**-**	**83**	**99**
Net accounting write-offs	**(147)**	**(15)**	**(58)**	**(220)**
Reserve for translation differences	**-**	**-**	**-**	**-**
Balance of allowance for credit losses as at 30 September 2012 (Unaudited)	**1,687**	**292**	**2,410**	**4,389**
Balance of allowance for credit losses as at 30 June 2011 (Unaudited)	2,328	399	1,973	4,700
Expenses (income) in respect of credit losses	241	(1)	138	378
Accounting write-offs	(817)	(11)	(2)	(830)
Collection of debts written off in the accounts in previous years	42	-	-	42
Net accounting write-offs	(775)	(11)	(2)	(788)
Balance of allowance for credit losses as at 30 September 2011 (Unaudited)	1,794	387	2,109	4,290

(a) Including an allowance on a collective basis in respect of debts examined on an individual basis and found to be unimpaired.

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 30 September 2012 (Unaudited)

	Housing loans	Impaired housing loans or in arrears of more than 90 days (a)		Balance of allowance for credit losses			
					Other		
	Recorded balance of debt (e) (f)	Amount in arrears (c)	Recorded balance of debt	By extent of arrears (d)	On collective basis	On individual basis	Total
	(NIS millions)						
Housing loans that require calculating the allowance for credit losses according to extent of arrears (b)	**62,195**	**208**	**854**	**456**	**4**	**9**	**469**
Other housing loans	**1,327**	**17**	**35**	**-**	**5**	**14**	**19**
Total	**63,522**	**225**	**889**	**456**	**9**	**23**	**488**

As at 30 September 2011 (Unaudited)

	Housing loans	Impaired housing loans or in arrears of more than 90 days (a)		Balance of allowance for credit losses			
					Other		
	Recorded balance of debt (e) (f)	Amount in arrears (c)	Recorded balance of debt	By extent of arrears (d)	On collective basis	On individual basis	Total
	(NIS millions)						
Housing loans that require calculating the allowance for credit losses according to extent of arrears (b)	56,630	245	951	538	4	9	551
Other housing loans	1,362	14	50	-	2	13	15
Total	57,992	259	1,001	538	6	22	566

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		
	Recorded balance of debt (e) (f)	Amount in arrears (c)	Recorded balance of debt	By extent of arrears (d)	On collective 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 8,297 million (30 September 2011 – NIS 7,593 million and 31 December 2011 – NIS 7,744 million).
(c) Including interest on the amount in arrears.
(d) Including the balance of the allowance in excess of the amount according to extent of arrears in the amount of NIS 213 million (30 September 2011 – NIS 259 million and 31 December 2011 – NIS 222 million).
(e) Of which: housing loans at variable rates of interest in the amount of NIS 47,618 million (30 September 2011 – NIS 42,462 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 899 million (30 September 2011 – NIS 836 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

	30 September 2012	30 September 2011	31 December 2011
	(Unaudited)	(Unaudited)	(Audited)
	(NIS millions)		
A. Data			
Capital for purposes of calculating capital ratio			
Tier 1 capital, after deductions	**24,689**	22,840	23,225
Tier 2 capital, after deductions	**18,437**	16,961	18,020
Total capital	**43,126**	39,801	41,245
Weighted balance of risk assets			
Credit risk	**256,663**	259,625	258,601
Market risk	**9,310**	9,184	9,011
Operational risk (b)	**21,095**	20,749	20,095
Total weighted balance of risk assets	**287,068**	289,558	287,707
Ratio of capital to risk assets (%)			
Ratio of Tier 1 capital to risk assets	**8.60%**	7.89%	8.07%
Ratio of total capital to risk assets	**15.02%**	13.75%	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	**8.43%**	8.58%	8.58%
Ratio of total capital to risk assets	**12.05%**	12.89%	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	**12.45%**	10.61%	11.30%
Ratio of total capital to risk assets	**16.43%**	15.01%	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	**15.50%**	14.40%	14.80%
Ratio of total capital to risk assets	**15.50%**	14.40%	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	**11.33%**	10.29%	10.49%
Ratio of total capital to risk assets	**14.26%**	13.04%	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) As of December 2011, the allocation of First Pillar capital in respect of operational risk is in accordance with the Basel II standardized approach. 30 September 2011 was in accordance with the basic indicator approach.

Note 5 - Assets and Liabilities Classified by Linkage Basis
as at 30 September 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	33,281	277	9,495	1,302	3,954	31	48,340
Securities	29,133	4,797	14,492	3,752	1,873	2,136	56,183
Securities borrowed or purchased under agreements to resell	1,946	-	-	-	-	-	1,946
Credit to the public, net	133,098	55,991	35,268	6,766	10,323	18	241,464
Credit to governments	6	268	114	30	-	-	418
Investments in companies included on equity basis	2	-	-	-	-	2,301	2,303
Buildings and equipment	-	-	-	-	-	3,751	3,751
Assets in respect of derivative instruments	5,248	184	3,963	401	292	406	10,494
Other assets (c)	2,925	3	916	15	88	684	4,631
Total assets	205,639	61,520	64,248	12,266	16,530	9,327	369,530
Liabilities							
Deposits of the public	144,919	29,280	80,566	18,826	11,567	71	285,229
Deposits from banks	1,334	176	979	178	196	-	2,863
Deposits from governments	37	130	278	11	-	-	456
Securities lent or sold under agreements to repurchase	1,189	-	59	-	-	-	1,248
Debentures, bonds and subordinated notes	6,245	21,496	437	-	11	-	28,189
Liabilities in respect of derivative instruments	5,178	676	4,164	541	319	381	11,259
Other liabilities	8,201	5,400	605	32	180	549	14,967
Total liabilities	167,103	57,158	87,088	19,588	12,273	1,001	344,211
Difference	38,536	4,362	(22,840)	(7,322)	4,257	8,326	25,319
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	(20,444)	(5,304)	23,370	7,317	(4,939)	-	-
Options in the money, net (in terms of underlying asset)	1,353	-	(1,589)	79	157	-	-
Options out of the money, net (in terms of underlying asset)	(109)	-	(224)	277	56	-	-
Total	19,336	(942)	(1,283)	351	(469)	8,326	25,319
Effect of non-hedging derivative instruments:							
Options in the money, net (discounted par value)	2,227	-	(2,583)	154	202	-	-
Options out of the money, net (discounted par value)	(2,894)	-	1,909	888	97	-	-

(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 30 September 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 (b)	Total
	(NIS millions)						
Assets							
Cash and deposits with banks	41,148	327	8,782	1,835	2,506	64	54,662
Securities	13,006	6,987	8,166	5,947	1,506	2,744	38,356
Securities borrowed or purchased under agreements to resell	1,252	-	-	-	-	-	1,252
Credit to the public, net	130,071	52,169	38,769	6,731	9,498	77	237,315
Credit to governments	-	264	112	27	-	-	403
Investments in companies included on equity basis	5	-	-	-	-	2,345	2,350
Buildings and equipment	-	-	-	-	-	3,615	3,615
Assets in respect of derivative instruments	3,780	129	6,705	268	512	102	11,496
Other assets (c)	2,217	7	940	29	34	499	3,726
Total assets	191,479	59,883	63,474	14,837	14,056	9,446	353,175
Liabilities							
Deposits of the public	138,909	26,085	73,348	19,412	9,336	159	267,249
Deposits from banks	2,492	221	2,954	246	414	-	6,327
Deposits from governments	33	205	193	12	-	-	443
Securities lent or sold under agreements to repurchase	569	-	209	-	-	-	778
Debentures, bonds and subordinated notes	4,956	22,727	890	-	-	-	28,573
Liabilities in respect of derivative instruments	3,562	1,037	6,880	571	497	89	12,636
Other liabilities	7,572	5,041	616	37	113	676	14,055
Total liabilities	158,093	55,316	85,090	20,278	10,360	924	330,061
Difference	33,386	4,567	(21,616)	(5,441)	3,696	8,522	23,114
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	(10,755)	(6,883)	17,906	4,777	(5,045)	-	-
Options in the money, net (in terms of underlying asset)	(896)	-	133	448	315	-	-
Options out of the money, net (in terms of underlying asset)	(504)	-	535	(46)	15	-	-
Total	21,231	(2,316)	(3,042)	(262)	(1,019)	8,522	23,114
Effect of non-hedging derivative instruments:							
Options in the money, net (discounted par value)	(1,717)	-	759	608	350	-	-
Options out of the money, net (discounted par value)	(401)	-	1,460	(864)	(195)	-	-

(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 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 (b)	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	132,948	52,423	38,825	6,778	10,263	83	241,320
Credit to governments	49	267	106	26	-	-	448
Investments in companies included on equity basis	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 (c)	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 lent 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) 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

	30 September 2012		30 September 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)		(Unaudite		(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	**2,194**	**3**	2,389	7	2,060	5
Credit guarantees	**6,516**	**73**	6,993	58	7,360	82
Guarantees to apartment purchasers	**13,160**	**18**	11,920	21	11,461	24
Other guarantees and liabilities	**16,813**	**207**	15,744	223	15,698	219
Credit card facilities not utilized	**23,469**	**22**	20,579	23	20,519	23
Current loan account facilities and other credit facilities on demand not utilized	**14,380**	**30**	13,730	29	14,037	30
Irrevocable commitments to provide credit which has been approved and not yet granted (a)	**24,613**	**70**	24,759	55	22,979	64
Commitments to issue guarantees	**10,746**	**15**	11,086	13	11,694	17
Unutilized facilities for activity in derivative instruments	**5,661**	**-**	4,341	-	4,386	-
Approval in principle to maintain the rate of interest in Leumi Mortgage Bank	**2,668**	**-**	2,098	-	2,410	-

(a) 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 235 million (30 September 2011 - NIS 223 million, 31 December 2011 - NIS 229 million). The above obligations represent a relatively small part of the obligations of those securitizing entities.

	30 September 2012	30 September 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	**215**	184	216
Second year	**183**	174	178
Third year	**166**	145	157
Fourth year	**144**	131	141
Fifth year	**113**	100	98
After five years	**593**	513	510
Total	**1,414**	1,247	1,300
(2) Commitments to purchase securities	**323**	265	-
(3) Commitments to invest in buildings, equipment and others	**233**	261	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 (a)	17
Second year	**17**	17	17
Third year	**12**	17	17
Fourth year	**3**	12 (a)	12
Fifth year	**-**	6 (a)	3
Sixth year and onwards	**-**	- (a)	-
Total future deposits	**49**	69	66

(a) Reclassified.

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, 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 186 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 thousand to some NIS 1,350 thousand. 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. On 14 May, 2012, the Court accepted the petition of the Bank and dismissed the claim outright. The plaintiffs filed an appeal against the verdict of the District Court.

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 such as themselves 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 have been 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, 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 million (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. On 30 May 2012, the parties filed a petition with the

Court to approve a compromise arrangement. The Court has fixed a date for hearing the petition.

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.

L. 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. Mediation proceedings are taking place between some of the parties.

(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 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.

E. 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.

F. The Bank has become aware that on 7 March 2012, a petition was filed in the Tel-Aviv District Court for approval of a class action against Automatic Bank Services Ltd. ("ABS") and its shareholders: Poalim, Leumi, First International, Israel Discount and Mizrahi (Mizrahi transferred its ownership and remained as a holder of rights), and against Casponet Co. Ltd. and its shareholders Visa-CAL, Tamir Fishman Trust Services, and Verifone. ABS and Casponet are service companies operating an independent network of automatic banking machines for withdrawing cash (ATM). The petition for approval is based on the claim that the plaintiffs charge excessive withdrawal commissions by restricting withdrawal amounts in ATM's not located in a branch of a bank (a limit of NIS 2,000 at an ATM of ABS, and NIS 500 at an ATM of Casponet), so that a customer wanting to withdraw a sum exceeding the maximum for withdrawal is forced to carry out a number of withdrawals, for each of which they have to pay a large commission. With regard to the plaintiff banks, the petitioners claim that they are responsible for all the failings of ABS and Casponet by virtue of their being shareholders and controlling owners of them. The total amount claimed in the class action, in the opinion of the petitioners, is about NIS 2.2 billion. There are no details of the distribution between the defendants. The petition has not been delivered to the Bank.

G. On October 11, 2012, a claim and petition for approval of a class action was filed in the Tel Aviv District Court against Leumi, First International, Mizrahi-Tefahot and Israel Discount Bank. The plaintiffs claim that the bank accounts of the Bank's customers against whom collection proceedings are being conducted, and who made payments directly to files in the Execution Office, were updated at a date later than the date of payment. Due to the delay in updating payments in the bank account, the plaintiffs were charged excessive interest charges. The plaintiffs claim that the entry in the bank account is important for the client, and it should not be made with value two days later. The remedies requested in the claim and petition are: the refund of excess amounts paid by customers, injunctions and declarative orders for updating payments in the accounts, from now on, with value of the date the amounts were actually made to the Execution Office, and the amendment of accounts still under proceedings, in accordance with the correct value dates. According to the plaintiffs, the amount of the class action cannot be estimated at this time.

(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 3.F 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. A hearing was held on the appeal on 19 July 2012, in which it was decided, with the consent of the parties, that Leumi Mortgage and Migdal will pay (in equal shares), in addition to amounts paid by them until now, a further overall amount of NIS 180 thousand as professional fees and special remuneration. Leumi Mortgage has paid its share of the said amounts.

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 (the "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. On 14 May 2012, Leumi Card filed a petition with the Court for the outright dismissal of the petition to approve the claim as a class action.

F. 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. The parties update the Supreme Court from time to time as to the arbitration arrangement proceedings described below. 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%. The arbitration arrangement was approved by the court, and Leumi Mortgage paid its respective share.

G. 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. Leumi Mortgage Bank has filed its response to the petition with the Court.

(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.

A. 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.

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 30 September 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. On 29 July 2012, the Bank received a letter from the Antitrust Authority according to which the Antitrust Commissioner is considering publishing a supplementary ruling in relation to the transfer of information set forth in the response of the Commissioner to the appeal, but that was deleted from it at the request of the banks, according to which the transfer of information are restrictive trade arrangements. The Bank was given the opportunity to present its position to the Commissioner before the Commissioner makes a decision to publish the said supplementary ruling. At this stage, the implications of the ruling cannot be assessed.

F. The United States authorities (the “U.S. authorities”) are conducting wide-ranging investigations against foreign banks in connection with activities of the banks with customers who are U.S. taxpayers ("U.S. customers"), on suspicion of a breach of U.S. law. In the context of the said investigations, which are also being conducted against the Group, the U.S. authorities have submitted and are continuing to submit various subpoenas for information and documents concerning U.S. Customers and have summoned customers and former employees of banks which are part of the Group, to testify and provide documents in connection with U.S. customers and the banking services given to them by the Group. The Group is cooperating with the U.S. authorities in giving them information and in the procedural steps required, as allowed by law. In addition, the Group is conducting an investigation of the subject by means of outside parties hired by it for this purpose. These outside parties are continuing with their investigation. However, at this stage the investigation has not been concluded. The outcome of the U.S. authorities' investigation may cause a significant expense to the Group due, *inter alia*, to the imposition of a monetary fine on the Group. At this stage, it is not possible to reliably estimate the damage to the Group, due to the complexity of the proceedings and the stage that the investigations are at.

G. During the cumulative period from the end of the reporting year, the Israel Securities Authority conducted an administrative investigation under section 52QQ(A)(2) of the Securities Law, 1968, 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.
A petition was submitted recently to the Administrative Enforcement Committee appointed pursuant to section 52b of the Law, to approve the arrangement (as defined in section 54a of the Law), reached by the Bank, Leumi Finance, and the Israel Securities Authority in this matter. As part of the arrangement and subject to its approval, without any admission of a violation and/or negligence on the part of the Bank and/or Leumi Finance, it is proposed that a monetary sanction be imposed on them of NIS 2 million each.
As of the date of publication of this report, the Committee had not reached a decision.

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

A. Scope of activity

	30 September 2012 (Unaudited)				
	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	-	-	1,554	-	-
Swaps	-	3,095	-	-	-
Total	-	3,095	1,554	-	-
Of which interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	3,032	-	-	-
b) ALM derivatives (1)(2)					
Futures contracts	-	1,899	9	22,550	3,065
Forward contracts	11,385	14,282	121,045	-	611
Exchange-traded options					
Options written	-	490	5,889	12,163	592
Options purchased	-	490	5,889	12,163	592
Other options					
Options written	15	15,280	24,820	1,168	339
Options purchased	-	14,691	24,329	1,231	326
Swaps	876	207,506	23,011	6,261	437
Total	12,276	254,638	204,992	55,536	5,962
Of which interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	103,332	-	-	-
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	-	-	-	-	196
Spot foreign exchange contracts	-	-	14,279	-	-
Total	-	-	14,279	-	196
Overall total	12,276	257,733	220,825	55,536	6,158

(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

A. Scope of activity (cont'd)

	30 September 2012 (Unaudited)				
	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	-	2	3	-	-
Gross negative fair value	1	240	28	-	-
b) ALM derivatives (1)(2)					
Gross positive fair value	93	7,284	2,467	533	107
Gross negative fair value	374	7,085	2,920	541	104
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	-	-	-	-	5
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

A. Scope of activity (cont'd)

	30 September 2011 (Unaudited)				
	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	-	-	9	-	-
Swaps	-	3,244	-	-	-
Total	-	3,244	9	-	-
Of which interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	3,088	-	-	-
b) ALM derivatives (1)(2)					
Futures contracts	-	1,415 (a)	-	13,491 (a)	1,245
Forward contracts	11,763	17,563	158,936	-	1,124
Exchange-traded options					
Options written	-	-	5,921	10,595	18
Options purchased	-	-	5,993	10,595	19
Other options					
Options written	15	32,483	34,682	1,206	755
Options purchased	-	29,358	31,346	1,411	733
Swaps	966	174,663	21,016	5,410	949
Total	12,744	255,482	257,894	42,708	4,843
Of which interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	86,097	-	-	-
c) Other derivatives (1)					
Swaps	-	-	-	-	-
Total	-	-	-	-	-
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	-	-	10,857	-	-
Total	-	-	10,857	-	-
Overall total	12,744	258,726	268,760	42,708	4,843

(a) Restated.

(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

A. Scope of activity (cont'd)

	30 September 2011 (Unaudited)				
	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	-	10	-	-	-
Gross negative fair value	-	172	-	-	-
b) ALM derivatives (1)(2)					
Gross positive fair value	114	6,079	4,977	236	80
Gross negative fair value	360	6,172	5,661	238	76
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

A. Scope of activity (cont'd)

	31 December 2011 (Audited)				
	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	-	1,354 (a)	-	18,139 (a)	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	234,447	232,388	46,915	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 foreign exchange 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	237,688	244,878	46,915	4,842

(a) Reclassified.

(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

A. Scope of activity (cont'd)

	31 December 2011 (Audited)				
	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

	30 September 2012 (Unaudited)					
	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	(NIS millions)					
Balance sheet balances of assets derived from derivative instruments (1) (2)	**156**	**7,357**	**621**	**-**	**2,360**	**10,494**
Off-balance sheet credit risk in respect of derivative instruments (3) (4)	**-**	**669**	**5**	**80**	**4,578**	**5,332**
Total credit risk in respect of derivative instruments	**156**	**8,026**	**626**	**80**	**6,938**	**15,826**

	30 September 2011 (Unaudited)					
	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	(NIS millions)					
Balance sheet balances of assets derived from derivative instruments (1) (2)	214	6,770	415	1	4,096	11,496
Off-balance sheet credit risk in respect of derivative instruments (3)	1,429	27,372	3,186	98	13,141	45,226
Total credit risk in respect of derivative instruments	1,643	34,142	3,601	99	17,237	56,722

	31 December 2011 (Audited)					
	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	(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) (4)	-	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) Offsetting is not carried out in accordance with net accounting arrangements.
(2) Of which, balance sheet balance from stand-alone derivative instruments - NIS 10,494 million (30 September 2011 – NIS 11,496 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.
(4) Including offsetting in accordance with net accounting arrangements.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)

Reported Amounts

C. Repayment Dates – Nominal Amounts

	30 September 2012 (Unaudited)				
	Up to three months	From three months to one year	From one year to five years	Over five years	Total
	(NIS millions)				
Interest contracts:					
Shekel – index	**1,188**	**4,862**	**4,756**	**1,470**	**12,276**
Other	**10,276**	**56,451**	**107,345**	**83,661**	**257,733**
Foreign currency contracts	**138,045**	**61,364**	**7,139**	**14,277**	**220,825**
Contracts in respect of shares	**47,059**	**6,926**	**1,551**	**-**	**55,536**
Commodities and other contracts	**5,342**	**479**	**337**	**-**	**6,158**
Total	**201,910**	**130,082**	**121,128**	**99,408**	**552,528**
Total September 2011 (Unaudited)	209,523	160,024	98,827	119,407	587,781
Total December 2011 (Audited)	218,061	133,673	98,453	96,663	546,850

Note 8 – Balances and Fair Value Assessments of Financial Instruments

Reported amounts

	30 September 2012 (Unaudited)				
	Book value	Fair value			
		Level 1 (1)	Level 2 (1)	Level 3 (1)	Total
	(NIS millions)				
Financial assets					
Cash and deposits with banks	48,340	5,538	40,765	2,025	48,328
Securities	56,183	40,689	12,735	2,759	56,183
Securities borrowed or purchased under agreements to resell	1,946	-	1,946	-	1,946
Credit to the public, net	241,464	2,447	53,623	187,056	243,126
Credit to governments	418	-	6	448	454
Assets in respect of derivative instruments	10,494	555	8,574	1,365	10,494
Other financial assets	982	211	-	771	982
Total financial assets	359,827 (2)	49,440	117,649	194,424	361,513
Financial liabilities					
Deposits of the public	285,229	2,538	96,495	187,957	286,990
Deposits from banks	2,863	-	2,243	542	2,785
Deposits from governments	456	-	65	427	492
Securities lent or sold under agreements to repurchase	1,248	-	1,248	-	1,248
Debentures, notes and subordinated notes	28,189	21,504	5,346	3,763	30,613
Liabilities in respect of derivative instruments	11,259	555	10,193	511	11,259
Other financial liabilities	7,462	207	-	7,232	7,439
Total financial liabilitiies	336,706 (2)	24,804	115,590	200,432	340,826
Off-balance sheet financial instruments					
Transactions whose balance represents credit risk	259	-	-	259	259

(1) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significant observable data.
Level 3 - fair value measurements using significant unobservable significant data.
For further details on the book value and fair value of securities, see the note on securities.

(2) Of which: Assets and liabilities in the amounts of NIS 107 million and NIS 85 million, respectively, whose book value is the same as the fair value (instruments shown in the balance sheet at fair value) or is an approximation of fair value (instruments for an original term of up to 3 months for which the book value is used as an approximation of fair value). For further details of instruments measured for fair value on a recurring basis and on a non-recurring basis, see notes 8A and 8C.

Note 8 – Balances and Fair Value Assessments of Financial Instruments (cont'd)

Reported amounts

	30 September 2011 (Unaudited)			
	Value in Balance Sheet			
	(a)	(b)	Total	Fair value
	(NIS millions)			
Financial assets				
Cash and deposits with banks	18,001	36,661	54,662	54,624
Securities	38,356	-	38,356	38,356
Securities borrowed or purchased under agreements to resell	1,252	-	1,252	1,252
Credit to the public, net	25,610	211,705	237,315	237,438
Credit to governments	-	403	403	422
Assets in respect of derivative instruments	11,496	-	11,496	11,496
Other financial assets	942	3	945	945
Total financial assets	95,657	248,772	344,429	344,533
Financial liabilities				
Deposits of the public	63,662	203,587	267,249	268,601
Deposits from banks	3,630	2,697	6,327	6,272
Deposits from governments	37	406	443	477
Securities lent or sold under agreements to repurchase	569	209	778	782
Debentures, notes and subordinated notes	-	28,573	28,573	29,937
Liabilities in respect of derivative instruments	12,636	-	12,636	12,636
Other financial liabilities	1,320	5,763	7,083	7,053
Total financial liabilitiies	81,854	241,235	323,089	325,758
Off-balance sheet financial instruments				
Transactions whose balance represents credit risk	287	-	287	287

(a) Financial instruments are shown in the balance sheet at fair value or an approximation of fair value.
(b) Other financial instruments for which fair value was calculated for disclosure purposes in this Note.

Instruments embodying options not separated from the host contract are not shown on a separate line but are included with the other monetary assets.

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 agreements to resell	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 agreements to repurchase	385	57	442	442
Debentures, 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) Financial instruments are shown in the balance sheet at fair value or an approximation of fair value.
(b) Other financial instruments for which fair value was calculated for disclosure purposes in this Note.

Instruments embodying options not separated from the host contract are not shown on a separate line but are included with the other monetary assets.

Note 8A – Items Measured for Fair Value on a Recurring Basis
Reported amounts

	30 September 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	23,339	2,106	-	25,445
Foreign government bonds	4,565	187	11	4,763
Bonds of Israeli financial institutions	267	64	-	331
Bonds of overseas financial institutions	658	4,861	125	5,644
MBS/ABS	135	2,825	1,405	4,365
Others in Israel	447	401	-	848
Others abroad	559	673	76	1,308
Shares available for sale	831	-	-	831
Total securities available for sale	30,801	11,117	1,617	43,535
Securities held for trading:				
Bonds held for trading	9,738	1,605	-	11,343
Shares and mutual funds held for trading	150	13	-	163
Total securities held for trading	9,888	1,618	-	11,506
Assets in respect of derivative instruments:				
Interest contracts	192	6,455	732	7,379
Foreign currency contracts	3	1,775	608	2,386
Share contracts	67	233	24	324
Commodity and other contracts	-	111	1	112
Activity in Maof market	293	-	-	293
Total assets in respect of derivative instruments:	555	8,574	1,365	10,494
Other	2,653	5	-	2,658
Total assets	43,897	21,314	2,982	68,193
Liabilities:				
Liabilities in respect of derivative instruments:				
Interest contracts	193	7,288	213	7,694
Foreign currency contracts	2	2,536	298	2,836
Share contracts	67	265	-	332
Commodity and other contracts	-	104	-	104
Activity in Maof market	293	-	-	293
Total liabilities in respect of derivative instruments:	555	10,193	511	11,259
Other	2,745	210	-	2,955
Total liabilities	3,300	10,403	511	14,214

Note 8A – Items Measured for Fair Value on a Recurring Basis (cont'd)

Reported amounts

	30 September 2011 (Unaudited) (a)			
	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	10,539	1,869	-	12,408
Foreign government bonds	399	210	10	619
Bonds of Israeli financial institutions	338	65	-	403
Bonds of overseas financial institutions	964	7,490	118	8,572
MBS/ABS	243	1,459	712	2,414
Others in Israel	204	439	-	643
Others abroad	551	505	75	1,131
Shares available for sale	982	-	-	982
Total securities available for sale	14,220	12,037	915	27,172
Securities held for trading:				
Bonds held for trading	8,587	835	-	9,422
Shares and mutual funds held for trading	353	-	-	353
Total securities held for trading	8,940	835	-	9,775
Assets in respect of derivative instruments:				
Interest contracts	134	4,072	1,997	6,203
Foreign currency contracts	4	2,747	1,981	4,732
Share contracts	139	7	-	146
Commodity and other contracts	23	50	7	80
Activity in Maof market	335	-	-	335
Total assets in respect of derivative instruments:	635	6,876	3,985	11,496
Other	2,064	-	-	2,064
Total assets	25,859	19,748	4,900	50,507
Liabilities:				
Liabilities in respect of derivative instruments:				
Interest contracts	131	6,242	331	6,704
Foreign currency contracts	5	4,703	665	5,373
Share contracts	139	9	-	148
Commodity and other contracts	23	53	-	76
Activity in Maof market	335	-	-	335
Total liabilities in respect of derivative instruments:	633	11,007	996	12,636
Other	1,851	215	-	2,066
Total liabilities	2,484	11,222	996	14,702

(a) Reclassified.

Note 8A – Items Measured for Fair Value on a Recurring Basis (cont'd)
Reported amounts

	31 December 2011 (Audited) (a)			
	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	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 and mutual funds held for trading	361	-	-	361
Total securities held for trading	9,133	609	-	9,742
Assets in respect of derivative instruments:				
Interest contracts	94	4,907	1,759	6,760
Foreign currency contracts	-	2,583	1,790	4,373
Share contracts	26	25	14	65
Commodity and other contracts	22	56	2	80
Activity in Maof market	295	-	-	295
Total assets in respect of derivative instruments:	437	7,571	3,565	11,573
Other	1,921	-	-	1,921
Total assets	36,577	19,171	4,497	60,245
Liabilities:				
Liabilities in respect of derivative instruments:				
Interest contracts	95	6,715	298	7,108
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	295	-	-	295
Total liabilities 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 30 September 2012 (Unaudited)							
	Changes in items measured for fair value included in Level 3							
	Fair value at beginning of the period	Total realized and unrealized profits (losses)	Acquisitions	Sales	Extinguish-ments	Transfers to or from Level 3	Fair value at 30 September 2012	Unrealized profits (losses) in respect of instruments held at 30 September 2012
	(NIS millions)							
Assets:								
Bonds available for sale:								
Foreign governments	11	-	-	-	-	-	11	1
Financial institutions overseas	118	7	-	-	-	-	125	12
ABS/MBS	1,320	123	192	(216)	(14)	-	1,405	114
Others overseas	74	2	-	-	-	-	76	5
Total bonds available for sale	1,523	132	192	(216)	(14)	-	1,617	132
Assets in respect of derivative instruments								
Interest contracts	1,237	(299)	-	-	(10)	(196)	732	(125)
Foreign currency contracts	1,499	(423)	89	-	-	(557)	608	225
Share contracts	177	(145)	-	-	-	(8)	24	(41)
Commodities and other contracts	28	(23)	-	-	-	(4)	1	(10)
Total assets in respect of derivative instruments	2,941	(890)	89	-	(10)	(765)	1,365	49
Total assets	4,464	(758)	281	(216)	(24)	(765)	2,982	181
Liabilities:								
Liabilities in respect of derivative instruments								
Interest contracts	180	33	-	-	-	-	213	38
Foreign currency contracts	284	14	-	-	-	-	298	14
Total liabilities in respect of derivative instruments	464	47	-	-	-	-	511	52
Total liabilities	464	47	-	-	-	-	511	52

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 30 September 2011 (Unaudited)							
	Changes in items measured for fair value included in Level 3 (a)							
	Fair value at beginning of the period	Total realized and unrealized profits (losses)	Acquisitions	Sales	Extinguish-ments	Transfers to or from Level 3	Fair value at 30 September 2011	Unrealized profits (losses) in respect of instruments held at 30 September 2011
	(NIS millions)							
Assets:								
Bonds available for sale:								
Foreign governments	11	-	-	(1)	-	-	10	-
Financial institutions overseas	119	(2)	1	-	-	-	118	(1)
ABS/MBS	690	(6)	76	(38)	(10)	-	712	(4)
Others overseas	74	(1)	2	-	-	-	75	1
Others in Israel	26	-	-	-	-	(26)	-	-
Total bonds available for sale	920	(9)	79	(39)	(10)	(26)	915	(4)
Debit balances in respect of derivative financial instruments								
Interest contracts	882	1,141	-	-	(26)	-	1,997	1,192
Foreign currency contracts	1,280	492	209	-	-	-	1,981	1,202
Share contracts	487	(487)	-	-	-	-	-	-
Commodity and other contracts	4	3	-	-	-	-	7	3
Total in respect of derivatives	2,653	1,149	209	-	(26)	-	3,985	2,397
Total assets	3,573	1,140	288	(39)	(36)	(26)	4,900	2,393
Liabilities:								
Liabilities in respect of derivative instruments								
Other interest contracts	321	10	-	-	-	-	331	(6)
Foreign currency contracts	829	(164)	-	-	-	-	665	159
Share contracts	7	(7)	-	-	-	-	-	-
Commodity and other contracts	5	(5)	-	-	-	-	-	-
Total in respect of derivatives	1,162	(166)	-	-	-	-	996	153
Total liabilities	1,162	(166)	-	-	-	-	996	153

(a) Reclassified

Note 8B – Changes in Items Measured for Fair Value on a Recurring Basis included in Level 3 (cont'd)

Reported amounts

	For nine months ending 30 September 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 30 September 2012	Unrealized profits (losses) in respect of instruments held at 30 September 2012
	(NIS millions)							
Assets:								
Bonds available for sale:								
Foreign governments	10	1	-	-	-	-	11	1
Financial institutions overseas	113	12	-	-	-	-	125	12
ABS/MBS	737	206	728	(218)	(48)	-	1,405	193
Others overseas	72	4	-	-	-	-	76	5
Total bonds available for sale	932	223	728	(218)	(48)	-	1,617	211
Assets in respect of derivative instruments								
Interest contracts	1,760	(789)	-	-	(43)	(196)	732	(296)
Foreign currency contracts	1,789	(792)	168	-	-	(557)	608	360
Share contracts	14	18	-	-	-	(8)	24	24
Commodities and other contracts	2	3	-	-	-	(4)	1	1
Total assets in respect of derivative instruments	3,565	(1,560)	168	-	(43)	(765)	1,365	89
Total assets	4,497	(1,337)	896	(218)	(91)	(765)	2,982	300
Liabilities:								
Liabilities in respect of derivative instruments								
Interest contracts	298	(85)	-	-	-	-	213	(67)
Foreign currency contracts	361	(63)	-	-	-	-	298	(63)
Total liabilities in respect of derivative instruments	659	(148)	-	-	-	-	511	(130)
Total liabilities	659	(148)	-	-	-	-	511	(130)

Note 8B – Changes in Items Measured for Fair Value on a Recurring Basis included in Level 3 (cont'd)

Reported amounts

	For nine months ending 30 September 2011 (Unaudited)							
	Changes in items measured for fair value included in Level 3 (a)							
	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 30 September 2011	Unrealized profits (losses) in respect of instruments held at 30 September 2011
	(NIS millions)							
Assets:								
Bonds available for sale:								
Foreign governments	18	-	-	(8)	-	-	10	-
Financial institutions overseas	112	6	-	-	-	-	118	6
ABS/MBS	856	30	332	(496)	(10)	-	712	(1)
Others overseas	70	5	-	-	-	-	75	3
Others in Israel	21	5	-	-	-	(26)	-	6
Total bonds available for sale	1,077	46	332	(504)	(10)	(26)	915	14
Debit balances in respect of derivative financial instruments								
Interest contracts	778	1,289	-	-	(70)	-	1,997	1,353
Foreign currency contracts	1,085	516	378	-	-	2	1,981	1,190
Share contracts	518	(518)	-	-	-	-	-	-
Commodity and other contracts	10	(3)	-	-	-	-	7	2
Total in respect of derivatives	2,391	1,284	378	-	(70)	2	3,985	2,545
Total assets	3,468	1,330	710	(504)	(80)	(24)	4,900	2,559
Liabilities:								
Liabilities in respect of derivative instruments								
Interest contracts	310	21	-	-	-	-	331	26
Foreign currency contracts	762	(97)	-	-	-	-	665	(131)
Commodity and other contracts	1	(1)	-	-	-	-	-	-
Total in respect of derivatives	1,073	(77)	-	-	-	-	996	(105)
Total liabilities	1,073	(77)	-	-	-	-	996	(105)

(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 (Audited)							
	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)
Financial institutions overseas	112	1	-	-	-	-	113	1
ABS/MBS	856	30	376	(492)	(33)	-	737	8
Others overseas	70	2	-	-	-	-	72	1
Others in Israel	21	6	-	-	-	(27)	-	-
Total bonds available for sale	1,077	39	376	(500)	(33)	(27)	932	1
Assets in respect of derivative instruments								
Interest contracts	778	1,025	-	-	(47)	4	1,760	1,095
Foreign currency contracts	1,085	341	363	-	-	-	1,789	1,053
Share contracts	518	(504)	-	-	-	-	14	14
Commodity and other contracts	10	(8)	-	-	-	-	2	(3)
Total assets in respect of derivative instruments	2,391	854	363	-	(47)	4	3,565	2,159
Total assets	3,468	893	739	(500)	(80)	(23)	4,497	2,160
Liabilities:								
Liabilities in respect of derivative instruments								
Interest contracts	310	(13)	-	-	-	1	298	(37)
Foreign currency contracts	762	(401)	-	-	-	-	361	86
Commodity and other contracts	1	(1)	-	-	-	-	-	-
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 – 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 (in NIS millions)

	Fair value	Assessment technique	Unobservable inputs	Range	Average
Assets					
Securities available for sale (1)					
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	1,405	Discounting cash flows	Margin	85-652 bp	218 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 (2)					
Interest contracts	63	Discounting cash flows	Inflation forecasts	0.66%-2.45%	1.55%
Interest contracts	669	Discounting cash flows	Transaction counterparty risk	0.36%-4.07%	2.22%
Foreign currency contracts	84	Discounting cash flows	Inflation forecasts	0.66%-2.45%	1.55%
Foreign currency contracts	524	Discounting cash flows	Transaction counterparty risk	0.36%-4.07%	2.22%
Share contracts	24	Discounting cash flows	Transaction counterparty risk	0.36%-4.07%	2.22%
Commodities and other contracts	1	Discounting cash flows	Transaction counterparty risk	0.36%-4.07%	2.22%
Liabilities					
Liabilities in respect of derivative instruments (2)					
Interest contracts	213	Discounting cash flows	Inflation forecasts	0.66%-2.45%	1.55%
Foreign currency contracts	298	Discounting cash flows	Inflation forecasts	0.66%-2.45%	1.55%

B. Qualitative information regarding Level 3 fair value measurement

1. 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.
   Any significant increase/decrease in unobservable parameters will be reflected in a significantly lower/higher fair value.

2. The unobservable input used for the fair value measurement of derivatives is the forecast rate of inflation. Any change in the forecast rate of inflation will affect the fair value of transactions in accordance with the indexation position of the Bank for these transactions. The more the inflation forecast increases (decreases), and the Bank is committed to pay the amount linked to the index, the fair value of the transactions will decrease (increase). The more the inflation forecast increases (decreases), and the counterparty to the transaction is committed to pay the Bank the amount linked to the index, the fair value of the transactions will increase (decrease).

Note 9 – Interest income and expense

Reported amounts

	For the three months ended 30 September		For the nine months ended 30 September	
	2012	2011(a)	**2012**	2011(a)
	(Unaudited)		(Unaudited)	
	(NIS millions)		(NIS millions)	
A. Interest income (b)				
From credit to the public	**3,126**	3,251	**9,261**	9,411
From credit to governments	**7**	5	**19**	18
From deposits with Bank of Israel and cash	**96**	227	**377**	467
From deposits with banks	**32**	26	**77**	73
From securities borrowed or purchased under agreement to resell	**13**	10	**35**	36
From debentures (c)	**341**	282	**1,024**	948
Total interest income	**3,615**	3,801	**10,793**	10,953
B. Interest expense (b)				
On deposits of the public	**(1,218)**	(1,476)	**(3,694)**	(3,901)
On deposits from governments	**(4)**	(4)	**(12)**	(19)
On deposits from banks	**(20)**	(25)	**(54)**	(59)
On securities lent or sold under agreement to repurchase	**(9)**	(7)	**(23)**	(24)
On debentures, bonds and subordinated notes	**(492)**	(448)	**(1,386)**	(1,522)
Total interest expense	**(1,743)**	(1,960)	**(5,169)**	(5,525)
Total interest income, net	**1,872**	1,841	**5,624**	5,428
C. Details of the net effect of derivative instruments hedging interest income and expenses				
Interest income	**-**	(4)	**(1)**	(8)
Interest expense	**(4)**	(2)	**(3)**	2
D. Details of accumulated interest income from bonds				
Available for sale	**273**	209	**786**	764
For trading	**68**	73	**238**	184
Total included in interest income	**341**	282	**1,024**	948

(a) Reclassified pursuant to initial 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 NIS 50 million and NIS 63 million for the nine month period ended 30 September 2012 and 30 September 2011 respectively, and NIS 13 million and NIS 1 million for the three month period ended 30 September 2012 and 30 September 2011 respectively.

Note 10 – Non-interest income

Reported amounts

	For the three months ended 30 September		For the nine months ended 30 September	
	2012	2011 (a)	**2012**	2011 (a)
	(Unaudited)		(Unaudited)	
	(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 (b)	**1**	4	**1**	4
Net income (expense) from ALM derivative instruments (c)	**(60)**	1,202	**396**	456
Total from activity in derivative instruments	**(59)**	1,206	**397**	460
A.2. From investment in bonds				
Profits from sale of bonds available for sale	**137**	63	**284**	221
Losses from sale of bonds available for sale	**-**	(8)	**(21)**	(24)
Total from investment in bonds	**137**	55	**263**	197
A.3. Exchange rate differentials, net	**(32)**	(1,715)	**(529)**	(965)
A.4. Profits (losses) from investment in shares				
Profits from sale of shares available for sale	**10**	39	**64**	69
Losses from sale of shares available for sale (d)	**(1)**	(254)	**(163)**	(276)
Profit from sale of shares in companies included on equity basis	**-**	-	**24**	-
Dividend from shares available for sale	**16**	8	**50**	64
Total from investment in shares	**25**	(207)	**(25)**	(143)
Total non-interest financing income in respect of activities for purposes other than trading	**71**	(661)	**106**	(451)
B. Non-interest financing income in respect of activities for trading purposes				
Income (expense) net in respect of other derivative instruments	**(7)**	6	**(20)**	13
Realized and unrealized profits from fair value adjustments of bonds held for trading, net	**48**	187	**148**	136
adjustments of shares held for trading, net	**7**	132	**3**	133
Dividends received from shares held for trading	**-**	-	**2**	3
Total from trading activities	**48**	325	**133**	285

(a) Reclassified pursuant to initial implementation of the directives of the Supervisor of Banks on the format of the statement of profit and 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 160 million, and NIS 242 million for the nine month period ended 30 September 2012 and 30 September 2011 respectively, and NIS 0 million and NIS 240 million for the three month period ended 30 September 2012 and 30 September 2011 respectively.

Note 11 - Operating Segments

Reported amounts

	For the three months ending 30 September 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	538	280	712	412	(42)	(28)	-	1,872
Non-interest income - from outside entities	427	137	183	151	129	145	36	1,208
Intersegmental income	228	(60)	(370)	(77)	129	188	(38)	-
Total income	1,193	357	525	486	216	305	(2)	3,080
Expenses (income) in respect of credit losses	40	(5)	248	3	(1)	7	-	292
Net profit (loss) attributable to shareholders of the banking corporation	107	99	75	142	(13)	28	41	479

	For the three months ending 30 September 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	414	278	713	402	(16)	46	4	1,841
Non-interest income - from outside entities	533	134	179	156	112	(411)	(28)	675
Intersegmental income	217	(59)	(377)	(81)	121	163	16	-
Total income	1,164	353	515	477	217	(202)	(8)	2,516
Expenses in respect of credit losses	33	22	189	58	1	75	-	378
Net profit (loss) attributable to shareholders of the banking corporation	144	87	120	105	32	(307)	(26)	155

(a) Reclassified pursuant to initial implementation of the directives of the Supervisor of Banks on the format of the statement of profit and loss of a banking corporation – see Note 1.C.1.

Note 11 - Operating Segments (cont'd)

Reported amounts

	For the nine months ending 30 September 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	1,481	830	2,156	1,230	(105)	31	1	5,624
Non-interest income - from outside entities	1,271	411	530	448	442	304	(26)	3,380
Intersegmental income	753	(179)	(1,094)	(220)	376	358	6	-
Total income	3,505	1,062	1,592	1,458	713	693	(19)	9,004
Expenses (income) in respect of credit losses	39	49	675	86	-	1	-	850
Net profit (loss) attributable to shareholders of the banking corporation	369	249	288	382	13	(112)	1	1,190

	For the nine months ending 30 September 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	1,264	833	2,162	1,201	(61)	24	5	5,428
Non-interest income - from outside entities	1,370	408	581	454	356	(222)	25	2,972
Intersegmental income	754	(197)	(1,156)	(247)	365	514	(33)	-
Total income	3,388	1,044	1,587	1,408	660	316	(3)	8,400
Expenses (income) in respect of credit losses	28	26	148	98	(25)	74	-	349
Net profit (loss) attributable to shareholders of the banking corporation	339	271	642	339	137	(390)	(65)	1,273

(a) Reclassified pursuant to initial implementation of the directives of the Supervisor of Banks on the format of the statement of profit and loss of a banking corporation – see Note 1.C.1.

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
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) Reclassified pursuant to initial implementation of the directives of the Supervisor of Banks on the format of the statement of profit and loss of a banking corporation – see Note 1.C.1.

Note 12 – Miscellaneous Matters

A. On 1 August 2012, the General Meeting approved an increase in the authorized capital of the Bank to NIS 3,215,000,000 by creating 1 billion ordinary shares of NIS 1 par value, which are to be converted into stock after their issue and payment in full. In addition, it approved an amendment to the resolution passed by the General Meeting on 7 October 2008, so that the 500,000,000 ordinary shares of NIS 1 par value created under the resolution of the General Meeting of 7 October 2008 will serve not only for the purpose of the issue of hybrid subordinated capital notes.

B. On 21 August 2012, the Supervisor of Banks published a draft amendment to the General Banking License (Service to the Customer) (Commissions), 2008 (the "draft rules"), which reflect the major recommendations of the Interim Report of the Team to Examine How to Increase Competitiveness in the Banking System in Israel in the area of commissions, and which provides *inter alia*: canceling fees for data cards and cash withdrawal cards; canceling account management fees for small businesses; increasing the exemption from fees for handling credit and collateral from a ceiling of NIS 50,000 to a ceiling of NIS 100,000; canceling account management fees in respect of T-bills and money market funds; differential pricing for securities activity in differing channels; a maximum commission for purchase and sale of securities; canceling the minimum commission for managing a securities deposit; expanding supervision of commission for transferring a customer securities deposit also outside the banking system; fixing a reduced rate of commission for issuing a bank guarantee secured by a monetary deposit, and so on.

Insofar as the recommendations included in the report and published in the draft rules are formulated in legislation and in regulatory directives, this will result in a decrease in the Bank's income from commissions, and an increase in the Bank's expenses for purposes of developing and adapting the computer systems to the new requirements. In addition, there may be indirect implications, which cannot be evaluated at this stage.

C. On 2 August 2012, a Value Added Tax Order was published, which updates the rate of Value Added Tax in respect of transactions and the import of goods to 17% as of 1 September 2012.

On 30 August 2012, a Value Added Tax Order was published, updating the rate of profit tax and payroll tax for financial institutions to 17%, with effect from 1 September 2012.

The rate of payroll tax applicable to financial institutions will increase to 17% with respect to salary payable for work in September 2012 and thereafter, instead of 16% for 2012 and 15.5% for 2013 and thereafter.
As a result of the abovementioned change, the statutory tax rate applicable to banking corporations will rise in 2012 from 35.34% to 35.53% and for 2013 and thereafter it will rise to 35.9%.

The effect of the above change resulted in an increase in deferred taxes receivable of about NIS 37 million for 2012.
The effect of the change on the balance of liabilities to employees is NIS 75 million before taxes, and NIS 48 million after taxes. The annual effect on the Bank's salary and other operating expenses is some NIS 41 million before taxes and NIS 26 million after taxes.

D. On 13 August 2012, the Deficit Reduction and Change in Tax Burden Law (Amendments to Legislation), 2012 (hereinafter: "the Law") was published. Pursuant to the Law, with effect from January 2013, the rate of National Insurance premiums collected from employers in respect of the part of the salary exceeding 60% of the average salary in the market will increase from 5.9% at present to 6.5%. In addition, this rate will increase in January 2014 and January 2015 to 7% and 7.5%, respectively. The effect on Leumi Group is not material.

E. In July 2012, a draft position paper was published by the Capital Market, Insurance and Savings Department in the Ministry of Finance concerning the update of demographic assumptions in pension funds and life insurance, including a possible update of mortality tables. In accordance with instructions of the Banking Supervision Department on the measurement of liabilities in respect of employee rights, assumptions regarding mortality and disability are to be updated in the statements for the second quarter of 2012, according to the best information available to the banking corporation. For this purpose, use is to be made, *inter alia*, of the draft mortality and disability tables published recently by the Ministry of Finance.

In accordance with the aforesaid, in the financial statements at 30 June, 2012, the Bank updated its evaluation of demographic variables, based on the updated estimates of life expectancy included in the draft position paper. As a consequence, the Bank increased the liability for pensions by some NIS 25 million. The increase in provision was charged to payroll expenses in the statement of profit and loss. It should be pointed out that there may be changes to the aforesaid amounts insofar as there will be changes in the final circular of the Capital Market, Insurance and Savings Department.

F. Merger between the Bank and Leumi Mortgage Bank Ltd. ("Leumi Mortgage Bank")

On 9 September 2012, the Board of Directors of the Bank approved the merger of Leumi Mortgage Bank with the Bank. On 10 September 2012, the Board of Directors of Leumi Mortgage Bank approved the implementation of the said merger. The merger is expected to take place on 31 December 2012 ("the Merger Date").

According to the merger agreement, Leumi Mortgage Bank, which is wholly owned and controlled by the Bank (directly, and indirectly through the Bank Leumi nominee company (*HaChevra LeRishumim*) and the Bank Leumi le-Israel Trust Co. Ltd. ("the Trust Company")), is to merge with the Bank.

Aims of the merger:

The merger serves both the business and economic purpose of enabling the Leumi Group to increase the level of group synergy between retail and mortgage operations, and to expand the potential for increasing the profit of the Leumi Group. The move will allow the Bank to provide retail customers with a value proposition appropriate to all of their needs, inter alia, in view of the improvement in the level of the product offered to customers, with an emphasis on providing a variety of services to the customer, while reducing Group expenses and more effective utilization of the sales floor. The Bank anticipates that the merger of Leumi Mortgage within the Bank is likely to lead, *inter alia*, to savings in operating expenses and costs.

The merger includes a restructuring to be carried out in the following two stages:

- In the first phase, the Trust Company will transfer its holdings in Leumi Mortgage to the Bank, without consideration and in accordance with Section 104C of the Income Tax Ordinance (New Version), 1961 ("the Ordinance").

- In the second stage, a statutory merger will take place between the Bank and Leumi Mortgage, in which Leumi Mortgage Bank will transfer its assets and liabilities to the Bank, in accordance with Section 103b of the Ordinance, by winding up Leumi Mortgage without its liquidation, in accordance with the provisions of Chapter I of Part VIII of the Companies Law, 1999, and subject to the provisions of the Chapter II of Part II of the Ordinance.

Note 12 – Miscellaneous Matters (cont'd)

Pursuant to the merger, all the employees of Leumi Mortgage Bank will become employees of the Bank together with Leumi Mortgage Bank's liabilities in respect of employees transferred in accordance with Section 103P of the Ordinance.

As part of the restructuring no consideration was or will be given, directly or indirectly, in money or in kind, to any of the parties involved.

The ruling of the Israel Tax Authority was as follows:

On 10 September 2012, a ruling was given by the Israel Tax Authority certifying that the details of the merger plan as submitted in the request filed with the Israel Tax Authority, and subject to the conditions specified in the Ordinance and Tax Ruling, meet the conditions set forth in Sections 103C and 104C of the Ordinance. The main points of the Tax Ruling are as follows:

1. Regarding the transfer of shares of Leumi Mortgage from the Trust Company to the Bank -

1.1 The transfer of the shares to the Bank will not be taxable at the time of restructuring, in accordance with the provisions of Section 104C of the Ordinance, and subject to the submission of forms and documents required under Section 104G of the Ordinance within 30 days of the date of the Tax Ruling and subject to compliance with all the conditions of Part II of the Ordinance, and the conditions set forth in the Tax Ruling. The forms required under Section 104G have been submitted as required.

1.2 The date of transfer of the shares will be on 31 December 2012.

1.3 The transfer of shares shall be without consideration. If it becomes apparent that any consideration was given, directly or indirectly, for the transfer of the shares, including by way of debit and credit between the companies, the Tax Ruling shall be rescinded retroactively.

1.4 For the first sale that is not under tax exemption of the shares belonging to the Trust Company that were in existence at the time of transfer of the shares, the original price of the shares belonging to the Trust Company will be zero, and the date of acquisition is the date of transfer of the shares.

1.5 In respect of the transfer of shares, no loss shall be claimed by the Bank and/or any related party.

2. With regard to the merger –

2.1 The date of the merger will be 31 December 2012.

2.2 No new rights in the Bank will be allocated in respect of the merger to its shareholders and/or the nominee company of the Bank. Accordingly, on sale of shares of the Bank, there will be no addition to the original price of the said shares for the cost of investment in shares of Leumi Mortgage Bank (including for the holding of 0.84% by the Trust Company). The cost of investment will be canceled and not allowed for tax purposes in any way, directly or indirectly. Additionally, the assets transferred to the Bank as part of the merger will be subject to the provisions of Section 103E of the Ordinance, and no additional amount will be attributed to them above their original price.

Note 12 – Miscellaneous Matters (cont'd)

2.3 No expense and/or loss will be allowed for tax purposes for the Bank and/or any related party due to the merger.

2.4 Any expense or deduction accrued by Leumi Mortgage Bank up to the date of the merger and not allowed for tax purposes by that date ("the expenses"), but would have been as a deduction if a loss had been created at the merger date, will be considered as part of the losses of Leumi Mortgage and/or Bank, as applicable, up to the date of the merger, and shall be subject to the provisions of Section 103h of the Ordinance, if allowed as a deduction for tax purposes within two years from the date of the merger.

For this purpose, an "expense or deduction accrued" is to include any provisions and/or liabilities not allowed as a deduction for tax purposes, which if they had been deductible for tax purposes at the time of the merger, would have created a loss, except for impaired debts as stipulated in the Agreement of Principles for Impaired Debts dated February 14, 2012.

It has been clarified that this clause does not derogate from the provisions of Section103h of the Ordinance. The abovementioned is only in respect of the allocation of losses and how they are offset, and in no way does it determine if the expense, deduction or set-off is allowed for tax purposes, issues that may be examined by the Assessing Officer.

2.5 If it becomes apparent that any of the conditions specified in Section 103C of the Ordinance did not take place on time, the Bank and Leumi Mortgage will be charged taxes and mandatory payments from which they were granted exemption, plus linkage differences and interest from the date of the merger until the date of payment, in accordance with the provisions of Section 103j of the Ordinance. In such case, expert valuations of Leumi Mortgage Bank as at the date of the merger shall be submitted to the Assessing Officer immediately following the date of the violation, in accordance with the Income Tax Rules (Application for Prior Approval of a Merger Plan), 1995. Such valuations will require the approval and consent of the Assessing Officer.

2.6 The Bank undertakes to notify the Property Taxes Directorate of the provision of this Tax Ruling, including the transfer of real estate property owned by Leumi Mortgage Bank (at 31-37 Montefiore Street, Tel-Aviv) and pay purchase tax at the rate of 0.5%, within 40 days from the date of the merger.

2.7 The Bank and Leumi Mortgage undertake to transfer to the Property Taxes Directorate within 30 days of the date of the merger, the valuation of land property rights owned by Leumi Mortgage Bank..

2.8 The Bank undertakes to transfer, within 30 days from the end of two years from the date of the restructuring, confirmation to the Property Taxes Directorate that it has complied with all the conditions of Part II of the Ordinance, and the terms of the Tax Ruling.

2.9 The Tax Ruling is contingent upon compliance in full with the other conditions stipulated in the Ordinance and the Tax Ruling, including conditions that relate to the period required, as defined in section 103 of the Ordinance, beginning on the date of the merger.

Note 12 – Miscellaneous Matters (cont'd)

3. Regarding transferring Leumi Mortgage employees to the Bank –

3.1 The transfer of employees was approved under the provisions of Section 103p of the Ordinance.

3.2 The transfer of ownership of all funds transferred in the name of the employees transferred from Leumi Mortgage to the Bank was approved under the exemption from withholding tax at source under Regulation 2(a)(6) of the Income Tax Rules (Tax Exemption for Transfer and Change of Designation of Funds in Provident Funds), 1990.

3.3 Continuity of rights to compensation will be conferred to the employees under section 103P of the Ordinance, and upon their retirement from the Bank, will be taken into account for the purpose of calculating the exemption of severance payments for the period of work at the Bank and at Leumi Mortgage Bank.

3.4 In the event an employee who retired prior to the date of the merger, or as a result of the merger, received an exempt severance payment from Leumi Mortgage Bank under the provisions of section 9(7A) of the Ordinance, and returned to work at the Bank within six months from the date of retirement, the retirement grant received by such employee shall be deemed to be wages, and in this case the Bank will deduct tax as required.

3.5 Any payment to employees of the merging companies resulting from the said merger, will be considered income from employment and tax will be deducted in accordance with Income Tax Regulations (Deduction from Salary and Wages and Payment of Employers' Tax), 1993.

4. General explanations –

4.1 The Bank and Leumi Mortgage have undertaken to include in the financial statements and reconciliation reports for tax purposes, a Note on the implementation of the restructuring, detailing the conditions of the Tax Ruling. The Note is to be shown commencing from the first reports published following the Tax Ruling.

4.2 The Tax Ruling is not deemed as a tax assessment and/or confirmation of the facts presented by the Bank. The said facts presented may be examined by the Assessing Officer.

4.3 It is clarified that the Tax Ruling was given based on the representations and documents given to the Israel Tax Authority in writing and orally, including those set forth in the Tax Ruling, and subject to the conditions set out in Part II of the Ordinance. The Tax Ruling will be canceled retroactively, if it is found that the information and facts given in the application are incorrect or incomplete in a material manner, or it appears that material details listed do not exist or that the conditions stipulated by the Israel Tax Authority in the Tax Ruling were not met.

4.4 No deduction will be allowed, either directly or indirectly, to the parties participating in the restructuring set forth in the Tax Ruling and/or to their related party, for all the expenses involved, directly and/or indirectly in the restructuring, including legal expenses, audit expenses, experts, consultants and fees of all kinds, as a deduction or as an expense under Section 17 of the Ordinance.

Note 12 – Miscellaneous Matters (cont'd)

4.5 The Bank and Leumi Mortgage Bank undertook, jointly and severally, to confirm in writing to the Mergers and Splits Department in the Israel Tax Authority and to the Assessing Officer, within 30 days of receiving the Tax Ruling, that they agree to accept all terms of the Tax Ruling, verbatim, and without reservation. The said confirmations were submitted as required.

G. 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 (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 President and CEO from her position in the Bank, whereby such resignation is after 15 years and above of employment with the Bank, the President and 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.

Note 13 – Events after the Balance Sheet Date

A. As part of the Bank's streamlining program for the years 2012-2014 that was decided on at the beginning of 2012, the Board of Directors decided to accept the management's recommendation to bring forward the retirement of 250 employees from the Bank. The overall cost of the above program is likely to amount to about NIS 150 million. A provision has been made in respect of the program in the financial statements for 30 September 2012.

B. On 29 October 2012, the transaction was completed between the Bank and Eliahu Insurance Co. Ltd. ("Eliyahu") for the granting of a loan of NIS 2 billion to finance part of the transaction for the acquisition of controlling shares in Migdal Insurance and Financial Holdings Ltd.