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

Condensed Financial Statements as at 31 March 2013

(unaudited)

Bank Leumi le-Israel B.M.
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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 2012. These reports should be read in conjunction with the Annual Report for 2012.

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 1,009 billion at the end of March 2013, compared with NIS 989 billion at the end of 2012, an increase of some 2.02%, 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:

	31 March 2013	31 March 2012	31 December 2012
Balance sheet data (in NIS millions):			
Total assets (total balance sheet)	**369,529**	359,268	376,160
Credit to the public, net	**238,614**	240,500	241,264
Securities	**53,378**	49,757	56,408
Cash and deposits in banks	**53,933**	47,368	54,621
Investment in companies included on equity basis	**2,122**	2,187	2,129
Deposits of the public	**278,820**	277,642	289,538
Debentures, notes, and subordinated notes	**27,542**	27,873	27,525
Equity attributable to shareholders of the banking corporation	**25,284**	24,118	24,921

Below are principal data:

	For the three months ended 31 March		Year
	2013	2012	2012
Income, expenses and profits (in NIS millions):			
Interest income, net	**1,762**	1,828	7,408
Expenses in respect of credit losses	**73**	225	1,236
Total non-interest income	**1,469**	1,177	4,774
Of which: commissions	**1,025**	1,020	4,199
Total operating and other expenses	**2,057**	1,995	9,100
Of which: salary expenses	**1,282**	1,186	5,290
Profit before taxes	**1,101**	785	1,846
Provision for taxes	**463**	306	811
Net profit for the period attributed to shareholders of the banking corporation	**570**	431	931
Net profit per share attributed to shareholders of the banking corporation (in NIS)	**0.39**	0.29	0.63
Total profit for the period attributed to shareholders of the banking corporation	**362**	770	1,588

Below are principal financial ratios for the periods ended:

	31 March 2013	31 March 2012	31 December 2012
	%		
Credit to the public, net, to total balance sheet	**64.6**	66.9	64.1
Securities to total balance sheet	**14.4**	13.8	15.0
Deposits of the public to total balance sheet	**75.5**	77.3	77.0
Deposits of the public to total credit, net	**116.8**	115.4	120.0
Total capital to risk assets according to Basel II (a)	**14.84**	14.69	14.87
Tier I capital to risk assets according to Basel II	**8.84**	8.28	8.55
Capital (excluding non-controlling interests) to total balance sheet	**6.8**	6.7	6.6
Net profit to average capital (excluding non-controlling interests) (c)	**9.4**	7.5	3.8
Rate of provision for tax on the profit before taxes	**42.1**	39.0	43.9
Expenses in respect of credit losses to credit to the public, net (c)	**0.12**	0.37	0.51
Of which: expenses in respect of collective allowance to net credit to the public (c)	**0.13**	0.11	0.13
Expenses in respect of credit losses to total risk of credit to the public (c)	**0.08**	0.25	0.34
Net interest income to total balance sheet (c)	**1.92**	2.05	1.97
Total income to total balance sheet (b) (c)	**3.54**	3.39	3.24
Total income to total assets managed by the Group (b) (c) (d)	**1.29**	1.36	1.23
Total operating and other expenses to total balance sheet (c)	**2.25**	2.24	2.42
Total expenses to total assets managed by the Group (c) (d)	**0.82**	0.90	0.92
Net profit to average total assets (c) (e)	**0.62**	0.48	0.26
Interest margin (f)	**2.01**	2.15	2.25
Operating and other expenses (excluding early retirement) to total income (b)	**63.7**	66.4	72.0
Non-interest income to operating and other expenses (excluding early retirement)	**71.4**	59.0	54.4
Non-interest income to total income (b)	**45.5**	39.2	39.2

(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.
(f) The interest gap excludes the effect of derivatives, but includes exchange rate differences. Data for December 2012 have been calculated using the old format.

Net profit attributable to shareholders in the banking corporation (hereinafter – the net profit) in the first quarter of 2013 amounted to NIS 570 million, compared with NIS 431 million in the corresponding period last year, an increase of 32.3%.

The increase in the net profit is explained mainly by an increase on noninterest income amounting to NIS 292 million and by a reduction in expenses in respect of credit losses of NIS 152 million. On the other hand, a reduction in interest income, net, of NIS 66 million, an increase in operating and other expenses of NIS 62 million and an increase in the rate of provision for tax as a percentage of the pre-tax profit partly offset the abovementioned effects. (The figures are before the effect of tax.)

For further details, see the Chapter "Development of income, expenses and tax provision".

Net profit per share attributable to shareholders of the banking corporation was NIS 0.39 during the first quarter of 2013, compared with NIS 0.29 in the corresponding period last year.

Aggregate total income after the effect of tax (mainly including adjustments in respect of the presentation of available-for-sale securities at fair value and adjustments from translation of the financial statements) in the first quarter of 2013 amounted to NIS 362 million, compared to NIS 770 million in the corresponding period last year. The decrease in total income is primarily attributable to the realization of available-for-sale securities which were classified to profit and loss.

Control of the Bank

Effective 24 March 2012, the Bank is defined, pursuant to the provisions of the law, as a banking corporation without a controlling core and with no shareholder specified as the controlling shareholder in the Bank.

For further information on control of the Bank, the Banking Law (Legislative Amendments), 2012 (which regulates, *inter alia*, the adjustment of the law to the supervisory framework required in the case of a banking corporation without a controlling core) and the State of Israel's holdings in the shares of the Bank, see pages 20-22 in the Bank's Periodic Report for 2012 published 21 March 2013 (Ref.: 2013-01-013462).

Interested party transactions

On 21 March 2013, Shlomo Eliahu Holdings Ltd and its subsidiaries, including the holdings of Migdal, ("Eliahu") sent notification to the Bank on the sale of 37,000,000 ordinary shares of NIS 1 par value of the Bank by a trustee, by means of a transaction outside the stock market. Following this sale, Eliahu held 9.94% of the Bank's share capital. For further details, see Immediate Report of the Bank dated 21 March 2013 (Ref.: 2013-01-014515).

For further details regarding the holdings of Eliahu in the Bank's shares, the voting rights attached thereto and the Migdal transaction, see page 21 in the Bank's Periodic Report for 2012 published 21 March 2013 (Ref.: 2013-01-013462).

On 19 March 2013, a merger by way of share exchange was effected between Dash Apex Holdings Ltd. (hereinafter, "Dash Apex") and the shareholders of Meitav Investment House Ltd. (hereinafter, "Meitav"). As part of the transaction, Dash Apex purchased the entire share capital of Meitav. As a result, Dash Apex became an interested party in Leumi. On 2 May 2013, Dash Apex informed the Bank that there had been a reduction of more than 1% of the paid-up capital of the Bank held by the Dash Apex Group. For further details, see Immediate Report of the Bank dated 24 March 2013 (Ref.: 2013-01-018730) and 2 May 2013 (Ref.: 2013-01-052822).

On 30 April 2013, a transaction between Meitav and Psagot Investment House Ltd. (hereinafter "Psagot Investment House") was completed, as a result of which the holdings of Psagot Investment House and its reporting group was 6.8% of the Bank's paid-up share capital. As part of the transaction, Psagot Investment House purchased the entire issued and paid-up share capital of Meitav ETF Holdings Ltd. (the parent company of Meitav

Marketable Dollar Obligation Ltd., Meitav Currencies Ltd., Meitav Foreign Currency Ltd., Meitav Quarterly Ltd., Meitav ETF Ltd. (hereinafter: "the Meitav ETF Group") and Gaash Market Making Ltd., a company fully controlled by Meitav Investment House), through which Meitav Investment House held all of the ETF activity in the Meitav ETF Group. With effect from the date of completing the transaction, the companies in the Meitav ETF Group were added to the Psagot reporting group. For further details, see Immediate Report of the Bank of 6 May 2013 (Ref.: 2013-01-055216)

For updated information regarding the holdings of interested parties in the Bank, see Immediate Report on the state of the holdings of interested parties and senior officers, dated 7 May 2013 (ref.: 2013-01-056827).

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 came into effect 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, was merged with the Bank.

The merger effected was a statutory merger in which Leumi Mortgage Bank transferred its assets and liabilities to the Bank, dissolving Leumi Mortgage Bank without liquidation, pursuant to the Chapter 1 of the Eighth Part of the Companies Law, 1999, and subject to the provisions of Part Two of the Income Tax Ordinance, such that on completion of the merger, Leumi Mortgage Bank ceased to exist.

With effect from 15 January 2013, the banking license of Leumi Mortgage Bank was canceled.

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 purpose of the move is to allow the Bank to provide retail customers with a value proposition that meets 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, reducing Group expenses and more effectively utilizing the sales floor.

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

Capital Attributable to the Shareholders of the Banking Corporation (hereinafter: capital) of the Group as at 31 March 2013 amounted to NIS 25,284 million, compared with NIS 24,921 million as at the end of 2012, an increase of 1.5%. The increase is attributable to the profit for the first quarter of the year amounting to NIS 570 million which was partly offset by a decline in the value of the available-for-sale securities portfolio which was carried to a capital reserve amounting to NIS 154 million and a decrease in a capital reserve from the translation of financial statements amounting to NIS 54 million.

The total net accrued balance of adjustments of securities held in the available-for-sale portfolio to fair value as of 31 March 2013 amounted to a positive sum of NIS 341 million (after the effect of tax).

The **capital to total assets ratio** reached 6.8% on 31 March 2013, compared with 6.6% on 31 December 2012.

The **capital to risk components ratio** according to Basel II reached 14.84% as of 31 March 2013, compared with 14.87% on 31 December 2012. The Tier 1 capital ratio reached 8.84% at 31 March 2013, compared with 8.55% at the end of 2012. This ratio reflects the actual core capital according to the definition of the Bank of Israel.

For a detailed explanation, see pages 29-32 in the 2012 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. In addition, targets that the Group wishes to meet in the event of an extreme scenario event are defined.

Following an analysis of the ICAAP risk map, the Board of Directors of the Bank decided to determine the Leumi Group's overall capital adequacy target to be not less than 13.5% over the long term. This target is higher than the overall capital adequacy ratio required, in order to comply with the regulatory directives, including the ICAAP, and identical to the regulatory overall capital adequacy ratio which will apply to Leumi from 1 January 2017, in accordance with drafts of 30 December 2012 outlined below.

In addition to the above, according to a circular from the Supervisor of Banks dated 30 June 2012, banks are subject to a core capital ratio target of not less than 7.5%.

On 28 March 2012, the Supervisor of Banks issued a directive to all banking corporations stating that all banking corporations will be required to maintain a minimum core capital ratio of 9% by 1 January 2015.

Furthermore, a large banking corporation, with total balance sheet assets on a consolidated basis constituting at least 20% of the total balance sheet assets in the banking system in Israel, will be required to maintain a minimum core capital ratio of 10% by 1 January 2017. This additional directive applies to Leumi.

On 30 December 2012, the Supervisor of Banks issued drafts for the adoption of the Basel III recommendations in Israel, including a draft of the amendment to Proper Conduct of Banking Business Regulation no. 202 "Measurement and Capital Adequacy – Regulatory Capital".

Pursuant to this draft, all banking corporations in Israel will be required to maintain an overall capital ratio of 12.5% by 1 January 2015.

A large banking corporation will be required to maintain an overall capital ratio of 13.5% by 1 January 2017.

The draft also includes reference to Tier I shareholders' equity targets, pursuant to a directive from March 2012.

The Bank is prepared to meet the expected requirements of the Supervisor of Banks as set forth in these drafts.

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)

	31 March 2013	31 March 2012	31 December 2012
	NIS millions		
Tier 1 capital:			
Share capital	**7,059**	7,059	7,059
Premium	**1,129**	1,129	1,129
Reserves	**16,866**	15,811	16,296
Capital reserves due to share-based transactions and other capital reserves	**58**	63	58
Adjustments from translation of financial statements of companies included on equity basis	**(139)**	(72)	(85)
Loans to employees for the purchase of Bank’s shares	**(30)**	(44)	(31)
Non-controlling interests	**308**	257	307
Amounts deducted from Tier 1 capital, including goodwill, investments and other intangible assets	**(411)**	(399)	(421)
Total Tier 1 capital	**24,840**	23,804	24,312
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	**230**	118	333
General provision for doubtful debts	**428**	428	428
Innovative and non-innovative hybrid capital instruments	**6,071**	6,012	6,071
Subordinated notes	**10,175**	11,937	11,227
Amounts deducted from Tier 2 capital	**(71)**	(69)	(81)
Total Tier 2 capital	**16,833**	18,426	17,978
Total capital base for capital adequacy purposes	**41,673**	42,230	42,290

Capital adequacy - (Table 3 - Basel II):

Risk assets and capital requirements in respect of credit risk deriving from exposures to:	**31 March 2013** Risk assets	Capital require-ments (3)	31 March 2012 Risk assets	Capital require-ments (3)	31 December 2012 Risk assets	Capital require-ments (3)
	NIS millions					
Sovereign debts	**899**	**81**	919	83	937	84
Debts of public sector entities	**2,217**	**200**	1,847	166	1,981	178
Debts of banking corporations	**4,292**	**386**	5,308	478	4,690	422
Debts of corporations	**141,549**	**12,739**	154,790	13,931	146,452	13,181
Debts collateralized by commercial real estate	**17,834**	**1,605**	19,890	1,790	18,541	1,669
Retail exposures to individuals	**24,199**	**2,178**	22,655	2,039	23,728	2,136
Loans to small businesses	**9,826**	**884**	9,311	838	9,611	865
Housing loans	**34,539**	**3,109**	30,416	2,737	33,474	3,013
Securitization	**786**	**71**	301	27	864	78
Other assets	**13,702**	**1,233**	12,222	1,100	13,560	1,220
Total in respect of credit risk (1)	**249,843**	**22,486**	257,659	23,189	253,838	22,846
Risk assets and capital requirements in respect of market risk (1)	**10,152**	**914**	9,517	857	9,710	874
Risk assets and capital requirements in respect of operational risk (2)	**20,895**	**1,881**	20,294	1,826	20,841	1,876
Total risk assets and capital requirements (4)	**280,890**	**25,821**	287,470	25,872	284,389	25,596
Total capital base for capital adequacy	**41,673**		42,230		42,290	
Total capital ratio	**14.84%**		14.69%		14.87%	
Tier 1 capital ratio	**8.84%**		8.28%		8.55%	

(1) Weighted risk assets according to the standardized approach, First Pillar only.
(2) According to the standardized 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 a consolidated basis and for principal subsidiaries according to Basel II:

	31 March 2013	31 December 2012
	%	
Leumi – on consolidated basis	**14.84**	14.87
Leumi Mortgage Bank (1)	**-**	11.85
Arab-Israel Bank	**15.14**	14.76
Leumi Card	**15.70**	16.00
Bank Leumi USA (2)	**14.53**	14.47
Bank Leumi UK	**16.94**	15.53
Bank Leumi Switzerland	**22.97**	24.24

(1) The activity of the company was merged with the Bank on 31 December 2012.

(2) 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.

B. Other Information

Principal Developments in the Economy[*]

General

In the first quarter of 2013, the Israeli economy grew in real terms at 2.8% per annum, compared with the last quarter in 2012. The slowdown in economic activity and failure to approve the budget led to an increase in the State budget deficit, compared with the corresponding period in 2012.

There was no change in the Israeli consumer price index in the first three months of the year, whereas in the twelve months ended March 2013, there was an increase of 1.3%. This rate is close to the lower limit of the price stability target of 1%-3%. In January 2013, the Bank of Israel lowered interest rates by 0.25 percentage points to 1.75%. This was against a background of a low inflationary environment and the desire to continue the support of growth in Israel. On 13 May 2013, the Bank of Israel announced a lowering of interest rates by 0.25 percentage points to 1.5%, to take effect on 17 May and a program to purchase foreign currency to offset the effect of gas. In the interest decision for June 2013 made on 27 May 2013, the interest rate was lowered to 1.25%, *inter alia*, in order to reduce the gaps between the Bank of Israel interest rate and the rates in the major economies around the world, to weaken the factors responsible for the strengthening of the shekel.

The share and convertible securities index rose during the first quarter of 2013 by some 6.4%, with the price of corporate debentures rising by some 1.9%, reflecting the positive trend in world capital markets and taking into account the low level of interest rates in the economy.

The Global Economy

In April 2013, the International Monetary Fund revised its estimate of expected development of global economic activity for 2013. The changes were minor, in comparison to a previous update made in January 2013, with the forecast among the advanced states lower by 0.1%, compared with the previous forecast. This came against a background of a lowering of the forecast in most countries, in particular, the United States and the countries in the Eurozone, due to the U.S. budget crisis and concerns throughout Europe, following the crisis in Cyprus, Italy and the other peripheral states. In contrast, the growth forecast in Japan was increased. According to the Fund's revised estimates, growth in the United States and in the Eurozone in 2013 is expected to total 1.9% and (0.3%), respectively.

Business product and sectors of the economy

The business sector product expanded in real terms in the first quarter of 2013 by some 2.0%, in annual terms, compared with the fourth quarter of 2012, following an expansion of some 3.3% in 2012. This growth rate is the lowest in the past four years. The continuation of the slowdown in economic activity on world and domestic markets resulted in a slow rate of product expansion in most sectors of the economy, both those geared to exports and those centering on domestic activity.

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

The State Budget and its Financing

The first quarter of the year saw a deficit of NIS 4.6 billion in the State budget, compared with a deficit of NIS 1.6 billion in the first quarter of 2012. Government expenditure during this period expanded by some 1.3%, compared to the January-March period in 2012. In this context, it should be borne in mind that, since the beginning of the year, the government has been operating without an approved budget framework. The main explanation for the increase in the deficit is the decline in tax revenues, which is a consequence of the slowdown in economic activity in the market.

On 14 May 2013, the government approved the economic program (the State Budget and the Arrangements Law) for 2013-2014. The program has still to be approved by the Knesset.

Foreign Trade and Capital Movements

Israel's aggregate trade deficit in the first quarter of 2013 amounted to some US$ 3.1 billion, a decrease of some 40% compared with the deficit for the corresponding period last year. The reduction in the trade deficit is mostly due to a significant reduction in imports in all of its major components, in particular, in the import of investment products and the import of raw materials. This came against the background of the slowdown in economic activity around the world. Exports, on the other hand, registered a slight increase.

Foreign currency capital transactions in the first three months of 2013 were characterized by a higher amount of capital inflows, compared with capital outflows. In particular, direct investments in Israel, via the banking system, amounted to US$ 1.9 billion during the said period, while financial investments amounted to US$ 2.4 billion (of which US$ 1.7 billion represented foreign investment in the issue of Government of Israel debentures abroad). On the other hand, investments by Israeli residents abroad (direct investments through Israeli banks and the financial investments) amounted to US$ 2.3 billion, most of which consisted of financial investments.

Exchange Rates and Foreign Currency Reserves

During the first three months of 2013, the exchange rate of the shekel appreciated by some 2.3% against the dollar, and by some 5.3% against the euro. This appreciation was affected by a reduction in the trade deficit and an increase in net capital inflows to Israel, with the weakness of the euro against the dollar on world markets accelerating the revaluation of the European currency.

Foreign currency balances in the Bank of Israel at the end of March 2013 amounted to some US$ 77.0 billion. This compared with US$ 75.9 billion at the end of December 2012. During this period, the Bank of Israel did not purchase any foreign currency on the market.

In April 2013, the Bank of Israel intervened in foreign currency trading and purchased a total of US$ 100 million.

On 13 May 2013, the Bank of Israel announced a program of foreign currency purchases which will offset the effect of gas production on the exchange rate. The amounts to be purchased as part of this program will be added to the Bank of Israel's foreign currency balances, but will be managed separately with a longer term horizon. According to the Bank of Israel's announcement, it intends to purchase some US$ 2.1 billion by the end of the year. This program will be re-examined when the "Wealth Fund" is put into operation, which is expected to be during 2018.

Inflation and Monetary Policy

There was no change in the Israeli consumer price index in the first quarter of 2013, while in the twelve months ended March 2013, the index increased by some 1.3%. This rate is at the lower limit 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 2.9%, accounting for approximately one-half of the increase. An item which significantly decreased was communication and internet services, which fell by some 11.8% in the last 12 months, contributing -0.4 percentage points, the effect of reductions in the price of cellular services.

The Bank of Israel interest rate, which was 2.0% in December 2012, was lowered in January 2013, to 1.75%, against the background of the need to provide additional support to economic activity and in the absence of inflationary pressures. This interest rate level remained unchanged in the interest rate decisions in February and March and was retained in the decision at the end of March 2013, which was in effect for April and May 2013. On 13 May 2013, the Bank of Israel announced that the monetary committee had made a decision outside the ordinary framework of the program to lower monetary interest rates by 0.25 percentage points to a level of 1.5%, with effect from 17 May 2013. The background of this decision is the continuing appreciation of the shekel and downward revision of the global growth forecast, particularly with regard to Europe and China.

Capital Market

The shares and convertible securities index rose by some 6.4% in the first quarter of the year, following an increase of some 4.5% in 2012. The TA-100 index increased in the first quarter of the year at a more moderate rate, some 4.9%. The main reasons for this are related to the effect of increases in stock exchange prices around the world and for the low rate of interest in the economy, despite the weak economic activity.

Average daily trading volumes of shares and convertible securities increased by some 4.5% during the first quarter of 2013, compared with the average for 2012, and amounted to some NIS 1,125 million. It appears that despite the increase in activity in the first quarter, the comparison with years prior to 2012 involved reduced activity against a backdrop of a slowdown in economic activity in Israel and around the world.

The Government bond market in the first quarter of 2013 was characterized by a mixed trend. The price of index-linked Government bonds fell by some 0.9%, while unlinked bonds rose by some 0.4% (the fixed interest (*Shahar*) bond indices rose by some 0.3% and the variable interest (*Gilon*) bond index increased by some 0.9%).

In the index-linked non-government debenture market (corporate bonds), there were price increases of some 1.9% in the first quarter of the year. It appears that the increases stemmed from the effect of the positive trend in capital markets in Israel and around the world.

Financial Assets held by the Public

The value of the portfolio of financial assets held by the public increased in the first three months of 2013 by some 0.7% to NIS 2,745 billion at the end of March 2013. This slight increase in the value of the portfolio derived from an increase in all of its components, except for the unlinked component which fell by 2.1%. The weight of shares (in Israel and abroad) in the financial assets portfolio of the Israeli public reached some 22.7% at the end of March 2013, compared with some 21.7% in December 2012.

Bank credit

Bank credit in the economy granted to the private sector (before allowances for credit losses) remained stable in the first two months of 2013. This is the result of an increase in housing credit which expanded by some 1.3%, while non-housing credit (consumer credit) contracted by some 1.9%. Furthermore, credit granted to the business sector fell by some 0.4%.

The table below shows Israel's and the Bank's credit ratings as at 27 May 2013:

	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.

Development in the Leumi share price

From the beginning of the year until 31 March 2013, the price of Leumi shares rose from 1,267 points to 1,282 points, an increase of just 1.18%. During this period, the Bank's market value increased from a level of some NIS 18.67 billion to a level of NIS 18.89 billion.

From the end of March 2013 to 20 May 2013, the share price increased by 1.4% to a price of 1,300 points and the market value reached NIS 19.15 billion.

The following table sets out the principal representative exchange rates:

	31 March		31 December	
	2013	2012	2012	2011
	In NIS			
U.S. dollar	**3.648**	3.715	3.733	3.821
Euro	**4.661**	4.953	4.921	4.938
Pound sterling	**5.534**	5.939	6.036	5.892
Swiss franc	**3.825**	4.111	4.077	4.062

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

	2013	2012				
	1st quarter	Year	4th quarter	3rd quarter	2nd quarter	1st quarter
	(in percentages)					
Rate of increase (decrease) in Israeli Consumer Price Index ("known" index)	**-**	1.4	(0.7)	0.9	1.3	-
Rate of increase (decrease) of the U.S. dollar exchange rate	**(2.3)**	(2.3)	(4.6)	(0.3)	5.6	(2.8)
Rate of increase (decrease) of the euro exchange rate	**(5.3)**	(0.3)	(2.8)	2.7	(0.4)	0.3
Rate of increase (decrease) of the pound sterling exchange rate	**(8.3)**	2.4	(4.9)	3.4	3.3	0.8
Rate of increase (decrease) of the Swiss franc exchange rate	**(6.2)**	0.4	(2.6)	2.0	(0.1)	1.2

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

See detailed outline in the 2012 Financial Report, pages 41-54.

Accounting policy on critical matters

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 2012.

The preparation of the consolidated financial statements in accordance with generally accepted accounting principles and the directives of the Supervisor of Banks require 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 2012 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 and deferred taxes.

For further details, see pages 55-62 in the 2012 Financial Report.

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. A majority of the members of the Board of Directors currently in office (13 of the 14 directors) have accounting and financial expertise.

The Financial Statements Review Committee of the Board of Directors ceased its function at the end of 2012. With effect from 2013, discussion on the financial statements and the recommendation to the Board of Directors regarding their approval take place in the Audit Committee of the Board of Directors, pursuant to the provisions of Regulation 301 of the Supervisor of Banks.

Before the financial statements are submitted to the Audit 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, the Chief Internal Auditor and additional senior managers of the Bank. 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 Sarbanes-Oxley (SOX) Law. See the chapter, "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 Audit Committee, with the participation of the President and Chief Executive Officer, the Head of the Economics and Finance Division, 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. In addition, a draft of the corporate governance questionnaire is included in the background material for the discussions on the periodic statements. The members of the Committee also receive details of new disclosure requirements (if any) applicable to the Bank.

As part of the deliberations on the financial statements, the Audit 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 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. If necessary, the subject of the impairment of securities is presented by a senior manager from the Capital Markets Division.

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

Following the discussions of the Audit 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 Head of the Economics and Finance Division, 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 forum of the Bank's Management as well. 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 the discussion in the plenum of the Board of Directors, 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 Audit 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 Audit Committee of the Board of Directors in its discussions on the financial statements, and after the Board has been presented with the Certifications 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 Audit Committee is as stipulated by the Companies Law Regulations. The committee includes seven directors, including, pursuant to the Companies Law, three external directors, including a chairman of the committee. A further two committee members are external directors as stipulated by the Banking Supervision Department, and all the aforesaid external directors (pursuant to both Companies Law and the Banking Supervision Department Regulations) are independent directors. In addition, all committee members have financial and accounting expertise. The Chairman of the Board of Directors participates as an observer in meetings of the Audit Committee whenever it is discussing topics related to the financial statements.

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 for an understanding of 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 with regard to profit and loss items, its assets or its capital with regard to balance sheet items. 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

The net profit attributable to the shareholders of the banking corporation (hereinafter: "the net profit") of Leumi Group for the first quarter of 2013 was NIS 570 million, compared with NIS 431 million in the corresponding period in 2012, an increase of 32.3%.

The change in the net profit in the first quarter of 2013, as compared with the corresponding period in 2012, is explained as follows:

	For the first three months ended			
	31 March 2013	31 March 2012	Change *	
	NIS millions		NIS millions	%
Net income interest	**1,762**	1,828	(66)	(3.6)
Income in respect of credit losses	**(73)**	(225)	152	67.6
Non-interest income	**1,469**	1,177	292	24.8
Other operating expenses	**(2,057)**	(1,995)	(62)	(3.1)
Profit before taxes	**1,101**	785	316	40.3
Provision for tax	**(463)**	(306)	(157)	(51.3)
Profit after taxes	**638**	479	159	33.2
The Bank's share in companies included on equity basis	**(57)**	(39)	(18)	(46.2)
Net profit attributed to non-controlling interests	**(11)**	(9)	(2)	(22.2)
Net profit attributed to shareholders in the banking corporation	**570**	431	139	32.3

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

The following table is a condensed statement of operating profit and loss after taxes by quarter:

	2013	2012			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions				
Net interest income	**1,762**	1,784	1,872	1,924	1,828
Income in respect of credit losses	**(73)**	(386)	(292)	(333)	(225)
Non-interest income	**1,469**	1,394	1,208	995	1,177
Operating and other expenses	**(2,057)**	(2,611)	(2,294)	(2,200)	(1,995)
Profit before taxes	**1,101**	181	494	386	785
Provision for taxes (tax benefit)	**463**	233	113	159	306
Profit (loss) after taxes	**638**	(52)	381	227	479
Group's share in operating profits (losses) of companies included on equity basis after the effect of taxes	**(57)**	(199)	108	63	(39)
Net profit attributable to non-controlling interests	**(11)**	(8)	(10)	(10)	(9)
Net profit (loss) attributable to shareholders in the banking corporation	**570**	(259)	479	280	431

Net interest income of Leumi Group amounted in the first quarter of 2013 to NIS 1,762 million, compared with NIS 1,828 million in the corresponding period in 2012, a decrease of NIS 66 million or 3.6%. The decrease is primarily attributable to the low interest rates in the various markets.

The ratio of net interest income to the average balance of income-bearing assets is 2.14% (in annual terms) compared to 2.28% in the corresponding period in 2012.

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

Segment	For the first three months ended		
	2013	2012	Change
	NIS millions		%
Households	**666**	681	(2.2)
Small businesses	**230**	229	0.4
Corporate banking	**355**	381	(6.8)
Commercial banking	**346**	344	0.6
Private banking	**77**	99	(22.2)
Financial management – capital markets	**86**	89	(3.4)
Other	**2**	5	(60.0)
Total	**1,762**	1,828	(3.6)

Total Interest Margin in the first quarter of 2013 was 2.01%, compared with 2.15% in the corresponding period in 2012.

The interest margin in activity in Israel by segment is, as follows:
In the unlinked shekel sector, 2.50%, compared with 2.67% in the corresponding period in 2012. The interest margin in the foreign currency segment decreased from 1.64% to 1.34%. In the index sector, the interest margin was 0.32%, compared to 0.27% in the corresponding period in 2012.

Expenses in respect of credit losses in the Leumi Group for the first quarter of 2013 amounted to some NIS 73 million, compared with NIS 225 million in the corresponding period in 2012, a decrease of NIS 152 million, or 67.6%.

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

	2013	2012				
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter	Total 2012
	NIS millions					
Individual allowance in respect of credit losses	**(7)**	391	211	160	161	923
Collective allowance in respect of credit losses	**80**	(5)	81	173	64	313
Total	**73**	386	292	333	225	1,236
Percentage ratios (in annual terms:)						
Individual expenses in respect of credit losses to total credit to the public	**(0.01)**	0.65	0.35	0.27	0.26	0.38
Collective expenses in respect of credit losses to total credit to the public	**0.13**	(0.01)	0.13	0.29	0.11	0.13
Total expenses in respect of credit losses to total credit to the public	**0.12**	0.64	0.48	0.56	0.37	0.51
Individual expenses in respect of credit losses to total credit risk to the public	**(0.01)**	0.43	0.23	0.17	0.18	0.25
Collective expenses in respect of credit losses to total credit risk to the public	**0.09**	(0.01)	0.09	0.19	0.07	0.09
Total expenses in respect of credit losses to total credit risk to the public	**0.08**	0.42	0.32	0.36	0.25	0.34

The table below presents data on the balance of credit loss allowance on a collective basis.

	31 March 2013	31 March 2012	31 December 2012
Credit loss allowance on a collective basis (NIS millions)	**2,636**	2,576	2,631
Balance of credit loss allowance on a collective basis to total credit to the public (%)	**1.10**	1.07	1.09
Balance of credit loss allowance on a collective basis to total credit risk to the public (%)	**0.73**	0.72	0.72

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

	First quarter of 2013		First quarter of 2012	
	NIS millions	% *	NIS millions	%*
Households	**86**	**0.4**	8	-
Private banking	**1**	**0.1**	(1)	-
Small businesses	**42**	**0.8**	8	0.2
Corporate banking	**(46)**	**(0.3)**	211	1.1
Commercial banking	**32**	**0.3**	10	0.1
Financial management and other	**(42)**	**(14.8)**	(11)	(5.0)
Total	**73**	**0.12**	225	0.37

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

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

	First three months of 2013	First three months of 2012
	NIS millions	
Industry	**13**	20
Construction and real estate	**31**	(35)
Trade	**(13)**	(2)
Hotel, food and entertainment services	**(13)**	(30)
Transportation and storage	**5**	14
Communications and computer services	**-**	(24)
Financial services	**(44)**	270
Other business services	**(2)**	13
Private individuals - housing loans	**43**	(12)
Private individuals – other	**51**	22
Others	**(1)**	(11)
Total public	**70**	225
Total banks	**3**	-
Total	**73**	225

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 three months of		
	2013	2012	Change
	NIS millions		%
The Bank	**59**	212	(72.1)
Leumi Mortgage Bank *	**-**	(12)	-
Leumi Card	**5**	4	25.0
Bank Leumi – U.S.A.	**23**	14	64.3
Bank Leumi – U.K.	**(4)**	-	-
Leumi Private Bank - Switzerland	**-**	3	-
Bank Leumi – Romania	**(10)**	2	-
Leumi Leasing and Investments	**-**	2	-
Total expenses in respect of credit losses	**73**	225	(67.6)

* Activity merged with that of the Bank on 31 December 2012.

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

(*) Impaired debts that do not accrue interest income

On a consolidated basis	**31 March 2013**		
	Balance sheet	Off-balance sheet	Total
	NIS millions		
1. Problem credit risk: (1)			
Impaired credit risk	**6,735**	**518**	**7,253**
Subordinate credit risk	**2,000**	**26**	**2,026**
Credit risk under special supervision (2)	**2,650**	**614**	**3,264**
Total problem credit	**11,385**	**1,158**	**12,543**
Of which: Unimpaired debts in arrears 90 days or more (2)	**1,221**	**-**	**-**
2. Non-performing assets:			
Impaired debts	**6,470**	**-**	**-**
Assets received in respect of credit cleared	**112**	**-**	**-**
Total non-performing assets	**6,582**	**-**	**-**

On a consolidated basis	31 March 2012		
	Balance sheet	Off-balance sheet	Total
	NIS millions		
1. Problem credit risk: (1)			
Impaired credit risk	6,890	545	7,435
Subordinate credit risk	1,330	173	1,503
Credit risk under special supervision (2)	3,797	445	4,242
Total problem credit	12,017	1,163	13,180
Of which: Unimpaired debts in arrears 90 days or more (2)	1,227	-	-
2. Non-performing assets:			
Impaired debts	6,828	-	-
Assets received in respect of credit cleared	75	-	-
Total non-performing assets	6,903	-	-

(1) Credit risk impaired, subordinate or under special supervision.

(2) Including in respect of housing loans for which an allowance has been made according to the extent of arrears and in respect of housing loans for which no allowance has been made according to the extent of arrears which are in arrears of 90 days or more.

On a consolidated basis	31 December 2012		
	Balance sheet	Off-balance sheet	Total
	NIS millions		
1. Problem credit risk: (1)			
Impaired credit risk	7,486	515	8,001
Subordinate credit risk	2,022	109	2,131
Credit risk under special supervision (2)	2,779	664	3,443
Total problem credit	12,287	1,288	13,575
Of which: Unimpaired debts, in arrears of 90 days or more (2)	1,293	-	-
2. Noninterest-performing assets:			
Impaired debts	7,199	-	-
Assets received in respect of credit cleared	65	-	-
Total noninterest-performing assets	7,264	-	-

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

(1) Credit risk impaired, subordinate or under special supervision.
(2) Including in respect of housing loans for which an allowance has been made according to the extent of arrears and in respect of housing loans for which no allowance has been made according to the extent of arrears which are in arrears of 90 days or more.

Below are details of the credit risk metrics:

	31 March 2013	31 March 2012	31 December 2012
	%		
Balance of impaired credit to the public not accruing interest income to the balance of credit to the public	**2.7**	2.7	2.9
Balance of credit to the public which is not impaired in arrears of 90 days or more to the balance of credit to the public	**0.5**	0.5	0.5
Balance of the allowance for credit losses in respect of credit to the public to the balance of credit to the public	**1.6**	1.7	1.6
Balance of the allowance for credit losses in respect of credit to the public to the balance of impaired credit to the public not accruing interest income	**63.1**	61.1	55.4
Problem commercial credit risk in respect of the public to total credit risk in respect of the public	**3.1**	3.3	3.4
Expenses in respect of credit losses to the average balance of credit to the public (in annual terms)	**0.1**	0.4	0.5
Net write-offs in respect of credit to the public to the average balance of credit to the public (in annual terms)	**0.2**	0.3	0.5
Net write-offs in respect of credit to the public to the balance of the allowance for credit losses in respect of credit to the public (in annual terms)	**11.1**	17.6	27.8

Noninterest income of Leumi Group amounted to NIS 1,469 in the first quarter of 2013, compared with NIS 1,177 in the corresponding period in 2012, an increase of NIS 292 million or 24.8%.

Noninterest income includes:

	For the three months ended		
	31 March 2013	31 March 2012	Change
	NIS millions		%
Non-interest financial income	**411**	145	+
Commissions	**1,025**	1,020	0.5
Other income	**33**	12	+
Total	**1,469**	1,177	24.8

Reductions in noninterest income by quarter are as follows:

	2013	2012			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions				
Non-interest financial income	**411**	205	119	(25)	145
Commissions	**1,025**	1,107	1,050	1,022	1,020
Other income	**33**	82	39	(2)	12
Total	**1,469**	1,394	1,208	995	1,177

Details of non-interest financial income are as follows:

	For the three months ended			
	31 March 2013	31 March 2012	Change	
	NIS millions		NIS millions	%
Net income in respect of derivative instruments and net exchange rate differences	**62**	103	(41)	(39.8)
Profits from sale of available-for-sale debentures, net	**99**	58	41	70.7
Profits (losses) from investments in shares including dividends *	**239**	(14)	253	+
Net profits in respect of loans sold	**43**	-	43	+
Realized and unrealized losses from adjustments of tradable debentures and shares to fair value, net	**(32)**	(2)	(30)	-
Total	**411**	145	266	+

* Including profit on the sale of shares of Migdal amounting to NIS 180 million, before the effect of tax, in the first quarter of 2013 and 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 59 million, net in the first quarter of 2012.

The following table shows the development of the main items in noninterest financial income by quarter:

	2013	2012			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions				
Income (expenses), net, in respect of derivative instruments and net exchange rate differences	**62**	76	(98)	(157)	103
Profits from the sale of available-for-sale of debentures, net	**99**	28	137	68	58
Profits (losses) from investments in shares, including dividends *	**239**	13	25	(34)	(14)
Profits in respect of loans sold	**43**	-	-	-	-
Realized and unrealized gains (losses) from adjustments of tradable debentures and shares to fair value, net	**(32)**	88	55	98	(2)
Total	**411**	205	119	(25)	145

* Including profit on the sale of shares of Migdal in the first quarter of 2013 amounting to NIS 180 million, before the effect of tax, and 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 59 million, net, in the first quarter of 2012 and NIS 101 million in the second quarter of 2012.

Details of commissions are as follows:

	31 March 2013	31 March 2012	Change	
	NIS millions		NIS millions	%
Account management	**204**	216	(12)	(5.6)
Activity in securities and derivative instruments	**208**	205	3	1.5
Credit cards	**217**	209	8	3.8
Dealing with credit	**82**	85	(3)	(3.5)
Commissions for distribution of financial products	**63**	54	9	16.7
Conversion differences	**68**	72	(4)	(5.6)
Commissions from financing transactions	**106**	98	8	8.2
Other commissions	**77**	81	(4)	(4.9)
Total commissions	**1,025**	1,020	5	0.5

Income from commissions cover 49.8% of the operating and other expenses compared to coverage of 51.1% in the corresponding period last year and 46.1% in the whole of 2012.

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

Segment	For the first three months of		
	2013	2012	Change
	NIS millions		%
Households	**447**	461	(3.0)
Small businesses	**130**	126	3.2
Corporate banking	**158**	147	7.5
Commercial banking	**135**	141	(4.3)
Private banking	**162**	158	25.9
Financial management	**422**	155	+
Other	**15**	(11)	+
Total	**1,469**	1,177	24.8

The proportion of non-interest income from all income (i.e., net interest income, and noninterest income) was 45.5%, compared with 39.2% in the corresponding period last year and compared with 39.2% for the whole of 2012.

Total operating and other expenses of Leumi Group in the first quarter of 2013 amounted to NIS 2,057 million, compared with NIS 1,995 million in the corresponding period last year, an increase of 3.1%.

Operating and other expenses include:

	Three months ended			
	31 March 2013	31 March 2012	Change	
	NIS millions		NIS millions	%
Salaries and related expenses	**1,282**	1,186	96	8.1
Building and equipment maintenance and depreciation	**449**	427	22	5.2
Other expenses (including amortization of intangible assets)	**326**	382	(56)	(14.7)
Total operating and other expenses	**2,057**	1,995	62	3.1

The table below sets forth the quarterly development in salary expenses:

	2013	2012				
	1st quarter	Total for year	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions					
Salary expenses, excluding special salary expenses	**1,301**	4,703	1,163	1,198	1,169	1,173
Actuarial changes and changes in salary tax	**-**	200	17	144	25	14
Supplement to provisions for severance pay and pension after offsetting fund profits	**(19)**	64	11	(58)	112	(1)
Early retirement	**-**	323	123	150	50	-
Total salary expenses	**1,282**	5,290	1,314	1,434	1,356	1,186

Operating and other expenses (building and equipment maintenance, depreciation and amortization) decreased during the first quarter of 2013 by NIS 34 million, a reduction of 4.2% compared with the corresponding period in 2012.

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

	2013	2012			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions				
Depreciation	**185**	226	184	188	177
Maintenance of buildings and equipment	**264**	268	268	258	250
Other expenses and amortization of intangible assets	**326**	803	408	398	382
Total operating and other expenses	**775**	1,297	860	844	809

* Excluding salary

Operating expenses constitute 63.7% of total income, compared with 66.4% in the corresponding period in 2012 and compared with 74.7% for the whole of 2012. The decrease is primarily attributable to an increase in income compared with a more moderate increase in operating expenses.

Total operating and other expenses (in annual terms) constitute 2.25% of the total balance sheet, compared with 2.24% in the corresponding period in 2012, and compared with 2.42% for the whole of 2012.

Profit before taxes of Leumi Group for the first quarter of 2013 amounted to NIS 1,101 million, compared with NIS 785 million in the corresponding period in 2012, an increase of 40.3%.

Provision for taxes on profit of Leumi Group in the first quarter of 2013 amounted to NIS 463 million, compared with NIS 306 million in the corresponding period in 2012. The rate of the provision in the first quarter of 2013 was some 42.1% of the pre-tax profit, compared with 39.0% in the corresponding period in 2012, an increase of some 3.1 percentage points. The increase in the tax rate in the Group compared with the corresponding period in 2012 is primarily attributable to negative exchange rate differences, compared to positive exchange rate differences in the corresponding period in 2012.

Profit after taxes for the first quarter of 2013 amounted to NIS 638 million, compared with NIS 479 million in the corresponding period in 2012, an increase of 33.2%.

The Group's share in profit after taxes of associate companies amounted to a loss of NIS 57 million in the first quarter of 2013, compared with a loss of NIS 39 million in the corresponding period in 2012, primarily attributable to the effect of the results of the Israel Corporation. For details, see the section, "Financial Management – Capital Markets" in the chapter, "Activity Sectors in the Group" below.

Net profit before attribution to holders of non-controlling interests in the first quarter of 2013 amounted to a profit of NIS 581 million, compared with a profit of NIS 440 million in the corresponding period in 2012, an increase of 32.0%.

Net profit attributable to holders of non-controlling interests in the first quarter of 2013 amounted to NIS 11 million, compared to a profit of NIS 9 million in the corresponding period in 2012.

Net profit attributable to the shareholders in the banking corporation for the first quarter of 2013 amounted to a profit of NIS 570 million, compared with a profit of NIS 431 million in the corresponding period in 2012, an increase of 32.3%.

Return on capital – Average for the period to shareholders of the banking corporation in annual terms:

	2013	2012			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions				
Net profit (loss) attributable to the shareholders of the banking corporation	**9.4**	(4.0)	8.0	4.7	7.5

Basic net profit per share attributable to the shareholders of the banking corporation was NIS 0.41 for the first quarter of 2013, compared with NIS 0.29 for the corresponding period in 2012.

The following table is the condensed statement of total income:

	First three months ended			
	31 March 2013	31 March 2012	Change	
	NIS millions		NIS millions	%
Net profit attributable to shareholders in the banking corporation *	**570**	431	139	32.3
Other comprehensive income (loss) before tax *	**(250)**	543	(793)	-
Effect of tax attributable to other comprehensive income	**38**	(203)	241	+
Other comprehensive income (loss)attributable to noncontrolling interests	**4**	(1)	5	+
Total profit attributable shareholders in the banking corporation	**362**	770	(408)	(53.0)

* The loss in the item, other comprehensive income, in the first quarter of 2013 is primarily attributable to the sale of shares from the available-for-sale portfolio whose profits are classified to net profit. For further details, see note 12.

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

Total assets of Leumi Group as at 31 March 2013 amounted to NIS 369.6 billion, compared with NIS 376.2 billion at the end of 2012, a decrease of 1.8%, and an increase of 2.9%, compared with 31 March 2012.

The value of the assets in the balance sheet denominated in and linked to foreign currency was some NIS 85.7 billion, some 23.2% of total assets. During the first quarter of 2013, the shekel appreciated against the U.S. dollar by 2.3%, and against the euro, by 5.3%. The changes in exchange rates in the first quarter of the year led to a decrease of 0.8% 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 1,009 billion, compared with NIS 989 billion at the end of 2012 (some US$ 277 billion and US$ 265 billion, respectively), as detailed below.

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

	31 March 2013	31 December 2012	Since December 2012	Since March 2012
	NIS millions		Change %	
Total assets	**369,529**	376,160	(1.8)	2.9
Cash and deposits with banks	**53,933**	54,261	(1.3)	13.9
Securities	**53,378**	56,408	(5.4)	7.3
Credit to the public, net	**238,614**	241,264	(1.1)	(0.8)
Buildings and equipment	**3,685**	3,705	(0.5)	(0.8)
Deposits of the public	**278,820**	289,538	(3.7)	0.4
Deposits from banks	**7,579**	4,073	86.1	108.8
Debentures, notes and subordinated notes	**27,542**	27,525	0.1	(1.2)

Deposits of the public amounted to NIS 278.8 billion as at 31 March 2013, compared with NIS 289.5 billion as at 31 December 2012, a decrease of 3.7%, and compared with 31 March 2012, an increase of 0.4%.

The appreciation of the shekel in relation to most foreign currencies in the first quarter of the year contributed to a decrease of 1.2% in total deposits of the public.

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

Segment	**31 March 2013**	31 December 2012	Change
	NIS millions		%
Households	**124,320**	128,194	(3.0)
Small businesses	**19,730**	19,666	0.3
Corporate banking	**21,452**	26,281	(18.4)
Commercial banking	**49,420**	50,108	(1.4)
Private banking	**36,529**	38,338	(4.7)
Financial management, capital markets and other	**27,369**	26,951	1.6
Total	**278,820**	289,538	(3.7)

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

Debentures, capital notes and subordinated capital notes totaled NIS 27.5 billion on 31 March 2013, similar to the balance as at 31 December 2012, and compared with 31 March 2012, a decrease of 1.2%. In the first quarter of 2013, NIS 132 million of debentures were repaid.

Off-balance sheet activity

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

	31 March 2013	31 December 2012	Change	
	NIS millions		NIS millions	%
Securities portfolios	**545,602**	527,582	18,020	3.4
Of which: managed by mutual funds[(2) (3)]	**67,054**	60,482	6,572	10.9
Provident and pension funds[(2) (3)]	**56,407**	53,372	3,035	5.7
Supplementary training funds[(2) (3)]	**37,504**	32,247	5,257	16.3
Total	**639,513**	613,201	26,312	4.3

(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 238.6 billion as at 31 March 2013, compared with NIS 241.3 billion at 31 December 2012, a decrease of 1.1%, and, compared with 31 March 2012, a decrease of 0.8 %.

The appreciation of the shekel in relation to most foreign currencies in the first quarter of 2013 contributed in total to a decrease of 0.7% in total credit to the public.

In addition to credit to the public, the Group invests in corporate debentures which, as at 31 March 2013, amounted to NIS 11,600 billion, compared with NIS 11,171 billion as at 31 December 2012, an increase of 3.8%.

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

	31 March 2013		31 December 2012		
Economy Sectors	Overall credit risk to the public	Percentage of total	Overall credit risk to the public	Percentage of total	Rate of change
	NIS millions	%	NIS millions	%	%
Agriculture	**2,129**	**0.6**	2,086	0.6	2.1
Industry	**41,452**	**11.4**	43,430	12.0	(4.6)
Construction and real estate (2)	**79,323**	**21.9**	79,807	22.0	(0.6)
Electricity and water	**3,780**	**1.0**	3,679	1.0	2.7
Trade	**28,998**	**8.0**	32,124	8.8	(9.7)
Hotels, accommodation and food	**5,072**	**1.4**	5,283	1.4	(4.0)
Transportation and storage	**6,045**	**1.7**	6,371	1.7	(5.1)
Communications and computer services	**6,544**	**1.8**	6,359	1.7	2.9
Financial services	**40,192**	**11.1**	39,500	10.9	1.8
Other business services	**12,670**	**3.5**	11,099	3.1	14.2
Public and community services	**9,022**	**2.5**	9,034	2.5	(0.1)
Private individuals - housing loans	**66,441**	**18.3**	65,439	18.0	1.5
Private persons – other	**60,787**	**16.8**	59,101	16.3	2.9
Total	**362,455**	**100.0**	363,312	100.0	(0.2)

(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 996 million and off-balance sheet credit risk amounting to NIS 2,013 million, compared to NIS 1,067million and NIS 2,164 million, respectively, as at 31 December 2012.

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

	2013	2012			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions				
Households	**92,469**	90,492	89,084	86,128	84,039
Of which: housing loans	**63,214**	61,998	60,888	58,699	56,811
Small businesses	**22,116**	21,733	21,014	20,819	20,207
Corporate banking	**66,961**	70,252	70,895	74,815	77,660
Commercial banking	**48,636**	49,908	51,088	49,834	49,257
Private banking	**7,361**	8,170	8,508	8,658	8,451
Financial management, capital markets and others	**1,071**	709	875	1,173	886
Total	**238,614**	241,264	241,264	241,427	240,500

Additional data on total credit is set forth below.

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

Credit ceiling in NIS thousands		**31 March 2013** Percentage of total number of borrowers	Percentage of total balance sheet credit	Percentage of total off-balance sheet credit
From	To	%		
0	80	**83.5**	**6.4**	**20.2**
80	600	**13.8**	**19.0**	**11.2**
600	1,200	**1.7**	**11.2**	**2.9**
1,200	2,000	**0.5**	**5.2**	**2.0**
2,000	8,000	**0.4**	**9.0**	**5.6**
8,000	20,000	**0.1**	**7.3**	**4.9**
20,000	40,000	**0.043**	**6.8**	**6.1**
40,000	200,000	**0.032**	**15.0**	**18.0**
200,000	800,000	**0.01**	**12.3**	**21.5**
Above 800,000		**0.001**	**7.8**	**7.6**
Total		**100**	**100**	**100**

Credit ceiling in NIS thousands		31 December 2012 Percentage of total number of borrowers	Percentage of total balance sheet credit	Percentage of total off-balance sheet credit
From	To	%		
0	80	83.4	6.3	20.1
80	600	13.8	18.5	11.2
600	1,200	1.7	10.7	3.0
1,200	2,000	0.5	5.1	2.1
2,000	8,000	0.4	8.9	5.5
8,000	20,000	0.1	7.2	5.2
20,000	40,000	0.05	7.1	6.4
40,000	200,000	0.04	15.8	17.8
200,000	800,000	0.01 **	13.0	21.5
Above 800,000		0.001***	7.4	7.2
Total		100.0	100.0	100.0

* Before deduction of allowances for credit losses.

** On 31 March 2013 - 151 borrowers and on 31 December 2012 - 154 borrowers.

*** On 31 March 2013 - 18 borrowers and on 31 December 2012 - 17 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:

		31 March 2013					
		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	**8**	**-**	**4,367**	**-**	**3,018**	**-**
1,200	1,600	**3**	**-**	**2,585**	**-**	**1,459**	**-**
1,600	2,000	**2**	**1**	**3,555**	**1,937**	**117**	**-**
2,000	2,400	**3**	**-**	**3,960**	**-**	**2,674**	**-**
2,400	2,800	**1**	**-**	**1,832**	**-**	**761**	**-**
2,800	2,945	**1**	**-**	**2,885**	**-**	**60**	**-**
Total		**18**	**1**	**19,184**	**1,937**	**8,089**	**-**

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.

		31 December 2012					
		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	9	-	5,054	-	3,908	-
1,200	1,600	3	-	3,950	-	235	-
2,000	2,400	3	1	4,312	2,016	2,119	-
2,800	3,200	1	-	2,878	-	62	-
3,200	3,301	1	-	2,175	-	1,126	-
Total		17	1	18,369	2,016	7,450	-

2. Credit risk according to industry sectors:

	31 March 2013		
	Number of borrowers	Balance sheet credit	Off-balance sheet credit risk
		In NIS millions	
Industry	**4**	**2,274**	**4,453**
Construction and real estate	**6**	**4,014**	**1,957**
Public and community services	**1**	**768**	**236**
Communications and computer services	**1**	**2,885**	**60**
Financial services	**4**	**5,724**	**117**
Electricity and water	**1**	**1,832**	**761**
Trade	**1**	**1,687**	**505**
Total	**18**	**19,184**	**8,089**

	31 December 2012		
	Number of borrowers	Balance sheet credit	Off-balance sheet credit risk
		In NIS millions	
Industry	4	2,298	4,187
Construction and real estate	5	3,699	1,470
Public and community services	1	778	235
Communications and computer services	1	2,878	62
Financial services	4	5,332	146
Electricity and water	1	2,175	1,126
Trade	1	1,209	224
Total	17	18,369	7,450

3. Restrictions on indebtedness of borrower and group of borrowers

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

31 March 2013					
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	**6,114**	**1,217**	**7,331**	**26**	**17.4**

b. Total debt of groups of borrowers whose debts exceed 10% of the Bank's capital

Total debts of large borrowers, groups of borrowers and banking groups of borrowers whose debts exceed 10% of the Bank's capital constituted 17.4% of the Bank's capital at 31 March 2013, compared with the Bank of Israel limit of 120% of capital for capital adequacy purposes.

Problem debts

The risk of problem credit after individual and collective allowances is as follows:

	31 March 2013			31 December 2012		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
	In NIS millions					
Impaired debts	**4,959**	**385**	**5,344**	5,648	393	6,041
Substandard debts	**1,866**	**25**	**1,891**	2,183	102	2,285
Special mention debts	**2,162**	**576**	**2,738**	1,979	626	2,605
Total	**8,987**	**986**	**9,973**	9,810	1,121	10,931

Problem credit risk:

	31 March 2013	31 December 2012
	Problem credit risk	Problem credit risk
	In NIS millions	
Commercial problem credit risk	**11,208**	12,264
Retail problem credit risk	**1,335**	1,311
Total	**12,543**	13,575
Allowance for credit losses	**2,570**	2,644
Problem credit after allowance for credit losses	**9,973**	10,931

Credit to Governments amounted to NIS 423 million as at 31 March 2013, compared with NIS 442 million on 31 December 2012, a decrease of 4.3%, a decrease of 0.5% compared with 31 March 2012.

Securities

The Group's investments in securities amounted to NIS 53.4 billion on 31 March 2013, compared with NIS 56.4 billion, a decrease of 5.4%, compared with 31 December 2012, and an increase of 7.3% compared with 31 March 2012.

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", 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.

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

	31 March 2013				
	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	**39,971**	**476**	**(87)**	**40,360**	**40,360**
For trading	**10,001**	*** 200**	*** (12)**	**10,189**	**10,189**
	49,972	**676**	**(99)**	**50,549**	**50,549**
Shares and funds					
Available-for-sale	**2,162**	**272**	**(14)**	**2,420**	**2,420**
For trading	**383**	***27**	*** (1)**	**409**	**409**
	2,545	**299**	**(15)**	**2,829**	**2,829**
Total securities	**52,517**	**975**	**(114)**	**53,378**	**53,378**

* Carried to profit and loss

	31 December 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	42,260	576	(109)	42,727	42,727
For trading	11,092	* 236	* (13)	11,315	11,315
	53,352	812	(122)	54,042	54,042
Shares and funds					
Available-for-sale	1,726	453	(12)	2,167	2,167
For trading	189	* 11	* (1)	199	199
	1,915	464	(13)	2,366	2,366
Total securities	55,267	1,276	(135)	56,408	56,408

* Carried to profit and loss

As at 31 March 2013, some 80.1% of the Group's *nostro* portfolio was classified as available-for-sale securities and some 19.9% was classified as the trading portfolio. This classification allows for flexibility in the management of the securities portfolio. Some 5.3% 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	
	31 March 2013	31 March 2012
	NIS millions	
Debentures redeemed and/or sold (available-for-sale)	**13,959**	8,960
Purchases of available-for-sale debentures	**11,772**	9,948
Net profit from investments in debentures:		
Interest income	**228**	278
Net profit from sale and from impairment of available-for-sale debentures	**99**	58
Realized and/or unrealized gain from adjustments to fair value of debentures for trading	**(48)**	(1)

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

	31 March 2013			31 December 2012		
	Government of Israel	Foreign governments	Other companies	Government of Israel	Foreign governments	Other companies
	NIS millions					
Israeli currency:						
Unlinked	**23,267**	**-**	**718**	26,319	-	860
Linked to CPI	**3,625**	**-**	**1,251**	3,441	-	1,320
Foreign currency including foreign currency-linked	**2,059**	**6,272**	**13,357**	2,218	6,765	13,119
Total debentures	**28,951**	**6,272**	*** 15,326**	31,978	6,765	* 15,299

* Of which, subordinated notes of NIS 1,158 million as at 31 March 2013 and NIS 1,272 million as at 31 December 2012.

The debenture portfolio is mostly invested in debentures of the Government of Israel and the United States government.

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

	31 March 2013	31 December 2012
Securities traded on an active market	**36,188**	40,458
Securities based on prices determined by external models	**14,244**	13,102
Securities based on quotation from counterparty or at cost	**2,946**	2,848
Total	**53,378**	56,408

Below is a table of details of investments in corporate debentures only (excluding banks) issued in Israel and abroad, by sector of the economy (available-for-sale and trading portfolio):

Sector of economy	**31 March 2013**		31 December 2012	
	Issued in Israel	Issued abroad	Issued in Israel	Issued abroad
	NIS million			
Agriculture	**-**	**15**	-	15
Industry	**177**	**707**	179	801
Construction and real estate	**31**	**188**	53	244
Electricity and water	**872**	**239**	867	206
Trade	**291**	**56**	312	50
Transportation and storage	**19**	**12**	24	11
Communications and computer services	**53**	**238**	53	205
Financial services	**297**	**8,025**	474	7,343
Business and other services	**128**	**70**	95	101
Public and community services	**30**	**152**	24	114
Total	**1,898**	**9,702**	2,081	9,090

Available-for-sale portfolio

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

	31 March 2013		31 December 2012		Change	
	Abroad	In Israel	Abroad	In Israel	Abroad	In Israel
	NIS millions					
Debentures	**19,732**	**20,628**	20,400	22,327	(668)	(1,699)
Shares and funds	**1,174**	**1,246**	594	1,573	580	(327)
Total	**20,906**	**21,874**	20,994	23,900	(88)	(2,026)

a. In the first quarter of 2013, there was negative movement in the capital reserve of available-for-sale securities amounting to NIS 227 million (before the effect of tax). The negative movement was attributable to securities which were realized and classified to profit and loss, consisting of a reduction of NIS 333 million and a positive adjustment of NIS 106 million. This compared with an increase in value of NIS 588 million (before tax) in the corresponding period last year.

b. Net profits from the sale of debentures amounting to NIS 99 million were recorded to profit and loss, compared with profits of NIS 58 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 period ended		For the year ended
	31 March 2013	31 March 2012	31 December 2012
	NIS millions		
Profits in respect of available-for-sale securities which were recorded to profit and loss	**516**	245	1,167
Adjustments to capital reserve of available-for sale securities in equity	**(227)**	588	1,066
Total change in respect of available-for-sale securities	**289**	833	2,233

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

	31 March 2013	31 March 2012	31 December 2012	Movement in the first quarter of 2013	2012
	NIS millions				
Shares	**258**	395	441	(183)	80
Israel government debentures	**227**	142	276	(49)	(9)
Foreign government debentures	**3**	3	12	(9)	5
Other debentures *	**159**	(146)	* 179	(20)	524
Other debt instruments	**(132)**	(130)	(166)	34	(12)
Total	**515**	264	742	(227)	588
Related tax	**(174)**	(92)	(247)	73	(198)
Net total	**341**	172	495	(154)	390

* Of which the balance of the accumulated impairment in respect of subordinated notes issued by foreign banks is NIS (2) 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 31 March 2013, amounted to a positive amount of NIS 341 million (after the effect of tax). This amount represents a profit which had not been realized at the date of the financial statements.

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 2012 Annual Report.

e. The following is the impairment in value of available-for-sale securities charged to equity as at 31 March 2013:

		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	**11**	**-**	**-**	**-**	**11**
	Asset-backed debentures	**8**	**-**	**-**	**11**	**19**
	Other debentures	**13**	**-**	**3**	**44**	**60**
	Total	**32**	**-**	**3**	**55**	**90**
Above 10%	Shares	**3**	**-**	**-**	**-**	**3**
	Asset-backed debentures	**-**	**-**	**-**	**-**	**-**
	Other debentures	**-**	**-**	**-**	**8**	**8**
	Total	**3**	**-**	**-**	**8**	**11**
Total	Shares	**14**	**-**	**-**	**-**	**14**
	Asset-backed debentures	**8**	**-**	**-**	**11**	**19**
	Other debentures	**13**	**-**	**3**	**52**	**68**
	Total	**35**		**3**	**63**	**101**

* 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:

	31 March 2013		31 December 2012		Change	
	Abroad	In Israel	Abroad	In Israel	Abroad	In Israel
	NIS millions					
Debentures	**1,866**	**8,323**	1,635	9,680	231	(1,357)
Shares and funds	**228**	**181**	27	172	201	9
Total	**2,094**	**8,504**	1,662	9,852	432	(1,348)

In respect of debentures for trading, realized and unrealized profits amounting to NIS 48 million were recorded in the profit and loss statement in the first quarter of 2013, compared with profits of NIS 1 million in the corresponding period in 2012, and in respect of shares and funds, realized and unrealized profits were recorded amounting to NIS 16 million, compared with losses amounting to NIS 1 million in the corresponding period in 2012.

Investments in securities issued abroad

The Group's securities portfolio includes some NIS 23.0 billion (some US$ 6.3 billion) of securities issued abroad. Some 95% of the portfolio is invested in debt instruments, all of which (but for some 1.1%) are investment grade securities, of which some 89% are rated 'A-' and above, and some 5% of the portfolio is invested in shares and funds.

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

	31 March 2013		31 December 2012	
	Available-for-sale portfolio	Trading portfolio	Available-for-sale portfolio	Trading portfolio
Balance sheet value	NIS millions			
Government debentures	**7,544**	**714**	8,487	447
Debentures of banks and financial institutions	**4,753**	**179**	5,281	88
Asset-backed debentures	**5,856**	**358**	5,049	358
Other debentures	**1,579**	**615**	1,583	742
Shares and funds	**1,174**	**228**	594	27
Total	**20,906**	**2,094**	20,994	1,662

The net increase in value (the offset between increases and decreases in value), charged to equity in respect of securities issued abroad, as of 31 March 2013, amounts to NIS 279 million (NIS 179 million after taxes).

During the first quarter of 2013, as well in the subsequent period, there was an increase in investment in shares and funds abroad, at the same time as the reducing trend in the debenture portfolio of banks issued abroad. From the end of the first quarter of 2013 to 26 May 2013, there was a further increase in investment in shares and funds amounting to NIS 470 million.

1. Investments in foreign asset-backed securities

The Group's portfolio of asset-backed securities (mortgage and non-mortgages) as at 31 March 2013, all of which is investment grade, amounted to some NIS 6.2 billion (some US$ 1.7 billion) of asset-backed securities, compared with some NIS 5.4 billion at the end of 2012. Of the said portfolio, some NIS 5.9 billion (some US$ 1.6 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 31 March 2013 includes investments in mortgage-backed securities in the total amount of some NIS 4.5 billion. 93% 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:

	31 March 2013			
	Amortized cost	Unrealized profits	Unrealized losses	Balance sheet value (fair value)
	NIS millions			
MBS - mortgage-backed securities	**4,455**	**19**	**(6)**	**4,468**
ABS-asset-backed securities (other than mortgage-backed):	**1,359**	**42**	**(13)**	**1,388**
Of which: CLO	**1,292**	**43**	**(11)**	**1,324**
Other	**67**	**(1)**	**(2)**	**64**
Total	**5,814**	**61**	**(19)**	**5,856**

	31 December 2012			
	Amortized cost	Unrealized profits	Unrealized losses	Balance sheet value (fair value)
	NIS millions			
MBS - mortgage-backed securities	3,611	22	(2)	3,631
ABS-asset-backed securities (other than mortgage-backed):	1,382	54	(18)	1,418
Of which: CLO	1,334	54	(17)	1,371
Other	48	-	(1)	47
Total	4,993	76	(20)	5,049

For the definition of asset-backed securities, see note 3 to the 2012 Financial Statements.

Securitization Exposures

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

	31 March 2013	31 December 2012
	Accrued amount of exposure	
	NIS millions	
Mortgage-backed Securities (MBS):		
Pass-through securities:		
Securities guaranteed by US Government GNMA	**204**	257
Securities issued by FNMA and FHLMC	**1,674**	511
Other securities	**5**	5
Other mortgage-backed securities:		
Securities issued by FHLMC, FNMA, or GNMA, or guaranteed by these entities	**2,310**	2,581
Other mortgage-backed securities	**344**	322
Total mortgage-backed securities (MBS)	**4,537**	3,676
Asset-backed securities (ABS):		
Debtors in respect of credit cards	**91**	75
Lines of credit for any purpose secured by dwelling	**5**	5
Credit for purchase of vehicle	**161**	166
Other credit to private persons	**19**	20
Credit not to private persons	**5**	1
CLO debentures	**1,324**	1,371
Others	**72**	93
Total asset-backed (ABS)	**1,677**	1,731
Total asset-backed securities	**6,214**	5,407

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

	31 March 2013	31 December 2012	**31 March 2013**	31 December 2012
	Accrued amount of exposure		Capital requirement for securitization exposure	
	NIS millions		NIS millions	
20%	**696**	727	13	13
40%	**445**	390	16	14
50%	**232**	169	10	8
100%	**270**	370	24	33
225%	**31**	42	6	8
350%	**-**	-	-	-
650%	2	2	1	1
Deducted from equity	**10**	21	-	-
Total	**1,686**	1,721	70	77

* 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 31 March 2013, the cumulative net increase in value which was carried to equity deriving from the mortgage-backed debenture portfolio amounted to some NIS 13 million.

The total of the mortgage-backed securities that are not (U.S.) government guaranteed and are not backed by American federal entities in both the available-for-sale and trading portfolios, amounts to some NIS 349 million.

The forecast term to maturity for each mortgage-backed securities portfolio is, on average, some 4 years.
In addition to the mortgage-backed securities, the Group's available-for-sale portfolio also includes other securities that are backed by assets other than mortgages (car purchase 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 years on average.

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

The Group's securities portfolio as at 31 March 2013 includes some NIS 16.8 billion (some US$ 4.6 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 15.1 billion (US$ 4.1 billion) are classified in the available-for-sale portfolio, and some NIS 1.7 billion in the securities for trading portfolio. Of these securities, 80% are investment grade.

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 31 March 2013, 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 237 million (NIS 152 million after tax). In the first quarter of 2013, there was a fall in value amounting to NIS 38 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.

In addition, as aforesaid, 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. The value of the trading portfolio which is non-asset backed as at 31 March 2013 amounted to some NIS 1.7 billion (US$ 0.5 billion). The difference between the fair value and the adjusted cost, if any, is carried to the profit and loss statement.

3. Investments in debentures issued in Israel

Investments in debentures issued in Israel at 31 March 2013 amounted to NIS 29.0 billion, of which NIS 27.0 billion was in debentures issued by the Government of Israel, with the balance, NIS 2.0 billion, in corporate debentures. Some 58.7% of the investments in corporate debentures amounting, as of 31 March 2013, 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 36 million, while the negative reserve amounts to NIS 3 million.

4. Investments in shares and funds

Total investments in shares and funds amounted to some NIS 2,829 million as at 31 March 2013, of which some NIS 1,369 million was in quoted shares and some NIS 1,460 million in unquoted shares. Out of the total investment, NIS 2,420 million is classified as available-for-sale and NIS 409 million is classified in the trading portfolio.

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

	Bank's share on a consolidated basis in the paid-up capital giving the right to receive profits		Value of the investment in the consolidated balance sheet (2)		Capital adequacy requirements		Listed/ Not listed
	31 March 2013	31 December 2012	**31 March 2013**	31 December 2012	**31 March 2013**	31 December 2012	
	%		NIS millions				
Migdal Insurance and Financial Holdings Ltd.	**4.71**	9.79	**293**	594	**26**	53	listed
Africa Israel Properties Ltd.	**-**	2.2	**-**	22	**-**	2	listed
Otzar Hityashvuth Hayehudim B.M.	**8.62**	8.62	**53**	50	**5**	5	listed
Partner Communications Co. Ltd.	**2.9**	4.99	**102**	174	**9**	16	listed
Electra Consumer Products (1970) Ltd.	**8.98**	8.98	**64**	57	**6**	5	listed
TSI Roads Limited Partnership	**17.82**	17.82	**104**	108	**9**	10	not listed
Tower Semiconductor capital notes	**-**	-	**41**	49	**4**	4	not listed
Tower Semiconductor			**30**	-	**3**	-	listed
CLS Bank	**-**	-	**21**	21	**2**	2	not listed
Funds	**-**	-	**1,422**	825	**128**	74	of which 846 not listed
Apax	**-**	-	**71**	72	**6**	6	not listed
Other	**-**	-	**628**	394	**57**	36	of which 354 not listed
Total			**2,829**	2,366	**255**	213	

(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.

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

	Balance sheet amount	
	31 March 2013	31 December 2012
Quoted shares and funds (1)	**1,369**	1,172
Funds according to quote by counterparty (2)	**918**	696
Unquoted shares (2)	**542**	498
Total	**2,829**	2,366

(1) Included at level 1 in note 8 Balances and estimates of fair value of financial instruments.
(2) Included at level 3 in note 8 Balances and estimates of fair value of financial instruments.

Other assets and debit balances in respect of derivative instruments

As of 31 March 2013, other assets and debit balances in respect of derivative instruments amounted to NIS 16.4 billion, compared with NIS 16.0 billion at the end of 2012, an increase of 2.5%.

Other liabilities and credit balances in respect of derivative instruments

As of 31 March 2013, other liabilities and credit balances in respect of derivative instruments amounted to NIS 28.8 billion, compared with NIS 28.3 billion at the end of 2012, an increase of 1.6%.

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 2012.

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

	Credit to the public			Deposits of the public			Total assets		
Segment	**31 March 2013**	31 December 2012	Change	**31 March 2013**	31 December 2012	Change	**31 March 2013**	31 December 2012	Change
	NIS millions		%	NIS millions		%	NIS millions		%
Households	**92,469**	90,492	2.2	**124,320**	128,194	(3.0)	**93,150**	91,216	2.1
Small businesses	**22,116**	21,733	1.8	**19,730**	19,666	0.3	**22,141**	21,757	1.8
Corporate banking	**66,961**	70,252	(4.7)	**21,452**	26,281	(18.4)	**68.497**	71,905	(4.7)
Commercial banking	**48,636**	49,908	(2.5)	**49,420**	50,108	(1.4)	**49,782**	50,758	(1.9)
Private banking	**7,361**	8,170	(9.9)	**36,529**	38,338	(4.7)	**11,952**	13,167	(9.2)
Financial management and other	**1,071**	709	51.1	**27,369**	26,951	1.6	**124,007**	127,357	(2.6)
Total	**238,614**	241,264	(1.1)	**278,820**	289,538	(3.7)	**369,529**	376,160	(1.8)

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		
Segment	**31 March 2013**	31 December 2012	Change	**31 March 2013**	31 December 2012	Change
	NIS millions		%	NIS millions		%
Households	**459**	443	3.6	**98,816**	94,329	4.8
Small businesses	**1,508**	1,564	(3.6)	**7,327**	6,764	8.3
Corporate banking	**28,810**	27,652	4.2	**62,666**	59,996	4.5
Commercial banking	**6,338**	6,470	(2.0)	**49,147**	48,660	1.0
Private banking	**343**	387	(11.4)	**84,881**	85,065	(0.2)
Financial management and other	**761**	821	(7.3)	**242,765**	232,768	4.3
Total	**38,219**	37,337	2.4	**545,602**	527,582	3.4

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

Segment	For the three months ended		
	31 March 2013	31 March 2012	Change
	NIS millions		%
Households	**41**	121	(66.1)
Small businesses	**57**	92	(38.0)
Corporate banking	**254**	106	139.6
Commercial banking	**110**	144	(23.6)
Private banking	**24**	24	-
Financial management:			
Capital markets	**13**	73	(82.2)
Non- bank investments	**122**	(99)	+
Other	**(51)**	(30)	-
Total	**570**	431	32.3

Explanations for the changes in profitability are provided below.

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

	2013	2012			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
Segment	NIS millions				
Households	**41**	78	107	141	121
Small businesses	**57**	70	99	58	92
Corporate banking	**254**	104	75	107	106
Commercial banking	**110**	62	142	96	144
Private banking	**24**	68	(13)	2	24
Financial management:					
Capital markets	**13**	(314)	(80)	(77)	73
Non- bank investments	**122**	(201)	108	(37)	(99)
Other	**(51)**	(126)	41	(10)	(30)
Total	**570**	(259)	479	280	431

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). The figures for 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 ratio pursuant to Basel II).

	As at 31 March 2013	As at 31 March 2012	As at 31 December 2012
	Allocating all the capital	Allocating all the capital	Allocating all the capital
Segment	RORAC %	RORAC %	RORAC %
Households	**2.9**	11.7	9.6
Small businesses	**14.2**	29.1	21.1
Corporate banking	**12.8**	4.7	4.3
Commercial banking	**9.5**	15.3	10.3
Private banking	**9.1**	10.6	8.3
Financial management	**20.6**	(2.8)	(18.3)
Other	**(32.5)**	(27.4)	(29.9)
Total for net profit	**9.4**	7.5	3.8

1. Households

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

	Banking and finance	Credit cards	Capital market	Mortgages	Overseas activity: Banking and finance	Overseas activity: Mortgages	Total
	For the three months ended 31 March 2013						
	NIS millions						
Net interest income:							
From external sources	**3**	**62**	**2**	**519**	**(3)**	**3**	**586**
Intersegmental	**422**	**(10)**	**(1)**	**(335)**	**4**	**-**	**80**
Non-interest income:							
From external sources	**196**	**118**	**109**	**(18)**	**2**	**-**	**407**
Intersegmental	**(45)**	**41**	**-**	**44**	**-**	**-**	**40**
Total income	**576**	**211**	**110**	**210**	**3**	**3**	**1,113**
Expenses in respect of credit losses	**38**	**5**	**-**	**44**	**(1)**	**-**	**86**
Operating and other expenses:							
To external sources	**677**	**167**	**88**	**22**	**4**	**1**	**959**
Intersegmental	**1**	**(1)**	**-**	**-**	**-**	**-**	**-**
Profit (loss) before taxes	**(140)**	**40**	**22**	**144**	**-**	**2**	**68**
Provision for taxes (benefit) on profit	**(52)**	**13**	**8**	**52**	**-**	**-**	**21**
Profit (loss) after taxes	**(88)**	**27**	**14**	**92**	**-**	**2**	**47**
Group share in profits of companies included on equity basis after effect of taxes	**-**	**1**	**-**	**-**	**-**	**-**	**1**
Net profit attributable to non-controlling interests	**-**	**(7)**	**-**	**-**	**-**	**-**	**(7)**
Net profit (loss)	**(88)**	**21**	**14**	**92**	**-**	**2**	**41**
Return on equity							**2.9%**
Average balance of assets	**20,415**	**8,758**	**138**	**62,612**	**58**	**202**	**92,183**
of which: investments in companies included on equity basis	**-**	**1**	**-**	**-**	**-**	**-**	**1**
Average balance of liabilities	**125,436**	**1,149**	**-**	**2,925**	**914**	**8**	**130,432**
Average balance of risk assets	**10,034**	**8,456**	**138**	**46,510**	**284**	**71**	**65,493**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**59,775**	**-**	**-**	**-**	**59,775**
Average balance of securities	**-**	**-**	**48,984**	**-**	**174**	**-**	**49,158**
Average balance of other assets under management	**4,625**	**-**	**-**	**-**	**-**	**-**	**4,625**
Balance of credit to the public	**20,347**	**8,715**	**138**	**63,015**	**55**	**199**	**92,469**
Balance of deposits of the public	**123,368**	**44**	**-**	**-**	**900**	**8**	**124,320**

Households (cont.)

	Banking and finance	Credit cards	Capital market	Mortgages	Overseas activity: Banking and finance	Overseas activity: Mortgages	Total
	For the three months ended 31 March 2012						
	NIS millions						
Net interest income:							
From external sources	(128)	63	2	457	(2)	4	396
Intersegmental	623	(13)	(1)	(328)	5	(1)	285
Non-interest income:	-	-	-	-	-	-	-
From external sources	153	118	115	(10)	2	-	378
Intersegmental	(2)	45	-	40	-	-	83
Total income	646	213	116	159	5	3	1,142
Expenses in respect of credit losses	16	3	-	(13)	3	(1)	8
Operating and other expenses:	-	-	-	-	-	-	-
To external sources	652	150	77	59	3	2	943
Intersegmental	(3)	(1)	-	4	-	-	-
Profit (loss) before taxes	(19)	61	39	109	(1)	2	191
Provision for taxes (benefit) on profit	(7)	19	13	38	-	-	63
Profit (loss) after taxes	(12)	42	26	71	(1)	2	128
Net profit attributable to non-controlling interests	-	(7)	-	-	-	-	(7)
Net profit (loss)	(12)	35	26	71	(1)	2	121
Return on equity							11.7%
Average balance of assets	19,539	7,899	130	56,495	72	181	84,316
Of which investments in companies included on equity basis	-	4	-	-	-	-	4
Average balance of liabilities	124,991	953	-	7,420	833	9	134,206
Average balance of risk assets	21,110	7,716	134	30,654	167	63	59,844
Average balance of mutual funds and supplementary training funds	-	-	52,287	-	-	-	52,287
Average balance of securities	-	-	49,170	-	171	-	49,341
Average balance of other assets under management	229	-	-	5,176	-	-	5,405
Balance of credit to the public at 31 December 2012	19,907	8,387	138	61,794	62	204	90,492
Balance of deposits of the public at 31 December 2012	127,229	32	-	-	924	9	128,194

Main Changes in the Scope of Operations
Total credit to the public in the households segment increased by NIS 2.0 billion, or 2.2% compared with the end of 2012. Housing loans increased by 2.0%, and credit, after cancelling out the effect of housing loans, increased by 2.6%. Deposits of the public fell by some NIS 3.9 billion.

Main Changes in Net Profit

In the first three months of 2013, net profit in the households segment amounted to NIS 41 million, compared with NIS 121 million in the corresponding period last year, a decrease of NIS 80 million or 66.1%. The decrease in profit derives from an increase in expenses in respect of credit losses amounting to NIS 78 million, mainly as a result of a provision of NIS 50 million due to a Bank of Israel directive relating to residential property and an increase in operating and other expenses amounting to NIS 16 million.

The return on equity of the net profit in the segment was 2.9%.

Pension Counseling Services

The balances of the pension assets of customers receiving counseling in the Leumi Group to the end of March 2013, 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 16.0 billion.

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:

	First three months of 2013	First three months of 2012	Rate of change
	NIS millions		%
From Bank funds	**3,395**	2,688	26.3
From Ministry of Finance funds:			
Loans	**9**	5	80.0
Standing loans	**4**	2	+
Total new loans	**3,408**	2,695	26.5
Refinanced loans	**503**	318	58.2
Total loans extended	**3,911**	3,013	29.8

Data relating to risk characteristics of housing loans

Disclosure on housing loans *

Set forth below are data relating to the risk characteristics of the housing loans, pursuant to a letter from the Bank of Israel dated 15 May 2011, and developments in credit risks and the way they are managed, including reference to measures adopted by the Bank to deal with these risk characteristics.

* The definitions mentioned in the disclosure below (e.g., repayment ratio, rate of financing (LTV ratio), etc.) are according to the Bank's reports to the Bank of Israel.

Development of balance of housing credit, net:

	Balance of housing credit	Rate of increase
	NIS millions	%
December 2009	42,734	
December 2010	49,319	15.4
December 2011	54,386	10.3
December 2012	60,294	10.9
March 2013	**61,500**	**2.0**

The increase in the level of housing credit in recent years is attributable, *inter alia*, 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 balance of loans, net, according to linkage basis:

	Unlinked	Percentage of credit portfolio	CP.I.-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	54.8	1,611	3.0	54,386
December 2012	26,234	43.5	32,522	53.9	1,538	2.6	60,294
March 2013	**27,182**	**44.2**	**32,844**	**53.4**	**1,474**	**2.4**	**61,500**

Development of the balance of the housing loan portfolio, net, at variable and fixed interest:

	Fixed		Variable			Total loan portfolio
	Unlinked	CP.I.-linked	Unlinked	CP.I.-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
December 2012	2,144	10,698	24,090	21,824	1,538	60,294
March 2013	**2,531**	**10,485**	**24,651**	**22,359**	**1,474**	**61,500**

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):

	2013	2012				2011	2010
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter	Annual average	Annual average
	Percentage of loans extended						
	%						
Fixed – linked	**11.3**	9.9	13.9	14.8	14.9	10.0	6.7
Variable – every 5 years or more - linked	**32.8**	34.2	38.8	44.8	45.1	26.7	11.6
Variable – up to 5 years - linked	**2.7**	3.7	4.2	4.6	5.7	13.1	20.5
Fixed-unlinked	**12.6**	11.6	8.4	6.8	6.1	3.8	4.3
Variable – every 5 years or more - unlinked	**9.8**	11.3	5.4	-	-	-	-
Variable – up to 5 years - unlinked	**29.7**	28.2	27.5	27.6	27.0	42.0	53.8
Variable – foreign currency	**1.1**	1.1	1.8	1.4	1.2	4.4	3.1

The percentage of new credit extended by Leumi Mortgage in variable interest housing loans during the first three months of 2013 was 76%, compared with an average of 79% in 2012. 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 C.P.I.-linked variable interest varying each period of 5 years and more, which the regulation from the Banking Supervision Department of 3 May 2011 excludes from the definition of variable interest loans, during the first three months of 2013, was 33%., similar to the average for the whole of 2012.

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

	Balance of debt	Amount of credit in arrears	Percentage of problem debt
	NIS millions		%
December 2009	43,317	1,306	3.0
December 2010	49,911	1,046	2.1
December 2011	54,888	918	1.7
December 2012	60,738	829	1.4
March 2013	**61,982**	**790**	**1.3**

The allowance for credit losses as at 31 March 2013, 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 482 million, representing 0.78% of the housing balance, compared with an allowance of NIS 444 million as at 31 December 2012, representing 0.73% of the housing credit balance. The increase in the allowance for credit losses is attributable to the adjustment of the collective allowance for housing loans, as required by the Bank of Israel directives of 21 March 2013, amounting to NIS 50 million.

Data relating to new housing credit:

During the first three months of 2013, Leumi Mortgage extended new housing loans amounting to NIS 3.2 billion from the funds of the Bank.

Development of the 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):

	2013	2012					2011
	1st quarter	Annual average	4th quarter	3rd quarter	2nd quarter	1st quarter	Annual average
Rate of financing	%						
Between 60% and 70%	**20.9**	22.6	20.6	22.6	23.2	24.5	23.0
Between 70% and 80%	**16.0**	12.9	12.9	13.6	12.0	12.8	12.5
Above 80%	**1.3**	3.5	3.5	4.0	3.5	2.5	3.2

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

The average financing rate of the credit portfolio balance as at 31 March 2013 was 50.2%.

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

The rate of credit extended in the first quarter of 2013 in which the 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, similar to the average for 2012, and in contrast to an average of 2% for the whole of 2010-2011. (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 rate of new credit for housing loans in the first quarter of 2013, in which the repayment schedule according to the loan contracts is longer than 25 years, stood at 29% of the total new loans extended, compared with an average rate of 31% throughout 2012, 39% in 2011 and 37% in 2010.

As a general rule, the Bank 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.

The Bank does not extend loans secured by a second charge, except in exceptional cases.

In accordance with its credit policy, the Bank 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 high demand for housing in recent years, 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 rise in the level of mortgage payments.

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

- As part of the Bank's risk management, it was decided to tighten administrative restrictions for the following characteristics: high rates of financing, ongoing monthly repayment capacity, credit ratings in accordance with the Bank's internal statistical model, loan products/plans, types of interest and the amount of the loan.
- As part of credit risk management, the Bank periodically performs stress scenarios that have examined the effect of a fall in the value of securities, an increase in interest rates and the effect of other macroeconomic variables on the Bank's results.

As part of the capital planning process and its goals, the Bank 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 the Bank in the first quarter of 2013 was NIS 531 thousand, similar to 2012, compared with NIS 540 thousand in 2011, NIS 665 thousand in 2010 and NIS 596 thousand in 2009.

Based on the data for the extent of arrears, the rate of credit loss allowances, the amount of problem debt as a percentage of the Bank's total credit portfolio, and the low rate of losses in asset disposals, the quality of the housing loan portfolio is favorable.

Update of directives regarding residential property

On 19 February 2013, the Supervisor of Banks published a draft update of the directives regarding residential property. On 21 March 2013, the directives were updated and the circular was published.

The directives provide, *inter alia*, that commencing the financial statements for the second quarter of 2013, the ratio of the collective allowance to the balance of the housing loans will stand at a minimum rate of 0.35%. This does not apply to housing loans in respect of which an allowance according to the extent of arrears or an individual allowance is held. In the financial statements for the first quarter of 2013, an allowance of NIS 50 million was made as a result of this directive.

2. Small Businesses

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

	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Overseas activity: Banking and finance	Overseas activity: Real estate	Total
	For the three months ended 31 March 2013							
	NIS millions							
Net interest income:								
From external sources	**183**	**5**	**-**	**1**	**68**	**10**	**2**	**269**
Intersegmental	**(19)**	**(1)**	**-**	**-**	**(15)**	**(3)**	**(1)**	**(39)**
Non-interest income:								
From external sources	**82**	**29**	**6**	**-**	**19**	**4**	**-**	**140**
Intersegmental	**-**	**(10)**	**-**	**-**	**-**	**-**	**-**	**(10)**
Total income	**246**	**23**	**6**	**1**	**72**	**11**	**1**	**360**
Expenses in respect of credit losses	**29**	**-**	**-**	**-**	**12**	**1**	**-**	**42**
Operating and other expenses:								
To external sources	**173**	**14**	**3**	**-**	**30**	**7**	**1**	**228**
Intersegmental	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**1**
Profit before taxes	**44**	**8**	**3**	**1**	**30**	**3**	**-**	**89**
Provision for taxes on profit	**17**	**2**	**1**	**-**	**11**	**-**	**-**	**31**
Profit after taxes	**27**	**6**	**2**	**1**	**19**	**3**	**-**	**58**
Net profit attributable to non-controlling interests	**-**	**(1)**	**-**	**-**	**-**	**-**	**-**	**(1)**
Net profit	**27**	**5**	**2**	**1**	**19**	**3**	**-**	**57**
Return on equity								**14.2%**
Average balance of assets	**13,629**	**894**	**26**	**99**	**6,263**	**816**	**222**	**21,949**
Average balance of liabilities	**15,569**	**1,514**	**-**	**-**	**3,671**	**579**	**67**	**21,400**
Average balance of risk assets	**11,214**	**716**	**29**	**80**	**6,137**	**1,053**	**222**	**19,451**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**2,611**	**-**	**-**	**-**	**-**	**2,611**
Average balance of securities	**-**	**-**	**4,910**	**-**	**-**	**8**	**-**	**4,918**
Average balance of other assets under management	**225**	**-**	**-**	**-**	**-**	**-**	**-**	**225**
Balance of credit to the public	**13,771**	**884**	**23**	**91**	**6,387**	**749**	**211**	**22,116**
Balance of deposits of the public	**15,450**	**-**	**-**	**-**	**3,666**	**537**	**77**	**19,730**

Small Businesses (cont.)

	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Overseas activity: Banking and finance	Overseas activity: Real estate	Total
	For the three months ended 31 March 2012							
	NIS millions							
Net interest income:								
From external sources	176	6	-	1	74	10	1	268
Intersegmental	(10)	(2)	-	(1)	(24)	(2)	-	(39)
Non-interest income:								
From external sources	85	27	5	-	16	3	-	136
Intersegmental	1	(11)	-	-	-	-	-	(10)
Total income	252	20	5	-	66	11	1	355
Expenses in respect of credit losses	3	-	-	-	2	3	-	8
Operating and other expenses:								
To external sources	156	12	3	-	27	7	-	205
Intersegmental	(1)	1	-	-	-	-	-	-
Profit before taxes	94	7	2	-	37	1	1	142
Provision for taxes on the profit	34	1	1	-	13	-	-	49
Profit after taxes	60	6	1	-	24	1	1	93
Net profit attributable to non-controlling interests	(1)	-	-	-	-	-	-	(1)
Net profit	59	6	1	-	24	1	1	92
Return on equity								29.1%
Average balance of assets	12,833	830	28	92	5,755	498	114	20,150
Average balance of liabilities	14,658	1,382	-	-	3,029	421	66	19,556
Average balance of risk assets	10,826	659	31	70	5,755	470	114	17,925
Average balance of mutual funds and supplementary training funds	-	-	2,054	-	-	-	-	2,054
Average balance of securities	-	-	4,966	-	-	4	-	4,970
Average balance of other assets under management	233	-	-	-	-	-	-	233
Balance of credit to the public at 31 December 2012	13,470	874	29	107	6,137	883	233	21,733
Balance of deposits of the public at 31 December 2012	15,505	-	-	-	3,482	622	57	19,666

Small Businesses (cont.)

Main Changes in the Scope of Operations

Total credit to the public in the segment increased by NIS 0.4 billion, compared with the end of 2012, an increase of 1.8%.

Main Changes in the Net Profit

In the first three months of 2013, net profit in the small businesses segment totaled NIS 57 million, compared with NIS 92 million in the corresponding period last year, a decrease of 38%. This decrease in profit derives mainly from an increase in expenses in respect of credit losses amounting to NIS 34 million and an increase in operating and other expenses amounting to NIS 24 million, which was partly offset as a result of an increase in income amounting to NIS 5 million.

The return on equity of the net profit in the segment was 14.2%.

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 31 March 2013						
	NIS millions						
Net interest income:							
From external sources	**399**	**6**	**1**	**213**	**-**	**1**	**620**
Intersegmental	**(173)**	**(2)**	**(1)**	**(95)**	**6**	**-**	**(265)**
Non-interest income:							
From external sources	**50**	**51**	**3**	**62**	**3**	**-**	**169**
Intersegmental	**8**	**(23)**	**-**	**4**	**-**	**-**	**(11)**
Total income	**284**	**32**	**3**	**184**	**9**	**1**	**513**
Expenses in respect of credit losses	**(5)**	**-**	**-**	**(41)**	**-**	**-**	**(46)**
Operating and other expenses:							
To external sources	**94**	**19**	**2**	**45**	**4**	**1**	**165**
Intersegmental	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit before taxes	**195**	**13**	**1**	**180**	**5**	**-**	**394**
Provision for taxes on profit	**69**	**3**	**-**	**65**	**1**	**-**	**138**
Profit after taxes	**126**	**10**	**1**	**115**	**4**	**-**	**256**
Net profit attributable to non-controlling interests	**-**	**(2)**	**-**	**-**	**-**	**-**	**(2)**
Net profit	**126**	**8**	**1**	**115**	**4**	**-**	**254**
Return on equity							**12.8%**
Average balance of assets	**44,792**	**396**	**166**	**24,336**	**360**	**151**	**70,201**
Average balance of liabilities	**18,961**	**2,802**	**-**	**5,510**	**1,341**	**165**	**28,779**
Average balance of risk assets	**70,030**	**405**	**166**	**24,724**	**504**	**151**	**95,980**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**2,394**	**-**	**-**	**-**	**2,394**
Average balance of securities	**-**	**-**	**58,782**	**-**	**156**	**-**	**58,938**
Average balance of other assets under management	**213**	**-**	**-**	**-**	**-**	**-**	**213**
Balance of credit to the public	**42,147**	**354**	**167**	**23,868**	**326**	**99**	**66,961**
Balance of deposits of the public	**15,068**	**-**	**-**	**4,916**	**1,309**	**159**	**21,452**

Corporate Banking (cont.)

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity Banking and finance	Overseas activity Real estate	Total
	For the three months ended 31 March 2012						
	NIS millions						
Net interest income:							
From external sources	380	6	-	269	3	1	659
Intersegmental	(147)	(3)	-	(131)	3	-	(278)
Non-interest income:							
From external sources	118	48	4	58	3	-	231
Intersegmental	(56)	(26)	-	(2)	-	-	(84)
Total income	295	25	4	194	9	1	528
Expenses in respect of credit losses	244	1	-	(34)	-	-	211
Operating and other expenses:							
To external sources	92	18	4	35	5	1	155
Intersegmental	(1)	-	-	-	-	-	(1)
Profit (loss) before taxes	(40)	6	-	193	4	-	163
Provision for (benefit from) taxes on profit	(13)	-	-	68	1	-	56
Profit (loss) after taxes	(27)	6	-	125	3	-	107
Net profit attributable to non-controlling interests	-	(1)	-	-	-	-	(1)
Net profit (loss)	(27)	5	-	125	3	-	106
Return on equity							4.7%
Average balance of assets	52,689	400	163	26,591	600	127	80,570
Average balance of liabilities	23,061	2,616	-	5,639	629	169	32,114
Average balance of risk assets	78,298	380	162	26,902	890	127	106,759
Average balance of mutual funds and supplementary training funds	-	-	1,424	-	-	-	1,424
Average balance of securities	-	-	63,168	-	104	-	63,272
Average balance of other assets under management	257	-	-	-	-	-	257
Balance of credit to the public at 31 December 2012	44,452	389	166	24,649	392	204	70,252
Balance of deposits of the public at 31 December 2012	19,748	-	-	4,989	1,373	171	26,281

Corporate Banking (cont.)

Main Changes in the Scope of Operations

Total credit to the public in the segment decreased by NIS 3.3 billion compared with the end of 2012, a decrease of 4.7%. Total deposits of the public fell by NIS 4.8 billion, or 18.4%.

Main Changes in Net Profit

In the first three months of 2013, net profit in the corporate banking segment totaled NIS 254 million, compared with NIS 106 million during the corresponding period in 2012. The increase in profit derives mainly from income in respect of credit losses amounting to NIS 46 million in the first quarter of 2013, compared with expenses in respect of credit losses amounting to NIS 211 million in the corresponding period in 2012.

The return on equity of the net profit in the segment was 12.8%.

4. Commercial Banking

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

					Overseas activity			
	Banking and finance	Credit cards	Capital market	Real estate	Banking and finance	Capital market	Real estate	Total
	For the three months ended 31 March 2013							
	NIS millions							
Net interest income:								
From external sources	**132**	**2**	**3**	**82**	**143**	**-**	**30**	**392**
Intersegmental	**20**	**(1)**	**(4)**	**(29)**	**(21)**	**-**	**(11)**	**(46)**
Non-interest income:								
From external sources	**36**	**19**	**11**	**13**	**18**	**2**	**2**	**101**
Intersegmental	**42**	**(8)**	**-**	**-**	**-**	**-**	**-**	**34**
Total income	**230**	**12**	**10**	**66**	**140**	**2**	**21**	**481**
Expenses in respect of credit losses	**(8)**	**-**	**-**	**3**	**20**	**-**	**17**	**32**
Operating and other expenses:								
To external sources	**117**	**8**	**38**	**14**	**87**	**1**	**10**	**275**
Intersegmental	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit (loss) before taxes	**121**	**4**	**(28)**	**49**	**33**	**1**	**(6)**	**174**
Provision for (benefit from) taxes on profit	**43**	**1**	**(10)**	**18**	**12**	**-**	**(1)**	**63**
Profit (loss) after taxes	**78**	**3**	**(18)**	**31**	**21**	**1**	**(5)**	**111**
Group share in profits of companies included on equity	**-**	**(1)**	**-**	**-**	**-**	**-**	**-**	**(1)**
Net profit (loss)	**78**	**2**	**(18)**	**31**	**21**	**1**	**(5)**	**110**
Return on equity								**9.5%**
Average balance of assets	**23,405**	**337**	**231**	**8,155**	**15,141**	**-**	**3,001**	**50,270**
Average balance of liabilities	**36,601**	**1,078**	**-**	**2,593**	**11,153**	**-**	**283**	**51,708**
Average balance of risk assets	**27,714**	**260**	**122**	**8,305**	**15,030**	**-**	**3,001**	**54,432**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**4,450**	**-**	**-**	**158**	**-**	**4,608**
Average balance of securities	**-**	**-**	**42,626**	**-**	**-**	**1,741**	**-**	**44,367**
Average balance of other assets under management	**685**	**-**	**-**	**-**	**-**	**-**	**-**	**685**
Balance of credit to the public	**22,597**	**358**	**339**	**7,986**	**14,500**	**-**	**2,856**	**48,636**
Balance of deposits of the public	**36,231**	**-**	**-**	**2,183**	**10,763**	**-**	**243**	**49,420**

Commercial Banking (cont.)

					Overseas activity			
	Banking and finance	Credit cards	Capital market	Real estate	Banking and finance	Capital market	Real estate	Total
	For the three months ended 31 March 2012							
	NIS millions							
Net interest income:								
From external sources	114	3	-	90	137	-	35	379
Intersegmental	37	(1)	-	(39)	(20)	-	(12)	(35)
Non-interest income:								
From external sources	12	17	10	13	21	2	3	78
Intersegmental	71	(9)	-	1	-	-	-	63
Total income	234	10	10	65	138	2	26	485
Expenses in respect of credit losses	4	-	-	(6)	11	-	1	10
Operating and other expenses:								
To external sources	118	7	15	18	87	1	11	257
Intersegmental	(1)	-	-	-	-	-	-	(1)
Profit (loss) before taxes	113	3	(5)	53	40	1	14	219
Provision for (benefit from) taxes on profit	42	1	(2)	18	12	-	4	75
Net profit (loss)	71	2	(3)	35	28	1	10	144
Return on equity								15.3%
Average balance of assets	23,527	326	400	8,294	15,037	-	3,305	50,889
Average balance of liabilities	34,125	937	77	2,774	10,973	-	401	49,287
Average balance of risk assets	26,653	263	481	9,264	13,045	-	3,305	53,011
Average balance of mutual funds and supplementary training funds	-	-	3,619	-	-	149	-	3,768
Average balance of securities	-	-	39,773	-	-	2,089	-	41,862
Average balance of other assets under management	746	-	-	-	-	-	-	746
Balance of credit to the public at 31 December 2012	22,846	297	122	8,271	15,350	-	3,022	49,908
Balance of deposits of the public at 31 December 2012	35,889	-	-	2,751	11,162	-	306	50,108

Commercial Banking (cont**.)**

Main Changes in the Scope of Operations

Total credit to the public in the commercial segment decreased by NIS 1.3 billion, a decrease of 2.5%, compared with the end of 2012, and total deposits of the public decreased by NIS 0.7 billion, or 1.4%.

Main changes in net profit

In the first three months of 2013, net profit in the commercial banking segment totaled NIS 110 million, compared with NIS 144 million during the corresponding period in 2012, a decrease of NIS 34 million, or 23.6%. The decrease in profit derives mainly from an increase in expenses in respect of credit losses amounting to NIS 22 million, mainly in overseas activity classified to the segment, and from an increase in operating expenses amounting to NIS 19 million.

The return on equity of the net profit in the segment was 9.5%.

5. Private Banking

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

	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 three months ended 31 March 2013									
	NIS millions									
Net interest income:										
From external sources	**(54)**	**-**	**-**	**-**	**-**	**11**	**-**	**9**	**-**	**(34)**
Intersegmental	**78**	**-**	**-**	**-**	**2**	**36**	**-**	**(6)**	**1**	**111**
Non-interest income:										
From external sources	**(32)**	**-**	**49**	**-**	**-**	**53**	**50**	**1**	**-**	**121**
Intersegmental	**43**	**-**	**-**	**-**	**-**	**(2)**	**-**	**-**	**-**	**41**
Total income	**35**	**-**	**49**	**-**	**2**	**98**	**50**	**4**	**1**	**239**
Expenses in respect of credit losses	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**
Operating and other expenses:										
To external sources	**39**	**1**	**19**	**-**	**3**	**88**	**46**	**3**	**-**	**199**
Intersegmental	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**1**
Profit (loss) before taxes	**(5)**	**(1)**	**30**	**-**	**(1)**	**9**	**4**	**1**	**1**	**38**
Provision for (benefit from) taxes on profit	**(3)**	**-**	**10**	**-**	**-**	**3**	**-**	**-**	**-**	**10**
Profit (loss) after taxes	**(2)**	**(1)**	**20**	**-**	**(1)**	**6**	**4**	**1**	**1**	**28**
Group share in profits of companies included on equity basis after	**-**	**-**	**-**	**-**	**-**	**(4)**	**-**	**-**	**-**	**(4)**
Net profit (loss)	**(2)**	**(1)**	**20**	**-**	**(1)**	**2**	**4**	**1**	**1**	**24**
Return on equity										**9.1%**
Average balance of assets	**1,745**	**64**	**30**	**44**	**540**	**9,251**	**-**	**885**	**-**	**12,559**
Average balance of liabilities	**19,328**	**-**	**-**	**-**	**1,408**	**17,256**	**-**	**18**	**158**	**38,168**
Average balance of risk assets	**2,119**	**48**	**44**	**33**	**429**	**7,730**	**-**	**310**	**-**	**10,713**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**5,678**	**-**	**-**	**-**	**1,804**	**-**	**-**	**7,482**
Average balance of securities	**-**	**-**	**42,134**	**-**	**-**	**-**	**35,748**	**-**	**-**	**77,882**
Average balance of other assets under management	**219**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**219**
Balance of credit to the public	**1,472**	**64**	**17**	**43**	**645**	**4,251**	**-**	**869**	**-**	**7,361**
Balance of deposits of the public	**18,803**	**-**	**-**	**-**	**1,394**	**16,173**	**-**	**20**	**139**	**36,529**

Private Banking (cont.)

	Banking and finance	Credit cards	Capital market	Real estate	Mortgages	Overseas activity: Banking and finance	Overseas activity: Capital market	Overseas activity: Mortgages	Overseas activity: Real estate	Total
	For the three months ended 31 March 2012									
	NIS millions									
Net interest income:										
From external sources	(53)	-	(1)	(1)	-	10	-	11	-	(34)
Intersegmental	90	-	1	3	-	45	-	(7)	1	133
Non-interest income:										
From external sources	(1)	-	36	3	-	51	51	1	-	141
Intersegmental	14	-	-	-	-	3	-	-	-	17
Total income	50	-	36	5	-	109	51	5	1	257
Expenses in respect of credit losses	(4)	-	-	-	-	3	-	-	-	(1)
Operating and other expenses:										
To external sources	40	-	16	3	-	103	53	3	1	219
Intersegmental	-	-	-	-	-	1	-	-	-	1
Profit (loss) before taxes	14	-	20	2	-	2	(2)	2	-	38
Provision for taxes on profit	3	-	7	1	-	2	-	1	-	14
Net profit (loss)	11	-	13	1	-	-	(2)	1	-	24
Return on equity										10.6%
Average balance of assets	1,944	58	8	419	34	8,323	-	1,111	-	11,897
Average balance of liabilities	19,746	-	18	1,146	-	18,872	-	14	212	40,008
Average balance of risk assets	2,397	43	8	419	26	6,887	-	389	-	10,169
Average balance of mutual funds and supplementary training funds	-	-	4,650	-	-	-	1,653	-	-	6,303
Average balance of securities	-	-	38,912	-	-	-	36,453	-	-	75,365
Average balance of other assets under management	236	-	-	-	-	-	-	-	-	236
Balance of credit to the public at 31 December 2012	1,775	64	44	423	44	4,919	-	901	-	8,170
Balance of deposits of the public at 31 December 2012	19,361	-	-	1,407	-	17,379	-	15	176	38,338

Private Banking (cont.)

Main changes in the scope of operations

Total credit to the public in the segment decreased by NIS 0.8 billion, or 9.9%, compared with the end of 2012, and total deposits of the public decreased by some NIS 1.8 billion, or 4.7%.

Main changes in net profit

In the first three months of 2013, net profit in the private banking segment amounted to NIS 24 million, similar to the net profit in the corresponding period in 2012.

The return on equity of the net profit in the segment was 9.1%.

6. Financial Management – Capital Markets

	For the three months ended 31 March	
	2013	2012
Net interest income:		
From external sources	**(71)**	159
Intersegmental	**157**	(70)
Operating and other income:		
From external sources	**476**	187
Intersegmental	**(54)**	(32)
Total income	**508**	244
Expenses in respect of credit losses	**(42)**	(11)
Operating and other expenses:		
To external sources	**229**	215
Intersegmental	**14**	9
Loss before taxes	**307**	31
Benefit from taxes	**118**	18
Loss after taxes	**189**	13
Group share in profits of companies included on equity basis after effect of tax	**(58)**	(39)
Net operating loss attributed to non-controlling interests	**4**	-
Net profit (loss)	**135**	(26)

The profit in the financial management segment in the first three months of 2013 amounted to NIS 135 million, compared with a loss of NIS 26 million in the corresponding period last year. The increase in the profit resulted primarily from an increase in noninterest income amounting to NIS 267 million, because of an increase in profits from the sale of shares, and profits in respect of the sale of loans.

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 2,122 million on 31 March 2013, compared with NIS 2,129 million on 31 December 2012.

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		NIS millions	
Company	**31 March 2013**	31 December 2012	% change	**31 March 2013**	31 December 2012	**31 March 2013**	31 December 2012
The Israel Corporation Ltd.	**1,532**	1,567	(2.2)	**3,817**	3,367	**138**	141
Others *	**590**	562	5.0	**-**	-	**53**	51
Total	**2,122**	2,129	(0.3)	**3,817**	3,367	**191**	192

* Including investments in Super Pharm amounting to NIS 184 million.

The contribution of companies included on equity basis to the Group's net profit in the first three months of 2013 amounted to a loss of NIS 57 million, compared with a loss of NIS 39 million in the corresponding period last year.

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

	For the three months ended 31 March		
	2013	2012	% change
The Israel Corporation Ltd.	**(66)**	(48)	(37.5)
Others	**9**	9	-
Total	**(57)**	(39)	(46.2)

Holdings in Non-Banking Holding Corporations (Conglomerates)

The Bank's holdings in non-banking corporations are subject to restrictions set out 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 three months of 2013, the loss in the "Others" segment amounted to NIS 51 million, compared with a loss of NIS 30 million in the corresponding period last year.

The main cause of the negative effect on adjustments in taxes was the negative exchange rate differences in the current quarter compared with positive exchange rate differences in the corresponding period in 2012.

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

	For the first three months ended 31 March		Change in amount
	2013	2012	
Net profit in the Bank	**16**	1	15
Other companies in Israel	**4**	2	2
Overseas companies	**3**	(2)	5
Tax adjustments (1)	**(74)**	(31)	(43)
Total	**(51)**	(30)	(21)

(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 dealing rooms and Israeli and foreign securities, 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 31 March 2013							
	NIS millions							
Net interest income	**1**	**-**	**-**	**(1)**	**-**	**-**	**-**	**-**
Non-interest income	**109**	**6**	**3**	**11**	**49**	**32**	**55**	**265**
Total income	**110**	**6**	**3**	**10**	**49**	**32**	**55**	**265**
Operating and other expenses	**88**	**3**	**2**	**38**	**19**	**34**	**48**	**232**
Profit (loss) before taxes	**22**	**3**	**1**	**(28)**	**30**	**(2)**	**7**	**33**
Net profit (loss)	**14**	**2**	**1**	**(18)**	**20**	**-**	**7**	**26**

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

In the first three months of 2013, net profit from capital market operations amounted to NIS 26 million, compared with NIS 37 million in the corresponding period in 2012.

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 three months of 2013 with a net profit of NIS 51 million, compared with a profit of NIS 45 million in the corresponding period in 2012.

During the first three months of 2013, the volume of activity by Leumi Card cardholders increased by 11% compared with the activity in the corresponding period in 2012. The number of valid cards at 31 March 2013 increased by 6% compared with 31 March 2012.

On 17 April 2012, a license agreement was signed by Leumi Card and Isracard Ltd., by virtue of which Leumi Card was 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. Pursuant to the license agreement, the activity of clearing the cards under the Isracard brand is 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 permanent 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 that is not for the purpose of implementing the agreements or that 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. On 11 February 2013, Isracard submitted a request for the approval of the license agreement to the Antitrust Court. In the request, Isracard claims that there is no justification for the Commissioner's determination and that the conditions stipulated in the license agreement framework signed with Cal should be applied to the license agreement. A verdict on the said proceeding has yet to be handed down.

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

	Households	Small businesses	Corporate banking	Commercial banking	Private banking	Total
	For the three months ended 31 March 2013					
	NIS millions					
Net interest income	**52**	**4**	**4**	**1**	**-**	**61**
Non-interest income	**159**	**19**	**28**	**11**	**-**	**217**
Total income	**211**	**23**	**32**	**12**	**-**	**278**
Expenses in respect of credit losses	**5**	**-**	**-**	**-**	**-**	**5**
Operating and other expenses	**166**	**15**	**19**	**8**	**1**	**209**
Profit (loss) before taxes	**40**	**8**	**13**	**4**	**(1)**	**64**
Share of external shareholders	**(7)**	**(1)**	**(2)**	**(1)**	**-**	**(11)**
Net profit (loss)	**21**	**5**	**8**	**2**	**(1)**	**35**

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

The net profit from credit card activity in the first three months of 2013 amounted to NIS 35 million, compared with NIS 48 million in the corresponding period in 2012.

C. Real Estate

	Small businesses	Corporate banking	Commercial banking	Private banking	Overseas activities	Total
	For the three months ended 31 March 2013					
	NIS millions					
Net interest income	**53**	**118**	**53**	**2**	**23**	**249**
Non-interest income	**19**	**66**	**13**	**-**	**3**	**101**
Total income	**72**	**184**	**66**	**2**	**26**	**350**
Expenses (income) in respect of credit losses	**12**	**(41)**	**3**	**-**	**17**	**(9)**
Operating and other expenses	**30**	**45**	**14**	**3**	**12**	**104**
Profit (loss) before taxes	**30**	**180**	**49**	**(1)**	**(3)**	**255**
Net profit (loss)	**19**	**115**	**31**	**(1)**	**(2)**	**162**

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

Net profit from real estate activity in the first three months of 2013 amounted to NIS 162 million, compared to NIS 205 million in the corresponding period last year, the decrease deriving mainly from a reduction in net interest income and a reduction in income in respect of credit losses in the first quarter of 2013, compared with 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 three months of		
	2013	2012	Change
	NIS millions		%
The Bank (4)	**545**	297	83.5
Consolidated companies in Israel (1) (4)	**141**	134	5.2
Overseas consolidated companies (2)	**(52)**	48	-
Companies included on equity basis (1)	**(64)**	(48)	-
Net profit	**570**	431	32.3
Overseas subsidiaries' profit, in nominal terms (US$ millions) (3)	**10.3**	16.2	(36.4)

(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.
(4) The profits of Leumi Mortgage Bank for the first quarter of 2013 were included with the profits of the Bank. First quarter of 2012 – NIS 70 million in the profits of consolidated subsidiaries in Israel.

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

- The increase in the net profit of the Bank is mainly due to an increase in noninterest income and a decrease in expenses in respect of credit losses, partly offset by an increase in other operating expenses. In addition, there was an increase in net profit due to the merger of Leumi Mortgage Bank and the inclusion of its profits as part of the profits of the Bank.
  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 Arab-Israel Bank, Leumi Card and Leumi Partners.

- The decrease in the net profit of overseas subsidiaries stems from expenses charged to profit and loss in the first quarter of 2013 as a result of a change in the exchange rate differentials in respect of foreign subsidiaries, whose functional currency is identical to the shekel, compared to income from exchange rate differences recorded in the corresponding period last year.

- The increase in the loss of companies included on equity basis derives from an increase in the losses of the Israel Corporation.

The net profit of the overseas units in nominal terms, as published by them, translated for convenience to US dollars, totaled some US$ 10.3 million, a decrease of US$ 5.9 million, compared with the corresponding period in 2012. The contribution of the overseas units in shekels, after certain adjustments to Israeli accounting principles, amounted to a loss of NIS 52 million, compared with a profit of NIS 48 million in the corresponding period in 2012.

Activities of Major Investee Companies

General

The Bank Leumi Group operates in Israel and abroad through subsidiaries, comprising banks, 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 4,849 million on 31 March 2013, compared with NIS 4,796 million on 31 December 2012. The contribution to net profit in the first three months of 2013 was some NIS 141.6 million, compared with some NIS 133.8 million in the corresponding period in 2012, an increase of 5.8%, after canceling the effect of Leumi Mortgage Bank, an increase of 123.0%

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

	Return on Group investment		Contribution to Group profit (1)		
	For the period ended 31 March				Rate of change
	2013	2012	**2013**	2012	
	%		NIS millions		%
Leumi Mortgage Bank (2)	**-**	10.5	**-**	70.3	-
Arab Israel Bank	**24.5**	26.7	**26.4**	25.6	3.1
Leumi Card	**17.7**	17.6	**41.0**	36.2	13.3
Leumi Partners (3)	**63.1**	-	**55.4**	(18.0)	+
Leumi Real Holdings	**0.5**	1.9	**1.0**	4.1	(75.6)
Leumi Leasing and Investments	**2.7**	2.0	**6.4**	4.7	36.2
Others	**4.4**	4.1	**11.4**	10.9	4.6
Total consolidated companies in Israel	**12.3**	7.6	**141.6**	133.8	5.8
Total consolidated companies in Israel after canceling the effect of Leumi Mortgage Bank	**12.3**	5.8	**141.6**	63.5	123.0

(1) The profit (loss) presented is according to the Group's share in the results.
(2) Activity merged with that of the Bank on 31 December 2012.
(3) Including the profit and/or loss of associate companies of Leumi Partners.

Overseas Consolidated Companies

The Bank's investments in overseas consolidated companies amounted to NIS 4,777 million on 31 March 2013, compared with NIS 4,940 million on 31 December 2012.

In the first three months of 2013, the contribution of overseas consolidated subsidiaries to the net operating profit of the Group amounted to a loss of NIS 52.3 million, compared with a profit of NIS 48.5 million in the corresponding period in 2012.

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 31 March				Rate of change
	2013	2012	**2013**	2012	
	%		NIS millions		%
Leumi USA (BLC)	**0.5**	3.5	**3.1**	22.0	(85.9)
Leumi UK*	**-**	18.4	**(50.3)**	29.6	-
Leumi Private Bank	**2.5**	-	**6.5**	(7.6)	+
Leumi Luxembourg*	**-**	17.7	**(3.7)**	5.4	-
Leumi Re	**4.4**	-	**1.0**	(5.3)	+
Leumi Romania	**-**	10.1	**(8.0)**	5.6	-
Others	**-**	-	**(0.9)**	1.2	-
Total overseas consolidated companies	**-**	4.1	**(52.3)**	48.5	-

* The negative contribution in shekels in the first quarter of 2013 of overseas subsidiaries derives from negative exchange rate differences on the investment.

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

	For the three months ended 31 March		
	2013	2012	Change
	In millions		%
Leumi USA (BLC) - US$	**0.8**	5.9	86.4
Of which: BL USA - US$	**0.7**	5.8	(87.9)
Leumi UK - £	**2.4**	4.1	(41.5)
Leumi Private Bank - CHF	**2.3**	-	+
Leumi Luxembourg - €	**0.9**	1.0	(10.0)
Leumi Re - US$	**1.7**	0.5	+
Leumi Romania – ron*	**2.7**	6.8	(60.3)
Total translated to the dollar	**10.3**	16.2	(36.4)

* 1 ron = NIS 1.058.

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

Non-Banking Activities of Companies Included on Equity Basis

Total investments of the Group in companies included on equity basis on 31 March 2013 amounted to NIS 2,122 million, compared with NIS 2,129 million on 31 December 2012.

During the first three months of 2013, the contribution to net profit amounted to a loss of NIS 57 million, compared with a loss of NIS 39 million in the corresponding period in 2012.

Risk Exposure and Risk Management

This section is set out in more detail in the 2012 Financial Statements (pages 182-243), and should therefore be read in conjunction with the above Annual Report.

Main changes in the risk environment

In the first quarter of the year, there were substantial increases in the markets in Israel and around the world, *inter alia*, as a result of the low interest rates, while, on the other hand, the economic situation continues to be restrained. In Europe, the main emphasis on the economic problems continues to be on the weakness of the peripheral countries in the euro area, with the most serious difficulties facing Cyprus and Slovenia. The regulatory changes continued in intensity – both in Israel and around the world – affecting the economy and the banking system. We are continuing to monitor the changes in the risk environment, examining the potential impact on Leumi and specifying necessary measures.

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 2012 Annual Report on page 187.

Basel directives and preparations in Leumi

The financial statement data of Leumi, the calculation of the risk assets and capital adequacy ratio as of 31 March 2013 were computed and 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 pages 190-193.

In addition to that stated in the Annual Report, on 4 April 2013, the Bank of Israel published an update of the draft directive for interest risk management, which is mainly based on the Basel principles for the management and supervision of interest risk, published in 2004 and on standards generally accepted around the world.

According to an estimate, based upon the Bank's interpretation of the Bank of Israel's drafts, relating to the adoption of the Basel III directives, assuming full and immediate implementation (without taking into account the transitional provisions), on 31 March 2013, the Tier 1 shareholders' equity ratio of Leumi Group was 8.50%, compared with 8.84%, according to the Basel II directives.

The reduction in the capital adequacy ratio derives mainly from an increase in the risk assets, which is mainly the effect of a surplus investment in a single non-banking corporation (a decrease of some 0.1%), and the effect of deferred taxes, a collective allowance and counterparty risk in derivatives. The increase in risk assets was partly offset as a result of the association of the positive capital reserve in respect of available-for-sale securities with Tier 1 shareholders' equity (an increase of some 0.13%). On the other hand, a number of interpretations, mainly relating to cross-holdings in a financial corporation and investments in capital components of financial corporations, which have not been included in the abovementioned ratio, have not yet been clarified.

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 exposures by main credit	4(b)	Page 81	-
Exposures to foreign countries by geographical region	4(c)	Page 96	Exhibit D
Credit risk exposures by counterparty and main credit type	4(d)	Pages 81-82	-
Credit exposures by period to maturity	4(e)	Page 83	-
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 3A1
Credit exposures by weight of risk	5	Pages 84-88	-
Reduction of credit risk (qualitative and quantitative)	7	Pages 89-90	-
Credit exposures in derivatives of counterparty (qualitative and quantitative)	8	Pages 91-92	-
Securitization (qualitative and quantitative)	9(f) 9(g)	Page 44 Page 45	Note 2
Market risk (qualitative and quantitative)	10	Page 99	-
Operational risk- qualitative disclosure	12	Page 109	-
Investment in shares (qualitative and quantitative)	13(b)	Page 47	-
Investments in shares of companies included on equity basis	13(b)	Page 71	-
Interest risk	14	Pages 102-103	Exhibit B

Credit risk

This chapter is provided in great detail in the 2012 Annual Report (pages 194-198) and therefore, should be read in conjunction therewith.

1. Exposure and management of credit risks to the public

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

Type of credit exposure	**31 March 2013**	31 March 2012	31 December 2012	**31 March 2013**	31 March 2012	31 December 2012
	Gross credit risk exposure			Average gross credit risk exposure		
	NIS million			NIS million		
Credit	**293,996**	290,400	297,282	**295,639**	293,522	291,169
Debentures	**40,153**	39,147	43,043	**41,598**	38,188	42,445
Others	**15,747**	14,052	15,530	**15,638**	14,126	14,531
Guarantees and liabilities on account of customers	**118,449**	116,304	117,189	**117,819**	114,704	117,487
Transactions in derivative financial instruments	**6,888**	7,001	6,396	**6,642**	7,297	7,072
Total	**475,233**	466,904	479,440	**477,336**	467,837	472,704

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

	31 March 2013					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivative instruments	Total
	NIS millions					
Sovereign debts	**42,214**	**27,859**	**-**	**132**	**70**	**70,275**
Debts of public-sector entities	**3,327**	**4,242**	**-**	**144**	**20**	**7,733**
Debts of banking corporations	**9,731**	**2,620**	**-**	**1,925**	**2,828**	**17,104**
Debts of corporations	**112,368**	**3,746**	**-**	**76,866**	**3,876**	**196,856**
Debts collateralized by commercial real estate	**17,584**	**-**	**-**	**1,872**	**-**	**19,456**
Retail exposures to individuals	**30,542**	**-**	**-**	**28,429**	**90**	**58,881**
Loans to small businesses	**14,102**	**-**	**-**	**4,241**	**4**	**18,347**
Housing mortgages	**64,128**	**-**	**-**	**5,020**	**-**	**69,148**
Securitization	**-**	**1,686**	**-**	**-**	**-**	**1,686**
Other assets	**-**	**-**	**15,747**	**-**	**-**	**15,747**
Total credit risk	**293,996**	**40,153**	**15,747**	**118,449**	**6,888**	**475,233**

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

	31 December 2012					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivative instruments	Total
	NIS millions					
Sovereign debts	41,551	30,875	-	217	27	72,670
Debts of public-sector entities	3,339	3,400	-	114	19	6,872
Debts of banking corporations	11,193	2,947	-	2,100	2,241	18,481
Debts of corporations	116,037	4,100	-	75,217	4,022	199,376
Debts collateralized by commercial real estate	18,582	-	-	1,606	-	20,188
Retail exposures to individuals	29,941	-	-	27,998	84	58,023
Loans to small businesses	13,795	-	-	4,164	3	17,962
Housing mortgages	62,844	-	-	5,773	-	68,617
Securitization	-	1,721	-	-	-	1,721
Other assets	-	-	15,530	-	-	15,530
Total credit risk	297,282	43,043	15,530	117,189	6,396	479,440

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

	31 March 2013					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivative instruments	Total
	NIS millions					
Up to one year	153,025	18,331	2,788	74,371	4,769	253,284
From one to five years	69,106	11,284	1,412	26,791	4,826	113,419
More than five years	71,688	10,538	3,058	17,287	6,854	109,425
Non-monetary items	177	-	8,489	-	2,253	10,919
Benefits for offset	-	-	-	-	(11,814)	(11,814)
Total	293,996	40,153	15,747	118,449	6,888	475,233

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

	31 December 2012					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivative instruments	Total
	NIS millions					
Up to one year	156,095	20,874	2,796	75,118	4,364	259,247
From one to five years	68,517	13,879	1,427	26,576	4,794	115,193
More than five years	72,350	8,290	2,972	15,495	6,641	105,748
Non-monetary items	320	-	8,335	-	2,340	10,995
Benefits for offset	-	-	-	-	(11,743)	(11,743)
Total	297,282	43,043	15,530	117,189	6,396	479,440

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):

	31 March 2013											
	0%	20%	35%	40%	50%	75%	100%	150%	225%	650%	Deduction from capital	Gross credit exposure (1)
	NIS millions											
Sovereign debts	**66,791**	**2,763**	**-**	**-**	**456**	**-**	**265**	**-**	**-**	**-**	**-**	**70,275**
Debts of public-sector entities	**-**	**4,207**	**-**	**-**	**3,515**	**-**	**10**	**1**	**-**	**-**	**-**	**7,733**
Debts of banking corporations	**34**	**13,606**	**-**	**-**	**2,535**	**-**	**929**	**-**	**-**	**-**	**-**	**17,104**
Debts of corporations	**-**	**453**	**-**	**-**	**1,192**	**-**	**191,332**	**3,879**	**-**	**-**	**-**	**196,856**
Debts collateralized by commercial real estate	**-**	**-**	**-**	**-**	**-**	**-**	**18,642**	**814**	**-**	**-**	**-**	**19,456**
Retail exposures to individuals	**-**	**-**	**-**	**-**	**-**	**58,518**	**203**	**160**	**-**	**-**	**-**	**58,881**
Loans to small businesses	**-**	**-**	**-**	**-**	**-**	**18,037**	**118**	**192**	**-**	**-**	**-**	**18,347**
Housing mortgages	**-**	**-**	**41,321**	**-**	**1,128**	**20,233**	**6,259**	**207**	**-**	**-**	**-**	**69,148**
Securitization	**-**	**696**	**-**	**445**	**232**	**-**	**270**	**-**	**31**	**2**	**10**	**1,686**
Other assets	**2,264**	**-**	**-**	**-**	**-**	**-**	**13,044**	**439**	**-**	**-**	**-**	**15,747**
Total	**69,089**	**21,725**	**41,321**	**445**	**9,058**	**96,788**	**231,072**	**5,692**	**31**	**2**	**10**	**475,233**

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

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

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

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

	31 March 2013											
	0%	20%	35%	40%	50%	75%	100%	150%	225%	650%	Deduction from capital	Gross credit exposure (1)
	NIS millions											
Sovereign debts	**66,790**	**2,763**	**-**	**-**	**456**	**-**	**265**	**-**	**-**	**-**	**-**	**70,274**
Debts of public-sector entities	**-**	**4,207**	**-**	**-**	**3,514**	**-**	**10**	**1**	**-**	**-**	**-**	**7,732**
Debts of banking corporations	**34**	**13,605**	**-**	**-**	**2,533**	**-**	**929**	**-**	**-**	**-**	**-**	**17,101**
Debts of corporations	**-**	**453**	**-**	**-**	**1,192**	**-**	**188,604**	**3,784**	**-**	**-**	**-**	**194,033**
Debts collateralized by commercial real estate	**-**	**-**	**-**	**-**	**-**	**-**	**18,583**	**799**	**-**	**-**	**-**	**19,382**
Retail exposures to individuals	**-**	**-**	**-**	**-**	**-**	**58,191**	**144**	**159**	**-**	**-**	**-**	**58,494**
Loans to small businesses	**-**	**-**	**-**	**-**	**-**	**17,848**	**56**	**190**	**-**	**-**	**-**	**18,094**
Housing mortgages	**-**	**-**	**41,158**	**-**	**1,128**	**20,202**	**5,970**	**197**	**-**	**-**	**-**	**68,655**
Securitization	**-**	**696**	**-**	**445**	**232**	**-**	**270**	**-**	**31**	**2**	**10**	**1,686**
Other assets	**2,264**	**-**	**-**	**-**	**-**	**-**	**13,044**	**439**	**-**	**-**	**-**	**15,747**
Total	**69,088**	**21,724**	**41,158**	**445**	**9,055**	**96,241**	**227,875**	**5,569**	**31**	**2**	**10**	**471,198**

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

	31 March 2013											
	0%	20%	35%	40%	50%	75%	100%	150%	225%	650%	Deduction from capital	Gross credit exposure (1)
	NIS millions											
Sovereign debts	**70,477**	**2,763**	**-**	**-**	**456**	**-**	**181**	**-**	**-**		**-**	**73,877**
Debts of public-sector entities	**514**	**2,525**	**-**	**-**	**3,507**	**-**	**10**	**1**	**-**		**-**	**6,557**
Debts of banking corporations	**34**	**12,381**	**-**	**-**	**2,566**	**-**	**864**	**-**	**-**		**-**	**15,845**
Debts of corporations	**-**	**453**	**-**	**-**	**1,192**	**-**	**174,249**	**3,661**	**-**		**-**	**179,555**
Debts collateralized by commercial real estate	**-**	**-**	**-**	**-**	**-**	**-**	**17,635**	**799**	**-**		**-**	**18,434**
Retail exposures to individuals	**-**	**-**	**-**	**-**	**-**	**55,950**	**129**	**153**	**-**		**-**	**56,232**
Loans to small businesses	**-**	**-**	**-**	**-**	**-**	**15,463**	**51**	**182**	**-**		**-**	**15,696**
Housing mortgages	**-**	**-**	**41,153**	**-**	**1,126**	**20,112**	**5,967**	**197**	**-**		**-**	**68,555**
Securitization	**-**	**696**	**-**	**445**	**232**	**-**	**270**	**-**	**31**	**2**	**10**	**1,686**
Other assets	**2,264**	**-**	**-**	**-**	**-**	**-**	**13,044**	**439**	**-**		**-**	**15,747**
Total	**73,289**	**18,818**	**41,153**	**445**	**9,079**	**91,525**	**212,400**	**5,432**	**31**	**2**	**10**	**452,184**

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

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

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

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

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

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

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

	31 December 2012											
	0%	20%	35%	40%	50%	75%	100%	150%	225%	650%	Deduction from capital	Gross credit exposure (1)
	NIS millions											
Sovereign debts	69,264	2,623	-	-	507	-	276	-	-	-	-	72,670
Debts of public-sector entities	-	3,378	-	-	3,491	-	2	1	-	-	-	6,872
Debts of banking corporations	20	14,609	-	-	3,013	-	839	-	-	-	-	18,481
Debts of corporations	-	498	-	-	1,261	-	193,056	4,561	-	-	-	199,376
Debts collateralized by commercial real estate	-	-	-	-	-	-	19,443	745	-	-	-	20,188
Retail exposures to individuals	-	-	-	-	-	57,670	168	185	-	-	-	58,023
Loans to small businesses	-	-	-	-	-	17,655	124	183	-	-	-	17,962
Housing mortgages	-	-	43,337	-	-	18,303	6,758	219	-	-	-	68,617
Securitization	-	727	-	390	169	-	370	-	42	2	21	1,721
Other assets	2,190	-	-	-	-	-	12,899	441	-	-	-	15,530
Total	71,474	21,835	43,337	390	8,441	93,628	233,935	6,335	42	2	21	479,440

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

	31 December 2012											
	0%	20%	35%	40%	50%	75%	100%	150%	225%	650%	Deduction from capital	Gross credit exposure (1)
	NIS millions											
Sovereign debts	69,263	2,623	-	-	507	-	276	-	-	-	-	72,669
Debts of public-sector entities	-	3,378	-	-	3,489	-	2	1	-	-	-	6,870
Debts of banking corporations	20	14,610	-	-	3,009	-	839	-	-	-	-	18,478
Debts of corporations	-	498	-	-	1,261	-	190,209	4,474	-	-	-	196,442
Debts collateralized by commercial real estate	-	-	-	-	-	-	19,363	726	-	-	-	20,089
Retail exposures to individuals	-	-	-	-	-	57,333	116	182	-	-	-	57,631
Loans to small businesses	-	-	-	-	-	17,475	55	181	-	-	-	17,711
Housing mortgages	-	-	43,235	-	-	18,256	6,473	201	-	-	-	68,165
Securitization	-	727	-	390	169	-	370	-	42	2	21	1,721
Other assets	2,190	-	-	-	-	-	12,899	441	-	-	-	15,530
Total	71,473	21,836	43,235	390	8,435	93,064	230,602	6,206	42	2	21	475,306

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

	31 December 2012											
	0%	20%	35%	40%	50%	75%	100%	150%	225%	650%	Deduction from capital	Net credit exposure (1)
	NIS millions											
Sovereign debts	73,194	2,623	-	-	506	-	230	-	-	-	-	76,553
Debts of public-sector entities	499	1,386	-	-	3,482	-	2	1	-	-	-	5,370
Debts of banking corporations	20	13,649	-	-	3,077	-	773	-	-	-	-	17,519
Debts of corporations	-	498	-	-	1,261	-	176,851	4,362	-	-	-	182,972
Debts collateralized by commercial real estate	-	-	-	-	-	-	18,367	726	-	-	-	19,093
Retail exposures to individuals	-	-	-	-	-	55,026	107	179	-	-	-	55,312
Loans to small businesses	-	-	-	-	-	15,146	53	172	-	-	-	15,371
Housing mortgages	-	-	43,232	-	-	18,160	6,470	201	-	-	-	68,063
Securitization	-	727	-	390	169	-	370	-	42	2	21	1,721
Other assets	2,190	-	-	-	-	-	12,899	441	-	-	-	15,530
Total	75,903	18,883	43,232	390	8,495	88,332	216,122	6,082	42	2	21	457,504

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 additional support 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 for receiving the collateral are determined by establishing the degree of reliance on the collateral, the methods of dealing with it on receipt, the way in which its value and timing are updated and the means of monitoring and control, 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):

	31 March 2013					
	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	**70,275**	**70,274**	**(83)**	**3,686**	**-**	**73,877**
Debts of public-sector entities	**7,733**	**7,732**	**(1,683)**	**514**	**(6)**	**6,557**
Debts of banking corporations	**17,104**	**17,101**	**(933)**	**459**	**(782)**	**15,845**
Debts of corporations	**196,856**	**194,033**	**(1,843)**	**-**	**(12,635)**	**179,555**
Debts collateralized by commercial real estate	**19,456**	**19,382**	**(94)**	**-**	**(854)**	**18,434**
Retail exposures to individuals	**58,881**	**58,494**	**(4)**	**-**	**(2,258)**	**56,232**
Loans to small businesses	**18,347**	**18,094**	**(17)**	**-**	**(2,381)**	**15,696**
Housing mortgages	**69,148**	**68,655**	**(2)**	**-**	**(98)**	**68,555**
Securitization	**1,686**	**1,686**	**-**	**-**	**-**	**1,686**
Other assets	**15,747**	**15,747**	**-**	**-**	**-**	**15,747**
Total	**475,233**	**471,198**	**(4,659)**	**4,659**	**(19,014)**	**452,184**

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

	31 December 2012					
	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	72,670	72,699	(45)	3,929	-	76,553
Debts of public-sector entities	6,872	6,870	(1,992)	499	(7)	5,370
Debts of banking corporations	18,481	18,478	(927)	495	(528)	17,519
Debts of corporations	199,376	196,442	(1,901)	-	(11,569)	182,972
Debts collateralized by commercial real estate	20,188	20,089	(30)	-	(966)	19,093
Retail exposures to individuals	58,023	57,631	(5)	-	(2,314)	55,312
Loans to small businesses	17,962	17,711	(24)	-	(2,316)	15,371
Housing mortgages	68,617	68,165	-	-	(102)	68,063
Securitization	1,721	1,721	-	-	-	1,721
Other assets	15,530	15,530	-	-	-	15,530
Total	479,440	475,306	(4,924)	4,924	(17,802)	457,504

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 Effectiveness 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 levels 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 of counterparty (Table 8 – Basel II):

	31 March 2013	
	Par value balance	Net credit exposure of derivatives
	NIS millions	
Interest contracts	**300,907**	**10,298**
Foreign currency contracts	**175,389**	**6,097**
Contracts in respect of shares	**46,054**	**2,051**
Commodities and other contracts	**5,909**	**253**
Credit derivative transactions (1)	**182**	**3**
Offset benefits (2)	**-**	**(11,814)**
Eligible collateral	**-**	**(1,828)**
Total	**528,441**	**5,060**

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

	31 December 2012	
	Par value balance	Net credit exposure of derivatives
	NIS millions	
Interest contracts	290,808	10,363
Foreign currency contracts	180,438	5,501
Contracts in respect of shares	38,415	2,163
Commodities and other contracts	1,535	109
Credit derivative transactions (1)	187	3
Offset benefits (2)	-	(11,743)
Eligible collateral	-	(1,297)
Total	511,383	5,099

(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 31 March 2013:

	AAA to AA-	A+	A	A-	BBB to BBB-	BB+ to B-	Unrated	Total
Foreign banks	NIS millions							
Euro zone (1)	**2,282**	**-**	**-**	**-**	**-**	**-**	**-**	**2,282**
United Kingdom (2)	**2,081**	**-**	**-**	**-**	**-**	**-**	**-**	**2,081**
United States	**2,378**	**-**	**-**	**-**	**-**	**-**	**-**	**2,378**
Other	**363**	**-**	**-**	**-**	**1**	**-**	**13**	**377**
Total foreign banks	**7,104**	**-**	**-**	**-**	**1**	**-**	**13**	**7,118**
Israeli banks (3)	**-**	**1,848**	**-**	**-**	**-**	**-**	**-**	**1,848**
Corporate customers, according to sectors of the economy								
Financial services (4)								**1,887**
Industry (5)								**582**
Construction and real estate								**102**
Transportation and storage								**18**
Trade								**130**
Electricity and water								**21**
Business services								**44**
Private individuals								**11**
Communications and computer services								**45**
Others								**27**
Total corporate customers								**2,867**
Others*								**-**
Total exposure								**11,833**

* 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 5 countries.
(2) This amount includes transactions with 9 banks.
(3) This amount includes transactions with 9 banks.
(4) This amount includes transactions with 377 customers, where the highest amount for a single customer is NIS 581 million.
(5) This amount includes transactions with 254 customers, where the highest amount for a single customer is NIS 372 million.

3. Credit exposure to foreign financial institutions

Credit exposure to foreign financial institutions (1):

	As at 31 March 2013			
	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-	**14,781**	**3,389**	**970**	**19,140**
A+ to A-	**1,062**	**359**	**-**	**1,421**
BBB+ to BBB-	**176**	**1,109**	**199**	**1,484**
BB+ to B	**9**	**75**	**22**	**106**
Below B	**74**	**-**	**-**	**74**
Unrated	**120**	**-**	**4**	**124**
Total current credit exposure to foreign financial institutions	**16,222**	**4,932**	**1,195**	**22,349**
Problem debt balances	**-**	**-**	**-**	**-**

	As at 31 December 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-	14,921	3,746	1,119	19,786
A+ to A-	669	406	-	1,075
BBB+ to BBB-	147	1,140	205	1,492
BB+ to B	126	77	23	226
Below B	-	-	16	16
Unrated	-	-	2	2
Total current credit exposure to foreign financial institutions	15,863	5,369	1,365	22,597
Problem debt balances	5	-	-	5

(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 1,158 million at March 2013 and NIS 1,272 million at December 2012.
(4) Mainly guarantees and undertakings for the provision of credit (excluding off-balance sheet derivatives).
(5) In order to rate the foreign financial institutions, the Bank uses credit ratings determined for implementing the standardized approach of Basel II. The Bank uses the ratings of Moody's and S&P agencies for rating the foreign financial institutions.

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 45%, Europe (Germany, France, Switzerland, Spain and the Benelux countries) 24%, United Kingdom 20%, and other countries 11%.

Exposure includes deposits in foreign banks, some 99.3% 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):

	31 March 2013		
	Balance sheet credit risk	Off-balance sheet credit risk (1)	Total credit risk
	NIS millions		
USA	**25,532**	**6,428**	**31,960**
UK	**12,416**	**2,188**	**14,604**
France	**3,653**	**280**	**3,933**
Germany	**5,044**	**196**	**5,240**
Switzerland	**3,179**	**606**	**3,785**
Belgium	**424**	**90**	**514**
Italy	**374**	**31**	**405**
The Netherlands	**2,789**	**144**	**2,933**
Denmark	**475**	**13**	**488**
Norway	**42**	**-**	**42**
Austria	**305**	**28**	**333**
Sweden	**233**	**15**	**248**
China	**431**	**326**	**757**
Others	**4,492**	**862**	**5,354**
Total	**59,389**	**11,207**	**70,596**

	31 December 2012		
	Balance sheet credit risk	Off-balance sheet credit risk (1)	Total credit risk
	NIS millions		
USA	25,916	5,972	31,888
UK	11,756	2,903	14,659
France	2,904	265	3,169
Germany	4,066	214	4,280
Switzerland	3,553	720	4,273
Belgium	303	71	374
Italy	348	35	383
The Netherlands	3,063	161	3,224
Denmark	736	16	752
Norway	245	-	245
Austria	72	35	107
Sweden	141	2	143
China	411	202	613
Others	5,380	1,090	6,470
Total	58,894	11,686	70,580

(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 31 March 2013 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	**55,619**	**10,189**	**65,808**	**93.2**	**1,281**
High-income countries	**879**	**83**	**962**	**1.4**	**2**
Countries with mid-high income	**2,741**	**676**	**3,417**	**4.8**	**513**
Countries with mid-low income	**140**	**259**	**399**	**0.6**	**3**
Countries with low income	**10**	**-**	**10**	**-**	**-**
Total	**59,389**	**11,207**	**70,596**	**100**	**1,799**

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 1,264 million and relates to 12 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$ 1,206 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	31 March 2013				
	Credit to the public	Bonds – Banks and others	Bank deposits	Other	Total
	NIS millions				
Italy (1)	**101**	**250**	**23**	**32**	**406**
Ireland	**5**	**1**	**-**	**-**	**6**
Greece	**2**	**-**	**-**	**-**	**2**
Spain	**17**	**(2) 140**	**-**	**3**	**160**
Total (3)	**125**	**391**	**23**	**35**	**574**

(1) Of which, NIS 255 million is in Bank Intessa.
(2) Approximately half of the exposure 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 2012 (pages 221-232). Accordingly, the following chapter should be read in conjunction with the Annual Report.

Capital requirement in respect of market risk

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

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

	31 March 2013	31 March 2012	31 December 2012
	NIS millions		
Capital requirement in respect of:			
Interest risks	**713**	641	673
Share price risk	**53**	4	14
Exchange rate risk	**99**	152	117
Options	**49**	60	70
Total capital requirement in respect of market risks	**914**	857	874

Main focus points in market risks

1. Exposure to interest

Interest risk is a 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.
- The management of exposures takes account of assumptions with regard to early repayment of housing 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, a repayment model including all linkage segments, which will be assimilated in the management of the activity, is being developed.

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

	Potential erosion in economic value		Potential erosion in annual profit	
Effect of immediate parallel change of 1% on the yield curve	**31 March 2013**	31 December 2012	**31 March 2013**	31 December 2012
Actual	**648**	742	**86**	182
Limit	**1,100**	1,100	**500**	500

* In the direction that is damaging to the Bank.

In the first quarter of 2013, the potential erosion in the economic value ranged from NIS 648 million to NIS 671 million and in annual profit, from NIS 86 million to NIS 134 million.

In the first quarter of 2013, 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:

	31 March 2013				
	Israeli currency		Foreign currency, including Israeli currency linked to foreign currency		
	Unlinked	CPI-linked	Dollar	Euro	Others
	NIS millions				
Financial assets	**202,470**	**62,729**	**56,918**	**11,592**	**13,570**
Amounts receivable in respect of derivative financial and off-balance sheet instruments	**288,183**	**6,962**	**103,442**	**29,465**	**22,973**
Financial liabilities	**166,074**	**53,642**	**79,606**	**16,164**	**11,336**
Amounts payable in respect of derivative financial and off-balance sheet instruments	**307,307**	**12,862**	**83,334**	**23,681**	**25,064**
Net fair value of financial instruments	**17,272**	**3,187**	**(2,580)**	**1,212**	**143**

	31 March 2012				
	Israeli currency		Foreign currency, including Israeli currency linked to foreign currency		
	Unlinked	CPI-linked	Dollar	Euro	Others
	NIS millions				
Financial assets	186,972	63,960	60,649	12,700	14,190
Amounts receivable in respect of derivative financial and off-balance sheet instruments	231,949	5,076	149,861	32,846	37,956
Financial liabilities	159,748	52,295	79,156	18,776	10,965
Amounts payable in respect of derivative financial and off-balance sheet instruments	247,253	10,268	132,943	26,462	41,870
Net fair value of financial instruments	11,920	6,473	(1,589)	308	(689)

	31 December 2012				
	Israeli currency		Foreign currency, including Israeli currency linked to foreign currency		
	Unlinked	CPI-linked	Dollar	Euro	Others
	NIS millions				
Financial assets	204,561	62,635	59,575	12,066	14,814
Amounts receivable in respect of derivative financial and off-balance sheet instruments	280,774	5,874	119,103	28,982	26,075
Financial liabilities	168,101	54,421	82,296	17,808	11,425
Amounts payable in respect of derivative financial and off-balance sheet instruments	300,234	12,632	96,660	22,990	29,799
Net fair value of financial instruments	17,000	1,456	(278)	250	(335)

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

	31 March 2013						
	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%	**16,735**	**3,163**	**(2,728)**	**1,170**	**133**	**(761)**	**(3.96)**
Immediate corresponding increase of 0.1%	**17,218**	**3,183**	**(2,595)**	**1,208**	**142**	**(78)**	**(0.41)**
Immediate corresponding decrease of 1%	**17,892**	**3,208**	**(2,466)**	**1,256**	**156**	**812**	**4.22**

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

* Not including an estimate of the value of income in respect of early repayment commission.

Change in interest rates	31 December 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				
	Unlinked	CPI-linked	Dollar	Euro	Others	Total	Total
	NIS millions					NIS millions	%
Immediate corresponding increase of 1%	16,561	1,546	(387)	239	(346)	(479)	(2.65)
Immediate corresponding increase of 0.1%	16,956	1,465	(290)	249	(336)	(48)	(0.27)
Immediate corresponding decrease of 1%	17,485	1,275	(179)	260	(320)	429	2.37

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 quarter of 2013, 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.

	31 March 2013			31 December 2012		
	Unlinked	CPI-linked	Foreign currency and linked thereto	Unlinked	CPI-linked	Foreign currency and linked thereto
Average duration in years:						
Average duration of assets (1)	**1.06**	**2.78**	**0.84**	1.04	2.81	0.78
Average duration of liabilities (1)	**1.02**	**3.14**	**0.72**	0.98	3.26	0.70
Duration gap in years	**0.04**	**(0.36)**	**0.12**	0.06	(0.45)	0.08
Internal rate of return (IRR) gap (%)	**1.27**	**0.90**	**1.15**	1.30	0.86	0.81

(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 3.17 years, with an internal rate of return (hereinafter: IRR) gap of 0.58%.

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 3.14 years, and an IRR gap of about 0.58%.

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 1.08 years in unlinked shekels and 0.79 years in foreign currency, with an IRR gap of 1.21% and 1.01%, 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. The Bank has carried out hedging transactions against the tax exposure in respect of the investments in the abovementioned subsidiaries whose functional currency is identical to the shekel which the Bank entered into hedging transactions. In addition, hedging transactions have been entered into against some of the expected foreign currency 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)	**31 March 2013**	31 March 2012	31 December 2012
Unlinked	(65%)-65%	**(6.3)**	(27.2)	(5.2)
CPI-linked	(50%)-50%	**3.8**	25.8	3.9
Foreign currency	(15%)-15%	**2.5**	1.4	1.3

During the first quarter of 2013, the CPI-linked surplus was about 5% of the exposed capital, which fluctuates between a deficit of 1% and a surplus of 9% 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 first quarter of 2013, the Group complied with all the basis exposure limits approved by the Board of Directors.

The following table shows the sensitivity to changes in the exchange rates of the major currencies as at 31 March 2013. 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	**15**	**49**	**4**	**(6)**	**(3)**
Increase of 10% in exchange rate	**71**	**120**	**5**	**(10)**	**(9)**
Decrease of 5% in exchange rate	**22**	**(26)**	**(7)**	**7**	**2**
Decrease of 10% in exchange rate	**49**	**(43)**	**(19)**	**15**	**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 scope 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), 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 the restrictions. 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		
	31 March 2013	31 March 2012	31 December 2012	**31 March 2013**	31 March 2012	31 December 2012
Actual	**95**	181	142	**45**	50	41
Limit	**500**	500	500	**400**	400	400

In the first quarter of 2013, the VaR on the economic value ranged from a maximum of NIS 98 million and a minimum of NIS 95 million, and the VaR on the portfolios revalued at fair value ranged from a maximum of NIS 45 million to a minimum of NIS 38 million, respectively.

In the first quarter of 2013, 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.

Day-to-day risk management in the exposure to financial institutions and countries is effected through credit committees chaired by the Capital Market Division and in collaboration with the Risk Management Division.

In the Risk Management Division, the quality of the portfolio is monitored 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 230 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 36.5 billion and in securities, some NIS 28.9 billion, principally in government debentures. Surplus liquid means in foreign currency are invested primarily in debentures amounting to some NIS 21.7 billion, and in bank deposits, some NIS 11.8 billion.

The balance of public deposits in the Bank, not including subordinated notes, fell during the first quarter of 2013 by NIS 10.7 billion (3.7%), and after canceling the effect of exchange rate differentials, the decrease was NIS 7.3 billion (2.5%).

The decrease in the shekel segment amounted to NIS 5.8 billion (3.2%) and in foreign currency and foreign currency linked segment amounted to NIS 4.8 billion, (4.4%). After canceling the effect of exchange rate differentials, an increase of NIS 1.4 billion (1.3%).

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 in 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 and the Bank's ability to meet all liquidity requirements are examined on the basis of two quantitative indices: the liquidity gap and the liquidity ratio. The model places the balance of the liquid assets as a ratio of liabilities expected to materialize in the short term, as established according to various parameters, depending on the level of severity of the scenario and on the basis of the discretion of the business factors.

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 to measure margin risk.

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

The Bank is prepared for the implementation of the directive published by the Supervisor of Banks regarding the management of liquidity risk.

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 31 March 2013			As at 31 December 2012		
	Unlinked	CPI-linked	Foreign currency (2)	Unlinked	CPI-linked	Foreign currency (2)
	NIS millions					
Total assets (1)	**217,963**	**59,897**	**116,922**	216,020	60,341	120,100
Total liabilities (1)	**198,817**	**60,675**	**118,402**	196,437	62,127	120,924
Excess (deficit) of assets in segment	**19,146**	**(778)**	**(1,480)** (3)	19,583	(1,786)	(824) (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 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 by using, *inter alia*, 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, amounted to some NIS 38.5 billion as at 31 March 2013, compared with about NIS 42.4 billion at the end of 2012, a decrease of some 9.2%.

The Bank also has a securities portfolio of some NIS 47 billion, invested mainly in Government of Israel debentures, foreign government debentures and foreign bank debentures. This compares with a balance of NIS 49 billion at 31 December 2012.

The balance of liquid assets represent around 26% of the financial assets of the Bank, a decrease of some 1.5% compared with the level at 31 December 2012.

The balance of credit to the public, net, as at 31 March 2013 amounted to some NIS 207 billion, compared with some NIS 208 billion at the end of 2012.

The balance of deposits of the public amounted to some NIS 266 billion at the end of March 2013, compared with some NIS 274.5 billion at the end of 2012, a decrease of some 3.1%. Of this, a decrease of NIS 5.4 billion (2.7%) was recorded in shekel deposits, and a decrease of NIS 2.8 billion (3.8%) was recorded in foreign currency deposits (in dollar terms, a decrease of US$ 0.3 billion).

During the period under review, the volume of customers' off-balance sheet monetary assets at the Bank rose by some NIS 20.6 billion to a total of NIS 517 billion.

Operational risks

This chapter is set out in great detail in the Financial Report for 2012 (pages 233-237) and accordingly, the following should be read in conjunction therewith.

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 pro-active process of identifying, measuring, monitoring, reporting and controlling/reducing material risks. For further explanation regarding operational risk management in the Bank, see page 233 in the Annual Report.

Risk of cyber attacks (Reporting as prospective information) – In recent years, an increase in the degree of cyber threats can be discerned. Attacks have been carried out against national infrastructures, government institutions and corporations, both in Israel and around the world.

Bank Leumi, as a leading financial organization, is an attractive target for various attackers. The computer systems, communication networks and our customers' devices have come under attack and will continue to be vulnerable to cyber-attack, viruses, malware, phishing, and other exposures intended to cause damage to service, or steal or corrupt data.

Leumi regards the Bank's data and those of its customers as an important asset and invests much effort in applying supervision and control mechanisms and procedures. As a part of its preparedness for contending with such cyber threats, a survey has been carried out to examine Leumi's resistance. As a result of the survey, Leumi commenced a multi-year process to improve its defence capability to stave off cyber threats.

In the first quarter of 2013, Leumi experienced no serious data security or cyber events.

Legal Proceedings

The Report of the Board of Directors in the Annual Report for 2012 sets forth legal, civil and other proceedings in which the Bank and consolidated subsidiaries are parties.

As of the publication date of this report, there had been no material changes in the abovementioned proceedings, except as outlined below.

With regard to claims of an amount exceeding 1% of the Bank's shareholders' equity on 31 March 2013, some NIS 253 million, see also note 6 to the Financial Statements.

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.

(a) Further to the details set forth in paragraph 2.6 in the chapter "Legal Proceedings" in the Report of the Board of Directors (page 246 in the 2012 Financial Report), on 20 March 2013, the Antitrust Commissioner extended the term of the exemption regarding the joint holdings of Bank Leumi, Bank Hapoalim, Discount Bank, First International Bank and Bank Mizrahi-Tefahot (hereinafter, together – "the Banks") in Shva – Automatic Bank Services (hereinafter "Shva") under those conditions and for a period of 45 days, and in Masav – Bank Clearing Center (hereinafter "Masav"), the exemption was extended for an additional period of three years. On 1 May 2013, the Commissioner extended the exemption with regard to Shva for a further three-month period. As part of the said exemption decision, the Commissioner announced that he had completed the examination regarding Shva and that he had found it appropriate to consider the possibility of an overall process, requiring (at least in part) the participation of the Supervisor of Banks, and for this purpose, a joint designated team consisting of the Commissioner and the Bank of Israel was established. As part of the said exemption decision, the Commissioner extended the original date stipulated for the sale of the ATM network at Shva's disposal to 20 July 2013.

(b) The United States authorities (the "U.S. authorities") are conducting wide-ranging investigations against foreign banks, including against Bank Leumi Group ("the Group"), 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, including the tax 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. At the same time, the Group is continuing its own investigation of the Group's activities of the subject. The investigation is being carried out by means of outside parties hired for this purpose. These outside parties have yet to complete their work. The Bank made a provision of NIS 340 million in the 2012 Financial Statements which is intended to cover the expense that might be incurred by the Group due to the investigations that are being conducted by the U.S. authorities with regard to the U.S. Customers. This provision also included expenses for advisors and other external service providers which the Bank hired with respect to the investigations.

In light of the fact that there is no certainty regarding the level of expense that might be caused to the Group in the context of the investigations, it is entirely possible that the related expense will be significantly higher. It should be noted that the provision does not constitute an acknowledgement to any claim that might be raised against the Group by the U.S. authorities.

D. Additional Matters

Leumi for the Community

Leumi Tomorrow - The Centennial Fund for Endowing Israel's Future Generation

Before the Passover festival, the Kimcha De'Pischa campaign was held for the ninth year running. As part of the campaign, food parcels were delivered to needy families. The "Leumi Tomorrow" association donated a total of NIS 250 thousand, and together with the contribution of employees of Leumi and its subsidiaries, over NIS 500 thousand was collected. The parcels were distributed to over 2,000 families from within the social partners of the Leumi Tomorrow association and the various units of the Bank, through the social leaders and volunteer employees.

Leumi Promoting Israeli Art

The Visitors' Center in Leumi's Mani House, for the second time, presented its collection, as part of the collective exhibition, "New Directions II". The exhibition is, in fact, six one-person exhibitions of the following artists: Ella Amitai Sadovsky, Anisa Eshkar, Eitan Ben-Moshe, Yair Barak, Shira Gepstein-Moshkovich and Masha Zusman alongside the Bank's collection of works. The exhibitions present six stories which sketch out new directions in art and invite viewers on a journey into a changing and developing period that examines new possibilities.

Summary of Donations and Sponsorships

In the first three months of 2013, Leumi Group donated funds and provided sponsorships for social welfare and community purposes amounting to some NIS 7.26 million, of which donations totaled some NIS 5.2 million.

Internal Auditor

Details regarding Internal Audit in the Group, including the professional standards by which it operates, the annual and multi-year work plans, and the considerations taken into account in formulating them, were included in the Annual Report for 2012.

The 2013 work program of the Internal Audit Division was submitted to the Audit Committee on 17 January 2013, and was discussed in the Audit Committee on 20 January 2013. On 31 January 2013, it was submitted to the plenum of the Board of Directors and discussed in the plenum on 3 February 2013.

The Internal Auditor's annual report for 2012 was submitted to the Audit Committee on 14 March 2013 and discussed in the Audit Committee on 17 March 2013. On 8 April 2013, the report was submitted to the plenum of the Board of Directors and discussed in the plenum on 11 April 2013.

The annual reports of the internal auditors of subsidiaries in Israel and abroad for 2012 were submitted to the Audit Committee on 22 April 2013 and were discussed in the committee on 25 April 2013.

Controls and Procedures

Controls and Procedures Regarding Disclosure in the Financial Statements

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 Bank routinely implements the directive in Leumi Group.

Assessment of controls and procedures with regard to disclosure

The Bank management, in conjunction with the President and CEO and the Chief Accounting Officer, at the end of the period covered in the report, estimated the effectiveness of the controls and procedures with regard to the Bank's disclosure. On the basis of this evaluation, the President and CEO of the Bank and the Chief Accounting Officer concluded that as of the end of this period, the controls and procedures with regard to the Bank's disclosure are effective in recording, processing, aggregating and reporting the information which the Bank is required to disclose in the quarterly financial report pursuant to the Public Reporting Directives of the Supervisor of Banks and at the date stipulated in these directives.

Changes in internal control

During the quarter ended 31 March 2013, there was no material change in the internal control of the Bank's financial reporting, which materially affected, or which is likely to materially affect the Bank's internal control of financial reporting.

Organizational Structure and Appointments

Appointments and retirements

Appointments:

Professor Daniel Tsiddon, was appointed to the position of Head of Capital Markets, Private Banking and Strategy Division, with effect from 1 April 2013.

Mr. Yaakov Haber was appointed Head of Corporate Division, with effect from 1 January 2013.

Ms. Tamar Yassur was appointed Head of Banking Division and member of Bank management 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 took up his position, Mr. Moshe Wolf was the acting Head of Operations and Computers.

Mr. Shlomo Goldfarb was appointed to the position of Head of the Accounting Division, Chief Accounting Officer and member of Bank management, with effect from 1 April 2013.

Mr. Itay Ben-Zeev was appointed to the position of Head of the Capital Markets Division and member of Bank management with effect from 1 April 2013.

Mr. Avner Mendelson ceased to serve as Head of the Strategy Department and International Operations Headquarters and will be appointed to the position of General Manager of Leumi USA, with effect from 1 September 2013.

Ms. Osnat Tennenbaum was appointed to the position of Head of the Special Credit Department, with effect from 1 February 2013.

Retirements:

Mr. Menachem Schwartz ceased to serve in his position as Head of the Accounting Division, Chief Accountant and member of Bank management on 31 March 2013 and he will retire on 31 October 2013, after 43 years employment with the Bank.

Mr. Moshe Ingevir ceased to serve in his position as Head of the Special Credits Department on 31 January 2013 and retired, after 46 years employment with the Bank.

Organizational Structure

Capital Markets, Private Banking and Strategy Division

On 1 April 2013, it was decided that Professor Tsiddon, Deputy President and CEO of Leumi, would be appointed Head of the Capital Markets, Private Banking and Strategy Division. The following departments will report directly to him:

- Capital Markets Division headed by Mr. I. Ben-Zeev
- Private Banking Department headed by Ms. N. Rousso–Stauber
- Strategy Unit, O&M Operations and International Operation Headquarters

Accounting Division

From 1 April 2013, with Mr. S. Goldfarb taking up his position as Head of the Accounting Division and Chief Accountant, the Accounting Division, which he heads, reports to the Economics and Finance Division headed by Mr. R. Fainaro.

Board of Directors

During the first three months of 2013 and up until the date of publication of this Report, the following changes took place in the composition of the Board of Directors:

On 21 March 2013, Mr. Doron Cohen completed his term of office as director in the Bank. The Board of Directors expressed its appreciation to Mr. Cohen for his contribution to the Bank's business and development. For further details, see the Bank's Immediate Report dated 21 March 2013 (ref: 2013-01-013426).

As a result of this change, the Board of Directors currently numbers 14 directors.

At the meeting of the Board of Directors held on 29 May 2013, it was resolved to approve and publish the Group's condensed unaudited consolidated financial statements as of 31 March 2013 and for the period ended on that date.

During the period of January to March 2013, the Board of Directors held 14 plenary meetings and 31 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

29 May 2013

Rates of Financing Income and Expenses[1] (on Consolidated Basis)

Exhibit A

Part A – Average balances and interest rates - assets

	For the three months ended 31 March					
	2013			2012		
	Average balance[2]	Interest income	Rate of income	Average balance[2]	Interest income	Rate of income
	(NIS millions)		%	(NIS millions)		%
Income-bearing assets						
Credit to the public[3]						
In Israel	209,696	2,225	4.31	209,956	2,479	4.81
Outside Israel	27,181	271	4.05	27,416	314	4.66
Total	236,877	2,496	4.28	237,372	2,793	4.79
Credit to the Government						
In Israel	421	4	3.85	412	4	3.94
Outside Israel	17	-	-	8	-	-
Total	438	4	3.70	420	4	3.86
Deposits in banks						
In Israel	7,107	7	0.39	6,383	17	1.07
Outside Israel	2,990	7	0.94	3,537	7	0.80
Total	10,097	14	0.56	9,920	24	0.97
Deposits in central banks						
In Israel	26,239	115	1.76	24,017	155	2.61
Outside Israel	4,292	-	-	4,213	-	-
Total	30,531	115	1.52	28,230	155	2.21
Securities borrowed or purchased under resale agreements						
In Israel	1,303	6	1.85	1,474	10	2.74
Outside Israel	-	-	-	-	-	-
Total	1,303	6	1.85	1,474	10	2.74
Bonds available for sale [4,5]						
In Israel	37,698	174	1.86	32,628	206	2.55
Outside Israel	3,943	9	0.95	4,250	24	2.28
Total	41,641	183	1.77	36,878	230	2.52
Bonds for trading [4,5]						
In Israel	10,165	42	1.66	8,883	48	2.20
Outside Israel	635	3	1.90	106	-	-
Total	10,800	45	1.68	8,989	48	2.17
Total interest-bearing assets	331,687	2,863	3.50	323,283	3,264	4.10
Receivables for non-interest bearing credit cards	6,508			6,428		
Other non-interest bearing assets[6]	28,649			30,468		
Total assets	366,844	2,863		360,179	3,264	
Total income-bearing assets attributable to activity outside Israel	39,058	290	3.01	39,530	345	3.54

See notes on page 119.

Rates of Financing Income and Expenses[1] (on Consolidated Basis) (cont'd)

Exhibit A

Part B – Average balances and interest rates – liabilities and equity

	For the three months ended 31 March					
	2013			2012		
	Average balance[2]	Interest expense	Rate of expense	Average balance[2]	Interest expense	Rate of expense
	(NIS millions)		%	(NIS millions)		%
Interest- bearing liabilities						
Deposits from the public						
In Israel	**245,812**	**(724)**	**(1.18)**	240,811	(1,023)	(1.71)
On demand	**57,040**	**(37)**	**(0.26)**	45,984	(46)	(0.40)
Fixed term	**188,772**	**(687)**	**(1.46)**	194,827	(977)	(2.02)
Outside Israel	**19,616**	**(52)**	**(1.06)**	21,067	(72)	(1.38)
On demand	**3,465**	**(2)**	**(0.23)**	4,936	(5)	(0.39)
Fixed term	**16,151**	**(50)**	**(1.24)**	16,131	(67)	(1.68)
Total	**265,428**	**(776)**	**(1.17)**	261,878	(1,095)	(1.68)
Deposits from the Government						
In Israel	**261**	**(2)**	**(3.10)**	352	(3)	(3.45)
Outside Israel	**191**	**-**	**-**	123	-	-
Total	**452**	**(2)**	**(1.78)**	475	(3)	(2.55)
Deposits from banks						
In Israel	**3,390**	**(8)**	**(0.95)**	2,520	(9)	(1.40)
Outside Israel	**263**	**(1)**	**(1.53)**	1,400	(4)	(1.22)
Total	**3,653**	**(9)**	**(0.99)**	3,920	(13)	(1.33)
Securities lent or sold under repurchase agreements						
In Israel	**817**	**(5)**	**(2.47)**	723	(6)	(3.36)
Outside Israel	**56**	**-**	**-**	57	-	-
Total	**873**	**(5)**	**(2.31)**	780	(6)	(3.11)
Bonds						
In Israel	**27,553**	**(309)**	**(4.56)**	28,684	(318)	(4.51)
Outside Israel	**10**	**-**	**-**	430	(1)	(0.93)
Total	**27,563**	**(309)**	**(4.56)**	29,114	(319)	(4.46)
Total interest-bearing liabilities	**297,969**	**(1,101)**	**(1.49)**	296,167	(1,436)	(1.95)
Non-interest bearing deposits from the public	**14,322**			12,383		
Payables for non-interest bearing credit cards	**6,853**			6,662		
Other non-interest bearing liabilities [7]	**22,636**			21,220		
Total liabilities	**341,780**	**(1,101)**		336,432	(1,436)	
Total capital means	**25,064**			23,747		
Total liabilities and capital means	**366,844**	**(1,101)**		360,179	(1,436)	
Interest margin		**1,762**	**201.14**		1,828	214.71
Net yield on income-bearing assets						
In Israel	**292,629**	**1,525**	**2.07**	283,753	1,560	2.22
Outside Israel	**39,058**	**237**	**2.41**	39,530	268	2.74
Total	**331,687**	**1,762**	**2.14**	323,283	1,828	2.28
Total income-bearing liabilities attributable to activity outside Israel	**20,136**	**(53)**	**(1.06)**	23,077	(77)	(1.35)

See notes on page 119.

Rates of Financing Income and Expenses[1] (on Consolidated Basis) (cont'd)

Exhibit A

Part C – Average balances and interest rates – additional information on interest-bearing assets and liabilities related to activity in Israel

	For the three months ended 31 March					
	2013			2012		
	Average balance[2]	Interest income (expense)	Rate of income (expense)	Average balance[2]	Interest income (expense)	Rate of income (expense)
	(NIS millions)		%	(NIS millions)		%
Unlinked Israeli currency						
Total interest-bearing assets	**187,508**	**1,818**	**3.94**	176,028	2,042	4.72
Total interest-bearing liabilities	**151,796**	**(543)**	**(1.44)**	149,413	(759)	(2.05)
Interest margin			**2.50**			2.67
Index-linked Israeli currency						
Total interest-bearing assets	**60,436**	**556**	**3.73**	61,424	593	3.92
Total interest-bearing liabilities	**49,703**	**(419)**	**(3.41)**	49,382	(444)	(3.65)
Interest margin			**0.32**			0.27
Foreign currency						
Total interest-bearing assets	**44,685**	**199**	**1.79**	46,301	284	2.48
Total interest-bearing liabilities	**76,334**	**(86)**	**(0.45)**	74,295	(156)	(0.84)
Interest margin			**1.34**			1.64
Total activity in Israel						
Total interest-bearing assets	**292,629**	**2,573**	**3.56**	283,753	2,919	4.18
Total interest-bearing liabilities	**277,833**	**(1,048)**	**(1.52)**	273,090	(1,359)	(2.01)
Interest margin			**2.05**			2.17

See notes on page 119.

Rates of Financing Income and Expenses[1] (on Consolidated Basis) (cont'd)

Exhibit A

Part D – Analysis of changes in interest income and interest expenses

	2013 compared to 2012		
	Increase (decrease) due to change[9]		Net change
	Amount	Price	
	(NIS millions)		
Interest-bearing assets			
Credit to the public			
In Israel	(3)	(251)	(254)
Outside Israel	(2)	(41)	(43)
Total	(5)	(292)	(297)
Non-interest bearing assets			
In Israel	38	(131)	(93)
Outside Israel	-	(11)	(11)
Total	38	(142)	(104)
Total interest income	33	(434)	(401)
Interest-bearing liabilities			
Deposits of the public			
In Israel	15	(314)	(299)
Outside Israel	(4)	(16)	(20)
Total	11	(330)	(319)
Non-interest bearing liabilities			
In Israel	(3)	(9)	(12)
Outside Israel	(3)	(1)	(4)
Total	(6)	(10)	(16)
Total interest expenses	5	(340)	(335)

See notes on page 119.

Rates of Financing Income and Expenses[1] (on Consolidated Basis) (cont'd)

Exhibit A

Notes:

(1) The data in these tables are shown after the effect of hedging derivative instruments.

(2) Based on monthly opening balances, except for the unlinked Israeli currency segment where the average balance is calculated on daily figures, and before deduction of the average book balance of allowances for credit losses, and on quarterly opening balances for foreign subsidiary companies.

(3) Before deduction of the average balance credit loss allowances. Including impaired debts not accumulating interest income.

(4) From the average balance of assets there has been deducted (added to) the average balance of unrealized profits (losses) from adjustment to fair value of debentures held for trading and available for sale as follows:

In the unlinked Israeli currency segment for the three month period, an amount of NIS 165 million (31 March 2012 – NIS 105 million).

In the CPI-linked Israeli currency sector for the three month period, an amount of NIS 89 million (31 March 2012 – NIS 77 million).

In the foreign currency sector (including Israeli currency linked to foreign currency) for the three month period, an amount of NIS 368 million (31 March 2012 – NIS (361) million).

(5) From the average balance of assets there has been deducted (added to) the average balance of unrealized gains (losses) on adjustment to fair value of debentures held for trading and available for sale, in the various segments, for the three month period, an amount of NIS 622 million (31 March 2012 – NIS (179) million).

(6) Including book balances of derivative instruments, other non-interest bearing assets, non-monetary assets, and after deducting allowance for credit losses.

(7) Including book balances of derivative instruments, and non-monetary liabilities.

(8) Net yield – net interest income divided by total interest-bearing assets.

(9) The calculation of the allocation between a change in amount and a change in price is made as follows: change in price - the change in price is multiplied by the book balance for the corresponding period; change in amount – the change in book balance is multiplied by the price for the current period.

Exposure to Interest Rate Fluctuations (on Consolidated Basis)

Exhibit B

	31 March 2013												31 December 2012			31 March 2012		
	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)	156,985	8,977	20,580	8,090	3,423	2,944	794	292	385	202,470	3.85	0.47	204,561	3.95	0.45	186,972	4.68	0.35
Derivative financial instruments (excluding options)	46,139	83,529	59,709	33,104	23,833	28,674	639	-	-	275,627	-	1.55	269,939	-	1.53	225,446	-	1.38
Options (in terms of basis asset) (d)	2,182	1,528	5,953	1,641	183	1,056	13	-	-	12,556	-	-	10,835	-	-	6,503	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	205,306	94,034	86,242	42,835	27,439	32,674	1,446	292	385	490,653	3.85	1.06	485,335	3.95	1.04	418,921	4.68	0.90
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a)	138,211	7,884	12,167	4,273	3,271	245	16	-	7	166,074	2.58	0.26	168,101	2.65	0.25	159,748	4.00	0.33
Derivative financial instruments (excluding options)	59,566	93,557	55,937	33,790	25,404	29,713	219	19	-	298,205	-	1.48	288,807	-	1.44	239,534	-	1.32
Options (in terms of basis asset) (d)	1,977	1,766	3,281	1,982	6	10	31	-	-	9,053	-	-	11,390	-	-	7,458	-	-
Off-balance sheet financial instruments	-	-	49	-	-	-	-	-	-	49	-	0.50	34	-	0.50	261	-	0.50
Total fair value	199,754	103,207	71,434	40,045	28,681	29,968	266	19	7	473,381	2.58	1.02	468,332	2.65	0.98	407,001	4.00	0.90
Financial instruments, net																		
Exposure to interest rate fluctuations	5,552	(9,173)	14,808	2,790	(1,242)	2,706	1,180	273										
Accumulated exposure in the sector	5,552	(3,621)	11,187	13,977	12,735	15,441	16,621	16,894										
Israeli currency – linked to the CPI																		
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial assets (a)	2,558	5,288	13,677	17,576	15,303	6,925	1,276	107	19	62,729	2.29	2.82	62,635	2.29	2.84	63,960	2.85	2.76
Derivative financial instruments (excluding options)	392	1,592	1,658	1,036	902	1,382	-	-	-	6,962	-	2.39	5,874	-	2.53	5,076	-	3.55
Options (in terms of basis asset) (d)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	2,950	6,880	15,335	18,612	16,205	8,307	1,276	107	19	69,691	2.29	2.78	68,509	2.29	2.81	69,036	2.85	2.81
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a)	1,551	2,177	10,692	15,248	10,962	11,605	1,155	252	-	53,642	1.39	3.47	54,421	1.43	3.57	52,295	2.32	3.78
Derivative financial instruments (excluding options)	284	1,410	5,617	3,393	814	1,037	209	-	-	12,764	-	1.78	12,531	-	1.97	10,181	-	1.57
Options (in terms of basis asset) (d)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet financial instruments	-	-	98	-	-	-	-	-	-	98	-	-	101	-	-	87	-	-
Total fair value	1,835	3,587	16,407	18,641	11,776	12,642	1,364	252	-	66,504	1.39	3.14	67,053	1.43	3.26	62,563	2.32	3.41
Financial instruments, net																		
Exposure to interest rate fluctuations	1,115	3,293	(1,072)	(29)	4,429	(4,335)	(88)	(145)										
Accumulated exposure in the sector	1,115	4,408	3,336	3,307	7,736	3,401	3,313	3,168										

See notes on page 122.

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

Exhibit B (cont'd)

	31 March 2013												31 December 2012			31 March 2012		
	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
Foreign currency and foreign currency linked																		
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial assets (a)	42,476	15,694	8,022	7,275	4,692	3,112	353	162	294	82,080	2.14	0.92	86,455	1.90	0.80	87,539	3.10	0.70
Derivative financial instruments (excluding options)	45,829	41,694	34,429	7,222	6,705	8,511	520	26	158	145,094	-	0.86	163,552	-	0.81	157,252	-	0.68
Options (in terms of basis asset) (d)	(1,521)	2,187	3,654	897	3,545	1,788	236	-	-	10,786	-	-	10,607	-	-	14,699	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	86,784	59,575	46,105	15,394	14,942	13,411	1,109	188	452	237,960	2.14	0.84	260,614	1.90	0.78	259,490	3.10	0.65
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a)	70,731	13,144	19,005	3,012	657	509	35	-	13	107,106	0.99	0.29	111,529	1.09	0.28	108,897	1.14	0.30
Derivative financial instruments (excluding options)	36,690	31,121	22,664	8,565	8,423	9,916	539	83	158	118,159	-	1.19	139,465	-	1.08	138,697	-	1.35
Options (in terms of basis asset) (d)	(1,599)	1,947	5,998	866	3,718	2,801	181	-	-	13,912	-	-	9,974	-	-	13,804	-	-
Off-balance sheet financial instruments	-	-	8	-	-	-	-	-	-	8	-	0.50	9	-	0.50	63	-	0.50
Total fair value	105,822	46,212	47,675	12,443	12,798	13,226	755	83	171	239,185	0.99	0.72	260,977	1.09	0.70	261,461	1.14	0.84
Financial instruments, net																		
Exposure to interest rate fluctuations	(19,038)	13,363	(1,570)	2,951	2,144	185	354	105										
Accumulated exposure in the sector	(19,038)	(5,675)	(7,245)	(4,294)	(2,150)	(1,965)	(1,611)	(1,506)										
Total exposure to interest rate fluctuations																		
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial assets (a) (c)	202,019	29,959	42,279	32,941	23,418	12,981	2,423	561	3,822	350,403	2.70	1.00	356,648	2.68	0.96	341,122	3.31	0.90
Derivative financial instruments (excluding options)	92,360	126,815	95,796	41,362	31,440	38,567	1,159	26	402	427,927	-	1.33	439,665	-	1.28	388,179	-	1.13
Options (in terms of basis asset) (d)	661	3,715	9,607	2,538	3,728	2,844	249	-	-	23,342	-	-	21,442	-	-	21,202	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	295,040	160,489	147,682	76,841	58,586	54,392	3,831	587	4,224	801,672	2.70	1.15	817,755	2.68	1.11	750,503	3.31	0.99
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a) (c)	210,493	23,205	41,864	22,533	14,890	12,359	1,206	252	325	327,127	1.54	0.80	334,691	1.59	0.80	321,185	2.51	0.88
Derivative financial instruments (excluding options)	96,540	126,088	84,218	45,748	34,641	40,666	967	102	374	429,344	-	1.41	441,067	-	1.34	388,779	-	1.34
Options (in terms of basis asset) (d)	378	3,713	9,279	2,848	3,724	2,811	212	-	-	22,965	-	-	21,364	-	-	21,262	-	-
Off-balance sheet financial instruments	-	-	155	-	-	-	-	-	143	298	-	0.14	283	-	0.09	540	-	0.09
Total fair value	307,411	153,006	135,516	71,129	53,255	55,836	2,385	354	842	779,734	1.54	1.11	797,405	1.59	1.08	731,766	2.51	1.10
Financial instruments, net																		
Exposure to interest rate fluctuations	(12,371)	7,483	12,166	5,712	5,331	(1,444)	1,446	233										
Accumulated exposure in the sector	(12,371)	(4,888)	7,278	12,990	18,321	16,877	18,323	18,556										

See notes on page 122.

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

Exhibit B (cont'd)

(a) Excluding book 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 book balances, including overdue balances in the amount of NIS 687 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 savings customers. The duration of total assets according to the original cash flow of the savings plans is higher and reached 3.14 years, the duration of total liabilities reaches 3.17 years, and the internal rate of return (hereinafter – IRR) gap amounts to 0.58%. The change in fair value on total assets is NIS 636 million and in total liabilities NIS 2 million.

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

Exhibit C

	31 March 2013								
	Overall credit risk[1]		Debts[2] and off-balance sheets credit risk (except for derivatives)[3]						
							Credit losses[4]		
				*Of which:					
In respect of activity of borrowers in Israel	Total	Problematic[5]	Total (*)	Debts[2]	Problematic[5]	Impaired	Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance of credit losses
	(NIS millions)								
Agriculture	2,058	84	2,054	1,748	84	39	-	-	(40)
Industry	31,999	2,125	30,681	20,519	2,057	722	12	(9)	(556)
Construction and real estate - construction	41,180	1,102	41,058	14,301	1,101	809	(15)	(5)	(383)
Construction and real estate - real estate activity	27,233	2,059	27,200	24,776	2,046	1,667	52	(1)	(568)
Electricity and water	3,402	5	2,500	2,169	5	5	(4)	1	(2)
Commerce	21,680	1,173	21,166	17,314	1,167	661	(14)	32	(442)
Hotels, catering services and food	2,958	306	2,927	2,674	306	217	(13)	(14)	(27)
Transport and storage	5,670	841	5,607	4,713	822	352	5	(1)	(136)
Communications and computer services	5,857	94	5,700	4,621	90	32	-	-	(40)
Financial services	26,257	1,063	20,724	12,542	1,016	642	(42)	10	(466)
Business and other services	7,869	175	7,692	6,064	174	144	(4)	-	(176)
Public and community services	7,244	182	7,208	5,914	182	106	1	15	(25)
Total commercial	183,407	9,209	174,517	117,355	9,050	5,396	(22)	28	(2,861)
Private individuals - housing loans	65,237	817	65,238	63,327	817	28	44	5	(492)
Private individuals - other	59,342	387	59,330	30,562	387	28	53	53	(362)
Total public	307,986	10,413	299,085	211,244	10,254	5,452	75	86	(3,715)
Banks in Israel	4,961	-	2,151	1,336	-	-	-	-	(3)
Government of Israel	30,064	-	261	261	-	-	-	-	-
Total activity in Israel	343,011	10,413	301,497	212,841	10,254	5,452	75	86	(3,718)

	31 March 2013								
	Overall credit risk[1]		Debts[2] and off-balance sheets credit risk (except for derivatives)[3]						
							Credit losses[4]		
				*Of which:					
In respect of activity of borrowers abroad	Total	Problematic[5]	Total (*)	Debts[2]	Problematic[5]	Impaired	Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance of credit losses
	(NIS millions)								
Agriculture	71	9	55	35	9	9	-	-	(3)
Industry	9,453	336	8,660	6,260	335	260	1	2	(176)
Construction and real estate - construction	10,910	1,010	10,304	7,548	1,010	815	(6)	10	(294)
Electricity and water	378	-	139	16	-	-	-	-	-
Commerce	7,318	156	7,126	5,599	156	129	1	-	(117)
Hotels, catering services and food	2,114	70	2,113	1,919	70	54	-	1	(12)
Transport and storage	375	27	361	354	27	27	-	-	(11)
Communications and computer services	687	-	446	219	-	-	-	-	(2)
Financial services	13,935	199	4,824	3,731	199	132	(2)	1	(60)
Business and other services	4,801	190	4,728	2,136	190	183	2	-	(57)
Public and community services	1,778	2	1,624	1,246	2	1	2	-	(11)
Total commercial	51,820	1,999	40,380	29,063	1,998	1,610	(2)	14	(743)
Private individuals - housing loans	1,204	85	1,204	1,203	85	82	(1)	5	(18)
Private individuals - other	1,445	46	1,413	1,185	46	46	(2)	-	(40)
Total public	54,469	2,130	42,997	31,451	2,129	1,738	(5)	19	(801)
Banks abroad	24,661	-	14,120	13,465	-	-	3	5	-
Goevrnments abroad	6,558	-	287	162	-	-	-	-	-
Total activity abroad	85,688	2,130	57,404	45,078	2,129	1,738	(2)	24	(801)
Total	428,699	12,543	358,901	257,919	12,383	7,190	73	110	(4,519)

See notes on page 126.

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

Exhibit C (cont'd)

	31 March 2012								
	Overall credit risk[1]		Debts[2] and off-balance sheets credit risk (except for derivatives)[3]						
							Credit losses[4]		
				*Of which:			Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance of credit losses
In respect of activity of borrowers in Israel	Total	Problematic[5]	Total (*)	Debts[2]	Problematic[5]	Impaired			
	(NIS millions)								
Agriculture	2,171	116	2,168	1,821	116	51	(6)	(4)	(48)
Industry	35,682	1,223	34,024	23,470	1,223	684	14	43	(497)
Construction and real estate - construction	38,325	1,611	38,246	13,693	1,613	756	(35)	37	(516)
Construction and real estate - real estate activity	28,652	2,377	28,601	25,967	2,375	1,506	(6)	1	(588)
Electricity and water	1,404	2	1,179	929	2	2	-	-	(2)
Commerce	23,482	944	23,048	18,341	944	399	(3)	(6)	(279)
Hotels, catering services and food	3,524	862	3,504	3,274	862	700	(31)	13	(103)
Transport and storage	5,938	360	5,821	4,949	339	137	15	(1)	(96)
Communications and computer services	7,409	144	7,168	4,861	143	34	(23)	-	(39)
Financial services	27,578	1,530	23,471	14,721	1,471	1,156	268	29	(571)
Business and other services	6,913	239	6,845	5,139	239	44	14	2	(83)
Public and community services	7,292	237	7,256	6,215	237	47	(2)	9	(40)
Total commercial	188,370	9,645	181,331	123,380	9,564	5,516	205	123	(2,862)
Private individuals - housing loans	58,805	884	58,804	57,056	884	23	(11)	9	(493)
Private individuals - other	55,435	302	55,404	28,377	302	32	20	28	(424)
Total public	302,610	10,831	295,539	208,813	10,750	5,571	214	160	(3,779)
Banks in Israel	35,912	-	33,381	32,487	-	-	-	-	-
Government of Israel	29,593	-	272	272	-	-	-	-	-
Total activity in Israel	368,115	10,831	329,192	241,572	10,750	5,571	214	160	(3,779)

	31 March 2012								
	Overall credit risk[1]		Debts[2] and off-balance sheets credit risk (except for derivatives)[3]						
							Credit losses[4]		
				*Of which:			Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance of credit losses
In respect of activity of borrowers abroad	Total	Problematic[5]	Total (*)	Debts[2]	Problematic[5]	Impaired			
	(NIS millions)								
Agriculture	64	5	63	45	5	5	(1)	-	(1)
Industry	12,330	320	11,755	8,572	320	98	6	(4)	(125)
Construction and real estate - construction	12,494	1,150	11,891	9,438	1,150	630	6	11	(264)
Electricity and water	411	-	187	51	-	-	-	-	-
Commerce	8,841	234	8,692	5,518	234	161	1	-	(122)
Hotels, catering services and food	1,336	30	1,335	1,126	30	3	1	-	(7)
Transport and storage	687	49	671	528	49	23	(1)	-	(17)
Communications and computer services	968	-	744	424	-	-	(1)	-	(4)
Financial services	11,829	114	4,782	3,656	94	85	-	9	(63)
Business and other services	4,205	269	4,167	2,870	269	143	(1)	1	(59)
Public and community services	1,017	3	906	833	3	2	-	-	(3)
Total commercial	54,182	2,174	45,193	33,061	2,154	1,150	10	17	(665)
Private individuals - housing loans	1,349	50	1,350	1,348	50	49	(1)	-	(19)
Private individuals - other	1,731	53	1,689	1,353	53	52	2	1	(48)
Total public	57,262	2,277	48,232	35,762	2,257	1,251	11	18	(732)
Banks abroad	26,794	72	16,847	12,907	6	6	-	1	(4)
Governments abroad	2,945	-	326	154	-	-	-	-	-
Total activity abroad	87,001	2,349	65,405	48,823	2,263	1,257	11	19	(736)
Total	455,116	13,180	394,597	290,395	13,013	6,828	225	179	(4,515)

See notes on page 126.

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

Exhibit C (cont'd)

	31 December 2012								
	Overall credit risk[1]		Debts[2] and off-balance sheets credit risk (except for derivatives)[3]						
							Credit losses[4]		
				*Of which:					
In respect of activity of borrowers in Israel	Total	Problematic[5]	Total (*)	Debts[2]	Problematic[5]	Impaired	Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance of credit losses
	(NIS millions)								
Agriculture	2,006	103	2,004	1,700	103	40	(11)	(15)	(43)
Industry	32,285	2,263	30,881	20,325	2,179	805	199	137	(584)
Construction and real estate - construction	40,287	1,371	40,176	14,165	1,371	905	(120)	79	(403)
Construction and real estate - real estate activity	28,110	2,289	28,051	25,427	2,287	1,887	90	173	(495)
Electricity and water	3,309	8	2,424	2,051	8	8	-	1	(3)
Commerce	23,022	1,296	22,531	18,801	1,291	768	194	43	(487)
Hotels, catering services and food	2,987	303	2,962	2,713	303	210	(59)	14	(26)
Transport and storage	5,915	894	5,838	5,005	868	373	53	13	(147)
Communications and computer services	5,715	86	5,528	4,581	86	31	(47)	(15)	(38)
Financial services	26,506	1,191	21,171	13,170	1,156	758	576	263	(519)
Business and other services	7,854	202	7,726	6,064	202	159	14	2	(155)
Public and community services	7,529	195	7,490	6,226	195	154	40	60	(25)
Total commercial	185,525	10,201	176,782	120,228	10,049	6,098	929	755	(2,925)
Private individuals - housing loans	64,136	860	64,137	62,101	860	29	(13)	47	(455)
Private individuals - other	57,416	352	57,406	28,941	352	47	91	165	(351)
Total public	307,077	11,413	298,325	211,270	11,261	6,174	1,007	967	(3,731)
Banks in Israel	42,122	-	39,295	38,478	-	-	-	-	-
Government of Israel	33,694	-	282	282	-	-	-	-	-
Total activity in Israel	382,893	11,413	337,902	250,030	11,261	6,174	1,007	967	(3,731)

	31 December 2012								
	Overall credit risk[1]		Debts[2] and off-balance sheets credit risk (except for derivatives)[3]						
							Credit losses[4]		
				*Of which:					
In respect of activity of borrowers abroad	Total	Problematic[5]	Total (*)	Debts[2]	Problematic[5]	Impaired	Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance of credit losses
	(NIS millions)								
Agriculture	80	9	64	50	9	9	1	-	(3)
Industry	11,145	326	10,249	7,025	323	277	98	16	(184)
Construction and real estate - construction	11,410	1,092	10,754	8,375	1,092	878	135	65	(315)
Electricity and water	370	-	164	32	-	-	-	-	-
Commerce	9,102	231	8,933	6,156	231	177	(1)	3	(136)
Hotels, catering services and food	2,296	73	2,295	2,106	73	56	-	18	(11)
Transport and storage	456	49	442	400	49	29	(1)	(2)	(14)
Communications and computer services	644	-	437	260	-	-	(1)	-	(2)
Financial services	12,994	47	4,747	3,619	47	21	(8)	51	(27)
Business and other services	3,245	218	3,143	2,349	218	217	2	23	(61)
Public and community services	1,505	13	1,391	1,040	13	7	2	-	(13)
Total commercial	53,247	2,058	42,619	31,412	2,055	1,671	227	174	(766)
Private individuals - housing loans	1,303	47	1,303	1,302	47	43	-	-	(20)
Private individuals - other	1,685	52	1,646	1,394	52	51	2	1	(44)
Total public	56,235	2,157	45,568	34,108	2,154	1,765	229	175	(830)
Banks abroad	28,860	5	18,343	14,008	5	5	-	1	(4)
Governments abroad	7,065	-	300	160	-	-	-	-	-
Total activity abroad	92,160	2,162	64,211	48,276	2,159	1,770	229	176	(834)
Total	475,053	13,575	402,113	298,306	13,420	7,944	1,236	1,143	(4,565)

See notes on next page.

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

Exhibit C (cont'd)

(1) Balance sheet and off-balance sheet credit risk, including in respect of derivative instruments. Including: debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments and credit risk in off-balance sheet financial instruments as calculated for purposes of single borrower credit limitations, in the amount of NIS 257,919, 50,550, 854, 11,833, 107,543 million respectively (at 31 March 2012 - NIS 290,395, 43,990, 1,485, 9,466, 109,780 million respectively, at 31 December 2012 - NIS 298,306, 54,042, 1,435, 11,438, 109,832 million respectively).

(2) Credit to the public, credit to governments, deposits in banks and other debts, except for securities borrowed or purchased under agreements to resell.

(3) Credit risk on off-balance sheet financial instruments as calculated for the purpose of single borrower credit limitations, except in respect of derivative instruments.

(4) Including in respect of off-balance sheet credit instruments (appearing in the balance sheet under "Other Liabilities").

(5) Balance sheet and off-balance sheet impaired, substandard, and special mention credit risks, including in respect of housing loans for which there is an allowance by extent of arrears and housing loans for which there is no allowance by extent of arrears that are in arrears of 90 days or more.

(6) 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.

Foreign Country Exposures

Exhibit D

Part A – Information on total country exposure and on exposure to countries whose total individual exposure exceeds 1% of total assets or exceeds 20% of equity for purposes of calculating capital ratios, whichever is the lower.

	31 March 2013					
	Balance sheet exposure (a)					
	Cross-border balance sheet exposure			Balance sheet exposure of foreign offices of the banking corporation to 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	4,234	3,584	9,803	17,421	9,510	7,911
United Kingdom	485	4,533	2,521	6,914	2,037	4,877
France	498	2,315	840	-	-	-
Switzerland	-	402	819	2,310	352	1,958
Germany	1	3,276	1,767	-	-	-
Belgium	88	200	136	-	-	-
Italy	-	273	101	-	-	-
Netherlands	-	1,202	1,587	-	-	-
Others	317	2,333	2,357	1,920	949	971
Total country exposure	5,623	18,118	19,931	28,565	12,848	15,717
Total exposure to LDC countries	221	540	1,166	1,896	932	964
Total exposure to GIIPS countries (d)	-	307	232	-	-	-

	Balance sheet exposure			Off-balance sheet exposure (a) (b)			
						Cross-border balance sheet exposure	
						Repayment period	
	Total balance sheet exposure	Problematic balance sheet 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	25,532	550	384	6,428	16	6,535	11,086
United Kingdom	12,416	619	467	2,188	-	3,007	4,532
France	3,653	8	1	280	-	1,469	2,184
Switzerland	3,179	31	31	606	-	893	328
Germany	5,044	3	3	196	-	3,398	1,646
Belgium	424	-	-	90	-	301	123
Italy	374	1	1	31	-	175	199
Netherlands	2,789	48	32	144	-	1,956	833
Others	5,978	523	487	1,244	-	3,984	1,023
Total country exposure	59,389	1,783	1,406	11,207	16	21,718	21,954
Total exposure to LDC countries	2,891	516	480	935	-	1,657	270
Total exposure to GIIPS countries (d)	539	1	1	35	-	199	340

(a) Balance sheet and off-balance sheet credit risk, problematic 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 debt limitations. This does not include elements of off-balance sheet risk.
(b) Credit risk in off-balance sheet financial instruments as calculated for purposes of single borrower debt limitations.
(c) Includes governments, official institutions and central banks.
(d) Exposure to GIIPS includes the following countries: Portugal, Ireland, Italy, Greece and Spain.

Foreign Country Exposures (cont'd)

Exhibit D (cont'd)

	31 March 2012					
	Balance sheet exposure (a)					
	Cross-border balance sheet exposure			Balance sheet exposure of foreign offices of the banking corporation to 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	2,447	3,102	8,866	19,155	10,354	8,801
United Kingdom	-	3,201	2,137	5,821	1,845	3,976
France	-	2,163	705	-	-	-
Switzerland	-	480	1,200	1,823	475	1,348
Germany	36	1,524	1,926	-	-	-
Belgium	-	322	121	-	-	-
Italy	-	363	58	-	-	-
Netherlands	4	1,002	1,393	-	-	-
Others	344	2,851	3,303	1,951	1,026	925
Total country exposure	2,831	15,008	19,709	28,750	13,700	15,050
Total exposure to LDC countries	176	560	1,278	1,919	1,009	910
Total exposure to GIIPS countries (d)	-	685	216	-	-	-

	Balance sheet exposure			Off-balance sheet exposure (a) (b)			
						Cross-border balance sheet exposure	
						Repayment period	
	Total balance sheet exposure	Problematic balance sheet 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	23,216	651	321	6,500	17	6,899	7,516
United Kingdom	9,314	626	243	2,865	4	2,151	7,516
France	2,868	1	1	395	-	1,185	3,187
Switzerland	3,028	99	99	667	-	1,214	1,683
Germany	3,486	3	3	441	-	1,927	466
Belgium	443	-	-	20	-	385	1,559
Italy	421	1	1	10	-	110	58
Netherlands	2,399	35	8	124	-	1,318	311
Others	7,423	590	558	1,060	-	4,483	1,081
Total country exposure	52,598	2,006	1,234	12,082	21	19,672	-
Total exposure to LDC countries	2,924	587	570	557	-	1,711	17,876
Total exposure to GIIPS countries (d)	901	2	2	15	-	353	303

(a) Balance sheet and off-balance sheet credit risk, problematic 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 debt limitations. This does not include elements of off-balance sheet risk.
(b) Credit risk in off-balance sheet financial instruments as calculated for purposes of single borrower debt limitations.
(c) Includes governments, official institutions and central banks.
(d) Exposure to GIIPS countries includes the following countries: Portugal, Ireland, Italy, Greece and Spain.

Foreign Country Exposures (cont'd)

Exhibit D (cont'd)

	31 December 2012					
	Balance sheet exposure (a)					
	Cross-border balance sheet exposure			Balance sheet exposure of foreign offices of the banking corporation to local residents		
Country	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
	(NIS millions)					
United States	5,472	4,161	8,519	17,965	10,201	7,764
United Kingdom	121	4,528	2,468	6,907	2,268	4,639
France	-	2,225	679	-	-	-
Switzerland	-	423	1,040	2,463	373	2,090
Germany	395	1,711	1,960	-	-	-
Belgium	-	172	131	-	-	-
Italy	-	255	93	-	-	-
Netherlands	-	1,425	1,638	-	-	-
Others	368	3,020	2,657	1,947	1,007	940
Total country exposure	6,356	17,920	19,185	29,282	13,849	15,433
Total exposure to LDC countries	187	613	1,225	1,920	986	934
Total exposure to GIIPS countries (d)	-	344	217	-	-	-

	Balance sheet exposure			Off-balance sheet exposure (a) (b)			
						Cross-border balance sheet exposure	
						Repayment period	
	Total balance sheet exposure	Problematic balance sheet 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	25,916	512	330	5,972	16	7,813	10,339
United Kingdom	11,756	621	484	2,903	4	2,677	4,440
France	2,904	1	1	265	-	1,391	1,513
Switzerland	3,553	37	37	720	-	1,117	346
Germany	4,066	3	3	214	-	2,180	1,886
Belgium	303	-	-	71	-	268	35
Italy	348	1	1	35	-	96	252
Netherlands	3,063	51	34	161	-	2,117	946
Others	6,985	569	528	1,345	-	4,779	1,266
Total country exposure	58,894	1,795	1,418	11,686	20	22,438	21,023
Total exposure to LDC countries	2,959	559	518	780	-	1,737	288
Total exposure to GIIPS countries (d)	561	1	1	40	-	163	398

(a) Balance sheet and off-balance sheet credit risk, problematic 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 debt limitations. This does not include elements of off-balance sheet risk.
(b) Credit risk in off-balance sheet financial instruments as calculated for purposes of single borrower debt limitations.
(c) Includes governments, official institutions and central banks.
(d) Exposure to GIIPS countries includes the following countries: Greece, Ireland, Italy, Portugal, and Spain.

Foreign Country Exposures (cont'd)

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 single borrower debt limitations.

From the aspect of determining end-risk, collateral is to be considered as follows:

- Third party guarantees according to the country of residence of the guarantor.
- Securities - The country of residence is that of the issuer of the security.
- The directive makes it clear that real estate and debtors' balances do not represent collateral for purposes of determining end-risk.

For purposes of determining end-risk, only specific collaterals were taken into account.

Part B – On 31 March 2013 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 1,264 million and related to 12 countries.

Certification

I, Rakefet Russak-Aminoach, certify that:

1. I have reviewed the Quarterly Report of Bank Leumi le-Israel B.M. (the "Bank") for the quarter ended on 31 March 2013 (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.

29 May 2013

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Rakefet Russak-Aminoach
President and Chief Executive Officer

Certification

I, Shlomo Goldfarb, certify that:

1. I have reviewed the Quarterly Report of Bank Leumi le-Israel B.M. (the "Bank") for the quarter ended on 31 March 2013 (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.

29 March 2013

Shlomo Goldfarb
First Executive Vice President
Chief Accounting Officer
Head of Accounting Division

Joint Auditors' Review Report to the Shareholders of Bank Leumi le-Israel B.M.

Introduction

We have reviewed the accompanying financial information of Bank Leumi le-Israel B.M. (hereinafter: "the Bank") and its subsidiaries, which comprises the condensed interim consolidated balance sheet as of 31 March, 2013 and the related interim condensed consolidated statements of profit and loss, comprehensive income, changes in shareholders' equity and cash flows for the three month period ending on that date. The Board of Directors and Management are responsible for the preparation and presentation of financial information for this interim period in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for financial reporting of interim periods and in accordance with directives and guidelines of the Supervisor of Banks. Our responsibility is to express a conclusion on financial information on this interim period based on our review.

We did not review the condensed financial information for the interim period of consolidated companies, whose assets included on consolidation constitute approximately 2% of total consolidated assets as of 31 March, 2013 and whose net interest income before credit loss expenses included in the consolidated statements of profit and loss constitute some 0.9% of the total consolidated net interest income before credit loss expenses for the three month period ending on that date. 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 paragraph 2 concerning claims against the Bank, including petitions for their approval as class actions.
2. that stated in Note 6.D concerning matters 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.

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

Somekh Chaikin
Certified Public Accountants (Isr.)

29 May 2013

Condensed Consolidated Balance Sheet as at 31 March 2013

		31 March 2013	31 March 2012	31 December 2012
		(Unaudited)	(Unaudited)	(Audited)
	Note	(NIS millions)		
Assets				
Cash and deposits with banks		**53,933**	47,368	54,621
Securities	2	**53,378**	49,757	56,408
Securities borrowed or purchased under agreements to resell		**854**	1,485	1,435
Credit to the public	3	**242,695**	244,575	245,378
Allowance for credit losses	3	**(4,081)**	(4,075)	(4,114)
Credit to the public, net		**238,614**	240,500	241,264
Credit to governments		**423**	425	442
Investments in companies included on equity basis		**2,122**	2,187	2,129
Buildings and equipment		**3,685**	3,715	3,705
Intangible assets and goodwill		**185**	176	189
Assets in respect of derivative instruments	7	**11,839**	9,466	11,438
Other assets		**4,496**	4,189	4,529
Total assets		**369,529**	359,268	376,160
Liabilities and equity				
Deposits of the public	3A	**278,820**	277,642	289,538
Deposits from banks		**7,579**	3,629	4,073
Deposits from governments		**473**	436	451
Securities lent or sold under agreements to repurchase		**735**	624	1,007
Bonds, debentures and subordinated notes		**27,542**	27,873	27,525
Liabilities in respect of derivative instruments	7	**12,879**	10,125	12,762
Other liabilities		**15,909**	14,564	15,576
Total liabilities		**343,937**	334,893	350,932
Non-controlling interests		**308**	257	307
Equity attributable to shareholders of the banking corporation	4	**25,284**	24,118	24,921
Total equity		**25,592**	24,375	25,228
Total liabilities and equity		**369,529**	359,268	376,160

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

David Brodet Chairman of the Board of Directors	**Rakefet Russak-Aminoach** President and Chief Executive Officer	**Ron Fainaro** Executive Vice President, Head of Economics and Finance Division	**Shlomo Goldfarb** Executive Vice President, Chief Accounting Officer, Head of Accounting Division

Date of approval of the financial statements: 29 May 2013

Condensed Consolidated Statement of Profit and Loss
for the periods ended 31 March 2013

	Note	For the three months ended 31 March 2013	For the three months ended 31 March 2012	For the year ended 31 December 2012
		(Unaudited)		(Audited)
		(NIS millions)		
Interest income	9	**2,863**	3,264 (a)	13,507
Interest expenses	9	**1,101**	1,436 (a)	6,099
Net interest income		**1,762**	1,828	7,408
Expenses in respect of credit losses	3	**73**	225	1,236
Net interest income, after expenses in respect of credit losses		**1,689**	1,603	6,172
Non-interest income				
Non-interest financing income	10	**411**	145 (a)	444
Commissions		**1,025**	1,020	4,199
Other income		**33**	12	131
Total non-interest income		**1,469**	1,177	4,774
Operating and other expenses				
Salaries and related expenses		**1,282**	1,186	5,290
Maintenance and depreciation of buildings and equipment		**449**	427	1,819
Amortization of intangible assets and goodwill		**3**	6	23
Other expenses		**323**	376	1,968
Total operating and other expenses		**2,057**	1,995	9,100
Profit before taxes		**1,101**	785	1,846
Provision for taxes on profit		**463**	306	811
Profit after taxes		**638**	479	1,035
Share of the banking corporation in losses after tax of companies included on equity basis		**(57)**	(39)	(67)
Net profit:				
Before attribution to non-controlling interests		**581**	440	968
Attributable to non-controlling interests		**(11)**	(9)	(37)
Attributable to shareholders of the banking corporation		**570**	431	931

Basic and diluted earnings per share (NIS)				
Net profit attributable to shareholders of the banking corporation		**0.39**	0.29	0.63

(a) Reclassified.

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

Condensed Statement of Comprehensive Income
for the periods ended 31 March 2013

	For the three months ended 31 March		For the year ended 31 December
	2013	2012 (a)	2012 (a)
	(Unaudited)	(Unaudited)	(Audited)
	(NIS millions)		
Net profit before attribution to non-controlling interests	**581**	440	968
Net profit attributed to non-controlling interests	**11**	9	37
Net profit attributed to shareholders of the Bank	**570**	431	931
Comprehensive income (loss) before taxes:			
Adjustments for showing securities available for sale at fair value, net	**(227)**	589	1,067
Adjustments for translation of financial statements, net [(b)], after the effect of tax and hedges [(c)]	**(19)**	(46)	(55)
Profits (losses) net in respect of cash flow hedges	**(4)**	-	-
Other comprehensive income (loss) before taxes	**(250)**	543	1,012
Relevant tax effect	**38**	(203)	(355)
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	**(212)**	340	657
Less other comprehensive income (loss) attributed to non-controlling interests	**(4)**	1	-
Other comprehensive income (loss) attributed to shareholders of the banking corporation, after taxes	**(208)**	339	657
Comprehensive income before attribution to non-controlling interests	**369**	780	1,625
Comprehensive income attributed to non-controlling interests	**7**	10	37
Comprehensive income attributed to shareholders of the banking corporation	**362**	770	1,588

(a) On 1 January 2013, the Bank implemented for the first time the directives of the Supervisor of Banks on the report of comprehensive income. Implementation of the directive was made on a retroactive basis.

(b) Adjustments for translation of financial statements of foreign operations whose functional currency is different from the functional currency of the Bank.

(c) Hedges – profits (losses) net in respect of hedging a net investment in foreign currency.

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

Condensed Consolidated Statement of Changes in Equity
for the period ended 31 March 2013

For the three months ended 31 March 2013 (Unaudited)

	Share capital	Capital reserves: Premium	Capital reserves: Share-based payment transactions and others (a)	Total share capital and capital reserves	Accumulated other comprehensive income (loss)	Retained earnings	Loans to employees for purchase of the Bank's shares	Total	Non-controlling interests	Total capital
	(NIS millions)									
Balance at 31 December 2012 (Audited)	**7,059**	**1,129**	**23**	**8,211**	**458**	**16,296**	**(44)**	**24,921**	**307**	**25,228**
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**570**	**-**	**570**	**11**	**581**
Dividend paid to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(6)**	**(6)**
Other comprehensive loss, net, after effect of taxes	**-**	**-**	**-**	**-**	**(208)**	**-**	**-**	**(208)**	**(4)**	**(212)**
Changes in non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**1**	**-**	**1**
Balance at the end of the period	**7,059**	**1,129**	**23**	**8,211**	**250**	**16,866**	**(43)**	**25,284**	**308**	**25,592**

For the three months ended 31 March 2012 (Unaudited)

	Share capital	Capital reserves: Premium	Capital reserves: Share-based payment transactions and others (a)	Total share capital and capital reserves	Accumulated other comprehensive income (loss)	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	(199)	15,406	(44)	23,374	254	23,628
Adjustment of opening balances in respect of first-time implementation of IFRS (b)	-	-	-	-	-	(26)	-	(26)	-	(26)
Net profit for the period	-	-	-	-	-	431	-	431	9	440
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	(8)	(8)
Other comprehensive income, net, after effect of taxes	-	-	-	-	339	-	-	339	1	340
Changes in non-controlling interests	-	-	-	-	-	-	-	-	1	1
Balance at the end of the period	7,059	1,129	23	8,211	140	15,811	(44)	24,118	257	24,375

See notes on page140.

Condensed Consolidated Statement of Changes in Equity (cont'd)
for the period ended 31 March 2013

	For the year ended 31 December 2012 (Audited)									
		Capital reserves								
	Share capital	Premium	Share-based payment transactions and others (a)	Total share capital and capital reserves	Accumulated other comprehensive income (loss)	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	(199)	15,406	(44)	23,374	254	23,628
Adjustment of opening balances in respect of first-time implementation of IFRS standards	-	-	-	-	-	(26)	-	(26)	-	(26)
Net profit for the period	-	-	-	-	-	931	-	931	37	968
Adjustments in respect of companies included on equity basis, net	-	-	-	-	-	(9)	-	(9)	-	(9)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	(8)	(8)
Other comprehensive income, net, after effect of taxes	-	-	-	-	657	-	-	657	-	657
Changes in non-controlling interests	-	-	-	-	-	(6)	-	(6)	24	18
Balance at 31 December 2012 (Audited)	7,059	1,129	23	8,211	458	16,296	(44)	24,921	307	25,228

Notes:

(a) Including NIS 10 million of other capital reserves.
(b) Mainly in respect of implementation of IAS 12 an amount of NIS 42 million and other adjustments in respect of foreign subsidiaries.

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

Condensed Consolidated Statement of Cash Flows
for the periods ended 31 March 2013

	For the three months ended 31 March		For the year ended 31 December
	2013	2012	2012
	(Unaudited)		(Audited)
Cash flows generated by operating activities:			
Net profit for the period	**581**	440	968
Adjustments:			
Group share in undistributed profits of companies included on equity basis (a)	**66**	39	181
Depreciation of buildings and equipment (including impairment)	**185**	177	775
Amortization	**3**	6	23
Expenses in respect of credit losses	**73**	225	1,236
Provision for impairment in assets transferred to group ownership	**-**	2	9
Net gain on sale of securities available for sale (including impairment)	**(333)**	(15)	(201)
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	**32**	2(b)	(239)
Gain on realization of investment in companies included on equity basis	**-**	(24)	(24)
Gain on realization of buildings and equipment	**(15)**	-	(2)
Deferred taxes , net	**(29)**	(210)	(635)
Severance pay and pension - increase in excess of provision over amount funded	**27**	9	568
Interest received in excess of accumulated interest (not yet received) for debentures available for sale	**62**	(2)	(100)
Interest not yet paid for debentures and subordinated notes	**149**	141	356
Exchange-rate differences on balances of cash and cash equivalents	**352**	94	131
Other, net	**(1)**	(5)	(2)
Net change in current assets:			
Deposits in banks for an original period of more than three months	**123**	336	333
Credit to the public	**2,120**	61	(1,822)
Credit to the government	**19**	23	7
Securities borrowed or purchased under agreements to resell	**581**	(260)	(210)
Assets in respect of derivative instruments	**(364)**	2,104	135
Securities held for trading	**866**	(112)(b)	(734)
Other assets	**101**	(76)	(31)
Net change in current liabilities:			
Deposits from banks	**3,538**	(1,386)	(984)
Deposits from the public	**(9,918)**	(1,385)	10,459
Deposits from the government	**26**	(80)	(62)
Securities lent or sold under agreements to repurchase	**(271)**	184	566
Liabilities in respect of derivative instruments	**151**	(1,946)	657
Other liabilities	**287**	(149)	92
Net cash generated by operating activities	**(1,589)**	(1,807)	11,450

(a) Net of dividend received.

(b) Reclassified.

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

Condensed Consolidated Statement of Cash Flows (cont'd)
for the periods ended 31 March 2013

	For the three months ended 31 March		For the year ended 31 December
	2013	2012	2012
	(Unaudited)		(Audited)
Cash flows generated by investment activities			
Acquisition of securities available for sale	**(12,406)**	(9,997)	(50,487)
Proceeds from sale of securities available for sale	**8,693**	6,392	25,727
Proceeds from redemption of securities available for sale	**5,697**	2,600	18,911
Acquisition of shares in companies included on equity basis	**(30)**	-	(66)
Proceeds from realization of investment in companies included on equity basis	**-**	64	64
Acquisition of buildings and equipment	**(182)**	(199)	(770)
Proceeds from realization of buildings and equipment	**17**	2	9
Proceeds from realization of assets transferred to Group ownership	**2**	-	14
Repayment of shareholders' loan to company included on equity basis	**-**	1	4
Net cash used for activities in investments	**1,791**	(1,137)	(6,594)
Cash flows generated by financing activities			
Issue of debentures and subordinated notes	**-**	2,410	2,420
Redemption of debentures and subordinated notes	**(132)**	(4,677)	(5,250)
Issue of capital in consolidated companies to external shareholders	**-**	-	21
Dividend paid to minority shareholders of consolidated companies	**(6)**	(8)	(8)
Net cash generated by financing activities	**(137)**	(2,275)	(2,817)
Increase (decrease) in cash and cash equivalents	**65**	(5,219)	2,039
Balance of cash and cash equivalents at beginning of period	**51,644**	49,736	49,736
Effect of movements in exchange rates on cash balances	**(352)**	(94)	(131)
Balance of cash and cash equivalents at end of period	**51,357**	44,423	51,644

Interest and taxes paid and/or received and dividends received

	For the three months ended 31 March		For the year ended 31 December
	2013	2012	2012
	(Unaudited)		(Audited)
	(NIS millions)		
Interest received	**3,270**	4,245(a)	13,823
Interest paid	**(1,269)**	(2,733)(a)	(8,395)
Dividends received	**14**	5	170
Taxes paid on income	**(93)**	(219)	(1,113)

(a) Restated.

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

Condensed Consolidated Statement of Cash Flows (cont'd)
for the periods ended 31 March 2013

Appendix A – Activities not in cash:

For the three months ended 31 March 2013:

(1) During the period, securities in the amount of NIS 38 million were transferred from the available-for-sale portfolio to credit to the public, due to the lending of securities.

For the three months ended 31 March 2012:

(1) During the period, securities in the amount of NIS 148 million were transferred from credit to the public to the available-for-sale portfolio, due to the conclusion of loaning of securities.

(2) During the period, fixed assets were acquired against liabilities to suppliers in the amount of NIS 44 million.

For 2012:

(1) During the year, securities in the amount of NIS 310 million were transferred from credit to the public to the available-for-sale portfolio, 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 9 million, in respect of loans that were repaid.

(3) During the period, fixed assets were acquired against a liability to suppliers in the amount of NIS 66 million.

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

Note 1 - Significant Accounting Policies

A. General

The condensed consolidated interim financial statements as at 31 March 2013 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 2012, except for that stated in paragraph C below. These statements should be read in conjunction with the annual financial statements as at 31 December 2012 and the accompanying notes. The condensed consolidated interim financial statements were approved for publication by the Board of Directors on 29 May 2013.

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.
The estimates and the assessments are consistent with those used in preparing the annual financial statements.

Reclassification

Pursuant to the first-time implementation of certain accounting standards and directives of the Banking Supervision Department (see paragraph C below), certain sections in the financial statements and comparative figures have been reclassified to agree with the section headings and the manner of presentation in the current reporting periods.

C. Initial Implementation of Accounting Standards, Updates to Accounting Standards, and Directives of the Banking Supervision Department

As of reporting periods commencing 1 January 2013, the Bank implemented for the first time the accounting standards and directives set out below:

1. Directive on "Statement of Comprehensive Income".

2. Directive on "Offsetting assets and liabilities".

3. Directive on "Disclosure of Deposits".

4. New system of International Financial Reporting Standards (IFRS) on consolidating financial statements and related issues.

5. Directive on updating the disclosure of credit quality of debts and the allowance for credit losses, adopting Accounting Standard Update ASU 2010-20.

6. Letter of the Supervisor of Banks on "Updated Guidelines on Residential Property" .

Below is a description of the main changes made in accounting policy in these condensed consolidated quarterly financial statements and the effect of their first-time implementation:

1. Directive on statement of comprehensive income

In accordance with the circular of the Banking Supervision Department dated 9 December 2012 on amending the Public Reporting Directives of the Supervisor of Banks regarding the statement of comprehensive income, the Bank adapted the manner of presentation of the statement of comprehensive income to the requirements of generally accepted accounting principles in the U.S. (ASU 2011-05, ASU 2011-12). Pursuant to the directives, items of other comprehensive income are reported in a separate report entitled "Statement of Comprehensive Income" shown immediately after the statement of profit and loss. Furthermore, the Bank reports details of the composition and movements of "Accumulated Other Comprehensive Income" in a new note on accumulated other comprehensive income.

The Bank implemented the directive retroactively as of 1 January 2013. Initial implementation did not have any material effect on the financial statements other than a change in presentation.

2. Directive on offsetting assets and liabilities

The Bank implements the rules set out in the circular of the Supervisor of Banks dated 12 December 2012, updating the Public Reporting Directives of the Supervisor of Banks regarding offsetting assets and liabilities. The amendments set out in this circular were aimed at adapting

Section 15a of the Public Reporting Directives to generally accepted accounting principles in the U.S. Pursuant to the directives, the Bank is to offset assets and liabilities arising from the same counterparty and report their net balance in the balance sheet, if the following cumulative conditions exist:

- In respect of those liabilities, there is a legally enforceable right to offset the liabilities from the assets.
- There is an intention to repay the liabilities and realize the assets on a net basis or simultaneously.
- Both the Bank and the counterparty owe each other determinable amounts.

Pursuant to the directives, a bank is to offset assets and liabilities with two different counterparties, and report a net amount in the balance sheet if the above cumulative conditions exist, and on condition that there is an agreement between the three parties clearly determining the right of the bank in respect of those liabilities for offsetting.

Furthermore, it was determined that a bank is to offset deposits whose repayment to the depositor is contingent on the extent of collection of the loan, and the loan was granted from these deposits, such that the bank does not have any risk of credit loss.

A bank is not to offset either assets or derivative instruments against liabilities in respect of derivative instruments unless all the above cumulative conditions exist. However, it is stated in the directives that under certain conditions a bank may offset fair value amounts recognized in respect of derivative instruments and fair value amounts recognized in respect of the right to claim collateral in cash (receivables) or a commitment to repay collateral in cash (payables) arising from derivative instruments executed with the same counterparty in accordance with a master netting arrangement.

In addition, a bank is to offset "Securities purchased under agreements to resell" and "Securities purchased under agreements to repurchase" under certain conditions set out in generally accepted accounting principles in the U.S. on this matter.
However, the bank is not entitled to offset balance sheet amounts unless it received approval for this in advance from the Supervisor of Banks.

The Bank does not offset balance sheet amounts and continues to show exposures in respect of transactions in a net amount in the financial statements, except for deposits whose repayment to the depositor is contingent on the extent of collection of the loan, and the loan was granted from these deposits, such that the bank does not have any risk of credit loss.

The Bank implements retroactively the rules included in the directives. However, the new disclosure requirements were not applied with regard to comparative figures relating to quarters during 2012, as according to the circular there is no requirement for implementation with regard to these comparative periods. Initial implementation did not have any material effect on the financial statements of the Bank other than updating the disclosure format in Note 7 on activity in derivative instruments – scope, credit risks and repayment dates as required in the directive.

3. Directive on disclosure of deposits

The Bank implements the instructions of the circular of the Banking Supervision Department dated 13 January 2013. Pursuant to the circular, disclosure requirements on deposits were updated and new disclosures were added regarding segmentation of deposits by various parameters, while distinguishing between deposits raised in Israel and abroad.

In the condensed financial statements, the Bank disclosed the balance of deposits of institutional entities that were included in deposits from the public raised in Israel. The remainder of the new disclosure requirements set out in the circular will apply from the report to the public for the year 2013 and thereafter.

The Bank applied the principles in the directive retroactively. However, the disclosure relating to the balance of deposits of institutional entities was not made at the end of each quarter in 2012, since pursuant to the circular there is no requirement for this disclosure.

4. New system of International Financial Reporting Standards (IFRS) on consolidating financial statements and related issues

The Bank applies the new system of International Financial Reporting Standards (IFRS) on consolidating financial statements and related issues as follows:

IFRS 10 - Consolidated Financial Statements
IFRS 11 - Joint Arrangements, and Amendment to IAS 28 – Investments in Associates and Joint Ventures
IFRS 12 – Disclosure of Interest in Other Entities

The Bank applies the system of standards for interim and annual periods commencing on 1 January 2013 and thereafter on a retroactive basis.
Initial implementation of the system of standards did not have any material effect on the financial statements of the Bank.

5. Updating the disclosure of credit quality of debts on the allowance for credit losses for adoption of Accounting Standards Update ASU 2010-20

The Bank applies the provisions of the circular of the Supervisor of Banks regarding updating the disclosure of credit quality of debts on the allowance for credit losses for adoption of Accounting Standards Update ASU 2010-20, which requires greater disclosure of debt balances, changes in the balance of the allowance for credit losses, any material purchases and sales of obligations during the reporting period, and disclosures about credit quality.
As of the financial statements at 31 March 2013, first-time disclosure is required for troubled debt restructurings of the number of contracts and the balance before and after the restructuring. In addition, regarding restructuring of debts that failed in the reporting year, disclosure is required of the contractual balance and the recorded balance of debt. This disclosure is required for each of the credit segments as described above.
The new disclosure requirements are implemented by the Bank as of 1 January, 2013. No disclosure is required of comparative figures for the corresponding interim periods in 2012 in relation to these new disclosures.
Initial implementation did not have any material effect on the financial statements of the Bank other than updating the disclosure format in Note 3 – Credit Risk, Credit to the Public, and Allowance for Credit Losses.

6. Letter of the Supervisor of Banks on "Updated Guidelines on Residential Property"

The letter of the Supervisor of Banks on "Updated Guidelines on Residential Property" updated the requirements regarding the collective allowance for credit losses for loans and modified the guidelines on capital adequacy.
The Bank has formulated policies designed to ensure compliance with the new requirements and that the balance of the collective allowance for credit losses in respect of housing loans will not be less than 0.35% of the balance of the loans on the reporting date.
The Bank has implemented the guidelines set out in the Supervisor's letter on a prospective basis as of the statements at 31 March 2013, and has made preparations that prepared that the balance of the collective allowance for credit losses in respect of housing loans will not be less than 0.35% of the balance of the said loans for the second quarter of 2013.

D. New accounting standards and new directives of the Supervisor of Banks in the period before their implementation

1. In June 2009, the Banking Supervision Department published a letter 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 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 on subjects that are a core part of the banking business – as of 1 January 2013.

Standards on subjects that are not a core part of the banking business – gradual adoption during 2011-2012. However, IAS 19 on "Employee Benefits" has not yet come into force, and will be adopted in accordance with the instructions of the Banking Supervision Department.

IAS 19 – Employee benefits

The Supervisor of Banks is examining the change in accounting treatment of employee benefits. At this stage it is not yet known which standard will be adopted, if at all, and what will be the manner of its implementation and the date of its implementation. Implementation of the standard to be adopted by the Supervisor of Banks will have a material effect following the change in discount rates. The amounts of pension and long-service grant liabilities are calculated at present according to actuarial models. The discount rate is 4% linked to the index was determined by the Supervisor of Banks and reflects the average rate of long-term interest on government bonds.

In addition, the actuarial calculations take into account the forecast of index-adjusted increase in salaries based on past experience that changes according to the age of the employee. The rates of increase range from 0.8% to 7.2%.

2. Directive on the format of the statement of profit and loss of a banking corporation and the adoption of generally accepted accounting principles in U.S. banks on the measurement of interest income.

On December 29, 2011 a circular of the Supervisor of Banks was published, which is designed to adapt the Public Reporting Directives for purposes of adopting the rules established in generally accepted accounting principles in the U.S. on nonrefundable fees and other costs (ASC 310-20). The directive prescribes rules for handling loan origination fees and direct costs in creating loans. The directive also sets out rules regarding the treatment of changes in the terms of debts that do not constitute restructuring of troubled debt, treatment early repayments of debts, and the treatment of other credit-granting transactions such as credit syndication deals.
On 25 July 2012, a circular was published concerning the date of adoption of Codification Topic 310-20 on nonrefundable fees and other costs that postponed implementation to 1 January 2014.

The Group is examining the implications of adopting the directive on the financial statements.

3. Collective allowance for credit losses

On 10 April 2013, a draft was published on the "Collective allowance for credit losses". The draft includes, *inter alia*, a temporary directive on the "Collective allowance for credit losses" that replaces the temporary directive on the "Collective allowance for credit losses in 2011-2012". The new directive will apply to quarterly and annual financial statements from 1 January 2013 and thereafter. The temporary directive clarified the number of years for which the Bank is to calculate loss rates and, in addition, the calculation of the general and supplementary provisions under the Proper Conduct of Banking Business Directive as the minimum amount of the provision was extended until 31 December 2014. The directive included guidelines for examining the adequacy of the allowance for credit losses, which shall apply from 31 December 2013 and thereafter. The Bank is examining the expected effect of implementing the draft directives.

Note 2 - Securities

	As at 31 March 2013 (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	21,250	21,023	230	(3)	21,250
Foreign governments	5,756	5,753	7	(4)	5,756
Financial institutions in Israel	117	115	4	(2)	117
Financial institutions abroad	4,753	4,708	102	(57)	4,753
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	5,856	5,814	61	(19)	5,856
Others in Israel	1,049	1,018	32	(1)	1,049
Others abroad	1,579	1,540	40	(1)	1,579
	40,360	39,971	476	(87)	40,360
Shares and mutual funds (b)	2,420	2,162	272	(14)	2,420
Total securities available for sale	42,780	42,133	748 (c)	(101)(c)	42,780

	As at 31 March 2013 (Unaudited)				
	Balance sheet amount	Amortized cost (in shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (a)
	(NIS millions)				
2. Securities held for trading:					
Debentures -					
Government of Israel	7,701	7,595	110	(4)	7,701
Foreign governments	516	505	11	-	516
Financial institutions in Israel	158	157	1	-	158
Financial institutions abroad	179	171	9	(1)	179
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	358	357	8	(7)	358
Others in Israel	662	648	14	-	662
Others abroad	615	568	47	-	615
	10,189	10,001	200	(12)	10,189
Shares and mutual funds	409	383	27	(1)	409
Total securities available for trading	10,598	10,384	227 (d)	(13) (d)	10,598
Total securities	53,378	52,517	975	(114)	53,378

See notes on page 153.

Note 2 - Securities (cont'd)

	As at 31 March 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	21,689	21,547	151	(9)	21,689
Foreign governments	3,117	3,114	6	(3)	3,117
Financial institutions in Israel	322	317	9	(4)	322
Financial institutions abroad	7,555	7,692	66	(203)	7,555
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	3,212	3,229	30	(47)	3,212
Others in Israel	614	617	14	(17)	614
Others abroad	1,155	1,149	19	(13)	1,155
	37,664	37,665	295	(296)	37,664
Shares and mutual funds (b)	2,244	1,849	405	(10)	2,244
Total securities available for sale	39,908	39,514	700 (c)	(306)(c)	39,908

	As at 31 March 2012 (Unaudited)				
	Balance sheet amount	Amortized cost (in shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (a)
	(NIS millions)				
2. Securities held for trading:					
Debentures -					
Government of Israel	7,922	7,848	77	(3)	7,922
Foreign governments	320	328	-	(8)	320
Financial institutions in Israel	185	183	2	-	185
Financial institutions abroad	239	238	5	(4)	239
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	171	178	3	(10)	171
Others in Israel	507	512	2	(7)	507
Others abroad	338	307	31	-	338
	9,682	9,594	120	(32)	9,682
Shares and mutual funds	167	165	3	(1)	167
Total securities available for trading	9,849	9,759	123 (d)	(33)(d)	9,849
Total securities	49,757	49,273	823	(339)	49,757

See notes on page 153.

Note 2 - Securities (cont'd)

	As at 31 December 2012 (Audited)				
			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	22,998	22,722	276	-	22,998
Foreign governments	6,454	6,442	13	(1)	6,454
Financial institutions in Israel	323	304	21	(2)	323
Financial institutions abroad	5,281	5,231	128	(78)	5,281
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	5,049	4,993	76	(20)	5,049
Others in Israel	1,039	1,018	26	(5)	1,039
Others abroad	1,583	1,550	36	(3)	1,583
	42,727	42,260	576	(109)	42,727
Shares and mutual funds (b) (e)	2,167	1,726	453	(12)	2,167
Total securities available for sale	44,894	43,986	1,029 (c)	(121)(c)	44,894

	As at 31 December 2012 (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	8,980	8,829	152	(1)	8,980
Foreign governments	311	311	-	-	311
Financial institutions in Israel	129	127	2	-	129
Financial institutions abroad	88	88	1	(1)	88
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	358	358	8	(8)	358
Others in Israel	707	697	13	(3)	707
Others abroad	742	682	60	-	742
	11,315	11,092	236	(13)	11,315
Shares and mutual funds	199	189	11	(1)	199
Total securities available for trading	11,514	11,281	247 (d)	(14) (d)	11,514
Total securities	56,408	55,267	1,276	(135)	56,408

See notes on next page.

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 1,460 million with respect to shares which have no readily available fair value, which are shown at cost (31 December 2012 - NIS 1,194 million, 31 March 2012 - NIS 1,211 million).

(c) Regarding securities available for sale, other comprehensive profit (loss) – unrealized profits (losses) are included in equity under "Other comprehensive income, net after the effect of taxes", except for securities designated as fair value hedges.

(d) Charged to the profit and loss statement, but not yet realized.

(e) In January 2013, the Bank sold part of the shares it held in Migdal Insurance & Financial Holdings Ltd. After the sale, Leumi holds 4.71% of the share capital of Migdal.

General notes:

Securities lent in the amount of NIS 523 million (31 December 2012 – NIS 339 million, 31 March 2012 – NIS 500 million) are shown under credit to the public.

Securities pledged to lenders amounted to NIS 1,933 million (31 December 2012 – NIS 1,851 million, 31 March 2012 – NIS 2,037 million).

Note 2 - Securities (cont'd)

	As at 31 March 2013 (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	204	203	1	-	204
Securities issued by FNMA and FHLMC	1,674	1,677	2	(5)	1,674
Total	1,878	1,880	3	(5)	1,878
Other mortgage-backed securities (including CMO and STRIPPED MBS):					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	2,292	2,279	14	(1)	2,292
Other mortgage-backed securities	298	296	2	-	298
Total	2,590	2,575	16	(1)	2,590
Asset-backed securities (ABS):					
Credit card receivables	55	55	-	-	55
Lines of credit for any purpose secured by dwelling	2	2	-	-	2
Other credit to private persons	3	3	-	-	3
Credit not to private persons	4	4	-	-	4
CLO	1,324	1,292	43	(11)	1,324
Others	-	3	(1)	(2)	-
Total	1,388	1,359	42	(13)	1,388
Total asset-backed debentures available for sale	5,856	5,814	61	(19)	5,856

* Amounts charged to capital reserve as part of other comprehensive income, net after effect of taxes.

Note 2 - Securities (Cont'd)

	As at 31 March 2013 (Unaudited)				
	Balance sheet amount	Amortized cost	Unrealized profits from adjustments to fair value*	Unrealized losses from adjustments to fair value*	Fair value
	(NIS millions)				
2. Debentures held for trading:					
Pass-through securities:					
Other securities	5	5	-	-	5
Total	5	5	-	-	5
Other mortgage-backed securities (including CMO and STRIPPED MBS):					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	18	17	1	-	18
Other mortgage-backed securities	46	46	1	(1)	46
Total	64	63	2	(1)	64
Asset-backed securities (ABS):					
Credit card receivables	36	36	-	-	36
Lines of credit for any purpose secured by dwelling	3	2	1	-	3
Credit for purchase of vehicle	161	157	4	-	161
Other credit to private persons	16	16	-	-	16
Credit not to private persons	1	1	-	-	1
CDO	1	6	-	(5)	1
Others	71	71	1	(1)	71
Total	289	289	6	(6)	289
Total asset-backed debentures held for trading	358	357	8	(7)	358

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

Note 2 - Securities (Cont'd)

	As at 31 March 2012 (Unaudited)				
	Balance sheet amount	Amortized cost	Accumulated other comprehensive income (loss) *		Fair value
			Profits	Losses	
	(NIS millions)				
1. Debentures available for sale:					
Pass-through securities:					
Securities guaranteed by GNMA	705	700	5	-	705
Securities issued by FNMA and FHLMC	370	364	6	-	370
Total	1,075	1,064	11	-	1,075
Other mortgage-backed securities (including CMO and STRIPPED MBS):					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	856	850	7	(1)	856
Other mortgage-backed securities	442	446	1	(5)	442
Total	1,298	1,296	8	(6)	1,298
Asset-backed securities (ABS):					
Credit card receivables	39	40	-	(1)	39
Lines of credit for any purpose secured by dwelling	2	2	-	-	2
Other credit to private persons	5	5	-	-	5
CLO	790	819	9	(38)	790
Others	3	3	2	(2)	3
Total	839	869	11	(41)	839
Total asset-backed debentures available for sale	3,212	3,229	30	(47)	3,212

* Amounts charged to capital reserve as part of other comprehensive income, net after effect of taxes.

Note 2 - Securities (Cont'd)

	As at 31 March 2012 (Unaudited)				
	Balance sheet amount	Amortized Cost	Unrealized profits from adjustments to fair value*	Unrealized losses from adjustments to fair value*	Fair value
	(NIS millions)				
2. Debentures held for trading:					
Pass-through securities:					
Securities guaranteed by GNMA	6	6	-	-	6
Securities issued by others	5	6	-	(1)	5
Total	11	12	-	(1)	11
Other mortgage-backed securities (including CMO and STRIPPED MBS):					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	110	109	1	-	110
Other mortgage-backed securities	8	10	-	(2)	8
Total	118	119	1	(2)	118
Asset-backed securities (ABS):					
Lines of credit for any purpose secured by dwelling	3	3	-	-	3
Credit for purchase of vehicle	23	22	1	-	23
Credit not to private persons	5	5	-	-	5
CDO	1	6	-	(5)	1
Others	10	11	1	(2)	10
Total	42	47	2	(7)	42
Total asset-backed debentures held for trading	171	178	3	(10)	171

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

Note 2 - Securities (Cont'd)

	As at 31 December 2012 (Audited)				
	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	257	257	1	(1)	257
Securities issued by FNMA and FHLMC	511	510	1	-	511
Total	768	767	2	(1)	768
Other mortgage-backed securities (including CMO and STRIPPED MBS:					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	2,560	2,544	16	-	2,560
Other mortgage-backed securities	303	300	4	(1)	303
Total	2,863	2,844	20	(1)	2,863
Asset-backed securities (ABS):					
Credit card receivables	38	38	-	-	38
Lines of credit for any purpose secured by dwelling	2	2	-	-	2
Other credit to private persons	4	4	-	-	4
CLO	1,371	1,334	54	(17)	1,371
Others	3	4	-	(1)	3
Total	1,418	1,382	54	(18)	1,418
Total asset-backed debentures available for sale	5,049	4,993	76	(20)	5,049

* Amounts charged to capital reserve as part of other comprehensive income, net after effect of taxes.

Note 2 - Securities (Cont'd)

	As at 31 December 2012 (Audited)				
	Balance sheet amount	Amortized Cost	Unrealized profits from adjustments to fair value*	Unrealized losses from adjustments to fair value*	Fair value
	(NIS millions)				
2. Debentures held for trading:					
Pass-through securities:					
Securities issued by others	5	5	-	-	5
Total	5	5	-	-	5
Other mortgage-backed securities (including CMO and STRIPPED MBS):					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	21	19	2	-	21
Other mortgage-backed securities	19	21	-	(2)	19
Total	40	40	2	(2)	40
Asset-backed securities (ABS):					
Credit card receivables	37	37	-	-	37
Lines of credit for any purpose secured by dwelling	3	2	1	-	3
Credit for purchase of vehicle	166	163	3	-	166
Other credit to private persons	16	16	-	-	16
Credit not to private persons	1	1	-	-	1
CDO	28	33	-	(5)	28
Others	62	61	2	(1)	62
Total	313	313	6	(6)	313
Total asset-backed debentures held for trading	358	358	8	(8)	358

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

Note 2 - Securities (Cont'd)

	As at 31 March 2013 (Unaudited)					
	Up to 12 months		Over 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)	**1,410**	**(5)**	**-**	**-**	**1,410**	**(5)**
Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS)	**742**	**(1)**	**3**	**-**	**745**	**(1)**
Asset-backed securities (ABS)	**257**	**(2)**	**274**	**(11)**	**531**	**(13)**
Total	**2,409**	**(8)**	**277**	**(11)**	**2,686**	**(19)**

	As at 31 March 2012 (Unaudited)					
	Up to 12 months		Over 12 months		Total	
	Fair Value	Unrealized losses from adjustments to fair value	Fair Value	Unrealized losses from adjustments to fair value	Fair Value	Unrealized losses from adjustments to fair value
	(NIS millions)					
Additional details of asset-backed securities available for sale which include unrealized losses from adjustments to fair value						
Mortgage-backed securities (MBS)	187	-	-	-	187	-
Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS)	248	-	341	(6)	589	(6)
Asset-backed securities (ABS)	141	(17)	521	(24)	662	(41)
Total	576	(17)	862	(30)	1,438	(47)

	As at 31 December 2012 (Audited)					
	Up to 12 months		Over 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)	351	(1)	-	-	351	(1)
Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS)	457	(1)	12	-	469	(1)
Asset-backed securities (ABS)	70	(2)	372	(16)	442	(18)
Total	878	(4)	384	(16)	1,262	(20)

- Losses less than NIS 1 million.

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

A. Debts* and off-balance sheet credit instruments

1. Change in balance of allowance for credit losses

	For the three months ended 31 March 2013 (Unaudited)					
	Credit loss allowance					
	Credit to the public				Banks and governments	Total
	Commercial	Residential	Other private	Total		
	(NIS millions)					
Balance of credit loss allowance at beginning of year	**3,691**	**475**	**395**	**4,561**	**4**	**4,565**
Expenses in respect of credit losses	**(28)**	**48**	**51**	**71**	**2**	**73**
Accounting write-offs	**(72)**	**(10)**	**(124)**	**(206)**	**(1)**	**(207)**
Collection of debts written off in previous years	**17**	**-**	**80**	**97**	**-**	**97**
Net accounting write-offs	**(55)**	**(10)**	**(44)**	**(109)**	**(1)**	**(110)**
Translation differences reserve	**(4)**	**(3)**	**-**	**(7)**	**(2)**	**(9)**
Balance of credit loss allowance at end of year	**3,604**	**510**	**402**	**4,516**	**3**	**4,519**
Of which: in respect of off-balance sheet credit instruments	**402**	**-**	**33**	**435**	**-**	**435**

	For the three months ended 31 March 2012 (Unaudited) (a)					
	Credit loss allowance					
	Credit to the public				Banks and governments	Total
	Commercial	Residential	Other private	Total		
	(NIS millions)					
Balance of credit loss allowance at beginning of year	3,441	532	462	4,435	5	4,440
Net accounting write-offs recognized at 1 January 2012	27	3	6	36	-	36
Expenses in respect of credit losses	215	(12)	22	225	-	225
Accounting write-offs	(152)	(9)	(130)	(291)	(1)	(292)
Collection of debts written off in previous years	12	-	101	113	-	113
Net accounting write-offs	(140)	(9)	(29)	(178)	(1)	(179)
Translation differences reserve	(16)	(2)	(4)	(22)	-	(22)
Balance of credit loss allowance at end of year	3,527	512	457	4,496	4	4,500
Of which: in respect of off-balance sheet credit instruments	389	-	32	421	-	421

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

A. Debts* and off-balance sheet credit instruments (cont'd)
1. Change in balance of allowance for credit losses (cont'd)

	For the year ended 31 December 2012 (Audited)					
	Credit loss allowance					
	Credit to the public				Banks and governments	Total
	Commercial	Residential	Other private	Total		
	(NIS millions)					
Balance of credit loss allowance at beginning of year	3,441	532	462	4,435	5	4,440
Other changes in credit loss allowance at 1 January 2012	27	3	6	36	-	36
Expenses in respect of credit losses	1,156	(13)	93	1,236	-	1,236
Accounting write-offs	(1,084)	(47)	(430)	(1,561)	(1)	(1,562)
Collection of debts written off in previous years	155	-	264	419	-	419
Net accounting write-offs	(929)	(47)	(166)	(1,142)	(1)	(1,143)
Translation differences reserve	(4)	-	-	(4)	-	(4)
Balance of credit loss allowance at end of year	3,691	475	395	4,561	4	4,565
Of which: in respect of off-balance sheet credit instruments	413	-	34	447	-	447

(a) As of the report for the year 2012, the Bank implemented for the first time the directives of the Supervisor of Banks on updating the disclosure of credit quality of debts and the allowance for credit losses. Comparative figures for the previous year have been reclassified as far as possible to adapt them to the format required under the said directives.

* Credit to the public, credit to governments, deposits in banks (at 31 March 2013, except for deposits in the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

A. Debts* and off-balance sheet credit instruments (cont'd)

2. Additional information on the method of calculating the credit loss allowance in respect of debts* and on debts* on which it was calculated

	For three months ended 31 March 2013 (Unaudited)					
	Credit loss allowance					
	Credit to the public				Banks and governments	
	Commercial	Residential	Other private	Total		Total
	(NIS millions)					
Recorded debt balance of debts*:						
Examined on an individual basis	116,642	748	1,808	119,198	12,754	131,952
Examined on a collective basis	29,776	63,782	29,939	123,497	2,470	125,967
Of which the allowance was calculated by extent of arrears	-	557	-	557	-	557
Total debts*	146,418	64,530	31,747	242,695	15,224	257,919
Credit loss allowance by debts*:						
Examined on an individual basis	2,848	18	56	2,922	3	2,925
Examined on a collective basis	354	492	313	1,159	-	1,159
Of which the allowance was calculated by extent of arrears	-	271**	-	271	-	271
Total allowance for credit losses	3,202	510	369	4,081	3	4,084

	For the three months ended 31 March 2012 (Unaudited) (a)					
	Credit loss allowance					
	Credit to the public				Banks and governments	
	Commercial	Residential	Other private	Total		Total
	(NIS millions)					
Recorded debt balance of debts*:						
Examined on an individual basis	123,040	520	880	124,440	45,819	170,259
Examined on a collective basis	33,401	58,998	27,736	120,135	-	120,135
Of which the allowance was calculated by extent of arrears	-	614	-	614	-	614
Total debts*	156,441	59,518	28,616	244,575	45,819	290,394
Credit loss allowance by debts*:						
Examined on an individual basis	2,984	5	29	3,018	4	3,022
Examined on a collective basis	170	518	369	1,057	-	1,057
Of which the allowance was calculated by extent of arrears	-	326 **	-	326	-	326
Total allowance for credit losses	3,154	523	398	4,075	4	4,079

(a) As of the report for the year 2012, the Bank implemented for the first time the directives of the Supervisor of Banks on updating the disclosure of credit quality of debts and the allowance for credit losses. Comparative figures for the previous year have been reclassified as far as possible to adapt them to the format required under the said directives.

* Credit to the public, credit to governments, deposits in banks (at 31 March 2013, except for deposits in the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

** Including the balance of the allowance in excess of that required by the extent of arrears method, calculated on a collective basis in the amount of NIS 43 million (31 March 2012 – NIS 62 million).

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

A. Debts* and off-balance sheet credit instruments (cont'd)

2. Additional information on the method of calculating the credit loss allowance in respect of debts* and on debts* on which it was calculated (cont'd)

	31 December 2012 (Audited)					
	Credit loss allowance					
	Credit to the public				Banks and	
	Commercial	Residential	Other private	Total	governments	Total
	(NIS millions)					
Recorded debt balance of debts*:						
Examined on an individual basis	120,006	664	1,991	122,661	45,770	168,431
Examined on a collective basis	31,634	62,739	28,344	122,717	7,158	129,875
Of which: the allowance was calculated by extent of arrears	-	563	-	563	-	563
Total debts*	151,640	63,403	30,335	245,378	52,928	298,306
Credit loss allowance by debts*:						
Examined on an individual basis	2,943	19	62	3,024	4	3,028
Examined on a collective basis	335	456	299	1,090	-	1,090
Of which the allowance was calculated by extent of arrears	-	275 **	-	275	-	275
Total allowance for credit losses	3,278	475	361	4,114	4	4,118

* Credit to the public, credit to governments, deposits in banks (at 31 March 2013, except for deposits in the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

** Including the balance of the allowance in excess of that required by the extent of arrears method, calculated on a collective basis in the amount of NIS 41 million.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts[1]

1. Credit quality and arrears

	31 March 2013 (Unaudited) (NIS millions)					
		Problem debts[2]			Unimpaired debts - additional information	
Activity of borrowers in Israel Public - commercial	Non-problem debts	Not impaired	Impaired[3]	Total	In arrears of 90 days or more[4]	In arrears of 30 to 89 days[5]
Construction & real estate - construction	13,693	111	497	14,301	5	17
Construction & real estate - real estate activities	22,879	248	1,649	24,776	1	28
Financial services	11,569	369	604	12,542	1	8
Commercial - other	61,249	2,348	2,139	65,736	26	87
Total commercial	109,390	3,076	4,889	117,355	33	140
Private individuals - housing loans[6]	62,510	790	27	63,327	789	627
Private individuals - other	30,214	322	26	30,562	175	296
Total public - activity in Israel	202,114	4,188	4,942	211,244	997	1,063
Israeli banks	1,336	-	-	1,336	-	-
Government of Israel	261	-	-	261	-	-
Total activity in Israel	203,711	4,188	4,942	212,841	997	1,063
Activity of borrowers abroad Public - commercial						
Construction & real estate	6,549	186	813	7,548	39	100
Commercial - other	20,537	186	792	21,515	66	142
Total commercial	27,086	372	1,605	29,063	105	242
Private individuals	2,257	3	128	2,388	119	58
Total public - activity abroad	29,343	375	1,733	31,451	224	300
Foreign banks	13,465	-	-	13,465	-	-
Foreign governments	162	-	-	162	-	-
Total	42,970	375	1,733	45,078	224	300
Total public	231,457	4,563	6,675	242,695	1,221	1,363
Total banks	14,801	-	-	14,801	-	-
Total governments	423	-	-	423	-	-
Total	246,681	4,563	6,675	257,919	1,221	1,363

	31 March 2012 (Unaudited) (a) (NIS millions)				
	Problem debts			Unimpaired debts - additional information	
Credit to the public	Not impaired	Impaired[3]	Total	In arrears of 90 days or more[4]	In arrears of 30 to 89 days[5]
Examined on individual basis	117,626	6,815	124,441	9	284
Housing loans by extent of arrears[6]	58,177	-	58,177	857	712
Examined on other collective basis	61,950	7	61,957	361	528
Total public	237,753	6,822	244,575	1,227	1,524
Total banks	45,388	6	45,394	-	-
Total governments	425	-	425	-	-
Total	283,566	6,828	290,394	1,227	1,524

See notes on page 167.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts[1] (cont'd)

1. Credit quality and arrears (cont'd)

	31 December 2012 (Audited) (NIS millions)					
		Problem debts[2]			Unimpaired debts - additional information	
Activity of borrowers in Israel Public - commercial	Non-problem debts	Not impaired	Impaired[3]	Total	In arrears of 90 days or more[4]	In arrears of 30 to 89 days[5]
Construction & real estate - construction	13,333	165	667	14,165	5	35
Construction & real estate - real estate activities	23,308	272	1,847	25,427	-	13
Financial services	12,059	395	716	13,170	-	16
Commercial - other	62,721	2,376	2,369	67,466	33	116
Total commercial	111,421	3,208	5,599	120,228	38	180
Private individuals - housing loans[6]	61,241	832	28	62,101	829	593
Private individuals - other	28,593	303	45	28,941	115	174
Total public - activity in Israel	201,255	4,343	5,672	211,270	982	947
Israeli banks	38,478	-	-	38,478	-	-
Government of Israel	282	-	-	282	-	-
Total activity in Israel	240,015	4,343	5,672	250,030	982	947
Activity of borrowers abroad						
Public - commercial						
Construction & real estate	7,296	205	874	8,375	76	68
Commercial - other	22,087	164	786	23,037	68	159
Total commercial	29,383	369	1,660	31,412	144	227
Private individuals	2,597	5	94	2,696	167	28
Total public - activity abroad	31,980	374	1,754	34,108	311	255
Foreign banks	14,003	-	5	14,008	-	-
Foreign governments	160	-	-	160	-	-
Total	46,143	374	1,759	48,276	311	255
Total public	233,235	4,717	7,426	245,378	1,293	1,202
Total banks	52,481	-	5	52,486	-	-
Total governments	442	-	-	442	-	-
Total	286,158	4,717	7,431	298,306	1,293	1,202

See notes on next page.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts[1] (cont'd)

1. Credit quality and arrears (cont'd)

(a) As of the report for the year 2012, the Bank implemented for the first time the directives of the Supervisor of Banks on updating the disclosure of credit quality of debts and the allowance for credit losses. Comparative figures for the previous year have been reclassified as far as possible to adapt them to the format required under the said directives.

(1) Credit to the public, credit to governments, deposits in banks (at 31 March 2013, except for deposits in the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(2) Impaired, substandard or special mention credit risk, including in respect of housing loans for which there is a provision by extent of arrears, and housing loans for which there is no provision that are in arrears of 90 days or more.

(3) As a rule, impaired debts do not accrue interest income. For information on certain impaired debts under troubled debt restructuring, see Note 3(B)(2)C.

(4) Classified as problem debts that are not impaired, accruing interest income.

(5) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of NIS 142 million were classified as problem debts that are not impaired (31 December 2012 – NIS 143 million).

(6) Including housing loans in the amount of NIS 207 million (31 December 2012 – NIS 203 million, 31 March 2012 – NIS 254 million) with a provision by extent of arrears, in which an arrangement was signed for the repayment of arrears by the borrower, with a change made to the repayment schedule in respect of the loan balance of which the repayment date has not yet arrived.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts[1] (cont'd)
2. Additional information on impaired debts
a. Impaired debts and individual allowance

	As at 31 March 2013 (Unaudited)				
	(NIS millions)				
Activity of borrowers in Israel Public - commercial	Balance[2] of impaired debts in respect of which there is an individual allowance[3]	Balance of individual allowance[3]	Balance[2] of impaired debts in respect of which there is no individual allowance[3]	Total balance[2] of impaired debts	Principal contractual balance of impaired debts
Construction & real estate - construction	81	20	416	497	1,531
Construction & real estate - real estate activities	758	257	891	1,649	2,944
Financial services	547	383	57	604	1,082
Commercial - other	1,219	501	920	2,139	5,492
Total commercial	2,605	1,161	2,284	4,889	11,049
Private individuals - housing loans	12	6	15	27	27
Private individuals - other	10	11	16	26	1,711
Total public - activity in Israel	2,627	1,178	2,315	4,942	12,787
Israeli banks	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	2,627	1,178	2,315	4,942	12,787
Activity of borrowers abroad					
Public - commercial					
Construction & real estate	465	220	348	813	1,120
Commercial - other	593	305	199	792	911
Total commercial	1,058	525	547	1,605	2,031
Private individuals	112	49	16	128	134
Total public - activity abroad	1,170	574	563	1,733	2,165
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total activity abroad	1,170	574	563	1,733	2,165
Total public	3,797	1,752	2,878	6,675	14,952
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	3,797	1,752	2,878	6,675	14,952
Of which:					
Measured by present value of cash flows	2,654	1,241	1,521	4,175	-
Debts under troubled debt restructuring	501	82	1,053	1,554	-

See notes on page 170.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts[1] (cont'd)

2. Additional information on impaired debts (cont'd)

a. Impaired debts and individual allowance (cont'd)

	31 March 2012 (Unaudited) (a) (NIS millions)			
	Balance[2] of impaired debts in respect of which there is an individual allowance[3]	Balance of individual allowance[3]	Balance[2] of impaired debts in respect of which there is no individual allowance[3]	Total balance[2] of impaired debts
Total public	4,926	1,827	1,896	6,822
Total banks	1	-	5	6
Total governments	-	-	-	-
Total	4,927	1,827	1,901	6,828
Of which:				
Measured by present value of cash flows	1,844	913	1,845	3,689
Debts under troubled debt restructuring	894	144	237	1,131

See notes on next page.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts[1] (cont'd)

2. Additional information on impaired debts (cont'd)

a. Impaired debts and individual allowance (cont'd)

	31 December 2012 (Audited) (NIS millions)				
Activity of borrowers in Israel Public - commercial	Balance[2] of impaired debts in respect of which there is an individual allowance[3]	Balance of individual allowance[3]	Balance[2] of impaired debts in respect of which there is no individual allowance[3]	Total balance[2] of impaired debts	Principal contractual balance of impaired debts
Construction & real estate - construction	79	22	588	667	1,910
Construction & real estate - real estate activities	1,406	187	441	1,847	3,125
Financial services	663	422	53	716	1,196
Commercial - other	1,398	584	971	2,369	5,773
Total commercial	3,546	1,215	2,053	5,599	12,004
Private individuals - housing loans	15	7	13	28	28
Private individuals - other	22	14	23	45	1,681
Total public - activity in Israel	3,583	1,236	2,089	5,672	13,713
Israeli banks	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	3,583	1,236	2,089	5,672	13,713
Activity of borrowers abroad					
Public - commercial					
Construction & real estate	537	238	337	874	1,101
Commercial - other	558	284	228	786	920
Total commercial	1,095	522	565	1,660	2,021
Private individuals	78	52	16	94	96
Total public - activity abroad	1,173	574	581	1,754	2,117
Foreign banks	-	-	5	5	6
Foreign governments	-	-	-	-	-
Total public - activity abroad	1,173	574	586	1,759	2,123
Total public	4,756	1,810	2,670	7,426	15,830
Total banks	-	-	5	5	6
Total governments	-	-	-	-	-
Total	4,756	1,810	2,675	7,431	15,836
Of which:					
Measured by present value of cash flows	3,257	1,452	1,778	5,035	
Debts under troubled debt restructuring	1,132	87	584	1,716	

(a) As of the report for the year 2012, the Bank implemented for the first time the directives of the Supervisor of Banks on updating the disclosure of credit quality of debts and the allowance for credit losses. Comparative figures for the previous year have been reclassified as far as possible to adapt them to the format required under the said directives.

(1) Credit to the public, credit to governments, deposits in banks (at 31 March 2013, except for deposits in the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(2) Recorded balance of debt.

(3) Individual allowance for credit losses.

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Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts[1] (cont'd)

2. Additional information on impaired debts (cont'd)

b. Average balance and interest income

	31 March 2013 (Unaudited) (NIS millions)		
	Average balance of impaired debts[2]	Interest income recorded[3]	Of which: recorded on cash basis
Activity of borrowers in Israel			
Public - commercial			
Construction & real estate - construction	616	1	1
Construction & real estate - real estate activities	1,701	-	-
Financial services	744	-	-
Commercial - other	2,202	4	3
Total commercial	5,263	5	4
Private individuals - housing loans	26	-	-
Private individuals - other	34	1	1
Total public - activity in Israel	5,323	6	5
Israeli banks	-	-	-
Government of Israel	-	-	-
Total activity in Israel	5,323	6	5
Activity of borrowers abroad			
Public - commercial			
Construction & real estate	795	2	2
Commercial - other	745	3	3
Total commercial	1,540	5	5
Private individuals	93	-	-
Total public - activity abroad	1,633	5	5
Foreign banks	3	-	-
Foreign governments	-	-	-
Total activity abroad	1,636	5	5
Total	6,959	11(4)	10

(1) Credit to the public, credit to governments, deposits in banks (at 31 March 2013, except for deposits in the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
(2) Average recorded balance of debt of impaired debts during the reporting period.
(3) Interest income recorded in the reporting period, in respect of the average balance of impaired debts, at the time the debts were classified as impaired.
(4) If the impaired debts had accumulated interest according to the original terms, interest income would have been recorded in the amount of NIS 150 million.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts[1] (cont'd)

2. Additional information on impaired debts (cont'd)

b. Average balance and interest income (cont'd)

	31 March 2012 (Unaudited)	31 December 2012 (Audited)
	(NIS millions)	
Average recorded debt balance of debts impaired in the reporting period	6,797	7,279
Total interest income recorded in the reporting period in respect of these debts in the period when they were classified as impaired	11	62
Total interest income that would have been recorded in the reporting period if theses debts had accumulated interest under their original terms	139	616
Of which: interest income recorded under the cash basis accounting method	11	53

(1) Credit to the public, credit to governments, deposits in banks (at 31 March 2013, except for deposits in the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts[1] (cont'd)

2. Additional information on impaired debts (cont'd)

c. Impaired debts under restructuring

	31 March 2013 (Unaudited) (NIS millions)				
Activity of borrowers in Israel Public - commercial	Not accruing interest income	Accruing[2] in arrears of 90 days or more	Accruing[2] in arrears of 30 to 89 days	Accruing[2] not in arrears	Total[3]
Construction & real estate - construction	79	-	-	10	89
Construction & real estate - real estate activities	654	-	-	-	654
Financial services	51	-	-	-	51
Commercial - other	284	-	-	37	321
Total commercial	1,068	-	-	47	1,115
Private individuals - housing loans	7	-	-	1	8
Private individuals - other	21	-	-	2	23
Total public - activity in Israel	1,096	-	-	50	1,146
Israeli banks	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	1,096	-	-	50	1,146
Activity of borrowers abroad					
Public - commercial					
Construction & real estate	127	-	-	72	199
Commercial - other	109	-	-	74	183
Total commercial	236	-	-	146	382
Private individuals	13	-	-	13	26
Total public - activity abroad	249	-	-	159	408
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total activity abroad	249	-	-	159	408
Total public	1,345	-	-	209	1,554
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	1,345	-	-	209	1,554

	31 March 2012 (Unaudited) (a) (NIS millions)				
	Not accruing interest income	Accruing[2] in arrears of 90 days or more	Accruing[2] in arrears of 30 to 89 days	Accruing[2] not in arrears	Total[3]
Total public	983	-	-	148	1,131
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	983	-	-	148	1,131

See notes on next page.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts[1] (cont'd)

2. Additional information on impaired debts (cont'd)

c. Impaired debts under restructuring (cont'd)

	31 December 2012 (Audited) (NIS millions)				
Activity of borrowers in Israel Public - commercial	Not accruing interest income	Accruing[2] in arrears of 90 days or more	Accruing[2] in arrears of 30 to 89 days	Accruing[2] not in arrears	Total[3]
Construction & real estate - construction	114	-	-	-	114
Construction & real estate - real estate activities	782	-	-	38	820
Financial services	93	-	-	-	93
Commercial - other	256	-	-	30	286
Total commercial	1,245	-	-	68	1,313
Private individuals - housing loans	3	-	-	-	3
Private individuals - other	21	-	-	3	24
Total public - activity in Israel	1,269	-	-	71	1,340
Israeli banks	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	1,269	-	-	71	1,340
Activity of borrowers abroad Public - commercial					
Construction & real estate	132	-	-	75	207
Commercial - other	68	-	-	74	142
Total commercial	200	-	-	149	349
Private individuals	11	-	-	12	23
Total public - activity abroad	211	-	-	161	372
Foreign banks	-	-	-	4	4
Foreign governments	-	-	-	-	-
Total activity abroad	211	-	-	165	376
Total public	1,480	-	-	232	1,712
Total banks	-	-	-	4	4
Total governments	-	-	-	-	-
Total	1,480	-	-	236	1,716

(a) As of the report for the year 2012, the Bank implemented for the first time the directives of the Supervisor of Banks on updating the disclosure of credit quality of debts and the allowance for credit losses. Comparative figures for the previous year have been reclassified as far as possible to adapt them to the format required under the said directives.

(1) Credit to the public, credit to governments, deposits in banks (at 31 March 2013, except for deposits in the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
(2) Accumulating interest income.
(3) Included in impaired debts.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts[1] (cont'd)

2. Additional information on impaired debts (cont'd)

c. Impaired debts under restructuring (cont'd)

	For the three months ended 31 March 2013 (Unaudited) (NIS millions)		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Activity of borrowers in Israel			
Public - commercial			
Construction & real estate - construction	4	1	1
Construction & real estate - real estate activities	4	61	61
Financial services	-	-	-
Commercial - other	17	1	1
Total commercial	25	63	63
Private individuals - housing loans	-	-	-
Private individuals - other	223	2	2
Total public - activity in Israel	248	65	65
Israeli banks	-	-	-
Government of Israel	-	-	-
Total activity in Israel	248	65	65
Activity of borrowers abroad			
Public - commercial			
Construction & real estate	4	27	27
Commercial - other	11	56	55
Total commercial	15	83	82
Private individuals	32	4	4
Total public - activity abroad	47	87	86
Foreign banks	-	-	-
Foreign governments	-	-	-
Total activity abroad	47	87	86
Total	295	152	151

(1) Credit to the public, credit to governments, deposits in banks (at 31 March 2013, except for deposits in the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts[1] (cont'd)

2. Additional information on impaired debts (cont'd)

c. Impaired debts under restructuring (cont'd)

	For the three months ended 31 March 2013	
	(Unaudited)	
	(NIS millions)	
Failed restructurings[2]	Number of contracts	Recorded debt balance
Activity of borrowers in Israel		
Public - commercial		
Construction & real estate - construction	25	2
Construction & real estate - real estate activities	2	2
Financial services	1	-
Commercial - other	50	10
Total commercial	78	14
Private individuals - housing loans	-	-
Private individuals - other	349	2
Total public - activity in Israel	427	16
Israeli banks	-	-
Government of Israel	-	-
Total activity in Israel	427	16
Activity of borrowers abroad		
Public - commercial		
Construction & real estate	2	2
Commercial - other	7	10
Total commercial	9	12
Private individuals	5	1
Total public - activity abroad	14	13
Foreign banks	-	-
Foreign governments	-	-
Total activity abroad	14	13
Total	441	29

(1) Credit to the public, credit to governments, deposits in banks (at 31 March 2013, except for deposits in the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(2) Debts that during the reporting year went into arrears of 30 days or more that underwent a troubled debt restructuring during the 12 months preceding the date they became debts in arrears.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts* (cont'd)

3. Additional information on housing loans

Year end balances by rate of financing (LTV)[1], type of repayment and type of interest

		31 March 2013 (Unaudited) (NIS millions) Balance of housing loans			
		Total[1]	[1]Of which: bullet and balloon	[1]Of which: variable interest	Off-balance sheet credit risk total
First charge: rate of financing	Up to 60%	**33,455**	**2,924**	**26,122**	**3,948**
	Above 60%	**30,462**	**1,830**	**24,056**	**2,701**
Second or without charge		**674**	**44**	**540**	**26**
Total		**64,591**	**4,798**	**50,718**	**6,675**

		31 March 2012 (Unaudited) (a) (NIS millions) Balance of housing loans			
		Total[1]	[1]Of which: bullet and balloon	[1]Of which: variable interest	Off-balance sheet credit risk total
Total		58,177	4,882	44,178	7,092

		31 December 2012 (Audited) (NIS millions) Balance of housing loans			
		Total[1]	[1]Of which: bullet and balloon	[1]Of which: variable interest	Off-balance sheet credit risk total
First charge: rate of financing	Up to 60%	32,413	2,901	25,351	2,265
	Above 60%	30,108	1,900	23,649	1,646
Second or without charge		834	61	659	23
Total		63,355	4,862	49,659	3,934

(*) Credit to the public, credit to governments, deposits in banks (at 31 March 2013, except for deposits in the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(a) As of the report for the year 2012, the Bank implemented for the first time the directives of the Supervisor of Banks on updating the disclosure of credit quality of debts and the allowance for credit losses. Comparative figures for the previous year have been reclassified as far as possible to adapt them to the format required under the said directives.

(1) The ratio of the approved facility at the time the facility was granted and the value of the property, as approved by the Bank at the time the facility was approved.

Note 3A – Deposits of the Public

	31 March 2013	31 March 2012	31 December 2012
	(Unaudited)	(Unaudited)	(Audited)
	(NIS millions)		
Demand deposits	**77,601**	65,904	75,355
Time and other deposits	**198,577**	208,432	211,506
Deposits in savings plans	**2,642**	3,306	2,677
Total deposits of the public	**278,820**	277,642	289,538
Of which: deposits of institutional entities raised in Israel	**23,306**		22,059

Note 4 – Capital and Capital Adequacy

Calculated pursuant to Proper Conduct of Banking Business Directives Nos. 201-211 on the subject of "Capital Measurement and Adequacy"

	31 March 2013	31 March 2012	31 December 2012
	(Unaudited)	(Unaudited)	(Audited)
	(NIS millions)		
A. Data			
Capital for purposes of calculating capital ratio			
Tier 1 capital, after deductions	**24,840**	23,804	24,312
Tier 2 capital, after deductions	**16,833**	18,426	17,978
Total capital	**41,673**	42,230	42,290
Weighted balance of risk assets			
Credit risk	**249,843**	257,659	253,838
Market risk	**10,152**	9,517	9,710
Operational risk	**20,895**	20,294	20,841
Total weighted balance of risk assets	**280,890**	287,470	284,389
Ratio of capital to risk assets (%)			
Ratio of Tier 1 capital to risk assets	**8.84%**	8.28%	8.55%
Ratio of total capital to risk assets	**14.84%**	14.69%	14.87%
Minimum total capital ratio required by the Supervisor of Banks	**9.00%**	9.00%	9.00%
B. Principal subsidiary companies			
Arab Israel Bank			
Ratio of Tier 1 capital to risk assets	**11.30%**	11.75%	10.84%
Ratio of total capital to risk assets	**15.14%**	15.96%	14.76%
Minimum total capital ratio required by the Supervisor of Banks	**9.00%**	9.00%	9.00%
Leumi Card Ltd.			
Ratio of Tier 1 capital to risk assets	**15.70%**	15.00%	16.00%
Ratio of total capital to risk assets	**15.70%**	15.00%	16.00%
Minimum total capital ratio required by the Supervisor of Banks	**9.00%**	9.00%	9.00%
Bank Leumi USA (a)			
Ratio of Tier 1 capital to risk assets	**11.67%**	10.80%	11.56%
Ratio of total capital to risk assets	**14.53%**	13.20%	14.47%
Minimum total capital ratio 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.

Note 5 - Assets and Liabilities by Linkage Basis at 31 March 2013 (Unaudited)

	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	39,012	288	7,648	2,302	4,546	137	53,933
Securities	23,985	4,876	16,117	3,812	1,759	2,829	53,378
Securities borrowed or purchased under agreements to resell	854	-	-	-	-	-	854
Credit to the public, net (c)	139,396	54,235	31,567	5,878	7,498	40	238,614
Credit to governments	2	258	127	36	-	-	423
Investments in companies included on equity basis	-	-	-	-	-	2,122	2,122
Buildings and equipment	-	-	-	-	-	3,685	3,685
Assets in respect of derivative instruments	7,973	234	3,119	71	198	244	11,839
Other assets and intangible assets	2,923	6	871	9	172	700	4,681
Total assets	214,145	59,897	59,449	12,108	14,173	9,757	369,529
Liabilities							
Deposits of the public	146,815	27,880	76,687	16,162	11,083	193	278,820
Deposits from banks	5,069	158	1,821	360	171	-	7,579
Deposits from governments	17	89	357	10	-	-	473
Securities lent or sold under agreements to repurchase	680	-	55	-	-	-	735
Debentures, bonds and subordinated notes	6,356	21,176	-	-	10	-	27,542
Liabilities in respect of derivative instruments	8,200	576	3,336	271	280	216	12,879
Other liabilities	9,014	5,336	629	27	259	644	15,909
Total liabilities	176,151	55,215	82,885	16,830	11,803	1,053	343,937
Difference (d)	37,994	4,682	(23,436)	(4,722)	2,370	8,704	25,592
Effect of hedging derivative instruments:							
Derivative instruments (excluding options)	729	-	(21)	-	(708)	-	-
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	(22,666)	(5,460)	24,802	5,998	(2,674)	-	-
Options in the money, net (in terms of underlying asset)	1,462	-	(1,570)	(262)	370	-	-
Options out of the money, net (in terms of underlying asset)	1,627	-	(1,378)	(271)	22	-	-
Grand total	19,146	(778)	(1,603)	743	(620)	8,704	25,592
Effect of non-hedging derivative instruments:							
Options in the money, net (discounted par value)	1,788	-	(1,803)	(468)	483	-	-
Options out of the money, net (discounted par value)	2,383	-	(2,176)	(195)	(12)	-	-

(a) Including linked to foreign currency.
(b) Including derivative instruments whose basis refers to a non-monetary item.
(c) After deducting the credit loss allowance attributed to the linkage basis in the amount of NIS 4,081 million.
(d) Shareholders' equity including minority interests.

Note 5 - Assets and Liabilities by Linkage Basis (cont'd)
as at 31 March 2012 (Unaudited)

	Israeli currency		Foreign currency (a)				
	Unlinked	Linked to the CPI	In U.S. dollars	In euro	In other currencies	Non-monetary items (b)	Total
	(NIS millions)						
Assets							
Cash and deposits with banks	32,931	285	9,616	1,398	3,126	12	47,368
Securities	20,815	8,385	11,593	4,972	1,581	2,411	49,757
Securities borrowed or purchased under agreements to resell	1,485	-	-	-	-	-	1,485
Credit to the public, net	133,136	53,048	37,457	6,821	9,949	89	240,500
Credit to governments	15	256	122	32	-	-	425
Investments in companies included on equity basis	3	-	-	-	-	2,184	2,187
Buildings and equipment	-	-	-	-	-	3,715	3,715
Assets in respect of derivative instruments	4,043	153	4,332	218	315	405	9,466
Other assets and intangible assets	2,439	4	1,169	21	71	661	4,365
Total assets	194,867	62,131	64,289	13,462	15,042	9,477	359,268
Liabilities							
Deposits of the public	145,010	26,941	75,759	18,795	11,014	123	277,642
Deposits from banks	1,220	206	1,544	472	187	-	3,629
Deposits from governments	31	167	226	12	-	-	436
Securities lent or sold under agreements to repurchase	568	-	56	-	-	-	624
Debentures, bonds and subordinated notes	6,360	21,095	418	-	-	-	27,873
Liabilities in respect of derivative instruments	3,958	647	4,430	383	340	367	10,125
Other liabilities	8,163	5,018	591	31	184	577	14,564
Total liabilities	165,310	54,074	83,024	19,693	11,725	1,067	334,893
Difference (d)	29,557	8,057	(18,735)	(6,231)	3,317	8,410	24,375
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	(14,148)	(4,611)	17,764	5,841	(4,846)	-	-
Options in the money, net (in terms of underlying asset)	(401)	-	(1,267)	772	896	-	-
Options out of the money, net (in terms of underlying asset)	(579)	-	697	(82)	(36)	-	-
Grand total	14,429	3,446	(1,541)	300	(669)	8,410	24,375
Effect of non-hedging derivative instruments:							
Options in the money, net (discounted par value)	(1,201)	-	(959)	887	1,273	-	-
Options out of the money, net (discounted par value)	(1,141)	-	1,006	194	(59)	-	-

(a) Including linked to foreign currency.
(b) Including derivative instruments whose basis refers to a non-monetary item.
(c) After deducting the credit loss allowance attributed to the linkage basis in the amount of NIS 4,075 million.
(d) Shareholders' equity including minority interests.

Note 5 - Assets and Liabilities Classified According to Linkage Basis (cont'd)
as at 31 December 2012 (Audited)

	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	39,306	277	8,971	1,686	4,154	227	54,621
Securities	27,179	4,761	16,249	3,976	1,877	2,366	56,408
Securities borrowed or purchased under agreements to resell	1,435	-	-	-	-	-	1,435
Credit to the public, net	137,700	54,847	32,924	6,622	9,077	94	241,264
Credit to governments	13	269	124	36	-	-	442
Investments in companies included on equity basis	-	-	-	-	-	2,129	2,129
Buildings and equipment	-	-	-	-	-	3,705	3,705
Assets in respect of derivative instruments	7,538	184	2,988	260	168	300	11,438
Other assets and intangible assets	2,849	3	893	8	178	787	4,718
Total assets	216,020	60,341	62,149	12,588	15,454	9,608	376,160
Liabilities							
Deposits of the public	151,962	28,467	79,894	17,620	11,257	338	289,538
Deposits from banks	1,694	166	1,765	318	130	-	4,073
Deposits from governments	15	109	319	8	-	-	451
Securities lent or sold under agreements to repurchase	951	-	56	-	-	-	1,007
Debentures, bonds and subordinated notes	6,301	21,214	-	-	10	-	27,525
Liabilities in respect of derivative instruments	7,973	561	3,141	593	230	264	12,762
Other liabilities	8,553	5,330	629	28	285	751	15,576
Total liabilities	177,449	55,847	85,804	18,567	11,912	1,353	350,932
Difference (d)	38,571	4,494	(23,655)	(5,979)	3,542	8,255	25,228
Effect of hedging derivative instruments							
Derivative instruments (excluding options)	746 (*)	-	-	-	(746)(*)	-	-
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	(19,170)(*)	(6,280)	22,507	6,687	(3,744) (*)	-	-
Options in the money, net (in terms of underlying asset)	(431)	-	231	5	195	-	-
Options out of the money, net (in terms of underlying asset)	(133)	-	284	(146)	(5)	-	-
Total	19,583	(1,786)	(633)	567	(758)	8,255	25,228
Effect of non-hedging derivative instruments:							
Options in the money, net (discounted par value)	(575)	-	273	(20)	322	-	-
Options out of the money, net (discounted par value)	(1,630)	-	2,042	(436)	24	-	-

(*) Reclassified

(a) Including linked to foreign currency.
(b) Including derivative instruments whose basis refers to a non-monetary item.
(c) After deducting the credit loss allowance attributed to the linkage basis in the amount of NIS 4,114 million.
(d) Shareholders' equity including minority interests.

Note 6 - Contingent Liabilities and Special Commitments

	31 March 2013		31 March 2012		31 December 2012	
	Balances of contracts	Balance of allowance for credit losses	Balances of contracts	Balance of allowance for credit losses	Balances of contracts	Balance of allowance for credit losses
	(Unaudited)		(Unaudited)		(Audited)	
	(NIS millions)					
A. Off-balance sheet financial instruments						
Balances of contracts or their stated amounts as at the end of the period						
Transactions in which the balance reflects a credit risk						
Documentary credits	**2,356**	**5**	2,767	6	1,823	5
Credit guarantees	**5,520**	**86**	6,998	79	5,793	76
Guarantees to apartment purchasers	**14,327**	**19**	11,539	19	13,538	18
Other guarantees and liabilities	**16,332**	**206**	15,301	231	16,504	221
Unutilized credit facilities for credit cards	**22,806**	**21**	20,664	10	22,582	21
Current loan account facilities and other credit facilities on demand not utilized	**13,878**	**27**	14,448	1	14,434	31
Irrevocable commitments to provide credit which has been approved and not yet granted (a)	**21,128**	**56**	23,481	67	20,892	60
Commitments to issue guarantees	**11,696**	**15**	11,566	20	10,818	15
Unutilized facilities for activity in derivative instruments	**6,765**	**-**	5,687	-	6,129	-
Approval in principle to maintain interest rate	**2,961**	**-**	3,433	-	3,689	-

(a) Of which credit exposures in respect of commitments to supply liquidity to securitization structures under the auspices of other parties not utilized in the amount of NIS 214 million (31 March 2012 - NIS 223 million, 31 December 2012 - NIS 224 million). The above commitments represent a relatively small part of the obligations of those securitizing entities.

	31 March 2013	31 March 2012	31 December 2012
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	**205**	220	270
Second year	**187**	186	198
Third year	**169**	165	182
Fourth year	**154**	140	165
Fifth year	**132**	119	132
After five years	**812**	588	846
Total	**1,659**	1,418	1,793
(2) Commitments to purchase securities	**464**	224	531
(3) Commitments to invest in buildings, equipment and others	**221**	268	217
(4) 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:		(a)	
First year	**17**	17	17
Second year	**12**	17	17
Third year	**12**	12	12
Fourth year and thereafter	**-**	12 (a)	3
Total future deposits	**41**	58	49

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 182 million.

(1) The following are details of claims in amounts in excess of 0.5% of the equity of the Bank at 31 March 2013 (about NIS 130 million):

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 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.

E. 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.

F. 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.

G. 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.

H. 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.

I. On 7 September 2011, a petition for approval of a class action was filed against the Bank (formerly 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. The Bank filed its response to the petition with the Court. In a preliminary hearing in the claim on 16 October 2012, the Court requested the Supervisor of Banks to address several questions that arose in the opinion of each of the parties to the claim. In accordance with the request of the Court, the Bank of Israel submitted its responses to the questions raised by the parties concerning the claim on 31 December 2012.

(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 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.

D. 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.

E. On 6 February 2013, a petition for approval of a class action was filed in the Tel Aviv District Court against the Bank in the amount of NIS 12 billion. The petitioners claim that the Bank charged a high rate of over-limit interest, in contradiction with the *Heter Iska* (loan agreement under Jewish law) received from the Rabbinical Court for Monetary Affairs, which caused damages to all customers who took loans from the Bank while relying on the *Heter Iska*. Using interest charges as a "punishment" against the borrower is outside the purview of the *Heter Iska* and accordingly all over-limit interest charges should be refunded to customers retrospectively for 7 years. A further claim of the petitioners is that the Bank misled customers by concealing the existence of the *Heter Iska*.

(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 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.

D. Israel Corporation Ltd. – company included on equity basis

(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.

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 providing information and in the procedural steps required, as allowed by law. In addition, the Group is conducting an investigation of the subject. The examination is being performed by outside parties hired by it for this purpose. These parties have not yet completed their work. The Bank decided made a provision in the financial statements for 2012 of approximately NIS 340 million. The provision was made to cover the expense that might be caused to the Group due to the investigations that are being conducted by the U.S. authorities with regard to the U.S. Customers. This provision also includes expenses for advisors and other external service providers which the Bank hired with respect to the investigations.

In light of the fact that there is no certainty regarding the level of expense that might be caused to the Group in this connection, it is possible that the final expense will be significantly higher. It should be noted that the provision does not constitute an acknowledgement to any claim that might be raised against the Group by the U.S. Authorities.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates

A. Scope of activity on consolidated basis

	31 March 2013 (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	-	-	1,508	-	-
Swaps	-	2,630	-	-	-
Total	-	2,630	1,508	-	-
Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	2,518	-	-	-
b) ALM derivatives (1)(2)					
Futures contracts	-	9,611	133	29,562	3,426
Forward contracts	15,822	17,900	107,306	-	774
Exchange-traded options					
Options written	-	5,058	5,777	7,934	1,591
Options purchased	-	5,058	6,150	7,934	1,591
Other options					
Options written	-	15,435	25,204	918	248
Options purchased	-	13,766	26,638	928	251
Swaps	834	235,287	23,236	7,630	269
Total	16,656	302,115	194,444	54,906	8,150
Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	115,253	-	-	-
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	-	-	-	-	182
Spot foreign exchange contracts	-	-	10,016	-	-
Total	-	-	10,016	-	182
Grand total	16,656	304,745	205,968	54,906	8,332

(1) Except credit derivatives and foreign exchange spot contracts.
(2) Derivatives constituting part of the Bank's asset and liability management not designated for hedging.

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

A. Scope of activity (cont'd)

	31 March 2013 (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	54	-	-
Gross negative fair value	-	170	-	-	-
b) ALM derivatives (1)(2)					
Gross positive fair value	141	7,939	3,039	585	78
Gross negative fair value	305	7,680	4,079	589	72
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	-	-	-	-	1
Gross negative fair value	-	-	-	-	-
e) Total					
Gross positive fair value[3]	141	7,941	3,093	585	79
Fair value amounts offset in the balance sheet	-	-	-	-	-
Book value of assets in respect of derivative instruments	141	7,941	3,093	585	79
Of which: book value of assets in respect of derivative instruments not subject to a master netting arrangement or similar arrangements[1]	31	60	322	44	27
Gross negative fair value[3]	305	7,850	4,079	589	72
Fair value amounts offset in the balance sheet	-	-	-	-	-
Book value of liabilities in respect of derivative instruments	305	7,850	4,079	589	72
Of which: book value of liabilities in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	223	29	629	1	27

(1) Except credit derivatives.
(2) Derivatives constituting part of the Bank's asset and liability management not designated for hedging.
(3) Of which: gross negative fair value of liabilities in respect of embedded derivative instruments in the amount of NIS 16 million).

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

A. Scope of activity (cont'd)

	31 March 2012 (Unaudited) (a)				
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts
	Shekel – index	Other			
	(NIS millions)				
(1) Nominal amount of derivative instruments					
a) Hedging derivatives (1)	-	-	-	-	-
Forward contracts	-	-	-	-	-
Swaps	-	3,042	-	-	-
Total	-	3,042	-	-	-
Of which interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	2,875	-	-	-
b) ALM derivatives (1)(2)					
Futures contracts (3)	-	1,190	232	19,516	1,083
Forward contracts	10,678	17,422	137,369	-	398
Exchange-traded options	-	-	-	-	-
Options written	-	112	4,989	9,714	177
Options purchased	-	112	4,989	9,714	177
Other options	-	-	-	-	-
Options written	15	18,463	31,924	1,234	62
Options purchased	-	15,520	30,233	1,241	61
Swaps	907	186,951	20,247	7,844	691
Total	11,600	239,770	229,983	49,263	2,649
Of which interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	92,866	-	-	-
c) Other derivatives (1)					
Swaps	-	-	-	-	-
Total	-	-	-	-	-
d) Credit derivatives and foreign exchange spot contracts					
Credit derivatives in which the banking institution is a guarantor	-	-	-	-	-
Credit derivatives in which the banking institution is a beneficiary	-	-	-	-	-
Spot foreign exchange contracts	-	-	7,967	-	-
Total	-	-	7,967	-	-
Grand total	11,600	242,812	237,950	49,263	2,649

(a) As of 1 January 2013, the Bank implemented for the first time the directives of the Supervisor of Banks on offsetting assets and liabilities. Comparative figures for the previous year have been reclassified as far as possible to adapt them to the format required under the said directives.

(1) Except credit derivatives and foreign exchange spot contracts.
(2) Derivatives constituting part of the Bank's asset and liability management not designated for hedging.
(3) Reclassified.

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

A. Scope of activity (cont'd)

	31 March 2012 (Unaudited) (a)				
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts
	Shekel – index	Other			
	(NIS millions)				
(2) Gross fair value of derivative instruments					
a) Hedging derivatives (1)					
Gross positive fair value	-	5	-	-	-
Gross negative fair value	-	593	-	-	-
b) ALM derivatives (1)(2)					
Gross positive fair value	86	6,184	2,805	349	37
Gross negative fair value (3)	320	5,319	3,533	357	37
c) Other derivatives (1)					
Gross positive fair value	-	-	-	-	-
Gross negative fair value	-	-	-	-	-
d) Credit derivatives					
Credit derivatives in which the banking institution is a guarantor					
Gross positive fair value	-	-	-	-	-
Gross negative fair value	-	-	-	-	-
Credit derivatives in which the banking institution is a beneficiary					
Gross positive fair value	-	-	-	-	-

(a) As of 1 January 2013, the Bank implemented for the first time the directives of the Supervisor of Banks on offsetting assets and liabilities. Comparative figures for the previous year have been reclassified as far as possible to adapt them to the format required under the said directives.

(1) Except credit derivatives.
(2) Derivatives constituting part of the Bank's asset and liability management not designated for hedging.
(3) Of which: gross negative fair value of liabilities in respect of embedded derivative instruments in amount of NIS 34 million.

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

A. Scope of activity (cont'd)

	31 December 2012 (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)					
Forward contracts	-	-	1,525	-	-
Swaps	-	2,659	-	-	-
Total	-	2,659	1,525	-	-
Of which swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	2,613	-	-	-
b) ALM derivatives (1)(2)					
Futures contracts	-	6,740	232	23,393	2,075
Forward contracts	14,535	21,450	119,241	-	624
Exchange-traded options					
Options written	-	2,470	7,048	7,038	614
Options purchased	-	2,470	7,048	7,038	614
Other options					
Options written	-	17,589	18,802	1,366	503
Options purchased	-	17,751	19,038	1,475	526
Swaps	704	224,499	22,405	6,509	427
Total	15,239	292,969	193,814	46,819	5,383
Of which swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	129,033	-	-	-
c) Other derivatives (1)					
Futures contracts	-	-	-	-	-
Forward contracts	-	-	-	-	-
Exchange-traded options					
Options written	-	-	-	-	-
Options purchased	-	-	-	-	-
Other options					
Options written	-	-	-	-	-
Options purchased	-	-	-	-	-
Swaps	-	-	-	-	-
Total	-	-	-	-	-
d) Credit derivatives and foreign exchange spot contracts					
Credit derivatives in which the banking institution is a beneficiary	-	-	-	-	187
Credit derivatives in which the banking institution is a guarantor	-	-	-	-	-
Spot foreign exchange contracts	-	-	8,219	-	-
Total	-	-	8,219	-	187
Overall total	15,239	295,628	203,558	46,819	5,570

(a) As of 1 January 2013, the Bank implemented for the first time the directives of the Supervisor of Banks on offsetting assets and liabilities. Comparative figures for the previous year have been reclassified as far as possible to adapt them to the format required under the said directives.

(1) Except credit derivatives and foreign exchange spot contracts.

(2) Derivatives constituting part of the Bank's asset and liability management not designated for hedging.

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

A. Scope of activity (cont'd)

	31 December 2012 (Audited) (a)				
	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	-	1	30	-	-
Gross negative fair value	-	225	22	-	-
b) ALM derivatives (1)(2)					
Gross positive fair value	133	8,196	2,493	473	110
Gross negative fair value	297	7,926	3,726	481	105
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	-	-	-	-	2
Gross negative fair value	-	-	-	-	-
e) Total					
Gross positive fair value	133	8,197	2,523	473	112
Fair value amounts offset in the balance sheet	-	-	-	-	-
Book value of assets in respect of derivative instruments	133	8,197	2,523	473	112
Of which: book value of assets in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	26	95	296	75	19
Gross negative fair value (3)	297	8,151	3,748	481	105
Fair value amounts offset in the balance sheet	-	-	-	-	-
Book value of liabilities in respect of derivative instruments	297	8,151	3,748	481	105
Of which: book value of liabilities in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	226	28	600	54	18

(a) As of 1 January 2013, the Bank implemented for the first time the directives of the Supervisor of Banks on offsetting assets and liabilities. Comparative figures for the previous year have been reclassified as far as possible to adapt them to the format required under the said directives.

(1) Except credit derivatives.

(2) Derivatives constituting part of the Bank's asset and liability management not designated for hedging.

(3) Of which: gross negative fair value of liabilities in respect of embedded derivative instruments in amount of NIS 20 million).

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

B. Credit risk in respect of derivative instruments by counterparty to the contract on consolidated basis

31 March 2013 (Unaudited)

	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	(NIS millions)					
Book balance of assets in respect of derivative instruments (1)	98	8,966	744	6	2,025	11,839
Gross amounts not offset in the balance sheet:						
Reduction of credit risk in respect of derivative instruments	-	7,149	635	6	470	8,260
Reduction of credit risk in respect of cash collateral received	-	780	7	-	-	787
Net amount of assets in respect of derivative instruments	98	1,037	102	-	1,555	2,792
Off-balance sheet credit risk in respect of derivative instruments[1]	-	9,903	763	201	9,049	19,916
Reduction of off-balance sheet credit risk	-	2,152	9	121	2,474	4,756
Net off-balance sheet credit risk in respect of derivative instruments	-	7,751	754	80	6,575	15,160
Total credit risk in respect of derivative instruments	98	8,788	856	80	8,130	17,952
Book balance of liabilities in respect of derivative instruments (1)(2)	109	8,707	944	33	3,102	12,895
Gross amounts not offset in the balance sheet:						
Financial instruments	-	7,149	635	6	470	8,260
Cash collateral pledged	-	848	158	-	-	1,006
Net amount of liabilities in respect of derivative instruments	109	710	151	27	2,632	3,629

31 March 2012 (Unaudited) (a)

	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	(Unaudited)					
	(NIS millions)					
Off-balance sheet credit risk in respect of derivative instruments (1)	172	6,200	466	-	2,628	9,466
Off-balance sheet credit risk in respect of derivative instruments (2)	-	1,541	8	80	3,949	5,578
Total credit risk in respect of derivative instruments	172	7,741	474	80	6,577	15,044

(a) As of 1 January 2013, the Bank implemented for the first time the directives of the Supervisor of Banks on offsetting assets and liabilities. Comparative figures for the previous year have been reclassified as far as possible to adapt them to the format required under the said directives.

(1) The Bank did not offset master netting arrangements.
(2) Of which a book balance of standalone derivative instruments in the amount of NIS 12,879.

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

B. Credit risk in respect of derivative instruments by counterparty to the contract on consolidated basis (cont'd)

	31 December 2012 (Audited) (a)					
	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	(NIS millions)					
Book balance of assets in respect of derivative instruments (1)	143	8,621	738	1	1,935	11,438
Gross amounts not offset in the balance sheet:						
Reduction of credit risk in respect of derivative instruments	-	6,981	694	1	500	8,176
cash collateral received	-	601	-	-	-	601
Net amount of assets in respect of derivative instruments	143	1,039	44	-	1,435	2,661
Off-balance sheet credit risk in respect of derivative instruments	-	9,378	780	201	8,489	18,848
risk	-	1,867	82	121	1,925	3,995
Net off-balance sheet credit risk in respect of derivative instruments	-	7,511	698	80	6,564	14,853
derivative instruments	143	8,550	742	80	7,999	17,514
Book balance of liabilities in respect of derivative instruments (1)(2)	159	9,073	933	54	2,563	12,782
Gross amounts not offset in the balance sheet:						
Financial instruments	-	6,981	694	1	500	8,176
Cash collateral pledged	-	964	156	22	-	1,142
Net amount of liabilities in respect of derivative instruments	159	1,128	83	31	2,063	3,464

(a) As of 1 January 2013, the Bank implemented for the first time the directives of the Supervisor of Banks on offsetting assets and liabilities. Comparative figures for the previous year have been reclassified as far as possible to adapt them to the format required under the said directives.

(1) The Bank did not offset master netting arrangements.

(2) Of which a book balance of standalone derivative instruments in the amount of NIS 12,762 million at 31 December 2012.

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

C. Repayment Dates – Nominal Amounts: balances on consolidated basis

	31 March 2013 (Unaudited)				
	Up to three months	From three months to one year	From one to five years	Over five years	Total
	(NIS millions)				
Interest contracts:					
Shekel – index	**3,402**	**6,678**	**4,990**	**1,586**	**16,656**
Other	**29,246**	**65,136**	**125,583**	**84,780**	**304,745**
Foreign currency contracts	**114,879**	**64,027**	**9,295**	**17,767**	**205,968**
Contracts in respect of shares	**45,507**	**8,197**	**1,202**	**-**	**54,906**
Commodities and other contracts	**2,934**	**4,267**	**1,131**	**-**	**8,332**
Total	**195,968**	**148,305**	**142,201**	**104,133**	**590,607**
Total March 2012 (Unaudited)	196,217	147,466	100,312	100,279	544,274
Total December 2012 (Audited)	195,403	131,258	141,588	98,565	566,814

Note 8 – Balances and fair value assessments of financial instruments

	31 March 2013 (Unaudited)				
	Book	Fair value			
	value	Level 1 (1)	Level 2 (1)	Level 3 (1)	Total
	(NIS millions)				
Financial assets					
Cash and deposits with banks	53,933	10,527	38,262	5,137	53,926
Securities	53,378	36,188	14,244	2,946	53,378
Securities borrowed or purchased under agreements to resell	854	854	-	-	854
Credit to the public, net	238,614	1,832	62,579	176,353	240,764
Credit to governments	423	-	16	440	456
Assets in respect of derivative instruments	11,839	553	9,587	1,699	11,839
Other financial assets	1,025	207	-	818	1,025
Total financial assets	360,066 (3)	50,161	124,688	187,393	362,242
Financial liabilities					
Deposits of the public	278,820	1,550	123,516	155,729	280,795
Deposits from banks	7,579	-	7,213	320	7,533
Deposits from governments	473	-	316	185	501
Securities lent or sold under agreements to repurchase	735	680	55	-	735
Debentures, notes and subordinated notes	27,542	24,847	388	5,131	30,366
Liabilities in respect of derivative instruments	12,879	552	11,867	460	12,879
Other financial liabilities	7,216	207	-	6,990	7,197
Total financial liabilitiies	335,244 (3)	27,836	143,355	168,815	340,006
Off-balance sheet financial instruments					
Transactions whose balance represents credit risk	298	-	-	298	298

(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.

(2) For further details on the book value and fair value of securities, see the note on securities.

(3) Of which: Assets and liabilities in the amounts of NIS 105,038 million and NIS 95,678 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)

	31 March 2012 (Unaudited)				
	Book	Fair value			
	value	Level 1 (1)	Level 2 (1)	Level 3(1)	Total
	(NIS millions)				
Financial assets					
Cash and deposits with banks	47,368	4,907	35,383	7,047	47,337
Securities (2)	49,757	34,872	12,606	2,279	49,757
Securities borrowed or purchased under agreements to resell (*)	1,485	1,485	-	-	1,485
Credit to the public, net	240,500	2,330	66,305	172,240	240,875
Credit to governments	425	-	15	436	451
Assets in respect of derivative instruments	9,466	540	6,673	2,253	9,466
Other financial assets	1,213	269	-	944	1,213
Total financial assets	350,214(3)	44,403	120,982	185,199	350,584
Financial liabilities					
Deposits of the public	277,642	2,299	119,068	158,134	279,501
Deposits from banks	3,629	-	2,916	594	3,510
Deposits from governments	436	-	78	390	468
Securities lent or sold under agreements to repurchase (*)	624	568	56	-	624
Debentures, notes and subordinated notes	27,873	20,783	5,201	3,759	29,743
Liabilities in respect of derivative instruments	10,125	545	8,926	654	10,125
Other financial liabilities	7,370	269	-	7,070	7,339
Total financial liabilitiies	327,699(3)	24,464	136,245	170,601	331,310
Off-balance sheet financial instruments					
Transactions whose balance represents credit risk	261	-	-	261	261

(*) Reclassified.
(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.
(2) For further details on the book value and fair value of securities, see the note on securities.
(3) Of which: Assets and liabilities in the amounts of NIS 96,141 million and NIS 84,896 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).

Note 8 – Balances and fair value assessments of financial instruments (cont'd)

	31 December 2012 (Audited)				
	Book	Fair value			
	value	Level 1 (1)	Level 2 (1)	Level 3(1)	Total
	(NIS millions)				
Financial assets					
Cash and deposits with banks	54,621	11,750	37,225	5,638	54,613
Securities (2)	56,408	40,458	13,102	2,848	56,408
Securities borrowed or purchased under agreements to resell (*)	1,435	1,435	-	-	1,435
Credit to the public, net	241,264	2,018	62,894	177,556	242,468
Credit to governments	442	-	30	450	480
Assets in respect of derivative instruments	11,438	523	9,580	1,335	11,438
Other financial assets	1,244	399	-	845	1,244
Total financial assets	366,852(3)	56,583	122,831	188,672	368,086
Financial liabilities					
Deposits of the public	289,538	1,957	126,146	163,335	291,438
Deposits from banks	4,073	-	3,172	829	4,001
Deposits from governments	451	-	272	211	483
Securities lent or sold under agreements to repurchase (*)	1,007	951	56	-	1,007
Debentures, notes and subordinated notes	27,525	22,616	390	7,330	30,336
Liabilities in respect of derivative instruments	12,762	503	11,787	472	12,762
Other financial liabilities	7,451	399	-	7,026	7,425
Total financial liabilitiies	342,807(3)	26,426	141,823	179,203	347,452
Off-balance sheet financial instruments					
Transactions whose balance represents credit risk	283	-	-	283	283

(*) Reclassified.
(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.
(2) For further details on the book value and fair value of securities, see the note on securities.
(3) Of which: Assets and liabilities in the amounts of NIS 99,196 million and NIS 86,777 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 8A – Items measured for fair value
A. Items measured for fair value on a recurring basis

	As at 31 March 2013 (Unaudited)			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Book value
	(NIS millions)			
Assets:				
Securities available for sale:				
Israeli government bonds	19,462	1,788	-	21,250
Foreign government bonds	4,893	857	6	5,756
Bonds of Israeli financial institutions	57	60	-	117
Bonds of overseas financial institutions	479	4,157	117	4,753
MBS/ABS	167	4,346	1,343	5,856
Others in Israel	660	370	19	1,049
Others abroad	578	1,001	-	1,579
Shares available for sale	976	-	-	976
Total securities available for sale	27,272	12,579	1,485	41,336
Securities held for trading:				
Bonds held for trading	8,523	1,665	-	10,188
Shares and mutual funds held for trading	393	-	-	393
Total securities held for trading	8,916	1,665	-	10,581
Assets in respect of derivative instruments:				
Interest contracts	27	7,452	601	8,080
Foreign currency contracts	5	1,935	1,079	3,019
Share contracts	323	148	14	485
Commodity and other contracts	23	52	5	80
Activity in Maof market	175	-	-	175
Total assets in respect of derivative instruments:	553	9,587	1,699	11,839
Other				
Credit and deposits in respect of lending of securites	1,969	3	-	1,972
Securities borrowed or purchased under agreements to resell	854	-	-	854
Other	207	-	-	207
Total other	3,030	3	-	3,033
Total assets	39,771	23,834	3,184	66,789

Note 8A – Items measured for fair value (cont'd)
A. Items measured for fair value on a recurring basis (cont'd)

	As at 31 March 2013 (Unaudited)			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Book value
	(NIS millions)			
Liabilities:				
Liabilities in respect of derivative instruments:				
Interest contracts	27	8,004	124	8,155
Foreign currency contracts	4	3,649	336	3,989
Share contracts	323	165	-	488
Commodity and other contracts	23	49	-	72
Activity in Maof market	175	-	-	175
Total liabilities in respect of derivative instruments:	552	11,867	460	12,879
Other				
Securities lent or sold under agreements to repurchase	1,550	155	-	1,705
Credit and deposits in respect of lending of securites	680	55	-	735
Other	207	-	-	207
Total other	2,437	210	-	2,647
Total liabilities	2,989	12,077	460	15,526

Note 8A – Items measured for fair value (cont'd)
A. Items measured for fair value on a recurring basis (cont'd)

	31 March 2012 (Unaudited)			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Book value
	(NIS millions)			
Assets:				
Securities available for sale:				
Israeli government bonds	19,860	1,829	-	21,689
Foreign government bonds	2,919	188	10	3,117
Bonds of Israeli financial institutions	257	65	-	322
Bonds of overseas financial institutions	787	6,650	118	7,555
MBS/ABS	322	2,024	866	3,212
Other bonds in Israel	168	446	-	614
Other bonds abroad	509	572	74	1,155
Shares available for sale	1,033	-	-	1,033
Total securities available for sale	25,855	11,774	1,068	38,697
Securities held for trading:				
Bonds held for trading	8,870	812	-	9,682
Shares and mutual funds held for trading	147	20	-	167
Total securities held for trading	9,017	832	-	9,849
Assets in respect of derivative instruments:				
Interest contracts	168	4,714	1,391	6,273
Foreign currency contracts	1	1,906	826	2,733
Share contracts	167	29	23	219
Commodity and other contracts	-	24	13	37
Activity in Maof market	204	-	-	204
Total assets in respect of derivative instruments:	540	6,673 (b)	2,253 (b)	9,466
Other:				
Credit and deposits in respect of lending of securites	2,330	-	-	2,330
Securities borrowed or purchased under agreements to resell (a)	1,485	-	-	1,485
Other	269	-	-	269
Total other	4,084	-	-	4,084
Total assets	39,496	19,279	3,321	62,096

(a) Restated.
(b) Reclassified.

Note 8A – Items measured for fair value (cont'd)
A. Items measured for fair value on a recurring basis (cont'd)

	31 March 2012 (Unaudited)			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Book value
	(NIS millions)			
Liabilities:				
Liabilities in respect of derivative instruments:				
Interest contracts	170	5,755	307	6,232
Foreign currency contracts	4	3,074	347	3,425
Share contracts	167	60	-	227
Commodity and other contracts	-	37	-	37
Activity in Maof market	204	-	-	204
Total liabilities in respect of derivative instruments:	545	8,926	654	10,125
Other:	-	-	-	
Credit and deposits in respect of lending of securites	2,299	34	-	2,333
Securities lent or sold under agreements to repurchase (a)	568	56	-	624
Other	269	-	-	269
Total other	3,136	90	-	3,226
Total liabilities	3,681	9,016	654	13,351

(a) Restated.

Note 8A – Items measured for fair value (cont'd)
A. Items measured for fair value on a recurring basis (cont'd)

	31 December 2012 (Audited)			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Book value
	(NIS millions)			
Assets:				
Securities available for sale:				
Israeli government bonds	20,965	2,033	-	22,998
Foreign government bonds	6,261	182	11	6,454
Bonds of Israeli financial institutions	260	63	-	323
Bonds of overseas financial institutions	610	4,548	123	5,281
MBS/ABS	113	3,535	1,401	5,049
Other bonds in Israel	645	394	-	1,039
Others abroad	564	945	74	1,583
Shares available for sale	972	-	-	972
Total securities available for sale	30,390	11,700	1,609	43,699
Securities held for trading:				
Bonds held for trading	9,885	1,402	-	11,287
Shares and mutual funds held for trading	183	-	-	183
Total securities held for trading	10,068	1,402	-	11,470
Assets in respect of derivative instruments:				
Interest contracts	27	7,613	690	8,330
Foreign currency contracts	31	1,795	619	2,445
Share contracts	209	131	14	354
Commodity and other contracts	60	41	12	113
Activity in Maof market	196	-	-	196
Total assets in respect of derivative instruments:	523	9,580	1,335	11,438
Other:				
Credit and deposits in respect of lending of securites	2,244	4	-	2,248
Securities borrowed or purchased under agreements to resell (a)	1,435	-	-	1,435
Other	399	-	-	399
Total other	4,078	4	-	4,082
Total assets	45,059	22,686	2,944	70,689

(a) Restated.

Note 8A – Items measured for fair value (cont'd)
A. Items measured for fair value on a recurring basis (cont'd)

	31 December 2012 (Audited)			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Book value
	(NIS millions)			
Liabilities:				
Liabilities in respect of derivative instruments:				
Interest contracts	27	8,267	154	8,448
Foreign currency contracts	10	3,322	318	3,650
Share contracts	209	153	-	362
Commodity and other contracts	60	45	-	105
Activity in Maof market	197	-	-	197
Total liabilities in respect of derivative instruments:	503	11,787	472	12,762
Other:				
Credit and deposits in respect of lending of securites	1,957	163	-	2,120
Securities lent or sold under agreements to repurchase (a)	951	56	-	1,007
Other (b)	399	-	-	399
Total other	3,307	219	-	3,526
Total liabilities	3,810	12,006	472	16,288

(a) Restated.
(b) Reclassified.

Note 8A – Items measured for fair value (cont'd)
B. Items measured for fair value on a non-recurring basis

	31 March 2013 (Unaudited)			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significantob servable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	(NIS millions)			
Collateral-dependent impaired credit	**-**	**-**	**1,968**	**1,968**
Other assets	**-**	**-**	**-**	**-**
Total	**-**	**-**	**1,968**	**1,968**

	31 March 2012 (Unaudited)			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	(NIS millions)			
Collateral-dependent impaired credit	-	-	1,586	1,586
Other assets	-	-	-	-
Total	-	-	1,586	1,586

	31 December 2012			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	(NIS millions)			
Collateral-dependent impaired credit	-	-	2,012	2,012
Other assets	-	-	-	-
Total	-	-	2,012	2,012

Note 8B – Changes in items measured for fair value on a recurring basis included in Level 3

	For the three months ended 31 March 2013 (Unaudited)								
		Total realized and unrealized profits (losses)							Unrealized profits (losses)
	Fair value at beginning of the year	In profit and loss	In other comprehensive income in equity	Acquisitions	Sales	Extinguishments	Transfers to or from Level 3	Fair value at 31 March 2013	in respect of instruments held at 31 March 2013
	(NIS millions)								
Assets									
Bonds available for sale:									
Foreign government bonds	11	-	-	-	(5)	-	-	6	-
Bonds of financial institutions in Israel	-	-	-	-	-	-	-	-	-
Bonds of financial institutions abroad	123	(7)	1	-	-	-	-	117	1
Asset-backed (ABS) or mortgage-backed (MBS) bonds	1,401	(17)	(5)	254	(263)	(27)	-	1,343	32
Others in Israel	-	-	-	-	-	-	19	19	1
Others abroad	74	(1)	-	-	-	(73)	-	-	-
Total bonds available for sale	1,609	(25)	(4)	254	(268)	(100)	19	1,485	34
Total shares available for sale	-	-	-	-	-	-	-	-	-
Bonds for trading	-	-	-	-	-	-	-	-	-
Shares for trading	-	-	-	-	-	-	-	-	-
Assets in respect of derivative instruments:									
Interest contracts	690	(39)	-	-	-	(37)	(13)	601	308
Foreign currency contracts	619	107	-	353	-	-	-	1,079	(212)
Share contracts	14	-	-	-	-	-	-	14	(5)
Commodity and other contracts	12	(7)	-	-	-	-	-	5	(6)
Total assets in respect of derivative instruments	1,335	61	-	353	-	(37)	(13)	1,699	85
Total assets	2,944	36	(4)	607	(268)	(137)	6	3,184	119
Liabilities									
Liabilities in respect of derivative instruments:									
Interest contracts	154	(6)	-	-	-	-	(24)	124	(38)
Foreign currency contracts	318	18	-	-	-	-	-	336	19
Total liabilities in respect of derivative instruments	472	12	-	-	-	-	(24)	460	(19)
Total liabilities	472	12	-	-	-	-	(24)	460	(19)

Note 8B – Changes in items measured for fair value on a recurring basis included in Level 3 (cont'd)

	For the three months ended 31 March 2012 (Unaudited) (a)								
		Total realized and unrealized profits (losses)							Unrealized profits (losses)
	Fair value at beginning of the year	In profit and loss	In other comprehensive income in equity	Acqui-sitions	Sales	Extinguish-ments	Transfers to or from Level 3	Fair value at 31 March 2012	in respect of instruments held at 31 March 2012
	(NIS millions)								
Assets									
Bonds available for sale:									
Foreign government bonds	10	-	-	-	-	-	-	10	5
Bonds of financial institutions in Israel	-	2	-	-	-	-	-	2	-
Bonds of financial institutions abroad	113	-	5	-	-	(4)	-	114	4
Asset-backed (ABS) or mortgage-backed (MBS) bonds	737	4	34	114	(4)	(15)	-	870	30
Others in Israel	-	-	-	-	-	-	-	-	-
Others abroad	72	-	2	-	-	(2)	-	72	2
Total bonds available for sale	932	6	41	114	(4)	(21)	-	1,068	41
Total shares available for sale	-	-	-	-	-	-	-	-	-
Bonds for trading	-	-	-	-	-	-	-	-	-
Shares for trading	-	-	-	-	-	-	-	-	-
Assets in respect of derivative instruments: (a)									
Interest contracts	1,759	(331)	-	-	-	(38)	1	1,391	(254)
Foreign currency contracts	1,790	(1,230)	-	266	-	-	-	826	166
Share contracts	14	9	-	-	-	-	-	23	9
Commodity and other contracts	2	11	-	-	-	-	-	13	12
Total assets in respect of derivative instruments	3,565	(1,541)	-	266	-	(38)	1	2,253	(67)
Total assets	4,497	(1,535)	41	380	(4)	(59)	1	3,321	(26)
Liabilities									
Liabilities in respect of derivative instruments:									
Interest contracts	298	9	-	-	-	-	-	307	(14)
Foreign currency contracts	361	(14)	-	-	-	-	-	347	14
Total liabilities in respect of derivative instruments	659	(5)	-	-	-	-	-	654	-
Total liabilities	659	(5)	-	-	-	-	-	654	-

(a) Reclassified

Note 8B – Changes in items measured for fair value on a recurring basis included in Level 3 (cont'd)

	31 December 2012								
		Total realized and unrealized profits (losses)							Unrealized profits (losses)
	Fair value at beginning of the year	In profit and loss	In other comprehensive income in equity	Acqui-sitions	Sales	Extinguish-ments	Transfers to or from Level 3	Fair value at 31 December 2012	in respect of instruments held at 31 December 2012
	(NIS millions)								
Assets									
Bonds available for sale:									
Foreign government bonds	10	-	-	1	-	-	-	11	-
Bonds of financial institutions in Israel	-	-	-	-	-	-	-	-	-
Bonds of financial institutions abroad	113	2	10	-	-	(2)	-	123	10
Asset-backed (ABS) or mortgage-backed (MBS) bonds	737	81	96	873	(296)	(90)	-	1,401	160
Others in Israel	-	-	-	-	-	-	-	-	-
Others abroad	72	1	2	-	-	(1)	-	74	3
Total bonds available for sale	932	84	108	874	(296)	(93)	-	1,609	173
Total shares available for sale	-	-	-	-	-	-	-	-	-
Bonds for trading	-	-	-	-	-	-	-	-	-
Shares for trading	-	-	-	-	-	-	-	-	-
Assets in respect of derivative instruments:									
Interest contracts	1,759	(1,047)	-	-	-	(58)	36	690	(384)
Foreign currency contracts	1,790	(1,347)	-	176	-	-	-	619	407
Share contracts	14	-	-	-	-	-	-	14	14
Commodity and other contracts	2	10	-	-	-	-	-	12	12
Total assets in respect of derivative instruments	3,565	(2,384)	-	176	-	(58)	36	1,335	49
Total assets	4,497	(2,300)	108	#	(296)	(151)	36	2,944	222
Liabilities									
Liabilities in respect of derivative instruments:									
Interest contracts	298	(168)	-	-	-	-	24	154	(91)
Foreign currency contracts	361	(43)	-	-	-	-	-	318	(43)
Total liabilities in respect of derivative instruments	659	(211)	-	-	-	-	24	472	(134)
Total liabilities	659	(211)	-	-	-	-	24	472	(134)

Note 8C – Additional information on significant unobservable inputs and assessment techniques used in fair value measurement of items classified in Level 3

A. Quantitative information regarding Level 3 fair value measurement (in NIS millions)

	Fair value	Assessment technique	Unobservable inputs	Range	Average (3)
Assets					
Securities available for sale (1)					
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	1,343	Discounting cash flows	Margin	60-593 bp	217 bp
			Probability of default	2%-6%	4.50%
			Rate of early repayment	20%	20%
			Loss rate	40%-80%	60%
Assets in respect of derivative instruments (2)					
Interest contracts	76	Discounting cash flows	Inflationary expectations	0.3%-1.8%	1.05%
Interest contracts	525	Discounting cash flows	Transaction counterparty risk	0.03%-100%	2.37%
Foreign currency contracts	138	Discounting cash flows	Inflationary expectations	0.3%-1.8%	1.05%
Foreign currency contracts	941	Discounting cash flows	Transaction counterparty risk	0.03%-100%	2.37%
Share contracts	14	Discounting cash flows	Transaction counterparty risk	0.03%-100%	2.37%
Commodities and other contracts	5	Discounting cash flows	Transaction counterparty risk	0.03%-100%	2.37%
Liabilities					
Liabilities in respect of derivative instruments (2)					
Interest contracts	124	Discounting cash flows	Inflationary expectations	0.3%-1.8%	1.05%
Foreign currency contracts	336	Discounting cash flows	Inflationary expectations	0.3%-1.8%	1.05%

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).

3. The average figure referring to the unobservable parameter of "Transaction counterparty risk" reflects a weighted average.

Note 9 – Interest income and expenses

	For the three months ended 31 March	
	2013	2012
	(Unaudited)	
	(NIS millions)	
A. Interest income (b)		
From credit to the public	**2,496**	2,793(a)
From credit to governments	**4**	4
From deposits with Bank of Israel and cash	**115**	155
From deposits with banks	**14**	24(a)
From securities borrowed or purchased under agreement to resell	**6**	10
From debentures (c)	**228**	278
Total interest income	**2,863**	3,264
B. Interest expenses (b)		
On deposits of the public	**(776)**	(1,095)(a)
On deposits from governments	**(2)**	(3)
On deposits from banks	**(9)**	(13)(a)
On securities lent or sold under agreement to repurchase	**(5)**	(6)
On debentures, bonds and subordinated notes	**(309)**	(319)
Total interest expenses	**(1,101)**	(1,436)
Total interest income, net	**1,762**	1,828
C. Details of the net effect of derivative instruments hedging interest income and expenses		
Interest income	**-**	(1)
Interest expenses	**1**	1
D. Details of accumulated interest income from bonds		
Available for sale	**183**	230
For trading	**45**	48
Total included in interest income	**228**	278

(a) Reclassified.
(b) Including the effective component of hedging relationships.
(c) Including interest in respect of mortgage-backed bonds (MBS) in the amount of NIS 28 million (31 March 2012 – NIS 13 million, 31 December 2012 – NIS 68 million).

Note 10 – Non-interest income

	For the three months ended 31 March	
	2013	2012
	(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)	**3**	-
Net income (expense) from ALM derivative instruments (c)	**(603)**	(351)
Total from activity in derivative instruments	**(600)**	(351)
A.2. From investment in bonds		
Profits from sale of bonds available for sale	**100**	72
Losses from sale of bonds available for sale	**(1)**	(14)
Total from investment in bonds	**99**	58
A.3. Exchange rate differentials, net	**655**	455
A.4. Profits (losses) from investment in shares		
Profits from sale of shares available for sale (f)	**235**	17
Losses from sale of shares available for sale (d)	**(1)**	(60)
Profit from sale of shares in companies included on equity basis	**-**	24
Dividend from shares available for sale	**5**	3
Total from investment in shares	**239**	(16)
A.5. Profits in respect of loans sold (e)	**43**	-
Total non-interest financing income in respect of activities for purposes other than trading	**436**	146
B. Non-interest financing income in respect of activities for trading purposes		
Income (expenses) net in respect of other derivative instruments	**7**	(1)(a)
Realized and unrealized losses from fair value adjustments of bonds held for trading, net	**(48)**	(1)
Realized and unrealized profits (losses) from fair value adjustments of shares held for trading, net	**16**	(1)
Dividends received from shares held for trading	**-**	2
Total from trading activities	**(25)**	(1)
Total non-interest financing income in respect of activities for purposes other than trading	**411**	145

(a) Reclassified.
(b) Excluding the effective part of hedging relationships.
(c) Derivative instruments comprising part of the Bank's asset and liability management not designated for hedging relationships.
(d) Including provisions for impairment in the amount of NIS 59 million for the three month period ended 31 March 2012.
(e) During the first quarter of 2013, a loan was sold in the amount of NIS 250 million.
(f) Including profit on sale of shares in Migdal in amount of NIS 180 million.

Note 11 - Operating Segments

	For the three months ended 31 March 2013 (Unaudited)							
	Household banking segment	Small business banking segment	Corporate banking segment	Commercial banking segment	Private banking segment	Financial management segment	Other segment	Total consolidated
	(NIS millions)							
Interest income (expenses), net - from outside entities	**586**	**269**	**620**	**392**	**(34)**	**(71)**	**-**	**1,762**
Non-interest income - from outside entities	**407**	**140**	**169**	**101**	**121**	**476**	**55**	**1,469**
Intersegmental income (expenses)	**120**	**(49)**	**(276)**	**(12)**	**152**	**103**	**(38)**	**-**
Total income	**1,113**	**360**	**513**	**481**	**239**	**508**	**17**	**3,231**
Expenses (income) in respect of credit losses	**86**	**42**	**(46)**	**32**	**1**	**(42)**	**-**	**73**
Net profit (loss) attributable to shareholders of the banking corporation	**41**	**57**	**254**	**110**	**24**	**135**	**(51)**	**570**

	For the three months ended 31 March 2012 (Unaudited) (a)							
	Household banking segment	Small business banking segment	Corporate banking segment	Commercial banking segment	Private banking segment	Financial management segment	Other segment	Total consolidated
	(NIS millions)							
Interest income (expenses), net - from outside entities	396	268	659	379	(34)	159	1	1,828
Non-interest income - from outside entities	378	136	231	78	141	187	26	1,177
Intersegmental income (expenses)	368	(49)	(362)	28	150	(102)	(33)	-
Total income (expenses)	1,142	355	528	485	257	244	(6)	3,005
Expenses (income) in respect of credit losses	8	8	211	10	(1)	(11)	-	225
Net profit (loss) attributable to shareholders of the banking corporation	121	92	106	144	24	(26)	(30)	431

(a) Reclassified.

Note 11 - Operating Segments (cont'd)

	For the year ended 31 December 2012 (Audited)							
	Household banking segment	Small business banking segment	Corporate banking segment	Commercial banking segment	Private banking segment	Financial management segment	Other segment	Total consolidated
	(NIS millions)							
Interest income (expenses), net - from outside entities	1,884	1,097	2,744	1,620	(122)	184	1	7,408
Non-interest income - from outside entities	1,622	551	613	523	611	834	20	4,774
Intersegmental income (expenses)	1,145	(217)	(1,172)	(190)	523	(47)	(42)	-
Total income	4,651	1,431	2,185	1,953	1,012	971	(21)	12,182
Expenses (income) in respect of credit losses	71	84	933	176	1	(29)	-	1,236
Net profit (loss) attributable to shareholders of the banking corporation	447	319	392	444	81	(627)	(125)	931

Note 12 – Accumulated Other Comprehensive Income (Loss). net

A. Changes in accumulated other comprehensive income (loss), after effect of tax

	For the three months ended 31 March 2013 (Unaudited)					
	Other comprehensive income before attribution to non-controlling interests					
	Adjustments for presentation of securities available for sale at fair value	Translation adjustments *, net after effect of hedges **	Banking corporation's share in other comprehensive income of investee companies dealt with under the equity method	Total	Other comprehensive income attributed to non-controlling interests	Other comprehensive income attributed to shareholders of the Bank
	(NIS millions)					
Balance at 31 December 2012	**495**	**(149)**	**112**	**458**	**-**	**458**
Net change in the period	**(154)**	**(54)**	**(4)**	**(212)**	**(4)**	**(212)**
Balance at 31 March 2013	**341**	**(203)**	**108**	**246**	**(4)**	**246**

	For the three months ended 31 March 2012 (Unaudited)					
	Other comprehensive income before attribution to non-controlling interests					
	Adjustments for presentation of securities available for sale at fair value	Translation adjustments *, net after effect of hedges **	Banking corporation's share in other comprehensive income of investee companies dealt with under the equity method	Total	Other comprehensive income attributed to non-controlling interests	Other comprehensive income attributed to shareholders of the Bank
	(NIS millions)					
Balance at 31 December 2011	(218)	(93)	112	(199)	-	(199)
Net change in the period	391	(51)	-	340	1	339
Balance at 31 March 2012	173	(144)	112	141	1	140

	For the year ended 31 December 2012 (Audited)					
	Other comprehensive income before attribution to non-controlling interests					
	Adjustments for presentation of securities available for sale at fair value	Translation adjustments *, net after effect of hedges **	Banking corporation's share in other comprehensive income of investee companies dealt with under the equity method	Total	Other comprehensive income attributed to non-controlling interests	Other comprehensive income attributed to shareholders of the Bank
	(NIS millions)					
Balance at 31 December 2011	(218)	(93)	112	(199)	-	(199)
Net change in the period	713	(56)	-	657	-	657
Balance at 31 December 2012	495	(149)	112	458	-	458

* Adjustments from translation of financial statements of foreign operations whose functional currency differs from the functional currency of the banking corporation, including adjustments for companies included on equity basis. If material will be disclosed separately from adjustments in respect of companies included on equity basis.

** Profits (losses), net in respect of a net hedge of investment in foreign currency.

Note 12 – Accumulated Other Comprehensive Income (Loss), net (cont'd)

B. Changes in accumulated other comprehensive income (loss), before and after effect of tax

	For the three months ended 31 March						For the year ended 31 December		
	2013			2012			2012		
	(Unaudited)						(Audited)		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Changes in components of other comprehensive income (loss) before attribution to non-controlling interests:									
Adjustments for presentation of securities available for sale at fair value									
Unrealized profits (losses) from adjustments to fair value	**106**	**(47)**	**59**	604	(203)	401	1,267	(425)	842
(Profits) losses in respect of securities available for sale reclassified to the statement of profit and loss	**(333)**	**120**	**(213)**	(15)	5	(10)	(201)	72	(129)
Net change in the period	**(227)**	**73**	**(154)**	589	(198)	391	1,066	(353)	713
Translation adjustments *									
Adjustments for translation of financial statements	**(116)**	**-**	**(116)**	(61)	-	(61)	(59)	-	(59)
Hedges **	**97**	**(35)**	**62**	15	(5)	10	4	(1)	3
Net change in the period	**(19)**	**(35)**	**(54)**	(46)	(5)	(51)	(55)	(1)	(56)
Banking corporation's share in other comprehensive income of investee companies dealt with under the equity base method	**(4)**	**-**	**(4)**	-	-	-	-	-	-
Net change in the period	**(4)**	**-**	**(4)**	-	-	-	-	-	-
Total net change in the period	**(250)**	**38**	**(212)**	543	(203)	340	1,011	(354)	657
Changes in components of other comprehensive income (loss) attributed to non-controlling interests:									
Total net change in the period	**(4)**	**-**	**(4)**	1	-	1	1	(1)	-
Changes in components of other comprehensive income (loss) attributed to shareholders of the banking corporation:									
Total net change in the period	**(246)**	**38**	**(208)**	542	(203)	339	1,010	(353)	657

* Adjustments from translation of financial statements of foreign operations whose functional currency differs from the functional currency of the banking corporation, including adjustments for companies included on equity basis, if material will be disclosed separately from adjustments in respect of companies included on equity basis.

** Profits (losses), net in respect of a net hedge of investment in foreign currency.