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

Condensed Financial Statements
as at 30 June 2013

(unaudited)

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

28 August 2013

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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 1,010 billion at the end of June 2013, compared with NIS 989 billion at the end of 2012, an increase of some 2.04%, which derived primarily from an increase in securities portfolios, and an increase in the value of provident funds and supplementary training funds, partially offset by a decrease in total balance sheet assets.

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

Below are principal data as at:

	30 June 2013	30 June 2012	31 December 2012
Balance sheet data (in NIS millions):			
Total assets (total balance sheet)	**363,714**	366,082	376,160
Credit to the public, net	**238,483**	241,427	241,264
Securities	**57,580**	60,348	56,408
Cash and deposits in banks	**42,754**	39,166	54,621
Investment in companies included on equity basis	**1,978**	2,129	2,129
Deposits of the public	**275,448**	280,434	289,538
Debentures, notes, and subordinated notes	**27,587**	28,223	27,525
Equity attributable to shareholders of the banking corporation	**25,577**	24,266	24,921

Below are principal data:

	For the six months ended 30 June		For the three months ended 30 June		Year
	2013	2012	**2013**	2012	2012
Income, expenses and profits (in NIS millions):					
Interest income, net	**3,601**	3,752	**1,839**	1,924	7,408
Expenses in respect of credit losses	**157**	558	**84**	333	1,236
Total non-interest income	**2,715**	2,172	**1,246**	995	4,774
Of which: commissions	**2,054**	2,042	**1,029**	1,022	4,199
Total operating and other expenses	**4,236**	4,195	**2,179**	2,200	9,100
Of which: salary expenses	**2,497**	2,542	**1,215**	1,356	5,290
Profit before taxes	**1,923**	1,171	**822**	386	1,846
Provision for taxes	**747**	465	**284**	159	811
Net profit for the period attributed to shareholders of the banking corporation	**1,044**	711	**474**	280	931
Net profit per share attributed to shareholders of the banking corporation (in NIS)	**0.71**	0.48	**0.32**	0.19	0.63
Total profit for the period attributed to shareholders of the banking corporation	**635**	919	273	149	1,588

Below are principal financial ratios for the periods ended:

	30 June 2013	30 June 2012	31 December 2012
Credit to the public, net, to total balance sheet	**65.6**	65.9	64.1
Securities to total balance sheet	**15.8**	16.5	15.0
Deposits of the public to total balance sheet	**75.7**	76.6	77.0
Deposits of the public to total credit, net	**115.5**	116.2	120.0
Total capital to risk assets according to Basel II (a)	**15.02**	14.81	14.87
Tier I capital to risk assets according to Basel II	**9.03**	8.38	8.55
Capital (excluding non-controlling interests) to total balance sheet	**7.0**	6.6	6.6
Net profit to average capital (excluding non-controlling interests) (c)	**8.4**	6.0	3.8
Rate of provision for tax on the profit before taxes	**38.8**	39.7	43.9
Expenses in respect of credit losses to credit to the public, net (c)	**0.13**	0.46	0.51
Of which: expenses in respect of collective allowance to net credit to the public (c)	**0.10**	0.20	0.13
Expenses in respect of credit losses to total risk of credit to the public (c)	**0.09**	0.31	0.34
Net interest income to total balance sheet (c)	**1.99**	2.06	1.97
Total income to total balance sheet (b) (c)	**3.50**	3.26	3.24
Total income to total assets managed by the Group (b) (c) (d)	**1.26**	1.31	1.23
Total operating and other expenses to total balance sheet (c)	**2.34**	2.30	2.42
Total expenses to total assets managed by the Group (c) (d)	**0.84**	0.93	0.92
Net profit to average total assets (c) (e)	**0.57**	0.40	0.26
Interest margin (f)	**2.04**	2.16	2.25
Operating and other expenses (excluding early retirement) to total income (b)	**67.1**	70.8	72.0
Non-interest income to operating and other expenses (excluding early retirement)	**64.1**	51.8	54.4
Non-interest income to total income (b)	**43.0**	36.7	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) Data for December 2012 have been calculated using the old format. The interest gap excludes the effect of derivatives, but includes exchange rate differences.

Net profit attributable to shareholders in the banking corporation (hereinafter – the net profit) in the first half of 2013 amounted to NIS 1,044 million, compared with NIS 711 million in the corresponding period last year, an increase of 46.8%.

The increase in the net profit is explained mainly by an increase on noninterest income amounting to NIS 543 million and by a reduction in expenses in respect of credit losses of NIS 401 million. On the other hand, a reduction in interest income, net, of NIS 151 million, an increase in the operating and other expenses amounting to NIS 41 million, an increase the provision for tax amounting to NIS 282 million and a decrease in the Bank's share in the profits of companies included on equity basis, after the effect of tax, amounting to NIS 135 million partly offset the abovementioned effects.

Net profit in the second quarter of 2013 amounted to NIS 474 compared with NIS 280 million in the corresponding period last year, an increase of 69.3%.

The increase in net profit in the second quarter is explained mainly by an increase in noninterest income amounting to NIS 251 million and a decrease in expenses in respect of credit losses amounting to NIS 249 million. On the other hand, a decrease in net interest income amounting to NIS 85 million, an increase in the provision for tax amounting to NIS 125 million and a decrease in the Bank's share in the profits of companies included on equity basis, after the effect of tax, amounting to NIS 117 million partly offset the abovementioned effects.

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 0.71 during the second quarter of 2013, compared with NIS 0.48 in the corresponding period last year.

The return on capital in the first half of 2013 was 8.4, compared with 6.0 in the first half of 2012. The return on capital in the second quarter of 2013 was 7.6 compared with 4.7 in the second quarter of 2012.

Aggregate total income after the effect of tax (in addition to the net profit also 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 half of 2013 amounted to NIS 635 million, compared to NIS 919 million in the corresponding period last year. In the second quarter of 2013, the total profit amounted to NIS 273 million, compared with NIS 149 million in the corresponding period last year. The decrease in total income is primarily attributable to negative adjustments resulting from impairment, amounting to NIS 12 million before tax, in respect of available-for-sale securities in the first half of 2013, compared to positive adjustments in respect of an increase in value, amounting to NIS 386 million before tax, in the first half of 2012.

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 24 March 2013, the Bank was notified that, 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. On 29 May 2013, Dash Apex announced that it had ceased to be an interested partner in Leumi. For further details, see Immediate Report of the Bank dated 24 March 2013 (ref.: 2013-01-018730), 2 May 2013 (ref.: 2013-01-052822) and 29 May 2013 (ref.: 2013-01-077413).

On 6 May 2013, the Bank was notified that 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 August 2013 (ref.: 2013-01-110862).

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 30 June 2013 amounted to NIS 25,577 million, compared with NIS 24,921 million as at the end of 2012, an increase of 2.6%. The increase is attributable to the profit for the first half of the year amounting to NIS 1,044 million which was partly offset by a decline in other comprehensive income in respect of available-for-sale securities amounting to NIS 293 million and a decrease in other comprehensive income from the translation of financial statements amounting to NIS 109 million.

The total net accrued balance of adjustments of securities held in the available-for-sale portfolio to fair value as of 30 June 2013 amounted to a positive sum of NIS 202 million (after the effect of tax).

The **capital to total assets ratio** reached 7.0% on 30 June 2013, compared with 6.6% on 31 December 2012.

The **capital to risk components ratio** according to Basel II reached 15.02% as of 30 June 2013, compared with 14.87% on 31 December 2012. The Tier 1 capital ratio reached 9.03% at 30 June 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 and is higher than the core capital ratio required with effect from 1 January 2015.

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.

According to a circular from the Supervisor of Banks dated 30 June 2010, 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 May 2013, the Supervisor of Banks published final directives for the adoption of the Basel III recommendations in Israel, including an amendment to Proper Conduct of Banking Business Regulation no. 201 "Measurement and Capital Adequacy – Introduction, Incidence and Calculation of Requirements".

Pursuant to this directive, 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 Tier 1 shareholders' equity targets stipulated in the directive are identical to those stipulated in the directive of March 2012.

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 an amendment to the Proper Conduct of Banking Business Regulation no. 201 of 30 May 2013, as outlined below.

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

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

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

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

	30 June 2013	30 June 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	**17,360**	16,090	16,296
Capital reserves due to share-based transactions and other capital reserves	**51**	50	58
Adjustments from translation of financial statements of companies included on equity basis	**(195)**	(50)	(85)
Loans to employees for the purchase of Bank's shares	**(30)**	(31)	(31)
Non-controlling interests	**318**	267	307
Amounts deducted from Tier 1 capital, including goodwill, investments and other intangible assets	**(399)**	(396)	(421)
Total Tier 1 capital	**25,293**	24,118	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	**129**	19	333
General provision for doubtful debts	**428**	428	428
Innovative and non-innovative hybrid capital instruments	**6,100**	6,063	6,071
Subordinated notes	**10,171**	12,094	11,227
Amounts deducted from Tier 2 capital	**(64)**	(70)	(81)
Total Tier 2 capital	**16,764**	18,534	17,978
Total capital base for capital adequacy purposes	**42,057**	42,652	42,290

Capital adequacy - (Table 3 - Basel II):

Risk assets and capital requirements in respect of credit risk deriving from exposures to:	**30 June 2013** Risk assets	Capital require-ments (3)	30 June 2012 Risk assets	Capital require-ments (3)	31 December 2012 Risk assets	Capital require-ments (3)
	NIS millions					
Sovereign debts	**904**	**81**	1,020	92	937	84
Debts of public sector entities	**2,193**	**197**	1,987	179	1,981	178
Debts of banking corporations	**4,714**	**424**	4,412	397	4,690	422
Debts of corporations	**136,135**	**12,252**	155,234	13,971	146,452	13,181
Debts collateralized by commercial real estate	**17,189**	**1,547**	19,010	1,711	18,541	1,669
Retail exposures to individuals	**25,010**	**2,251**	22,812	2,053	23,728	2,136
Loans to small businesses	**10,047**	**904**	9,611	865	9,611	865
Housing loans	**35,754**	**3,218**	31,596	2,844	33,474	3,013
Securitization	**951**	**86**	412	37	864	78
Other assets	**14,287**	**1,286**	11,896	1,071	13,560	1,220
Total in respect of credit risk (1)	**247,184**	**22,246**	257,990	23,220	253,838	22,846
Risk assets and capital requirements in respect of market risk (1)	**12,134**	**1,092**	9,080	817	9,710	874
Risk assets and capital requirements in respect of operational risk (2)	**20,680**	**1,861**	20,883	1,879	20,841	1,876
Total risk assets and capital requirements (4)	**279,998**	**25,199**	287,953	25,916	284,389	25,596
Total capital base for capital adequacy	**42,057**		42,652		42,290	
Total capital ratio	**15.02%**		14.81%		14.87%	
Tier 1 capital ratio	**9.03%**		8.38%		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:

	30 June 2013	31 December 2012
	%	
Leumi – on consolidated basis	**15.02**	14.87
Leumi Mortgage Bank (1)	**-**	11.85
Arab-Israel Bank	**14.99**	14.76
Leumi Card	**16.20**	16.00
Bank Leumi USA (2)	**14.37**	14.47
Bank Leumi UK	**15.43**	15.53
Bank Leumi Switzerland	**38.53**	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 half of 2013, the Israeli economy grew in real terms at 3.4% per annum, compared with the second half of 2012.

In the first six months of the year, the Israeli consumer price index rose by some 1.3%, and in the twelve months ended June 2013, the increase was 2.0%. This rate is midway between the price stability target of 1% - 3%. During the first half of the year, the Bank of Israel lowered interest rates by 0.75 percentage points to 1.25%. This was against a background of a low inflationary environment and the desire to continue the support of growth in Israel, while the appreciation of the shekel was a major factor in the interest rate decisions. In this context, on 13 May 2013, the Bank of Israel, at a special meeting, announced a lowering of interest rates and a program to purchase foreign currency to offset the effect of natural gas production on the exchange rate. In the interest rate decisions for July and August, the interest level remained at 1.25%

The share and convertible securities index rose during the first half of 2013 by some 4.6%, with the price of index-linked corporate debentures rising by some 4.1%, despite the economic slowdown in the market.

The Global Economy

In July 2013, the International Monetary Fund revised its estimate of expected development of global economic activity for 2013. In most advanced countries, the revision was downward, compared to forecasts made in April 2013, *inter alia*, against a background of an assessment that the recession in Europe was deeper than forecast at the beginning of the year, and also growth in the United States was lower than expected due to the effect of the budget reduction. In the emerging countries, there was also disappointment from the growth in the economy, although in Japan, in contrast, growth was surprisingly good. According to the Fund's revised estimates, growth in the United States and in the euro area in 2013 is expected to total 1.7% and (0.6%), respectively.

Business product and sectors of the economy

The business sector product expanded in real terms in the first half of 2013 by some 3.5%, in annual terms, compared with the second half of 2012. This growth rate reflects the slowdown in activity in the business sector. The continuation of the slowdown in economic activity on world and domestic markets has 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.

The State Budget and its Financing

The first half of the year saw a deficit (excluding the grant of credit) of NIS 10.3 billion in the State budget, compared with a deficit of NIS 11.1 billion in the corresponding period in 2012. Government expenditure during this period expanded by some 4.3%, compared to the January-June period in 2012. In this context, it should be borne in mind that, from the beginning of the year, the government operated without an approved budget framework. The main explanation for the slight fall in the deficit is a certain increase in tax revenues, against a background of State revenues of a noninterest-recurring nature higher than the increase in expenditure.

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

On 14 May 2013, the government approved the economic program (the State Budget and the Arrangements Law) for 2013-2014. The Arrangements Law was approved by the Knesset on 29 July 2013 and, on 30 July 2013, the State budget was approved.

Foreign Trade and Capital Movements

Israel's aggregate trade deficit in the first half of 2013 amounted to some US$ 6.2 billion, a decrease of some 37% 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, compared with a slight increase in exports, demonstrating the effect of the economic slowdown around the world on Israel's trading partnership.

Foreign currency capital transactions in the first six 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$ 3.5 billion during the said period (to this may be added the acquisition of 20% of the shares of Iscar for US$ 2 billion), while financial investments amounted to US$ 1.0 billion On the other hand, investments by Israeli residents abroad (direct investments through Israeli banks and the financial investments) amounted to US$ 4.5 billion, most of which consisted of financial investments.

Exchange Rates and Foreign Currency Reserves

During the first half of 2013, the exchange rate of the shekel appreciated by some 3.1% against the dollar, and even more sharply against the euro, by some 4.1%. This appreciation was affected by an improvement in Israel's foreign balances (the trade deficit and the current account of the balance of payments) along with an increase in capital inflows (net) to Israel.

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.

Foreign currency balances in the Bank of Israel at the end of June 2013 amounted to some US$ 78.2 billion. This compared with US$ 75.9 billion at the end of December 2012. Against the background of the appreciation of the shekel and the plan to purchase foreign currency, which was decided on 13 May, in the second quarter of the year, the Bank of Israel purchased US$ 2.5 billion, of which some US$ 0.5 billion was part of the program to offset the effect of gas production on the exchange rate. (In the first quarter of the year, the Bank of Israel did not intervene in foreign currency trading.)

Inflation and Monetary Policy

The Israeli consumer price index increased by some 1.3% in the first half of 2013, while in the twelve months ended June 2013, the index increased by some 2.0%. This rate is almost in the middle of the Government's price stability target of 1% - 3%. The largest contribution to the increase in the index in the past year was in the housing sector, which increased by some 3.2% and in the food sector, which increased by some 6.1%, each of them accounting for approximately 0.8 percentage points half of the increase in the index. An item which significantly decreased was communication and internet services, which fell by some 11.4% 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 for economic activity and in the absence of inflationary pressures. 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 was the continuing appreciation of the shekel and a downward revision of the global growth forecast, particularly with regard to Europe and China. In the June interest decision, interest rates were further reduced by 0.25 percentage points to 1.25%. This level of interest was also retained in the months of July and August.

Capital Market

The shares and convertible securities index rose by some 4.6% in the first half of the year, following an increase of some 4.5% in 2012. The index fell in the second quarter of the year by 1.7%. The main reasons for the decrease are related to the weakness of economic activity in Israel.

Average daily trading volumes of shares and convertible securities increased by some 2.5% during the first six months of 2013, compared with the average for 2012, and amounted to some NIS 1,104 million. During the second quarter of the year, volumes fell compared to the first quarter.

The Government bond market in the first half of 2013 was characterized by a trend of increasing prices. The price of index-linked Government bonds remained stable, while unlinked bonds rose by some 1.9% (the fixed interest (*Shahar*) bond indices rose by some 2.1% and the variable interest (*Gilon*) bond index increased by some 1.2%).

In the index-linked non-government debenture market (corporate bonds), there were price increases of some 4.1% over the period, January – June. There were increases in both quarters of 2013, despite the economic slowdown in the state of the market.

Financial Assets held by the Public

The value of the portfolio of financial assets held by the public increased in the first five months of 2013 by some 2.5% to NIS 2,790 billion at the end of May 2013. This increase in the value of the portfolio derived from an increase in all of its components, except for the unlinked component which fell by 0.3%. The weight of shares (in Israel and abroad) in the financial assets portfolio of the Israeli public reached some 22.5% at the end of May 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) fell slightly by 0.1% during the months of January – May. On the one hand, this was the result of an increase in housing credit which expanded by some 3.7%, with non-housing credit (consumer credit) increasing by some 0.3%. On the other hand, credit granted to the business sector, which is the largest component of the credit elements granted to the private sector, fell by some 2.4%. These figures reflect the slowdown in the economy, excluding the housing market.

The table below shows Israel's and the Bank's credit ratings as at 21 August 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 30 June 2013, the price of Leumi shares fell from 1,267 points to 1,208 points, a decrease of 4.66%. During this period, the Bank's market value decreased from a level of some NIS 18.7 billion to a level of NIS 17.8 billion.

The following table sets out the principal representative exchange rates:

	30 June		31 December	
	2013	2012	2012	2011
	In NIS			
U.S. dollar	**3.618**	3.923	3.733	3.821
Euro	**4.720**	4.932	4.921	4.938
Pound sterling	**5.521**	6.135	6.036	5.892
Swiss franc	**3.824**	4.106	4.077	4.062

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

	2013	2012							
	First half	2nd quarter	1st quarter	Year	4th quarter	3rd quarter	First half	2nd quarter	1st quarter
	(in percentages)								
Rate of increase (decrease) in Israeli Consumer Price Index ("known" index)	**0.7**	0.7	-	1.4	(0.7)	0.9	1.3	1.3	-
Rate of increase (decrease) of the U.S. dollar exchange rate	**(3.1)**	(0.8)	(2.3)	(2.3)	(4.6)	(0.3)	2.7	5.6	(2.8)
Rate of increase (decrease) of the euro exchange rate	**(4.1)**	1.3	(5.3)	(0.3)	(2.8)	2.7	(0.1)	(0.4)	0.3
Rate of increase (decrease) of the pound sterling exchange rate	**(8.5)**	(0.2)	(8.3)	2.4	(4.9)	3.4	4.1	3.3	0.8
Rate of increase (decrease) of the Swiss franc exchange rate	**(6.2)**	-	(6.2)	0.4	(2.6)	2.0	1.1	(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.

Banking Rules (Service to the Customer) (Commissions), 2008

On 1 August 2013, Amendment no. 2 of the Banking Rules (Service to the Customer) (Commissions), 2008, came into force. The amendment provides for a change in the list of retail charges business turnover ceiling of a "small business" from NIS 1 to NIS 5 million. The Bank is obliged to notify the corporations of the fact that if the furnish the Bank with an "annual report" as defined in the Commission Rules, according to which their business turnover does not exceed NIS 5 million per annum, the Bank will act to classify their account as a "small business". The classification is in effect for a year and its renewal is contingent on current documents.

Draft regulation regarding deposits and loans fund ("Kapam")

On 9 May 2013, the Israel Securities Authority published a draft for the comments of the public regarding a new product, the deposits and loans fund ("Kapam"), which represents a sub-class of shekel monetary mutual fund. The Authority has announced that this new product is intended to be an effective alternative to the bank deposit - (a) a solid product – the assets to be held in the fund will be only bank deposits and short-term loans whose term to redemption does not exceed one year, (b) characteristics of the data related to the product – the data of the "Kapam" will also include an indication regarding "an estimate of the annual yield" inherent in the assets of the fund, and thus will enable anyone wishing to invest in it to assess the advisability of an investment therein compared with the banking alternative, (c) design and positioning of the product – a uniform, simple and very conservative product in the way it is conducted, (d) the exclusion of the "Kapam" from the definition of a "financial asset" in the Consulting Law – the product will also be able to be sold through a mediator who does not holder a consultant's license, i.e., by an investment clerk in the bank who is intended to become the main distribution channel for the product.

Proposed Intensification of the Collection and the Tightening of Enforcement Law (Improvement of Means of Collection and Reporting), 2013; Proposed Intensification of the Collection and the Tightening of Enforcement Law (Means for Enforcing the Payment of Taxes and for Deterring Money Laundering) (Legislative Amendments and Temporary Provisions), 2013

These proposed laws, which have passed in First Reading by the Knesset plenum, are intended to make legislative amendments in most of the tax laws, as regards the enforcement of the tax laws, a reduction in the scope of tax evasion in Israel, and an improvement in the efficiency of the collection of taxes, and in the collection of the information and reporting to the tax authorities.

In the proposed law pertaining to the means for enforcing the payment of taxes and deterring money laundering, an amendment to the Prohibition of Money Laundering Law is proposed, which, at its core, is the addition of the offences according to Section 220 of the Income Tax Ordinance as a predicate offence, through giving the Prohibition of Money Laundering Authority the power to pass information to the data bases under its management to the Tax Authority.

Company tax

On 14 July 2009, the Knesset approved the Improved Economic Efficiency Law (Legislative Amendments for Implementation of the Economic Plan for 2009 and 2010), 2009, which, *inter alia*, gradually reduces company tax rates to 18% for the year 2016 and thereafter. Pursuant to the said amendments, company tax rates in 2010 and 2011 were 25% and 24%, respectively.

On 5 December 2011, the Knesset approved the Change in the Tax Burden Law (Legislative Amendments), 2011 (hereinafter – the Law). Pursuant to the Law, the reduction in tax, provided in the Improved Economic Efficiency Law, as aforesaid, was canceled, and the company tax rate from 2012 and thereafter stood at 25%.

On 30 July 2013, the Economic Plan for 2013-2014 (The Budget Law) was approved in the Knesset plenum, including *inter alia*, an increase in the company tax rate from 25% to 26.5% with effect from 1 January 2014.

The change in the companies tax rate in the Budget Law, as aforesaid, will raise the statutory tax rate which applies to financial institutions from 36.21% in 2013 to 37.71% in 2014 and thereafter.

The balances of deferred taxes included in the 30 June 2013 financial statements are calculated according to the tax rate in force at the balance sheet date and do not take into account the effects that are likely to arise from a change of the company tax rate determined in the aforesaid Budget Law. The effects of the aforesaid change in the company tax rate will be included in the financial statements which will published from the date on which the enactment of the law was actually completed, i.e., in the third quarter of 2013. The effect of the change in the company tax rate is estimated in an increase in the net deferred taxes balances receivable at 30 June 2013 amounting to NIS 98 million.

Value added tax and national insurance

On 28 May 2013, the Minister of Finance signed an order raising the rate of value added tax in respect of a transaction and the import of goods from 17% to 18%, with effect from 2 June 2013.

On 2 June 2013, the Value Added Tax Order (Rate of Tax on Non-Profit Associations and Financial Institutions) (Amendment), 2013 was published, updating the rate of profit tax and salary tax imposed on financial institutions from 17% to 18%. As a result of the said change, the statutory rate of tax applicable to financial institutions increased in 2013 from 35.59% to 36.21%. Furthermore, the rate of salary tax applicable to financial institutions increased from 17% to 18% with respect to the salary payable for work in June 2013 and onwards.

The change in the rate of profit tax has led to an increase in net balances of deferred tax receivables amounting to NIS 29 million in the second quarter of 2013.

The effect of the increase in salary tax on the balance of liabilities to employees is NIS 53 million before tax and NIS 34 million after tax.

The change in salary tax resulted in an increase of NIS 22.5 million in current salary expenses and operating expenses in the first half of 2013, compared to the first half of 2012.

On 13 August 2012, the Deficit Reduction and Change in Tax Burden Law (Legislative Amendments), 2012 (hereinafter "the Law"), was published. Pursuant to the Law, with effect January 2013, the rate of national insurance contributions collected from employers in respect of the portion of the salary exceeding 60% of the average salary in the economy increased from 5.9% to 6.5%. Furthermore, this rate will increase in January 2014 and January 2015 to 7% and 7.5%, respectively.

Foreign Account Tax Compliance Act (FATCA)

Further to that stated on the subject of FATCA in the Annual Report, the U.S. authorities recently announced a postponement in implementing the Act until 1 July 2014.

Legislation and regulation in pension consulting

On 22 July 2013 the Supervisor of the Capital Market, Insurance and Saving Division in the Ministry of Finance ("the Supervisor") published an updated version of a circular regarding the power of attorney to a license-holder which is due to come into force on 1 September 2013, in light of update proposals to that arose during preparations to implement the circular.

As a part of the preparations for working with the central pension clearing system, on 22 July 2013, the Supervisor published an updated version of a circular regarding the obligation of using a central pension clearing system, and a circular regarding the identification of users and management of authorizations for using a central pension clearing system, which regulates the granting of authorities to view data in the clearinghouse.

On 6 August 2013, a draft circular was published on the supply of front operating services and back operating services, which was intended to regulate the supply of services to an institutional body by a banking corporation, with effect from 1 January 2014.

Draft directive of the Bank of Israel regarding remuneration policy

On 3 June 2013, the Banking Supervision Department published a draft circular regarding the remuneration policy in a banking corporation, which was updated 4 July 2013 ("the draft directive"). The object of the draft directive is to establish principles which are aimed to ensure that the remuneration arrangements in banking corporations in Israel are consistent with the risk management structure and with the long-term objects of the banking corporation.

According to the draft directive, every banking corporation must adopt a remuneration policy that will apply to all employees of the banking corporation, which will relate to all types of remuneration. The remuneration policy will promote established and effective risk management and will not encourage the taking of risks beyond the banking corporation's risk appetite.

A banking corporation will also have to define who are the "principal employees" in the banking corporation, who are the office-holders in the corporation, and also the employees whose activity is likely to have a significant influence on the banking corporation's risk profile. The draft directive contains directives that will apply to all of the employees of the banking corporation, and those that will apply individually to the "principal employees" in the banking corporation.

The remuneration to these principal employees will be adjusted for all the risks and will be taken into account in the cost and amount of capital which is required to support the risks to which the banking corporation is exposed and in the cost and risk of the liquidity. The variable remuneration to the principal employees must be dependent on fulfilling the predetermined criteria, and based on a combination of the employee, the business unit and the entire banking corporation. The payment of the remuneration must be subject to deferral arrangements (more than half of the variable remuneration will be deferred over a number of years) and contingent on financial and other achievement over a period. The draft directive further provides that the fixed remuneration to the principal employees must by a significant part of the total remuneration.

The draft directive provides control, documentation and audit regulations in connection with the remuneration policy, arrangements and mechanisms in the banking corporation, as well as regulations for remuneration of the risk management audit and control functions.

In addition, the draft directive includes transitional provisions which will determine the commencement date of the requirements included in the directive and which relate to individual agreements with employees of the banking corporation, as well as a provision binding the banking corporations, that, in the period commencing with the date the draft directive is published to the date the final directive comes into force, the banking corporations should include in any final individual agreement regarding the terms of remuneration that is signed with an employee of the banking corporation, a clause permitting the adaptation of the agreement to the requirements that will apply in the final directive, providing the requirements are no more stringent than those published in the draft directive.

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 Accounting Officer 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 Accounting Officer 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 Accounting Officer 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 half of 2013 was NIS 1,044 million, compared with NIS 711 million in the corresponding period in 2012, an increase of 46.8%.

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

	For the first six months ended			
	30 June 2013	30 June 2012	Change *	
	NIS millions		NIS millions	%
Net income interest	**3,601**	3,752	(151)	(4.0)
Income in respect of credit losses	**(157)**	(558)	401	71.9
Non-interest income	**2,715**	2,172	543	25.0
Other operating expenses	**(4,236)**	(4,195)	(41)	(1.0)
Profit before taxes	**1,923**	1,171	752	64.2
Provision for tax	**(747)**	(465)	(282)	(60.6)
Profit after taxes	**1,176**	706	470	66.6
The Bank's share in profit (losses) of companies included on equity basis	**(111)**	24	(135)	-
Net profit attributed to non-controlling interests	**(21)**	(19)	(2)	(10.5)
Net profit attributed to shareholders in the banking corporation	**1,044**	711	333	46.8

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

The net profit of Leumi Group in the second quarter of 2013 amounted to NIS 474 million, compared to NIS 280 million in the corresponding period of 2012, an increase of 69.3%.

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

	2013		2012			
	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions					
Net interest income	**1,839**	1,762	1,784	1,872	1,924	1,828
Income in respect of credit losses	**(84)**	(73)	(386)	(292)	(333)	(225)
Non-interest income	**1,246**	1,469	1,394	1,208	995	1,177
Operating and other expenses	**(2,179)**	(2,057)	(2,611)	(2,294)	(2,200)	(1,995)
Profit before taxes	**822**	1,101	181	494	386	785
Provision for taxes	**(284)**	(463)	(233)	(113)	(159)	(306)
Profit (loss) after taxes	**538**	638	(52)	381	227	479
Group's share in profits (losses) of companies included on equity basis	**(54)**	(57)	(199)	108	63	(39)
Net profit attributable to non-controlling interests	**(10)**	(11)	(8)	(10)	(10)	(9)
Net profit (loss) attributable to shareholders in the banking corporation	**474**	570	(259)	479	280	431

Net interest income of Leumi Group amounted in the second quarter of 2013 to NIS 3,601 million, compared with NIS 3,752 million in the corresponding period in 2012, a decrease of NIS 151 million or 4.0%. The decrease is primarily attributable to the low interest rates in the various markets, which was partly offset by the increase in the balances of income-yielding monetary assets.

In the second quarter, net interest income amounted to NIS 1,839 million compared with NIS 1,924 million in the corresponding period in 2012, a decrease of 4.4%.

The ratio of net interest income to the average balance of income-bearing assets is 2.19% (in annual terms) compared to 2.34% 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 six months ended		
	2013	2012	Change
	NIS millions		%
Households	**1,330**	1,402	(5.1)
Small businesses	**463**	455	1.8
Corporate banking	**705**	772	(8.7)
Commercial banking	**687**	694	(1.0)
Private banking	**152**	186	(18.3)
Financial management – capital markets	**260**	235	10.6
Other	**4**	8	(50.0)
Total	**3,601**	3,752	(4.0)

Total interest margin in the second quarter of 2013 was 2.04%, compared with 2.16% in the corresponding period in 2012.

The interest margin in activity in Israel by segment is, as follows:
In the unlinked shekel sector, 2.49%, compared with 2.65% in the corresponding period in 2012. The interest margin in the foreign currency segment decreased from 1.76% to 1.66%. In the index sector, the interest margin was 0.31%, compared to 0.26% in the corresponding period in 2012.

Expenses in respect of credit losses in the Leumi Group for the first half of 2013 amounted to some NIS 157 million, compared with NIS 558 million in the corresponding period in 2012, a decrease of NIS 401 million, or 71.9%.

Expenses in respect of credit losses in the Leumi Group for the second quarter of 2013 amounted to some NIS 84 million, compared with NIS 333 million in the corresponding period in 2012, a decrease of NIS 249 million, or 74.8%.

In the first half of the year, expenses in respect of credit losses in the Bank decreased, partly offset by an increase in respect of credit loss expenses in the Bank's offices in London and the United States.

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

	2013			2012				
	First half	2nd quarter	1st quarter	Total 2012	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions							
Individual allowance in respect of credit losses	**32**	**39**	(7)	923	391	211	160	161
Collective allowance in respect of credit losses	**125**	**45**	80	313	(5)	81	173	64
Total	**157**	**84**	73	1,236	386	292	333	225
Percentage ratios (in annual terms)								
Individual expenses in respect of credit losses to total credit to the public, net	**0.03**	**0.07**	(0.01)	0.38	0.65	0.35	0.27	0.26
Collective expenses in respect of credit losses to total credit to the public, net	**0.10**	**0.08**	0.13	0.13	(0.01)	0.13	0.29	0.11
Total expenses in respect of credit losses to total credit to the public, net	**0.13**	**0.15**	0.12	0.51	0.64	0.48	0.56	0.37
Individual expenses in respect of credit losses to total credit risk to the public	**0.02**	**0.04**	(0.01)	0.25	0.43	0.23	0.17	0.18
Collective expenses in respect of credit losses to total credit risk to the public	**0.07**	**0.05**	0.09	0.09	(0.01)	0.09	0.19	0.07
Total expenses in respect of credit losses to total credit risk to the public	**0.09**	**0.09**	0.08	0.34	0.42	0.32	0.36	0.25

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

	30 June 2013	30 June 2012	31 December 2012
Credit loss allowance on a collective basis (NIS millions)	**2,640**	2,694	2,631
Balance of credit loss allowance on a collective basis to total credit to the public, net (%)	**1.11**	1.12	1.09
Balance of credit loss allowance on a collective basis to total credit risk to the public (%)	**0.72**	0.74	0.72

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

	First half of 2013		First half of 2012	
	NIS millions	% *	NIS millions	%*
Households	**127**	**0.3**	(1)	-
Private banking	**3**	**0.1**	1	-
Small businesses	**58**	**0.5**	54	0.5
Corporate banking	**(128)**	**(0.4)**	427	1.1
Commercial banking	**145**	**0.6**	83	0.3
Financial management and other	**(48)**	**(16.7)**	(6)	(1.0)
Total	**157**	**0.13**	**558**	**0.46**

* 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 six months of 2013	First six months of 2012
	NIS millions	
Industry	**7**	137
Construction and real estate	**27**	(89)
Trade	**(8)**	62
Hotel, food and entertainment services	**(1)**	(69)
Transportation and storage	**2**	27
Communications and computer services	**(4)**	(22)
Financial services	**(47)**	465
Other business services	**61**	54
Private individuals - housing loans	**46**	(12)
Private individuals – other	**71**	18
Others	**(1)**	(18)
Total public	**153**	553
Total banks	**4**	-
Total	**157**	553

* Including credit losses in respect of credit and guarantees (not including credit losses in respect of derivatives and debentures).

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 half of		
	2013	2012	Change
	NIS millions		%
The Bank	**(27)**	531	-
Arab Israeli Bank	**1**	4	(75.0)
Leumi Mortgage Bank *	**-**	(12)	-
Leumi Card	**6**	9	(33.3)
Bank Leumi – U.S.A.	**37**	11	+
Bank Leumi – U.K.	**148**	16	+
Leumi Private Bank - Switzerland	**-**	4	-
Bank Leumi – Romania	**(8)**	(8)	-
Leumi Leasing and Investments	**-**	3	-
Total expenses in respect of credit losses	**157**	558	(71.9)

* 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	**30 June 2013**		
	Balance sheet	Off-balance sheet	Total
	NIS millions		
1. Problem credit risk: (1)			
Impaired credit risk	**6,140**	**386**	**6,526**
Subordinate credit risk	**1,913**	**28**	**1,941**
Credit risk under special supervision (2)	**2,732**	**601**	**3,333**
Total problem credit	**10,785**	**1,015**	**11,800**
Of which: Unimpaired debts in arrears 90 days or more (2)	**1,221**	**-**	**-**
2. Non-performing assets:			
Impaired debts	**5,870**	**-**	**-**
Assets received in respect of credit cleared	**101**	**-**	**-**
Total non-performing assets	**5,971**	**-**	**-**

On a consolidated basis	30 June 2012		
	Balance sheet	Off-balance sheet	Total
	NIS millions		
1. Problem credit risk: (1)			
Impaired credit risk	7,142	405	7,547
Subordinate credit risk	2,280	237	2,517
Credit risk under special supervision (2)	2,972	544	3,516
Total problem credit	12,394	1,186	13,580
Of which: Unimpaired debts in arrears 90 days or more (2)	1,315	-	-
2. Non-performing assets:			
Impaired debts	7,090	-	-
Assets received in respect of credit cleared	81	-	-
Total non-performing assets	7,171	-	-

(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	7,458	515	7,973
Subordinate credit risk	2,050	109	2,159
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	7,171	-	-
Assets received in respect of credit cleared	65	-	-
Total noninterest-performing assets	7,236	-	-

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:

	30 June 2013	30 June 2012	31 December 2012
	%		
Balance of impaired credit to the public not accruing interest income to the balance of credit to the public	**2.4**	2.8	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	**0.6**	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**	1.6	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	**67.2**	55.7	57.4
Problem commercial credit risk in respect of the public to total credit risk in respect of the public	**2.9**	3.3	3.4
Expenses in respect of credit losses to the average balance of credit to the public (in annual terms)	**0.3**	0.5	0.5
Net write-offs in respect of credit to the public to the average balance of credit to the public (in annual terms)	**0.6**	0.6	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)	**41.3**	37.5	27.8

Noninterest income of Leumi Group amounted to NIS 2,715 in the first half of 2013, compared with NIS 2,172 in the corresponding period in 2012, an increase of NIS 543 million or 25.0%.

In the second quarter of 2013, noninterest income amounted to NIS 1,246 million compared with NIS 995 million in the corresponding period in 2012, an increase of 25.2%.

Noninterest income includes:

	For the six months ended			
	30 June 2013	30 June 2012	Change	
	NIS millions		NIS millions	%
Non-interest financial income	**623**	120	503	+
Commissions	**2,054**	2,042	12	0.6
Other income	**38**	10	28	+
Total	**2,715**	2,172	543	25.0

Reductions in noninterest income by quarter are as follows:

	2013		2012			
	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions					
Non-interest financial income	**212**	411	205	119	(25)	145
Commissions	**1,029**	1,025	1,107	1,050	1,022	1,020
Other income	**5**	33	82	39	(2)	12
Total	**1,246**	1,469	1,394	1,208	995	1,177

Details of non-interest financial income are as follows:

	For the six months ended			
	30 June 2013	30 June 2012	Change	
	NIS millions		NIS millions	%
Net income in respect of derivative instruments and net exchange rate differences	**117**	(54)	171	+
Profits from sale of available-for-sale debentures, net	**123**	126	(3)	(2.4)
Profits (losses) from investments in shares including dividends *	**354**	(48)	402	+
Net profits in respect of loans sold	**77**	-	77	+
Realized and unrealized losses from adjustments of tradable debentures and shares to fair value, net	**(48)**	96	(144)	-
Total	**623**	120	503	+

* Including profit on the sale of shares of Migdal and Caesarstone amounting to NIS 180 million and NIS 86 million (respectively), before the effect of tax, in the second 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 160 million, net in the first half of 2012.

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

	2013		2012			
	2nd quarter	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	**55**	62	76	(98)	(157)	103
Profits from the sale of available-for-sale of debentures, net	**24**	99	28	137	68	58
Profits (losses) from investments in shares, including dividends *	**115**	239	13	25	(34)	(14)
Profits in respect of loans sold	**34**	43	-	-	-	-
Realized and unrealized gains (losses) from adjustments of tradable debentures and shares to fair value, net	**(16)**	(32)	88	55	98	(2)
Total	**212**	411	205	119	(25)	145

* Including profit on the sale of shares of Caesarstone amounting to NIS 86 million, before the effect of tax, in the security quarter of 2013, profit from the sale of shares of Migdal in amounting to NIS 180 million, in the first quarter of 2013, 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 101 million net in the second quarter of 2012 and NIS 59 million in the first quarter of 2012.

Details of commissions are as follows:

	30 June 2013	30 June 2012	Change	
	NIS millions		NIS millions	%
Account management	**407**	424	(17)	(4.0)
Activity in securities and derivative instruments	**412**	412	-	-
Credit cards	**440**	425	15	3.5
Dealing with credit	**155**	164	(9)	(5.5)
Commissions for distribution of financial products	**125**	110	15	13.6
Conversion differences	**141**	148	(7)	(4.7)
Commissions from financing transactions	**219**	199	20	10.1
Other commissions	**155**	160	(5)	(3.1)
Total commissions	**2,054**	2,042	12	0.6

Income from commissions covers 48.5% of the operating and other expenses compared to coverage of 48.7% 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 six months ended		
	30 June 2013	30 June 2012	Change
	NIS millions		%
Households	**882**	910	(3.1)
Small businesses	**262**	250	4.8
Corporate banking	**331**	295	12.2
Commercial banking	**275**	278	(1.1)
Private banking	**326**	311	4.8
Financial management	**627**	153	+
Other	**12**	(25)	+
Total	**2,715**	2,172	25.0

The proportion of non-interest income from all income (i.e., net interest income, and noninterest income) was 43.0%, compared with 36.7% 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 half of 2013 amounted to NIS 4,236 million, compared with NIS 4,195 million in the corresponding period last year, an increase of 1.0%.

Total operating and other expenses of Leumi Group in the second quarter of 2013 amounted to NIS 2,179 million, compared with NIS 2,200 million in the corresponding period last year, a decrease of 1.0%.

Operating and other expenses include:

	Six months ended			
	30 June 2013	30 June 2012	Change	
	NIS millions		NIS millions	%
Salaries and related expenses	**2,497**	2,542	(45)	(1.8)
Building and equipment maintenance and depreciation	**938**	873	65	7.4
Other expenses (including amortization of intangible assets)	**801**	780	21	2.7
Total operating and other expenses	**4,236**	4,195	41	1.0

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

	2013		2012				
	2nd quarter	1st quarter	Total for year	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions						
Salary expenses, excluding special salary expenses	**1,188**	1,301	4,703	1,163	1,198	1,169	1,173
Actuarial changes and changes in salary tax	**44**	-	200	17	144	25	14
Supplement to provisions for severance pay and pension after offsetting fund profits	**(17)**	(19)	64	11	(58)	112	(1)
Early retirement	**-**	-	323	123	150	50	-
Total salary expenses	**1,215**	1,282	5,290	1,314	1,434	1,356	1,186

Operating and other expenses (building and equipment maintenance, depreciation and amortization) increased during the first half of 2013 by NIS 86 million, an increase of 5.2% 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			
	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions					
Depreciation	**225**	185	226	184	188	177
Maintenance of buildings and equipment	**264**	264	268	268	258	250
Other expenses and amortization of intangible assets	**475**	326	803	408	398	382
Total operating and other expenses	**964**	775	1,297	860	844	809

* Excluding salary

Operating expenses constitute 67.1% of total income, compared with 70.8% 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 2.34% of the total balance sheet, compared with 2.30% 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 half of 2013 amounted to NIS 1,923 million, compared with NIS 1,171 million in the corresponding period in 2012, an increase of 64.2%. Profit before tax in the second quarter of 2013 amounted to NIS 822 million, compared with NIS 386 million in the corresponding period in 2012, an increase of 113.0%.

The provision for tax on income of Leumi Group in the first half of 2013 amounted to NIS 747 million, compared with NIS 465 million in the corresponding period in 2012. The rate of the provision in the second quarter of 2013 was some 38.8% of the pre-tax profit, compared with 39.7% in the corresponding period in 2012, a decrease of some 0.9 percentage points.

Profit after taxes for the first half of 2013 amounted to NIS 1,176 million, compared with NIS 706 million in the corresponding period in 2012, an increase of 66.6%. In the second quarter of 2013, profit after tax amounted NIS 538 million, compared with NIS 227 million in the corresponding period in 2012, an increase of 137.0%.

The Group's share in profit after taxes of associate companies amounted to a loss of NIS 111 million in the first half of 2013, compared with a profit of NIS 24 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 second quarter of 2013 amounted to a profit of NIS 1,065 million, compared with a profit of NIS 730 million in the corresponding period in 2012, an increase of 45.9%. In the second quarter of 2013, profit before attribution to non-controlling interests amounted to NIS 484 million, compared to NIS 290 million in the corresponding period in 2012, an increase of 66.9%.

Net profit attributable to holders of non-controlling interests in the first half of 2013 amounted to NIS 21 million, compared to a profit of NIS 19 million in the corresponding period in 2012.

Net profit attributable to shareholders in the banking corporation in the first half of 2013 amounted to NIS 1,044 million, compared to a profit of NIS 711 million in the corresponding period in 2012, an increase of 46.8%.

Net profit attributable to the shareholders in the banking corporation for the second quarter of 2013 amounted to a profit of NIS 474 million, compared with a profit of NIS 280 million in the corresponding period in 2012, an increase of 69.3%.

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

	2013			2012				
	First half	**2nd quarter**	1st quarter	4th quarter	3rd quarter	First half	2nd quarter	1st quarter
	NIS millions							
Net profit attributable to the shareholders of the banking corporation	**8.4**	**7.6**	9.4	(4.0)	8.0	6.0	4.7	7.5

Basic net profit per share attributable to the shareholders of the banking corporation was NIS 0.71 for the first half of 2013, compared with NIS 0.48 for the corresponding period in 2012.

The following table is the condensed statement of comprehensive income:

	For the three months ended			
	30 June 2013	30 June 2012	Change	
	NIS millions		NIS millions	%
Net profit attributable to shareholders in the banking corporation	**474**	280	194	69.3
Other comprehensive income (loss) before tax	**(278)**	(247)	(31)	-
Effect of tax attributable to other comprehensive income	**77**	116	(39)	(33.6)
Other comprehensive (income) loss attributable to noncontrolling interests	**-**	-	-	-
Total profit attributable shareholders in the banking corporation	**273**	149	124	83.2

	For the six months ended			
	30 June 2013	30 June 2012	Change	
	NIS millions		NIS millions	%
Net profit attributable to shareholders in the banking corporation *	**1,044**	711	333	46.8
Other comprehensive income (loss) before tax *	**(528)**	295	(823)	-
Effect of tax attributable to other comprehensive income	**115**	(86)	201	+
Other comprehensive income (loss)attributable to noncontrolling interests	**4**	(1)	5	+
Total profit attributable shareholders in the banking corporation	**635**	919	(284)	(30.9)

* The loss in the item, other comprehensive income, in the first half of 2013 is primarily attributable to the sale of shares from the available-for-sale portfolio whose related 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 30 June 2013 amounted to NIS 363.7 billion, compared with NIS 376.2 billion at the end of 2012, a decrease of 3.3%, and compared with 30 June 2012, a decrease of 0.6%.

The value of the assets in the balance sheet denominated in and linked to foreign currency was some NIS 82.2 billion, some 22.6% of total assets. During the first half of 2013, the shekel appreciated against the U.S. dollar by 3.1%, and against the euro, by 4.1%. The changes in exchange rates in the first half of the year led to a decrease of 0.9% 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 1,010 billion, compared with NIS 989 billion at the end of 2012 (some US$ 279 billion and US$ 265 billion, respectively), as detailed below.

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

	30 June 2013	31 December 2012	Since December 2012	Since June 2012
	NIS millions		Change %	
Total assets	**363,714**	376,160	(3.3)	(0.6)
Cash and deposits with banks	**42,754**	54,621	(21.7)	9.2
Securities	**57,580**	56,408	2.1	(4.6)
Credit to the public, net	**238,483**	241,264	(1.2)	(1.2)
Buildings and equipment	**3,639**	3,705	(1.8)	(3.0)
Deposits of the public	**275,448**	289,538	(4.9)	(1.8)
Deposits from banks	**4,245**	4,073	4.2	6.6
Debentures, notes and subordinated notes	**27,587**	27,525	0.2	(2.3)

Deposits of the public amounted to NIS 275.4 billion as at 30 June 2013, compared with NIS 289.5 billion as at 31 December 2012, a decrease of 4.9%, and compared with 30 June 2012, a decrease of 1.8%.

The appreciation of the shekel in relation to most foreign currencies in the first half of the year contributed to a decrease of 1.3% in total deposits of the public.

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

Segment	**30 June 2013**	31 December 2012	Change
	NIS millions		%
Households	**121,693**	128,194	(5.1)
Small businesses	**21,052**	19,666	7.0
Corporate banking	**20,822**	26,281	(20.8)
Commercial banking	**47,840**	50,108	(4.5)
Private banking	**35,767**	38,338	(6.7)
Financial management, capital markets and other	**28,274**	26,951	4.9
Total	**275,448**	289,538	(4.9)

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

Debentures, capital notes and subordinated capital notes totaled NIS 27.6 billion on 30 June 2013, similar to the balance as at 31 December 2012, and compared with 30 June 2012, a decrease of 2.3%. In the first half of 2013, NIS 403 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:

	30 June 2013	31 December 2012	Change	
	NIS millions		NIS millions	%
Securities portfolios	**550,919**	527,582	23,337	4.4
Of which: managed by mutual funds[(2) (3)]	**71,285**	60,482	10,803	17.9
Provident and pension funds[(2) (3)]	**56,466**	53,372	3,094	5.8
Supplementary training funds[(2) (3)]	**38,466**	32,247	6,219	19.3
Total	**645,851**	613,201	32,650	5.3

(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 238.5 billion as at 30 June 2013, compared with NIS 241.3 billion at 31 December 2012, a decrease of 1.2%, similar to the decrease from 30 June 2012.

The appreciation of the shekel in relation to most foreign currencies in the first half of 2013 contributed in total to a decrease of 0.8% in total credit to the public.

In addition to credit to the public, the Group invests in corporate debentures which, as at 30 June 2013, amounted to NIS 13,135 billion, compared with NIS 11,171 billion as at 31 December 2012, an increase of 17.6%.

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

Economy Sectors	30 June 2013 Overall credit risk to the public	Percentage of total	31 December 2012 Overall credit risk to the public	Percentage of total	Rate of change
	NIS millions	%	NIS millions	%	%
Agriculture	**2,151**	**0.6**	2,086	0.6	3.1
Industry	**40,023**	**10.9**	43,430	12.0	(7.8)
Construction and real estate (2)	**78,818**	**21.5**	79,807	22.0	(1.2)
Electricity and water	**4,669**	**1.3**	3,679	1.0	26.9
Trade	**31,522**	**8.6**	32,124	8.8	(1.9)
Hotels, accommodation and food	**5,053**	**1.4**	5,283	1.4	(4.4)
Transportation and storage	**6,371**	**1.7**	6,371	1.7	-
Communications and computer services	**6,502**	**1.8**	6,359	1.7	2.2
Financial services	**40,554**	**11.1**	39,500	10.9	2.7
Other business services	**11,336**	**3.1**	11,099	3.1	2.1
Public and community services	**8,994**	**2.5**	9,034	2.5	(0.4)
Private individuals - housing loans	**68,405**	**18.7**	65,439	18.0	4.5
Private persons – other	**61,350**	**16.8**	59,101	16.3	3.8
Total	**365,748**	**100.0**	363,312	100.0	0.7

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

(2) Including housing loans extended to purchasing groups that are in the process of construction amounting to NIS 1,052 million and off-balance sheet credit risk amounting to NIS 1,984 million, compared to NIS 1,067 million 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 2nd quarter	2013 1st quarter	2012 4th quarter	2012 3rd quarter	2012 2nd quarter	2012 1st quarter
	NIS millions					
Households	**95,289**	92,469	90,492	89,084	86,128	84,039
Of which: housing loans	**65,239**	63,214	61,998	60,888	58,699	56,811
Small businesses	**22,593**	22,116	21,733	21,014	20,819	20,207
Corporate banking	**63,704**	66,961	70,252	70,895	74,815	77,660
Commercial banking	**49,627**	48,636	49,908	51,088	49,834	49,257
Private banking	**6,720**	7,361	8,170	8,508	8,658	8,451
Financial management and others	**550**	1,071	709	875	1,173	886
Total	**238,483**	238,614	241,264	241,464	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		**30 June 2013** Percentage of total number of borrowers	Percentage of total balance sheet credit	Percentage of total off-balance sheet credit
From	To	%		
0	80	**83.3**	**6.4**	**20.4**
80	600	**14.0**	**19.6**	**11.0**
600	1,200	**1.7**	**11.7**	**2.5**
1,200	2,000	**0.5**	**5.5**	**1.9**
2,000	8,000	**0.4**	**9.1**	**5.4**
8,000	20,000	**0.1**	**7.3**	**4.9**
20,000	40,000	**0.03**	**6.7**	**6.2**
40,000	200,000	**0.03**	**15.0**	**17.6**
200,000	800,000	**0.01**	**11.7**	**20.3**
Above 800,000		**0.001**	**7.0**	**9.8**
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		0.00***	7.4	7.2
Total		100.0	100.0	100.0

* Before deduction of allowances for credit losses.

** On 30 June 2013 - 143 borrowers and on 31 December 2012 - 154 borrowers.

*** On 30 June 2013 - 19 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:

		30 June 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	**9**	**-**	**5,068**	**-**	**3,176**	**-**
1,200	1,600	**4**	**-**	**2,436**	**-**	**2,971**	**-**
1,600	2,000	**2**	**1**	**3,138**	**1,776**	**401**	**-**
2,000	2,400	**2**	**-**	**2,269**	**-**	**2,125**	**-**
2,800	3.200	**1**	**-**	**2,847**	**-**	**54**	**-**
3,200	3,253	**1**	**-**	**1,458**	**-**	**1,795**	**-**
Total		**19**	**1**	**17,216**	**1,776**	**10,522**	**-**

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:

	30 June 2013		
	Number of borrowers	Balance sheet credit	Off-balance sheet credit risk
		In NIS millions	
Industry	**3**	**2,272**	**2,945**
Construction and real estate	**5**	**2,647**	**2,118**
Public and community services	**1**	**755**	**200**
Communications and computer services	**1**	**2,847**	**54**
Financial services	**7**	**5,875**	**3,009**
Electricity and water	**1**	**1,458**	**1,795**
Trade	**1**	**1,362**	**401**
Total	**19**	**17,216**	**10,522**

	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):

30 June 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	**5,633**	**1,162**	**6,795**	**29**	**16.0**

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 16.0% of the Bank's capital at 30 June 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:

	30 June 2013			31 December 2012		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
	In NIS millions					
Impaired debts	**4,509**	**275**	**4,784**	5,620	393	6,013
Substandard debts	**1,532**	**25**	**1,557**	1,647	102	1,749
Special mention debts	**2,535**	**576**	**3,111**	2,543	626	3,169
Total	**8,576**	**876**	**9,452**	9,810	1,121	10,931

Problem credit risk:

	30 June 2013	31 December 2012
	Problem credit risk	Problem credit risk
	In NIS millions	
Commercial problem credit risk	**10,473**	12,264
Retail problem credit risk	**1,327**	1,311
Total	**11,800**	13,575
Allowance for credit losses	**2,348**	2,644
Problem credit after allowance for credit losses	**9,452**	10,931

Credit to Governments amounted to NIS 478 million as at 30 June 2013, compared with NIS 442 million on 31 December 2012, an increase of 8.1% and an increase of 16.0% compared with 30 June 2012.

Securities

The Group's investments in securities amounted to NIS 57.6 billion on 30 June 2013, compared with NIS 56.4 billion, an increase of 2.1%, compared with 31 December 2012, and a decrease of 4.6% compared with 30 June 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:

	30 June 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	**44,856**	**381**	**(213)**	**45,024**	**45,024**
For trading	**8,922**	*** 148**	*** (33)**	**9,037**	**9,037**
	53,778	**529**	**(246)**	**54,061**	**54,061**
Shares and funds					
Available-for-sale	**2,742**	**263**	**(81)**	**2,924**	**2,924**
For trading	**557**	*** 39**	***(1)**	**595**	**595**
	3,299	**302**	**(82)**	**3,519**	**3,519**
Total securities	**57,077**	**831**	**(328)**	**57,580**	**57,580**

* 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 30 June 2013, some 83.3% of the Group's *nostro* portfolio was classified as available-for-sale securities and some 16.7% was classified as the trading portfolio. This classification allows for flexibility in the management of the securities portfolio. Some 6.1% of the value of the securities represents investments in shares and funds of companies that are not presented on equity basis, but according to cost, or to the market value of the shares traded on the stock exchange.

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

	For the period ended	
	30 June 2013	30 June 2012
	NIS millions	
Debentures redeemed and/or sold (available-for-sale)	**27,042**	17,048
Purchases of available-for-sale debentures		25,972
Net profit from investments in debentures:	**29,858**	
Interest income	**481**	683
Net profit from sale and from impairment of available-for-sale debentures	**123**	126
Realized and/or unrealized gain from adjustments to fair value of debentures for trading	**(77)**	100

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

	30 June 2013			31 December 2012		
	Government of Israel	Foreign governments	Other companies	Government of Israel	Foreign governments	Other companies
	NIS millions					
Israeli currency:						
Unlinked	**27,630**	**-**	**528**	26,319	-	860
Linked to CPI	**2,615**	**-**	**1,346**	3,441	-	1,320
Foreign currency including foreign currency-linked	**2,023**	**3,935**	**15,984**	2,218	6,765	13,119
Total debentures	**32,268**	**3,935**	*** 17,858**	31,978	6,765	* 15,299

* Of which, subordinated notes of NIS 1,265 million as at 30 June 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:

	30 June 2013	31 December 2012
Securities traded on an active market	**38,505**	40,458
Securities based on prices determined by external models	**16,045**	13,102
Securities based on quotation from counterparty or at cost	**3,030**	2,848
Total	**57,580**	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):

	30 June 2013		31 December 2012	
Sector of economy	Issued in Israel	Issued abroad	Issued in Israel	Issued abroad
	NIS million			
Agriculture	**-**	**14**	-	15
Industry	**102**	**832**	179	801
Construction and real estate	**35**	**189**	53	244
Electricity and water	**891**	**238**	867	206
Trade	**281**	**-**	312	50
Transportation and storage	**10**	**174**	24	11
Communications and computer services	**55**	**289**	53	205
Financial services	**373**	**9,236**	474	7,343
Business and other services	**132**	**127**	95	101
Public and community services	**30**	**127**	24	114
Total	**1,909**	**11,226**	2,081	9,090

Available-for-sale portfolio

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

	30 June 2013		31 December 2012		Change	
	Abroad	In Israel	Abroad	In Israel	Abroad	In Israel
	NIS millions					
Debentures	**20,037**	**24,987**	20,400	22,327	(363)	2,660
Shares and funds	**1,725**	**1,199**	594	1,573	1,131	(374)
Total	**21,762**	**26,186**	20,994	23,900	768	2,286

a. In the first half of 2013, there was negative movement in other comprehensive income in respect of available-for-sale securities amounting to NIS 452 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 440 million and a negative adjustment of NIS 12 million. This compared with an increase in value of NIS 368 million (before tax) in the corresponding period last year.

b. Net profits from the sale of debentures amounting to NIS 123 million were recorded to profit and loss, compared with profits of NIS 126 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		
	30 June 2013	30 June 2012	31 December 2012
	NIS millions		
Profits in respect of available-for-sale securities which were recorded to profit and loss	**819**	531	1,167
Adjustments in respect of available-for sale securities carried to equity	**(452)**	368	1,066
Total change in respect of available-for-sale securities	**367**	899	2,233

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

				Quarterly movement in 2013	
	30 June 2013	30 June 2012	31 December 2012	In the first quarter	In the second quarter
	NIS millions				
Shares	**182**	239	441	(183)	(76)
Israel government debentures	**117**	85	150	(32)	(1)
Foreign government debentures	**(5)**	-	7	(7)	(5)
Other debentures	**(26)**	(298)	128	(8)	(146)
Other debt instruments	**22**	18	16	3	3
Total	**290**	44	742	(227)	(225)
Related tax	**(88)**	(25)	(247)	73	86
Net total	**202**	19	495	(154)	(139)

The accumulated net balance of adjustments to fair value of securities held in the available-for-sale portfolio, as at 30 June 2013, amounted to a positive amount of NIS 202 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 securities 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 30 June 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	**77**	**-**	**-**	**-**	**77**
	Asset-backed debentures	**78**	**18**	**-**	**7**	**103**
	Other debentures	**73**	**-**	**-**	**27**	**100**
	Total	**228**	**18**	**-**	**34**	**280**
Above 10%	Shares	**4**	**-**	**-**	**-**	**4**
	Asset-backed debentures	**-**	**-**	**-**	**-**	**-**
	Other debentures	**2**	**-**	**-**	**8**	**10**
	Total	**6**	**-**	**-**	**8**	**14**
Total	Shares	**81**	**-**	**-**	**-**	**81**
	Asset-backed debentures	**78**	**18**	**-**	**7**	**103**
	Other debentures	**75**	**-**	**-**	**35**	**110**
	Total	**234**	**18**	**-**	**42**	**294**

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

Trading Portfolio

The following table shows the composition of the trading portfolio:

	30 June 2013		31 December 2012		Change	
	Abroad	In Israel	Abroad	In Israel	Abroad	In Israel
	NIS millions					
Debentures	**1,731**	**7,306**	1,635	9,680	96	(2,374)
Shares and funds	**401**	**194**	27	172	374	22
Total	**2,132**	**7,500**	1,662	9,852	470	(2,352)

In respect of debentures for trading, realized and unrealized profits amounting to NIS 77 million were recorded in the profit and loss statement in the first half of 2013, compared with profits of NIS 100 million in the corresponding period in 2012, and in respect of shares and funds, realized and unrealized profits were recorded amounting to NIS 29 million, compared with losses amounting to NIS 4 million in the corresponding period in 2012.

Investments in securities issued abroad

The Group's securities portfolio includes some NIS 24 billion (some US$ 6.6 billion) of securities issued abroad. Some 92% of the portfolio is invested in debt instruments, all of which (but for some 0.5%) are investment grade securities, of which some 84% are rated 'A-' and above, and some 8% of the portfolio is invested in shares and funds.

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

	30 June 2013		31 December 2012	
	Available-for-sale portfolio	Trading portfolio	Available-for-sale portfolio	Trading portfolio
Balance sheet value	NIS millions			
Government debentures	**5,402**	**505**	8,487	447
Debentures of banks and financial institutions	**5,561**	**169**	5,281	88
Asset-backed debentures	**6,972**	**380**	5,049	358
Other debentures	**2,102**	**677**	1,583	742
Shares and funds	**1,725**	**401**	594	27
Total	**21,762**	**2,132**	20,994	1,662

The net decrease in value (the offset between increases and decreases in value), charged to equity in respect of securities issued abroad, as of 30 June 2013, amounts to NIS 7 million (some NIS 4 million after taxes).

During the first half of 2013, as well as in the subsequent period, there was an increase in investment in shares and funds abroad.

1. Investments in foreign asset-backed securities

The Group's portfolio of asset-backed securities (mortgage and non-mortgages) as at 30 June 2013, all of which is investment grade, amounted to some NIS 7.4 billion (some US$ 2.0 billion) of asset-backed securities, compared with some NIS 5.4 billion at the end of 2012. Of the said portfolio, some NIS 7 billion (some US$ 1.9 billion) is classified in the available-for-sale portfolio, and the balance in the trading portfolio.

The portfolio of available-for-sale investments in foreign asset-backed securities as at 30 June 2013 includes investments in mortgage-backed securities in the total amount of some NIS 5.2 billion. 93% of the mortgage-backed securities in the available-for-sale portfolio are issued directly by United States federal agencies (FNMA, FHLMC, GNMA).

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

	30 June 2013			
	Amortized cost	Unrealized profits	Unrealized losses	Balance sheet value (fair value)
	NIS millions			
MBS - mortgage-backed securities	**5,278**	**11**	**(88)**	**5,201**
ABS-asset-backed securities (other than mortgage-backed):	**1,750**	**36**	**(15)**	**1,771**
Of which: CLO	**1,654**	**36**	**(11)**	**1,679**
Other	**96**	**-**	**(4)**	**92**
Total	**7,028**	**47**	**(103)**	**6,972**

	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)

	30 June 2013	31 December 2012
	Accrued amount of exposure	
	NIS millions	
Mortgage-backed Securities (MBS):		
Pass-through securities:		
Securities guaranteed by US Government GNMA	**270**	257
Securities issued by FNMA and FHLMC	**1,758**	511
Other securities	**4**	5
Other mortgage-backed securities:		
Securities issued by FHLMC, FNMA, or GNMA, or guaranteed by these entities	**2,824**	2,581
Other mortgage-backed securities	**405**	322
Total mortgage-backed securities (MBS)	**5,261**	3,676
Asset-backed securities (ABS):		
Debtors in respect of credit cards	**122**	75
Lines of credit for any purpose secured by dwelling	**5**	5
Credit for purchase of vehicle	**170**	166
Other credit to private persons	**27**	20
Credit not to private persons	**2**	1
CLO debentures	**1,679**	1,371
Others	**86**	93
Total asset-backed (ABS)	**2,091**	1,731
Total asset-backed securities	**7,352**	5,407

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

	30 June 2013	31 December 2012	30 June 2013	31 December 2012
	Accrued amount of exposure		Capital requirement for securitization exposure	
	NIS millions		NIS millions	
20%	**1,157**	727	**21**	13
40%	**317**	390	**11**	14
50%	**277**	169	**12**	8
100%	**326**	370	**29**	33
225%	**51**	42	**10**	8
350%	**-**	-	**-**	-
650%	**2**	2	**1**	1
Deducted from equity	**6**	21	**-**	-
Total	**2,136**	1,721	**84**	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 30 June 2013, the cumulative net decrease in value which was carried to equity deriving from the mortgage-backed debenture portfolio amounted to some NIS 77 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 409 million.

The forecast term to maturity for each mortgage-backed securities portfolio is, on average, some 4.7 years.
In addition to the mortgage-backed securities, the Group's available-for-sale portfolio also includes other securities that are backed by assets other than mortgages (car purchase credit and other types of credit), amounting to some NIS 1.8 billion, of which CLO-type debentures account for some NIS 1.7 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 30 June 2013 includes some NIS 16.5 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 14.8 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, 87% 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 30 June 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 49 million (NIS 31 million after tax). In the first half of 2013, there was a fall in value amounting to NIS 226 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 30 June 2013 amounted to some NIS 1.8 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 30 June 2013 amounted to NIS 32.3 billion, of which NIS 30.3 billion was in debentures issued by the Government of Israel, with the balance, NIS 2.0 billion, in corporate debentures. Some 59.1% of the investments in corporate debentures amounting, as of 30 June 2013, to NIS 1.1 billion are attributed to the available-for-sale portfolio, with the balance being in the trading portfolio.

Out of the total amount of NIS 1.1 billion in the corporate debenture portfolio in the available-for-sale portfolio, the positive capital reserve amounts to NIS 39 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 3,519 million as at 30 June 2013, of which some NIS 2,315 million was in quoted shares and some NIS 1,204 million in unquoted shares. Out of the total investment, NIS 2,924 million is classified as available-for-sale and NIS 595 million is classified in the trading portfolio.

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

	Bank's share on a consolidated basis in the paid-up capital giving the right to receive profits		Value of the investment in the consolidated balance sheet (2)		Capital adequacy requirements		Listed/ Not listed
	30 June 2013	31 December 2012	**30 June 2013**	31 December 2012	**30 June 2013**	31 December 2012	
	%		NIS millions				
Migdal Insurance and Financial Holdings Ltd.	**4.70**	9.79	**284**	594	**26**	53	listed
Africa Israel Properties Ltd.	**-**	2.22	**-**	22	**-**	2	listed
Otzar Hityashvuth Hayehudim B.M.	**8.62**	8.62	**51**	50	**5**	5	listed
Partner Communications Co. Ltd.	**2.90**	4.99	**106**	174	**10**	16	listed
Electra Consumer Products (1970) Ltd.	**8.98**	8.98	**69**	57	**6**	5	listed
TSI Roads Limited Partnership	**18.91**	17.82	**105**	108	**9**	10	not listed
Tower Semiconductor capital notes	**-**	-	**30**	49	**3**	4	not listed
Tower Semiconductor	**-**	-	**24**	-	**2**	-	listed
CLS Bank	**-**	-	**21**	21	**2**	2	not listed
Funds	**-**	-	**1,985**	825	**179**	74	of which 645 not listed
Apax	**-**	-	**72**	72	**6**	6	not listed
Other	**-**	-	**772**	394	**69**	36	of which 331 not listed
Total	**-**	-	**3,519**	2,366	**317**	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.

TSI Roads Limited Partnership

Further to that included in the Annual Report in connection with a transaction in which Leumi Partners Ltd ("Leumi Partners") entered into an agreement to make a further investment in TSI Roads Limited Partnership ("the Partnership"), which invests in the toll road project known as the Cross-Israel Road ("the Project") via Derech Eretz Highways (1997) Ltd. ("Derech Eretz"), on July 4, 2013, the transaction was completed after the preconditions for its completion, including the receipt of the approval of the State of Israel and the approval of the financing entities of the project, had been fulfilled, and the Partnership purchased from Shikun & Binui Ltd. ("Shikun & Binui") its entire holding in Derech Eretz (25.5% in full dilution). For the purpose of acquiring Shikun & Binui's holdings in Derech Eretz, Leumi Partners, who holds as a limited partner, 18.91% of the rights in the Partnership, invested some NIS 143 million in the Partnership, and undertook to make a further investment in the Partnership, as long as the bank guarantees issued in connection with Project are not realized, up to a maximum amount of NIS 61 million, linked to the consumer price index. For further details, see Immediate Report dated 7 July 2013 (ref.: 2013-01-085116).

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

	Balance sheet amount	
	30 June 2013	31 December 2012
Quoted shares and funds (1)	**2,315**	1,172
Funds according to quote by counterparty (2)	**717**	696
Unquoted shares (2)	**487**	498
Total	**3,519**	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 30 June 2013, other assets and debit balances in respect of derivative instruments amounted to NIS 16.6 billion, compared with NIS 16.0 billion at the end of 2012, an increase of 3.8%.

Other liabilities and credit balances in respect of derivative instruments

As of 30 June 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 1.8%.

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:

Segment	Credit to the public			Deposits of the public			Total assets		
	30 June 2013	31 December 2012	Change	**30 June 2013**	31 December 2012	Change	**30 June 2013**	31 December 2012	Change
	NIS millions		%	NIS millions		%	NIS millions		%
Households	**95,289**	90,492	5.3	**121,693**	128,194	(5.1)	**95,968**	91,216	5.2
Small businesses	**22,593**	21,733	4.0	**21,052**	19,666	7.0	**22,615**	21,757	3.9
Corporate banking	**63,704**	70,252	(9.3)	**20,822**	26,281	(20.8)	**65,515**	71,905	(8.9)
Commercial banking	**49,627**	49,908	(0.6)	**47,840**	50,108	(4.5)	**50,733**	50,758	-
Private banking	**6,720**	8,170	(17.7)	**35,767**	38,338	(6.7)	**11,358**	13,167	(13.7)
Financial management and other	**550**	709	(22.4)	**28,274**	26,951	4.9	**117,525**	127,357	(7.7)
Total	**238,483**	241,264	(1.2)	**275,448**	289,538	(4.9)	**363,714**	376,160	(3.3)

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

Segment	Guarantees and documentary credit			Securities portfolios, including mutual funds		
	30 June 2013	31 December 2012	Change	**30 June 2013**	31 December 2012	Change
	NIS millions		%	NIS millions		%
Households	**441**	443	(0.5)	**99,478**	94,329	5.5
Small businesses	**1,525**	1,564	(2.5)	**9,746**	6,764	44.1
Corporate banking	**29,197**	27,652	5.6	**59,313**	59,996	(1.1)
Commercial banking	**7,086**	6,470	9.5	**49,798**	48,660	2.3
Private banking	**394**	387	1.8	**82,603**	85,065	(2.9)
Financial management and other	**673**	821	(18.0)	**249,981**	232,768	7.4
Total	**39,316**	37,337	5.3	**550,919**	527,582	4.4

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

Segment	For the three months ended **30 June 2013**	30 June 2012	Change	For the six months ended **30 June 2013**	30 June 2012	Change
	NIS millions		%	NIS millions		%
Households	**31**	141	(78.0)	**70**	262	(73.3)
Small businesses	**64**	58	10.3	**126**	150	(16.0)
Corporate banking	**276**	107	157.9	**533**	213	+
Commercial banking	**50***	96	(47.9)	**165***	240	(31.3)
Private banking	**29**	2	+	**59**	26	126.9
Financial management:						
Capital markets	**(2)**	(97)	+	**(54)**	(32)	-
Non- bank investments	**33**	(17)	+	**203**	(108)	+
Other	**(7)**	(10)	+	**(58)**	(40)	-
Total	**474**	280	69.3	**1,044**	711	46.8

* Of which: A profit in respect of activity in Israel of NIS 120 million and a loss in respect of activity abroad of NIS 70 million for the second quarter of 2013, and a profit in respect of activity in Israel of NIS 218 million and a loss in respect of activity abroad of NIS 53 million for the first half of 2013.

Explanations for the changes in profitability are provided below.

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

Segment	**2013** **2nd quarter**	1st quarter	2012 4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions					
Households	**31**	39	78	107	141	121
Small businesses	**64**	62	70	99	58	92
Corporate banking	**276**	257	104	75	107	106
Commercial banking	**50**	115	62	142	96	144
Private banking	**29**	30	68	(13)	2	24
Financial management:						
Capital markets	**(2)**	(51)	(306)	(77)	(97)	65
Non- bank investments	**33**	169	(209)	105	(17)	(91)
Other	**(7)**	(51)	(126)	41	(10)	(30)
Total	**474**	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).

Segment	**As at 30 June 2013**	As at 30 June 2012	As at 31 December 2012
	Allocating all the capital	Allocating all the capital	Allocating all the capital
	RORAC	RORAC	RORAC
	%	%	%
Households	**2.5**	12.3	9.6
Small businesses	**15.9**	22.1	21.1
Corporate banking	**13.0**	4.7	4.3
Commercial banking	**7.4**	12.1	10.3
Private banking	**11.3**	5.6	8.3
Financial management	**8.9**	(7.8)	(18.3)
Other	**(21.5)**	(18.9)	(29.9)
Total for net profit	**8.4**	6.0	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 30 June 2013						
	NIS millions						
Net interest income:							
From external sources	**(42)**	**58**	**1**	**744**	**(3)**	**2**	**760**
Intersegmental	**487**	**(9)**	**-**	**(578)**	**4**	**-**	**(96)**
Non-interest income:							
From external sources	**130**	**127**	**105**	**30**	**1**	**-**	**393**
Intersegmental	**1**	**41**	**-**	**-**	**-**	**-**	**42**
Total income	**576**	**217**	**106**	**196**	**2**	**2**	**1,099**
Expenses in respect of credit losses	**25**	**3**	**-**	**12**	**2**	**(1)**	**41**
Operating and other expenses:							
To external sources	**669**	**170**	**97**	**66**	**3**	**2**	**1,007**
Intersegmental	**3**	**(3)**	**-**	**-**	**-**	**-**	**-**
Profit (loss) before taxes	**(121)**	**47**	**9**	**118**	**(3)**	**1**	**51**
Provision for taxes (benefit) on profit	**(42)**	**13**	**3**	**41**	**-**	**-**	**15**
Profit (loss) after taxes	**(79)**	**34**	**6**	**77**	**(3)**	**1**	**36**
Net profit attributable to non-controlling interests	**-**	**1**	**-**	**-**	**-**	**-**	**1**
Net profit attributable to non-controlling interests	**-**	**(6)**	**-**	**-**	**-**	**-**	**(6)**
Net profit (loss)	**(79)**	**29**	**6**	**77**	**(3)**	**1**	**31**

	Banking and finance	Credit cards	Capital market	Mortgages	Overseas activity: Banking and finance	Overseas activity: Mortgages	Total
	For the three months ended 30 June 2012						
	NIS millions						
Net interest income:							
From external sources	(299)	62	2	784	(4)	2	547
Intersegmental	800	(14)	(2)	(614)	4	-	174
Non-interest income:							
From external sources	129	124	114	94	1	-	462
Intersegmental	8	45	-	(66)	-	-	(13)
Total income	638	217	114	198	1	2	1,170
Expenses in respect of credit losses	(12)	4	-	-	(1)	-	(9)
Operating and other expenses:							
To external sources	653	150	77	64	4	1	949
Intersegmental	1	(2)	-	6	-	-	5
Profit (loss) before taxes	(4)	65	37	128	(2)	1	225
Provision for taxes (benefit) on profit	(3)	21	14	44	-	-	76
Profit (loss) after taxes	(1)	44	23	84	(2)	1	149
Net profit attributable to non-controlling interests	-	(8)	-	-	-	-	(8)
Net profit (loss)	(1)	36	23	84	(2)	1	141

Households (cont.)

					Overseas activity		
	Banking and finance	Credit cards	Capital market	Mortgages	Banking and finance	Mortgages	Total
	For the six months ended 30 June 2013						
	NIS millions						
Net interest income:							
From external sources	**(39)**	**120**	**3**	**1,263**	**(6)**	**5**	**1,346**
Intersegmental	**940**	**(19)**	**(1)**	**(944)**	**8**	**-**	**(16)**
Non-interest income:							
From external sources	**282**	**245**	**214**	**56**	**3**	**-**	**800**
Intersegmental	**-**	**82**	**-**	**-**	**-**	**-**	**82**
Total income	**1,183**	**428**	**216**	**375**	**5**	**5**	**2,212**
Expenses in respect of credit losses	**63**	**8**	**-**	**56**	**1**	**(1)**	**127**
Operating and other expenses:							
To external sources	**1,314**	**337**	**185**	**124**	**7**	**3**	**1,970**
Intersegmental	**4**	**(4)**	**-**	**-**	**-**	**-**	**-**
Profit (loss) before taxes	**(198)**	**87**	**31**	**195**	**(3)**	**3**	**115**
Provision for taxes (benefit) on profit	**(72)**	**26**	**11**	**69**	**-**	**-**	**34**
Profit (loss) after taxes	**(126)**	**61**	**20**	**126**	**(3)**	**3**	**81**
Group share in profits of companies included on equity basis after effect of taxes	**-**	**2**	**-**	**-**	**-**	**-**	**2**
Net profit attributable to non-controlling interests	**-**	**(13)**	**-**	**-**	**-**	**-**	**(13)**
Net profit (loss)	**(126)**	**50**	**20**	**126**	**(3)**	**3**	**70**
Return on equity							**2.5%**
Average balance of assets	**20,843**	**8,733**	**141**	**63,464**	**56**	**204**	**93,441**
of which: investments in companies included on equity basis	**-**	**2**	**-**	**-**	**-**	**-**	**2**
Average balance of liabilities	**123,964**	**1,067**	**-**	**272**	**916**	**8**	**126,227**
Average balance of risk assets	**23,007**	**8,605**	**138**	**34,252**	**272**	**71**	**66,345**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**61,816**	**-**	**-**	**-**	**61,816**
Average balance of securities	**-**	**-**	**48,152**	**-**	**175**	**-**	**48,327**
Average balance of other assets under management	**4,532**	**-**	**-**	**-**	**-**	**-**	**4,532**
Balance of credit to the public	**21,376**	**8,477**	**145**	**65,031**	**52**	**208**	**95,289**
Balance of deposits of the public	**120,727**	**38**	**-**	**-**	**920**	**8**	**121,693**

Households (cont.)

	Banking and finance	Credit cards	Capital market	Mortgages	Overseas activity: Banking and finance	Overseas activity: Mortgages	Total
	For the six months ended 30 June 2012						
	NIS millions						
Net interest income:							
From external sources	(427)	125	4	1,241	(6)	6	943
Intersegmental	1,423	(27)	(3)	(942)	9	(1)	459
Non-interest income:							
From external sources	282	242	229	84	3	-	840
Intersegmental	6	90	-	(26)	-	-	70
Total income	1,284	430	230	357	6	5	2,312
Expenses in respect of credit losses	4	7	-	(13)	2	(1)	(1)
Operating and other expenses:							
To external sources	1,305	300	154	123	7	3	1,892
Intersegmental	(2)	(3)	-	10	-	-	5
Profit (loss) before taxes	(23)	126	76	237	(3)	3	416
Provision for taxes (benefit) on profit	(10)	40	27	82	-	-	139
Profit (loss) after taxes	(13)	86	49	155	(3)	3	277
Net profit attributable to non-controlling interests	-	(15)	-	-	-	-	(15)
Net profit (loss)	(13)	71	49	155	(3)	3	262
Return on equity							12.3%
Average balance of assets	19,625	7,940	129	57,236	69	184	85,183
Of which investments in companies included on equity basis	-	3	-	-	-	-	3
Average balance of liabilities	125,515	1,081	-	6,944	847	9	134,396
Average balance of risk assets	21,183	7,794	130	30,995	206	64	60,372
Average balance of mutual funds and supplementary training funds	-	-	52,553	-	-	-	52,553
Average balance of securities	-	-	49,014	-	172	-	49,186
Average balance of other assets under management	220	-	-	5,101	-	-	5,321
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 4.8 billion, or 5.3% compared with the end of 2012. Housing loans increased by 5.23%, and credit, after cancelling out the effect of housing loans, increased by 5.46%. Deposits of the public fell by some NIS 6.5 billion.

Main Changes in Net Profit

In the first half of 2013, net profit in the households segment amounted to NIS 70 million, compared with NIS 262 million in the corresponding period last year, a decrease of NIS 192 million or 73.3%. The decrease in profit derives from a decrease of NIS 100 million in total income, an increase in expenses in respect of credit losses amounting to NIS 128 million and 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 73 million.

The return on equity of the net profit in the segment was 2.5%.

Pension Counseling Services

The balances of the pension assets of customers receiving counseling in the Leumi Group to the end of June 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 16.7 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 six months of 2013	First six months of 2012	Rate of change
	NIS millions		%
From Bank funds	**6,444**	6,078	6.0
From Ministry of Finance funds:			
Loans	**20**	14	42.8
Standing loans	**9**	6	50.0
Total new loans	**6,473**	6,098	6.1
Refinanced loans	**1,045**	672	55.5
Total loans extended	**7,518**	6,770	11.0

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, LTV ratio, etc.) are in accordance with 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
June 2013 *	**64,868**	**7.6**

* From 2013, the data for housing credit also include housing granted in Leumi, which is not through the Mortgage Department.

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 2010	21,552	43.7	26,619	54.0	1,148	2.3	49,319
December 2011	22,973	42.2	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
June 2013 *	**29,196**	**45.0**	**33,900**	**52.3**	**1,772**	**2.7**	**64,868**

* From 2013, the data for housing credit also include housing granted in Leumi, which is not through the Mortgage Department.

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
June 2013 *	**3,221**	**10,661**	**25,975**	**23,239**	**1,772**	**64,868**

* From 2013, the data for housing credit also include housing granted in Leumi, which is not through the Mortgage Department.

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
	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter	Annual average	Annual average
	Percentage of loans extended							
	%							
Fixed – linked	**13.3**	**10.9**	9.9	13.9	14.8	14.9	10.0	6.7
Variable – every 5 years or more - linked	**31.1**	**31.3**	34.2	38.8	44.8	45.1	26.7	11.6
Variable – up to 5 years index-linked	**2.2**	**2.5**	3.7	4.2	4.6	5.7	13.1	20.5
Fixed-unlinked	**13.6**	**14.3**	11.6	8.4	6.8	6.1	3.8	4.3
Variable – every 5 years or more - unlinked	**9.0**	**9.3**	11.3	5.4	-	-	-	-
Variable – up to 5 years index-unlinked	**28.9**	**29.1**	28.2	27.5	27.6	27.0	42.0	53.8
Variable – foreign currency	**1.9**	**2.6**	1.1	1.8	1.4	1.2	4.4	3.1

* From 2013, the data for housing credit also include housing granted in Leumi, which is not through the Mortgage Department.

The percentage of new credit extended by Leumi Mortgage in variable interest housing loans during the first half of 2013 was 74%, 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 half 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
June 2013*	**65,349**	**789**	**1.2**

* From 2013, the data for housing credit also include housing granted in Leumi, which is not through the Mortgage Department.

The allowance for credit losses as at 30 June 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 479 million, representing 0.75% 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 half of 2013, Leumi Mortgage extended new housing loans amounting to NIS 7.1 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
	2nd quarter	1st quarter	Annual average	4th quarter	3rd quarter	2nd quarter	1st quarter	Annual average
Rate of financing	%							
Between 60% and 70%	**19.2**	20.9	22.6	20.6	22.6	23.2	24.5	23.0
Between 70% and 80%	**16.9**	16.0	12.9	12.9	13.6	12.0	12.8	12.5
Above 80%	**0.9**	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 30 June 2013 was 50.1%.

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

The rate of credit extended in the first half 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 half of 2013, in which the repayment schedule according to the loan contracts is longer than 25 years, stood at 30% 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 half of 2013 was NIS 548 thousand, compared with NIS 530 thousand in 2012, 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 30 June 2013							
	NIS millions							
Net interest income:								
From external sources	**191**	**7**	**-**	**1**	**75**	**10**	**3**	**287**
Intersegmental	**(26)**	**(2)**	**-**	**(1)**	**(20)**	**(4)**	**(1)**	**(54)**
Non-interest income:								
From external sources	**87**	**28**	**7**	**-**	**18**	**2**	**1**	**143**
Intersegmental	**-**	**(11)**	**-**	**-**	**-**	**-**	**-**	**(11)**
Total income	**252**	**22**	**7**	**-**	**73**	**8**	**3**	**365**
Expenses in respect of credit losses	**-**	**(1)**	**-**	**-**	**2**	**15**	**-**	**16**
Operating and other expenses:								
To external sources	**179**	**15**	**4**	**-**	**34**	**8**	**1**	**241**
Intersegmental	**(2)**	**1**	**-**	**-**	**-**	**-**	**-**	**(1)**
Profit (loss) before taxes	**75**	**7**	**3**	**-**	**37**	**(15)**	**2**	**109**
Provision for taxes on profit	**28**	**1**	**1**	**-**	**13**	**1**	**-**	**44**
Profit (loss) after taxes	**47**	**6**	**2**	**-**	**24**	**(16)**	**2**	**65**
Net profit attributable to non-controlling interests	**-**	**(1)**	**-**	**-**	**-**	**-**	**-**	**(1)**
Net profit (loss)	**47**	**5**	**2**	**-**	**24**	**(16)**	**2**	**64**

	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Overseas activity: Banking and finance	Overseas activity: Real estate	Total
	For the three months ended 30 June 2012							
	NIS millions							
Net interest income:								
From external sources	185	7	1	1	80	6	2	282
Intersegmental	(22)	(2)	-	(1)	(29)	(1)	(1)	(56)
Non-interest income:								
From external sources	84	26	7	-	16	3	1	137
Intersegmental	(1)	(12)	-	-	-	-	-	(13)
Total income	246	19	8	-	67	8	2	350
Expenses in respect of credit losses	51	1	-	-	(4)	(2)	-	46
Operating and other expenses:								
To external sources	167	12	2	-	24	7	1	213
Intersegmental	1	1	-	-	-	-	-	2
Profit before taxes	27	5	6	-	47	3	1	89
Provision for taxes on the profit	9	3	1	-	17	1	-	31
Profit after taxes	18	2	5	-	30	2	1	58
Net profit (loss) attributable to non-controlling interests	1	(1)	-	-	-	-	-	-
Net profit	19	1	5	-	30	2	1	58

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 six months ended 30 June 2013							
	NIS millions							
Net interest income:								
From external sources	**374**	**12**	**-**	**2**	**143**	**20**	**5**	**556**
Intersegmental	**(45)**	**(3)**	**-**	**(1)**	**(35)**	**(7)**	**(2)**	**(93)**
Non-interest income:								
From external sources	**169**	**57**	**13**	**-**	**37**	**6**	**1**	**283**
Intersegmental	**-**	**(21)**	**-**	**-**	**-**	**-**	**-**	**(21)**
Total income	**498**	**45**	**13**	**1**	**145**	**19**	**4**	**725**
Expenses in respect of credit losses	**29**	**(1)**	**-**	**-**	**14**	**16**	**-**	**58**
Operating and other expenses:								
To external sources	**345**	**29**	**7**	**-**	**64**	**15**	**2**	**462**
Intersegmental	**(2)**	**2**	**-**	**-**	**-**	**-**	**-**	**-**
Profit (loss) before taxes	**126**	**15**	**6**	**1**	**67**	**(12)**	**2**	**205**
Provision for taxes on profit	**47**	**3**	**2**	**-**	**24**	**1**	**-**	**77**
Profit (loss) after taxes	**79**	**12**	**4**	**1**	**43**	**(13)**	**2**	**128**
Net profit attributable to non-controlling interests	**-**	**(2)**	**-**	**-**	**-**	**-**	**-**	**(2)**
Net profit (loss)	**79**	**10**	**4**	**1**	**43**	**(13)**	**2**	**126**
Return on equity								**15.9%**
Average balance of assets	**13,746**	**903**	**24**	**95**	**6,320**	**844**	**239**	**22,171**
Average balance of liabilities	**15,885**	**1,518**	**-**	**-**	**3,717**	**599**	**78**	**21,797**
Average balance of risk assets	**11,260**	**724**	**26**	**65**	**6,263**	**938**	**239**	**19,515**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**2,792**	**-**	**-**	**-**	**-**	**2,792**
Average balance of securities	**-**	**-**	**5,638**	**-**	**-**	**9**	**-**	**5,647**
Average balance of other assets under management	**224**	**-**	**-**	**-**	**-**	**-**	**-**	**224**
Balance of credit to the public	**13,972**	**908**	**19**	**87**	**6,433**	**901**	**273**	**22,593**
Balance of deposits of the public	**16,608**	**-**	**-**	**-**	**3,705**	**639**	**100**	**21,052**

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 six months ended 30 June 2012							
	NIS millions							
Net interest income:								
From external sources	361	13	1	2	154	16	3	550
Intersegmental	(32)	(4)	-	(2)	(53)	(3)	(1)	(95)
Non-interest income:								
From external sources	169	53	12	-	32	6	1	273
Intersegmental	-	(23)	-	-	-	-	-	(23)
Total income	498	39	13	-	133	19	3	705
Expenses in respect of credit losses	54	1	-	-	(2)	1	-	54
Operating and other expenses:								
To external sources	323	24	5	-	51	14	1	418
Intersegmental	-	2	-	-	-	-	-	2
Profit before taxes	121	12	8	-	84	4	2	231
Provision for taxes on the profit	43	4	2	-	30	1	-	80
Profit after taxes	78	8	6	-	54	3	2	151
Net profit attributable to non-controlling interests	-	(1)	-	-	-	-	-	(1)
Net profit	78	7	6	-	54	3	2	150
Return on equity								22.1%
Average balance of assets	12,915	843	25	93	5,804	565	136	20,381
Average balance of liabilities	14,635	1,385	-	-	3,153	476	68	19,717
Average balance of risk assets	10,847	668	28	69	5,755	513	136	18,016
Average balance of mutual funds and supplementary training funds	1	-	2,109	-	-	-	-	2,110
Average balance of securities	-	-	4,805	-	-	4	-	4,809
Average balance of other assets under management	229	-	-	-	-	-	-	229
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 0.9 billion, compared with the end of 2012, an increase of 4.0%.

Main Changes in the Net Profit

In the first half of 2013, net profit in the small businesses segment totaled NIS 126 million, compared with NIS 150 million in the corresponding period last year, a decrease of 16.0%. This decrease in profit derives mainly from an increase in operating and other expenses amounting to NIS 42 million, which was partly offset as a result of an increase in income amounting to NIS 20 million.

The return on equity of the net profit in the segment was 15.9%.

3. Corporate Banking

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

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity Banking and finance	Overseas activity Real estate	Total
	For the three months ended 30 June 2013						
	NIS millions						
Net interest income:							
From external sources	**396**	**6**	**(1)**	**275**	**-**	**-**	**676**
Intersegmental	**(180)**	**(1)**	**1**	**(152)**	**5**	**1**	**(326)**
Non-interest income:							
From external sources	**51**	**45**	**4**	**56**	**-**	**1**	**157**
Intersegmental	**29**	**(23)**	**1**	**9**	**-**	**-**	**16**
Total income	**296**	**27**	**5**	**188**	**5**	**2**	**523**
Expenses in respect of credit losses	**(43)**	**(1)**	**-**	**(38)**	**-**	**-**	**(82)**
Operating and other expenses:							
To external sources	**106**	**19**	**1**	**43**	**4**	**-**	**173**
Intersegmental	**1**	**-**	**-**	**-**	**-**	**-**	**1**
Profit before taxes	**232**	**9**	**4**	**183**	**1**	**2**	**431**
Provision for taxes on profit	**82**	**3**	**2**	**65**	**1**	**-**	**153**
Profit after taxes	**150**	**6**	**2**	**118**	**-**	**2**	**278**
Net profit attributable to non-controlling interests	**-**	**(2)**	**-**	**-**	**-**	**-**	**(2)**
Net profit	**150**	**4**	**2**	**118**	**-**	**2**	**276**

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity Banking and finance	Overseas activity Real estate	Total
	For the three months ended 30 June 2012						
	NIS millions						
Net interest income:							
From external sources	419	9	1	352	3	1	785
Intersegmental	(173)	(2)	(1)	(221)	3	-	(394)
Non-interest income:							
From external sources	29	46	3	59	1	1	139
Intersegmental	35	(26)	-	-	-	-	9
Total income	310	27	3	190	7	2	539
Expenses in respect of credit losses	305	-	-	(90)	1	-	216
Operating and other expenses:							
To external sources	96	18	4	36	4	1	159
Intersegmental	1	-	-	-	-	-	1
Profit (loss) before taxes	(92)	9	(1)	244	2	1	163
Provision for (benefit from) taxes on profit	(35)	3	-	86	1	-	55
Profit (loss) after taxes	(57)	6	(1)	158	1	1	108
Net profit attributable to non-controlling interests	-	(1)	-	-	-	-	(1)
Net profit (loss)	(57)	5	(1)	158	1	1	107

Corporate Banking (cont.)

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity: Banking and finance	Overseas activity: Real estate	Total
	For the six months ended 30 June 2013						
	NIS millions						
Net interest income:							
From external sources	**795**	**12**	**-**	**488**	**-**	**1**	**1,296**
Intersegmental	**(353)**	**(3)**	**-**	**(247)**	**11**	**1**	**(591)**
Non-interest income:							
From external sources	**101**	**96**	**7**	**118**	**3**	**1**	**326**
Intersegmental	**37**	**(46)**	**1**	**13**	**-**	**-**	**5**
Total income	**580**	**59**	**8**	**372**	**14**	**3**	**1,036**
Expenses in respect of credit losses	**(48)**	**(1)**	**-**	**(79)**	**-**	**-**	**(128)**
Operating and other expenses:							
To external sources	**195**	**38**	**3**	**88**	**8**	**1**	**333**
Intersegmental	**1**	**-**	**-**	**-**	**-**	**-**	**1**
Profit before taxes	**432**	**22**	**5**	**363**	**6**	**2**	**830**
Provision for taxes on profit	**153**	**6**	**2**	**130**	**2**	**-**	**293**
Profit after taxes	**279**	**16**	**3**	**233**	**4**	**2**	**537**
Net profit attributable to non-controlling interests	**-**	**(4)**	**-**	**-**	**-**	**-**	**(4)**
Net profit	**279**	**12**	**3**	**233**	**4**	**2**	**533**
Return on equity							**13.0%**
Average balance of assets	**43,729**	**407**	**166**	**23,915**	**299**	**124**	**68,640**
Average balance of liabilities	**18,188**	**2,776**	**-**	**5,456**	**1,222**	**163**	**27,805**
Average balance of risk assets	**68,694**	**404**	**166**	**24,336**	**438**	**124**	**94,162**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**2,488**	**-**	**-**	**-**	**2,488**
Average balance of securities	**-**	**-**	**58,068**	**-**	**104**	**-**	**58,172**
Average balance of other assets under management	**205**	**-**	**-**	**-**	**-**	**-**	**205**
Balance of credit to the public	**39,886**	**403**	**165**	**23,004**	**176**	**70**	**63,704**
Balance of deposits of the public	**14,876**	**-**	**-**	**4,803**	**984**	**159**	**20,822**

Corporate Banking (cont.)

					Overseas activity		
	Banking and finance	Credit cards	Capital market	Real estate	Banking and finance	Real estate	Total
	For the six months ended 30 June 2012						
	NIS millions						
Net interest income:							
From external sources	799	15	1	621	6	2	1,444
Intersegmental	(320)	(5)	(1)	(352)	6	-	(672)
Non-interest income:							
From external sources	149	94	7	115	4	1	370
Intersegmental	(23)	(52)	-	-	-	-	(75)
Total income	605	52	7	384	16	3	1,067
Expenses in respect of credit losses	549	1	-	(124)	1	-	427
Operating and other expenses:							
To external sources	188	36	8	71	9	2	314
Intersegmental	-	-	-	-	-	-	-
Profit (loss) before taxes	(132)	15	(1)	437	6	1	326
Provision for (benefit from) taxes on profit	(48)	3	-	154	2	-	111
Profit (loss) after taxes	(84)	12	(1)	283	4	1	215
Net profit attributable to non-controlling interests	-	(2)	-	-	-	-	(2)
Net profit (loss)	(84)	10	(1)	283	4	1	213
Return on equity							4.7%
Average balance of assets	51,751	408	163	26,467	551	146	79,486
Average balance of liabilities	21,572	2,601	-	5,704	725	171	30,773
Average balance of risk assets	78,040	381	163	26,710	745	146	106,185
Average balance of mutual funds and supplementary training funds	-	-	1,808	-	-	-	1,808
Average balance of securities	-	-	58,479	-	105	-	58,584
Average balance of other assets under management	239	-	-	-	-	-	239
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 6.6 billion compared with the end of 2012, a decrease of 9.3%. Total deposits of the public fell by NIS 5.4 billion, or 20.8%.

Main Changes in Net Profit

In the first half of 2013, net profit in the corporate banking segment totaled NIS 533 million, compared with NIS 213 million during the corresponding period in 2012. The increase in profit derives mainly from income in respect of credit losses amounting to NIS 128 million in the first half of 2013, compared with expenses in respect of credit losses amounting to NIS 427 million in the corresponding period in 2012.

The return on equity of the net profit in the segment was 13.0%.

4. Commercial Banking

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

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity: Banking and finance	Overseas activity: Capital market	Overseas activity: Real estate	Total
	For the three months ended 30 June 2013							
	NIS millions							
Net interest income:								
From external sources	**147**	**3**	**(3)**	**91**	**137**	**-**	**34**	**409**
Intersegmental	**4**	**-**	**4**	**(43)**	**(21)**	**-**	**(12)**	**(68)**
Non-interest income:								
From external sources	**77**	**21**	**12**	**15**	**15**	**2**	**2**	**144**
Intersegmental	**8**	**(9)**	**(2)**	**(1)**	**-**	**-**	**-**	**(4)**
Total income	**236**	**15**	**11**	**62**	**131**	**2**	**24**	**481**
Expenses in respect of credit losses	**(37)**	**-**	**-**	**2**	**55**	**-**	**93**	**113**
Operating and other expenses:								
To external sources	**139**	**8**	**9**	**14**	**84**	**2**	**9**	**265**
Intersegmental	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**1**
Profit (loss) before taxes	**133**	**7**	**2**	**46**	**(8)**	**-**	**(78)**	**102**
Provision for (benefit from) taxes on profit	**50**	**1**	**-**	**16**	**1**	**1**	**(18)**	**51**
Profit (loss) after taxes	**83**	**6**	**2**	**30**	**(9)**	**(1)**	**(60)**	**51**
Group share in profits of companies included on equity basis after effect of taxes	**-**	**(1)**	**-**	**-**	**-**	**-**	**-**	**(1)**
Net profit (loss)	**83**	**5**	**2**	**30**	**(9)**	**(1)**	**(60)**	**50**

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity: Banking and finance	Overseas activity: Capital market	Overseas activity: Real estate	Total
	For the three months ended 30 June 2012							
	NIS millions							
Net interest income:								
From external sources	125	4	10	120	144	-	36	439
Intersegmental	24	(1)	(10)	(69)	(22)	-	(11)	(89)
Non-interest income:								
From external sources	51	18	11	13	17	3	2	115
Intersegmental	33	(10)	-	(1)	-	-	-	22
Total income	233	11	11	63	139	3	27	487
Expenses in respect of credit losses	63	-	-	5	6	-	(1)	73
Operating and other expenses:								
To external sources	128	7	11	16	88	2	13	265
Intersegmental	1	-	-	-	-	-	-	1
Profit before taxes	41	4	-	42	45	1	15	148
Provision for taxes on profit	13	-	-	16	17	1	4	51
Profit after taxes	28	4	-	26	28	-	11	97
Group share in profits of companies included on equity basis after effect of taxes	-	(1)	-	-	-	-	-	(1)
Net profit	28	3	-	26	28	-	11	96

Commercial Banking (cont.)

					Overseas activity			
	Banking and finance	Credit cards	Capital market	Real estate	Banking and finance	Capital market	Real estate	Total
	For the six months ended 30 June 2013							
	NIS millions							
Net interest income:								
From external sources	**279**	**5**	**-**	**173**	**280**	**-**	**64**	**801**
Intersegmental	**24**	**(1)**	**-**	**(72)**	**(42)**	**-**	**(23)**	**(114)**
Non-interest income:								
From external sources	**112**	**40**	**23**	**29**	**33**	**4**	**4**	**245**
Intersegmental	**51**	**(17)**	**(2)**	**(2)**	**-**	**-**	**-**	**30**
Total income	**466**	**27**	**21**	**128**	**271**	**4**	**45**	**962**
Expenses in respect of credit losses	**(45)**	**-**	**-**	**5**	**75**	**-**	**110**	**145**
Operating and other expenses:								
To external sources	**276**	**16**	**20**	**28**	**171**	**3**	**19**	**533**
Intersegmental	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**1**
Profit (loss) before taxes	**234**	**11**	**1**	**95**	**25**	**1**	**(84)**	**283**
Provision for (benefit from) taxes on profit	**85**	**2**	**-**	**34**	**13**	**1**	**(19)**	**116**
Profit (loss) after taxes	**149**	**9**	**1**	**61**	**12**	**-**	**(65)**	**167**
Net profit attributable to non-controlling interests	**-**	**(2)**	**-**	**-**	**-**	**-**	**-**	**(2)**
Net profit (loss)	**149**	**7**	**1**	**61**	**12**	**-**	**(65)**	**165**
Return on equity								**7.4%**
Average balance of assets	**23,534**	**355**	**295**	**8,097**	**15,082**	**-**	**3,061**	**50,424**
Average balance of liabilities	**36,157**	**1,084**	**-**	**2,484**	**11,064**	**-**	**271**	**51,060**
Average balance of risk assets	**27,473**	**286**	**231**	**8,155**	**14,385**	**-**	**3,061**	**53,591**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**4,700**	**-**	**-**	**153**	**-**	**4,853**
Average balance of securities	**-**	**-**	**42,806**	**-**	**-**	**1,616**	**-**	**44,422**
Average balance of other assets under management	**675**	**-**	**-**	**-**	**-**	**-**	**-**	**675**
Balance of credit to the public	**22,978**	**381**	**422**	**7,962**	**14,770**	**-**	**3,114**	**49,627**
Balance of deposits of the public	**34,647**	**-**	**-**	**2,272**	**10,684**	**-**	**237**	**47,840**

					Overseas activity			
	Banking and finance	Credit cards	Capital market	Real estate	Banking and finance	Capital market	Real estate	Total
	For the six months ended 30 June 2012							
	NIS millions							
Net interest income:								
From external sources	239	7	10	210	281	-	71	818
Intersegmental	61	(2)	(10)	(108)	(42)	-	(23)	(124)
Non-interest income:								
From external sources	63	35	21	26	38	5	5	193
Intersegmental	104	(19)	-	-	-	-	-	85
Total income	467	21	21	128	277	5	53	972
Expenses in respect of credit losses	67	-	-	(1)	17	-	-	83
Operating and other expenses:								
To external sources	246	14	26	34	175	3	24	522
Intersegmental	-	-	-	-	-	-	-	-
Profit (loss) before taxes	154	7	(5)	95	85	2	29	367
Provision for (benefit from) taxes on profit	55	1	(2)	34	29	1	8	126
Profit (loss) after taxes	99	6	(3)	61	56	1	21	241
Group share in profits of companies included on equity basis after effect of tax	-	(1)	-	-	-	-	-	(1)
Net profit (loss)	99	5	(3)	61	56	1	21	240
Return on equity								12.1%
Average balance of assets	23,485	330	296	8,330	15,233	-	3,333	51,007
Average balance of liabilities	34,498	950	101	2,827	11,079	-	388	49,843
Average balance of risk assets	26,735	272	400	9,252	13,800	-	3,333	53,792
Average balance of mutual funds and supplementary training funds	-	-	3,627	-	-	150	-	3,777
Average balance of securities	-	-	40,113	-	-	2,118	-	42,231
Average balance of other assets under management	733	-	-	-	-	-	-	733
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

Main Changes in the Scope of Operations

Total credit to the public in the commercial segment decreased by NIS 0.3 billion, a decrease of 0.6%, compared with the end of 2012, and total deposits of the public decreased by NIS 2.3 billion, or 4.5%.

Main changes in net profit

In the first half of 2013, net profit in the commercial banking segment totaled NIS 165 million, compared with NIS 240 million during the corresponding period in 2012, a decrease of NIS 75 million, or 31.3%. The decrease in profit derives mainly from an increase in operating expenses amounting to NIS 12 million and an increase in expenses in respect of credit losses amounting to NIS 62 million. The increase in expenses in respect of credit losses derives from an increase in operating expenses abroad amounting to NIS 168 million, which was partly offset by a decrease in operating expenses in Israel amounting to NIS 106 million.

The return on equity of the net profit in the segment was 7.4%.

5. Private Banking

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

						Overseas activity				
	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Banking and finance	Capital market	Mortgages	Real estate	Total
	For the three months ended 30 June 2013									
	NIS millions									
Net interest income:										
From external sources	**(35)**	**-**	**-**	**-**	**1**	**6**	**-**	**9**	**(1)**	**(20)**
Intersegmental	**56**	**-**	**-**	**-**	**3**	**41**	**-**	**(6)**	**1**	**95**
Non-interest income:										
From external sources	**(4)**	**-**	**40**	**-**	**8**	**51**	**50**	**1**	**-**	**146**
Intersegmental	**13**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13**
Total income	**30**	**-**	**40**	**-**	**12**	**98**	**50**	**4**	**-**	**234**
Expenses in respect of credit losses	**(1)**	**-**	**-**	**-**	**1**	**2**	**-**	**-**	**-**	**2**
Operating and other expenses:										
To external sources	**45**	**-**	**16**	**-**	**4**	**80**	**45**	**2**	**1**	**193**
Intersegmental	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**1**
Profit (loss) before taxes	**(14)**	**-**	**24**	**-**	**7**	**16**	**4**	**2**	**(1)**	**38**
Provision for (benefit from) taxes on profit	**(4)**	**-**	**8**	**-**	**2**	**1**	**1**	**1**	**-**	**9**
Net profit (loss)	**(10)**	**-**	**16**	**-**	**5**	**15**	**3**	**1**	**(1)**	**29**

					Overseas activity				
	Banking and finance	Credit cards	Capital market	Real estate	Banking and finance	Capital market	Real estate	Mortgages	Total
	For the three months ended 30 June 2012								
	NIS millions								
Net interest income:									
From external sources	(56)	-	1	(1)	18	-	(1)	10	(29)
Intersegmental	88	-	(1)	4	30	-	1	(6)	116
Non-interest income:									
From external sources	4	-	40	2	57	52	-	2	157
Intersegmental	2	-	-	-	(6)	-	-	-	(4)
Total income	38	-	40	5	99	52	-	6	240
Expenses in respect of credit losses	1	-	-	-	1	-	-	-	2
Operating and other expenses:									
To external sources	46	1	16	2	102	62	-	3	232
Intersegmental	-	-	-	-	1	-	-	-	1
Profit (loss) before taxes	(9)	(1)	24	3	(5)	(10)	-	3	5
Provision for (benefit from) taxes on profit	(1)	-	7	1	(1)	(3)	-	-	3
Net profit (loss)	(8)	(1)	17	2	(4)	(7)	-	3	2

Private Banking (cont.)

						Overseas activity				
	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Banking and finance	Capital market	Mortgages	Real estate	Total
	For the six months ended 30 June 2013									
	NIS millions									
Net interest income:										
From external sources	**(89)**	**-**	**-**	**-**	**1**	**17**	**-**	**18**	**(1)**	**(54)**
Intersegmental	**134**	**-**	**-**	**-**	**5**	**77**	**-**	**(12)**	**2**	**206**
Non-interest income:										
From external sources	**(36)**	**-**	**89**	**-**	**8**	**109**	**100**	**2**	**-**	**272**
Intersegmental	**56**	**-**	**-**	**-**	**-**	**(2)**	**-**	**-**	**-**	**54**
Total income	**65**	**-**	**89**	**-**	**14**	**201**	**100**	**8**	**1**	**478**
Expenses in respect of credit losses	**-**	**-**	**-**	**-**	**1**	**2**	**-**	**-**	**-**	**3**
Operating and other expenses:										
To external sources	**82**	**1**	**35**	**-**	**7**	**170**	**89**	**5**	**1**	**390**
Intersegmental	**-**	**-**	**-**	**-**	**-**	**1**	**1**	**-**	**-**	**2**
Profit (loss) before taxes	**(17)**	**(1)**	**54**	**-**	**6**	**28**	**10**	**3**	**-**	**83**
Provision for (benefit from) taxes on profit	**(6)**	**-**	**18**	**-**	**2**	**4**	**1**	**1**	**-**	**20**
Profit (loss) after taxes	**(11)**	**(1)**	**36**	**-**	**4**	**24**	**9**	**2**	**-**	**63**
Net profit attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**(4)**	**-**	**-**	**-**	**(4)**
Net profit (loss)	**(11)**	**(1)**	**36**	**-**	**4**	**20**	**9**	**2**	**-**	**59**
Return on equity										**11.3%**
Average balance of assets	**1,552**	**64**	**29**	**43**	**574**	**9,018**	**-**	**879**	**-**	**12,159**
Average balance of liabilities	**19,067**	**-**	**-**	**-**	**1,418**	**16,938**	**-**	**19**	**152**	**37,594**
Average balance of risk assets	**2,046**	**48**	**30**	**28**	**540**	**7,523**	**-**	**308**	**-**	**10,523**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**5,889**	**-**	**-**	**-**	**1,804**	**-**	**-**	**7,693**
Average balance of securities	**-**	**-**	**42,053**	**-**	**-**	**-**	**34,842**	**-**	**-**	**76,895**
Average balance of other assets under management	**215**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**215**
Balance of credit to the public	**1,057**	**64**	**27**	**41**	**634**	**4,029**	**-**	**868**	**-**	**6,720**
Balance of deposits of the public	**18,310**	**-**	**-**	**-**	**1,432**	**15,863**	**-**	**21**	**141**	**35,767**

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 six months ended 30 June 2012									
	NIS millions									
Net interest income:										
From external sources	(109)	-	-	(2)	-	28	-	21	(1)	(63)
Intersegmental	178	-	-	7	-	75	-	(13)	2	249
Non-interest income:										
From external sources	3	-	76	5	-	108	103	3	-	298
Intersegmental	16	-	-	-	-	(3)	-	-	-	13
Total income	88	-	76	10	-	208	103	11	1	497
Expenses in respect of credit losses	(3)	-	-	-	-	4	-	-	-	1
Operating and other expenses:										
To external sources	86	1	32	5	-	205	115	6	1	451
Intersegmental	-	-	-	-	-	2	-	-	-	2
Profit (loss) before taxes	5	(1)	44	5	-	(3)	(12)	5	-	43
Provision for (benefit from) taxes on profit	2	-	14	2	-	1	(3)	1	-	17
Net profit (loss)	3	(1)	30	3	-	(4)	(9)	4	-	26
Return on equity										5.6%
Average balance of assets	1,909	58	8	426	33	8,727	-	1,075	-	12,236
Average balance of liabilities	19,546	-	12	1,309	-	18,485	-	14	199	39,565
Average balance of risk assets	2,307	43	8	419	25	7,468	-	376	-	10,646
Average balance of mutual funds and supplementary training funds	-	-	4,731	-	-	-	1,668	-	-	6,399
Average balance of securities	-	-	39,243	-	-	-	36,664	-	-	75,907
Average balance of other assets under management	234	-	-	-	-	-	-	-	-	234
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 1.5 billion, or 17.7%, compared with the end of 2012, and total deposits of the public decreased by some NIS 2.6 billion, or 6.7%.

Main changes in net profit

In the first half of 2013, net profit in the private banking segment amounted to NIS 59 million, compared to NIS 26 million in the corresponding period in 2012, an increase of NIS 33 million. Most of the increase derives from an increase in the contribution of subsidiaries abroad in the segment, mainly as a result of a decrease in operating expenses, compared with a fall in the contribution of activity in Israel.

The return on equity of the net profit in the segment was 11.3%.

6. Financial Management – Capital Markets

	For the three months ended 30 June		For the six months ended 30 June	
	2013	2012	**2013**	2012
	NIS millions		NIS millions	
Net interest income:				
From external sources	**(274)**	(100)	**(345)**	59
Intersegmental	**448**	246	**605**	176
Operating and other income:				
From external sources	**223**	70	**662**	257
Intersegmental	**(13)**	(72)	**(35)**	(104)
Total income	**384**	144	**887**	388
Expenses in respect of credit losses	**(6)**	5	**(48)**	(6)
Operating and other expenses:				
To external sources	**300**	380	**546**	595
Intersegmental	**10**	12	**24**	21
Loss before taxes	**80**	(253)	**365**	(222)
Benefit from taxes	**(6)**	(76)	**107**	(58)
Loss after taxes	**86**	(177)	**258**	(164)
Group share in profits of companies included on equity basis after effect of tax	**(55)**	63	**(113)**	24
Net operating loss attributed to non-controlling interests	**-**	-	**4**	-
Net profit (loss)	**31**	(114)	**149**	(140)

The profit in the financial management segment in the first half of 2013 amounted to NIS 149 million, compared with a loss of NIS 140 million in the corresponding period last year. The increase in the profit resulted primarily from an increase in noninterest income amounting to NIS 474 million, as a result of profits from the sale of shares and the sale of loans. On the other hand, allowances for impairment of a nature other than temporary in respect of an investment in the shares of Partner Communication were made in the financial management segment last year.

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 investments.

Leumi Group's total investments in companies included on equity basis amounted to NIS 1,978 million on 30 June 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	**30 June 2013**	31 December 2012	**% change**	**30 June 2013**	31 December 2012	**30 June 2013**	31 December 2012
The Israel Corporation Ltd.	**1,433**	1,567	(8.6)	**3,089**	3,367	**129**	141
Others	**545**	562	(3.0)	**-**	-	**49**	51
Total	**1,978**	2,129	(7.1)	**3,089**	3,367	**178**	192

The Israel Corporation has announced an examination of the split of its holdings, such that the Israel Corporation will continue to hold Israel Chemicals Ltd and Oil Refineries Ltd., while its remaining holdings will be transferred and held by all the shareholders in the Israel Corporation through a new company The Bank is examining the impact of the split. For further information, see the Immediate Report of the Israel Corporation dated 26 June 2013 (ref.: 2013-01-073893).

On 30 July 2013, the Russian potassium producer, Uralkali, announced its withdrawal from the marketing company, BPC, which is a partner with the Russian company, Uralkali, and the Belarusian company, Belaruskali. This announcement creates uncertainty with regard to the price of potassium and increases the risk of a fall in prices in the short term. However, in the longer term, market trends indicate an increase in demand which will lead to price increases.

The contribution of companies included on equity basis to the Group's net profit in the first half of 2013 amounted to a loss of NIS 111 million, compared with a profit of NIS 24 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 six months ended 30 June		
	2013	2012	% change
The Israel Corporation Ltd.	**(129)**	3	-
Others	**18**	21	14.3
Total	**(111)**	24	-

The contribution of companies included on equity basis to the other comprehensive income (loss) is a loss of NIS 26 million.

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 half of 2013, the loss in the "Others" segment amounted to NIS 58 million, compared with a loss of NIS 40 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 six months ended 30 June		Change in amount
	2013	2012	
Net profit in the Bank	**21**	6	15
Other companies in Israel	**5**	3	2
Overseas companies	**5**	(1)	6
Tax adjustments (1)	**(89)**	(48)	(41)
Total	**(58)**	(40)	(18)

(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 30 June 2013							
	NIS millions							
Net interest income	**1**	**-**	**-**	**1**	**-**	**-**	**-**	**2**
Non-interest income	**105**	**7**	**5**	**10**	**40**	**29**	**53**	**249**
Total income	**106**	**7**	**5**	**11**	**40**	**29**	**53**	**251**
Operating and other expenses	**97**	**4**	**1**	**9**	**16**	**36**	**49**	**212**
Profit (loss) before taxes	**9**	**3**	**4**	**2**	**24**	**(7)**	**4**	**39**
Net profit (loss)	**6**	**2**	**2**	**2**	**16**	**(5)**	**2**	**25**

	House-holds	Small businesses	Corporate banking	Commercial banking	Private banking	Financial management and others	Overseas activities	Total
	For the three months ended 30 June 2012							
	NIS millions							
Net interest income	-	1	-	-	-	1	-	2
Non-interest income	114	7	3	11	40	23	56	254
Total income	114	8	3	11	40	24	56	256
Operating and other expenses	77	2	4	11	16	26	65	201
Profit (loss) before taxes	37	6	(1)	-	24	(2)	(9)	55
Net profit (loss)	23	5	(1)	-	17	(2)	(6)	36

	House-holds	Small businesses	Corporate banking	Commercial banking	Private banking	Financial management and others	Overseas activities	Total
	For the six months ended 30 June 2013							
	NIS millions							
Net interest income	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**2**
Noninterest income	**214**	**13**	**8**	**21**	**89**	**61**	**108**	**514**
Total income	**216**	**13**	**8**	**21**	**89**	**61**	**108**	**516**
Operating and other expenses	**185**	**7**	**3**	**20**	**35**	**70**	**95**	**415**
Profit (loss) before taxes	**31**	**6**	**5**	**1**	**54**	**(9)**	**13**	**101**
Net profit (loss)	**20**	**4**	**3**	**1**	**36**	**(5)**	**11**	**70**

	House-holds	Small businesses	Corporate banking	Commercial banking	Private banking	Financial management and others	Overseas activities	Total
	For the six months ended 30 June 2012							
	NIS millions							
Net interest income	1	1	-	-	-	3	-	5
Noninterest income	229	12	7	21	76	46	110	501
Total income	230	13	7	21	76	49	110	506
Operating and other expenses	154	5	8	26	32	51	120	396
Profit (loss) before taxes	76	8	(1)	(5)	44	(2)	(10)	110
Net profit (loss)	49	6	(1)	(3)	30	(1)	(7)	73

In the first half of 2013, net profit from capital market operations amounted to NIS 70 million, compared with NIS 73 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 half of 2013 with a net profit of NIS 102 million, compared with a profit of NIS 93 million in the corresponding period in 2012.

During the first half of 2013, the volume of activity by Leumi Card cardholders increased by 8% compared with the activity in the corresponding period in 2012. The number of valid cards at 30 June 2013 increased by 7% compared with 30 June 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. Among other things, 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 30 June 2013					
	NIS millions					
Net interest income	**49**	**5**	**5**	**3**	**-**	**62**
Non-interest income	**168**	**17**	**22**	**12**	**-**	**219**
Total income	**217**	**22**	**27**	**15**	**-**	**281**
Expenses in respect of credit losses	**3**	**(1)**	**(1)**	**-**	**-**	**1**
Operating and other expenses	**167**	**16**	**19**	**8**	**-**	**210**
Profit before taxes	**47**	**7**	**9**	**7**	**-**	**70**
Share of external shareholders	**(6)**	**(1)**	**(2)**	**(1)**	**-**	**(10)**
Net profit	**29**	**5**	**4**	**5**	**-**	**43**

	Households	Small businesses	Corporate banking	Commercial banking	Private banking	Total
	For the three months ended 30 June 2012					
	NIS millions					
Net interest income	48	5	7	3	-	63
Non-interest income	169	14	20	8	-	211
Total income	217	19	27	11	-	274
Expenses in respect of credit losses	4	1	-	-	-	5
Operating and other expenses	148	13	18	7	1	187
Profit (loss) before taxes	65	5	9	4	(1)	82
Share of external shareholders	(8)	(1)	(1)	(1)	-	(11)
Net profit	36	1	5	3	(1)	44

	Households	Small businesses	Corporate banking	Commercial banking	Private banking	Total
	For the six months ended 30 June 2013					
	NIS millions					
Net interest income	**101**	**9**	**9**	**4**	**-**	**123**
Noninterest income	**327**	**36**	**50**	**23**	**-**	**436**
Total income	**428**	**45**	**59**	**27**	**-**	**559**
Expenses in respect of credit losses	**8**	**(1)**	**(1)**	**-**	**-**	**6**
Operating and other expenses	**333**	**31**	**38**	**16**	**1**	**419**
Profit (loss) before taxes	**87**	**15**	**22**	**11**	**(1)**	**134**
Share of external shareholders	**(13)**	**(2)**	**(4)**	**(2)**	**-**	**(21)**
Net profit	**50**	**10**	**12**	**7**	**(1)**	**78**

	Households	Small businesses	Corporate banking	Commercial banking	Private banking	Total
	For the six months ended 30 June 2012					
	NIS millions					
Net interest income	98	9	10	5	-	122
Noninterest income	332	30	42	16	-	420
Total income	430	39	52	21	-	542
Expenses in respect of credit losses	7	1	1	-	-	9
Operating and other expenses	297	26	36	14	1	374
Profit (loss) before taxes	126	12	15	7	(1)	159
Share of external shareholders	(15)	(1)	(2)	(1)	-	(19)
Net profit (loss)	71	7	10	5	(1)	92

The net profit from credit card activity in the first half of 2013 amounted to NIS 78 million, compared with NIS 92 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 30 June 2013					
	NIS millions					
Net interest income	**55**	**123**	**48**	**4**	**25**	**255**
Non-interest income	**18**	**65**	**14**	**8**	**4**	**109**
Total income	**73**	**188**	**62**	**12**	**29**	**364**
Expenses in respect of credit losses	**2**	**(38)**	**2**	**1**	**93**	**60**
Operating and other expenses	**34**	**43**	**14**	**4**	**11**	**106**
Profit (loss) before taxes	**37**	**183**	**46**	**7**	**(75)**	**198**
Net profit (loss)	**24**	**118**	**30**	**5**	**(58)**	**119**

	Small businesses	Corporate banking	Commercial banking	Private banking	Overseas activities	Total
	For the three months ended 30 June 2012					
	NIS millions					
Net interest income	51	131	51	3	29	265
Non-interest income	16	59	12	2	4	93
Total income	67	190	63	5	33	358
Expenses in respect of credit losses	(4)	(90)	5	-	(1)	(90)
Operating and other expenses	24	36	16	2	15	93
Profit before taxes	47	244	42	3	19	355
Net profit	30	158	26	2	14	230

	Small businesses	Corporate banking	Commercial banking	Private banking	Overseas activities	Total
	For the six months ended 30 June 2013					
	NIS millions					
Net interest income	**108**	**241**	**101**	**6**	**48**	**504**
Noninterest income	**37**	**131**	**27**	**8**	**7**	**210**
Total income	**145**	**372**	**128**	**14**	**55**	**714**
Income in respect of credit losses	**14**	**(79)**	**5**	**1**	**110**	**51**
Operating and other expenses	**64**	**88**	**28**	**7**	**23**	**210**
Profit (loss) before taxes	**67**	**363**	**95**	**6**	**(78)**	**453**
Net profit (loss)	**43**	**233**	**61**	**4**	**(60)**	**281**

	Small businesses	Corporate banking	Commercial banking	Private banking	Overseas activities	Total
	For the six months ended 30 June 2012					
	NIS millions					
Net interest income	101	269	102	5	59	536
Noninterest income	32	115	26	5	17	195
Total income	133	384	128	10	76	731
Expenses (income) in respect of credit losses	(2)	(124)	(1)	-	-	(127)
Operating and other expenses	51	71	34	5	28	189
Profit before taxes	84	437	95	5	48	669
Net profit	54	283	61	3	34	435

Net profit from real estate activity in the first half of 2013 amounted to NIS 281 million, compared to NIS 435 million in the corresponding period last year, the decrease deriving mainly from expenses in respect of credit losses recorded this year, compared with income in respect of credit losses in 2012.

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 six months of		
	2013	2012	Change
	NIS millions		%
The Bank (4)	**963**	360	+
Consolidated companies in Israel (1) (4)	**326**	237	37.6
Overseas consolidated companies (2)	**(118)**	109	-
Companies included on equity basis (1)	**(127)**	5	-
Net profit	**1,044**	711	46.8
Overseas subsidiaries' profit, in nominal terms (US$ millions) (3)	**(6.7)**	26.5	-

(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 half of 2013 were included with the profits of the Bank. In the first half of 2012, NIS 155 million were included 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 Partners and Leumi Card.

- The loss of overseas subsidiaries derives mainly to an increase in credit loss expenses in the United Kingdom and United States offices.

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

The loss of the overseas units in nominal terms, as published by them, translated for convenience to US dollars, totaled some US$ 6.7 million, compared with a net profit of US$ 26.5 million in 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 117.7 million, compared with a profit of NIS 108.7 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 5,020 million on 30 June 2013, compared with NIS 4,796 million on 31 December 2012. The contribution to net profit in the first half of 2013 was some NIS 326 million, compared with some NIS 237 million in the corresponding period in 2012, an increase of 37.3%, after canceling the effect of Leumi Mortgage Bank, an increase of NIS 244 million.

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

	Return on Group investment		Contribution to Group profit (1)		
	For the period ended 30 June				Rate of change
	2013	2012	**2013**	2012	
	%		NIS millions		%
Leumi Mortgage Bank (2)	**-**	11.4	**-**	155.1	-
Arab Israel Bank	**23.6**	24.7	**52.5**	50.6	3.7
Leumi Card	**17.0**	17.6	**81.3**	74.1	9.7
Leumi Partners (3)	**78.5**	-	**150.5**	(91.3)	+
Leumi Real Holdings	**1.4**	3.4	**6.2**	14.9	(58.4)
Leumi Leasing and Investments	**2.4**	3.1	**11.7**	14.5	(19.3)
Others	**4.6**	4.1	**23.4**	19.2	21.9
Total consolidated companies in Israel	**14.0**	6.6	**325.6**	237.1	37.3
Total consolidated companies in Israel after canceling the effect of Leumi Mortgage Bank	**14.0**	3.7	**325.6**	82.0	+

(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 4,653 million on 30 June 2013, compared with NIS 4,940 million on 31 December 2012.

In the first half of 2013, the contribution of overseas consolidated subsidiaries to the net operating profit of the Group amounted to a loss of NIS 118 million, compared with a profit of NIS 109 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 30 June				Rate of change
	2013	2012	**2013**	2012	
	%		NIS millions		%
Leumi USA (BLC) *	**1.0**	3.6	**12.6**	44.6	(71.7)
Leumi UK*	**-**	19.7	**(138.6)**	68.8	-
Leumi Private Bank	**2.0**	-	**10.5**	(18.7)	+
Leumi Luxembourg	**4.0**	11.0	**3.0**	7.2	(58.3)
Leumi Re	**3.9**	4.0	**1.8**	1.6	12.5
Leumi Romania	**-**	5.4	**(5.1)**	6.4	-
Others	**-**	1.8	**(1.9)**	(1.2)	-
Total overseas consolidated companies	**-**	4.6	**(117.7)**	108.7	-

* The decrease in the profits of the offices in the United States and the United Kingdom derives from expenses in respect of credit losses recorded in the offices.

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

	For the six months ended 30 June		
	2013	2012	Change
	In millions		%
Leumi USA (BLC) - US$	**3.4**	11.7	(70.9)
Of which: BL USA - US$	**3.1**	11.4	(72.8)
Leumi UK - £	**(13.3)**	6.5	-
Leumi Private Bank - CHF	**4.0**	(1.6)	+
Leumi Luxembourg - €	**2.0**	1.5	33.3
Leumi Re - US$	**2.2**	1.2	83.3
Leumi Romania – ron	**4.7**	11.7	(59.8)
Total translated to the dollar	**(6.5)**	26.5	-

* 1 ron = NIS 1.062

Towards the end of 2012, Bank Leumi USA (BLUSA) began to implement the "Running for 10" strategic plan, which includes a number of initiatives intended to improve the Bank's long-term profitability by strengthening its business focus, improving its abilities and core systems and operating efficiency. As part of this program, BLUSA entered into a number of agreements in connection with the sale of its interests in two buildings in New York. The execution of the agreements is contingent on complex commercial agreements, which, if all of them are fulfilled, BLUSA believes that the sale is likely to take place by the end of 2015. In view of the uncertainty, it is not possible, at this stage, to provide a reliable estimate of the expected profit from the sale, if such sale does take place.

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

Non-Banking Activities of Companies Included on Equity Basis

Total investments of the Group in companies included on equity basis on 30 June 2013 amounted to NIS 1,978 million, compared with NIS 2,129 million on 31 December 2012.

During the first half of 2013, the contribution to net profit amounted to a loss of NIS 111 million, compared with a profit of NIS 24 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

The risk picture in the second quarter was not significantly changed compared to the first quarter of 2013. The main risk focuses remained almost unchanged, with the risk of fluctuations and the increase in long-term interest rates becoming acute in Israel and around the world, mainly as a result of declarations of the U.S. Federal Reserve's declarations regarding the change in monetary expansion policy. Leumi continues to monitor the risk in accordance with policy determined for managing and minimizing the risks.

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 30 June 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.

On 30 May 2013, the Bank of Israel published final instructions for the adoption of the Basel III directives in Israel. The directives will come into force on 1 January 2014. The changes in the directives vis-à-vis the drafts are not material, relating mane to the change in incidence, including the transition period relating to the regulatory adjustments to and deductions from capital, minimum interests, the balance of other comprehensive income or loss in respect of a defined employee benefit, and to weight a surplus investment in a single non-bank corporation.

On 26 June 2013, the Bank of Israel published a draft relating to the disclosure requirements of Basel III relating to the composition of capital. The way in which the requirements will be implemented is currently being examined.

According to an estimate, based upon the Bank's interpretation of the Bank of Israel's directives, relating to the adoption of the Basel III directives, assuming full and immediate implementation (without taking into account the transitional provisions), on 30 June 2013, the Tier 1 shareholders' equity ratio of Leumi Group was 8.66%, compared with 9.03%, 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 0.06%), 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 0.08%). 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 addition, on 30 May 2013, the Bank of Israel published the provisions of Proper Conduct of Banking Business Regulation no. 333 for Interest Risk Management, which is based mainly on the principles of Basel for the management and supervision of interest risk, which were published in 2004 and generally accepted standards throughout the world. The directive comes into effect on 1 July 2014. The Bank is prepared accordingly.

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 9	Note 4
Capital adequacy (quantitative and qualitative)	3	Page 10	-
Risk exposures and its assessment – general qualitative disclosure		-	-
Credit risk exposures by main credit	4(b)	Page 93	-
Exposures to foreign countries by geographical region	4(c)	Page 108	Exhibit D
Credit risk exposures by counterparty and main credit type	4(d)	Pages 93-94	-
Credit exposures by period to maturity	4(e)	Page 95	-
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 96-100	-
Reduction of credit risk (qualitative and quantitative)	7	Pages 101-102	-
Credit exposures in derivatives of counterparty (qualitative and quantitative)	8	Pages 103-104	-
Securitization (qualitative and quantitative)	9(f) 9(g)	Page 50 Page 50	Note 2
Market risk (qualitative and quantitative)	10	Page 110	-
Operational risk- qualitative disclosure	12	Page 120	-
Investment in shares (qualitative and quantitative)	13(b)	Page 52	-
Investments in shares of companies included on equity basis	13(b)	Page 81	-
Interest risk	14	Pages 113-114	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	**30 June 2013**	30 June 2012	31 December 2012	**30 June 2013**	30 June 2012	31 December 2012
	Gross credit risk exposure			Average gross credit risk exposure		
	NIS million			NIS million		
Credit	**282,819**	281,199	297,282	**291,366**	289,414	291,169
Debentures	**45,875**	48,152	43,043	**43,024**	41,510	42,445
Others	**16,065**	13,951	15,530	**15,781**	14,067	14,531
Guarantees and liabilities on account of customers	**120,499**	120,064	117,189	**118,712**	116,491	117,487
Transactions in derivative financial instruments	**7,795**	7,347	6,396	**7,026**	7,313	7,072
Total	**473,053**	470,713	479,440	**475,909**	468,795	472,704

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

	30 June 2013					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivative instruments	Total
	NIS millions					
Sovereign debts	**33,187**	**31,175**	**-**	**132**	**68**	**64,562**
Debts of public-sector entities	**3,312**	**4,899**	**-**	**112**	**18**	**8,341**
Debts of banking corporations	**8,242**	**3,531**	**-**	**1,995**	**3,169**	**16,937**
Debts of corporations	**109,254**	**4,134**	**-**	**75,944**	**4,445**	**193,777**
Debts collateralized by commercial real estate	**16,642**	**-**	**-**	**2,318**	**-**	**18,960**
Retail exposures to individuals	**31,553**	**-**	**-**	**29,072**	**90**	**60,715**
Loans to small businesses	**14,406**	**-**	**-**	**4,487**	**5**	**18,898**
Housing mortgages	**66,223**	**-**	**-**	**6,439**	**-**	**72,662**
Securitization	**-**	**2,136**	**-**	**-**	**-**	**2,136**
Other assets	**-**	**-**	**16,065**	**-**	**-**	**16,065**
Total credit risk	**282,819**	**45,875**	**16,065**	**120,499**	**7,795**	**473,053**

	30 June 2012					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivative instruments	Total
	NIS millions					
Sovereign debts	28,182	34,703	-	165	27	63,077
Debts of public-sector entities	3,200	3,233	-	136	-	6,569
Debts of banking corporations	8,479	4,872	-	1,723	2,688	17,762
Debts of corporations	120,460	3,784	-	78,569	4,585	207,398
Debts collateralized by commercial real estate	18,677	-	-	1,716	-	20,393
Retail exposures to individuals	28,721	-	-	27,908	47	56,676
Loans to small businesses	13,754	-	-	4,170	-	17,924
Housing mortgages	59,726	-	-	5,677	-	65,403
Securitization	-	1,560	-	-	-	1,560
Other assets	-	-	13,951	-	-	13,951
Total credit risk	281,199	48,152	13,951	120,064	7,347	470,713

	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):

	30 June 2013					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivative instruments	Total
	NIS millions					
Up to one year	**141,386**	**21,088**	**2,735**	**74,379**	**4,526**	**244,114**
From one to five years	**67,731**	**12,433**	**1,401**	**28,590**	**5,050**	**115,205**
More than five years	**73,574**	**12,354**	**3,207**	**17,530**	**7,020**	**113,685**
Non-monetary items	**128**	**-**	**8,722**	**-**	**3,132**	**11,982**
Benefits for offset	**-**	**-**	**-**	**-**	**(11,933)**	**(11,933)**
Total	**282,819**	**45,875**	**16,065**	**120,499**	**7,795**	**473,053**

	30 June 2012					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivative instruments	Total
	NIS millions					
Up to one year	144,255	26,727	2,626	79,077	5,513	258,198
From one to five years	65,779	14,087	738	26,686	3,131	110,421
More than five years	71,129	7,338	2,493	14,301	7,816	103,077
Non-monetary items	36	-	8,094	-	1,522	9,652
Benefits for offset	-	-	-	-	(10,635)	(10,635)
Total	281,199	48,152	13,951	120,064	7,347	470,713

	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):

	30 June 2013											
	0%	20%	35%	40%	50%	75%	100%	150%	225%	650%	Deduction from capital	Gross credit exposure (1)
	NIS millions											
Sovereign debts	**61,391**	**2,427**	**-**	**-**	**380**	**-**	**364**	**-**	**-**	**-**	**-**	**64,562**
Debts of public-sector entities	**-**	**4,869**	**-**	**-**	**3,469**	**-**	**2**	**1**	**-**	**-**	**-**	**8,341**
Debts of banking corporations	**138**	**12,222**	**-**	**-**	**3,232**	**-**	**1,345**	**-**	**-**	**-**	**-**	**16,937**
Debts of corporations	**-**	**917**	**-**	**-**	**1,285**	**-**	**188,636**	**2,939**	**-**	**-**	**-**	**193,777**
Debts collateralized by commercial real estate	**-**	**-**	**-**	**-**	**-**	**-**	**18,198**	**762**	**-**	**-**	**-**	**18,960**
Retail exposures to individuals	**-**	**-**	**-**	**-**	**-**	**60,361**	**187**	**167**	**-**	**-**	**-**	**60,715**
Loans to small businesses	**-**	**-**	**-**	**-**	**-**	**18,559**	**139**	**200**	**-**	**-**	**-**	**18,898**
Housing mortgages	**-**	**-**	**42,047**	**-**	**2,798**	**21,723**	**5,899**	**195**	**-**	**-**	**-**	**72,662**
Securitization	**-**	**1,157**	**-**	**317**	**277**	**-**	**326**	**-**	**51**	**2**	**6**	**2,136**
Other assets	**1,998**	**-**	**-**	**-**	**-**	**-**	**13,631**	**436**	**-**	**-**	**-**	**16,065**
Total	**63,527**	**21,592**	**42,047**	**317**	**11,441**	**100,643**	**228,727**	**4,700**	**51**	**2**	**6**	**473,053**

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

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

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

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

	30 June 2013											
	0%	20%	35%	40%	50%	75%	100%	150%	225%	650%	Deduction from capital	Gross credit exposure (1)
	NIS millions											
Sovereign debts	**61,390**	**2,427**	**-**	**-**	**380**	**-**	**364**	**-**	**-**	**-**	**-**	**64,561**
Debts of public-sector entities	**-**	**4,870**	**-**	**-**	**3,468**	**-**	**2**	**1**	**-**	**-**	**-**	**8,341**
Debts of banking corporations	**138**	**12,220**	**-**	**-**	**3,231**	**-**	**1,345**	**-**	**-**	**-**	**-**	**16,934**
Debts of corporations	**-**	**917**	**-**	**-**	**1,285**	**-**	**185,982**	**2,903**	**-**	**-**	**-**	**191,087**
Debts collateralized by commercial real estate	**-**	**-**	**-**	**-**	**-**	**-**	**18,157**	**734**	**-**	**-**	**-**	**18,891**
Retail exposures to individuals	**-**	**-**	**-**	**-**	**-**	**60,030**	**121**	**164**	**-**	**-**	**-**	**60,315**
Loans to small businesses	**-**	**-**	**-**	**-**	**-**	**18,367**	**62**	**198**	**-**	**-**	**-**	**18,627**
Housing mortgages	**-**	**-**	**41,893**	**-**	**2,786**	**21,684**	**5,621**	**186**	**-**	**-**	**-**	**72,170**
Securitization	**-**	**1,157**	**-**	**317**	**277**	**-**	**326**	**-**	**51**	**2**	**6**	**2,136**
Other assets	**1,998**	**-**	**-**	**-**	**-**	**-**	**13,631**	**436**	**-**	**-**	**-**	**16,065**
Total	**63,526**	**21,591**	**41,893**	**317**	**11,427**	**100,081**	**225,611**	**4,622**	**51**	**2**	**6**	**469,127**

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

	30 June 2013											
	0%	20%	35%	40%	50%	75%	100%	150%	225%	650%	Deduction from capital	Gross credit exposure (1)
	NIS millions											
Sovereign debts	**67,105**	**2,427**	**-**	**-**	**373**	**-**	**295**	**-**	**-**	**-**	**-**	**70,200**
Debts of public-sector entities	**496**	**2,499**	**-**	**-**	**3,461**	**-**	**2**	**1**	**-**	**-**	**-**	**6,459**
Debts of banking corporations	**138**	**10,663**	**-**	**-**	**3,299**	**-**	**1,265**	**-**	**-**	**-**	**-**	**15,365**
Debts of corporations	**-**	**753**	**-**	**-**	**1,285**	**-**	**169,191**	**2,794**	**-**	**-**	**-**	**174,023**
Debts collateralized by commercial real estate	**-**	**-**	**-**	**-**	**-**	**-**	**17,328**	**733**	**-**	**-**	**-**	**18,061**
Retail exposures to individuals	**-**	**-**	**-**	**-**	**-**	**57,798**	**102**	**163**	**-**	**-**	**-**	**58,063**
Loans to small businesses	**-**	**-**	**-**	**-**	**-**	**15,933**	**56**	**190**	**-**	**-**	**-**	**16,179**
Housing mortgages	**-**	**-**	**41,891**	**-**	**2,781**	**21,584**	**5,618**	**186**	**-**	**-**	**-**	**72,060**
Securitization	**-**	**1,157**	**-**	**317**	**277**	**-**	**326**	**-**	**51**	**2**	**6**	**2,136**
Other assets	**1,998**	**-**	**-**	**-**	**-**	**-**	**13,631**	**436**	**-**	**-**	**-**	**16,065**
Total	**69,737**	**17,499**	**41,891**	**317**	**11,476**	**95,315**	**207,814**	**4,503**	**51**	**2**	**6**	**448,611**

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

	30 June 2012									
	0%	20%	35%	50%	75%	100%	150%	350%	Deduction from equity	Gross credit exposure (1)
	NIS millions									
Sovereign debts	59,066	3,325	-	364	-	322	-	-	-	63,077
Debts of public-sector entities	-	3,190	-	3,358	-	20	1	-	-	6,569
Debts of banking corporations	-	14,054	-	3,196	-	512	-	-	-	17,762
Debts of corporations	-	372	-	1,370	-	201,225	4,431	-	-	207,398
Debts collateralized by commercial real estate	-	-	-	-	-	19,657	736	-	-	20,393
Retail exposures to individuals	-	-	-	-	56,387	137	152	-	-	56,676
Loans to small businesses	-	-	-	-	17,523	264	137	-	-	17,924
Housing mortgages	-	-	41,152	-	18,298	5,743	210	-	-	65,403
Securitization	-	1,197	-	310	-	18	-	-	35	1,560
Other assets	2,269	-	-	-	-	11,253	429	-	-	13,951
Total	61,335	22,138	41,152	8,598	92,208	239,151	6,096	-	35	470,713

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

	30 June 2012									
	0%	20%	35%	50%	75%	100%	150%	350%	Deduction from capital	Gross credit exposure (1)
	NIS millions									
Sovereign debts	59,066	3,325	-	364	-	322	-	-	-	63,077
Debts of public-sector entities	-	3,189	-	3,356	-	20	1	-	-	6,566
Debts of banking corporations	-	14,051	-	3,196	-	512	-	-	-	17,759
Debts of corporations	-	372	-	1,370	-	198,687	4,375	-	-	204,804
Debts collateralized by commercial real estate	-	-	-	-	-	19,645	709	-	-	20,354
Retail exposures to individuals	-	-	-	-	55,993	83	150	-	-	56,226
Loans to small businesses	-	-	-	-	17,351	111	136	-	-	17,598
Housing mortgages	-	-	41,065	-	18,255	5,409	198	-	-	64,927
Securitization	-	1,197	-	310	-	18	-	-	35	1,560
Other assets	2,269	-	-	-	-	11,253	429	-	-	13,951
Total	61,335	22,134	41,065	8,596	91,599	236,060	5,998	-	35	466,822

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

	30 June 2012									
	0%	20%	35%	50%	75%	100%	150%	350%	Deduction from capital	Gross credit exposure (1)
	NIS millions									
Sovereign debts	60,948	3,325	-	364	-	255	-	-	-	64,892
Debts of public-sector entities	542	1,703	-	3,351	-	20	1	-	-	5,617
Debts of banking corporations	-	13,397	-	3,124	-	457	-	-	-	16,978
Debts of corporations	-	372	-	1,370	-	188,078	4,260	-	-	194,080
Debts collateralized by commercial real estate	-	-	-	-	-	18,869	708	-	-	19,577
Retail exposures to individuals	-	-	-	-	53,710	83	147	-	-	53,940
Loans to small businesses	-	-	-	-	15,157	110	132	-	-	15,399
Housing mortgages	-	-	41,062	-	18,160	5,406	198	-	-	64,826
Securitization	-	1,197	-	310	-	18	-	-	35	1,560
Other assets	2,269	-	-	-	-	11,253	429	-	-	13,951
Total	63,759	19,994	41,062	8,519	87,027	224,549	5,875	-	35	450,820

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):

	30 June 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	**64,562**	**64,561**	**(76)**	**5,716**	**(1)**	**70,200**
Debts of public-sector entities	**8,341**	**8,341**	**(2,372)**	**496**	**(6)**	**6,459**
Debts of banking corporations	**16,937**	**16,934**	**(1,129)**	**449**	**(889)**	**15,365**
Debts of corporations	**193,777**	**191,087**	**(2,973)**	**-**	**(14,091)**	**174,023**
Debts collateralized by commercial real estate	**18,960**	**18,891**	**(93)**	**-**	**(737)**	**18,061**
Retail exposures to individuals	**60,715**	**60,315**	**(3)**	**-**	**(2,249)**	**58,063**
Loans to small businesses	**18,898**	**18,627**	**(13)**	**-**	**(2,435)**	**16,179**
Housing mortgages	**72,662**	**72,170**	**(2)**	**-**	**(108)**	**72,060**
Securitization	**2,136**	**2,136**	**-**	**-**	**-**	**2,136**
Other assets	**16,065**	**16,065**	**-**	**-**	**-**	**16,065**
Total	**473,053**	**469,127**	**(6,661)**	**6,661**	**(20,516)**	**448,611**

	30 June 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	63,077	63,077	(66)	1,882	(1)	64,892
Debts of public-sector entities	6,569	6,566	(1,487)	540	(2)	5,617
Debts of banking corporations	17,762	17,759	(767)	410	(424)	16,978
Debts of corporations	207,398	204,804	(460)	-	(10,264)	194,080
Debts collateralized by commercial real estate	20,393	20,354	(30)	-	(747)	19,577
Retail exposures to individuals	56,676	56,226	(5)	-	(2,281)	53,940
Loans to small businesses	17,924	17,598	(17)	-	(2,182)	15,399
Housing mortgages	65,403	64,927	-	-	(101)	64,826
Securitization	1,560	1,560	-	-	-	1,560
Other assets	13,951	13,951	-	-	-	13,951
Total	470,713	466,822	(2,832)	2,832	(16,002)	450,820

	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	72,669	(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)	496	(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):

	30 June 2013	
	Par value balance	Net credit exposure of derivatives
	NIS millions	
Interest contracts	**329,744**	**10,429**
Foreign currency contracts	**191,979**	**6,114**
Contracts in respect of shares	**53,125**	**2,835**
Commodities and other contracts	**6,291**	**348**
Credit derivative transactions (1)	**181**	**2**
Offset benefits (2)	**-**	**(11,933)**
Eligible collateral	**-**	**(2,272)**
Total	**581,320**	**5,523**

	30 June 2012	
	Par value balance	Net credit exposure of derivatives
	NIS millions	
Interest contracts	265,498	9,839
Foreign currency contracts	194,564	6,395
Contracts in respect of shares	16,901	1,522
Commodities and other contracts	1,765	226
Credit derivative transactions (1)	-	-
Offset benefits (2)	-	(10,635)
Eligible collateral	-	(412)
Total	478,728	6,935

	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 30 June 2013:**

	AAA to AA-	A+	A	A-	BBB to BBB-	BB+ to B-	Unrated	Total
Foreign banks	NIS millions							
Euro zone (1)	**2,202**	**-**	**-**	**-**	**-**	**-**	**-**	**2,202**
United Kingdom (2)	**1,965**	**-**	**-**	**-**	**-**	**-**	**-**	**1,965**
United States	**2,458**	**-**	**-**	**-**	**-**	**-**	**-**	**2,458**
Other	**413**	**-**	**-**	**-**	**8**	**-**	**22**	**443**
Total foreign banks	**7,038**	**-**	**-**	**-**	**8**	**-**	**22**	**7,068**
Israeli banks (3)	**-**	**1,686**	**-**	**-**	**-**	**-**	**9**	**1,695**
Corporate customers, according to sectors of the economy								
Financial services (4)								**2,259**
Industry (5)								**553**
Construction and real estate								**95**
Transportation and storage								**15**
Trade								**105**
Electricity and water								**4**
Business services								**39**
Private individuals								**17**
Communications and computer services								**38**
Others								**27**
Total corporate customers								**3,152**
Others*								**-**
Total exposure								**11,915**

* 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 7 countries.
(2) This amount includes transactions with 11 banks.
(3) This amount includes transactions with 9 banks.
(4) This amount includes transactions with 411 customers, where the highest amount for a single customer is NIS 613 million.
(5) This amount includes transactions with 276 customers, where the highest amount for a single customer is NIS 378 million.

3. Credit exposure to foreign financial institutions

Credit exposure to foreign financial institutions (1):

	As at 30 June 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-	**12,677**	**4,150**	**1,139**	**17,966**
A+ to A-	**733**	**384**	**33**	**1,150**
BBB+ to BBB-	**209**	**1,121**	**218**	**1,548**
BB+ to B-	**84**	**76**	**7**	**167**
Below B-	**-**	**-**	**-**	**-**
Unrated	**145**	**-**	**-**	**145**
Total current credit exposure to foreign financial institutions	**13,848**	**5,731**	**1,397**	**20,976**
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 1,265 million at June 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) 23%, United Kingdom 20%, and other countries 12%.

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

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

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

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

4. Exposure to foreign countries:

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

	30 June 2013		
	Balance sheet credit risk	Off-balance sheet credit risk (1)	Total credit risk
	NIS millions		
USA	**24,348**	**6,276**	**30,624**
UK	**11,495**	**2,062**	**13,557**
France	**3,016**	**330**	**3,346**
Germany	**4,152**	**169**	**4,321**
Switzerland	**3,324**	**679**	**4,003**
Belgium	**820**	**60**	**880**
Italy	**362**	**31**	**393**
The Netherlands	**2,445**	**153**	**2,598**
Denmark	**408**	**11**	**419**
Norway	**41**	**-**	**41**
Austria	**283**	**34**	**317**
Sweden	**574**	**16**	**590**
China	**420**	**540**	**960**
Others	**4,403**	**900**	**5,303**
Total	**56,091**	**11,261**	**67,352**

	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 30 June 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	**52,517**	**9,930**	**62,447**	**92.7**	**1,342**
High-income countries	**845**	**210**	**1,055**	**1.6**	**2**
Countries with mid-high income	**2,578**	**881**	**3,459**	**5.1**	**518**
Countries with mid-low income	**142**	**240**	**382**	**0.6**	**3**
Countries with low income	**9**	**-**	**9**	**-**	**-**
Total	**56,091**	**11,261**	**67,352**	**100**	**1,865**

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 1,220 million and relates to 12 countries.

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

High income - exceeding US$ 12,616 per capita
Mid-high income - from US$ 4,086 to US$ 12,615 per capita
Mid-low income - from US$ 1,036 to US$ 4,085 per capita
Low income – up to US$ 1,035 per capita

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

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

b. Countries with high income:

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

c. Countries with mid-high income:

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

d. Countries with mid-low income:

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

e. Countries with low income:

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

Overall exposure to certain foreign countries:

Country	30 June 2013 Credit to the public	Bonds – Banks and others	Bank deposits	Other	Total
	NIS millions				
Italy (1)	**97**	**251**	**14**	**32**	**394**
Ireland	**4**	**1**	**-**	**-**	**5**
Greece	**6**	**-**	**-**	**-**	**6**
Spain	**19**	**(2) 138**	**1**	**5**	**163**
Total (3)	**126**	**390**	**15**	**37**	**568**

(1) Of which, NIS 251 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):

	30 June 2013	30 June 2012	31 December 2012
	NIS millions		
Capital requirement in respect of:			
Interest risks	**819**	629	673
Share price risk	**77**	4	14
Exchange rate risk	**148**	111	117
Options	**48**	73	70
Total capital requirement in respect of market risks	**1,092**	817	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 - on the average of the total balance of current accounts. Accordingly, for purposes of measuring and managing interest rate exposure, Bank policy is to regard part of the average non-interest bearing current account balances as a long-term liability. Periodically, the change in the average 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 Bank is prepared for implementing the interest risk management regulations which will come into force on 1 July 2014.

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

	Potential erosion in economic value		Potential erosion in annual profit	
Effect of immediate parallel change of 1% on the yield curve	**30 June 2013**	31 December 2012	**30 June 2013**	31 December 2012
Actual	**1,038**	742	**257**	182
Limit	**1,100**	1,100	**500**	500

* The calculations are presented excluding the effect of the fact that in the environment of very low interest rates,, the more the interest rates continue to fall and become closer to zero, the higher the impairment of the financial margin (because of the interest "floor" on deposits), and therefore the erosion in economic value is higher.

In the first half of 2013, the potential erosion in the economic value ranged from NIS 625 million to NIS 1,038 million and in annual profit, from NIS 113 million to NIS 257 million.

[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.

In the first half of 2013, the Group complied with all of the exposure restrictions for interest prescribed by the Board of Directors.

Sensitivity of the fair value of assets and liabilities to interest

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

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

	30 June 2013				
	Israeli currency		Foreign currency, including Israeli currency linked to foreign currency		
	Unlinked	CPI-linked	Dollar	Euro	Others
	NIS millions				
Financial assets	**201,061**	**61,122**	**54,523**	**11,419**	**12,782**
Amounts receivable in respect of derivative financial and off-balance sheet instruments	**320,153**	**6,683**	**113,930**	**29,040**	**23,737**
Financial liabilities	**160,818**	**53,809**	**78,374**	**16,641**	**10,945**
Amounts payable in respect of derivative financial and off-balance sheet instruments	**340,340**	**12,025**	**93,137**	**23,342**	**25,597**
Net fair value of financial instruments	**20,056**	**1,971**	**(3,058)**	**476**	**(23)**

	30 June 2012				
	Israeli currency		Foreign currency, including Israeli currency linked to foreign currency		
	Unlinked	CPI-linked	Dollar	Euro	Others
	NIS millions				
Financial assets	188,409	65,309	64,130	11,461	14,240
Amounts receivable in respect of derivative financial and off-balance sheet instruments	236,862	4,718	134,224	30,061	34,224
Financial liabilities	160,830	53,864	81,984	17,101	11,097
Amounts payable in respect of derivative financial and off-balance sheet instruments	250,052	10,557	117,573	24,411	37,949
Net fair value of financial instruments	14,389	5,606	(1,203)	10	(582)

	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):

	30 June 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%	**19,196**	**1,943**	**(3,313)**	**460**	**(28)**	**(1,164)**	**(5.99)**
Immediate corresponding increase of 0.1%	**19,970**	**1,968**	**(3,084)**	**474**	**(24)**	**(118)**	**(0.61)**
Immediate corresponding decrease of 1%	**20,948**	**1,910**	**(2,817)**	**492**	**(15)**	**1,096**	**5.64**

	30 June 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%	14,123	5,770	(1,345)	23	(603)	(252)	(1.38)
Immediate corresponding increase of 0.1%	14,362	5,622	(1,217)	11	(584)	(26)	(0.14)
Immediate corresponding decrease of 1%	14,728	5,468	(1,098)	(1)	(558)	319	1.75

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

	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				
Change in interest rates	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 half 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.

	30 June 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)	**1.17**	**2.95**	**0.83**	1.04	2.81	0.78
Average duration of liabilities (1)	**1.10**	**3.15**	**0.71**	0.98	3.26	0.70
Duration gap in years	**0.07**	**(0.20)**	**0.12**	0.06	(0.45)	0.08
Internal rate of return (IRR) gap (%)	**1.18**	**0.58**	**1.35**	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 3.18 years, with an internal rate of return (hereinafter: IRR) gap of 0.32%.

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 3.29 years, and an IRR gap of about 0.32%.

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 1.15 years in unlinked shekels and 0.77 years in foreign currency, with an IRR gap of 1.16% and 1.03%, 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)	**30 June 2013**	30 June 2012	31 December 2012
Unlinked	(65%)-65%	**0.7**	(15.1)	(5.2)
CPI-linked	(50%)-50%	**(1.2)**	14.2	3.9
Foreign currency	(15%)-15%	**0.5**	0.9	1.3

During the first half of 2013, the CPI-linked surplus was about 7% of the exposed capital, which fluctuates between a deficit of (1%) and a surplus of 11% 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 half 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 30 June 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	**(11)**	**36**	**(1)**	**(4)**	**2**
Increase of 10% in exchange rate	**11**	**74**	**(4)**	**(7)**	**3**
Decrease of 5% in exchange rate	**12**	**(22)**	**(1)**	**5**	**1**
Decrease of 10% in exchange rate	**14**	**(35)**	**(2)**	**10**	**6**

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		
	30 June 2013	30 June 2012	31 December 2012	**30 June 2013**	30 June 2012	31 December 2012
Actual	**122**	164	142	**67**	63	41
Limit	**500**	500	500	**400**	400	400

In the first half of 2013, the VaR on the economic value ranged from a maximum of NIS 122 million and a minimum of NIS 92 million, and the VaR on the portfolios revalued at fair value ranged from a maximum of NIS 67 million to a minimum of NIS 30 million, respectively.

In the first half 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 28.2 billion and in securities, some NIS 32.1 billion, principally in government debentures. Surplus liquid means in foreign currency are invested primarily in debentures amounting to some NIS 21.9 billion, and in bank deposits, some NIS 8.9 billion.

The balance of public deposits in the Bank, not including subordinated notes, fell during the second quarter of 2013 by NIS 14.3 billion (4.9%), and after canceling the effect of exchange rate differentials, the decrease was NIS 10.4 billion (3.6%).

The decrease in the shekel segment amounted to NIS 8.2 billion (4.5%) and in foreign currency and foreign currency linked segment amounted to NIS 6.0 billion, (5.6%) and, after canceling the effect of exchange rate differentials, a decrease of NIS 2.2 billion (2.1%).

Monitoring liquidity risk

The Bank routinely monitors the liquidity position and the liquidity risk indices. Liquidity risk is measured and managed using an internal model whose purpose is to examine and monitor the liquid resources at the Bank's disposal 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, the daily liquidity situation is monitored in real-time, using the Bank's existing information systems and on the basis of the forecast of the daily 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.

Pursuant thereto, the Bank has begun to measure the minimum liquidity coverage ratio (LCR), an index for the short-term liquidity crisis, which is intended to estimate the Bank's ability to finance its expected obligations in the scenario with a range of one month. The directive requires that the minimum liquidity ratio be more that 1 and the Bank has complied with this requirement.

Linkage Status and Liquidity Position

Linkage Status

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

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

	As at 30 June 2013			As at 31 December 2012		
	Unlinked	CPI-linked	Foreign currency (2)	Unlinked	CPI-linked	Foreign currency (2)
	NIS millions					
Total assets (1)	**216,352**	**58,352**	**113,234**	216,020	60,341	120,100
Total liabilities (1)	**194,329**	**60,719**	**116,193**	196,437	62,127	120,924
Excess (deficit) of assets in segment	**22,023**	**(2,367)**	**(2,959)** (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 raising finance from a large number of customers, various customer segments, for varying periods, and in various currencies.

Leumi monitors, on an ongoing basis, its liquidity position through metrics that are intended to alert it to changes in the liquidity position by using, *inter alia*, internal models developed in Leumi pursuant to a directive of the Bank of Israel, and in accordance with generally accepted standards throughout the world.

The volume of the balances of the banking system (current accounts and monetary deposits) in the Bank of Israel at the end of June 2013 amounted to some NIS 106 billion compared with some NIS 126 billion at the end of Dec 2012. The volume of Leumi's balances in the Bank of Israel at the end of June 2013 amounted to some NIS 28 billion, compared with NIS 36 billion at the end of December 2012.

The Bank also has a securities portfolio of some NIS 52 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 24.8% of the financial assets of the Bank, a decrease of some 2.4% compared with the level at 31 December 2012.

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 half 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 30 June 2013, some NIS 255.8 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 25 August 2013, the Antitrust Commissioner ("the Commissioner") is expected to extend 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 ABS – Automatic Bank Services Ltd. (hereinafter "ABS") which is in force until 1 August 2013 and to determine the conditions of the extension. According to the Commissioner's notice, until this date, he does not intend to take any enforcement measures. On 7 August 2013, ABS signed an agreement to sell its automated cash-dispensing activity, subject to fulfillment of the conditions precedent in the agreement, pursuant to the decision of the Commissioner on this matter.

(b) The United States authorities (the “U.S. authorities”) are conducting an investigation into foreign banks, including Bank Leumi Group ("the Group"), in connection with activities of the Group with customers who are U.S. taxpayers ("U.S. customers"), on suspicion of a breach of U.S. law. In the context of the progress of the investigation, authorities, including the tax authorities, have issued subpoenas to the Group, including the Bank, for information and documents concerning U.S. customers and have summoned customers and Group employees, to give evidence 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 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. The Bank has 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

Corporate responsibility

At the beginning of 2013, the Ma'ala rating for corporate responsibility for 2013 was published. Leumi was rated in the highest rating group – the platinum plus category. The rating reflects the numerous resources invested in the subject and Leumi's unceasing commitment to the management of the area. Leumi Card and the Arab Israel Bank were also rated in the platinum plus group.

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

"Leumi Tomorrow" is a registered association, and, accordingly, at the end of June 2013, the annual financial and verbal reports for 2012 were submitted to the Registrar of Associations.

Towards the end of the academic year, end-of-year events were held in the various programs of the social organizations and associations with which "Leumi Tomorrow" work. In this framework, a celebratory ceremony was held on Mount Herzl in Jerusalem to mark 15 years of "Leumi Tomorrow", which operates for the education of youth on the social and geographical periphery. 3,000 members of "Leumi Tomorrow" from all over Israel, who took part in the event, arrived there after a nighttime stretcher march to mark the end of their year of activity, in which they also carried with them the Maccabiah torch. The ceremony took place in the presence of the President of the State of Israel, Mr. Shimon Peres, the Minister of Education, Rabbi Shai Piron and the Mayor of Jerusalem, Mr. Nir Barkat. Several Leumi employees took part in the event, some joining the young students on their march.

Leumi Promoting Israeli Art

The Visitors' Center in Leumi's Mani House presents for the first time in Tel Aviv the museum collection of Bar-David of Kibbutz Ra'am in northern Israel. The collection from the Northern Museum is one of the extensive in the country, including thousands of works of art and Judaica. The collection was founded in the thirties and forties of the last century by Moshe Bar-David, who was an enthusiastic collector of art with Jewish and Israeli art. In his latter days, Bar-David gifted the collection to Kibbutz Ra'am, which is on the northern border.

Summary of Donations and Sponsorships

In the first six months of 2013, Leumi Group donated funds and provided sponsorships for social welfare and community purposes amounting to some NIS 13.9 million, of which donations totaled some NIS 9.6 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. During the period, there were no significant changes in these details.

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 30 June 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 June 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.

Mr. Ehud Zilberberg was appointed to the position of General Manager of Leumi Switzerland with effect from 1 July 2013.

Retirements:

Mr. Menachem Schwartz ceased to serve in his position as Head of the Accounting Division, Chief Accounting Officer 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.

Mr. Amnon Zeiderberg ceased to serve in his position as General Manager of Leumi Switzerland on 30 June 2013.

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 Accounting Officer, the Accounting Division, which he heads, reports to the Economics and Finance Division headed by Mr. R. Fainaro.

Remuneration policy and bonus plan

On 27 August 2013, the Banking Supervision Department issued a revised draft circular on remuneration policy in a banking corporation. The above draft is likely to have implications on the remuneration policy and bonus plan.

On 7 August 2013, following receipt of the decision of the Board of Directors' remuneration committee, the Board of Directors of the Bank approved the remuneration policy for office-holders in the Bank in accordance with the provisions of Amendment 20 of the Companies Law, and a bonus plan for senior officers which corresponds to the remuneration policy.

Both the remuneration policy and the bonus plan relating to the Chairman of Board of Directors and the President and CEO are subject to the approval of the Special General Meeting of the Bank which has been called for 12 September 2013. See further details in the Immediate Report of the Bank dated 7 August 2013 (ref.: 2013-01-112284).

The remuneration policy provides the framework for the remuneration of office-holders in the Bank, and it includes, *inter alia*, reference to the salary component, to salary-related conditions, to retirement conditions, to the variable remuneration component and to the capital remuneration component. The remuneration policy is intended to remunerate the office-holders in the Bank in accordance with the Bank's performance and profitability over time, including according to the long-term targets of the Bank and the Group, and according to the actual contribution of the office-holders to achieve those targets and performance. Furthermore, the remuneration policy comes to ensure the existence of an appropriate balance of the fixed remuneration component and the variable remuneration component for office-holders, a structure of incentives for office-holders which promotes established and effective risk management, which does not encourage the risk-taking beyond the Bank's risk appetite, and facilitates the conservation of a solid capital base, and continues retaining quality office-holders in a competitive environment for the long-term in the Bank. The remuneration policy will apply to all of the conditions of office and employment of the office-holders in the Bank, which will be approved from the date the remuneration policy is approved and thereafter.

As stated above, the Remuneration Committee of the Board of Directors, and thereafter, the Board of Directors, also approved the bonus plan, which is based on the principles established in the remuneration policy, which will be in force for 2013, 2014 and 2015. The bonus plan is intended to act for the purpose of motivating the senior office-holders in the Bank in accordance with the Bank's targets and its strategic program, taking into account its risk appetite and noting the conditions prevailing in the Bank's business and administrative environment.

The bonus plan represents a specific application of the remuneration policy as regards the following remuneration components: (1) an annual performance-contingent bonus to senior officers to be awarded in respect of each of the years of the bonus plan, as long as it awarded, partly in cash and partly in blocked performance-contingent share units (PSU units), with the amount of the annual bonus and the number of PSU units contingent on, *inter alia*, the long-term operating results of the Bank and the Group; (2) a special personal annual bonus, contingent on performance, to members of management, excluding the President and CEO, to awarded in cash, according to the qualitative criteria which are not quantifiable; (3) a lump-sum capital preservation bonus to the President and CEO and to other members of management in the Bank to be awarded in Restricted Share Units (RSU); and (4) a lump-sum capital bonus to be awarded in RSU units to whoever is elected to serve as Chairman of the Board of Directors of the Bank and after the Bank's 2013 General Meeting.

The remuneration policy and the bonus plan include restrictions and ceilings for the amounts of the bonuses that can be awarded according to the bonus plan to each of the senior officers.

For further details regarding the remuneration policy and the bonus plan, see the Immediate Report of the Bank regarding the convening of a Special General Meeting, which was published on 7 August 2013 (ref: 2013-01-112284) and on 22 August 2013 (ref: 2013-01-123378). For further details regarding the terms of the securities to be issued in accordance with and subject to the provisions of the bonus plan and subject to the approval of the bonus plan at the General Meeting, see Immediate Report of the Bank regarding a significant private offering, which was published on 14 August 2013 (ref.: 2013-01-117687).

Board of Directors

During the first half 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.

Pursuant to the provisions of sections 11c(a)(4) and 11e(a)a(2) of the Banking Ordinance, 1941, on 2 July 2013, the Bank announced that the Board of Directors' intention to convene the Annual General Meeting of the Bank ("the Annual Meeting"). The agenda of the General Meeting will include, *inter alia*, the matters the election of directors and the Board of Directors of the Bank. For further details, see the Bank's Immediate Report dated 2 July 2013 (ref.: 2013-01-081108).

On 21 July 2013, the Board of Directors of the Bank approved the extension of the term of office of Mr. David Brodet as Chairman of the Board of Directors, for a period up to the Annual Meeting. For further details, see the Immediate Report of the Bank dated 21 July 2013 (ref.: 2013-01-098025).

On 7 August 2013, the Bank published a notice for convening a special general meeting to be held on 12 September 2013, with the agenda to include the following topics: (1) the approval of remuneration policy in accordance with the requirements of Amendment 20 of the Companies Law, 1999, (2) the approval of the bonus plan to the Chairman of the Board of Directors and the President and CEO, in accordance with the remuneration policy; (3) a revision of the terms of employment of the President and CEO; (4) an amendment of the Bank's Regulations; (5) an amendment to the letters of indemnity and (6) the ratification of the appointment of external directors. For further details, see Immediate Reports of the Bank dated 7 August 2013 (ref.: 2013-01-112284), 14 August 2013 (ref.: 2013-01-117687), 22 August 2013 (ref.: 2013-01-123378) and page 125 above.

On 14 August 2013, the Bank announced that, as a result of an application from the Committee for the Appointment of Directors in Banking Corporations, which was appointed pursuant to Section 36a of the Banking Law (Licensing), 1981, the Board of Directors resolved to extend the deadline that it had determined for the submission of candidacies for the office of director, in anticipation of the Annual Meeting, to 3 September 2013. For further details, see the Immediate Report of the Bank dated 14 August 2013 (ref.: 2013-01-117174).

At the meeting of the Board of Directors held on 28 August 2013, it was resolved to approve and publish the Group's condensed unaudited consolidated financial statements as of 30 June 2013 and for the period ended on that date.

During the period of January to June 2013, the Board of Directors held 22 plenary meetings and 63 committee meetings.

The Bank's Board of Directors expresses its appreciation and gratitude to employees and managers of the Bank and of Group companies in Israel and overseas for their dedicated work and their contribution to the promotion of the Group's business.

David Brodet	Rakefet Russak-Aminoach
Chairman of the Board of Directors	President and Chief Executive Officer

28 August 2013

Rates of Income and Expenses[1] and Analysis of Changes in Interest Income and Expenses (on Consolidated Basis)

Exhibit A

Part A – Average balances and interest rates - assets

	For the three months ended 30 June					
	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, 10]						
In Israel	**209,244**	**2,589**	**5.04**	208,445	3,131	6.15
Outside Israel	**25,100**	**216**	**3.49**	26,587	211	3.21
Total	**234,344**	**2,805**	**4.87**	235,032	3,342	5.81
Credit to the Government						
In Israel	**420**	**7**	**6.84**	403	8	8.18
Outside Israel	**15**	**-**	**-**	20	-	-
Total	**435**	**7**	**6.59**	423	8	7.78
Deposits in banks						
In Israel	**8,572**	**19**	**0.89**	7,532	16	0.85
Outside Israel	**2,171**	**4**	**0.74**	3,121	5	0.64
Total	**10,743**	**23**	**0.86**	10,653	21	0.79
Deposits in central banks						
In Israel	**24,932**	**96**	**1.55**	20,367	125	2.48
Outside Israel	**4,919**	**3**	**0.24**	4,078	1	0.10
Total	**29,851**	**99**	**1.33**	24,445	126	2.08
Securities borrowed or purchased under resale agreements						
In Israel	**1,030**	**4**	**1.56**	1,857	12	2.61
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**1,030**	**4**	**1.56**	1,857	12	2.61
Bonds available for sale [4,5]						
In Israel	**37,979**	**186**	**1.97**	34,637	260	3.04
Outside Israel	**3,742**	**10**	**1.07**	4,000	23	2.32
Total	**41,721**	**196**	**1.89**	38,637	283	2.96
Bonds for trading [4,5]						
In Israel	**9,971**	**56**	**2.27**	11,146	122	4.45
Outside Israel	**397**	**1**	**1.01**	105	-	-
Total	**10,368**	**57**	**2.22**	11,251	122	4.41
Total interest-bearing assets	**328,492**	**3,191**	**3.94**	322,298	3,914	4.95
Receivables for non-interest bearing credit cards	**6,483**			6,458		
Other non-interest bearing assets[6]	**29,708**			30,002		
Total assets	**364,683**	**3,191**		358,758	3,914	
Total income-bearing assets attributable to activity outside Israel	**36,344**	**234**	**2.60**	37,911	240	2.56

See notes on page 135.

Rates of Income and Expenses[1] and Analysis of Changes in Interest Income and Expenses (on Consolidated Basis) (cont'd)

Exhibit A (cont'd)

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

	For the three months ended 30 June					
	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 of the public						
In Israel	244,675	(833)	(1.37)	241,035	(1,324)	(2.22)
On demand	60,973	(34)	(0.22)	46,666	(44)	(0.38)
Fixed term	183,702	(799)	(1.75)	194,369	(1,280)	(2.66)
Outside Israel	18,431	(51)	(1.11)	20,099	(57)	(1.14)
On demand	3,587	(2)	(0.22)	4,269	(5)	(0.47)
Fixed term	14,844	(49)	(1.33)	15,830	(52)	(1.32)
Total	263,106	(884)	(1.35)	261,134	(1,381)	(2.13)
Deposits of the Government						
In Israel	237	(3)	(5.16)	323	(5)	(6.34)
Outside Israel	231	-	-	106	-	-
Total	468	(3)	(2.59)	429	(5)	(4.74)
Deposits from banks						
In Israel	3,150	(11)	(1.40)	2,931	(18)	(2.48)
Outside Israel	223	-	-	344	(3)	(3.53)
Total	3,373	(11)	(1.31)	3,275	(21)	(2.59)
Securities lent or sold under resale agreements						
In Israel	641	(2)	(1.25)	1,002	(7)	(2.82)
Outside Israel	55	(1)	(7.47)	56	(1)	(7.34)
Total	696	(3)	(1.74)	1,058	(8)	(3.06)
Bonds						
In Israel	27,516	(451)	(6.72)	27,540	(575)	(8.62)
Outside Israel	10	-	-	449	-	-
Total	27,526	(451)	(6.72)	27,989	(575)	(8.47)
Total interest-bearing liabilities	295,169	(1,352)	(1.84)	293,885	(1,990)	(2.74)
Non-interest bearing deposits of the public	13,581			12,727		
Payables for non-interest bearing credit cards	7,027			6,881		
Other non-interest bearing liabilities [7]	23,842			20,921		
Total liabilities	339,619	(1,352)		334,414	(1,990)	
Total capital means	25,064			24,266	-	
Total liabilities and capital means	364,683	(1,352)		358,680	(1,990)	
Interest margin		1,839	2.10		1,924	2.21
Net yield on income-bearing assets						
In Israel	292,148	1,657	2.29	284,387	1,745	2.48
Outside Israel	36,344	182	2.02	37,911	179	1.90
Total	328,492	1,839	2.26	322,298	1,924	2.41
Total income-bearing liabilities attributable to activity outside Israel	18,950	(52)	(1.10)	21,054	(61)	(1.16)

See notes on page 135.

Rates of Income and Expenses[1] and Analysis of Changes in Interest Income and Expenses (on Consolidated Basis) (cont'd)

Exhibit A (cont'd)

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

	For the six months ended 30 June					
	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	**209,629**	**4,814**	**4.65**	209,162	5,610	5.44
Outside Israel	**26,141**	**487**	**3.76**	26,998	525	3.93
Total	**235,770**	**5,301**	**4.55**	236,160	6,135	5.26
Credit to the Government						
In Israel	**420**	**11**	**5.31**	408	12	5.97
Outside Israel	**16**	**-**	**-**	14	-	-
Total	**436**	**11**	**5.11**	422	12	5.77
Deposits in banks						
In Israel	**7,857**	**29**	**0.74**	6,952	33	0.95
Outside Israel	**2,580**	**8**	**0.62**	3,329	12	0.72
Total	**10,437**	**37**	**0.71**	10,281	45	0.88
Deposits in central banks						
In Israel	**25,585**	**211**	**1.66**	22,197	280	2.54
Outside Israel	**4,606**	**3**	**0.13**	4,145	1	0.05
Total	**30,191**	**214**	**1.42**	26,342	281	2.14
Securities borrowed or purchased under resale agreements						
In Israel	**1,166**	**10**	**1.72**	1,666	22	2.66
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**1,166**	**10**	**1.72**	1,666	22	2.66
Bonds available for sale [4,5]						
In Israel	**37,838**	**360**	**1.91**	33,633	466	2.79
Outside Israel	**3,842**	**19**	**0.99**	4,125	47	2.29
Total	**41,680**	**379**	**1.83**	37,758	513	2.74
Bonds for trading [4,5]						
In Israel	**10,069**	**98**	**1.96**	10,016	170	3.42
Outside Israel	**516**	**4**	**1.56**	106	-	-
Total	**10,585**	**102**	**1.94**	10,122	170	3.39
Total interest-bearing assets	**330,265**	**6,054**	**3.70**	322,751	7,178	4.50
Receivables for non-interest bearing credit cards	**6,580**			6,489		
Other non-interest bearing assets[6]	**29,592**			30,351		
Total assets	**366,437**	**6,054**		359,591	7,178	
Total income-bearing assets attributable to activity outside Israel	**37,701**	**521**	**2.78**	38,717	585	3.04

See notes on page 135.

Rates of Income and Expenses[1] and Analysis of Changes in Interest Income and Expenses (on Consolidated Basis) (cont'd)

Exhibit A (cont'd)

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

	For the six months ended 30 June					
	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 of the public						
In Israel	**245,243**	**(1,557)**	**(1.27)**	241,033	(2,347)	(1.96)
On demand	**59,007**	**(71)**	**(0.24)**	47,227	(90)	(0.38)
Fixed term	**186,236**	**(1,486)**	**(1.60)**	193,806	(2,257)	(2.34)
Outside Israel	**19,024**	**(103)**	**(1.09)**	19,988	(129)	(1.29)
On demand	**3,526**	**(4)**	**(0.23)**	4,046	(10)	(0.47)
Fixed term	**15,498**	**(99)**	**(1.28)**	15,942	(119)	(1.50)
Total	**264,267**	**(1,660)**	**(1.26)**	261,021	(2,476)	(1.91)
Deposits of the Government						
In Israel	**249**	**(5)**	**(4.06)**	338	(8)	(4.79)
Outside Israel	**211**	**-**	**-**	114	-	-
Total	**460**	**(5)**	**(2.19)**	452	(8)	(3.57)
Deposits from banks						
In Israel	**3,270**	**(19)**	**(1.17)**	2,328	(27)	(2.33)
Outside Israel	**243**	**(1)**	**(0.82)**	1,336	(7)	(1.05)
Total	**3,513**	**(20)**	**(1.14)**	3,664	(34)	(1.86)
Securities lent or sold under repurchase agreements						
In Israel	**729**	**(7)**	**(1.93)**	863	(13)	(3.04)
Outside Israel	**55**	**(1)**	**(3.67)**	57	(1)	(3.54)
Total	**784**	**(8)**	**(2.05)**	920	(14)	(3.07)
Bonds						
In Israel	**27,539**	**(760)**	**(5.60)**	28,127	(891)	(6.44)
Outside Israel	**10**	**-**	**-**	424	(3)	(1.42)
Total	**27,549**	**(760)**	**(5.60)**	28,551	(894)	(6.36)
Total interest-bearing liabilities	**296,573**	**(2,453)**	**(1.66)**	294,608	(3,426)	(2.34)
Non-interest bearing deposits of the public	**13,951**			13,070		
Payables for non-interest bearing credit cards	**7,088**			6,774		
Other non-interest bearing liabilities [7]	**23,548**			21,137		
Total liabilities	**341,160**	**(2,453)**		335,589	(3,426)	
Total capital means	**25,277**			24,002		
Total liabilities and capital means	**366,437**	**(2,453)**		359,591	(3,426)	
Interest margin		**3,601**	**2.04**		3,753	2.16
Net yield on income-bearing assets						
In Israel	**292,564**	**3,185**	**2.19**	284,034	3,307	2.34
Outside Israel	**37,701**	**416**	**2.22**	38,717	446	2.31
Total	**330,265**	**3,601**	**2.19**	322,751	3,753	2.34
Total income-bearing liabilities attributable to activity outside Israel	**19,543**	**(105)**	**(1.08)**	21,919	(140)	(1.28)

See notes on page 135.

Rates of Income and Expenses[1] and Analysis of Changes in Interest Income and Expenses (on Consolidated Basis) (cont'd)

Exhibit A (cont'd)

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

	For the three months ended 30 June					
	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)		%
Index-linked Israeli currency						
Total interest-bearing assets	**60,153**	**938**	**6.38**	63,108	1,343	8.79
Total interest-bearing liabilities	**49,690**	**(739)**	**(6.08)**	48,914	(1,024)	(8.64)
Interest margin	**10,463**	**199**	**0.30**	14,194	319	0.15
Unlinked Israeli currency						
Total interest-bearing assets	**187,432**	**1,760**	**3.81**	173,882	2,009	4.70
Total interest-bearing liabilities	**152,768**	**(489)**	**(1.29)**	149,196	(749)	(2.02)
Interest margin	**34,664**	**1,271**	**2.52**	24,686	1,260	2.68
Foreign currency						
Total interest-bearing assets	**44,563**	**259**	**2.35**	47,397	322	2.75
Total interest-bearing liabilities	**73,761**	**(72)**	**(0.39)**	74,721	(156)	(0.84)
Interest margin	**(29,198)**	**187**	**1.95**	(27,324)	166	1.91
Total activity in Israel						
Total interest-bearing assets	**292,148**	**2,957**	**4.11**	284,387	3,674	5.27
Total interest-bearing liabilities	**276,219**	**(1,300)**	**(1.90)**	272,831	(1,929)	(2.86)
Interest margin	**15,929**	**1,657**	**2.21**	11,556	1,745	2.41

	For the six months ended 30 June					
	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)		%
Index-linked Israeli currency						
Total interest-bearing assets	**60,173**	**1,494**	**5.03**	62,223	1,936	6.32
Total interest-bearing liabilities	**49,698**	**(1,158)**	**(4.71)**	49,147	(1,466)	(6.05)
Interest margin	**10,475**	**336**	**0.31**	13,076	470	0.26
Unlinked Israeli currency						
Total interest-bearing assets	**187,785**	**3,578**	**3.85**	174,961	4,051	4.68
Total interest-bearing liabilities	**152,285**	**(1,032)**	**(1.36)**	149,305	(1,508)	(2.03)
Interest margin	**35,500**	**2,546**	**2.49**	25,656	2,543	2.65
Foreign currency						
Total interest-bearing assets	**44,606**	**461**	**2.08**	46,850	606	2.60
Total interest-bearing liabilities	**75,047**	**(158)**	**(0.42)**	74,237	(312)	(0.84)
Interest margin	**(30,441)**	**303**	**1.66**	(27,387)	294	1.76
Total activity in Israel						
Total interest-bearing assets	**292,564**	**5,533**	**3.82**	284,034	6,593	4.70
Total interest-bearing liabilities	**277,030**	**(2,348)**	**(1.70)**	272,689	(3,286)	(2.42)
Interest margin	**15,534**	**3,185**	**2.12**	11,345	3,307	2.27

See notes on page 135.

	2013 compared to 2012			2013 compared to 2012		
	For the six months ended 30 June			For the three months ended 30 June		
	2013			2013		
	Increase (decrease) due to change[9]		Net change	Increase (decrease) due to change[9]		Net change
	Amount	Price		Amount	Price	
	(NIS millions)					
Interest-bearing assets						
Credit to the public						
In Israel	11	(807)	(796)	10	(552)	(542)
Outside Israel	(16)	(22)	(38)	(13)	18	5
Total	(5)	(829)	(834)	(3)	(534)	(537)
Non-interest bearing assets						
In Israel	70	(334)	(264)	31	(206)	(175)
Outside Israel	-	(26)	(26)	-	(10)	(10)
Total	70	(360)	(290)	31	(216)	(185)
Total interest income	65	(1,189)	(1,124)	28	(750)	(722)
Interest-bearing liabilities						
Deposits of the public						
In Israel	27	(817)	(790)	12	(503)	(491)
Outside Israel	(5)	(21)	(26)	(5)	(1)	(6)
Total	22	(838)	(816)	7	(504)	(497)
Non-interest bearing liabilities						
In Israel	3	(151)	(148)	(4)	(134)	(138)
Outside Israel	(5)	(4)	(9)	(1)	(2)	(3)
Total	(2)	(155)	(157)	(5)	(136)	(141)
Total interest expenses	20	(993)	(973)	2	(640)	(638)

See notes on next page.

Rates of Income and Expenses[1] and Analysis of Changes in Interest Income and Expenses (on Consolidated Basis) (cont'd)

Exhibit A (cont'd)

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.

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

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

In the unlinked Israeli currency segment for the three and six month period, an amount of NIS 147 million and NIS 151 million respectively (30 June 2012 – NIS 60 million and NIS 82 million respectively).

In the CPI-linked Israeli currency sector for the three and six month period, an amount of NIS 105 million and NIS 105 million respectively (30 June 2012 – NIS 110 million and NIS 95 million respectively).

In the foreign currency sector (including Israeli currency linked to foreign currency) for the three and six month period, an amount of NIS 352 million and NIS 361 million respectively (30 June 2012 – NIS 50 million and NIS (206) million respectively).

(5) From the average balance of assets there has been deducted (added) 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 and six month period, an amount of NIS 604 million and NIS 617 million respectively (30 June 2012 – NIS 120 million and NIS (29) million respectively).

(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.

(10) Commissions the amount of NIS 71 million and NIS136 million were included in interest income from credit to the public for the three and six month period (30 June 2012 – NIS 60 million and NIS 116 million respectively).

Exposure to Interest Rate Fluctuations (on Consolidated Basis)

Exhibit B

	30 June 2013												31 December 2012			30 June 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	No repayment date	Total fair value	Internal rate of return	Duration (b)	Total fair value	Internal rate of return	Duration	Total fair value (e)	Internal rate of return	Duration (b) (e)
	(NIS millions)										(%)	(Years)		(%)	(Years)		(%)	(Years)
Israeli currency - unlinked																		
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial assets (a)	148,882	8,264	24,666	8,887	4,403	3,975	1,460	193	331	201,061	3.63	0.58	204,561	3.95	0.45	188,409	4.02	0.38
Derivative financial instruments (excluding options)	52,764	98,931	52,080	41,957	29,704	31,641	745	-	-	307,822	-	1.59	269,939	-	1.53	231,742	-	1.46
Options (in terms of basis asset) (d)	2,105	3,184	3,583	1,572	233	1,626	28	-	-	12,331	-	-	10,835	-	-	5,120	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	203,751	110,379	80,329	52,416	34,340	37,242	2,233	193	331	521,214	3.63	1.17	485,335	3.95	1.04	425,271	4.02	0.97
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a)	134,584	9,741	8,888	4,003	3,334	245	20	-	3	160,818	2.45	0.25	168,101	2.65	0.25	160,830	3.43	0.31
Derivative financial instruments (excluding options)	61,630	111,720	52,287	42,508	29,783	32,757	421	13	-	331,119	-	1.54	288,807	-	1.44	244,204	-	1.41
Options (in terms of basis asset) (d)	1,616	2,891	2,620	1,862	9	78	19	-	-	9,095	-	-	11,390	-	-	5,740	-	-
Off-balance sheet financial instruments	-	-	126	-	-	-	-	-	-	126	-	0.50	34	-	0.50	108	-	0.50
Total fair value	197,830	124,352	63,921	48,373	33,126	33,080	460	13	3	501,158	2.45	1.10	468,332	2.65	0.98	410,882	3.43	0.96
Financial instruments, net																		
Exposure to interest rate fluctuations	5,921	(13,973)	16,408	4,043	1,214	4,162	1,773	180										
Accumulated exposure in the sector	5,921	(8,052)	8,356	12,399	13,613	17,775	19,548	19,728										
Israeli currency – linked																		
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial assets (a)	2,201	4,003	13,273	16,704	16,199	6,911	1,784	34	13	61,122	2.00	2.97	62,635	2.29	2.84	65,309	2.63	2.82
Derivative financial instruments (excluding options)	334	545	2,809	661	928	1,510	(104)	-	-	6,683	-	2.76	5,874	-	2.53	4,718	-	3.65
Options (in terms of basis asset) (d)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	2,535	4,548	16,082	17,365	17,127	8,421	1,680	34	13	67,805	2.00	2.95	68,509	2.29	2.81	70,027	2.63	2.88
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a)	1,894	2,529	9,839	16,359	10,190	11,681	1,055	262	-	53,809	1.42	3.42	54,421	1.43	3.57	53,864	2.56	3.69
Derivative financial instruments (excluding options)	1,068	508	5,882	2,411	664	1,179	313	-	-	12,025	-	1.91	12,531	-	1.97	10,557	-	1.64
Options (in terms of basis asset) (d)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	101	-	-	-	-	-
Total fair value	2,962	3,037	15,721	18,770	10,854	12,860	1,368	262	-	65,834	1.42	3.15	67,053	1.43	3.26	64,421	2.56	3.35
Financial instruments, net																		
Exposure to interest rate fluctuations	(427)	1,511	361	(1,405)	6,273	(4,439)	312	(228)										
Accumulated exposure in the sector	(427)	1,084	1,445	40	6,313	1,874	2,186	1,958										

See notes on page 138.

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

Exhibit B (cont'd)

	30 June 2013												31 December 2012			30 June 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	No repayment date	Total fair value	Internal rate of return	Duration (b)	Total fair value	Internal rate of return	Duration	Total fair value (e)	Internal rate of return	Duration (b) (e)
	(NIS millions)										(%)	(Years)		(%)	(Years)		(%)	(Years)
Foreign currency and foreign currency linked																		
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial assets (a)	40,861	15,315	5,592	7,100	5,815	3,119	396	237	289	78,724	2.33	1.00	86,455	1.90	0.80	89,831	3.04	0.72
Derivative financial instruments (excluding options)	47,058	48,111	30,929	8,761	5,640	9,278	1,045	20	-	150,842	-	0.83	163,552	-	0.81	153,213	-	2.23
Options (in terms of basis asset) (d)	913	3,666	3,583	631	4,596	798	1,678	-	-	15,865	-	-	10,607	-	-	13,028	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	88,832	67,092	40,104	16,492	16,051	13,195	3,119	257	289	245,431	2.33	0.83	260,614	1.90	0.78	256,072	3.04	1.58
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a)	69,819	14,380	16,787	3,924	493	514	30	-	13	105,960	0.98	0.29	111,529	1.09	0.28	110,182	1.79	0.29
Derivative financial instruments (excluding options)	41,608	30,670	23,780	10,211	6,752	9,698	527	85	-	123,331	-	1.18	139,465	-	1.08	135,211	-	2.66
Options (in terms of basis asset) (d)	1,139	3,863	4,523	616	4,762	2,237	1,595	-	-	18,735	-	-	9,974	-	-	12,437	-	-
Off-balance sheet financial instruments	-	-	11	-	-	-	-	-	-	11	-	0.50	9	-	0.50	14	-	0.50
Total fair value	112,566	48,913	45,101	14,751	12,007	12,449	2,152	85	13	248,037	0.98	0.71	260,977	1.09	0.70	257,844	1.79	1.52
Financial instruments, net																		
Exposure to interest rate fluctuations	(23,734)	18,179	(4,996)	1,741	4,044	746	967	172										
Accumulated exposure in the sector	(23,734)	(5,555)	(10,552)	(8,811)	(4,767)	(4,021)	(3,054)	(2,882)										
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)	191,944	27,582	43,531	32,691	26,417	14,005	3,640	464	4,312	344,586	2.59	1.11	356,648	2.68	0.96	345,822	3.03	0.93
Derivative financial instruments (excluding options)	100,156	147,587	85,818	51,379	36,272	42,429	1,686	20	373	465,720	-	1.36	439,665	-	1.28	390,134	-	1.79
Options (in terms of basis asset) (d)	3,018	6,850	7,166	2,203	4,829	2,424	1,706	-	-	28,196	-	-	21,442	-	-	18,148	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	295,118	182,019	136,515	86,273	67,518	58,858	7,032	484	4,685	838,502	2.59	1.21	817,755	2.68	1.11	754,104	3.03	1.35
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a) (c)	206,297	26,650	35,514	24,286	14,017	12,440	1,105	262	177	320,748	1.53	0.80	334,691	1.59	0.80	325,058	2.64	0.87
Derivative financial instruments (excluding options)	104,306	142,898	81,949	55,130	37,199	43,634	1,261	98	352	466,827	-	1.45	441,067	-	1.34	390,418	-	1.85
Options (in terms of basis asset) (d)	2,755	6,754	7,143	2,478	4,771	2,315	1,614	-	-	27,830	-	-	21,364	-	-	18,177	-	-
Off-balance sheet financial instruments	-	-	137	-	-	-	-	-	147	284	-	0.50	283	-	0.09	253	-	0.50
Total fair value	313,358	176,302	124,743	81,894	55,987	58,389	3,980	360	676	815,689	1.53	1.15	797,405	1.59	1.08	733,906	2.64	1.37
Financial instruments, net																		
Exposure to interest rate fluctuations	(18,240)	5,717	11,772	4,379	11,531	469	3,052	124										
Accumulated exposure in the sector	(18,240)	(12,523)	(751)	3,628	15,159	15,628	18,680	18,804										

See notes on next page.

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 "No repayment date" column are the non-discounted book balances, including overdue balances in the amount of NIS 631 million.
(b) Weighted average as per fair value of effective duration.
(c) Including non-monetary assets shown in " No repayment date" column.
(d) Duration less than 0.05 years.
(e) Reclassified.

General notes:
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.
(1) 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.
(2) 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.
(3) The effect of hedging transactions is included in total assets or total liabilities, as applicable.
(4) 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 savers. The duration of total assets according to the original cash flow of the savings plans is higher and reached 3.29 years, the duration of total liabilities reaches 3.18 years, and the internal rate of return (hereinafter – IRR) gap amounts to 0.32%. The change in fair value on total assets is NIS 546 million and in total liabilities NIS (4) million.
(5) Further details of the exposure to interest rate fluctuations for each segment of financial assets and financial liabilities by the various balance sheet headings, will be supplied on request.

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

Exhibit C

	30 June 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 for credit losses
	(NIS millions)								
Agriculture	2,081	112	2,079	1,754	112	40	(4)	(2)	(39)
Industry	30,181	2,059	28,852	18,980	2,041	659	(9)	(11)	(529)
Construction and real estate - construction	41,355	968	41,252	14,907	967	648	(46)	(29)	(397)
Construction and real estate - real estate activity	26,196	1,859	26,147	23,563	1,859	1,587	(2)	(23)	(528)
Electricity and water	4,235	3	3,339	2,080	3	3	(3)	-	(3)
Commerce	23,088	1,165	22,643	18,678	1,161	598	(15)	74	(401)
Hotels, catering services and food	2,991	289	2,957	2,680	289	202	(13)	(10)	(25)
Transport and storage	5,748	835	5,696	4,810	823	343	3	5	(130)
Communications and computer services	5,755	156	5,613	4,480	152	59	(4)	-	(57)
Financial services	26,012	773	18,909	11,838	737	387	(45)	262	(207)
Business and other services	8,041	158	7,865	6,089	158	142	(3)	4	(170)
Public and community services	7,158	122	7,117	5,961	122	82	3	6	(6)
Total commercial	182,841	8,499	172,469	115,820	8,424	4,750	(138)	276	(2,492)
Private individuals - housing loans	67,171	787	67,171	65,358	788	-	46	11	(491)
Private individuals - other	59,944	420	59,928	30,140	420	80	72	48	(377)
Total public	309,956	9,706	299,568	211,318	9,632	4,830	(20)	335	(3,360)
Banks in Israel	4,688	-	2,253	1,470	-	-	1	-	(1)
Government of Israel	34,563	-	325	325	-	-	-	-	-
Total activity in Israel	349,207	9,706	302,146	213,113	9,632	4,830	(19)	335	(3,361)

	30 June 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 for credit losses
	(NIS millions)								
Agriculture	70	10	55	29	10	8	-	-	(3)
Industry	9,377	438	8,433	5,888	435	254	16	11	(196)
Construction and real estate - construction	11,267	888	10,656	7,853	888	771	75	(11)	(408)
Electricity and water	434	-	193	30	-	-	-	-	-
Commerce	8,534	223	8,405	5,552	223	122	7	4	(110)
Hotels, catering services and food	2,062	70	2,061	1,923	70	61	12	11	(10)
Transport and storage	623	27	440	431	27	27	(1)	(1)	(13)
Communications and computer services	747	-	454	152	-	-	-	-	(2)
Financial services	14,541	150	4,184	3,335	150	132	(2)	2	(70)
Business and other services	3,295	166	3,167	2,231	166	166	64	6	(106)
Public and community services	2,202	2	2,074	1,336	2	1	3	-	(12)
Total commercial	53,152	1,974	40,122	28,760	1,971	1,542	174	22	(930)
Private individuals - housing loans	1,234	76	1,234	1,233	76	73	-	(1)	(20)
Private individuals - other	1,406	44	1,355	1,114	44	43	(1)	-	(41)
Total public	55,792	2,094	42,711	31,107	2,091	1,658	173	21	(991)
Banks abroad	23,035	-	11,411	10,637	-	-	3	5	(2)
Goevrnments abroad	4,213	-	277	153	-	-	-	-	-
Total activity abroad	83,040	2,094	54,399	41,897	2,091	1,658	176	26	(993)
Total	432,247	11,800	356,545	255,010	11,723	6,488	157	361	(4,354)

See notes on page 142.

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

Exhibit C (cont'd)

	30 June 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 for credit losses
In respect of activity of borrowers in Israel	Total	Problematic[5]	Total (*)	Debts[2]	Problematic[5]	Impaired			
	(NIS millions)								
Agriculture	2,008	96	2,007	1,680	96	42	(9)	(7)	(43)
Industry	36,464	2,197	34,374	22,248	2,197	779	123	133	(547)
Construction and real estate - construction	39,274	1,791	39,191	14,380	1,794	789	(100)	-	(483)
Construction and real estate - real estate activity	28,708	2,134	28,689	26,031	2,131	1,728	9	169	(448)
Electricity and water	1,663	2	1,449	935	2	2	-	-	(2)
Commerce	23,910	1,098	23,501	18,746	1,098	436	64	11	(372)
Hotels, catering services and food	3,405	575	3,397	3,143	575	412	(72)	(3)	(50)
Transport and storage	5,943	643	5,749	4,841	622	393	26	-	(109)
Communications and computer services	7,325	152	7,035	4,827	151	32	(22)	(1)	(43)
Financial services	25,865	1,101	21,187	13,118	1,051	914	469	286	(482)
Business and other services	7,515	193	7,435	5,678	193	158	57	-	(125)
Public and community services	7,498	251	7,452	6,232	251	57	(8)	(3)	(52)
Total commercial	189,578	10,233	181,466	121,859	10,161	5,742	537	585	(2,756)
Private individuals - housing loans	60,677	884	60,677	58,900	884	21	(10)	21	(482)
Private individuals - other	57,215	321	57,193	28,641	321	37	18	64	(385)
Total public	307,470	11,438	299,336	209,400	11,366	5,800	545	670	(3,623)
Banks in Israel	26,996	-	24,470	23,634	-	-	-	-	-
Government of Israel	38,524	-	265	265	-	-	-	-	-
Total activity in Israel	372,990	11,438	324,071	233,299	11,366	5,800	545	670	(3,623)

	30 June 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 for credit losses
In respect of activity of borrowers abroad	Total	Problematic[5]	Total (*)	Debts[2]	Problematic[5]	Impaired			
	(NIS millions)								
Agriculture	72	5	65	33	5	5	(1)	-	(1)
Industry	12,402	175	11,597	8,329	175	135	14	6	(130)
Construction and real estate - construction	11,903	1,105	11,267	8,634	1,105	654	2	30	(242)
Electricity and water	451	-	231	54	-	-	-	-	-
Commerce	8,574	220	8,459	5,683	220	151	(2)	4	(118)
Hotels, catering services and food	1,853	68	1,852	1,685	68	29	3	-	(8)
Transport and storage	707	81	693	548	81	22	1	(1)	(13)
Communications and computer services	1,168	7	863	520	7	7	-	-	(9)
Financial services	12,963	60	4,675	3,819	40	59	(4)	6	(55)
Business and other services	4,463	244	4,400	3,030	244	125	(3)	7	(41)
Public and community services	1,036	3	952	942	3	2	-	-	(4)
Total commercial	55,592	1,968	45,054	33,277	1,948	1,189	10	52	(621)
Private individuals - housing loans	1,274	44	1,274	1,273	44	43	(2)	-	(18)
Private individuals - other	1,648	51	1,590	1,337	51	51	-	1	(46)
Total public	58,514	2,063	47,918	35,887	2,043	1,283	8	53	(685)
Banks abroad	28,050	80	17,371	13,382	7	7	-	1	(4)
Governments abroad	4,029	-	309	147	-	-	-	-	-
Total activity abroad	90,593	2,143	65,598	49,416	2,050	1,290	8	54	(689)
Total	463,583	13,581	389,669	282,715	13,416	7,090	553	724	(4,312)

See notes on page 142.

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 for 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 for 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 255,010, 54,059, 1,973, 11,901, 109,304 million respectively (at 30 June 2012 - NIS 282,715, 54,409, 2,165, 12,259, 112,035 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, or 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.

Exposures to Foreign Countries

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 the lower.

	30 June 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	2,336	3,566	10,950	17,030	9,534	7,496
United Kingdom	151	4,395	2,301	6,655	2,007	4,648
France	125	1,844	1,047	-	-	-
Switzerland	-	408	916	2,615	615	2,000
Germany	1	2,267	1,884	-	-	-
Belgium	391	295	134	-	-	-
Italy	-	265	97	-	-	-
Netherlands	-	826	1,619	-	-	-
Others	310	2,374	2,390	1,920	865	1,055
Total exposure to foreign countries	3,314	16,240	21,338	28,220	13,021	15,199
Total exposure to LDC countries	140	540	1,125	1,767	843	924
Total exposure to GIIPS countries (d)	-	309	222	-	-	-

	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	Up to one year	Over one year
	(NIS millions)						
Country							
United States	24,348	587	355	6,276	18	5,308	11,544
United Kingdom	11,495	648	499	2,062	-	2,624	4,223
France	3,016	8	1	330	-	993	2,023
Switzerland	3,324	26	26	679	-	962	362
Germany	4,152	3	3	169	-	2,369	1,783
Belgium	820	-	-	60	-	384	436
Italy	362	1	1	31	-	176	186
Netherlands	2,445	49	49	153	-	1,403	1,042
Others	6,129	525	493	1,501	-	3,828	1,246
Total exposure to foreign countries	56,091	1,847	1,427	11,261	18	18,047	22,845
Total exposure to LDC countries	2,729	521	489	1,121	-	1,609	196
Total exposure to GIIPS countries (d)	531	2	2	37	-	206	325

(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)

	30 June 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	3,544	2,742	9,405	19,750	10,654	9,096
United Kingdom	-	4,415	2,384	6,974	1,964	5,010
France	-	1,945	715	-	-	-
Switzerland	-	425	789	2,169	427	1,742
Germany	1	1,641	1,933	-	-	-
Belgium	4	120	129	-	-	-
Italy	-	250	59	-	-	-
Netherlands	-	1,005	1,449	-	-	-
Others	381	3,768	2,961	1,988	1,023	965
Total exposure to foreign countries	3,930	16,311	19,824	30,881	14,068	16,813
Total exposure to LDC countries	188	629	1,376	1,962	1,003	959
Total exposure to GIIPS countries (d)	-	343	281	-	-	-

	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	Up to one year	Over one year
	(NIS millions)						
Country							
United States	24,787	534	280	6,566	17	7,208	8,483
United Kingdom	11,809	623	275	2,452	5	2,739	4,060
France	2,660	1	1	342	-	991	1,669
Switzerland	2,956	73	73	884	-	913	301
Germany	3,575	3	3	231	-	1,955	1,620
Belgium	253	-	-	75	-	222	31
Italy	309	1	1	7	-	69	240
Netherlands	2,454	51	35	111	-	1,683	771
Others	8,075	532	519	971	-	5,292	1,818
Total exposure to foreign countries	56,878	1,818	1,187	11,639	22	21,072	18,993
Total exposure to LDC countries	3,152	512	509	480	-	1,924	269
Total exposure to GIIPS countries (d)	624	2	2	14	-	253	371

(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		
	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	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 exposure to foreign countries	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	Up to one year	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 exposure to foreign countries	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: Portugal, Ireland, Italy, Greece, 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 considered.

Part B – On 30 June 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 between 15% and 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 1,220 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 30 June 2013 (the "Report").

2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit the statement of 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 so that the financial statements for external purposes are prepared in accordance with accepted accounting principles and the directives of the Supervisor of Banks and his instructions;

   (c) We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report, based on our evaluation; and

   (d) We have disclosed in the Report any change in the Bank's internal control over financial reporting that occurred during this quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and

5. I and the Bank's other certifying officers have disclosed to the Joint Auditors, the Board of Directors, the Audit Committee and the Financial Statements Review Committee of the Board of Directors of the Bank, based on our most recent evaluation of internal control over financial reporting:

   (a) All significant deficiencies and material weaknesses in the establishment or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether material or immaterial, in which Management was involved or in which other employees were involved who have a significant role in the Bank's internal control over financial reporting.

The above does not derogate from my responsibility or the responsibility of any other person, pursuant to any law.

28 August 2013

Rakefet Russak-Aminoach
President and Chief Executive Officer

Certification

I, Ron Fainaro, certify that:

1. I have reviewed the Quarterly Report of Bank Leumi le-Israel B.M. (the "Bank") for the quarter ended on 30 June 2013 (the "Report").

2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit the statement of 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 so that the financial statements for external purposes are prepared in accordance with accepted accounting principles and the directives of the Supervisor of Banks and his instructions;

   (c) We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report, based on our evaluation; and

   (d) We have disclosed in the Report any change in the Bank's internal control over financial reporting that occurred during this quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and

5. I and the Bank's other certifying officers have disclosed to the Joint Auditors, the Board of Directors, the Audit Committee and the Financial Statements Review Committee of the Board of Directors of the Bank, based on our most recent evaluation of internal control over financial reporting:

   (a) All significant deficiencies and material weaknesses in the establishment or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether material or immaterial, in which Management was involved or in which other employees were involved who have a significant role in the Bank's internal control over financial reporting.

The above does not derogate from my responsibility or the responsibility of any other person, pursuant to any law.

28 August 2013

Ron Fainaro
Executive Vice President,
Head of Economics and Finance Division

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 30 June 2013 (the "Report").

2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit the statement of 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 so that the financial statements for external purposes are prepared in accordance with accepted accounting principles and the directives of the Supervisor of Banks and his instructions;

   (c) We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report, based on our evaluation; and

   (d) We have disclosed in the Report any change in the Bank's internal control over financial reporting that occurred during this quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and

5. I and the Bank's other certifying officers have disclosed to the Joint Auditors, the Board of Directors, the Audit Committee and the Financial Statements Review Committee of the Board of Directors of the Bank, based on our most recent evaluation of internal control over financial reporting:

   (a) All significant deficiencies and material weaknesses in the establishment or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether material or immaterial, in which Management was involved or in which other employees were involved who have a significant role in the Bank's internal control over financial reporting.

The above does not derogate from my responsibility or the responsibility of any other person, pursuant to any law.

28 August 2013

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

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

Introduction
We have reviewed the accompanying financial information of Bank Leumi le-Israel B.M. (hereinafter: "the Bank") and its subsidiaries, which comprises the condensed interim consolidated balance sheet as of 30 June, 2013 and the related interim condensed consolidated statements of profit and loss, comprehensive income, changes in shareholders' equity and cash flows for the three and six month periods ending on that date. The Board of Directors and Management are responsible for the preparation and presentation of financial information for these interim periods in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for financial reporting of interim periods and in accordance with directives and guidelines of the Supervisor of Banks. Our responsibility is to express a conclusion on financial information on these interim periods based on our review.

We did not review the condensed financial information for the interim periods of consolidated companies, whose assets included on consolidation constitute approximately 2% of total consolidated assets as of 30 June, 2013 and whose net interest income before credit loss expenses included in the consolidated statements of profit and loss constitute some 0.8% and some 0.6% of the total consolidated net interest income before credit loss expenses for the three and six month periods 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 paragraphs 1 and 2 concerning matters relating to a company included on equity basis and its investee companies.
3. that stated in Note 6.F concerning the ruling of the Antitrust Commissioner.
4. that stated in Note 6.G. concerning investigations against the Group regarding its activities with US customers.

The Bank is unable to estimate what effect, if any, the said matters will have on the Bank, if any, on its financial condition and on its operating results, and whether or not they will be of a material nature.

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

28 August 2013

Condensed Consolidated Balance Sheet as at 30 June 2013

	Note	30 June 2013 (Unaudited) (NIS millions)	30 June 2012 (Unaudited)	31 December 2012 (Audited)
Assets				
Cash and deposits with banks		**42,754**	39,166	54,621
Securities	2	**57,580**	60,348	56,408
Securities borrowed or purchased under agreements to resell		**1,973**	2,165	1,435
Credit to the public	3	**242,425**	245,287	245,378
Allowance for credit losses	3	**(3,942)**	(3,860)	(4,114)
Credit to the public, net		**238,483**	241,427	241,264
Credit to governments		**478**	412	442
Investments in companies included on equity basis		**1,978**	2,129	2,129
Buildings and equipment		**3,639**	3,753	3,705
Intangible assets and goodwill		**182**	172	189
Assets in respect of derivative instruments	7	**11,915**	12,259	11,438
Other assets		**4,732**	4,251	4,529
Total assets		**363,714**	366,082	376,160
Liabilities and equity				
Deposits of the public	3A	**275,448**	280,434	289,538
Deposits from banks		**4,245**	3,981	4,073
Deposits from governments		**455**	462	451
Securities lent or sold under agreements to repurchase		**1,327**	1,287	1,007
Bonds, debentures and subordinated notes		**27,587**	28,223	27,525
Liabilities in respect of derivative instruments	7	**12,656**	12,575	12,762
Other liabilities		**16,101**	14,587	15,576
Total liabilities		**337,819**	341,549	350,932
Non-controlling interests		**318**	267	307
Equity attributable to shareholders of the banking corporation		**25,577**	24,266	24,921
Total equity		**25,895**	24,533	25,228
Total liabilities and equity		**363,714**	366,082	376,160

The accompanying notes are an integral part of these condensed consolidated interim 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: 28 August 2013

Condensed Consolidated Statement of Profit and Loss
for the periods ended 30 June 2013

	Note	For the three months ended 30 June		For the six months ended 30 June		For the year ended 31 December
		2013	2012	**2013**	2012	2012
		(Unaudited)		(Unaudited)		(Audited)
		(NIS millions)				
Interest income	9	**3,191**	3,914	**6,054**	7,178	13,507
Interest expenses	9	**1,352**	1,990	**2,453**	3,426	6,099
Net interest income		**1,839**	1,924	**3,601**	3,752	7,408
Expenses in respect of credit losses	3	**84**	333	**157**	558	1,236
Net interest income, after expenses in respect of credit losses		**1,755**	1,591	**3,444**	3,194	6,172
Non-interest income						
Non-interest financing income	10	**212**	(25)	**623**	120	444
Commissions		**1,029**	1,022	**2,054**	2,042	4,199
Other income		**5**	(2)	**38**	10	131
Total non-interest income		**1,246**	995	**2,715**	2,172	4,774
Operating and other expenses						
Salaries and related expenses		**1,215**	1,356	**2,497**	2,542	5,290
Maintenance and depreciation of buildings and equipment		**489**	446	**938**	873	1,819
Amortization of intangible assets and goodwill		**3**	5	**6**	11	23
Other expenses		**472**	393	**795**	769	1,968
Total operating and other expenses		**2,179**	2,200	**4,236**	4,195	9,100
Profit before taxes		**822**	386	**1,923**	1,171	1,846
Provision for taxes on profit		**284**	159	**747**	465	811
Profit after taxes		**538**	227	**1,176**	706	1,035
Share of the banking corporation in (losses) profits after tax of companies included on equity basis		**(54)**	63	**(111)**	24	(67)
Net profit:						
Before attribution to non-controlling interests		**484**	290	**1,065**	730	968
Attributable to non-controlling interests		**(10)**	(10)	**(21)**	(19)	(37)
Attributable to shareholders of the banking corporation		**474**	280	**1,044**	711	931
Basic and diluted earnings per share (NIS)						
Net profit attributable to shareholders of the banking corporation		**0.32**	0.19	**0.71**	0.48	0.63

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

Condensed Statement of Comprehensive Income
for the periods ended 30 June 2013

	For the three months ended 30 June		For the six months ended 30 June		For the year ended 31 December
	2013	2012(a)	**2013**	2012(a)	2012(a)
	(Unaudited)				(Audited)
	(NIS millions)				
Net profit before attribution to non-controlling interests	**484**	290	**1,065**	730	968
Net profit attributed to non-controlling interests	**10**	10	**21**	19	37
Net profit attributed to shareholders of the Bank	**474**	280	**1,044**	711	931
Other comprehensive income (loss) before taxes:					
Adjustments for showing securities available for sale at fair value, net	**(225)**	(220)	**(452)**	368	1,067
Adjustments for translation of financial statements, net (b), after the effect of tax and hedges (c)	**(31)**	(1)	**(50)**	(47)	(55)
Share of the banking corporation in other comprehensive loss of companies included on equity basis	**(22)**	(26)	**(26)**	(26)	-
Other comprehensive income (loss) before taxes	**(278)**	(247)	**(528)**	295	1,012
Relevant tax effect	**77**	116	**115**	(86)	(355)
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	**(201)**	(131)	**(413)**	209	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	**(201)**	(131)	**(409)**	208	657
Comprehensive income before attribution to non-controlling interests	**283**	159	**652**	939	1,625
Comprehensive income attributed to non-controlling interests	**10**	10	**17**	20	37
Comprehensive income attributed to shareholders of the Bank	**273**	149	**635**	919	1,588

(a) On 1 January 2013, the Bank adopted for the first time the directives of the Supervisor of Banks on the statement of comprehensive income. Adoption of the directive was made on a retroactive basis. See Note 1 and Note 12.

(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 consolidated interim financial statements.

Condensed Consolidated Statement of Changes in Equity
for the periods ended 30 June 2013

	For the three months ended 30 June 2013 (Unaudited)									
		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 March 2013	**7,059**	**1,129**	**23**	**8,211**	**250**	**16,866**	**(43)**	**25,284**	**308**	**25,592**
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**474**	**-**	**474**	**10**	**484**
Adjustments in respect of companies included on equity basis	**-**	**-**	**-**	**-**	**-**	**16**	**-**	**16**	**-**	**16**
Other comprehensive loss, net, after effect of taxes (b)	**-**	**-**	**-**	**-**	**(201)**	**-**	**-**	**(201)**	**-**	**(201)**
Changes in non-controlling interests	**-**	**-**	**-**	**-**	**-**	**4**	**-**	**4**	**-**	**4**
Balance at the end of the period	**7,059**	**1,129**	**23**	**8,211**	**49**	**17,360**	**(43)**	**25,577**	**318**	**25,895**

	For the three months ended 30 June 2012 (Unaudited)									
		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 March 2012	7,059	1,129	23	8,211	140	15,811	(44)	24,118	257	24,375
Net profit for the period	-	-	-	-	-	280	-	280	10	290
Adjustments in respect of companies included on equity basis	-	-	-	-	-	3	-	3	-	3
Other comprehensive loss, net, after effect of taxes (b)	-	-	-	-	(131)	-	-	(131)	-	(131)
Changes in non-controlling interests	-	-	-	-	-	(4)	-	(4)	-	(4)
Balance at the end of the period	7,059	1,129	23	8,211	9	16,090	(44)	24,266	267	24,533

(a) Including NIS 10 million of other capital reserves.

(b) On 1 January 2013, the Bank implemented for the first time the directives of the Supervisor of Banks on the statement of comprehensive income. Comparative figures were reclassified to adapt to the new manner of presentation. See also Note 1.

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

Condensed Consolidated Statement of Changes in Equity (cont'd)
for the periods ended 30 June 2013

For the six months ended 30 June 2013 (Unaudited)

	Share capital	Premium (Capital reserves)	Share-based payment transactions and others (a) (Capital reserves)	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	-	-	-	-	-	**1,044**	-	**1,044**	**21**	**1,065**
Dividend paid to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	-	**(6)**	**(6)**
Adjustments in respect of companies included on equity basis	-	-	-	-	-	**16**	-	**16**	-	**16**
Other comprehensive loss, net, after effect of taxes (c)	-	-	-	-	**(409)**	-	-	**(409)**	**(4)**	**(413)**
Changes in non-controlling interests	-	-	-	-	-	**4**	**1**	**5**	-	**5**
Balance at the end of the period	**7,059**	**1,129**	**23**	**8,211**	**49**	**17,360**	**(43)**	**25,577**	**318**	**25,895**

For the six months ended 30 June 2012 (Unaudited)

	Share capital	Premium (Capital reserves)	Share-based payment transactions and others (a) (Capital reserves)	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	-	-	-	-	-	711	-	711	19	730
Dividend paid to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	-	(8)	(8)
Adjustments in respect of companies included on equity basis, net	-	-	-	-	-	3	-	3	-	3
Other comprehensive income, net, after effect of taxes (c)	-	-	-	-	208	-	-	208	1	209
Changes in non-controlling interests	-	-	-	-	-	(4)	-	(4)	1	(3)
Balance at the end of the period	7,059	1,129	23	8,211	9	16,090	(44)	24,266	267	24,533

See notes on next page.

Condensed Consolidated Statement of Changes in Equity (cont'd)
for the periods ended 30 June 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 (b)	-	-	-	-	-	(26)	-	(26)	-	(26)
Net profit for the period	-	-	-	-	-	931	-	931	37	968
Adjustments in respect of companies included on equity basis	-	-	-	-	-	(9)	-	(9)	-	(9)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	(8)	(8)
Other comprehensive income, net, after effect of taxes (c)	-	-	-	-	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

(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.
(c) On 1 January 2013, the Bank implemented for the first time the directives of the Supervisor of Banks on the statement of comprehensive income. Comparative figures were reclassified to adapt to the new manner of presentation. See Note 1.

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

Condensed Consolidated Statement of Cash Flows
for the periods ended 30 June 2013

	For the three months ended 30 June		For the six months ended 30 June		For the year ended 31 December
	2013	2012	**2013**	2012	2012
	(Unaudited)		(Unaudited)		(Audited)
	(NIS millions)				
Cash flows generated by operating activity					
Net profit for the period	**484**	290	**1,065**	730	968
Adjustments:					
Group share in undistributed losses of companies included on equity basis (a)	**74**	23	**140**	62	181
Depreciation of buildings and equipment (including impairment)	**225**	188	**410**	365	775
Amortization	**3**	5	**6**	11	23
Expenses in respect of credit losses	**84**	333	**157**	558	1,236
Provision for impairment in assets transferred to group ownership	**-**	-	**-**	2	9
Net gains on sale of securities available for sale (including impairment)	**(107)**	(3)	**(440)**	(18)	(201)
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	**16**	(98)	**48**	(96)	(239)
Gain on realization of investment in companies included on equity basis	**(17)**	-	**(17)**	(24)	(24)
Loss (gain) on realization of buildings and equipment	**1**	(2)	**(14)**	(2)	(2)
Deferred taxes , net	**3**	(81)	**(26)**	(291)	(635)
Severance pay and pension - increase in excess of provision over amount funded	**75**	210	**102**	219	568
Interest received in excess of accumulated interest (not yet received) for debentures available for sale	**(116)**	21	**(54)**	19	(100)
Interest not yet paid for debentures and subordinated notes	**316**	426	**465**	567	356
Exchange-rate differences on balances of cash and cash equivalents	**48**	(285)	**400**	(191)	131
Other, net	**2**	6	**1**	1	(2)
Net change in current assets:					
Deposits in banks for an original period of more than three months	**(497)**	(37)	**(374)**	299	333
Credit to the public	**155**	(700)	**2,275**	(639)	(1,822)
Credit to the government	**(55)**	14	**(36)**	37	7
Securities borrowed or purchased under agreements to resell	**(1,119)**	(680)	**(538)**	(940)	(210)
Assets in respect of derivative instruments	**(78)**	(2,795)	**(442)**	(691)	135
Securities held for trading	**947**	(2,478)	**1,813**	(2,590)	(734)
Other assets	**(68)**	180	**33**	104	(31)
Net change in current liabilities:					
Deposits from banks	**(3,330)**	267	**208**	(1,119)	(984)
Deposits of the public	**(3,216)**	1,735	**(13,134)**	350	10,459
Deposits from governments	**(16)**	20	**10**	(60)	(62)
Securities lent or sold under agreements to repurchase	**593**	659	**322**	843	566
Liabilities in respect of derivative instruments	**(152)**	2,394	**(1)**	448	657
Other liabilities	**49**	(233)	**336**	(382)	92
Net cash generated by operating activity (for operating activity)	**(5,696)**	(621)	**(7,285)**	(2,428)	11,450

(a) Less dividend received.

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

Condensed Consolidated Statement of Cash Flows (cont'd)
for the periods ended 30 June 2013

	For the three months ended 30 June		For the six months ended 30 June		For the year ended 31 December
	2013	2012	**2013**	2012	2012
	(Unaudited)		(Unaudited)		(Audited)
	(NIS millions)				
Cash flows generated by investment activity					
Acquisition of securities available for sale	**(18,803)**	(16,034)	**(31,209)**	(26,031)	(50,487)
Proceeds from sale of securities available for sale	**8,341**	5,037	**17,034**	11,429	25,727
Proceeds from redemption of securities available for sale	**4,957**	3,157	**10,654**	5,757	18,911
Acquisition of shares in companies included on equity basis	**(36)**	-	**(66)**	-	(66)
Proceeds from realization of investment in companies included on equity basis	**72**	3	**72**	67	64
Acquisition of buildings and equipment	**(172)**	(188)	**(354)**	(387)	(770)
Proceeds from realization of buildings and equipment	**-**	3	**17**	5	9
Proceeds from realization of assets transferred to Group ownership	**1**	1	**3**	1	14
Repayment of shareholders' loan to company included on equity basis	**-**	1	**-**	2	4
Net cash for investment activity	**(5,640)**	(8,020)	**(3,849)**	(9,157)	(6,594)
Cash flows generated by financing activity					
Issue of debentures and subordinated notes	**-**	-	**-**	2,410	2,420
Redemption of debentures and subordinated notes	**(271)**	(76)	**(403)**	(4,753)	(5,250)
Issue of capital in consolidated companies to external shareholders	**-**	-	**-**	-	21
Dividend paid to minority shareholders of consolidated companies	**-**	-	**(6)**	(8)	(8)
Repayment of loans to employees for purchase of the Bank's shares	**-**	-	**1**	-	-
Net cash for financing activity	**(271)**	(76)	**(408)**	(2,351)	(2,817)
Increase (decrease) in cash and cash equivalents	**(11,607)**	(8,717)	**(11,542)**	(13,936)	2,039
Balance of cash and cash equivalents at beginning of period	**51,357**	44,423	**51,644**	49,736	49,736
Effect of movements in exchange rates on cash balances and cash equivalents	**(48)**	285	**(400)**	191	(131)
Balance of cash and cash equivalents at end of period	**39,702**	35,991	**39,702**	35,991	51,644

Interest and taxes paid and/or received and dividends received

	For the three months ended 30 June		For the six months ended 30 June		For the year ended 31 December
	2013	2012	**2013**	2012	2012
	(Unaudited)		(Unaudited)		(Audited)
	(NIS millions)				
Interest received	**3,086**	2,734	**6,356**	6,979	13,823
Interest paid	**(1,305)**	(1,501)(a)	**(2,574)**	(3,713)(a)	(7,077)(a)
Dividends received	**35**	117	**49**	122	170
Taxes paid on income	**(452)**	(352)	**(545)**	(571)	(1,113)

(a) Restated.

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

Condensed Consolidated Statement of Cash Flows (cont'd)
for the periods ended 30 June 2013

Appendix A – Investment and financing activities not in cash in the reporting period:

For the three months ended 30 June 2013:

(1) During the period, securities in the amount of NIS 243 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 30 June 2012:

(1) During the period, securities in the amount of NIS 230 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 37 million.
(3) During the period, assets were transferred from credit to the public to other assets in the amount of NIS 8 million, in respect of the settlement of loans.

For the six months ended 30 June 2013:

(1) During the period, securities in the amount of NIS 281 million were transferred from the available-for-sale portfolio to credit to the public, due to the lending of securities.

For the six months ended 30 June 2012:

(1) During the period, securities in the amount of NIS 378 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 81 million.
(3) During the period, assets were transferred from credit to the public to other assets in the amount of NIS 8 million, in respect of the settlement of loans.

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 the settlement of loans.
(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 interim financial statements.

Note 1 - Significant Accounting Policies

A. General

The condensed consolidated interim financial statements as at 30 June 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 28 August 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 the definition of a term defined in the Public Reporting Directives, the reference to the definition in the Directives will replace the original reference.

- 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 period.

C. First-time 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" .

7. Supplementary provision for doubtful debts.

8. Limitations on indebtedness of a single borrower or a group of borrowers.

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 and of 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 and of 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.
First-time 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 housing loans and modified the guidelines on capital adequacy as follows:
Collective allowance for credit losses - the Bank has formulated a policy 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 implemented the guidelines set out in the Supervisor's letter on a prospective basis as of the statements at 31 March 2013, so 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. The effect of implementing the directive is an increase in the balance of the provision for housing loans of about NIS 50 million before tax.

Capital adequacy – the risk weighting increased in respect of housing loans granted from 1 January 2013 (LTV above 45% but less than 60% - a risk weighting of 50%, LTV above 60% - a risk weighting of 75% or more). The credit conversion coefficient in respect of Sales Law guarantees after the delivery of an apartment was lowered from 20% to 10%. This decrease applies also to the percentage weighting of guarantees.

The Bank has adjusted the capital requirements in respect of housing loans made from 1 January 2013.

7. Supplementary provision for doubtful debts

The Bank implements the provisions of the circular of the Banking Supervision Department from 30 May 2013, amending Proper Conduct of Banking Business Directive 315 on the supplementary provision for doubtful debts. The amendments were aimed *inter alia* at adapting the directive to updates made in Proper Conduct of Banking Business Directive 313 and making additional amendments.
The main amendments to the directive are as follows:

- Adjusting the percentages for weighting sales guarantees to the rates set out in Directive 313. In light of this, an over-limit indebtedness of the construction and real estate sector – a bank guarantee to an apartment purchaser given under the Sales Law, when the apartment has been delivered to the purchaser – will be weighted at 10% and not 20%.

- Updates regarding the calculation of the supplementary allowance by risk characteristics – single borrower and group of borrowers concentrations - adjusting the limitations set out in Directive 313:
  - Updating the percentage of the limit for indebtedness of a group of borrowers from 30% to 25%.
  - Updating the percentage of the limit for indebtedness of large borrowers as defined in Directive 313 – the limit to be applied is 120% for all the large borrowers (borrowers whose indebtedness exceeds 10% relative to the capital of the bank) instead of 135% for the six largest borrowers.

The Bank applied the amendments to the directive as of 30 May 2013.

8. Limitations on indebtedness of a single borrower and a group of borrowers

The Bank implements the provisions of the circular of the Banking Supervision Department from 30 May 2013, amending Proper Conduct of Banking Business Directive 313 on "Limitations on indebtedness of a single borrower and a group of borrowers".
The main amendments to the directive are as follows:

- Adjusting the rate of weighting of Sales Law guarantees when the apartment has been delivered to the purchaser – was reduced from 20% to 10%.
  Retroactive implementation as of 1 January 2013.

- OTC derivatives – the amount of indebtedness in respect of the coefficient of the addition was adapted to Directive 203 so that the requirement to multiply the coefficient of the addition by 3 was cancelled.
  Implementation will apply as of 1 January 2014.

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 by 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 mainly as a result of 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 was fixed by the Supervisor of Banks at 4% linked to the index, reflecting the average rate of long-term interest on government bonds.
In addition, the actuarial calculations take into account the forecast of annual 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, the treatment of 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, requirements were added to take environmental factors into account, and requirements were added regarding the documentation that the bank has to retain to support the credit loss allowance made. In addition, the requirement for 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 30 June 2013 (Unaudited)				
			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	25,630	25,457	196	(23)	25,630
Foreign governments	3,578	3,581	4	(7)	3,578
Financial institutions in Israel	129	127	4	(2)	129
Financial institutions abroad	5,561	5,537	71	(47)	5,561
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	6,972	7,028	47	(103)	6,972
Others in Israel	1,052	1,018	35	(1)	1,052
Others abroad	2,102	2,108	24	(30)	2,102
	45,024	44,856	381	(213)	45,024
Shares and mutual funds (b)	2,924	2,742	263	(81)	2,924
Total securities available for sale	47,948	47,598	644 (c)	(294) (c)	47,948

	As at 30 June 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	6,638	6,558	95	(15)	6,638
Foreign governments	357	353	4	-	357
Financial institutions in Israel	231	229	2	-	231
Financial institutions abroad	169	167	3	(1)	169
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	380	384	4	(8)	380
Others in Israel	585	577	9	(1)	585
Others abroad	677	654	31	(8)	677
	9,037	8,922	148	(33)	9,037
Shares and mutual funds	595	557	39	(1)	595
Total securities held for trading	9,632	9,479	187 (d)	(34) (d)	9,632
Total securities	57,580	57,077	831	(328)	57,580

See notes on page 171.

Note 2 - Securities (cont'd)

	As at 30 June 2012 (Unaudited)				
			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	28,104	27,917	190	(3)	28,104
Foreign governments	4,445	4,440	7	(2)	4,445
Financial institutions in Israel	324	317	10	(3)	324
Financial institutions abroad	6,714	6,894	68	(248)	6,714
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	4,701	4,705	44	(48)	4,701
Others in Israel	565	591	9	(35)	565
Others abroad	1,135	1,136	21	(22)	1,135
	45,988	46,000	349	(361)	45,988
Shares and mutual funds (b)	1,929	1,690	259	(20)	1,929
Total securities available for sale	47,917	47,690	608 (c)	(381) (c)	47,917

	As at 30 June 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	10,149	10,074	87	(12)	10,149
Foreign governments	275	263	12	-	275
Financial institutions in Israel	150	149	2	(1)	150
Financial institutions abroad	130	135	-	(5)	130
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	241	248	3	(10)	241
Others in Israel	499	515	1	(17)	499
Others abroad	828	772	57	(1)	828
	12,272	12,156	162	(46)	12,272
Shares and mutual funds	159	160	1	(2)	159
Total securities held for trading	12,431	12,316	163 (d)	(48) (d)	12,431
Total securities	60,348	60,006	771	(429)	60,348

See notes on page 171.

Note 2 - Securities (cont'd)

	As at 31 December 2012 (Audited)				
	Balance sheet amount	Amortized cost (in shares - cost)	Accumulated other comprehensive profit (loss) Profits	Losses	Fair value (a)
	(NIS millions)				
1. Securities available for sale:					
Debentures -					
Government of Israel	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 held 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 1,204 million with respect to shares and funds which have no readily available fair value, which are shown at cost (31 December 2012 - NIS 1,194 million, 30 June 2012 - NIS 1,151 million).

(c) Regarding securities available for sale, other comprehensive income (loss) – unrealized profits (losses) are included in equity under "Other comprehensive income (loss), 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 779 million (31 December 2012 – NIS 339 million, 30 June 2012 – NIS 270 million) are shown under credit to the public.

Securities pledged to lenders amounted to NIS 1,527 million (31 December 2012 – NIS 1,851 million, 30 June 2012 – NIS 1,835 million).

Note 2 - Securities (cont'd)

Additional information on mortgage-backed and asset-backed securities

	As at 30 June 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	270	271	1	(2)	270
Securities issued by FNMA and FHLMC	1,758	1,818	-	(60)	1,758
Total	2,028	2,089	1	(62)	2,028
Other mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	2,809	2,824	10	(25)	2,809
Other mortgage-backed securities	364	365	-	(1)	364
Total	3,173	3,189	10	(26)	3,173
Asset-backed securities (ABS)					
Credit card receivables	87	89	-	(2)	87
Lines of credit for any purpose secured by dwelling	2	2	-	-	2
Other credit to private persons	4	4	-	-	4
Credit not to private persons	1	1	-	-	1
CLO-type debentures	1,679	1,654	36	(11)	1,679
Others	(2)	-	-	(2)	(2)
Total	1,771	1,750	36	(15)	1,771
Total mortgage-backed and asset-backed debentures available for sale	6,972	7,028	47	(103)	6,972

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

For details of the terms, see financial statements as at 31 December 2012.

Note 2 - Securities (cont'd)

Additional information on mortgage-backed and asset-backed securities (cont'd)

	As at 30 June 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	4	4	-	-	4
Total	4	4	-	-	4
Other mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	15	14	1	-	15
Other mortgage-backed securities	41	43	-	(2)	41
Total	56	57	1	(2)	56
Asset-backed securities (ABS)					
Credit card receivables	35	35	-	-	35
Lines of credit for any purpose secured by dwelling	3	2	1	-	3
Credit for purchase of vehicle	170	171	2	(3)	170
Other credit to private persons	23	23	-	-	23
Credit not to private persons	1	1	-	-	1
CDO-type debentures	-	3	-	(3)	-
Others	88	88	-	-	88
Total	320	323	3	(6)	320
Total mortgage-backed and asset-backed debentures available for sale	380	384	4	(8)	380

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

For details of the terms, see financial statements as at 31 December 2012.

Note 2 - Securities (cont'd)

Additional information on mortgage-backed and asset-backed securities (cont'd)

	As at 30 June 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	376	374	3	(1)	376
Securities issued by FNMA and FHLMC	902	892	10	-	902
Total	1,278	1,266	13	(1)	1,278
Other mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	1,862	1,857	7	(2)	1,862
Other mortgage-backed securities	269	272	1	(4)	269
Total	2,131	2,129	8	(6)	2,131
Asset-backed securities (ABS)					
Credit card receivables	40	41	-	(1)	40
Lines of credit for any purpose secured by dwelling	2	2	-	-	2
Other credit to private persons	5	5	-	-	5
CLO-type debentures	1,241	1,260	20	(39)	1,241
Others	4	2	3	(1)	4
Total	1,292	1,310	23	(41)	1,292
Total mortgage-backed and asset-backed debentures available for sale	4,701	4,705	44	(48)	4,701

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

For details of the terms, see financial statements as at 31 December 2012.

Note 2 - Securities (cont'd)

Additional information on mortgage-backed and asset-backed securities (cont'd)

	As at 30 June 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					
Other securities	5	7	-	(2)	5
Total	5	7	-	(2)	5
Other mortgage-backed securities (including CMO and STRIPPED MBS)					
Other mortgage-backed securities	5	7	-	(2)	5
Total	5	7	-	(2)	5
Asset-backed securities (ABS)					
Credit card receivables	38	38	-	-	38
Lines of credit for any purpose secured by dwelling	3	3	-	-	3
Credit for purchase of vehicle	111	108	3	-	111
Credit not to private persons	5	5	-	-	5
CDO-type debentures	1	7	-	(6)	1
Others	73	73	-	-	73
Total	231	234	3	(6)	231
Total mortgage-backed and asset-backed debentures available for sale	241	248	3	(10)	241

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

For details of the terms, see financial statements as at 31 December 2012.

Note 2 - Securities (cont'd)

Additional information on mortgage-backed and asset-backed securities (cont'd)

	As at 31 December 2012 (Audited)				
	Balance sheet amount	Amortized cost	Accumulated other comprehensive income (loss) *		Fair value
			Profits	Losses	
	(NIS millions)				
1. Debentures available for sale					
Pass-through securities					
Securities guaranteed by GNMA	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-type debentures	1,371	1,334	54	(17)	1,371
Others	3	4	-	(1)	3
Total	1,418	1,382	54	(18)	1,418
Total mortgage-backed and 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.

For details of the terms, see financial statements as at 31 December 2012.

Note 2 - Securities (cont'd)

Additional information on mortgage-backed and asset-backed 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-type debentures	28	33	-	(5)	28
Others	62	61	2	(1)	62
Total	313	313	6	(6)	313
Total mortgage-backed and asset-backed debentures available for sale	358	358	8	(8)	358

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

For details of the terms, see financial statements as at 31 December 2012.

Note 2 - Securities (cont'd)

Additional information on mortgage-backed and asset-backed securities that are in an unrealized loss position

	30 June 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)	**1,825**	**(62)**	**40**	**-**	**1,865**	**(62)**
Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS)	**1,883**	**(26)**	**114**	**-**	**1,997**	**(26)**
Asset-backed securities (ABS)	**519**	**(8)**	**243**	**(7)**	**762**	**(15)**
Total	**4,227**	**(96)**	**397**	**(7)**	**4,624**	**(103)**

	30 June 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)	242	(1)	-	-	242	(1)
Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS)	836	(2)	253	(4)	1,089	(6)
Asset-backed securities (ABS)	261	(17)	533	(24)	794	(41)
Total	1,339	(20)	786	(28)	2,125	(48)

	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)

(-) Amounts 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

Allowance for credit losses

1. Change in balance of allowance for credit losses

	For the three months ended 30 June 2013 (Unaudited)					
	Allowance for credit losses					
	Credit to the public				Banks and govern-ments	Total
	Commercial	Residential	Other private	Total		
	(NIS millions)					
Balance of allowance for credit losses at beginning of the reporting period	**3,604**	**510**	**402**	**4,516**	**3**	**4,519**
Expenses in respect of credit losses	**64**	**(2)**	**20**	**82**	**2**	**84**
Accounting write-offs	**(266)**	**-**	**(104)**	**(370)**	**(4)**	**(374)**
Collection of debts written off in previous years	**23**	**-**	**100**	**123**	**-**	**123**
Net accounting write-offs	**(243)**	**-**	**(4)**	**(247)**	**(4)**	**(251)**
Adjustments from translation of financial statements	**(3)**	**3**	**-**	**-**	**2**	**2**
Balance of allowance for credit losses at end of the reporting period[1]	**3,422**	**511**	**418**	**4,351**	**3**	**4,354**
[1]Of which: in respect of off-balance sheet credit instruments	**375**	**-**	**34**	**409**	**-**	**409**

	For the three months ended 30 June 2012 (Unaudited) (a)					
	Allowance for credit losses					
	Credit to the public				Banks and govern-ments	Total
	Commercial	Residential	Other private	Total		
	(NIS millions)					
Balance of allowance for credit losses at beginning of reporting period	3,527	512	457	4,496	4	4,500
Expenses in respect of credit losses	332	-	(4)	328	-	328
Accounting write-offs	(501)	(12)	(126)	(639)	-	(639)
Collection of debts written off in previous years	4	-	90	94	-	94
Net accounting write-offs	(497)	(12)	(36)	(545)	-	(545)
Adjustments from translation of financial statements	15	-	14	29	-	29
Balance of allowance for credit losses at end of the reporting period[1]	3,377	500	431	4,308	4	4,312
[1]Of which: in respect of off-balance sheet credit instruments	397	5	46	448	-	448

(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 (in 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)

Allowance for credit losses (cont'd)

1. Change in balance of allowance for credit losses (cont'd)

	For the six months ended 30 June 2013 (Unaudited)					
	Allowance for credit losses					
	Credit to the public				Banks and governments	Total
	Commercial	Residential	Other private	Total		
	(NIS millions)					
Balance of allowance for credit losses at beginning of the reporting period	**3,691**	**475**	**395**	**4,561**	**4**	**4,565**
Expenses in respect of credit losses	**36**	**46**	**71**	**153**	**4**	**157**
Accounting write-offs	**(338)**	**(10)**	**(228)**	**(576)**	**(5)**	**(581)**
Collection of debts written off in previous years	**40**	**-**	**180**	**220**	**-**	**220**
Net accounting write-offs	**(298)**	**(10)**	**(48)**	**(356)**	**(5)**	**(361)**
Adjustments from translation of financial statements	**(7)**	**-**	**-**	**(7)**	**-**	**(7)**
Balance of allowance for credit losses at end of the reporting period[1]	**3,422**	**511**	**418**	**4,351**	**3**	**4,354**
[1]Of which: in respect of off-balance sheet credit instruments	**375**	**-**	**34**	**409**	**-**	**409**

	For the six months ended 30 June 2012 (Unaudited) (a)					
	Allowance for credit losses					
	Credit to the public				Banks and governments	Total
	Commercial	Residential	Other private	Total		
	(NIS millions)					
Balance of allowance for credit losses at beginning of reporting period	3,441	532	462	4,435	5	4,440
Other changes in allowance for credit losses at 1 January 2012	27	3	6	36	-	36
Expenses in respect of credit losses	547	(12)	18	553	-	553
Accounting write-offs	(653)	(21)	(256)	(930)	(1)	(931)
Collection of debts written off in previous years	16	-	191	207	-	207
Net accounting write-offs	(637)	(21)	(65)	(723)	(1)	(724)
Adjustments from translation of financial statements	(1)	(2)	10	7	-	7
Balance of allowance for credit losses at end of the reporting period[1]	3,377	500	431	4,308	4	4,312
[1]Of which: in respect of off-balance sheet credit instruments	397	5	46	448	-	448

	31 December 2012 (Audited)					
	Allowance for credit losses					
	Credit to the public				Banks and governments	Total
	Commercial	Residential	Other private	Total		
	(NIS millions)					
Balance of allowance for credit losses at beginning of year	3,441	532	462	4,435	5	4,440
Other changes in allowance for credit losses 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)
Adjustments from translation of financial statements	(4)	-	-	(4)	-	(4)
Balance of allowance for credit losses at end of year[1]	3,691	475	395	4,561	4	4,565
[1]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 (in 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

	30 June 2013 (Unaudited)					
	Allowance for credit losses					
	Credit to the public				Banks and governments	Total
	Commercial	Residential	Other private	Total		
	(NIS millions)					
Recorded debt balance of debts*:						
Examined on an individual basis	112,661	73	1,843	114,577	10,895	125,472
Examined on a collective basis[2]	31,919	66,518	29,411	127,848	1,690	129,538
[2]Of which: the allowance was calculated by extent of arrears	-	65,350	-	65,350	-	65,350
Total debts*	144,580	66,591	31,254	242,425	12,585	255,010
Allowance for credit losses for debts*:						
Examined on an individual basis	2,711	15	75	2,801	3	2,804
Examined on a collective basis[3]	336	496	309	1,141	-	1,141
[3]Of which the allowance was calculated by extent of arrears	-	491 **	-	491	-	491
Total allowance for credit losses	3,047	511	384	3,942	3	3,945

	30 June 2012 (Unaudited) (a)					
	Allowance for credit losses					
	Credit to the public				Banks and governments	Total
	Commercial	Residential	Other private	Total		
	(NIS millions)					
Recorded debt balance of debts*:						
Examined on an individual basis	119,920	14	1,242	121,176	37,427	158,603
Examined on a collective basis[2]	35,216	60,159	28,736	124,111	1	124,112
[2]Of which: the allowance was calculated by extent of arrears	-	58,410	-	58,410	-	58,410
Total debts*	155,136	60,173	29,978	245,287	37,428	282,715
Allowance for credit losses for debts*:						
Examined on an individual basis	2,710	5	33	2,748	4	2,752
Examined on a collective basis[3]	270	490	352	1,112	-	1,112
[3]Of which the allowance was calculated by extent of arrears	-	468 **	-	468	-	468
Total allowance for credit losses	2,980	495	385	3,860	4	3,864

(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.

(b) Reclassified.

* Credit to the public, credit to governments, deposits in banks (in 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 277 million (30 June 2012 – NIS 232 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)					
	Allowance for credit losses					
	Credit to the public				Banks and govern-ments	Total
	Commercial	Residential	Other private	Total		
	(NIS millions)					
Recorded debt balance of debts*:						
Examined on an individual basis	120,006	48	1,991	122,045	45,770	167,815
Examined on a collective basis[2]	31,634	63,355	28,344	123,333	7,158	130,491
[2]Of which: the allowance was calculated by extent of arrears	-	62,423	-	62,423	-	62,423
Total debts*	151,640	63,403	30,335	245,378	52,928	298,306
Allowance for credit losses for debts*:						
Examined on an individual basis	2,943	19	62	3,024	4	3,028
Examined on a collective basis[3]	335	456	299	1,090	-	1,090
[3]Of which the allowance was calculated by extent of arrears	-	450 **	-	450	-	450
Total allowance for credit losses	3,278	475	361	4,114	4	4,118

(a) Reclassified.

* Credit to the public, credit to governments, deposits in banks (at 30 June 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 209 million.

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

B. Debts[1]

1. Credit quality and arrears

	30 June 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	14,261	183	463	14,907	8	17
Construction & real estate - real estate activities	21,839	159	1,565	23,563	1	10
Financial services	11,141	350	347	11,838	2	7
Commercial - other	61,077	2,434	2,001	65,512	32	95
Total commercial	108,318	3,126	4,376	115,820	43	129
Private individuals - housing loans[6]	64,571	787	-	65,358	758	618
Private individuals - other	29,772	291	77	30,140	248	165
Total public - activity in Israel	202,661	4,204	4,453	211,318	1,049	912
Israeli banks	1,470	-	-	1,470	-	-
Government of Israel	325	-	-	325	-	-
Total activity in Israel	204,456	4,204	4,453	213,113	1,049	912
Activity of borrowers abroad / Public - commercial						
Construction & real estate	6,972	108	773	7,853	26	39
Commercial - other	19,841	305	761	20,907	118	117
Total commercial	26,813	413	1,534	28,760	144	156
Private individuals	2,228	3	116	2,347	168	16
Total public - activity abroad	29,041	416	1,650	31,107	312	172
Foreign banks	10,637	-	-	10,637	-	-
Foreign governments	153	-	-	153	-	-
Total	39,831	416	1,650	41,897	312	172
Total public	231,702	4,620	6,103	242,425	1,361	1,084
Total banks	12,107	-	-	12,107	-	-
Total governments	478	-	-	478	-	-
Total	244,287	4,620	6,103	255,010	1,361	1,084

	30 June 2012 (Unaudited) (a)				
				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	114,560	7,076	121,636	10	78
Housing loans by extent of arrears[6]	60,064	-	60,064	858	737
Examined on other collective basis	63,580	7	63,587	447	466
Total public	238,204	7,083	245,287	1,315	1,281
Total banks	37,009	7	37,016	-	-
Total governments	412	-	412	-	-
Total	275,625	7,090	282,715	1,315	1,281

See notes on page 185.

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]	61,242	859 (b)	- (b)	62,101	829	593
Private individuals - other	28,593	303	45	28,941	115	174
Total public - activity in Israel	201,256	4,370	5,644	211,270	982	947
Israeli banks	38,478	-	-	38,478	-	-
Government of Israel	282	-	-	282	-	-
Total activity in Israel	240,016	4,370	5,644	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	233,236	4,744	7,398	245,378	1,293	1,202
Total banks	52,481	-	5	52,486	-	-
Total governments	442	-	-	442	-	-
Total	286,159	4,744	7,403	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.

(b) Reclassified.

(1) Credit to the public, credit to governments, deposits in banks (in 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 123 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 204 million (31 December 2012 – NIS 230 million, 30 June 2012 – NIS 248 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

	30 June 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	105	48	358	463	1,475
Construction & real estate - real estate activities	1,122	242	443	1,565	2,824
Financial services	286	129	61	347	1,077
Commercial - other	1,060	407	941	2,001	5,376
Total commercial	2,573	826	1,803	4,376	10,752
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	43	36	34	77	1,756
Total public - activity in Israel	2,616	862	1,837	4,453	12,508
Israeli banks	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	2,616	862	1,837	4,453	12,508
Activity of borrowers abroad					
Public - commercial					
Construction & real estate	584	331	189	773	920
Commercial - other	585	358	176	761	867
Total commercial	1,169	689	365	1,534	1,787
Private individuals	84	50	32	116	116
Total public - activity abroad	1,253	739	397	1,650	1,903
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total activity abroad	1,253	739	397	1,650	1,903
Total public	3,869	1,601	2,234	6,103	14,411
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	3,869	1,601	2,234	6,103	14,411
Of which:					
Measured by present value of cash flows	2,481	1,250	1,572	4,053	-
Debts under troubled debt restructuring	962	121	564	1,526	-

See notes on page 188.

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)

	30 June 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	4,190	1,520	2,893	7,083
Total banks	3	-	4	7
Total governments	-	-	-	-
Total	4,193	1,520	2,897	7,090
Of which:				
Measured by present value of cash flows	1,920	822	1,729	3,649
Debts under troubled debt restructuring	834	90	690	1,524

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 (b)	-	-	-	-	-
Private individuals - other (b)	22	22	23	45	1,681
Total public - activity in Israel	3,568	1,237	2,076	5,644	13,685
Israeli banks	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	3,568	1,237	2,076	5,644	13,685
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	4,741	1,811	2,657	7,398	15,802
Total banks	-	-	5	5	6
Total governments	-	-	-	-	-
Total	4,741	1,811	2,662	7,403	15,808
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.

(b) Reclassified.

(1) Credit to the public, credit to governments, deposits in banks (in 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.

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

	For the three months ended 30 June 2013			For the six months ended 30 June 2013		
	(Unaudited)					
	(NIS millions)					
	Average balance of impaired debts[2]	Interest income recorded[3]	Of which: recorded on cash basis	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	605	1	1	594	2	2
Construction & real estate - real estate activities	1,696	-	-	1,691	-	-
Financial services	688	-	-	631	-	-
Commercial - other	2,186	-	-	2,170	4	3
Total commercial	5,175	1	1	5,086	6	5
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	43	1	1	51	2	2
Total public - activity in Israel	5,218	2	2	5,137	8	7
Israeli banks	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	5,218	2	2	5,137	8	7
Activity of borrowers abroad						
Public - commercial						
Construction & real estate	815	1	-	835	3	2
Commercial - other	750	2	1	754	5	4
Total commercial	1,565	3	1	1,589	8	6
Private individuals	93	1	1	93	1	1
Total public - activity abroad	1,658	4	2	1,682	9	7
Foreign banks	3	-	-	3	-	-
Foreign governments	-	-	-	-	-	-
Total activity abroad	1,661	4	2	1,685	9	7
Total	6,879	6 (4)	4	6,822	17 (4)	14

(1) Credit to the public, credit to governments, deposits in banks (in 2013, excluding 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 and NIS 133 million for the six month and three month period ended 30 June 2013.

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)

	Three months ended	Six months ended	Year ended
	30 June 2012 (a)	30 June 2012 (a)	30 December 2012 (a)
	(Unaudited)		(Audited)
	NIS millions)		
Average recorded debt balance of impaired credit to the public in the reporting period	6,851	6,905	7,255(b)
Total interest income recorded in the reporting period in respect of these debts in the period they were classified as impaired	3	8	62
Total interest income that would have been recorded in the reporting period if these debts had accrued interest under their original terms	149	288	616
Of which: interest income recorded under the cash-basis accounting method	3	8	53

(a) Pursuant to the directives of the Supervisor of Banks on updating the disclosure of credit quality of debts and the allowance for credit losses, disclosures are to be included of troubled debt restructuring as of the financial statements at 31 March 2013 on a prospective basis. See Note 1.C.5.

(b) Restated.

(1) Credit to the public, credit to governments, deposits in banks (in 2013, excluding 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

	30 June 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	87	-	-	-	87
Construction & real estate - real estate activities	594	-	-	-	594
Financial services	52	-	-	-	52
Commercial - other	266	-	-	39	305
Total commercial	999	-	-	39	1,038
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	45	-	-	3	48
Total public - activity in Israel	1,044	-	-	42	1,086
Israeli banks	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	1,044	-	-	42	1,086
Activity of borrowers abroad Public - commercial					
Construction & real estate	125	-	-	69	194
Commercial - other	106	-	-	114	220
Total commercial	231	-	-	183	414
Private individuals	15	-	-	11	26
Total public - activity abroad	246	-	-	194	440
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total activity abroad	246	-	-	194	440
Total public	1,290	-	-	236	1,526
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	1,290	-	-	236	1,526

	30 June 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	1,373	-	-	151	1,524
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	1,373	-	-	151	1,524

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 (b)	-	-	-	-	-
Private individuals - other (b)	24	-	-	3	27
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.

(b) Reclassified.

(1) Credit to the public, credit to governments, deposits in banks (in 2013, excluding 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 30 June 2013			For the six months ended 30 June 2013		
	(Unaudited) (a)					
	(NIS millions)					
Restructurings carried out	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Activity of borrowers in Israel Public - commercial						
Construction & real estate - construction	8	1	1	12	2	2
Construction & real estate - real estate activities	5	7	7	9	68	68
Financial services	-	-	-	-	-	-
Commercial - other	16	1	1	33	2	2
Total commercial	29	9	9	54	72	72
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	242	2	2	465	4	4
Total public - activity in Israel	271	11	11	519	76	76
Israeli banks	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	271	11	11	519	76	76
Activity of borrowers abroad Public - commercial						
Construction & real estate	1	12	12	5	39	39
Commercial - other	17	81	80	28	137	135
Total commercial	18	93	92	33	176	174
Private individuals	10	2	2	42	6	6
Total public - activity abroad	28	95	94	75	182	180
Foreign banks	-	-	-	-	-	-
Foreign governments	-	-	-	-	-	-
Total activity abroad	28	95	94	75	182	180
Total	299	106	105	594	258	256

(a) Pursuant to the directives of the Supervisor of Banks on updating the disclosure of credit quality of debts and the allowance for credit losses, disclosures are to be included of troubled debt restructuring as of the financial statements at 31 March 2013 on a prospective basis. See Note 1.C.5.

(1) Credit to the public, credit to governments, deposits in banks (in 2013, excluding 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 30 June 2013		For the six months ended 30 June 2013	
	(Unaudited) (a)			
	(NIS millions)			
Failed restructurings[2]	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Activity of borrowers in Israel				
Public - commercial				
Construction & real estate - construction	9	-	3	1
Construction & real estate - real estate activities	4	3	6	5
Financial services	-	-	1	-
Commercial - other	3	5	29	14
Total commercial	16	8	39	19
Private individuals - housing loans	-	-	-	1
Private individuals - other	120	2	319	2
Total public - activity in Israel	136	10	358	22
Israeli banks	-	-	-	-
Government of Israel	-	-	-	-
Total activity in Israel	136	10	358	22
Activity of borrowers abroad				
Public - commercial				
Construction & real estate	-	1	2	2
Commercial - other	7	-	14	10
Total commercial	7	1	16	12
Private individuals	1	-	6	2
Total public - activity abroad	8	1	22	14
Foreign banks	-	-	-	-
Foreign governments	-	-	-	-
Total activity abroad	8	1	22	14
Total	144	11	380	36

(a) Pursuant to the directives of the Supervisor of Banks on updating the disclosure of credit quality of debts and the allowance for credit losses, disclosures are to be included of troubled debt restructuring as of the financial statements at 31 March 2013 on a prospective basis. See Note 1.C.5.

(1) Credit to the public, credit to governments, deposits in banks (in 2013, excluding 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 and 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

Balances at the end of the period by loan to value ratio (LTV), type of repayment and type of interest**

		30 June 2013 (Unaudited)			
		(NIS millions)			
		Balance of housing loans			
		Total**	**Of which: bullet and balloon	**Of which: variable interest	Off-balance sheet credit risk total
First charge: rate of financing	Up to 60%	**34,292**	**3,008**	**26,592**	**3,750**
	Above 60%	**30,257**	**1,778**	**23,878**	**2,262**
Second or without charge		**671**	**44**	**544**	**25**
Total		**65,220**	**4,830**	**51,014**	**6,037**

		30 June 2012 (Unaudited) (a)			
		(NIS millions)			
		Balance of housing loans			
		Total**	**Of which: bullet and balloon	**Of which: variable interest	Off-balance sheet credit risk total
Total		60,064	4,906	43,908	7,584

		31 December 2012 (Audited)			
		(NIS millions)			
		Balance of housing loans			
		Total**	**Of which: bullet and balloon	**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

(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 (in 2013, excluding deposits in the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

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

Note 3A – Deposits of the Public

	30 June 2013	30 June 2012	31 December 2012
	(Unaudited)	(Unaudited)	(Audited)
	(NIS millions)		
Demand deposits	**83,183**	64,668	75,355
Time and other deposits	**189,622**	212,761	211,506
Deposits in savings plans	**2,643**	3,005	2,677
Total deposits of the public	**275,448**	280,434	289,538
Of which: deposits of institutional entities raised in Israel	**23,692**	17,335	22,059

Note 4 – Capital and Capital Adequacy

Regulatory capital and capital adequacy are calculated pursuant to Proper Conduct of Banking Business Directives Nos. 201-211 on "Capital Measurement and Adequacy"

	30 June 2013	30 June 2012	31 December 2012
	(Unaudited)	(Unaudited)	(Audited)
	(NIS millions)		
A. Data			
Capital for purposes of calculating capital ratio			
Tier 1 capital, after deductions	**25,293**	24,118	24,312
Tier 2 capital, after deductions	**16,764**	18,534	17,978
Total capital	**42,057**	42,652	42,290
Weighted balances of risk assets			
Credit risk	**247,184**	257,990	253,838
Market risk	**12,134**	9,080	9,710
Operational risk	**20,680**	20,883	20,841
Total weighted balances of risk assets	**279,998**	287,953	284,389
Ratio of capital to risk components (%)			
Ratio of Tier 1 capital to risk components	**9.03%**	8.38%	8.55%
Ratio of total capital to risk components	**15.02%**	14.81%	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 components	**11.34%**	12.11%	10.84%
Ratio of total capital to risk components	**14.99%**	16.23%	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 components	**16.20%**	15.30%	16.00%
Ratio of total capital to risk components	**16.20%**	15.30%	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 components	**11.51%**	11.24%	11.56%
Ratio of total capital to risk components	**14.37%**	14.22%	14.47%
Minimum total capital ratio required by the local authorities	**10.00%**	10.00%	10.00%

(a) The U.S. 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 4 – Capital and Capital Adequacy (cont'd)

Regulatory capital and capital adequacy are calculated pursuant to Proper Conduct of Banking Business Directives Nos. 201-211 on "Capital Measurement and Adequacy".

Basel III

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 May 2013, the Supervisor of Banks issued final directives for the adoption of the Basel III recommendations in Israel, including an amendment to Proper Conduct of Banking Business Directive No. 201 "Measurement and Capital Adequacy – Introduction, Incidence and Calculation of Requirements".

Pursuant to this directive, 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 Tier 1 shareholders' equity targets stipulated in the directive are identical to those stipulated in the directive of March 2012.
It should be noted that the definitions of core capital and total capital and the regulatory adjustments (deductions from capital) to be determined by the Supervisor of Banks as part of the adoption of Basel III, are likely to differ from the definitions included in the Basel II framework.

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 an amendment to the Proper Conduct of Banking Business Directive No. 201 of 30 May 2013.

Note 5 – Consolidated Statement on Assets and Liabilities by Linkage Basis at 30 June 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	30,529	265	6,222	1,526	4,133	79	42,754
Securities	28,158	3,961	16,386	4,232	1,324	3,519	57,580
Securities borrowed or purchased under agreements to resell	1,973	-	-	-	-	-	1,973
Credit to the public, net (c)	140,861	53,657	30,372	6,036	7,508	49	238,483
Credit to governments	64	264	114	36	-	-	478
Investments in companies included on equity basis	-	-	-	-	-	1,978	1,978
Buildings and equipment	-	-	-	-	-	3,639	3,639
Assets in respect of derivative instruments	8,065	199	2,998	91	189	373	11,915
Other assets, intangible assets and goodwill	3,223	6	854	6	196	629	4,914
Total assets	212,873	58,352	56,946	11,927	13,350	10,266	363,714
Liabilities							
Deposits of the public	144,089	28,544	75,523	16,508	10,650	134	275,448
Deposits from banks	1,514	141	1,885	450	255	-	4,245
Deposits from governments	16	69	359	11	-	-	455
Securities lent or sold under agreements to repurchase	1,327	-	-	-	-	-	1,327
Debentures, bonds and subordinated notes	6,411	21,166	-	-	10	-	27,587
Liabilities in respect of derivative instruments	8,083	566	3,148	305	202	352	12,656
Other liabilities	9,367	5,258	595	33	266	582	16,101
Total liabilities	170,807	55,744	81,510	17,307	11,383	1,068	337,819
Difference (d)	42,066	2,608	(24,564)	(5,380)	1,967	9,198	25,895
Effect of hedging derivative instruments:							
Derivative instruments (excluding options)	723	-	(7)	-	(716)	-	-
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	(23,522)	(4,975)	24,753	5,935	(2,191)	-	-
Options in the money, net (in terms of underlying asset)	2,004	-	(2,327)	5	318	-	-
Options out of the money, net (in terms of underlying asset)	752	-	(487)	(152)	(113)	-	-
Grand total	22,023	(2,367)	(2,632)	408	(735)	9,198	25,895
Effect of non-hedging derivative instruments:							
Options in the money, net (discounted par value)	2,501	-	(2,622)	(213)	334	-	-
Options out of the money, net (discounted par value)	2,391	-	(1,267)	(588)	(536)	-	-

(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 3,942 million.
(d) Shareholders' equity including non-controlling interests.

Note 5 – Consolidated Statement on Assets and Liabilities by Linkage Basis (cont'd) as at 30 June 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	24,870	278	9,834	1,157	3,008	19	39,166
Securities	30,473	7,015	14,811	4,248	1,713	2,088	60,348
Securities borrowed or purchased under agreements to resell	2,165	-	-	-	-	-	2,165
Credit to the public, net (c)	131,926	55,189	37,216	6,793	10,286	17	241,427
Credit to governments	2	263	115	32	-	-	412
Investments in companies included on equity basis	2	-	-	-	-	2,127	2,129
Buildings and equipment	-	-	-	-	-	3,753	3,753
Assets in respect of derivative instruments	4,916	130	6,330	133	289	461	12,259
Other assets, intangible assets and goodwill	2,632	3	973	18	87	710	4,423
Total assets	196,986	62,878	69,279	12,381	15,383	9,175	366,082
Liabilities							
Deposits of the public	145,345	28,244	78,156	17,481	11,153	55	280,434
Deposits from banks	1,449	191	1,695	419	227	-	3,981
Deposits from governments	35	148	264	15	-	-	462
Securities lent or sold under agreements to repurchase	1,228	-	59	-	-	-	1,287
Debentures, bonds and subordinated notes	6,417	21,365	441	-	-	-	28,223
Liabilities in respect of derivative instruments	4,631	572	6,306	325	295	446	12,575
Other liabilities	7,665	5,481	667	30	181	563	14,587
Total liabilities	166,770	56,001	87,588	18,270	11,856	1,064	341,549
Difference (d)	30,216	6,877	(18,309)	(5,889)	3,527	8,111	24,533
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	(12,740)	(5,397)	16,652	5,913	(4,428)	-	-
Options in the money, net (in terms of underlying asset)	153	-	(317)	-	164	-	-
Options out of the money, net (in terms of underlying asset)	(780)	-	681	(13)	112	-	-
Grand total	16,849	1,480	(1,293)	11	(625)	8,111	24,533
Effect of non-hedging derivative instruments:							
Options in the money, net (discounted par value)	370	-	(722)	(2)	354	-	-
Options out of the money, net (discounted par value)	(3,345)	-	2,469	950	(74)	-	-

(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 3,860 million.
(d) Shareholders' equity including minority interests.

Note 5 – Consolidated Statement on Assets and Liabilities by 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 (c)	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, intangible assets and goodwill	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

	30 June 2013		30 June 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	**2,468**	**7**	2,544	5	1,823	5
Credit guarantees	**5,545**	**87**	6,639	71	5,793	76
Guarantees to apartment purchasers	**15,714**	**20**	12,055	19	13,538	18
Other guarantees and liabilities	**15,880**	**177**	17,239	207	16,504	221
Unutilized credit facilities for credit cards	**24,002**	**22**	22,296	24	22,582	21
Current loan account facilities and other credit facilities on demand not utilized	**13,757**	**27**	14,884	31	14,434	31
Irrevocable commitments to provide credit which has been approved and not yet granted (a)	**22,177**	**55**	22,993	72	20,892	60
Commitments to issue guarantees	**10,694**	**14**	11,528	19	10,818	15
Unutilized facilities for activity in derivative instruments	**5,599**	**-**	5,506	-	6,129	-
Approval in principle to maintain interest rate	**4,224**	**-**	3,863	-	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 217 million (30 June 2012 - NIS 235 million, 31 December 2012 - NIS 224 million). The above commitments represent a relatively small part of the obligations of those securitizing entities.

	30 June 2013	30 June 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	**209**	214	270
Second year	**189**	186	198
Third year	**170**	176	182
Fourth year	**155**	152	165
Fifth year	**131**	120	132
After five years	**805**	609	846
Total	**1,659**	1,457	1,793
(2) Commitments to purchase securities	**320**	304	531
(3) Commitments to invest in buildings, equipment and others	**244**	277	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:			
First year	**17**	17	17
Second year	**12**	17	17
Third year	**9**	12	12
Fourth year and thereafter	**-**	6	3
Total future deposits	**38**	52	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 65 million.

(1) The following are details of claims in amounts in excess of 0.5% of the equity of the Bank at 30 June 2013 (about NIS 128 million) and in which developments and changes occurred in relation to that described in the financial statements for the year 2012:

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 Banks submitted an appeal against the ruling in the Supreme Court. In the context of the hearing of the appeal, the Attorney General submitted, on 21 November 2011, his position 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 position is that in the view of the Attorney General the decision justifies the approval of a class action. It should be noted that in the appeal proceedings the Attorney General also referred to the decision in his previous position of May 2010, where it stated that this decision refers to commissions, whereas the decision of the District Court deals with interest rates. On 28 July 2013, the Supreme Court decided to accept the appeal and the decision of the District Court to approve a class action was canceled. The Supreme Court also decided that in view of the fact that the decision may have significant implications on the approval of the class action, there is no alternative than to return the proceedings to the District Court for a further hearing on the petition for approval.

B. 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

Note 6 - Contingent Liabilities and Special Commitments (cont'd)

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. After the signing of an arrangement between the parties to resolve the claim, the Court, on 9 June 2013, appointed an examiner for the compromise arrangement and ordered publication of a notice regarding the arrangement.

C. 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; evidence was heard in the claim and summaries submitted. On 21 July 2013, a verdict was handed down accepting the claim on a partial basis only. Within 30 days of the handing down of the verdict, an interest calculation will be made in accordance with the rate decided in the verdict.

(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 at NIS 3.5 billion, with the heading of the petition indicating the amount of the claim to be NIS 3 billion. No specific

Note 6 - Contingent Liabilities and Special Commitments (cont'd)

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.

Note 6 - Contingent Liabilities and Special Commitments (cont'd)

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*.

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) Subsidiary companies and a company included on equity basis have a capital deficit and operating losses. In the opinion of the managements of these companies, they are able to finance their obligations and their operating requirements.

(3) The Israel Corporation has announced an examination of the split of its holdings, such that the Israel Corporation will continue to hold Israel Chemicals Ltd and Oil Refineries Ltd., while its remaining holdings will be transferred and held by all the shareholders in the Israel Corporation through a new company The Bank is examining the impact of the split.

(4) On 30 July 2013, the Russian potassium producer, Uralkali, announced its withdrawal from the marketing company, BPC, which is a partner with the Russian company, Uralkali, and the Belarusian company, Belaruskali. This announcement creates uncertainty with regard to the price of potassium and increases the risk of a fall in prices in the short term. However, in the longer term, market trends indicate an increase in demand which will lead to price increases.

For further information on these matters, see the financial statements of the Israel Corporation Ltd. at 30 June 2013.

E. By 25 August 2013, the Antitrust Commissioner ("the Commissioner") is expected to extend 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 Ltd. (hereinafter "ABS") which was in force until 1 August 2013 and to determine the conditions of the extension. According to the Commissioner's notice, until this date, he does not intend to take any enforcement measures. On 7 August 2013, ABS signed an agreement to sell its automated cash-dispensing activity, subject to fulfillment of the conditions precedent in the agreement, pursuant to the decision of the Commissioner on this matter.

F. 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.

Note 6 - Contingent Liabilities and Special Commitments (cont'd)

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 transfers 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 transfers 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.

G. The United States authorities (the “U.S. authorities”) are conducting an investigation against the Bank Leumi Group ("the Group") in connection with activities of the Group with customers who are U.S. taxpayers ("U.S. customers"), on suspicion of a breach of U.S. law. In the context of the investigation proceedings, authorities, including the tax authorities, submitted subpoenas to the Group, including the Bank, for information and documents concerning the U.S. customers and have summoned customers and employees of the Group to testify and provide documents in connection with the U.S. customers and the banking services given to them by the Group. The Group is cooperating with the authorities, in providing information, answering the subpoenas submitted to the Bank and the Group, and in the procedural steps required, as allowed by law. At the same time, the Group continues to conduct an investigation of the Group's activities in the subject. The examination is being performed by outside parties hired by it for this purpose. The Bank made a provision in the financial statements for 2012 of approximately NIS 340 million. The provision is intended 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 external service providers in connection with carrying out 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 also be noted that the provision does not constitute any 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

	30 June 2013 (Unaudited)					
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts	Total
	Shekel – index	Other				
	(NIS millions)					
(1) Nominal amount of derivative instruments						
a) Hedging derivatives (1)						
Forward contracts	-	-	1,461	-	-	1,461
Swaps	-	2,567	-	-	-	2,567
Total	-	2,567	1,461	-	-	4,028
Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	2,548	-	-	-	2,548
b) ALM derivatives (1)(2)						
Futures contracts	-	5,577	152	34,717	3,186	43,632
Forward contracts	14,609	12,150	122,430	-	340	149,529
Exchange-traded options						
Options written	-	1,087	6,451	7,753	2,360	17,651
Options purchased	-	1,087	6,459	7,753	2,360	17,659
Other options						
Options written	-	15,449	30,189	800	284	46,722
Options purchased	-	15,159	30,611	954	293	47,017
Swaps	827	277,767	23,141	9,700	310	311,745
Total	15,436	328,276	219,433	61,677	9,133	633,955
Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	151,754	-	-	-	151,754
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	-	-	-	-	181	181
Spot foreign exchange contracts	-	-	7,528	-	-	7,528
Total	-	-	7,528	-	181	7,709
Grand total	15,436	330,843	228,422	61,677	9,314	645,692

(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 on consolidated basis (cont'd)

	30 June 2013 (Unaudited)					
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts	Total
	Shekel – index	Other				
	(NIS millions)					
(2) Gross fair value of derivative instruments						
a) Hedging derivatives (1)						
Gross positive fair value	-	24	12	-	-	36
Gross negative fair value	-	128	7	-	-	135
b) ALM derivatives (1)(2)						
Gross positive fair value	142	7,969	2,815	791	161	11,878
Gross negative fair value	296	7,659	3,621	799	155	12,530
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	1
Gross negative fair value	-	-	-	-	-	-
e) Total						
Gross positive fair value	142	7,993	2,827	791	162	11,915
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of assets in respect of derivative instruments	142	7,993	2,827	791	162	11,915
Of which: book value of assets in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	25	48	267	284	78	702
Gross negative fair value (3)	296	7,787	3,628	799	155	12,665
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of liabilities in respect of derivative instruments	296	7,787	3,628	799	155	12,665
Of which: book value of liabilities in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	218	48	549	65	57	937

(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 9 million.

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

A. Scope of activity on consolidated basis (cont'd)

	30 June 2012 (Unaudited)					
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts	Total
	Shekel – index	Other				
	(NIS millions)					
(1) Nominal amount of derivative instruments						
a) Hedging derivatives (1)						
Forward contracts	-	-	1,563	-	-	1,563
Swaps	-	3,304	-	-	-	3,304
Total	-	3,304	1,563	-	-	4,867
Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	2,944	-	-	-	2,944
b) ALM derivatives (1)(2)						
Futures contracts (3)	-	1,686	5	19,930	1,099	22,720
Forward contracts	10,851	12,397	128,016	-	365	151,629
Exchange-traded options						
Options written	-	1,049	5,417	7,510	100	14,076
Options purchased	-	1,049	5,417	7,510	100	14,076
Other options						
Options written	15	16,678	30,316	1,336	193	48,538
Options purchased	-	15,370	27,308	1,392	192	44,262
Swaps	904	200,099	22,713	7,908	341	231,965
Total	11,770	248,328	219,192	45,586	2,390	527,266
Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	102,317	-	-	-	102,317
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	-	-	9,211	-	-	9,211
Total	-	-	9,211	-	-	9,211
Grand total	11,770	251,632	229,966	45,586	2,390	541,344

(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 on consolidated basis (cont'd)

	30 June 2012 (Unaudited)					
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts	Total
	Shekel – index	Other				
	(NIS millions)					
(2) Gross fair value of derivative instruments						
a) Hedging derivatives (1)						
Gross positive fair value	-	4	10	-	-	14
Gross negative fair value	-	230	25	-	-	255
b) ALM derivatives (1)(2)						
Gross positive fair value	120	7,572	3,403	1,097	53	12,245
Gross negative fair value (3)	328	7,343	3,534	1,094	50	12,349
c) Other derivatives (1)						
Gross positive fair value	-	-	-	-	-	-
Gross negative fair value	-	-	-	-	-	-
d) Credit derivatives						
Credit derivatives in which the banking institution is a guarantor						
Gross positive fair value	-	-	-	-	-	-
Gross negative fair value	-	-	-	-	-	-
Credit derivatives in which the banking institution is a beneficiary						
Gross positive fair value	-	-	-	-	-	-
Gross negative fair value	-	-	-	-	-	-

(1) Except credit derivatives.

(2) Derivatives constituting part of the 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 29 million.

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

A. Scope of activity on consolidated basis (cont'd)

	31 December 2012 (Audited)					
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts	Total
	Shekel – index	Other				
	(NIS millions)					
(1) Nominal amount of derivative instruments						
a) Hedging instruments (1)						
Forward contracts	-	-	1,525	-	-	1,525
Swaps	-	2,659	-	-	-	2,659
Total	-	2,659	1,525	-	-	4,184
Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	2,613	-	-	-	2,613
b) ALM derivatives (1)(2)						
Futures contracts	-	6,740	232	23,393	2,075	32,440
Forward contracts	14,535	21,450	119,241	-	624	155,850
Exchange-traded options						
Options written	-	2,470	7,048	7,038	614	17,170
Options purchased	-	2,470	7,048	7,038	614	17,170
Other options						
Options written	-	17,589	18,802	1,366	503	38,260
Options purchased	-	17,751	19,038	1,475	526	38,790
Swaps	704	224,499	22,405	6,509	427	254,544
Total	15,239	292,969	193,814	46,819	5,383	554,224
Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	129,033	-	-	-	129,033
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 beneficiary	-	-	-	-	-	-
Credit derivatives in which the banking institution is a guarantor	-	-	-	-	187	187
Spot foreign exchange contracts	-	-	8,219	-	-	8,219
Total	-	-	8,219	-	187	8,406
Overall total	15,239	295,628	203,558	46,819	5,570	566,814

(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 on consolidated basis (cont'd)

	31 December 2012 (Audited) (a)					
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts	Total
	Shekel – index	Other				
	(NIS millions)					
(2) Gross fair value of derivative instruments						
a) Hedging derivatives (1)						
Gross positive fair value	-	1	30	-	-	31
Gross negative fair value	-	225	22	-	-	247
b) ALM derivatives (1)(2)						
Gross positive fair value	133	8,196	2,493	473	110	11,405
Gross negative fair value	297	7,926	3,726	481	105	12,535
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	2
Gross negative fair value	-	-	-	-	-	-
e) Total	-	-	-	-	-	-
Gross positive fair value	133	8,197	2,523	473	112	11,438
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of assets in respect of derivative instruments	133	8,197	2,523	473	112	11,438
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	511
Gross negative fair value (3)	297	8,151	3,748	481	105	12,782
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of liabilities in respect of derivative financial instruments	297	8,151	3,748	481	105	12,782
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	926

(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

	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
30 June 2013 (Unaudited)						
	(NIS millions)					
Book balance of assets in respect of derivative instruments (1)	**89**	**8,749**	**794**	**14**	**2,269**	**11,915**
Gross amounts not offset in the balance sheet:						
Reduction of credit risk in respect of derivative instruments	**-**	**7,179**	**760**	**3**	**503**	**8,445**
Reduction of credit risk in respect of cash collateral received	**-**	**878**	**4**	**-**	**14**	**896**
Net amount of assets in respect of derivative instruments	**89**	**692**	**30**	**11**	**1,752**	**2,574**
Off-balance sheet credit risk in respect of derivative instruments	**-**	**11,231**	**816**	**201**	**9,950**	**22,198**
Reduction of off-balance sheet credit risk	**-**	**3,363**	**29**	**29**	**2,183**	**5,604**
Net off-balance sheet credit risk in respect of derivative instruments	**-**	**7,868**	**787**	**172**	**7,767**	**16,594**
Total credit risk in respect of derivative instruments	**89**	**8,560**	**817**	**183**	**9,519**	**19,168**
Book balance of liabilities in respect of derivative instruments (1)(2)	**183**	**8,667**	**1,074**	**3**	**2,738**	**12,665**
Gross amounts not offset in the balance sheet:						
Financial instruments	**-**	**7,179**	**760**	**3**	**503**	**8,445**
Cash collateral pledged	**-**	**715**	**220**	**-**	**-**	**935**
Net amount of liabilities in respect of derivative instruments	**183**	**773**	**94**	**-**	**2,235**	**3,285**

	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
30 June 2012 (Unaudited)						
	(NIS millions)					
Off-balance sheet credit risk in respect of derivative instruments (1) (2)	214	8,047	601	-	3,397	12,259
Off-balance sheet credit risk in respect of derivative instruments	-	839	1	80	4,161	5,081
Total credit risk in respect of derivative instruments	214	8,886	602	80	7,558	17,340

See notes on next page.

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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
Reduction of credit risk in respect of 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
Reduction of off-balance sheet credit 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
Total credit risk in respect of 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 12,656 million at 30 June 2013 (30 June 2012 - NIS 12,259 million, 31 December 2012 - NIS 12,762 million).

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

C. Repayment Dates – Nominal Amounts: Balances on Consolidated Basis

	30 June 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	2,358	7,869	3,573	1,636	15,436
Other	29,041	55,249	147,309	99,244	330,843
Foreign currency contracts	141,877	57,335	9,861	19,349	228,422
Contracts in respect of shares	51,081	8,963	1,633	-	61,677
Commodities and other contracts	2,229	5,589	1,496	-	9,314
Total	226,586	135,005	163,872	120,229	645,692
Total for June 2012 (Unaudited)	204,706	124,165	106,022	106,451	541,344
Total for December 2012 (Audited)	195,403	131,258	141,588	98,565	566,814

Note 8 – Balances and fair value assessments of financial instruments

	30 June 2013 (Unaudited)				
	Book value	Fair value			
		Level 1 (1)	Level 2 (1)	Level 3 (1)	Total
	(NIS millions)				
Financial assets					
Cash and deposits with banks	42,754	7,935	29,282	5,558	42,775
Securities (2)	57,580	38,505	16,045	3,030	57,580
Securities borrowed or purchased under agreements to resell	1,973	1,973	-	-	1,973
Credit to the public, net	238,483	2,398	61,893	176,399	240,690
Credit to governments	478	-	77	443	520
Assets in respect of derivative instruments	11,915	696	9,463	1,756	11,915
Other financial assets	1,048	107	-	941	1,048
Total financial assets	354,231 (3)	51,614	116,760	188,127	356,501
Financial liabilities					
Deposits of the public	275,448	1,580	124,574	151,077	277,231
Deposits from banks	4,245	-	3,940	278	4,218
Deposits from governments	455	-	323	154	477
Securities lent or sold under agreements to repurchase	1,327	1,327	-	-	1,327
Debentures, notes and subordinated notes	27,587	24,984	387	4,817	30,188
Liabilities in respect of derivative instruments	12,656	696	11,486	474	12,656
Other financial liabilities	7,321	107	-	7,200	7,307
Total financial liabilitiies	329,039 (3)	28,694	140,710	164,000	333,404
Off-balance sheet financial instruments					
Transactions whose balance represents credit risk	284	-	-	284	284

(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 Note 2 - Securities.

(3) Of which: assets and liabilities in the amounts of NIS 105,906 million and NIS 84,753 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 - 8C.

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

	30 June 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	39,166	8,139	28,702	2,304	39,145
Securities (2)	60,348	44,184	13,490	2,674	60,348
Securities borrowed or purchased under agreements to resell (*)	2,165	2,165	-	-	2,165
Credit to the public, net	241,427	2,496	60,443	179,810	242,749
Credit to governments	412	-	2	436	438
Assets in respect of derivative instruments	12,259	885	8,443	2,931	12,259
Other financial assets	977	261	4	712	977
Total financial assets	356,754 (3)	58,130	111,084	188,867	358,081
Financial liabilities					
Deposits of the public	280,434	2,501	119,020	160,478	281,999
Deposits from banks	3,981	-	446	3,425	3,871
Deposits from governments	462	-	62	437	499
Securities lent or sold under agreements to repurchase (*)	1,287	1,228	59	-	1,287
Debentures, notes and subordinated notes	28,223	21,072	5,282	3,655	30,009
Liabilities in respect of derivative instruments	12,575	879	11,232	464	12,575
Other financial liabilities	7,416	261	6	7,126	7,393
Total financial liabilitiies	334,378 (3)	25,941	136,107	175,585	337,633
Off-balance sheet financial instruments					
Transactions whose balance represents credit risk	254	-	-	254	254

(*) 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 Note 2 - Securities.

(3) Of which: Assets and liabilities in the amounts of NIS 109,905 million and NIS 90,248 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 Note 2 - 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 - 8C.

Note 8A – Items measured for fair value
A. Items measured for fair value on a recurring basis

	As at 30 June 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	23,806	1,824	-	25,630
Foreign government bonds	2,783	789	6	3,578
Bonds of Israeli financial institutions	68	61	-	129
Bonds of overseas financial institutions	439	5,003	119	5,561
Asset-backed (ABS) or mortgage-backed (MBS) bonds	151	5,129	1,692	6,972
Other bonds in Israel	660	383	9	1,052
Other bonds abroad	605	1,497	-	2,102
Shares and mutual funds available for sale	1,720	-	-	1,720
Total securities available for sale	30,232	14,686	1,826	46,744
Securities held for trading:				
Government of Israel bonds	6,490	148	-	6,638
Foreign government bonds	357	-	-	357
Bonds of financial institutions in Israel	231	-	-	231
Bonds of financial institutions abroad	-	169	-	169
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	380	-	380
Other bonds in Israel	585	-	-	585
Other bonds abroad	15	662	-	677
Shares and mutual funds held for trading	595	-	-	595
Total securities held for trading	8,273	1,359	-	9,632
Assets in respect of derivative instruments:				
Interest contracts	15	7,388	732	8,135
Foreign currency contracts	5	1,743	992	2,740
Share contracts	372	256	20	648
Commodities and other contracts	74	76	12	162
Activity in Maof market	230	-	-	230
Total assets in respect of derivative instruments:	696	9,463	1,756	11,915
Others:				
Credit and deposits in respect of lending of securites	2,398	3	-	2,401
Securities borrowed or purchased under agreements to resell	1,973	-	-	1,973
Other	107	-	-	107
Total others	4,478	3	-	4,481
Total assets	43,679	25,511	3,582	72,772

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

	As at 30 June 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	15	7,929	139	8,083
Foreign currency contracts	3	3,193	335	3,531
Share contracts	373	284	-	657
Commodities and other contracts	75	80	-	155
Activity in Maof market	230	-	-	230
Total liabilities in respect of derivative instruments:	696	11,486	474	12,656
Others:				
Deposits in respect of lending of securites	1,580	11	-	1,591
Securities lent or sold under agreements to repurchase	1,327	-	-	1,327
Others:	107	-	-	107
Total others	3,014	11	-	3,025
Total liabilities	3,710	11,497	474	15,681

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

	As at 30 June 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	26,082	2,022	-	28,104
Foreign government bonds	4,249	185	11	4,445
Bonds of Israeli financial institutions	261	63	-	324
Bonds of overseas financial institutions	708	5,888	118	6,714
Asset-backed (ABS) or mortgage-backed (MBS) bonds	325	3,056	1,320	4,701
Other bonds in Israel	165	400	-	565
Other bonds abroad	525	536	74	1,135
Shares and mutual funds available for sale	778	-	-	778
Total securities available for sale	33,093	12,150	1,523	46,766
Securities held for trading:				-
Government of Israel bonds	10,026	123	-	10,149
Foreign government bonds	275	-	-	275
Bonds of financial institutions in Israel	150	-	-	150
Bonds of financial institutions abroad	-	130	-	130
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	241	-	241
Other bonds in Israel	499	-	-	499
Other bonds abroadl	-	828	-	828
Shares and mutual funds held for trading	141	18	-	159
Total securities held for trading	11,091	1,340	-	12,431
Assets in respect of derivative instruments: (b)				
Interest contracts	29	6,393	1,274	7,696
Foreign currency contracts	8	1,898	1,452	3,358
Share contracts	642	137	177	956
Commodities and other contracts	10	15	28	53
Activity in Maof market	196	-	-	196
Total assets in respect of derivative instruments:	885	8,443	2,931	12,259
Others:				
Credit and deposits in respect of lending of securites	2,497	6	-	2,503
Securities borrowed or purchased under agreements to resell (a)	2,165	-	-	2,165
Other	261	-	-	261
Total others	4,923	6	-	4,929
Total assets	49,992	21,939	4,454	76,385

(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)

	As at 30 June 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	30	7,691	180	7,901
Foreign currency contracts	1	3,190	284	3,475
Share contracts	642	311	-	953
Commodities and other contracts	10	40	-	50
Activity in Maof market	196	-	-	196
Total liabilities in respect of derivative instruments:	879	11,232	464	12,575
Others:				
Deposits in respect of lending of securites	2,502	181	-	2,683
Securities lent or sold under agreements to repurchase (a)	1,228	59	-	1,287
Others	261	30	-	291
Total others	3,991	270	-	4,261
Total liabilities	4,870	11,502	464	16,836

(a) Restated.

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

	As at 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
Asset-backed (ABS) or mortgage-backed (MBS) bonds	113	3,535	1,401	5,049
Other bonds in Israel	645	394	-	1,039
Other bonds abroad	564	945	74	1,583
Shares and mutual funds available for sale	972	-	-	972
Total securities available for sale	30,390	11,700	1,609	43,699
Securities held for trading:				
Government of Israel bonds	8,844	136	-	8,980
Foreign government bonds	190	121	-	311
Bonds of financial institutions in Israel	129	-	-	129
Bonds of financial institutions abroad	-	88	-	88
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	330	-	330
Other bonds in Israel	707	-	-	707
Other bonds abroad	15	727	-	742
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
Commodities 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
Others:				
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 others	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)

	As at 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
Commodities 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
Others:				
Deposits in respect of lending of securites (b)	1,957	163	-	2,120
Securities lent or sold under agreements to repurchase (a)	951	56	-	1,007
Others (b)	399	-	-	399
Total others	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

	As at 30 June 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)	Total fair value
	(NIS millions)			
Collateral-dependent impaired credit	-	-	1,681	1,681
Other assets	-	-	-	-
Total	-	-	1,681	1,681

	As at 30 June 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	-	-	1,988	1,988
Other assets	-	-	-	-
Total	-	-	1,988	1,988

	As at 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)	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 30 June 2013 (Unaudited)								
		Realized and unrealized profits (losses), net, included							
	Fair value at beginning of the year	In profit and loss statement	In other comprehensive income in equity	Acqui-sitions	Sales	Extinguish-ments	Transfers to or from Level 3	Fair value at 30 June 2013	Unrealized profits (losses) in respect of instruments held at 30 June 2013
	(NIS millions)								
Assets									
Bonds available for sale:									
Foreign governments	6	-	-	-	-	-	-	6	1
Financial institutions abroad	117	4	(1)	-	-	(1)	-	119	-
Asset-backed (ABS) or mortgage-backed (MBS) bonds	1,343	(12)	(8)	414	(5)	(40)	-	1,692	(7)
Others in Israel	19	(9)	-	-	-	(1)	-	9	-
Total bonds available for sale	1,485	(17)	(9)	414	(5)	(42)	-	1,826	(6)
Shares available for sale	-	-	-	-	-	-	-	-	-
Total bonds for trading	-	-	-	-	-	-	-	-	-
Shares for trading	-	-	-	-	-	-	-	-	-
Assets in respect of derivative instruments:									
Interest contracts	601	112	-	-	-	(8)	27	732	168
Foreign currency contracts	1,079	(340)	-	253	-	-	-	992	352
Share contracts	14	6	-	-	-	-	-	20	(1)
Commodities and other contracts	5	7	-	-	-	-	-	12	7
Total assets in respect of derivative instruments	1,699	(215)	-	253	-	(8)	27	1,756	526
Total assets	3,184	(232)	(9)	667	(5)	(50)	27	3,582	520
Liabilities									
Liabilities in respect of derivative instruments:									
Interest contracts	124	(2)	-	-	-	-	17	139	10
Foreign currency contracts	336	(1)	-	-	-	-	-	335	7
Total liabilities in respect of derivative instruments	460	(3)	-	-	-	-	17	474	17
Total liabilities	460	(3)	-	-	-	-	17	474	17

Note 8B – Changes in items measured for fair value on a recurring basis included in Level 3 (cont'd)

	For the three months ended 30 June 2012 (Unaudited) (a)								
		Realized and unrealized profits (losses), net, included							
	Fair value at beginning of the year	In profit and loss statement	In other comprehensive income in equity	Acqui-sitions	Sales	Extinguish-ments	Transfers to or from Level 3	Fair value at 30 June 2012	Unrealized profits (losses) in respect of instruments held at 30 June 2012
	(NIS millions)								
Assets									
Bonds available for sale:									
Foreign government bonds	10	1	-	-	-	-	-	11	(4)
Israeli financial institutions	2	(2)	-	-	-	-	-	-	-
Financial institutions abroad	114	-	-	-	-	4	-	118	-
Asset-backed (ABS) or mortgage-backed (MBS) bonds	870	34	11	423	-	(18)	-	1,320	16
Others abroad	72	-	-	-	-	2	-	74	1
Total bonds available for sale	1,068	33	11	423	-	(12)	-	1,523	13
Shares available for sale	-	-	-	-	-	-	-	-	-
Total bonds for trading	-	-	-	-	-	-	-	-	-
Shares for trading	-	-	-	-	-	-	-	-	-
Assets in respect of derivative instruments:									
Interest contracts	1,391	(101)	-	-	-	(16)	-	1,274	76
Foreign currency contracts	826	573	-	53	-	-	-	1,452	855
Share contracts	23	154	-	-	-	-	-	177	154
Commodity and other contracts	13	15	-	-	-	-	-	28	15
Total assets in respect of derivative instruments	2,253	641	-	53	-	(16)	-	2,931	1,100
Total assets	3,321	674	11	476	-	(28)	-	4,454	1,113
Liabilities									
Liabilities in respect of derivative instruments:									
Interest contracts	307	(127)	-	-	-	-	-	180	(86)
Foreign currency contracts	347	(63)	-	-	-	-	-	284	(91)
Total liabilities in respect of derivative instruments	654	(190)	-	-	-	-	-	464	(177)
Total liabilities	654	(190)	-	-	-	-	-	464	(177)

(a) Reclassified

Note 8B – Changes in items measured for fair value on a recurring basis included in Level 3 (cont'd)

	For the six months ended 30 June 2013 (Unaudited)								
		Realized and unrealized profits (losses), net, included							
	Fair value at beginning of the year	In profit and loss statement	In other comprehensive income in equity	Acqui-sitions	Sales	Extinguish-ments	Transfers to or from Level 3	Fair value at 30 June 2013	Unrealized profits (losses) in respect of instruments held at 30 June 2013
	(NIS millions)								
Assets									
Bonds available for sale:									
Foreign government bonds	11	-	-	-	(5)	-	-	6	1
Financial institutions abroad	123	(3)	-	-	-	(1)	-	119	-
Asset-backed (ABS) or mortgage-backed (MBS) bonds	1,401	(29)	(13)	668	(268)	(67)	-	1,692	4
Others in Israel	-	(9)	-	-	-	(1)	19	9	-
Others abroad	74	(1)	-	-	-	(73)	-	-	-
Total bonds available for sale	1,609	(42)	(13)	668	(273)	(142)	19	1,826	5
Shares available for sale	-	-	-	-	-	-	-	-	-
Total bonds for trading	-	-	-	-	-	-	-	-	-
Shares for trading	-	-	-	-	-	-	-	-	-
Assets in respect of derivative instruments:									
Interest contracts	690	73	-	-	-	(45)	14	732	66
Foreign currency contracts	619	(233)	-	606	-	-	-	992	444
Share contracts	14	6	-	-	-	-	-	20	(2)
Commodities and other contracts	12	-	-	-	-	-	-	12	1
Total assets in respect of derivative instruments	1,335	(154)	-	606	-	(45)	14	1,756	509
Total assets	2,944	(196)	(13)	1,274	(273)	(187)	33	3,582	514
Liabilities									
Liabilities in respect of derivative instruments:									
Interest contracts	154	(8)	-	-	-	-	(7)	139	13
Foreign currency contracts	318	17	-	-	-	-	-	335	22
Total liabilities in respect of derivative instruments	472	9	-	-	-	-	(7)	474	35
Total liabilities	472	9	-	-	-	-	(7)	474	35

Note 8B – Changes in items measured for fair value on a recurring basis included in Level 3 (cont'd)

	For the six months ended 30 June 2012 (Unaudited) (a)								
		Realized and unrealized profits (losses), net, included							
	Fair value at beginning of the year	In profit and loss statement	In other comprehensive income in equity	Acqui-sitions	Sales	Extinguish-ments	Transfers to or from Level 3	Fair value at 30 June 2012	Unrealized profits (losses) in respect of instruments held at 30 June 2012
	(NIS millions)								
Assets									
Bonds available for sale:									
Foreign government bonds	10	1	-	-	-	-	-	11	1
Financial institutions abroad	113	-	5	-	-	-	-	118	4
Asset-backed (ABS) or mortgage-backed (MBS) bonds	737	38	45	537	(4)	(33)	-	1,320	46
Others abroad	72	-	2	-	-	-	-	74	3
Total bonds available for sale	932	39	52	537	(4)	(33)	-	1,523	54
Total shares available for sale	-	-	-	-	-	-	-	-	-
Bonds for trading	-	-	-	-	-	-	-	-	-
Shares for trading	-	-	-	-	-	-	-	-	-
Assets in respect of derivative instruments:(a)									
Interest contracts	1,759	(432)	-	-	-	(54)	1	1,274	(178)
Foreign currency contracts	1,790	(657)	-	319	-	-	-	1,452	1,021
Share contracts	14	163	-	-	-	-	-	177	163
Commodity and other contracts	2	26	-	-	-	-	-	28	27
Total assets in respect of derivative instruments	3,565	(900)	-	319	-	(54)	1	2,931	1,033
Total assets	4,497	(861)	52	856	(4)	(87)	1	4,454	1,087
Liabilities									
Liabilities in respect of derivative instruments:									
Interest contracts	298	(118)	-	-	-	-	-	180	(100)
Foreign currency contracts	361	(77)	-	-	-	-	-	284	(77)
Total liabilities in respect of derivative instruments	659	(195)	-	-	-	-	-	464	(177)
Total liabilities	659	(195)	-	-	-	-	-	464	(177)

(a) Reclassified

Note 8B – Changes in items measured for fair value on a recurring basis included in Level 3 (cont'd)

	31 December 2012 (Audited)								
		Realized and unrealized profits (losses), net, included							Unrealized profits (losses)
	Fair value at beginning of the year	In profit and loss statement	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	-
Financial institutions abroad	113	2	10	-	-	(2)	-	123	10
Asset-backed (ABS) or mortgage-					#				
backed (MBS) bonds	737	81	96	873	#	(90)	-	1,401	160
Others abroad	72	1	2	-	-	(1)	-	74	3
Total bonds available for sale	932	84	108	874	#	(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	#	#	(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 – Quantitative information on items measured at fair value and included in Level 3 (in consolidated)

At 30 June 2013 (Unaudited)

A. Quantitative information regarding Level 3 fair value measurement (in NIS millions)

	Fair value	Assessment technique	Unobservable inputs	Range	Average (3)
A. Items measured st fair value on a recurring basis					
Assets					
Securities available for sale (1)					
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	1,692	Discounting cash flows	Margin	93-545 bp	232 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	96	Discounting cash flows	Inflationary expectations	0.69%-1.78%	1.24%
Interest contracts	636	Discounting cash flows	Transaction counterparty risk	0.03%-100%	2.56%
Foreign currency contracts	141	Discounting cash flows	Inflationary expectations	0.69%-1.78%	1.24%
Foreign currency contracts	851	Discounting cash flows	Transaction counterparty risk	0.03%-100%	2.56%
Share contracts	20	Discounting cash flows	Transaction counterparty risk	0.03%-100%	2.56%
Commodities and other contracts	12	Discounting cash flows	Transaction counterparty risk	0.03%-100%	2.56%
Liabilities					
Liabilities in respect of derivative instruments (2)					
Interest contracts	139	Discounting cash flows	Inflationary expectations	0.69%-1.78%	1.24%
Foreign currency contracts	335	Discounting cash flows	Inflationary expectations	0.69%-1.78%	1.24%
B. Items measured at fair value on a recurring basis					
Collateral-contingent credit	1,681	The fair value of the collateral			

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. Unobservable inputs used for the fair value measurement of derivatives are the credit risk of the counterparty to the transaction and the forecast rate of inflation. The higher/lower the credit risk of the counterparty to the transaction, the lower/higher will be the fair value of the transaction.
   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 8C – Quantitative information on items measured at fair value and included in Level 3 (in consolidated) (cont'd)

At 30 June 2012 (Unaudited)

A. Quantitative information regarding Level 3 fair value measurement (in NIS millions)

	Fair value	Assessment technique	Unobservable inputs	Range	Average
A. Items measured at fair value on a recurring basis					
Assets					
Securities available for sale (1)					
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	1,320	Discounting cash flows	Margin	107-892 bp	303 bp
			Probability of default	4%-6%	5.60%
			Rate of early repayment	15%	15%
			Loss rate	40%-80%	60%
Assets in respect of derivative instruments (2)					
Interest contracts	1,274	Discounting cash flows	Inflationary expectations	0.09%-1.7%	0.85%
Foreign currency contracts	1,452	Discounting cash flows	Inflationary expectations	0.09%-1.7%	0.85%
Liabilities					
Liabilities in respect of derivative instruments (2)					
Interest contracts	180	Discounting cash flows	Inflationary expectations	0.09%-1.7%	0.85%
Foreign currency contracts	284	Discounting cash flows	Inflationary expectations	0.09%-1.7%	0.85%
B. Items measured at fair value on a recurring basis					
Collateral-contingent credit	1,988	The fair value of the collateral			

B. Qualitative information regarding Level 3 fair value measurement

1. Unobservable inputs used for the fair value measurement of asset-backed or mortgage-backed securities are margin rates, probability of default, early repayment rate, and the severity of a loss in the event of default.
   Any significant increase/decrease in unobservable parameters will be reflected in a significantly lower/higher fair value.

2. The unobservable input used for the fair value measurement of derivatives is the forecast rate of inflation. Any change in the forecast rate of inflation will affect the fair value of transactions in accordance with the indexation position of the Bank for these transactions. The more the inflation forecast increases (decreases), and the Bank is committed to pay the amount linked to the index, the fair value of the transactions will decrease (increase). The more the inflation forecast increases (decreases), and the counterparty to the transaction is committed to pay the Bank the amount linked to the index, the fair value of the transactions will increase (decrease).

Note 8C – Quantitative information on items measured at fair value and included in Level 3 (in consolidated) (cont'd)

At 31 December 2012

A. Quantitative information regarding Level 3 fair value measurement (in NIS millions)

	Fair value	Assessment technique	Unobservable inputs	Range	Average
A. Items measured at fair value on a recurring basis					
Assets					
Securities available for sale (1)					
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	1,401	Discounting cash flows	Margin	95-778 bp	229 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	117	Discounting cash flows	Inflationary expectations	0%-1.8%	0.9%
Interest contracts	573	Discounting cash flows	Transaction counterparty risk	0.22%-6.99%	3.61%
Foreign currency contracts	139	Discounting cash flows	Inflationary expectations	0%-1.8%	0.9%
Foreign currency contracts	480	Discounting cash flows	Transaction counterparty risk	0.22%-6.99%	3.61%
Share contracts	14	Discounting cash flows	Transaction counterparty risk	0.22%-6.99%	3.61%
Commodities and other contracts	12	Discounting cash flows	Transaction counterparty risk	0.22%-6.99%	3.61%
Liabilities					
Liabilities in respect of derivative instruments (2)					
Interest contracts	154	Discounting cash flows	Inflationary expectations	0%-1.8%	0.9%
Foreign currency contracts	318	Discounting cash flows	Inflationary expectations	0%-1.8%	0.9%
B. Items measured at fair value on a recurring basis					
Collateral-contingent credit	2,012	The fair value of the collateral			

B. Qualitative information regarding Level 3 fair value measurement

1. Unobservable inputs used for the fair value measurement of asset-backed or mortgage-backed securities are margin rates, probability of default, early repayment rate, and the severity of a loss in the event of default.
   Any significant increase/decrease in unobservable parameters will be reflected in a significantly lower/higher fair value.

2. The unobservable input used for the fair value measurement of derivatives is the forecast rate of inflation. Any change in the forecast rate of inflation will affect the fair value of transactions in

accordance with the indexation position of the Bank for these transactions. The more the inflation forecast increases (decreases), and the Bank is committed to pay the amount linked to the index, the fair value of the transactions will decrease (increase). The more the inflation forecast increases (decreases), and the counterparty to the transaction is committed to pay the Bank the amount linked to the index, the fair value of the transactions will increase (decrease).

Note 9 – Interest income and expenses

	For the three months ended 30 June		For the six months ended 30 June	
	2013	2012	**2013**	2012
	(Unaudited)		(Unaudited)	
	(NIS millions)		(NIS millions)	
A. Interest income (b)				
From credit to the public	**2,805**	3,342	**5,301**	6,135
From credit to governments	**7**	8	**11**	12
From deposits with Bank of Israel and cash	**99**	126	**214**	281
From deposits with banks	**23**	21	**37**	45
From securities borrowed or purchased under agreement to resell	**4**	12	**10**	22
From debentures (c)	**253**	405	**481**	683
Total interest income	**3,191**	3,914	**6,054**	7,178
B. Interest expenses (b)				
On deposits of the public	**(884)**	(1,381)	**(1,660)**	(2,476)
On deposits from governments	**(3)**	(5)	**(5)**	(8)
On deposits from banks	**(11)**	(21)	**(20)**	(34)
On securities lent or sold under agreement to repurchase	**(3)**	(8)	**(8)**	(14)
On debentures, bonds and subordinated notes	**(451)**	(575)	**(760)**	(894)
Total interest expenses	**(1,352)**	(1,990)	**(2,453)**	(3,426)
Total interest income, net	**1,839**	1,924	**3,601**	3,752
C. Details of the net effect of derivative instruments hedging interest income and expenses				
Interest income	**(13)**	(15) (a)	**(27)**	(30) (a)
Interest expenses	**(2)**	1	**(1)**	1
D. Details of accumulated interest income from bonds				
Available for sale	**196**	283	**379**	513
For trading	**57**	122	**102**	170
Total included in interest income	**253**	405	**481**	683

(a) Restated.
(b) Including the effective component of hedging relationships.
(c) Including interest in respect of mortgage-backed bonds (MBS) in the amount of NIS 57 million and NIS 37 million for the six month periods ended on 30 June 2013 and 2012, respectively, and NIS 29 million and NIS 24 million for the three month periods ended on 30 June 2013 and 2012, respectively.

Note 10 – Non-interest financing income

	For the three months ended 30 June		For the six months 30 June	
	2013	2012	**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 (a)	**6**	-	**9**	-
Net income (expense) from ALM derivative instruments (b)	**(146)**	807	**(781)**	456
Total from activity in derivative instruments	**(140)**	807	**(772)**	456
A.2. From investment in bonds				
Profits from sale of bonds available for sale	**35**	75	**135**	147
Losses from sale of bonds available for sale (f)	**(11)**	(7)	**(12)**	(21)
Total from investment in bonds	**24**	68	**123**	126
A.3. Exchange rate differentials, net	**189**	(952)	**876**	(497)
A.4. Profits (losses) from investment in shares				
Profits from sale of shares available for sale (e)	**109**	37	**344**	54
Losses from sale of shares available for sale (c)	**(26)**	(102)	**(27)**	(162)
Profit from sale of shares in companies included on equity basis	**17**	-	**17**	24
Dividend from shares available for sale	**15**	31	**20**	34
Total from investment in shares	**115**	(34)	**354**	(50)
A.5. Profits in respect of loans sold (d)	**34**	-	**77**	-
Total non-interest financing income in respect of activities for purposes other than trading	**222**	(111)	**658**	35
B. Non-interest financing income in respect of activities for trading purposes				
Income (expenses) net in respect of other derivative instruments	**6**	(12)	**13**	(13)
Realized and unrealized losses from fair value adjustments of bonds held for trading, net	**(29)**	101	**(77)**	100
Realized and unrealized profits (losses) from fair value adjustments of shares held for trading, net	**13**	(3)	**29**	(4)
Dividends received from shares held for trading	**-**	-	**-**	2
Total from trading activities	**(10)**	86	**(35)**	85
Total non-interest financing income in respect of activities for purposes other than trading	**212**	(25)	**623**	120

(a) Excluding the effective part of hedging relationships.

(b) Derivative instruments comprising part of the Bank's asset and liability management not designated for hedging relationships.

(c) Including provisions for impairment in the amount of NIS 16 million and NIS 160 million for the six month periods ended on 30 June 2013 and 2012, respectively, and NIS 16 million and NIS 101 million for the three month periods ended on 30 June 2013 and 2012, respectively.

(d) Including loans sold in the amount of NIS 350 million and NIS 250 million for the six month period and three month period ended 30 June 2013.

(e) Including profit on sale of shares in Migdal in the amount of NIS 180 million, and profit on sale of Caesarstone in the amount of NIS 86 million for the period ended 30 June 2013.

(f) Including provisions for impairment in the amount of NIS 9.4 million for the period of six months and three months ended 30 June 2013.

Note 11 - Operating Segments

	For the three months ending 30 June 2013 (Unaudited)							
	Household segment	Small business segment	Corporate segment	Commercial segment	Private banking segment	Financial management segment	Other segment	Total consolidated
	(NIS millions)							
Interest income (expenses), net - from outside entities	**760**	**287**	**676**	**409**	**(20)**	**(274)**	**1**	**1,839**
Non-interest income - from outside entities	**393**	**143**	**157**	**144**	**146**	**223**	**40**	**1,246**
Intersegmental income (expenses)	**(54)**	**(65)**	**(310)**	**(72)**	**108**	**435**	**(42)**	**-**
Total income (expenses)	**1,099**	**365**	**523**	**481**	**234**	**384**	**(1)**	**3,085**
Expenses (income) in respect of credit losses	**41**	**16**	**(82)**	**113**	**2**	**(6)**	**-**	**84**
Net profit (loss) attributable to shareholders of the banking corporation	**31**	**64**	**276**	**50**	**29**	**31**	**(7)**	**474**

	For the three months ending 30 June 2012 (Unaudited) (a)							
	Household segment	Small business segment	Corporate segment	Commercial segment	Private banking segment	Financial management segment	Other segment	Total consolidated
	(NIS millions)							
Interest income (expenses), net - from outside entities	547	282	785	439	(29)	(100)	-	1,924
Non-interest income (expenses) - from outside entities	462	137	139	115	157	70	(85)	995
Intersegmental income (expenses)	161	(69)	(385)	(67)	112	174	74	-
Total income (expenses)	1,170	350	539	487	240	144	(11)	2,919
Expenses (income) in respect of credit losses	(9)	46	216	73	2	5	-	333
Net profit (loss) attributable to shareholders of the banking corporation	141	58	107	96	2	(114)	(10)	280

(a) Reclassified.

Note 11 - Operating Segments (cont'd)

	For the six months ended 30 June 2013 (Unaudited)							
	Household segment	Small business segment	Corporate segment	Commercial segment	Private banking segment	Financial management segment	Other segment	Total consolidated
	(NIS millions)							
Interest income (expenses), net - from outside entities	**1,346**	**556**	**1,296**	**801**	**(54)**	**(345)**	**1**	**3,601**
Non-interest income - from outside entities	**800**	**283**	**326**	**245**	**272**	**662**	**127**	**2,715**
Intersegmental income (expenses)	**66**	**(114)**	**(586)**	**(84)**	**260**	**570**	**(112)**	**-**
Total income	**2,212**	**725**	**1,036**	**962**	**478**	**887**	**16**	**6,316**
Expenses (income) in respect of credit losses	**127**	**58**	**(128)**	**145**	**3**	**(48)**	**-**	**157**
Net profit (loss) attributable to shareholders of the banking corporation	**70**	**126**	**533**	**165**	**59**	**149**	**(58)**	**1,044**

	For the six months ended 30 June 2012 (Unaudited) (a)							
	Household segment	Small business segment	Corporate segment	Commercial segment	Private banking segment	Financial management segment	Other segment	Total consolidated
	(NIS millions)							
Interest income (expenses), net - from outside entities	943	550	1,444	818	(63)	59	1	3,752
Non-interest income - from outside entities	840	273	370	193	298	257	(59)	2,172
Intersegmental income (expenses)	529	(118)	(747)	(39)	262	72	41	-
Total income (expenses)	2,312	705	1,067	972	497	388	(17)	5,924
Expenses (income) in respect of credit losses	(1)	54	427	83	1	(6)	-	558
Net profit (loss) attributable to shareholders of the banking corporation	262	150	213	240	26	(140)	(40)	711

Note 11 - Operating Segments (cont'd)

	For the year ended 31 December 2012 (Audited) (a)							
	Household segment	Small business segment	Corporate segment	Commercial 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	517	606	845	20	4,774
Intersegmental income (expenses)	1,145	(217)	(1,172)	(190)	523	(47)	(42)	-
Total income (expenses)	4,651	1,431	2,185	1,947	1,007	982	(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	434	77	(613)	(125)	931

Note 12 – Accumulated Other Comprehensive Income (Loss)

A. Changes in accumulated other comprehensive income (loss), after effect of tax

	For the three months ended 30 June 2013					
	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 March 2013	341	(203)	108	246	(4)	250
Net change in the period	(139)	(40)	(22)	(201)	-	(201)
Balance at 30 June 2013	202	(243)	86	45	(4)	49

	For the three months ended 30 June 2012					
	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 March 2012	173	(144)	112	141	1	140
Net change in the period	(153)	48	(26)	(131)	-	(131)
Balance at 30 June 2012	20	(96)	86	10	1	9

* 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, disclosure will be given separately from the amount of 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) (cont'd)
A. Changes in accumulated other comprehensive income (loss), after effect of tax (cont'd)

	For the six months ended 30 June 2013					
	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	**(293)**	**(94)**	**(26)**	**(413)**	**(4)**	**(409)**
Balance at 30 June 2013	**202**	**(243)**	**86**	**45**	**(4)**	**49**

	For the six months ended 30 June 2012					
	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	238	(3)	(26)	209	1	208
Balance at 30 June 2012	20	(96)	86	10	1	9

	For the year ended 31 December 2012					
	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

Note 12 – Accumulated Other Comprehensive Income (Loss) (cont'd)

B. Changes in accumulated other comprehensive income (loss), before and after effect of tax

	For the three months ended 30 June					
	2013			2012		
	(Unaudited)					
	(NIS millions)					
	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	**(118)**	**47**	**(71)**	(217)	66	(151)
(Profits) losses in respect of securities available for sale reclassified to the statement of profit and loss	**(107)**	**39**	**(68)**	(3)	1	(2)
Net change in the period	**(225)**	**86**	**(139)**	(220)	67	(153)
Translation adjustments *						
Adjustments for translation of financial statements	**(55)**	**-**	**(55)**	138	-	138
Hedges **	**24**	**(9)**	**15**	(139)	49	(90)
Net change in the period	**(31)**	**(9)**	**(40)**	(1)	49	48
Banking corporation's share in other comprehensive income of investee companies dealt with under the equity base method	**(22)**	**-**	**(22)**	(26)	-	(26)
Net change in the period	**(22)**	**-**	**(22)**	(26)	-	(26)
Total net change in the period	**(278)**	**77**	**(201)**	(247)	116	(131)
Changes in components of other comprehensive income (loss) attributed to non-controlling interests:						
Total net change in the period	**-**	**-**	**-**	-	-	-
Changes in components of other comprehensive income (loss) attributed to shareholders of the banking corporation:						
Total net change in the period	**(278)**	**77**	**(201)**	(247)	116	(131)

* 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, disclosure will be given separately from the amount of 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) (cont'd)

B. Changes in accumulated other comprehensive income (loss), before and after effect of tax (cont'd)

	For the six months ended 30 June						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	**(12)**	**-**	**(12)**	386	(136)	250	1,267	(425)	842
(Profits) losses in respect of securities available for sale reclassified to the statement of profit and loss	**(440)**	**159**	**(281)**	(18)	6	(12)	(201)	72	(129)
Net change in the period	**(452)**	**159**	**(293)**	368	(130)	238	1,066	(353)	713
Translation adjustments *									
Adjustments for translation of financial statements	**(171)**	**-**	**(171)**	77	-	77	(59)	-	(59)
Hedges **	**121**	**(44)**	**77**	(124)	44	(80)	4	(1)	3
Net change in the period	**(50)**	**(44)**	**(94)**	(47)	44	(3)	(55)	(1)	(56)
Banking corporation's share in other comprehensive income of investee companies dealt with under the equity base method	**(26)**	**-**	**(26)**	(26)	-	(26)	-	-	-
Net change in the period	**(26)**	**-**	**(26)**	(26)	-	(26)	-	-	-
Total net change in the period	**(528)**	**115**	**(413)**	295	(86)	209	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	**(524)**	**115**	**(409)**	294	(86)	208	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, disclosure will be given separately from the amount of adjustments in respect of companies included on equity basis.

** Profits (losses), net in respect of a net hedge of investment in foreign currency.

Note 13 – Events after the Balance Sheet Date

A. Remuneration policy and bonus plan

On 27 August 2013, the Banking Supervision Department issued a revised draft circular on remuneration policy in a banking corporation.The above draft is likely to have implications on the remuneration policy and bonus plan.

On 7 August 2013, following receipt of the decisions of the Board of Directors' remuneration committee, the Board of Directors of the Bank approved the remuneration policy for office-holders in the Bank in accordance with the provisions of Amendment 20 of the Companies Law, and a bonus plan for senior officers which corresponds to the remuneration policy.

Both the remuneration policy and the bonus plan relating to the Chairman of Board of Directors and the President and CEO are subject to the approval of the Special General Meeting of the Bank which has been called for 12 September 2013.

The remuneration policy provides the framework for the remuneration of office-holders in the Bank, and it includes, *inter alia*, reference to the salary component, to salary-related conditions, to retirement conditions, to the variable remuneration component and to the capital remuneration component. The remuneration policy is intended to remunerate the office-holders in the Bank in accordance with the Bank's performance and profitability over time, including according to the long-term targets of the Bank and the Group, and according to the actual contribution of the office-holders to achieve those targets and performance. Furthermore, the remuneration policy comes to ensure the existence of an appropriate balance of the fixed remuneration component and the variable remuneration component for office-holders, a structure of incentives for office-holders which promotes established and effective risk management, which does not encourage the risk-taking beyond the Bank's risk appetite, and facilitate the conservation of a solid capital base, and continue retaining quality office-holders in a competitive environment for the long-term in the Bank.

As stated above, the Remuneration Committee of the Board of Directors, and thereafter, the Board of Directors, also approved the bonus plan, which is based on the principles established in the remuneration policy, which will be in force for 2013, 2014 and 2015. The bonus plan is intended to act for the purpose of motivating the senior office-holders in the Bank in accordance with the Bank's targets and its strategic program, taking into account its risk appetite and noting the conditions prevailing in the Bank's business and administrative environment.

The bonus plan represents a specific application of the remuneration policy as regards the following remuneration components:
(1) an annual performance-contingent bonus to senior officers to be awarded in respect of each of the years of the bonus plan, as long as it awarded, partly in cash and partly in blocked performance-contingent share units (PSU units), with the amount of the annual bonus and the number of PSU units contingent on, *inter alia*, the long-term operating results of the Bank and the Group;
(2) a special personal annual bonus, contingent on performance, to members of management, excluding the President and CEO, to awarded in cash, according to the qualitative criteria which are not quantifiable;
(3) a lump-sum capital preservation bonus to the President and CEO and to other members of management in the Bank to be awarded in blocked share units (RSU units); and
(4) a lump-sum capital bonus to be awarded in blocked share units (RSU units) to whoever is elected to serve as Chairman of the Board of Directors of the Bank and after the Bank's 2013 General Meeting.

The remuneration policy and the bonus plan include restrictions and ceilings for the amounts of the bonuses that can be awarded according to the bonus plan to each of the senior officers.

B. Companies Tax

On 30 July 2013, the Economic Plan for 2013-2014 (The Budget Law) was approved in the Knesset on a Second and Third Reading presented by the Government, including *inter alia*, an increase in the company tax rate from 25% to 26.5% with effect from 1 January 2014.

The change in the companies tax rate in the Budget Law, as aforesaid, will raise the statutory tax rate which applies to financial institutions from 36.21% in 2013 to 37.71% in 2014 and thereafter.

The balances of deferred taxes included in the 30 June 2013 financial statements are calculated according to the tax rate in force at the balance sheet date and do not take into account the effects that are likely to arise from a change of the company tax rate determined in the aforesaid Budget Law. The effects of the aforesaid change in the company tax rate will be included in the financial statements which will published from the date on which the enactment of the law was actually completed, i.e., in the third quarter of 2013. The effect of the change in the company tax rate is estimated in an increase in the net deferred taxes balances receivable at 30 June 2013 amounting to NIS 98 million.