

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

Condensed Financial Statements as at 31 March 2014 (unaudited)

Bank Leumi le-Israel B.M.

Head Office: Leumi House, 34 Yehuda Halevi Street, Tel Aviv 65546, Israel

Tel: (972) 3-5148111, Fax: (972) 3-5149732

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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 2013. These reports should be read in conjunction with the Annual Report for 2013.

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 1,101 billion at the end of March 2014, compared with NIS 1,086 billion at the end of 2013, an increase of some 1.4%, which derived primarily from an increase in securities portfolios, and an increase in the value of provident funds and supplementary training funds.

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

Below are principal data as at:

	31 March 2014	31 March 2013	31 December 2013
Balance sheet data (in NIS millions):			
Total assets (total balance sheet)	370,525	369,529	374,360
Credit to the public, net	241,273	238,614	240,874
Securities	60,481	53,378	63,735
Cash and deposits in banks	44,162	53,933	44,351
Investment in companies included on equity basis	1,630	2,122	1,689
Deposits of the public	282,732	278,820	286,003
Debentures, notes, and subordinated notes	24,484	27,542	25,441
Equity attributable to shareholders of the banking corporation	27,002	25,284	26,425

Below are principal data:

	For the three months ended 31 March		For the year ended 31 December
	2014	2013	2013
Income, expenses and profits (in NIS millions):			
Interest income, net	1,757 (1)	1,762	7,357
Expenses (income) in respect of credit losses	(51)	73	268
Total non-interest income	1,374	1,469	5,517
Of which: commissions	1,040 (1)	1,025	4,188
Total operating and other expenses	2,124	2,057	8,933
Of which: salary expenses	1,312	1,282	5,174
Profit before taxes	1,058	1,101	3,673
Provision for taxes	385	463	1,391
Net profit for the period attributed to shareholders of the banking corporation	625 (2)	570	1,947
Net profit per share attributed to shareholders of the banking corporation (in NIS)	0.42	0.39	1.32
Total profit for the period attributed to shareholders of the banking corporation	578	362	1,458

(1) With regard to the initial application of FAS 91 "Measurement of Interest Income", see note 1 (c)1 below

(2) With regard to bringing forward the publication date of the financial statements and the reporting gap in respect of a company included on equity basis, see Note 1b below

Below are principal financial ratios for the periods ended:

	31 March 2014	31 March 2013	31 December 2013
Credit to the public, net, to total balance sheet	65.1	64.6	64.3
Securities to total balance sheet	16.3	14.4	17.0
Deposits of the public to total balance sheet	76.3	75.5	76.4
Deposits of the public to total credit, net	117.2	116.8	118.7
Total capital to risk assets (a) (f)	14.39	14.84	14.20
Tier I capital to risk assets (f)	9.41	8.85	9.20
Capital (excluding non-controlling interests) to balance sheet	7.3	6.8	7.1
Net profit to average capital (excluding non-controlling interests) (c)	9.7	9.4	7.6
Rate of provision for tax on the profit before taxes	36.4	42.1	37.9
Expenses in respect of credit losses to credit to the public, net (c)	(0.08)	0.12	0.11
Of which: expenses in respect of collective allowance to net credit to the public (c)	0.04	0.13	0.11
Expenses in respect of credit losses to total risk of credit to the public (c)	(0.06)	0.08	0.07
Net interest income to total balance sheet (c)	1.91	1.92	1.97
Total income to total balance sheet (b) (c)	3.42	3.54	3.44
Total income to total assets managed by the Group (b) (c) (d)	1.14	1.29	1.19
Total operating and other expenses to total balance sheet (c)	2.31	2.25	2.39
Total operating and other expenses to total assets managed by the Group (c) (d)	0.77	0.82	0.82
Net profit to average total assets (c) (e)	0.68	0.62	0.57
Interest margin	2.10	2.01	2.08
Operating and other expenses (excluding early retirement) to total income (b)	67.8	63.7	68.8
Non-interest income to operating and other expenses (excluding early retirement)	64.7	71.4	62.3
Non-interest income to total income (b)	43.9	45.5	42.9

(a) Capital - after adding non-controlling interests and after deducting investments in the equity of companies included on equity basis and various adjustments.

(b) Total income - net interest income and non-interest income.

(c) On an annual basis.

(d) Includes off-balance sheet activities.

(e) Average assets represent the total of income-bearing balance sheet assets and other assets.

(f) The ratios as of 31 March 2014 and 31 December 2013 have been calculated in accordance with the Basel III provisions. The ratios for 31 March 2013 have been calculated in accordance with the Basel II provisions.

Net profit attributable to shareholders in the banking corporation (hereinafter – the net profit) in the first quarter of 2014 amounted to NIS 625 million, compared with NIS 570 million in the corresponding period last year, an increase of 9.6%.

The increase in the net profit is explained mainly by a reduction in expenses in respect of credit losses amounting to amounting to NIS 124 million and by a reduction in the rate of provision for tax from profit before taxes. On the other hand, a reduction in noninterest income amounting to NIS 95 million and an increase in the operating and other expenses amounting to NIS 67 million partly offset the abovementioned effects (The data are before the effect of tax.)

In the first quarter of 2014, the operating results of the Israeli Corporation for the first quarter of 2014 were not included because of the gap between the reporting date of the financial statements of the company and the early reporting date of the Bank pursuant to the directives of the Supervisor of Banks. These results will be included within the reports for the second quarter of 2014.

For further details, see Note 1b - Significant Accounting Policies, below.

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 0.42 during the first quarter of 2014, compared with NIS 0.39 in the corresponding period last year.

Aggregate total income after the effect of tax (in addition to the net profit including mainly adjustments in respect of the presentation of available-for-sale securities at fair value and adjustments from translation of the financial statements) in the first quarter of 2014 amounted to NIS 578 million, compared to NIS 362 million in the corresponding period last year.

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 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 8 May 2014 (ref.: 2014-01-059571).

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

Capital Attributable to the Shareholders of the Banking Corporation (hereinafter: capital) of the Group as at 31 March 2014 amounted to NIS 27,002 million, compared with NIS 26,425 million as at the end of 2013, an increase of 2.2%. The increase is attributable to the profit for the first quarter of the year amounting to NIS 625 million which was partly offset by a decline in other comprehensive income in respect of available-for-sale securities which was carried to capital reserve amounting to NIS 46 million.

The **capital to total assets ratio** reached 7.3% on 31 March 2014, compared with 7.1% on 31 December 2013.

With regard to changes in the Bank's capital, see Note 13 below.

The **capital to risk assets ratio** according to Basel III reached 14.39% as of 31 March 2014, compared with 14.2% on 1 January 2014. The Tier 1 shareholders' equity ratio reached 9.41% at 31 March 2014, compared with 9.20% on 1 January 2014. This ratio reflects the actual core capital according to the definition of the Bank of Israel.

Capital Adequacy Target

Capital planning in the Leumi Group reflects a prospective view of the risk appetite and of the capital adequacy required as a consequence. In addition, the risk factors are reviewed under increasingly stringent stress tests.

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 a stress scenario event were defined.

The required rate of capital for covering the risks is calculated in respect of the two pillars:

First Pillar – calculated at 8% of the total risk assets and includes credit risk, market risks and operating risks.

Second Pillar - "capital buffers" are calculated in respect of risks that are not included in the context of the First Pillar, such as: large borrower concentrations, group borrowers, sectoral concentrations, country risk, various market risks and capital buffers in respect of risks included in the First Pillar, but in respect of which expansion is required.

The following capital adequacy targets were determined:

According to Proper Conduct of Banking Business Regulation 201 regarding "Introduction, Incidence and Calculation of Requirements", which was published on 30 May 2013 and came into force on 1 January 2014, all banking corporations will be required to comply with a minimum Tier 1 shareholders' equity ratio of 9% with effect from 1 January 2015. In addition, a large banking corporation, whose total balance sheet assets on a consolidated basis constitute at least 20% of the balance sheet assets in the banking system in Israel, will be required to comply with a minimum Tier 1 shareholders' equity ratio of 10%, with effect from 1 January 2017. This additional provision applies to Leumi. These targets will be gradually achieved. The Bank intends to maintain a planning margin above these targets.

In addition, all banking corporations in Israel will be required to maintain an overall capital ratio of 12.5% from 1 January 2015. A large banking corporation will be required to maintain an overall capital ratio of 13.5% from 1 January 2017.

For a possible effect on the capital ratio when implementing of accounting standards regarding employee rights, see chapter, "Accounting Policy on Critical Matters" below.

Following an analysis of the ICAAP risk map, the Board of Directors of the Bank resolved to determine that the Leumi Group's overall capital adequacy target would not be less than 13.5% over the long term.

The Bank has taken the necessary steps to meet the expected targets outlined above, which comply with the requirements of the Supervisor of Banks as set forth in the regulations.

For further information regarding the Basel III directives, see the section, "Basel Directives and Preparation in Leumi" in the chapter, "Risk Exposure and Risk Management" on pages 170-174 of the 2013 Annual Report.

The above capital adequacy policy refers to future activities of the Bank, and is defined as "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):

	Basel III 31 March 2014	Basel II 31 March 2013	31 December 2013
	NIS millions		
Tier 1 shareholders' equity *			
Share capital	7,059	7,059	7,059
Premium	1,129	1,129	1,129
Reserves	18,902	16,866	18,278
Unrealized profits (losses) from adjustments of available-for-sale securities at fair value	135	-	-
Adjustments from translation of financial statements of companies included on equity basis	(250)	(139)	(242)
Capital reserves due to share-based transactions and loans to employees to purchase shares of the Bank	(30)	(30)	(30)
Other capital reserves	57	58	50
Noncontrolling interests	304	308	340
Amounts reduced from Tier 1 shareholders' equity including goodwill and other intangible assets, deferred taxes and unrealized profits (losses) as a result of changes in the fair value of the liabilities deriving from changes in own credit risk of the Bank	(282)	-	-
Amounts deducted from Tier 1 capital, including goodwill, investments and other intangible assets	-	(411)	(321)
Total Tier 1 shareholders' equity after deductions *	27,024	24,840	26,263
Tier 2 capital:			
Eligible capital instruments pursuant to the transitional provisions in Regulation No. 299	11,635	-	-
Non-innovative and innovative compound capital instruments	-	6,072	6,149
Deferred notes	-	10,175	8,395
Noncontrolling interests in capital in subsidiaries pursuant to the transitional provisions in Regulation No. 299	4	-	-
Collective allowance for credit losses before the effect of related tax	2,674	-	-
45% of the amount of net profits, before the effect of related tax in respect of adjustments to fair value of available-for-sale securities	-	229	100
General provision for doubtful debts	-	428	428
Amounts reduced from Tier 2 Capital	-	(71)	(65)
Total Tier 2 capital	14,313	16,833	15,007
Total capital base for capital adequacy purposes	41,337	41,673	41,270

* Basel II – Tier 1 capital

On 1 January 2014, the Bank of Israel requirements for the application of the Basel III regulations came into force.

According to the requirements, the capital components for the purpose of calculating capital adequacy attributed to the Tier 1 capital and Tier 2 capital. The summation of these tiers is called "capital base for the purpose of capital adequacy" or "regulatory capital".

Tier 1 capital includes:

- a. **Tier 1 capital** includes the capital attributable to the shareholders of the banking corporation, with the addition of the part of the rights not conferring control of capital of non-consolidated subsidiaries (minority interests) and deducting goodwill, intangible and other assets and regulatory adjustments and other deductions, all as set forth in Proper Conduct of Banking Business Management Regulation No. 202 "Measurement and Capital Adequacy – Regulatory Capital" and subject to the transitional provisions of Proper Conduct of Banking Business Management Regulation No. 299 "Measurement and Capital Adequacy – Regulatory Capital – Transitional Provisions".
- b. **Additional Tier 1 capital** which comprises capital instruments complying with the criteria determined in Proper Conduct of Banking Business Management Regulation No. 202. There are no capital instruments in this tier in the Leumi Group.

Any additional Tier 1 capital instruments that are issued in the future will be required to comply with the criteria set forth in Proper Conduct of Banking Business Management Regulation No. 202.

Tier 2 capital:

In the Basel III regulations, the distinction between Upper Tier 2 and Lower Tier 2 is cancelled.

Tier 2 capital includes capital instruments and a collective allowance for credit losses before the effect of the related tax up to a ceiling of 1.25% of total credit risk assets.

With regard to capital instruments which were included in Tier 2 capital on 31 December 2013, the transitional provisions and the asset recognition ceiling were determined, as set forth in Proper Conduct of Banking Business Management Regulation 299 "Measurement and Capital Adequacy – Regulatory Capital- Transitional Provisions". The capital instruments which were part of Tier 2 at 31 December 2013 include compound capital instruments which were till then classified to upper Tier 2 capital, and deferred notes which were classified to lower Tier 2. For details, see page 23 of the 2013 Annual Report.

A description of the main features of regulatory capital instruments which have been issued is presented in the Bank's website: <http://leumi.co.il/home01/32587>.

If any Tier 2 capital instruments are issued in the future, they will be required to comply with the criteria set forth in Proper Conduct of Banking Business Management Regulation no. 202.

Capital adequacy - (Table 3 - Basel):

	Basel III		Basel II			
	31 March 2014		31 March 2013		31 December 2013	
Risk assets and capital requirements in respect of credit risk deriving from exposures to:	Risk assets	Capital requirements (3)	Risk assets	Capital requirements (3)	Risk assets	Capital requirements (3)
	NIS millions					
Sovereign debts	751	94	899	81	788	71
Debts of public sector entities	2,152	269	2,409	217	2,242	202
Debts of banking corporations	4,175	522	4,127	371	4,372	393
Debts of securities company	103	13	-	-	35	3
Debts of corporations	129,964	16,245	137,471	12,372	128,756	11,588
Debts collateralized by commercial real estate	21,444	2,680	21,809	1,963	20,958	1,886
Retail exposures to individuals	27,738	3,467	24,199	2,178	26,639	2,398
Loans to small businesses	10,186	1,273	9,826	884	10,657	959
Housing loans	38,438	4,805	34,539	3,109	28,375	3,454
Securitization	662	83	785	71	831	75
Other assets	18,166	2,271	13,702	1,233	13,895	1,251
Risk assets and capital requirements in respect of CVA risk (1)	2,918	365	-	-	-	-
Total in respect of credit risk (1)	256,697	32,087	249,766	22,479	247,548	22,280
Risk assets and capital requirements in respect of market risk (1)	10,120	1,265	10,152	914	10,510	946
Risk assets and capital requirements in respect of operational risk (2)	20,398	2,550	20,895	1,881	20,426	1,838
Total risk assets and capital requirements (4)	287,215	35,902	280,813	25,274	278,484	25,064
Total capital base for capital adequacy	41,337		41,673		41,270	
Total capital ratio	14.39%		14.84%		14.82%	
Tier 1 shareholders' equity ratio (Basel II – Tier 1 capital ratio)	9.41%		8.85%		9.43%	

(1) Weighted risk assets according to the standardized approach, First Pillar only.

(2) According to the standardized approach.

(3) The capital requirements have been computed at 12.5% according to the minimum required ratio with effect from 1 January 2015. In 2013, capital requirements have been computed at 9% according to the minimum required ratio until the end of 2013.

(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:

	Basel III	Basel II
	31 March 2014	31 December 2013
	%	
Leumi – on consolidated basis	14.39	14.82
Arab-Israel Bank	12.97	12.50
Leumi Card	17.10	16.00
Bank Leumi USA (1)	14.80	14.54
Bank Leumi UK	18.09	16.39
Bank Leumi Switzerland	47.84	44.91

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

B. Other Information

Principal Developments in the Economy^(*)

General

In the first quarter of 2014, the GDP of the Israeli economy grew in real terms at 2.1% per annum, compared with the corresponding period last year. The product of the business sector grew by an even more moderate of 0.4% in annual terms. The moderate growth was attributable primarily to a decline in private consumption.

In the first three months of the year, the Israeli consumer price index fell by some 0.5%. Since the beginning of the year, the Bank of Israel lowered interest rates by 0.25 percentage points from 1.0% at the end of 2013 to 0.75% in March 2014. This was against a background of a low inflationary environment which allows the monetary policy to support growth in the economy. In the interest rate decisions for April and May 2014, the interest level was left unchanged. In the first three months of the year, the shekel retained stability against the main currencies after significant strengthening in 2013.

The share and convertible securities index rose during the first quarter of 2014 by some 9.0%, following an increase of 15.3% in 2013, with the weight of shares in the financial asset portfolio held by the public reaching 25.9% and continuing its increasing trend from recent years.

The Global Economy

In April 2014, the International Monetary Fund revised its estimate of expected development of global growth for 2014. In the major advanced countries, with the exception of Japan, there was a slight upward shift in the forecasts, compared to the revisions made in January 2014, while in the emerging and developing countries, the forecasts were revised downwards, mainly due to a reduction in the growth forecast in Brazil and Russia. In most advanced countries, the growth rate is higher in 2014 than it was in 2013, sometimes considerably so. According to the Fund's revised estimates, growth in the United States and in the euro area in 2014 is expected to total 2.8% and 1.2%, respectively, compared with 1.9% and (-0.5%), respectively, in 2013.

The State Budget and its Financing

The months from January-March 2014 saw a surplus of NIS 0.1 billion in the State budget, compared with a planned deficit of some NIS 31.1 billion in the whole of 2014 and a deficit of some NIS 4.7 billion in the corresponding period last year. Government expenditure during this period expanded by 8.2%, while revenues increased by a higher rate of 15.4%, due to the effect of an increase in direct taxes and the effect of the collection of indirect taxes (*inter alia*, due to an increase in tax rates in the past year).

On 24 March 2014, the Treasury announced that the Housing Cabinet approved the proposal of the Finance Minister to grant a VAT benefit of 0% on first-time apartment purchasers. The proposal provides that a transaction to sell a new apartment to an eligible person will be entitled to a benefit of VAT at 0%. The purchasers will be eligible for the benefit only if the signature on the sale contract and the payment was made after the law came into force, subject to a price ceiling.

In addition, the Housing Cabinet approved a joint proposal of the Prime Minister, Finance Minister and the Housing and Construction Minister which provides that a team will be established, headed by the Finance Minister, and with the participation of the Housing and Construction Minister, the Director-General at the Prime Minister's Office, the Director-General of the Israel Lands Administration and a representative of the Attorney-General's office, to formulate a plan for publishing tenders using the "target price" method. According to this method, maximum prices for apartments marketed under the Israel Land Authority will be determined, which will be 20% lower than the market prices as of the end of 2013. "Target

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

price" tenders will not apply to IDF bases which will be evacuated and settlements in which there is marketing potential less than 500 housing units.

Further proposals approved by the Housing Cabinet relate to the regulation of landlord-tenant relations in a residential apartment and the operation of an incentive plan for local authorities to accelerate the issue of building permits for new residential apartments in their area. In addition, a proposed resolution was approved providing that the income tax regulations would be amended so that the obligation of reporting would be established for anyone who owns land which is not a residential apartment unit. At the same time, a memorandum of an amendment to the Income Tax Ordinance would be circulated determining an obligation to submit a report on the capital sources used to purchase the land.

Foreign trade and capital transactions

Israel's aggregate trade deficit in the first quarter of 2014 amounted to some US\$ 3.0 billion, an increase of some 7.7% compared with the deficit for the first quarter last year. The increase in the trade deficit is due to an increase in imports (in all of the major components, with the exception of energy products), compared with a slightly smaller increase in exports, due to a strengthening of the shekel and slower growth worldwide.

Foreign currency capital transactions in the first two months of 2014 were characterized by a higher amount of capital outflows, compared with capital inflows. In particular, direct investments in Israel, via the banking system, amounted to US\$ 1.0 billion during the said period, while financial investments also amounted to US\$ 1.0 billion. However, investments by Israeli residents abroad (direct investments through Israeli banks and the financial investments) amounted to US\$ 2.8 billion, most of which consisted of financial investments.

Exchange Rate and Foreign Currency Reserves

In the first quarter of 2014, there was slight devaluation in the exchange rate of the shekel of some 0.5% against the dollar, while there was a devaluation against the rate of the euro of some 0.6%. This followed a significant revaluation (7% against the dollar) in 2013, which was influenced, on the one hand, by the healthy state of Israel's foreign reserves (surplus on the current account in the balance of payments, surplus of assets over liabilities in foreign currency, substantial capital inflows), and, on the other hand, by purchases of foreign currency by the Bank of Israel on the foreign currency market.

Foreign currency balances in the Bank of Israel at the end of March 2014 amounted to some US\$ 85.6 billion. This compared with US\$ 81.8 billion at the end of December 2013.

In the period January-March 2014, foreign currency purchases by the Bank of Israel totaled US\$ 3.0 billion, of which US\$ 0.9 billion was part of a program of purchases to offset the effect of gas production on the exchange rate.

Inflation and Monetary Policy

The Israeli consumer price index fell by some 0.5% in the first three months of 2014, while in the twelve months to March 2014, the index increased by some 1.3%, a rate which is situated in the Government's target range of the price stability of 1% to 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%, while the transport and communication sector which fell by some 2.6% was prominent among the index sectors that fell.

The Bank of Israel interest rate, which was 1.0% in December 2013, fell in the interest decision for March 2014 by 0.25 percentage points to a rate of 0.75%. The reasons for the reduction were the need to lend additional support to economic activity, against a background of a revaluation of the shekel, while, in contrast, there were no inflationary pressures.

Capital market

The shares and convertible securities index rose by some 9.0% in the first quarter of the year, following an increase of some 15.3% in the whole of 2013. The increase in prices was affected by the publication of positive economic data in Israel, price increases in stock exchanges around the world, and the low level of Bank of Israel interest rates.

Average daily trading volumes of shares and convertible securities increased by some 10.6% during the first quarter of 2014, compared with the average for 2013, and amounted to some NIS 1,296 million.

The Government bond market was characterized by moderate price increases during the first three months of the year. The price of index-linked Government bonds rose by 2.0%, while unlinked bonds rose by some 1.9% (the fixed interest (*Shahar*) bond indices rose by some 2.2% and the variable interest (*Gilon*) bond index increased by only 0.4%).

In the index-linked non-government debenture market (corporate bonds), there were price increases of some 2.4% over the period, January – March 2014, following price increases of 9.5% in 2013.

Financial Assets held by the Public

The value of the portfolio of financial assets held by the public increased in the period January – March 2014 by 2.5%, reaching NIS 3,035 billion at the end of March 2014. This increase in the value of the portfolio derived from an increase in all of its components, with the share component having a significant effect on the increase in value. The weight of shares (in Israel and abroad) in the financial assets portfolio of the Israeli public reached some 25.9% at the end of March 2014, compared with some 24.5% in December 2013. This increase was attributable to an increase in the balance of shares, both in Israel and abroad.

Bank credit

Total bank credit in the economy granted to the private sector, including the corporate and household credit (before allowances for credit losses) was unchanged in the first two months of the year. This was the result of stability, both in credit extended to the corporate sector and household credit. However, the development of components of credit to households was not consistent. Credit for housing increased by some 0.7%, while non-housing credit (consumer credit) contracted by 1.6%.

The table below shows Israel's and the Bank's credit ratings as at 19 May 2014:

	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	F1	A-	stable
Leumi's rating in local currency for debentures and standard deposits	Ma'alot	-	AA+	stable
	Midroog	P-1	Aaa	stable
Leumi's rating in local currency for subordinated notes	Ma'alot	-	AA	stable
	Midroog	-	Aa1	negative
Leumi's rating in local currency for subordinated capital notes (Upper Tier II)	Ma'alot	-	(AA-, A)*	stable
	Midroog	-	Aa2	negative

* 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 Leumi share price

From the beginning of the year until 31 March 2014, the price of Leumi shares fell from 1,418 points to 1,360 points, a decrease of 4.1%. During this period, the Bank's market value fell from a level of some NIS 20.9 billion to a level of NIS 20.04 billion.

The following table sets out the principal representative exchange rates:

	31 March		31 December	
	2014	2013	2013	2012
	In NIS			
U.S. dollar	3.487	3.648	3.471	3.733
Euro	4.812	4.661	4.782	4.921
Pound sterling	5.806	5.534	5.742	6.037
Swiss franc	3.947	3.825	3.897	4.077

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

	2014	2013				
	1st quarter	Year	4th quarter	3rd quarter	2nd quarter	1st quarter
	(in percentages)					
Rate of increase (decrease) in Israeli Consumer Price Index ("known" index)	(0.7)	1.9	(0.1)	1.3	0.7	-
Rate of increase (decrease) of the U.S. dollar exchange rate	0.5	(7.0)	(1.9)	(2.2)	(0.8)	(2.3)
Rate of increase (decrease) of the euro exchange rate	0.6	(2.8)	0.2	1.1	1.3	(5.3)
Rate of increase (decrease) of the pound sterling exchange rate	1.1	(4.9)	0.6	3.4	(0.2)	(8.3)
Rate of increase (decrease) of the Swiss franc exchange rate	1.3	(4.4)	(0.2)	2.2	-	(6.2)

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 2013 Financial Report, pages 31-43.

Prohibition of Money Laundering Order (Obligations of Identification, Reporting and Management of Records of Banking Corporations to Prevent Money Laundering and the Financing of Terrorism), 2014

On 2 February 2014, an amendment to the Prohibition of Money Laundering Order applicable to banks was published. The amendment to the Order includes new regulations in the area of the prohibition of money laundering and the financing of terrorism, such as the addition of requirements in connection with the examination and recording the names of parties to transactions of international transfers, the anchoring of the obligation to "know your customer" and the addition of regulations and requirements relating to this obligation, the addition of the obligation to retain documents for a longer period at the request of the Supervisor of Banks and the addition of a reference to the list of countries at risks published by the Head of the Prohibition of Money Laundering and Financing of Terrorism Authority.

In addition, the definition in the Order of "unusual activity", requiring a report to the Prohibition of Money Laundering Authority, was amended. Pursuant to the amended definition, "unusual activity is an activity, which, in the light of the information in the hands of the banking corporation, concerns have arisen that it is connected to prohibited activity pursuant to the Prohibition of Money Laundering Law or the Prohibition of the Financing of Terrorism Law".

Most of the provisions of the amendment came into force six months after its publication.

Proper Conduct of Banking Business Management Regulation No. 414 – Disclosure of the Cost of Services in Securities

On 2 April, 2014, the Supervisor of Banks published Proper Conduct of Banking Business Management Regulation No. 414 concerning the disclosure of the cost of services in securities.

The regulation requires banking corporations to disclose to their customers who are charged commissions in respect of transactions for the purchase, sale or redemption of Israeli or foreign securities, or a commission fee for managing a securities deposit, comparative information regarding the rates of commissions paid by other customers of the banking corporation who hold deposits with a similar value to that of the deposit held by the customer.

The said comparative information to be furnished to the customer should be presented in the context of a biannual report to the customer, along with detailed information on the commission on the purchase, sale or redemption of securities, and a commission fee for managing a securities deposit, in which the customer is actually charged. The comparative information to be furnished to the customer will also be published on the banking corporation's website.

The regulation applies to individuals and small businesses.

The regulation will come into force on 1 January 2015. The initial disclosure of the information to the customer and its publication on the website, will be based on data received during the months of July – December 2014.

National insurance

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 from 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%. In addition, it was provided that this rate will be raised in January 2014 and in January 2015 to 7% and 7.5%, respectively. However, on 27 January 2014, the Law for Reliefs in the Capital Market and the Encouragement of Activity Therein (Legislative Amendment), 2014, was published, according to which the insurance fees collected from employers in respect of the part of the salary exceeding 60% of the average salary in the market, will be updated in January 2014, January 2015 and January 2016 to 6.75%, 7.25% and 7.5%, respectively.

Foreign Account Tax Compliance Act (FATCA)

See details on the subject of FATCA on page 40 of the Report of the Board of Directors for 2013 and the update, as follows:

On 1 May 2014, it was announced that the State of Israel had reached "substantial agreement" with the United States Treasury Department. The agreement grants Israel the status of a country that has signed an agreement with the United States and, as a consequence, the financial institutions in the State of Israel would be deemed financial institutions in a country which is a signatory to the intergovernmental agreement and would be subject to the rules of this agreement. The agreement regulates the transfer of information to the tax authorities in the United States, via the Israel Tax Authority, which would obtain the information from the financial entities in Israel. In addition, the agreement would include instructions to retain and protect the information, as well as regulations that would restrict the use that the U.S. tax authorities could make of it.

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 2013.

In the first quarter of 2014, an accounting standard on the format of the statement of profit and loss for a banking corporation and the adoption of generally accepted accounting principles in banks in the United States was implemented for the first time on the subject of the measurement of interest income and the regulations of the Banking Supervision Department on the subject of the bringing forward of the publication date of the financial statements, as a result of which a gap was created between the end of the reporting period of the Israel Corporation and the end of the reporting period of the Bank.

For further details, see Note 1b – Significant Accounting Policies, below.

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 assessments.

The estimates and assessments are generally based on economic forecasts, assessments regarding the various markets and past experience, following due consideration, and 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 2013 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.

Obligations for employees' rights

On 9 April 2014, the Supervisor of Banks published a circular regarding the adoption of the accounting rules in the United States on the subject of employee rights. The circular updates the recognition, measurement and disclosure requirements regarding benefits to employees in the Public Reporting Directives in accordance with the generally accepted accounting principles in banks in the United States. This circular includes certain revisions in the Public Reporting Directives, but does not include all of the updates required for the directives as a result of the adoption of these rules. These topics, including further clarifications, if necessary, will be dealt with separately.

The circular provides that the amendments to the Public Reporting Directives will apply from 1 January 2015, with the Bank, on initial implementation, correcting with retroactive effect the comparative figures for the period commencing 1 January 2013 and onwards, in order to comply with the requirement of the rules as aforesaid, *inter alia*, in accordance with the provisions of the circular.

- The discounting rate for computing the liability in respect of the employees' rights will be based on the market return on Government bonds in Israel. As a consequence, the temporary provision in the existing regulations determining the discounting rate for computing the reserves to cover employees' rights will be canceled.
- A banking corporation must apply the accounting principles generally accepted in banks in the United States regarding share-based payments as stated in ASC 718 – Compensation - Stock Compensation.

Pursuant to the circular published by the Banking Supervision Department, the Bank is required to provide disclosure in the financial statements at least to the estimate of the quantitative effect on the shareholders' equity of the calculation of the liabilities due to employees' rights using discounting rates based on market returns at the reporting date of Government bonds in Israel. According to the Bank's assessment, while the standard is applied on 31 March 2014 in accordance with the present interest environment, the expected effect on the shareholders' equity of the Bank as of 31 March 2014 in respect of the impact of the change in the discounting rate is a reduction of some NIS 2.6 billion, after the effect of tax (approx some NIS 4.2 billion before the effect of tax). It is clear that this liability will be revised in accordance with changes in the relevant market interest rates in future years.

It should be clarified that the adoption of United States accounting principles on the subject of employees' rights could have additional effects on the Bank's capital which we are studying. One of those possible effects is the method for providing accruals. From estimates and interpretations, the effect of change in the method of recording accruals is likely to result in a further reduction in shareholders' equity of some NIS 0.25 billion after the effect of tax (NIS 0.4 billion before the effect of tax). The Bank is examining further interpretations of the way of spreading liabilities and/or additional effects that are likely to alter these estimates.

Despite the significant effect of a reduction in the Bank's shareholders' equity, for the purpose of computing the capital requirement in accordance with the Basel III regulations, pursuant to the transitional provisions provided in the Proper Conduct of Banking Business Management Regulation No. 299, the balance of the accumulated profit or loss in respect of the remeasurements of net liabilities or net assets, in respect of a defined benefit for employees, will not be taken into account immediately, but, subject to the transitional provisions, in such a way that its effect will be spread evenly over a number of years.

For further details, see pages 44-50 in the 2013 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 (14 of the 15 directors) have accounting and financial expertise.

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 consisting 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 Audit 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, and, if necessary, background material for discussion on the topic of impairment of securities. 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 plenum of the 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. 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, and after the Board of Directors has been presented with the Certifications of the President and Chief Executive Officer, the Certification of the Head of the Finance and Economics Division and the Certification 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, most 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 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, etc.

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. In addition, the Disclosure Committee discusses the findings of the examinations of the financial reporting review. The minutes of the Disclosure Committee are sent for perusal by the members of the Audit Committee of the Board of Directors.

For further information, see the chapter, "Controls and Procedures Regarding Disclosure in the Financial Statements", below.

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

Development of income, expenses and tax provision

The net profit attributable to the shareholders of the banking corporation (hereinafter: "the net profit") of Leumi Group for the first quarter of 2014 was NIS 625 million, compared with NIS 570 million in the corresponding period in 2013, an increase of 9.6%.

The change in the net profit in the first quarter of 2014, as compared with the corresponding period in 2013, is explained as follows:

	For the first quarter ended			
	31 March 2014	31 March 2013	Change *	
	NIS millions		NIS millions	%
Net income interest	1,757 (a)	1,762	(5)	(0.3)
Income (expenses) in respect of credit losses	51	(73)	124	+
Non-interest income	1,374 (a)	1,469	(95)	(6.5)
Other operating expenses	(2,124)	(2,057)	(67)	(3.3)
Profit before taxes	1,058	1,101	(43)	(3.9)
Provision for tax	(385)	(463)	78	16.8
Profit after taxes	673	638	35	5.5
The Bank's share in losses of companies included on equity basis	(37)	(57)	20	35.1
Net profit attributed to non-controlling interests	(11)	(11)	-	-
Net profit attributed to shareholders in the banking corporation	625	570	55	9.6

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

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

	2014	2013			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions				
Net interest income	1,757 (a)	1,810	1,946	1,839	1,762
Income (expenses) in respect of credit losses	51	(155)	44	(84)	(73)
Non-interest income	1,374 (a)	1,420	1,382	1,246	1,469
Operating and other expenses	(2,124)	(2,254)	(2,443)	(2,179)	(2,057)
Profit before taxes	1,058	821	929	822	1,101
Provision for tax	(385)	(299)	(345)	(284)	(463)
Profit after taxes	673	522	584	538	638
Group's share in operating losses of companies included on equity basis	(37)	(165)	(17)	(54)	(57)
Net profit attributable to non-controlling interests	(11)	(9)	(12)	(10)	(11)
Net profit attributable to shareholders in the banking corporation	625	348	555	474	570

(a) Directive No. 310 on the topic of the profit and loss statement format for a banking corporation and the adoption of United States generally accepted accounting principles for banking corporations on the topic of the measurement of interest income was implemented for the first time this quarter, affecting net interest income and the item, commissions.

For further details, see Note 1 to the financial statements, below.

Net interest income of Leumi Group amounted in the first quarter of 2014 to NIS 1,757 million, compared with NIS 1,762 million in the corresponding period in 2013, a decrease of NIS 5 million or 0.3%.

The ratio of net interest income to the average balance of income-bearing assets is 2.15% (in annual terms) compared to 2.14% in the corresponding period in 2013.

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

Segment	For the first quarter ended		
	2014	2013	Change
	NIS millions		%
Households	652	666	(2.1)
Small businesses	257	230	11.7
Corporate banking	315	355	(11.3)
Commercial banking	348	346	0.6
Private banking	75	77	(2.6)
Financial management	107	86	24.4
Other	3	2	50.0
Total	1,757	1,762	(0.3)

Total interest margin in the first quarter of 2014 was 2.10%, compared with 2.01% in the corresponding period in 2013.

The interest margin in activity in Israel by segment was, as follows:

In the unlinked shekel sector, 2.55%, compared with 2.50% in the corresponding period in 2013. The interest margin in the foreign currency segment increased from 1.37% to 1.96%. In the index segment, the interest margin was 0.33%, compared to 0.32% in the corresponding period in 2013.

Income (expenses) in respect of credit losses in the Leumi Group for the first quarter of 2014 amounted to income of NIS 51 million, compared with expenses of NIS 73 million in the corresponding period in 2013.

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

	2014	2013				
	1st	Total	4th	3rd	2nd	1st
	quarter	2013	quarter	quarter	quarter	quarter
	NIS millions					
Individual expense (income) in respect of credit losses	(77)	11	59	(80)	39	(7)
Collective expense in respect of credit losses	26	257	96	36	45	80
Total expense (income) in respect of credit losses	(51)	268	155	(44)	84	73
Percentage ratios (in annual terms)						
Individual expenses (income) in respect of credit losses to total credit to the public	(0.12)	-	0.10	(0.13)	0.07	(0.01)
Collective expenses in respect of credit losses to total credit to the public	0.04	0.11	0.16	0.06	0.08	0.13
Total expenses (income) in respect of credit losses to total credit to the public	(0.08)	0.11	0.26	(0.07)	0.15	0.12
Individual expenses (income) in respect of credit losses to total credit risk to the public	(0.09)	-	0.06	(0.09)	0.04	(0.01)
Collective expenses (income) in respect of credit losses to total credit risk to the public	0.03	0.07	0.10	0.04	0.05	0.09
Total expenses (income) in respect of credit losses to total credit risk to the public	(0.06)	0.07	0.16	(0.05)	0.09	0.08

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

	31 March 2014	31 March 2013	31 December 2013
Credit loss allowance on a collective basis (NIS millions)	2,677	2,636	2,702
Balance of credit loss allowance on a collective basis to total credit to the public, net (%)	1.11	1.10	1.12
Balance of credit loss allowance on a collective basis to total credit risk to the public, net (%)	0.73	0.73	0.72

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

	First quarter of 2014		First quarter of 2013	
	NIS millions	% *	NIS millions	% *
Households	38	0.1	86	0.4
Private banking	(1)	(0.1)	1	0.1
Small businesses	19	0.3	42	0.8
Corporate banking	(87)	(0.6)	(46)	(0.3)
Commercial banking	(28)	(0.2)	32	0.3
Financial management and other	8	11.8	(42)	(14.8)
Total	(51)	(0.08)	73	0.12

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

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

	First three months of 2014	First three months of 2013
	NIS millions	
Industry	(53)	12
Construction and real estate	(61)	28
Trade	(29)	(14)
Hotel, food and entertainment services	-	(16)
Transportation and storage	(17)	5
Communications and computer services	32	-
Financial services	72	(18)
Other business services	4	(3)
Private individuals - housing loans	-	51
Private individuals – other	(35)	29
Others	(1)	(3)
Total public	(54)	71
Total banks	3	2
Total	(51)	73

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 quarter of		
	2014	2013	Change
	NIS millions		%
The Bank	(85)	59	-
Leumi Card	4	5	(20.0)
Arab Israel Bank	3	-	+
Leumi – U.S.A.	5	23	(78.3)
Leumi – U.K.	19	(4)	+
Leumi Romania	3	(10)	+
Total expenses (income) in respect of credit losses	(51)	73	-

Problematic credit risk

On a consolidated basis	31 March 2014		
	Balance sheet	Off-balance sheet	Total
	NIS millions		
1. Problem credit risk: (1)			
Impaired credit risk	5,534	275	5,809
Subordinate credit risk	1,567	430	1,997
Credit risk under special supervision (2)	3,023	727	3,750
Total problem credit	10,124	1,432	11,556
Of which: Unimpaired debts in arrears 90 days or more (2)	1,152	-	-
2. Non-performing assets:			
Impaired debts	4,964	-	-
Assets received in respect of credit cleared	42	-	-
Total non-performing assets	5,006	-	-

On a consolidated basis	31 March 2013		
	Balance sheet	Off-balance sheet	Total
	NIS millions		
1. Problem credit risk: (1)			
Impaired credit risk	6,708	518	7,226
Subordinate credit risk	2,027	26	2,053
Credit risk under special supervision (2)	2,650	614	3,264
Total problem credit	11,385	1,158	12,543
Of which: Unimpaired debts in arrears 90 days or more (2)	1,221	-	-
2. Non-performing assets:			
Impaired debts	6,470	-	-
Assets received in respect of credit cleared	112	-	-
Total non-performing assets	6,582	-	-

See comments on next page.

On a consolidated basis	31 December 2013		
	Balance sheet	Off-balance sheet	Total
	NIS millions		
1. Problem credit risk: (1)			
Impaired credit risk	5,782	333	6,115
Subordinate credit risk	1,832	187	2,019
Credit risk under special supervision (2)	3,260	795	4,055
Total problem credit	10,874	1,315	12,189
Of which: Unimpaired debts, in arrears of 90 days or more (2)	1,440	-	-
2. Noninterest-performing assets:			
Impaired debts	5,217	-	-
Assets received in respect of credit cleared	101	-	-
Total non-performing assets	5,318	-	-

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

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

Below are details of the credit risk metrics:

	31 March 2014	31 March 2013	31 December 2013
	%		
Balance of impaired credit to the public not accruing interest income as a percentage of the balance of credit to the public	2.0	2.7	2.1
Balance of credit to the public which is not impaired in arrears of 90 days or more as a percentage of the balance of credit to the public	0.5	0.5	0.6
Balance of the allowance for credit losses in respect of credit to the public as a percentage of the balance of credit to the public	1.6	1.6	1.6
Balance of the allowance for credit losses in respect of credit to the public as a percentage of the balance of impaired credit to the public not accruing interest income	77.4	63.4	74.5
Problem commercial credit risk in respect of the public as a percentage of total credit risk in respect of the public	2.8	3.1	2.9
Expenses in respect of credit losses as a percentage of the average balance of credit to the public (in annual terms)	(0.4)	0.1	0.1
Net write-offs in respect of credit to the public as a percentage of the average balance of credit to the public (in annual terms)	-	0.2	0.2
Net write-offs in respect of credit to the public as a percentage of the balance of the allowance for credit losses in respect of credit to the public (in annual terms)	(0.6)	11.1	13.2

Noninterest income of Leumi Group amounted to NIS 1,374 million in the first quarter of 2014, compared with NIS 1,469 million in the corresponding period in 2013, a decrease of NIS 95 million or 6.5%.

Noninterest income includes:

	For the three months ended		
	31 March 2014	31 March 2013	Change
	NIS millions	%	
Non-interest financial income	323	411	(21.4)
Commissions	1,040	1,025	1.5
Other income	11	33	(66.7)
Total	1,374	1,469	(6.5)

Development in noninterest income by quarter is as follows:

	2014	2013			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions				
Non-interest financial income	323	238	266	212	411
Commissions	1,040	1,084	1,050	1,029	1,025
Other income	11	98	66	5	33
Total	1,374	1,420	1,382	1,246	1,469

Details of non-interest financial income are as follows:

	For the three months ended			
	31 March	31 March		
	2014	2013	Change	
	NIS millions		NIS millions	%
Net income in respect of derivative instruments and net exchange rate differences	(29)	62	(91)	-
Profits from sale of available-for-sale debentures, net	82	99	(17)	(17.2)
Profits (losses) from investments in shares including dividends *	129	239	(110)	(46.0)
Net profits in respect of loans sold	-	43	(43)	-
Realized and unrealized profits (losses) from adjustments of tradable debentures and shares to fair value, net	141	(32)	173	+
Total	323	411	(88)	(21.4)

* In the first quarter of 2014, including mainly profit from the sale of shares of Partner amounting to NIS 70 million before the effect of tax and in the first quarter of 2013, including profit on the sale of shares of Migdal amounting to NIS 180 million, before the effect of tax.

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

	2014	2013			
	1st	4th	3rd	2nd	1st
	quarter	quarter	quarter	quarter	quarter
	NIS millions				
Income (expenses), net, in respect of derivative instruments and net exchange rate differences	(29)	73	14	55	62
Profits from the sale of available-for-sale of debentures, net	82	52	34	24	99
Profits (losses) from investments in shares, including dividends *	129	20	206	115	239
Profits in respect of loans sold	-	6	16	34	43
Realized and unrealized gains (losses) from adjustments of tradable debentures and shares to fair value, net	141	87	(4)	(16)	(32)
Total	323	238	266	212	411

* Including profit from the sale of shares of Partner amounting to NIS 70 million before the effect of tax in the first quarter of 2014, profit from the sale of shares of Migdal amounting to NIS 163 million before the effect of tax in the third quarter of 2013, profit on the sale of shares of Caesarstone amounting to NIS 86 million, before the effect of tax, in the second quarter of 2013 and, profit from the sale of shares of Migdal in amounting to NIS 180 million, in the first quarter of 2013.

Details of commissions are as follows:

	31 March 2014	31 March 2013	Change	
	NIS millions		NIS millions	%
Account management	212	204	8	3.9
Activity in securities and derivative instruments	217	208	9	4.3
Credit cards	226	217	9	4.1
Dealing with credit	47 (a)	82	(35)	(42.7)
Commissions for distribution of financial products	66	63	3	4.8
Conversion differences	79	68	11	16.2
Commissions from financing transactions	117	106	11	10.4
Other commissions	76	77	(1)	(1.3)
Total commissions	1,040	1,025	15	1.5

(a) Directive No. 310 on the topic of the profit and loss statement format for a banking corporation and the adoption of United States generally accepted accounting principles for banking corporations on the topic of the measurement of interest income was implemented for the first time this quarter, affecting net interest income and the item, commissions. See Note 1(c)1.

Income from commissions covers 49.0% of the operating and other expenses compared to coverage of 49.8% in the corresponding period last year and 46.9% for the whole of 2013.

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

Segment	For the first quarter ended			
	31 March 2014	31 March 2013	Change	
	NIS millions		NIS millions	%
Households	452	447	5	1.1
Small businesses	124	130	(6)	(4.6)
Corporate banking	184	158	26	16.5
Commercial banking	142	135	7	5.2
Private banking	135	167	(32)	(19.2)
Financial management	329	417	(88)	(21.1)
Other	8	15	(7)	(46.7)
Total commissions	1,374	1,469	(95)	(6.5)

The proportion of non-interest income from all income (i.e., net interest income and noninterest income) was 43.9%, compared with 45.5% in the corresponding period last year and compared with 42.9% for the whole of 2013.

Total operating and other expenses of Leumi Group in the first quarter of 2014 amounted to NIS 2,124 million, compared with NIS 2,057 million in the corresponding period last year, an increase of 3.3%).

Operating and other expenses include:

	For the three months ended			
	31 March 2014	31 March 2013	Change	
	NIS millions		NIS millions	%
Salaries and related expenses	1,312	1,282	30	2.3
Maintenance and depreciation of buildings and equipment	442	449	(7)	(1.6)
Other expenses (including amortization of intangible assets)	370	326	44	13.5
Total operating and other expenses	2,124	2,057	67	3.3

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

	2014	2013				
	1st	Total	4th	3rd	2nd	1st
	quarter	for year	quarter	quarter	quarter	quarter
	NIS millions					
Salary and related expenses	1,042	4,039	1,009	1,006	993	1,031
Yield bonus	132	367	61	183	19	104
Pension and severance pay expenses, net of fund profits	138	695	261	141	146	147
Regulatory changes	-	73	8	8	57	-
Total salary expenses	1,312	5,174	1,339	1,338	1,215	1,282

Operating and other expenses (building and equipment maintenance, depreciation and amortization) amounted to NIS 812 million in the first quarter of 2014, an increase of 4.8% over the corresponding period in 2013.

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

	2014	2013			
	1st	4th	3rd	2nd	1st
	quarter	quarter	quarter	quarter	quarter
	NIS millions				
Depreciation	181	179	179	225	185
Maintenance of buildings and equipment	261	273	264	264	264
Other expenses and amortization of intangible assets	370	463	662	475	326
Total operating and other expenses	812	915	1,105	964	775

* Excluding salary

Operating expenses constitute 67.8% of total income, compared with 63.7% in the corresponding period in 2013 and compared with 69.4% for the whole of 2013.

Total operating and other expenses (in annual terms) constitute 2.31% of the total balance sheet, compared with 2.25% in the corresponding period in 2013, and compared with 2.39% for the whole of 2013.

Profit before tax of Leumi Group for the first quarter of 2014 amounted to NIS 1,058 million, compared with NIS 1,101 million in the corresponding period in 2013, a decrease of 3.9%.

The provision for tax on income of Leumi Group in the first quarter of 2014 amounted to NIS 385 million, compared with NIS 463 million in the corresponding period in 2013. The rate of the provision in the first quarter of 2014 was some 36.4% of the pre-tax profit, compared with 42.1% in the corresponding period in 2013, a decrease of some 5.7 percentage points. The decrease in the tax rate derives from positive exchange rate differences this year, compared to negative exchange rate differences in 2013 in respect of investments in foreign subsidiaries.

Profit after taxes for the first quarter of 2014 amounted to NIS 673 million, compared with NIS 638 million in the corresponding period in 2013, an increase of 5.5%.

The Group's share in profit after taxes of associate companies amounted to a loss of NIS 37 million in the first quarter of 2014, compared with a profit of NIS 57 million in the corresponding period in 2013. In the current quarter, the operating results of the Israel Corporation for the first quarter of 2014 were not recorded. For further details on the change in accounting policy, see Note 1 – Significant Accounting Policies, below.

Net profit before attribution to holders of non-controlling interests in the first quarter of 2014 amounted to a profit of NIS 636 million, compared with a profit of NIS 581 million in the corresponding period in 2013, an increase of 9.5%.

Net profit attributable to holders of non-controlling interests in the first quarter of 2014 amounted to NIS 11 million, similar to the corresponding period in 2013.

Net profit attributable to shareholders in the banking corporation in the first quarter of 2014 amounted to NIS 625 million, compared to a profit of NIS 570 million in the corresponding period in 2013, an increase of 9.6%.

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

	2014	2013			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions				
Net profit attributable to the shareholders of the banking corporation	9.7	5.4	8.9	7.6	9.4

Basic net profit per share attributable to the shareholders of the banking corporation was NIS 0.42 for the first quarter of 2014, compared with NIS 0.39 for the corresponding period in 2013.

The following table is the condensed statement of comprehensive income:

	For the three months ended			
	31 March 2014	31 March 2012	Change	
	NIS millions		NIS millions	%
Net profit attributable to shareholders in the banking corporation	625	570	55	9.6
Other comprehensive income (loss) before tax	(13)	(250)	237	+
Effect of tax attributable to other comprehensive income	(33)	38	(71)	-
Other comprehensive income (loss) attributable to noncontrolling interests	(1)	4	(5)	-
Total profit attributable shareholders in the banking corporation	578	362	216	59.7

Structure and Development of Assets and Liabilities⁽¹⁾

Total assets of Leumi Group as at 31 March 2014 amounted to NIS 370.5 billion, compared with NIS 374.4 billion at the end of 2013, a decrease of 1.0%, and compared with 31 March 2013, an increase of 0.3%.

The value of the assets in the balance sheet denominated in and linked to foreign currency was some NIS 78.3 billion, some 21.1% of total assets. During the first quarter of 2014, the shekel fell against the U.S. dollar by 0.5% and against the euro, by 0.6%. The changes in exchange rates in the first quarter of the year led to an increase of 0.1% in total assets of the Group.

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 1,101 billion, compared with NIS 1,086 billion at the end of 2013 (some US\$ 316 billion and US\$ 313 billion, respectively), as detailed below.

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

	31 March 2014	31 December 2013	Since December 2013	Since March 2013
	NIS millions		Change %	
Total assets	370,525	374,360	(1.0)	0.3
Cash and deposits with banks	44,162	44,351	(0.4)	(18.1)
Securities	60,481	63,735	(5.1)	13.3
Credit to the public, net	241,273	240,874	0.2	1.1
Buildings and equipment	3,626	3,638	(0.3)	(1.6)
Deposits of the public	282,732	286,003	(1.1)	1.4
Deposits from banks	4,367	4,310	1.3	(42.4)
Debentures, notes and subordinated notes	24,484	25,441	(3.8)	(11.1)

Deposits of the public amounted to NIS 282.7 billion as at 31 March 2014, compared with NIS 286.0 billion as at 31 December 2013, a decrease of 1.1%, and compared with 31 March 2013, an increase of 1.4%.

The devaluation of the shekel in relation to most foreign currencies in the first quarter of the year contributed to an increase of 0.2% in total deposits of the public.

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

Segment	31 March 2014	31 December 2013	Change
	NIS millions		%
Households	116,049	118,634	(2.2)
Small businesses	21,893	22,830	(4.1)
Corporate banking	21,080	22,816	(7.6)
Commercial banking	54,034	51,878	4.2
Private banking	35,460	34,794	1.9
Financial management and other	34,216	35,051	(2.4)
Total	282,732	286,003	(1.1)

Debentures, capital notes and subordinated capital notes totaled NIS 24.5 billion on 31 March 2014, compared with NIS 25.4 billion as at 31 December 2013, a decrease of 3.8%, and compared with 31 March 2013, a decrease of 11.1%. In the first quarter of 2014, NIS 1,082 million of debentures were repaid.

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

Off-balance sheet activity

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

	31 March 2014	31 December 2013	Change	
	NIS millions		NIS millions	%
Securities portfolios	617,666	604,095	13,571	2.2
Of which: managed by mutual funds ^{(2) (3)}	83,993	78,590	5,403	6.9
Provident and pension funds ^{(2) (3)}	57,531	61,909	(4,378)	(7.1)
Supplementary training funds ^{(2) (3)}	55,394	45,999	9,395	20.4
Total	730,591	712,003	18,588	2.6

(1) Including a change in the market value of securities and in the value of securities of mutual and provident funds held in custody, for which operating management and custody services are provided.

(2) The Group in Israel does not manage any mutual funds, provident funds or supplementary training funds.

(3) Assets of customers in respect of which the Group provides operating management services, including the fund balances of customers who are counseled by Leumi.

Net credit to the public totaled NIS 241.3 billion as at 31 March 2014, compared with NIS 240.9 billion at 31 December 2013, an increase of 0.2%, compared to 31 March 2013, an increase of 1.1%.

The devaluation of the shekel in relation to most foreign currencies in the first quarter of 2014 contributed in total to an increase of 0.1% in total credit to the public.

In addition to credit to the public, the Group invests in corporate debentures which, as at 31 March 2014, amounted to NIS 12,450 million, compared with NIS 12,807 million as at 31 December 2013, a decrease of 2.8%.

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

	31 March 2014		31 December 2013		
	Overall credit risk to the public	Percentage of total	Overall credit risk to the public	Percentage of total	Rate of change
Economy Sectors	NIS millions	%	NIS millions	%	%
Agriculture	2,294	0.6	2,187	0.6	4.9
Industry	37,751	10.3	38,745	10.4	(2.6)
Construction and real estate (2)	78,645	21.5	78,346	20.9	0.4
Electricity and water	4,974	1.4	4,882	1.3	1.9
Trade	29,749	8.1	30,251	8.1	(1.7)
Hotels, accommodation and food	4,723	1.3	4,824	1.3	(2.1)
Transportation and storage	6,282	1.7	6,296	1.7	(0.2)
Communications and computer services	6,078	1.7	6,148	1.6	(1.1)
Financial services	38,004	10.4	46,645	12.4	(18.5)
Other business services	11,118	3.0	11,253	3.0	(1.2)
Public and community services	9,495	2.6	9,569	2.6	(0.8)
Private individuals - housing loans	72,860	19.9	71,985	19.2	1.2
Private persons – other	64,133	17.5	63,063	16.9	1.7
Total	366,106	100.0	374,194	100.0	(2.2)

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

(2) Including housing loans extended to purchasing groups that are in the process of construction amounting to NIS 1,195 million and off-balance sheet credit risk amounting to NIS 2,075 million, compared to NIS 1,175 million and NIS 2,027 million, respectively, as at 31 December 2013.

(3) The amount of indebtedness in respect of "additional coefficient" was reduced in 2014 to adjust it to that stated in Appendix C of the Proper Conduct of Banking Business Directives No. 203.

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

	2014	2013			
	1st	4th	3rd	2nd	1st
	quarter	quarter	quarter	quarter	quarter
	NIS millions				
Households	101,212	100,243	98,272	95,289	92,469
Of which: housing loans	69,388	68,556	67,221	65,239	63,214
Small businesses	23,850	23,299	23,131	22,593	22,116
Corporate banking	58,922	60,646	62,940	63,704	66,961
Commercial banking	49,913	49,630	49,112	49,627	48,636
Private banking	6,069	6,455	6,840	6,720	7,361
Financial management, capital markets and others	307	601	597	550	1,071
Total	241,273	240,874	240,892	238,483	238,614

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:

		31 March 2014		
Credit ceiling in NIS thousands		Percentage of total number of borrowers	Percentage of total balance sheet credit	Percentage of total off-balance sheet credit
From	To	%		
0	80	81.2	6.5	21.3
80	600	15.7	20.9	11.5
600	1,200	2.1	12.9	3.0
1,200	2,000	0.5	5.8	2.1
2,000	8,000	0.4	9.0	4.9
8,000	20,000	0.1	6.9	5.0
20,000	40,000	0.039	6.4	6.0
40,000	200,000	0.032	14.4	17.5
200,000	800,000	* 0.01	10.4	21.9
Above 800,000		** 0.001	6.8	6.8
Total		100.0	100.0	100.0

		31 December 2013		
Credit ceiling in NIS thousands		Percentage of total number of borrowers	Percentage of total balance sheet credit	Percentage of total off-balance sheet credit
From	To	%		
0	80	80.8	7.5	19.6
80	600	17.3	27.7	10.8
600	1,200	1.2	8.1	2.7
1,200	2,000	0.3	3.3	1.8
2,000	8,000	0.3	7.5	4.5
8,000	20,000	0.1	7.0	4.9
20,000	40,000	0.03	6.3	5.7
40,000	200,000	0.03	14.4	16.5
200,000	800,000	* 0.01	10.4	22.9
Above 800,000		** 0.001	7.8	10.6
Total		100.0	100.0	100.0

* Before deduction of allowances for credit losses.

** On 31 March 2014 - 138 borrowers and on 31 December 2013 - 149 borrowers.

*** On 31 March 2014 - 17 borrowers and on 31 December 2013 - 21 borrowers.

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

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

31 March 2014							
Credit ceiling in NIS millions		Number of borrowers		Balance sheet credit		Off-balance sheet credit risk	
		Total	Of which: Related parties	Total	Of which: Related parties	Total	Of which: Related parties
From	To	In NIS millions					
800	1,200	9	1	6,948	964	2,290	-
1,200	1,600	4	-	2,951	-	2,501	-
1,600	2,000	1	-	3	-	1,817	-
2,000	2,400	2	-	4,139	-	37	-
2,400	2,800	-	-	-	-	-	-
2,800	3,200	-	-	-	-	-	-
3,200	3,423	1	-	2,890	-	533	-
Total		17	1	16,931	964	7,178	-

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 2013							
Credit ceiling in NIS millions		Number of borrowers		Balance sheet credit		Off-balance sheet credit risk	
		Total	Of which: Related parties	Total	Of which: Related parties	Total	Of which: Related parties
From	To	In NIS millions					
800	1,200	9	1	6,564	955	2,188	-
1,200	1,600	5	-	4,382	-	2,539	-
1,600	2,000	2	-	519	-	2,795	-
2,000	2,400	3	-	2,607	-	3,777	-
2,400	2,800	1	-	2,376	-	41	-
3,200	3,524	1	-	2,941	-	583	-
Total		21	1	19,389	955	11,923	-

2. Credit risk according to industry sectors:

31 March 2014			
	Number of borrowers	Balance sheet credit	Off-balance sheet credit risk
	In NIS millions		
Industry	3	2,067	3,030
Construction and real estate	5	3,203	2,276
Public and community services	1	721	200
Communications and computer services	1	2,076	37
Financial services	5	4,930	803
Electricity and water	1	2,890	533
Trade	1	1,044	299
Total	17	16,931	7,178

	31 December 2013		
	Number of borrowers	Balance sheet credit	Off-balance sheet credit risk
	In NIS millions		
Industry	3	2,257	3,327
Construction and real estate	6	4,214	3,051
Public and community services	1	735	200
Communications and computer services	1	2,376	41
Financial services	8	5,813	4,182
Electricity and water	1	2,941	583
Trade	1	1,053	539
Total	21	19,389	11,923

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):

As of 31 March 2014, the Group has no credit exposure to a group of borrowers whose indebtedness exceeds 15% of the Bank's capital (for capital adequacy purposes).

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

The aggregate indebtedness of large borrowers, groups of borrowers and banking groups of borrowers whose debt exceeds 10% of the Bank's capital constituted 12.9% of the Bank's capital at 31 March 2014, compared with the regulatory limit of 120% of the Bank's capital.

Problem debts

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

	31 March 2014			31 December 2013		
	Balance sheet	Off- balance sheet	Total	Balance sheet	Off- balance sheet	Total
	In NIS millions					
Impaired debts	4,026	161	4,187	4,267	213	4,480
Substandard debts	1,396	421	1,817	1,689	185	1,874
Special mention debts	2,561	693	3,254	2,691	756	3,447
Total	7,983	1,275	1,154	8,647	1,154	9,801

Problem credit risk:

	31 March 2014	31 December 2013
	Problem credit risk	Problem credit risk
	In NIS millions	
Commercial problem credit risk	10,251	10,858
Retail problem credit risk	1,305	1,331
Total	11,556	12,189
Allowance for credit losses	2,298	2,388
Problem credit after allowance for credit losses	9,258	9,801

Credit to Governments amounted to NIS 487 million as at 31 March 2014, compared with NIS 558 million on 31 December 2013, a decrease of 12.7%, and an increase of 15.1% compared with 31 March 2013.

Securities

The Group's investments in securities amounted to NIS 60.5 billion on 31 March 2014, compared with NIS 63.7 billion, a decrease of 5.1%, compared with 31 December 2013, and an increase of 13.3% compared with 31 March 2013.

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

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

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

31 March 2014					
	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	46,780	445	(166)	47,059	47,059
For trading	9,719	* 113	* (12)	9,820	9,820
	56,499	558	(178)	56,879	56,879
Shares and funds					
Available-for-sale	3,034	61	(59)	3,036	3,036
For trading	498	* 69	* (1)	566	566
	3,532	130	(60)	3,602	3,602
Total securities	60,031	688	(238)	60,481	60,481

* Carried to profit and loss

	31 December 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	49,854	401	(222)	50,033	50,033
For trading	9,740	* 76	*(33)	9,783	9,783
	59,594	477	(255)	59,816	59,816
Shares and funds					
Available-for-sale	2,744	156	(72)	2,828	2,828
For trading	1,017	* 78	* (4)	1,091	1,091
	3,761	234	(76)	3,919	3,919
Total securities	63,355	711	(331)	63,735	63,735

* Carried to profit and loss

As at 31 March 2014, some 82.8% of the Group's *nostro* portfolio was classified as available-for-sale securities and some 17.2% was classified as the trading portfolio. This classification allows for flexibility in the management of the securities portfolio. Some 6.0% 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	
	31 March 2014	31 March 2013
	NIS millions	
Debentures redeemed and/or sold (available-for-sale)	10,872	13,959
Purchases of available-for-sale debentures	7,464	11,772
Net profit from investments in debentures:		
Interest income	197	228
Net profit from sale and from impairment of available-for-sale debentures	82	99
Realized and/or unrealized gain from adjustments to fair value of debentures for trading	157	(48)

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

	31 March 2014			31 December 2013		
	Government of Israel	Foreign governments	Other companies	Government of Israel	Foreign governments	Other companies
	NIS millions					
Israeli currency:						
Unlinked	33,278	-	-	34,086	-	237
Linked to CPI	1,628	-	1,288	2,141	-	1,269
Foreign currency including foreign currency-linked	218	4,617	15,850	1,610	4,871	15,602
Total debentures	35,124	4,617	17,138	37,837	4,871	* 17,108

* Of which, subordinated notes of NIS 999 million as at 31 March 2014 and NIS 998 million as at 31 December 2013.

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

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

	31 March 2014	31 December 2013
Securities traded on an active market	43,025	45,164
Securities based on prices determined by external models	14,371	15,339
Securities based on quotation from counterparty or at cost	3,085	3,232
Total	60,481	63,735

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

Sector of economy	31 March 2014		31 December 2013	
	Issued in	Issued	Issued in	Issued
	Israel	abroad	Israel	abroad
	NIS million			
Agriculture	-	4	-	4
Industry	103	829	60	766
Construction and real estate	41	188	50	171
Electricity and water	572	210	590	234
Trade	144	4	186	4
Transportation and storage	9	126	9	132
Communications and computer services	53	234	58	198
Financial services	517	9,032	431	9,495
Business and other services	24	212	66	209
Public and community services	28	120	29	115
Total	1,491	10,959	1,479	11,328

* Including asset-backed debentures

Available-for-sale portfolio

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

	31 March 2014		31 December 2013		Change	
	Abroad	In Israel	Abroad	In Israel	Abroad	In Israel
	NIS millions					
Debentures	18,358	28,701	19,953	30,080	(1,595)	(1,379)
Shares and funds	2,204	832	1,741	1,087	463	(255)
Total	20,562	29,533	21,694	31,167	(1,132)	(1,634)

- a. In the first quarter of 2014, there was negative movement in other comprehensive income in respect of available-for-sale securities amounting to NIS 8 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 209 million, which was partly offset by an increase in value of NIS 201 million (before tax). This compared with a negative movement of NIS 227 million in 2013, deriving from securities realized and classified to profit and loss which led to a reduction of NIS 333 million, which was partly offset by an increase in value of NIS 106 million in the corresponding period last year.
- b. Net profits from the sale of debentures amounting to NIS 82 million were recorded to profit and loss statement, compared with profits of NIS 99 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		
	31 March 2014	31 March 2013	31 December 2013
	NIS millions		
Profits in respect of available-for-sale securities which were recorded to profit and loss	388	516	1,561
Adjustments in respect of available-for sale securities carried to equity	(8)	(227)	(518)
Total change in respect of available-for-sale securities	380	289	1,043

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

				Movement in the first quarter of	
	31 March 2014	31 March 2013	31 December 2013	2014	2013
	NIS millions				
Shares	1	258	83	(82)	(183)
Israel government debentures	151	118	145	6	(32)
Foreign government debentures	4	-	2	2	(7)
Other debentures	48	119	(25)	73	(8)
Other debt instruments	11	19	18	(7)	3
Total	215	514	223	(8)	(227)
Related tax	(82)	(174)	(44)	(38)	73
Net total	133	340	179	(46)	(154)

The accumulated net balance of adjustments to fair value of securities held in the available-for-sale portfolio, as at 31 March 2014, amounted to a positive amount of NIS 133 million (after the effect of tax). This amount represents a profit which had not been realized at the date of the financial statements.

The Bank management estimates that in the securities in the available-for-sale portfolio in which there is impairment, most of the impairment is of a temporary nature. The Bank intends and is able to continue to hold the investments until the predicted recovery of the full cost of the assets or until redemption. Accordingly, this impairment is recorded to equity, on the basis of the criteria set forth in the Significant Accounting Policies in note 1 to the 2013 Annual Report.

e. The following is the impairment in value of available-for-sale securities charged to equity as at 31 March 2014:

		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	8	-	1	10	19
	Asset-backed debentures	3	6	49	64	122
	Other debentures	6	-	17	15	38
	Total	17	6	67	89	179
Above 10%	Shares	-	-	22	18	40
	Asset-backed debentures	-	-	-	-	-
	Other debentures	-	-	-	6	6
	Total	-	-	22	24	46
Total	Shares	8	-	23	28	59
	Asset-backed debentures	3	6	49	64	122
	Other debentures	6	-	17	21	44
Total		17	6	89	113	225

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

Trading Portfolio

The following table shows the composition of the trading portfolio:

	31 March 2014		31 December 2013		Change	
	Abroad	In Israel	Abroad	In Israel	Abroad	In Israel
	NIS millions					
Debentures	2,166	7,654	1,951	7,832	215	(178)
Shares and funds	477	89	959	132	(482)	(43)
Total	2,643	7,743	2,910	7,964	(267)	(221)

In respect of debentures for trading, realized and unrealized losses amounting to NIS 157 million were recorded in the profit and loss statement in the first quarter of 2014, compared with losses of NIS 48 million in the corresponding period in 2013. In respect of shares and funds, realized and unrealized losses were recorded amounting to NIS 16 million, compared with profits amounting to NIS 16 million in the corresponding period in 2013.

Investments in securities issued abroad

The Group's securities portfolio includes some NIS 23 billion (some US\$ 6.6 billion) of securities issued abroad. Some 89% of the portfolio is invested in debt instruments, all of which (but for some 1.4%) are investment grade securities, of which some 87% are rated 'A-' and above. Some 11% of the portfolio is invested in shares and funds.

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

	31 March 2014		31 December 2013	
	Available-for-sale portfolio	Trading portfolio	Available-for-sale portfolio	Trading portfolio
	NIS millions			
Balance sheet value				
Government debentures	5,471	760	5,325	1,036
Debentures of banks and financial institutions	4,260	170	5,280	116
Asset-backed debentures	6,462	701	7,346	279
Other debentures	2,165	535	2,002	520
Shares and funds	2,204	477	1,741	959
Total	20,562	2,643	21,694	2,910

The net increase in value (the offset between increases and decreases in value), charged to equity in respect of securities issued abroad, as of 31 March 2014, amounted to NIS 84 million (some NIS 52 million after the effect of tax).

1. Investments in foreign asset-backed securities

The Group's portfolio of asset-backed securities (mortgages and non-mortgages) is all investment grade. The Group's investments in foreign asset-backed securities as at 31 March 2014 amounted to some NIS 7.2 billion (some US\$ 2.1 billion) of asset-backed securities, compared with some NIS 7.6 billion at the end of 2013. Of the said portfolio, some NIS 6.5 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 31 March 2014 includes investments in mortgage-backed securities in the total amount of some NIS 4.9 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:

	31 March 2014			
	Amortized cost	Unrealized profits	Unrealized losses	Balance sheet value (fair value)
	NIS millions			
MBS - mortgage-backed securities	4,973	6	(112)	4,867
ABS-asset-backed securities (other than mortgage-backed):	1,580	25	(10)	1,595
Of which: CLO	1,488	25	(9)	1,504
Other	92	-	(1)	91
Total	6,553	31	(122)	6,462

	31 December 2013			
	Amortized cost	Unrealized profits	Unrealized losses	Balance sheet value (fair value)
	NIS millions			
MBS - mortgage-backed securities	5,673	7	(149)	5,531
ABS-asset-backed securities (other than mortgage-backed):	1,801	27	(13)	1,815
Of which: CLO	1,709	27	(12)	1,724
Other	92	-	(1)	91
Total	7,474	34	(162)	7,346

For the definition of asset-backed securities, see note 3 to the 2013 Financial Statements.

As of 31 March 2014, the cumulative net decrease in value which was carried to equity deriving from the mortgage-backed debenture portfolio amounted to some NIS 106 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 835 million.

The forecast term to maturity for each mortgage-backed securities portfolio is, on average, some 5 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 1.6 billion, of which CLO-type debentures account for some NIS 1.5 billion. The projected term to maturity of the portfolio of securities backed by assets other than mortgages is some 3 years on average.

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

The Group's securities portfolio as at 31 March 2014 includes some NIS 16.0 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 14.1 billion (US\$ 4.0 billion) are classified in the available-for-sale portfolio, and some NIS 1.9 billion in the securities for trading portfolio. Of these securities, 98% are investment grade.

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

As of 31 March 2014, 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 175 million (NIS 109 million after tax). In the first quarter of 2014, there was an increase in value amounting to NIS 58 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. Approximately 95% of the securities in the trading portfolio are investment grade securities. The value of the trading portfolio which is non-asset backed as at 31 March 2014 amounted to some NIS 1.9 billion (US\$ 0.6 billion). The difference between the fair value and the adjusted cost, if any, is carried to the profit and loss statement.

3. Investments in debentures issued in Israel

Investments in debentures issued in Israel at 31 March 2014 amounted to NIS 36.4 billion, of which NIS 34.8 billion was in debentures issued by the Government of Israel, with the balance being Government of Israel debentures in foreign currency and debentures issued by companies. Some 51.8% of the investments in corporate debentures amounting to NIS 1.1 billion are included in the available-for-sale portfolio, with the balance being in the trading portfolio.

The corporate debenture portfolio in the available-for-sale portfolio of NIS 1.1 billion, the positive capital reserve amounts to NIS 55 million, while the negative reserve amounts to NIS 1 million.

4. Investments in shares and funds

Total investments in shares and funds amounted to some NIS 3,602 million as at 31 March 2014, of which some NIS 2,166 million was in quoted shares and some NIS 1,436 million in unquoted shares. Out of the total investment, NIS 3,036 million is classified as available-for-sale and NIS 566 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):

	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 (3)		Listed/ Not listed
	31 March 2014	31 December 2013	31 March 2014	31 December 2013	31 March 2014	31 December 2013	
	%		NIS millions				
Otzar Hityashvuth Hayehudim B.M.	8.62	8.62	64	61	6	5	listed
Partner Communications Co. Ltd. (4)	-	2.90	-	146	-	13	listed
Electra Consumer Products (1970) Ltd. (5)	-	8.98	-	91	-	8	listed
TSI Roads Limited Partnership	18.9	18.90	253	252	23	23	not listed
Tower Semiconductor capital notes	-	-	26	30	2	3	not listed
Tower Semiconductor (6)	-	-	-	20	-	2	listed
CLS Bank	-	-	28	28	3	3	not listed
Funds	-	-	2,261	1,807	203	163	of which 749 not listed
Apax	-	-	82	83	7	7	not listed
Other	-	-	888	1,401	80	126	of which 298 not listed
Total	-	-	3,602	3,919	324	353	

- (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.
- (3) The capital requirements have been computed at 12.5% according to the minimum required ratio with effect from 1 January 2015. In 2013, capital requirements have been computed at 9% according to the minimum required ratio until the end of 2013.
- (4) Sold during March 2014 for proceeds of NIS 140 million. Profit before tax was NIS 70 million.
- (5) Sold during January 2014 for proceeds of NIS 83.8 million. Profit before tax was NIS 17 million.
- (6) Sold during the first quarter of 2014 for proceeds of NIS 56.3 million. Profit before tax was NIS 39 million.

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

	Balance sheet amount	
	31 March 2014	31 December 2013
Shares and funds on the basis of quoted prices on an active market	2,166	2,556
Funds according to quote by counterparty on cost basis	832	757
Unquoted shares on cost basis	604	606
Total	3,602	3,919

Other assets and debit balances in respect of derivative instruments

As of 31 March 2014, other assets (including intangible assets and goodwill) and debit balances in respect of derivative instruments amounted to NIS 17.5 billion, compared with NIS 18.2 billion at the end of 2013, a decrease of 3.6%.

Other liabilities and credit balances in respect of derivative instruments

As of 31 March 2014, other liabilities and credit balances in respect of derivative instruments amounted to NIS 30.6 billion, compared with NIS 30.8 billion at the end of 2013, a decrease of 0.6%.

Operating Segments in the Group

The Group operates in various operating segments through the Bank and its subsidiaries, in all fields of banking and financial services. Furthermore, the Group invests in non-banking corporations that operate in various fields, including 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 2013.

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		
	31 March 2014	31 December 2013	Change	31 March 2014	31 December 2013	Change	31 March 2014	31 December 2013	Change
	NIS millions		%	NIS millions		%	NIS millions		%
Households	102,212	100,243	2.0	116,049	118,634	(2.2)	102,936	100,913	2.0
Small businesses	23,850	23,299	2.4	21,983	22,830	(4.1)	23,873	23,326	2.3
Corporate banking	58,922	60,646	(2.8)	21,080	22,816	(7.6)	60,655	62,482	(2.9)
Commercial banking	49,913	49,630	0.6	54,034	51,878	4.2	52,573	53,931	(2.5)
Private banking	6,069	6,455	(6.0)	35,460	34,794	1.9	11,113	11,527	(3.6)
Financial management and other	307	601	(48.9)	34,216	35,051	(2.4)	119,375	122,181	(2.3)
Total	241,273	240,874	0.2	282,732	286,003	(1.1)	370,525	374,360	(1.0)

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

	Guarantees and documentary credit			Securities portfolios, including mutual funds		
	31 March 2014	31 December 2013	Change	31 March 2014	31 December 2013	Change
	NIS millions		%	NIS millions		%
Households	393	396	(0.8)	110,977	107,194	3.5
Small businesses	1,465	1,456	0.6	12,185	10,885	11.9
Corporate banking	28,998	28,038	3.4	64,071	62,850	1.9
Commercial banking	6,578	6,574	0.1	56,468	56,885	(0.7)
Private banking	378	399	(5.3)	88,106	85,442	3.1
Financial management and other	850	774	9.8	285,859	280,839	1.8
Total	38,662	37,637	2.7	617,666	604,095	2.2

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

Segment	For the three months ended		
	31 March 2014	31 March 2013	Change
	NIS millions		%
Households	51	39	30.8
Small businesses	87	62	40.3
Corporate banking	266	257	3.5
Commercial banking	155	115	34.8
Private banking	2	30	(93.3)
Financial management:			
Capital markets	31	12	+
Non- bank investments	55	106	(48.1)
Other	(22)	(51)	+
Total	625	570	9.6

Explanations for the changes in profitability are provided below.

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

Segment	2014	2013			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions				
Households	51	23	16	31	39
Small businesses	87	83	79	64	62
Corporate banking	266	177	255	276	257
Commercial banking	155	108	139	50	115
Private banking	2	19	(93)	29	30
Financial management:					
Capital markets	31	88	20	(1)	12
Non- bank investments	55	(151)	122	32	106
Other	(22)	1	17	(7)	(51)
Total	625	348	555	474	570

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).

Allocating all the capital			
Return on capital (RORAC)			
	As at 31 March 2014	As at 31 March 2013	As at 31 December 2013
	%	%	%
Households	2.9	2.7	1.9
Small businesses	18.7	15.5	17.2
Corporate banking	14.1	12.9	11.8
Commercial banking	13.2	9.9	9.0
Private banking	0.9	11.5	(1.6)
Financial management	11.0	17.8	5.6
Other	(12.9)	(32.5)	(8.1)
Total for net profit	9.7	9.4	7.6

1. Households

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

					Overseas activity		
	Banking and finance	Credit cards	Capital market	Mortgages	Banking and finance	Mortgages	Total
For the three months ended 31 March 2014							
NIS millions							
Net interest income:							
From external sources	281	61	2	251	(2)	3	596
Intersegmental	143	(7)	(1)	(83)	4	-	56
Non-interest income:							
From external sources	134	133	117	21	2	-	407
Intersegmental	3	42	-	-	-	-	45
Total income	561	229	118	189	4	3	1,104
Expenses in respect of credit losses	34	4	-	1	-	(1)	38
Operating and other expenses:							
To external sources	659	155	106	56	3	2	981
Intersegmental	1	(1)	-	-	-	-	-
Profit (loss) before taxes	(133)	71	12	132	1	2	85
Provision for taxes (benefit) on profit	(50)	23	5	49	-	-	27
Profit (loss) after taxes	(83)	48	7	83	1	2	58
Group share in profits of companies included on equity basis after effect of taxes	-	1	-	-	-	-	1
Net profit attributable to non-controlling interests	-	(8)	-	-	-	-	(8)
Net profit (loss)	(83)	41	7	83	1	2	51
Return on equity							2.9%
Average balance of assets of which: investments in companies included on equity basis	23,025	9,640	170	68,827	49	213	101,924
	-	2	-	-	-	-	2
Average balance of credit to the public	22,616	9,420	170	68,760	49	213	101,228
Average balance of liabilities	116,585	1,212	-	294	903	7	119,001
Average balance of deposits of the public	116,390	43	-	-	902	7	117,342
Average balance of risk assets	25,774	9,363	167	37,633	276	75	73,288
Average balance of mutual funds and supplementary training funds	-	-	75,162	-	-	-	75,162
Average balance of securities	-	-	47,966	-	182	-	48,148
Average balance of other assets under management	3,883	-	-	-	-	-	3,883
Balance of credit to the public	23,120	9,482	173	69,174	49	214	102,212
Balance of deposits of the public	115,104	45	-	-	892	8	116,049

Households (contd.)

					Overseas activity		
	Banking and finance	Credit cards	Capital market	Mortgages	Banking and finance	Mortgages	Total
For the three months ended 31 March 2013							
NIS millions							
Net interest income:							
From external sources	3	62	2	519	(3)	3	586
Intersegmental	453	(10)	(1)	(366)	4	-	80
Non-interest income:	-	-	-	-	-	-	-
From external sources	152	118	109	26	2	-	407
Intersegmental	(1)	41	-	-	-	-	40
Total income	607	211	110	179	3	3	1,113
Expenses in respect of credit losses	38	5	-	44	(1)	-	86
Operating and other expenses:	-	-	-	-	-	-	-
To external sources	645	167	88	58	4	1	963
Intersegmental	1	(1)	-	-	-	-	-
Profit (loss) before taxes	(77)	40	22	77	-	2	64
Provision for taxes (benefit) on profit	(30)	13	8	28	-	-	19
Profit (loss) after taxes	(47)	27	14	49	-	2	45
Group share in profits of companies included on equity basis after effect of taxes	-	1	-	-	-	-	1
Net profit attributable to non-controlling interests	-	(7)	-	-	-	-	(7)
Net profit (loss)	(47)	21	14	49	-	2	39
Return on equity							2.7%
Average balance of assets	20,448	8,758	138	62,579	58	202	92,183
Of which investments in companies included on equity basis	-	1	-	-	-	-	1
Average balance of credit to the public	20,127	8,551	138	62,405	58	202	91,481
Average balance of liabilities	125,497	1,149	-	274	914	8	127,842
Average balance of deposits of the public	125,299	38	-	-	912	8	126,257
Average balance of risk assets	34,263	8,456	138	22,281	284	71	65,493
Average balance of mutual funds and supplementary training funds	-	-	59,775	-	-	-	59,775
Average balance of securities	-	-	48,984	-	174	-	49,158
Average balance of other assets under management	166	-	-	4,459	-	-	4,625
Balance of credit to the public at 31 December 2013	22,112	9,358	167	68,345	50	211	100,243
Balance of deposits of the public at 31 December 2013	117,675	40	-	-	912	7	118,634

Main Changes in the Scope of Operations

Total credit to the public in the households segment increased by NIS 2.0 billion, or 2.0% compared with the end of 2013. Housing loans increased by 1.2%, and credit, after cancelling out the effect of housing loans, increased by 3.6%. Deposits of the public fell by some NIS 2.6 billion.

Main Changes in Net Profit

In the first three months of 2014, net profit in the households segment amounted to NIS 51 million, compared with NIS 39 million in the corresponding period last year, an increase of NIS 12 million or 30.8%. The increase in profit derives mainly from a decrease in expenses in respect of credit losses amounting to NIS 48 million and as a result of a provision made last year amounting to NIS 50 million due to a Bank of Israel directive relating to residential property, which was partly offset by an increase in operating and other expenses amounting to NIS 18 million.

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

Pension Counseling Services

The balances of the pension assets of customers receiving counseling in the Leumi Group to the end of March 2014, 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 19.1 billion.

The following table presents data concerning new loans granted and loans refinanced for the purchase of a residential dwelling and for the mortgage of a residential dwelling:

	First quarter of 2014	First quarter of 2013	Rate of change
	NIS millions		%
From Bank funds	3,387	3,395	(0.2)
From Ministry of Finance funds:			
Loans	9	9	-
Standing loans	5	4	25.0
Total new loans	3,401	3,408	(0.2)
Refinanced loans	849	503	68.8
Total loans extended	4,250	3,911	8.7

Data relating to risk characteristics of housing loans

Disclosure on housing loans

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 2012	60,294	10.9
December 2013	68,152	13.0
March 2014	69,007	1.3 *

* Rate of increase in the first quarter of 2014.

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, although the rate of increase in the first quarter of 2014 is lower than in previous years. Most of this credit was taken 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 2012	26,234	43.5	32,522	53.9	1,538	2.6	60,294
December 2013	31,740	46.6	34,718	50.9	1,694	2.5	68,152
March 2014	32,769	47.5	34,560	50.1	1,678	2.4	69,007

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	2,144	10,698	24,090	21,824	1,538	60,294
December 2013	4,289	10,583	27,451	24,135	1,694	68,152
March 2014	4,900	10,647	27,869	23,913	1,678	69,007

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):

	2014	2013				2012
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter	Annual average
	Percentage of loans extended					
	%					
Fixed – linked	22.0	19.9	10.5	13.3	10.9	13.3
Variable – every 5 years or more – linked	17.6	21.8	28.9	31.1	31.3	40.4
Variable – up to 5 years – linked	2.1	2.6	2.2	2.2	2.5	4.5
Fixed-unlinked	20.7	17.1	14.4	13.6	14.3	8.4
Variable – every 5 years or more – unlinked	7.6	9.0	11.5	9.0	9.3	4.5
Variable – up to 5 years – unlinked	28.6	28.4	30.8	28.9	29.1	27.5
Variable – foreign currency	1.4	1.2	1.7	1.9	2.6	1.4

The percentage of new credit extended by Leumi Mortgage in variable interest housing loans during the first quarter of 2014 was 57.3%, compared with an average of 71.8% in 2013. 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 quarter of 2014, was 32.1%, compared with 33.3% in 2013.

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 2012	60,738	829	1.4
December 2013	68,627	810	1.2
March 2014	69,484	795	1.1

The allowance for credit losses as at 31 March 2014, which includes the group allowance for housing loans (hereinafter, "the overall allowance") is NIS 477 million, representing 0.69% of the housing balance, compared with an allowance of NIS 475 million as at 31 December 2013, representing also 0.69% of the housing credit balance.

Data relating to new housing credit:

During the first quarter of 2014, the mortgage department extended new housing loans amounting to NIS 3.3 billion from the Bank's funds.

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):

	2014	2013					2012
	1st	Annual	4 th	3rd	2nd	1st	Annual
Rate of financing	quarter	average	quarter	quarter	quarter	quarter	average
%							
Between 60% and 70%	16.6	18.3	17.0	16.5	19.2	20.9	22.6
Between 70% and 80%	14.4	16.3	15.4	16.7	16.9	16.0	12.9
Above 80%	0.5	0.9	0.7	0.8	0.9	1.3	3.5

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

The average financing rate of the credit portfolio balance as at 31 March 2014 was 49%.

Development of new credit in which the repayment ratio is less than 2.5²:

The rate of credit extended in the first quarter of 2014 in which the repayment ratio was lower than 2.5 for income-earners earning NIS 10,000 or less at the date of approving the credit, stood at 0.7% of the total new credit extended, compared to the last quarter of 2013, when the rate was 1.6%. (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 Bank of Israel regulations for the purpose of reporting to the Banking Supervision Department pursuant to Regulation 876.

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

The rate of new credit for housing loans in the first quarter of 2014, in which the repayment schedule according to the loan contracts is longer than 25 years, stood at an average of 28.6% of the total new loans extended, compared to an average rate of 30.2% in 2013, 39% in 2011 and 37% in 2010.

² Till now, the rate of performance in the repayment ratio is lower than 2 to income-earners earning NIS 10,000 and less has been reported, in light of the Bank of Israel directive dated 29 August, 2014 "Restriction on Housing Loans" which restricts the grant of housing loans with a repayment ratio lower than 2.

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 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 in the economy in recent years, as presented above, the Bank of Israel published a number of regulations which aimed to ameliorate the risk. Beyond that, the Bank also adopted a number of measures in order to contend with the increase in the abovementioned credit risks:

- As part of its risk management, the Bank established administrative restrictions according to the following characteristics: the 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 examine 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.

The average housing loan extended by the Bank in the first quarter of 2014 was NIS 558 thousand, similar to 2013 and compared with NIS 530 thousand in 2012.

On the basis of 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.

2. Small Businesses

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

	Overseas activity							
	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Banking and finance	Real estate	Total
For the three months ended 31 March 2014								
NIS millions								
Net interest income:								
From external sources	184	5	-	1	75	14	3	282
Intersegmental	(8)	-	-	-	(12)	(4)	(1)	(25)
Non-interest income:								
From external sources	78	28	7	-	15	5	-	133
Intersegmental	1	(10)	-	-	-	-	-	(9)
Total income	255	23	7	1	78	15	2	381
Expenses in respect of credit losses	19	-	-	-	3	(3)	-	19
Operating and other expenses:								
To external sources	168	13	4	-	30	9	1	225
Intersegmental	1	1	-	-	-	-	-	2
Profit before taxes	67	9	3	1	45	9	1	135
Provision for taxes on profit	26	2	1	-	17	1	-	47
Profit after taxes	41	7	2	1	28	8	1	88
Net profit attributable to non-controlling interests	-	(1)	-	-	-	-	-	(1)
Net profit	41	6	2	1	28	8	1	87
Return on equity	18.7%							
Average balance of assets	14,478	922	25	81	6,834	965	294	23,599
Average balance of credit to the public	14,470	908	25	81	6,833	965	294	23,576
Average balance of liabilities	17,239	1,550	-	-	4,428	702	148	24,067
Average balance of deposits of the public	17,200	-	-	-	4,312	702	148	22,362
Average balance of risk assets	11,653	755	28	44	6,731	1,059	294	20,564
Average balance of mutual funds and supplementary training funds	-	-	3,763	-	-	-	-	3,763
Average balance of securities	-	-	8,314	-	-	9	-	8,323
Average balance of other assets under management	192	-	-	-	-	-	-	192
Balance of credit to the public	14,640	912	22	81	6,935	972	288	23,850
Balance of deposits of the public	16,517	-	-	-	4,474	739	163	21,893

Small Businesses (contd.)

	<u>Overseas activity</u>							
	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Banking and finance	Real estate	Total
For the three months ended 31 March 2013								
NIS millions								
Net interest income:								
From external sources	183	5	-	1	68	10	2	269
Intersegmental	(19)	(1)	-	-	(15)	(3)	(1)	(39)
Non-interest income:								
From external sources	82	29	6	-	19	4	-	140
Intersegmental	-	(10)	-	-	-	-	-	(10)
Total income	246	23	6	1	72	11	1	360
Expenses in respect of credit losses	29	-	-	-	12	1	-	42
Operating and other expenses:								
To external sources	166	14	3	-	30	7	1	221
Intersegmental	-	1	-	-	-	-	-	1
Profit before taxes	51	8	3	1	30	3	-	96
Provision for taxes on the profit	19	2	1	-	11	-	-	33
Profit after taxes	32	6	2	1	19	3	-	63
Net profit attributable to non-controlling interests	-	(1)	-	-	-	-	-	(1)
Net profit	32	5	2	1	19	3	-	62
Return on equity								15.5%
Average balance of assets	13,629	894	26	99	6,263	816	222	21,949
Average balance of credit to the public	13,621	879	26	99	6,262	816	222	21,925
Average balance of liabilities	15,513	1,514	-	-	3,671	579	67	21,344
Average balance of deposits of the public	15,478	-	-	-	3,574	579	67	19,698
Average balance of risk assets	11,214	716	29	80	6,137	1,053	222	19,451
Average balance of mutual funds and supplementary training funds	-	-	2,611	-	-	-	-	2,611
Average balance of securities	-	-	4,910	-	-	8	-	4,918
Average balance of other assets under management	225	-	-	-	-	-	-	225
Balance of credit to the public at 31 December 2013	14,300	903	28	81	6,730	957	300	23,299
Balance of deposits of the public at 31 December 2013	17,882	-	-	-	4,150	666	132	22,830

Small Businesses (contd.)

Main Changes in the Scope of Operations

Total credit to the public in the segment increased by NIS 0.6 billion, compared with the end of 2013, an increase of 2.4%. Public deposits fell by NIS 0.9 billion, a decrease of 4.1%.

Main Changes in the Net Profit

In the first quarter of 2014, net profit in the small businesses segment totaled NIS 87 million, compared with NIS 62 million in the corresponding period last year, an increase of 40.3%. This increase in profit derives mainly from an increase in net interest income amounting to NIS 27 million and a decrease in expenses in respect of credit losses amounting to NIS 23 million, which was partly offset as a result of an increase in income amounting to NIS 14 million.

The return on equity of the net profit in the segment was 18.7%.

3. Corporate Banking

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

					Overseas activity		
	Banking and finance	Credit cards	Capital market	Real estate	Banking and finance	Real estate	Total
	For the three months ended 31 March 2014						
	NIS millions						
Net interest income:							
From external sources	275	5	-	146	1	-	427
Intersegmental	(83)	(1)	-	(31)	2	1	(112)
Non-interest income:							
From external sources	47	46	3	63	1	-	160
Intersegmental	33	(23)	-	14	-	-	24
Total income	272	27	3	192	4	1	499
Expenses in respect of credit losses	(34)	-	-	(53)	-	-	(87)
Operating and other expenses:							
To external sources	107	19	3	26	2	1	158
Intersegmental	-	-	-	-	-	-	-
Profit before taxes	199	8	-	219	2	-	428
Provision for taxes on profit	76	2	-	83	-	-	161
Profit after taxes	123	6	-	136	2	-	267
Net profit attributable to non-controlling interests	-	(1)	-	-	-	-	(1)
Net profit	123	5	-	136	2	-	266
Return on equity							14.1%
Average balance of assets	39,828	340	166	21,056	133	45	61,568
Average balance of credit to the public	38,117	313	166	21,011	133	45	59,785
Average balance of liabilities	17,608	2,789	-	5,491	637	163	26,688
Average balance of deposits of the public	16,253	-	-	4,895	637	163	21,948
Average balance of risk assets	61,806	394	166	21,493	198	45	84,102
Average balance of mutual funds and supplementary training funds	-	-	1,997	-	-	-	1,997
Average balance of securities	-	-	61,464	-	-	-	61,464
Average balance of other assets under management	215	-	-	-	-	-	215
Balance of credit to the public	37,730	297	166	20,575	108	46	58,922
Balance of deposits of the public	15,983	-	-	4,426	507	164	21,080

Corporate Banking (contd.)

	Overseas activity						
	Banking and finance	Credit cards	Capital market	Real estate	Banking and finance	Real estate	Total
	For the three months ended 31 March 2013						
	NIS millions						
Net interest income:							
From external sources	399	6	1	213	-	1	620
Intersegmental	(173)	(2)	(1)	(95)	6	-	(265)
Non-interest income:							
From external sources	50	51	3	62	3	-	169
Intersegmental	8	(23)	-	4	-	-	(11)
Total income	284	32	3	184	9	1	513
Expenses in respect of credit losses	(5)	-	-	(41)	-	-	(46)
Operating and other expenses:							
To external sources	89	19	2	45	4	1	160
Intersegmental	-	-	-	-	-	-	-
Profit before taxes	200	13	1	180	5	-	399
Provision for taxes on profit	71	3	-	65	1	-	140
Profit after taxes	129	10	1	115	4	-	259
Net profit attributable to non-controlling interests	-	(2)	-	-	-	-	(2)
Net profit	129	8	1	115	4	-	257
Return on equity	12.9%						
Average balance of assets	44,792	396	166	24,336	360	151	70,201
Average balance of credit to the public	43,300	372	166	24,259	359	151	68,607
Average balance of liabilities	18,961	2,802	-	5,502	1,341	165	28,771
Average balance of deposits of the public	17,408	-	-	4,953	1,341	165	23,867
Average balance of risk assets	70,030	405	166	24,724	504	151	95,980
Average balance of mutual funds and supplementary training funds	-	-	2,394	-	-	-	2,394
Average balance of securities	-	-	58,782	-	156	-	58,938
Average balance of other assets under management	213	-	-	-	-	-	213
Balance of credit to the public at 31 December 2013	38,504	328	166	21,446	158	44	60,646
Balance of deposits of the public at 31 December 2013	16,523	-	-	5,364	767	162	22,816

Corporate Banking (contd.)

Main Changes in the Scope of Operations

Total credit to the public in the segment decreased by NIS 1.7 billion compared with the end of 2013, a decrease of 2.8%. Total deposits of the public fell by NIS 1.7 billion, or 7.6%.

Main Changes in Net Profit

In the first three months of 2014, net profit in the corporate banking segment totaled NIS 266 million, compared with NIS 257 million during the corresponding period in 2013. The increase in profit derives mainly from an increase in credit loss income amounting to NIS 41 million which was offset by a decrease in net interest income amounting to NIS 40 million..

The return on equity of the net profit in the segment was 14.1%.

4. Commercial Banking

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

					Overseas activity			
	Banking and finance	Credit cards	Capital market	Real estate	Banking and finance	Capital market	Real estate	Total
For the three months ended 31 March 2014								
NIS millions								
Net interest income:								
From external sources	150	2	(1)	70	128	-	36	385
Intersegmental	4	-	2	(13)	(18)	-	(12)	(37)
Non-interest income:	-	-	-	-	-	-	-	-
From external sources	128	18	12	(3)	16	2	4	177
Intersegmental	(42)	(8)	-	15	-	-	-	(35)
Total income	240	12	13	69	126	2	28	490
Expenses in respect of credit losses	(48)	-	-	(4)	26	-	(2)	(28)
Operating and other expenses:	-	-	-	-	-	-	-	-
To external sources	131	8	13	19	74	1	10	256
Intersegmental	-	-	-	-	-	-	-	-
Profit before taxes	157	4	-	54	26	1	20	262
Provision for taxes on profit	60	1	-	20	18	-	7	106
Profit after taxes	97	3	-	34	8	1	13	156
Net profit attributable to non-controlling interests	-	(1)	-	-	-	-	-	(1)
Net profit	97	2	-	34	8	1	13	155
Return on equity								13.2%
Average balance of assets	27,063	338	192	8,534	14,049	-	3,076	53,252
Average balance of credit to the public	23,816	327	192	8,521	13,881	-	3,035	49,772
Average balance of liabilities	40,340	1,102	-	2,683	10,552	-	217	54,894
Average balance of deposits of the public	39,775	-	-	2,601	10,373	-	208	52,957
Average balance of risk assets	28,317	295	238	8,508	10,717	-	3,076	51,151
Average balance of mutual funds and supplementary training funds	-	-	5,670	-	-	129	-	5,799
Average balance of securities	-	-	49,608	-	-	1,359	-	50,967
Average balance of other assets under management	530	-	-	-	-	-	-	530
Balance of credit to the public	24,311	333	146	8,561	13,486	-	3,076	49,913
Balance of deposits of the public	40,758	-	-	2,535	10,540	-	201	54,034

Commercial Banking (contd.)

	Overseas activity							
	Banking and finance	Credit cards	Capital market	Real estate	Banking and finance	Capital market	Real estate	Total
For the three months ended 31 March 2013								
NIS millions								
Net interest income:								
From external sources	132	2	3	82	143	-	30	392
Intersegmental	20	(1)	(4)	(29)	(21)	-	(11)	(46)
Non-interest income:	-	-	-	-	-	-	-	-
From external sources	35	19	11	14	18	2	2	101
Intersegmental	43	(8)	-	(1)	-	-	-	34
Total income	230	12	10	66	140	2	21	481
Expenses in respect of credit losses	(8)	-	-	3	20	-	17	32
Operating and other expenses:	-	-	-	-	-	-	-	-
To external sources	137	8	11	14	87	1	10	268
Intersegmental	-	-	-	-	-	-	-	-
Profit (loss) before taxes	101	4	(1)	49	33	1	(6)	181
Provision for (benefit from) taxes on profit	35	1	-	18	12	-	(1)	65
Profit (loss) after taxes	66	3	(1)	31	21	1	(5)	116
Group share in profits of companies included on equity basis after effect of tax	-	(1)	-	-	-	-	-	(1)
Net profit (loss)	66	2	(1)	31	21	1	(5)	115
Return on equity								9.9%
Average balance of assets	23,405	337	231	8,155	15,141	-	3,001	50,270
Average balance of credit to the public	22,722	328	231	8,129	14,925	-	2,939	49,274
Average balance of liabilities	36,600	1,078	-	2,548	11,153	-	283	51,662
Average balance of deposits of the public	36,060	-	-	2,467	10,963	-	275	49,765
Average balance of risk assets	27,714	260	122	8,305	15,030	-	3,001	54,432
Average balance of mutual funds and supplementary training funds	-	-	4,450	-	-	158	-	4,608
Average balance of securities	-	-	42,626	-	-	1,741	-	44,367
Average balance of other assets under management	685	-	-	-	-	-	-	685
Balance of credit to the public at 31 December 2013	23,320	321	238	8,481	14,276	-	2,994	49,630
Balance of deposits of the public at 31 December 2013	38,792	-	-	2,666	10,206	-	214	51,878

Commercial Banking (contd.)

Main Changes in the Scope of Operations

Total credit to the public in the commercial segment decreased by NIS 0.3 billion, an increase of 0.6%, compared with the end of 2013, and total deposits of the public increased by NIS 2.2 billion, or 4.2%.

Main changes in net profit

In the first three months of 2014, net profit in the commercial banking segment totaled NIS 155 million, compared with NIS 115 million during the corresponding period in 2013, an increase of NIS 40 million, or 34.8%. The increase in profit is attributable to recording income in respect of credit losses in the Bank and a reduction in expenses in respect of credit losses in a commercial unit in the United States.

The return on equity of the net profit in the segment was 13.2%.

5. Private Banking

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

	Overseas activity									
	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Banking and finance	Capital market	Mortgages	Real estate	Total
For the three months ended 31 March 2014										
NIS millions										
Net interest income:										
From external sources	(12)	-	-	-	3	12	-	10	-	13
Intersegmental	29	-	-	-	-	38	-	(6)	1	62
Non-interest income:										
From external sources	9	-	43	-	4	27	53	1	-	137
Intersegmental	1	-	-	-	2	(5)	-	-	-	(2)
Total income	27	-	43	-	9	72	53	5	1	210
Expenses in respect of credit losses	-	-	-	-	(1)	-	-	-	-	(1)
Operating and other expenses:										
To external sources	39	-	20	-	4	72	59	3	-	197
Intersegmental	-	-	-	-	-	1	-	-	-	1
Profit (loss) before taxes	(12)	-	23	-	6	(1)	(6)	2	1	13
Provision for (benefit from) taxes on profit	(4)	-	9	-	2	3	1	-	-	11
Profit (loss) after taxes	(8)	-	14	-	4	(4)	(7)	2	1	2
Net profit attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-
Net profit (loss)	(8)	-	14	-	4	(4)	(7)	2	1	2
Return on equity	0.9%									
Average balance of assets	1,356	69	29	52	755	8,245	-	814	-	11,320
Average balance of credit to the public	1,268	69	29	52	745	3,286	-	814	-	6,263
Average balance of liabilities	17,954	-	131	-	1,526	15,933	-	14	137	35,695
Average balance of deposits of the public	17,690	-	131	-	1,519	15,636	-	14	137	35,127
Average balance of risk assets	1,557	51	31	26	802	5,464	-	285	-	8,216
Average balance of mutual funds and supplementary training funds	-	-	8,231	-	-	-	1,557	-	-	9,788
Average balance of securities	-	-	42,901	-	-	-	34,598	-	-	77,499
Average balance of other assets under management	96	-	-	-	-	-	-	-	-	96
Balance of credit to the public	1,311	69	27	56	700	3,095	-	811	-	6,069
Balance of deposits of the public	17,680	-	232	-	1,518	15,887	-	14	129	35,460

Private Banking (contd.)

	Overseas activity									
	Banking	Credit	Capital	Real	Banking	Capital		Real		Total
	and finance	cards	market	estate Mortgages	and finance	market Mortgages		estate		
For the three months ended 31 March 2013										
NIS millions										
Net interest income:										
From external sources	(54)	-	-	-	-	11	-	9	-	(34)
Intersegmental	78	-	-	2	-	36	-	(6)	1	111
Non-interest income:	-	-	-	-	-	-	-	-	-	-
From external sources	(32)	-	49	-	-	58	50	1	-	126
Intersegmental	43	-	-	-	-	(2)	-	-	-	41
Total income	35	-	49	2	-	103	50	4	1	244
Expenses in respect of credit losses	1	-	-	-	-	-	-	-	-	1
Operating and other expenses:	-	-	-	-	-	-	-	-	-	-
To external sources	37	1	19	3	-	90	44	3	-	197
Intersegmental	-	-	-	-	-	1	-	-	-	1
Profit (loss) before taxes	(3)	(1)	30	(1)	-	12	6	1	1	45
Provision for (benefit from) taxes on profit	(2)	-	10	-	-	3	-	-	-	11
Profit (loss) after taxes	(1)	(1)	20	(1)	-	9	6	1	1	34
Net loss attributable to non-controlling interests	-	-	-	-	-	(4)	-	-	-	(4)
Net profit (loss)	(1)	(1)	20	(1)	-	5	6	1	1	30
Return on equity	11.5%									
Average balance of assets	1,745	64	30	540	44	9,251	-	885	-	12,559
Average balance of credit to the public	1,624	64	31	534	44	4,585	-	885	-	7,767
Average balance of liabilities	19,328	-	-	1,408	-	17,256	-	18	158	38,168
Average balance of deposits of the public	19,082	-	-	1,401	-	16,776	-	18	158	37,435
Average balance of risk assets	2,119	48	44	429	33	7,730	-	310	-	10,713
Average balance of mutual funds and supplementary training funds	-	-	5,678	-	-	-	1,804	-	-	7,482
Average balance of securities	-	-	42,134	-	-	-	35,748	-	-	77,882
Average balance of other assets under management	219	-	-	-	-	-	-	-	-	219
Balance of credit to the public at 31 December 2013	1,225	68	31	789	48	3,476	-	818	-	6,455
Balance of deposits of the public at 31 December 2013	17,700	-	30	1,520	-	15,384	-	14	146	34,794

Main changes in the scope of operations

Total credit to the public in the segment decreased by NIS 0.4 billion, or 6.0%, compared with the end of 2013, and total deposits of the public increased by some NIS 0.7 billion, or 1.9%.

Main changes in net profit

In the first three months of 2014, the net profit in the private banking segment amounted to NIS 2 million, compared with NIS 30 million in the corresponding period in 2013, a decrease of NIS 28 million. The decrease is attributable to a fall in noninterest income in foreign activity, deriving, *inter alia*, from significant outflows of monies due to the Group's "declared money" policy.

The return on equity of the net profit in the segment was 0.9%.

6. Financial Management – Capital Markets

The following table sets out a summary of the profit and loss of the Financial Management segment – Capital Markets

	For the three months ended 31 March	
	2014	2012
	NIS millions	
Net interest income:		
From external sources	54	(71)
Intersegmental	53	157
Operating and other income:		
From external sources	343	439
Intersegmental	(14)	(22)
Total income	436	503
Expenses (income) in respect of credit losses	8	(42)
Operating and other expenses:		
To external sources	296	246
Intersegmental	12	14
Profit (loss) before taxes	120	285
Provision for (benefit from) taxes	(4)	113
Profit (loss) after taxes	124	172
Group share in profits (losses) of companies included on equity basis after effect of tax	(38)	(58)
Net profit (loss) attributed to non-controlling interests	-	4
Net profit (loss)	86	118

The profit in the financial management segment in the first three months of 2014 amounted to NIS 86 million, compared with NIS 118 million in the corresponding period in 2013. The decrease in the profit resulted primarily from a decrease in noninterest income amounting to NIS 88 million, as a result of a decrease in profits from the sale of shares and profits in respect of the sale of loans, from the recording of expenses in respect of credit losses this year, compared with credit loss income in 2013 and from an income in operating and other expenses. The decrease was offset by taxation income recorded this year compared to tax expenses last year.

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

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 1,630 million on 31 March 2014, compared with NIS 1,689 million on 31 December 2013.

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

Company	Book value			Market value		Capital adequacy requirements	
	NIS millions			NIS millions		NIS millions	
	31 March 2014	31 December 2013	% change	31 March 2014	31 December 2013	31 March 2014	31 December 2013
The Israel Corporation Ltd.	1,090	1,137	(4.1)	2,691	2,526	136	102
Others	540	552	(2.2)	* -	* -	68	50
Total	1,630	1,689	(3.5)	2,691	2,526	204	152

* Of which, NIS 221 million at 31 March 2014 and NIS 207 million at 31 December 2013 is tradable.

(1) The capital requirements have been computed at 12.5% according to the minimum required ratio with effect from 1 January 2015. In 2013, capital requirements have been computed at 9% according to the minimum required ratio until the end of 2013.

The contribution of companies included on equity basis to the Group's net profit in the first three months of 2014 amounted to a loss of NIS 37 million, compared with a loss of NIS 57 million in the corresponding period last year.

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

	For the three months ended 31 March		
	2014	2013	% change
The Israel Corporation Ltd.	(46)	(66)	+
Others	9	9	-
Total	(37)	(57)	+

The Israel Corporation Ltd.

The Bank holds 17.96% of the means of control in the Israel Corporation Ltd. which is considered to be a significant non-bank corporation according to the Banking Law (Licensing), as amended through the Concentrations Law on 11 December 2013 (for this purpose, see "Concentrations Law" on the Chapter "Regulation, Economic Environment and the Effect of External Factors on Activity"). The Bank is obliged to reduce its holdings in the Israel Corporation to rate of 10% by 11 December 2019.

As a result of a directive of the Bank of Israel to bring forward the publication date of the financial statements, a gap was created between the end of the reporting period of the Israel Corporation and the end of the reporting period of the Bank. In such cases, the Bank has adopted generally accepted accounting policy, in accordance with International Accounting Standard No. 28.

Therefore, the effect of the operating results of the Israel Corporation in the first quarter of 2014 has not been carried to the profit and loss statement, and they will be recorded within the second quarter of 2014. From now on, there will be a constant gap of a quarter between the Bank's reporting dates, and those of the Israel Corporation.

The movement in respect of the Israel Corporation recorded in the quarter is in respect of the adjustments for the final changes in the company's capital in 2013.

For further details, see Note 1b – Significant Accounting Policies, below.

For further details regarding significant events which were reported by the Israel Corporation in the current quarter, see Note 6d to the financial statements.

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 reportable segment according to the directives of the Bank of Israel. This activity primarily includes part of the company's activity which not part of the "Others" segment. In the first three months of 2014, the loss in the "Others" segment amounted to NIS 22 million, compared with a profit of NIS 51 million in the corresponding period last year.

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

	For the first quarter ended 31 March		Change in amount
	2014	2013	
Net profit in the Bank	4	16	(12)
Other companies in Israel	5	4	1
Overseas companies	1	3	(2)
Tax adjustments (1)	(32)	(74)	42
Total	(22)	(51)	29

(1) Tax differentials between tax calculations in the segments and the effective tax in the consolidated statements.

Activities in Products

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

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

	House-holds	Small businesses	Corporate banking	Commercial banking	Private banking	Financial management and others	Overseas activities	Total
For the three months ended 31 March 2014								
NIS millions								
Net interest income	1	-	-	1	-	1	-	3
Non-interest income	117	7	3	12	43	32	56	270
Total income	118	7	3	13	43	33	56	273
Operating and other expenses	106	4	3	13	20	33	68	247
Profit (loss) before taxes	12	3	-	-	23	-	(12)	26
Net profit (loss)	7	2	-	-	14	-	(10)	13

	House-holds	Small businesses	Corporate banking	Commercial banking	Private banking	Financial management and others	Overseas activities	Total
For the three months ended 31 March 2013								
NIS millions								
Net interest income	1	-	-	(1)	-	-	-	-
Non-interest income	109	6	3	11	49	32	55	265
Total income	110	6	3	10	49	32	55	265
Operating and other expenses	88	3	2	11	19	34	46	203
Profit (loss) before taxes	22	3	1	(1)	30	(2)	9	62
Net profit (loss)	14	2	1	(1)	20	-	9	45

In the first three months of 2014, net profit from capital market operations amounted to NIS 13 million, compared with NIS 45 million in the corresponding period in 2013.

B. Credit Cards - Leumi Card

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

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

Leumi Card ended the first three months of 2014 with a net profit of NIS 52 million, compared with a profit of NIS 51 million in the corresponding period in 2013.

During the first three months of 2014, the volume of activity by Leumi Card cardholders increased by 5% compared with the activity in the corresponding period in 2013. The number of valid cards at 31 March 2014 increased by 7% compared with 31 March 2013.

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 fixed exemption to the License Agreement. It was made dependent on a number of conditions, inter alia, it was provided that Isracard would not be able to collect the rate of license fees established between it and the company in the License Agreement, but rather a lower rate. In addition, as part of the conditions of the exemption, conditions were stipulated prohibiting the transfer of information between the companies, which is not for the purpose of implementing the agreements or which is not by virtue of the law or the exemption directive.

On 11 February 2013, Isracard submitted a petition to the Antitrust Court to approve a license agreement. In the request, Isracard claims that there is no justification for the Commissioner's determination and that the conditions agreed with Leumi Card and Cal should apply to the license agreement signed with Cal, which were agreed with Leumi Card and Cal. On 9 March 2014, judgment was handed on the petition for approval, which rejected Isracard's petition and leave the exemption decision unchanged.

On 14 May 2014, a commercial agreement of understanding was signed between Leumi Card and the credit card organization, Union Pay International Co. Ltd. (hereinafter "UnionPay"). UnionPay is the owner of the second largest international credit card brand in the world (in relation to the volume of transactions). The agreement represents a significant milestone in the process of Leumi Card's confirmation as a member of the organization, in the context of which Leumi Card is expected to receive a clearing license for UnionPay card. The confirmation process is expected to be completed at the end of May 2014.

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

	Households	Small businesses	Corporate banking	Commercial banking	Private banking	Total
For the three months ended 31 March 2014						
NIS millions						
Net interest income	54	5	4	2	-	65
Noninterest income	175	18	23	10	-	226
Total income	229	23	27	12	-	291
Expenses in respect of credit losses	4	-	-	-	-	4
Operating and other expenses	154	14	19	8	-	195
Profit before taxes	71	9	8	4	-	92
Share of external shareholders	(8)	(1)	(1)	(1)	-	(11)
Net profit	41	6	5	2	-	54

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

The net profit from credit card activity in the first quarter of 2014 amounted to NIS 54 million, compared with NIS 35 million in the corresponding period in 2013.

C. Real Estate

	Small businesses	Corporate banking	Commercial banking	Private banking	Overseas activities	Total
For the three months ended 31 March 2014						
NIS millions						
Net interest income	63	115	57	3	31	269
Non-interest income	15	77	12	6	5	115
Total income	78	192	69	9	36	384
Expenses (income) in respect of credit losses	3	(53)	(4)	(1)	(2)	(57)
Operating and other expenses	30	26	19	4	12	91
Profit before taxes	45	219	54	6	26	350
Net profit	28	136	34	4	17	219

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

Net profit from real estate activity in the first three months of 2014 amounted to NIS 219 million, compared to NIS 162 million in the corresponding period last year, the increase deriving mainly from an increase in net interest income and from an increase in income in respect of credit losses in the first quarter of 2014, compared to the corresponding period in 2013.

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 quarter ended 31 March		
	2014	2013	Change
	NIS millions		%
The Bank	444	545	(18.5)
Consolidated companies in Israel (1)	168	141	19.1
Overseas consolidated companies (2)	57	(52)	+
Companies included on equity basis (1)	(44)	(64)	+
Net profit	625	570	9.6
Profit of overseas subsidiaries, in nominal terms (US\$ millions) (3)	19.1	10.3	85.4

- (1) Companies included on equity basis belonging to Israeli companies are included in the data of the consolidated companies in Israel.
- (2) After certain adjustments to Israeli accounting principles.
- (3) As reported by the overseas subsidiaries, including net profit to non-controlling interest holders.

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

- The decrease in the net profit of the Bank is mainly due to a decrease in noninterest income, mainly as a result of the sale of the Bank's shares in Migdal in 2013, compared with the sale of available-for-sale shares made in this quarter in Leumi Partners (included in the line – subsidiaries in Israel) and of an increase in other operating expenses, which partly offset by recording income in respect of credit losses, compared with expenses in respect of credit losses in 2013.
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 Leumi Partners.
- All of the operating results of foreign subsidiaries went from a loss in the corresponding quarter in 2013 to a profit in the current quarter, mainly due to an improvement in the operating results of overseas units in the United States and the United Kingdom and to income carried to profit and loss in the first quarter of 2014 as a result of changes in the exchange rate differences in respect of foreign subsidiaries whose functional currency is identical to the shekel compared to income from exchange rate differences recorded in the corresponding period in 2013.
- The reduction in the loss of companies included on equity basis the non-recording of the effect of the operating results of the Israel Corporation in the first quarter of 2014. For further details, see Note 1b, Significant Accounting Policies, below.

The net profit of the overseas units in nominal terms, as published by them, translated for convenience to US dollars, totaled some US\$ 19.1 million, an increase of US\$ 8.8 million compared with the corresponding period in 2013. The contribution of the overseas units in shekels, after certain adjustments to Israeli accounting principles, amounted to a profit of NIS 57 million, compared with a loss of NIS 52 million in the corresponding period in 2013.

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, etc.

Consolidated Companies in Israel

The Bank's investments in consolidated companies in Israel amounted to NIS 5,366 million on 31 March 2014, compared with NIS 5,295 million on 31 December 2013. The contribution of the subsidiaries in Israel to net profit in the first three months of 2014 was some NIS 168.1 million, compared with some NIS 141.6 million in the corresponding period in 2013, an increase of 18.7%.

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)		Rate of change
	For the period ended 31 March				
	2014	2013	2014	2013	
	%		NIS millions		
Arab Israel Bank	17.9	24.5	23.1	26.4	(12.5)
Leumi Card	15.6	17.7	41.4	41.0	1.0
Leumi Partners (2)	68.2	63.1	93.8	55.4	69.3
Leumi Real Holdings	0.5	0.5	1.2	1.1	20.0
Others	1.7	3.6	8.6	17.7	(51.4)
Total consolidated companies in Israel	13.3	12.3	168.1	141.6	18.7

(1) The profit (loss) presented is according to the Group's share in the results.

(2) Including the profit and/or loss of associate companies of Leumi Partners.

Overseas Consolidated Companies

The Bank's investments in overseas consolidated companies amounted to NIS 4,684 million on 31 March 2014, compared with NIS 4,597 million on 31 December 2013.

In the first three months of 2014, the contribution of overseas consolidated subsidiaries to the net operating profit of the Group amounted to a profit of NIS 56.5 million, compared with a loss of NIS 52.3 million in the corresponding period in 2013.

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		Rate of change
	For the period ended 31 March				
	2014	2013	2014	2013	
	%		NIS millions		
Leumi USA (BLC)	3.5	0.5	20.6	3.1	+
Leumi UK*	13.4	-	23.2	(50.3)	+
Leumi Private Bank *	2.5	2.5	5.9	6.5	(9.2)
Leumi Luxembourg	6.5	-	2.6	(3.7)	+
Leumi Re	7.6	4.4	1.5	1.0	50.0
Leumi Romania	6.8	-	4.1	(8.0)	+
Others	-	-	(1.4)	(0.9)	-
Total overseas consolidated companies	5.0	-	56.5	(52.3)	+

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

	For the three months ended 31 March		
	2014	2013	Change
	In millions		%
Leumi USA (BLC) - US\$	5.9	0.8	+
Of which: BL USA - US\$	5.8	0.7	+
Leumi UK - £	5.7	2.4	+
Leumi Private Bank - CHF	2.1	2.3	(8.7)
Leumi Luxembourg - €	0.5	0.9	(44.4)
Leumi Re - US\$	0.3	1.7	(82.4)
Leumi Romania – ron *	1.6	2.7	(40.7)
Total translated to the dollar	19.1	10.3	85.4

* 1 ron at 31 March 2014 = NIS 1.078

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

Activities of Companies Included on Equity Basis

Total investments of the Group in companies included on equity basis on 31 March 2014 amounted to NIS 1,630 million, compared with NIS 1,689 million on 31 December 2013.

During the first three months of 2014, the contribution to net profit amounted to a loss of NIS 37 million, compared with a loss of NIS 57 million in the corresponding period in 2013.

In the first quarter of 2014, the operating results of the Israeli Corporation for the first quarter of 2014 were not included because of the gap between the reporting date of the financial statements of the company and the early reporting date of the Bank pursuant to the directives of the Supervisor of Banks. These results will be included within the reports for the second quarter of 2014.

For further details, see Note 1, Significant Accounting Policies below.

Risk Exposure and Risk Management

This section is set out in more detail in the 2013 Financial Statements (pages 165-218), and should therefore be read in conjunction with the above Annual Report.

Main changes in the risk environment

Risk focal points have not changed significantly in the first quarter of 2014 and with reference to that described on pages 164-165 of the Annual Report for 2013. The main challenges in the risk environment are contending with new regulatory directives; the requirements of authorities in Israel and worldwide that expose banks to compliance risks; the low interest rate worldwide and in the economy, which, *inter alia*, support an increase in the prices of assets including real estate prices; and the revaluation of the exchange rate in the economy, which makes it difficult for export companies.

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 2013 Annual Report on page 167.

Basel III

The financial statement data of Leumi, the calculation of the risk assets and capital adequacy ratio as of 31 March 2014 were computed and presented in accordance with the rules of the standardized approach. According to the Group's assessment, the capital adequacy ratio of 14.39% which Leumi is reporting at 31 March 2014 covers the capital required in respect of the First and Second Pillars, including the stress scenarios used by the Group in its internal assessments.

Details of the subject of the Basel directives and the ICAAP appear on pages 174-179 in the Annual Report for 2013 and in the chapter above on Capital Resources, Capital Adequacy, and Transactions in the Shares of the Bank.

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		Report of the Board of Directors	Financial Statements
	Table		
General	1	-	
Capital structure (quantitative and qualitative)	2	Page 8	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)		-
Exposures to foreign countries by geographical region	4(c)	Page 83	Exhibit D
Credit risk exposures by counterparty and main credit type	4(d)		-
Credit exposures by period to maturity	4(e)		-
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	-	-
Credit risk mitigation (qualitative and quantitative)	7	-	-
Credit exposures in derivatives of counterparty (qualitative and quantitative)	8	-	-
Securitization (qualitative and quantitative)	9(f) 9(g)	-	Note 2
Market risk (qualitative and quantitative)	10	Page 85	-
Operational risk- qualitative disclosure	12	Page 94	-
Investment in shares (qualitative and quantitative)	13(b)	Page 46	-
Investments in shares of companies included on equity basis	13(b)	Page 69	-
Interest risk	14	Page 88	Exhibit B

* The tables are presented on the Bank's website: <http://leumi.co.il/home01/32587>

Credit risk

This chapter is provided in great detail in the 2013 Annual Report (pages 174-179) and therefore, should be read in conjunction therewith.

1. Exposure and management of credit risks to the public

Credit risk mitigation

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 types and amounts of collateral. The requirement for collateral and the percentage thereof are derived from the level of risk that the Bank is prepared to assume when providing 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 it can be realized. The Bank verifies the value of the collateral by receiving an updated assessment and/or assessor's valuations. The assessment of the value needs to be external and independent, and must be directed to the Bank.

Activity in Derivative Instruments for the purpose of mitigating credit risks

Hedging and/or Risk Mitigation Policy and Strategies and Processes for Monitoring the Continuing Effectiveness of Risk-Mitigating Hedging Activities

Developments in international foreign currency markets and the volatility of exchange rates of the various currencies, with their ramifications for 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 base 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 mitigate 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.

2. Credit exposure in respect of the fair value of derivatives by counterparty to the contract as at 31 March 2014:

	AAA to AA-	A+	A	A-	BBB to BBB-	BB+ to B-	Unrated	Total
Foreign banks	NIS millions							
Euro zone (1)	2,434	-	-	-	-	-	-	2,434
United Kingdom (2)	1,800	-	-	-	-	-	-	1,800
United States	2,287	-	-	-	-	-	-	2,287
Other	102	-	-	-	-	-	-	102
Total foreign banks	6,623	-	-	-	-	-	-	6,623
Israeli banks (3)	-	1,944	-	-	-	-	-	1,944
Corporate customers, according to sectors of the economy								
Financial services (4)								3,133
Industry (5)								389
Construction and real estate								86
Transportation and storage								5
Trade								56
Electricity and water								2
Business services								11
Private individuals								15
Communications and computer services								20
Others								25
Total corporate customers								3,742
Others*								-
Total exposure								12,309

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

(1) This amount includes transactions with 5 countries.

(2) This amount includes transactions with 9 banks.

(3) This amount includes transactions with 9 banks.

(4) This amount includes transactions with 420 customers, where the highest amount for a single customer is NIS 873 million.

(5) This amount includes transactions with 242 customers, where the highest amount for a single customer is NIS 233 million.

3. Credit exposure to foreign financial institutions

Credit exposure to foreign financial institutions (1):

As at 31 March 2014				
	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-	12,551	3,405	940	16,896
A+ to A-	2,012	103	32	2,147
BBB+ to BBB-	134	918	164	1,216
BB+ to B-	92	4	39	135
Below B-	1	-	-	1
Unrated	173	-	-	173
Total current credit exposure to foreign financial institutions	14,963	4,430	1,175	20,568
Problem debt balances	-	-	-	-

As at 31 December 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-	13,469	4,275	1,074	18,818
A+ to A-	1,752	125	32	1,909
BBB+ to BBB-	171	917	190	1,278
BB+ to B-	80	79	1	160
Below B-	1	-	-	1
Unrated	142	-	-	142
Total current credit exposure to foreign financial institutions	15,615	5,396	1,297	22,308
Problem debt balances	-	-	-	-

- (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 999 million at March 2014 and NIS 998 million at December 2013.
- (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 III. 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 brokers/dealers (local and overseas), see Note 7 to the Financial Statements.

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

Exposure to overseas banks is divided as follows: United States, 44%, Europe (Germany, France, Switzerland, Spain and the Benelux countries), 20%, United Kingdom 24%, 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" above.

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 according to 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):

31 March 2014			
	Balance sheet credit risk	Off-balance sheet credit risk (1)	Total credit risk
	NIS millions		
USA	25,009	6,377	31,386
UK	13,782	2,961	16,743
France	2,927	854	3,781
Germany	2,461	425	2,886
Switzerland	2,922	493	3,415
Belgium	678	77	755
Italy	276	38	314
The Netherlands	2,049	149	2,198
Denmark	312	13	325
Norway	41	-	41
Austria	80	12	92
Sweden	381	7	388
China	629	453	1,082
Others	6,485	864	7,349
Total	58,032	12,723	70,755

31 December 2013			
	Balance sheet credit risk	Off-balance sheet credit risk (1)	Total credit risk
	NIS millions		
USA	26,360	9,243	35,603
UK	12,956	5,543	18,499
France	2,796	1,923	4,719
Germany	5,045	1,028	6,073
Switzerland	2,910	773	3,683
Belgium	700	183	883
Italy	328	35	363
The Netherlands	2,380	139	2,519
Denmark	582	14	596
Norway	46	-	46
Austria	83	13	96
Sweden	139	18	157
China	567	548	1,115
Others	5,673	866	6,539
Total	60,565	20,326	80,891

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

The following table presents the exposure to countries according to the credit rating of the countries as rated by the World Bank, as at 31 March 2014 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	54,420	11,615	66,035	93.4	1,332
High-income countries	967	148	1,115	1.6	2
Countries with mid-high income	2,562	794	3,356	4.7	505
Countries with mid-low income	77	164	241	0.3	3
Countries with low income	6	2	8	-	-
Total	58,032	12,723	70,755	100	1,842

The amount of exposure to foreign countries with liquidity problems as defined 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 1,792 million and relates to 13 countries.

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

High income – more than 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	31 March 2014				
	Credit to the public	Bonds – Banks and others	Bank deposits	Other	Total
	NIS millions				
Italy (1)	73	182	21	38	314
Ireland	39	287	52	-	378
Greece	1	-	-	1	2
Spain	18	99	3	28	148
Total (2)	131	568	76	67	842

(1) Of which, NIS 184 million is in Bank Intessa.

(2) The Group has no exposure to Portugal.

Market and Liquidity Risks

This chapter is written in great detail in the Annual Financial Statements for 2013 (pages 202-212). 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), 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 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.

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

	31 March 2014	31 March 2013	31 December 2013
	NIS millions		
Capital requirements (1) in respect of:			
Interest risks	957	713	707
Share price risk	161	53	127
Exchange rate risk	118	99	69
Options	29	49	43
Total capital requirement in respect of market risks	1,265	914	946

(1) The capital requirements have been computed at 12.5% according to the minimum required ratio with effect from 1 January 2015. In 2013, capital requirements have been computed at 9% according to the minimum required ratio until the end of 2013.

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 date of change in repayment 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 segment, the exposure to an unexpected change of 1% in interest in all the periods is measured, relating to the potential erosion of economic value¹ 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 trading 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.
- According to accumulated experience, there is a long-standing stable credit balance, in current accounts. Accordingly, for purposes of measuring and managing interest rate exposure, Bank policy is to regard part of the average current account balances as a long-term liability. Periodically, the change in the current account balance is examined in order to decide as to how to spread it. '
- Leumi Mortgage - 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.

From the beginning of 2014, the methodology for measuring interest exposure and the exposure limits were altered accordingly.

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

Effect of immediate parallel change of 1% on the yield curve	Potential erosion in economic value	
	Limit	Actual
	31 March 2014	
Banking portfolio	900	306
Trading portfolio	450	187
Total	1,100	450
Total	Potential erosion in annual profit	
	Limit	Actual
	500	160

* The extent of exposure ignores the location of the interest floor of 0% on deposits. The more the interest rates continue to fall and become closer to zero, the higher the impairment of the financial margin.

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.

The following is a summary of exposures to unforeseen changes in interest at the Group level (before tax and in NIS million):

	Potential erosion in economic value	Potential erosion in annual profit
Effect of immediate parallel change of 1% on the yield curve	31 December 2013	31 December 2013
Actual	853	184
Limit	1,100	500

* The extent of exposure ignores the location of the interest floor of 0% on deposits. The more the interest rates continue to fall and become closer to zero, the higher the impairment of the financial margin.

In the first three months of 2014, the potential erosion in the economic value ranged from NIS 450 million to NIS 580 million and in annual profit, from NIS 160 million to NIS 208 million.

In the first three months of 2014, 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:

	31 March 2014				
	Israeli currency		Foreign currency, including Israeli currency linked to foreign currency		
	Unlinked	CPI-linked	Dollar	Euro	Others
	NIS millions				
Financial assets	211,486	58,765	49,667	11,959	14,408
Amounts receivable in respect of derivative financial and off-balance sheet instruments	337,342	6,594	122,893	42,637	24,594
Financial liabilities	169,389	53,000	73,952	17,286	11,273
Amounts payable in respect of derivative financial and off-balance sheet instruments	359,037	9,368	101,053	37,769	27,620
Net fair value of financial instruments	20,402	2,991	(2,445)	(459)	109

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

	31 December 2013				
	Israeli currency		Foreign currency, including Israeli currency linked to foreign currency		
	Unlinked	CPI-linked	Dollar	Euro	Others
	NIS millions				
Financial assets	211,239	59,960	51,750	12,220	13,830
Amounts receivable in respect of derivative financial and off-balance sheet instruments	311,649	7,098	116,357	41,980	23,574
Financial liabilities	169,974	53,425	76,368	17,574	10,978
Amounts payable in respect of derivative financial and off-balance sheet instruments	334,405	9,844	94,024	36,403	26,209
Net fair value of financial instruments	18,509	3,789	(2,285)	223	217

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

31 March 2014							
Change in interest rates	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			Total	Total
	Unlinked	CPI-linked	Dollar	Euro	Others	NIS millions	%
	NIS millions						
Immediate corresponding increase of 1%	19,778	2,947	(2,582)	(494)	92	(857)	(4.16)
Immediate corresponding increase of 0.1%	20,340	2,987	(2,459)	(463)	107	(86)	(0.42)
Immediate corresponding decrease of 1%	21,063	2,968	(2,329)	(422)	126	808	3.92

31 March 2013							
Change in interest rates	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			Total	Total
	Unlinked	CPI-linked	Dollar	Euro	Others	NIS millions	%
	NIS millions						
Immediate corresponding increase of 1%	16,735	3,163	(2,728)	1,170	133	(761)	(3.96)
Immediate corresponding increase of 0.1%	17,218	3,183	(2,595)	1,208	142	(78)	(0.41)
Immediate corresponding decrease of 1%	17,892	3,208	(2,466)	1,256	156	812	4.22

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

31 December 2013							
Fair value, net, of financial instruments after the effect of changes in interest rates						Change in fair value	
Change in interest rates	Israeli currency		Foreign currency, including Israeli currency linked to foreign currency			Total	Total
	Unlinked	CPI-linked	Dollar	Euro	Others		
	NIS millions					NIS millions	%
Immediate corresponding increase of 1%	17,787	3,708	(2,472)	228	202	(1,000)	(4.89)
Immediate corresponding increase of 0.1%	18,437	3,781	(2,304)	224	215	(100)	(0.49)
Immediate corresponding decrease of 1%	19,303	3,819	(2,044)	237	224	1,086	5.31

1.1 Exposure to interest and compliance with restrictions

The status of exposure to interest changes at the Group level, which is calculated according to accounting principles, is set forth below. During the first quarter of 2014, the Group complied with all the exposure restrictions for interest set by the Board of Directors. For detailed data on exposure to interest, see Exhibit B below in the Management Review.

	31 March 2014			31 December 2013		
	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)	1.18	2.90	0.88	1.19	2.94	0.86
Average duration of liabilities (1)	1.12	3.32	0.78	1.10	3.21	0.74
Duration gap in years	0.06	(0.42)	0.10	0.09	(0.27)	0.12
Internal rate of return (IRR) gap (%)	2.36	1.40	1.42	2.58	0.76	1.54

(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 total liabilities, according to the original cash flow of the savings schemes is longer, reaching 3.35 years, with an internal rate of return (hereinafter: IRR) gap of 1.16%.

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 3.22 years, and an IRR gap of about 1.16%.

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 1.17 years in unlinked shekels and 0.84 years in foreign currency, with an IRR gap of 1.90% 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, which are defined as units whose functional currency is identical to the shekel, are not taken into account in the income basis for calculating the tax provision, unlike exchange rate differences in respect of related financing sources. To counter its tax exposure, the Bank enters into hedging transactions.

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 Maximum surplus (deficit)	Actual exposure (%)		
		31 March 2014	31 March 2013	31 December 2013
Unlinked	(65%)-65%	(2.7)	(6.3)	(10.2)
CPI-linked	(50%)-50%	2.5	3.8	6.4
Foreign currency	(15%)-15%	0.2	2.5	3.8

During the first three months of 2014, the average rate of equity invested in the linked sector stood at a surplus of about 6% of the exposed capital, which fluctuates between a surplus of 3% and a surplus of 8% 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 profit.

During the first three months of 2014, the Group complied with all the basis exposure limits approved by the Board of Directors.

The following table shows the sensitivity to changes in the exchange rates of the major currencies as at 31 March 2014. 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	(16)	(5)	6	2	4
Increase of 10% in exchange rate	(1)	(8)	14	4	6
Decrease of 5% in exchange rate	30	5	(3)	(2)	(1)
Decrease of 10% in exchange rate	55	19	(5)	(3)	(1)

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 shekel-denominated debentures. 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 (MtM) portfolios		
	31 March 2014	31 March 2013	31 December 2013	31 March 2014	31 March 2013	31 December 2013
Actual	107	95	126	68	45	53
Limit	500	500	500	400	400	400

In the first three months of 2014, the VaR on the economic value ranged from a maximum of NIS 114 million to a minimum of NIS 107 million.

In the first three months of 2014, the Group complied with all the VaR restrictions prescribed by the Board of Directors.

Marketable credit nostro risks

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

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

Risk management in the exposure to financial institutions and countries is effected through credit committees 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 pages 211-212 of the 2013 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 26.8 billion and in securities, some NIS 36.2 billion, principally in government debentures. Surplus liquid means in foreign currency are invested primarily in debentures amounting to some NIS 20.7 billion, and in bank deposits, some NIS 13.0 billion.

The balance of public deposits in the Bank, not including subordinated notes, fell during the first three months of 2014 by NIS 2.2 billion (0.8%), and after canceling the effect of exchange rate differentials, the decrease was NIS 2.7 billion (1.0%).

The shekel segment recorded an increase of NIS 0.1 billion (0.1%), while and in the foreign currency and foreign currency linked segment, there was a decrease of NIS 2.3 billion, (2.3%), after canceling the effect of exchange rate differentials, a decrease of NIS 2.8 billion (2.8%).

Monitoring liquidity risk

The Bank measures and manages liquidity risk by means of a Liquidity Cover Ratio (LCR) metric under a range of scenarios that examine the liquidity position of the bank in a normal business situation and in stress scenarios. The purpose of the scenarios is to examine and monitor that liquid means available to the Bank in Israeli and foreign currency are sufficient to meet all liquidity needs in a liquidity stress scenario lasting one month. The rate of change in balances of deposits and credit for each repayment period, under various scenarios, is determined according to different parameters in accordance with the degree of severity of the scenario, based on Basel III directives and the judgment of the business entities. It should be pointed out that the stress scenarios are more serious than anything experienced by the Bank in the past, and so the assumptions of the scenarios are not based on historic data. Measurement is carried out separately for the shekel and foreign currency segments, and the Bank maintains a liquidity ratio higher than 1 (liquidity gap higher than zero). Moreover, the Bank makes use of forecasts of day-to-day cash flows, in monitoring trends in different segments of deposits, monitoring concentrations of depositors, monitoring cost of raising funds for the Bank, and is assisted by a warning-light system that can indicate changes in the liquidity position of the Bank.

In addition, the bank has begun to monitor the Net Stable Funding Ratio (NSFR). This metric is the ratio of the stable source of funds of the Bank and the uses the Bank expects to continue to fund, assuming a stress scenario with a time-horizon of one year. The Bank of Israel has not made it mandatory to comply with a ratio higher than 1 as required by the Basel III directive.

Linkage Status and Liquidity Position

Linkage Status

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

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

	As at 31 March 2014			As at 31 December 2013		
	Unlinked NIS millions	CPI-linked	Foreign currency (2)	Unlinked	CPI-linked	Foreign currency (2)
Total assets (1)	226,791	56,744	108,550	227,187	57,812	112,180
Total liabilities (1)	203,324	57,752	112,414	205,407	58,571	114,950
Excess (deficit) of assets in segment	23,467	(1,008)	(3,864) (3)	21,780	(759)	(2,770) (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 March 2014 amounted to some NIS 124 billion compared with some NIS 127 billion at the end of December 2013.

The volume of Leumi's balances in the Bank of Israel at the end of March 2014 amounted to some NIS 27 billion, similar to the balances at the end of end of December 2013.

The Bank also has a securities portfolio of some NIS 54 billion, invested mainly in Government of Israel debentures, foreign government debentures and foreign bank debentures. This compares with a balance of NIS 57 billion at 31 December 2013.

The balance of liquid assets represent around 25% of the financial assets of the Bank, a decrease of some 1.1% compared with the level at 31 December 2013.

Operational risks

This chapter is set out in great detail in the Financial Report for 2013 (pages 213-219) 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, information 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/mitigating material risks.

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 three months of 2014, Leumi experienced no serious data security or cyber events.

Compliance Risks

Compliance risk management is performed by the Compliance and Enforcement Department, which reports to the chief Risk Officer. Risk defined as "compliance risk" is the risk emanating from non-compliance with the range of laws and rules, domestic and international – non-compliance with the provisions of legislation, consumer and non-consumer, including prohibition of money laundering, prohibition of financing terrorism, administrative enforcement in the area of securities law, FATCA regulations that impose duties of reporting to authorities in the U.S. regarding U.S. customers, and the "declared money" policy, regarding compliance of customers with their relevant tax laws.

For further details see pages 162-163, 167, 169 and 217-218 in the Annual Report for 2013.

Legal Proceedings

The Report of the Board of Directors in the Annual Report for 2013 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 0.5% of the Bank's shareholders' equity on 31 March 2014, some NIS 130 million, see details also in 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 2.1 in the chapter "Legal Proceedings" in the Report of the Board of Directors (page 225 in the 2013 Annual Report), in connection with the ruling of the Antitrust Commissioner as a result of negotiations conducted between the banks and the Commissioner, a compromise was reached between the parties according to which the Antitrust Tribunal would be requested to approve an agreed order which would bring to an end the proceedings arising from the investigation which led to the issuance of the ruling. According to the text of the agreed order, the ruling would be canceled, and the bank will pay the Treasury the sum of NIS 70 million (the Bank's share being NIS 21 million), with the Bank having the possibility of paying the said sum (and the other banks having with respect to the amounts relating to them), instead of payment to the Treasury and subject to the conditions stipulated in the text of the agreed order, as part of the compromise arrangements in a number of petitions for the approval for class actions pending against the Bank. On 19 May 2014, the Commissioner filed a petition to the court in which he set forth his position in relation to objections submitted to him against the agreed order and asked the court to accept his request of 1 May 2014, to approve the agreed order. No decision has yet been given on the petition.
- (b) United States authorities, including the United States Department of Justice, the Internal Revenue Service and the U.S. Securities and Exchange Commission ("the U.S. authorities") are conducting investigations against Bank Leumi ("the Group") in connection with the Group's activities with U.S. customers ("the U.S. customers") on suspicion of a violation of United States law, including matters of tax and securities. In this regard, the Department of Justice is examining whether the U.S. customers have breached their obligations under the U.S. tax laws and whether banking services provided by the Group to its customers assisted them in so doing. The Securities and Exchange Commission is checking whether the Group or its representatives have acted in violation of United States securities laws.

In the context of these investigations, the U.S. authorities have issued and are continuing to issue subpoenas for information and documents concerning banking services given to the U.S. customers by the Group.

The Group, assisted by its advisers, is cooperating with the U.S. authorities' investigations, subject to that allowed under the law, including providing information in accordance to the subpoenas subject to the applicable law. In addition, intensive contact is being made between the Group and its representatives and the U.S. authorities in order to reach a resolution. Despite the ongoing contacts, a solution has not yet been formulated and it not yet known what the outline to the solution as aforesaid and when it will be achieved.

The Bank made a provision to cover the Group's anticipated expenses in connection with the U.S. authorities' investigations, including those of advisors, service providers and outside experts. This provision does not constitute an acknowledgement of any claim that might be raised against the Group by the U.S. authorities. As regards the provision, see Note 18 to the Bank's annual financial statements.

In light of the fact that there is still no certainty regarding the amount of expenditure that might be incurred by the Group on this matter, it is possible that the final mount of the expense will be significantly higher than the amount thus far included in the financial statements.

- (c) Further to the details set forth in paragraph 2.4 in the chapter "Legal Proceedings" in the Report of the Board of Directors (page 226 in the 2013 Financial Report), in connection with an indictment served against Leumi Romania and against members of the credit committee of Leumi Romania, regarding a transaction in the account of a customer, who, according to the General Prosecutor in Romania, was not lawfully carried out. Pursuant to changes in authorities, the case was transferred to another court and a new date has not yet been set for a hearing.

For details regarding claims and petitions for approval as class actions submitted against the Bank, see also Note 6 to the financial statements.

D. Additional Matters

Leumi for the Community

Community Relations Management

Leading up to 2014, Leumi Management decided on a change of strategy for investing in the community. With the aim of leveraging the knowledge, tools and resources of Leumi in favor of creating value for the community, it was decided to divert most of the resource to initiating and supporting projects in the area of the economic empowerment of various populations and of the customers of the bank.

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

Before the Passover festival, the Kimcha De'Pischa campaign was held for the tenth year running, in which food parcels were delivered to underprivileged families. The "Leumi Tomorrow" association donated a total of NIS 300 thousand, and together with the contribution of employees of Leumi and its subsidiaries, over 2,200 parcels were delivered for the holiday to families from within the social partners of the Leumi Tomorrow association and the various units of the Bank, through the social leaders and volunteer employees.

"Young Israeli Entrepreneurs" organization

Leumi is an involved partner in the "Young Israeli Entrepreneurs" organization, in which youth experience setting up a start-up company which advances a business idea of product development. Leumi's contribution to the organization focuses on assisting in the operation of the program in the social and geographic outlying areas, and the adoption of the program by branches of the Bank throughout Israel, and recruiting volunteer mentors from among employees of the Group.

The Leumi Center for Robotics

In order to encourage and promote excellence in science, and as part of its support of the future generation, Leumi contributed to the establishment of the Center for Robotics, and has sponsored the center's activities since 2009. The center's aim is to nurture motivation among the youth to engage in the fields of science, mathematics and technology.

Summary of Donations and Sponsorships

In the first three months of 2014, Leumi Group donated funds and provided sponsorships for social welfare and community purposes amounting to some NIS 6.8 million, of which donations totaled some NIS 4.5 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 2013.

The 2014 work program of the Internal Audit Division was submitted to the Audit Committee on 23 December 2013, and was approved in the Audit Committee on 26 December 2013. On 16 January 2014, it was submitted to the Board of Directors and approved in the Board of Directors on 19 January 2014.

The Internal Auditor's annual report for 2013 was submitted to the Audit Committee on 17 February 2014 and discussed in the Committee on 20 February 2014. On 6 March 2014, the report was submitted to the Board of Directors and discussed in the plenum on 30 March 2014.

The annual reports of the internal auditors of subsidiaries in Israel for 2013 were submitted to the Audit Committee on 13 March 2014 and were discussed in the Committee on 18 March 2014.

The annual reports of the internal auditors of overseas units for 2013 were submitted to the Audit Committee on 23 April 2014 and discussed in the Audit Committee on 30 April 2014.

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 Sections 302 and 404 of the SOX Act. With reference to these sections, the SEC and the Public Company Accounting Oversight Board determined provisions as to management's responsibility for determining and maintaining controls and procedures regarding disclosure and maintaining internal control over financial reporting and the external auditors' opinion with regard to the audit of internal control over financial reporting.

The Supervisor's directives prescribe that:

- Banking corporations shall apply the requirements of Sections 302 and 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.

During 2014, the Bank will validate and update significant control processes and effective examinations of the whole internal control system over financial reporting.

Assessment of controls and procedures with regard to disclosure

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

Changes in internal control

During the quarter ended 31 March 2014, 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:

Mr. Yoel Mintz, member of Bank management and Head of the Structured Finance and Real Estate Division, was appointed Head of the International Credit and Real Estate Division, with effect from 1 January 2014.

Mr. Shmuel Arbel was appointed Head of the Commercial Department, with effect from 1 January 2014.

Mr. Shaul Schneider was appointed Head of Private Banking, with effect from 1 February 2014.

Mr. Ze'ev Morag was appointed to the position of Head of Compliance and Enforcement and promoted to Executive Vice President, with effect from 1 March 2014.

Mr. Hanan Friedman is expected to join the Bank during July 2014 and to be appointed to the position of Head of the Legal Division, Chief Legal Advisor and member of Bank Management with the rank of Executive Vice President, no later than 1 January 2015. The appointment is subject to the approval of absence of objection of the Banking Supervision Department in a due diligence process, as necessary.

Mr. Eli Katzav will be appointed to the position of Chief Executive Officer of Bank Leumi UK with effect from 1 August 2014 (subject to approval by the UK regulatory authorities).

Retirements:

Mr. Gideon Altman, ceased to serve in his position as Head of the Commercial Banking Division and member of Bank management on 31 December 2013 and will retire during 2014, after 35 years employment with the Bank.

Ms. Nomi Sandhaus, will cease to serve in her position as Head of the Legal Division and member of Bank management on 31 December 2014 at the latest, and will retire during 2015 after 33 years employment with the Bank.

Mr. Aviram Cohen will cease to serve in his position as Head of Marketing, Advertising and Spokesperson on 31 December 2014 and will retire during 2015, after 9 years employment with the Bank.

Ms. Nitza Russo-Shtaubert, ceased to serve in her position as Head of Private Banking on 31 January 2014, and retired after 13 years employment with the Bank.

Ms. Meira Karni, ceased to serve in her position as Head of Compliance and Enforcement on 28 February 2014 and will retire during 2014, after 32 years employment with the Bank.

Mr. Shlomo Pergament ceased to serve in his position as Deputy Head of Operations and Computing on 5 May 2014 and will retire during 2014, after 36 years employment with the Bank.

Mr. Larry Weiss will cease to serve in his position as Chief Executive Officer of Bank Leumi UK on 31 July 2014.

Remuneration Policy for Key Employees who are not Office-Holders

On 8 April 2014, the Board of Directors, after receiving the approval and recommendation of the Remuneration Committee of the Board of Directors, approved, a remuneration policy which applies to "key employees" in the Bank who are not office-holders, pursuant to the provisions of and as required by Proper Conduct of Banking Business Management Regulation No. 301A of the Supervisor of Banks.

The aforesaid remuneration policy for "key employees" provides the framework for the remuneration of key employees, and includes, *inter alia*, consideration of the salary component, the related conditions, the terms of retirement and the annual bonus component. This policy was devised paying attention to the principles of the remuneration policy for office-holders in the Bank, *mutatis mutandis*.

Transition to the second generation with effect from 2014

Holders of personal contracts in the Bank (who are not members of management), who had a first-generation employee agreement with the Bank, transferred, with effect from 2014, to the employment terms of a second-generation agreement, as follows: their rights to a non-contributory pension from the Bank pursuant to their rights as first-generation will be only in respect of the frozen salary level (the salary at the date of the transfer from first-generation to second-generation plus linkage to the consumer price index) with the rights with regard to the salary increment in excess of the frozen salary level being according to the second-generation conditions (provisions for provident fund without the rights to non-contributory pension from the Bank).

Board of Directors

The Board of Directors numbers 15 members.

During the first three months of 2014 and up until the date of publication of this Report, there were no changes in the composition of the Board of Directors:

During the period of January to March 2014, the Board of Directors held 15 plenary meetings and 43 committee meetings.

At the meeting of the Board of Directors held on 21 May 2014, it was resolved to approve and publish the Group's condensed unaudited consolidated financial statements as of 31 March 2014 and for the period ended on that date.

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 advancement of the Group's business.

David Brodet
Chairman of the Board of Directors
21 May 2014

Rakefet Russak-Aminoach
President and Chief Executive Officer

Rates of Income and Expenses¹

Exhibit A

Part A – Average balances and interest rates - assets

	For the three months ended 31 March					
	2014			2013		
	Average balance (2)	Interest income	Rate of income	Average balance (2)	Interest income	Rate of income
	(NIS millions)		%	(NIS millions)		%
<u>Income-bearing assets</u>						
Credit to the public (3)						
In Israel	211,024	1,707	3.28	209,696	2,225	4.31
Outside Israel	24,177	231	3.88	27,181	271	4.05
Total	235,201	1,938	3.34	236,877	2,496	4.28
Credit to the Government						
In Israel	483	3	2.51	421	4	3.85
Outside Israel	43	-	-	17	-	-
Total	526	3	2.30	438	4	3.70
Deposits in banks						
In Israel	6,364	10	0.63	7,107	10	0.56
Outside Israel	1,829	3	0.66	2,990	4	0.54
Total	8,193	13	0.64	10,097	14	0.56
Deposits in central banks						
In Israel	19,159	43	0.90	26,239	115	1.76
Outside Israel	5,426	3	0.22	4,292	-	-
Total	24,585	46	0.75	30,531	115	1.52
Securities borrowed or purchased under resale agreements						
In Israel	1,524	4	1.05	1,303	6	1.85
Outside Israel	-	-	-	-	-	-
Total	1,524	4	1.05	1,303	6	1.85
Bonds available for sale (4)						
In Israel	44,673	168	1.51	37,698	174	1.86
Outside Israel	4,104	12	1.17	3,943	9	0.92
Total	48,777	180	1.48	41,641	183	1.77
Bonds for trading (4)						
In Israel	10,275	16	0.62	10,165	42	1.66
Outside Israel	56	1	7.34	635	3	1.90
Total	10,331	17	0.66	10,800	45	1.68
Total interest-bearing assets	329,137	2,201	2.70	331,687	2,863	3.50
Receivables for non-interest bearing credit cards	6,940			6,508		
Other non-interest bearing assets (5)	33,416			28,649		
Total assets	369,493	2,201		366,844	2,863	-
Total income-bearing assets attributable to activity outside Israel	35,635	250	2.84	39,058	287	2.97

See notes on page 107.

Rates of Income and Expenses¹ (cont'd)

Exhibit A

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

	For the three months ended 31 March					
	2014			2013		
	Average balance (2)	Interest expenses	Rate of expenses	Average balance (2)	Interest expenses	Rate of expenses
	(NIS millions)		%	(NIS millions)		%
<u>Interest-bearing liabilities</u>						
Deposits of the public						
In Israel	249,140	(271)	(0.44)	245,812	(724)	(1.18)
On demand	74,905	(25)	(0.13)	57,040	(37)	(0.26)
Fixed term	174,235	(246)	(0.57)	188,772	(687)	(1.46)
Outside Israel	16,409	(37)	(0.90)	18,707	(52)	(1.12)
On demand	2,530	(2)	(0.32)	2,556	(2)	(0.31)
Fixed term	13,879	(35)	(1.01)	16,151	(50)	(1.24)
Total	265,549	(308)	(0.46)	264,519	(776)	(1.18)
Deposits of the Government						
In Israel	148	(2)	(5.52)	261	(2)	(3.10)
Outside Israel	241	-	-	191	-	-
Total	389	(2)	(2.07)	452	(2)	(1.78)
Deposits from central banks						
In Israel	40	-	-	-	-	-
Outside Israel	-	-	-	-	-	-
Total	40	-	-	-	-	-
Deposits from banks						
In Israel	3,504	(7)	(0.80)	3,390	(8)	(0.95)
Outside Israel	77	-	-	263	(1)	(1.53)
Total	3,581	(7)	(0.78)	3,653	(9)	(0.99)
Securities lent or sold under repurchase agreements						
In Israel	795	(2)	(1.01)	817	(5)	(2.47)
Outside Israel	-	-	-	56	-	-
Total	795	(2)	(1.01)	873	(5)	(2.31)
Bonds						
In Israel	25,415	(125)	(1.98)	27,553	(309)	(4.56)
Outside Israel	10	-	-	10	-	-
Total	25,425	(125)	(1.98)	27,563	(309)	(4.56)
Total interest-bearing liabilities	295,779	(444)	(0.60)	297,060	(1,101)	(1.49)
Non-interest bearing deposits of the public	13,676			15,231		
Payables for non-interest bearing credit cards	7,517			6,853		
Other non-interest bearing liabilities (6)	25,750			22,636		
Total liabilities	342,722	(444)		341,780	(1,101)	
Total capital means	26,771			25,064		
Total liabilities and capital means	369,493	(444)		366,844	(1,101)	
Interest margin		1,757	2.10		1,762	2.01
<u>Net yield⁷ on income-bearing assets</u>						
In Israel	293,502	1,544	2.12	292,629	1,528	2.10
Outside Israel	35,635	213	2.41	39,058	234	2.42
Total	329,137	1,757	2.15	331,687	1,762	2.14
Total income-bearing liabilities attributable to activity outside Israel	16,737	(37)	(0.89)	19,227	(53)	(1.11)

See notes on page 107.

Rates of Income and Expenses¹ (cont'd)

Exhibit A

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

	For the three months ended 31 March					
	2014			2013		
	Average	Interest	Rate of	Average	Interest	Rate of
	balance (2)	income	income	balance (2)	income	income
	(NIS millions)	(expenses)	(expenses)	(NIS millions)	(expenses)	(expenses)
			%			%
Index-linked Israeli currency						
Total interest-bearing assets	57,439	136	0.95	60,436	556	3.73
Total interest-bearing liabilities	49,457	(77)	(0.62)	49,703	(419)	(3.41)
Interest margin	7,982	59	0.33	10,733	137	0.32
Unlinked Israeli currency						
Total interest-bearing assets	198,121	1,610	3.29	187,508	1,818	3.94
Total interest-bearing liabilities	157,608	(291)	(0.74)	151,796	(543)	(1.44)
Interest margin	40,513	1,319	2.55	35,712	1,275	2.50
Foreign currency						
Total interest-bearing assets	37,942	205	2.18	44,685	202	1.82
Total interest-bearing liabilities	71,977	(39)	(0.22)	76,334	(86)	(0.45)
Interest margin	(34,035)	166	1.96	(31,649)	116	1.37
Total activity in Israel						
Total interest-bearing assets	293,502	1,951	2.68	292,629	2,576	3.57
Total interest-bearing liabilities	279,042	(407)	(0.58)	277,833	(1,048)	(1.52)
Interest margin	14,460	1,544	2.10	14,796	1,528	2.05

See notes on page 107.

Rates of Income and Expenses¹ (cont'd)

Exhibit A

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

	2014 compared to 2013		
	For the three months ended 31 March		
	Increase (decrease) due to change (8)		Net change
	Amount	Price	
	(NIS millions)		
Interest-bearing assets			
Credit to the public			
In Israel	11	(529)	(518)
Outside Israel	(29)	(11)	(40)
Total	(18)	(540)	(558)
Other interest-bearing assets			
In Israel	(1)	(106)	(107)
Outside Israel	(1)	4	3
Total	(2)	(102)	(104)
Total interest income	(20)	(642)	(662)
Interest-bearing liabilities			
Deposits of the public			
In Israel	4	(457)	(453)
Outside Israel	(6)	(9)	(15)
Total	(2)	(466)	(468)
Other interest-bearing liabilities			
In Israel	(10)	(178)	(188)
Outside Israel	-	(1)	(1)
Total	(10)	(179)	(189)
Total interest expenses	(12)	(645)	(657)

See notes on page 107.

Rates of Income and Expenses¹ (cont'd)

Exhibit A

Notes:

- (1) The data in these tables are shown after the effect of hedging derivative instruments.
- (2) Based on monthly opening balances, except for the unlinked Israeli currency segment where the average balance is calculated on daily figures, and before deduction of the average balance of credit loss allowances, overseas subsidiaries on the basis of quarterly opening balances.
- (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 gains (losses) on adjustment to fair value of debentures held for trading and available for sale, in the various segments, for the three month period, an amount of NIS 356 million (31 March 2013 – NIS 622 million).
- (5) Including book balances of derivative instruments, other non-interest bearing assets, non-monetary assets, and after deducting allowance for credit losses.
- (6) Including book balances of derivative instruments, and non-monetary liabilities.
- (7) Net yield – net interest income divided by total interest-bearing assets.
- (8) 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.
- (9) Commissions amounting to NIS 127 million have been included in interest from credit to the public (31 March 2013 – NIS 69 million).

Exposure to Interest Rate Fluctuations

Exhibit B

	31 March 2014								31 December 2013						31 March 2013			
	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 (2)	Total fair value	Internal rate of return	Duration (2)	Total fair value	Internal rate of return	Duration (2)
	(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 (1)	152,447	15,214	26,620	6,577	4,429	4,159	1,661	85	294	211,486	3.44	0.54	211,239	3.51	0.59	202,470	3.85	0.47
Derivative financial instruments (excluding options)	53,199	105,210	53,475	57,629	29,915	32,131	745	-	-	332,304	-	1.60	303,155	-	1.63	275,627	-	1.55
Options (in terms of basis asset) (4)	493	1,063	1,493	79	1,117	775	18	-	-	5,038	-	-	8,494	-	-	12,556	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	206,139	121,487	81,588	64,285	35,461	37,065	2,424	85	294	548,828	3.44	1.17	522,888	3.51	1.19	490,653	3.85	1.06
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (1)	147,062	6,259	6,452	4,548	4,617	369	72	-	10	169,389	1.08	0.28	169,974	0.93	0.23	166,074	2.58	0.26
Derivative financial instruments (excluding options)	57,718	123,478	45,338	66,732	30,126	31,434	600	28	-	355,454	-	1.53	328,510	-	1.56	298,205	-	1.48
Options (in terms of basis asset) (4)	637	1,174	1,667	29	7	10	31	-	-	3,555	-	-	5,868	-	-	9,053	-	-
Off-balance sheet financial instruments	-	-	28	-	-	-	-	-	-	28	-	0.50	27	-	0.50	49	-	0.50
Total fair value	205,417	130,911	53,485	71,309	34,750	31,813	703	28	10	528,426	1.08	1.12	504,379	0.93	1.10	473,381	2.58	1.02
Financial instruments, net																		
Exposure to interest rate fluctuations	722	(9,424)	28,103	(7,024)	711	5,252	1,721	57										
Accumulated exposure in the sector	722	(8,702)	19,401	12,377	13,088	18,340	20,061	20,118										
Israeli currency – linked																		
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial assets (1)	2,021	4,464	12,777	17,414	14,334	6,252	1,385	110	8	58,765	2.02	2.87	59,960	2.03	2.93	62,729	2.29	2.82
Derivative financial instruments (excluding options)	7	1,138	976	1,186	1,769	1,518	-	-	-	6,594	-	3.18	7,098	-	3.03	6,962	-	2.39
Options (in terms of basis asset) (4)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	2,028	5,602	13,753	18,600	16,103	7,770	1,385	110	8	65,359	2.02	2.90	67,058	2.03	2.94	69,691	2.29	2.78
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (1)	1,335	3,140	12,833	12,195	10,041	12,225	937	294	-	53,000	0.62	3.44	53,425	1.27	3.36	53,642	1.39	3.47
Derivative financial instruments (excluding options)	531	1,158	3,175	1,556	1,142	1,359	352	-	-	9,273	-	2.65	9,744	-	2.47	12,764	-	1.78
Options (in terms of basis asset) (4)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet financial instruments	-	-	95	-	-	-	-	-	-	95	-	-	100	-	-	98	-	-
Total fair value	1,866	4,298	16,103	13,751	11,183	13,584	1,289	294	-	62,368	0.62	3.32	63,269	1.27	3.21	66,504	1.39	3.14
Financial instruments, net																		
Exposure to interest rate fluctuations	162	1,304	(2,350)	4,849	4,920	(5,814)	96	(184)										
Accumulated exposure in the sector	162	1,466	(884)	3,965	8,885	3,071	3,167	2,983										

See notes on page 110.

Exposure to Interest Rate Fluctuations (cont'd)

Exhibit B

	31 March 2014									31 December 2013					31 March 2013			
	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 (2)	Total fair value	Internal rate of return	Duration (2)	Total fair value	Internal rate of return	Duration (2)
	(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 (1)	41,195	12,438	6,432	6,864	4,601	3,718	448	95	243	76,034	2.42	1.01	77,800	2.40	0.99	82,080	2.14	0.92
Derivative financial instruments (excluding options)	49,150	72,127	33,307	10,761	6,811	9,175	394	250	151	182,126	-	0.87	168,127	-	0.87	145,094	-	0.86
Options (in terms of basis asset) (4)	(3,479)	1,703	4,340	638	4,430	351	15	-	-	7,998	-	-	13,784	-	-	10,786	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	86,866	86,268	44,079	18,263	15,842	13,244	857	345	394	266,158	2.42	0.88	259,711	2.40	0.86	237,960	2.14	0.84
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (1)	71,092	12,784	14,330	3,143	672	465	15	-	10	102,511	1.00	0.28	104,920	0.86	0.27	107,106	0.99	0.29
Derivative financial instruments (excluding options)	42,226	55,335	27,496	11,211	8,659	11,279	474	278	151	157,109	-	1.15	140,853	-	1.17	118,159	-	1.19
Options (in terms of basis asset) (4)	(3,650)	1,669	4,185	684	5,399	971	62	-	-	9,320	-	-	15,769	-	-	13,912	-	-
Off-balance sheet financial instruments	-	-	13	-	-	-	-	-	-	13	-	0.50	14	-	0.50	8	-	0.50
Total fair value	109,668	69,788	46,024	15,038	14,730	12,715	551	278	161	268,953	1.00	0.78	261,556	0.86	0.74	239,185	0.99	0.72
Financial instruments, net																		
Exposure to interest rate fluctuations	(22,802)	16,480	(1,945)	3,225	1,112	529	306	67										
Accumulated exposure in the sector	(22,802)	(6,322)	(8,267)	(5,042)	(3,930)	(3,401)	(3,095)	(3,028)										
Total exposure to interest rate fluctuations																		
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial assets (1) (3)	195,663	32,116	45,829	30,855	23,364	14,129	3,494	290	4,437	350,177	2.58	1.04	353,432	2.62	1.08	350,403	2.70	1.00
Derivative financial instruments (excluding options)	102,356	178,475	87,758	69,576	38,495	42,824	1,139	250	1,156	522,029	-	1.36	479,943	-	1.39	427,927	-	1.33
Options (in terms of basis asset) (4)	(2,986)	2,766	5,833	717	5,547	1,126	33	-	28	13,064	-	-	22,294	-	-	23,342	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	295,033	213,357	139,420	101,148	67,406	58,079	4,666	540	5,621	885,270	2.58	1.21	855,669	2.62	1.23	801,672	2.70	1.15
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (1) (3)	219,489	22,183	33,615	19,886	15,330	13,059	1,024	294	396	325,276	0.60	0.79	328,960	1.46	0.75	327,127	1.54	0.80
Derivative financial instruments (excluding options)	100,475	179,971	76,009	79,499	39,927	44,072	1,426	306	1,091	522,776	-	1.44	481,033	-	1.47	429,344	-	1.41
Options (in terms of basis asset) (4)	(3,013)	2,843	5,852	713	5,406	981	93	-	-	12,875	-	-	21,637	-	-	22,965	-	-
Off-balance sheet financial instruments	-	-	136	-	-	-	-	-	142	278	-	0.08	289	-	0.09	298	-	0.14
Total fair value	316,951	204,997	115,612	100,098	60,663	58,112	2,543	600	1,629	861,205	0.60	1.17	831,919	1.46	1.14	779,734	1.54	1.11
Financial instruments, net																		
Exposure to interest rate fluctuations	(21,918)	8,360	23,808	1,050	6,743	(33)	2,123	(60)										
Accumulated exposure in the sector	(21,918)	(13,558)	10,250	11,300	18,043	18,010	20,133	20,073										

See notes on next page.

Exposure to Interest Rate Fluctuations (cont'd)

Exhibit B

Notes:

- (1) 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 544 million.
- (2) Weighted average as per fair value of effective duration.
- (3) Including non-monetary assets shown in "No repayment date" column.
- (4) Duration less than 0.05 years.

General comments:

- (1) In this table, the data by periods shows the present value of future cash flows, discounted at the internal rate of return used for discounting them to the fair value included in respect of the financial instrument, in consistency with the assumptions used to calculate the fair value of the financial instrument. For further details regarding the assumptions used in the calculation of the fair value of the financial instruments, see Note 18D in the Annual Financial Report.
- (2) The internal rate of return is the interest rate for discounting the cash flows expected from a financial instrument to the fair value included in respect of it.
- (3) The effective duration of a group of financial instruments constitutes an approximation of the percentage change in the fair value of the group of financial instruments that would be caused as a result of a small change (an increase of 0.1%) in the internal rate of return of each of the financial instruments.
- (4) The effect of hedging transactions is included in total assets or total liabilities, as applicable.
- (5) In calculating the duration of assets and liabilities in the CPI-linked segment an estimate was taken into account of early redemptions and withdrawals at exit points in savings plans, in accordance with a model estimating expected early redemptions based on the behavior of savers. The duration of total assets according to the original cash flow of the savings plans is higher and reached 3.22 years, the duration of total liabilities reaches 3.35 years, and the internal rate of return (hereinafter – IRR) gap amounts to 1.16. The change in fair value on total assets is NIS 627 million and in total liabilities NIS (2) million.

Total Credit Risk to the Public by Economic Sector

Exhibit C

31 March 2014									
Overall credit risk (1)				Debts (2) and off-balance sheets credit risk (except for derivatives) (3)					
In respect of activity of borrowers in Israel	Total	Problematic (5)	Total (*)	*Of which:			Credit losses (4)		
				Debts (2)	Problematic (5)	Impaired	Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance for credit losses
(NIS millions)									
Agriculture	2,230	105	2,226	1,927	105	47	(2)	(1)	(46)
Industry	28,342	2,086	27,506	18,591	2,072	481	(53)	2	(501)
Construction and real estate - construction	43,171	1,633	43,120	15,369	1,627	514	(9)	(38)	(415)
Construction and real estate - real estate activity	24,741	1,690	24,670	22,342	1,688	1,480	(50)	(15)	(552)
Electricity and water	4,586	1	4,008	3,616	1	1	-	-	(4)
Commerce	22,397	1,100	22,161	18,051	1,100	414	(30)	17	(332)
Hotels, catering services and food	3,037	294	3,008	2,711	294	226	-	(1)	(28)
Transport and storage	5,800	507	5,776	5,045	499	304	17	(1)	(95)
Communications and computer services	5,305	539	5,198	4,081	527	228	32	6	(136)
Financial services	23,143	194	18,452	10,933	194	187	53	(13)	(179)
Business and other services	8,185	148	8,134	6,372	148	116	2	5	(71)
Public and community services	7,363	53	7,330	6,011	52	15	-	-	(13)
Total commercial	178,300	8,350	171,589	115,049	8,307	4,013	(40)	(39)	(2,372)
Private individuals - housing loans	71,675	789	71,676	69,409	789	-	1	4	(477)
Private individuals - other	62,916	406	62,904	32,223	406	110	(36)	30	(386)
Total public	312,891	9,545	306,169	216,681	9,502	4,123	(75)	(5)	(3,235)
Banks in Israel	6,164	-	2,041	1,927	-	-	-	-	(1)
Government of Israel	38,063	-	294	294	-	-	-	-	-
Total activity in Israel	357,118	9,545	308,504	218,902	9,502	4,123	(75)	(5)	(3,236)

31 March 2014									
Overall credit risk (1)				Debts (2) and off-balance sheets credit risk (except for derivatives) (3)					
In respect of activity of borrowers abroad	Total	Problematic (5)	Total (*)	*Of which:			Credit losses (4)		
				Debts (2)	Problematic (5)	Impaired	Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance for credit losses
(NIS millions)									
Agriculture	64	4	60	51	4	4	-	-	(2)
Industry	9,409	437	8,491	5,673	437	331	-	-	(232)
Construction and real estate - construction	10,733	873	10,321	7,595	873	714	(2)	(1)	(379)
Electricity and water	388	-	177	27	-	-	-	-	-
Commerce	7,352	209	7,311	4,919	209	184	1	-	(131)
Hotels, catering services and food	1,686	54	1,686	1,662	54	45	-	-	(13)
Transport and storage	482	27	357	348	27	27	-	-	(14)
Communications and computer services	773	-	539	215	-	-	-	-	(3)
Financial services	14,861	94	2,930	2,173	92	74	19	-	(55)
Business and other services	2,933	201	2,717	1,806	201	201	2	-	(113)
Public and community services	2,132	2	2,013	1,785	2	2	1	-	(15)
Total commercial	50,813	1,901	36,602	26,254	1,899	1,582	21	(1)	(957)
Private individuals - housing loans	1,185	68	1,185	1,185	68	48	(1)	-	(18)
Private individuals - other	1,217	42	1,199	991	42	42	1	-	(40)
Total public	53,215	2,011	38,986	28,430	2,009	1,672	21	(1)	(1,015)
Banks abroad	26,042	-	14,483	13,121	-	-	3	-	(4)
Governments abroad	4,903	-	287	193	-	-	-	-	-
Total activity abroad	84,160	2,011	53,756	41,744	2,009	1,672	24	(1)	(1,019)
Total	441,278	11,556	362,260	260,646	11,511	5,795	(51)	(6)	(4,255)

See notes on next page.

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

Exhibit C

- (1) Balance sheet and off-balance sheet credit risk, including in respect of derivative instruments, including: debts², 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 260,646, 56,879, 1,370, 12,205, 110,178 million.
- (2) Credit to the public, credit to governments, deposits in banks and other debts, except bonds and 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.

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

Exhibit C

31 March 2013									
Overall credit risk (1)				Debts (2) and off-balance sheets credit risk (except for derivatives) (3)					
							Credit losses (4)		
				*Of which:			Expenses in	Net	Balance of
In respect of activity of							respect	accounting	allowance
borrowers in Israel	Total	Problematic (5)	Total (*)	Debts (2)	Problematic (5)	Impaired	of credit	write-offs	for credit
							losses		losses
(NIS millions)									
Agriculture	2,101	80	2,087	1,780	80	39	(2)	-	(42)
Industry	33,376	2,118	30,806	20,642	2,050	722	11	(9)	(560)
construction	41,409	1,100	41,236	14,435	1,100	809	(16)	(5)	(386)
Construction and real estate - real estate activity	27,432	2,053	27,382	24,957	2,040	1,667	50	(1)	(572)
Electricity and water	3,413	5	2,502	2,171	5	5	(4)	1	(2)
Commerce	22,043	1,165	21,369	17,515	1,159	661	(15)	32	(446)
Hotels, catering services and food	3,023	300	2,978	2,724	300	217	(16)	(1)	(29)
Transport and storage	5,726	841	5,632	4,739	822	352	5	(1)	(136)
Communications and computer services	6,018	94	5,723	4,639	90	32	-	-	(40)
Financial services	32,615	1,063	20,767	12,584	1,015	642	(16)	10	(463)
Business and other services	8,161	174	7,928	6,296	173	144	(5)	-	(178)
Public and community services	7,357	182	7,316	6,021	182	106	1	15	(26)
Total commercial	192,674	9,175	175,726	118,503	9,016	5,396	(7)	41	(2,880)
Private individuals - housing loans	65,223	790	65,224	63,300	790	-	52	5	(495)
Private individuals - other	58,152	448	58,135	29,441	448	56	31	44	(340)
Total public	316,049	10,413	299,085	211,244	10,254	5,452	76	90	(3,715)
Banks in Israel	7,576	-	2,151	1,336	-	-	-	-	(3)
Government of Israel	30,064	-	261	261	-	-	-	-	-
Total activity in Israel	353,689	10,413	301,497	212,841	10,254	5,452	76	90	(3,718)

31 March 2013									
Overall credit risk (1)									
Debts (2) and off-balance sheets credit risk (except for derivatives) (3)									
Credit losses (4)									
Expenses in respect of credit losses									
Net accounting write-offs									
Balance of allowance for credit losses									
*Of which:									
In respect of activity of borrowers abroad	Total	Problematic (5)	Total (*)	Debts (2)	Problematic (5)	Impaired			
(NIS millions)									
Agriculture	72	9	55	35	9	9	-	-	(3)
Industry	9,616	336	8,660	6,260	335	260	1	2	(176)
Construction and real estate - construction	11,264	1,010	10,304	7,548	1,010	815	(6)	10	(294)
Electricity and water	378	-	139	16	-	-	-	-	-
Commerce	7,324	156	7,126	5,599	156	129	1	-	(117)
Hotels, catering services and food	2,115	70	2,113	1,919	70	54	-	1	(12)
Transport and storage	375	27	361	354	27	27	-	-	(11)
Communications and computer services	687	-	446	219	-	-	-	-	(2)
Financial services	16,068	199	4,824	3,731	199	132	(2)	1	(60)
Business and other services	4,802	190	4,728	2,136	190	183	2	-	(57)
Public and community services	1,778	2	1,624	1,246	2	1	2	-	(11)
Total commercial	54,479	1,999	40,380	29,063	1,998	1,610	(2)	14	(743)
Private individuals - housing loans	1,204	85	1,204	1,203	85	82	(1)	5	(18)
Private individuals - other	1,445	46	1,413	1,185	46	46	(2)	-	(40)
Total public	57,128	2,130	42,997	31,451	2,129	1,738	(5)	19	(801)
Banks abroad	30,367	-	14,120	13,465	-	-	2	1	-
Governments abroad	6,558	-	287	162	-	-	-	-	-
Total activity abroad	94,053	2,130	57,404	45,078	2,129	1,738	(3)	20	(801)
Total	447,742	12,543	358,901	257,919	12,383	7,190	73	110	(4,519)

See notes on next page.

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

Exhibit C

- (1) Balance sheet and off-balance sheet credit risk, including in respect of derivative instruments, including: debts², bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments and credit risk in off-balance sheet financial instruments as calculated for purposes of single borrower credit limitations, in the amount of NIS 257,919, 50,550, 854, 11,833, 126,586 million respectively.
- (2) Credit to the public, credit to governments, deposits in banks and other debts, except bonds and 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.

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

Exhibit C

31 December 2013									
Overall credit risk (1)									
Debts (2) and off-balance sheets credit risk (except for derivatives) (3)									
Credit losses (4)									
Expenses in respect of credit losses									
Net accounting write-offs									
Balance of allowance for credit losses									
*Of which:									
In respect of activity of borrowers in Israel	Total	Problematic (5)	Total (*)	Debts (2)	Problematic (5)	Impaired			
(NIS millions)									
Agriculture	2,125	113	2,116	1,823	113	51	-	(5)	(45)
Industry	29,219	2,256	27,673	18,592	2,218	580	36	8	(523)
Construction and real estate - construction	41,188	1,687	41,096	14,720	1,667	574	(59)	(19)	(386)
Construction and real estate - real estate activity	25,758	1,706	25,650	23,374	1,703	1,416	(44)	(21)	(546)
Electricity and water	4,471	1	3,876	3,530	1	1	(11)	-	(4)
Commerce	22,400	1,123	21,995	18,144	1,122	525	(27)	102	(351)
Hotels, catering services and food	2,924	316	2,887	2,622	316	233	(14)	(6)	(26)
Transport and storage	5,805	532	5,738	5,005	522	314	(28)	5	(93)
Communications and computer services	5,512	588	5,313	4,270	588	268	11	(6)	(153)
Financial services	29,434	218	19,122	10,678	208	197	(118)	240	(146)
Business and other services	8,258	153	8,158	6,362	153	123	5	16	(83)
Public and community services	7,451	56	7,413	6,109	56	14	18	13	(13)
Total commercial	184,545	8,749	171,037	115,229	8,667	4,296	(231)	327	(2,369)
Private individuals - housing loans	70,787	803	70,787	68,592	803	-	46	22	(479)
Private individuals - other	61,782	418	61,747	31,458	418	109	177	73	(456)
Total public	317,114	9,970	303,571	215,279	9,888	4,405	(8)	422	(3,304)
Banks in Israel	7,509	-	1,890	1,688	-	-	1	-	(1)
Government of Israel	39,536	-	338	338	-	-	-	-	-
Total activity in Israel	364,159	9,970	305,799	217,305	9,888	4,405	(7)	422	(3,305)

31 December 2013									
Overall credit risk (1)									
Debts (2) and off-balance sheets credit risk (except for derivatives) (3)									
Credit losses (4)									
Expenses in respect of credit losses									
Net accounting write-offs									
Balance of allowance for credit losses									
*Of which:									
In respect of activity of borrowers abroad	Total		Total (*)	Debts (2)	Problematic (5)	Impaired			
(NIS millions)									
Agriculture	62	4	57	48	4	5	(2)	-	(1)
Industry	9,526	447	8,569	5,764	447	331	57	16	(230)
Construction and real estate - construction	11,400	891	10,671	7,667	891	724	82	10	(386)
Electricity and water	411	-	175	37	-	-	-	-	-
Commerce	7,851	234	7,761	5,337	234	200	18	6	(125)
Hotels, catering services and food	1,900	212	1,899	1,847	212	45	28	18	(13)
Transport and storage	491	27	358	347	27	26	-	(1)	(15)
Communications and computer services	636	-	438	138	-	-	-	-	(2)
Financial services	17,211	94	3,450	2,344	92	74	3	27	(36)
Business and other services	2,995	198	2,781	1,947	198	197	70	3	(109)
Public and community services	2,118	2	2,004	1,767	2	2	5	(1)	(15)
Total commercial	54,601	2,109	38,163	27,243	2,107	1,604	261	78	(932)
Private individuals - housing loans	1,198	69	1,198	1,198	69	49	7	7	(19)
Private individuals - other	1,281	41	1,249	1,037	41	41	5	7	(40)
Total public	57,080	2,219	40,610	29,478	2,217	1,694	273	92	(991)
Banks abroad	32,646	-	14,408	13,016	-	-	2	5	(1)
Goevernments abroad	5,190	-	318	220	-	-	-	-	-
Total activity abroad	94,916	2,219	55,336	42,714	2,217	1,694	275	97	(992)
Total	459,075	12,189	361,135	260,019	12,105	6,099	268	519	(4,297)

31 December 2013									
</									

See notes on next page.

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

Exhibit C

- (1) Balance sheet and off-balance sheet credit risk, including in respect of derivative instruments, including: debts², 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 260,019, 59,816, 1,360, 12,969, 124,911 million respectively.
- (2) Credit to the public, credit to governments, deposits in banks and other debts, except bonds and 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.

Exposures to Foreign Countries

Exhibit D

Part A – Information on total foreign 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.

31 March 2014							
Balance sheet exposure (1)							
Country	Cross-border balance sheet exposure			Balance sheet exposure of foreign offices of the banking corporation to local residents			
	To governments (3)	To banks	To others	Balance sheet exposure before deducting local liabilities	Deduction for local liabilities	Balance sheet exposure net after deducting local liabilities	
	(NIS millions)						
United States	2,581	4,923	10,254	15,924	8,673	7,251	
United Kingdom	215	3,905	3,927	7,677	1,942	5,735	
France	481	1,646	800	-	-	-	
Switzerland	-	116	821	2,431	446	1,985	
Germany	1	1,295	1,165	-	-	-	
Belgium	318	196	164	-	-	-	
Italy	-	203	73	-	-	-	
Netherlands	-	674	1,375	-	-	-	
Others	343	2,737	3,484	2,108	744	1,364	
Total exposure to foreign countries	3,939	15,695	22,063	28,140	11,805	16,335	
Total exposure to LDC countries	153	726	975	1,506	715	791	
Total exposure to GIIPS countries (4)	-	258	517	-	-	-	

Balance sheet exposure				Off-balance sheet exposure (1) (2)			
Country	Total balance sheet exposure (NIS millions)	Problematic balance sheet credit risk	Of which: balance of impaired debts	Total off-balance sheet exposure	Of which: problematic off-balance sheet credit risk	Cross-border balance sheet exposure	
						Repayment period	
						Up to one year	Over one year
United States	25,009	516	405	6,377	17	5,976	11,782
United Kingdom	13,782	706	554	2,961	2	3,194	4,853
France	2,927	8	1	854	-	1,081	1,846
Switzerland	2,922	1	1	493	-	816	121
Germany	2,461	2	2	425	-	1,269	1,192
Belgium	678	-	-	77	-	434	244
Italy	276	-	-	38	-	94	182
Netherlands	2,049	65	47	149	-	1,036	1,013
Others	7,928	525	484	1,349	-	5,375	1,189
Total exposure to foreign countries	58,032	1,823	1,494	12,723	19	19,275	22,422
Total exposure to LDC countries	2,645	508	480	960	-	1,650	204
Total exposure to GIIPS countries (4)	775	-	-	67	-	495	280

See notes below.

Exposures to Foreign Countries (cont'd)

Exhibit D (cont'd)

Part A – Information on total foreign 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 (cont'd).

31 March 2013							
Balance sheet exposure (1)							
Country	Cross-border balance sheet exposure			Balance sheet exposure of foreign offices of the banking corporation to local residents			
	To governments (3)	To banks	To others	Balance sheet exposure before deducting local liabilities	Deduction for local liabilities	Balance sheet exposure net after deducting local liabilities	
Country	(NIS millions)						
United States	4,234	3,584	9,803	17,421	9,510	7,911	
United Kingdom	485	3,871	3,183	6,914	2,037	4,877	
France	498	2,315	840	-	-	-	
Switzerland	-	402	819	2,310	352	1,958	
Germany	1	3,276	1,767	-	-	-	
Belgium	88	200	136	-	-	-	
Italy	-	273	101	-	-	-	
Netherlands	-	1,202	1,587	-	-	-	
Others	317	2,319	2,357	1,920	949	971	
Total exposure to foreign countries	5,623	17,442	20,593	28,565	12,848	15,717	
Total exposure to LDC countries	221	540	1,166	1,896	932	964	
Total exposure to GIIPS countries (4)	-	307	232	-	-	-	

Balance sheet exposure				Off-balance sheet exposure (1) (2)			
Country	Total balance sheet exposure	Problematic balance sheet credit risk	Of which: balance of impaired debts	Total off-balance sheet exposure (5)	Of which: problematic off-balance sheet credit risk	Cross-border balance sheet exposure	
						Repayment period	
Country	(NIS millions)					Up to one year	Over one year
United States	25,532	550	384	8,707	16	6,535	11,086
United Kingdom	12,416	619	467	4,828	-	3,007	4,532
France	3,653	8	1	1,515	-	1,469	2,184
Switzerland	3,179	31	31	872	-	893	328
Germany	5,044	3	3	1,079	-	3,398	1,646
Belgium	424	-	-	220	-	301	123
Italy	374	1	1	31	-	175	199
Netherlands	2,789	48	32	144	-	1,956	833
Others	5,964	523	487	1,277	-	3,970	1,023
Total exposure to foreign countries	59,375	1,783	1,406	18,673	16	21,704	21,954
Total exposure to LDC countries	2,891	516	480	935	-	1,657	270
Total exposure to GIIPS countries (4)	539	1	1	35	-	199	340

See notes below.

Exposures to Foreign Countries (cont'd)

Exhibit D (cont'd)

Part A – Information on total foreign 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 (cont'd).

31 December 2013						
Balance sheet exposure (1)						
Country	Cross-border balance sheet exposure			Balance sheet exposure of foreign offices of the banking corporation to local residents		
	To governments (3)	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	3,092	5,074	10,340	16,219	8,365	7,854
United Kingdom	457	3,702	3,552	7,433	2,188	5,245
France	-	1,957	839	-	-	-
Switzerland	-	378	757	2,238	463	1,775
Germany	-	2,783	2,262	-	-	-
Belgium	427	129	144	-	-	-
Italy	-	264	64	-	-	-
Netherlands	-	847	1,533	-	-	-
Others	290	2,306	3,027	2,237	770	1,467
Total exposure to foreign countries	4,266	17,440	22,518	28,127	11,786	16,341
Total exposure to LDC countries	149	680	1,143	1,605	735	870
Total exposure to GIIPS countries (4)	-	278	491	-	-	-

Balance sheet exposure				Off-balance sheet exposure (1) (2)			
Country	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	Cross-border balance sheet exposure	
						Repayment period	
Country	(NIS millions)					Up to one year	Over one year
United States	26,360	522	390	9,243	16	6,160	12,346
United Kingdom	12,956	750	581	5,543	-	3,595	4,116
France	2,796	9	1	1,923	-	1,001	1,795
Switzerland	2,910	21	21	773	-	862	273
Germany	5,045	161	-	1,028	-	3,305	1,740
Belgium	700	-	-	183	-	302	398
Italy	328	-	-	35	-	145	183
Netherlands	2,380	55	47	139	-	1,182	1,198
Others	7,090	523	489	1,459	-	4,339	1,284
Total exposure to foreign countries	60,565	2,041	1,529	20,326	16	20,891	23,333
Total exposure to LDC countries	2,842	508	480	1,072	-	1,708	264
Total exposure to GIIPS countries (4)	769	-	-	70	-	462	307

See notes on next page.

Exposures to Foreign Countries (cont'd)

Exhibit D (cont'd)

Notes:

- (1) 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.
- (2) Credit risk in off-balance sheet financial instruments as calculated for purposes of single borrower debt limitations.
- (3) Includes governments, official institutions and central banks.
- (4) Exposure to GIIPS countries includes the following countries: Portugal, Ireland, Italy, Greece, and Spain.
- (5) Restated in accordance with the Directive of the Supervisor of Banks, country exposure is shown on an end-risk basis, as follows:

General comments:

- 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 31 March 2014 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 1,792 million and related to 13 countries.

Certification

I, Rakefet Russak-Aminoach, certify that:

1. I have reviewed the Quarterly Report of Bank Leumi le-Israel B.M. (the "Bank") for the quarter ended on 31 March 2014 (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.

21 May 2014

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 31 March 2014 (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.

21 May 2014

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 31 March 2014 (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.

21 May 2014

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. and its subsidiaries (hereinafter: "the Bank"), comprising the condensed consolidated interim balance sheet as of 31 March, 2014 and the related condensed consolidated interim statements of profit and loss, comprehensive income, changes in equity and cash flows for the three month period ended on that date. The Board of Directors and Management are responsible for the preparation and presentation of financial information for this interim period in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for financial reporting of interim periods and in accordance with directives and guidelines of the Supervisor of Banks. Our responsibility is to express a conclusion on financial information on this interim period based on our review.

We did not review the condensed interim financial information of certain consolidated companies, whose assets included on consolidation constitute approximately 1.8% of total consolidated assets at 31 March, 2014 and whose net interest income before credit loss expenses included in the consolidated statements of profit and loss constitute some 0.7% of the total consolidated net interest income before credit loss expenses for the three month period ended 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 amounts emanating from the financial information of such companies, is based solely on the said review reports of the other auditors.

Scope of review

We conducted our review in accordance with Standard on Review Engagements 1 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel, and a review standard applied in the review of banking institutions according to the instructions and directives 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 financial information was not prepared, in all material respects, in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for interim accounting periods and in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our above conclusion, we draw attention to:

1. that stated in Note 6.C paragraphs 2 and 3 concerning claims against the Bank, including petitions for their approval as class actions.
2. that stated in Note 6.D paragraphs 1-2 concerning matters relating to a company included on equity basis and its investee companies.
3. that stated in Note 6.F concerning investigations against the Group regarding its activities with US customers.

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

Kost Forer Gabbay & Kasierer

Certified Public Accountants (Isr.)

Somekh Chaikin

Certified Public Accountants (Isr.)

21 May 2014

Condensed Consolidated Balance Sheet as at 31 March 2014

		31 March 2014	31 March 2013	31 December 2013
		(Unaudited)		(Audited)
	Note	(NIS millions)		
Assets				
Cash and deposits with banks		44,162	53,933	44,351
Securities	2	60,481	53,378	63,735
Securities borrowed or purchased under agreements to resell		1,370	854	1,360
Credit to the public	3	245,111	242,695	244,757
Allowance for credit losses	3	(3,838)	(4,081)	(3,883)
Credit to the public, net		241,273	238,614	240,874
Credit to governments		487	423	558
Investments in companies included on equity basis		1,630	2,122	1,689
Buildings and equipment		3,626	3,685	3,638
Intangible assets and goodwill		96	185	99
Assets in respect of derivative instruments	7	12,303	11,839	13,054
Other assets		5,097	4,496	5,002
Total assets		370,525	369,529	374,360
Liabilities and equity				
Deposits of the public	3A	282,732	278,820	286,003
Deposits from banks		4,367	7,579	4,310
Deposits from governments		435	473	397
Securities lent or sold under agreements to repurchase		540	735	624
Bonds, debentures and subordinated notes		24,484	27,542	25,441
Liabilities in respect of derivative instruments	7	12,861	12,879	13,487
Other liabilities		17,763	15,909	17,333
Total liabilities		343,182	343,937	347,595
Non-controlling interests		341	308	340
Equity attributable to shareholders of the banking corporation		27,002	25,284	26,425
Total equity	4	27,343	25,592	26,765
Total liabilities and equity		370,525	369,529	374,360

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: 21 May 2014

**Condensed Consolidated Statement of Profit and Loss
for the periods ended 31 March 2014**

	Note	For the three months ended 31 March		For the year ended 31 December
		2014	2013	2013
		(Unaudited)		(Audited)
		(NIS millions)		
Interest income	9	2,201	2,863	12,134
Interest expenses	9	444	1,101	4,777
Net interest income		1,757	1,762	7,357
Expenses (income) in respect of credit losses	3	(51)	73	268
Net interest income, after expenses in respect of credit losses		1,808	1,689	7,089
Non-interest income				
Non-interest financing income	10	323	411	1,127
Commissions		1,040	1,025	4,188
Other income		11	33	202
Total non-interest income		1,374	1,469	5,517
Operating and other expenses				
Salaries and related expenses		1,312	1,282	5,174
Maintenance and depreciation of buildings and equipment		442	449	1,833
Amortization of intangible assets and goodwill		3	3	88
Other expenses		367	323	1,838
Total operating and other expenses		2,124	2,057	8,933
Profit before taxes		1,058	1,101	3,673
Provision for taxes on the profit		385	463	1,391
Profit after taxes		673	638	2,282
Share of the banking corporation in (losses) profits after tax of companies included on equity basis		(37) (1)	(57)	(293)
Net profit:				
Before attribution to non-controlling interests		636	581	1,989
Attributable to non-controlling interests		(11)	(11)	(42)
Attributable to shareholders of the banking corporation		625	570	1,947
Basic and diluted earnings per share (NIS)				
Net profit attributable to shareholders of the banking corporation		0.42	0.39	1.32

(1) Does not include the effect of the business results of the Israel Corporation for the first quarter of 2014. See Note 1.B. Changes in respect of the Israel Corporation recorded in the quarter are for final adjustments to the equity of the Corporation last year.

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

Condensed Statement of Comprehensive Income for the periods ended 31 March 2014

	For the three months ended 31 March		For the year ended 31 December
	2014	2013	2013
	(Unaudited)		(Audited)
	(NIS millions)		
Net profit before attribution to non-controlling interests	636	581	1,989
Net profit attributed to non-controlling interests	11	11	42
Net profit attributed to shareholders of the Bank	625	570	1,947
Other comprehensive income (loss) before taxes:			
Adjustments for showing securities available for sale at fair value, net	(8)	(227)	(518)
Adjustments for translation of financial statements, net (1), after hedges (2)	10	(19)	(115)
Share of the banking corporation in other comprehensive loss of companies included on equity basis	(15) (3)	(4)	11
Other comprehensive income (loss) before taxes	(13)	(250)	(622)
Relevant tax effect	(33)	38	130
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	(46)	(212)	(492)
Less other comprehensive income (loss) attributed to non-controlling interests	1	(4)	(3)
Other comprehensive income (loss) attributed to shareholders of the banking corporation, after taxes	(47)	(208)	(489)
Comprehensive income before attribution to non-controlling interests	590	369	1,497
Comprehensive income attributed to non-controlling interests	12	7	39
Comprehensive income attributed to shareholders of the Bank	578	362	1,458

- (1) Adjustments for translation of financial statements of foreign operations whose functional currency is different from the functional currency of the Bank.
- (2) Hedges – profits (losses) net in respect of hedging a net investment in foreign currency.
- (3) Does not include the effect of the business results of the Israel Corporation for the first quarter of 2014. See Note 1.B. Changes in respect of the Israel Corporation recorded in the quarter are for final adjustments to the equity of the Corporation last year.

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 31 March 2014

For the three months ended 31 March 2014 (Unaudited)										
	Capital reserves			Total share capital and reserves	Accumulated other comprehensive income (loss)	Retained earnings	Loans to employees for purchase of the Bank's shares	Total	Non-controlling interests	Total capital
	Share capital	Premium	Share-based payment transactions and others (1)							
(NIS millions)										
Balance at 31 December 2013 (Audited)	7,059	1,129	33	8,221	(31)	18,278	(43)	26,425	340	26,765
Net profit for the period	-	-	-	-	-	625	-	625	11	636
Dividend paid by consolidated companies	-	-	-	-	-	-	-	-	(10)	(10)
Adjustments in respect of companies included on equity basis, net	-	-	-	-	-	(1)	-	(1)	-	(1)
Other comprehensive loss, net, after effect of taxes	-	-	-	-	(47)	-	-	(47)	1	(46)
Changes in non-controlling interests	-	-	-	-	-	-	-	-	(1)	(1)
Balance at the end of the period	7,059	1,129	33	8,221	(78)	18,902	(43)	27,002	341	27,343

For the three months ended 31 March 2013 (Unaudited)										
	Capital reserves			Total share capital and reserves	Accumulated other comprehensive income (loss)	Retained earnings	Loans to employees for purchase of the Bank's shares	Total	Non-controlling interests	Total capital
	Share capital	Premium	Share-based payment transactions and others (1)							
(NIS millions)										
Balance at 31 December 2012 (Audited)	7,059	1,129	23	8,211	458	16,296	(44)	24,921	307	25,228
Net profit for the period	-	-	-	-	-	570	-	570	11	581
Dividend paid by consolidated companies	-	-	-	-	-	-	-	-	(6)	(6)
Other comprehensive loss, net, after effect of taxes	-	-	-	-	(208)	-	-	(208)	(4)	(212)
Changes in non-controlling interests	-	-	-	-	-	-	1	1	-	1
Balance at the end of the period	7,059	1,129	23	8,211	250	16,866	(43)	25,284	308	25,592

See notes below.

Condensed Consolidated Statement of Changes in Equity (cont'd)
for the periods ended 31 March 2014

	For the year ended 31 December 2013 (Audited)									
	Capital reserves			Total share capital and reserves	Accumulated other comprehensive income (loss)	Retained earnings	Loans to employees for purchase of the Bank's shares	Total	Non-controlling interests	Total capital
	Share capital	Premium	Share-based payment transactions and others (1)							
	(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	-	-	-	-	-	1,947	-	1,947	42	1,989
Dividend paid by consolidated companies	-	-	-	-	-	-	-	-	(6)	(6)
Adjustments in respect of companies included on equity basis, net	-	-	-	-	-	24	-	24	-	24
Benefit to employees in respect of share-based payments	-	-	10	10	-	-	-	10	-	10
Other comprehensive loss, net, after effect of taxes	-	-	-	-	(489)	-	-	(489)	(3)	(492)
Other adjustments in respect of companies included on equity basis	-	-	-	-	-	11	-	11	-	11
Loans to employees for purchase of the Bank's shares	-	-	-	-	-	-	1	1	-	1
Balance at 31 December 2013 (Audited)	7,059	1,129	33	8,221	(31)	18,278	(43)	26,425	340	26,765

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

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

Condensed Consolidated Statement of Cash Flows for the periods ended 31 March 2014

	For the three months ended 31 March		For the year ended 31 December
	2014	2013	2013
	(Unaudited)		(Audited)
	(NIS millions)		
Cash flows generated by operating activity			
Net profit for the period	636	581	1,989
Adjustments:			-
Group share in undistributed profits of companies included on equity basis (1)	56	66	340
Depreciation of buildings and equipment (including impairment)	181	185	768
Amortization	3	3	88
Expenses (income) in respect of credit losses	(51)	73	268
Provision for impairment in assets transferred to group ownership	(4)	-	1
Net gains on sale of securities available for sale (including impairment)	(209)	(333)	(747)
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	(141)	32	(35)
Gain on realization of investment in companies included on equity basis	-	-	(15)
Gain on realization of buildings and equipment	(1)	(15)	(25)
Expenses deriving from share-based payment transactions	-	-	10
Deferred taxes , net	(10)	(29)	(127)
Severance pay and pension - increase in excess of provision over amount funded	10	27	132
Interest received in excess of accumulated interest (not yet received) for debentures available for sale	(59)	62	(140)
Interest not yet paid for debentures and subordinated notes	125	149	1,428
Effect of exchange-rate differences on balances of cash and cash equivalents	(15)	352	653
Other, net	(2)	(1)	(2)
Net change in current assets:			-
Deposits in banks	(189)	123	1,112
Credit to the public	(437)	2,120	(893)
Credit to governments	71	19	(118)
Securities borrowed or purchased under agreements to resell	(10)	581	75
Assets in respect of derivative instruments	743	(364)	(1,595)
Securities held for trading	629	866	652
Other assets	(121)	101	279
Net change in current liabilities:			-
Deposits from banks	48	3,538	283
Deposits of the public	(3,418)	(9,918)	(1,986)
Deposits from governments	37	26	(38)
Securities lent or sold under agreements to repurchase	(84)	(271)	(381)
Liabilities in respect of derivative instruments	(645)	151	856
Other liabilities	432	287	1,158
Net cash generated by operating activity (for operating activity)	(2,425)	(1,589)	3,990

(a) Less dividend received, not including effect of the results of the Israel Corporation for the first quarter 2014.

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 31 March 2014

	For the three months ended 31 March		For the year ended 31 December
	2014	2013	2013
	(Unaudited)		(Audited)
Cash flows generated by investment activity			
Acquisition of securities available for sale	(8,076)	(12,406)	(61,350)
Proceeds from sale of securities available for sale	8,815	8,693	33,528
Proceeds from redemption of securities available for sale	2,512	5,697	19,785
Acquisition of shares in companies included on equity basis	-	(30)	(67)
Proceeds from realization of investment in companies included on equity basis	-	-	73
Acquisition of buildings and equipment	(184)	(182)	(698)
Proceeds from realization of buildings and equipment	-	17	39
Proceeds from realization of assets transferred to Group ownership	3	2	3
Net cash for investment activity	3,070	1,791	(8,687)
Cash flows generated by financing activity			
Redemption of debentures and subordinated notes	(1,082)	(132)	(3,512)
Issue of capital in consolidated companies to external shareholders	(1)	-	-
Dividend paid to minority shareholders of consolidated companies	(10)	(6)	(6)
Repayment of loans to employees for purchase of the Bank's shares	-	1	1
Net cash for financing activity	(1,093)	(137)	(3,517)
Increase (decrease) in cash and cash equivalents	(448)	65	(8,214)
Balance of cash and cash equivalents at beginning of period	42,777	51,644	51,644
Effect of movements in exchange rates on cash balances and cash equivalents	15	(352)	(653)
Balance of cash and cash equivalents at end of period	42,344	51,357	42,777

Interest and taxes paid and/or received and dividends received

	For the three months ended 31 March		For the year ended 31 December
	2014	2013	2013
	(Unaudited)		(Audited)
Interest received	2,769	3,270	12,474
Interest paid	(836)	(1,269)	(5,360)
Dividends received	21	14	75
Taxes paid on income	(415)	(93)	(1,238)

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 31 March 2014****Appendix A – Investment and financing activities not in cash in the reporting period:****For the year ended 31 December, 2013:**

- (1) During the year, assets were transferred from credit to the public to other assets in the amount of NIS 2 million, in respect of the settlement of loans.
- (2) During the year, fixed assets were acquired against a liability to suppliers in the amount of NIS 24 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 31 March 2014 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 2013, except for that stated in paragraph C below. These statements should be read in conjunction with the annual financial statements as at 31 December 2013 and the accompanying notes.

The condensed consolidated interim financial statements were approved for publication by the Board of Directors on 21 May 2014.

(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.

Bringing forward the date of publication of the financial statements

Further to an instruction issued by the Bank of Israel regarding bringing forward the date of publication of the financial statements, a reporting gap was created between the end of the reporting period of the Israel Corporation and the end of the reporting period of the Bank. The Bank applies IAS28 that allows in such cases when applying the equity method, to use the financial statements of the Israel Corporation prepared at a date prior to that of the Bank with a three-month gap ("the reporting gap"). The reporting periods and the reporting gap between the end of the reporting periods will remain the same from period to period. In addition, when applying the equity method, adjustments will be made for the effect of significant transactions or significant events occurring in the reporting gap which are based on reliable and finite financial quantitative data.

The manner of transition to financial reporting including the initial reporting gap relating to the financial statements published in 2014 is made on a prospective basis.

As a result, no effect was recorded in the statements of the Bank from the results of the Israel Corporation for the first quarter of 2014, which will be included in the second quarter of 2014. Thereafter, the reporting gap will be permanent.

Below is the effect of the reporting gap on the Bank's results for the first quarter of 2014 and prior periods, which have been reported in the past, had the Bank, at the initial implementation of the said accounting treatment, had included the effect of the results of the Israel Corporation as if there were a reporting gap already in previous periods:

Below are figures of the pro-forma net profit of the Group:

	31 March 2014	31 March 2013	31 December 2013
	(NIS millions)		
Net income as reported	625	570	1,947
Amendment in respect of the losses of a company included on equity basis with a gap of one quarter	(180)	(146)	(32)
Net profit – pro-forma	445 (1)	424 (2)	1,915 (3)

- (1) Results of the Israel Corporation included for the three month period ended 31 December 2013.
(2) Results of the Israel Corporation included for the three month period ended 31 December 2012.
(3) Results of the Israel Corporation included for the twelve month period ended 30 September 2013.

(C) First-time Implementation of Accounting Standards, Updates to Accounting Standards, and Directives of the Banking Supervision Department

For reporting periods commencing 1 January 2014, the Bank implements the accounting standards and directives set out below:

1. Format of the statement of profit and loss for a banking corporation and adoption of generally accepted accounting principles in U.S. banks on the measurement of interest income

As of 1 January, 2014, the Bank applies the instructions set forth in the circular of the Banking Supervision Department regarding adoption of generally accepted accounting principles in U.S. banks on the measurement of interest income (ASC 310-20), which establishes rules for the treatment of commissions from loan origination, commitments to extend credit, changes in the terms of a debt, and early repayment commission.

The main changes relate to the deferment of commission in respect of granting credit and credit allocation commissions, not spreading early repayment commissions and the treatment of changes in debt terms. Following implementation of the directive, certain income was reclassified to interest income and certain income which was previously classified as interest income was reclassified and is shown under commissions.

Credit origination commissions

Commissions charged for originating credit, excluding loans for a period up to three months, are not recognized immediately as income in the statement of profit and loss, but are deferred and recognized over the life of the loan as an adjustment of the return. Income from the said commissions will be charged under the effective interest rate method and reported as part of interest income.

Credit allocation commissions

Credit allocation commissions are accounted for in accordance with the likelihood of the realization of the obligation to provide credit. If this is remote, the commission is recognized on a straight line basis over the term of the commitment, or the Bank defers recognition of income from such commissions until the date of exercise of the commitment or the date of expiry, whichever the earlier. If the commitment fee is recognized then the commissions are recognized by way of adjusting the yield over the life of the loan as stated above. If the commitment expires unexercised, the commissions are recognized on the date of expiration and reported as part of income from commissions. For this purpose the Bank assumes that the probability of realizing the commitment is not remote.

Change in the terms of a debt

In cases of refinancing or restructuring of debts that are not problematic, the Bank considers whether the loan terms were changed significantly, if the present value of cash flows under the new terms of the loan were changed by at least 10% of the present value of the remaining cash flows under the existing conditions, or if there was a change in the currency of the loan. In such cases all commissions not yet amortized and early repayment commissions collected from the customer due to change in credit terms are recognized in profit or loss, or the above commissions are included as part of the net investment in the new loan and recognized as adjustments to the return as stated above.

Early Repayment Commissions

Early repayment commissions charged for early repayment, performed before 1 January 2014 and not yet amortized, are recognized over a period of three years or the remaining term of the loan, whichever is shorter. Commissions that were charged for early repayment performed after 1 January, 2014, are immediately recognized as part of interest income.

Effect of initial implementation

Implementation of the Directive is in a prospective manner.

Below is a disclosure of the effect of implementation of this directive on the net interest income, non-interest income, and the net profit of the bank in the three month period ended 31 March 2014:

For the three months ended 31 March 2014 (Unaudited)			
	Pursuant to the directive on measurement of interest income	Effect of implementation of the directive on measurement of interest income	Pursuant to previous reporting directives
	NIS millions		
Interest income	1,757	51	1,706
Commissions	1,040	(59)	1,099
Net profit	625	(5)	630

2. Amounts reclassified outside other comprehensive income.

On 30 September 2013, a circular was published concerning reporting amounts reclassified out of accumulated other comprehensive income. The circular includes disclosure requirements as follows:

- A new disclosure requirement in the note on accumulated other comprehensive income about the amounts reclassified out of accumulated other comprehensive income.
- A new disclosure requirement in the note on non-interest financing income about items in which were included the amounts reclassified from accumulated other comprehensive income.

The Bank implemented the directive from 1 January 2014 by way of retroactive implementation.

Implementation of the circular had no impact on the financial statements except on the presentation of the note on accumulated other comprehensive income (loss).

(D) New accounting standards and directives of the Supervisor of Banks in the period prior to their implementation

1. Adoption of US GAAP regarding employee rights

On 9 April 2014, the Banking Supervision Department published a circular on the adoption of US GAAP regarding employee rights. The circular updates the requirements for recognition, measurement and disclosure, but does not include all the updates required to the directives pursuant to adoption of these rules.

The circular stipulates that the amendments to the Public Reporting Directives will apply from 1 January 2015, and on initial implementation, a bank will amend retroactively the comparative figures for periods commencing 1 January 2013 and thereafter to comply with the requirements of the above rules.

Inter alia, it is determined in the circular that the discount rate for calculating the liability for employee rights will be based on market yields of government bonds in Israel. Accordingly, the temporary provision in existing directives fixing the discount rate for calculating the reserves to cover employee rights will be cancelled.

In addition, the Bank is required to disclose in the interim financial statements in 2014 at least an estimate of the quantitative impact on shareholders' equity of the calculation of liabilities for employee rights using discount rates based on market yields of government bonds in Israel at the reporting date.

In the Bank's estimation, if the standard had been applied to the Bank as at 31 March 2014, in the current interest rate environment, the expected impact on the shareholders' equity of the Bank as at 31 March 2014 in respect of the effect of the change in the discount rate is a decrease in the amount of about NIS 2.6 billion after the effect of tax (about NIS 4.2 billion before tax). Of course, this liability will be updated according to changes in the relevant market interest rates in the coming years.

It is to be clarified that the adoption of U.S. GAAP on employee rights may have additional impacts on the Bank's capital which we are presently studying. One of these possible impacts is the manner of accrual of the liability. From estimates and preliminary interpretations, the effect of the change in the manner of accrual of the liabilities may result in a further decrease in shareholders' equity of NIS 0.25 billion after the effect of tax (NIS 0.4 billion before tax). The Bank is examining additional interpretations of the manner of spreading the liabilities and / or additional effects that may alter these estimates.

Notwithstanding the significant effect to the detriment of the shareholder's equity in the Bank, for purposes of calculating capital requirements under Basel III directives in accordance with the transitional provisions established in Proper Conduct of Banking Business Directive No. 299, the accumulated balance of profit or loss in respect of re-measurements of net liabilities or net assets for a defined benefit to employees, will not be taken into account immediately but will be subject to transitional provisions, so that its effect will be spread equally over several years.

2. Collective Allowance for Credit Losses

On 18 July 2013, a draft circular to update the Public Reporting Directives on the "Collective Allowance for Credit Losses" was forwarded for discussion to the Advisory Committee. The draft extends the applicability of the temporary provision on the subject of calculating a collective allowance for credit losses and provides comments and guidance for the method of calculation of the rate the allowance, taking into account the adjustments required in respect of environmental factors. In addition, the draft requires significant expansion of the requirements for documentation

supporting the rates of allowance and the requirements for reporting to management and the Board of Directors.

The expected impact due to implementation of the guidelines in connection with calculating past loss rates will be dealt with by way of changing the estimate and will be recognized in profit or loss. The initial date of implementation has not yet been finalized. At this stage, the Bank is unable to estimate the effect of adopting the draft once it is implemented.

Note 2 - Securities

As at 31 March 2014 (Unaudited)					
	Balance sheet amount	Amortized cost (in shares - cost)	Accumulated other comprehensive profit (loss)		Fair value (1)
			Profits	Losses	
	(NIS millions)				
1. Securities available for sale:					
Debentures -					
Government of Israel	29,289	29,073	228	(12)	29,289
Foreign governments	4,070	4,065	7	(2)	4,070
Financial institutions in Israel	102	95	7	-	102
Financial institutions abroad	4,260	4,182	92	(14)	4,260
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	6,462	6,553	31	(122)	6,462
Others in Israel	711	664	48	(1)	711
Others abroad	2,165	2,148	32	(15)	2,165
	47,059	46,780	445	(166)	47,059
Shares and mutual funds (2)	3,036	3,034	61	(59)	3,036
Total securities available for sale	50,095	49,814	506 (3)	(225) (3)	50,095
As at 31 March 2014 (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 (1)
	(NIS millions)				
2. Securities held for trading:					
Debentures -					
Government of Israel	7,110	7,035	77	(2)	7,110
Foreign governments	547	543	4	-	547
Financial institutions in Israel	412	405	7	-	412
Financial institutions abroad	170	166	4	-	170
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	701	702	2	(3)	701
Others in Israel	345	333	12	-	345
Others abroad	535	535	7	(7)	535
	9,820	9,719	113	(12)	9,820
Shares and mutual funds	566	498	69	(1)	566
Total securities held for trading	10,386	10,217	182 (4)	(13) (4)	10,386
Total securities (5) (6)	60,481	60,031	688	(238)	60,481

See notes on page 142.

Note 2 - Securities (cont'd)

As at 31 March 2013 (Unaudited)					
	Balance sheet amount	Amortized cost (in shares - cost)	Accumulated other comprehensive profit (loss)		Fair value (1)
			Profits	Losses	
	(NIS millions)				
1. Securities available for sale:					
Debentures -					
Government of Israel	21,250	21,023	230	(3)	21,250
Foreign governments	5,756	5,753	7	(4)	5,756
Financial institutions in Israel	117	115	4	(2)	117
Financial institutions abroad	4,753	4,708	102	(57)	4,753
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	5,856	5,814	61	(19)	5,856
Others in Israel	1,049	1,018	32	(1)	1,049
Others abroad	1,579	1,540	40	(1)	1,579
	40,360	39,971	476	(87)	40,360
Shares and mutual funds (2)	2,420	2,162	272	(14)	2,420
Total securities available for sale	42,780	42,133	748 (3)	(101) (3)	42,780
As at 31 March 2013 (Unaudited)					
	Balance sheet amount	Amortized cost (in shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (1)
	(NIS millions)				
2. Securities held for trading:					
Debentures -					
Government of Israel	7,701	7,595	110	(4)	7,701
Foreign governments	516	505	11	-	516
Financial institutions in Israel	158	157	1	-	158
Financial institutions abroad	179	171	9	(1)	179
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	358	357	8	(7)	358
Others in Israel	662	648	14	-	662
Others abroad	615	568	47	-	615
	10,189	10,001	200	(12)	10,189
Shares and mutual funds	409	383	27	(1)	409
Total securities held for trading	10,598	10,384	227 (4)	(13)(4)	10,598
Total securities (5) (6)	53,378	52,517	975	(114)	53,378

See notes on page 142.

Note 2 - Securities (cont'd)

As at 31 December 2013 (Audited)					
	Balance sheet amount	Amortized cost (in shares - cost)	Accumulated other comprehensive profit (loss)		Fair value (1)
			Profits	Losses	
	(NIS millions)				
1. Securities available for sale:					
Debentures -					
Government of Israel	30,736	30,552	201	(17)	30,736
Foreign governments	3,843	3,840	6	(3)	3,843
Financial institutions in Israel	105	100	6	(1)	105
Financial institutions abroad	5,280	5,213	87	(20)	5,280
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	7,346	7,474	34	(162)	7,346
Others in Israel	721	683	39	(1)	721
Others abroad	2,002	1,992	28	(18)	2,002
	50,033	49,854	401	(222)	50,033
Shares and mutual funds (2)	2,828	2,744	156	(72)	2,828
Total securities available for sale	52,861	52,598	557 (3)	(294) (3)	52,861
As at 31 December 2013 (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 (1)
	(NIS millions)				
2. Securities held for trading:					
Debentures -					
Government of Israel	7,104	7,057	56	(9)	7,104
Foreign governments	1,028	1,036	-	(8)	1,028
Financial institutions in Israel	327	322	5	-	327
Financial institutions abroad	116	114	2	-	116
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	279	282	1	(4)	279
Others in Israel	409	400	9	-	409
Others abroad	520	529	3	(12)	520
	9,783	9,740	76	(33)	9,783
Shares and mutual funds	1,091	1,017	78	(4)	1,091
Total securities held for trading	10,874	10,757	154 (4)	(37) (4)	10,874
Total securities (5) (6)	63,735	63,355	711	(331)	63,735

See notes on next page.

Note 2 - Securities (Cont'd)**Notes:**

- (1) 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.
- (2) The balance sheet figure includes NIS 1,437 million with respect to shares which have no readily available fair value, which are shown at cost (31 December 2013 - NIS 1,363 million, 31 March 2013 - NIS 1,460 million).
- (3) 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.
- (4) Charged to the profit and loss statement, but not yet realized.
- (5) Of which a balance sheet value of NIS 27 million (31 December 2013 – NIS 27 million), in respect of bonds of companies included on equity basis.
- (6) Including impaired bonds of NIS 11 million (31 December 2013 – NIS 26 million, 31 March 2013 – NIS 56 million).

General notes:

Securities lent in the amount of NIS 471 million (31 December 2013 – NIS 571 million, 31 March 2013 – NIS 523 million) are shown under credit to the public.

Securities pledged to lenders amounted to NIS 1,528 million (31 December 2013 – NIS 1,458 million, 31 March 2013 – NIS 1,933 million).

For details of results of activity in investments in bonds and shares and in mutual funds – see Notes 9 and 10.

Note 2 - Securities (cont'd)**Additional information on mortgage-backed and asset-backed securities available for sale**

	As at 31 March 2014 (Unaudited)				
	Balance sheet amount	Amortized cost	Accumulated other comprehensive income (loss) (1)		Fair value
			Profits	Losses	
	(NIS millions)				
3. Debentures available for sale					
Pass-through securities					
Securities guaranteed by GNMA	169	170	-	(1)	169
Securities issued by FNMA and FHLMC	1,576	1,635	-	(59)	1,576
Total	1,745	1,805	-	(60)	1,745
Other mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	2,785	2,833	4	(52)	2,785
Other mortgage-backed securities	337	335	2	-	337
Total	3,122	3,168	6	(52)	3,122
Asset-backed securities (ABS)					
Credit card receivables	85	86	-	(1)	85
Lines of credit for any purpose secured by dwelling	2	2	-	-	2
Other credit to private persons	3	3	-	-	3
Credit not to private persons	1	1	-	-	1
CLO-type debentures	1,504	1,488	25	(9)	1,504
Others	-	-	-	-	-
Total	1,595	1,580	25	(10)	1,595
Total mortgage-backed and asset-backed debentures available for sale					
	6,462	6,553	31	(122)	6,462

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

Note 2 - Securities (cont'd)**Additional information on mortgage-backed and asset-backed securities held for trading (cont'd)**

	As at 31 March 2014 (Unaudited)				
	Balance	Amortized	Unrealized	Unrealized	Fair
	sheet amount	cost	profits from adjustments to fair value (1)	losses from adjustments to fair value (1)	value
	(NIS millions)				
4. Debentures held for trading					
Pass-through securities					
Other securities	427	429	-	(2)	427
Total	427	429	-	(2)	427
Other mortgage-backed (including CMO and					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	11	11	-	-	11
Other mortgage-backed securities	71	72	-	(1)	71
Total	82	83	-	(1)	82
Asset-backed securities (ABS)					
Credit card receivables	-	-	-	-	-
Credit for purchase of vehicle	56	55	1	-	56
Other credit to private persons	16	16	-	-	16
CDO-type debentures	-	-	-	-	-
Others	120	119	1	-	120
Total	192	190	2	-	192
Total mortgage-backed and asset-backed debentures held for trading	701	702	2	(3)	701

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

Note 2 - Securities (cont'd)**Additional information on mortgage-backed and asset-backed securities available for sale (cont'd)**

	As at 31 March 2013 (Unaudited)				
	Balance sheet amount	Amortized cost	Accumulated other comprehensive income (loss) (1)		Fair value
			Profits	Losses	
	(NIS millions)				
3. Debentures available for sale					
Pass-through securities					
Securities guaranteed by GNMA	204	203	1	-	204
Securities issued by FNMA and FHLMC	1,674	1,677	2	(5)	1,674
Total	1,878	1,880	3	(5)	1,878
Other mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	2,292	2,279	14	(1)	2,292
Other mortgage-backed securities	298	296	2	-	298
Total	2,590	2,575	16	(1)	2,590
Asset-backed securities (ABS)					
Credit card receivables	55	55	-	-	55
Lines of credit for any purpose secured by dwelling	2	2	-	-	2
Other credit to private persons	3	3	-	-	3
Credit not to private persons	4	4	-	-	4
CLO-type debentures	1,324	1,292	43	(11)	1,324
Others	-	3	(1)	(2)	-
Total	1,388	1,359	42	(13)	1,388
Total mortgage-backed and asset-backed debentures available for sale					
	5,856	5,814	61	(19)	5,856

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

Note 2 - Securities (cont'd)**Additional information on mortgage-backed and asset-backed securities held for trading (cont'd)**

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

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

Note 2 - Securities (cont'd)**Additional information on mortgage-backed and asset-backed securities available for sale (cont'd)**

	As at 31 December 2013 (Audited)				
	Balance sheet amount	Amortized cost	Accumulated other comprehensive income (loss) (1)		Fair value
			Profits	Losses	
	(NIS millions)				
3. Debentures available for sale					
Pass-through securities					
Securities guaranteed by GNMA	232	233	1	(2)	232
Securities issued by FNMA and FHLMC	1,581	1,662	-	(81)	1,581
Total	1,813	1,895	1	(83)	1,813
Other mortgage-backed (including CMO and					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	3,363	3,423	6	(66)	3,363
Other mortgage-backed securities	355	355	-	-	355
Total	3,718	3,778	6	(66)	3,718
Asset-backed securities (ABS)					
Credit card receivables	85	86	-	(1)	85
Lines of credit for any purpose secured by dwelling	2	2	-	-	2
Other credit to private persons	3	3	-	-	3
Credit not to private persons	1	1	-	-	1
CLO-type debentures	1,724	1,709	27	(12)	1,724
Others	-	-	-	-	-
Total	1,815	1,801	27	(13)	1,815
Total mortgage-backed and asset-backed debentures available for sale	7,346	7,474	34	(162)	7,346

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

Note 2 - Securities (cont'd)**Additional information on mortgage-backed and asset-backed securities held for trading (cont'd)**

	As at 31 December 2013 (Audited)				
	Balance sheet amount	Amortized cost	Unrealized profits from adjustments to fair value (1)	Unrealized losses from adjustments to fair value (1)	Fair value
	(NIS millions)				
4. 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	11	11	-	-	11
Other mortgage-backed securities	73	76	-	(3)	73
Total	84	87	-	(3)	84
Asset-backed securities (ABS)					
Credit card receivables	-	-	-	-	-
Lines of credit for any purpose secured by dwelling	-	-	-	-	-
Credit for purchase of vehicle	57	56	1	-	57
Other credit to private persons	16	16	-	-	16
Credit not to private persons	-	-	-	-	-
CDO-type debentures	-	-	-	-	-
Others	118	119	-	(1)	118
Total	191	191	1	(1)	191
Total mortgage-backed and asset-backed debentures held for trading	279	282	1	(4)	279

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

Note 2 - Securities (cont'd)

Additional information in respect of fair value and unrealized losses, by period and rate of impairment, of securities available for sale in an unrealized loss position

	31 March 2014 (Unaudited)									
	Less than 12 months					12 months and above				
	Unrealized losses					Unrealized losses				
	More than					More than				
	Fair value	0-20%	20%-35%	35%	Total	Fair value	0-20%	20%-35%	35%	Total
	(NIS millions)									
Bonds										
Government of Israel	1,388	9	-	-	9	96	3	-	-	3
Foreign governments	1,913	2	-	-	2	4	-	-	-	-
Financial institutions in Israel	-	-	-	-	-	-	-	-	-	-
Financial institutions abroad	515	3	-	-	3	142	11	-	-	11
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	-	-	-	-	-	-	-	-	-	-
Others in Israel	3,143	58	-	-	58	1,740	64	-	-	64
Others abroad	9	1	-	-	1	-	-	-	-	-
Shares	574	8	-	-	8	434	7	-	-	7
Total securities available for sale	577	32	-	-	32	287	27	-	-	27
	31 March 2013 (Unaudited)									
	Less than 12 months					12 months and above				
	Unrealized losses					Unrealized losses				
	More than					More than				
	Fair value	0-20%	20%-35%	35%	Total	Fair value	0-20%	20%-35%	35%	Total
	(NIS millions)									
Bonds										
Government of Israel	989	3	-	-	3	-	-	-	-	-
Foreign governments	1,220	3	-	-	3	6	1	-	-	1
Financial institutions in Israel	5	-	-	-	-	8	2	-	-	2
Financial institutions abroad	635	9	-	-	9	1,051	44	4	-	48
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	-	-	-	-	-	-	-	-	-	-
Others in Israel	2,409	8	-	-	8	277	11	-	-	11
Others abroad	4	-	-	-	-	69	1	-	-	1
Shares	152	1	-	-	1	43	-	-	-	-
Total securities available for sale	365	11	1	2	14	-	-	-	-	-
Total securities available for sale	5,779	35	1	2	38	1,454	59	4	-	63

Note 2 - Securities (cont'd)**Additional information in respect of fair value and unrealized losses, by period and rate of impairment, of securities available for sale in an unrealized loss position (cont'd)**

	31 December 2013 (Audited)									
	Less than 12 months					12 months and above				
	Unrealized losses					Unrealized losses				
	More than					More than				
	Fair value	0-20%	20%-35%	35%	Total	Fair value	0-20%	20%-35%	35%	Total
	(NIS millions)									
Bonds										
Government of Israel	408	16	-	-	16	28	-	-	-	-
Foreign governments	1,032	2	-	-	2	45	1	-	-	1
Financial institutions in Israel	-	-	-	-	-	9	1	-	-	1
Financial institutions abroad	1,394	6	-	-	6	539	10	4	-	14
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	-	-	-	-	-	-	-	-	-	-
	4,495	130	-	-	130	779	32	-	-	32
Others in Israel	9	1	-	-	1	66	-	-	-	-
Others abroad	601	13	-	-	13	351	5	-	-	5
Shares	966	72	-	1	73	-	-	-	-	-
Total securities available for sale	8,905	240	-	1	241	1,817	49	4	-	53

Note 2 - Securities (cont'd)**Additional information on mortgage-backed and asset-backed securities that are in an unrealized loss position**

	31 March 2014 (Unaudited)					
	Up to 12 months		Over 12 months		Total	
	Unrealized losses from adjustments to fair value		Unrealized losses from adjustments to fair value		Unrealized losses from adjustments to fair value	
	Fair value	Fair value	Fair value	Fair value	Fair value	Fair value
	(NIS millions)					
Mortgage-backed securities (MBS)	622	(18)	1,056	(42)	1,678	(60)
Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS)	1,943	(34)	478	(18)	2,421	(52)
Asset-backed securities (ABS)	578	(6)	206	(4)	784	(10)
Total	3,143	(58)	1,740	(64)	4,883	(122)

	31 March 2013 (Unaudited)					
	Up to 12 months		Over 12 months		Total	
	Unrealized losses from adjustments to fair value		Unrealized losses from adjustments to fair value		Unrealized losses from adjustments to fair value	
	Fair value	Fair value	Fair value	Fair value	Fair value	Fair value
	(NIS millions)					
Mortgage-backed securities (MBS)	1,410	(5)	-	-	1,410	(5)
Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS)	742	(1)	3	-	745	(1)
Asset-backed securities (ABS)	257	(2)	274	(11)	531	(13)
Total	2,409	(8)	277	(11)	2,686	(19)

	31 December 2013 (Audited)					
	Up to 12 months		Over 12 months		Total	
	Unrealized losses from adjustments to fair value		Unrealized losses from adjustments to fair value		Unrealized losses from adjustments to fair value	
	Fair value	Fair value	Fair value	Fair value	Fair value	Fair value
	(NIS millions)					
Mortgage-backed securities (MBS)	1,362	(66)	315	(17)	1,677	(83)
Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS)	2,435	(56)	289	(10)	2,724	(66)
Asset-backed securities (ABS)	698	(8)	175	(5)	873	(13)
Total	4,495	(130)	779	(32)	5,274	(162)

(-) Amounts less than NIS 1 million.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses**A. Debts¹ and off-balance sheet credit instruments****1. Change in balance of allowance for credit losses**

	For the three months ended 31 March 2014 (Unaudited)					
	Allowance for credit losses					
	Credit to the public				Banks and govern-ments	
	Commercial	Residential	Other private	Total		Total
	(NIS millions)					
Balance of allowance for credit losses at beginning of the reporting period	3,301	498	496	4,295	2	4,297
Expenses (income) in respect of credit losses	(19)	-	(35)	(54)	3	(51)
Accounting write-offs	19	(4)	(121)	(106)	-	(106)
Collection of debts written off in previous years	21	-	91	112	-	112
Net accounting write-offs	40	(4)	(30)	6	-	6
Adjustments from translation of financial statements	7	1	(5)	3	-	3
Balance of allowance for credit losses at end of the reporting period ²	3,329	495	426	4,250	5	4,255
² Of which: in respect of off-balance sheet credit instruments	378	-	34	412	-	412

	For the three months ended 31 March 2013 (Unaudited)					
	Allowance for credit losses					
	Credit to the public				Banks and govern-ments	
	Commercial	Residential	Other private	Total		Total
	(NIS millions)					
Balance of allowance for credit losses at beginning of reporting period	3,691	475	395	4,561	4	4,565
Expenses (income) in respect of credit losses	(9) (2)	51 (2)	29 (2)	71	2	73
Accounting write-offs	(72)	(10)	(124)	(206)	(1)	(207)
Collection of debts written off in previous years	17	-	80	97	-	97
Net accounting write-offs	(55)	(10)	(44)	(109)	(1)	(110)
Adjustments from translation of financial statements	(4)	(3)	-	(7)	(2)	(9)
Balance of allowance for credit losses at end of the reporting period ²	3,623	513	380	4,516	3	4,519
² Of which: in respect of off-balance sheet credit instruments	402	-	33	435	-	435

- (1) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
- (2) Reclassified.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**A. Debts¹ and off-balance sheet credit instruments (cont'd)****2. Additional information on the method of calculating the credit loss allowance in respect of debts (1) and on debts (1) on which it was calculated**

	31 March 2014 (Unaudited)					
	Allowance for credit losses					
	Credit to the public				Banks and govern-ments	
	Commercial	Residential	Other private	Total		Total
	(NIS millions)					
Recorded debt balance of debts¹:						
Examined on an individual basis	109,191	48	1,698	110,937	13,354	124,291
Examined on a collective basis ⁴	32,112	70,546	31,516	134,174	2,181	136,355
⁴ Of which: the allowance was calculated by extent of arrears (2)	-	69,396	-	69,396	-	69,396
Total debts ¹	141,303	70,594	33,214	245,111	15,535	260,646
Allowance for credit losses for debts¹:						
Examined on an individual basis	2,443	14	90	2,547	5	2,552
Examined on a collective basis ⁵	508	481	302	1,291	-	1,291
⁵ Of which the allowance was calculated by extent of arrears (2)	-	477	-	477	-	477
Total allowance for credit losses	2,951	495	392	3,838	5	3,843
	31 March 2013 (Unaudited)					
	Allowance for credit losses					
	Credit to the public				Banks and govern-ments	
	Commercial	Residential (b)	Other private	Total		Total
	(NIS millions)					
Recorded debt balance of debts¹:						
Examined on an individual basis	116,642	748	1,808	119,198	12,754	131,952
Examined on a collective basis ²	30,924 (3)	63,755 (3)	28,818 (3)	123,497	2,470	125,967
² Of which: the allowance was calculated by extent of arrears	-	557	-	557	-	557
Total debts ¹	147,566	64,503	30,626	242,695	15,224	257,919
Allowance for credit losses for debts¹:						
Examined on an individual basis	2,848	18	56	2,922	3	2,925
Examined on a collective basis ³	373	495	291	1,159	-	1,159
³ Of which the allowance was calculated by extent of arrears (2)	-	489	-	489	-	489
Total allowance for credit losses	3,221	513	347	4,081	3	4,084

(1) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(2) 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 279 million (31 March 2013 – NIS 263 million).

(3) Reclassified.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**A. Debts (1) and off-balance sheet credit instruments (cont'd)****2. Additional information on the method of calculating the credit loss allowance in respect of debts (1) and on debts (1) on which it was calculated (cont'd)**

	31 December 2013 (Audited)					
	Allowance for credit losses					
	Credit to the public				Banks and govern- ments	Total
	Commercial	Residential (a)	Other private	Total		
	(NIS millions)					
Recorded debt balance of debts¹:						
Examined on an individual basis	109,908	49	1,709	111,666	12,809	124,475
Examined on a collective basis ⁴	32,564	69,741	30,786	133,091	2,453	135,544
⁴ Of which: the allowance was calculated by extent of arrears	-	68,581	-	68,581	-	68,581
Total debts ¹	142,472	69,790	32,495	244,757	15,262	260,019
Allowance for credit losses for debts¹:						
Examined on an individual basis	2,660	15	87	2,762	2	2,764
Examined on a collective basis ⁵	268	483	370	1,121	-	1,121
⁵ Of which the allowance was calculated by extent of arrears (2)	-	480	-	480	-	480
Total allowance for credit losses	2,928	498	457	3,883	2	3,885

- (1) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
- (2) 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 271 million.

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

B. Debts¹

1. Credit quality and arrears

	31 March 2014 (Unaudited)					
	Problem debts (2)			Unimpaired debts - additional information		
	Non-problem debts	Not impaired	Impaired (3)	Total	In arrears of 90 days or more (4)	In arrears of 30 to 89 days (5)
	(NIS millions)					
<u>Activity of borrowers in Israel</u>						
<u>Public - commercial</u>						
Construction & real estate - construction	14,308	634	427	15,369	6	18
Construction & real estate - real estate activities	20,764	116	1,462	22,342	5	19
Financial services	10,740	6	187	10,933	38	82
Commercial - other	62,323	2,408	1,674	66,405	30	96
Total commercial	108,135	3,164	3,750	115,049	79	215
Private individuals - housing loans (6)	68,620	789	-	69,409	776	568
Private individuals - other	31,824	293	106	32,223	100	193
Total public - activity in Israel	208,579	4,246	3,856	216,681	955	976
Israeli banks	1,927	-	-	1,927	-	-
Government of Israel	294	-	-	294	-	-
Total activity in Israel	210,800	4,246	3,856	218,902	955	976
<u>Activity of borrowers abroad</u>						
<u>Public - commercial</u>						
Construction & real estate	6,726	159	710	7,595	34	206
Commercial - other	17,655	142	862	18,659	118	172
Total commercial	24,381	301	1,572	26,254	152	378
Private individuals	2,066	20	90	2,176	45	25
Total public - activity abroad	26,447	321	1,662	28,430	197	403
Foreign banks	13,121	-	-	13,121	-	-
Foreign governments	193	-	-	193	-	-
Total activity abroad	39,761	321	1,662	41,744	197	403
Total public	235,026	4,567	5,518	245,111	1,152	1,379
Total banks	15,048	-	-	15,048	-	-
Total governments	487	-	-	487	-	-
Total	250,561	4,567	5,518	260,646	1,152	1,379

See notes on page 158.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**B. Debts¹ (cont'd)****1. Credit quality and arrears (cont'd)**

	31 March 2013 (Unaudited)					
	Problem debts (2)				Unimpaired debts -	
	Non-problem	Not			In arrears of 90	In arrears of 30
	debts (7)	impaired (7)	Impaired (3)	Total	days or more (4)	to 89 days (5)
	(NIS millions)					
<u>Activity of borrowers in Israel</u>						
<u>Public - commercial</u>						
Construction & real estate - construction	13,825	113	497	14,435	5	17
Construction & real estate - real estate activities	23,054	254	1,649	24,957	1	28
Financial services	11,611	369	604	12,584	1	8
Commercial - other	62,015	2,373	2,139	66,527	26	87
Total commercial	110,505	3,109	4,889	118,503	33	140
Private individuals - housing loans (6)	62,510	790	- (7)	63,300	789	627
Private individuals - other	29,099	289	53 (7)	29,441	175	296
Total public - activity in Israel	202,114	4,188	4,942	211,244	997	1,063
Israeli banks	1,336	-	-	1,336	-	-
Government of Israel	261	-	-	261	-	-
Total activity in Israel	203,711	4,188	4,942	212,841	997	1,063
<u>Activity of borrowers abroad</u>						
<u>Public - commercial</u>						
Construction & real estate	6,549	186	813	7,548	39	100
Commercial - other	20,537	186	792	21,515	66	142
Total commercial	27,086	372	1,605	29,063	105	242
Private individuals	2,257	3	128	2,388	119	58
Total public - activity abroad	29,343	375	1,733	31,451	224	300
Foreign banks	13,465	-	-	13,465	-	-
Foreign governments	162	-	-	162	-	-
Total activity abroad	42,970	375	1,733	45,078	224	300
Total public	231,457	4,563	6,675	242,695	1,221	1,363
Total banks	14,801	-	-	14,801	-	-
Total governments	423	-	-	423	-	-
Total	246,681	4,563	6,675	257,919	1,221	1,363

See notes on page 158.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**B. Debts¹ (cont'd)****1. Credit quality and arrears (cont'd)**

	31 December 2013 (Audited)					
		Problem debts (2)			Unimpaired debts - additional information	
	Non-problem debts	Not impaired	Impaired (3)	Total	In arrears of 90 days or more (4)	In arrears of 30 to 89 days (5)
	(NIS millions)					
<u>Activity of borrowers in Israel</u>						
<u>Public - commercial</u>						
Construction & real estate - construction	13,684	558	478	14,720	6	16
Construction & real estate - real estate activities	21,786	196	1,392	23,374	5	22
Financial services (7)	10,472	6	200	10,678	156	10
Commercial - other (7)	61,866	2,677	1,914	66,457	31	83
Total commercial	107,808	3,437	3,984	115,229	198	131
Private individuals - housing loans (6)	67,789	803	-	68,592	786	602
Private individuals - other	31,046	306	106	31,458	112	196
Total public - activity in Israel	206,643	4,546	4,090	215,279	1,096	929
Israeli banks	1,688	-	-	1,688	-	-
Government of Israel	338	-	-	338	-	-
Total activity in Israel	208,669	4,546	4,090	217,305	1,096	929
<u>Activity of borrowers abroad</u>						
<u>Public - commercial</u>						
Construction & real estate	6,783	166	718	7,667	34	122
Commercial - other	18,389	317	870	19,576	258	72
Total commercial	25,172	483	1,588	27,243	292	194
Private individuals	2,126	19	90	2,235	52	30
Total public - activity abroad	27,298	502	1,678	29,478	344	224
Foreign banks	13,016	-	-	13,016	-	-
Foreign governments	220	-	-	220	-	-
Total	40,534	502	1,678	42,714	344	224
Total public	233,941	5,048	5,768	244,757	1,440	1,153
Total banks	14,704	-	-	14,704	-	-
Total governments	558	-	-	558	-	-
Total	249,203	5,048	5,768	260,019	1,440	1,153

See notes on next page.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**B. Debts¹ (cont'd)****1. Credit quality and arrears (cont'd)**

- (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 918 million were classified as problem debts that are not impaired (31 March 2013 – NIS 795 million, 31 December 2013 – NIS 773 million).
- (6) Including balance of housing loans in the amount of NIS 198 million (31 March 2013 – NIS 207 million, 31 December 2013 – NIS 198 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.
- (7) Reclassified in respect of activity in Israel.

Credit quality – status of debts¹ in arrears

The status of debts in arrears is monitored routinely, and serves as one of the key indicators of credit quality. The status of debts in arrears is determined based on actual days of arrears. Debts are treated as nonperforming (not accruing interest income) after 90 days of arrears, as is any debt that has undergone troubled debt restructuring and has resumed accruing interest when it is one day of arrears relative to the new terms of the debt. With regard to debts evaluated on a collective basis, the status of arrears affects the classification of the debt (the classification is more severe for more extensive arrears) and after 150 days of arrears, the Bank performs a charge-off of the debt. With regard to housing loans, with the exception of loans without quarterly or monthly payments, the Bank establishes an allowance according to the method of the extent of arrears.

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

B. Debts¹ (cont'd)

2. Additional information on impaired debts

a. Impaired debts and individual allowance

	31 March 2014 (Unaudited)				
	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
(NIS millions)					
<u>Activity of borrowers in Israel</u>					
<u>Public - commercial</u>					
Construction & real estate - construction	275	32	152	427	1,559
Construction & real estate - real estate activities	722	179	740	1,462	2,549
Financial services	147	96	40	187	843
Commercial - other	805	351	869	1,674	5,069
Total commercial	1,949	658	1,801	3,750	10,020
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	71	46	35	106	1,825
Total public - activity in Israel	2,020	704	1,836	3,856	11,845
Israeli banks	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	2,020	704	1,836	3,856	11,845
<u>Activity of borrowers abroad</u>					
<u>Public - commercial</u>					
Construction & real estate	501	298	209	710	890
Commercial - other	660	398	202	862	1,049
Total commercial	1,161	696	411	1,572	1,939
Private individuals	63	48	27	90	105
Total public - activity abroad	1,224	744	438	1,662	2,044
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total activity abroad	1,224	744	438	1,662	2,044
Total public	3,244	1,448	2,274	5,518	13,889
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	3,244	1,448	2,274	5,518	13,889
<u>Of which:</u>					
Measured by present value of cash flows	2,227	1,114	1,136	3,363	
Debts under troubled debt restructuring	1,376	358	1,031	2,407	

See notes on page 161.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**B. Debts¹ (cont'd)****2. Additional information on impaired debts (cont'd)****a. Impaired debts and individual allowance (cont'd)**

	31 March 2013 (Unaudited)				
	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
(NIS millions)					
<u>Activity of borrowers in Israel</u>					
<u>Public - commercial</u>					
Construction & real estate - construction	81	20	416	497	1,531
Construction & real estate - real estate activities	758	257	891	1,649	2,944
Financial services	547	383	57	604	1,082
Commercial - other	1,219	501	920	2,139	5,492
Total commercial	2,605	1,161	2,284	4,889	11,049
Private individuals - housing loans (4)	-	-	-	-	-
Private individuals - other (4)	22	17	31	53	1,738
Total public - activity in Israel	2,627	1,178	2,315	4,942	12,787
Israeli banks	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	2,627	1,178	2,315	4,942	12,787
<u>Activity of borrowers abroad</u>					
<u>Public - commercial</u>					
Construction & real estate	465	220	348	813	1,120
Commercial - other	593	305	199	792	911
Total commercial	1,058	525	547	1,605	2,031
Private individuals	112	49	16	128	134
Total public - activity abroad	1,170	574	563	1,733	2,165
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total activity abroad	1,170	574	563	1,733	2,165
Total public	3,797	1,752	2,878	6,675	14,952
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	3,797	1,752	2,878	6,675	14,952
Of which:					
Measured by present value of cash flows	2,654	1,241	1,521	4,175	
Debts under troubled debt restructuring (4)	677	181	1,319	1,996	

See notes on next page.

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

B. Debts¹ (cont'd)

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

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

	31 December 2013 (Audited)				
	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
(NIS millions)					
<u>Activity of borrowers in Israel</u>					
<u>Public - commercial</u>					
Construction & real estate - construction	108	23	370	478	1,651
Construction & real estate - real estate activities	979	176	413	1,392	2,520
Financial services	157 (4)	143	43	200	1,160 (4)
Commercial - other	1,006 (4)	356	908	1,914	4,999 (4)
Total commercial	2,250	698	1,734	3,984	10,330
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	67	44	39	106	1,793
Total public - activity in Israel	2,317	742	1,773	4,090	12,123
Israeli banks	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	2,317	742	1,773	4,090	12,123
<u>Activity of borrowers abroad</u>					
<u>Public - commercial</u>					
Construction & real estate	503	302	215	718	900
Commercial - other	695	384	175	870	1,058
Total commercial	1,198	686	390	1,588	1,958
Private individuals	62	49	28	90	105
Total public - activity abroad	1,260	735	418	1,678	2,063
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total public - activity abroad	1,260	735	418	1,678	2,063
Total public	3,577	1,477	2,191	5,768	14,186
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	3,577	1,477	2,191	5,768	14,186
Of which:					
Measured by present value of cash flows	2,203	1,147	1,115	3,318	
Debts under troubled debt restructuring	1,218	348	1,251	2,469	

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

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**B. Debts¹ (cont'd)****2. Additional information on impaired debts (cont'd)****b. Average balance and interest income**

	31 March 2014 (Unaudited)			31 March 2013 (Unaudited)		
	Average balance of impaired debts (2)	Interest income recorded (3)	Of which: recorded on cash basis	Average balance of impaired debts	Interest income recorded	Of which: recorded on cash basis
	(NIS millions)			(NIS millions)		
<u>Activity of borrowers in Israel</u>						
<u>Public - commercial</u>						
Construction & real estate - construction	453	2	2	616	1	1
Construction & real estate - real estate activities	1,427	2	2	1,701	-	-
Financial services	266	-	-	744	-	-
Commercial - other	1,722	4	3	2,202	4	3
Total commercial	3,868	8	7	5,263	5	4
Private individuals - housing loans	-	-	-	26	-	-
Private individuals - other	106	1	1	34	1	1
Total public - activity in Israel	3,974	9	8	5,323	6	5
Israeli banks	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	3,974	9	8	5,323	6	5
<u>Activity of borrowers abroad</u>						
<u>Public - commercial</u>						
Construction & real estate	729	2	2	795	2	2
Commercial - other	862	3	3	745	3	3
Total commercial	1,591	5	5	1,540	5	5
Private individuals	90	-	-	93	-	-
Total public - activity abroad	1,681	5	5	1,633	5	5
Foreign banks	-	-	-	3	-	-
Foreign governments	-	-	-	-	-	-
Total activity abroad	1,681	5	5	1,636	5	5
Total	5,655	14 (4)	13	6,959	11 (4)	10

(1) Credit to the public, credit to governments, deposits in banks 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 128 million (31 March 2013 - NIS 150 million).

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**B. Debts¹ (cont'd)****2. Additional information on impaired debts (cont'd)****c. Problem debts under restructuring**

31 March 2014 (Unaudited)					
	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)
(NIS millions)					
<u>Activity of borrowers in Israel</u>					
<u>Public - commercial</u>					
Construction & real estate - construction	263	-	-	-	263
Construction & real estate - real estate activities	566	-	-	2	568
Financial services	45	-	-	-	45
Commercial - other	449	-	-	32	481
Total commercial	1,323	-	-	34	1,357
Private individuals - housing loans (4)	-	-	-	-	-
Private individuals - other	55	-	-	1	56
Total public - activity in Israel	1,378	-	-	35	1,413
Israeli banks	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	1,378	-	-	35	1,413
<u>Activity of borrowers abroad</u>					
<u>Public - commercial</u>					
Construction & real estate	224	-	-	307	531
Commercial - other	218	-	-	205	423
Total commercial	442	-	-	512	954
Private individuals	30	-	-	10	40
Total public - activity abroad	472	-	-	522	994
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total activity abroad	472	-	-	522	994
Total public	1,850	-	-	557	2,407
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	1,850	-	-	557	2,407

See notes on page 165.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**B. Debts¹ (cont'd)****2. Additional information on impaired debts (cont'd)****c. Problem debts under restructuring (cont'd)**

	31 March 2013 (Unaudited)				
		Accruing (2)	Accruing (2)		
	Not accruing	in arrears of 90	in arrears of 30	Accruing (2)	
	interest income	days or more	to 89 days	not in arrears	Total (3)
	(NIS millions)				
<u>Activity of borrowers in Israel</u>					
<u>Public - commercial</u>					
Construction & real estate - construction	79	-	-	10	89
Construction & real estate - real estate activities	654	-	-	-	654
Financial services	51	-	-	-	51
Commercial - other	284	-	-	37	321
Total commercial	1,068	-	-	47	1,115
Private individuals - housing loans (4)	-	-	-	-	-
Private individuals - other	21	-	-	2	23
Total public - activity in Israel	1,089	-	-	49	1,138
Israeli banks	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	1,089	-	-	49	1,138
<u>Activity of borrowers abroad</u>					
<u>Public - commercial</u>					
Construction & real estate	129	-	-	413	542
Commercial - other	109	-	-	181	290
Total commercial	238	-	-	594	832
Private individuals	13	-	-	13	26
Total public - activity abroad	251	-	-	607	858
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total activity abroad	251	-	-	607	858
Total public	1,340	-	-	656	1,996
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	1,340	-	-	656	1,996

See notes on next page.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**B. Debts¹ (cont'd)****2. Additional information on impaired debts (cont'd)****c. Problem debts under restructuring (cont'd)**

31 December 2013 (Audited)					
	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)
(NIS millions)					
<u>Activity of borrowers in Israel</u>					
<u>Public - commercial</u>					
Construction & real estate - construction	301	-	-	-	301
Construction & real estate - real estate activities	607	-	-	-	607
Financial services	48	-	-	-	48
Commercial - other	457	-	-	36	493
Total commercial	1,413	-	-	36	1,449
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	49	-	-	1	50
Total public - activity in Israel	1,462	-	-	37	1,499
Israeli banks	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	1,462	-	-	37	1,499
<u>Activity of borrowers abroad</u>					
<u>Public - commercial</u>					
Construction & real estate	222	-	-	304	526
Commercial - other	201	-	-	203	404
Total commercial	423	-	-	507	930
Private individuals	30	-	-	10	40
Total public - activity abroad	453	-	-	517	970
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total activity abroad	453	-	-	517	970
Total public	1,915	-	-	554	2,469
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	1,915	-	-	554	2,469

(1) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(2) Accumulating interest income.

(3) Included in impaired debts.

(4) Reclassified.

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

B. Debts¹ (cont'd)

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

c. Problem debts under restructuring (cont'd)

1. Restructurings carried out

	31 March 2014 (Unaudited)			31 March 2013 (Unaudited)		
	Number of contracts	Recorded debt balance before restructuring (NIS millions)	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring (NIS millions)	Recorded debt balance after restructuring
Restructurings carried out						
<u>Activity of borrowers in Israel</u>						
<u>Public - commercial</u>						
Construction & real estate - construction	4	-	-	4	1	1
Construction & real estate - real estate activities	2	4	4	4	61	61
Financial services	-	-	-	-	-	-
Commercial - other	36	31	26	17	1	1
Total commercial	42	35	30	25	63	63
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	130	2	2	223	2	2
Total public - activity in Israel	172	37	32	248	65	65
Israeli banks	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	172	37	32	248	65	65
<u>Activity of borrowers abroad</u>						
<u>Public - commercial</u>						
Construction & real estate	4	97	97	4	27	27
Commercial - other	18	123	123	11	56	55
Total commercial	22	220	220	15	83	82
Private individuals	9	2	2	32	4	4
Total public - activity abroad	31	222	222	47	87	86
Foreign banks	-	-	-	-	-	-
Foreign governments	-	-	-	-	-	-
Total activity abroad	31	222	222	47	87	86
Total public	203	259	254	295	152	151
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total	203	259	254	295	152	151

(1) Credit to the public, credit to governments, deposits in banks 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. Debts¹ (cont'd)****2. Additional information on impaired debts (cont'd)****c. Problem debts under restructuring (cont'd)****2. Failed restructurings carried out**

	31 March 2014 (Unaudited)		31 March 2013 (Unaudited)	
	Number of contracts	Recorded debt balance (3)	Number of contracts	Recorded debt balance (3)
	(NIS millions)		(NIS millions)	
<u>Activity of borrowers in Israel</u>				
<u>Public - commercial</u>				
Construction & real estate - construction	7	3	25	2
Construction & real estate - real estate activities	2	14	2	2
Financial services	-	-	1	-
Commercial - other	38	10	50	10
Total commercial	47	27	78	14
Private individuals - housing loans	-	-	-	-
Private individuals - other	70	1	349	2
Total public - activity in Israel	117	28	427	16
Israeli banks	-	-	-	-
Government of Israel	-	-	-	-
Total activity in Israel	117	28	427	16
<u>Activity of borrowers abroad</u>				
<u>Public - commercial</u>				
Construction & real estate	1	12	2	2
Commercial - other	5	7	7	10
Total commercial	6	19	9	12
Private individuals	6	1	5	1
Total public - activity abroad	12	20	14	13
Foreign banks	-	-	-	-
Foreign governments	-	-	-	-
Total activity abroad	12	20	14	13
Total public	129	48	441	29
Total banks	-	-	-	-
Total governments	-	-	-	-
Total	129	48	441	29

- (1) Credit to the public, credit to governments, deposits in banks 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.
- (3) Recorded balance of debt at the end of the quarter in which the failure was carried out.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**B. Debts (1) (cont'd)****3. Additional information on housing loans**Balances at the end of the period by loan to value ratio (LTV)¹, type of repayment and type of interest

		31 March 2014 (Unaudited)			
		Total (2)	Of which: bullet and balloon (2)	Of which: variable interest (2)	Off-balance sheet credit risk total
Balance of housing loans		(NIS millions)			
First charge: rate of financing	Up to 60%	41,463	3,335	31,555	791
	Above 60%	27,135	1,222	21,361	310
Second charge or without charge		732	39	589	1,165
Total		69,330	4,596	53,505	2,266
		31 March 2013 (Unaudited)			
		Total (2)	Of which: bullet and balloon (2)	Of which: variable interest (2)	Off-balance sheet credit risk total
Balance of housing loans		(NIS millions)			
First charge: rate of financing	Up to 60%	33,455	2,924	26,122	3,948
	Above 60%	30,462	1,830	24,056	2,701
Second charge or without charge		674	44	540	26
Total		64,591	4,798	50,718	6,675
		31 December 2013 (Audited)			
		Total (2)	Of which: bullet and balloon (2)	Of which: variable interest (2)	Off-balance sheet credit risk total
Balance of housing loans		(NIS millions)			
First charge: rate of financing	Up to 60%	37,175	3,038	28,542	762
	Above 60%	30,578	1,587	24,177	372
Second charge or without charge		740	43	600	1,061
Total		68,493	4,668	53,319	2,195

- (1) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
- (2) The ratio between the approved facility when the facility was granted and the value of the property, as approved by the Bank when the facility was granted. The LTV ratio is another indication of the Bank as to the assessment of customer risk when the facility was granted. On a quarterly basis, the minimum collective allowance of 0.35% is examined as required in Bank of Israel directives against the ratio of 0.75% required on credit with an LTV higher than 60%. It should be noted that the collective allowance is higher than the allowance required according to the LTV.

Note 3A – Deposits of the Public**A. Types of deposits by location raised and type of depositor**

	31 March 2014	31 March 2013 (1)	31 December 2013
	(Unaudited)	(Unaudited)	(Audited)
	(NIS millions)		
In Israel			
On demand			
Non-interest bearing	791	712	800
Interest bearing	78,537	60,463	78,022
Total on demand	79,328	61,175	78,822
Fixed term	173,610	186,515	177,970
Total deposits in Israel ²	252,938	247,690	256,792
Outside Israel			
On demand			
Non-interest bearing	12,907	13,620	12,887
Interest bearing	2,937	2,806	2,587
Total on demand	15,844	16,426	15,474
Fixed term	13,950	14,704	13,737
Total deposits outside Israel	29,794	31,130	29,211
Total deposits of the public	282,732	278,820	286,003
² Of which:			
Deposits of private persons	123,328	133,556	125,774
Deposits of institutional entities	28,135	23,306	29,554
Deposits of corporations and others	101,475	90,828	101,464

B. Deposits of the public by size

	31 March 2014	31 March 2013 (1)	31 December 2013
	(Unaudited)	(Unaudited)	(Audited)
	(NIS millions)		
Up to 1	84,095	85,358	88,210
From 1 to 10	77,740	83,079	79,246
From 10 to 100	46,507	45,866	53,138
From 100 to 500	30,870	25,997	33,405
Above 500	43,520	38,520	32,004
Total	282,732	278,820	286,003

- (1) Commencing 31 December 2013, the Bank implements the circular of the Banking Supervision Department on disclosure of deposits, except for disclosure requirements on deposits of institutional bodies raised in Israel which the Bank has implemented since 1 January 2013.

Note 4 – Capital and Capital Adequacy

	31 March 2014	1 January 2014	31 March 2013	31 December 2013
	(Basel III) (1)		(Basel II) (2) (8)	
	(Unaudited)	(Audited)	(Unaudited)	(Audited)
	(NIS millions)			
A. Data				
Capital for purposes of calculating capital ratio				
Tier 1 capital, after deductions	27,024	26,420	24,840	26,263
Tier 2 capital, after deductions	14,313	14,337	16,833	15,007
Total capital	41,337	40,757	41,673	41,270
Weighted balances of risk assets				
Credit risk	256,697	256,009 (5)	249,766 (6)	247,548
Market risk	10,120	10,613 (5)	10,152	10,510
Operational risk (3)	20,398	20,426	20,895	20,426
Total weighted balances of risk assets	287,215	287,048	280,813	278,484
Ratio of capital to risk components (%)				
Ratio of Tier 1 capital to risk components	9.41%	9.20%	8.85%	9.43%
Ratio of total capital to risk components	14.39%	14.20%	14.84%	14.82%
Minimum Tier 1 capital ratio required by the Supervisor of Banks	9.00% (7)	9.00% (7)	-	-
Minimum total capital ratio required by the Supervisor of Banks	12.50% (7)	12.50% (7)	9.00%	9.00%
B. Principal subsidiary companies				
Arab Israel Bank				
Ratio of Tier 1 capital to risk components	11.57%	11.58%	11.30%	11.85%
Ratio of total capital to risk components	12.97%	12.97%	15.14%	12.50%
Minimum Tier 1 capital ratio required by the Supervisor of Banks	9.00%	9.00%	-	-
Minimum total capital ratio required by the Supervisor of Banks	12.50%	12.50%	9.00%	9.00%
Leumi Card Ltd.				
Ratio of Tier 1 capital to risk components	16.10%	16.40%	15.70%	16.00%
Ratio of total capital to risk components	17.10%	17.30%	15.70%	16.00%
Minimum Tier 1 capital ratio required by the Supervisor of Banks	9.00%	9.00%	-	-
Minimum total capital ratio required by the Supervisor of Banks	12.50%	12.50%	9.00%	9.00%
Bank Leumi USA (4)				
Ratio of Tier 1 capital to risk components	11.92%	11.70%	11.67%	11.70%
Ratio of total capital to risk components	14.80%	14.54%	14.53%	14.54%
Minimum total capital ratio required by the local authorities	10.00%	10.00%	10.00%	10.00%

- (1) Calculated pursuant to Proper Conduct of Banking Business Directives Nos. 201-211, 299 on "Capital Measurement and Adequacy" applicable from 1.1.2014.
- (2) Calculated pursuant to Proper Conduct of Banking Business Directives Nos. 201-211 on "Capital Measurement and Adequacy" applicable until 31.12.2013.
- (3) First Pillar capital allocation in respect of operational risk is in accordance with the Standardized Approach.
- (4) The U.S. office is not obliged to calculate the capital adequacy ratio according to Basel III, and so the ratios reported are according to Basel I.
- (5) Reclassified.
- (6) Reclassified.
- (7) As of 1 January 2015.
- (8) Reference is to be made to Tier 1 shareholders' equity in Basel II data as Tier 1 capital.

Note 4 – Capital and Capital Adequacy (cont'd)

	31 March 2014	1 January 2014	31 March 2013	31 December 2013
	(Basel III) (1)		(Basel II) (2) (3)	
	(Unaudited)	(Audited)	(Unaudited)	(Audited)
	(NIS millions)			
3. Capital components for purposes of calculating the capital ratio				
1. Tier 1 shareholders' equity				
Equity attributed to shareholders of the Bank	27,002	26,425	24,943	26,244
Differences between equity attributed to shareholders of the bank and Tier 1 shareholders' equity	304	299	308	340
Tier 1 shareholders' equity before regulatory adjustments and deductions	27,306	26,724	25,251	26,584
Regulatory adjustments and deductions:				
Goodwill and intangible assets	(229)	(234)	(340)	(256)
Deferred tax assets	(48)	(66)	-	-
Equity investments in financial corporations that are not consolidated in reports to the public	-	-	-	-
Regulatory adjustments and deductions - Tier 1 shareholders' equity	(5)	(4)	(71)	(65)
Total regulatory adjustments and deductions - Tier 1 shareholders' equity	(282)	(304)	(411)	(321)
Total Tier 1 shareholders' equity, after regulatory adjustments and deductions	27,024	26,420	24,840	26,263
2. Tier 2 capital				
Tier 2 capital: instruments before deductions	11,639	11,639	16,247	14,544
Tier 2 capital: provisions before deductions	2,674	2,698	657	528
Total Tier 2 capital before deductions	14,313	14,337	16,904	15,072
Deductions:				
Total deductions - Tier 2 capital	-	-	(71)	(65)
Total Tier 2 capital	14,313	14,337	16,833	15,007

- (1) Calculated pursuant to Proper Conduct of Banking Business Directives Nos. 201-211, 299 on "Capital Measurement and Adequacy" applicable from 1.1.2014.
- (2) Calculated pursuant to Proper Conduct of Banking Business Directives Nos. 201-211 on "Capital Measurement and Adequacy" applicable until 31.12.2013.
- (3) Reference is to be made to Tier 1 shareholders' equity in Basel II data as Tier 1 capital.

	31 March 2014	1 January 2014
	(Basel III)	
	(Unaudited)	(Audited)
	(NIS millions)	
1. Ratio of capital to risk assets		
Ratio of shareholders' equity to risk components before application of the effect of the transition in Directive 299	9.28%	9.05%
Effect of the transitional directive	0.13%	0.15%
Ratio of shareholders' equity to risk components before application of the effect of the transition in Directive 299	9.41%	9.20%

Note 4 – Capital and Capital Adequacy (cont'd)

In May 2013, the Supervisor of Banks amended Proper Conduct of Banking Business Directives No. 201-211 on *Measurement and Capital Adequacy*, so as to adapt them to the Basel III directives.

It should be emphasized that the Basel III directives set forth significant changes in the calculation of regulatory capital requirements, *inter alia*, relating to:

- Regulatory capital components
- Deductions from capital and regulatory adjustments
- Treatment of exposures to financial corporations
- Treatment of exposures to credit risk in respect of impaired debts
- Allocation of capital in respect of CVA risk.

The amendments to the above directives came into effect on 1 January 2014, and implementation is gradual pursuant to the transitional provisions set forth in Proper Conduct of Banking Business Directive No. 299 on *Measurement and Capital Adequacy – Regulatory Capital – Transitional Provisions*.

In addition, on 29 August 2013, a circular of the Banking Supervision Department was published on *Basel Disclosure Requirements relating to the Composition of Capital*, which set forth updated disclosure requirements that banks will be required to include as part of the adoption of the Basel III directives.

Accordingly, in the context of the Note on Capital Adequacy in the quarterly financial statements in 2014, the disclosure is included of comparative figures for previous periods prepared in accordance with Basel II directives as adopted by the Supervisor of Banks, and the disclosure on audited comparative figures as at 1 January 2014 prepared in accordance with the Basel III directives.

**Note 5 – Consolidated Statement on Assets and Liabilities by Linkage Basis
at 31 March 2014 (Unaudited)**

	Israeli currency		Foreign currency (1)				
	Unlinked (NIS millions)	Linked to the CPI	In U.S. dollars	In euro	In other currencies	Non- monetary items (2)	Total
Assets							
Cash and deposits with banks	29,169	258	6,631	2,060	5,939	105	44,162
Securities	33,278	2,916	15,138	3,747	1,800	3,602	60,481
Securities borrowed or purchased under agreements to resell	1,370	-	-	-	-	-	1,370
Credit to the public, net (3)	148,471	53,046	26,675	6,199	6,718	164	241,273
Credit to governments	63	231	147	46	-	-	487
Investments in companies included on equity basis	-	-	-	-	-	1,630	1,630
Buildings and equipment	-	-	-	-	-	3,626	3,626
Assets in respect of derivative instruments	8,853	289	1,762	257	208	934	12,303
Other assets, intangible assets and goodwill	3,695	4	797	8	173	516	5,193
Total assets	224,899	56,744	51,150	12,317	14,838	10,577	370,525
Liabilities							
Deposits of the public	154,046	28,840	71,928	16,502	11,043	373	282,732
Deposits from banks	1,773	112	1,591	759	132	-	4,367
Deposits from governments	78	2	343	12	-	-	435
Securities lent or sold under agreements to repurchase	540	-	-	-	-	-	540
Debentures, bonds and subordinated notes	4,583	19,891	-	-	10	-	24,484
Liabilities in respect of derivative instruments	8,650	459	1,899	648	265	940	12,861
Other liabilities	9,892	5,939	1,032	29	256	615	17,763
Total liabilities	179,562	55,243	76,793	17,950	11,706	1,928	343,182
Difference (4)	45,337	1,501	(25,643)	(5,633)	3,132	8,649	27,343
Effect of hedging derivative instruments:							
Derivative instruments (excluding options)	697	-	-	-	(697)	-	-
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	(23,762)	(2,509)	24,972	4,220	(3,006)	85	-
Options in the money, net (in terms of underlying asset)	714	-	(560)	(144)	(18)	8	-
Options out of the money, net (in terms of underlying asset)	481	-	(1,540)	1,037	16	6	-
Total	23,467	(1,008)	(2,771)	(520)	(573)	8,748	27,343
Effect of non-hedging derivative instruments:							
Options in the money, net (discounted par value)	1,118	-	(879)	(243)	(9)	13	-
Options out of the money, net (discounted par value)	1,824	-	(3,940)	2,270	(210)	56	-

See notes on page 175.

Note 5 – Consolidated Statement on Assets and Liabilities by Linkage Basis (cont'd)
at 31 March 2013 (Unaudited)

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

See notes on page 175.

Note 5 – Consolidated Statement on Assets and Liabilities by Linkage Basis (cont'd)
as at 31 December 2013 (Audited)

	Israeli currency		Foreign currency (1)				
	Unlinked	Linked to the CPI	In U.S. dollars	In euro	In other currencies	Non- monetary items (2)	Total
	(NIS millions)						
Assets							
Cash and deposits with banks	29,847	272	6,667	2,475	4,964	126	44,351
Securities	34,323	3,410	16,506	3,745	1,832	3,919	63,735
Securities borrowed or purchased under agreements to resell	1,350	-	-	10	-	-	1,360
Credit to the public, net (3)	146,545	53,544	27,213	6,020	7,190	362	240,874
Credit to governments	65	273	176	44	-	-	558
Investments in companies included on equity basis	-	-	-	-	-	1,689	1,689
Buildings and equipment	-	-	-	-	-	3,638	3,638
Assets in respect of derivative instruments	8,678	309	2,076	347	202	1,442	13,054
Other assets, intangible assets and goodwill	3,684	4	922	7	126	358	5,101
Total assets	224,492	57,812	53,560	12,648	14,314	11,534	374,360
Liabilities							
Deposits of the public	154,825	28,779	74,139	16,883	10,756	621	286,003
Deposits from banks	1,717	117	1,840	523	113	-	4,310
Deposits from governments	24	3	360	10	-	-	397
Securities lent or sold under agreements to repurchase	624	-	-	-	-	-	624
Debentures, bonds and subordinated notes	4,554	20,877	-	-	10	-	25,441
Liabilities in respect of derivative instruments	8,362	514	2,054	835	269	1,453	13,487
Other liabilities	9,561	5,840	1,028	25	269	610	17,333
Total liabilities	179,667	56,130	79,421	18,276	11,417	2,684	347,595
Difference (4)	44,825	1,682	(25,861)	(5,628)	2,897	8,850	26,765
Effect of hedging derivative instruments:							
Derivative instruments (excluding options) (e)	694	-	-	-	(694)	-	-
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options) (e)	(25,740)	(2,441)	25,700	5,460	(2,629)	(350)	-
Options in the money, net (in terms of underlying asset)	1,125	-	(1,127)	(43)	36	9	-
Options out of the money, net (in terms of underlying asset)	876	-	(1,284)	462	(59)	5	-
Total	21,780	(759)	(2,572)	251	(449)	8,514	26,765
Effect of non-hedging derivative instruments:							
Options in the money, net (discounted par value)	1,226	-	(1,279)	25	16	12	-
Options out of the money, net (discounted par value)	4,252	-	(3,947)	65	(428)	58	-

(1) Including linked to foreign currency.

(2) Including derivative instruments whose basis refers to a non-monetary item.

(3) After deducting credit loss allowances attributed to the linkage basis in the amount of NIS 3,838 million (31 March 2013 – NIS 4,081 million, 31 December 2013 – NIS 3,883 million).

(4) Shareholders' equity including minority interests.

6 - Contingent Liabilities and Special Commitments

	31 March 2014		31 March 2013		31 December 2013	
	Balances of contracts (Unaudited)	Balance of allowance for credit losses (NIS millions)	Balances of contracts (Unaudited)	Balance of allowance for credit losses (NIS millions)	Balances of contracts (Audited)	Balance of allowance for credit losses (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	2,078	5	2,356	5	1,867	4
Credit guarantees	5,705	82	5,520	86	5,490	84
Guarantees to apartment purchasers	15,903	23	14,327	19	15,529	22
Other guarantees and liabilities	15,263	172	16,332	206	15,033	172
Unutilized credit facilities for credit cards	25,258	22	22,806	21	24,669	22
Current loan account facilities and other credit facilities on demand not utilized	13,984	23	13,878	27	14,158	24
Irrevocable commitments to provide credit which has been approved and not yet granted (1)	20,853	67	21,128	56	20,801	66
Commitments to issue guarantees	12,774	19	11,696	15	11,845	18
Unutilized facilities for activity in derivative instruments	5,168	-	6,765	-	6,406	-
Approval in principle to maintain interest rate	4,186	-	2,961	-	3,692	-
(1) 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 209 million (31 March 2013 - NIS 219 million, 31 December 2013 - NIS 208 million).						
The above commitments represent a relatively small part of the obligations of those securitizing entities.						
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	218		205		225	
Second year	193		187		195	
Third year	174		169		174	
Fourth year	161		154		162	
Fifth year	128		132		130	
After five years	788		812		815	
Total	1,662		1,659		1,701	
(2) Commitments to purchase securities	924		464		568	
(3) Commitments to invest in buildings, equipment and others	164		221		56	
(4) Commitments to underwriting of securities	-		-		-	
(5) Future deposits: Transactions with depositors for receipt of large deposits at future dates and at fixed rates of interest determined in advance as of the date of the agreement						
Details of future deposits and deposit dates as determined by the terms of the transactions:						
First year	12		17		17	
Second year	12		12		12	
Third year	-		12		3	
Total future deposits	24		41		32	

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 92 million.

- (1) Details of claims in amounts in excess of 0.5% of the equity of the Bank at 31 March 2014 (about NIS 135 million) are brought in the 2013 Financial Statement, pages 406-410:
- (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 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. 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. An additional petition for renewal of proceedings was heard in the Court and a further date for the hearing was set, in the framework of which the respondents will be required to update the Court as to progress in the above appeal proceedings.

- C. On 28 August 2013, a petition was filed with the Tel Aviv District Court to approve a class action against Bank Hapoalim, Bank Leumi, Bank Mizrahi-Tefahot, Israel Discount Bank, First International Bank, and the CEO's of these banks. The Supervisor of Banks, the Governor of the Bank of Israel, and the Antitrust Commissioner were joined as formal respondents. The subject of the petition is the unlawful charging of commissions regarding activities of conversion and delivery of foreign currency, without fair disclosure. According to the petitioners, the banks are concealing from the customers that, when selling / buying foreign currency, they are also charged in excess of exchange commission, as defined by them, a "price increase" or "price reduction" commission – i.e. exchange rate differences. They argue that the disclosure made by the banks at the time of the transaction refers only to exchange commission and not to exchange rate differences. They argue that since the bank is a Forex "intermediary" and not a "market maker", it should charge customers the price it was charged for the foreign currency, perhaps with a miniscule addition, and in any case it should disclose this to the customer. As claimed by the petitioners, the direct damage caused to customers is at least NIS 10.5 billion over the last seven years, subject to documents and information they will receive as part of the claim. Following submission of the petition for approval, the petitioners filed a motion for dismissal of the petition for approval against the CEO's, leaving only the banks. On 3 February 2014, the petitioners filed a petition to amend the petition for approval of a class action so that the amount claimed would be NIS 11.15 billion. The bank has not yet submitted its response to the petition for amendment.

- D. On 27 November, 2013, a petition for approval of a class action was filed in the Central District Court against the Bank, claiming that the Bank calculates incorrectly the theoretical value of options traded on the Tel Aviv Stock Exchange. According to the petitioners, the Bank uses the Black & Scholes mathematical model, which is the model relevant for determining the value of the option, but inserts an erroneous element. The erroneous element, according to the petitioners, is the expiry date of the option. They argue that the Bank adds an extra value date to this element, which affects the theoretical value of the option, and affects the judgment of customers regarding the feasibility of the transaction and its price. They further contend that other financial institutions do not make this mistake. According to the petitioners, they cannot accurately assess the damages, but estimate it to be tens of millions of shekels.

- E. On December 2, 2013, a petition for approval of a class action was filed in the Central District Court, against the Bank, on the subject of early repayment commission. According to the petitioners, the manner of calculating early repayment commission by the Bank, both for small loans and for large loans, is not compatible with Proper Conduct of Banking Business Directives. A financial opinion was attached to the petition, according to which the petitioner's personal damages is determined in the amount of about NIS 90 thousand. The petitioners claim that they are unable to assess the total amount of the claim at this stage.

- F. On 9 March 2014, a petition was filed in the Tel Aviv District Court to approve a class action against the Bank without specifying the amount claimed. According to the plaintiff, the Bank collects money from customers unlawfully in two cases. The first is when the Bank allows customers to exceed the credit limit and debits customer accounts with a fee in the amount of NIS 53 in respect of delivering a warning letter of the deviation from the credit limit. Second, "non-approved" deviations from the credit limit are merged into the excess debit balance in the account resulting in the charging of the the maximum rate of interest.

- G.** On 17 March 2014, the provisional liquidator of a company in liquidation (the "Company" and "the Special Manager") filed a petition in the Central District Court to issue instructions against the Bank, in which it requested that the Court declare that the Bank will bear the payment to the Company of an aggregate amount of NIS 1,200 million, of which an amount of NIS 635 million to cover all the company's debts to its creditors and an amount of NIS 565 million for repayment of the full value of the assets of the Company in the principal amount standing as at 25 March 2001 in the amount of NIS 165 million, plus interest from that date at the rate it was obliged to pay the Bank. According to the special manager, the Bank is to bear individual responsibility for the liabilities of the company, since allegedly the Bank is to be deemed an "office holder" in the company due to its control over the company, and because the Bank was such, the company's officers were obliged and did act according to its instructions; since the Bank is to be deemed as a "director de-facto" or a "shadow director" in the company; because of its responsibility in jointly committing and / or jointly misleading in fraudulent actions detailed in the petition; and because of the Lenders' Liability doctrine. It should be noted that as part of the motion, the liquidator retained the right to file additional proceedings against the Bank and / or other officers of the company and / or individuals on behalf of the Bank and lawyers advising the Bank.
- H.** On 18 March 2014, a petition was filed in the Central District Court for approval of a class action against the Bank for an asserted amount of about NIS 155 million. According to the plaintiff, as part of the deducting of tax at source carried out by the Bank in securities transactions executed through it, the Bank's computer systems calculate long capital gains and / or short capital losses unlawfully. The incorrect data are presented to customers in the Leumi Trade system and the simulator existing in the system. The "group" for purpose of the proceedings is defined as: 1. anyone who executed securities trading through Leumi Trade, and for whom, within the deduction of tax at source a long capital gain and / or a short capital loss was calculated. 2. anyone who was presented by the Bank and / or by the Leumi Trade system with incorrect representations about capital gains and / or capital losses reflected in securities owned by him. According to the plaintiff, the aggregate damage caused to members of the first group is about NIS 79 million, and the aggregate damage caused to the members of the second group is about NIS 76.5 million.
- I.** On 13 April 2014, a petition for approval of a class action was filed with the Tel Aviv District Court against the Bank in an amount of about NIS 184 million. The petitioner claims that when the customer's bank account goes over the approved credit limit, the Bank refuses to honor standing orders in the account, but charges commission which exceeds the amount of the standing order that was not honored.
- (3)** In addition, there are claims and petitions for the approval of class actions pending against the subsidiaries, as detailed below. In the opinion of the management of the Bank, based on the opinion of the management of each of the subsidiaries that are based on the opinion of legal counsel with regard to the chances of these legal proceedings, it is not possible, at this stage, to estimate their chances, and therefore no provision has been recorded in respect thereof:
- A.** On 18 April 2014, a petition for approval of a class action was filed with the Central District Court against Leumi Card, IsraCard, and C.A.L., in the amount of NIS 1.7 billion, relating to the charging of vendors with interchange commission in respect of transactions executed by means of debit cards and prepaid cards that are reloaded in advance. The petitioner claims that the interchange commission charged on these cards (as opposed to credit cards), did not receive approval from the Anti-Trust Court, and is a restrictive arrangement. In addition, the arrangement between the respondents under which proceeds of transactions are transferred to vendors with a delay of some 20 days is also a restrictive arrangement or a discriminating condition in a uniform contract.

(D) Israel Corporation Ltd. – a company included on equity basis

- (1) A company included on equity basis of the Israel Corporation Ltd. had a working capital deficit at 31 December 2013, losses for each of the three years that ended on that date, and other issues related to the business situation of the company and its cash flows. The management of the above company has plans to increase its positive cash flow and improve profitability whose realization is subject, *inter alia*, to changes in selling prices and prices of raw materials. The management of the above company believes, based on cash flow forecasts and the steps taken, that the company has sufficient sources of funds in the volume and timing required to meet its liabilities and to finance its future activity in the foreseeable future.

In addition, there are outstanding legal proceedings, claims have been filed, and there are other contingencies, against the above company.

The management of the above company, based on the opinions of their legal advisors, cannot estimate the amount of the exposure from the said legal proceedings, claims and contingencies, if any, and therefore, no provisions have been made in this regard in the financial statements of the Israel Corporation Ltd. and the above company.

- (2) Zim Integrated Shipping Services Ltd., a consolidated company of the Israel Corporation, has negative working capital and negative equity as at 31 December 2013, significant losses for the year that ended on that date and other issues that raises significant doubt regarding its continued existence as a "going concern". The financial statements of the above consolidated company do not include any adjustments that might be necessary if it cannot continue as a "going concern".

On 18 May 2014, the Israel Corporation published an Immediate Report (2014-01-066804) convening a general meeting to approve Israel Corporation's share in the Zim arrangement and to authorize Israel Corporation's management to act in connection with implementation of the arrangement according to the principles set forth in the transaction report and approve arrangements between Zim and the controlling owners of the Israel Corporation and related parties. After completion of the arrangement, the Israel Corporation will hold about 32% of the issued capital of Zim, fully diluted. For more details see the transaction report attached to the above Immediate Report.

- (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 management of the Israel Corporation believes that the said change in the structure of the company's holdings will be completed, insofar as it is completed, during the second half of 2014. The Bank is examining the impact of the split.

For further information on these matters, see the financial statements of the Israel Corporation Ltd. at 31 December 2013.

- (4) On 18 May, 2014, the Israel Corporation published an Immediate Report (2014-01-066780) regarding the draft conclusions of the Sheshinski Committee (for examining the taxation of natural resources). The main points of the draft interim recommendations of the Committee are:

- a. The mix of taxation on drilling of minerals in Israel will include three taxation tools: royalties, natural resources tax (a new tax) and Companies Tax.
- b. The rate of royalties for all drilling of minerals in Israel will be 5% (as of today, the potash royalty rate is 5% on sales up to 1.5 million tons and 10% on sales of potash above that amount. The royalty rate on phosphate is 2%; the basis for calculating royalties (that are not identical today for each product) will be determined by the State.

- c. A new Natural Resources Tax will be levied at 42% of the operating profit of each subsidiary producing natural minerals in Israel, according to the profit and loss accounting statements, to which will be made certain adjustments, and which will be collected after ensuring companies a rate of return of 11% on their assets.
- d. The recommendations of the Committee, as anchored in the legislation, will apply to the Dead Sea Works Ltd. ("DSW") as of 1 January 2017.

The Israel Corporation, with the assistance of its financial and legal advisors, is reviewing the recommendations of the Committee.

- (5) On 19 May 2014, the Israel Corporation published an Immediate Report (2014-01-067818) according to which it received the partial arbitration ruling concerning royalties ("arbitrators' ruling").
 - a. Dead Sea Works ("DSW") is to pay royalties to the State on the sale of downstream products produced by companies controlled by Israel Chemicals whose plants are located in the Dead Sea region and beyond, including outside Israel.
 - b. Royalties will be paid according to the value of downstream products that will be determined based on the formula in Section 15 (a) (2) of the Concession Agreement as the sales price of the downstream product to unrelated third parties, less the deductions enumerated in paragraphs (I) , (II) and (III) of that Section.
 - c. As to metal magnesium, it was determined that the State and DSW are to conclude the discussion between them on the level of royalties to be paid by DSW in respect of metal magnesium, and in the absence of agreement between them, the discussion will be returned to arbitration.

The arbitrators' verdict was given to establish principles regarding liability to pay royalties for downstream products and does not include any reference regarding financial calculations arising from the ruling that is obtained. These calculations will be discussed in the next stage of the arbitration.

Israel Corporation, with the assistance of its financial and legal advisors, is reviewing the ruling of the arbitrators and its implications, including the need to make appropriate provisions in the Israel Corporation's financial statements.

- (E) In connection with the ruling of the Antitrust Commissioner as a result of negotiations conducted between the banks and the Commissioner, a compromise was reached between the parties according to which the Antitrust Tribunal would be requested to approve an agreed order which would bring to an end the proceedings arising from the investigation which led to the issuance of the ruling. According to the text of the agreed order, the ruling would be canceled, and the bank will pay the Treasury the sum of NIS 70 million (the Bank's share being NIS 21 million), with the Bank having the possibility of paying the said sum (and the other banks having with respect to the amounts relating to them), instead of payment to the Treasury and subject to the conditions stipulated in the text of the agreed order, as part of the compromise arrangements in a number of petitions for the approval for class actions pending against the Bank. The petition for approval of the agreed order has not yet been filed with the Antitrust Tribunal. No decision has yet been given on the petition.
- (F) United States authorities, including the United States Department of Justice, the Internal Revenue Service and the U.S. Securities and Exchange Commission ("the U.S. authorities") are conducting investigations against Bank Leumi ("the Group") in connection with the Group's activities with U.S. customers ("the U.S. customers") on suspicion of a violation of United States law, including matters of tax and securities. In this regard, the Department of Justice is examining whether the U.S. customers have breached their

obligations under the U.S. tax laws and whether banking services provided by the Group to its customers assisted them in so doing. The Securities and Exchange Commission is checking whether the Group or its representatives have acted in violation of United States securities laws.

In the context of these investigations, the U.S. authorities have issued and are continuing to issue subpoenas for information and documents concerning banking services given to the U.S. customers by the Group.

The Group, assisted by its advisers, is cooperating with the U.S. authorities' investigations, subject to that allowed under the law, including providing information in accordance to the subpoenas subject to the applicable law. In addition, intensive contact is being made between the Group and its representatives and the U.S. authorities in order to reach a resolution. Despite the ongoing contacts, a solution has not yet been formulated and it not yet known what the outline to the solution as aforesaid and when it will be achieved.

The Bank made a provision to cover the Group's anticipated expenses in connection with the U.S. authorities' investigations,, including those of advisors, service providers and outside experts. This provision does not constitute an acknowledgement of any claim that might be raised against the Group by the U.S. authorities. For further details see Note 18 K in the 2013 Financial Statement.

In light of the fact that there is still no certainty regarding the amount of expenditure that might be incurred by the Group on this matter, it is possible that the final mount of the expense will be significantly higher than the amount thus far included in the financial statements.

- (G) In connection with an indictment served against Leumi Romania and against members of the credit committee of Leumi Romania, regarding a transaction in the account of a customer, who, according to the General Prosecutor in Romania, was not lawfully carried out. Pursuant to changes in authorities, the case was transferred to another court and a new date has not yet been set for a hearing.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates**A. Scope of activity on consolidated basis**

	31 March 2014 (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	-	-	1,412	-	-	1,412
Swaps	-	3,001	-	-	-	3,001
Total	-	3,001	1,412	-	-	4,413
Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	2,441	-	-	-	2,441
b) ALM derivatives (1)(2)						
Futures contracts	-	11,145	605	42,370	5,620	59,740
Forward contracts	11,391	22,154	140,322	10	475	174,352
Exchange-traded options						
Options written	-	3,834	10,140	11,858	408	26,240
Options purchased	-	3,834	10,438	11,868	408	26,548
Other options						
Options written	-	9,209	20,149	879	98	30,335
Options purchased	-	6,615	18,083	1,439	98	26,235
Swaps	674	294,477	26,816	13,863	406	336,236
Total	12,065	351,268	226,553	82,287	7,513	679,686
Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	162,515	-	-	-	162,515
c) Other derivatives (1)						
Total	-	-	-	-	-	-
d) Credit derivatives and foreign exchange spot contracts						
Credit derivatives in which the banking institution is a beneficiary	-	-	-	-	-	-
Spot foreign exchange contracts	-	-	7,946	-	-	7,946
Total	-	-	7,946	-	-	7,946
Grand total	12,065	354,269	235,911	82,287	7,513	692,045

(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 March 2014 (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	-	19	11	-	-	30
Gross negative fair value	-	105	16	-	-	121
b) ALM derivatives (1)(2)						
Gross positive fair value	158	8,715	2,220	1,006	180	12,279
Gross negative fair value	276	8,395	2,878	1,029	185	12,763
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	-	-	-	-	-	-
e) Total						
Gross positive fair value (3)	158	8,734	2,231	1,006	180	12,309
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of assets in respect of derivative instruments	158	8,734	2,231	1,006	180	12,309
Of which: book value of assets in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	26	36	210	21	6	299
Gross negative fair value (3)	276	8,500	2,894	1,029	185	12,884
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of liabilities in respect of derivative instruments	276	8,500	2,894	1,029	185	12,884
Of which: book value of liabilities in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	51	33	507	113	6	710

(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 6 million and gross negative fair value of liabilities in respect of embedded derivative instruments in the amount of NIS 23 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 March 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	-	-	1,508	-	-	1,508
Swaps	-	2,630	-	-	-	2,630
Total	-	2,630	1,508	-	-	4,138
Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	2,518	-	-	-	2,518
b) ALM derivatives (1)(2)						
Futures contracts	-	9,611	133	29,562	3,426	42,732
Forward contracts	15,822	17,900	107,306	-	774	141,802
Exchange-traded options						
Options written	-	5,058	5,777	7,934	1,591	20,360
Options purchased	-	5,058	6,150	7,934	1,591	20,733
Other options						
Options written	-	15,435	25,204	918	248	41,805
Options purchased	-	13,766	26,638	928	251	41,583
Swaps	834	235,287	23,236	7,630	269	267,256
Total	16,656	302,115	194,444	54,906	8,150	576,271
Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	115,253	-	-	-	115,253
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	-	-	-	-	182	182
Spot foreign exchange contracts	-	-	10,016	-	-	10,016
Total	-	-	10,016	-	182	10,198
Grand total	16,656	304,745	205,968	54,906	8,332	590,607

(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 March 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	-	2	54	-	-	56
Gross negative fair value	-	170	-	-	-	170
b) ALM derivatives (1)(2)						
Gross positive fair value	141	7,939	3,039	585	78	11,782
Gross negative fair value (3)	305	7,680	4,079	589	72	12,725
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	141	7,941	3,093	585	79	11,839
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of assets in respect of derivative instruments	141	7,941	3,093	585	79	11,839
Of which: book value of assets in not subject to a master netting arrangement or similar arrangements	31	60	322	44	27	484
Gross negative fair value (3)	305	7,850	4,079	589	72	12,895
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of liabilities in respect of derivative instruments	305	7,850	4,079	589	72	12,895
Of which: book value of liabilities in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	- - 223	- - 29	- - 629	- - 1	- - 27	- - 909

(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 16 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 2013 (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	-	-	1,426	-	-	1,426
Swaps	-	2,581	-	-	-	2,581
Total	-	2,581	1,426	-	-	4,007
Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	2,485	-	-	-	2,485
b) ALM derivatives (1)(2)						
Futures contracts	-	8,320	348	35,508	6,640	50,816
Forward contracts	12,072	12,015	126,909	3	181	151,180
Exchange-traded options						
Options written	-	4,779	8,586	14,592	405	28,362
Options purchased	-	4,779	8,762	14,592	405	28,538
Other options						
Options written	-	10,710	26,974	864	239	38,787
Options purchased	-	8,102	26,143	796	252	35,293
Swaps	678	287,880	26,099	12,251	197	327,105
Total	12,750	336,585	223,821	78,606	8,319	660,081
Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	158,832	-	-	-	158,832
c) Other derivatives (1)						
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	-	-	6,543	-	-	6,543
Total	-	-	6,543	-	-	6,543
Overall total	12,750	339,166	231,790	78,606	8,319	670,631

(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 2013 (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) <u>Hedging derivatives (1)</u>						
Gross positive fair value	-	36	37	-	-	73
Gross negative fair value	-	130	10	-	-	140
b) ALM derivatives (1)(2)						
Gross positive fair value	118	7,928	3,275	1,557	103	12,981
Gross negative fair value	232	7,545	3,894	1,597	95	13,363
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	-	-	-	-	-	-
e) <u>Total</u>						
Gross positive fair value	118	7,964	3,312	1,557	103	13,054
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of assets in respect of derivative instruments	118	7,964	3,312	1,557	103	13,054
Of which: book value of assets in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	20	33	250	17	5	325
Gross negative fair value (3)	232	7,675	3,904	1,597	95	13,503
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of liabilities in respect of derivative financial instruments	232	7,675	3,904	1,597	95	13,503
Of which: book value of liabilities in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	54	35	528	315	4	936

(1) Except credit derivatives.

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

(3) Of which: gross negative fair value of liabilities in respect of embedded derivative instruments in the amount of NIS 16 million.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)**B. Credit risk in respect of derivative instruments by counterparty to the contract on consolidated basis**

	31 March 2014 (Unaudited)					
	Stock Exchanges (NIS millions)	Banks	Dealers/ brokers	Governments and central banks	Others	Total
Book balance of assets in respect of derivative instruments (1) (2)	102	8,463	1,959	104	1,681	12,309
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk in respect of financial instruments	-	3,354	788	-	480	4,622
Mitigation of credit risk in respect of cash collateral received	-	748	76	79	22	925
Net amount of assets in respect of derivative instruments	102	4,361	1,095	25	1,179	6,762
Off-balance sheet credit risk in respect of derivative instruments (4)	-	3,665	840	90	4,352	8,947
Mitigation of off-balance sheet credit risk	-	76	43	-	897	1,016
Net off-balance sheet credit risk in respect of derivative instruments	-	3,589	797	90	3,455	7,931
Total credit risk in respect of derivative instruments	102	7,950	1,892	115	4,634	14,693
Book balance of liabilities in respect of derivative instruments (1) (3)	299	7,925	1,945	-	2,715	12,884
Gross amounts not offset in the balance sheet:						
Financial instruments	-	3,354	788	-	480	4,622
Cash collateral pledged	-	501	41	-	-	542
Net amount of liabilities in respect of derivative instruments	299	4,070	1,116	-	2,235	7,720

See notes on page 191.

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 March 2013 (Unaudited)					
	Stock Exchanges (NIS millions)	Banks	Dealers/ brokers	Governments and central banks	Others	Total
Book balance of assets in respect of derivative instruments (1)	98	8,304	1,406	6	2,025	11,839
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk in respect of financial instruments	-	6,507	1,277	6	470	8,260
Mitigation of credit risk in respect of cash collateral received	-	780	7	-	-	787
Net amount of assets in respect of derivative instruments	98	1,017	122	-	1,555	2,792
Off-balance sheet credit risk in respect of derivative instruments (4)	-	9,234	1,432	201	9,049	19,916
Mitigation of off-balance sheet credit risk	-	2,125	36	121	2,474	4,756
Net off-balance sheet credit risk in respect of derivative instruments	-	7,109	1,396	80	6,575	15,160
Total credit risk in respect of derivative instruments	98	8,126	1,518	80	8,130	17,952
Book balance of liabilities in respect of derivative instruments (1) (3)						
Gross amounts not offset in the balance sheet:						
Financial instruments	109	7,980	1,671	33	3,102	12,895
Cash collateral pledged	-	794	212	-	-	1,006
Net amount of liabilities in respect of derivative instruments	109	37	824	27	2,632	3,629

See notes on next page.

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 2013 (Audited)					
	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	(NIS millions)					
Book balance of assets in respect of derivative instruments (1)	139	8,722	1,933	85	2,175	13,054
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk in respect of financial instruments	-	6,652	1,755	-	821	9,228
Mitigation of credit risk in respect of cash collateral received	-	938	90	32	43	1,103
Net amount of assets in respect of derivative instruments	139	1,132	88	53	1,311	2,723
Off-balance sheet credit risk in respect of derivative instruments (4)	-	10,519	2,269	326	11,123	24,237
Mitigation of off-balance sheet credit risk	-	3,290	448	-	2,960	6,698
Net off-balance sheet credit risk in respect of derivative instruments	-	7,229	1,821	326	8,163	17,539
Total credit risk in respect of derivative instruments	139	8,361	1,909	379	9,474	20,262
Book balance of liabilities in respect of derivative instruments (1) (3)	317	7,542	1,824	-	3,820	13,503
Gross amounts not offset in the balance sheet:						
Financial instruments	-	6,652	1,755	-	821	9,228
Cash collateral pledged	-	468	2	-	-	470
Net amount of liabilities in respect of derivative instruments	317	422	67	-	2,999	3,805

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

(2) Of which a book balance of assets in respect of standalone derivative instruments in the amount of NIS 12,303 million.

(3) Of which a book balance of standalone derivative instruments in the amount of NIS 12,861 million (at 31 March 2013 - NIS 12,879 million, at 31 December 2013 – NIS 13,487 million).

(4) Credit risk in respect of off-balance sheet financial instruments (except in respect of derivative instruments with negative fair value) before mitigation of credit risk, as calculated for the purpose of single borrower credit limitations.

(5) Restated.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)**C. Repayment Dates – Nominal Amounts: Balances**

	31 March 2014 (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	2,645	3,518	4,195	1,707	12,065
Other	33,868	58,145	171,661	90,595	354,269
Foreign currency contracts	149,448	53,775	13,687	19,001	235,911
Contracts in respect of shares	67,742	14,064	481	-	82,287
Commodities and other contracts	5,641	1,795	77	-	7,513
Total	259,344	131,297	190,101	111,303	692,045
Total for March 2013 (Unaudited)	195,968	148,305	142,201	104,133	590,607
Total for December 2013 (Audited)	261,696	130,243	161,704	116,988	670,631

Note 8 – Balances and fair value assessments of financial instruments

	31 March 2014 (Unaudited)				
	Book	Fair value			
	value	Level 1 (1)	Level 2 (1)	Level 3 (1)	Total
	(NIS millions)				
Financial assets					
Cash and deposits with banks	44,162	31,814	11,413	961	44,188
Securities (2)	60,481	43,025	14,371	3,085	60,481
Securities borrowed or purchased under agreements to resell	1,370	1,370	-	-	1,370
Credit to the public, net	241,273	2,469	65,353	174,911	242,733
Credit to governments	487	-	45	463	508
Assets in respect of derivative instruments	12,303	1,080	9,952	1,271	12,303
Other financial assets	897	103	-	794	897
Total financial assets	360,973 (3)	79,861	101,134	181,485	362,480
Financial liabilities					
Deposits of the public	282,732	2,928	143,370	138,534	284,832
Deposits from banks	4,367	-	3,915	452	4,367
Deposits from governments	435	-	367	68	435
Securities lent or sold under agreements to repurchase	540	540	-	-	540
Debentures, notes and subordinated notes	24,484	22,188	388	4,767	27,343
Liabilities in respect of derivative instruments	12,861	1,076	11,448	337	12,861
Other financial liabilities	7,768	93	-	7,666	7,759
Total financial liabilities	333,187 (3)	26,825	159,488	151,824	338,137
Off-balance sheet financial instruments					
Transactions whose balance represents credit risk	278	-	-	278	278

- (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 data.
- (2) For further details on the book value and fair value of securities, see note on securities.
- (3) Of which: assets and liabilities in the amounts of NIS 110,120 million and NIS 97,061 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)

	31 March 2013 (Unaudited)				
	Book	Fair value			
	value	Level 1 (1)	Level 2 (1)	Level 3 (1)	Total
	(NIS millions)				
Financial assets					
Cash and deposits with banks (4)	53,933	39,231	9,558	5,137	53,926
Securities (2)	53,378	36,188	14,244	2,946	53,378
Securities borrowed or purchased under agreements to resell	854	854	-	-	854
Credit to the public, net	238,614	1,832	62,579	176,353	240,764
Credit to governments	423	-	16	440	456
Assets in respect of derivative instruments	11,839	553	9,587	1,699	11,839
Other financial assets	1,025	207	-	818	1,025
Total financial assets	360,066 (3)	78,865	95,984	187,393	362,242
Financial liabilities					
Deposits of the public	278,820	1,550	123,516	155,729	280,795
Deposits from banks	7,579	-	7,213	320	7,533
Deposits from governments	473	-	316	185	501
Securities lent or sold under agreements to repurchase	735	680	55	-	735
Debentures, notes and subordinated notes	27,542	24,847	388	5,131	30,366
Liabilities in respect of derivative instruments	12,879	552	11,867	460	12,879
Other financial liabilities	7,216	207	-	6,990	7,197
Total financial liabilities	335,244 (3)	27,836	143,355	168,815	340,006
Off-balance sheet financial instruments					
Transactions whose balance represents credit risk	298	-	-	298	298

(1) Level 1 - fair value measurements using prices quoted in an active market.

Level 2 - fair value measurements using other significant observable data.

Level 3 - fair value measurements using significant unobservable data.

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

(3) Of which: Assets and liabilities in the amounts of NIS 105,038 million and NIS 95,678 million, respectively, whose book value is the same as the fair value (instruments shown in the balance sheet at fair value) or is an approximation of fair value (instruments for an original term of up to 3 months for which the book value is used as an approximation of fair value). For further information on financial instruments measured for fair value on a recurring and non-recurring basis, see Notes 8A – 8C.

(4) Reclassified.

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

	31 December 2013 (Audited)				
	Book	Fair value			
	value	Level 1 (1)	Level 2 (1)	Level 3 (1)	Total
	(NIS millions)				
Financial assets					
Cash and deposits with banks	44,351	32,061	11,492	823	44,376
Securities (2)	63,735	45,164	15,339	3,232	63,735
Securities borrowed or purchased under agreements to resell	1,360	1,360	-	-	1,360
Credit to the public, net	240,874	2,585	67,719	172,110	242,414
Credit to governments	558	-	47	537	584
Assets in respect of derivative instruments	13,054	1,272	9,971	1,811	13,054
Other financial assets	963	148	-	815	963
Total financial assets	364,895 (3)	82,590	104,568	179,328	366,486
Financial liabilities					
Deposits of the public	286,003	2,828	141,591	143,385	287,804
Deposits from banks	4,310	-	3,862	434	4,296
Deposits from governments	397	-	331	83	414
Securities lent or sold under agreements to repurchase	624	624	-	-	624
Debentures, notes and subordinated notes	25,441	22,881	387	4,816	28,084
Liabilities in respect of derivative instruments	13,487	1,281	11,827	379	13,487
Other financial liabilities	7,779	148	-	7,590	7,738
Total financial liabilities	338,041 (3)	27,762	157,998	156,687	342,447
Off-balance sheet financial instruments					
Transactions whose balance represents credit risk	289	-	-	289	289

- (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 data.
- (2) For further details on the book value and fair value of securities, see the note on securities.
- (3) Of which: Assets and liabilities in the amounts of NIS 113,851 million and NIS 94,856 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 at fair value**A. Items measured for fair value on a recurring basis**

	As at 31 March 2014 (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)			
Assets				
Securities available for sale:				
Israeli government bonds	27,818	1,471	-	29,289
Foreign government bonds	2,939	1,125	6	4,070
Bonds of Israeli financial institutions	41	61	-	102
Bonds of overseas financial institutions	359	3,780	121	4,260
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	4,949	1,513	6,462
Other bonds in Israel	392	310	9	711
Other bonds abroad	915	1,250	-	2,165
Shares and mutual funds available for sale	1,600	-	-	1,600
Total securities available for sale	34,064	12,946	1,649	48,659
Securities held for trading:				
Government of Israel bonds	7,110	-	-	7,110
Foreign government bonds	518	29	-	547
Bonds of financial institutions in Israel	412	-	-	412
Bonds of financial institutions abroad	-	170	-	170
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	701	-	701
Other bonds in Israel	345	-	-	345
Other bonds abroad	10	525	-	535
Shares and mutual funds held for trading	566	-	-	566
Total securities held for trading	8,961	1,425	-	10,386
Assets in respect of derivative instruments:				
Shekel-index contracts	-	41	117	158
Interest contracts	18	8,291	425	8,734
Foreign currency contracts	9	1,318	724	2,051
Share contracts	503	276	5	784
Commodities and other contracts	154	26	-	180
Activity in Maof market	396	-	-	396
Total assets in respect of derivative instruments:	1,080	9,952	1,271	12,303
Others:				
Credit and deposits in respect of lending of securites	2,469	6	-	2,475
Securities borrowed or purchased under agreements to resell	1,370	-	-	1,370
Other	93	-	-	93
Total others	3,932	6	-	3,938
Total assets	48,037	24,329	2,920	75,286

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

As at 31 March 2014 (Unaudited)				
Fair value measurements using:				
Prices quoted in an active market (Level 1) (NIS millions)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value	
Liabilities				
Liabilities in respect of derivative instruments:				
Shekel-index contracts	-	192	84	276
Interest contracts	18	8,482	-	8,500
Foreign currency contracts	5	2,439	253	2,697
Share contracts	503	304	-	807
Commodities and other contracts	154	31	-	185
Activity in Maof market	396	-	-	396
Total liabilities in respect of derivative instruments	1,076	11,448	337	12,861
Others:				
Deposits in respect of lending of securities	2,928	23	-	2,951
Securities lent or sold under agreements to repurchase	540	-	-	540
Others	93	-	-	93
Total others	3,561	23	-	3,584
Total liabilities	4,637	11,471	337	16,445

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

	As at 31 March 2013 (Unaudited)			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	(NIS millions)			
Assets				
Securities available for sale:				
Israeli government bonds	19,462	1,788	-	21,250
Foreign government bonds	4,893	857	6	5,756
Bonds of Israeli financial institutions	57	60	-	117
Bonds of overseas financial institutions	479	4,157	117	4,753
Asset-backed (ABS) or mortgage-backed (MBS) bonds	167	4,346	1,343	5,856
Other bonds in Israel	660	370	19	1,049
Other bonds abroad	578	1,001	-	1,579
Shares and mutual funds available for sale	976	-	-	976
Total securities available for sale	27,272	12,579	1,485	41,336
Securities held for trading:				
Government of Israel bonds	7,504	197	-	7,701
Foreign government bonds	184	332	-	516
Bonds of financial institutions in Israel	158	-	-	158
Bonds of financial institutions abroad	-	179	-	179
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	357	-	357
Other bonds in Israel	662	-	-	662
Other bonds abroad	15	600	-	615
Shares and mutual funds held for trading	393	-	-	393
Total securities held for trading	8,916	1,665	-	10,581
Assets in respect of derivative instruments:				
Shekel-index contracts (1)	-	65	76	141
Interest contracts (1)	27	7,387	525	7,939
Foreign currency contracts	5	1,935	1,079	3,019
Share contracts	323	148	14	485
Commodities and other contracts	23	52	5	80
Activity in Maof market	175	-	-	175
Total assets in respect of derivative instruments	553	9,587	1,699	11,839
Others:				
Credit and deposits in respect of lending of securites	1,969	3	-	1,972
Securities borrowed or purchased under agreements to resell	854	-	-	854
Other	207	-	-	207
Total others	3,030	3	-	3,033
Total assets	39,771	23,834	3,184	66,789

1) Reclassified

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

As at 31 March 2013 (Unaudited)				
Fair value measurements using:				
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
(NIS millions)				
Liabilities				
Liabilities in respect of derivative instruments:				
Shekel-index contracts (1)	-	181	124	305
Interest contracts (1)	27	7,823	-	7,850
Foreign currency contracts	4	3,649	336	3,989
Share contracts	323	165	-	488
Commodities and other contracts	23	49	-	72
Activity in Maof market	175	-	-	175
Total liabilities in respect of derivative instruments	552	11,867	460	12,879
Others:				
Deposits in respect of lending of securities	1,550	155	-	1,705
Securities lent or sold under agreements to repurchase	680	55	-	735
Others	207	-	-	207
Total others	2,437	210	-	2,647
Total liabilities	2,989	12,077	460	15,526

1) Reclassified

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 2013 (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)			
Assets				
Securities available for sale:				
Israeli government bonds	29,185	1,551	-	30,736
Foreign government bonds	3,087	749	7	3,843
Bonds of Israeli financial institutions	45	60	-	105
Bonds of overseas financial institutions	371	4,789	120	5,280
Asset-backed (ABS) or mortgage-backed (MBS) bonds	97	5,516	1,733	7,346
Other bonds in Israel	381	331	9	721
Other bonds abroad	821	1,181	-	2,002
Shares and mutual funds available for sale	1,465	-	-	1,465
Total securities available for sale	35,452	14,177	1,869	51,498
Securities held for trading:				
Government of Israel bonds	7,104	-	-	7,104
Foreign government bonds	772	256	-	1,028
Bonds of financial institutions in Israel	327	-	-	327
Bonds of financial institutions abroad	-	116	-	116
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	279	-	279
Other bonds in Israel	409	-	-	409
Other bonds abroad	9	511	-	520
Shares and mutual funds held for trading	1,091	-	-	1,091
Total securities held for trading	9,712	1,162	-	10,874
Assets in respect of derivative instruments:				
Shekel-index contracts	-	32	86	118
Interest contracts	22	7,551	391	7,964
Foreign currency contracts	5	1,834	1,334	3,173
Share contracts	739	510	-	1,249
Commodities and other contracts	59	44	-	103
Activity in Maof market	447	-	-	447
Total assets in respect of derivative instruments	1,272	9,971	1,811	13,054
Others:				
Credit and deposits in respect of lending of securites	2,585	-	-	2,585
Securities borrowed or purchased under agreements to resell	1,360	-	-	1,360
Other	148	-	-	148
Total others	4,093	-	-	4,093
Total assets	50,529	25,310	3,680	79,519

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

	As at 31 December 2013 (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)			
Liabilities				
Liabilities in respect of derivative instruments:				
Shekel-index contracts	-	157	75	232
Interest contracts	22	7,653	-	7,675
Foreign currency contracts	14	3,430	304	3,748
Share contracts	739	551	-	1,290
Commodities and other contracts	59	36	-	95
Activity in Maof market	447	-	-	447
Total liabilities in respect of derivative instruments:	1,281	11,827	379	13,487
Others:				
Deposits in respect of lending of securities	2,828	17	-	2,845
Securities lent or sold under agreements to repurchase	624	-	-	624
Others	148	-	-	148
Total others	3,600	17	-	3,617
Total liabilities	4,881	11,844	379	17,104

Note 8A – Items measured for fair value (cont'd)**B. Items measured for fair value on a non-recurring basis on consolidated basis**

As at 31 March 2014 (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	Total profit (loss) from changes in value for period
(NIS millions)					
Collateral-dependent impaired credit	-	-	1,804	1,804	(9)
Other assets	-	-	-	-	-
Total	-	-	1,804	1,804	(9)
As at 31 March 2013 (Unaudited)					
Fair value measurements using:					
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value	Total profit (loss) from changes in value for period
(NIS millions)					
Collateral-dependent impaired credit	-	-	1,968	1,968	(105)
Other assets	-	-	-	-	-
Total	-	-	1,968	1,968	(105)
As at 31 December 2013 (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	Total profit (loss) from changes in value for period
(NIS millions)					
Collateral-dependent impaired credit	-	-	2,119	2,119	(236)
Other assets	-	-	-	-	-
Total	-	-	2,119	2,119	(236)

Note 8B – Changes in items measured for fair value on a recurring basis included in Level 3

	For the three months ended 31 March 2014 (Unaudited)									Unrealized profits in respect of instruments held at 31 March 2014
	Realized and unrealized profits (losses), net, included									
	Fair value at beginning of the year (NIS millions)	In profit and loss statement	In other comprehensive income in equity	Acqui-sitions and issues	Sales	Extinguish-ments	Adjustments from translation of financial statements	Transfers to Level 3 (1)	Fair value at 31 March 2014	
Assets										
Bonds available for sale:										
Israeli government bonds	-	-	-	-	-	-	-	-	-	-
Foreign government bonds	7	-	-	-	(1)	-	-	-	6	-
Bonds of financial institutions in Israel										
Financial institutions abroad	120	1	-	-	-	-	-	-	121	-
Asset-backed (ABS) or mortgage-backed (MBS) bonds	1,733	(122)	(1)	69	(160)	(6)	-	-	1,513	7
Others in Israel	9	-	-	-	-	-	-	-	9	-
Others abroad	-	-	-	-	-	-	-	-	-	-
Total bonds available for sale	1,869	(121)	(1)	69	(161)	(6)	-	-	1,649	7
Shares available for sale	-	-	-	-	-	-	-	-	-	-
Assets in respect of derivative instruments:										
Shekel-index contracts	86	28	-	-	-	-	-	3	117	26
Interest contracts	391	56	-	-	-	(22)	-	-	425	49
Foreign currency contracts	1,334	(695)	-	85	-	-	-	-	724	203
Share contracts	-	5	-	-	-	-	-	-	5	-
Commodities and other contracts	-	-	-	-	-	-	-	-	-	-
Activity in the Maof market	-	-	-	-	-	-	-	-	-	-
Total assets in respect of derivative instruments	1,811	(606)	-	85	-	(22)	-	3	1,271	278
Total others	-	-	-	-	-	-	-	-	-	-
Total assets	3,680	(727)	(1)	154	(161)	(28)	-	3	2,920	285
Liabilities in respect of derivative instruments:										
Shekel-index contracts	75	6	-	-	-	-	-	3	84	11
Interest contracts	-	-	-	-	-	-	-	-	-	-
Foreign currency contracts	304	(51)	-	-	-	-	-	-	253	(69)
Share contracts	-	-	-	-	-	-	-	-	-	-
Commodities and other contracts	-	-	-	-	-	-	-	-	-	-
Activity in the Maof market	-	-	-	-	-	-	-	-	-	-
Total liabilities in respect of derivative instruments	379	(45)	-	-	-	-	-	3	337	(58)
Total others	-	-	-	-	-	-	-	-	-	-
Total liabilities	379	(45)	-	-	-	-	-	3	337	(58)

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

	For the three months ended 31 March 2013 (Unaudited)									
	Realized and unrealized profits (losses), net, included									Unrealized profits (losses) in respect of instruments held at 31 March 2013
	Fair value at beginning of the year (NIS millions)	In profit and loss statement	In other comprehensive income in equity	Acquisitions and issues	Sales	Extinguishments	Financial statements translation adjustments	Transfers to Level 3 (1)	Transfers from Level 3 (1)	Fair value at 31 March 2013
Assets										
Securities available for sale:										
Israeli government	-	-	-	-	-	-	-	-	-	-
Foreign governments	11	-	-	-	(5)	-	-	-	-	6
Israeli financial institutions	-	-	-	-	-	-	-	-	-	-
Financial institutions abroad	123	(7)	1	-	-	-	-	-	-	117
Asset-backed (ABS) or mortgage-backed (MBS) bonds	1,401	(17)	(5)	254	(263)	(27)	-	-	-	1,343
Others in Israel	-	-	-	-	-	-	-	19	-	19
Others abroad	74	(1)	-	-	-	(73)	-	-	-	-
Total bonds available for sale	1,609	(25)	(4)	254	(268)	(100)	-	19	-	1,485
Total shares available for sale	-	-	-	-	-	-	-	-	-	-
Total bonds available for trading	-	-	-	-	-	-	-	-	-	-
Shares for trading	-	-	-	-	-	-	-	-	-	-
Assets in respect of derivative instruments:										
Shekel-index contracts (1)	117	(28)	-	-	-	-	-	3	(16)	76
Interest contracts (1)	573	(11)	-	-	-	(37)	-	-	-	525
Foreign currency contracts	619	107	-	353	-	-	-	-	-	1,079
Share contracts	14	-	-	-	-	-	-	-	-	14
Commodity and other contracts	12	(7)	-	-	-	-	-	-	-	5
Activity in Maof market	-	-	-	-	-	-	-	-	-	-
Total assets in respect of derivative instruments	1,335	61	-	353	-	(37)	-	3	(16)	1,699
Total others	-	-	-	-	-	-	-	-	-	-
Total assets	2,944	36	(4)	607	(268)	(137)	-	22	(16)	3,184
Liabilities										
Liabilities in respect of derivative instruments:										
Shekel-index contracts (1)	154	(6)	-	-	-	-	-	-	(24)	124
Interest contracts (1)	-	-	-	-	-	-	-	-	-	-
Foreign currency contracts	318	18	-	-	-	-	-	-	-	336
Share contracts	-	-	-	-	-	-	-	-	-	-
Commodity and other contracts	-	-	-	-	-	-	-	-	-	-
Activity in Maof market	-	-	-	-	-	-	-	-	-	-
Total liabilities in respect of derivative instruments	472	12	-	-	-	-	-	-	(24)	460
Total others	-	-	-	-	-	-	-	-	-	-
Total liabilities	472	12	-	-	-	-	-	-	(24)	460

(1) Reclassified

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

	For the year ended 31 December 2013 (Audited)										Unrealized profits (losses) in respect of instruments held at 31 December 2013
	Realized and unrealized profits (losses), net, included										
	Fair value at beginning of the year (NIS millions)	In profit and loss statement	In other comprehensive income in equity	Acquisitions and issues	Sales	Extinguishments	Financial statements translation adjustments	Transfers to Level 3	Transfers from Level 3	Fair value at 31 December 2013	
Assets											
Securities available for sale:											
Israeli government	-	-	-	-	-	-	-	-	-	-	-
Foreign governments	11	(1)	-	-	(4)	-	1	-	-	7	-
Israeli financial institutions	-	-	-	-	-	-	-	-	-	-	-
Financial institutions abroad	123	(2)	-	-	-	(1)	-	-	-	120	-
Asset-backed (ABS) or mortgage-backed (MBS) bonds	1,401	(97)	(15)	1,006	(445)	(118)	1	-	-	1,733	8
Others in Israel	-	(8)	-	-	-	(2)	-	19	-	9	-
Others abroad	74	(1)	-	-	-	(73)	-	-	-	-	-
Total bonds available for sale	1,609	(109)	(15)	1,006	(449)	(194)	2	19	-	1,869	8
Shares available for sale	-	-	-	-	-	-	-	-	-	-	-
Total bonds for trading	-	-	-	-	-	-	-	-	-	-	-
Shares for trading	-	-	-	-	-	-	-	-	-	-	-
Assets in respect of derivative instruments:											
Shekel-index contracts	117	(55)	-	-	-	-	-	38	(14)	86	37
Interest contracts	573	(99)	-	-	-	(83)	-	-	-	391	(364)
Foreign currency contracts	619	(482)	-	1,197	-	-	-	-	-	1,334	(98)
Share contracts	14	(14)	-	-	-	-	-	-	-	-	-
Commodity and other contracts	12	(12)	-	-	-	-	-	-	-	-	-
Activity in Maof market	-	-	-	-	-	-	-	-	-	-	-
Total assets in respect of derivative instruments	1,335	(662)	-	1,197	-	(83)	-	38	(14)	1,811	(425)
Total others	-	-	-	-	-	-	-	-	-	-	-
Total assets	2,944	(771)	(15)	2,203	(449)	(277)	2	57	(14)	3,680	(417)
Liabilities											
Liabilities in respect of derivative instruments:											
Shekel-index contracts	154	(76)	-	-	-	-	-	19	(22)	75	(66)
Interest contracts	-	-	-	-	-	-	-	-	-	-	-
Foreign currency contracts	318	(14)	-	-	-	-	-	-	-	304	13
Share contracts	-	-	-	-	-	-	-	-	-	-	-
Commodity and other contracts	-	-	-	-	-	-	-	-	-	-	-
Activity in Maof market	-	-	-	-	-	-	-	-	-	-	-
Total liabilities in respect of derivative instruments	472	(90)	-	-	-	-	-	19	(22)	379	(53)
Total others	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	472	(90)	-	-	-	-	-	19	(22)	379	(53)

Note 8C – Additional information on significant unobservable data and assessment techniques used in fair value measurement of items classified in Level 3

As at 31 March 2014

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

	Fair value	Assessment technique	Unobservable inputs	Range	Average (3)
Assets					
Securities available for sale (1)					
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	1,513	Discounting cash flows	Margin Probability of default Rate of early repayment Loss rate	75-235 bp 2.5%-6% 20% 30%-40%	166 bp 4.25% 20% 35%
Assets in respect of derivative instruments (2)					
Shekel-index interest contracts	103	Discounting cash flows	Inflationary expectations	0.2%-1.58%	0.89%
Interest contracts	14	Discounting cash flows	Transaction counterparty risk	0.03%-100% (*)	1.62%
Foreign currency contracts	425	Discounting cash flows	Inflationary expectations	0.03%-100% (*)	1.62%
Foreign currency contracts	242	Discounting cash flows	Transaction counterparty risk	0.2%-1.58%	0.89%
	482	Discounting cash flows	Transaction counterparty risk	0.03%-100% (*)	1.62%
Share contracts	5	Discounting cash flows	Transaction counterparty risk	0.2%-1.58%	0.89%
Liabilities					
Liabilities in respect of derivative instruments (2)					
Interest contracts	84	Discounting cash flows	Inflationary expectations	0.2%-1.58%	0.89%
Foreign currency contracts	253	Discounting cash flows	Inflationary expectations	0.2%-1.58%	0.89%
B. Items measured for fair value on a non-recurring basis					
Collateral-contingent impaired debt	1,804	Fair value of collateral			

B. Qualitative information regarding Level 3 fair value measurement

- Unobservable inputs used for the fair value measurement of asset-backed or mortgage-backed securities are margin rates, probability of default, early repayment rate, and the severity of a loss in the event of default.
Any significant increase/decrease in unobservable parameters will be reflected in a significantly lower/higher fair value.
- 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).
- The average figure referring to the unobservable parameter of "Transaction counterparty risk" reflects a weighted average.

Note 8C – Additional information on significant unobservable data and assessment techniques used in fair value measurement of items classified in Level 3 *(cont'd)

As at 31 March 2013

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

	Fair value	Assessment technique	Unobservable inputs	Range	Average (3)
Assets					
Securities available for sale (1)					
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	1,343	Discounting cash flows	Margin Probability of default Rate of early repayment Loss rate	60-593 bp 2%-6% 20% 40%-80%	217 bp 4.50% 20% 60%
Assets in respect of derivative instruments (2)					
Shekel-index interest contracts	76	Discounting cash flows	Inflationary expectations	0.3%-1.8%	1.05%
Interest contracts	525	Discounting cash flows	Transaction counterparty risk	0.03%-100%	2.37%
Foreign currency contracts	138	Discounting cash flows	Inflationary expectations	0.3%-1.8%	1.05%
	941	Discounting cash flows	Transaction counterparty risk	0.03%-100% (*)	2.37%
Share contracts	14	Discounting cash flows	Transaction counterparty risk	0.03%-100% (*)	2.37%
Commodities and other contracts	5	Discounting cash flows	Transaction counterparty risk	0.03%-100% (*)	2.37%
Liabilities					
Liabilities in respect of derivative instruments (2)					
Interest contracts	124	Discounting cash flows	Inflationary expectations	0.3%-1.8%	1.05%
Foreign currency contracts	336	Discounting cash flows	Inflationary expectations	0.3%-1.8%	1.05%
B. Items measured for fair value on a non-recurring basis					
Collateral-contingent impaired debt	1,968	Fair value of collateral			

* In respect of a failed counterparty.

B. Qualitative information regarding Level 3 fair value measurement

- Unobservable inputs used for the fair value measurement of asset-backed or mortgage-backed securities are margin rates, probability of default, early repayment rate, and the severity of a loss in the event of default.
Any significant increase/decrease in unobservable parameters will be reflected in a significantly lower/higher fair value.
- 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).
- The average figure referring to the unobservable parameter of "Transaction counterparty risk" reflects a weighted average.

Note 8C – Additional information on significant unobservable data and assessment techniques used in fair value measurement of items classified in Level 3 *(cont'd)

As at 31 December 2013

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

	Fair value	Assessment technique	Unobservable inputs	Range	Average (3)
A. Items measured for fair value on a recurring basis					
Assets					
Securities available for sale (1)					
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	1,733	Discounting cash flows	Margin Probability of default Rate of early repayment Loss rate	75-240 bp 2.5%-6% 10%-20% 30%-40%	167 bp 4.25% 15% 35%
Assets in respect of derivative instruments (2)					
Shekel-index interest contracts	86	Discounting cash flows	Inflation forecasts	0.19%-1.66%	0.90%
Interest contracts	391	Discounting cash flows	Transaction counterparty risk	0.03%-100% (*)	1.34%
Foreign currency contracts	247	Discounting cash flows	Inflation forecasts	0.19%-1.66%	0.90%
	1,087	Discounting cash flows	Transaction counterparty risk	0.03%-100% (*)	1.34%
Liabilities					
Liabilities in respect of derivative instruments (2)					
Interest contracts	75	Discounting cash flows	Inflation forecasts	0.19%-1.66%	0.90%
Foreign currency contracts	304	Discounting cash flows	Inflation forecasts	0.19%-1.66%	0.90%
B. Items measured for fair value on a non-recurring basis					
Collateral-contingent impaired debt	2,119	Fair value of collateral			

* In respect of a failed counterparty.

B. Qualitative information regarding fair value measurement in Level 3

- 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.
- 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).
- The average figure referring to the unobservable parameter of "Transaction counterparty risk" reflects a weighted average.

Note 9 – Interest income and expenses

	For the three months ended 31 March	
	2014	2013
	(Unaudited)	
	(NIS millions)	
A. Interest income		
From credit to the public	1,938	2,496
From credit to governments	3	4
From deposits with Bank of Israel and cash	46	115
From deposits with banks	13	14
From securities borrowed or purchased under agreement to resell	4	6
From debentures (2)	197	228
Total interest income	2,201	2,863
B. Interest expenses (1)		
On deposits of the public	(308)	(776)
On deposits from governments	(2)	(2)
On deposits from banks	(7)	(9)
On securities lent or sold under agreement to repurchase	(2)	(5)
On debentures, bonds and subordinated notes	(125)	(309)
Total interest expenses	(444)	(1,101)
Total interest income, net	1,757	1,762
C. Details of the net effect of hedging derivative instruments interest income and expenses (2)		
Interest income	11	(14) (3)
Interest expenses	-	1 (3)
D. Details of accumulated interest income from bonds		
Available for sale	179	183
For trading	18	45
Total included in interest income	197	228

(1) Including the effective component of hedging relationships.

(2) Including interest in respect of mortgage-backed bonds (MBS) in the amount of NIS 95 million (31 March 2013 - NIS 28 million).

(3) Reclassified.

Note 10 – Non-interest financing income

	For the three months ended 31 March	
	2014	2013
	(Unaudited)	
	(NIS millions)	
A. Non-interest financing income in respect of activities not for trading purposes		
A.1. From activity in derivative instruments		
Ineffective portion of hedging relationships (1)	1	3
Net income (expense) from ALM derivative instruments (2)	115	(635) (7)
Total from activity in derivative instruments	116	(632)
A.2. From investment in bonds		
Profits from sale of bonds available for sale (8)	82	100
Losses from sale of bonds available for sale (8)	-	(1)
Total from investment in bonds	82	99
A.3. Exchange rate differentials, net	(132)	687 (7)
A.4. Profits (losses) from investment in shares		
Profits from sale of shares available for sale (4) (8)	138	235
Losses from sale of shares available for sale (8)	(11)	(1)
Profit from sale of shares in companies included on equity basis	-	-
Dividend from shares available for sale	2	5
Total from investment in shares	129	239
A.5. Profits in respect of loans sold (3)	-	43
Total non-interest financing income in respect of activities not for trading purposes	195	436
B. Non-interest financing income in respect of activities not for trading purposes		
Income (expenses) net in respect of other derivative instruments	(13)	7
Realized and unrealized profits (losses) from fair value adjustments of bonds held for trading, net (5)	157	(48)
Realized and unrealized profits (losses) from fair value adjustments of shares held for trading, net (6)	(16)	16
Dividends received from shares held for trading	-	-
Total from trading activities	128	(25)
Total non-interest financing income in respect of activities not for trading purposes	323	411

- (1) Excluding the effective part of hedging relationships.
- (2) Derivative instruments comprising part of the Bank's asset and liability management not designated for hedging relationships.
- (3) In the first quarter of 2013 a loan was sold of NIS 250 million.
- (4) Including profit from sale of shares in Partner and Tower of NIS 70 million and NIS 39 million respectively and at 31 March 2013, profit from sale of shares in Migdal in the amount of NIS 180 million.
- (5) Of which part of the profits in the amount of NIS 67 million (31 March 2013 – NIS 76 million) related to bonds held for trading still held at the balance sheet date.
- (6) Of which part of the profits (losses) in the amount of NIS 11 million (31 March 2013 – NIS 76 million) related to shares held for trading still held at the balance sheet date.
- (7) Reclassified.
- (8) Reclassified from accumulated other comprehensive income.

Note 11 - Operating Segments

	For the three months ended 31 March 2014 (Unaudited)							
	Household segment (NIS millions)	Small business segment	Corporate segment	Commercial segment	Private banking segment	Financial management segment	Other segment	Total consolidated
Interest income (expenses), net - from outside entities	596	282	427	385	13	54	-	1,757
Non-interest income - from outside entities	407	133	160	177	137	343	17	1,374
Intersegmental income (expenses)	101	(34)	(88)	(72)	60	39	(6)	-
Total income	1,104	381	499	490	210	436	11	3,131
Expenses (income) in respect of credit losses	38	19	(87)	(28)	(1)	8	-	(51)
Net profit (loss) attributable to shareholders of the banking corporation	51	87	266	155	2	86	(22)	625
	For the three months ended 31 March 2013 (Unaudited) (1)							
	Household segment (NIS millions)	Small business segment	Corporate segment	Commercial segment	Private banking segment	Financial management segment	Other segment	Total consolidated
Interest income (expenses), net - from outside entities	586	269	620	392	(34)	(71)	-	1,762
Non-interest income (expenses) - from outside entities	407	140	169	101	126	439	87	1,469
Intersegmental income (expenses)	120	(49)	(276)	(12)	152	135	(70)	-
Total income (expenses)	1,113	360	513	481	244	503	17	3,231
Expenses in respect of credit losses	86	42	(46)	32	1	(42)	-	73
Net profit (loss) attributable to shareholders of the banking corporation	39	62	257	115	30	118	(51)	570

(1) Reclassified.

Note 11 - Operating Segments (cont'd)

	For the year ended 31 December 2013 (Audited)							
	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	2,941	1,125	2,528	1,656	(72)	(821)	-	7,357
Non-interest income - from outside entities	1,640	588	589	492	533	1,531	144	5,517
Intersegmental income (expenses)	(127)	(218)	(1,087)	(194)	442	1,290	(106)	-
Total income (expenses)	4,454	1,495	2,030	1,954	903	2,000	38	12,874
Expenses (income) in respect of credit losses	179	112	(166)	186	9	(52)	-	268
Net profit (loss) attributable to shareholders of the banking corporation	109	288	965	412	(15)	228	(40)	1,947

Note 12 – Accumulated Other Comprehensive Income (Loss)**A. Changes in accumulated other comprehensive income (loss), after effect of tax**

For the three months ended 31 March 2014 (Unaudited)						
Other comprehensive income before attribution to non-controlling interests						
	Adjustments for presentation of securities available for sale at fair value (NIS millions)	Translation adjustments (1), net after effect of hedges (2)	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
Balance at 31 December 2013	179	(337)	123	(35)	(4)	(31)
Net change in the period	(46)	15	(15)	(46)	1	(47)
Balance at 31 March 2014	133	(322)	108	(81)	(3)	(78)

For the three months ended 31 March 2013 (Unaudited)						
Other comprehensive income before attribution to non-controlling interests						
	Adjustments for presentation of securities available for sale at fair value (NIS millions)	Translation adjustments (1), net after effect of hedges (2)	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
Balance at 31 December 2012	494	(149)	112	457	(1)	458
Net change in the period	(154)	(54)	(4)	(212)	(4)	(208)
Balance at 31 March 2013	340	(203)	108	245	(5)	250

For the year ended 31 December 2013 (Audited)						
Other comprehensive income before attribution to non-controlling interests						
	Adjustments for presentation of securities available for sale at fair value (NIS millions)	Translation adjustments (1), net after effect of hedges (2)	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
Balance at 31 December 2012	494	(149)	112	457	(1)	458
Net change in the period	(315)	(188)	11	(492)	(3)	(489)
Balance at 31 December 2013	179	(337)	123	(35)	(4)	(31)

- (1) 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.
- (2) 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**

	For the three months ended 31 March						For the year ended 31 December		
	2014			2013			2013		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
	(Unaudited)						(Audited)		
	(NIS millions)								
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	201	(79)	122	106	(47)	59	229	(79)	150
(Profits) losses in respect of securities available for sale reclassified to the statement of profit and loss	(209)	41	(168)	(333)	120	(213)	(747)	282	(465)
Net change in the period	(8)	(38)	(46)	(227)	73	(154)	(518)	203	(315)
Translation adjustments (1)									
Adjustments for translation of financial statements	31	-	31	(116)	-	(116)	(318)	-	(318)
Hedges (2)	(21)	5	(16)	97	(35)	62	203	(73)	130
Net change in the period	10	5	15	(19)	(35)	(54)	(115)	(73)	(188)
Banking corporation's share in other comprehensive income of investee companies dealt with under the equity base method									
	(15)	-	(15)	(4)	-	(4)	11	-	11
Net change in the period	(15)	-	(15)	(4)	-	(4)	11	-	11
Total net change in the period	(13)	(33)	(46)	(250)	38	(212)	(622)	130	(492)
Changes in components of other comprehensive income (loss) attributed to non-controlling interests:									
Total net change in the period	1	-	1	(4)	-	(4)	(3)	-	(3)
Changes in components of other comprehensive income (loss) attributed to shareholders of the banking corporation:									
Total net change in the period	(14)	(33)	(47)	(246)	38	(208)	(619)	130	(489)

- (1) 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.
- (2) Profits (losses), net in respect of a net hedge of investment in foreign currency.

Note 13 – Events after the Balance Sheet Date

Share-based Remuneration Plan

On 11 February 2014, the General Meeting of the Bank, approved the remuneration policy for office holders in the Bank for the years 2013-2016, after obtaining the approval of the Board of Directors pursuant to the approval and recommendation of the Remuneration Committee. The Remuneration Policy is based on Amendment 20 of the Companies Law regarding terms of office and employment of office holders in the Bank and on that stipulated in the new Proper Conduct of Banking Business directive concerning remuneration policy in a banking corporation.

As part of the approval of the performance-contingent annual basis for office holders in the Bank for 2013 and pursuant to the above remuneration policy, the Remuneration Committee and the Board of Directors of the Bank in March 2014 approved the allocation for no payment of 657,859 Performance Share Units ("PSU units"), to the Chairman of the Board of Directors, the President and Chief Executive Officer, and other office holders in the Bank, in an equity track with the Trustee under Section 102 of the Income Tax Ordinance. Accordingly, the Bank issued on 13 April 2014 the above PSU units in the name of the Trustee, ESOP Management and Trust Services Ltd. ("the Trustee"). As set forth in the Private Offering Report published by the Bank on 31 March 2014 (Reference: 2014-01-030870) ("Private Offering Report"), and under the terms stated therein, the aggregate fair value of all the said PSU units amounts to about NIS 8.97 million.

The vesting of the PSU units will be in three equal tranches and is contingent on the business results of the Bank in each of the three calendar years 2014, 2015 and 2016, pursuant and subject to that stated and the terms set forth in the Bank's remuneration policy, and set forth in the Private Offering Report, whereby subject to the fulfillment of all the term in relation to the vesting date, each PSU unit will be converted automatically to 1 ordinary share of NIS 1 par value each of the Bank, on reaching each vesting date.

In March 2014, the Remuneration Committee and the Board of Directors of the Bank approved the allocation for no payment of 81,414 Restricted Share Units (RSU), for two office holders in the Bank, in an equity track with the Trustee under Section 102 of the Income Tax Ordinance, pursuant to the provisions of the Remuneration Policy regarding the granting of signing rights to a new office holder, and as set forth in the Private Offering Report. Accordingly, the Bank issued on 13 April 2014 the above RSU units in the name of the Trustee. As set forth in the Private Offering Report and under the terms stated therein, the aggregate fair value of all the said RSU units amounts to about NIS 1.1 million.

The vesting of the RSU units will be in three equal tranches and is contingent on the continued employment of each of the office holders with the Bank or with the banking group, at the vesting date of each of the tranches, pursuant and subject to that stated and the terms set forth in the Private Offering Report, whereby in the event of fulfillment of the said term, each RSU unit will be converted automatically to 1 ordinary share of NIS 1 par value each of the Bank, on reaching each vesting date.

If the terms set for the vesting of PSU units and RSU units into shares are not met at any of the vesting dates, the units which were to have been vested at that date will expire and become void, and all their associated rights will expire and become void.

The PSU units and RSU units allocated as above are not marketable, and pursuant to the approval of the Tel-Aviv Stock Exchange Ltd. ("the Stock Exchange"), the shares deriving from the vesting of the above units will be listed for trading on the Stock Exchange in the name of the nominee company of Bank Leumi Le-Israel B.M.

Changes in the Bank's equity

On 13 April 2014, the Bank issued 657,869 Performance Share Units (PSU), in the name of the trustee, ESOP Management and Trust Services Ltd. ("**the Trustee**"), to the Chairman of the Board of Directors, the President and Chief Executive Officer, and other office holders in the Bank. If all the terms are met for exercising the said PSU units at each of the vesting dates, as stated in detail in the Report of the Private Offering published by the Bank on 31 March 2014 (Reference: 2014-01-030870) ("Private Offering Report"), the said PSU units will vest into 657,869 ordinary shares of NIS 1 par value each of the Bank, which will constitute about 0.045% of the issued and paid-up capital of the Bank. At the date of publication of these statements no date had arrived for vesting into shares of the Bank for any of the PSU units.

On 13 April 2014, the Bank issued 81,414 Restricted Share Units (RSU), in the name of the trustee, for two office holders in the Bank. If all the terms are met for exercising the said RSU units at each of the vesting dates, as stated in detail in the Report of the Private Offering, the said RSU units will vest into 81,414 ordinary shares of NIS 1 par value each of the Bank, which will constitute about 0.005% of the issued and paid-up capital of the Bank. At the date of publication of these statements no date had arrived for vesting into shares of the Bank for any of the RSU units.

If the terms set for the vesting of PSU units and RSU units into shares are not met at any of the vesting dates, the units which were to have been vested at that date will expire and become void, and all their associated rights will expire and become void.

The PSU units and RSU units allocated as above are not marketable, and pursuant to the approval of the Tel-Aviv Stock Exchange Ltd. ("the Stock Exchange"), the shares deriving from the vesting of the above units will be listed for trading on the Stock Exchange in the name of the nominee company of Bank Leumi Le-Israel B.M.